City of San Bernardino

Budgetary Analysis and Recommendations for Budget Stabilization

July 9, 2012

Prepared by:

City of San Bernardino, California
Finance Department
300 N D Street, 4th Floor
San Bernardino, California

City of San Bernardino, California

June 26, 2012

To Mayor and Common Council:

This report contains an analysis of the City's FY 2007-08 to FY 2012-13 budgets, budget projections and recommendations for budget stabilization and resiliency in California's cyclical economy. The purpose of the analysis was to identify cost containment and cost recovery strategies necessary to reduce costs and increase revenue so the City can align expenditures with annual revenues while addressing immediate and long-term fiscal obligations.

The City of San Bernardino has been affected by the serious economic recession as have other cities and has taken steps over the last several years to reduce costs. Nevertheless, costs continue to outpace revenue due to increased operational expenses and significant rapid declines in property tax revenues as a result of a drop in property values and decline in sales tax revenue. Deficits of major proportions are projected in all five years of the forecast created as part of this project. To ensure basic operational service levels are maintained and anticipated cash flow requirements are met, steps will be needed immediately to reduce costs.

A deficit was projected in the City's FY 2011-12 Budget, and with the loss of redevelopment, we assume the deficit issues will be more significant until the assets held by the Successor Agency can be liquidated and placed back on the property tax rolls. Measures are necessary to mitigate ongoing costs and/or enhance revenue generation during the current fiscal year and the upcoming 2012-13 fiscal year. It is the organization's top priority toaddress these issues with the adoption of the FY 2012-13 operating budget, as the City's reserves and discretionary funds have been depleted, and the City faces insolvency. Simply put, the City must now take substantial action to reduce its spending and increase revenues.

The action plan attached identifies realistic short and long-term solutions to address the financial challenges lying ahead for FY2012-13 and thereafter. The plan is broken down into two phases; Phase 1) Immediate Budget Balancing and Cash Flow Management Plan; and Phase 2) Budget Stabilization Plan. City Management staff look forward to assisting the Mayor and Common Council in implementing these necessary phases though a series of tough decisions to balance the City's financial resources with the cost of delivering essential City services.

Attachment A to this report provides a look at the numbers involved and City staff will be holding a Budget Workshop for the Mayor and Common Council whereby the City Departments will be presenting their budgets. The budget details at the workshop will include proposed deep cuts with the goal of presenting a balanced budget to the Mayor and Common Council for adoption in July 2012.

If these measures do not achieve immediate and substantial cost savings, then the City will have to explore other alternatives to deal with its fiscal crisis, including developing plans for reducing costs further and providing lower service levels, suspending certain debt payments from unrestricted sources, consideration of AB506 proceedings to restructure debt obligations, including unfunded liabilities, and preparation for a potential Chapter 9 filing.

Respectfully Submitted,

Andrea M Travis-Miller

Andrea Miller
Interim City Manager

Jason Simpson
Director of Finance

Table of Contents

CONTENT

TABLES

ATTACHMENTS

EXECUTIVE SUMMARY

San Bernardino, like many California cities, has faced a reduction in one-time fees and tax revenues that have significantly outpaced increases in expenditures outside of the City's control. This report provides an update on the City's fiscal condition and discusses changes that are necessary to avoid significant impacts to basic service delivery and the possibility of bankruptcy. Reserves in the General Fund were exhausted years ago, reserves in the internal service funds were also depleted and the City has encumbered itself with various debt obligations and labor agreements putting additional and unnecessary risk on the General Fund. The City has declared numerous fiscal emergencies based on fiscal circumstances and has negotiated and imposed concessions of $10 million per year and has reduced the workforce by 20% over the past 4 years. Yet, the City is still facing the possibility of insolvency due to a variety of issues including accounting errors, deficit spending, lack of revenue growth, and increases in pension and debt costs. The City has reached a breaking point and faces the reality of deficient cash on hand to meet its contractual and debt obligations due in July 2012.

Staff believes this report provides a comprehensive understanding of the City's current fiscal condition. To assist the Council to begin making the difficult and courageous decisions necessary to address the City's fiscal issues, staff has been reviewing and analyzing conditions and mechanisms which affect the current and future financial performance of the City. This report is not to serve as a detailed implementation plan to address the issues in a specific manner. Rather, the report is drafted to validate the immediate need to take action and to provide staff with policy direction necessary to develop a specific cost reduction strategy to bring revenues inline with expenses in an attempt to avoid insolvency if at all possible.

The options available to the City involve difficult choices and require the support of the organization, the Mayor and Common Council, and the community. Over the past several years, the City has utilized General Fund reserves, asset sales and one time revenues to maintain City services. To address the projected deficits in previous fiscal years, the City has reduced positions, negotiated compensation reductions, and implemented new revenue measures. Unfortunately, the decline in taxable sales and property values over the last several years has resulted in revenue losses of $10 to $16 million annually. Additionally, previously negotiated compensation reductions will sunset at the conclusion of fiscal year 2011-12 creating an increase in salaries and benefits of $10 million effective July 1, 2012, and increased costs in future years as merit increases resume. Beginning in FY 2012-13, expenditures are projected to exceed revenues by $45 million and absent any changes to improve revenues and reduce expenditures, the City will face increasing annual deficits. The City's financial constraints are compounded with the depletion of all General Fund reserves, which were as high as $19 million in 2001, and failure to fund long-term liabilities.

Viable options to balance expenditures against revenues require new service delivery models involving reducing personnel levels and associated costs, revenue measures which require voter approval, revised fee structures which can be approved by the Common Council, and/or further compensation and benefit reductions. While such increases are possible, the options are constrained by current economic conditions including high unemployment, low per-capita incomes and the expressed concerns of burdening current residents and businesses with further tax or revenue fee increases.

As outlined in this report, staff has developed a plan to stabilize the City's financial situation including the following key areas:

- Service delivery model changes
- Changes in compensation philosophy
- Revenue increase options

The next step for the City will be to create an implementation plan which will identify cost reductions that the City can make without the need for agreement from the labor groups, tax measures that the City Council may wish to consider, and additional labor negotiations. Without question, the timely implementation of Phase 1, Immediate Budget Balancing and Cash Flow Management Plan, is necessary given the current fiscal crisis and the expected cash-flow constraints expected and rapidly approaching in fiscal year 2012-13 and beyond.

Since the City has a current deficit in its General Fund, the City does not have sufficient unrestricted cash available to pay its ongoing obligations. As such, substantial and immediate action is necessary to remedy this dire situation.

BACKGROUND

The City of San Bernardino is located in San Bernardino County in Southern California. Pursuant to the State Department of Finance (May 2012), the City's population is 211,674 residents. Population has increased rapidly since the 1970's, but since the City is mainly a bedroom community, the growth has outpaced the revenues needed to provide services. The largest employers are local government agencies, California State University San Bernardino, San Manuel Band of Mission Indians, and San Bernardino Community Hospital. The business base is geared to the support of these employers.

Since the City's peak of General Fund revenue in 2008 of $133 million, the City has experienced losses in key areas such as sales tax, property tax, franchise fees, utility users tax (UUT), permits and funds transferred from the Economic Development Agency (EDA). The chart below details the reduction of roughly $11.69 million in General Fund revenues.

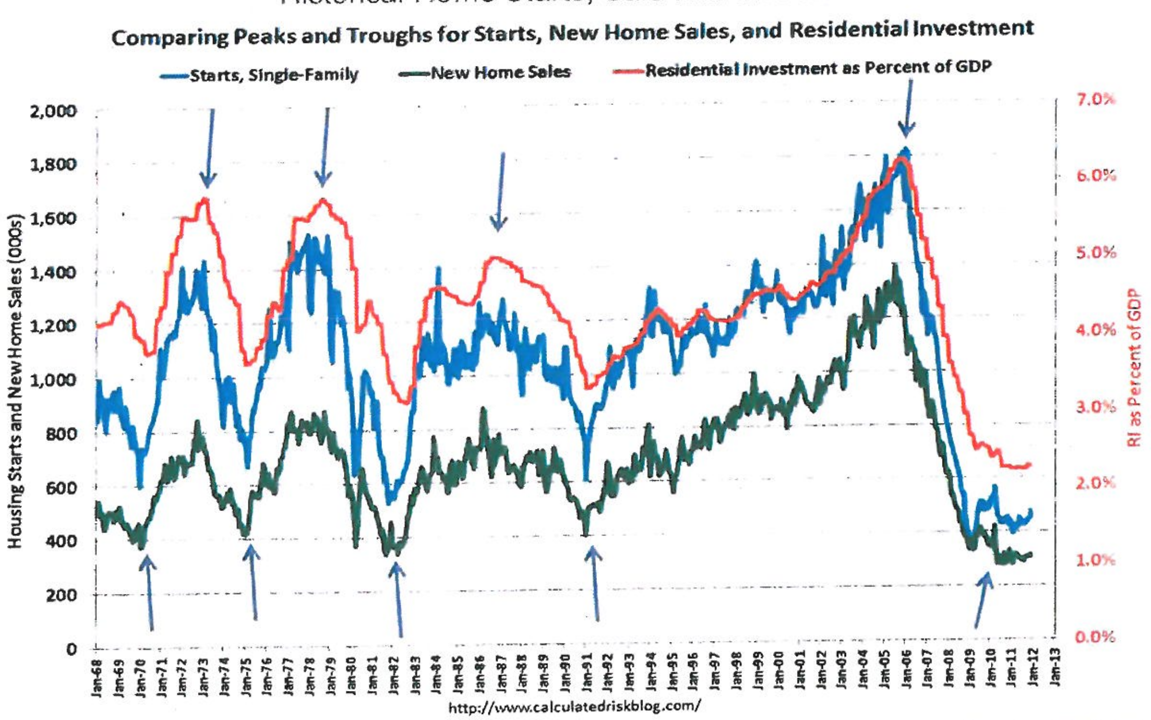
Table 1
Major Revenue Trends from 2008-2012

Revenue Source	Peak Revenue 2007-2008	2011-12 Revenue	Variance
Prop. Tax Secured	$11.6M	$9.5M	($2.1M)
Prop. Tax in Lieu of VLF	$18.9M	$15.7M	($3.2M)
Sales Tax	$22.3M	$19.03M	($3.27M)
Franchise	$3.32M	$2.88M	($450K)
UUT	$24.4M	$22.5M	($1.9M)
Licenses and Permits	$9.2M	$8.6M	($600K)
Totals	**$89.72M**	**$78.21M**	**($11.69M)**

The chart above is consistent with the findings in other California cities. According to a recent blog by calculaterisk.com, which was shared by the City's property tax consultant HdL, who is predicting that nationwide we are near the housing bottom. There are actually two bottoms for housing. The first is new home sales, housing starts and residential investment. The second is for sales prices. Sometimes these can happen years apart. Calculaterisk.com reports that the first housing bottom was spread over a few years from 2009 until 2011. They believe the second bottom, prices, hit in March 2012. This doesn't mean prices will increase significantly any time soon. Usually towards the end of a housing bust, normal prices mostly move sideways for a few more years, and real prices adjusted for inflation could even decline for another 2 or 3 years.

It is reasonable to assume the housing market will find its bottom at some point in the very near future; if it hasn't already. The chart below provides an illustration of the national housing market since 1968. While this may be the steepest decline in over 40 years, we shouldn't assume an aggressive increase of investment or pricing. Rather, we would be wise to assume no to slow growth over the next several years leading to flat property tax revenues for residential properties in 2012-13 with slight growth over the next fiscal years. Commercial properties continue to search for the bottom. Based on information from the City's property tax consultant, HdL, for FY 2012-13 the City faces $17,202,341 of non-residential property tax appeals exposure to its total assessed value. The current appeals figure isn't significant, which may lead us to a bottom of commercial prices as well. Overall, City revenues generated from property assessments are expected to be flat.

Table 2
Historical Home Starts, Sale and Investment



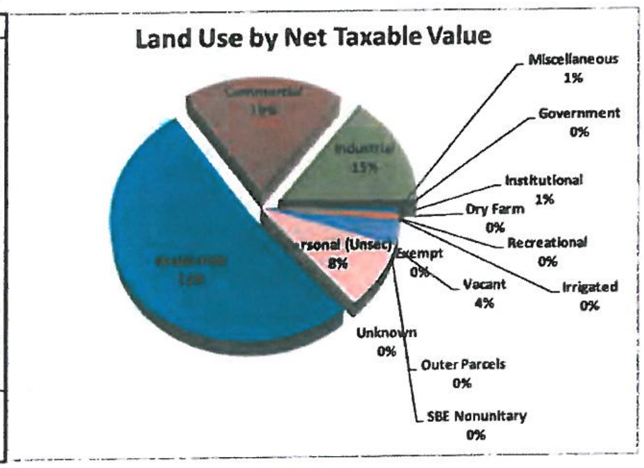
Because we do not anticipate much growth with housing new starts or employment in the near future, and with the loss of the EDA, we should assume construction related permit activity will also be flat or possibly continue with its decline. Permit activity within most California cities has been very volatile with trends pointing to decreasing activity.

The chart below reflects the City's property tax base according to land use. Typical of a large, older community, the City is fairly balanced with 52% of taxable property assessed value as residential, 19% commercial and 15% industrial. Despite the diversity in property tax generation, 80 % of the City's taxable parcels are residential. Because of the high percentage of residential parcels, we should assume service requirements will remain high and that a sustainable and resilient revenue base is vital to support essential City services.

Table 3
Land Use by Net Taxable Value

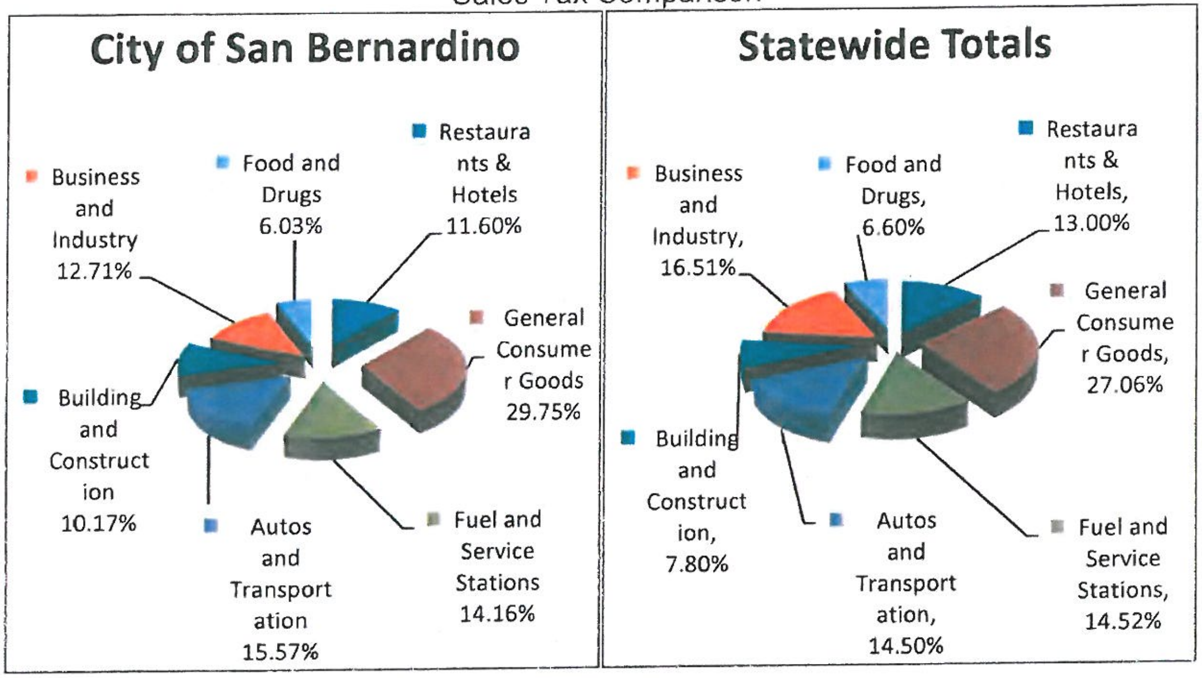
Category	Net Taxable Value	Number of Parcels
Residential	$5,337,905,953	44,947
Commercial	$1,988,781,002	2,295
Industrial	$1,557,715,525	721
Miscellaneous	$86,979,310	346
Government	$5,397,890	12
Institutional	$56,282,161	207
Dry Farm	$1,382,185	7
Recreational	$25,292,404	58
Irrigated	$43,094	1
Vacant	$356,918,079	4,524
Exempt	$0	3,347
Outer Parcels	$7,500	9
SBE Nonunitary	$5,219,774	54
Personal (Unsec)	$862,093,032	3,967
Unknown	$24,201,315	61
	$10,308,219,224	56,526

Source: HdL 2011-12 Property Tax Reports



Based on data provided by the City's sale tax consultant, HdL, the City's sales tax revenue diversity reflects the statewide average for all business types (see charts below).

Table 4
Sales Tax Comparison



The overall diversity of the sales tax base within the City presents an opportunity for future revenue growth. The City's population, size, and economic development opportunities on former EDA properties provide for an optimistic outlook. Despite these positive traits, the City will need to play a role in job creation in order to fully realize its true sales tax generation. As the table below indicates, the City unemployment rate as of April 2012 was 15.7%. When compared to the State of California and San Bernardino County unemployment figures for April 2012 of 10.9% and 11.7% respectively, we begin to understand this as a component of a decline in sales tax generating revenues well below the peak in 2007-08.

Table 5
Unemployment Comparison

State of California	County of San Bernardino	City of San Bernardino
10.9%	11.7%	15.7%

Unemployment rates as of April 2012

The City may want to establish a working relationship with the County's Workforce Investment Board on job placement and/or an economic farming program to grow local businesses which could lead to local job creation.

STRENGTHS WEAKNESSES OPPORTUNITIES & THREATS (SWOT) ANALYSIS

To best understand the issues facing the City and to develop a go-forward plan, a Strengths, Weaknesses, Opportunities, and Threats (S.W.O.T.) analysis was completed at a macro level with the following findings:

Strengths:

- The City maintains several enterprise operations including Refuse, Water, and Sewer.
- The former EDA, now the Successor Agency, owns real property assets needed for economic development opportunities throughout the City, including the Carousel Mall
- Sales tax revenue diversity leading to decreases in sales tax leakage
- Strategic location within the region
- Diversified employment and tax base
- Measure Z approved by the voters for expanded services

Weaknesses:

- Starting General Fund balance has been erroneously stated for the past 2 fiscal years

Fiscal Year	July 1st Audited Fund Balance	Staff Reported Fund Balance
FY 2009-10	$2,708,319	$2,557,900
FY 2010-11	$410,293	$1,770,400
FY 2011-12	$(1,181,603)	$2,044,100*

*Mid-Year report presented April 3, 2012.

- Failure to complete the FY 2010-11 audit on time delayed necessary budget reductions further depleting cash
- Expenses are over budget in FY 2011-12.
- Use of reserves to balance past budgets
- No reserves to balance future budgets

- Depletion of Internal Service Funds to balance the previous budgets
- High capital lease balances for equipment which is traditionally funded through Internal Service Funds
- Insufficient economic development programs in place due to loss of redevelopment
- High ratio of public safety costs to overall General Fund revenues
- Unemployment above State and County averages

Opportunities:

- Privatization of City services beyond base level and for one-time or fluctuating programs
- Implementation of an Early Retirement Incentive Program (ERIP)
- Place a priority on economic development programs
- Reallocate general government costs to General and Restricted Funds
- Revenue enhancement and optimization including the sale of surplus City assets, marketing of the ambulance subscription program and balancing one-time fee revenues with appropriate staffing levels
- Delay capital projects and low priority one-time expenses to preserve capital
- Open negotiations with employee labor groups in an effort to seek sustainable compensation and staffing levels

Threats:

- The possibility of insolvency and the need to initiate a neutral evaluation process under AB 506 process
- Depletion of operating cash which will affect the City's ability to meet debt obligations and to carry out all desired programs and projects
- Sunset of employee compensation concessions on June 30, 2012, of $10 million annually
- Anticipated increases in employee benefit costs due to PERS and health care rate increases
- Loss of the Economic Development Agency resources to support economic development programs / projects
- Insufficient resources for needed infrastructure improvements and repairs.
-

- State budget impacts and overall failure of the State Legislature to focus on their own financial issues
- General Fund Reserves will remain depleted and the City's operating condition is at risk without immediate implementation of cost cutting measures, enhancement of revenue collection measures, and implementation of new revenues
- Slow growing revenue base underperforming when compared to expenditure growth

Based on the immediate need to improve cash flow and reduce expenses and the findings of the SWOT analysis, the recommendations have been structured to implement the two phases of proposed financial restructuring; Phase 1) Immediate Budget Balancing and Cash Flow Management Plan; and Phase 2) Budget Stabilization Plan. To fully understand the impacts of the proposed financial restructuring, each Phase of restructuring is presented in the following three areas; 1) Operations; 2) Personnel; and 3) Revenue.

Operations:

<u>Phase 1</u>

1. Freeze and/or eliminate all vacant non-essential positions.
2. Evaluate restructuring Fire personnel with the possibility of closing one or more inefficient Fire Stations to reduce overtime with minimal impact to response times.
3. Evaluate restructuring of Police personal with the possibility of reducing non-essential services and administrative duplication while maintaining a high level of service to the community.
4. Reorganize the Community Services and the Public Works Departments in an effort to implement full-cost recovery of operations, better utilization of restricted funds and evaluate consolidation of duplicate services and administrative functions.
5. Evaluate contracting out additional legal services under the management of the City Attorney.
6. Defer one-time equipment and capital improvement purchases without dedicated funding sources.
7. Implement full cost recovery for fees such as building, planning, etc.

Phase 2

8. Continue to defer funding accrued liabilities for retiree health, workers' compensation and general liability until FY 13-14.
9. Evaluate joint services and public/private partnerships (P3).
10. Implement a quarterly review of expenditures and freezing of expenditures if necessary.
11. Strengthen revenue collection measures involving existing revenue sources including code enforcement, false alarm fees and paramedic subscriptions.
12. Implement best practices for revenue audits every 5 years of UUT, TOT and Franchise Agreements starting in FY 2012-13.
13. Implement cost containment strategies balancing activity levels with available resources.

Personnel:

Phase 1

1. Best practices and industry standards now recommend the City have employees pay the employee portion of retirement costs.
2. Consider implementation of an Early Retirement Incentive Program (ERIP) as an option to lower personnel costs to sustainable levels.
3. Consider negotiating with employees to fund a portion of the employer share of retirement costs.

Phase 2

4. Revise the "step" process to slow down the average annual growth of salaries thereby structuring the growth in salaries with anticipated revenue growth.
5. Evaluate the use of part-time/contract employees or rehire retirees on part-time basis.
6. Implement an overtime reduction and management plan to reduce unanticipated overtime expenses.

Revenue:

Phase 1

1. Adopt and implement comprehensive financial policies to ensure current and future deficits are avoided.
2. Initiate the voter-approved process to increase property transfer tax to levels consistent with other agencies.
3. Expand Utility Users' tax to include sewer and sanitation.
4. Consider an increase in the current ambulance subscription fee from its current $24 per year to the regional average of $48.
5. Sale of all City/Successor Agency-owned parcels in order to generate additional property taxes as well as economic development once the transfer occurs.
6. Sale of cell tower lease revenue agreements for one-time lump sum payment
7. Review Sanitation operations to identify and implement cost reduction opportunities necessary to ensure the Sanitation enterprise can pay its $3.5 million Franchise Fee to the City.

Phase 2

8. Conduct an audit of property assessments and tax bills to possibly generate additional revenue that was lost due to across-the-board reductions by the County of San Bernardino during the downturn in the economy.
9. Consider implementation of a Community Financing District (CFD) on new development necessary to pay its fair share impacts on public safety services.
10. Analyze the opportunity to consolidate the City's 74 maintenance districts in an effort to reduce City administrative costs and any General Fund subsidies.
11. Consider implementation of a street sweeping fee to recover costs for the services provided.
12. Parcel Tax for Public Safety could be raised with declaration of fiscal emergency for lower voter threshold.
13. Implement performance measures within the false alarm fee program necessary to recover costs of police services.
14. Review fee structure for Building and Planning permit revenues along with incentives for large projects and expedited permit fees.

BUDGET PROJECTIONS

City staff has developed budget projections through 2016-2017 that project annual General Fund operating deficits of $45 million with expenditures significantly exceeding revenues in each year. Roughly half of the annual deficit is attributed to unfunded liabilities in City's Retiree Health, Workers' Compensation and General Liability accounts. The remaining half is attributed to increasing operational costs and the end of employee concessions. As early as FY 2009-10, expenditures exceeded revenues and the City had begun to utilize prior year fund balances to avoid service cuts or delays in projects. Because expenditures continue to exceed revenues, fund balances have been depleted and have reached a critical point in 2012-13 where the City will begin the year with an actual deficit and significant cash flow constraints. Put into perspective, this projected deficit in 2012-2013 represents almost 38% of the General Fund budget for that year. The remaining fund balances cannot pay for ongoing operating costs and large sustained reductions will be required. Reducing ongoing expenses must largely come from ongoing reductions in personnel costs since these costs represent about 75% of total General Fund expenditures. Of the personnel costs in the General Fund about 78% are for public safety.

The State's budget included takeaways from cities including the elimination of redevelopment agencies and the remaining portion of vehicle license fee (VLF) revenues. (VLF) revenue losses from the State budget are approximately $1 million. Additionally, the City is faced with increasing pension costs, as CalPERS adjusted the investment returns increasing retirement costs to all its members starting in FY 2013.

Cost recovery measures would strengthen the City's financial position and greatly improve its bottom line. While some cost recovery measures can be implemented at the Council level, significant revenue sources require voter approval which is uncertain and not within control of the City staff.

TIMING OF COST REDUCTIONS & REVENUE ENHANCEMENTS

Cost reductions will need to be identified as soon as possible in FY 2012-13 and must be ongoing in nature. Reductions have been implemented through the end of FY 2011-12 but are insufficient to ensure that revenues exceed expenditures by June 30, 2012. Cost reductions must take into account the recent State actions affecting redevelopment, pension cost increases, and the end of employee concessions and provide the organization time to implement a new policy direction affecting the City's budget.

Given the deficit spending in recent years, the City does not have sufficient funds to fill the gap with one-time measures and is unable to grow itself out of the financial dilemma. The City needs to develop and implement a budget sustainability plan along with the appropriate policies to restore reserves. Furthermore, the City must maintain reserve levels in all of its internal service funds at adequate levels.

Table 6 below provides a current and forecasted illustration of the City's General Fund performance from FY 2008-09 to FY 2016-17. Because expenditures have exceeded available revenues and cash on hand over the past several years, the City's fund balance is now negative. Phase 1, as outlined in this report, is geared to balance revenues against expenses. Phase 2, is to replenish the City's fund balance to positive levels and to restore needed reserves.

Table 6

5 Year Budget & Fund Balance Estimates *(Amount in Millions)*

Actuals 2008-09 to 2010-11 Budget 2011-12 to 2016-17

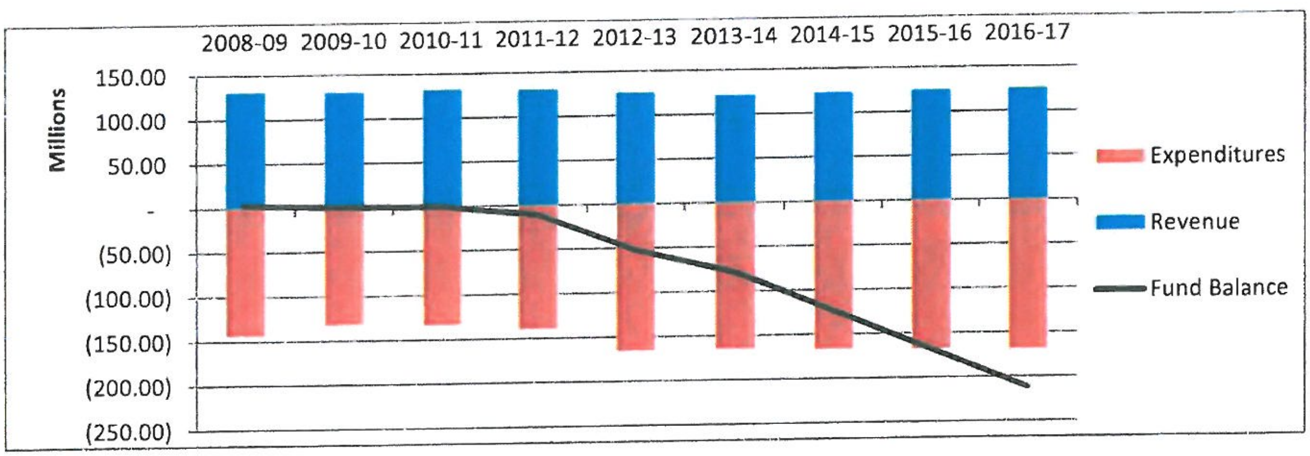
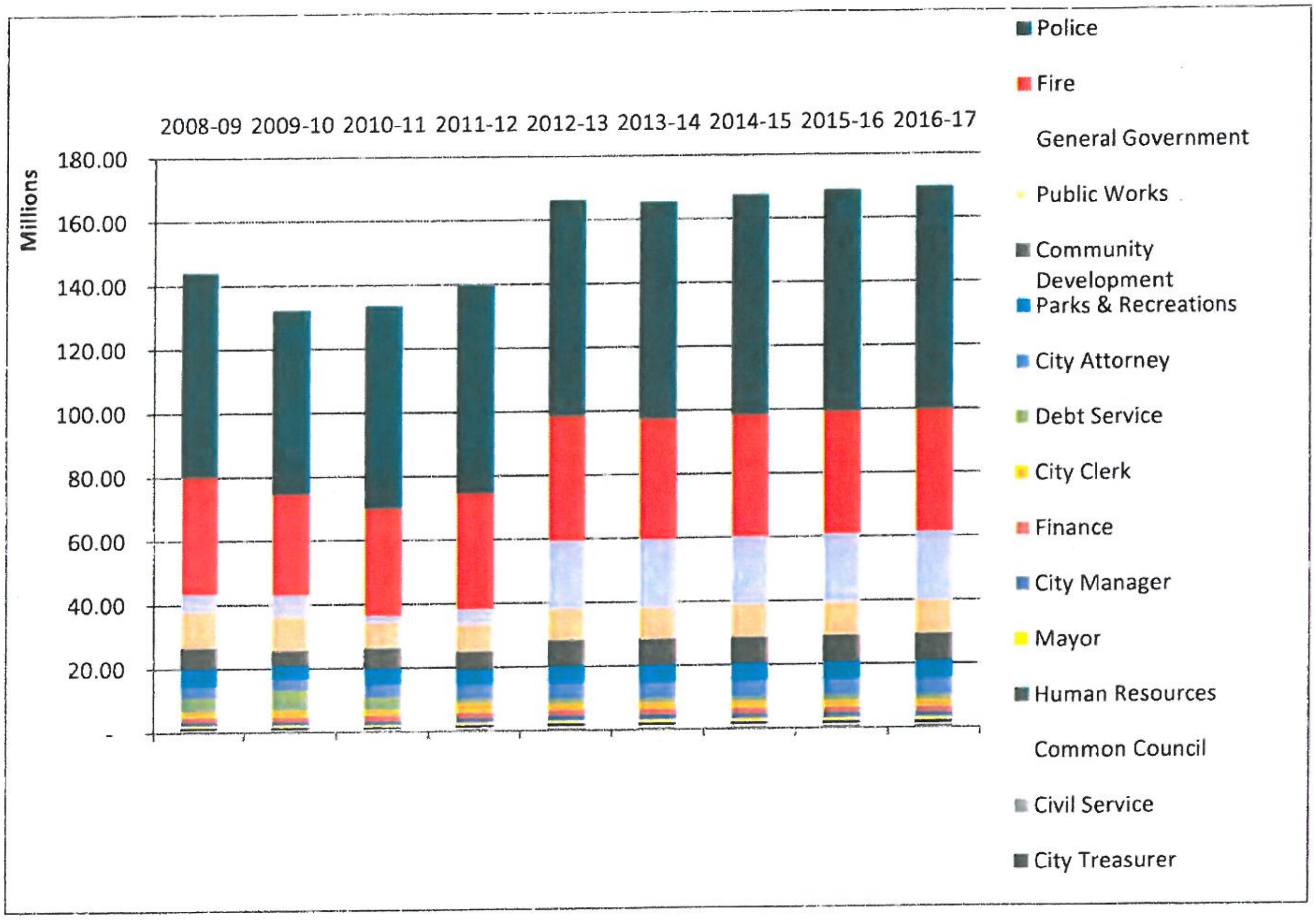


Table 7, below provides a graphic illustration of the City's General Fund cost centers. Ideally, the allocation of financial resources should reflect the Common Council's overall priorities.

Table 7
5 Year (2012-13 to 2016-17) Budget Projections by Department



EXPENDITURES

As noted above, 73% of the FY 2011-12 General Fund budget is dedicated to public safety services (Police, Fire, Code Enforcement, Animal Control, and Emergency Preparedness). Within the services provided, $6.1 is funded under Measure Z approved by the voters for enhanced crime and gang prevention programs.

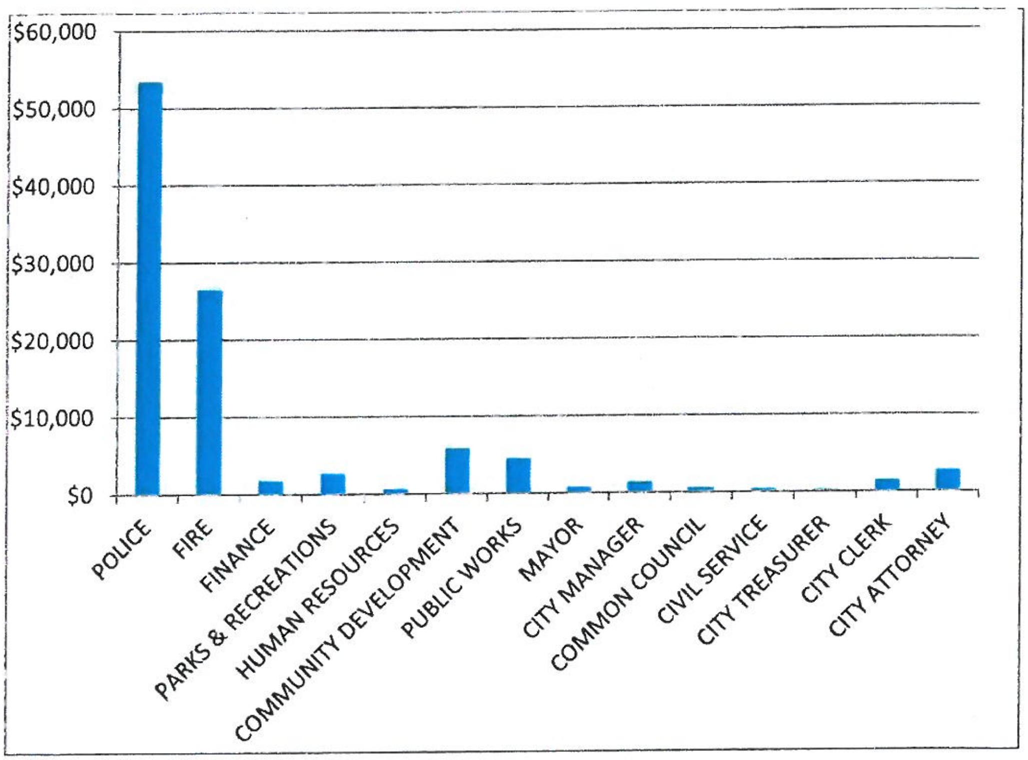
The table below reflects the City's allocation of General Fund resources on personnel. While the numbers below are reflective of what is seen in most full-service cities in

California, they unfortunately do not reflect the Council's other priorities outside of public safety. The desired expenditure profile should reflect a diversity of priorities and funding to support those priorities in other departments.

Table 8

FY 2011-12 Full-Time Personnel Expenditure Comparison by Department

(In thousands)



In recent years when expense reduction plans were put in place, programs outside of public safety sustained severe cost cutting measures.

San Bernardino Public Safety expenditures consume the majority of the budget, with 73% of the General Fund budget in FY 2011-12. Additionally, in FY 2011-12, an estimated $5 million, or 4%, of the General Fund budget was allocated to other departments to support public safety functions. Clearly, if San Bernardino wants to maintain its efforts in the public safety arena, expenditure reductions in these service areas may not be something that the Council desires. Notwithstanding, all options for the provision of public safety should be explored and San Bernardino should look for opportunities to implement new programs and staffing plans to reduce costs while maintaining essential services.

COST ALLOCATIONS

Through researching annual expenses and staffing allocations, we have found that many departments do not appropriately allocate staffing costs to funds outside of the General Fund. Additionally, we found that General Government services (Mayor, Common Council, City Attorney, Human Resources, Information Technology, Finance and the City Clerk) are not charged as an overhead expenses to operating departments. A typical practice for local government is to allocate General Government costs across all funds. Instead, the General Fund is picking up a majority of the costs despite the fact that these services are provided to all funds. The City's Workers Compensation costs are also not appropriately charged to the departments. These costs should to allocated based on actual expense and not on "across-the-board" methodology. The City should update its current cost allocation plan and Workers Compensation charges to identify the appropriate rates to charge departments in and outside of the General Fund.

Implementing a cost allocation plan would help offset current expenses away from the General Fund and into the appropriate areas without impacting existing service levels.

FISCAL SUSTAINABILITY PLAN

It is critical that San Bernardino act swiftly to decrease its expenses and increase its revenue. However, to ensure that actions are meaningful and will make an ongoing impact to the financial health of the City, the following should be integrated as underlying goals:

1. The City will proactively seek to protect and expand its tax base by encouraging a healthy, underlying local economy. San Bernardino should encourage shopping, dining, and visiting at San Bernardino stores, restaurants, and hotels. San Bernardino should explore ways to capitalize on its resources such as its regional location and retail opportunities
2. The City will establish and maintain appropriate cash reserves.
3. City revenue performance will be reviewed no less than quarterly and appropriate budget adjustments will be made in advance of the end of a budget year if revenue performance is not meeting projections.
4. The City will consider competitive contracting of services and equipment when appropriate and where clear, cost-effective alternatives exist.
5. The City will establish appropriate cost-recovery targets for its fee structure and will annually adjust its fee structure to ensure that the fees continue to meet cost recovery targets.
6. The City will work in partnership with its employees to ensure fair compensation and that costs related to pension and other benefits are appropriately allocated between employer and employees.
7. The City will work to strengthen revenue collection practices and procedures.

BUDGET PHILOSOPHY

An important strategy for avoiding structural budget deficits is to adopt a budget philosophy that is relatively easy to understand and can serve as a meaningful framework for maintaining financial discipline. Reporting the state of the municipality's finances to the governing body for public discussion is a way for the fiduciary responsibilities of the elected officials and executive managers to be understood by the public and organization.

The following reflects best practice policies in public financial management. It is a typical practice for cities to have adopted budget policies of the type described below.

Structurally Balanced Budget. The annual budgets for all City funds should be structurally balanced throughout the budget process. Ongoing revenue should be equal to or exceed operating expenditures in both the proposed and adopted budgets. If a structural imbalance occurs, a plan should be developed and implemented to bring the budget back into structural balance.

Multi-Year Financial Forecasting. To ensure that current budget decisions consider future financial implications, a five-year financial forecast should be utilized by the staff and Council. The annual General Fund proposed budget balancing plan should be presented and discussed in context of the five-year forecast. Any revisions to the proposed budget should include an analysis of the impact on the forecast out years. If a revision creates a negative impact on the forecast, a funding plan should be developed and approved to offset the impact. The five-year forecast should be updated quarterly to reflect changes in revenues and unexpected changes in expenditures. The forecast should be presented to the City Council for discussion and to provide information to the public.

Use of One-Time Resources. One-time resources (e.g., revenue spikes, budget savings, sale of property, and similar nonrecurring revenue) should not be used for current or new ongoing operating expenses. Examples of appropriate uses of one-time resources include rebuilding reserves, retiring debt early, making capital expenditures (without significant operating and maintenance costs), and other nonrecurring expenditures.

Established Reserves. San Bernardino has multiple funds, based on different revenue sources and requirements. Because there are risks (both known and unknown), it is important that reserve levels in all funds be maintained as a hedge against such risks. Without proper reserves, there can be major disruptions in services when unforeseen financial demands emerge, requiring immediate attention. The City should maintain an adequate reserve level and/or ending fund balance for each fund, not just the General Fund, as determined annually and as appropriate for each. For the General Fund, different types of reserves should be maintained, including an economic uncertainty reserve to provide a cushion for unexpectedly low revenues in any given year, and a contingency reserve for other emergency needs that arise. More about reserves is explained below, including recommended levels. City Council and City Manager authorization should be required for the expenditure of established reserves, along with repayment requirements.

Debt Issuance. A municipality should not issue long-term (over one year) debt to support ongoing operating costs (other than debt service) unless such debt issuance achieves net operating cost savings and such savings are verified by appropriate independent analysis. All debt issuances shall identify the method of repayment (or have a dedicated revenue source) without an impact to operations.

Employee Compensation. Negotiations for employee compensation should continue to consider total compensation bargaining concepts and focus on all personnel services cost changes (e.g., step increases and the cost of benefit increases). Compensation costs should be included in the five-year financial forecast to ascertain affordability to the municipality, within context of expected revenues.

Fees and Charges. Fee increases should be utilized, where possible, to assure that program operating costs are fully covered by fee revenue. Opportunities should be explored to establish new fees for services where appropriate.

Capital Improvement Projects. Capital improvement projects with annual operating and maintenance costs exceeding $50,000 should not proceed without City Council certification until funding is identified in the applicable year of operation.

Grants. City staff should seek, apply for and effectively administer federal, state and other grants that address the City's priorities and policy objectives and provide benefits. Before any grant is pursued, staff should provide a detailed pro-forma that addresses the immediate and long-term costs and benefits to the City. One-time operating grant revenues should not be used to begin or support the costs of ongoing programs.

Performance Measures. All requests for departmental funding should include performance measurement data so that funding requests can be reviewed and approved in light of service level outcomes to the community and organization.

To resolve its structural budget deficit and prevent a recurrence in the future, the City needs to adopt a budget philosophy similar to the measures above to help elected and appointed officials maintain the financial discipline crucial to a growing community like San Bernardino.

Recommendation 1: Adopt a budget philosophy to provide a meaningful and easy to understand framework for maintaining financial discipline. Present a report to the City Council on the financial results of the policies at least once a year. Present an updated five-year forecast to the City Council at least two times a year.

EXISTING AND ANTICIPATED BUDGET ISSUES

Without significant and immediate reductions in spending or significant increases in on-going revenue, there will be a continuing significant gap between expenditures and revenues during the next five years. Deficits are projected in all five years of the forecast.

The significant points in this analysis are:

- The City does not have sufficient resources to fill the ongoing structural deficit and will not be able to maintain current levels of services or meet contractual or debt obligations.

- While the City has had unrestricted fund balance to fill a large portion of the gap in the past few years, that fund balance has now been spent. The City does not have sufficient one-time monies from other sources at its disposal to fill the gap.

- Because of the time necessary to implement new revenue sources, significant reductions in expenditures will be required to meet the limitations of available revenue.

A deficit of approximately $45 million is projected for FY 2012-13, representing 38% of the total General Fund. A significant part of the deficit is the result of deferred funding of the City's internal service funds including: Retiree Health, Workers' Compensation and General Liability. Currently, these funds are cash deficits in the millions of dollars. The balance of the deficit, roughly $20 million, is a combination of flat revenues, end of employee concessions, increasing benefit costs and the elimination of the EDA. In FY 2011-12, the EDA allocated funds for General Government functions (City Manager, Finance, Human Resources, Clerk, City Attorney, etc) that are now the responsibility of the General Fund. The loss of EDA funds to these activities requires a revised cost allocation to all restricted funds. Despite the reallocation, the General Fund will likely remain responsible for a significant share of these expenses in future budgets.

FIVE YEAR FINANCIAL PERSPECTIVE

The forecast shown as Attachment A is not a prediction of future policy decisions by the City Council, nor is it the City staff recommendation as to what spending and revenue levels should be. It simply reflects negotiated employee compensation commitments, California Public Employee Retirement System (PERS) rates as currently known, and revenue projections based on an assumption of modest growth in the economy. As can be seen, expenses have increased steadily from FY 2008-09 while revenues remain flat over the same period. The rate of revenue growth has not been sufficient to meet the contractual and debt obligations of the City. Additionally, since the City has previously allocated General Fund reserves to meet budget obligations, there are no additional sources with which to fill the gap.

In the past several years, the major reason for the deficit was the sudden drop in revenues combined with exhausting internal services funds without a plan to replenish the cash, compensation/benefit increases, and need for increased public safety services. For the future, key contributors to the deficit are the need to replenish cash in the Internal Service Funds, loss of redevelopment and increased PERS employer rates, along with revenues that have decreased in recent years and are expected to be flat or experience only slight growth during the period of the five-year forecast. PERS rates are causing a greater portion of the City's available resources to be allocated to that purpose, rather than to service delivery. Increases in PERS rates and pension obligation bond payments will cost the City in excess of $1 million between FY 2011-12 and FY 2015-16. The percentage of General Fund budget spent on PERS benefits will go from 13% in FY 2011-12 to 15% in FY 2015-16, a 2% increase for an expenditure which is basically an overhead cost over which the City has little control in the short term.

PAST BUDGET BALANCING STRATEGIES

Over the past few years, the City has balanced its budget through a combination of cost reductions (including layoffs, unfilled vacancies and labor concessions), transfers from other funds, and use of unallocated fund balance. San Bernardino has gone through personnel reductions, which resulted in more than 250 issued layoff notices over the past three years. All City departments have made changes to reduce costs. For example, training budgets have been virtually eliminated. This has helped save costs, but is not sustainable in the long term because the City needs to have highly skilled and trained employees, especially when there are fewer of them. Many employee positions have been eliminated. The positions held vacant may need to be filled if they are essential to service delivery. This presents an opportunity to move staff from non-essential positions to essential positions which are currently vacant.

A major aspect of the problem facing San Bernardino can be found in the fact that while expenditures have been reduced and many positions have been eliminated, personnel costs per employee and overtime costs have continued to increase. Specifically the General Fund budget indicates that the City budgeted approximately $102 million for personnel expenses in FY 2011-12. Effective June 2012, the City's 3-year agreement with certain employee labor groups terminates and labor costs are forecasted to increase by $10 million annually. Additionally, the City is facing increases in overtime costs and PERS rates which are offsetting reductions made from prior year layoffs.

Personnel costs currently constitute approximately 73% of all General Fund expenditures. Therefore, personnel costs will need to be reduced in order to create a stabilized budget. Of the total allocated to salaries and benefits, public safety comprises 79% of the entire General Fund personnel expenditures. Therefore to effectively reduce expenses, cost reductions from both police and fire are necessary.

Recommendation 2: Initiate significant immediate changes to the expenditure and revenue base, with major reductions in spending taking effect in FY 2012-13.

INTERNAL SERVICE FUNDS

Internal Service Funds have been established for several uses, pursuant to accepted governmental accounting practices. An Internal Service Fund is a fund for goods and services provided for specific purposes. Rates for each Internal Service Fund are established and charged to departments for the goods and services provided to them. The City of San Bernardino has several internal service funds:

Fleet Services. For the provision of maintenance on, materials and supplies for, and replacement of, City vehicles and other gasoline or diesel-powered equipment, and maintenance of a warehouse inventory of materials and supplies for all City departments.

Liability and Property Insurance Fund. For the administration of the City's self-insurance programs and the payment of liability claims.

Workers Compensation Fund. For the administration of the City's workers' compensation and payment of liability claims.

Unemployment Insurance Fund. For the payment of unemployment insurance claims from released workers.

Telephone Support Fund. For the provision of maintenance on, materials and supplies for, and replacement of the City's telecommunications systems.

Utility Fund. For the administration and allocation of utility costs citywide.

Central Services Fund. For the provision of in-house reprographics and duplication services.

Only two Internal Service Funds (workers' compensation and liability) have actuarial bases for determining funding level. Both of these funds appear to be presently underfunded given the risks. There has not been an analysis to actually determine what level of funding is needed to ensure that basic services paid for by those funds can be maintained. Each of the internal service funds should be carefully analyzed to determine the proper level of funding to pay for the services or equipment that depends on those funding sources. The City should initiate a study to establish the basis for allocating costs for the City's internal service funds, beginning with fleet and building maintenance.

Recommendation 3: **Conduct an analysis of each internal service fund to determine funding requirements for the services and equipment paid for out of each of those funds and create a five-year forecast for each ISF. Set rates to departments based on a cost allocation study and funding requirements for each ISF.**

COST DRIVERS

The major cost drivers for the City's General Fund are compensation and retirement costs. Other costs are the City's debt payment on pension obligation bonds ($3.5 million annually for now and expected to increase to $6 million/year in FY 2021-22), contracts, commodities and fixed charges which represent about 15% of total General Fund costs. The compensation and retirement cost drivers are described in more detail below.

RETIREMENT COSTS

The City's costs for employee retirement have increased from $1 million in FY 2006/07 to nearly $1.9 million in FY 2011/12. By FY 2013/14 the annual cost will be over $2.2 million. To put this into perspective, the City was spending about 9% of its General Fund budget on retirement costs in FY 2006/07. In FY 2011/12 it will need to spend 13% of the budget on those costs, and by FY 2015/16 it will require 15% of the budget for retirement obligations.

UNDERSTANDING EMPLOYEE RETIREMENT COSTS

The City pays the PERS costs for the majority of its employees. PERS divides the rates into two parts: 1) employee rates and 2) employer rates. It has been a common practice for San Bernardino and many other agencies to pay both parts of the rates. However, recently the City was able to negotiate with the employee groups for all new hires after October 2011 to pay the full employee share.

What is referred to as employee rates are set by PERS at 9% for safety employees and 8% for miscellaneous (non-safety) employees. Through negotiated agreements, San Bernardino's public safety employees pay the full 9% (with an incentive pay offset) and portions of the City's non-safety employees based on their date of hire pay the 7 & 8% share (the difference in share is based on the PERS benefit afforded to the particular employee).

The City could negotiate with current employees to pay all or a portion of the employee share. Further, the City could negotiate any level of sharing with its employees and is not limited to 7% or 8% for miscellaneous and 9% for safety as the employee share. Some cities are planning for a greater share of PERS costs than what has commonly been referred to as the "employee share" as shown below. For instance, the City of Newport Beach has a new City Council policy that says, "The retirement benefits portion of total compensation will be structured over time to achieve a 50/50 cost sharing between the City and the employees, including the implementation of defined contribution programs in the event such programs are authorized for the City's use."

Effective organizations use a variety of strategies to manage the size of their workforce. One strategy, an early retirement incentive plan (ERIP), increases retirements above natural attrition by enhancing employee retirement benefits. This tactic allows employers to decrease payroll costs, reorganize staff, and trim down higher-paid middle management without layoffs. The organization achieves fiscal savings only by keeping the positions vacant or replacing retiring employees, who are typically at the top of the salary schedule, with entry-level employees. California has several retirement incentives available; however, the cost-effectiveness of these programs must be examined within the context of an aging workforce. The program used by most public agencies is referred to as the "golden handshake" which was made available under the California Public Employees Retirement Law (Gov. Code, 20903).

For background on the Golden Handshake (as known as the CalPERS Two Years Additional Service Credit benefit), it is an option that allows an agency to provide two additional years of service credit to members who retire during a designated window period because of imminent demotions, mandatory transfers, or layoffs. And while it can provide some short-term savings, it adds to a city's future retirement costs and limits flexibility when it comes to filling vacated positions since the CalPERS program requires that they remain permanently unfilled.

To evaluate the value of this program for our City, we need to:

- Determine all individuals who meet the minimum eligibility for retirement (at least age 50 and at least 5 years of service credit) who are employed in the designated classification, department or organizational unit
- Determine the annual pay rate for each person
- Determine the age for each person
- Multiply the annual pay rate by a PERS cost factor and then by .95
- Section 20903 of the PERS guidelines also requires that after the costs are made public the City must establish a window period of at least 90 days and no more than 180 days to solicit interested potential retirees to receive the two-year service credit.

These factors necessitate that the program be carefully managed to ensure that the option is only offered in instances where a financial justification exists. If that is not the case, the City could put itself in a situation where additional layoffs are needed to pay for early retirements.

PERS Golden Handshake Contract Amendment

In order to adopt the PERS golden handshake contract option, PERS requires that the Council adopt an ordinance approving a contract amendment that the amendment be applicable to all City employees who are miscellaneous or safety members in PERS. The PERS contract amendment process requires the City to adopt a resolution of Intention as well as an Ordinance amending the PERS contract. The California Government Code requires at least a twenty (20) day waiting period between the adoption of the Resolution of Intention and the adoption of the final ordinance. The effective date of the Ordinance is 31 days after the final reading. Once the Council determines to implement the ERIP, the City must then comply with the requirement to publish the costs at least two weeks prior to the opening of a window period which must be at least 90 days and no more than 180 days.

It should be noted that given the program limitations and the City's cash position, the PERS program may not in itself satisfy the City's goal of balancing available revenues against expenses.

Public Agency Retirement System (PARS) Retirement Options

PARS is the third largest multiple employer public retirement system in California. They have been operating since 1983 and assist public agencies in plan designs and implementation of retirement programs in conjunction with already existing PERS retirement programs.

The PARS early retirement program goes far beyond the limitations of the PERS option and it is far more flexible. The PARS program can be structured to provide years of service credit or years of age credit, the terms of the payment of the benefit can be defined and eligibility can be structured to meet City and employee needs.

Unlike PERS, the PARS program allows the City to determine the number of positions by classification and department, thereby minimizing economic risk. Also, once the Council determines a need for a separation incentive program, the plan administrator can implement the program and can offer early retirement incentives as necessary as broadly or as narrowly as necessary. The City has used PARS in the past for early retirement of public safety staff.

PARS offers the flexibility of providing structured payments to the employee including lump sum payments, monthly payments for life, or a monthly payment for 5, 10, or 15 years. The PARS early retirement option could be offered as a supplement to PERS and can be structured to complement PERS and social security eligibility.

The cost for the PARS retirement option program is calculated based upon the number of early retirements offered plus an administrative fee of 6% based upon cost of the retirements. It is considered a fee-for-service plan. Rather than paying for the cost within the first two years, costs are paid as expended. Most importantly, if the City approves the PARS retirement option it can be utilized during these budget hearings.

BUDGET STABILIZATION OPTIONS

Eliminating the estimated deficit in FY 2012-13 and future years will require difficult decisions. The City already has reduced costs and staffing levels in many areas, so reducing additional costs will be a matter of determining what is not important or essential and returning to basic services. It can be assumed that every service and program provided is important to someone. Therefore, decisions will need to be made between numerous important services and interests. Given the size of the gap and the growing costs of operations, revenue increases alone should not be the only option considered to eliminate the deficit and put the City on stable financial footing. Therefore, as previously mentioned, the following three strategy approach including these components is suggested.

1. Evaluate and Implement new revenue opportunities
2. Compensation strategies that measure full cost of compensation package
3. Implement Service delivery model changes for full cost recovery and costs containment

Each strategy is described in this section of the report, with specific suggestions for consideration. Any public organization has a need to balance services to the community with employee compensation and benefits. Most of the budget balancing solutions will need to come through a combination of reducing personnel costs, changing service delivery models including out sourcing some city services, more efficient revenue collection procedures, and voter approved tax measures. The total number of personnel and the compensation costs are no longer sustainable given the City's resource base.

The ideas presented in this report resulted from discussions with the City management staff, analysis of costs, and viability of alternative methods of providing services. The focus is on delivering valued services to the public, so the following principles were identified.

- San Bernardino desires to continue with the current operation of its public safety programs.
- What is most important is that high quality, basic services be delivered, not necessarily that they all be delivered by City employees when services can be provided less expensively by the private sector or another agency.
- The fundamentals of the municipal corporation must be maintained to properly manage the organization and reduce risk and liability.
- Financial stability and sustainability is important to employees and to the City's ability to recruit and retain motivated, competent and capable individuals.

REVENUE

Opportunities exist to increase fees for some services to match the costs of the service being provided, consistent with the City's policy of full cost recovery where possible. In recent months, the City commissioned the Matrix Group to complete a comprehensive fee study for planning and engineering. The fee study will assist the City in its implementation of full cost recovery for services provided in those areas. In order to measure cost recovery for other areas of the organization, the City must establish, track and monitor performance measures. Specific areas for improved cost recovery include recreation programs, false alarms, code enforcement, and sanitation. This role will be handled by a management analyst or budget officer within the proposed Administrative Services Department.

The City needs to grow its current revenue streams. In order to do so, the City will need to implement economic farming programs which assist current business through the growth cycle. Other sizeable revenue increases, however, would need to come from voter-approved tax increases.

The items above are described in the sections below.

POTENTIAL TAX INCREASES

City staff has estimated the potential revenues associated with the following tax increases. All would require voter approval.

REAL PROPERTY TRANSFER TAX

In California, localities including San Bernardino have imposed a tax on the transfer of property located within the city. The tax, known as the documentary transfer tax or real property transfer tax, is largely based on the federal documentary stamp tax, which was repealed in 1976. In California, counties and cities have been authorized to impose a tax on deeds of transfer of realty located within such county or city. The amount of the tax is based on the consideration or value of the realty transferred. The current County rate is one dollar and ten cents ($1.10) for each one thousand dollars ($1000) of value. Of that amount, the City receives $0.55 and the County receives the remaining $0.55. Charter cities, however, may impose transfer taxes at a rate higher than the county rate. The transfer tax must be paid by the person who makes signs or issues any document subject to the tax or for whose use or benefit the document is made, signed or issued. Real Estate Transfer Taxes, authorized as documentary transfer taxes by the California Revenue and Taxation Code on the sale or transfer of real property are currently levied by all counties and many cities.

Real Property Transfer Taxes may be applied only to residential sales or to other types of real estate transactions including commercial and industrial sales. Revenue raised from the Real Property Transfer Tax is added to the City's General Fund.

The City should implement a rate of $5 per $1000 of value to provide a base level of funding necessary to deliver essential services to the community. The proposed rate would generate roughly $3 million annually.

UTILITY USER TAX

Many cities charge a tax on utilities, ranging up to 9.5% (Huntington Park). San Bernardino currently charges 7.75%. Each 1% increase on utilities currently taxed (telephone, cable, electric, water and gas) would yield approximately $3 million annually. Each 1% on utilities not currently taxed (sanitary sewer service, sanitation, refuse collection) would yield several hundred thousand dollars annually.

Utility user taxes (UUT) are paid by San Bernardino residents and businesses and are collected by the utility providers who serve them. The utility then remits the tax payments to the City. Annual revenue in FY 2010/2011 from utility user taxes (electric, gas, water, cable, land line phone, and cell phone) was $22 million. The City has made annual revenue projections considering possible tax increases at 1% and 2%. Further, sanitary sewer service, sanitation, and refuse collection are currently not part of the utility user tax. The City may want to consider modernizing and expanding the utility user tax to cover utilities not currently included.

A utility user tax increase can only be voted on during a general election (a simple majority is needed), unless the City Council declares a fiscal emergency and puts the potential tax increase to a vote during a special election. It should be noted that costs for special elections are higher. For San Bernardino, a special election costs approximately $200,000.

SALES TAX

San Bernardino presently has a sales tax rate of 8%. Of this, .5% flows to the General Fund budget of San Bernardino, amounting to $25.2 million. The City's voter-approved Measure Z took effect in April 2007, increasing sales tax by .25 percentage point. For FY 2012-13, Measure Z is expected to generate $6 million of the City's anticipated $25.2 million in sales tax revenue. Measure Z will remain in force for 15 years from the date of implementation, or until 2022.

Because the City recently approved Measure Z, we are not recommending the City seek additional increases to the existing sales tax rate.

TRANSIENT OCCUPANCY TAX

The Transient Occupancy Tax (TOT) is a tax charged on hotel stays. San Bernardino presently has a TOT rate of 10%, which is the County average. In the San Bernardino / Riverside County area, some cities charge as much as 12.7% (Palm Springs). For our City, TOT generates just under $2,500,000 per year in revenues, meaning that each 1% of the tax generates about $250,000.

Increasing the rate by 1% would put the rate at the highest level in the County and would generate only $250,000 in revenues. There might also be some negative impact of the higher tax rate on occupancy rates at the local hotels and spas. For these reasons, we are not recommending an increase of the existing TOT.

911 COMMUNICATIONS FEE

While often called a "fee," this potential revenue source is actually a tax requiring voter approval. A 911 communications fee would yield approximately $6.7 million a year. The tax would be charged on most personal and business telephone lines and cell phones in the City. Some exemptions typically exist, mainly relating to customers on lifeline service and service to non-profit organizations and government offices.

The City of San Jose has this fee and estimates that approximately 90% of the phone accounts in their community are taxed. The justification for charging a fee to telephone subscribers is that only people who have telephones can call 911 for emergency services. As stated in the San Jose ordinance, "Subscribers to telephone service derive significant benefits from ongoing operation of the modernized integrated system installed at the San José Emergency Communications Center" in the form of more efficient dispatch of services to a 911 emergency request.

Recommendation 4: Determine the Mayor and Common Council's interest in asking the voters to approve new or increased taxes. If supported by Mayor and Common Council, develop an action plan and schedule to seek voter approval of new revenues.

PROPERTY ASSESSMENT AUDITS

General Fund revenues in the form of Property Tax revenues have been impacted in recent years by the downturn in the housing market and little growth in housing new starts. While this would indicate that it is unlikely that Property Tax revenues will recover in the short term evidenced by a no-growth revenue assumption in FY 2012-13 despite given recent minor increase in assessed values, it would be helpful to conduct an audit of assessed values assigned to each property within the City. Indeed, in prior years, with across the board reductions in assessments without review and analysis, conducting an audit of property assessments to ensure accuracy may generate additional revenue and avoid costly appeals.

Recommendation 5: Engage a private firm to perform an audit of the property tax assessments to ensure data is current and accurate.

FRANCHISE AGREEMENTS AND LONG-TERM CONTRACTS

Like most cities, San Bernardino has long-term contracts and franchise agreements with a variety of vendors. Similar to most cities in Southern California, the City should evaluate the benefit, if any, in providing services such as street sweeping, tree trimming, graffiti abatement, street light maintenance, and refuse service and other ancillary services through franchise agreements.

To ensure the services are being provided as cost effectively as possible, and at competitive rates, staff should review in-house operations as well as external contacts with terms exceeding two-years to identify opportunities to renegotiate the terms or to outsource the services to outside contractors. Additionally, potential revenue generating contracts, such as refuse services, may be restructured to provide revenues up-front to improve the City's short-term cash position and to afford the City time to work through its options for budget stabilization.

Recommendation 6: Evaluate all franchise agreements and contracts for cost cutting and/or revenue generating opportunities.

FEE INCREASES

A fee is a charge imposed on an individual for a service that the person chooses to receive. A fee may not exceed the estimated reasonable cost of providing the particular service or facility for which the fee is charged, plus overhead. Examples of City fees include building permits, recreation classes, false alarms and development impact fees.

The City should make every effort to make annual adjustments to fees and to institute full cost recovery for development fees (with annual cost adjustments). Areas that may generate increased revenues for the City, which we believe are under performing, are related to utility franchises, paramedic subscription fees and false alarm fees.

UTILITY FRANCHISE FEE

A potential revenue source to be considered, although it requires state legislative action, is to revise the utility franchise fee paid to municipalities in areas served by Southern California Edison (SCE). Inequity exists in what older communities such as San Bernardino receive from franchise agreements when compared with newer cities which have negotiated with SCE.

The Franchise Act of 1937 sets one-half of one percent as a minimum franchise fee charged. Because of the methods used by the California Public Utilities Commission to set and account for investor-owned utility rates, SCE blends the cost of all franchise fees across its entire rate base, regardless of the return to each respective city. As a result, every SCE customer is subject to a 0.84% franchise fee charge, regardless of whether the customer resides in a city that is being paid a 1% fee or a 0.5% fee. San Bernardino receives only 0.5%, while some other, newer communities receive 1% franchise fee because of rates they negotiated with SCE. The result is that some cities are subsidizing others. Analysis should be conducted of the potential new revenue to the City if a legislative change was enacted. This proposal has been presented to other fiscally challenged cities including Santa Ana and Stockton. The potential of legislative change should be monitored, with San Bernardino alone, or with other cities throughout the State, advocating for change.

Recommendation 7: Analyze the amount of additional revenue that would be received by the City if a change in the utility franchise fee allocation were implemented. Advocate for a change in legislation to correct the inequity of payments to cities of utility franchise fees.

RECOVERING PARAMEDIC COSTS

Paramedic subscription programs function as a form of insurance in that subscribers are not responsible for paying out-of-pocket costs for emergency medical services (EMS) above what is covered through insurance, Medicare or Medi-Cal.

California cities that have paramedic subscription programs charge from $24 to $60 annually per household. The most common rate is $48 per year, which is double what the City is currently charging. Some cities have varying rates for local businesses, convalescent homes, and low-income residents (e.g., residents who qualify for low-income discounts on their city water bill). Revenues vary by city and can be evaluated in terms of market penetration; the ratio of subscribing households to the total number of households.

The Table below compares several cities' paramedic subscription programs (data from 2009 and 2011).

Table 9
Comparison of Paramedic Subscription Programs in the Southern California

CITY	POPULATION	NUMBER OF HOUSING UNITS	MEMBERSHIP ANNUAL REVENUE	NUMBER OF MEMBERS	MARKET PENETRATION	ANNUAL FEE
Arcadia*	56,546***	20,304	$160,000	11,000	54%	$40
Buena Park*	81,460***	24,280	$400,000	13,000	54%	$45
Corona*	154,520***	45,485	$1,050,516	23,244	51%	$48
Fullerton*	137,481***	47,044	$815,000	16,981	36%	$42
Orange*	138,010***	44,319	$650,000	10,896	25%	$48
Westminster	90,677***	27,419	$235,000	5,419	20%	$42
Newport Beach*	85,990***	42,711	$297,600	6,200	15%	$48
Alhambra*	83,661***	30,216	$100,000	3,744	12%	$48
Monterey Park*	61,153***	20,734	$115,000	2,538	12%	$50
Santa Ana**	327,731***	73,174	$154,362	7,344	10%	$48
Burbank*	104,427***	44,055	$180,000	4,064	9%	$48
Montclair*	37,163***	9,677	$24,250	674	7%	$36
San Bernardino	211,674***	45,000	$9,600	400	.89%	$24

*May 2009 Data ** 2010/11 Data (Data Source: City of Santa Ana) ***May 2012 Data (Data Source: CA Dept. of Finance, Demographic Research Unit)

The City should consider increasing the current rate and implementing a marketing plan in an effort to increase subscription revenues. Currently, the program generates $9,600 plus an additional $360,000 annually in collections for non-subscribers.. Based on the City's total number of housing units (45,000), which is equal to the number in the City of Corona, the City should actively market the program in an effort to raise revenues equal to its peers.

Recommendation 8: Consider increasing the paramedic subscription rate \to recover costs associated with Fire/Paramedic Service.

Market penetration rates are related to community demographics, population density, whether transport services are provided, and the amount of EMS fees. According to Firemed officials (a private firm that operates an EMS membership program throughout Oregon), communities with a high percent of residents over 60 years of age and those in rural areas have higher market penetration (i.e., number of members). Given the large number of residential parcels in the City, we believe there is an opportunity for this program to improve its performance in the recovery of costs for fire/paramedic services.

Recommendation 9: Develop a marketing program for paramedic subscriptions with a goal of market penetration to at least 50% of households. Develop marketing efforts to target those most likely to subscribe and plan a campaign that will be ongoing.

FALSE ALARM FEES

Responding to false alarms is unproductive use of Police Department resources. While we are unaware of the actual minutes spent per alarm response, we believe possibly 25-50% of total alarm calls are false alarms. Based on the fees currently charged and the costs of officers responding, it appears that the City may be losing thousands of dollars each year that is not paid for by fees. All City costs (police response and administrative overhead) incurred by false alarms should be paid for by the alarm owner.

Recommendation 10: Determine the fee level required to recover all City costs associated with false alarm response and increase fees accordingly.

ASSET MANAGEMENT

Cities own many buildings and physical facilities such as parks, office buildings, and corporate yards. Asset management, the process of monitoring the inventory and leasing of these investments, can and should be considered as a cost reduction strategy.

The City of San Bernardino has an asset inventory now. It should develop a comprehensive asset management program, identify market rental rates and subsidies, and sell unneeded and under-performing properties. Over the long term, an asset management program should integrate with maintenance and replacement schedules for the development of long-range capital improvement program funding needs.

The identification of surplus, under-performing properties that can be sold will result in one-time revenues and a reduction in ongoing maintenance costs. Market rate rents should be calculated and updated periodically for all City and Successor Agency properties that are rented or leased. Market rental rates as well as the level of subsidy should also be identified for properties rented or provided to community and non-profit organizations and for economic development purposes. The subsidies should then be supported by the appropriate program and funding source. This will identify the true costs of such programs, allow them to be properly charged, and provide relief to the General Fund.

Every parcel owned by the City or Successor Agency represents property taxes that the City does not receive. Currently the City and Successor Agency own 294 parcels with total book value of $300 million and a likely sale estimate of less than $100 million dollars. Given the City's 18% of the property assessment, the sale of these parcels would generate roughly $18 million dollars.

The City and Successor Agency may also wish to explore selling or leasing some of the parcels at below-market rates in order to incentivize developers and other business interests to spur additional economic development and development-related revenues.

The City and Successor Agency may also wish to explore selling or leasing some of the parcels at below-market rates in order to incentivize developers and other business interests to spur additional economic development and development-related revenues.

Recommendation 11: **Develop a comprehensive asset management program, identify market rental rates and subsidies, and sell unneeded and under-performing properties. Conduct an analysis of all property assets as part of the asset management program.**

COMPENSATION AND BENEFITS

With personnel costs accounting for about 85% of the General Fund, reducing them is essential to bring spending in line with resources. Changes to compensation or benefits are subject to negotiation with bargaining units. High cost drivers are noted in this section for possible negotiations.

PENSION COSTS

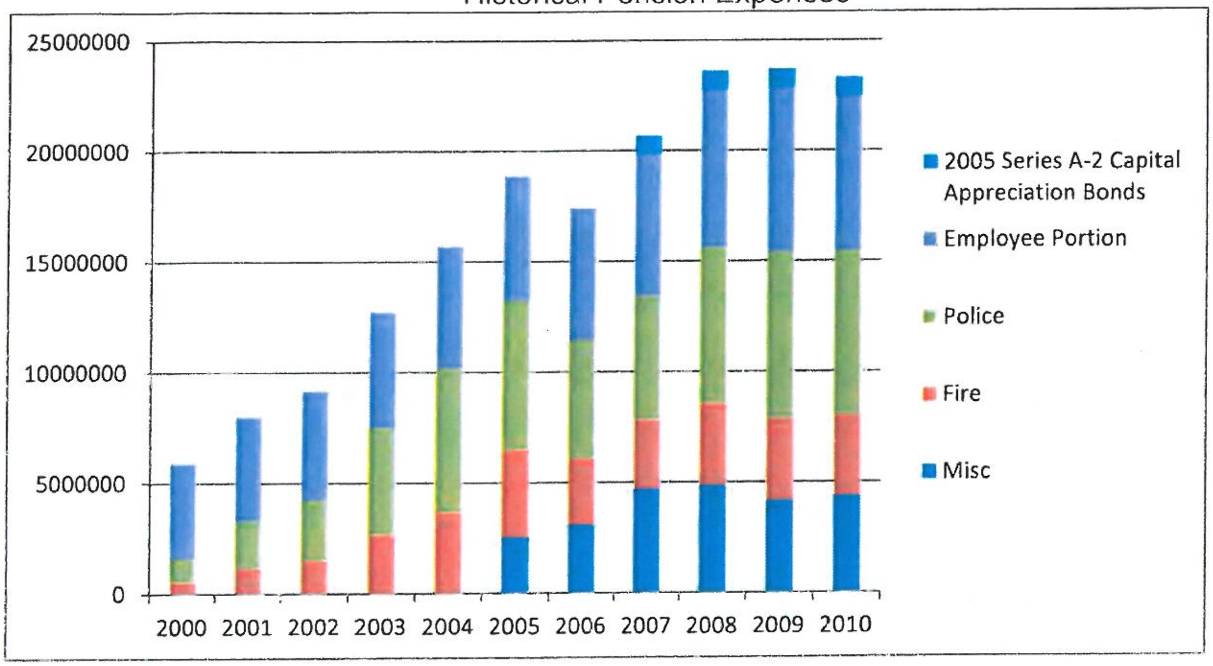
Pension reform is being much discussed at the state and local levels because costs are increasing at rapid rates significantly beyond increases in revenue and are no longer affordable to most public agencies. In San Bernardino, City-paid pension costs have grown from $1 million in FY 2006-07 to $2.2 million in the upcoming FY 2012-13 Budget. Costs are projected to grow to 2% in FY 2013-14.

Pension costs are a combination of an "employer" and "employee" share. PERS sets the employer share for each agency depending on actuarial assumptions. For San Bernardino, the employer share is 30% of compensation for public safety employees and 17% for non-safety employees. Those levels will grow to 31% for safety and 18% for non-safety in FY 2014/15. The employee share is set by PERS at 9% for public safety and 8% for non-safety and 7% for non-safety new hires, although agencies and their employees can negotiate a higher cost distribution between the agency and employees than the "employee" shares set by PERS.

The City has already been able to negotiate a two-tiered retirement benefit program wherein newly hired employees will receive a retirement benefit of 2% at 55 for non-safety employees and 3% at 55 for safety employees. Savings under this program will build with workforce turnover, as employees under the current system retire and are replaced by employees at the new rate. Therefore, initial cost reductions are minimal but savings to the City in the long term will be significant. This agreement has allowed the City to improve its pension obligation in the long term while it continues to work toward short term solutions.

realized from the issuance of POBs. In future years the City will need to be mindful of the growth in POB liabilities, as they will increase over time.

Table 10
Historical Pension Expenses



SALARY-STEP ADJUSTMENTS

Traditional public agency salary schedules with an average of five or six steps in the range were developed before the onset of widespread collective bargaining and were intended to provide an opportunity to reward employees annually for their performance and for the growth of their experience and productivity as they become more effective on the job. The increases are often known as merit increases, and many are implemented automatically.

Some labor groups in San Bernardino have maintained a salary schedule with only five or six steps. Consequently, it only takes three and a half to four years for the employee to get to the top step. During this period the employee is typically awarded a step increase, and if available, cost of living adjustments negotiated by their bargaining group. Because of this practice, new employees have sometimes received raises of between eight and nine percent annually in the first few years of their employment with the City. Most employees at the City are presently at the top of their salary range.

A 10 to 15 step range for management and non-management employees would reduce the City's costs and could spread the opportunity for performance increases over six to nine years rather than the current three and a half to four years. Such a change in the salary schedule would need to be negotiated with each of the City's bargaining units and would be considered by both sides as part of the total compensation package during negotiations.

Recommendation 12: Implement a 10 to 15 step range to spread out merit (performance) increases over six to nine years rather than the current three and a half to four years

REGIONALIZATION AND SERVICE SHARING OF FIRE SERVICES

Fire departments across the country are moving towards a regionalized approach to providing fire protection and emergency medical services to reduce costs to individual cities and to improve fire service delivery. The Orange County Fire Authority (OCFA) is an example of a regional fire service covering 22 cities plus unincorporated county areas and is established as a Fire District and contract service provider. Regionalization can be accomplished through contracts for service (e.g., contracting with a county fire department) or by a joint powers authority.

Regionalization can range from complete consolidation of fire departments to service sharing of one or more functions. Under a service sharing model, typically one agency provides the services to others on a contractual basis.

Examples of service sharing opportunities between fire departments include fire dispatch, training, specialized response units (such as urban search and rescue and hazmat), and equipment use. Through regionalization, fire stations that may be near stations in other communities can be eliminated, along with their associated staffing and facility costs. Other benefits of regionalization and service sharing include:

- Responses are coordinated across city lines including back-up for those responses.
- Support functions such as dispatch and communications are coordinated. This eliminates duplication, increases efficiency, and saves money.
- Joint purchasing leads to savings. Firefighters use the same protective clothing for larger purchase orders and quantity discounts
- Specialized fire fighting and rescue teams, vehicles, and equipment are shared. No single community can afford to keep enough firefighters on hand to respond to every specialized emergency. Urban search and rescue (USAR) and Hazmat vehicles and equipment can be shared rather than each city having its own.
- Non-emergency resources such as training facilities, health centers, and other support systems can be shared to reduce expense and standardize programs.
- Stations and equipment can be consolidated. Stations can be located more strategically instead of being redundant, e.g. stations within a mile of each other in adjacent cities can be relocated or browned-out.
- Training and other specialized facilities and equipment can be centralized and shared.
- Web-based video conference training can be shared. For example, the Rancho Santa Fe Fire Protection District based in San Diego County operates a multi-jurisdictional interactive video training system developed by the Tandberg Company that connects 61 different locations. This also enables staff to remain in their stations for the training.

Mutual aid and automatic aid agreements throughout the County of San Bernardino now provide a solid foundation for a regional approach to fire service delivery. The existing relationships between the cities can be expanded to achieve significant economies of scale in management, administration, training, and all aspects of operations. The City's Fire Department could be the vehicle to accomplish expanded regionalization as the lead agency, or there could be sub-regional fire agencies created by consolidating several existing departments.

The creation of regional fire service requires extensive study, input and acceptance from surrounding communities and the support from the Fire Department to take on a lead agency role. Despite these obstacles, there are potential long-term benefits of regionalization worthy of discussion.

<u>Recommendation 13:</u> **Initiate discussions with City Fire, Cal Fire and other cities in the area about a regionalized approach through the establishment of a Fire District with San Bernardino as the lead agency. If successful, this could create economies of scale by eliminating redundant programs and costs.**

POLICE DEPARTMENT COST SAVINGS OPPORTUNITIES

To substantially reduce costs in public safety services, the City will need to reduce staffing, or seek out contract opportunities for the City's Police Department to provide services to adjacent communities.

In recent years, several municipal police departments have provided services to others under contracts for service. In fact, its common place for public safety departments to share dispatch services. Similar policing contracts have existed in the following cities:

- Brea contracted services to Yorba Linda
- Whittier contracted services to Santa Fe Springs
- Maywood contracted services to Cudahy

Other options are to outsource animal services, regionalize specialized police services, and pursue full cost recovery of fees for services to outside agencies.

Similar to Recommendation 13 above, extensive studies are required and the willingness of other jurisdictions to participate.

ANIMAL CONTROL

San Bernardino County provides animal control services to several cities as well as unincorporated County areas. The City should consider an alternative with County as an alternate service delivery method.

Recommendation 14: Consider contracting with the County of San Bernardino for all animal control services. Develop a detailed implementation plan.

CIVILIANIZATION OF POLICE TRAINING

Training is an important function within the Police Department. It is currently carried out by sworn personnel. Significant savings could occur by using retired police officers on a part-time basis to conduct training programs and reallocating full time sworn positions from this function. The City could increase free patrol time through this change if the full time positions were reallocated.

Recommendation 15: Utilize retired police officers as trainers and reallocate full-time sworn personnel from this operation.

DEPARTMENTAL CONSOLIDATION

The City has yet to fully experience economies of scale in management and administration through the merger of departments and functions. Economies of scale could be achieved by merging functions between Information Technology, Finance, Human Resources, as one Administrative Services Department. Such a merger would save a minimum of $200,000 annually by reducing one executive management position and consolidating administrative functions. There are a number of specific programs and activities within all departments that should be carefully evaluated as to how merger should occur. It is possible that some programs or services could be merged with other departments. Detailed evaluation of alternatives will be needed to determine the precise configuration of merged departments.

Additional opportunities may exist by contracting services to an outside agency. These services may include information technology, design engineering, public works and building inspection, refuse, economic development, community services and legal services.

Recommendation 16: Consider merging Information Technology, Human Resources, Risk Management with the Finance Department to create an Administrative Service Department and merging Library Services with Parks & Recreation to create a Community Services Department.

IMPLEMENTATION AND CHANGE MANAGEMENT

The recommendations presented in this report are difficult and there are no easy choices. Most of the options identified represent fundamental changes in service delivery and the number and compensation of employees. The nature of the City's financial challenge is such that small changes will not create financial stability. During the past few years, the City has been creative, employee associations have been forthcoming with various levels of compensation reductions and deferrals, fund balance has been used, and unfortunately reserves have been completely depleted.

Unfortunately, the economy will not grow the City out of its budget problem. Time is of the essence due to the growing costs and the inadequacy of unallocated funds and other one-time methods to balance the budget. Those have been depleted. At this point, structural changes and changes to service delivery models are absolutely necessary to bring the City to financial health.

Reducing costs does not happen without work. Therefore, given the urgency of the need to make structural changes, staff, and/or consultants, will need to be assigned to this task, setting aside other work. To enable staff to focus on this task, other new initiatives should be deferred.

Additional analysis will be required to confirm transition costs and policies, practices or procedures that will need to be modified as a result of implementation. Implementing the recommendations in this report will require hard work as well as time. Taking any of the concepts to reality will not be instantaneous.

IMPLEMENTATION SCHEDULE

The following schedule is suggested as a starting point for the City's discussions. The City has a projected deficit of $45 million for FY2012/13 consisting of $25 million in operations and an addition $20 million in deferred liabilities and internal service funding. To realistically implement a budget stabilization plan, a goal of $25 million in reductions in on-going costs to be implemented as part of the FY 2012-13 Budget is needed. The remaining $20 million in deferred liabilities must be dealt with concurrently in order to replenish internal service funds to appropriate levels. In order to avoid financial challenges associated with lack of reserves for required cash flow, time is of the essence for making reductions through the implementation of both Phases of this report.

COMMUNICATIONS AND TRANSPARENCY

City management has taken steps to communicate openly and candidly and engage managers, employees and unions/associations about the City's financial position and the options available to create financial stability and resiliency. These communications will continue. Employees and managers may well have other ideas to offer that should be analyzed and considered. The best thinking of everyone in the organization will be needed to make the necessary fundamental changes. The City has competent and capable employees who are committed to providing valued services to the community and who are proud of the professions they represent. Engaging City staff in the next phases of the budget stabilization process is important to the long-term health of the organization.

Communicating early, transparently and frequently about proposed changes, as well as why the changes are important, is an essential part of effective change management. Openness, engagement and a spirit of teamwork will be critical for the City to emerge from what will be a very difficult phase of fundamental changes to the organization. Because so many of the recommendations have the potential to directly impact staff, executive management should create an internal communication and engagement plan, as well as a plan for communicating whether proposed changes will impact the public and if so, how. In addition to creating the plan the executive management should determine how to staff and support it, and make sure it is effectively implemented.

Recommendation 17: **Create an internal and external communications and engagement plan. Temporarily reassign positions within the City to provide analytical support for implementing a budget stabilization plan and a communications plan.**

CONCLUSIONS

There are many who feel that taxes are high enough already and that expenditure cuts must come first. This is a sentiment that has resonated with City leaders as reflected in the approach taken to address the structural deficit which up to now has not relied on an increase to any of the General Fund taxes. Nonetheless, the pursuit of new revenue sources and/or increasing existing revenues is a strategy that can no longer be ignored. However, seeking to increase revenues that are subject to large fluctuations, such as the documentary transfer tax or sales tax, should not be treated as a cure-all. As was the case with revenue received during the real estate boom, some increased revenue is short-lived. Therefore, in conjunction with a new revenue strategy, it is recommended that a portion of any new revenue received be directed into the City's Budget Stabilization Fund. Funding the Budget Stabilization Fund will ensure that reserves are available for those economic times when economically sensitive revenues will fall. In addition to dealing with the economic cycles, funding the Budget Stabilization Fund will allow the City to better deal with uncertain legal liabilities. It is important to note that the new revenue options described above would have little to no budgetary impact on the Fiscal Year 2012-13 budget as the collection of these enhanced revenues would not occur until very late in the fiscal year at the earliest. However, these solutions would have a positive impact on reducing the structural deficit beginning in 2013-14.

The financial situation in 2012 is a systemic problem held over for years going back into the 1990's. Revenues are simply not sufficient to cover the cost of the services being provided. City management and City residents have both made public safety the top priority in the City, having approved ballot measures to allocate additional resources to the Police Department. Other services have been cut to support the emphasis on public safety. Clearly, reductions to the expenditure side of the budget are not going to produce the level of savings that will be needed to balance the budget.

The City has been working diligently to manage its operations through an unprecedented decrease in revenues while experiencing cost increases. As a comparison might note, the City entered this challenge with a distinct disadvantage in that it has lower levels of discretionary revenue and the resultant lower levels of operational expenditures than other similar cities. Nevertheless, the City has taken steps to reduce costs over the last several years because it has been forced to do so by declining revenues, however, the expenditures have still outpaced revenues. In this effort, employee associations have been forthcoming with some compensation concessions, yet costs continue to be much higher than can be afforded by the City. The revenue forecast shows that significantly lower costs will be required for the foreseeable future.

During this period of time, it has been noted that Council, residents and businesses in the City expect and deserve a well-maintained street network, manicured parks, cultural opportunities, neighborhoods, in addition to fundamental public safety services. The challenge to the City will be to identify what it can afford and how that relates to the type of community services it wants to provide. Staff has approached this analysis with the understanding that all current City services are important and that service reductions should be pursued as a last resort, only after efforts to reduce costs, optimize service delivery and improve revenue performance have been taken. While it is difficult for policymakers and executives to consider such topics as reductions in employee compensation, changes in the way services have been traditionally delivered (which also impacts employees) and revenue increases, there are strong justifications for each area to be on the table for discussion. The fact remains that, in spite of the actions taken to date, San Bernardino's financial situation requires immediate action. Change in past service delivery models and significant revenue increases are required.

While the service delivery changes suggested in this report are likely to be resisted because of the impacts on personnel, the suggestions are not radical and are being used successfully in other similar jurisdictions. Additionally, because other local government agencies are also looking for ways to reduce costs in response to financial challenges, there is greater opportunity to discuss and implement regionalized or shared services than before.

Finally, the analysis indicates the City receives a lower level of revenue than other similar cities, so revenue augmentation should also be on the table. However, options to increase revenues significant enough to provide ongoing budget stabilization are limited, cannot be implemented without voter approval, and will take time to be realized even if approved.

Listed below is the summary of options and the estimated revenue or costs savings derived from each recommendation contained within this report. Several of the recommendations can be implemented at the staff level with Council approval. However, should the desire not be there to restructure the organization to staffing and service levels matching available revenue resources, a voter-approved tax measure is needed. This report contains several options for the City and Council to consider prior to placing a measure on the ballot. **We recommend the City consider all other options first prior to making a decision to place a measure on the ballot.**

Table 11
Revenue Options Summary

	ESTIMATED REVENUE
Utility User Tax 1% Increase	$3,000,000
Utility User Tax 2% Increase	$6,000,000
911 Communication Fee	$6,700,000
Increase Real Property Transfer Tax	$3,000,000
Transient Occupancy Tax	$250,000
Develop & Implement Marketing Plan for the Paramedic Subscription Program	$690,000
Implement False Alarm Fees	$100,000
Sale of Surplus Land and Land Held For Resale	$18,000,000*

* Proceed from property held by the Successor Agency would need to be allocated among taxing jurisdictions

In order to achieve financial sustainability and to maintain healthy reserves, the City will need to take bold, decisive action to implement changes. The recommendations in this report will assist the City in realigning annual revenues with annual expenditures and setting the path toward financial sustainability and economic resiliency. Achieving financial health beyond stability will require a partnership of the City Council, staff and community.

ATTACHMENT A

FORECAST

CITY OF SAN BERNARDINO, CALIFORNIA

SUMMARY OF REVENUES, EXPENDITURES, and CHANGE IN FUND BALANCE ——- GENERAL FUND

	2008-09 Audited Actuals	2009-10 Audited Actuals	2010-11 Unaudited Actuals	APRIL 3, 2012 Mid-Year Budget FY 2011-12	REVISED Projected End Budget FY 2011-12	VARIANCE - Favorable/ (Unfavorable)	% VARIANCE
Revenues:							
Property Taxes	32,788,532	28,815,780	26,373,217	26,729,800	25,820,605	(909,195)	-3.3%
Other Taxes	61,241,900	54,702,950	58,462,657	61,813,600	60,743,682	(1,069,918)	-1.8%
Licenses & Permits	9,181,979	8,387,017	7,910,202	8,578,900	9,172,900	594,000	7.6%
Fines and Penalties	2,250,061	3,379,135	2,283,426	2,424,300	1,811,800	(612,500)	-21.7%
Use of Money & Property	741,422	789,438	3,156,270	658,000	733,000	75,000	9.0%
Intergovernmental	8,916,250	7,213,053	13,481,247	3,101,800	10,770,388	7,668,588	231.8%
Charges for Services	6,560,871	6,509,637	7,319,098	7,117,400	6,854,823	(262,577)	-3.8%
Miscellaneous	4,179,732	6,051,311	4,627,935	4,111,900	4,101,750	(10,150)	-0.2%
Total revenues	125,860,746	115,848,321	123,614,051	114,535,700	120,008,948	5,473,248	4.8%
Expenditures:							
Mayor	805,567	806,090	644,437	747,100	819,900	72,800	9.5%
Common Council	488,217	472,960	459,440	664,900	681,700	16,800	2.5%
City Clerk	1,617,503	1,888,917	1,507,051	2,496,200	2,497,815	1,615	0.1%
City Treasurer	209,461	197,763	202,524	210,400	210,400	-	0.0%
City Attorney	3,609,499	3,457,096	4,095,525	3,771,100	4,441,850	670,750	17.8%
General Government	5,430,005	7,001,601	2,265,929	3,425,400	4,904,500	1,479,100	38.9%
City Manager	990,923	1,002,141	1,179,586	1,275,400	1,282,000	6,600	0.5%
Civil Service	292,655	283,797	286,522	356,400	356,400	-	0.0%
Human Resources	440,359	476,406	508,371	614,300	614,300	-	0.0%
Finance	1,588,414	1,541,034	1,902,878	1,754,600	1,895,185	140,585	8.0%
Community Development	6,155,195	4,650,191	6,275,707	5,474,300	5,474,300	-	0.0%
Fire	36,672,276	31,452,432	33,506,873	33,823,700	36,339,485	2,515,785	8.1%
Police	63,938,508	57,668,992	63,573,080	61,893,200	65,106,500	3,213,300	5.3%
Parks, Recreation, & Com Svc.	5,770,269	4,301,541	5,067,528	4,894,000	4,894,000	-	0.0%
Debt Service	4,414,972	6,496,174	4,102,847	-	1,758,500	1,758,500	0.0%
Public Works	11,628,419	10,544,688	8,005,331	8,684,600	8,489,900	(194,700)	-2.2%
Total Expenditures	144,052,242	132,241,823	133,583,628	130,085,600	139,766,735	9,681,135	7.6%
Excess of Revenues Over (Under) Expenditures	(18,191,496)	(16,393,502)	(9,969,577)	(15,549,900)	(19,757,787)	(4,207,887)	
Operating Transfers In:							
Total Op Trans In	11,382,247	16,301,176	13,023,914	13,111,100	13,111,100	-	
Operating Transfers (Out):							
Total Op Trans Out	(6,635,475)	(2,205,700)	(4,646,233)	(2,748,300)	(2,748,300)	-	
Total Net Operating Transfers In/(Out)	4,746,772	14,095,476	8,377,681	10,362,800	10,362,800	-	
Excess of Revenues Over (Under) Expenditures and Operating Transfers In/Out	(13,444,724)	(2,298,026)	(1,591,896)	(5,187,100)	(9,394,987)	(4,207,887)	

CITY OF SAN BERNARDINO, CALIFORNIA

SUMMARY OF REVENUES, EXPENDITURES, and CHANGE IN FUND BALANCE —- GENERAL FUND

	2008-09 Audited Actuals	2009-10 Audited Actuals	2010-11 Unaudited Actuals	APRIL 3, 2012 Mid-Year Budget FY 2011-12	REVISED Projected End Budget FY 2011-12
Fund Balance, Beg. of Year	16,153,044	2,708,319	410,293	(1,181,603)	(1,181,603)
Revenues	125,860,745	115,848,321	123,614,051	114,535,700	120,008,948
Expenditures	144,052,242	132,241,823	133,583,628	130,085,600	139,766,735
Net Operating Transfers In/(Out)	4,746,772	14,095,476	8,377,681	10,362,800	10,362,800
Adjustments	-	-	-	-	-
Fund Balance, End of Year	2,708,319	410,293	(1,181,603)	(6,368,703)	(10,576,590)
Detail of Fund Balance:					
Reserved for deposits and prepaid items	24,162	24,162	24,162	5,100	5,100
Reserved for inventory	19,132	19,132	19,132	19,133	19,133
Reserved for compensated absences	18,900,000	18,900,000	18,968,708	21,154,224	21,154,224
Unreserved:					
Reserve-economic uncertainty (10%)	14,405,224	13,224,182	13,358,363	13,008,560	13,976,674
Designated for working capital	(30,640,199)	(31,757,183)	(33,551,968)	(40,555,720)	(45,731,720)
Designated for equipment replacement	-	-	-	-	-
Designated for general liability claims	-	-	-	-	-
Designated for workers compensation	-	-	-	-	-
Undesignated	-	-	-	-	-
Total Fund Balance (net)	2,708,319	410,293	(1,181,603)	(6,368,703)	(10,576,590)

CITY OF SAN BERNARDINO, CALIFORNIA

SUMMARY OF REVENUES, EXPENDITURES, and CHANGE IN FUND BALANCE—GENERAL FUND

	PRELIMINARY BUDGET FY 2012-13	Projected Five Year Forecast									
		Projected Budget FY 2013-14	% Inc/ (Dec)	Projected Budget FY 2014-15	% Inc/ (Dec)	Projected Budget FY 2015-16	% Inc/ (Dec)	Projected Budget FY 2016-17	% Inc/ (Dec)	Projected Budget FY 2017-18	% Inc/ (Dec)
Revenues:											
Property Taxes	26,867,362	27,381,129	1.91%	27,970,677	2.15%	28,640,469	2.39%	29,464,313	2.88%	30,312,873	2.88%
Other Taxes	62,908,081	63,546,164	1.01%	64,204,282	1.04%	64,863,401	1.03%	65,542,293	1.05%	66,231,114	1.05%
Licenses & Permits	9,441,900	8,786,400	-6.94%	8,851,545	0.74%	8,851,545	0.00%	8,851,545	0.00%	8,851,545	0.00%
Fines and Penalties	2,104,300	2,391,300	13.64%	2,391,300	0.00%	2,391,300	0.00%	2,391,300	0.00%	2,391,300	0.00%
Use of Money & Property	733,000	638,000	-12.96%	638,000	0.00%	638,000	0.00%	638,000	0.00%	638,000	0.00%
Intergovernmental	7,297,722	2,372,225	-67.49%	2,380,548	0.35%	2,383,954	0.14%	2,388,144	0.18%	2,392,459	0.18%
Charges for Services	6,898,400	6,904,345	0.09%	6,904,345	0.00%	6,904,345	0.00%	6,904,345	0.00%	6,904,345	0.00%
Miscellaneous	4,173,400	4,452,400	6.69%	4,452,400	0.00%	4,452,400	0.00%	4,452,400	0.00%	4,452,400	0.00%
Total revenues	120,424,165	116,471,963	-3.28%	117,793,097	1.13%	119,125,414	1.13%	120,632,340	1.26%	122,174,035	1.28%
Expenditures:											
Mayor	931,715	937,907	0.66%	950,447	1.34%	963,492	1.37%	975,633	1.26%	986,704	1.13%
Common Council	705,650	709,355	0.53%	717,420	1.14%	723,354	0.83%	727,782	0.61%	734,010	0.86%
City Clerk	1,720,468	1,731,760	0.66%	1,752,614	1.20%	1,766,862	0.81%	1,776,408	0.54%	1,791,319	0.84%
City Treasurer	226,066	227,611	0.68%	230,091	1.09%	231,656	0.68%	232,567	0.39%	234,199	0.70%
City Attorney	4,959,606	4,982,428	0.46%	5,067,867	1.71%	5,141,252	1.45%	5,206,472	1.27%	5,283,915	1.49%
General Government	21,355,965	21,355,965	0.00%	21,432,629	0.36%	21,511,594	0.37%	21,592,927	0.38%	21,676,700	0.39%
City Manager	1,485,318	1,495,987	0.72%	1,511,316	1.02%	1,520,271	0.59%	1,524,649	0.29%	1,533,957	0.61%
Civil Service	411,275	414,070	0.68%	419,492	1.31%	423,286	0.90%	425,925	0.62%	429,900	0.93%
Human Resources	778,433	778,433	0.00%	788,386	1.28%	795,409	0.89%	800,353	0.62%	805,444	0.64%
Finance	1,801,097	1,813,730	0.70%	1,835,367	1.19%	1,849,561	0.77%	1,858,442	0.48%	1,873,272	0.80%
Community Development	7,951,225	8,001,210	0.63%	8,121,665	1.51%	8,213,717	1.13%	8,285,827	0.88%	8,382,584	1.17%
Fire	39,123,792	37,687,087	-3.67%	38,072,503	1.02%	38,294,436	0.58%	38,398,888	0.27%	38,629,407	0.60%
Police	67,630,580	68,172,720	0.80%	69,035,167	1.27%	69,560,234	0.76%	69,843,442	0.41%	70,390,256	0.78%
Parks, Recreation, & Com Svc	5,425,725	5,448,366	0.42%	5,549,444	1.86%	5,639,053	1.61%	5,721,066	1.45%	5,815,724	1.65%
Debt Service	1,758,500	1,758,500	0.00%	1,758,500	0.00%	1,758,500	0.00%	1,758,500	0.00%	1,758,500	0.00%
Public Works	9,971,142	9,995,184	0.24%	10,185,453	1.90%	10,356,423	1.68%	10,514,789	1.53%	10,695,467	1.72%
Total Expenditures	166,236,557	165,510,313	-0.44%	167,428,361	1.16%	168,749,101	0.79%	169,643,667	0.53%	171,021,359	0.81%
Excess of Revenues Over (Under) Expenditures	(45,812,392)	(49,038,350)		(49,635,263)		(49,623,686)		(49,011,327)		(48,847,323)	
Operating Transfers In:											
Total Op Trans In	7,932,600	7,932,600	0.00%	7,932,600	0.00%	7,932,600	0.00%	7,932,600	0.00%	7,932,600	0.00%
Total Op Trans Out	(3,102,958)	(3,102,958)	0.00%	(3,102,958)	0.00%	(3,102,958)	0.00%	(3,102,958)	0.00%	(3,102,958)	0.00%
Total Net Operating Transfers In/(Out)	4,829,642	4,829,642		4,829,642		4,829,642		4,829,642		4,829,642	
Excess of Revenues Over (Under) Expenditures and Operating Transfers In/Out	(40,982,750)	(44,208,708)		(44,805,621)		(44,794,044)		(44,181,685)		(44,017,681)	

CITY OF SAN BERNARDINO, CALIFORNIA

SUMMARY OF REVENUES, EXPENDITURES, and CHANGE IN FUND BALANCE ——- GENERAL FUND

	PRELIMINARY BUDGET FY 2012-13	Projected Budget FY 2013-14	Projected Budget FY 2014-15	Projected Budget FY 2015-16	Projected Budget FY 2016-17	Projected Budget FY 2017-18
Fund Balance, Beg. of Year	(10,576,590)	(33,921,805)	(78,130,513)	(122,986,135)	(167,730,179)	(211,911,864)
Revenues	120,424,165	116,471,963	117,793,097	119,125,414	120,632,340	122,174,035
Expenditures	166,236,557	165,510,313	167,428,361	168,749,101	169,643,667	171,021,359
Net Operating Transfers In/(Out)	4,829,642	4,829,642	4,829,642	4,829,642	4,829,642	4,829,642
Adjustments	-					
Fund Balance, End of Year	(51,559,340)	(78,130,513)	(122,986,135)	(167,730,179)	(211,911,864)	(255,929,545)
Detail of Fund Balance:						
Reserved for deposits and prepaid items	5,100	5,100	5,100	5,100	5,100	5,100
Reserved for inventory	19,133	19,133	19,133	19,133	19,133	19,133
Reserved for compensated absences	23,200,000	26,000,000	26,000,000	26,000,000	23,200,000	23,200,000
Unreserved:						
Reserve-economic uncertainty (10%)	16,623,656	16,551,031	16,742,836	16,874,910	16,964,367	17,102,136
Designated for working capital	(91,407,228)	(120,705,778)	(165,703,204)	(210,629,322)	(252,100,464)	(296,255,914)
Designated for equipment replacement	-	-	-	-	-	-
Designated for general liability claims	-	-	-	-	-	-
Designated for workers compensation	-	-	-	-	-	-
Undesignated	-	-	-	-	-	-
Total Fund Balance (net)	(51,559,340)	(78,130,513)	(122,986,135)	(167,730,179)	(211,911,864)	(255,929,545)