

# Preliminary General Fund Outlook

---

DECEMBER 19, 2017

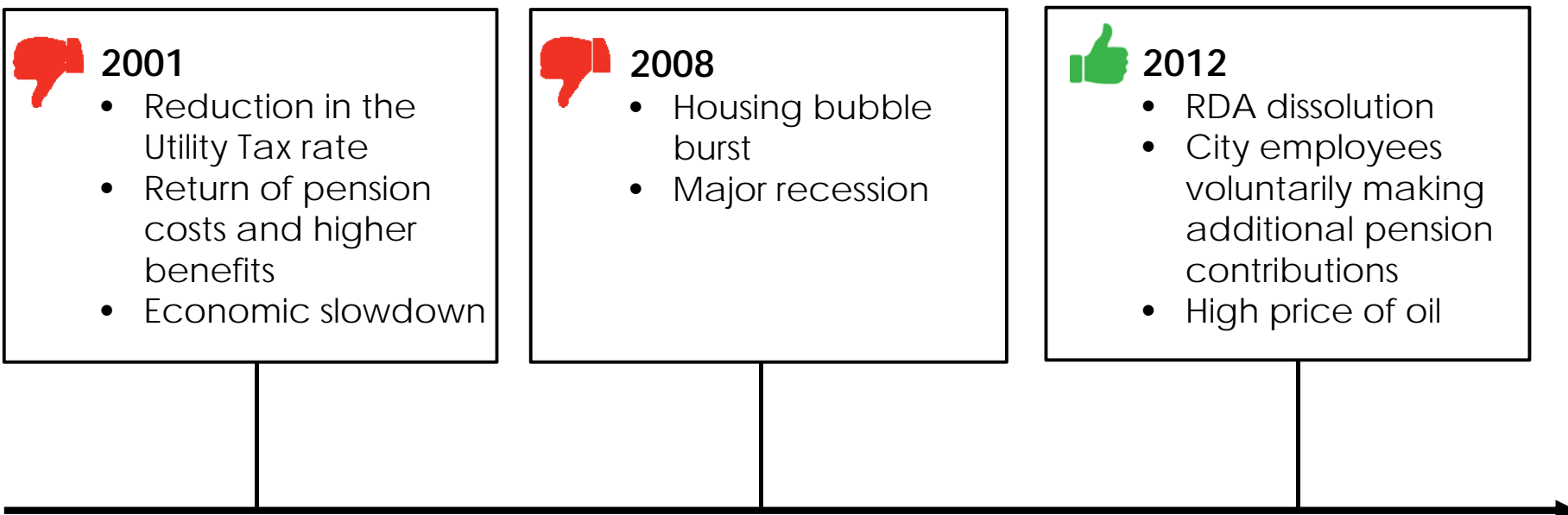
# Outline

---

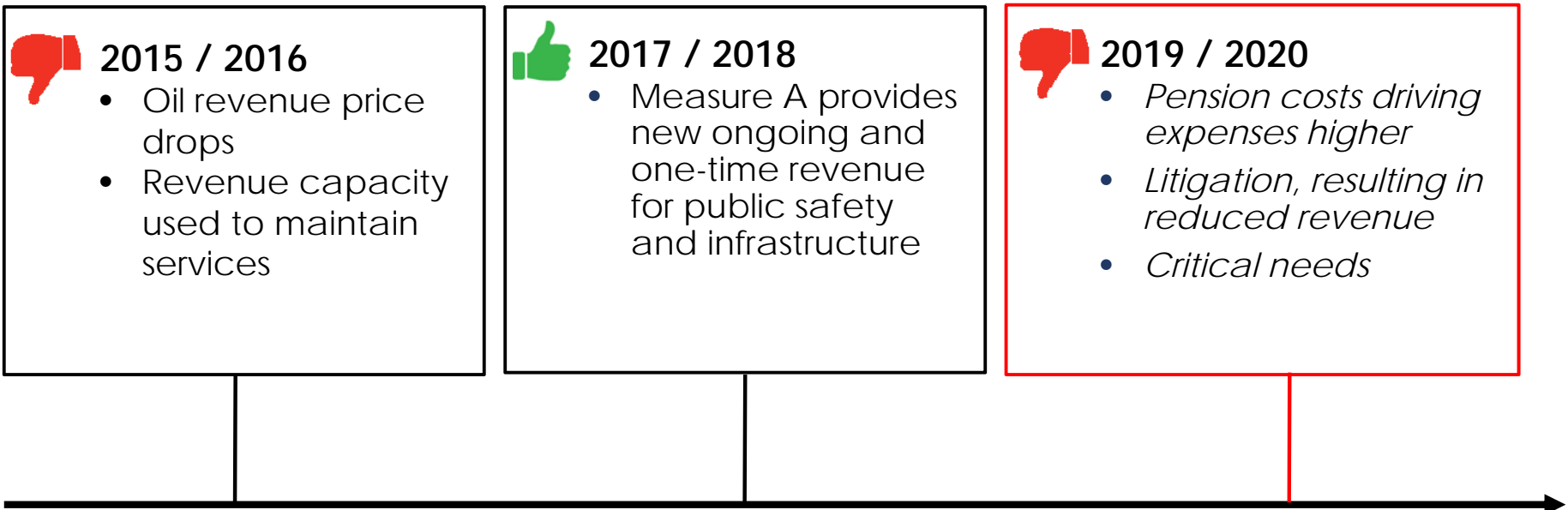
- Budget Background
- Status of FY 17, FY 18, and Factors Impacting FY 19
- FY 19 Preliminary Projection
- Potential Budget Balancing Actions
- Impact of Litigation
- Potential Solution to Litigation
- FY 20 and FY 21 Potential Status and Future Considerations
- Budget Management Approach, Recommendations, and Next Steps

# A Brief Budget Background

---



# A Brief Budget Background



# Status of FY 17 and FY 18

---

## **FY 17**









- A relatively small surplus is anticipated
- Measure A is on track
- Funding likely available for FY 18 contingent appropriations

## **FY 18**

- Being monitored closely
- Includes mandatory savings targets
- A budget shortfall seems possible

## FY 19 Preliminary Revenues Changes (\$0.8 m)

---

-  Property Tax – property turnover and ongoing recession catch-up
-  Vehicle License Fee – in lieu – higher based on property tax
-  Ambulance Revenue – higher based on recent state law and trends
-  Transient Occupancy Taxes – growth lower than originally projected
-  Sales Tax – growth lower than originally projected
-  UUT – electricity and phone tax revenue trending lower than originally projected
-  Uplands Oil Revenue – increased price per barrel, but increased abandonment costs
-  Medical Marijuana – slow pace of business openings

## FY 19 Preliminary Expense Changes (-\$4 m)

---



Health care cost savings – less costly plan and usage savings



Pension costs – slightly higher than previous projection



Fleet costs – replacement vehicles are more costly



Critical technology infrastructure – need to invest immediately to prevent service impacts and minimize costs



Storm water permit costs – structurally fund these ongoing costs, currently budgeted as one-time



Medical Marijuana – level of enforcement required

## FY 19 Potential Balancing Actions (\$6.3 m)

---



- Staff is developing various budget balancing actions; some will require explicit City Council action
- Examples of actions that involve explicit City Council actions
  - > Modifying use of structural Measure A funds for public safety
  - > Ambulance fee increases
  - > Fine increases
  - > Parking revenue increases
  - > Marijuana tax rate increase
  - > Revenue from Airbnb, et al
- Currently projected at \$6.3 m, but amount may change significantly, and some actions involve difficult City Council decisions



# Significant Uncertainties

---

- ? • Uncertain revenue patterns - not enough months to establish patterns
- Expenses may change – unexpected events can impact expenses
- Medical Marijuana – pace of business openings, level of legal sales, and level of enforcement required
- Measure A – different tax base and pattern not yet clearly established
- Oil prices and costs – price of oil versus costs of production and exploration
- Economic Development – impact on near term revenues

# FY 19 Preliminary Projection

---

\$ in Millions	FY 19
<b>Shortfall projection</b>	
Original projection	(10.4)
Revenue changes	0.8
Expense changes	(4.0)
Potential Budget Balancing Actions	<u>6.3</u>
<b>Revised shortfall</b>	<b>(7.3)</b>

This projection is extremely preliminary, solely for initial planning, and will change, potentially significantly

# FY 19 Preliminary Shortfall with Balancing Actions

---

- Budget Balancing actions, currently projected at \$6.3 m, are not enough to balance the budget
- The remaining \$7.3 m shortfall would likely need to be addressed through department reductions
- Unfortunately, recent litigation increased the shortfall

# New Litigation Has A Major Impact (-\$8.3 m)

---



## Water and Sewer pipeline fee litigation

- Impacts long-term historical revenues that pay for City services
- \$8.3 m annual impact due to loss of revenue and retroactive repayment
- Results in \$3/month reduction in the average utility bill, but with significant service reductions



## Gas Fund transfer litigation

- The City has won, but the decision is being appealed. If City loses, could also have a significant adverse impact

# Impact of Litigation on Shortfall

\$ in Millions	FY 19
<b>Revised Shortfall with Balancing Actions</b>	<b>(7.3)</b>
Impact of Litigation	<u>(8.3)</u>
<b>Revised Shortfall after Litigation Impacts</b>	<b>(15.6)</b>

- With litigation impact, shortfall increases to \$15.6 m, to be addressed through additional department reductions
- There is a potential solution to mitigate the litigation impact

## Potential Solution to Address Litigation (\$8.3 m)

---

- Voters could allow City to maintain the Water/Sewer revenue with NO additional historical costs through a Charter amendment. This action could:
  - > Restore the previous status quo of utility rates and City services
  - > Prevent service reductions caused by litigation
- A successful Charter amendment would eliminate the \$8.3 m in additional department reductions
- Other ballot measure options to further minimize department reductions could be explored

# FY 19 Shortfall With Successful Charter Amendment

---

\$ in Millions	FY 19
<b>Revised shortfall with Litigation Impact</b>	<b>(15.6)</b>
Charter Amendment	<u>8.3</u>
<b>New Revised Shortfall with Successful Charter Amendment</b>	<b>(7.3)</b>

- FY 19 shortfall estimated at \$7.3 m or \$15.6 m depending on successful Charter amendment
- Shortfall amount also depends on the level of balancing actions that City Council adopts

This projection is extremely preliminary and will change

## FY 20 - FY 21 Preliminary Projection

---

- FY 20 and FY 21 also facing shortfalls driven by pension costs and comparatively low revenue growth
- FY 20 shortfall appears to be in the \$12 m to \$16 m range
- FY 21 shortfall narrows to a \$5 m to \$7 m range
- Both FY 20 and FY 21 assume a 2% cost of living increase of \$6 m each year
- Budget balancing solutions for FY 19 should take into account the likely continuing shortfall issues



# Future Considerations

---

- Economic growth is part of the long-term solution, but is not going to resolve the short-term problem
- Economy assumed to continue to be good, but not certain
- Revenues can significantly change and are difficult to project such as Measure A and Marijuana taxes
- Although unlikely, outstanding Gas Fund transfer litigation could have a major negative impact
- Caution is warranted with any use of reserves. Rating agencies likely to take notice of the already significant decrease in spendable reserves
- Federal and State actions may have significant impacts

# Budget Management Approach

---

- FY 18 – Evaluate potential additional actions as FY 18 and FY 19 budget statuses are updated
  - > Have already implemented departmental savings targets and ongoing review of hiring actions
- FY 19 – Continue to update budget projections; develop balancing actions
  - > Work has begun to identify potential reductions, if needed
- Staff will work on development of a long-term financial plan, including long-term financial projections, consistent with City Council's financial policies
- Staff recommends City Council consider Charter amendment solution to address litigation

## Next Steps

---

- Consider City Council comments in further developing budget balancing actions and solutions
- Continue to explore revenue and expense solutions (budget actions)
- Update projections – will change, perhaps significantly
- Work with departments on potential budget reductions
- Provide FY 17 year-end status report in early February
- Provide updated projections and budget strategy on March 6, 2018 (formal start of the FY 19 budget process)

# Questions and Discussion

---