



City of San Bernardino

Overcoming Challenges and Moving Forward

Presented by: City Manager's Office



Introduction

- The City, since the Great Recession and subsequent bankruptcy, has taken many actions to create financial stability
- Even so, the City, like most cities in the Inland Empire, is experiencing flat revenue growth and rising costs for existing service levels
- This presentation outlines where we have been, where we are, and the path forward



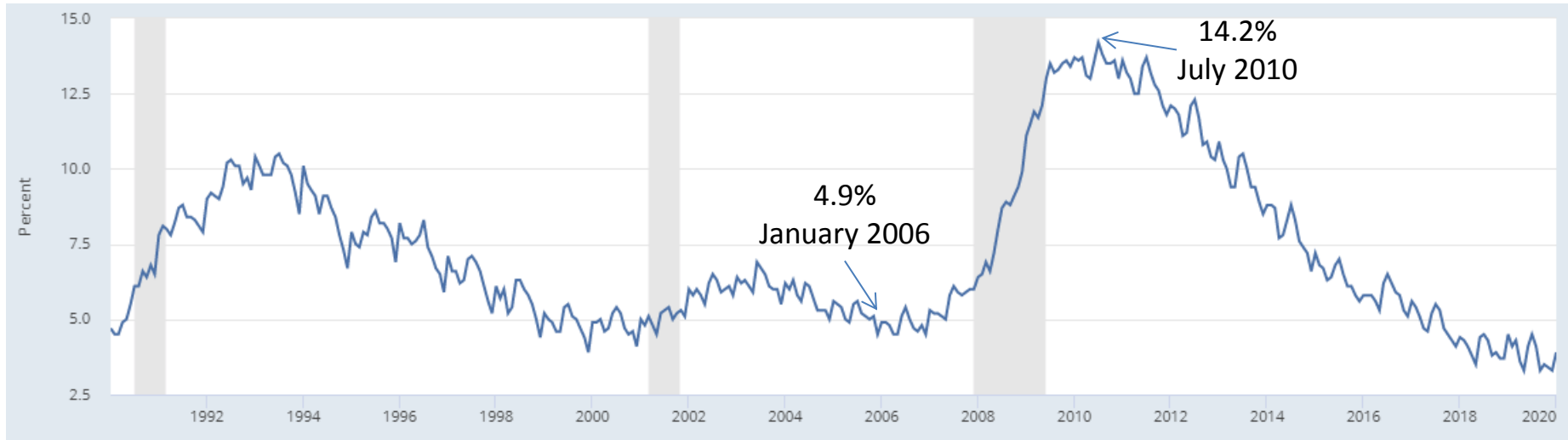
The Great Recession

- First effects of 2008 Recession hit the City in FY 2008-2009
- By 2012 the unemployment rate in the county had increased from 4.9% in 2006 to 14.2%
- The median house price in the City dropped from over \$300,000 to below \$100,000 by 2009



The Great Recession

Unemployment Historical Data San Bernardino County



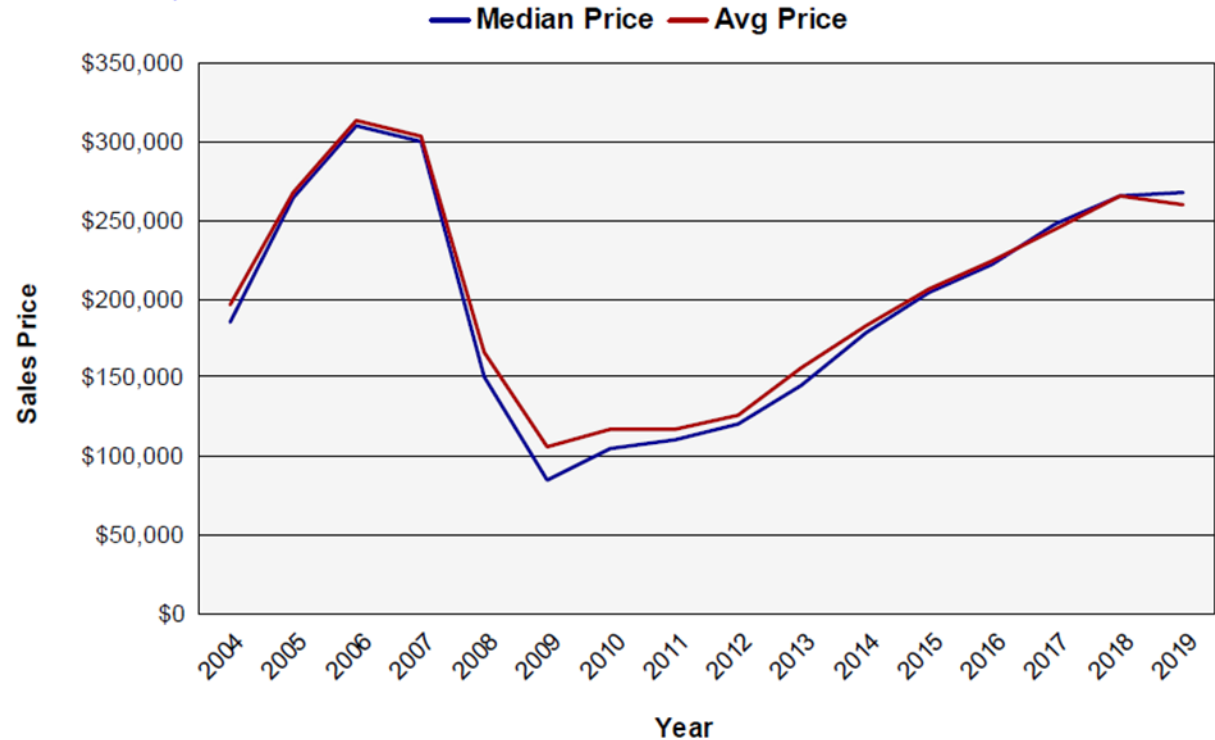
Source: US Bureau of Labor Statistics

Shaded area indicates recession



Economic Impacts

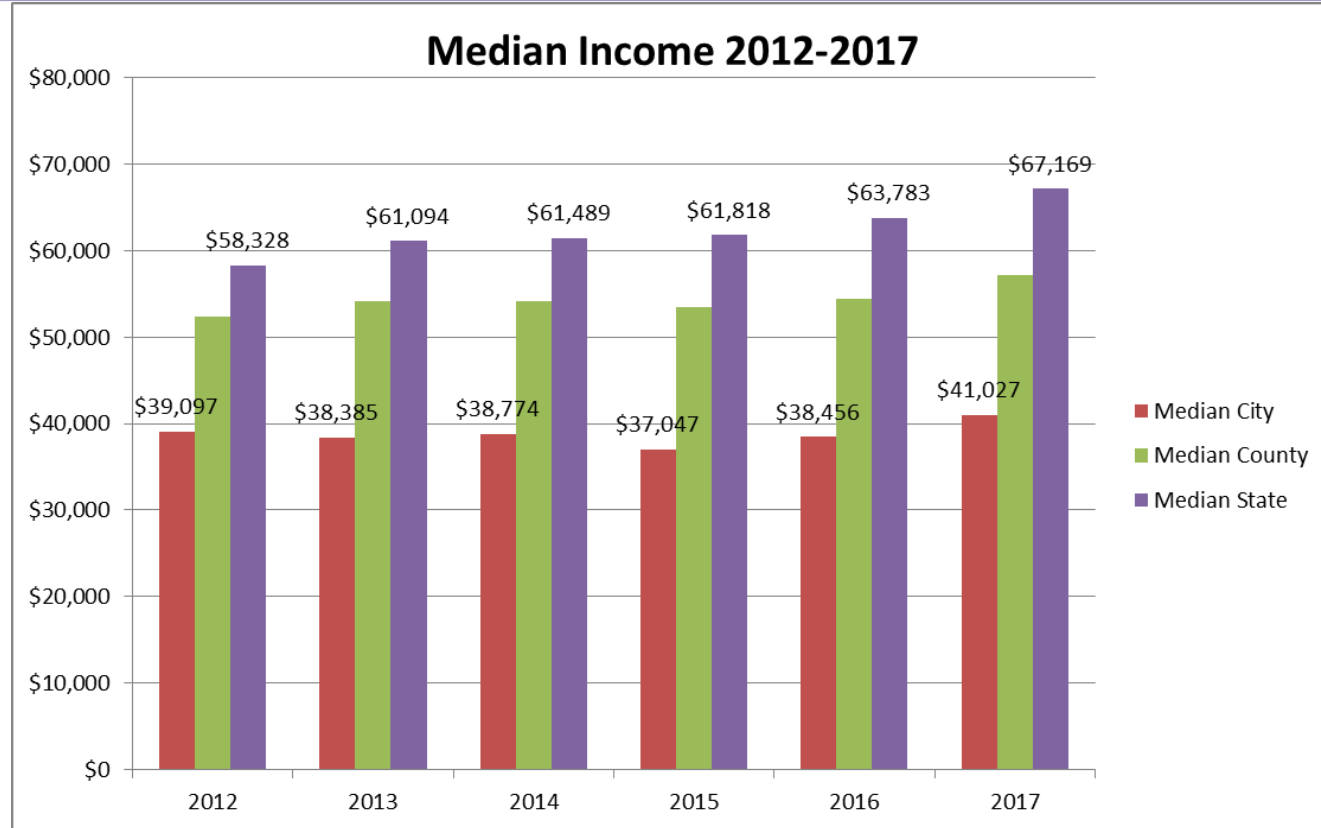
The median sale price of a home has still not returned to peak levels of 2006





Economic Impacts

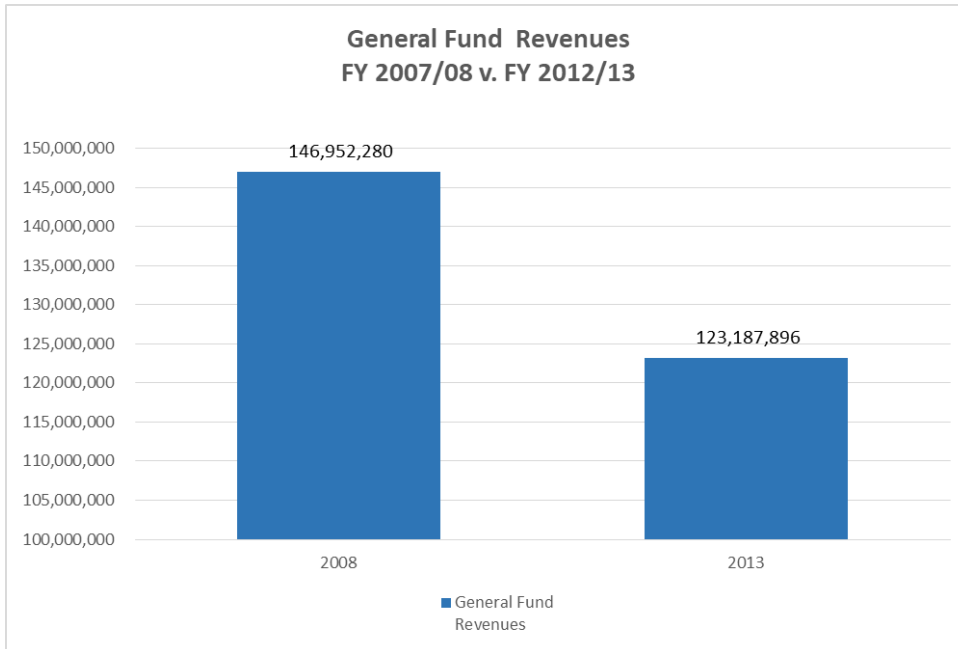
Median household income still lags behind the county and state and has only seen modest growth since 2012





The Great Recession

- The effects of recession hit city coffers in FY 2008/09 with revenues dropping almost 7% in one year



- by FY 2012-13 revenues had dropped by **16%** compared to pre-recession levels of 2007-08
- this was a \$23.7 million loss of revenue



The Great Recession

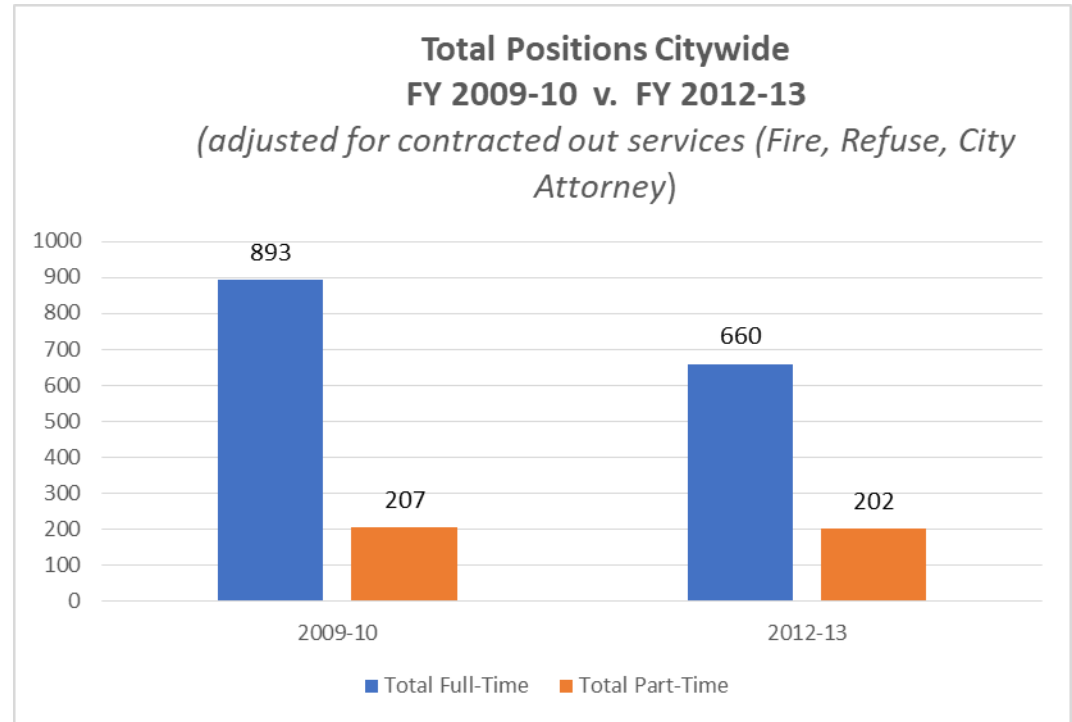
- Over same period reserves dropped by \$11.8 million (76%) from \$15.5 million down to \$3.7 million





The Great Recession

- Citywide staffing was reduced by 26% from FY 2009/10 to FY 2012-13
- Loss of 233 full-time positions





Bankruptcy

- In August of 2012 the City, realizing further reductions would jeopardize the health and safety of its citizenry, filed for bankruptcy
- The City was relieved of \$76.1 million in long-term obligations
- A condition of exiting bankruptcy was implementing a number of financial stability measures outlined in the “Plan of Adjustment”



Steps toward financial stability

Plan of Adjustment – steps City outlined in order to exit bankruptcy court:

- contracted out refuse operation
 - annual franchise revenue of over \$8 million
 - one time lump payment of \$5 million –bolstered General Fund reserves





Steps toward financial stability

Plan of Adjustment – (continued)

- contracted legal services resulting in a significant reduction in total annual legal expenses (e.g., City spent approximately \$2.7 million less in FY 2018/19 than in FY 2015/16)
- fee study underway to ensure costs to provide services are being fully recovered – estimated to generate over \$800,000 annually



Steps toward financial stability

- Plan of Adjustment – (continued)
- annexed fire services into County Fire Protection District
 - eliminated pension costs on a go forward basis
 - eliminated Workers Comp liability on a go forward basis
 - provides first rate fire services to the community



Steps toward financial stability

Implemented State Pension Reform:

Public Safety – as of July 1, 2016 (*applies to hires new to CalPERS system*):

- formula changed from 3% @ 50 to new formula of 2.5% @ 57
- lower benefit and higher retirement age
- final retirement based on 3 years highest pay, not 1 year
- employees, in addition to paying employee share of cost, also pay a portion of the City's (employer) cost.



Steps toward financial stability

Implemented State Pension Reform:

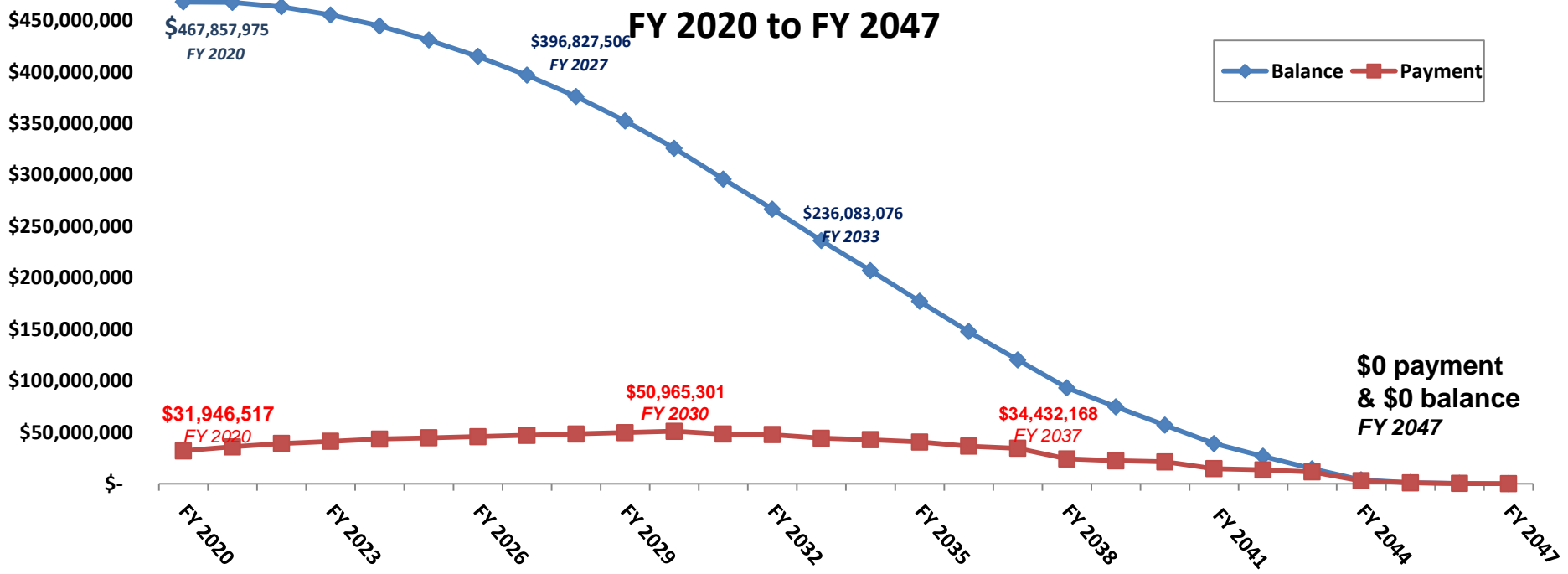
Non- Safety – as of January 1, 2013 *(applies to hires new to CalPERS system):*

- formula changed from 2.7% @ 55 to new formula of 2% @ 62
- lower benefit and higher retirement age
- final retirement based on 3 years highest pay, not 1 year
- employees, in addition to paying employee share of cost, also pay a portion of the City's (employer) cost
- 30 year payoff schedule of unfunded pension liability



Steps toward financial stability

CalPERS Unfunded Liability Payoff Schedule (Miscellaneous & Safety Combined) FY 2020 to FY 2047





What else has the City done?

The City has worked hard to develop a reserve policy and build up reserves. As of 6/30/19, the City's General Fund reserves were 23% of budgeted expenditures, just 2% shy of 25% reserve goal:

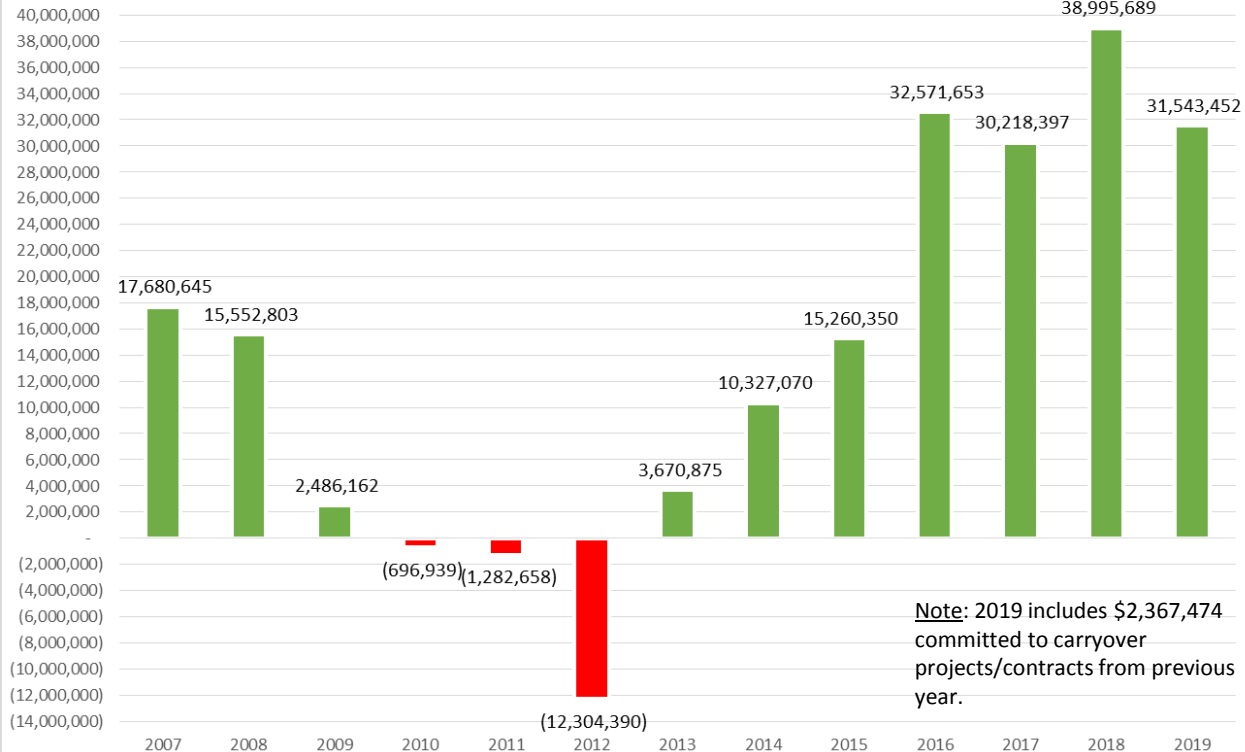


Emergency Reserve <i>(target of 15% of budgeted expenditures - met)</i>	\$ 19,024,050
Economic Contingency Reserve <i>(target of 10% of budgeted expenditure - not met, only 8%)</i>	\$ 10,151,928
Total General Fund Reserves 6/30/19	\$ 29,175,978
* Doesn't include \$2,367,474 committed to carryover projects/contracts from previous year	



What else has the City done?

History of General Fund Unassigned Reserves
FY 2006/07 to FY 2018/19





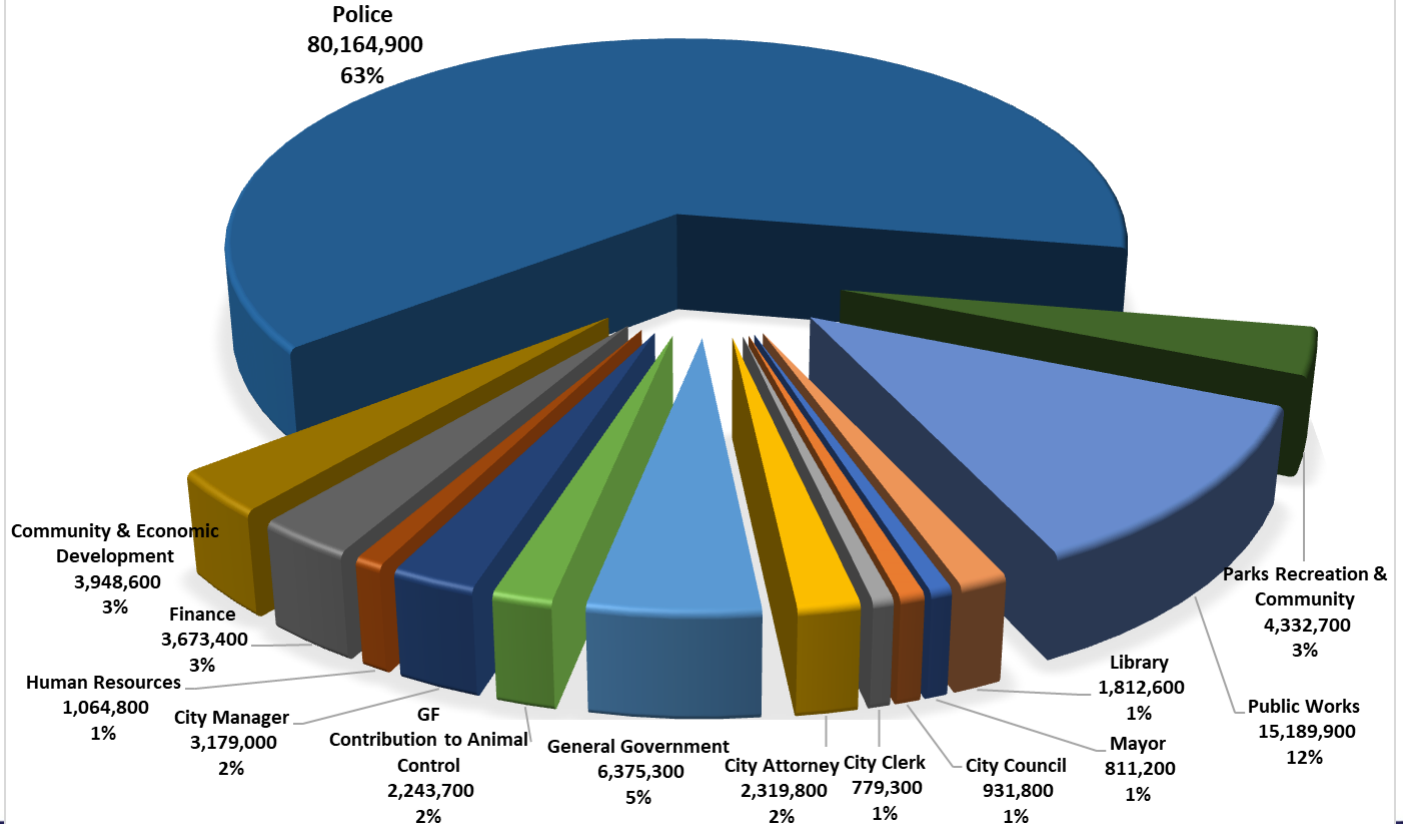
Financial Challenges Today

- Future year's deficits will increase at minimum of \$9 million annually with expiration of Measure Z sales tax in April of 2022
- Without a replacement revenue stream, more budget cuts will be necessary
- Public Safety comprises 63% of the General Fund budget



General Fund Expenditures

FY 2019-20
General Fund
Expenditures
(Adopted Budget)





Measure Z Explained

Measure Z - local $\frac{1}{4}$ percent sales tax approved by voters in **November** of 2006

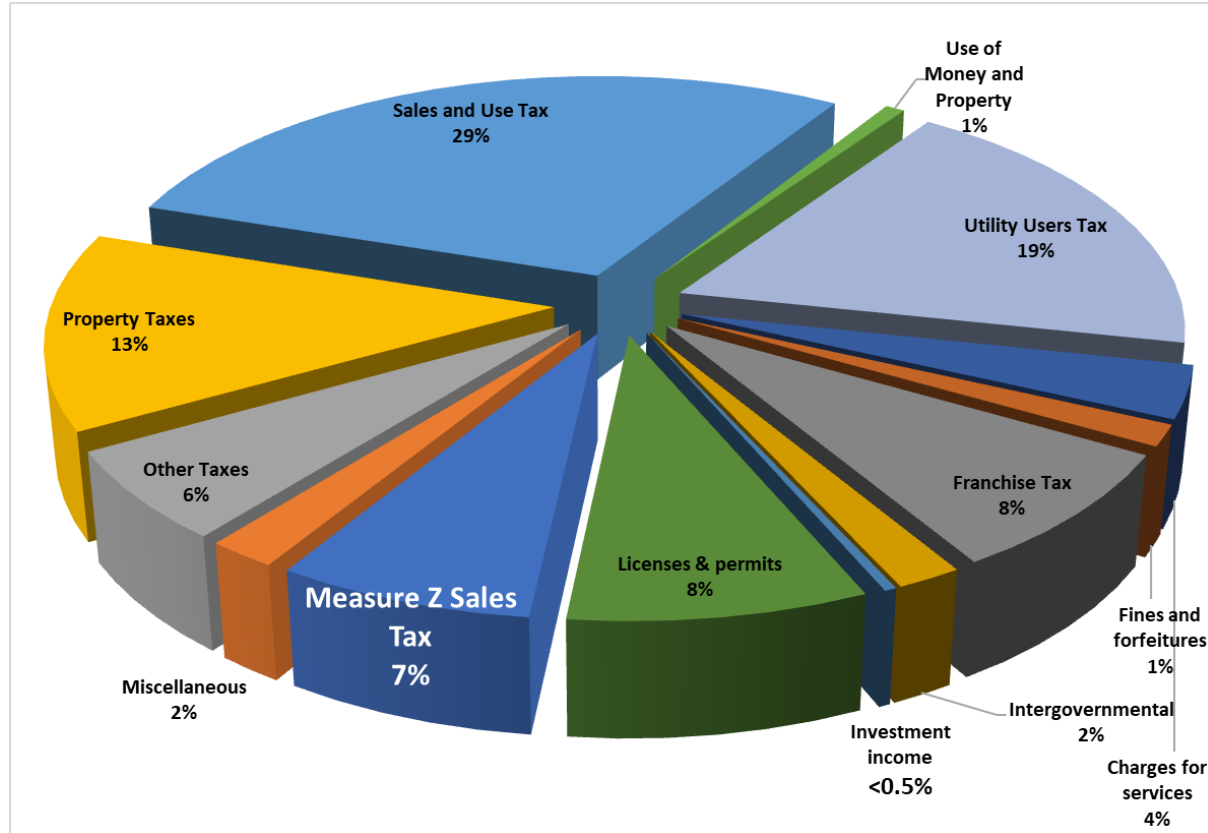


- For every \$1.00 spent, a quarter of 1 cent is applied to taxable purchases
- Result:
 - over \$9 million to city in fiscal year 2018-2019
 - over \$86 million to city since inception
 - Measure Z comprises 7% of General Fund revenue



General Fund Revenues

FY 2019-20
General Fund
Revenue
(Adopted Budget)





Financial Challenges Today

- It has taken **12** years for sales tax revenue to return to 2005-2006 peak levels
 - sales tax equals 29% of city revenue
 - \$39.7 million in 2018/19

- Utility User Tax (UUT) revenue has remained flat since 2015
 - UUT is about 19% of all General Fund revenues
 - \$22.9 million in 2018/19



Sales Tax

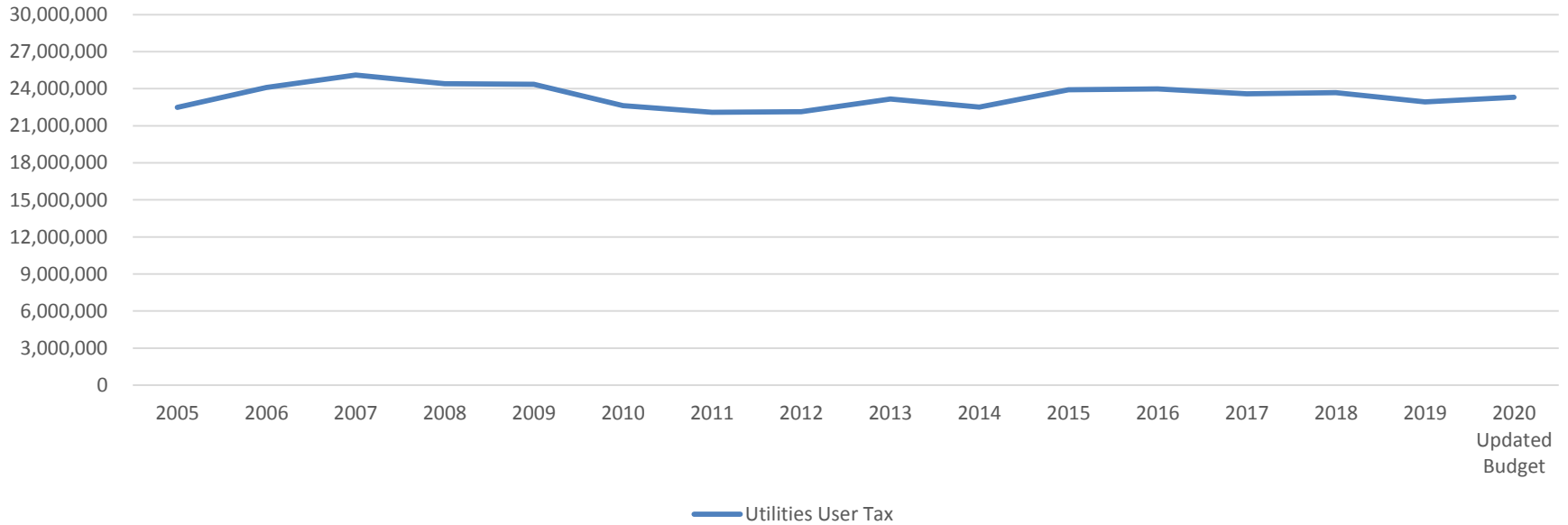
Sales Tax & Measure Z Revenues
FY 2004/05 to FY 2019/20





Utility User Tax

Utility User Tax Revenues
FY 2004/05 to FY 2019/20





Financial Challenges Today

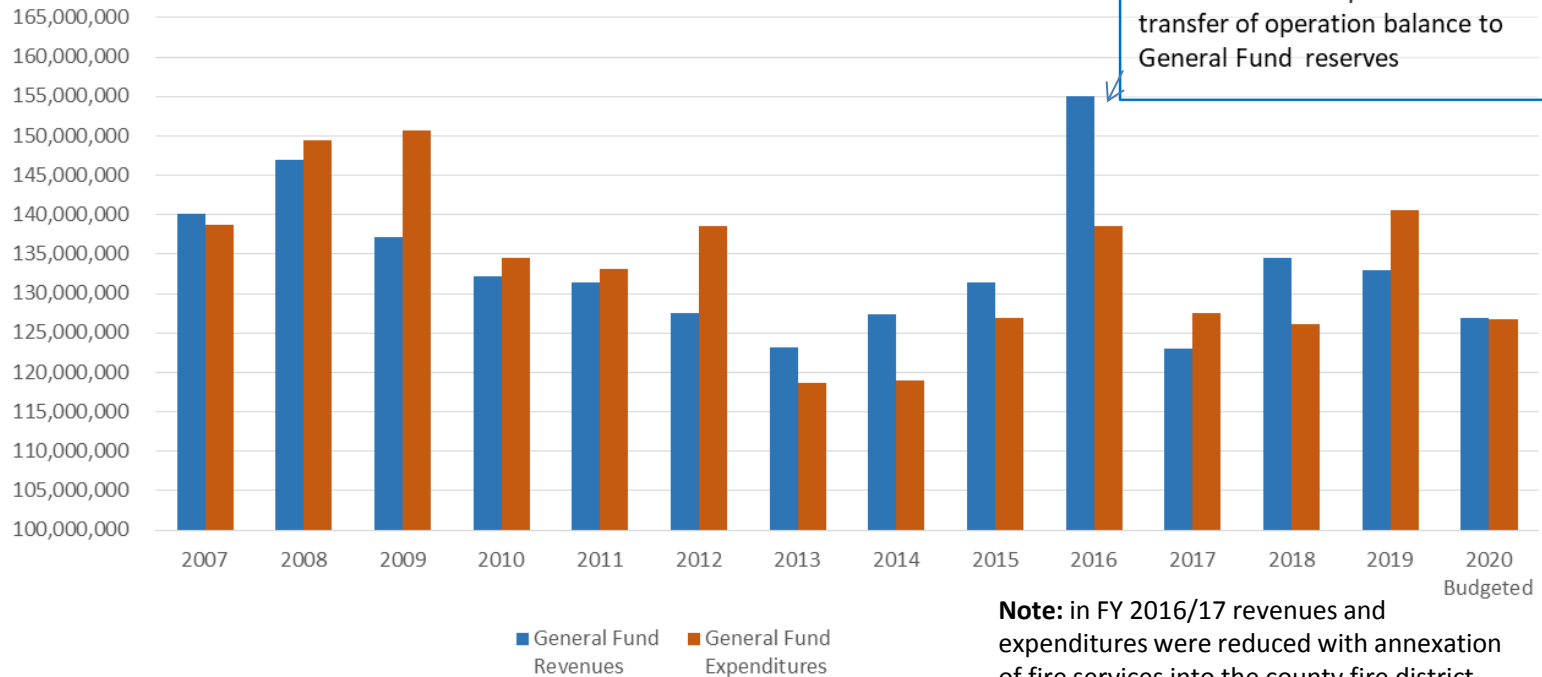
- Costs to provide existing levels of service are outpacing revenues
- For the current year, FY 2019-20, \$11.5 million was cut from the budget to match revenues
- A budget deficit of \$1 million is projected for the upcoming budget year 2020-21
- With limited legal ability to generate new revenue streams, cuts to services has been the only way to balance the budget





General Fund Revenue v Costs

General Fund Revenues to Expenditures
FY 2006/7 to FY 2019/20



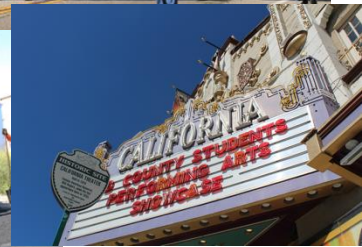
Note: in FY 2016/17 revenues and expenditures were reduced with annexation of fire services into the county fire district



Challenges to providing city services

City services have not recovered to their 2009-2010 staffing levels in all areas including:

- public safety
- street maintenance
- code enforcement
- library services
- community events
- parks and recreation programs and facilities



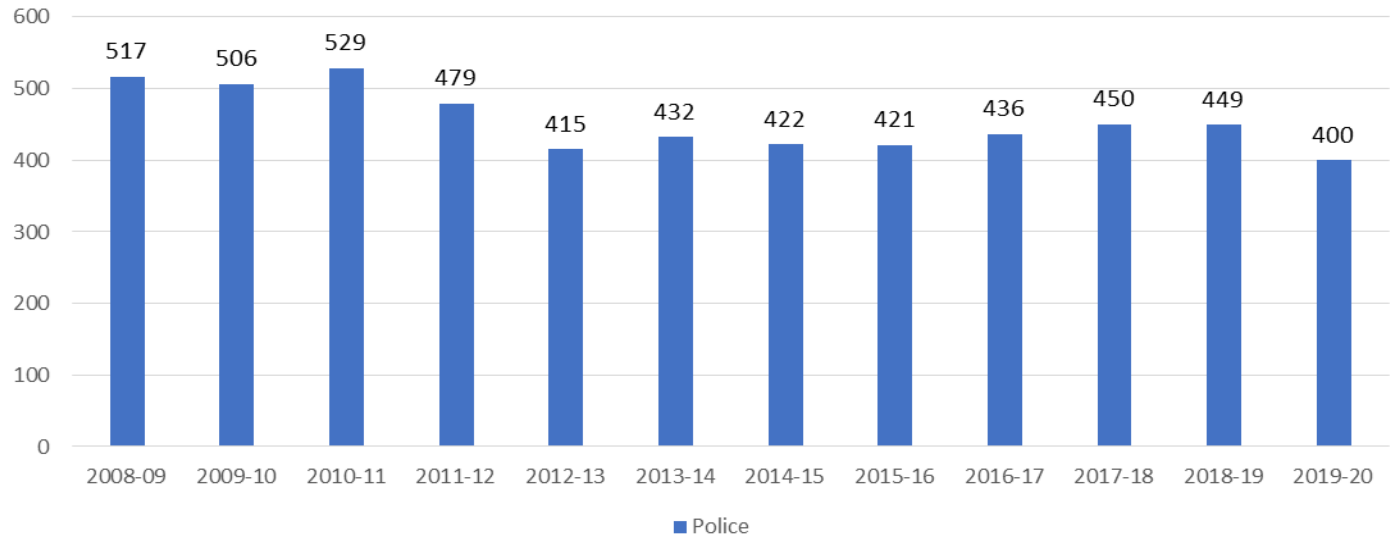


Challenges to providing city services

Current Police staffing is 21% lower than FY 2009-10 levels



Police Department Staffing
FY 2008-09 through FY 2019-20

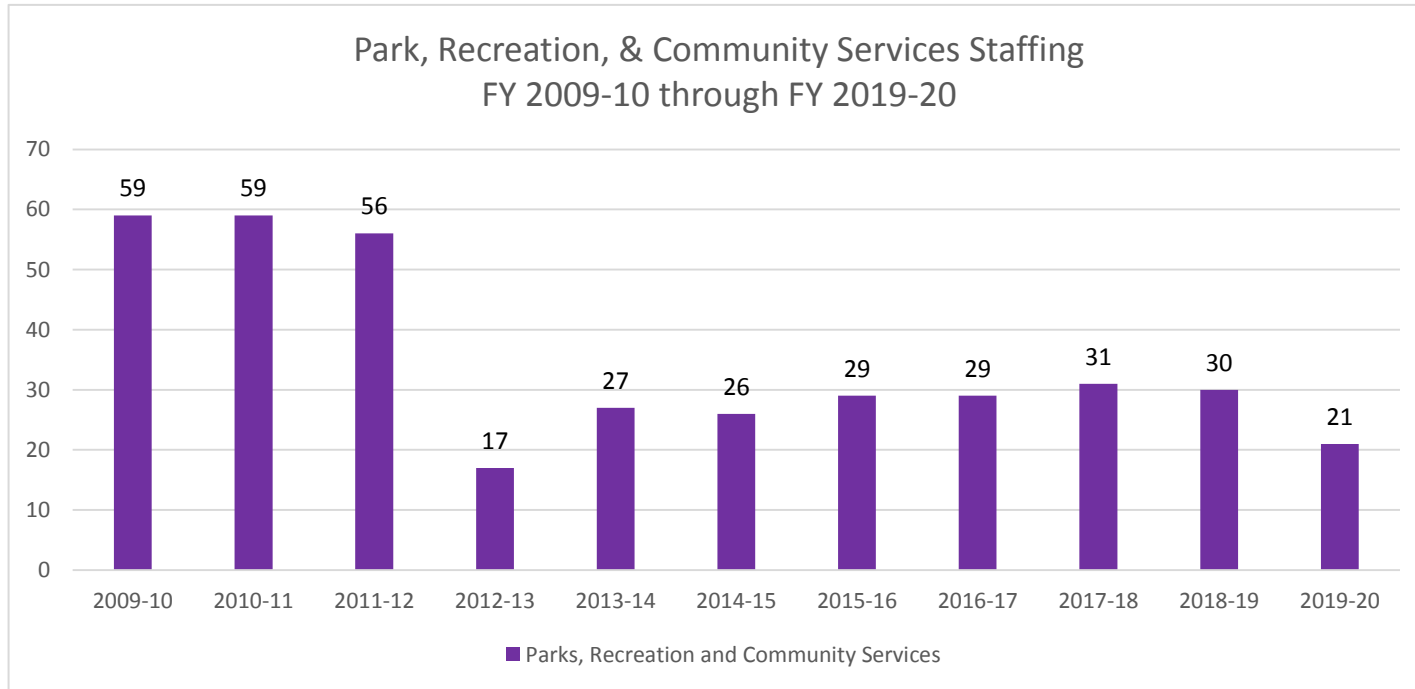


Fact: cost to add 1 additional police officer (equipment, fuel, insurance, salary and benefits) is approximately \$190,000



Challenges to providing city services

Current Parks & Rec. staffing is 47% lower than FY 2009-10 levels

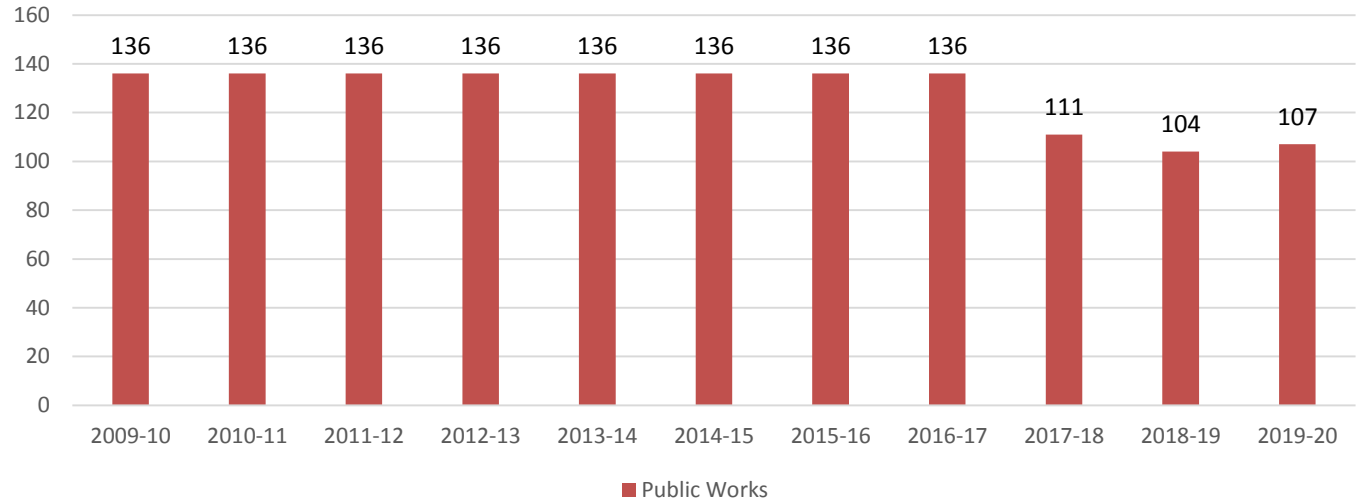




Challenges to providing city services

Current Public Works staffing is 22% lower than FY 2009-10 levels

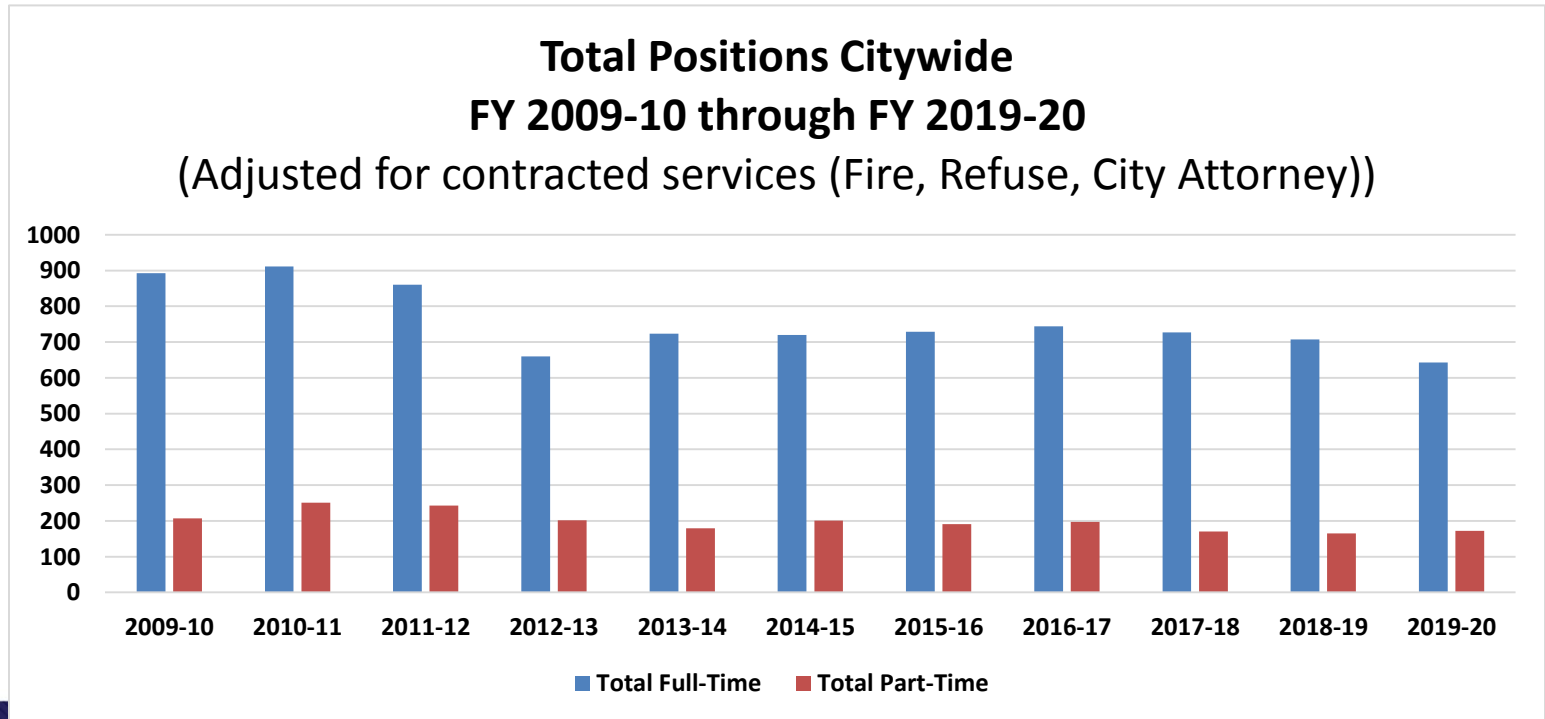
Public Works Staffing
FY 2009-10 through FY 2019-20





Challenges to providing city services

Current Citywide staffing is 28% lower than FY 2009-10 levels





Looking Forward

Possible Measure Z Renewal - local 1 percent sales tax

- For every \$1.00 spent, 1 cent is applied to taxable purchases
- Result:
 - keeps current \$9 million in the city

Plus

- over \$27 million additional revenue to city annually



Measure Z Renewal - Timing

- Ability to renew *Measure Z* could be jeopardized if another agency (county or SBCTA) places a sales tax measure on the ballot
- Remaining capacity for sales tax is 1.50%
- “*First come, first served*” –another agency could use the remaining capacity



Measure Z Renewal-Timing

Fact: of 7.25% sales tax assessed, the city only receives 1%

TOTAL SALES TAX LEGALLY ALLOWED IS 9.25%



1.50 % AVAILABLE TO CITY, COUNTY AND SBCTA (COUNTY TRANSPORTATION AGENCY)
"First come, first served"



Conclusion

Without an alternative revenue stream, expiration of Measure Z means:

- Loss of over \$9 million annually
 - equates to 7% of all General Fund revenue

- Reductions in all areas of city operations including:
 - police services
 - code enforcement
 - park maintenance
 - recreation programs & community events



Overcoming Challenges and Moving Forward

Conclusion

Questions?
Thank You!

