

CITY OF SAN PABLO

PRELIMINARY (DRAFT) FY 2018-21 GF QUADRENNIAL BUDGET

CITY COUNCIL PUBLIC BUDGET HEARING

JUNE 5, 2017

PUBLIC
BUDGET
HEARING

Monday,
June 5, 2017



CITY OF SAN PABLO
City of New Directions



FOUR-YEAR 2018-21 GF BUDGET OVERVIEW:

Summary Points:

- ❖ City's FIRST Four-Year "Quadrennial" Budget
- ❖ FY 2018-21 DRAFT BUDGET is **BALANCED**
- ❖ Employer Labor MOUs Cost Factors Included
- ❖ Overall City Financial Condition: **STABLE FOR NOW**
- ❖ Two successive fiscal years (FY14/15 & FY15/16) with positive Audited Fund Balances (\$4.7M + \$9.1M) totaling \$13.9M in GF Designated Reserves (January 2016 & 2017 combined)
- ❖ Fiscal Resiliency Reserves (\$19.2M) and GF Designated Reserves (\$18.9M) have provided positive bond ratings and provided source of project funding
- ❖ Refinanced \$2.7M in RDA/LSA Debt Obligations
- ❖ Includes debt obligations for \$11.8M in proposed 2017/18 Lease Revenue Bonds for new City Hall project
- ❖ Continue practice of using One-time Funding for Economic Development Projects is recommended (Year-end audited fund balance)
- ❖ NO annual growth factor on expenditure side to curb costs and eliminate budget "creep"



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GRADUAL OPTIMISM, BUT FISCAL RISKS REMAIN:

Risks/Concerns:

- ❖ Rebounded economy, BUT New Norm is Slow Growth
- ❖ Proper fiscal management and internal controls
- ❖ Plan for Major Financial Contingencies
- ❖ Focus on long-term economic viability
- ❖ Must generate NEW revenue opportunities (2018-21)
- ❖ Revenue and Expenditure adjustments planned for Mid-Year Budget Cycle (June 30, 2019)
- ❖ Must continue to exercise fiscal restraint
- ❖ Adherence to Fiscal Resiliency Policies (Adopted Oct. '13)
- ❖ Limited audited fund balance projected for one-time spending on economic development projects in 2018-21
- ❖ Increasing interest rates will affect cost of borrowing
- ❖ Dollar impact for changes to CalPERS discount rate and actuarial assumptions:

➤ FY18:	\$1.75M
➤ FY19:	\$2.25M
➤ FY20:	\$2.86M
➤ FY21:	\$3.33M



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CITY MANAGER FISCAL RISK WARNINGS:

1. City Must create new Economic Development
2. Support ongoing development of City-wide Municipal Broadband Project through new CFD mechanism (O&M)
3. New Economic Partnership with Lytton Tribe once DMC escrow closure completed
4. Avoid frivolous GF spending
5. Future CalPERS Unfunded Accrued Liability (UAL) payments may require budget cuts to balance
6. Measure Q revenue cut by 50% in Nov. 2017
7. Healthcare costs projected to increase 5% / year
8. Retiree healthcare costs are likewise problematic
9. Invest in Deferred Maintenance (i.e. City infrastructure replacement, vehicles, and computers)
10. Preservation of Casino Revenue (Class II Gaming) per current MSA agreement & build-up of new Casino Revenue Sustainability Reserve (\$1M)
11. Maintain long-term, stable Partnerships with Employee Labor Groups (4-year MOUs)
12. Support ROI/sale proceeds back to City

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BUDGET STRATEGY:

- **Combination of Financial Strategies for FY 2018-21 GF Budget**
- (1) **Adopt a Multi-Year Operational Budget**
- (2) **Increased operational costs compared to FY 2015-17 base-year levels**
- (3) **Eliminated non-essential spending that would have resulted in deficits**
- (4) **Projected realistic revenues to meet projected expenditures**
- (5) **Cut Measure Q Sales Tax Revenue by 50% in Nov. 2017**
- (6) **Funneling “one-time funds” following year-end audits to create positive balances in the GF Designated Reserves for economic development**
- (7) **Predictability in growth of labor costs with four-year agreements**



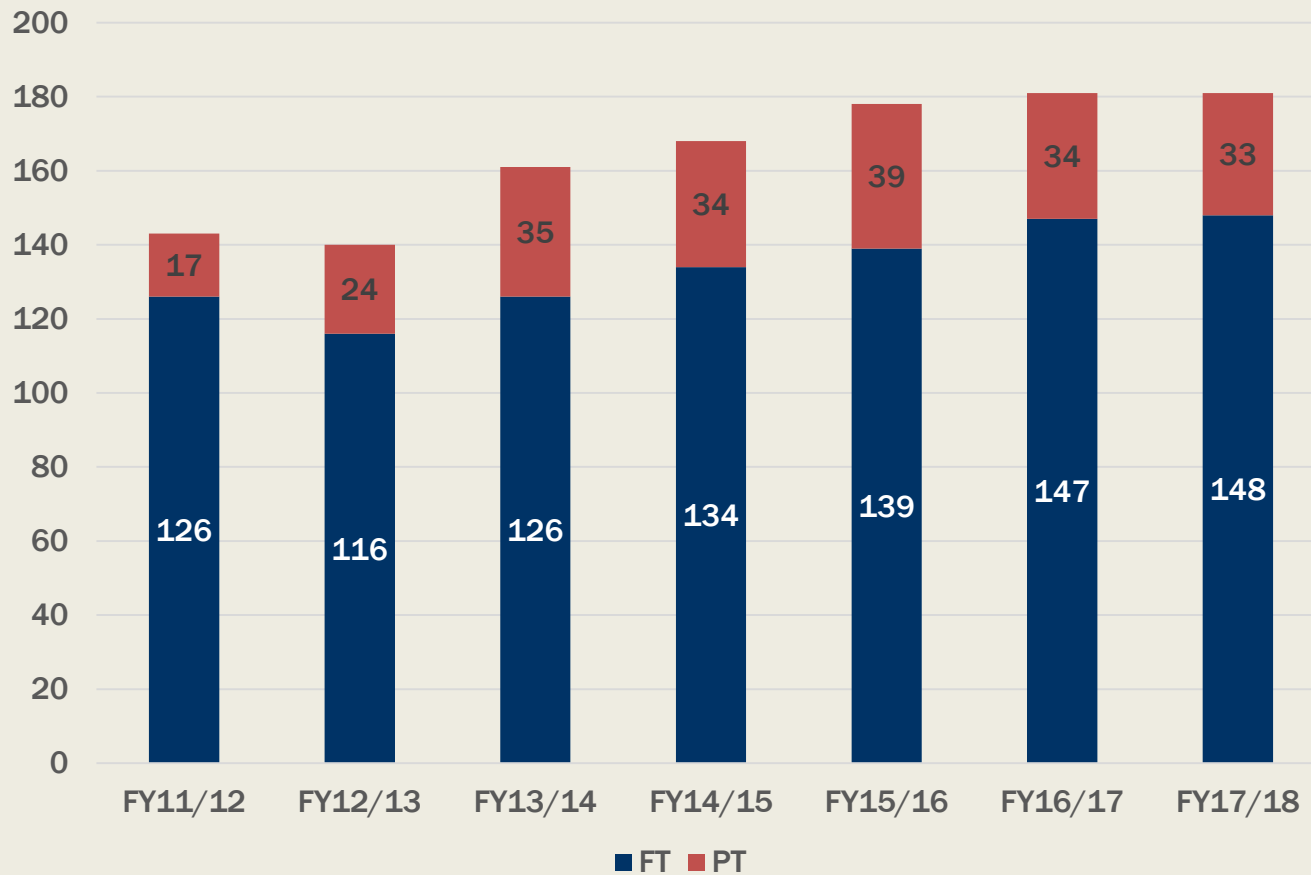
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HISTORICAL FTE COUNT





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**GENERAL OPERATING FUNDS
BALANCING SHEET**

FY 2017/18 PROPOSED BUDGET		FY 2018/19 PROPOSED BUDGET	
Baseline Revenue	39.3	Baseline Revenue	40.3
Sale of City Parking Lot	0.0	Sale of City Parking Lot *	0.3
One-time Transfer from GFDR	0.0	One-time Transfer from GFDR	0.3
Total Revenue	39.3	Total Revenue	40.9
Total Salary & Benefits	20.7	Total Salary & Benefits	20.9
Total Service & Supplies	15.3	Total Service & Supplies	16.8
CalPERS UAL	1.8	CalPERS UAL	2.2
CIP Budget	1.2	CIP Budget	1.0
Transfer to GFDR	0.3	Transfer to GFDR	0.0
Total Expenditures	39.3	Total Expenditures	40.9

* Partial proceeds based on sale price of \$2.5M



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**GENERAL OPERATING FUNDS
BALANCING SHEET**

FY 2019/20 PROPOSED BUDGET		FY 2020/21 PROPOSED BUDGET	
Baseline Revenue	41.2	Baseline Revenue	42.0
Sale of City Parking Lot *	0.9	Sale of City Parking Lot *	1.3
One-time Transfer from GFDR	0.0	One-time Transfer from GFDR	0.0
Total Revenue	42.1	Total Revenue	43.3
Total Salary & Benefits	21.1	Total Salary & Benefits	21.3
Total Service & Supplies	17.2	Total Service & Supplies	17.7
CalPERS UAL	2.8	CalPERS UAL	3.3
CIP Budget	1.0	CIP Budget	1.0
Transfer to GFDR	0.0	Transfer to GFDR	0.0
Total Expenditures	42.1	Total Expenditures	43.3

* Partial proceeds based on sale price of \$2.5M

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MAJOR COST FACTORS:

- **Four-Year Budget is built on strategies to stabilize operating costs through efficiencies, and eliminate non-essential (one-time) spending to be on pace with revenue projections**
- (1) **CalPERS Pension Costs:** In FY 17/18, unfunded actuarial liability (UAL) totals \$1.8M to address lowered discount rate (investment rate of return), longer mortality rate assumption, updated actuarial tables, etc. Annual pension (“normal”) cost equals \$1.7M for total pension expense of \$3.5M
- (2) **Employee Labor Costs:** Council authorized an estimated labor cost factor for all City employees totaling approximately \$555,000 in FY 17/18
- (3) **Healthcare Costs:** Total \$2.2M in FY 17/18 for all employees plus an additional \$500,000 for Retirees
- (4) **FY 17/18 Workers’ Compensation Costs:** Significant at \$666,000. When combined with unemployment insurance of \$313,000, the two total nearly \$1M
- (5) **MPA Insurance:** Costs \$777,000 in FY 17/18 for property, fire, crime and general liability
- (6) **Increased Supplies & Services Costs:** An overall increase of \$530,000 in Public Works for deferred maintenance and to cover new facilities and other previously unbudgeted expenses

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MAJOR COST FACTORS: (Continued)

- (7) **Community Affairs:** \$465,000 in new annual Library lease payments in FY 17/18 plus a contractual increase of \$300,000 with ConFire to staff FS 70 in FY 18/19
- (8) **Special Departmental Expenses:** An increase of \$700,000 to cover projected debt service on the future 2017 New City Hall bonds
- (9) **Tri-Cities Agreement:** Ongoing costs of approximately \$1.1M, which will be minimally offset by revenue
- (10) **Utilities:** Expenses total \$403,000 in FY 17/18, including the annual solar loan payment of \$88,000. Diesel and gasoline costs are also rising to \$309,000 in FY 17/18. However, the increase in fuel will be fully offset by higher gas tax associated with the Road Repair and Accountability Act (SB 1)
- (11) **Program Costs and Supplies:** Service level enhancements of \$350,000 are included for Youth Services, which will be covered with General Fund revenues outside of Measure Q
- (12) **No FTE Layoffs:** No layoffs necessary as a budget reduction or cost savings strategy for any year of the four-year budget

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PROJECTED REVENUES:

- **Four-Year Budget includes conservative and practical projections to determine Total Revenues, which generally include no revenue increases in Year 2 with a modest 1% annual increase thereafter**
- (1) **Casino Business Tax*:** Budgeted at \$21.0M in FY 2017/18, this comprises 53% of total budgeted revenues. Annual increases of 3.0% are realistically projected in Years 2, 3 and 4
- (2) **Property Tax Revenue:** FY 17/18 is budgeted to be basically flat from FY 16/17 levels with minimal growth over 4 years
- (3) **Sales Tax Revenue:** Significant decreases are certain with the reduction of Measure Q Sales Tax from ½ cent to ¼ cent in Nov. 2017. Losses totaling \$380,000 are projected in FY 17/18, with additional ongoing losses of \$416,000 beginning in FY 18/19
- (4) **Franchise Tax Revenue:** Projected to remain steady at \$750,000, an increase of \$80,000 over FY 16/17 amounts (primarily RSS)
- (5) **Digital LED Sign Revenue:** New revenue budgeted at \$100,000 in FY 17/18 and increasing to \$300,000 in FY 18/19 and beyond
- (6) **Rental Income:** Lease revenue increases to \$607,000 in FY 17/18 due to the new WIC Building, then to \$750,000 in Year 2 with the addition of another Medical Office Building lease
- (7) **Road Repair and Accountability Act (SB 1):** Creates \$178,000 in new revenue in FY 17/18, increasing to \$530,000 in out years

* Does not include Casino Property In-Lieu Tax (PILOT) of \$1.94M

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FISCAL RESILIENCY UNDESIGNATED RESERVES:

- **For FY 2018-21, the undesignated fund balance reserves are allocated based on the Fiscal Resiliency Policy adopted by City Council in October 2013.**

Reserves are to be used to provide temporary financing for unanticipated or extraordinary needs of an emergency nature, as follows:

- **Natural Disaster or Calamity**
- **Economic Recession**
- **Unexpected Liability created by Federal or State action**
- **Unanticipated Litigation or Legal Costs**

<u>FISCAL RESERVE AMOUNTS:</u>	<u>FY 2017/18</u>	<u>FY 2018/19</u>
Catastrophic Reserve (50%)	\$19,628,529	\$20,482,727
Budget Stabilization Reserve (5%)	\$ 1,962,852	\$ 2,048,272
CM Contingency Account(1%)	\$ 392,571	\$ 409,653

<u>PROPOSED GF DESIGNATED RESERVES</u>	<u>FY 2017/18</u>
Major Operating Contingency Reserves	\$ 3,915,000*
Future Capital Project Reserves (includes Casino Revenue Sustainability Reserve of \$1,000,043)	<u>\$ 14,940,163*</u>
Projected Total:	<u>\$ 18,855,163*</u>

**Major Operating Contingency & Capital Project Reserves as adopted by CC on 01/17/17.*

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CITY MANAGER-RECOMMENDED ACTIONS:

- #1. City Council open/close **Public Budget Hearing** for public comment on **DRAFT BUDGET**;
- #2. City Council deliberate over **DRAFT BUDGET**;
- #3. Direct City Manager to proceed with **FINAL RECOMMENDED FY 2018-21 QUADRENNIAL BUDGET** by Minute Action Vote;
- #4. **Final Budget Adoption** scheduled for June 19, 2017 under Consent Enabled Resolutions

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QUESTIONS?

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