

Solving The Preliminary Budget Outlook Shortfall

February 6, 2018

Updated preliminary projection shows a balanced FY 19 budget when strong balancing actions are taken

Updated Preliminary Shortfall Projection for FY 19

	\$ (in millions)
Original projection (in FY 18 budget)	(10.4)
Revenue changes	1.8
Expense changes	(2.7)
Potential balancing action changes	<u>11.3</u>
Revised shortfall	(0.0)

- Primary causes: pension costs and slow revenue growth
- Departments will need to absorb cost increases
- Surplus (for one-time uses) not expected
- Projection will be updated
- Does NOT include impact of litigation

Balancing actions and their dollar size are key factors in addressing preliminary shortfall

- \$11.3 m in balancing actions changes that will balance budget, assuming an accurate preliminary projection
- Potential balancing actions:
 - \$4.0 m – ambulance fees, parking fines & other
 - \$0.9 m – revenue from short-term rentals
 - \$3.1 m – improved Measure A revenues to help maintain public safety services
 - \$3.9 m – allocate more Measure A funds for public safety
 - \$2.9 m – other, e.g., vacancy savings, other funding sources, additional efficiencies, cost reductions
 - \$14.8 m total
 - \$(3.5) m – balancing actions in original projection
 - \$11.3 m net additional balancing actions

Actual budget shortfall and needed balancing actions may be different from preliminary projection

- Potential for significant variance to preliminary projection
- A 1% variance in overall revenues would impact shortfall by \$4 m to \$5 m
- Updated projections may require less or more in budget balancing actions and/or department reductions
- Next update will be released in March; the final three-year projection update is included with the proposed budget

FY 19 budget is balanced, based on preliminary projection and balancing actions

- Balanced based on preliminary projection
- Balanced based on \$11.3 m in balancing actions
- But the balancing actions do not take into account the impact of litigation

Litigation has
major budget
impact

Will result in
service
reductions due to
a loss of
long-time
revenues

- Litigation concerning water utilities WILL create an \$8 m shortfall
- Litigation concerning gas utilities MAY create an additional \$10 m shortfall
- Results in substantial reductions to departmental budgets and services
- Charter amendment, currently being considered, could prevent service reductions due to litigation, with no historical cost increases

Two budget options prepared because of uncertainty of Charter amendment

- Cannot assume that Charter amendment will be on ballot or, if on the ballot, that it will pass
- FY 19 budget process includes development of two budget options
 - > Option 1: no impacts from litigation
 - > Option 2: \$8.3 m shortfall from water litigation
- Potential additional \$10 m shortfall from gas litigation is about two years away
- Litigation impact will be resolved prior to submission of the proposed budget; proposed budget will have only the appropriate option

Budget balancing will focus on maintaining services and other key goals

- **Focus on services**
 - > Emphasis on most important and core services
 - > Maintaining restored public safety services
 - > Ensure a strong public safety continuum
 - > A balanced and broad range of services
 - > Maintain financial, tech., and HR controls and capabilities
 - > Retained filled positions
- **Focus on strong economic development**
 - > Support continued growth of the City's economic base
 - > Support actions that continue to grow revenues
- **Focus on strong financial management**
 - > Structurally balanced budget
 - > Emergency and operating reserves remain funded
 - > 5% of one-time revenue in unfunded liability reserve
- **Focus on reducing costs and increasing revenues**
 - > Invest in improvements that reduce future costs
 - > Innovations, efficiencies, and current cost reductions
 - > Increase existing revenues or new revenues

Numerous opportunities for City Council and community input

- Feb 6 Fiscal Outlook to BOC & City Council
- Feb Budget instructions to departments
- March Updated projection memo
- May Mid-year update on FY 18 savings
- By July 3 Proposed Budget to Mayor
- By Aug 2 Proposed Budget to City Council
- August Community Budget Meetings
- August BOC Meetings
- August City Council Budget Meetings
- Sept 4 Budget Hearing; 1st adoption date
- Sept 11 Budget Hearing; 2nd adoption date

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