

City of Arts & Innovation

Budget Engagement Commission

TO: HONORABLE COMMISSIONERS **DATE:** APRIL 6, 2017
FROM: FINANCE DEPARTMENT **WARDS:** ALL
SUBJECT: REVISIONS TO THE PROPOSED FIVE-YEAR MEASURE Z SPENDING PLAN

ISSUES:

The issue for the Budget Engagement Commission (BEC) is to develop recommendations to the City Council on the proposed five-year spending plan for the Measure Z funding, in time for the May 9, 2017 City Council meeting.

RECOMMENDATIONS:

That the Budget Engagement Commission develop recommendations to the City Council on the Proposed Five-Year Spending Plan for Measure Z, for the May 9, 2017 City Council meeting.

BACKGROUND:

At the January 31, 2017 City Council meeting and the February 23, 2017 BEC meeting, City staff presented an overview of the Proposed Measure Z Spending Plan (Proposed Plan) (Attachment 1). The overview included highlighting the major components of the Proposed Plan, including the addition of 60 police officers, reinstatement of sworn fire personnel, reducing major liabilities, funding for capital projects and funding for the General Fund shortfall.

At the March 9, 2017 BEC meeting, Staff provided a more in-depth analysis of the public safety and capital investment components of the Proposed Plan based on comments/direction from the City Council (at the January 31, 2017 meeting) and additional requests from staff. In addition, the BEC discussed the information presented and determined additional time was needed to develop recommendations to City Council regarding Measure Z spending priorities; a Special Meeting was added for March 30, 2017.

At the March 30, 2017 BEC meeting, Staff provided an in-depth analysis of quality of life, fiscal responsibility, future CalPERS impact items and presented information on items the BEC requested additional information (e.g. debt ratios, use of asset forfeiture, etc.).

On April 6, 2017, the BEC meeting will focus on critical unfunded operating needs, including the impacts of the Second Quarter Financial Report. Further, the BEC will begin the development of spending priority recommendations for the City Council's May 9, 2017 meeting, based on information presented at the meeting on April 6, 2017 and earlier BEC meetings.

DISCUSSION:

Critical Operating Needs

Funding Gap for Existing Services

The Proposed Plan includes funding for the General Fund's projected structural shortfall of approximately \$3.9 million in Fiscal Year (FY) 2016-2017, \$5.5 million in FY 2017-18, \$10.8 million in FY 2018-19, \$17.3 million in FY 2019-20, and \$10.7 million in FY 2020-21. Continued revenue weakness in the City's key revenues sources (primarily sales tax and utility users tax) and higher than anticipated personnel expenditures has led to growing gaps in funding necessary to pay for existing critical services. **The projected gaps, unless addressed with Measure Z revenues, would lead to service reductions.** The projections are based on the actual revenues and spending during July through December 2016, recent union contract negotiations, and assumptions about revenue and expenditure changes in the next four years. The details of these items are included in the Second Quarter Financial Report to the City Council (Attachment 3) described in more detail throughout this report.

Principal Analyst – City Manager's Office

During the FY 2016-2018 Two-Year Budget, the City Manager's Office eliminated two Principal Analyst positions. The Proposed Plan recommends restoring one of these two analyst positions. The full cost of this position in FY 2017-18 (the first year of funding) is \$165,000.

Budget Engagement Commission Support

In order to provide support to the BEC, the Finance department will need a budget for office supplies, printing costs, and other meeting related expenses. The expenses are estimated at \$27,000 annually.

Contingency Replacement

The FY 2016-18 budget initially contained \$500,000 in annual contingency funding, to address critical needs during each fiscal year. The funding has been almost completely used, mainly to create a formal Budget Office. The Measure Z spending plan recommends restoring the \$500,000 annual contingency funding, beginning with FY 2017-18.

Summary of the Second Quarter Financial Report

As of the second quarter, the General Fund continues to reflect deficits in both years of the FY 2016-2018 Two-Year Budget. The deficits have grown by approximately \$500,000 to approximately \$3.9 million in FY 2016/17 and \$5.5 million in FY 2017/18. The projected deficits are driven by employee compensation and benefits, lower revenues, insufficient budgeted funds to pay for Parks and Recreation debt, and unfunded vehicle maintenance needs. The slightly larger deficits projected during the second quarter are due to worsening revenues, as discussed below. See Attachment 3 for details.

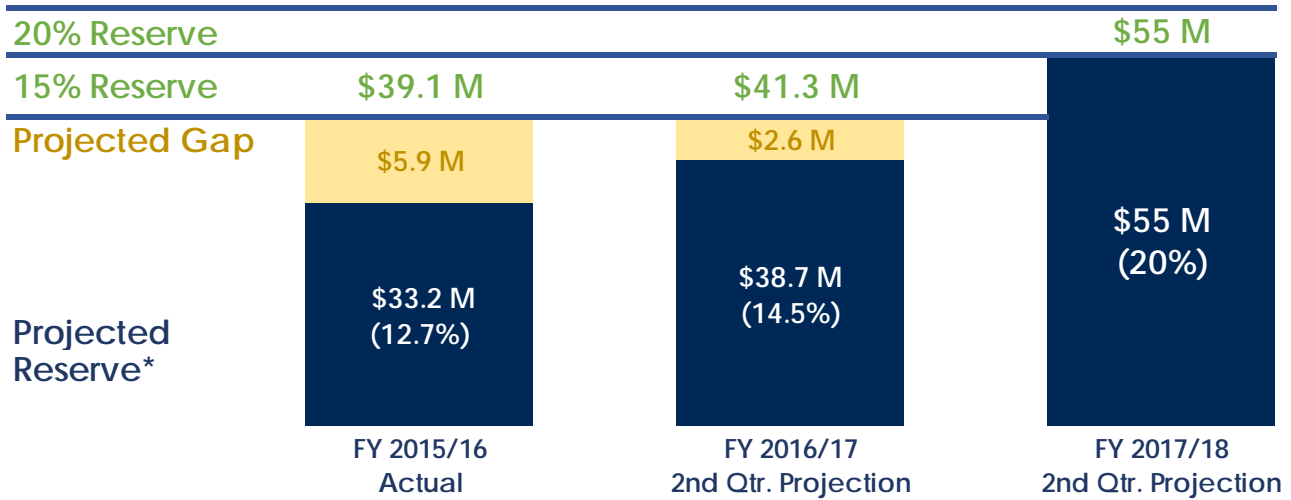
Factors Contributing to Projected Shortfall (2nd Quarter)

	FY 2016-17	FY 2017-18
Adopted Surplus	\$ 26,530	\$ 2,078,014
Union Contracts	\$ (819,081)	\$ (3,396,309)
Lower Revenues	\$ (2,894,976)	\$ (3,964,110)
Insufficient Funds for Parks Debt	\$ (600,000)	\$ (600,000)
Transfers for Sewer Claims	\$ 900,000	\$ 900,000
Other	\$ (52,004)	
Fire Department Maintenance	\$ (500,000)	\$ (500,000)
Estimated Shortfall	\$ (3,939,531)	\$ (5,482,405)
Management Action*	\$ 3,939,531	\$ 5,482,405
Net General Fund Surplus/Deficit	\$ -	\$ -

* Staff has recommended the use of Measure Z funds to cover the General Fund shortfalls in FY 2016/17 and FY 2017/18. Alternative options to using Measure Z funds include elimination of carryovers and expenditure reductions that limit service impact to the extent possible (e.g. spending freeze and holding positions vacant).

The second quarter projections of the General Fund Reserves decreased from the first quarter. Without the use of Measure Z revenues or alternative management action, the projected draw on the General Fund reserve is approximately \$3.9 million in FY 2016/17 and \$5.5 million in FY 2017/18, effectively reducing the General Fund reserve levels to 10.9% (\$29.2 million) in FY 2016/17 and 8.6% (\$23.7 million). Given significant budget reductions during the FY 2016-2018 biennial budget process, no current budget or service cuts are proposed to address the projected shortfalls. **Instead, it is recommended that Measure Z revenues be used to maintain essential General Fund services, such as public safety and quality of life.**

General Fund Reserve Outlook (Based On Second Quarter Projections)



**With staff's recommendation to utilize Measure Z funding to eliminate the General Fund deficit and increase reserves, the General Fund reserve will meet the City Council's Responsible Spending Pledge "aspirational" goal of 20% by FY 17/18. Without Measure Z or alternative management action, the Second Quarter projected deficit would decrease the General Fund reserve to 10.9% (\$29.2 million) in FY 16/17 and 8.6% (\$23.7 million) in FY 17/18.*

Reports from City Boards and Commissions

As requested by the BEC, staff reached out to each City department and requested the boards and commissions supported by their staff were afforded the opportunity to speak about its priorities during the April 6th BEC meeting. These items will be presented verbally under Item 5 of the April 6, 2017 BEC meeting agenda and any items the BEC would like to support will be discussed during this item.

Development of BEC Recommendations

The Proposed Measure Z Plan includes recommended options that total approximately \$219.2 million over the first five years. Over the past four meetings, the BEC has been provided with alternatives and recommended changes to the proposed plan, which would add approximately \$78 million over the initial five-years. At the request of the BEC, staff has developed a tool that will allow the BEC to select the options presented through the first four meetings (Attachment 4) and determine the impact on the BEC Proposed Plan. In addition to the items included on Attachment 4, the tool will allow the BEC to add a new item or modify an existing item.

Information Requests from March 30, 2017 BEC Meeting:

At the March 30, 2017 BEC meeting, the BEC may ask staff to provide information on several items discussed during the meeting. With only one week between meetings and the required timelines for posting agendas and related materials, staff will present this information verbally at the April 6, 2017 meeting, to the extent possible.

Timeline:

The timeline below reflects various related meetings and actions, by the City Council and the BEC, for planning purposes. As needed, the BEC may schedule additional meetings to discuss Measure Z spending priorities. As requested by the BEC on February 23, 2017, a listing of departments that will be available to answer questions at each meeting is also provided.

- **April 6, 2017 – BEC Meeting:** Second Quarter Financial Report (FY 2016/17) including updates, Critical Operating Needs including CalPERS changes, reports from City Commissions, and discussion of the BEC’s recommendations to City Council.
 - *Departmental representatives from Finance Department and City Manager’s Office will be present to answer departmental specific questions.*
 - *Additional departments will be asked to attend based on questions and inquiries from the March 30, 2017 BEC meeting.*
 - *To the extent possible, a representative from each City Board/Commission will be on hand to provide input and answer questions about their recommendations.*
- **April 11, 2017 – City Council Meeting:** Staff presents the Second Quarter Financial Report (FY 2016/17) to the City Council. The BEC Chair may present verbal input as part of the Finance Department’s presentation
- **May 4, 2017 – BEC Meeting:** Riverside 2.0 Goals and Performance Measures, and BEC recommendations on the Measure Z Spending Plan.
 - *Questions and inquiries from the BEC on March 9, 30, and April 6, will determine the City departments that will attend to answer departmental specific questions.*
- **May 9, 2017 –City Council: Measure Z Recommendations.**
 - *All City departments will be available for questions from the City Council and BEC.*
- **May 25, 2017 – BEC Meeting:** Optional regular meeting to discuss items within the purview of the BEC.
- **June 8, 2017 – BEC Meeting:** Third Quarter financial report (FY 2016/17), FY 2017/18 Mid-Cycle proposed adjustments, and updates to the five-year financial plan.
- **June 13, 2017 – City Council Meeting: Third Quarter financial report (FY 2016/17), FY 2017/18 Mid-Cycle proposed adjustments, and updates to the five-year financial plan.**

FISCAL IMPACT:

There is no fiscal impact associated with the discussion on the Proposed Measure Z Spending Plan.

Prepared by: Adam Raymond, Assistant Chief Financial Officer
Certified as to availability of funds: Scott G. Miller, PhD, Chief Financial Officer/Treasurer
Approved by: Marianna Marysheva, Assistant City Manager
Approved as to form: Gary G. Geuss, City Attorney

Attachments:

1. Measure Z Proposed Spending Plan (Original)
2. Measure Z Potential Spending Plan Changes (Updated)
3. City Council 2nd Quarter Update
4. Measure Z Spending Plan Options
5. Presentation