

City of Santa Cruz FY 2020 City Council Study Session

Proactive fiscal sustainability through unprecedented times

City Council Study Session – Part II of III City Fiscal Indicators

Marcus Pimentel, Finance Director

Tracy Cole, Principal Management Analyst (Budget)



Part II – City Fiscal Status & Indicators

Recap Part I (financial trends)

Big 5 budget topics

What's next

Big 5...

- Review Budget & Financial Reports
- City's Full Service PLUS model
- Financial reporting structure
- Financial trends
- Prescription to Fiscal Health



Why now...

Prepare for May's budget hearing & adoption

Support engagement of upcoming fiscal discussions

How...

- Second of three Study Sessions
- Release of the FY 2020 Budget
- Reference materials from City webpage and enhanced online tools



Recap of Part I – Government Trends

Recap...

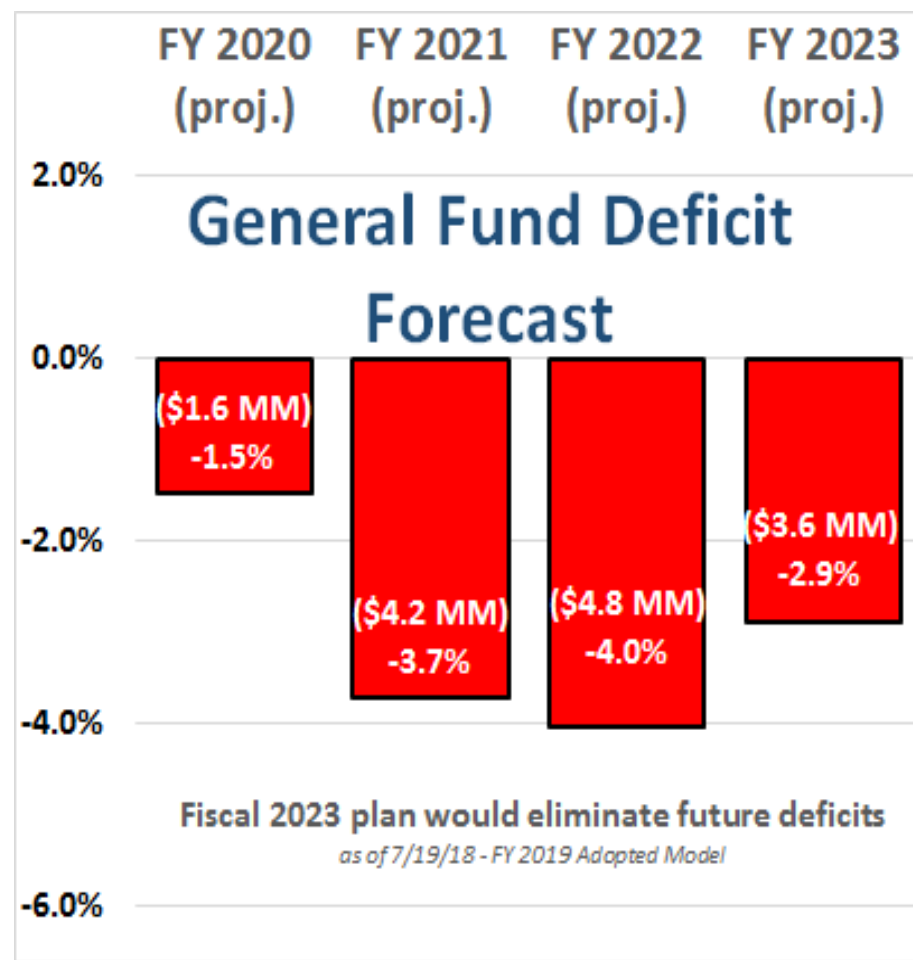
- Local government is not in a boom cycle
- State to double “again” government pension payments
- Decreasing tax bases (sales, utility users, gas, etc.)
- Projected economic slowdown
- Unreasonably low reserve levels



Why...

consider *reductions* in an economic boom?

- Local government is not in a boom cycle
- State to double “again” government pension payments
 - Cities must backfill for state pension investment shortfalls
- Decreasing tax bases (sales tax, utility users tax, gas tax, etc.)
- Projected economic slowdown
- Unreasonably low reserve levels
 - No “disaster contingency” reserves
 - Only 10% General Fund reserve available



Why...

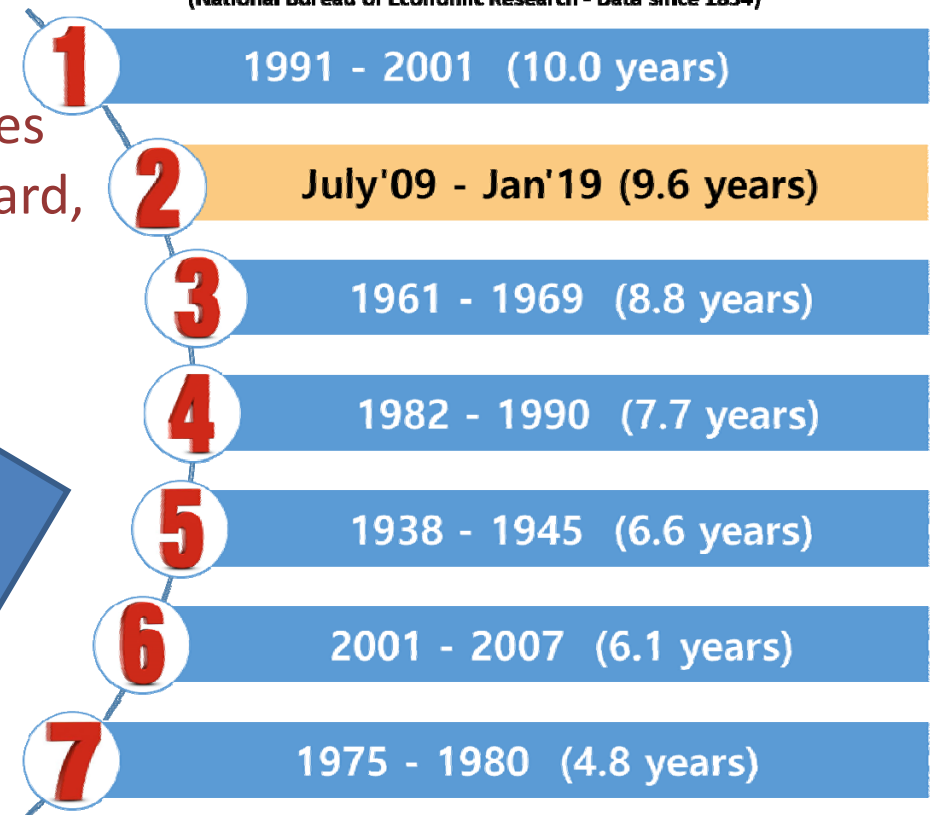
Projecting economic slowdown in next 12 months

Why we feel a slowdown is coming

- Regional housing crises
- Economy MUST see continued increases in consumer spending (70% of GDP ^{*Oct 2018})
- Consumers will have less as interest rates rise & their debt increases (car, credit card, school debt, housing, etc.)
- Federal and State gov. threats (impact fee, Sanctuary City, etc.)

Longest periods of U.S. Economic Expansion

(National Bureau of Economic Research - Data since 1854)



A long recovery is reasonable after the Great Recession... but ...
At 9.6 years, we've long passed the typical ~5 year recovery period

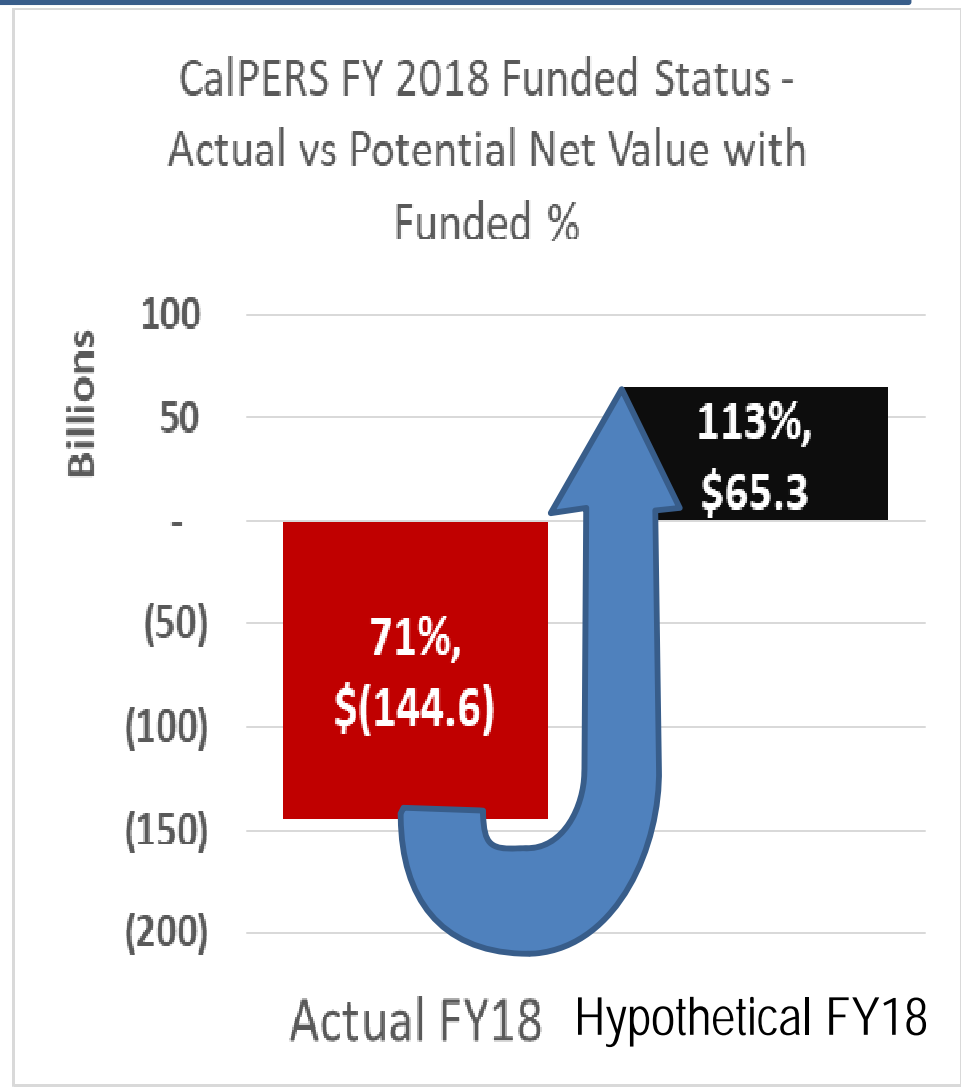


(Recap 3 of 7; next: Reports)

Why... ..

Pension investment shortfalls

- CalPERS choice resulted in lower investment earnings
- When earnings are short, cities pickup the difference
 - CalPERS is only 71% funded; or <\$144.6> Billion short
 - Since 2012, our pension costs will increase 200% by mid-2020's
 - IF... they earned just the mid point of the market, we would have NO increases
 - AND... they would be fully funded with \$65.3 Billion in extra cash
 - NOTE: This is a hypothetical comparison using the average rates of return of seven major market indexes (S&P, Dow, Morningstar, etc.)



Why...

Declining & Eroding Revenues

Demographics & new economic models are permanently eroding our revenue

CONCERN: Long Term Changes

Sales Tax

Tangible items now a download (games, music, 3D printers, software)

Pressure on limited consumer dollars

Aging baby-boomers shifting spending to non-taxable health care & services

Law still playing catchup for online sales

Gas Tax

Ride sharing reduces fuel sales

Fuel efficiency & electric cars reduces fuel sales



Franchise & Utility

Online streaming replacing cable/dish services

Landline phones are vanishing



Why...

We are facing higher risks and occurrences of emergency failures and large project cost increases: The General Fund needs a dependable, ongoing CIP funding source

Harvey West Ballfield Lighting



Storm Drain Improvements
(Prevent repeat event)



Water & May Ave – Dec 2014

West Cliff Revetment Repair
(Prevent Feb 2016 repeat event)



Civic Auditorium Roof Repair



Corp Yard Solar Expansion



Seabright Beach Metal Pipe Replacement



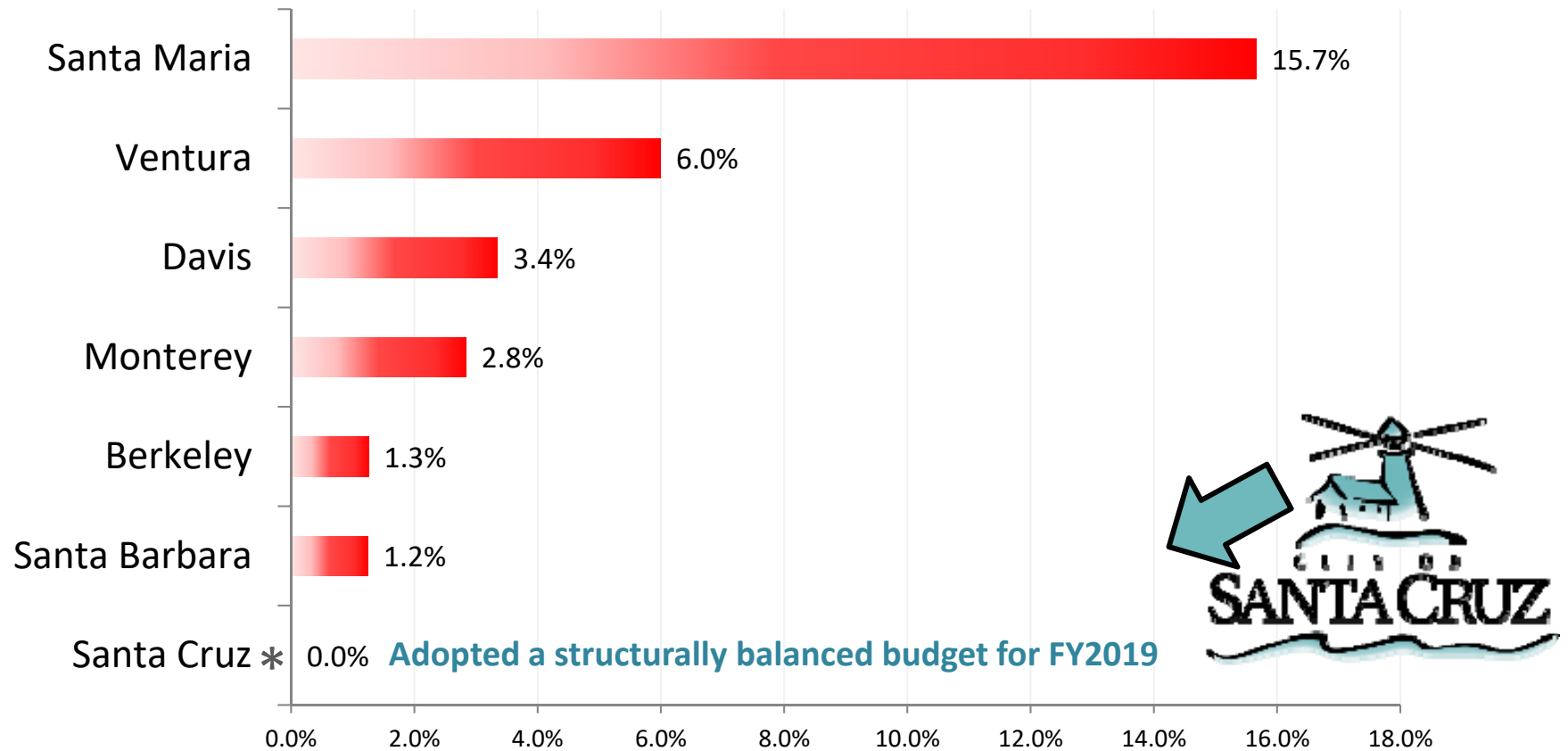
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(Recap 6 of 7; next: Reports)

We're not alone

Santa Cruz is the only City in our fiscal comparisons with a General Fund budget that is fully funded without using one-time reserves

FY2019 Adopted



* Ongoing resources equals ongoing costs. Some agencies "deficits" were calculated to remove the use of one-time resources to fund on-going costs. Data as of February 2019.



Big 5 budget topics

- Review Budget & Financial Reports
- City's Full Service PLUS model
- Financial reporting structure
- Financial trends
- Prescription to Fiscal Health

Big 5

#1 - Budget & Financial Reports

- City's adopted annual budget
- City's audited financial statements (aka, CAFR)
- Mid-Year financial presentations
- Other major reports and information
 - Summary of investments report to Council
 - Grant reports to Council
 - State of California Controllers reports
 - Rating agency reports



Budget Document

2019 Annual Budget

City of Santa Cruz, California
July 1, 2018 - June 30, 2019

GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished
Budget Presentation
Award*

PRESENTED TO

**City of Santa Cruz
California**


For the Fiscal Year Beginning
July 1, 2018

Christopher P. Morill
Executive Director



Budget Document

1) Introduction & Overview



Budget Dashboard

Fiscal Year 2019 Budget

Introduction

The annual operating budget document serves as the City's statement of programs and services for the next fiscal year. This Budget Dashboard is a snapshot of the Primary General Fund budget. The City of Santa Cruz is a full service City. As such, about half the City's General Fund operations support public safety, road maintenance, and parks and recreation. The remaining functions are fee-for-service Enterprise operations, such as water, wastewater and refuse, or other funds with restricted uses, such as gas, clean river & beaches and parks taxes, and liability programs.

"There is no doubt that the next several fiscal years will be financially difficult. This is unavoidable. I am confident that with our proactive approach and strong leadership we will get through this difficult period sustaining our sound fiscal position and responding to the needs of our community to improve the quality of life in the City of Santa Cruz."

- Martin Bernal, City Manager

KEY FINANCIAL INDICATORS OF THE CITY'S FY 2019 BUDGET

General Fund Budget
- \$102.2 million

City of Santa Cruz Fiscal Year 2019 Budget - \$264.6 Million

Capital Investment
- \$42.7

NO GENERAL FUND POSITIONS ADDED IN FY 2019


QUICK FACTS ABOUT THE CITY OF SANTA CRUZ

- Santa Cruz City Population **65,070**
- UCSC Student Population **18,063**
- Longest Wharf on West Coast **2,745 ft.**
- Paved Streets City maintains **136 miles**

Net Change in Positions

9 Ranger positions were transferred from the Parks & Rec Dept. to the Police Dept.

| Department | Change |
|--------------------------|--------|
| Parks & Recreation | -9 |
| Planning & Community Dev | 9 |
| Police | 3 |
| Public Works | 2 |
| Water | 0 |




CITY MANAGER'S BUDGET MESSAGE

Martin Bernal
June 12, 2018

To the Honorable Mayor and Members of the City Council:

It is once again my honor to present you with the Adopted Fiscal Year (FY) 2019 Annual Budget for the City of Santa Cruz. We remain focused on the City's Strategic Vision to enhance:

- Environmental sustainability and well-managed resources;
- Community safety and well-being;
- Economic vitality;
- Organizational health;
- Financial stability;
- Reliable and forward looking infrastructure and facility; and
- Engaged and informed community.



FINANCE DIRECTOR'S OVERVIEW

\$264.6 million Total Budget
\$41.2 million Capital- initial
\$ 1.5 million Capital- Measure S
\$102.2 million General Fund


Balanced FY 2019 Budget

This FY 2019 Annual Budget represents another pillar of our five-year fiscal sustainability plan (referred to as our fiscal bridge project). This budget plan continues the City's proactive traditions to insulate our community against a looming but credible economic slow-down and state-wide government funding crises.

We are therefore proud of this FY 2019 Adopted Budget as it has balanced our General Fund operations and has reduced the General Fund's gaps in our out years.

General Fund Forecast

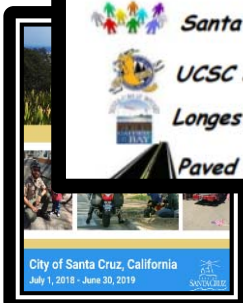
Adopted FY 2019 Budget vs Prior Foreca



To get to this point, City staff crossed departmental lines to develop this reduced budget in accordance with our long-term sustainability plan.

- Budget Dashboard
- City Manager's Message
- Finance Director's Overview
- Debt and Pension Liabilities
- Summary of Personnel Changes

(Reports 3 of 8 next: Service +)



Budget Document

Department Description

The Finance Department provides chief financial and risk management support for the entire City, including its Public Safety, Water, Refuse, Wastewater, Public Works, Parks & Recreation and other key programs. It also provides contract support services for the Santa Cruz Public Libraries Joint Powers Authority, the University of California Santa Cruz's fire services and supports the Successor Agency of the City of Santa Cruz (former Redevelopment Agency).

The Department's primary objective is to ensure that sufficient fiscal resources are available to meet the goals and objectives identified by the Community through its elected officials and staff. It does this primarily through timely and accurate financial reporting and by ensuring compliance with the City's financial rules and regulations.



2) Department Summary & Budget

- Department responsibilities
- Goals & Accomplishments
- Department budget allocation
- Net General Fund Cost
- Number of Positions

The Finance Department is organized in four functional sections: (1) Accounting, Budgeting, Reporting and Revenue; (2) Accounts Payable and Payroll; (3) Purchasing and Applications management; and (4) Risk Management, Advanced Debt Collections, Safety and Revenue Audits. Within these core functions, it also manages major duties within internal and external audits, debt management, treasury management, and local, state and federal compliance reporting.

FY 2018 Accomplishments

On-time Adoption of Award-Winning FY 2018 Budget
 On-time budgets provide trust and transparency to the public, as well as provide assurances to stakeholders about the quality, stability, and reliability of the City Council and the City's management team.

Received awards for the Fiscal Year 2017 Comprehensive Annual Financial Report and the Fiscal Year 2018 Budget
 The above mentioned awards confirm the City's dedication to producing reports that go beyond the minimum requirements of accounting and budgetary principles.

Created a Budget Cross-Departmental Advisory program
 The advisory program allows departments to be involved in citywide budget decisions, and allows for a more collaborative relationship with the Finance Department in the preparation of the annual budget, specifically in the focus of fiscal sustainability.

FY 2019 Goals

- Further development of the fiscal sustainability plans.
- Adopt a balanced FY 2019 and FY 2020 Budget.
- Expand to a 5-year Capital Investment Program plan.
- Receive the Government Finance Officers Association awards for Excellence in Financial Reporting and for Distinguished Budget Presentation.
- Partner with OpenGov to bring transparency in financial reporting to the public.
- Implement Phase III of the citywide fee study to incorporate cost recovery of building fees.
- Continue to pursue more online payment platforms.
- Work with FEMA to make sure the City received all funds entitled to it for the repair of damages caused by the 2017 and 2018 major storms



2/26/2019

Finance

DEPARTMENT SUMMARY

| | Fiscal Year* 2017 Actuals | Fiscal Year 2018 | | | Fiscal Year 2019 Adopted |
|---------------------------------------|---------------------------------|--------------------|--------------------|---------------------|--------------------------------|
| | | Adopted Budget | Amended* Budget | Estimated Actual | |
| EXPENDITURES BY CHARACTER: | | | | | |
| Personnel Services | 2,970,651 | 3,831,528 | 3,786,528 | 3,259,177 | 3,797,152 |
| Services, Supplies, and Other Charges | 3,972,198 | 4,362,691 | 4,846,276 | 4,228,995 | 4,499,831 |
| Capital Outlay | 23,281 | 10,000 | 40,444 | 25,444 | 10,000 |
| Total Expenditures | 6,966,131 | 8,204,219 | 8,673,248 | 7,513,616 | 8,306,983 |
| EXPENDITURES BY ACTIVITY: | | | | | |
| Finance | 1241 | 3,205,146 | 4,181,060 | 3,698,594 | 4,066,604 |
| Subtotal General Fund | | 3,205,146 | 4,181,060 | 3,698,594 | 4,066,604 |
| Finance | 1241 | - | 28,000 | 15,200 | 15,500 |
| Subtotal Other General Funds | | - | 28,000 | 15,200 | 15,500 |
| Liability Insurance | 7821 | 3,760,985 | 4,023,159 | 3,799,822 | 4,224,879 |
| Subtotal Other Funds | | 3,760,985 | 4,023,159 | 3,799,822 | 4,224,879 |
| Total Expenditures | 6,966,131 | 8,204,219 | 8,673,248 | 7,513,616 | 8,306,983 |
| RESOURCES BY FUND | | | | | |
| General Fund | 101 | 1,107,008 | 1,163,571 | 1,173,860 | 1,195,556 |
| Liability Insurance | 842 | 2,890,016 | 3,977,000 | 4,591,162 | 4,486,943 |
| Total Resources | | 3,997,024 | 5,140,571 | 5,765,022 | 5,682,499 |
| Net General Fund Cost | | (2,098,138) | (3,017,489) | (2,524,734) | (2,871,048) |
| | FY 2017 | | | FY 2018 | FY 2019 |
| TOTAL AUTHORIZED PERSONNEL: | 30.00 | | | 30.00 | 30.00 |

(Reports 4 of 8 next: Service +)



Budget Document

Finance

2) Department Summary & Budget

DEPARTMENT SUMMARY

- 3 Years of Data
- Budget allocated by category, activity, and fund
- Incoming revenue
- NET cost to the General fund
- Authorized permanent positions

| | Fiscal Year* 2017 Actuals | Fiscal Year 2018 | | | Fiscal Year 2019 Adopted | |
|---------------------------------------|---------------------------------|--------------------|--------------------|---------------------|--------------------------------|--------------------|
| | | Adopted Budget | Amended* Budget | Estimated Actual | | |
| EXPENDITURES BY CHARACTER: | | | | | | |
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| | | FY 2017 | | FY 2018 | FY 2019 | |
| TOTAL AUTHORIZED PERSONNEL: | | 30.00 | | 30.00 | 30.00 | |



(Reports 5 of 8 next: Service +)

Budget Document

3) Capital Investment Program

- List of unfunded Projects
- Recommended projects grouped by Department then Fund
- Within the department, grouped by New then Existing (previously approved projects)

Each project includes:

- Project Name & Description
- Prior year totals
- Current year budget & estimated actual
- Proposed Budget for Next Year
- Out year project cost estimates
- “Net Project Cost” to each applicable fund

| City of Santa Cruz Adopted Capital Investment Program Budget (by department) Fiscal Years 2019 - 2021 | | | | | | | | |
|---|---------|------------------|----------|----------------------|--------------------|---------------------------------------|---------------------|----------------------|
| Fire (NEW) | | | | | | 311- General Capital Improvement Fund | | |
| Fire Station 1 Traffic Alerting & Warning Lights | | | | | | | | |
| Project Description: Flashing lights, signage, and striping to protect Firefighters who are in street backing up the Fire Engine in front of Station 1. (Priority level 1 unfunded FY19 project - This project is now funded and requires \$110,000 from the General Fund). | | | | | | | | |
| Project # | c211902 | Fiscal Year 2018 | | | FY 2019 Adopted | FY 2020 Estimate | FY 2021 Estimate | Total 2019 - 2021 |
| | | Prior Year | Budgeted | Estimated Actuals | | | | |
| Account # 311-21-00-9610-57305 | | | | | | | | |
| Project Cost Estimate: | - | - | - | 110,000 | - | - | 110,000 | |
| Project Funding Estimates: | - | - | - | 110,000 | - | - | 110,000 | |
| From General Fund | - | - | - | 110,000 | - | - | 110,000 | |
| Net Project Cost Estimates: | - | - | - | - | - | - | - | |

| Riverside Ave Utility Underground Phase II | | | | | | | | |
|--|---------|----------------------|------------------|----------------------|---------------------|---------------------|---------------------|----------------------|
| Project Description: The project includes undergrounding the overhead utilities on Riverside Avenue, from Third Street to Beach Street, and constructing streetscape improvements (decorative streetlights, sidewalks and street trees). The design concept was approved by Council in FY 2012. This is a Rule 203 project which is funded entirely by the City and private property owners. Final design and determining easements is on hold until funding is confirmed. Additional funds in the amount of \$2.2 million may be needed to fully fund the project. | | | | | | | | |
| Project # | c401208 | Prior Year Totals | Fiscal Year 2015 | | FY 2016 Estimate | FY 2017 Estimate | FY 2018 Estimate | Total 2016 - 2018 |
| | | | Budget | Estimated Actuals | | | | |
| Account # 311-40-64-9360-57390 | | | | | | | | |
| Project Cost Estimate: | 35,379 | 3,814,621 | 3,814,621 | 1,650,000 | 700,000 | - | 2,350,000 | |
| Project Funding Estimates: | 21,870 | 389,454 | 389,454 | - | - | - | - | |
| RDA Successor Agency | - | - | - | 1,650,000 | - | - | 1,650,000 | |
| Other agency contributions | - | 610,546 | 610,546 | - | - | - | - | |
| From ED Trust Fund | - | - | - | - | - | - | - | |
| Net Project Cost Estimates: | 13,509 | 2,814,621 | 2,814,621 | - | 700,000 | - | 700,000 | |



Other Financial Reports

(a) Audited Annual Financial Report (CAFR)

- City entire financial system validated by an independent, third part Certified Public Accounting firm.
- Complied following national accounting standards and includes national best practices
- “Clean” audit for FY 2018
- Although the report is 195 pages, it often is not in an easily digestible format for community members.
- Key area’s are:
 - General Fund Assets (pg32) and Net Results (pg 34)
 - Notes to the statements (pg53-79)
 - Top level “Statistical” data (trends, demographic and economic indicators, operating service & infrastructure

Principal Property Tax Owners Current Year and Nine Years Ago

| Tax Owner | 2018 | |
|--|-----------------------|------|
| | Assessed Valuation | Rank |
| Santa Cruz Seaside Company | \$ 72,472,650 | 1 |
| Cypress Point Re Investors LLC | 47,502,072 | 2 |
| Selby Development Group LLC | 41,434,440 | 3 |
| Santa Cruz Shaffer Road Investors | 38,066,943 | 4 |
| S C Beach Hotel Partners LLC | 29,311,875 | 5 |
| 1010 Pacific Investors | 25,989,077 | 6 |
| Essex Chestnut Apartments LP | 24,955,547 | 7 |
| Cooper House, LLC | 23,812,867 | 8 |
| University Business Park LLC | 23,612,336 | 9 |
| Sunshine Villa Owner LLC | 22,727,492 | 10 |
| Costco Wholesale Corporation ¹ | | |
| Frederick Electronics Corporation ¹ | | |
| CRRI/Seagate Ocean Street LLC ¹ | | |
| Totals | \$ 349,885,299 | |

Demographic and Economic Statistics Last Ten Fiscal Years

| Fiscal Year Ended June 30 | Population ¹ | Unemployment Rate ² | Total Personal Income | Per Capita Personal Income ³ | Taxable Sales ⁴ | Per Capita Taxable Sales |
|---------------------------|-------------------------|--------------------------------|-----------------------|---|----------------------------|--------------------------|
| 2009 | 58,982 | 8.8% | \$ 2,851,013 | \$ 48,337 | \$ 830,232 | \$ 14,076 |
| 2010 | 59,684 | 9.5% | 3,052,240 | 51,140 | 747,749 | 12,528 |
| 2011 | 59,946 | 8.9% | 2,946,046 | 49,145 | 734,746 | 12,257 |
| 2012 | 61,955 | 7.8% | 2,937,225 | 47,409 | 768,660 | 12,407 |
| 2013 | 62,372 | 6.8% | 3,048,930 | 48,883 | 791,102 | 12,684 |
| 2014 | 63,440 | 5.3% | 3,326,920 | 52,442 | 840,086 | 13,242 |
| 2015 | 63,789 | 5.1% | 3,334,889 | 52,280 | 882,542 | 13,835 |
| 2016 | 64,632 | 4.8% | 3,700,634 | 57,257 | 916,490 | 14,180 |
| 2017 | 65,070 | 4.5% | 3,868,737 | 59,455 | 913,691 | 14,042 |
| 2018 | 66,454 | 3.4% | 4,254,917 | 64,028 | 922,226 | 13,878 |



Other Financial Reports

(b) Portfolio Management Report (summary of investments)

- We are NOT investing with stock market, banks, or other projects Council identified (DAPL)

DATE: January 28, 2019

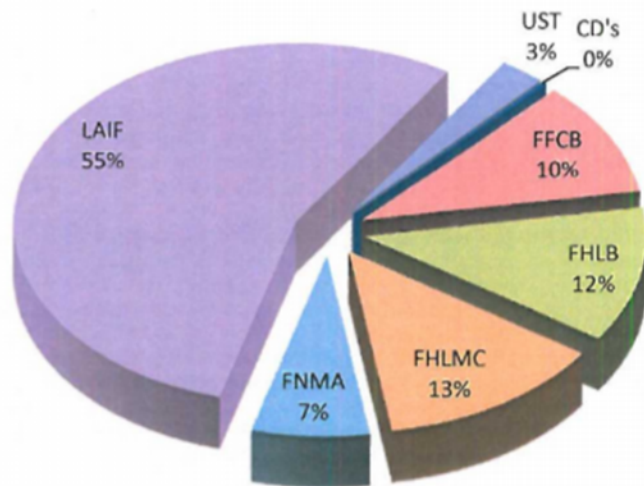
TO: City Manager

DEPARTMENT: Finance

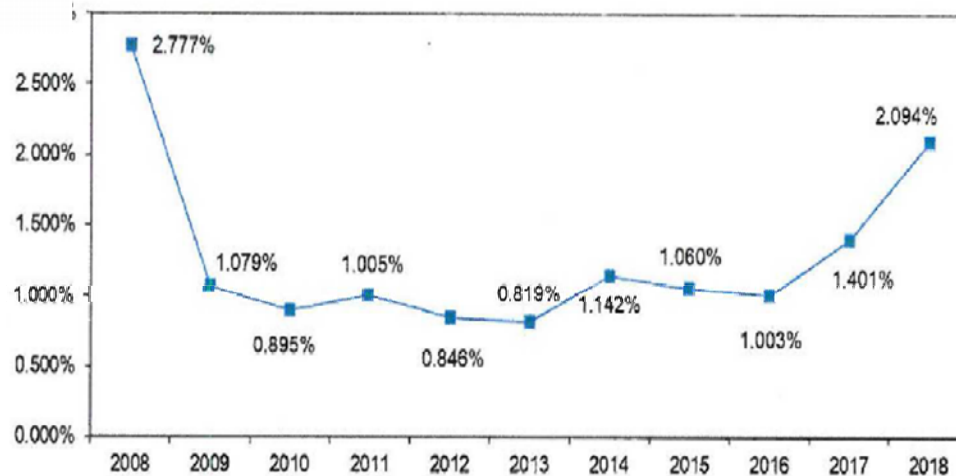
SUBJECT: Portfolio Management Report – Pooled Cash and Investments as of December 31, 2018

APPROVED: *[Signature]* DATE: 1/29/19

Portfolio Holdings - Distribution by Issuer



Historical Portfolio Yields At December Month End



2/26/2019

(Reports 8 of 8 next: Service +)



Big 5

#2 - City's Full Service PLUS model

| Departments | General Fund Budget % | Other Funds |
|--------------------------|-----------------------|---|
| Police & Fire | 100% | |
| Parks & Rec | 100% | |
| City Manager, Clerk & IT | 100% | |
| Planning & Comm. Dev. | 99% | |
| Economic Development | 81% | 19%- Home, CDBG, Successor Agency, Affordable Housing |
| Finance | 49% | 51%- Risk & Liability |
| Human Resources | 22% | 78%- Health, Workers Comp, Unemployment |
| Public Works | 21% | 79% - Wastewater, Refuse, Parking, Fleet & Equipment, Transportation, Storm Water, Clean River... |
| Water | 0% | Water funds |



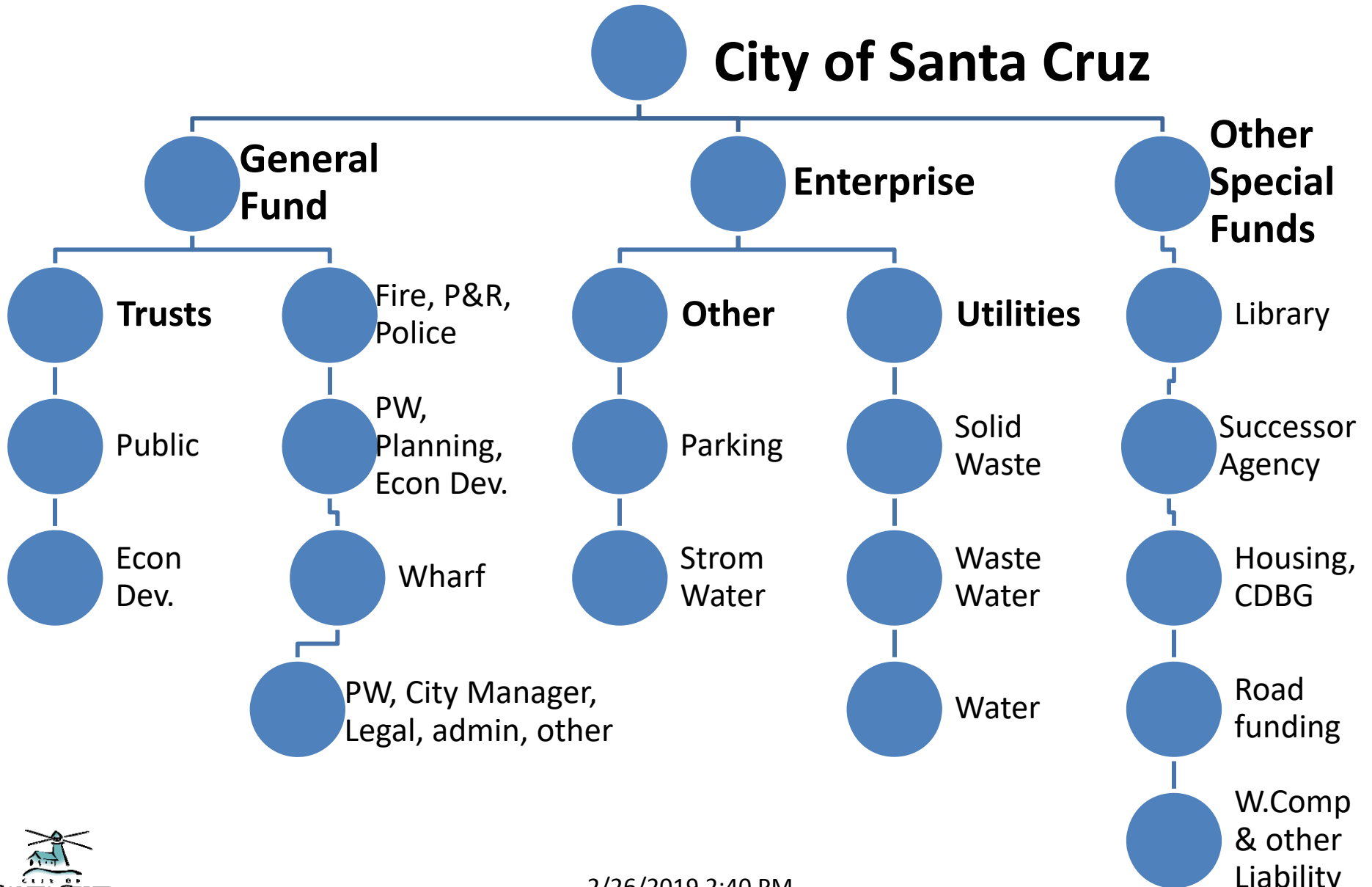
Big 5

#2 - City's Full Service PLUS model



Big 5

#3 - Financial reporting structure



Big 5

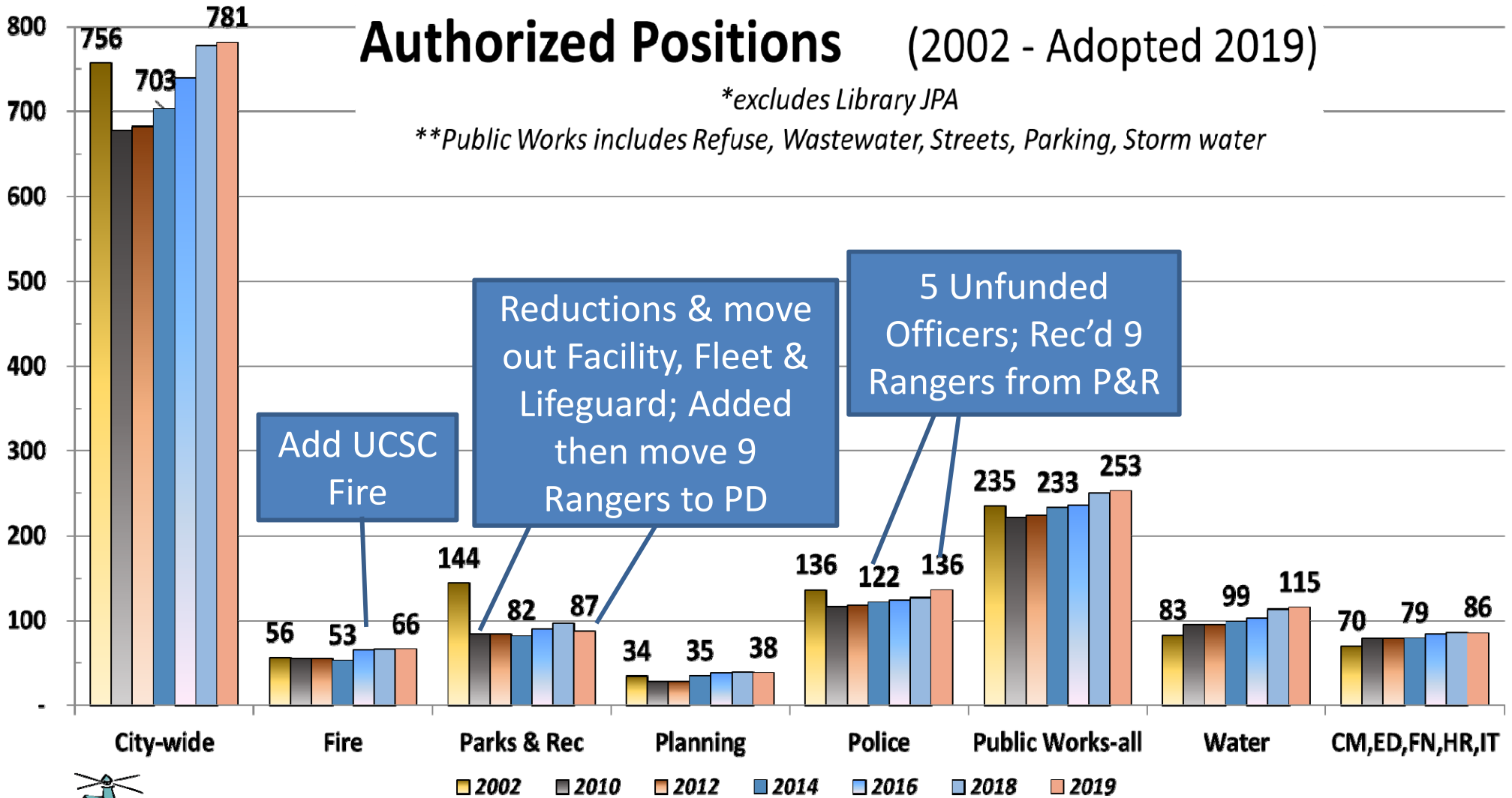
#3 - Financial reporting structure

Restrictions on much of the City's resources

- Core 3: Water, Refuse and Wastewater
 - Resources can ONLY be used to support their operations
- Capital resource restrictions: Housing, Road, & Impact fee
- Other examples: Parking, Storm Water, Pension trust, grant or other externally restricted resources
- Independent restrictions: Library system, Successor agency (former RDA)

Big 5

#4 - Financial trends





Big 5

#4 - Financial trends

2018 Management Partners Analysis

- **Property, sales and transient tax revenue are on par**
- **Business License tax far below peers**
 - Utility User Tax is above peers
- **Police, Fire, and Parks & Recreation staffing on par or slightly below peers**
- **Administrative staffing one of the lowest**
 - City Manager, Human Resources, Finance and Information Technology

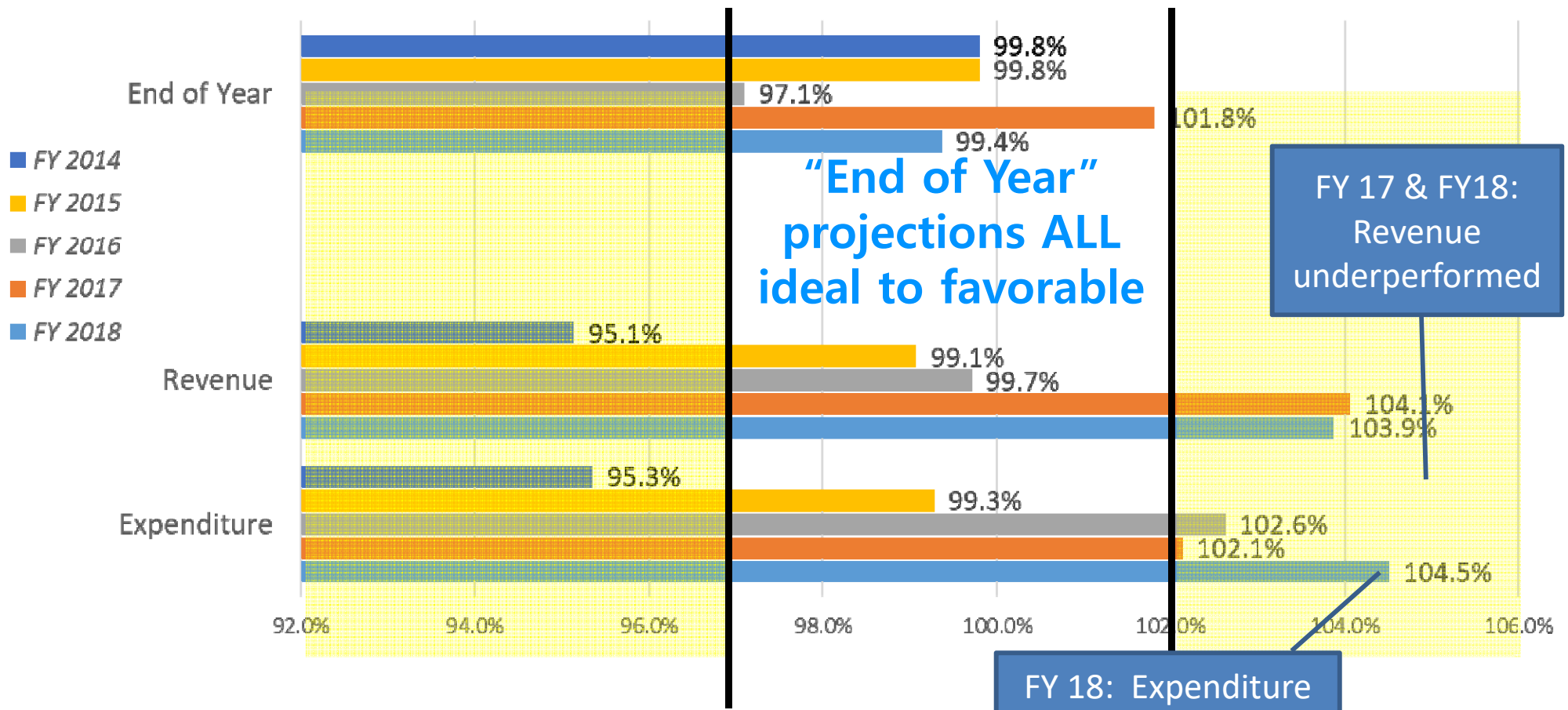


Big 5 #4 - Financial trends

Budget Forecast Accuracy Rate - FY2014 - FY2016

IDEAL 98.5% - 100.5%

FAVORABLE 96.5% - 98.5%; 100.5-102.0%



**“End of Year”
projections ALL
ideal to favorable**

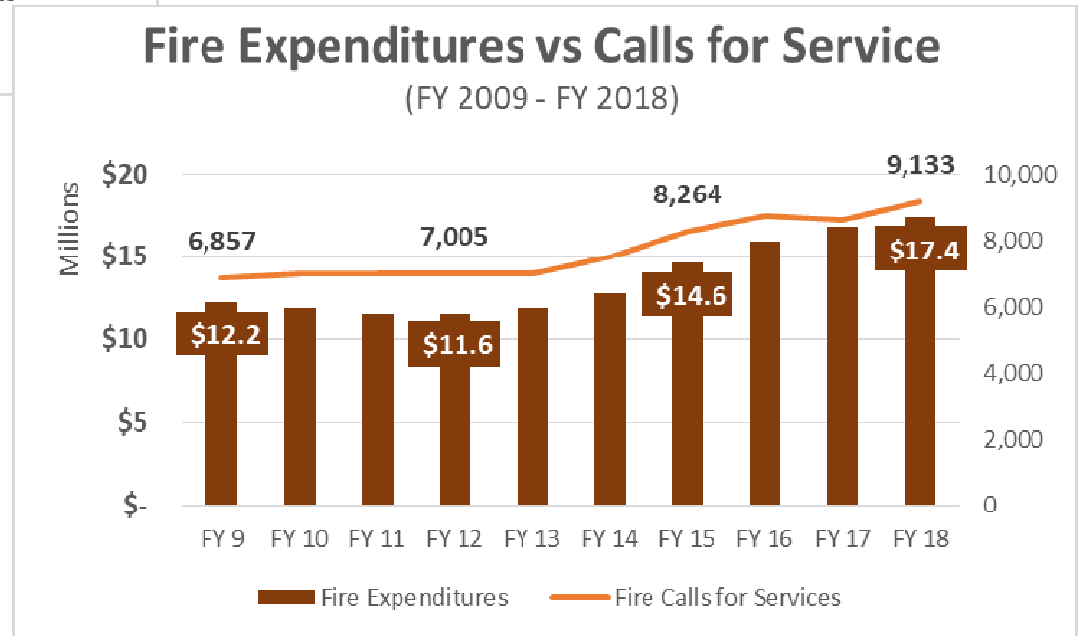
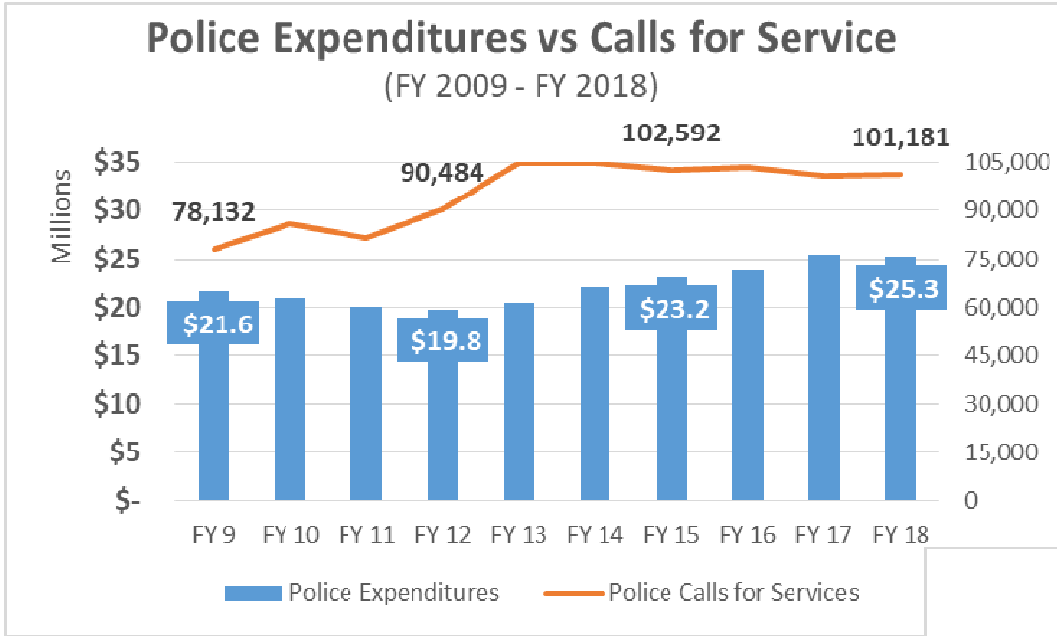
**FY 17 & FY18:
Revenue
underperformed**

**FY 18: Expenditure
less than expected**

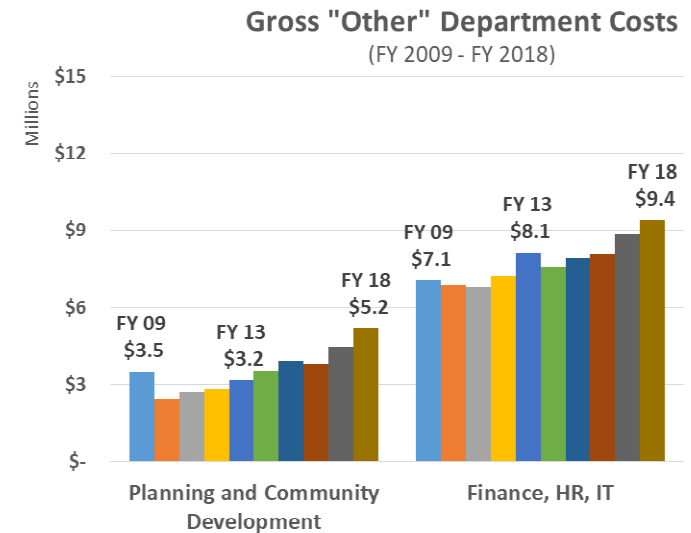
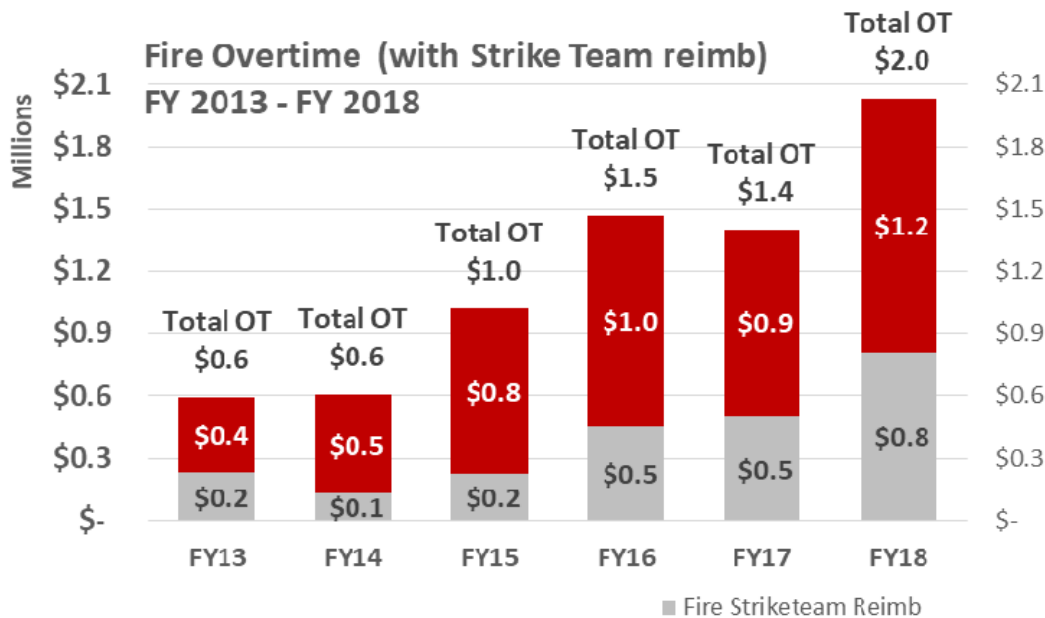
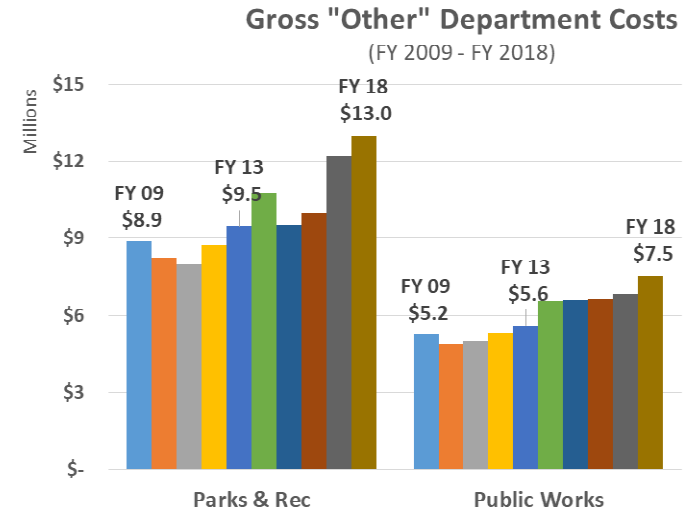
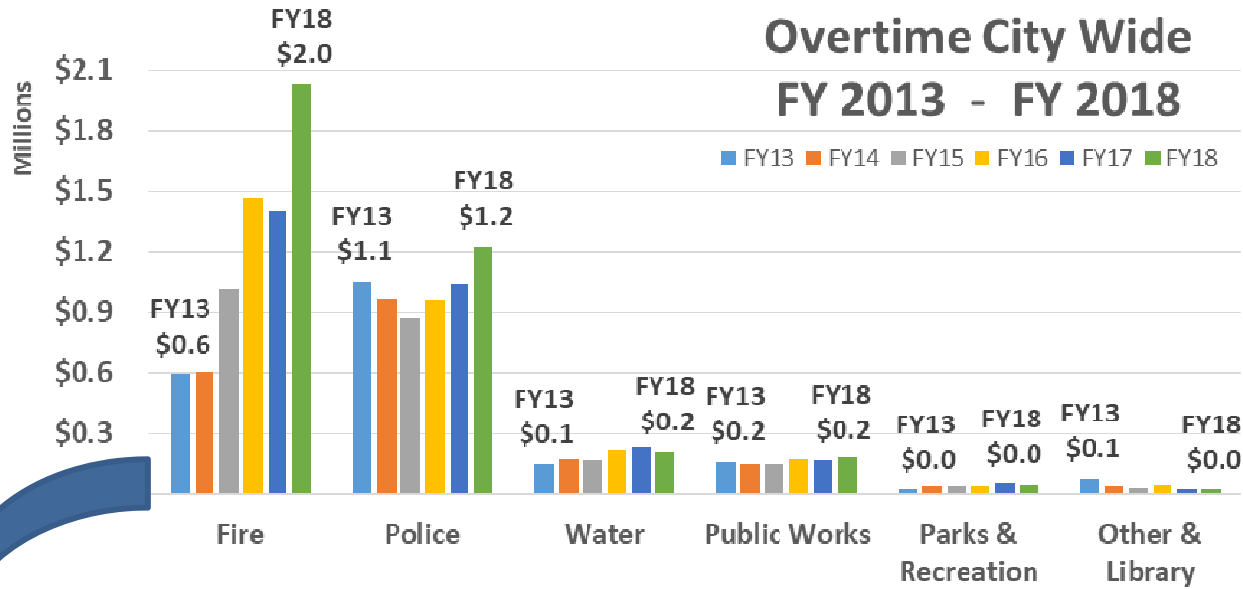


Big 5

#4 - Financial trends



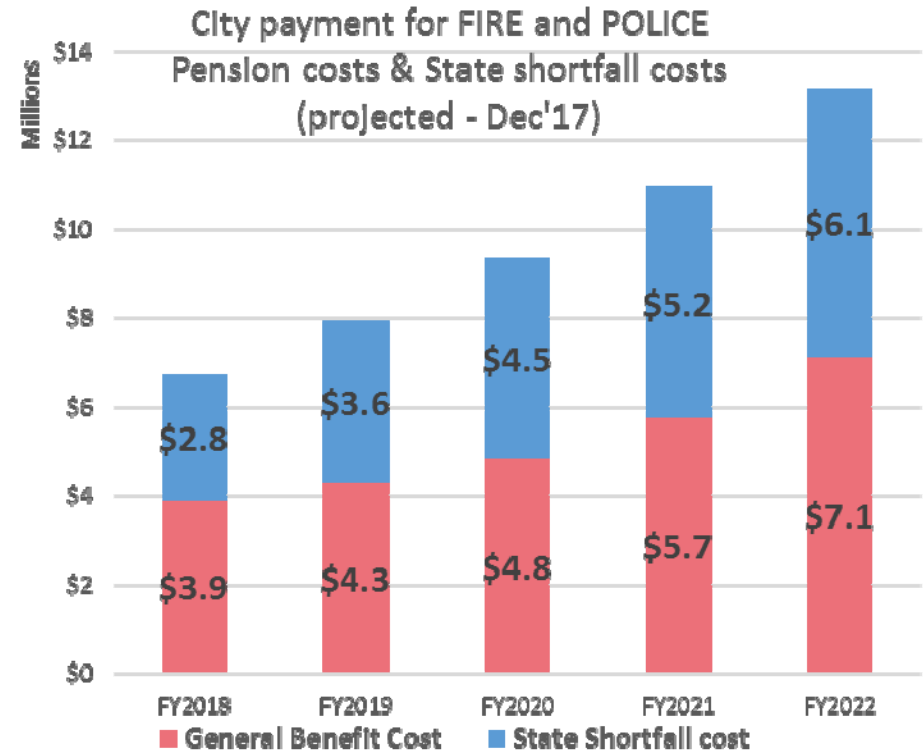
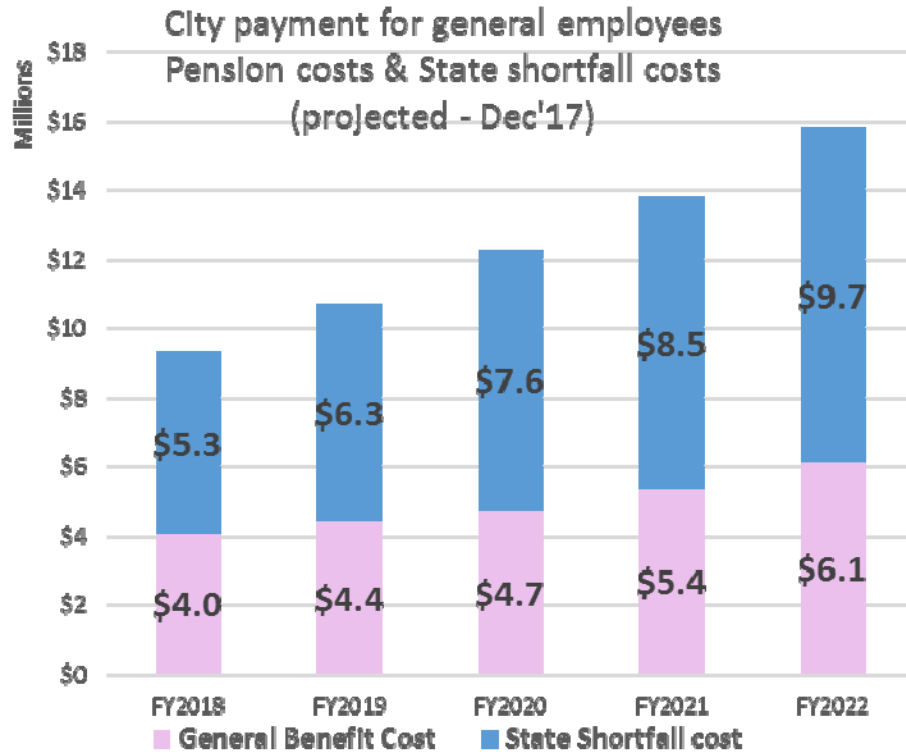
Other Cost Trends



The State's investment shortfall will double City's Pension Fund payments

General non-safety represents 2,043 members (active and inactive)

Fire and Police represents 480 members (active and inactive)

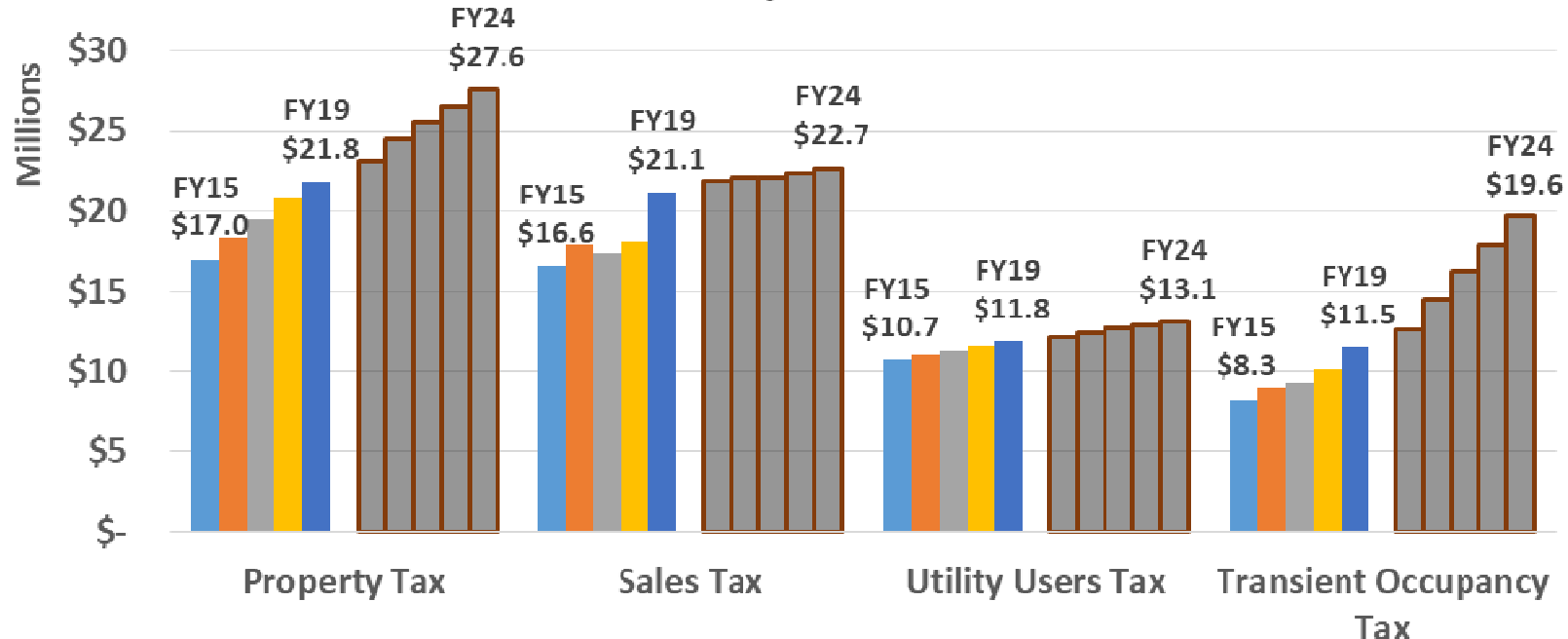


Top Tax Revenues

- Despite core tax growth, payments to the State for pension investment shortfalls requires \$5 to \$10 million more annually than FY 2012
- Sales Tax and Utility Users Tax growth is slower than historical “recovery” periods due to revenue deterioration

Top Four General Fund Taxes

FY 2015 - FY2019 Projected FY 2020 - FY 2024

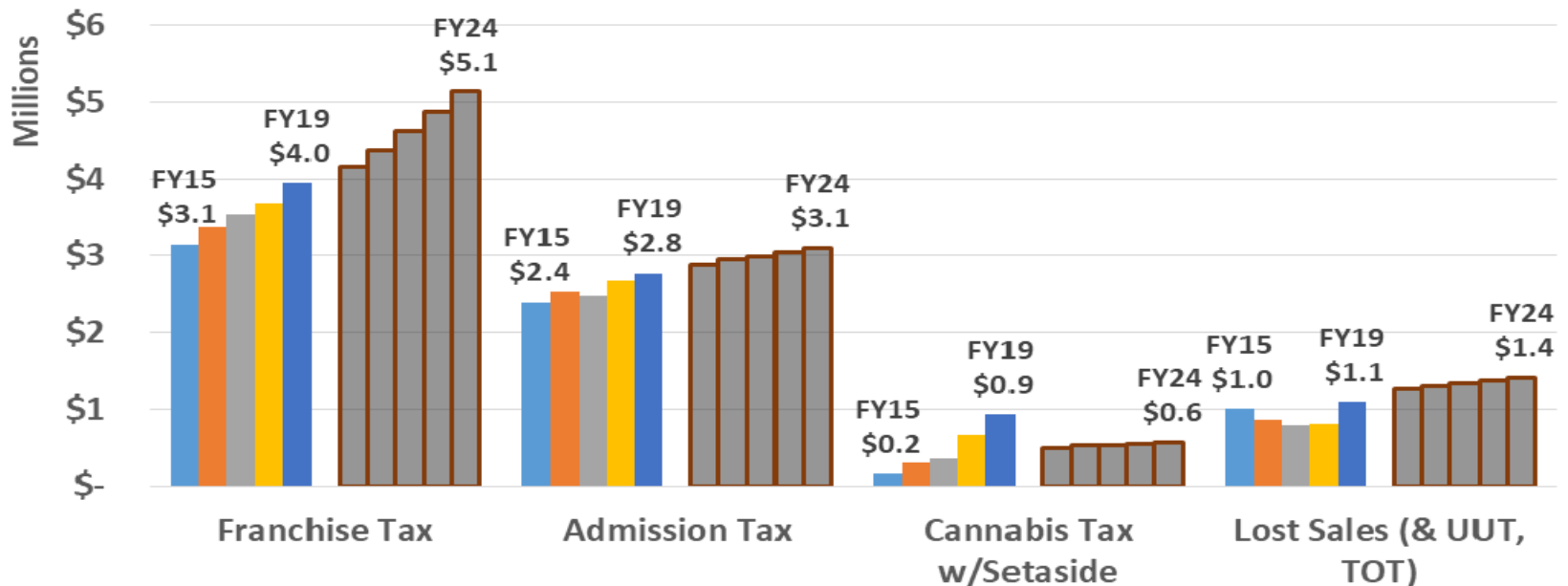


Top Tax Revenues

- Estimates of loss tax base (largely Sales Tax) are projected to be double our annual Cannabis Tax revenue
- Franchise tax increases are largely due to our own utility rate increases (that also increase General Fund's utility costs)
- Cannabis tax is likely to be reduced significantly under a possible reduction in the current 8% tax rate (to be considered in April 2019)

Other General Fund Taxes & Lost Revenue

FY 2015 - FY2019 Projected FY 2020 - FY 2024



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(Trends 8 of 8 next: Fiscal Keys)



Reserve Levels - policy

| General Fund Reserve & Trusts | Min Funding Level | FY 2019 Funding |
|-------------------------------|--|------------------|
| Pension Trust | <i>10% of GenFund</i> (\$10.3 million) | \$ 10.35 million |
| Net Reserve Amount | <i>6.7% of GenFund</i> (\$6.47 million) | \$ 6.47 million |
| City Public Trust | \$4.26 million | \$ 4.26 million |
| Economic Dev. Trust | \$2.99 million | \$ 0.74 million |

Short!

- Disaster Contingency Fund (flood, fire, earthquake) 0%
- Operating Reserve (one-time urgent uses) 0%



Other Reserves

| Reserve | Target | FY 2019 Funding |
|-------------------------|---------------|-----------------|
| Water Stabilization | \$5.7 million | \$5.7 million |
| Water 90-day operating | \$7.4 million | \$7.4 million |
| Water Emergency Reserve | \$3.1 million | \$3.1 million |

- Sewer Fund Reserves \$ -0-
- Solid Waste Reserves \$ -0-
- Parking Reserves \$ -0-
- Facility, Wharf, other \$ -0-



4 Keys to Fiscal Health

| Key Indicators of Fiscal Solvency | Criteria to measure against |
|-----------------------------------|---|
| Cash | Ability to meet immediate obligations |
| Budgetary | Meet commitments during the budget cycle |
| Long-run | Are there strategies to meet future obligations |
| Service-level | Match reasonable community service expectations |



Key Thought: Don't kick the can down the road.

- Adopt on-time, structurally balanced budgets
- Use one-time resources for one-time spending
- Rely on multi-year forecasts
- Always be ready with long-term fiscal options
- Reserves are for emergency and short-term use
- Fully fund core equipment
- Fees for services should recover full cost
- Build models based on cash flow, including salary savings

Budgetary Principles

Our Foundation for Long-Term Sustainability



City Fiscal Indicators

Recap...

- Local government is not in a boom cycle
- State to double “again” government pension payments
- Decreasing tax bases (sales, utility users, gas, etc.)
- Projected economic slowdown
- Unreasonably low reserve levels



Recap & what's coming next

Recap...

- Local government is not in a boom cycle
- State to double “again” government pension payments
- Decreasing tax bases (sales, utility users, gas, etc.)
- Projected economic slowdown
- Unreasonably low reserve levels given looming recession and environmental disaster risk factors

What... is next?

- March 12th Council- Capital Investments Study Session
- Engage Budget Focus Group
- Timeline and locations for Budget 101
- April 22nd- City comprehensive Budget and CIP released
- May 8th Council- Budget Hearing and direction
- May 28th Council- Budget Adoption



ACTION: Approve Mid-Year FY 2019 Budget Changes

- Routine corrections or budget re-allocations with no net change
 - Carbon fund projects
 - CDBG & HUD changes for HUD Final Plan
 - Parks & Rec utility equipment approved but omitted from budget document
 - Insurance partial reimbursement for liability claim
- Mandated or necessary changes
 - Homeless support services
 - FEMA 2019 storm damage administration
 - City 2018 election costs
 - Fire Marine wharf building



Council options for Feb 26th Mid-Year Study Session Part II

- Motion to (1) amend the FY 2019 Budget for budgetary appropriations listed in the staff report, and (2) authorize the City Manager to allocate budget adjustments within the applicable funds
- Council direction to CalPERS Board and Investment Committee to return to smarter strategies to improve CalPERS investment returns
- Consider scheduling a pension study session
 - Review impacts, long-term forecast, actions to take
- Support the current Budget Ad-Hoc Committee

Questions?



Mid-Year FY 2019 Budget Changes

| Fund | Total Increase | Net Increase after resources | Major item(s) |
|-------------------|----------------|------------------------------|--|
| General Fund | \$ 492,343 | \$ 392,984 | FEMA (\$183k); Election (\$120k); Homeless service (\$83k) |
| Carbon Fund | \$ 65,000 | \$ 65,000 | 2030 Climate Plan (\$27k); Ride Share (\$12k); Civic Auditorium Boiler (\$10k) |
| HOME & CDBG | \$ 320,326 | \$ - 0 - | Realign to Final HUD Plan |
| Capital Invest. | \$ 334,655 | \$ - 0 - | HUD Final Plan (\$225k); Fire Marine building (\$80k) |
| Waste Water | \$ 4,000 | \$ 4,000 | Gate equipment |
| Equip. Operations | \$ 15,000 | \$ 8,400 | Parks & Rec utility vehicle |
| Liability | \$ 600,000 | \$ - 0 - | Partial reimburse for liability claim |
| Workers Comp | \$ 80,000 | \$ 80,000 | Transfer to Fire Marine building |

