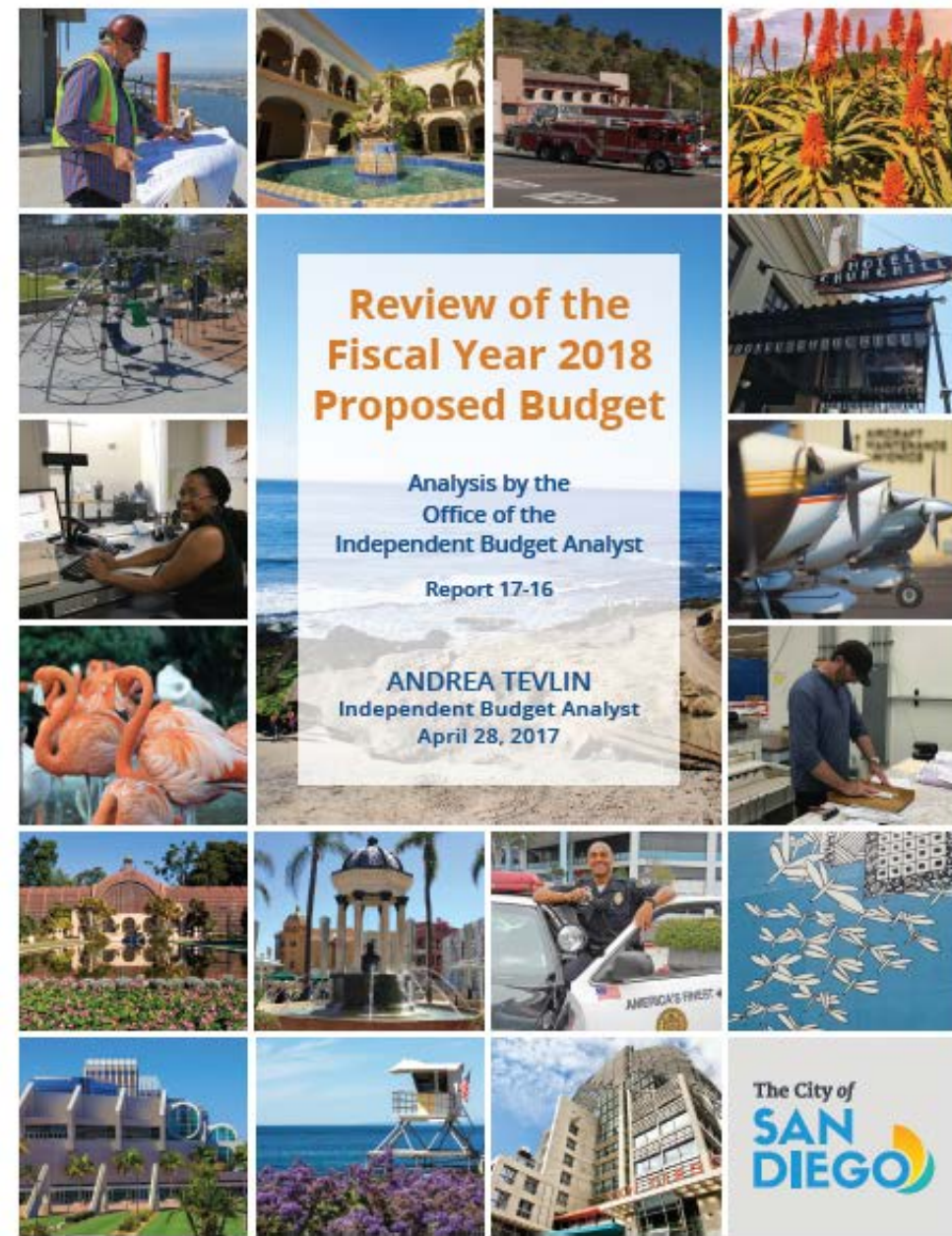


IBA Review of the Fiscal Year 2018 Proposed Budget

Budget Review Committee
May 3, 2017



Independent Budget Analyst



General Fund Expenditures Overview

The FY 2018 Proposed Budget includes \$1.41 billion in proposed General Fund expenditures

- Increase of \$70.9 million or 5.3% over the FY 2017 Adopted Budget
- Total FTE positions: 7,520.44
 - Addition of 60.06 FTE, including 19.00 in Fire-Rescue, 9.00 in City Treasurer, 9.00 in Police
 - Reduction of 39.80 standard hour positions and 30.51 non-standard hourly positions including 20.26 in Library
 - A net reduction of 10.25 FTE positions from the FY 2017 Adopted Budget

General Fund Revenues Overview

FY 2018 General Fund expenditures are supported by \$1.40 billion in projected revenues and \$8.3 million in Excess Equity

- Increase of \$70.6 million or 5.3% over the FY 2017 Adopted Budget
- Overall, our Office agrees with the FY 2017 General Fund revenue projections based on FY 2016 revenue projections and current economic forecast

General Fund Revenues Overview *cont'd*

- Our report noted sales tax projections for the 4th quarter of FY 2017 used a 3% growth rate, while actual growth over the first three quarters had averaged 4.9%
- After meeting with the City's sales tax consultant, actual 4th quarter growth was approximately 3%. Some sectors such as restaurants and business-to-business had significant growth, but general retail sales declined
- Some adjustments to year-end Excess Equity may be necessary, but the updated information from our sales tax consultant supports the FY 2018 projections included in the Proposed Budget

Significant Contributors to the Revised Deficit

FY 2018 General Fund deficit of \$81 million

- FY 2018 deficit projection in Mayor's recent Outlook: **\$36.9 million**
- FY 2018 deficit projection in Proposed Budget: **\$81 million** – increase of \$44.1 million over Outlook

As noted in our review of the Outlook, we recommend critical items identified as likely to require funding during the Outlook period (notably the upcoming fiscal year) be included in Outlook projections

Significant Contributors to the Revised Deficit *cont'd*

- Projected \$44.1 million increase of deficit due to:
 - \$8.4 million – additional increase to ADC pension payment
 - \$10.3 million – increase in Public Safety personnel costs related to overtime and decreased Fire-Rescue vacancy savings
 - \$10.4 million – contributions to meet Public Liability Reserve goals and increased claims and insurance costs
 - \$5 million – November 2017 special election
 - \$10 million – a number of department critical expenditures not accounted for in the Mayor's most recent Outlook

Balancing the FY 2018 Proposed Budget

General Fund deficit mitigation actions: \$81 million

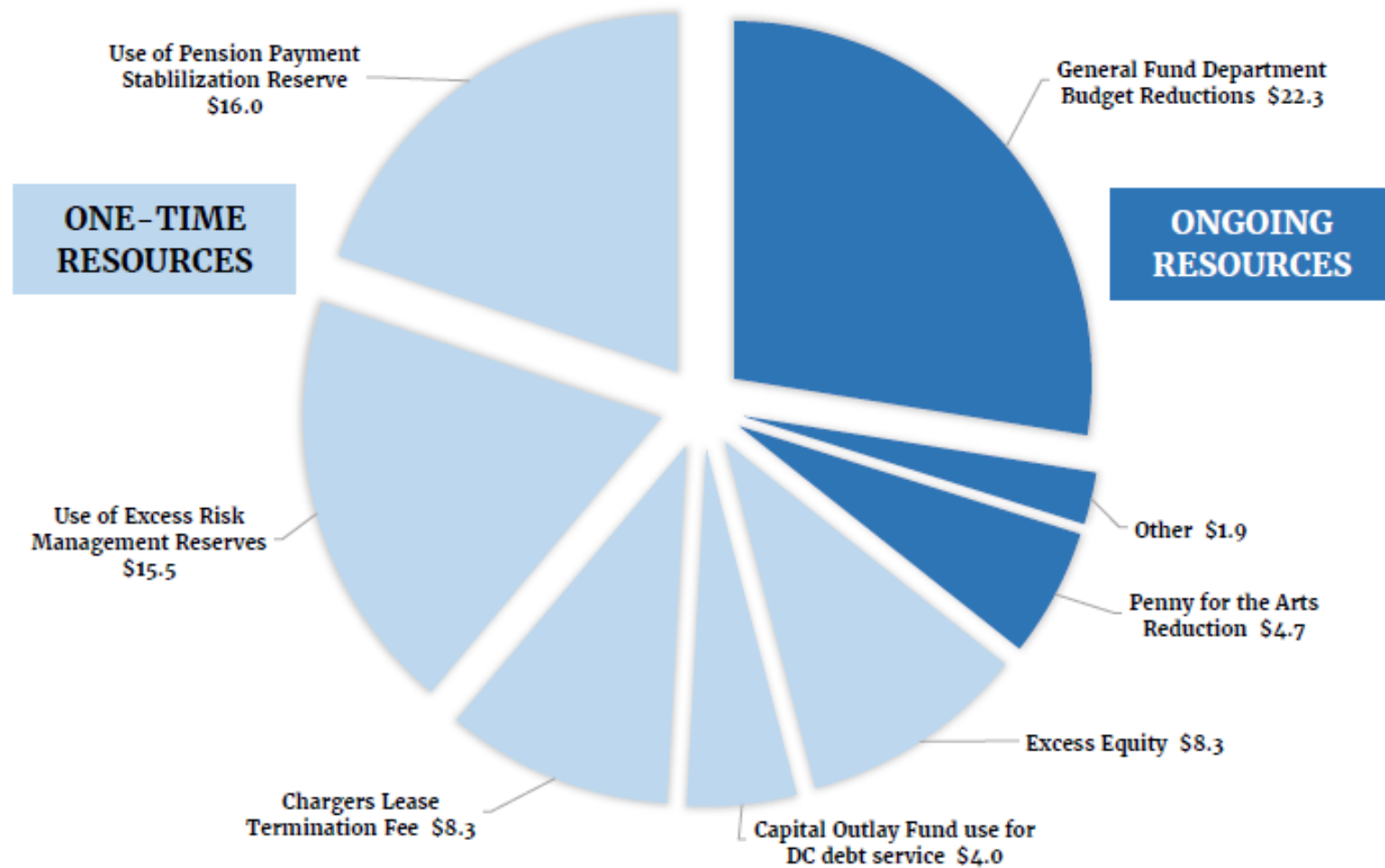
- Ongoing and one-time mitigating actions for the projected \$81 million deficit include:
 - \$16 million (one-time) – use of Pension Payment Stabilization Reserve
 - \$15.5 million (one-time) – use of excess Risk Management reserves
 - \$4 million (one-time) – lease revenue bond debt service payment from the Capital Outlay Fund
 - \$4.7 million (ongoing) – reduction of Penny for the Arts funding

Balancing the FY 2018 Proposed Budget *cont'd*

- Ongoing and one-time mitigating actions for the projected \$81 million deficit include:
 - \$8.3 million (one-time) – use of part of the \$12.6 million Chargers lease termination payment
 - \$8.3 million (one-time) – use of part of the \$11 million estimated Excess Equity
 - \$22.3 million (ongoing) – reductions in department budgets

Balancing the FY 2018 Proposed Budget *cont'd*

GENERAL FUND MITIGATION ACTIONS: \$81.0 MILLION



Proposed Budget Reductions that could Impact Service Levels

While the Mayor focused on reductions that resulted in little to no service level impacts, our Office notes that some reductions could affect services

- \$4.7 million reduction in TOT funds to Penny for the Arts
- 6.00 FTE/\$385,000 reduction in citywide park maintenance
- \$268,000 reduction in tree trimming, pool maintenance
- \$500,000 reduction in Library programming

Proposed Budget Reductions that could Impact Service Levels *cont'd*

- \$2.1 million reduction in Transportation & Storm Water funding for broad leaf tree trimming, permit compliance efforts, and master maintenance program
- \$873,000 reduction that depletes the Lifeguard Vessel Replacement Program Fund
- 2.00 FTE/\$203,000 reduction in code compliance officers
- 5.00 FTE/\$278,000 reduction in facilities maintenance positions

Significant Programmatic Additions in the FY 2018 Proposed Budget

Some service and departmental priorities were added to the Proposed Budget

- 5.31 FTE/\$655,826 for new Park & Recreation facilities and park maintenance
- 2.00 FTE/\$256,571 to support regulatory reform and process improvements in the Planning Department
- \$250,000 to the Development Services Department for Nuisance Abatement Fund support
- 9.00 FTE/\$899,923 for the addition of one sworn and eight civilian positions in the Police Department

Significant Programmatic Additions in the FY 2018 Proposed Budget *cont'd*

- \$400,000 to support a Parks Master Plan
- 1.00 FTE/\$139,126 in the City Attorney's Office to support the SMART program
- 7.00 FTE/\$864,694 to operate the Bayside Fire Station
- \$1.1 million for Fire-Rescue equipment purchases: Self-Contained Breathing Apparatus
- \$242,000 for portable radio replacement in the Fire-Rescue Department
- 5.00 FTE/\$367,199 for the Fire-Rescue dispatch center

City Council Priorities in the Proposed Budget

Council budget priorities resolution items funded (Y), partially funded (P), not funded (N), in the Mayor's Proposed Budget

Public Safety	Police Officer Recruitment and Retention	P
	Police Department Technology	P
	Operations Resources for the Fire-Rescue Department	Y
	Police Chief Recruitment	N
Neighborhood Services	Code Enforcement	N
	Programs for the Homeless	P
Other Majority Operations and Maintenance Items	Penny for the Arts Blueprint (Blueprint) Funding Increase	N
	Connect2Careers Program	P
	Compliance with the Earned Sick Leave and Minimum Wage Ordinance	Y
	Climate Action Plan (CAP)	Y
Funding Sources	Use of Chargers Lease Termination Payment	Y
	Use of City Reserves	Y
	Commercial Paper Program/Deferred Capital Bonds	Y

Looking Ahead to FY 2019

The FY 2018 Proposed Budget is balanced, but a deficit is likely in FY 2019 despite current year cost-saving measures

- Factors that could impact a FY 2019 deficit:
 - Increase to the City's ADC pension payment
 - Future contributions to meet reserve goals and debt service payments
 - New ongoing costs:
 - Staffing for new Park & Recreation facilities
 - Full-year operating costs for Bayside Fire Station
 - Staffing for a new branch library
 - Potential expansion of 311

Looking Ahead to FY 2019 *cont'd*

- Factors that could impact a FY 2019 deficit:
 - New Central Library operating costs
 - FY 2019 impact of negotiated compensation agreements
 - Federal elimination/reduction of CDBG and HOME funds
- Factors that could help mitigate a FY 2019 deficit:
 - Voter approval of a proposed TOT tax increase at a November 2017 special election
 - Reinvestment initiative – funding could help mitigate reduced federal funding
 - New State Gas Tax revenues



Looking Ahead to FY 2019 *cont'd*

- Factors that could help mitigate a FY 2019 deficit:
 - Cannabis Business Tax collections
 - Comprehensive update of City user fees

Looking Ahead to FY 2019 *cont'd*

Zero-based budgeting could be another tool for Council to use to review and understand the funding needs of City departments and programs, or identify efficiencies

- As approved by the B&GE Committee in October, a Council policy on zero-based budgeting is being discussed in order to be available ahead of the FY 2019 Proposed Budget
- This policy could be beneficial in providing Council with a comprehensive programmatic review of select department budgets

City Council Budget Authority

The Mayor has proposed his budget, now the Council has the authority to either approve the budget as submitted, or modify it in whole or in part

- The City Council may increase or decrease any item, provided the budget remains structurally balanced with ongoing expenditures funded with ongoing resources
- The Mayor can approve, veto, or modify any line item approved by Council
- The Council can override the Mayor's veto with a two-thirds vote

Potential Resources Available for Final Council Budget Decisions

Council may wish to consider some known, potential resources available for FY 2018, as they consider the budget as the Budget Review Committee

- Use of remainder of Chargers lease termination payment - \$4.3 million (one-time)
- Use of Excess Equity - \$2.7 million (one-time)
- Use of Capital Outlay Fund - \$1.2 million (one-time)
- Identify alternative budget reductions submitted by departments (ongoing)

Potential Resources Available for Final Council Budget Decisions *cont'd*

- Are all new additions to the FY 2018 budget critical?
- New State Gas Tax revenue for Streets - \$TBD (ongoing)
- Commercial paper issuance for General Fund capital projects – up to \$60 million issuance planned

Status of Performance Measures

Key performance indicators are included for most departments in the Proposed Budget

- FY 2018 Proposed Budget includes 14 KPIs that were added back to the budget in FY 2017
- Roughly 20% of KPIs are included on the City's public dashboard, increasing to 40% in FY 2019
- IBA report highlights a number of department KPIs that may be of interest to the Council or the public

Our Office would like to see a stronger connection between KPIs and the annual budget

Status of Performance Measures *cont'd*

- Select KPIs in department budget presentations
- Councilmembers are encouraged to ask questions about, comment on, or request new KPIs during presentations

Other Issues Relevant to FY 2018

IBA report highlights a number of issues that are not fully addressed in the FY 2018 Proposed Budget

- Police Officer Recruitment and Retention
 - The Police Department faces significant and persistent challenges related to police officer recruitment and retention
 - Police staffing issues received the greatest number of mentions in Council budget priority memoranda
 - The FY 2018 Proposed Budget fully funds expanded academies and previously negotiated compensation increases, but does not increase funding for recruitment or marketing
 - Current FY 2017 recruitment budget of \$50,000 remains unchanged in FY 2018

Other Issues Relevant to FY 2018 *cont'd*

- Police Officer Recruitment and Retention
 - The FY 2018 Proposed Budget removes \$4.0 million in one-time expenditures added in FY 2017 to increase non-pensionable compensation
 - The \$4.0 million also included \$50,000 in relocation assistance for new hires that is not continued in FY 2018 (\$38,000 remains from FY 2017)

Police Sworn Positions – Budget vs. Actual

Fiscal Year	Budgeted Positions	Actual Filled Positions*	Variance
FY 2017	2,039.00	1,832.00	(207.00)
FY 2016	2,036.00	1,850.00	(186.00)
FY 2015	2,013.00	1,832.00	(181.00)
FY 2014	1,977.67	1,837.00	(140.67)
FY 2013	1,969.50	1,832.00	(137.50)

*Actual figures are as of July 1 of each fiscal year except for FY 2017, for which current figures as of April 24, 2017, are shown.

Other Issues Relevant to FY 2018 *cont'd*

- Plans to Finance the Backlog of General Fund Capital Projects Needs
 - Capital Outlook plans for a bond issuance of \$270 million over the next 5 years; however, CFO plans to first borrow by issuing commercial paper that will ultimately be refinanced with long-term bonds
 - CFO plans to bring a Commercial Paper Borrowing Program to Council for review and approval in the fall. The Mayor, working with the Council, will develop a list of eligible General Fund projects for financing
 - If approved, short-term Commercial Paper Notes could be issued in January 2018 or sooner
 - The FY 2018 Proposed Budget includes \$500,000 for General Fund Commercial Paper: \$300,000 for Program start-up costs and \$200,000 to pay interest on CP Notes

Other Issues Relevant to FY 2018 *cont'd*

- Street Improvements Funding
 - Many sources of financing are currently or potentially dedicated to financing street improvements: State Gas Tax, Proposed TOT Measure, Infrastructure Fund, TransNet, previous DC financings
 - Given the potential magnitude of new funds dedicated to street repairs, IBA recommends Council consider using future commercial paper/bond financing proceeds to address other critical unfunded capital projects such as sidewalks, parks, and fire stations

Other Issues Relevant to FY 2018 *cont'd*

- Storm Water Permit Requirements and Funding Challenges
 - Storm Water permit costs continue to be significant:
 - \$3.1 billion in expenditures are expected to be needed through FY 2040 to ensure compliance
 - The City lacks a dedicated stream of revenue sufficient to meet these expenditure needs
 - TSW has worked with the Regional Board to refine permits and decrease costs, but even with these efforts costs remain high

Other Issues Relevant to FY 2018 *cont'd*

- Storm Water Permit Requirements and Funding Challenges
 - The City is trending towards compliance with Total Maximum Daily Load (TMDL) deadlines beginning in FY 2018 and FY 2019
 - The City is **not** trending towards compliance with TMDLs that begin hitting in FY 2020 and FY 2021
 - Fines for non-compliance are up to \$10,000 per day, per violation

Next Steps in the Process

Council meets as the Budget Review Committee to review the FY 2018 Proposed Budget before approving the budget in June

- May 3-4, 8-9 (with May 5 and 10 available if needed):
Budget Review Committee
 - IBA review of the budget
 - Public hearings on City departments, functions, and agencies
- May 15: City Council holds evening hearing to receive further input from the public
- May 18: Budget Review Committee reviews the Mayor's May Revise for consideration in final budget decisions

Next Steps in the Process *cont'd*

- May 22: City Councilmembers issue final budget priority memoranda to the Office of the IBA
- June 1: Office of the IBA final report issued on recommended changes to the Proposed Budget based on input from Council memoranda and further review of outstanding issues
- June 5: City Council makes final FY 2018 budget decisions and takes action on any FY 2018 budget revisions
- June 26: City Council introduces and adopts the FY 2018 Appropriations Ordinance