

City Council Budget Workshop

January 21, 2014

Agenda

1. Review December 17 Council consensus
2. Present the Budget Calendar
3. Present the General Fund structural deficit
4. Review balancing areas, options & potential solutions

1. Council Consensus

- December 17, 2013 Council Workshop
 - Schedule a series of budget workshops
 - Directed staff to take a dual approach – Short-term and long-term areas, options, and potential solutions for Council feedback

2. Budget Calendar

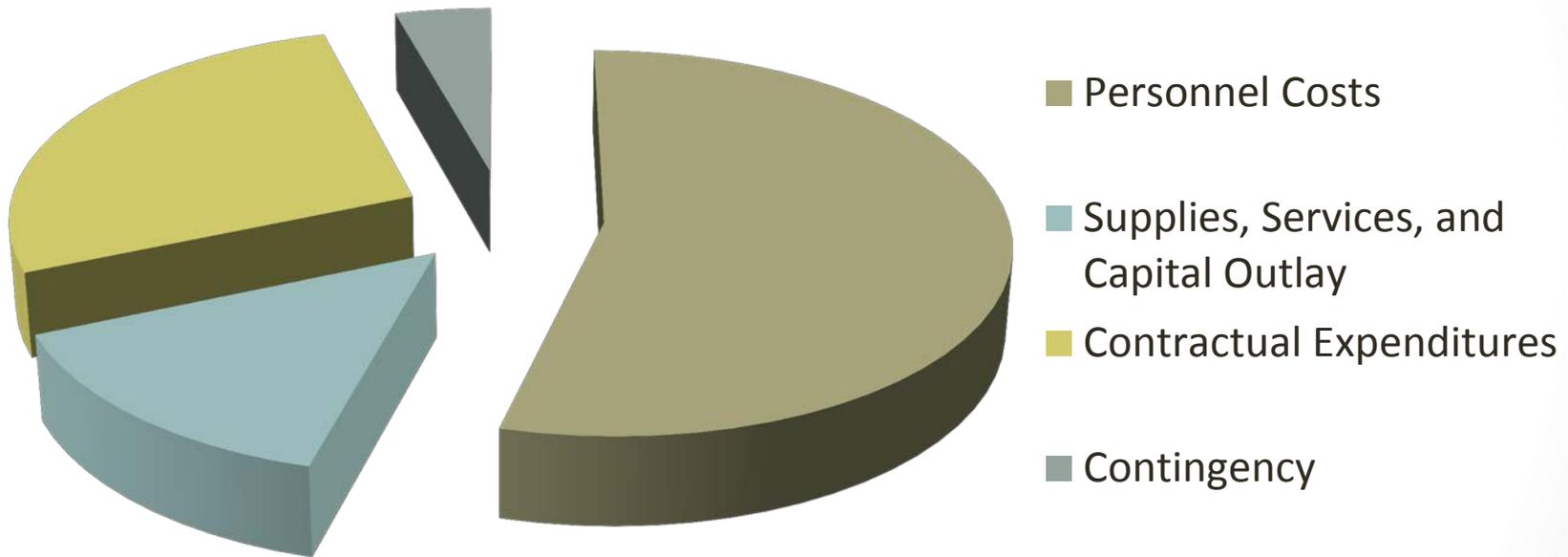
- Budget Workshops
 - January 21 – 9:00 a.m. to noon
 - February 4 – 9:00 a.m. to noon
 - February 18 – 9:00 a.m. to noon (non-General Fund review)
 - March 18 – 9:00 a.m. to noon
 - March 25 – *1:30 p.m. to 4:30 p.m.*
- Special Budget Workshops – Departmental Budget Review
 - April 8 – 9:00 a.m. to 5:00 p.m.
 - April 10 – 9:00 a.m. to 5:00 p.m.

3. General Fund Structural Deficit

- Approximately \$14 million annually in FY14-15 – FY16-17
- Grows to approximately \$30 million annually in FY17-18 and beyond
- At June 30, 2015, the ending fund balance is a deficit \$0.2 million
- Can the fund balance carry the structural deficit? No

| | FY14-15 | FY15-16 | FY16-17 | FY17-18 | FY18-19 |
|--------------------------------|---------------|----------------|----------------|----------------|----------------|
| Beginning Fund Balance | \$17,003,850 | (\$241,058) | (\$12,707,661) | (\$27,026,856) | (\$58,769,992) |
| Operating Revenue | 172,453,862 | 178,838,480 | 185,769,581 | 168,163,763 | 172,766,038 |
| Operating Expenditures | (181,076,077) | (182,363,159) | (190,800,298) | (191,498,710) | (193,806,382) |
| Contingency | (8,622,693) | (8,941,924) | (9,288,479) | (8,408,188) | (8,638,302) |
| Total Surplus/(Deficit) | (17,244,908) | (12,466,603) | (14,319,195) | (31,743,135) | (29,678,646) |
| Ending Fund Balance | (\$241,058) | (\$12,707,661) | (\$27,026,856) | (\$58,769,992) | (\$88,448,638) |

Where does the money go?



Addressing the Structural Deficit

- Options
 - Increase revenue,
 - Decrease expenditures, or
 - A combination of the two
- Short-term Options – those that can be implemented in the current year (FY13-14) or during the budget process (FY14-15)
- Long-term Options – those that cannot be implemented before or during the current FY14-15 budget process

Options Available

● Short-Term Options

- Reduce or eliminate contingency funding
- Adjust or remove expenditures such as salary increases
- Increase administrative inter-fund charges to enterprise funds
- Immediately reduce or eliminate services or service levels
- Liquidate assets (one-time cash inflows only)

● Long-Term Options

- Seek new revenue sources
- Review of current property and sales tax which could include continuation of the sales tax increase at predetermined levels
- Reinvent Glendale City government, through stakeholder input and evaluation of alternative service delivery models including liquidation of additional assets
- Reevaluate/reneegotiate current contractual obligations and debt structure

3. Budget Balancing

- Budget Balancing Adjustment Summary
 1. Interactive tool
 2. Tracks the budget balancing items
 3. Summarizes the financial impacts of the balancing items for the next 5 years

Budget Balancing

- Examining Three Areas
 1. Debt/Contractual Expenditure Restructure
 2. Revenue Enhancements
 3. Expenditure Reductions
- Staff has been and will continue to evaluate all three areas - As items are examined, will bring them to Budget Workshop for feedback

Debt/Contractual Expenditure Restructure

| | FY14-15 | FY15-16 | FY16-17 | FY17-18 | FY18-19 |
|---------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Debt Service | (\$31,488,661) | (\$31,987,862) | (\$31,470,333) | (\$31,234,935) | (\$33,600,456) |
| Capital Lease Payments | (1,837,463) | (3,357,000) | (3,305,000) | (3,305,000) | 0 |
| Inter-fund Loan | (1,843,202) | (1,844,699) | (2,240,837) | (2,496,100) | (2,492,108) |
| Other Contractual Amounts | (19,222,075) | (15,500,000) | (20,500,000) | (15,500,000) | (15,500,000) |
| Total Contractual Expenditures | (\$54,391,401) | (\$52,689,561) | (\$57,516,170) | (\$52,536,035) | (\$51,592,564) |

- Debt Service – No options
- Capital Lease Payment – Can possibly prepay
- Inter-fund Loan – Staff recommends modifying
- Other Contractual Amounts – As staff examining budget balancing options, contractual obligations will continue to be examined

Debt/Contractual Expenditure Restructure

- Current Inter-fund Loans

- Two loans totaling \$45 million payable from the General Fund
- Term – 25 years each

| (amounts in millions) | Loan 1 3.92% |
|-----------------------|-----------------|
| Landfill | \$21.0 |
| Sanitation | 4.0 |
| Total | \$25.0 |

| (amounts in millions) | Loan 2 3.25% |
|-----------------------|-----------------|
| Water & Sewer | \$15.0 |
| IT Replacement | 2.0 |
| Vehicle Replacement | 3.0 |
| Total | \$20.0 |

Debt/Contractual Expenditure Restructure

- Proposal

- Make the loans variable interest rate based on the City's rate of return on investments
- Reset the interest rate each year
- Keep the same principal amortization
- Estimated savings

| | Est. Savings |
|---------|--------------|
| FY13-14 | \$ 1,437,707 |
| FY14-15 | \$ 1,341,592 |
| FY15-16 | \$ 1,246,098 |
| FY16-17 | \$ 1,151,287 |
| FY17-18 | \$ 1,046,439 |
| FY18-19 | \$ 938,857 |

Revenue Enhancements

- Staff will continue to examine fee structures
- Four major categories
 1. Local Taxes (City Sales & Property) – 52%
 2. Intergovernmental (State-Shared) – 31%
 3. Fees, Licenses, & Permits – 9%
 4. Other – 8%

Revenue Enhancements

- Local Taxes
 - Primary Property Tax - \$5.3 million
 - Can increase levy by 2%
 - Is that agreeable to Council?
 - Secondary Property Tax
 - Can only be used for voter approved debt service payments (G.O. Bonds)
 - Cannot be used to support operating costs

Revenue Enhancements

- City Sales Tax - \$84.1 million

- Sales Tax Structure

| Fund | Rate |
|-------------------------|------|
| General Fund | 1.2% |
| General Fund Temporary* | 0.7% |
| Transportation | 0.5% |
| Public Safety | 0.5% |
| Total | 2.9% |

* Single items over \$5,000 are not subject to the 0.7% tax rate

- Options:

1. No action (0.7% expires 7/31/2017)

2. Change the sales tax rate now or upon expiration

- Each 0.1% Generates Approximately \$3.4 million (assumes single items over \$5,000 are not taxable)

Expenditure Reductions

- Previously, the City has implemented cuts in personnel, supplies, training, and other controllable costs
- Some items may be short-term, some items may be long-term (researched)
- Options include:
 - Alternative Service Delivery
 - Adjust/Eliminate Contingency Funding
 - Adjust/Eliminate Proposed Merit Increases

Expenditure Reductions

- Alternative Service Delivery
 - Eliminate/reduce services
 - Provide services through an alternative method
 - Privatization
 - Shared services
 - Partnering with other public or private entities

Expenditure Reductions

Alternative Service Delivery options could include the following services:

| | | |
|---|------------------------------------|-----------------------------|
| Transit | Sanitation & Landfill | Building Inspection |
| Custodial | Fleet Maintenance | Engineering Review |
| Parks & Median Maintenance | Recreation/Civic Center Management | I.T. Infrastructure Support |
| Libraries | I.T. Applications Support | Business Licensing |
| Public Relations/Special Events | Payroll Processing | Sales Tax Auditing |
| Web Site Management | Risk Management | Glendale 11 |
| Streets/Sweeping/Signals /Intersection Repair | Plans Review | Cemetery |
| Security | Arts | Facilities Management |
| Recruitments | Training | Benefit Administration |

Expenditure Reductions

- Alternative service delivery
 - Based on Council Feedback, staff could identify prioritized services for Council to review
 - This is a lengthy process and staff anticipates multiple public meetings with significant stakeholders input

Next Steps

- Staff will begin research on Alternative Service Delivery options
- February 4 – staff will present additional ideas for revenue/savings

Budget Balancing Adjustment Summary

City of Glendale Budget Balancing Adjustment Summary

| | Revised Estimate | Forecast | | | | |
|----------------------------|------------------|--------------|--------------|--------------|--------------|--------------|
| | FY13-14 | FY14-15 | FY15-16 | FY16-17 | FY17-18 | FY18-19 |
| Total Income (Loss) | (2,121,967) | (17,244,908) | (12,466,603) | (14,319,195) | (31,743,135) | (29,678,646) |

| Budget Balancing Items: | | | | | | |
|--|-------------|-----------------|---|---|---|---|
| Item # | Description | Recurring (Y/N) | | | | |
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| Total Budget Balancing Item Adjustments | | | - | - | - | - |

| | | | | | | |
|---|-------------|--------------|--------------|--------------|--------------|--------------|
| Total Income (Loss) - After Budget Balancing Items | (2,121,967) | (17,244,908) | (12,466,603) | (14,319,195) | (31,743,135) | (29,678,646) |
| Beginning Fund Balance | 19,125,817 | 17,003,850 | (241,058) | (12,707,661) | (27,026,856) | (58,769,991) |
| Ending Fund Balance | 17,003,850 | (241,058) | (12,707,661) | (27,026,856) | (58,769,991) | (88,448,637) |

| December 17, 2013 Five-Year Forecast: | | | | | | |
|--|-------------|--------------|--------------|--------------|--------------|--------------|
| Total Income (Loss) | (2,121,967) | (17,244,908) | (12,466,603) | (14,319,195) | (31,743,135) | (29,678,646) |
| Beginning Fund Balance | 19,125,817 | 17,003,850 | (241,058) | (12,707,661) | (27,026,856) | (58,769,992) |
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Additional feedback?