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CITY OF SAN BERNARDINO CITY MANAGER'S OFFICE

TO: Mayor and Common Council

FROM: Mark Scott, City Manager

SUBJECT: **Summary of the Recovery Plan adopted on May 18, 2015 and Implementation Efforts Since**

DATE: May 12, 2016

The Common Council adopted a Recovery Plan in support of the City's Plan of Adjustment for exiting bankruptcy in May 2015. Subsequently that Plan of Adjustment based on this Recovery Plan was filed with the United States Bankruptcy Court. The City filed an update (the First Amended Plan) in November 2015. This update (the Second Amended Plan) provides detail on Plan implementation since November through the filing date in March 2016. This period has seen the final approval of a number of important agreements and approvals implementing the May 2015 Recovery Plan.

The Recovery Plan rests on four key areas of change and improvement by the City, all aimed at improving the fiscal position of the organization. These four key areas are as follows:

- a. Efficiency improvements – largely regionalizing or contracting for services
- b. Debt and Other Post-Employment Benefits (OPEB) restructuring
- c. New revenue and tax increases / extensions
- d. Organizational improvements

Subsequent to adoption of the Recovery Plan the City has made diligent efforts to implement components of the Plan. The table below provides a summary of where the City currently stands with respect to the major elements of the Plan. This Table is based on Table 1 – Cost Savings and Revenue Enhancement Actions and Estimates (General Fund) in the May Recovery Plan. The table shows for each opportunity area the estimated economic benefit, a summary of actions taken towards implementation and the currently anticipated economic benefit either realized or planned. Of note is that implementation is complete or underway on all actions targeted for 2015. In addition, implementation of several elements targeted for 2016 are already underway.

Update on Major Cost Saving and Revenue Enhancement Actions and Estimates (General Fund)

Cost Savings and Revenue Opportunities	Estimated Ongoing (Annual) Savings unless otherwise noted	Status
Efficiency Improvements		
Regionalize or Contract fire and EMS services	\$7,000,000 – 10,000,000	Implementing – Council voted to annex into San Bernardino County Fire District. Local Agency Formation Commission (LAFCO) assessed and approved annexation, subject to conditions of approval, which included an annual parcel tax of \$148.32, and protest hearing/votes. Less than 5% of landowners and registered voters submitted protest votes, moving the annexation forward to the implementation stage. Based on LAFCO and City estimates net economic benefit to the City ranges from \$7.4 to \$12.0 million annually of which approximately \$7.4 million is expected to come from landowners new parcel tax contribution. The higher savings estimate includes resumption of payments for facilities maintenance, equipment replacement and overhead support eliminated from City budget.
Contract business license administration	\$650,000 to \$900,000	Pending - Organizational analysis recommending moving function to Finance completed. RFP in development. Will be complete in 2016.
Contract fleet maintenance	\$400,000	Pending - 2016
Contract soccer complex management and maintenance	\$240,000 to \$320,000	Completed. The City has contracted for the operation of the complex by a private vendor effective October 1, 2015. Annual savings are estimated at \$300,000. Private vendor has begun a \$1M renovation and established a new National Premiere Soccer League team.
Contract custodial maintenance	\$150,000	Pending - 2016
Contract graffiti abatement	\$132,600	Pending - 2016
Implement other efficiency improvements	\$1,000,000 or more	Completed. Right of way maintenance and street-sweeping are being implemented with solid waste contracting.
Health care savings (retirees)	Up to \$60 million in total savings	Completed. Actuarial report is being finalized.
Debt Restructuring		
General Secured Bond Obligations	\$487,450	Implementing - Agreement has been reached. Documentation is underway.
General Unsecured Bond Obligations – Pension Obligation Bonds	Up to all but 1% of obligation or approximately \$95 million	Implementing - City has reached agreement with creditor. Obligation reduced from \$95.8 million to \$50.7 million. Annual payments reduced from \$3.3 to \$4.7M per year to \$1.0 to \$2.5M per year
Restructuring of other creditor obligations	Up to \$4,300,000 in total savings	Pending - Tentative agreement reached with holder of \$527,490 lease purchase obligation

New Fee Revenue and Tax Adjustments		
Seek reauthorization of the Measure Z sales tax in 2021 (requires voter approval)	\$8,300,000	Pending – 2021. Police resources plan for rebuilding police capacity and improving public safety adopted by City Council
Perform a transient occupancy tax (TOT) audit	\$200,000	Pending - 2016
Collect new waste management franchise fee (once service has been contracted)	\$5,000,000	Completed. Council approved a contract with Burrtec. Service began April 1, 2016. Paid a \$5M one-time fee plus will increase annual franchise payment to \$5M from \$2.2M. Sale of equipment nets City \$12M.
Increase waste management franchise fee	\$2,800,000	Completed. Will increase annual franchise payment to \$5M from \$2.2M.
Implement water/sewer utilities franchise fee	\$1,050,000	Completed. New agreement adopted by City and Water Department.
Update master fees and charges schedule	\$200,000	Pending - 2016
Implement program for collecting street sweeping parking violations	\$200,000	Pending. Will be done in conjunction with move to private vendor – 2016
Implement compensation adjustments for all City employees	\$400,000 and growing (2% adjustment for non-safety employees)	Completed. Agreements have been reached with all employee bargaining groups.
Provide resources to Charter Task Force and schedule election to consider revised Charter	\$150,000 (one time cost)	Pending. A new draft charter is under development and has been reviewed at public meetings. Charter Committee to provide recommendations to Council in May and anticipate November 2016 election. Costs have been less than estimated
Organizational Improvements	Ongoing Costs	Implementation Schedule
Implement strategic planning initiatives	\$1,000,000 to \$3,000,000 depending on timing and ability to fund	Pending. Have completed Police Five Year Resources Plan which calls for additional investment of from \$6.7M to \$13.3M in annual funding over next five years starting in July 2016. Current model can only fund a portion of total needed
Rebuild corporate support functions	\$100,000 with a one-time cost of \$500,000	Pending. Organizational reviews in process and have preliminary observations and recommendations for Finance, Human Resources and Information Technology

The Second Amended Plan filed in March 2016, of which the City Council was provided a copy provides additional data on the status of implementation in subsequent sections. The City's intent is to demonstrate in a specific and transparent fashion, how the Plan is progressing and to answer questions raised by the Court and creditors. We will also set forth a revised Long Range Financial Plan which the City believes shows our Plan is feasible and confirmable.