



# Budget Engagement Commission

*City of Arts & Innovation*

---

**TO: HONORABLE COMMISSIONERS** **DATE: MARCH 19, 2020**

**FROM: FINANCE DEPARTMENT** **WARDS: ALL**

**SUBJECT: DEPARTMENT PRESENTATIONS OF FISCAL YEAR 2020-2022 BASELINE BUDGETS**

## **ISSUE:**

Receive and discuss the Fiscal Year 2020-2022 baseline budgets of City departments.

## **RECOMMENDATION:**

That the Budget Engagement Commission (BEC) receive and discuss the baseline budgets of City departments in preparation for the April 16, 2020 BEC meeting when the Commission will develop recommended budget strategies for a balanced FY 2020-2022 budget.

## **BACKGROUND:**

As an advisory body to the City Council on budgetary matters, the Budget Engagement Commission's (BEC) input during the budget development process is critical. On April 16, 2020, City staff will present the baseline FY 2020-2022 budget and FY 2020-2025 five-year plans for the General Fund and Measure Z to the BEC and seek recommendations on strategies to achieve a balanced FY 2020-2022 budget for the General Fund.

## **DISCUSSION:**

In Fall of 2019, staff began preparations for the development of the FY 2020-2022 Two-Year Budget. This effort included updating revenue projections, developing the personnel budget, and drafting an update of the General Fund five-year plan. This draft, along with considerations of previous budget cuts, provided the basis for department directions in the development of their proposed FY 2020-2022 department budgets.

## ***Budget Categories and Assumptions***

The General Fund's expenditure budget is comprised of five (5) major categories with unique drivers of the respective expenditure budgets:

Budget Category	Drivers	Draft Baseline Assumptions
Personnel	Employee agreements; CalPERS rates; health and dental rates; required UAL payments.	Current employee demographics (snapshot in time); no change in FTE.
Non-Personnel	Utility rates; contract terms and built-in increases; materials and supplies necessary for effective operations (automotive, streets, fire & police operating supplies, etc.).	Assumed increases are limited to individual items approved by Council during the last budget cycle and baseline self-insurance rates.
Debt	Existing debt payment schedules.	Debt obligations per debt schedules.
Charges To/From	Allowable costs as defined by grant agreements and available funding; planned capital projects.	Roll-over budget, to be updated by departments during budget development, corresponding to the category drivers.
Subsidies to Other Funds	Existing debt payment schedules; operating losses.	Debt obligations per debt schedules; 3% annual increase in operating subsidy.

Baseline Budget Strategy and Budget Directive

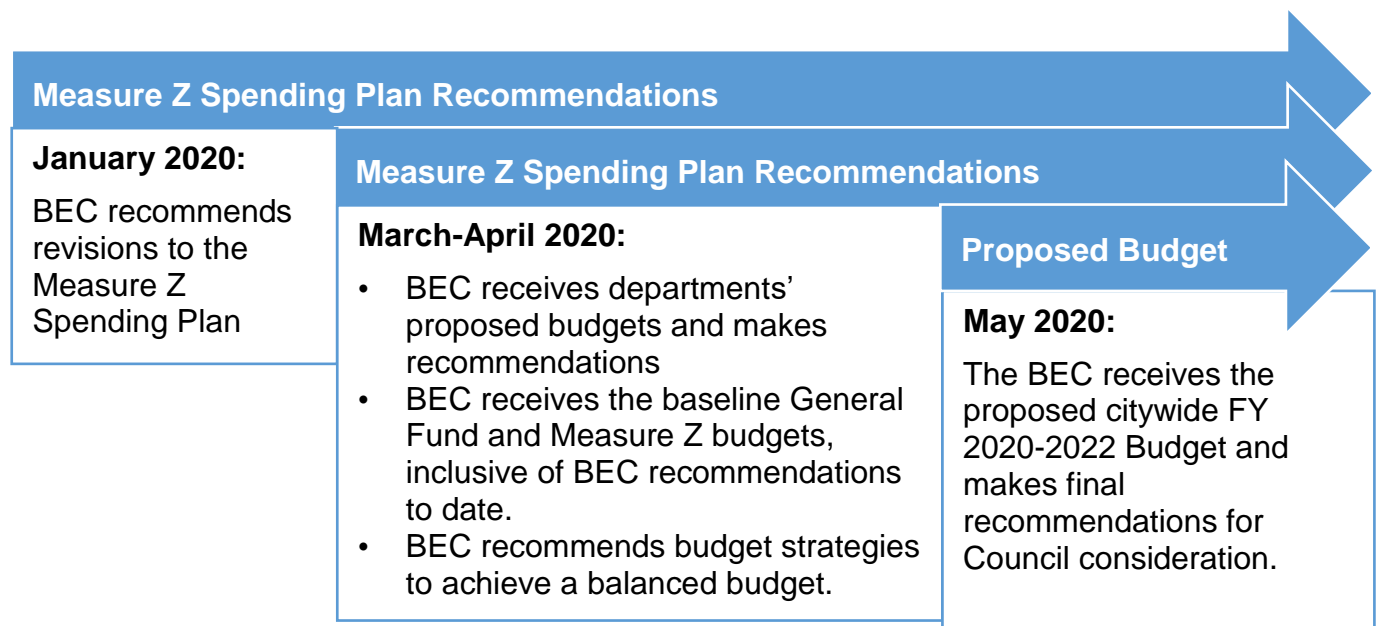
The City’s executive team considered a number of factors when preparing budget instructions for departments, as outlined below. As a result, departments were asked to budget “flat” in the Non-Personnel category previously described. The non-personnel category contains the only items where departments have control over costs or cost increases.

- **FY 2018/19 Year-End Results:** The following observations of fiscal year end results provided the basis for a more optimistic outlook than projected in the previous five-year plan presented at the mid-cycle update of the FY 2019/20 budget in June 2019:
  - FY 2018/19 revenues performed better than projected.
  - Total General Fund savings resulted in the achievement of a 20% reserve and an excess reserve balance of \$4.4 million.
  
- **Budget Strategies** to be researched during budget development:
  - In-depth review and leveraging of external funding sources, including Asset Forfeiture and Gas Tax.
  - Management and potential smoothing of annual California Public Employee’s Retirement System Unfunded Accrued Liability (CalPERS UAL) payments to reduce the budgetary impact on operating needs via various mechanisms such as the use of a Section 115 Trust and a pension funding policy.
  - Review the Measure Z Spending Plan with the BEC; obtain recommendations for potential revisions and reallocation to the plan; consider potential impacts to the General Fund during budget development.

- In-depth review of the City’s cost-allocation plan in comparison to recommended practices and grant requirements.
- **Previous budget cuts:** Over the past two budget cycles (four years), departments were required to reduce department budgets by 4% in each budget cycle. Some of the results of the budget cuts included:
  - Unavoidable cost increases (often tied to CPI) were absorbed, resulting in a necessary reduction in other areas such as landscape maintenance, deferred maintenance, equipment replacement, operating materials and supplies, employee training, etc.
  - Other cost increases, such as those resulting from homeless issues were required to be absorbed.
  - Impact of budget cuts to the City’s customers, business partners, constituents, and employees.
- **Draft baseline projections for the General Fund:** Initial baseline projections incorporated revenue trend analysis, recommendations of the City’s consultants (Hinderliter, de Llamas & Associates (HdL) and PFM Financial Advisors), and updated personnel projections based on current employee demographics and existing employee agreements. The draft baseline for FY 2020-2022 revealed the likelihood of a considerable decrease in projected deficits as compared to the June 2019 mid-cycle update; however, significant deficits still exist.

Budget Process and Timeline

The budget process is a series of building blocks during which BEC recommendations are gathered and incorporated into the development of the proposed budget. The following budget process and timeline will allow the Budget Engagement Commission to provide well-informed recommendations to City staff in the preparation of the proposed budget:



Department Presentations

City departments will present their proposed budgets to the BEC over three meetings scheduled for March 19, April 2, and April 9. The BEC will gain an understanding of departments’ core purpose, services, and programs; budget challenges and proposed FY 2020-2022 budget. During

these presentations, the BEC may make recommendations specific to department budgets, which staff will incorporate into the baseline budgets for the General Fund and Measure Z to be presented to the BEC on April 16.

**FISCAL IMPACT:**

There is no fiscal impact associated with this report.

Prepared by: Kristie Thomas, Budget Manager  
Approved as to availability of funds: Edward Enriquez, Chief Financial Officer/City Treasurer  
Approved by: Carlie Myers, Deputy City Manager

Attachment:

1. Department Presentations
  - a. Mayor's Office
  - b. City Council
  - c. City Manager's Office
  - d. City Clerk's Office
  - e. City Attorney's Office
  - f. Human Resources
  - g. Finance
  - h. General Services