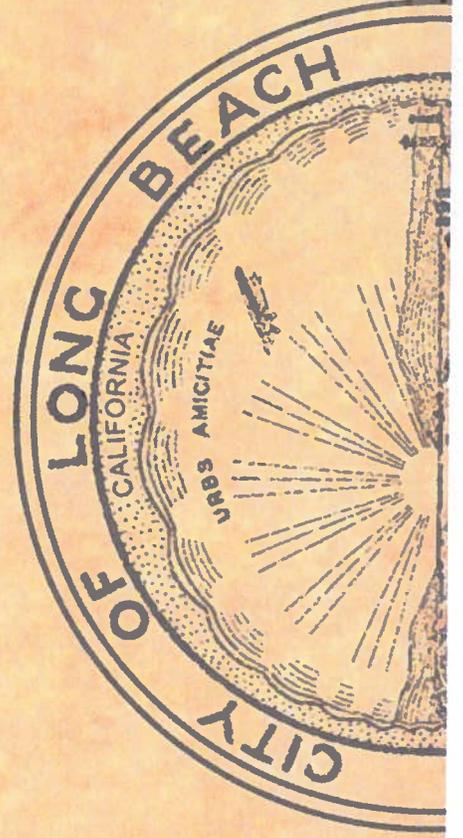


# Fiscal Year 2015 Proposed Budget

*Preserving Services and Preparing for the Future*





## *Through Fiscal Discipline...*

### Mayor and City Council have steered Long Beach through the “Great Recession”

- Made difficult cuts and balanced past budget
- Cut \$134 million and 714 positions over last 8 years
- Invested in maintenance, efficiency and effectiveness
- Established and followed Financial Policies
- Used FY 14 temporary surplus to reduce or eliminate deficits in the future



## *Through Fiscal Discipline...*

### **Pensions Addressed**

- Pension Reform, in conjunction with employees, saving almost \$250 million over 10 years
- CalPERS Board actions ensure plan funded over 30 years
- Creation of CalPERS Stabilization Fund - helps protect against service reductions due to fluctuating CalPERS investment earnings



# Operational & Efficiency Improvements

- Reduced General Fund Management by 28%
- Eliminated hundreds of vehicles from City Fleet
- Consolidated clerical staffing
- Streamlined permit fees and consolidated inspection services
- Eliminated two departments
- Implementing more efficient ambulance service



# Operational & Efficiency Improvements

- Implemented LBCOP to leverage technology to fight crime
- Reduced skill and standby pays
- Implementing new systems
  - parking citation system to improve collection rates
  - business license system
  - utility billing system
  - financial and HR systems



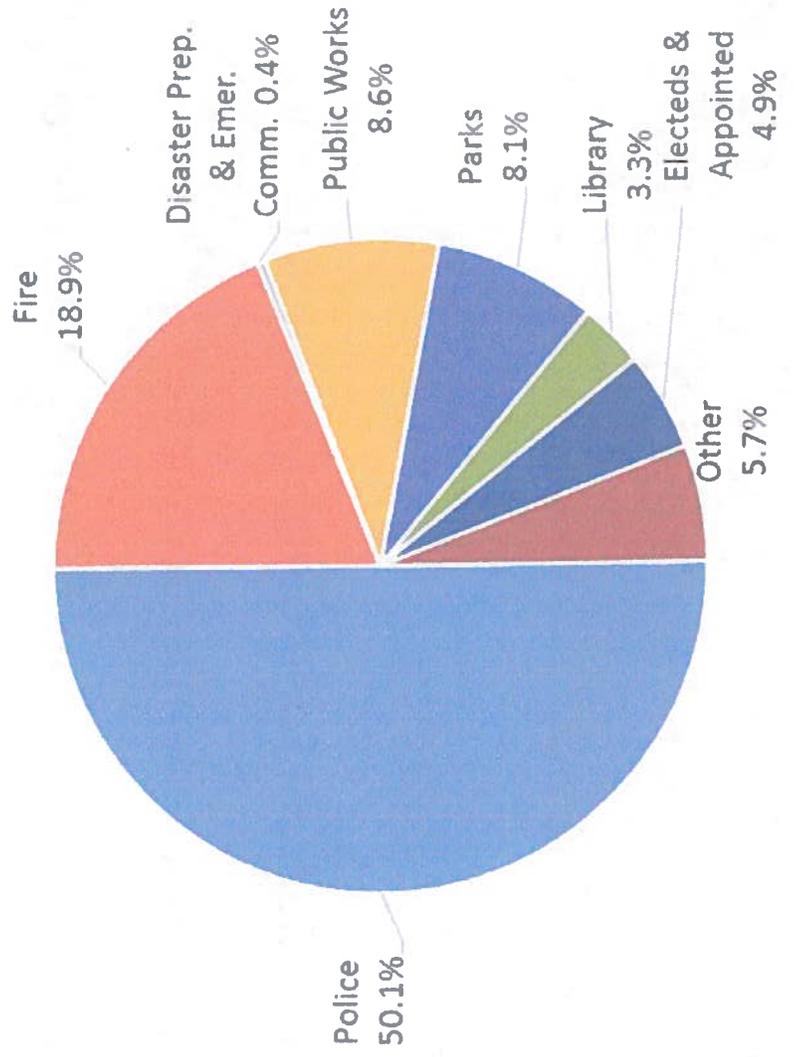
# FY 14 Accomplishments

- 41-year low for violent crimes
- Major building projects completed or underway including:
  - Molina Healthcare
  - Mercedes Benz
  - Douglas Park
  - Middle Harbor
  - Numerous Restaurants
  - Pike Retail
- Awards for Downtown Plan and Mobility Element
- Gold Medal award for Parks, Recreation and Marine Department
- New temporary Belmont Pool installed with a 10-month period
- New billboard ordinance to reduce blight in the community
- “A” and “B” grades for water quality



# FY 15 Budget: Preserving Services

- Police, Fire, Public Works, Parks, Libraries and all other major services are preserved in proposed budget
- Use of Proportionate Share keeps budget aligned with Council priorities and incentivizes departments to be efficient





# Preserving Services

## Focus on Public Safety

- 70% of the General Fund budget devoted to Public Safety
- Police and Fire academies are funded
- Adds 2 police officers for LB Transit and 9 firefighters in the Port
- Includes \$2.2 million in enhanced overtime for gang prevention and other efforts
- Invests in Police technology and new East Police Station
- Uses GEMT state revenues for 4\* new engines/pumpers

\*Proposed FY 2015 Budget includes 5 Engines/Pumpers; however, anticipated funds were effectively redirected to sidewalks per City Council action on 7/1/14. The FY 15 Appropriation Ordinance will be corrected to reflect this action by City Council.



# Preserving Services

## Funds our Prior Year Commitments

- \$287,000 for park maintenance for new and expanded parks (e.g. Chittick)
- \$109,000 (.74 FTE General Fund portion) for a position to oversee:
  - Language Access Plan,
  - Violence Prevention Plan,
  - LBGRIP, and
  - Human Dignity Program
- \$49,000 (0.5 FTE General Fund portion) for a position to improve homeless services



# Preparing for the Future

## Investments in Efficiency Improvements

- \$2.45 million for park irrigation upgrades and water needs
- \$1.37 million for artificial turf conversion
- \$800,000 to purchase and install smart parking meters
- \$1.3 million in State Air Quality funds for fuel efficient vehicles and anti-idling technology



# *Preparing for the Future*

## **Enhanced Focus on Critical Infrastructure**

- \$1 million for streets, supplements \$4.9 million Residential street program in the Capital Budget
- \$1 million for sidewalks, supplements \$3.0 million sidewalk program in the Capital Budget
- \$2.1 million to fund the North Library
- \$400,000 for other critical equipment



# Preparing for the Future

## Efficiencies/Reorganizations

- Police reorganization adds 18 sworn police officers to front line police services
- Development Services restructuring permit counter for improved customer service
- Public Works reviewing project management and organization structure to improve project output and workflow
- Health is increasing grant funded positions to maximize state and federal grants
- Parks, Recreation & Marine reorganizing the Animal Care Bureau for efficiency and oversight



# *Preparing for the Future*

## Funds Our Future Commitments

- 5% of non-recurring revenue to fund unfunded liabilities
- Transfer of \$3.1 million temporary surplus to CalPERS Stabilization Fund



# Challenges are Coming

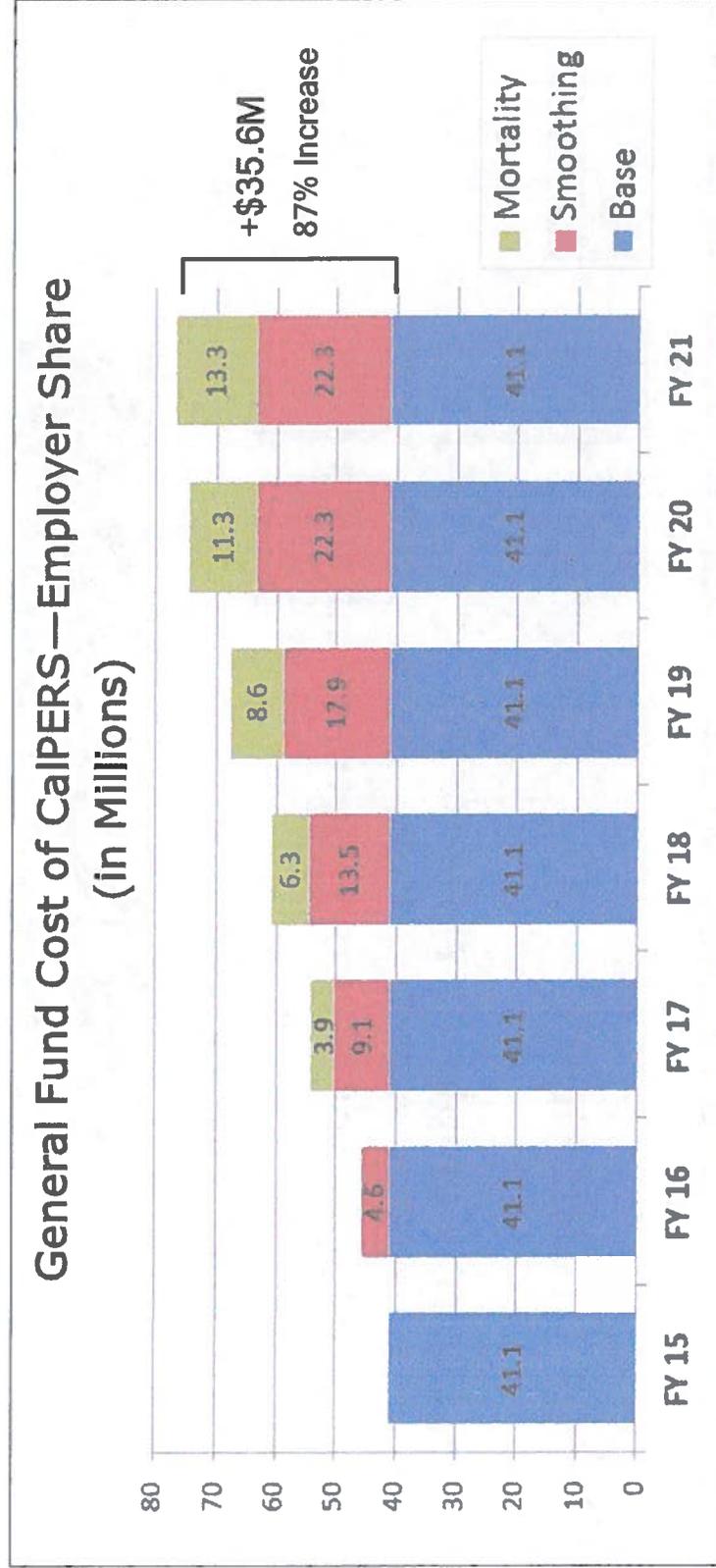
## City Revenues are Not Sufficient to Sustain Service Increases

- FY 15 and FY 16 are transition years
- Expenses have been and are likely to continue to outpace revenues for foreseeable future
  - Revenues, excluding one-time events, have declined over the last five years – there has been negative basic growth
  - Key personnel expense categories have increased on average between 1% and 7% over last five years



# Challenges are Coming

CalPERS Rate Increases: \$35.6 million per year





# Challenges are Coming

## Other Challenges

- Expiring employee agreements
- Employee benefit costs outpace inflation
- Unfunded liabilities

### Unfunded Liabilities (In millions of \$)

CalPERS Pension	943
Sick Leave	119
Retiree Health Subsidy	220
Workers' Compensation	111
<b>Total</b>	<b>1,393</b>



# Challenges are Coming

- Facing deficit of \$2.5 million in FY 16 and \$8.5 million in FY 17
- Proposed Budget applies the \$3.1 million FY 15 temporary surplus to help solve the FY 16 and FY 17 deficits

In Millions	FY 15 Budget	FY 16 Projected	FY 17 Projected	Cumulative
Proposed Budget	\$0.0*	\$0.0*	(\$7.9 M)	(\$7.9 M)
Spend Temporary Surplus	\$0.0	(\$2.5 M)	(\$8.5 M)	(\$11.0 M)

\* Includes FY 15 \$3.1 million and FY 16 \$0.6 million transfer to CalPERS Stabilization Fund



## *A Plan for Success*

- Maintains current services through proportionate share
- There are no new services without offsetting reductions
- Police and Fire academies provide for new police officers and fire fighters
- The budget continues to develop efficiencies and explore cost reductions and ways to maximize existing revenues for the future
- One-time expenditures focus on reducing operating costs
- Adds to CalPERS stabilization fund and carries over temporary surplus to address future deficits
- Additional funding for unfunded liabilities per 5% Council policy



## *FY 15 Budget Highlights*

- Maintains strong city services for a diverse and vibrant community
- Continues investment in City infrastructure
- Maintains fiscal discipline
- Continues to develop efficiencies and explore cost reductions
- Continues to maximize existing revenues and find new revenues
- Maintains Long Beach's financial health

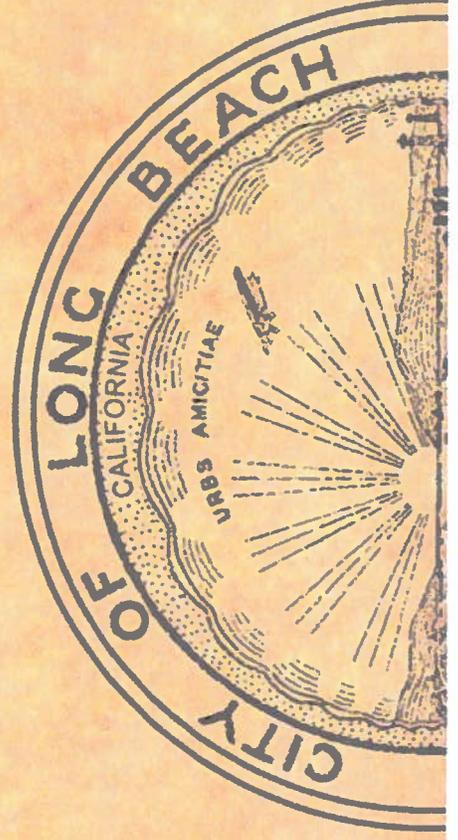


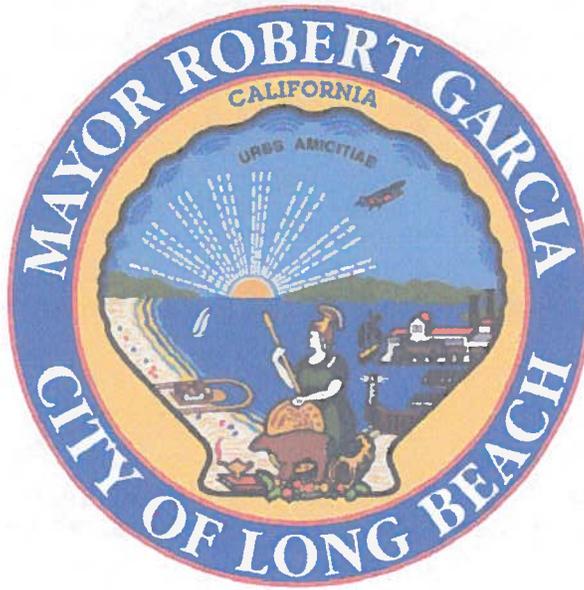
# FY 15 Budget Timeline

- March 11 Budget Outlook Council Presentation
- March 12 Instructions to Departments
- July 3 Submittal of Proposed Budget to Mayor
- July 9 Mayor Submits Proposed Budget to City Council
- July 22 City Manager Presents Proposed Budget & Proposed Capital Budget Presentation
- August Community Budget Meetings
- August Budget Oversight Committee Meetings
- August 5 Budget Meeting (tentative)
- August 12 Budget Meeting (tentative)
- August 19 Budget Meeting (tentative)
- September 2 Budget Hearing and 1<sup>st</sup> adoption date
- September 9 Budget Hearing and 2<sup>nd</sup> adoption date

# Fiscal Year 2015 Proposed Budget

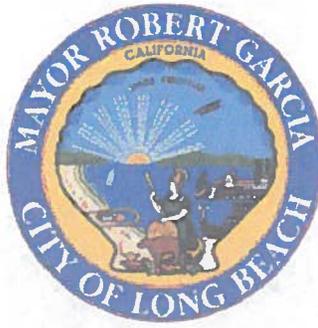
*Preserving Services and Preparing for the Future*





# **Mayor's Budget Recommendations Fiscal Year 2015**

*Presented July 22, 2014*



## **Mayor's Budget Message & Recommendations Fiscal year 2015**

Mayor Robert Garcia

As prescribed by the Long Beach City Charter, I hereby transmit to the Long Beach City Council my recommendations for the 2015 Budget prepared by the City Manager.

### **Preparing for the Future – Learning from the Past**

This Budget Message is one of my first official acts as Mayor. I take my responsibility to protect the fiscal health of the City very seriously. The City Manager has prepared a sound budget that protects core city services and sets aside surpluses this year to address looming shortfalls in coming years which are anticipated from significant increases in employee retirement costs.

I am proud of the work that Mayor Foster and the previous City Council achieved during very difficult budget years to better align the cost and revenue side of our budget. On-going expenses and revenues were better aligned through reductions of positions and pension costs while one-time funds were invested in new infrastructure, parks and other projects. I will not forget the lessons learned during this experience. It is essential to keep on-going expenditures in line with on-going revenues and to prepare now for the increase in pension costs that will begin to hit us as soon as next year.

In his out-going budget message, Mayor Foster provided recommendations to address these issues that I want to highlight and include in this message to reinforce their importance moving forward.

### **Continuing Partnership with Employee Groups**

With 75% of every City dollar currently allocated to salary and benefits, and with pension costs projected to nearly double over the next 6 years, payroll savings will have to continue to be part of the solution to our budget challenges. Exploring ways to decrease and stabilize costs in coming years through reviewing skill pays, changes in benefit programs and contributions, retirement contribution, sick leave calculations and others must be explored in negotiations with our employee groups. We will have to count on their continued partnership as we address the real fiscal challenges we are facing in coming years.

## **A Responsible Policy on Uplands Oil**

The City of Long Beach currently benchmarks the price of oil at \$70 per barrel. Revenue greater than \$70 is considered “one-time” and has been mostly used for capital improvements. It is important that the City Council continue this policy. Oil is still a volatile commodity and we witnessed great movement in 2009 that put the city in a difficult financial position. In addition, bond rating agencies use the city's pricing of oil as a measure in our bond rating.

## **Putting Existing Resources to Work**

Overall, I agree with the recommendations in the City Manager's Budget for the coming year. I have, however, several recommendations for reallocations to address key issues and concerns.

### *Building our Reserves for the Future*

The Manager's budget allocates the \$3.1 million projected surplus from the FY15 budget to the CalPERS stabilization fund. I recommend the first \$2 million of any FY 14 surplus also be put into the CalPERS stabilization fund to provide stronger protections from future market rate changes. By building our reserves we are ensuring a stronger financial position in future budgets.

### *A New Economic & Property Development Department*

Economic Development continues to be one of the City's top priorities. Long Beach has adopted a holistic approach to economic development – one I fully support. Central to this approach is the belief that every department and employee has a role in promoting economic development in the City, whether it is facilitating permits and inspections, enhancing customer service, solving problems, or making our neighborhoods and business corridors look better.

The City's economic development efforts should be rooted in nearly every department of the City, and include partners such as the Business Improvement Districts, Gateway Cities COG, the Convention and Visitors Bureau, and our strong partnership with Long Beach City College, California State University, Long Beach, and our Workforce Development Bureau.

The strategy to rejuvenate the City through this holistic approach to economic development is showing results. The City's General Fund revenue is estimated at \$400 million. This is the first time we are projecting on-going revenue at the \$400 million level since 2008. Earlier this year, the unemployment rate in Long Beach hit a six year low, dropping to 8.4% as of April 2014. Also, thousands of jobs are being created due to projects like the \$1.2 billion replacement of the Gerald Desmond Bridge and the \$1.3 billion Middle Harbor project. We have recently celebrated successes like the expansion

of Douglas Park and the Mercedes Benz facility, new high-end residential development in Downtown and the growth of Molina Healthcare, a Fortune 500 company, bringing high quality jobs to our City.

In order to continue and build upon this momentum in FY 15, I am proposing restructuring our business and property development efforts into the new Economic & Property Development Department.

This new department, located within the City Manager's Office, will need resources to assist with economic development, creation of jobs, and coordination of the City's various economic development functions and partnerships. I am recommending that this new department assume direct functional oversight of the Asset Management Bureau in Public Works, bringing seven additional staff under the direction of the Director of Economic and Property Development (formerly Business and Economic Development Director). This will provide the resources for the City to strategically dispose of 259 parcels of the former Redevelopment Agency, to provide a cohesive vision for how the City's economic development efforts are implemented and real estate assets are managed, and provide additional staff for the Director to work with the Mayor, City Council, and City staff to achieve our economic development goals.

The new department will also work with City Council offices and Business Improvement Districts on business recruitment and business advocacy. The department brings together staff from the office of business and property development and asset management, and therefore does not require any additional funds.

#### *The Technology and Innovation Department*

A 21<sup>st</sup> century City deserves a 21<sup>st</sup> century government. I am a firm believer that the use of innovative technology can make our City more efficient, effective, and improve communication with our community all at the same time.

Our current Technology Services Department has worked to adapt to the rapid changes in technology. They have worked on major software upgrades, integrated new operating systems citywide, and installed wifi in our public libraries and many of our parks. As we prepare to meet the needs of the 21<sup>st</sup> century, we need to also ensure that government is innovating.

The new Technology and Innovation Department will lead the way to making government more open, accessible, and innovative. The department should also partner with California State University, Long Beach and Long Beach City College on open data and technology projects. The Go Long Beach Smart Phone App is a great success story of how innovation made government more efficient and accessible to the public.

Renaming the department and implementing reforms will not cost the general fund any additional financial resources.

Earlier this year, I also proposed a Technology and Innovation Commission to address important areas of public policy as they emerge. The Commission would be comprised of Long Beach residents with special skills, knowledge, expertise and interest in technological innovation, and would be able to advise the Council on new technology and serve as a clearinghouse for new ideas that can enhance the City's use of technology and its place in our economy. To provide support for this Commission, I recommend using \$100,000 of funds already available in the technology general services fund.

### Supporting our Historic Neighborhoods

Long Beach currently has 17 designated historic districts, including Belmont Heights, Drake Park/Wilmore City, and the Wrigley Area. Additionally, 130 landmarks have been designated around the City, including the Long Beach Museum of Art, Broadlind Hotel, Fire Station No. 10, and The Wilmore building.

Long Beach's is a leader in historic preservation and recently was awarded an "A" grade by the Los Angeles Conservancy in a new study that measures historic preservation in the 88 cities within Los Angeles County. Long Beach received a score of 230 out of a possible 245, and was one of 17 cities to receive an "A" grade.

We can, however, and should continue to do more. During the past few years of budget reductions, the City was forced to eliminate the Historic Preservation Officer position. As part of the FY 15 Budget, I am recommending that the City restore this function without increasing ongoing costs. As such, I recommend reclassifying a Planner III position already included in the City Manager's Proposed Budget to assume the role of Historical Preservation Planner and serve as the City's dedicated staff over this highly important function.

### Investing in Libraries and the Arts

Libraries are such an important facet of a healthy city, providing opportunities for learning and development for residents of all ages. It is important that we invest in reading materials, both conventional and electronic, so our community has access to as diverse a supply of material resources as possible. The City's annual allocation for book and digital materials purchases is \$677,000, and has been reduced over the years. While private donations have increased that budget to nearly \$1.5 million a year, including generous donations from Jet Blue and the Library Foundation, in FY 15 I recommend a one-time enhancement of \$200,000 to the Library material and supplies budget with a focus on both conventional and digital books and media.

The Arts Council plays a pivotal role in Long Beach in encouraging artistic development, as well as the production of public art. This year, they have requested \$50,000 in one-time funds to produce a marketing plan for the Arts Council. In the past, the City has built strong partnerships with outside agencies by matching City dollars to their private fund raising efforts, and I am proposing to do the same with the Arts Council this year with the additional \$50,000.

I recommend dedicating \$250,000 of the City Manager's proposed upgrades to citywide Heating, Ventilation and Air Conditioning (HVAC) systems for the Library and Arts Council enhancements. City Management has indicated that some of the HVAC systems are not ready to be replaced, creating an opportunity to spend the funds on these important library and art needs.

#### Identifying Internal Street Sweeping Efficiencies

Over the past year, the City has engaged in an evaluation of the City's street sweeping operation to determine if the private sector can provide the service more cost-effectively. While the study identified some possible savings, the current operation may also be reconfigured by City staff to achieve better results and possibly achieve savings as well.

I recommend that the city begin immediate implementation of efficiencies in the street sweeping operation and not pursue a contracting out proposal in the coming year. I believe there are efficiencies that can be implemented immediately that can improve service, reduce effects to residents and reduce costs. I am recommending the reduction of the four hour window to two hours in parking impacted areas and in other areas where feasible, purchase of more cost-effective vehicles, and other efficiencies that can save money.

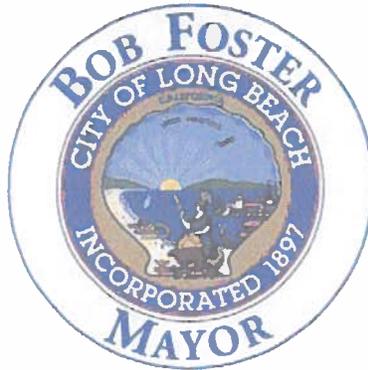
#### Funding for Affordable Housing

Healthy and strong cities ensure that opportunities are available for all our residents to live in safe and clean housing. The City must play a leading role in rehabilitating and creating new affordable housing units for our more disadvantaged residents, including workforce housing, housing for those of moderate income, and housing for those with low, very low, or extremely low incomes. While the dissolution of the Redevelopment Agency resulted in the loss of a dedicated funding source for affordable housing initiatives, over the next few years we expect significant resources to be available to continue our work in rehabilitating existing housing stock and creating new affordable housing opportunities. From FY 14 to FY 16, the City expects to receive \$24.7 million in funds that were owed to the City from the former Redevelopment Agency.

Recently, the State of California dedicated 20% of its ongoing Cap and Trade dollars to sustainable communities and affordable housing, creating a statewide grant program of \$130 million in FY 15 for affordable housing and sustainable communities. Long Beach will be well suited to compete for these funds, as 25% of all Cap and Trade funds will benefit disadvantaged communities, and Long Beach has a strong reputation as a leader in sustainable transit-oriented development and the creation of affordable housing.

For FY 15, I am recommending that the City place the \$24.7 million identified above into the existing Housing Trust Fund to continue the City's great work in the affordable housing arena and support our certified Housing Element. I am also recommending our Development Services Department explore methods to reconstitute the Housing Trust

Fund so that more of our housing resources can be incorporated into the fund. This fund has been underutilized due to its current structure, and by exploring a different structure, we can potentially maximize the funding sources the City has, provide greater flexibility in funding projects and put additional resources into the fund. Additionally, we must seek additional grant resources, such as State dollars, and advocate at the State level for those dollars to be available to assist with our entire spectrum of housing needs, from workforce housing to the lowest of income levels. I am asking that the City also work with housing advocates to develop ways of strengthening the Housing Trust Fund.



# Mayor's Budget Recommendations

**Fiscal Year 2015**

*Presented July 9, 2014*



## Budget Message for Fiscal 2015

Pursuant to the Long Beach City Charter, I hereby transmit to the Long Beach City Council the 2015 Budget prepared by the City Manager, with my recommendations.

This will be one of my last official acts as Mayor of Long Beach and I consider this transmittal one of the most important Mayoral responsibilities. This City has managed its way through very difficult financial times in the past seven years. As the Manager's budget points out, we have reduced the City's General Fund by \$134 million and reduced 714 FTEs over that period.

We have done this while still providing quality service to our residents in virtually every area. Major crime is at 41-year lows. We have achieved real pension reform for all our employee groups, saving nearly \$250 million over the next decade. We have made real progress on our streets and sidewalk repair and replacement. We have expanded our parks, cleaned our air and water, and worked to bring job skills training into our schools. It has not been easy or without pain, but we have worked well within the resources we were given.

While in FY14 we had the first budget surplus in ten years, we have prudently decided to "roll" the surplus over to offset costs we know are coming in a few years. As the Manager's budget illustrates, to use this surplus for ongoing programs would be folly and only increase future budget cuts. The urgent issue facing this city is the "certainty" of increased costs for public pensions coming from the State level. Wisely, the California Public Employees Retirement System (CalPERS) has decided to put its system on an actuarially sound footing, and charge its member agencies at a level to eliminate unfunded liabilities over a 30-year period. This will result in an increase in costs for Long Beach of over \$35 million a year by 2021.

If the new Mayor and City Council delay action on this issue until the costs come due, it will mean that cuts equaling nearly 10% of the General Fund will need to be made or taxes would need to be increased a like amount. Both of those paths are untenable.

If the City takes action now and over the next two years, it can substantially reduce the impact of this increase with minimal "pain." The recommendations below are centered on this issue; finding a path to make the coming costs bearable, with as little pain to services and employees as possible. This will be neither "fun" nor pleasant, but the alternative is much worse.

Most of the costs to operate Long Beach are in personnel; nearly 75% of the City's budget is for salaries and related expenses. All employee contracts will be up for negotiation over the next two years. This will present an opportunity to carefully review each contract and make sure that antiquated, obsolete, and unnecessary provisions are removed.

### EMPLOYEE CONTRACT NEGOTIATIONS

The good news is that all of the memorandums of understanding for all employee groups are up for negotiation in the next two years. This is also the bad news. Employees have grown to expect pay increases during these contracts renewals. It is difficult to see how the City can afford any increase in pay for employees with the substantial cost increases coming to meet the obligations for their pensions.

Every 1 percent increase is \$2.6 million more in General Fund costs, and those costs will continue every year. We know we will need over \$35 million per year in 2021. Any amount we provide employees will increase that amount. The 2001 pension spike is now fully making its impact felt. The truth is we could not afford that decision then, and its full impact is unaffordable in the years ahead.

### SKILL PAY

Skill pay is one area ripe for review. In our City, there are about 136 active skills pays. In 2013, those designations were used over 5,000 times and resulted in \$19.9 million in additional compensation to employees, with many employees receiving more than one skill pay. These are skill pays for bilingual ability, additional schooling, certificates, and the list goes on. There are simply too many and the number has increased over the years without review as to their necessity or relevance. The number is so large, one could reasonably believe we are hiring unskilled employees.

The Fire Department, for example, has 43 separate skills pays. In some cases, firefighters are earning a substantial part of their salary through skill pays. Perhaps the common sense notion that you hire people for their skill and they have a responsibility for self-improvement no longer applies, but it should. In the modern world you are paid for your skill and you are expected to "keep up" and improve or your job is in jeopardy from those who will seek to improve.

This is not to say that all skill pays should be eliminated. There may be good and sufficient reason to incent employees to advance in specific areas, but many are outdated and compounded, or they are awarded without regard to their relevance to specific jobs. This is an area where substantial reform is necessary and substantial savings can be achieved. I recommend that the City Council initiate a careful review of skill pay with the goal of substantially reducing their number and cost. It would be difficult to cite a specific number, but a reasonable goal would be no more than 30 City-wide. Any cost savings should be "reserved" to meet the CalPERS increases we know are coming.

### RETIREE MEDICAL SICK LEAVE CONVERSION

While Long Beach does not offer medical coverage for its retirees, it does allow them to accumulate their unused sick leave hours and use them to purchase medical coverage when they retire. The present program accumulates unused hours and at retirement, the hours are multiplied by the final salary to arrive at a dollar figure (unused sick leave hours x final salary). This figure is then used to purchase insurance for however long the dollars last. This has created an unfunded liability for the City of \$119 million.

A more fair way of calculating this benefit would be to calculate the value based of the actual rate of pay when the time accrued, instead of the final salary. This would truly reflect what was

earned by the employee, and be a more appropriate and equitable manner to calculate this benefit and reduce the City's unfunded liability.

#### EMPLOYEE RETIREMENT CONTRIBUTION

The pension reform recently achieved, required employees to pay more of their retirement costs. Public safety personnel now pay 9% of their salary toward their retirement and most non-public safety personnel now pay 8% of their salary toward retirement. Previously, employee contributions were 2% of salary. This was a key point during the last negotiations, but there is a huge gap in costs and it will get much bigger in the next few years.

While I know that this will not be a popular issue with employees, given the needs of CalPERS and the fact that these funds are applied to the employee's retirement account, it will very likely be necessary to increase the employee contribution by another 2% or perhaps 3%.

Consider that increased employee contributions of 3% would produce \$6 million annually to reduce the deficit. The City Council should begin the MOU negotiations with a specific goal to achieve in this area. To be blunt, it is doubtful the City can achieve the necessary savings for 2016-2021 without larger contributions from employees.

#### CO-PAYS AND HEALTH INSURANCE

Long Beach offers its employees comprehensive health care with relatively low co-pays and deductible levels. This, too, is an area the City will need to explore to achieve cost savings. Private employers have been moving in this direction for years and while the City has moved forward somewhat, it is time for a more effective cost sharing structure that gives employees more incentive to help control costs.

#### UPLANDS OIL

The price of oil per barrel has been a perennial issue with certain members of the Council. Long Beach is fortunate to have oil as a revenue source for our city. Currently, we "benchmark" the price of oil at \$70 per barrel. Any revenue above that level is considered "one-time" and is used only for discrete, or "one-time" expenditures such as capital improvements. All revenue at or below the \$70 is used for "on-going" budget expenses. It is important that the Mayor and City Council continue this policy.

Oil is a volatile commodity and its price can increase or drop rapidly. We witnessed oil move from \$140 per barrel down to below \$30 per barrel in 2009. Secondly, the bond rating agencies will likely react negatively to such fiscal imprudence and lower the City's bond rating. Finally, given the known increases in expenses coming soon, it would be wise to hold these funds in reserve if needed in the 2017-2021 time period.

Please note that this is not the "pot of gold" some claim. Our revenue only increases \$1.2 million for each \$5 increase in the benchmark price. So even if the Council wished to increase the benchmark to \$90, very risky with such a volatile commodity, it would produce \$4.8 million for the General Fund and leave the only option of draconian mid-year cuts if the price or production levels were to drop. Similarly, that is \$4.8 million in street, sidewalk, park improvements that don't get done.

ONE-TIME NON-RECURRING REVENUE

We have been very disciplined in our use of one-time revenue using it for one-time or capital expenditures. We also reserve 5% of this revenue for unfunded liabilities. I recommend that we now take another 5% of this revenue and place in the CalPERS reserve. While this will not be recurring, it can soften the blow in the next few years when increase in costs will hit hard.

INCREASE PARTNERSHIP WITH PRIVATE SECTOR

Over the past several years I have made, and the Council has adopted, several recommendations to increase our use of the private sector to perform some of our services. Many of the recommendations have not yet been fulfilled. Everything from fleet services to information technology should be examined for savings. If enough can be saved in the next two or three years, we might be able to prevent the more draconian measures necessary to meet the budget numbers in 2017 to 2021. The Council should hold management's feet to the fire on this issue. Management Partners has identified potential opportunities that should be formally brought before the Council for deliberations on the FY 15 budget.

LOOKING FORWARD

I know that some of the elected officials want to "restore" previously reduced services. If they were to do that, they will actually be making matters worse and increase the amount that will need to be cut in the future. Spending the surplus in FY 15 means instantly creating a deficit of \$2.5 million in FY 16 we will have to solve. Conversely, saving that surplus means no deficit in FY 16.

I also know that some employees will claim that the budget is being balanced "on their backs". As noted earlier, nearly 75% of the budget is personnel. Where else can the City look for revenues to make ends meet if personnel costs and the expenses go up faster than revenues? The difficult reality is that there are few, if any, other places to turn.

You have a good base to work from and a roadmap to continuing the build the financial strength of this City. It is my hope you will follow it. Achieving the reductions necessary for 2017 and beyond will require attention to detail and discipline. I would encourage each of you to always think long term, well beyond the normal 3 to 5 years. That is not an easy thing to do when you sit down on that dais every week.

All of the above are intended to frame the FY 15 budget as an opportunity to take action now to lessen the impact of what will be very difficult and painful cuts in the near future. A less surgical approach would be to simply cut the budget 2% across the board; this would produce about \$8 million to be put aside for future years.

But I would leave you with this concluding thought. If the City can set a course now to meet the problems head on, it will build confidence and respect in our leaders. If we fail, and don't maintain our fiscal discipline, if we increase services or provide unaffordable compensation, and ultimately paper over the real fiscal issues, it will overwhelm the City and its elected officials.

###