



CITY MANAGER'S BUDGET MESSAGE

October 20, 2011

Honorable Mayor and Members of the Common Council
City of San Bernardino
300 North "D" Street
San Bernardino CA. 92418

With this transmittal letter, I am presenting the adopted Fiscal Year 2011-12 budget. As we transition into the new fiscal year, there are a number of themes to keep in mind.

Fiscal Year 2010/11 in Review

Year End Balances

Before we discuss the new fiscal year, it is important to review the current fiscal year to provide a context of comparison. In addition, the assumptions for fiscal year 2011-12 are built upon year-end estimates of revenues and expenditures for fiscal year 2010-11.

FY 2010-11 Estimated Year-End General Fund Balance	
Beginning Balance	\$2,998,000
Total Available	\$131,242,200
Total Deduction	\$129,156,800
General Fund Balance 6/30/11	\$2,085,400

In response to the continued poor economic conditions and the determination that voters would not approve an increase in taxes, the City Council modified the 2010-11 budget by implementing an 8% budget reduction to all Department expenditures. Budget savings were also achieved by reducing travel, prudent spending by all departments and the continued 5% voluntary reduction in contract service and supply costs from vendors. As shown above, year-end general fund deductions are projected to be \$129,156,800. Available funds in the General Fund are projected at \$131,242,200. As a result, the estimated General Fund balance is \$2,085,400.

Accomplishments

Despite the financial challenges facing the city which have resulted in numerous budget cuts to all the departments, the city continues to strive to provide the same level of service to the residents. Some of the significant accomplishments are;

- There was a significant reduction in crime, violent crime decreased by 14.86% and "Part 1" crime also decreased by 5% during the 2010 calendar year.
- Established the Fire Cadet Program.
- Removal of approximately 3,576,532 square feet of graffiti within 24 hours of being reported.
- Approximately 4,820 potholes were repaired throughout the City
- Resurfaced 4,659,012 square feet of City streets

23 lane-miles were resurfaced in FY 10/11 at a total cost of \$1,342,904



Alabama Street Flood Damage and Repair



- The Parks Department reopened four community centers through grants and collaborative partnerships/leases including the Nicholson Park Family Learning and Community Resources Center which was reopened in conjunction with the San Bernardino County Preschool Services and Project Life Impact.

- Completed basic park maintenance despite 50% reduction of maintenance work force, with assistance of volunteers: CCC, Glen Helen work release, and SBETA summer workers
- Provided library services to ½ million visitors and loaning over 327,000 books.
- Established SB Direct, the City's first Call Center which will ensure that the City will respond the citizen's requests, inquiries and complaints in a timely and responsive manner.
- A variety of CIP projects have been completed including Pavement Rehabilitation, Parks Sewers, Traffic Signals, and Storm Drains.

Fiscal Year 2011-12 Budget Highlights

The 2011-12 fiscal year budget is the second year of a two-year budget approved in June 2010. No additional cuts were made to the City's budget beyond the round of 8% cuts, which totaled about \$11 million, approved in August 2010. Overall, the City's budget for all funds is \$259 million for fiscal year 2011-12.

In fiscal year 2010-11, the first year of the two year budget; council and staff made some very difficult decisions. The financial decisions made were prudent, necessary and have better positioned the City to avoid additional cuts and prepare the city to recover as the economy begins to improve.

As part of the adopted budget, the Council also approved a \$55.5 million Capital Improvement Program (CIP), which is \$3 million less than the previous year. The CIP will address critical projects and provide maintenance of City buildings, roads, lighting, sewers and parks.

Factors Influencing the Fiscal Year 2011/12 Budget Development

Over the last several years the City of San Bernardino, as well as the entire nation, has grappled with historic downturns in the national economy which resulted in declining revenues while at the same time personnel and other costs increased. Other factors influencing the budget include, but not limited to:

- Collapse of the financial industry
- Steep decline in housing values
- Skyrocketing foreclosure rates
- Escalating unemployment rates
- Stock market incurs record losses
- State of California continues to have a multi-billion deficit

In addition, the City of San Bernardino was not adequately prepared when the downturn began. The City was already facing immense challenges emanating mostly from escalating personnel costs and unfunded retirement liabilities as well as inadequate reserves. Consequently, the City did not have many options to deal with these challenges.

Impact to the City

The combination of these challenges created a structural financial deficit for the City of San Bernardino as shown to the right.

Budget Deficit Projections	
FY 2008-09 Deficit:	(\$26,398,829)
FY 2009-10 Deficit:	(\$24,572,100)
1st Qtr. FY 2009-10 Additional Deficit:	(\$4,900,000)
Mid-Year FY 2009-10 Projected Deficit:	(\$3,437,400)
FY 2010-2011 and FY 2011- 2012 8% Cuts	(11,200,000)
Cumulative Budget Deficits	(\$70,508,329)

The City has had to reduce services as well as delete positions in order to balance the budget. As shown below, 250 employee positions have been deleted since fiscal year 2008-09.

Employee Cuts	
Deleted Positions in FY 08-09 Adopted	87
Deleted Positions in FY 09-10	86
Deleted Positions in FY10-11 and FY11-12	77
Total Deleted positions	250

Future Challenges

The challenges mentioned above have also affected the city's ability to address many immediate issues which include:

- Replacement and Repair for City Facilities/Buildings
- Fleet Vehicle Replacement
- Technology Investment
- Street Infrastructure

Action taken to address these Challenges

In order to stabilize the City's deteriorating financial condition, a strategic and long-term approach was undertaken that was designed to increase revenues as well as decrease expenditures. There were six key aspects of the strategy which included creating efficiencies; enhancing revenues; implementing entrepreneurial enterprises and consolidations; conducting negotiations with labor groups; identifying program reductions; and performing economic development efforts.

As part of the long-term financial strategy approach, the City of San Bernardino for the first time completed a five year financial analysis that allowed the organization to systematically identify, plan and achieve goals within available resources. This long range focus ultimately led the City to adopt a two year budget balancing plan in fiscal year 2010-11. The budget

being presented to the Mayor and Council for fiscal year 2011-12 is the second year of the adopted two year budget balancing plan.

On June 30, 2010 the City adopted its final budget for fiscal 2010-11 that included Personnel Cost Savings assumptions worth about \$10.7 million and various revenue strategy assumptions worth about \$10.2 million. Various revenue strategies were considered which included a Real Property Transfer Tax, a Cost Allocation/Right of Way Study, a City-Wide Maintenance Assessment District and a half cent increase to the Local Transaction and Use Tax. After further consideration of these items, it was determined that only the Cost Allocation/Right of Way Study was a viable option for the City of San Bernardino. With only one new potential revenue source identified to help reduce the budget shortfall, a Modified Budget Strategy was developed and adopted that included an 8% budget reduction in all Departments to bring the FY 2010-2011 and FY 2011-2012 budgets into balance.

The fiscal year 2011-12 preliminary budget reflects continued implementation of the Cost Allocation/Right of Way Study and the approved 8% budget reductions. Also included in the fiscal year 2011-12 preliminary budget are updates to Department's accomplishments and performance measurements.

Although Department's had to reduce their budgets, many major accomplishments were still completed over the last year. With the City's financial condition being more stable, focus on accomplishments and performance measures are vital for the continued success of the City.

Revenue Enhancements		
	FY 10-11	FY 11-12
Cost Allocation/ROW	\$ 6,233,800	\$ 6,233,800
Total	\$ 6,233,800	\$ 6,233,800

8% Department Budget Cuts		
	FY 10-11	FY 11-12
Department Budget Cuts	\$4,113,900	\$11,162,000
Total	\$4,113,900	\$11,162,000

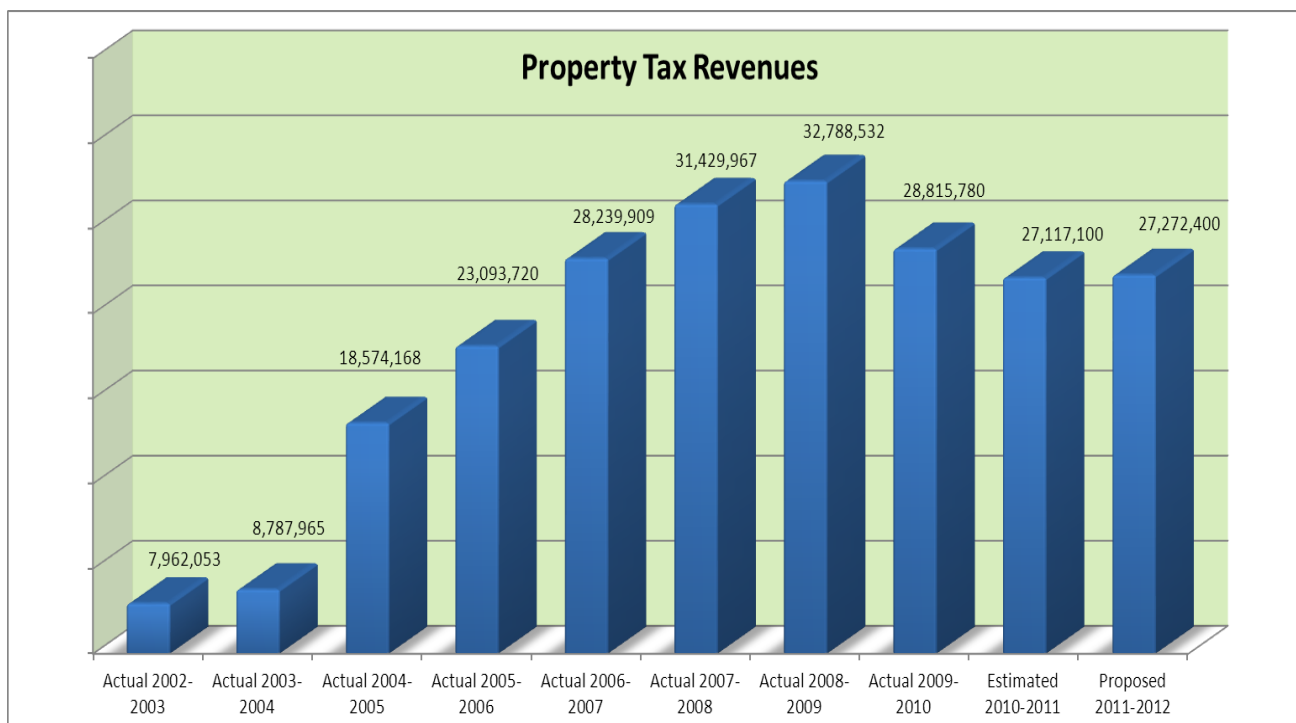
Budget Overview (Budget Totals, Revenues & Expenditures)

General Fund Budgeted Revenue			
	FY 09-10	FY 10-11	FY 11-12
Property Taxes	28,815,780	27,117,100	27,375,000
Sales Tax	16,145,282	17,300,000	18,386,400
Prop Tax In Lieu Sales Tax	4,266,819	5,656,400	6,191,100
Utility User Tax	22,630,460	22,016,800	22,500,000
Other Taxes	11,660,389	12,253,500	13,026,300
Licenses and Permits	8,184,221	7,772,800	7,832,700
Fines and Permits	3,379,134	3,049,000	2,884,000
Use of Money and Property	2,754,156	3,272,100	837,000
Intergovernmental	6,194,383	5,969,100	3,708,900
Charges for Services	5,494,878	5,554,900	5,940,300
Miscellaneous	7,134,145	5,290,700	5,684,200
Total General Fund	116,659,647	115,252,400	114,365,900

For fiscal year 2011-12, the City's overall budget is \$259 million with \$128 million General Fund deductions.

As shown by the table above, General Fund Revenues have continued to decline. From fiscal year 2009-10 to 2010-11, revenues declined by 1.4 million however, from fiscal year 2010-11 to 2011-12 the gap appears to narrow as revenues declined by \$887,000 . Most of the City's General Fund Revenues come from Property Tax, Sales Tax and Utility User Tax.

Property Tax

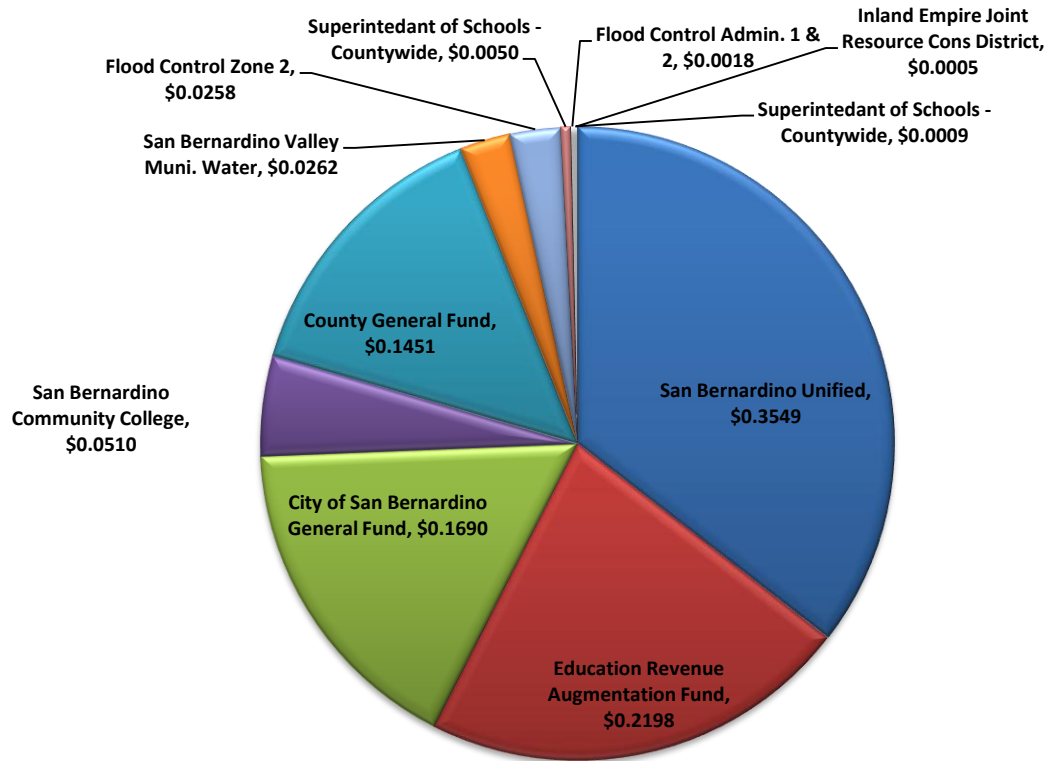


After reaching a peak of \$32.8million during the 2008-2009 fiscal year, property taxes declined to their lowest in 5 years to \$27 million in fiscal year 2010-2011. Perhaps reflecting the muted recovery of the overall economy as the chart above indicates, the City is projecting a modest 1% increase for the 2011-12 fiscal year.

The chart below shows the allocation breakdown of every property tax dollar that is paid within the City of San Bernardino

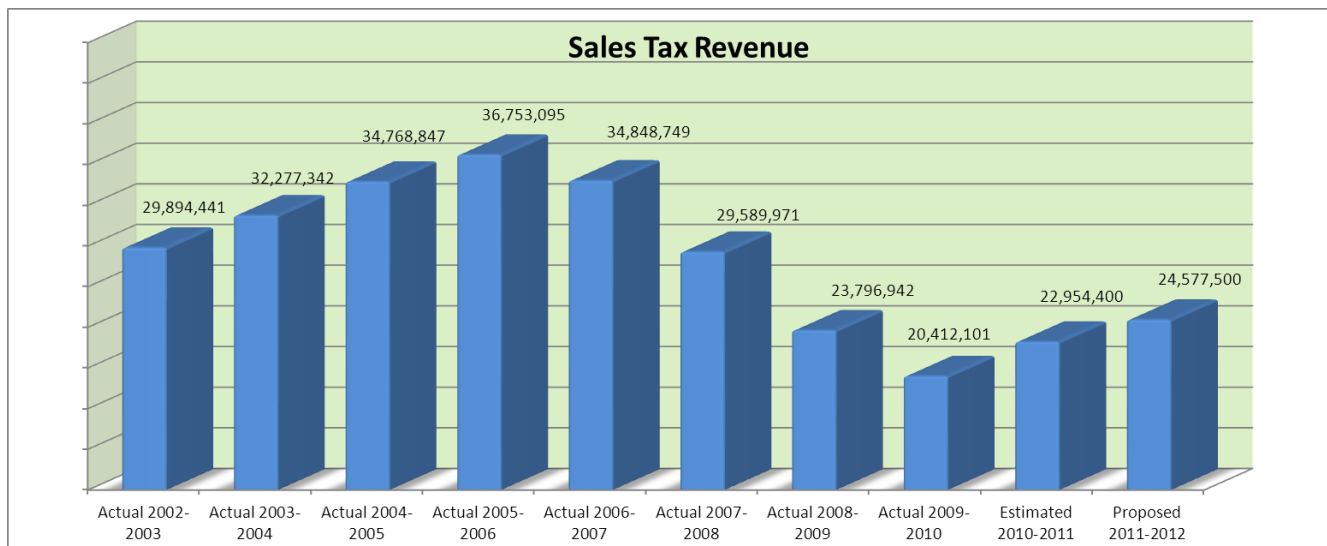
The City of San Bernardino General Fund is allocated \$0.1690 for every dollar that is paid in Property Tax. The remaining property tax funds are distributed among other public agencies. For instance, the San Bernardino Unified School District is allocated \$0.3549; the County of San Bernardino is allocated \$0.1451.

City of San Bernardino Property Tax dollar Breakdown

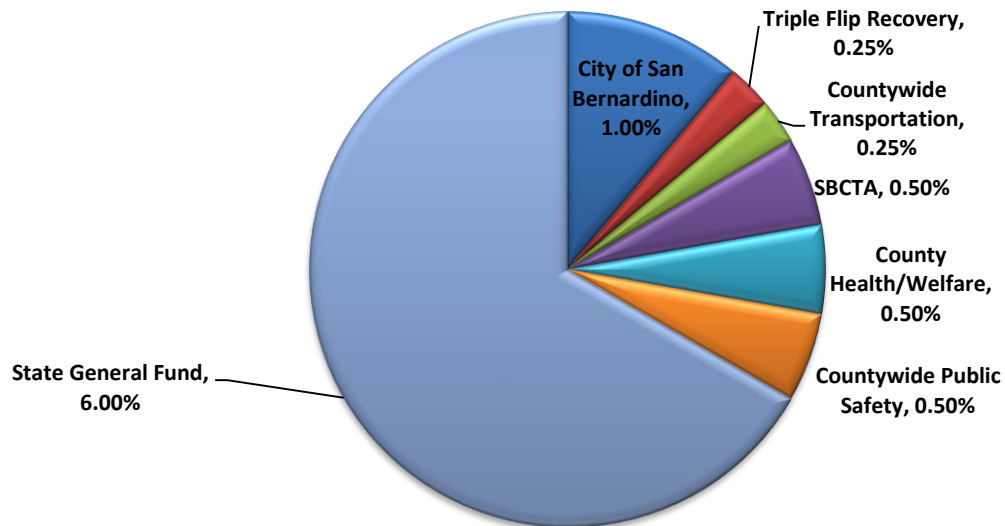


Sales Tax

Sales Tax Revenues increased by \$1.6 million over the previous fiscal year's updated revenue estimate. The total sales tax levied on consumers in the City of San Bernardino is 9.0%.



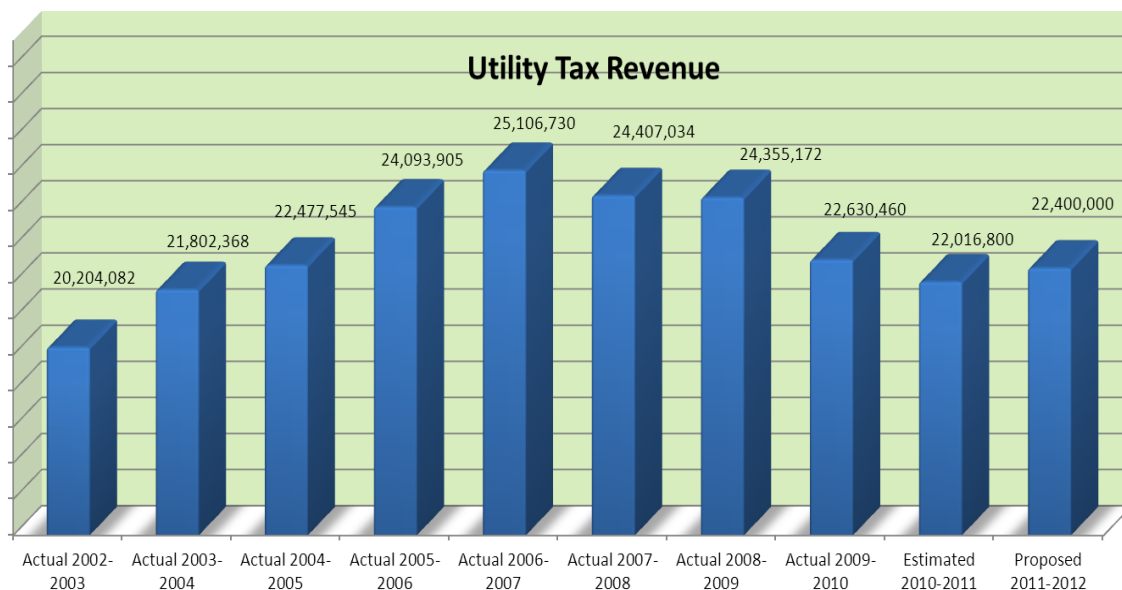
City of San Bernardino Sales Tax Breakdown



As shown above, from sales tax revenue, the city receives a 1% allocation from the Bradley-Burns Uniform Local Sales and Use Tax Law. In addition the City of San Bernardino receives an additional .25% from the voter approved Measure Z tax for public safety. The remainder of the sales tax revenue generated by businesses is distributed to the State and other local governmental agencies.

Utility Tax

The Utility Users Tax (UUT) is another major revenue source for the city of San Bernardino and it is imposed on users of utilities within the city, such as cable, gas, electric and telephone at a rate of 7.75%. After reaching a peak of \$25,106,730 in 2007 fiscal year, it steadily declined to its lowest rate of \$22,016,800 during the 2010-11 fiscal year. For the 2011-12 fiscal year, it is estimated the UUT will collect \$22.5 million which is an increase of \$382,200.



Expenditures

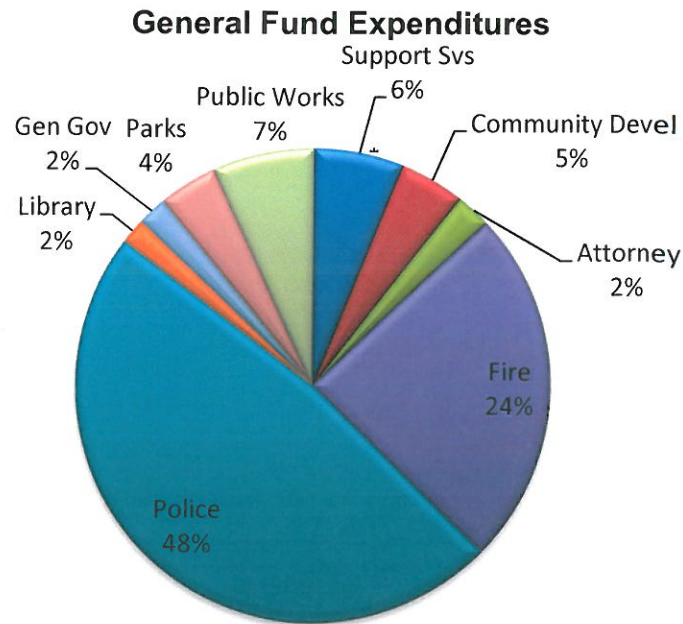
The majority of the City's operations including Police and Fire are funded by the General Fund. As the economy has continued to struggle, revenues have declined. This has affected the City's ability to provide services because of the limited resources available. The result has been a sharp decrease in General Fund expenditures from a high of \$144 million in the 2007-08 fiscal year to 126 million in 2011-12 fiscal year. During this unprecedented economic climate, the City Council made some important and difficult decisions while trying to continue to maintain essential services. Some of those decisions include employee wage concessions and lay-offs that affected every City Department.

The projected expenditures for fiscal year 2011-12 show a slight decrease of 1% from the previous fiscal year.

General Fund Expenditure Trend				
Expenditures				
Department	FY 2008 - 09	FY 2009-10	FY 2010-11	FY 2011-12
Mayor	805,567	806,091	696,900	764,600
Common Council	488,217	472,961	542,900	616,000
City Clerk	1,617,503	1,888,917	1,558,800	1,445,200
City Treasurer	209,461	197,763	202,200	210,400
City Attorney	3,609,499	3,457,097	3,908,900	3,026,000
Code Compliance	4,116,077	3,224,002	-	
General Government	6,808,278	7,223,211	2,853,100	3,741,200
City Manager	990,923	1,002,141	1,179,700	1,282,000
Civil Service	292,656	283,797	288,800	365,400
Human Resource	440,359	476,406	541,500	614,300
Finance	1,588,330	1,541,034	1,599,200	2,518,400
Development Services	05,086,697	3,889,599		
Community Development			6,782,200	5,651,100
Fire	35,019,831	32,974,795	32,530,900	30,927,600
Police	65,625,095	59,668,889	61,209,900	61,161,400
Facilities	3,444,570	3,236,805	-	
Parks,	5,765,815	4,301,541	5,251,300	5,116,900
Public Services	5,233,174	4,892,927	-	
Public Works	0		8,245,100	8,756,800
Total	\$141,142,052	\$129,537,976	\$127,224,600	\$126,197,300

For fiscal year 2011-12, the expenditures for the Public Safety departments totaled \$92 million compared to \$100 million in fiscal year 2008-09.

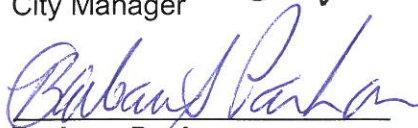
Police and Fire expenditures represent 72% of the General Fund budget with the remaining 28% split among the rest of the departments.



I wish to thank the Mayor and City Council members for their hard work and determination in setting policy direction for the City. Let me assure you that the City staff and I are dedicated to implementing that policy direction to provide the best quality of life possible for the city's Residents.

Sincerely,


Charles E. McNeely
City Manager


Barbara Pachon
Finance Director