



CITY OF SANTA BARBARA

CITY COUNCIL AGENDA REPORT

AGENDA DATE: February 10, 2014
TO: Mayor and Councilmembers
FROM: Administration Division, Finance Department
SUBJECT: Fiscal Year 2015 Special Budget Work Session

RECOMMENDATION:

That Council hold a special work session on the Fiscal Year 2015 budget.

DISCUSSION:

In April 2014 the City Administrator will present to the City Council his recommended budget for Fiscal Year 2015, the second year of the two-year plan adopted by Council in June 2013. The budget development process has already begun and over the next few months the City Administrator, in conjunction with the Finance Department, will be finalizing revenue estimates and reviewing department budgets. Once the budget is submitted in April, a number of special work sessions will be held through early June to allow the Council and public to review the recommended budget prior to its adoption in late June.

In advance of finalizing the recommended budget, staff would like to hold a work session to provide Council with a framework within which the Fiscal Year 2015 recommended budget will be developed, with the primary focus on the General Fund. This will include an update on General Fund revenues, a review of the latest version of the multi-year financial forecast, and the priorities for the upcoming fiscal year.

In addition, staff will be requesting from the City Council any general direction and priorities they may have in connection with the Fiscal Year 2015 budget.

PREPARED BY: Robert Samario, Finance Director

APPROVED BY: City Administrator's Office



CITY OF SANTA BARBARA



City Council Budget Work Session

Fiscal Year 2015

February 10, 2014



PRESENTATION OUTLINE

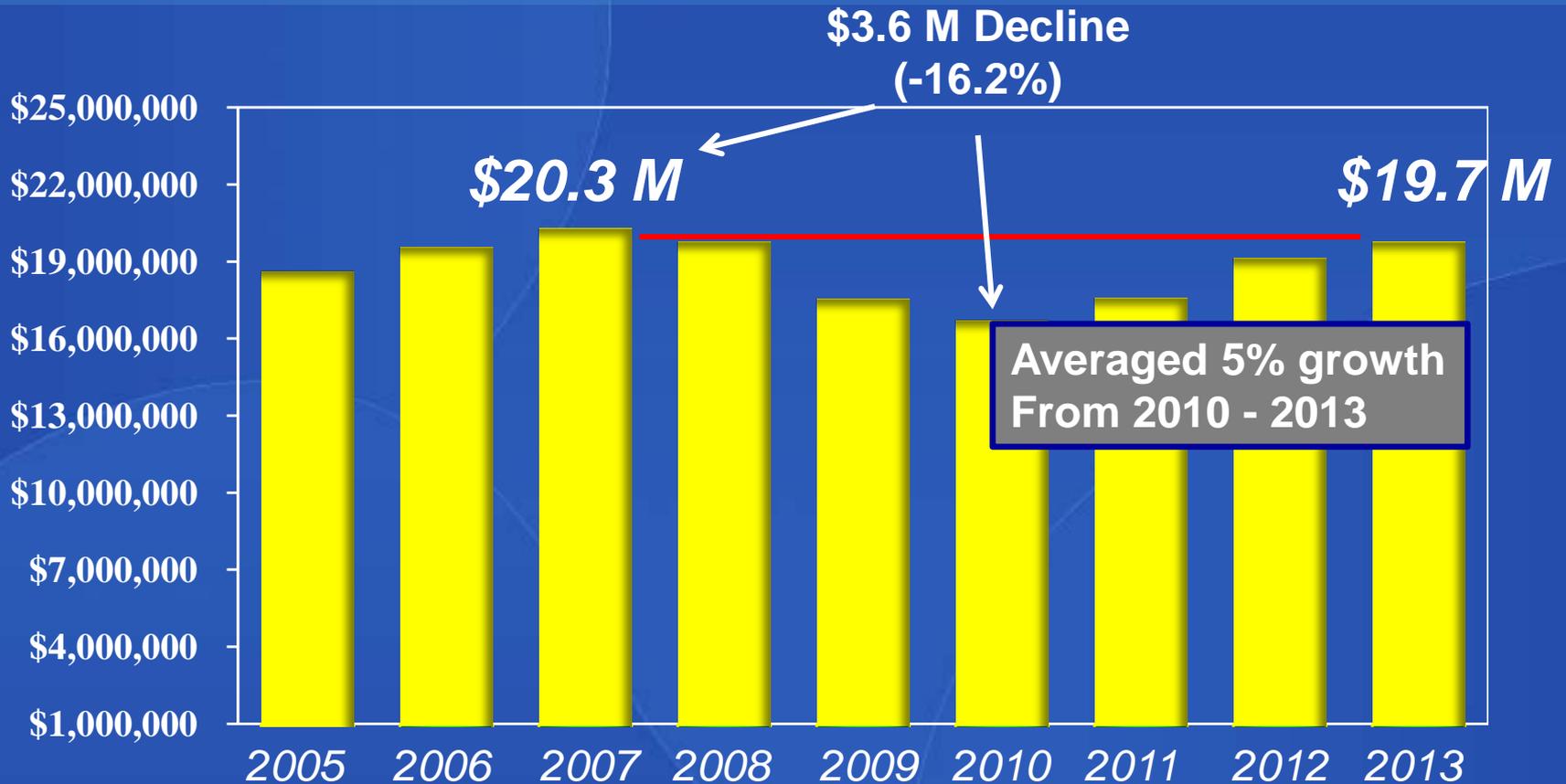
- ◆ Introductory Comments
- ◆ State of City's Finances
 - General Fund
 - Enterprise Funds
- ◆ Long-Term Forecast
- ◆ State of the Organization After the Recession
- ◆ Areas Identified by Staff for Basic Support Services
- ◆ Next Steps in FY 2015 Budget Process
- ◆ Discussion of Council Priorities



State of the City's Finances

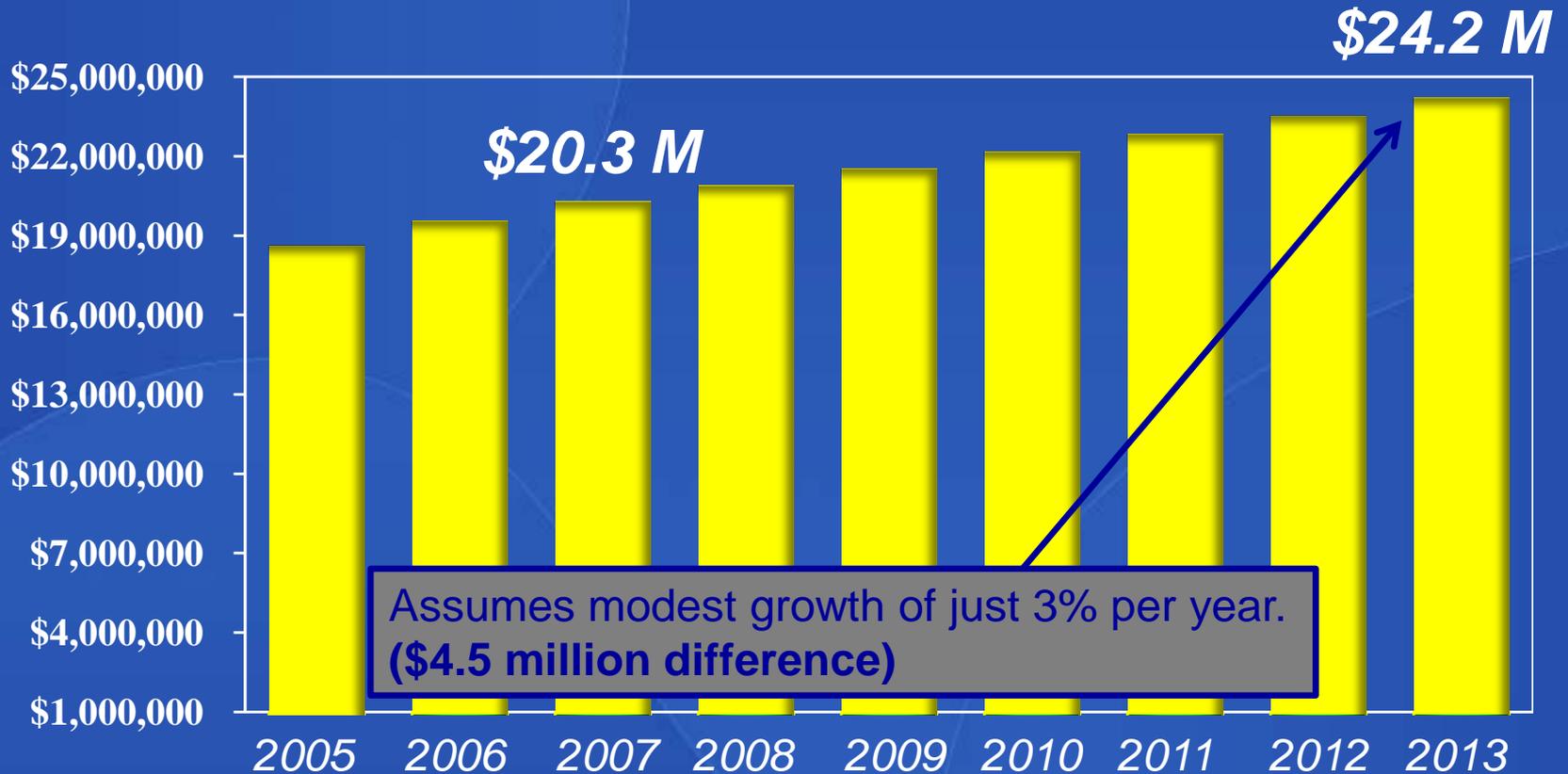
STATE OF CITY'S FINANCES

Sales Tax Revenues – 2005 - 2013



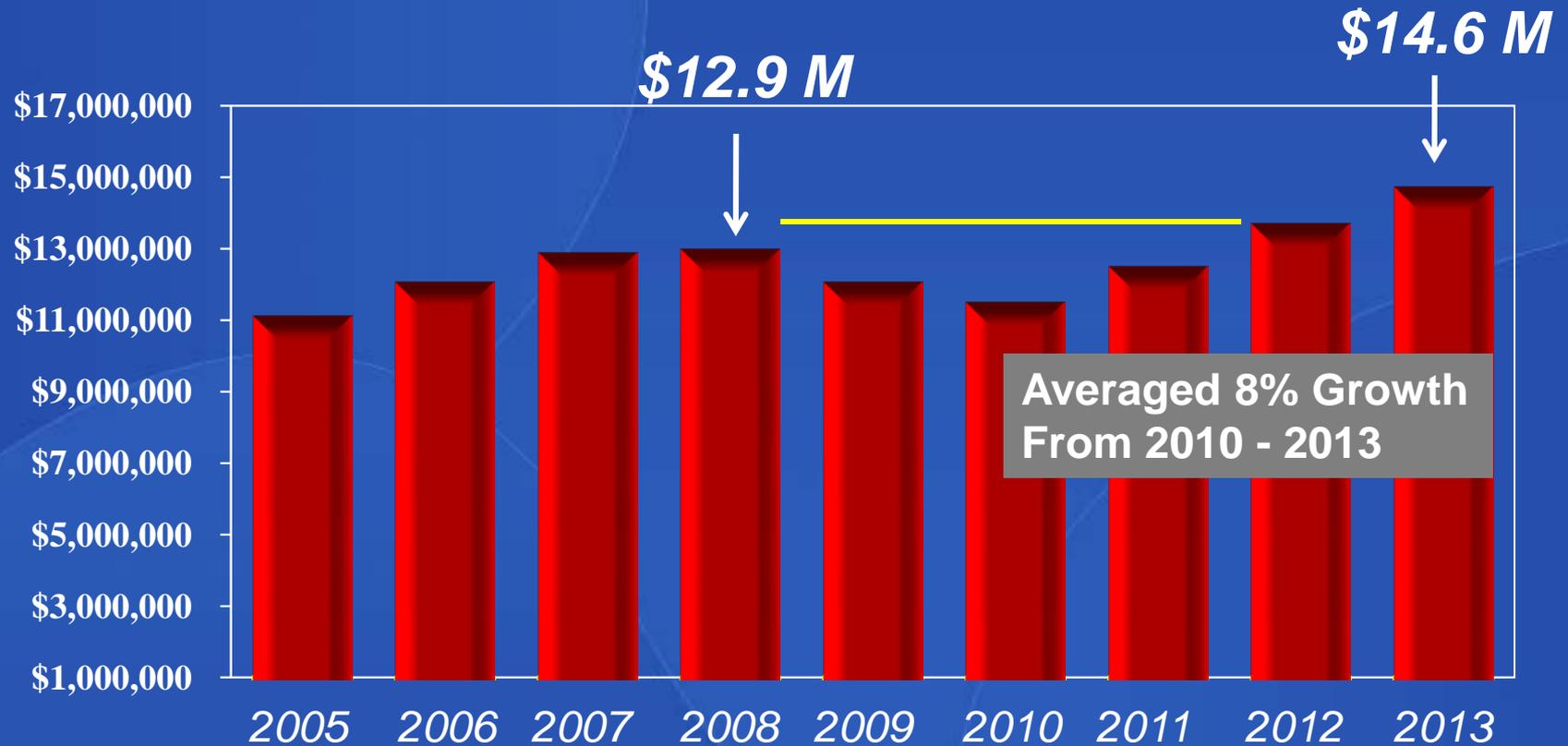
STATE OF CITY'S FINANCES

Sales Tax Revenues – 2005 - 2013



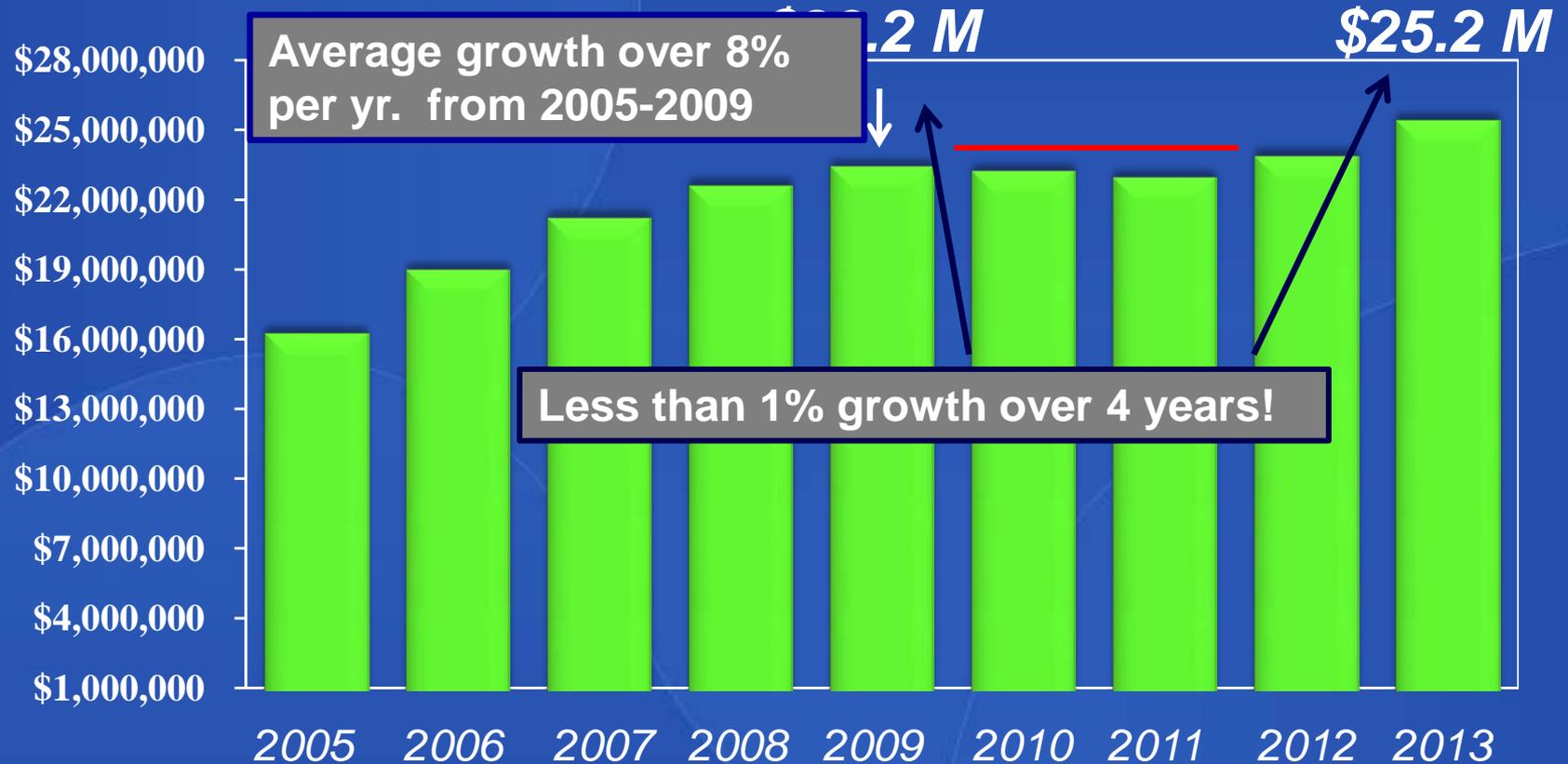
STATE OF CITY'S FINANCES

TOT Revenues – 2005 - 2013



STATE OF CITY'S FINANCES

Property Tax Revenues – 2005 - 2013



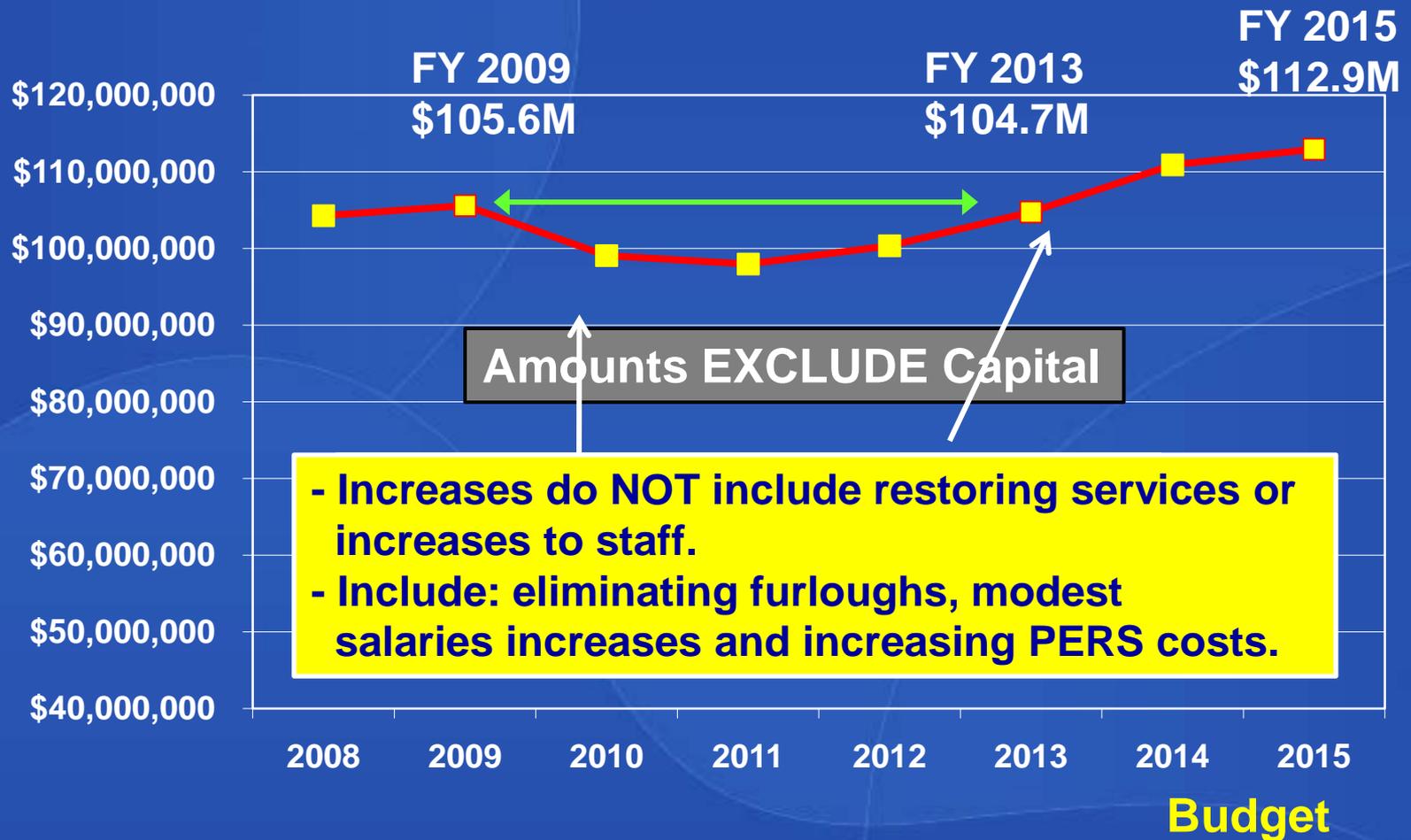
STATE OF CITY'S FINANCES

Revenue Trends – All GF Revenues



STATE OF CITY'S FINANCES

Operating Expenditure Trends



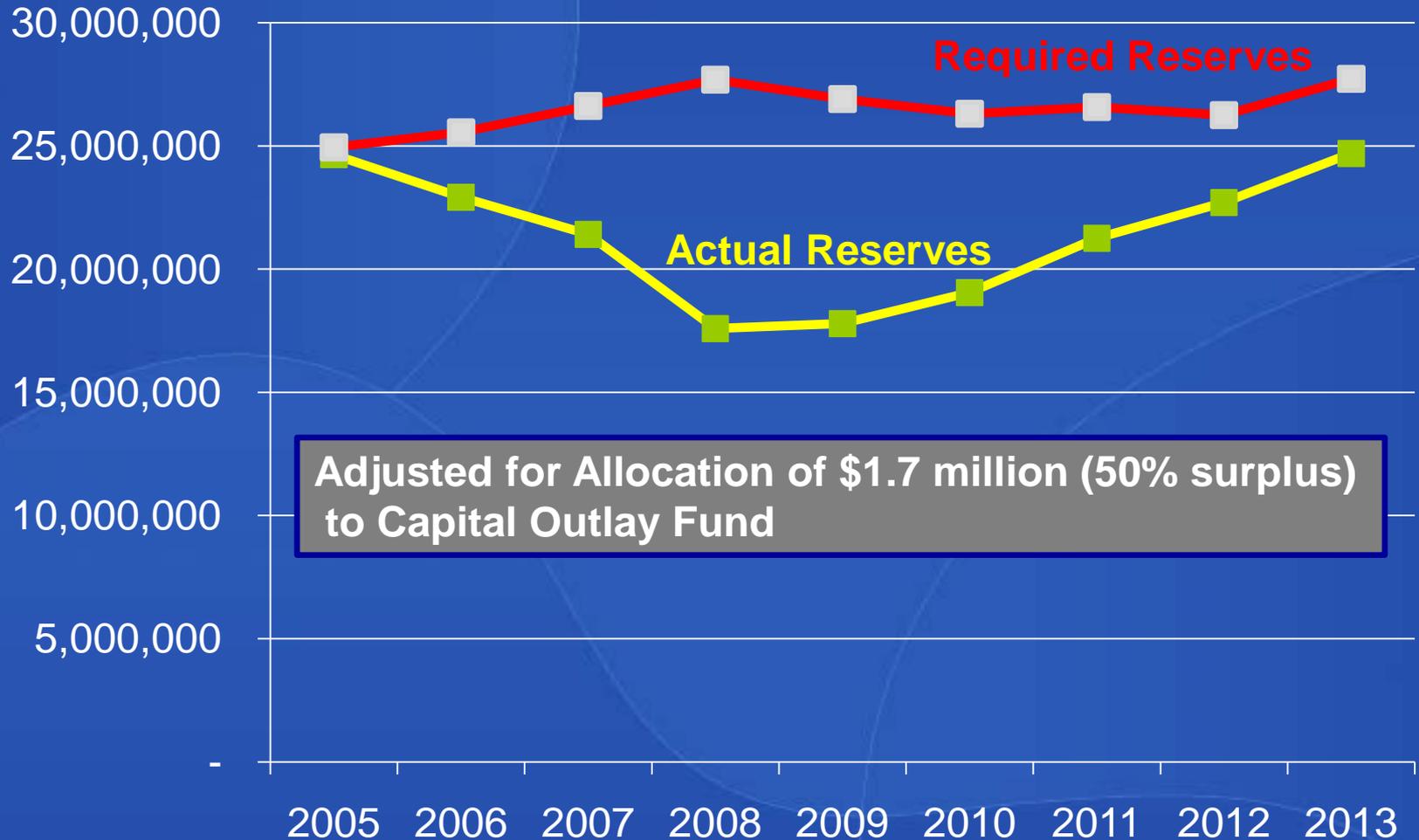
STATE OF CITY'S FINANCES

Status of Reserves – 6/30/2013

	<u>Policy</u>	<u>Actual</u>	<u>Difference</u>
Disasters	\$ 16,631,577	\$ 16,631,577	\$ -
Economic Uncertainty	<u>11,087,718</u>	<u>8,061,767</u>	<u>(3,025,951)</u>
Total	<u>\$ 27,719,295</u>	<u>\$ 24,693,344</u>	<u>\$ (3,025,951)</u>

STATE OF CITY'S FINANCES

Reserve Balances – 2005 thru 2013



STATE OF CITY'S FINANCE

Key Highlights - General Fund

- ◆ Sharp decline in revenues during 2008-2011 required ~\$10M in cost cutting measures:
 - Cuts to programs and elimination of positions
 - Employee furloughs
 - One-time funds
- ◆ Added ~\$7 million to reserves since 2008
- ◆ We've been successful in controlling costs
- ◆ Key taxes are growing at healthy rates
- ◆ Still vulnerable to economic downturn

STATE OF CITY'S FINANCE

Enterprise Funds

- ◆ Water
- ◆ Wastewater
- ◆ Downtown Parking
- ◆ Airport
- ◆ Waterfront
- ◆ Golf



GENERAL FUND

Long-Term Forecast

Key Assumptions

KEY TAX REVENUES

Long-Term Growth Rate Assumptions

	FY 2014	Fiscal Year			20-Yr.	FY 2020
	Expected	2014	2015	2016-2020	Avg	Amounts
Sales Taxes	\$20,412,380	3.4%	3.5%	3.5%	2.8%	\$ 25,093,317
Property Taxes	26,260,452	4.3%	3.0%	3.5%	4.5%	32,097,263
TOT	16,243,040	11.2%	5.6%	4.0%	5.3%	20,866,572
UUT	6,994,280	0.0%	2.0%	2.0%	4.1%	7,876,690
Franchise Fees	3,696,556	3.3%	2.0%	2.0%	4.0%	4,162,922

Updated as of 1/28/20

Assumes continued growth every year (no recession)

LONG-TERM FORECAST

Expenditure Categories

Primary focus of forecast

Categories	FY 2014	
	Budget	%
Salaries	\$ 57,462,121	51.7%
Retirement Costs	16,859,617	15.2%
Group Insurance	8,069,648	7.2%
Other Benefits	3,763,232	3.4%
Supplies & Services	9,158,809	8.2%
Allocated Costs	8,895,568	8.0%
Other	7,023,181	6.3%
TOTAL	\$ 111,232,179	100.0%

EXPENDITURES

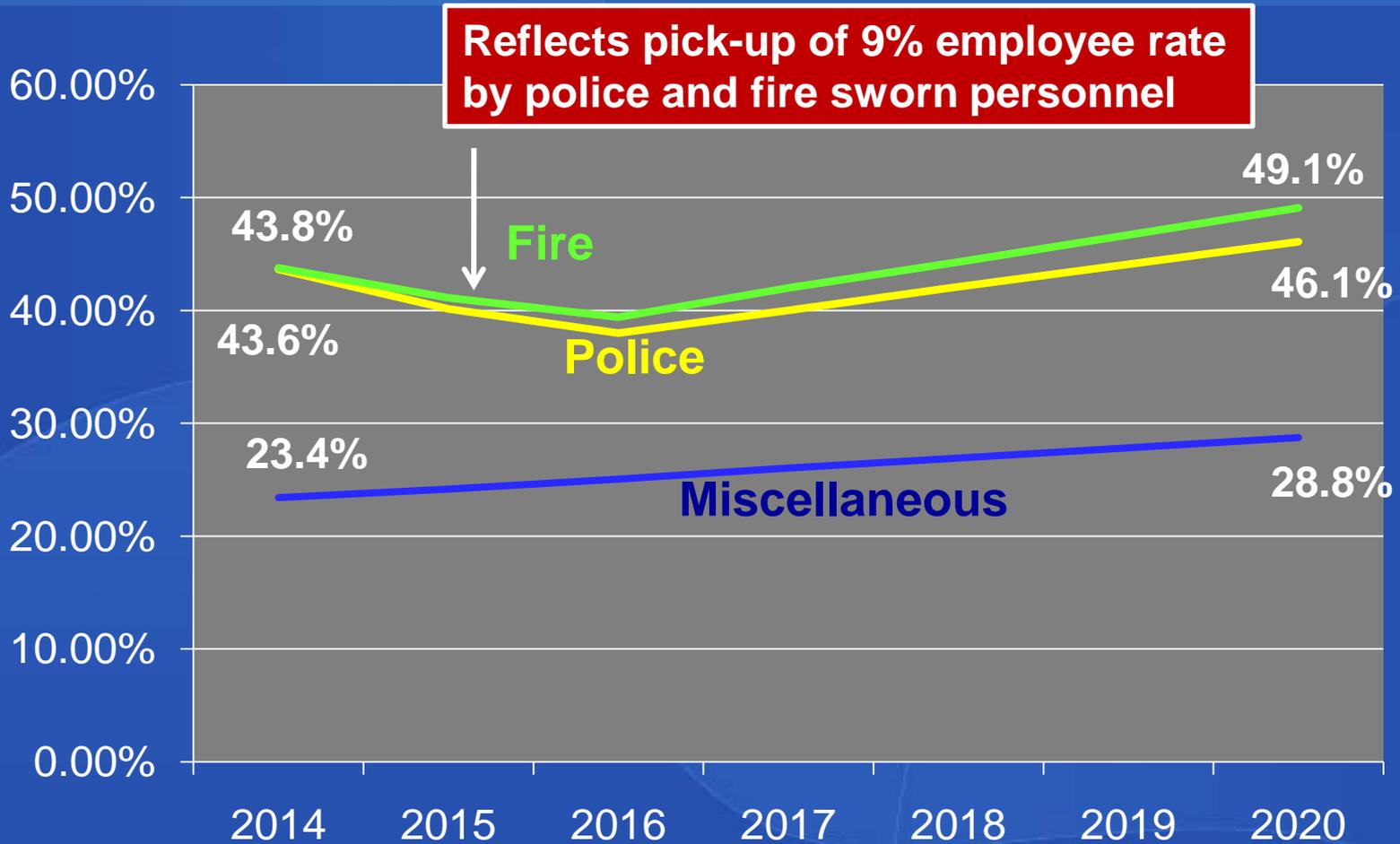
Long-Term Assumptions – Salaries

	FY 2014 Budget	Assumed Increases			FY 2020 Estimate
		2014	2015	2016-2020	
Miscellaneous	\$ 26,288,095	2.0%	2.0%	3.0%	\$ 32,292,754
Police Sworn	14,754,046	0.0%	2.0%	3.0%	12,130,270
Fire Sworn	9,692,056	0.0%	3.0%	3.0%	17,813,201
	<u>\$ 50,734,197</u>				<u>\$ 62,236,225</u>

Anticipated Police and Fire will pick up 3% of PERS rate in each year in FY 2014 - 2016 up to full 9% Employee Rate

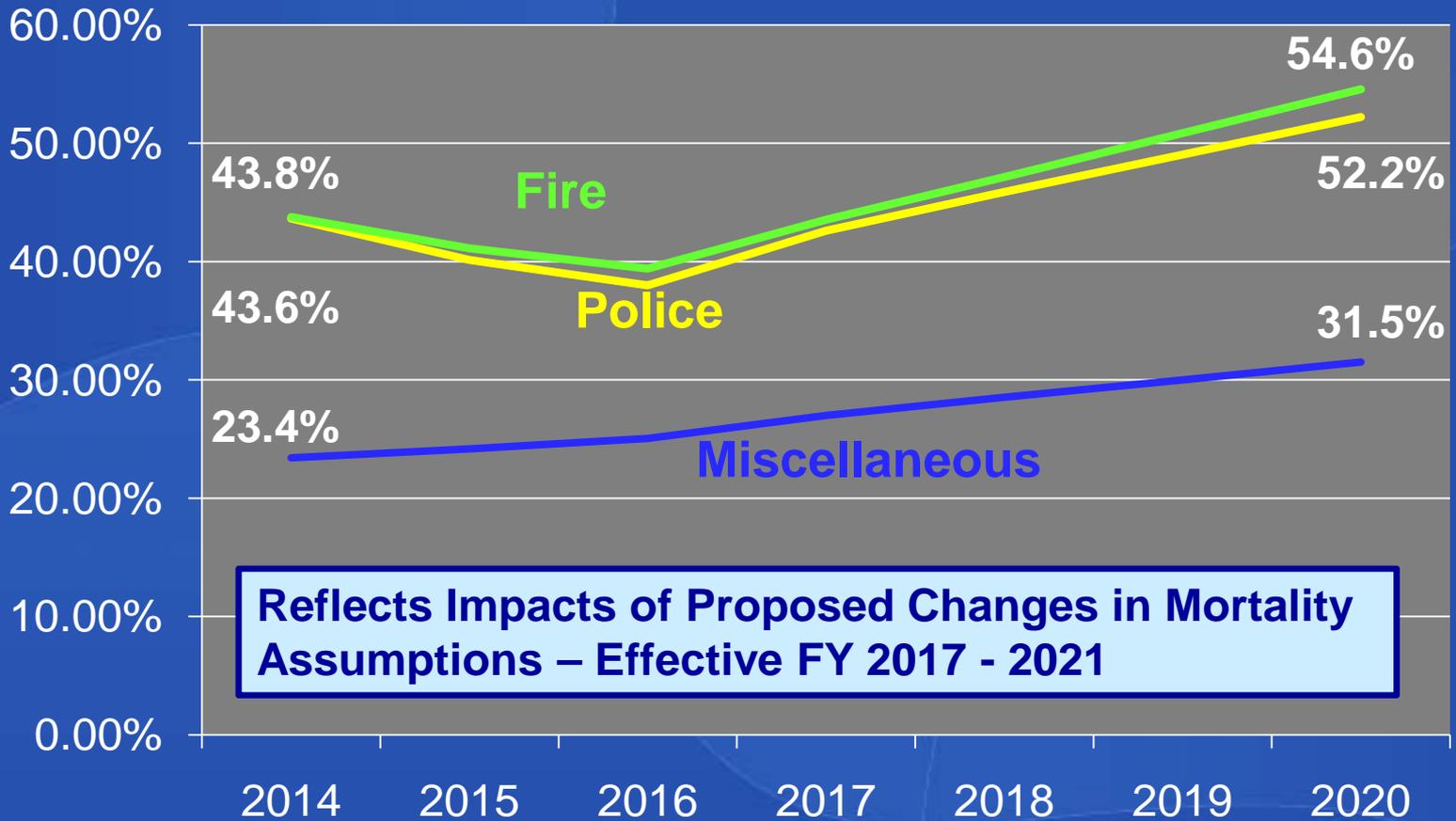
RETIREMENT COSTS

Estimated PERS Rates - Adopted



RETIREMENT COSTS

Estimated PERS Rates - Proposed



RETIREMENT COSTS

Estimated PERS Rates

	Police Sworn	Fire Sworn	Miscellaneous
FY 2014 (Actual)	43.633%	43.766%	23.412%
FY 2015 (Actual)	40.127%	41.115%	24.169%
FY 2016	38.000%	39.400%	25.055%
FY 2020	46.1% / 52.225%	49.1% / 54.550%	28.735% / 31.513%

**To be considered by PERS Board in Feb 2014
(Recommended by PERS Staff)**

EXPENDITURES

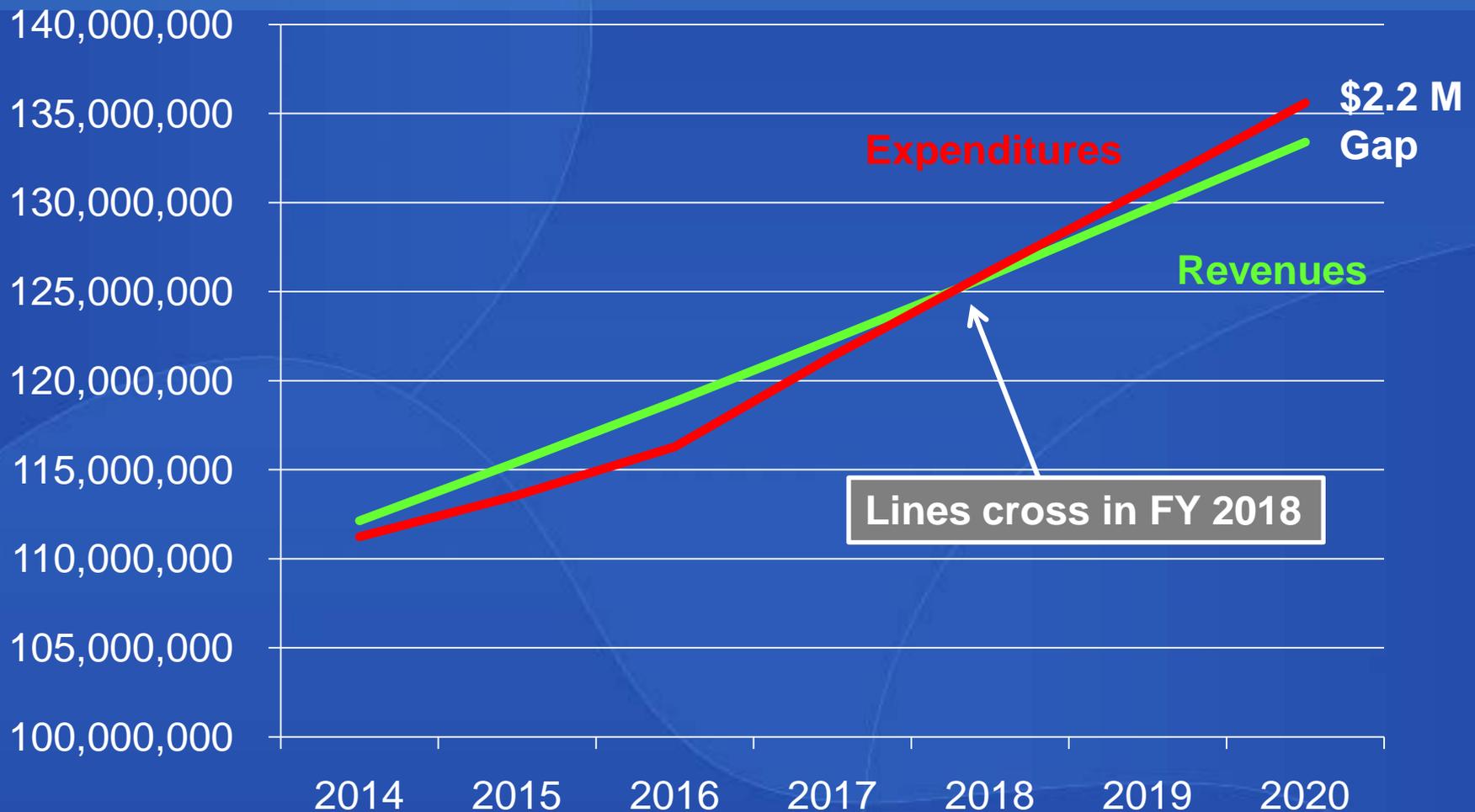
Projected Retirement Costs

	FY 2014 Budget		FY 2020 Projected	
	Rates	Costs	Rates	Costs
Miscellaneous	23.4%	\$ 6,118,192	31.5%	\$ 9,639,646
Police Sworn	43.6%	6,428,162	52.2%	9,101,170
Fire Sworn	43.8%	4,199,817	54.6%	6,412,408
		<u>\$ 16,746,171</u>		<u>\$ 25,153,224</u>



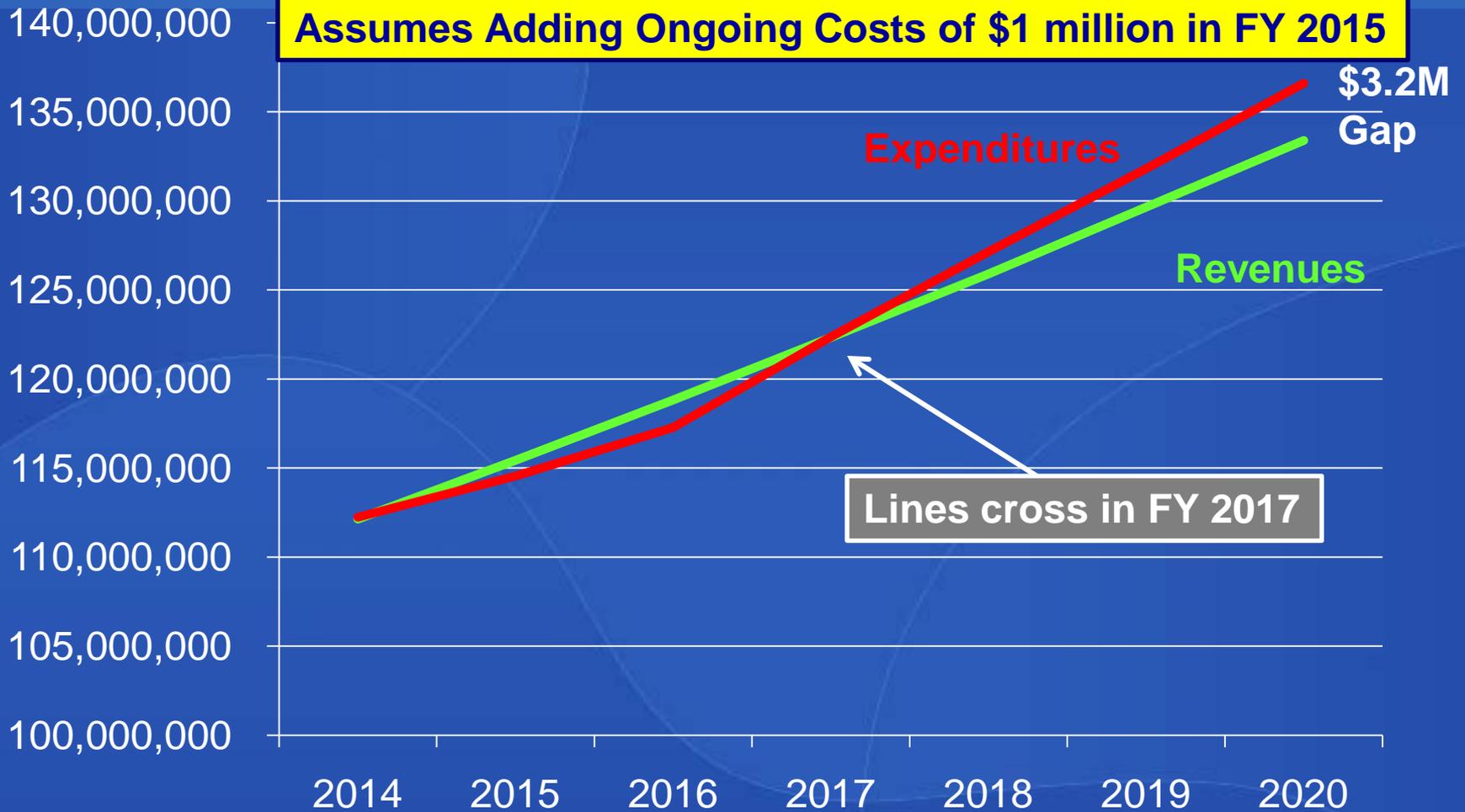
Long-Term Forecast

LONG-TERM FORECAST FY 2014 – 2020 – Baseline



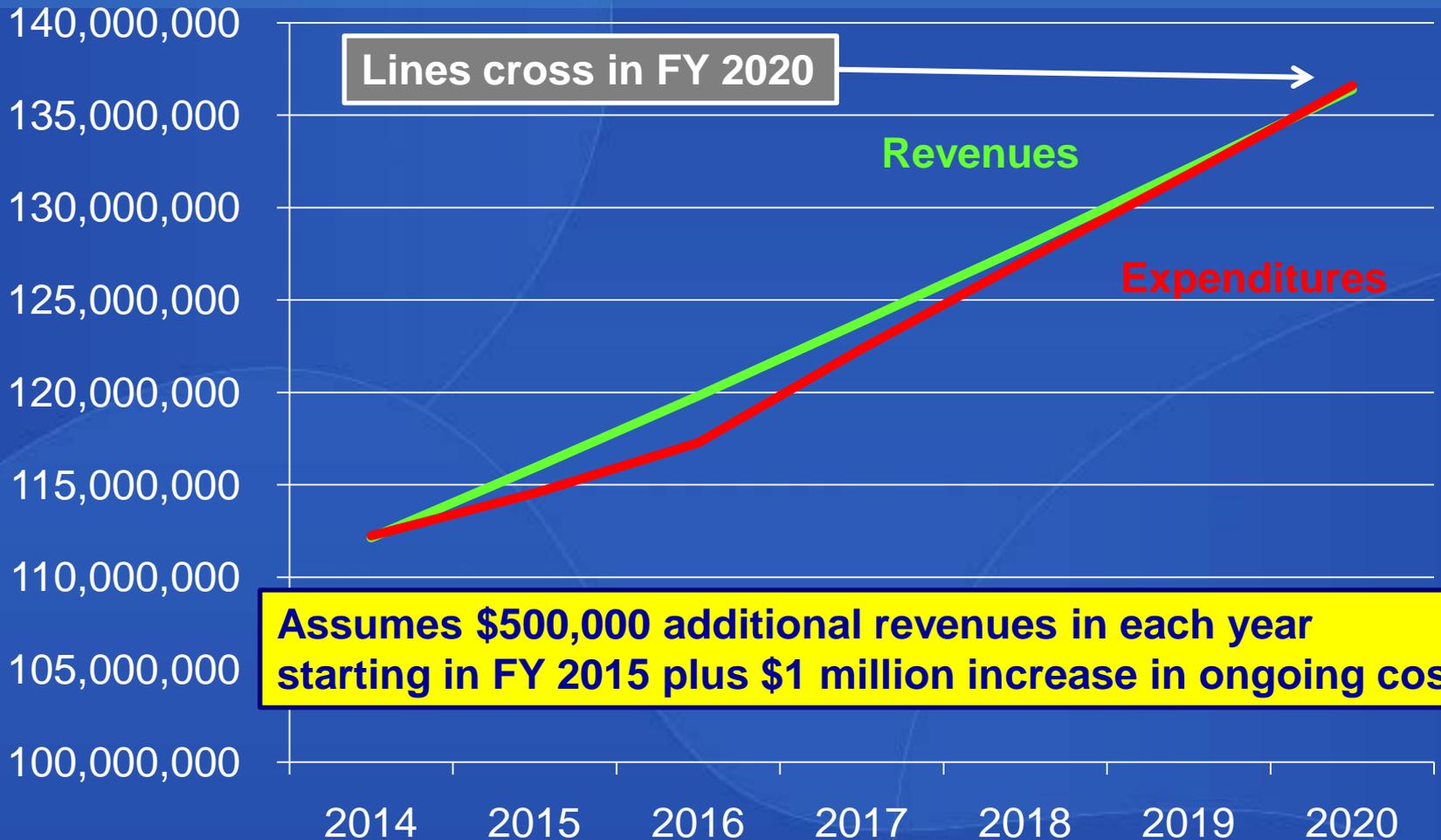
LONG-TERM FORECAST

Add \$1M in Expenditures in FY 2015



LONG-TERM FORECAST

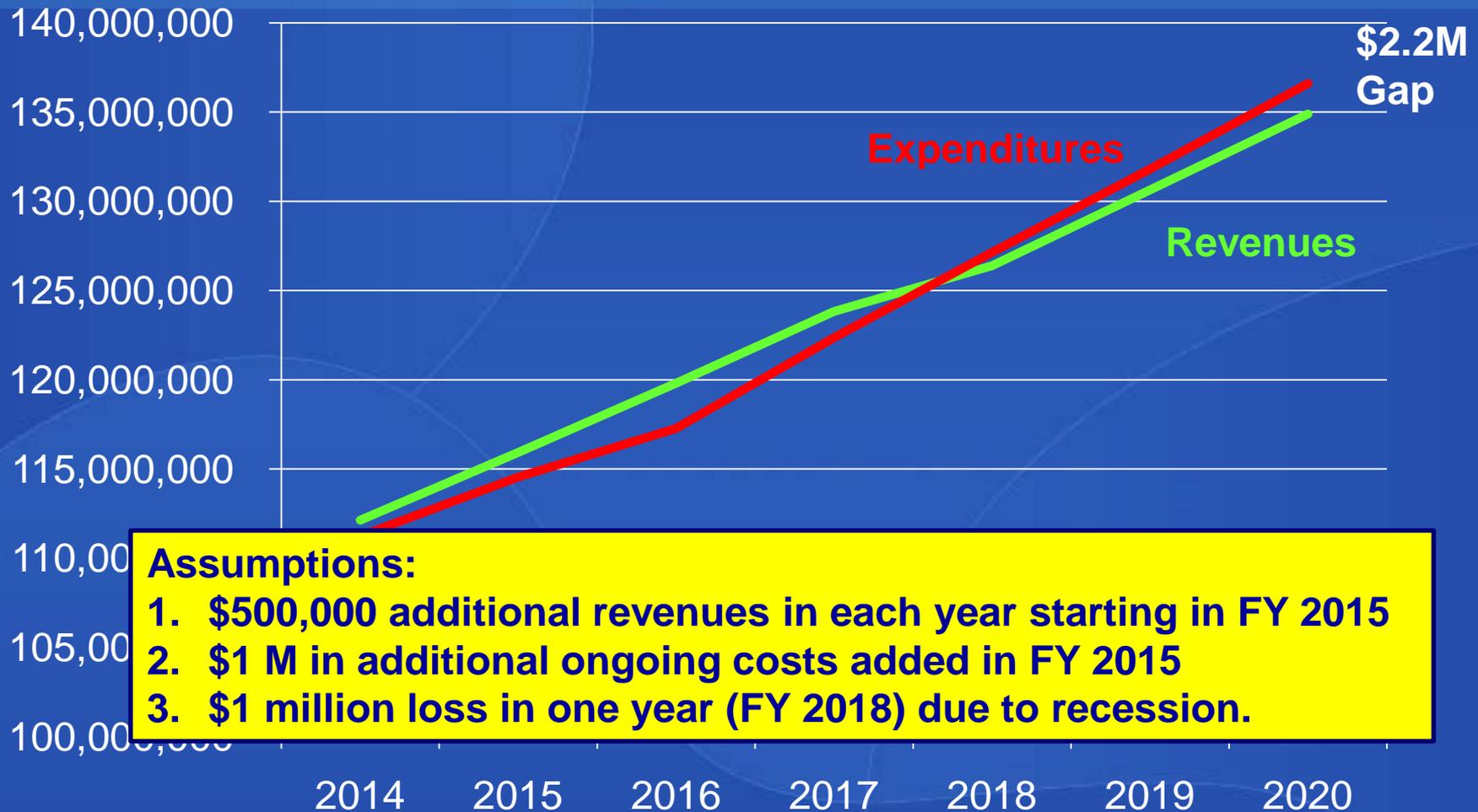
\$500K in Revenues/Yr + \$1M in Costs



Assumes \$500,000 additional revenues in each year starting in FY 2015 plus \$1 million increase in ongoing costs

LONG-TERM FORECAST

Assumes a Recession in FY 2018



Assumptions:

1. \$500,000 additional revenues in each year starting in FY 2015
2. \$1 M in additional ongoing costs added in FY 2015
3. \$1 million loss in one year (FY 2018) due to recession.

LONG-TERM FORECAST

Opportunities & Challenges

◆ Opportunities

- Reduce projected salary increases
 - Forecast assumes 3% starting in FY 2016 thru FY 2020
- Reduce capital
 - Forecast assumes increase by \$100,000/yr starting in FY 2016 to \$1.75 M in FY 2020
- Revenue growth exceeding expectations

◆ Challenges

- Potential for economic downturn within next 6 yrs
- Still dealing with impacts of cuts made in FY 2010 and FY 2011

LONG-TERM FORECAST

Key Takeaways

- ◆ Short term outlook is good
 - Upside potential in certain tax revenues (e.g., property taxes)
 - Additional revenues of just ½ % per year will keep lines from crossing until ~FY 2020
- ◆ Retirement costs will put increased pressure on revenue growth starting in FY 2016
 - Actual rates/costs could be higher
- ◆ Some built-in flexibility to address potential longer term deficits and impacts of a mild recession



State of the Organization After the Recession

STATE OF THE ORGANIZATION

Overview

- ◆ Recession created opportunities to become more efficient and productive
 - Better use of technology and automation
 - Streamlining of processes
 - Elimination of unnecessary work
- ◆ Use of attrition to avoid layoffs requires refinements
- ◆ Many positions will never return

STATE OF THE ORGANIZATION

Police Department

- ◆ Police sworn now higher than before beginning of recession
- ◆ Civilianization of special event planning and in training has been successful
- ◆ Greatest impacts in records
- ◆ Dispatch still has recruitment and retention problems

STATE OF THE ORGANIZATION

Fire Department

- ◆ Fire operations staffing not impacted
- ◆ Training and equipment budgets impacted by reductions of federal grants
- ◆ Public Education has been supplemented by hourly staff

STATE OF THE ORGANIZATION

Administrative Departments

- ◆ Adapting to lower staffing levels
- ◆ Finance responsiveness impacted
- ◆ New Financial Management System nearly complete
- ◆ Attorney's Office responsiveness impacted

STATE OF THE ORGANIZATION

Administrative Departments – Cont'd

- ◆ Human Resources
 - Impacts being felt from elimination of City wide training program
 - Basic assistance to departments impacted
 - Classification and Compensation analysis
 - Performance issues
- ◆ Technology infrastructure needs to be updated
- ◆ City Administrator's Office adapting to retirements and reorganization

STATE OF THE ORGANIZATION

Parks & Recreation Department

- ◆ Restoring service levels as revenues recover
 - Customer service and program safety are priority
 - Uneven department revenue growth
- ◆ Staff to support current service levels still a challenge
- ◆ Deferred maintenance in parks and facilities remains a concern
- ◆ Community pressure to increase services

STATE OF THE ORGANIZATION

Library Department

- ◆ Automation and technology
 - Expanding 24/7 digital collections
 - e-books, e-audiobooks, magazines, music
 - Self check-out kiosks working well
 - Streamlined cataloguing
- ◆ Council restoration of hours
- ◆ Materials budget low

STATE OF THE ORGANIZATION

Community Development Dept.

- ◆ Restoring positions as revenues recover
 - Plan check
 - Building code enforcement
- ◆ Zoning plan check and enforcement is area of greatest concern



Areas Identified by Staff for Basic Support Services

Areas Identified by Staff for Restoration of Basic Support Services

- ◆ Increase Parks & Recreation water budget
- ◆ Increase funding for growing Inclusion participation (ADA mandate)
- ◆ Increase maintenance for facilities, parks, medians
- ◆ Restore Parks & Recreation customer service staffing
- ◆ Restore civilian positions in Police to address customer service issues

Areas Identified by Staff for Restoration of Basic Support Services

- ◆ Shore up support for employee recruitment and in-house training
- ◆ Restore attorney positions to full-time
- ◆ Support for enforcement and plan check
- ◆ Training for Fire Department
- ◆ Purchase children's materials for Library

Areas Identified by Staff for Restoration of Basic Support Services

- ◆ Hourly support for basic accounting and finance functions
- ◆ Increased capital spending for Information Systems infrastructure



Next Steps in the Preparation of the FY 2015 Budget

NEXT STEPS

- ◆ Departments submit detailed budgets
- ◆ Departmental reviews with City Administrator
- ◆ Refine basic support services needs
- ◆ Integrate Council priorities
- ◆ Present preliminary balanced budget to City Council in April

DISCUSSION OF COUNCIL PRIORITIES

- ◆ Staff requests that Council identify priorities for possible inclusion in FY 2015 Budget