

The Budget Challenge: City of San Bernardino

Fiscal Year 2009-2010 Mid Year Presentation

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Agenda

- 1) Opening Comments
- 2) Historical Overview
- 3) Mid-Year Report and Recommendations
- 4) Dr. John Husing
- 5) 5-Year General Fund Projections/Budget Outlook
- 6) Budget Strategies
- 7) Next Steps



Historical Overview

Forces Behind the Budget Challenge



FY 2007-2008 to FY 2009-2010

- Collapse of the financial industry
- Steep decline in housing values
- Skyrocketing foreclosure rates
- Escalating unemployment rates
- Stock Market incurs record losses
- State of California has a multi-billion deficit through FY 2009-2010



Direct Impacts

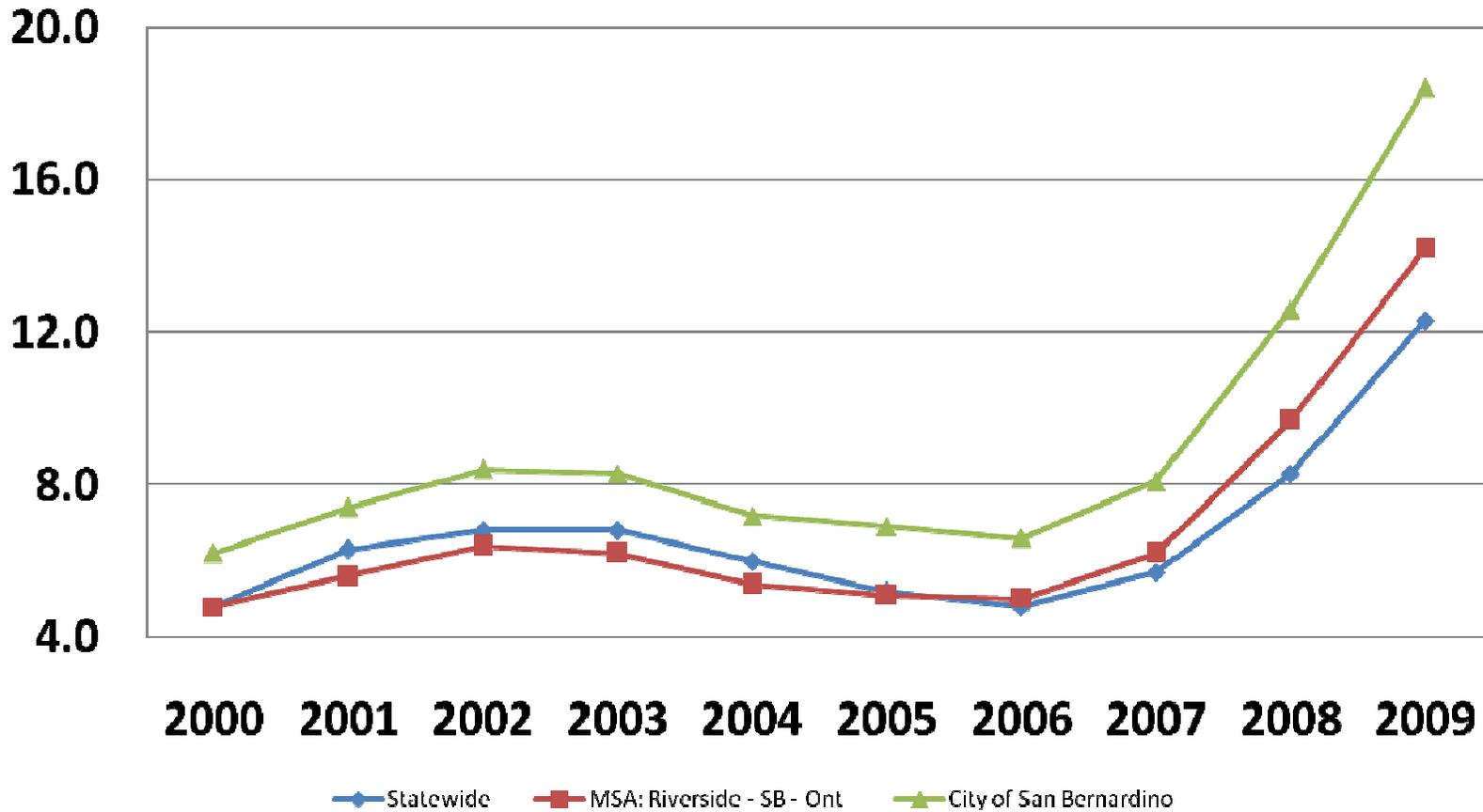
- Unemployment is highest in more than 20 years - 18.1% in December 2009
- Sales tax revenue estimate (\$20.7 million), at lowest level in 15 years and more than \$16 million less than FY 2005-06 revenues
- Major development revenues are down \$3.3 million from FY 2006-07
- Utility user tax and property tax revenues are down a combined \$6.25 million from their respective peaks



Unemployment

Of the 49 metropolitan areas with a Census 2000 population of 1 million or more, Detroit-Warren- Livonia, Mich., reported the highest unemployment rate in December 2009, 14.9 percent. **The large area with the next highest rate was Riverside-San Bernardino Ontario, Calif., 14.0 percent.**

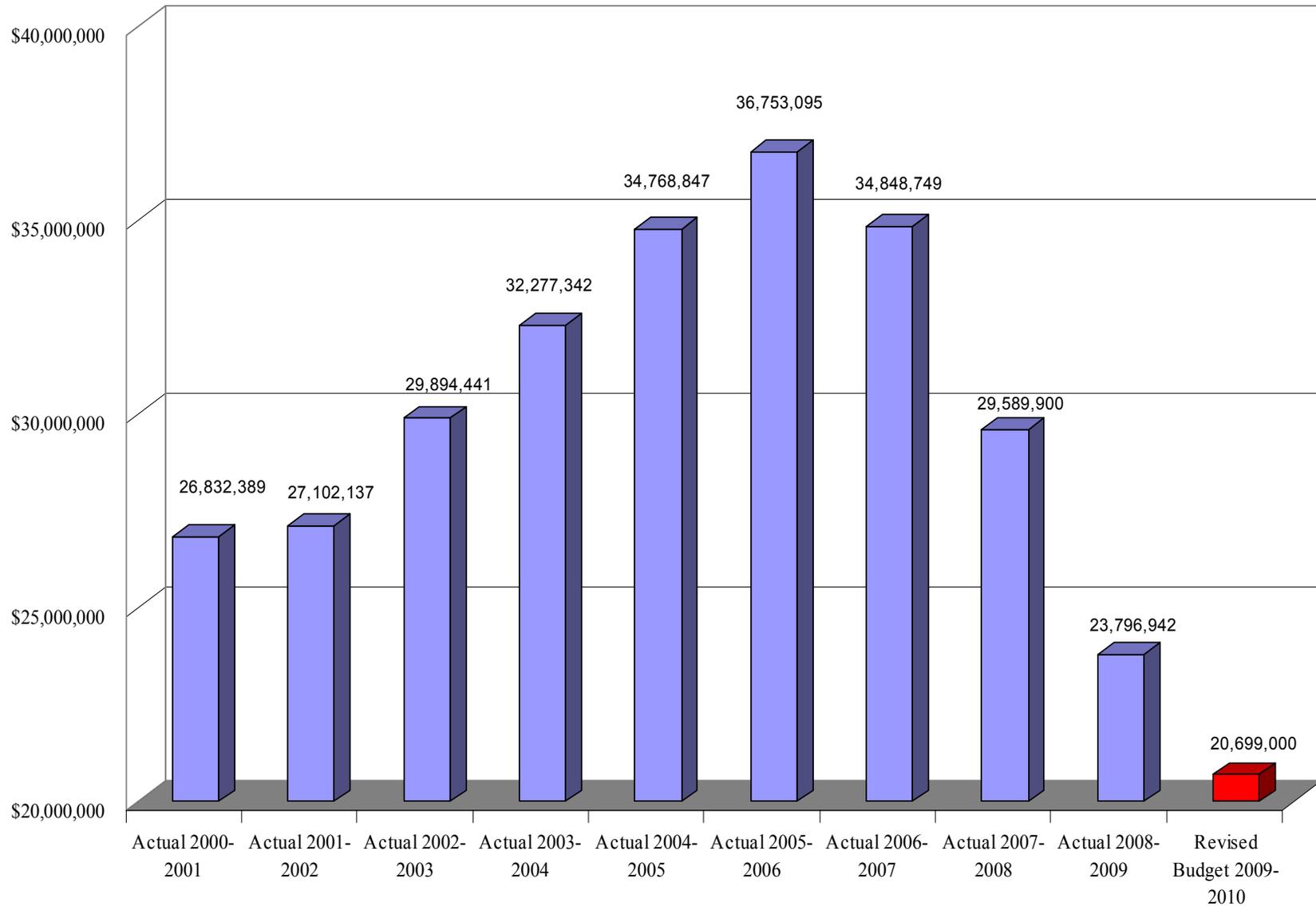
Unemployment Rates from 2000 to 2009



Source: US Department of Labor

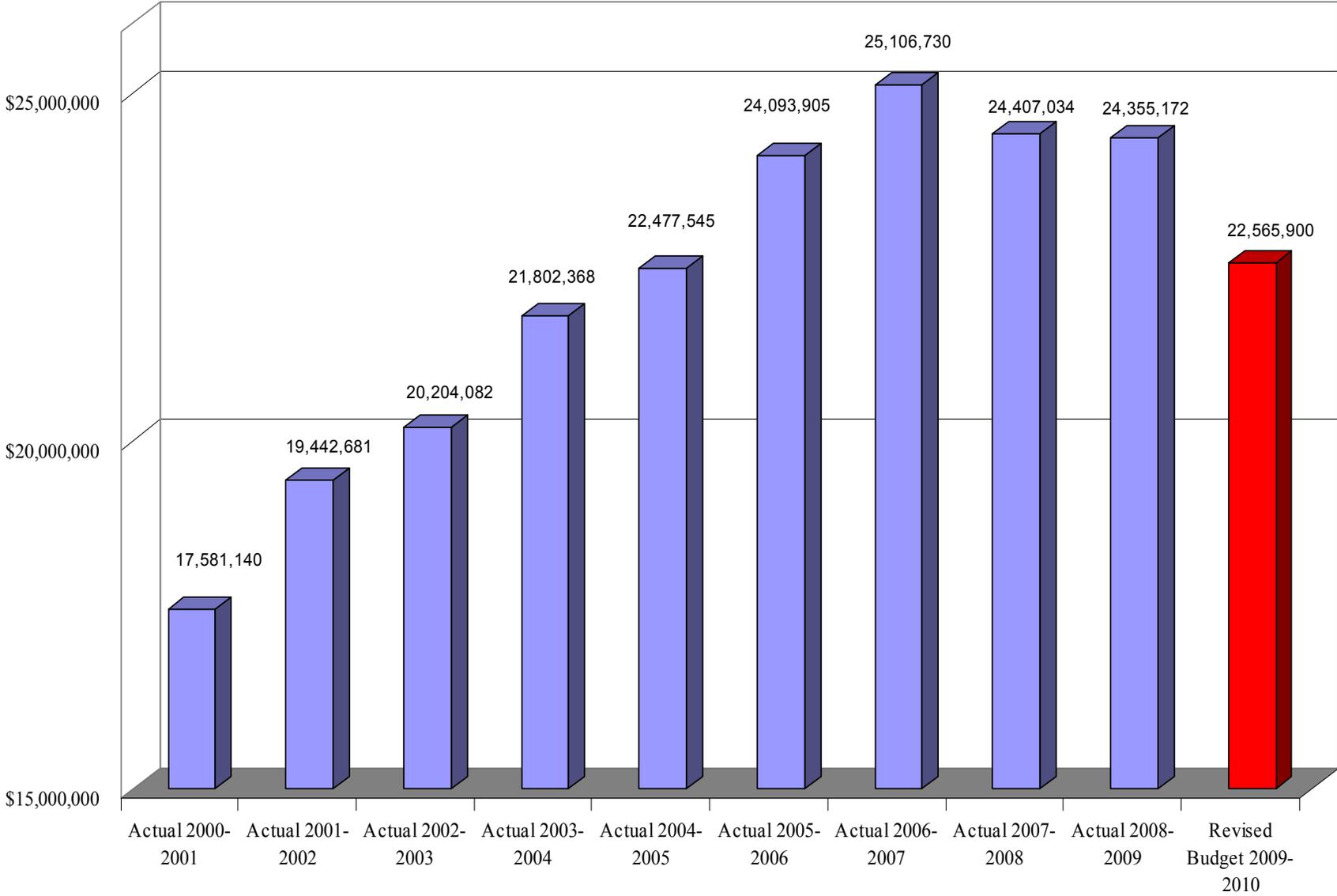
Sales Tax Revenue in Free Fall

Drop of \$16 Million From Peak



Utility User Tax

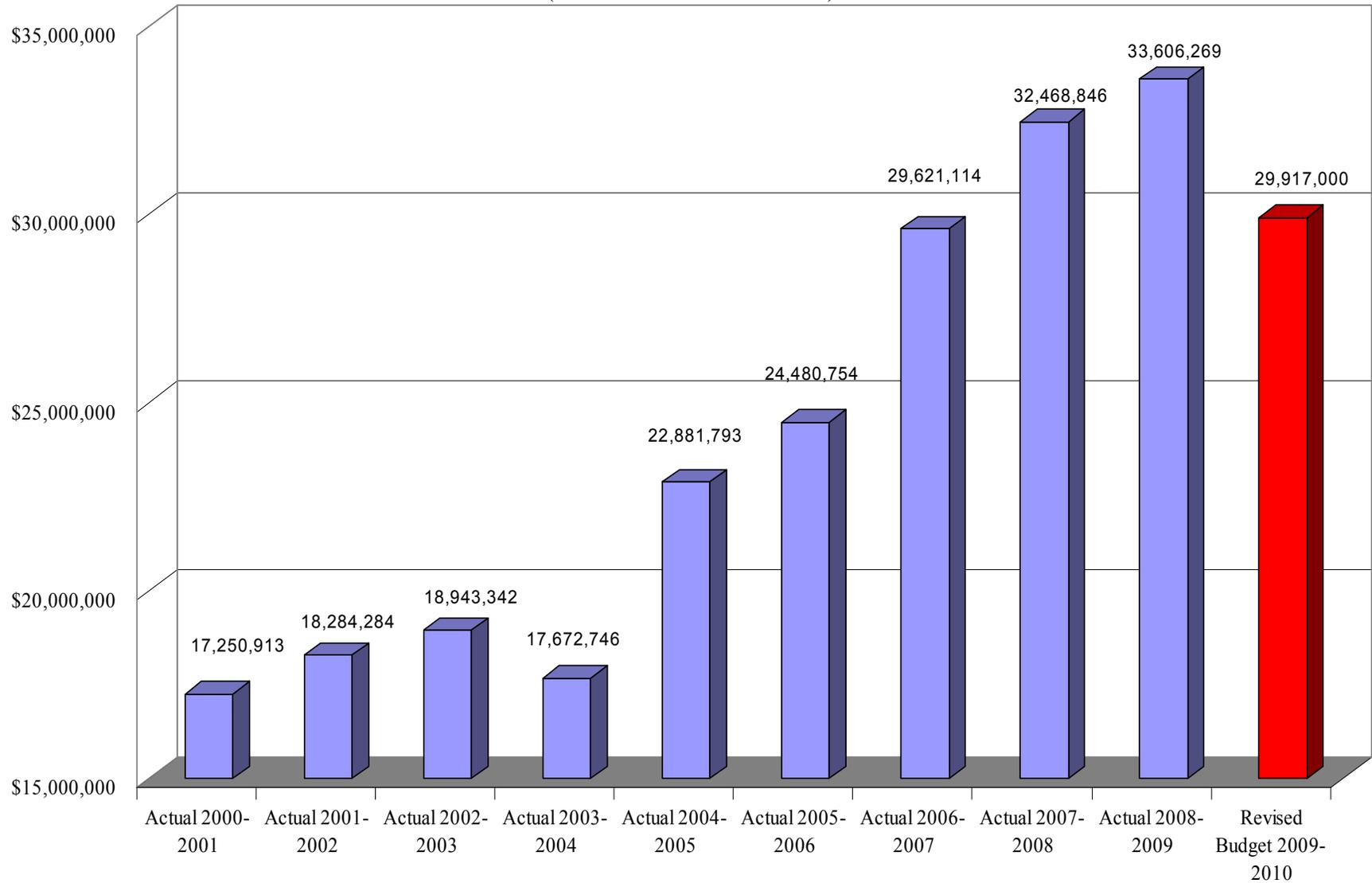
Drop of \$2.55 Million From Peak



Property Tax

Drop of \$3.7 Million From Peak

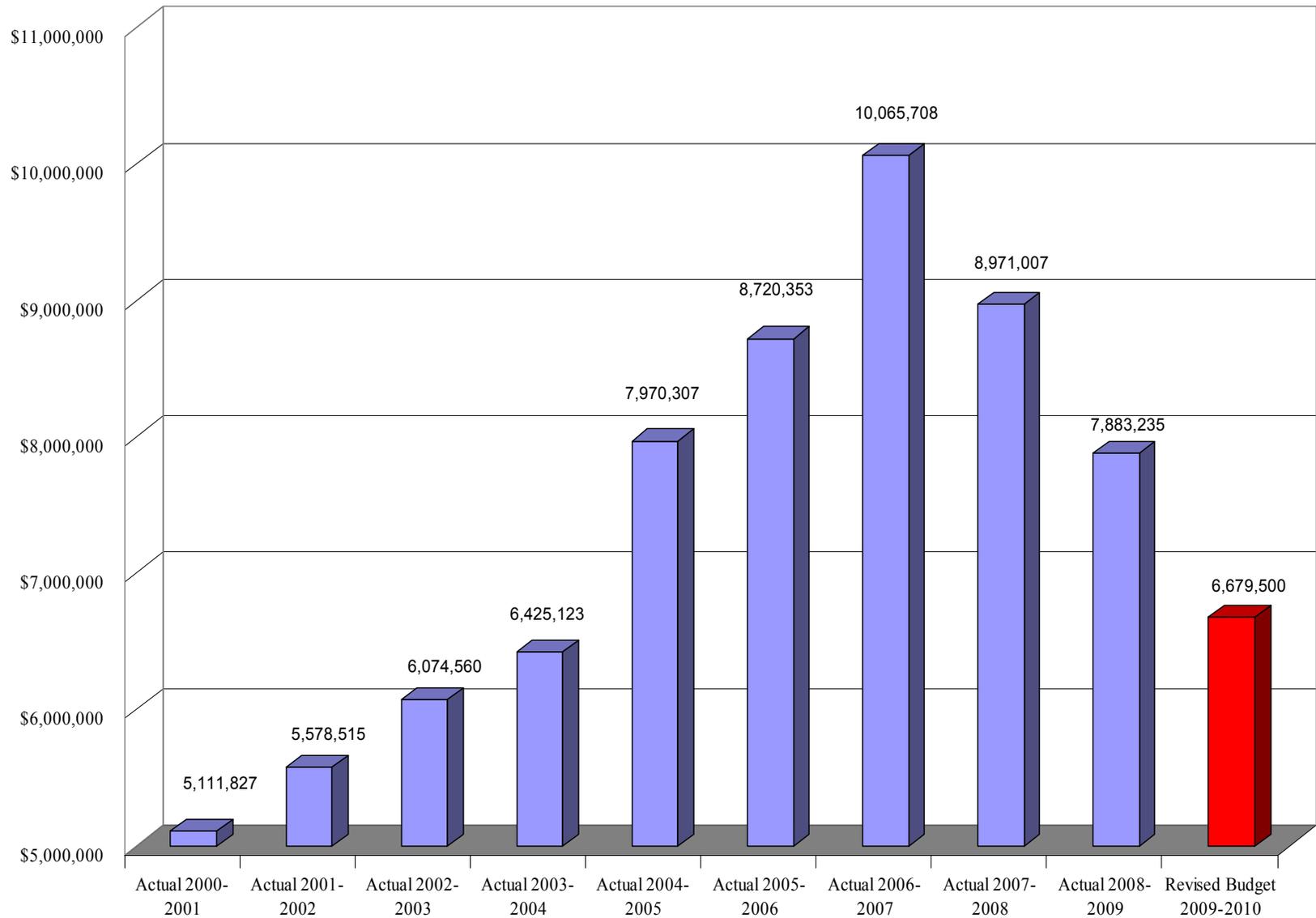
(Includes Motor Vehicle In Lieu)



Major Development Revenue

Drop of \$3.3 Million From Peak

(Includes Business Registration, Building & Construction Permits, Plan Check and On Site Inspection and Plan Check)



Impacted City Services (partial list)

- 32% of Parks & Recreation staffing cut
 - Nicholson Community Center closed
 - Reduced staffing and programs at other centers
 - Parks maintenance reduced
- City Hall Closed on Fridays – less hours available to public; less time to handle unchanged workload.
 - 10% cut in employee compensation
- Development Services staffing cut by 15%



Impacted City Services (partial list)

- Police Department overtime for “corridor patrols” eliminated
- 16 sworn Police Department positions unfunded
- 23% of Information Technology staffing cut- no contingency for computer replacements/upgrades
- 12 vacant firefighter positions unfunded (change from 4-man staffing to 3-man on some engines)



Impacted City Services (partial list)

- Library Budget cut by over \$700,000, Library hours of service reduced.
- Facilities Management staff cut by 1/3- maintenance delayed/deferred
- Administrative & non-sworn positions deleted throughout all City Departments.



Historical Overview: Where Does All the Money Go?

A Brief Review:

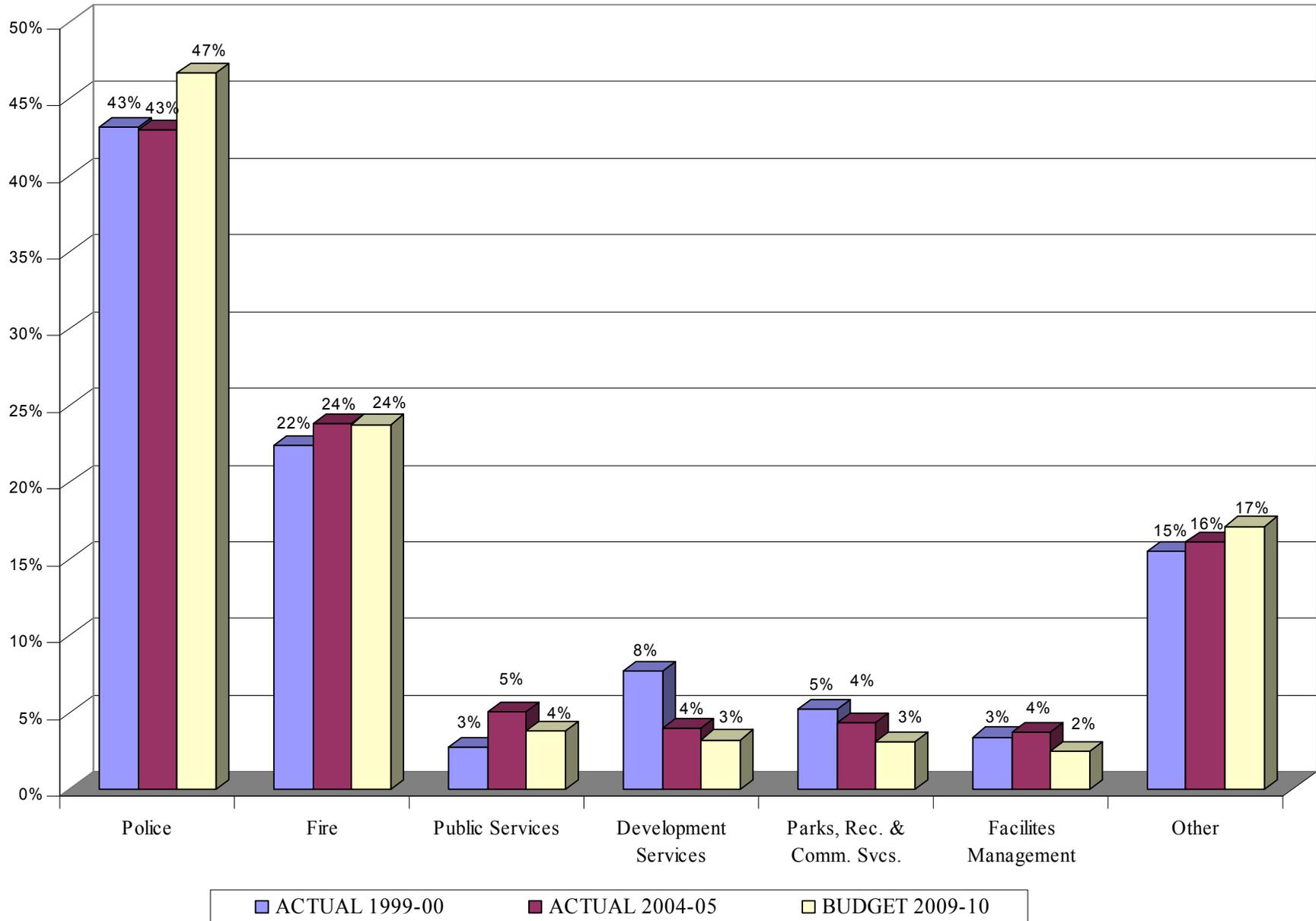
FY 1999-2000 through FY 2009-10



FY 1999-00 through FY 2009-10

- General Fund expenditures increased from \$81.2 million to \$139.2 million - increase of \$58 million of which \$44.8 million or 77.2% attributed to public safety.
- Personnel expenditures increased from 71% to 76% of the General Fund
 - Operations (M&O, Transfers out, Contract Services) decreased from 26% to 20%
 - Debt Service increased from 2% to 4%
- Public Safety expenditures increased from 65% to 71% of the General Fund.
 - Development Services decreased from 8% to 3%
 - Parks and Recreation decreased from 5% to 3%

General Fund Expenditures by Department



Finance FY 2009-2010

Mid-Year Budget Overview

The Ongoing Budget Challenge



San Bernardino Not Prepared for Sharp Downturn

- Insufficient General Fund reserves
- Escalating personnel costs
- Unfunded retirement liabilities
- Equipment condition declines
- Infrastructure decay
- Substantial deferred maintenance
- Weak borrowing position
- 2007 Management Partners organizational study:
“Financial condition is fragile.”



Cumulative Deficit From 7/1/08 to 6/30/10

Budget Deficit Projections:

• FY 2008-09 Deficit:	(\$26,398,829)
• FY 2009-10 Deficit:	(\$24,572,100)
• 1 st Qtr FY 2009-10 Additional Deficit:	(\$4,900,000)
• Mid Year FY 2009-10 Projected Deficit:	<u>(\$3,437,400)</u>
• Cumulative Budget Deficits FY 2008-09 & FY 2009-10:	(\$59,308,329)

Deleted Positions in FY 08-09 Adopted:	87
Deleted Positions at Mid-Year 08-09	96
Total Deleted positions	<u>183</u>



With \$59.3 Million the City Could:

Fill 25,000 potholes	\$ 2,500,000
Trim 3,500 trees	\$ 525,000
Repair or replace 1,500 streetlights	\$ 118,500
Mill and overlay 20 miles of streets	\$ 7,920,000
Slurry seal 100 miles of streets	\$ 6,336,000
Hire 100 police officers	\$ 12,752,400
Hire 50 firefighters	\$ 6,673,800
Maintain all City parks (730 acres) at industry standards for 1-year	\$ 6,059,000
Fund Reserve at 11.8% of GF	\$ 16,415,300
Total	\$ 59,300,000



Finance FY 2009-2010

Mid-Year Budget Overview

Current Deficit and Recommendations



Recommended Actions

- Receive and File the FY 2009-10 Mid-Year Budget Report.
- Authorize the Director of Finance to amend the FY 2009-2010 budget as outlined in the staff report which includes making the loan from the Regional Development Impact Fee Fund to the General Fund of \$1.6 million.



**The State of the Inland Empire
and East Valley Economies and
Likely Impacts on the San
Bernardino City Budget**

Dr. John Husing



Five Year General Fund Projections / Budget Outlook



Key Assumptions

- 1) Non-recurring items not included starting with FY 2010-2011
 - \$2 million revenue from sale of property
 - \$2.6 million revenue from audits
 - \$2.9 million from loans
 - \$.5 million Internal Service Fund balances
 - \$5 million employee MOU concessions



Key Assumptions

2) Revenues assumptions

	Best Case	Most Likely	Worst Case
FY10-11	-0.5%	-1.0%	-2.5%
FY11-12	0.5%	-1.0%	-1.5%
FY12-13	1.0%	1.0%	1.0%
FY13-14	2.0%	1.5%	1.0%
FY14-15	3.0%	2.0%	1.5%

Key Assumptions

3) Expenditure assumptions

Salaries

- 3% for Charter 186 salary increases
- 16 COPS Grant positions retained after grant ends (FY 2013)
- SB621 Indian Gaming Grant Funds end 6/30/10
- No salary increases assumed except for step increases
- Overtime costs increased each year from pay increases

Retirement

- PERS provided estimated rates for future years
- Starting FY 2011-2012 Safety PERS rates increase at 4% per year
- Starting FY 2011-2012 Misc. PERS rates increase at 3% per year



Key Assumptions

3) Expenditure assumptions (Continued)

Other personnel costs

- Retirement Health Costs City continue to follow PERS policy
- Safety continues to receive higher retirement health costs per MOU
- City health contributions tied to Kaiser rates increase each year

Other operational costs

- 2% increase factored into each year
- No new debt issued
- Annual \$1.1 million budget expenditure savings



Key Assumptions

3) Expenditure assumptions (Continued)

Loan repayments

- EDA \$1.3 million loan paid back FY 2010-11
- Regional DIFF \$1.6 million loan paid back FY 2011-12

Items not included in assumptions

- Replenish reserves
- Replacement plan for equipment / facilities
- Update technology (IT Strategic Plan)
- Employee payouts at retirement/separation from City



Worst Case Scenario

	Updated 2009-2010	Projected 2010-2011	Projected 2011-2012	Projected 2012-2013	Projected 2013-2014	Projected 2014-2015
Beginning Fund Balance	\$ 2,557,900	\$ 1,770,400	\$ 1,770,400	\$ 1,770,400	\$ 1,770,400	\$ 1,770,400
Estimated Revenue:						
Total Taxes	84,363,900	82,254,900	81,021,100	81,831,300	82,649,600	83,889,300
Total Other Revenues	50,469,500	41,370,800	40,750,300	41,157,900	41,569,300	42,192,900
Total Estimated Revenues	134,833,400	123,625,700	121,771,400	122,989,200	124,218,900	126,082,200
Expenditures:						
Salaries:	107,065,600	117,338,800	122,886,800	130,594,600	138,880,400	140,905,500
Maintenance & Operation	5,457,100	5,566,200	5,677,500	5,791,000	5,906,800	6,025,000
Contractual Services	7,039,600	7,180,400	7,324,000	7,470,500	7,620,000	7,772,400
Internal Service Charges	13,539,100	13,810,000	14,086,200	14,367,900	14,655,300	14,948,400
Capital Outlay	758,200	773,400	788,900	804,700	820,800	837,200
Debt Service Charges	2,259,600	2,259,600	2,259,600	2,259,600	2,259,600	2,259,600
Loan Repayments	-	1,308,700	1,629,400	-	-	-
Est. Expenditure Savings Factor	(2,680,400)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
Transfers Out	2,182,100	2,600,000	2,652,000	2,705,000	2,759,100	2,814,300
Total Estimate Expenditures	\$ 135,620,900	\$ 149,837,100	\$ 156,304,400	\$ 162,993,300	\$ 171,902,000	\$ 174,562,400
Revenue Over(Under) Expenses	(787,500)	(26,211,400)	(34,533,000)	(40,004,100)	(47,683,100)	(48,480,200)
Reserve Fund Balance	\$ 1,770,400	\$ (24,441,000)	\$ (32,762,600)	\$ (38,233,700)	\$ (45,912,700)	\$ (46,709,800)

Best Case Scenario

	Updated 2009-2010	Projected 2010-2011	Projected 2011-2012	Projected 2012-2013	Projected 2013-2014	Projected 2014-2015
Beginning Fund Balance	\$ 2,557,900	\$ 1,770,400	\$ 1,770,400	\$ 1,770,400	\$ 1,770,400	\$ 1,770,400
Estimated Revenue:						
Total Taxes	84,363,900	83,934,000	84,363,900	85,207,900	86,912,000	89,519,200
Total Other Revenues	50,469,500	42,195,100	42,505,600	42,930,900	43,789,400	45,103,100
Total Estimated Revenues	134,833,400	126,129,100	126,869,500	128,138,800	130,701,400	134,622,300
Expenditures:						
Salaries:	107,065,600	117,338,800	122,886,800	130,594,600	138,880,400	140,905,500
Maintenance & Operation	5,457,100	5,566,200	5,677,500	5,791,000	5,906,800	6,025,000
Contractual Services	7,039,600	7,180,400	7,324,000	7,470,500	7,620,000	7,772,400
Internal Service Charges	13,539,100	13,810,000	14,086,200	14,367,900	14,655,300	14,948,400
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Loan Repayments	-	1,308,700	1,629,400	-	-	-
Est. Expenditure Savings Factor	(2,680,400)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
Transfers Out	2,182,100	2,600,000	2,652,000	2,705,000	2,759,100	2,814,300
Total Estimate Expenditures	\$ 135,620,900	\$ 149,837,100	\$ 156,304,400	\$ 162,993,300	\$ 171,902,000	\$ 174,562,400
Revenue Over(Under) Expenses	(787,500)	(23,708,000)	(29,434,900)	(34,854,500)	(41,200,600)	(39,940,100)
Reserve Fund Balance	\$ 1,770,400	\$ (21,937,600)	\$ (27,664,500)	\$ (33,084,100)	\$ (39,430,200)	\$ (38,169,700)

Most Likely Scenario

	Updated 2009-2010	Projected 2010-2011	Projected 2011-2012	Projected 2012-2013	Projected 2013-2014	Projected 2014-2015
Beginning Fund Balance	\$ 2,557,900	\$ 1,770,400	\$ 1,770,400	\$ 1,770,400	\$ 1,770,400	\$ 1,770,400
Estimated Revenue:						
Total Taxes	84,363,900	83,520,200	82,685,300	83,511,600	84,765,100	86,460,500
Total Other Revenues	50,469,500	41,983,300	41,563,800	41,979,200	42,609,500	43,462,000
Total Estimated Revenues	134,833,400	125,503,500	124,249,100	125,490,800	127,374,600	129,922,500
Expenditures:						
Salaries:	107,065,600	117,338,800	122,886,800	130,594,600	138,880,400	140,905,500
Maintenance & Operation	5,457,100	5,566,200	5,677,500	5,791,000	5,906,800	6,025,000
Contractual Services	7,039,600	7,180,400	7,324,000	7,470,500	7,620,000	7,772,400
Internal Service Charges	13,539,100	13,810,000	14,086,200	14,367,900	14,655,300	14,948,400
Capital Outlay	758,200	773,400	788,900	804,700	820,800	837,200
Debt Service Charges	2,259,600	2,259,600	2,259,600	2,259,600	2,259,600	2,259,600
Loan Repayments	-	1,308,700	1,629,400	-	-	-
Est. Expenditure Savings Factor	(2,680,400)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)	(1,000,000)
Transfers Out	2,182,100	2,600,000	2,652,000	2,705,000	2,759,100	2,814,300
Total Estimate Expenditures	\$ 135,620,900	\$ 149,837,100	\$ 156,304,400	\$ 162,993,300	\$ 171,902,000	\$ 174,562,400
Revenue Over(Under) Expenses	(787,500)	(24,333,600)	(32,055,300)	(37,502,500)	(44,527,400)	(44,639,900)
Reserve Fund Balance	\$ 1,770,400	\$ (22,563,200)	\$ (30,284,900)	\$ (35,732,100)	\$ (42,757,000)	\$ (42,869,500)

Long-Term Budget Issues

- Staffing issues
- Increasing labor costs
- 10 % employee concessions expire on 6/30/10 – \$5 million annually
- PERS cost increase in FY 2011-12 to FY 2014-13 to make up for market losses – \$3 million annually
- COPS hiring funds to replace 16 officers - Retention costs after 3 or 4 years is \$2 to \$2.5 million annually
- Future State takeaways – Since 1992 the State has taken \$36,112,543 from the City



Long-Term Budget Issues

- Infrastructure challenges
- Deferred maintenance on City facilities – \$1 million annually for 10 years.
- City Hall *must* be retrofitted or moved – Debt service of \$2 to \$4 million annually.
- Use of one-time budget balancing measures – \$13 million in FY 2009-10
- Economic leakage
- Declining tax revenues – UUT, property and sales
- Declining General Fund Reserve



Budget Strategies

- Implement operational efficiencies
- Consolidation of services with other agencies – possible joint ventures
- Revenue enhancements
- Manage labor costs
- Economic Development

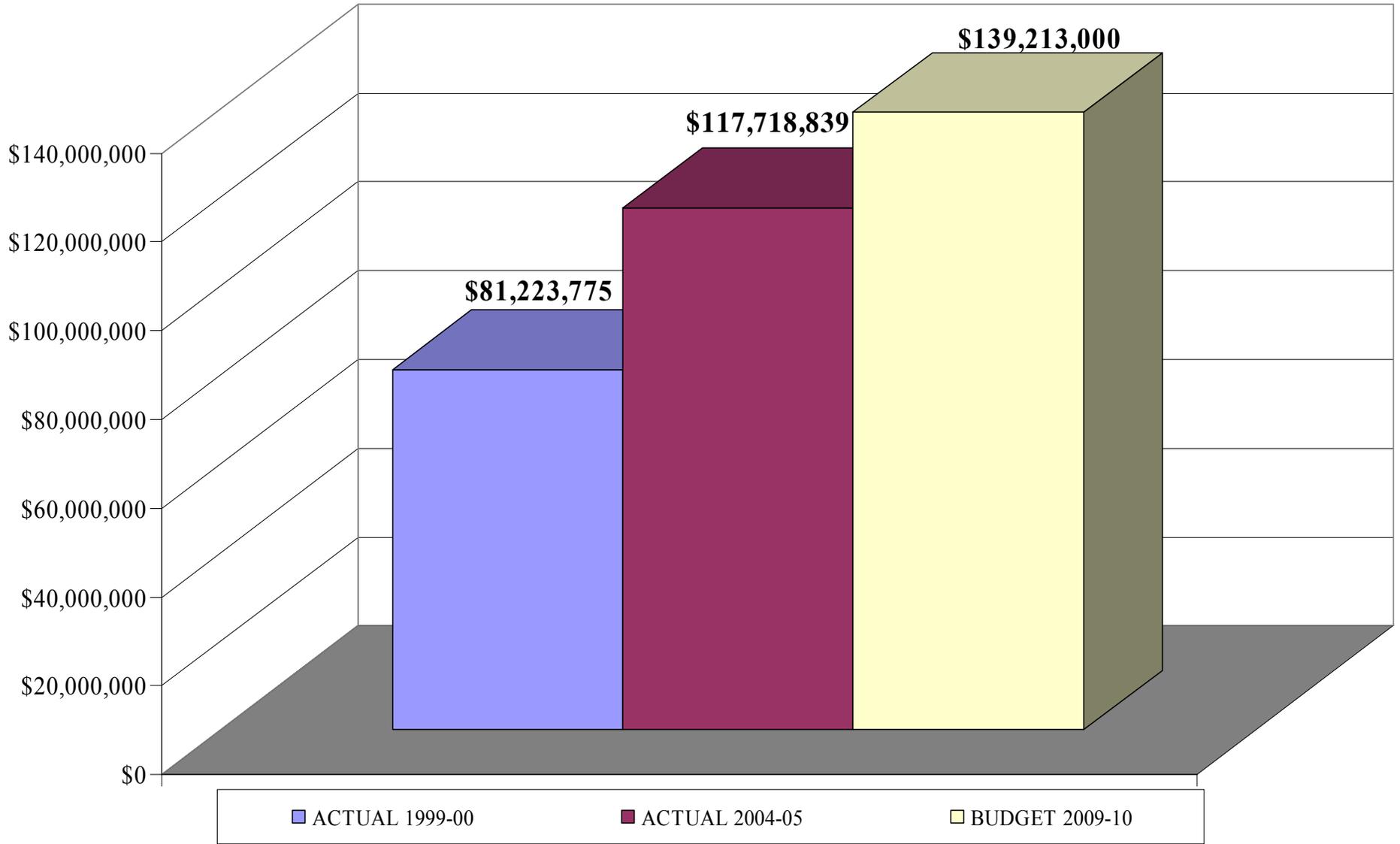


Next Steps

- Schedule additional workshops
- Discuss detailed strategies
- Develop action plans



General Fund Expenditures



General Fund Expenditures By Category

