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**CITY OF SAN BERNARDINO
CITY MANAGER'S OFFICE
MEMORANDUM**

TO: Honorable Mayor and City Council

FROM: Mark Scott, City Manager

SUBJECT: Adoption of Fiscal Year 2017/18 Budget

DATE: May 31, 2017

As we look forward to the 2017-18 Fiscal Year, it is worthwhile to look back, at least briefly, at the community's many achievements over the current year that ends June 30. During this year, the City has essentially exited a four-year bankruptcy, and the City's Finance Department has brought the organization current on financial audit reports. In November, City voters overwhelmingly approved the new City Charter, allowing implementation of a new, more efficient governance system. Our extraordinary San Bernardino Police Department has reorganized effectively its efforts to reduce violent crime and has, for the first time in years, been able to add net new sworn officers to our roster. The new budget continues to channel additional resources to Police staffing and critical equipment, technology and vehicles.

The entire San Bernardino community has stepped up in many ways. The San Bernardino City Unified School District continues to graduate record numbers and excels in training our students throughout their school years in a variety of career paths. Both California State University San Bernardino and San Bernardino Valley College are developing new, state-of-the-art facilities and programs. The Inland Valley Development Authority is attracting new business investment to the Airport. New investment is occurring in our industrial areas, and creative local businesses like Garner Holt Productions continue to put the City on the map.

The impressive new Loma Linda Medical Center/San Manuel Gateway College represents a remarkable investment in our downtown, located adjacent to the new Downtown Transit Center and San Manuel Stadium, which hosts the newly re-signed San Bernardino Sixty-Sixers baseball team. All of this development is located on the new SBX Rapid Bus line, connecting Loma Linda Medical Center, our Hospitality Lane retail core, the Inland Center Mall (with its prestigious JC Penney new concept store), the downtown government offices, and Cal State University. Coming soon, the City's efforts to develop the old Carousel Mall are expected to generate new Theater Square restaurant development and

upgrades to the very successful Regal Theater. In the not-distant future, the City hopes to see additional retail, restaurant and housing development on the site of the old Carousel Mall. The historic Andresen Building has already transferred to new ownership which hopes to attract small tech businesses.

Also on the E Street/SBX corridor, the City and San Bernardino Valley Water District just dedicated the new Bryce Hanes Park and Jon Cole Skate Park, representing the kind of partnership successes that are giving San Bernardino a new reputation.

There are many other successful partnerships worthy of mention and at the risk of omission, these include the beautiful Arrowhead Grove (Waterman Gardens) housing development and Specific Plan. This project partners the nonprofit National Core Housing Corporation, the County Housing Authority, HUD, the County and other associated contributors. In the same neighborhood, the City's partnership with Elmore Sports has turned the City's Soccer Complex into a major youth sports hub and attracts thousands of weekend visitors. And thanks to the San Manuel Tribe, the State revenue generated from the gaming industry contributes millions in revenue annually for regional transportation system improvements. Any list of partnerships must include the contributions from State, County and Regional Agencies including the San Bernardino County Sheriff's Office, the County Fire District, the County Homelessness Program, Caltrans, SBCTA, SBCOG, Omnitrans and all of the many contributing San Bernardino businesses, residential associations, nonprofit agencies, churches and others.

If people have not been paying attention, it is worthy of note -- San Bernardino is open for business and our future is bright!

The 2017-18 Fiscal Year Budget

It truly has taken the entire City team to prepare this proposed Annual Operating Budget. In particular, I want to recognize the huge effort led by Finance Director Brent Mason and Budget Manager Dixon Mutadzakupa, along with staff members Maya Lopez and Shelby Burguan. Each of the City's department heads and department budget staff have spent months in careful preparation. Assistant City Manager Andrea Miller, consultant Martin Pastucha and their team have similarly put tremendous work into developing our Capital Improvement Plan (CIP) nearly from scratch. The final five-year CIP document is not complete as of this writing, but will be presented shortly. For now, a one-year CIP will be presented to the Mayor and City Council.

Staff is presenting the proposed 2017-18 budget for public hearing on June 7. Final adoption is scheduled for June 21. Staff will do its best to address any additional Council questions between now and June 21.

In the remainder of this transmittal letter, I will provide City Manager comments on the following:

- Overall Budget and Management Context
- Revenue Context
- Expenditure Context
- Capital Budget Context
- Major Budget Policy Discussion Issues

Overall Budget and Management Context

While the City's momentum has improved significantly, it would be overly optimistic to suggest that decades of decline can be reversed overnight. In fact, the City's Bankruptcy Plan of Adjustment is very realistic in showing only modest budgetary growth over the entire 20-year period.

The proposed 2017-18 Budget is balanced and maintains the target 15% General Fund reserve. This needs to be understood, however, within the entire fiscal context. Among California's largest cities, San Bernardino is without doubt among the lowest in Government Revenues Per Capita and in City Employees Per Capita. Furthermore, our average household income is low and our poverty rate is high. Very frankly, to "catch up" with other communities, we will need to out-perform them with lesser resources. Those are the circumstances we face as we enter the new fiscal year. San Bernardino has great, positive momentum, but we also have lower than average resources, and we will have to operate within our means.

Our Promise -- As City leaders, it is our obligation to make realistic promises. A "brand" is built on its promises:

- This organization will strive to make efficient use of its resources and search for innovative solutions.
- We will do our best to systematically address our challenges, rejecting the "squeaky wheel" response methodologies of the past.
- While we will not be able to immediately fix every pothole, repair every streetlight, solve every code violation, or repair every sidewalk, we will create mechanisms by which citizens can get reasonable solutions for their service requests.

The organization has not yet achieved the above as we enter the new fiscal year, but it is our intention during this fiscal year to get there. As City Manager, my job is to hire the right talent to fill our relatively small management staff and to lead that staff in creating efficient, reliable service delivery processes and systems.

The Revenue Context

As indicated above, San Bernardino is a low revenue city. That puts us at a competitive disadvantage. For example:

- Property tax is based on the market value of property in a city.
- Sales and Utility User Tax correlate to the value of local sales.
- Business Registration Tax relates to local business sales.

Tax revenues are higher in cities where higher property values exist and high-volume business spending occurs. At the same time, it costs roughly the same to repair a street in Rancho Cucamonga as in San Bernardino. California's tax system rewards wealth.

In San Bernardino, our Property Tax is committed to the County Fire District to pay for our local fire service. (One-third of our VLF in-lieu revenue also goes to the County). The effect is that future property value growth will provide dramatically less benefit to City revenue totals unless or until the City and County evaluate future County Fire costs and adjust the sharing equation accordingly.

While our budget and fiscal model assume future 3% growth in Sales Tax revenues, many cities are recognizing that the trend towards internet sales and un-taxed service purchases are threatening the long-term strength of Sales Tax as a city revenue. Utility User Tax (UUT) is also showing weakness throughout the State due to downward changes in consumer spending on telecommunications products.

Under State law, User Fees and Permit Charges are generally limited to a city's actual costs. Therefore, our only potential upside lies in the fact that the City is undercharging for our actual cost in many situations. When our ongoing "Fees and Charges" study is completed this summer, the City Council will have the opportunity to raise those fees and charges that are not covering cost. This could have a significant impact on the City budget if the Council finds increases to be palatable.

The City has some positive revenue news in a few limited areas, such as Transient Occupancy Tax (TOT) due to heavy hotel occupancy. Car sales and services remain strong. Business Registration Tax has been growing.

As the City Council has noted, the City needs to be as competitive as possible in efforts to secure grants from governments and foundations. Increasingly, grants are awarded more commonly to community partnerships and for projects that are ready for immediate implementation (shovel-ready). The City's grant efforts have been successful in recent years, and this budget allocates additional resources for grant-writing and consulting. The proposed Transportation Planner will be charged with identifying and pursuing the considerable amount of State and Federal transportation funding that is available.

Expenditure Context

This budget reflects the transfer of several function transfers as proscribed by the new Charter. These include:

- Sewer Collection – to the Water Department
- Business Registration – to the Finance Department
- Treasury Services – to the Finance Department
- Successor Agency – to the City Manager's Office
- Civil Service – to the City Manager's Office

Staff presented its funding recommendations at the May 8 Budget Workshop. Attached to this letter is a typed version of the City Manager's whiteboard presentation from the Workshop. The chart illustrates the list of recommended new expenditures, as well as departmental requests that are not recommended (i.e., those that are "below the funding line").

Spending recommendations were prioritized according to the following general criteria:

- ❖ Urgent Safety Considerations – The City Hall move, URM inspection, Public Works staffing and equipment.
- ❖ Restoring Public Safety Services – Staffing, vehicle and safety equipment replacement, radio maintenance services, Violence Intervention Program.
- ❖ Efficiency Considerations – Charter transfers, IT Director and upgrades, special event management, Call Center staff.
- ❖ Economic Development and Revenue Growth – Transportation Planner, Associate Planner, grant-writing and consulting.

Restoring Public Safety services remains a very top priority, with substantial increases added for Police vehicle and safety equipment replacement. The City continues to work toward increasing its sworn officer staffing and, during the last year, the net headcount has edged upward as new hires exceeded retirements and other separations. The budget maintains a target of 260 sworn officers, which would represent a net increase of 30+ new officers. If it were felt possible to exceed 260 in the next 12 months, staff would have budgeted an even higher number. That seemed implausible given the time involved in recruiting, attending academies, on-the-job training, etc.. Staff will return to seek additional funding whenever it is possible to exceed 260 sworn officers.

The proposed budget includes salary increase assumptions consistent with the bankruptcy plan (2% for general employees and 3.5% for sworn Police). The largest cost increase in the budget, not surprisingly, is the \$5.6 million increase for CalPERS employee retirement costs. While an extraordinary budget burden, the City's bankruptcy plan has assumed these increases.

Staff has made every effort to support the Mayor and Council's Priority Goals in the recommended resource allocation. Regrettably, the City Hall seismic condition has been an expensive distraction, but the move effort was conducted in an impressive manner. Several operational efficiencies have been realized in the process, and this is a stronger organization for the effort.

Capital Budget Context

Staff continues working to complete the new 5-Year CIP. The full multi-year document will not be ready to distribute to the City Council until after July 1. By State law, it must first be presented to the Planning Commission to determine consistency with the City's adopted General Plan.

In the meantime, staff will present a Year 1 (2017-18) Capital Budget including many of the most urgent projects that need to move forward. There is considerable funding available for Year 1 capital projects, much of it carried over for several years. Capital project funding will be scarcer in future years, but for the next 2 to 3 years, there is a large backlog of funded projects ready to go forward. With the reorganization of Public Works, we will be hiring staff capable of administering capital projects. This is a capacity that has largely been missing in recent years.

A sampling of Year 1 project includes:

- ❖ Completion of the Verdemont Community Center
- ❖ CDBG park projects
- ❖ Street Light Master Plan
- ❖ Broadmoor lighting & landscape improvements
- ❖ 201 (EDA) Building improvements
- ❖ Convention Center Roof/Plaza repairs
- ❖ Hospitality Lane/SBX Median and Signal reconfiguration
- ❖ Mountain Avenue Storm Drain and Street project
- ❖ Little Mountain Drive street improvements
- ❖ University Parkway & I-215 Interchange project next phase
- ❖ Mt. Vernon Bridge next phase
- ❖ 2015 Safe Routes to Schools projects
- ❖ Traffic Management Center equipment upgrade
- ❖ City Data Center improvements
- ❖ Asset Assessment consultant assessment
- ❖ Hybrid vehicle acquisition
- ❖ Various street paving, storm drain, ADA, traffic signal projects, sidewalk and other repairs

Major Budget Policy Discussion Issues

Budget allocation decisions are, by their very nature, financial "tradeoff" issues. Unless the program generates its own revenues, virtually every add requires an offset.

Several topics have come up during budget preparation and the recent workshop. These items may merit further Mayor and City Council discussion on June 7 or 21:

Extra Staffing for:

- Public Works Field Services – to provide additional resources for street, streetlight, graffiti, blight clean-up, property maintenance, and other maintenance issues
- Code Enforcement -- to increase the number of cases that can be processed.
- Building Plan Check – to be more quickly responsive to an increasing number of applicants.
- Parks Pool Maintenance – to avert shut downs and restore pool services.
- Recreation community centers – to provide positive impact on youth, seniors and others.

Park Ranger Program – Staff has been unable to move forward on this program to date, due to staffing and liability concerns.

Reduce Park Inventory -- The policy question is whether the City can afford to maintain our entire inventory of parks – or whether direction should be given to identify opportunities to sell, lease, develop or otherwise dispose of certain sites.

Library Hours -- Everyone would love to increase the hours and service levels of our libraries. The policy question is whether there is an alternative service delivery or sponsorship opportunity.

Animal Control Services -- The City needs to spend significant funding on the Animal Shelter – unless there is an alternative to contract for shelter services with other providers. Nothing in this question should be interpreted as criticism of current staff or the wealth of volunteer partners that support our program. This is, however, a responsible policy question.

Federal Lobbyist Services -- The Mayor and Council are aware of this opportunity. The question is simply whether the City would reap benefits that exceed the costs. If so, there is not a tradeoff consideration.

Employee Classification and Compensation Study -- This is one of those "must do" tasks that a City cannot defer forever. This is probably not the year we can do it, but perhaps next year will be.

IT Database and Permit System Upgrades -- These are upgrades are desirable, complex and costly. The City operates at a competitive disadvantage without the systems other cities have. It is not recommended this year, but should be addressed when possible.

Public Safety CAD/RMS System -- Ditto everything said above. This is an efficiency upgrade and could also have safety benefits.

Street Sweeping Hour Restrictions -- Councilmembers expressed desire to upgrade the quality of street sweeping by establishing "Street Sweeping Day No Parking" restrictions. Councilmembers asked if the program cost could be covered by parking citations. This is a desirable program, but would require weekly sweeping. At present, we provide only twice monthly sweeping. Costs would likely exceed revenues by a substantial margin.

Downtown Parking Meters -- Parking meters are effective where supply of convenient parking is in short supply. At present, there are hundreds of unused parking spaces downtown. Parking meters have costs and usually are not used until there is opportunity to install 500 to 1000 meters, to offset overhead costs. This is not recommended.

There will be other budget allocation policy issues that will arise associated with the CIP. Staff remains committed to evaluating the Mayor and City Council's questions and suggestions.

Conclusion

Speaking for Andrea, Brent, Dixon and the entire Executive Staff, I wish to thank the Mayor and City Council for your love of the community and for your work over the last year to provide a constructive atmosphere for policy direction. It is our privilege to serve this community.

The Community's momentum is clearly increasing, and we are building internal capacity to address our management challenges. We look forward to the next year and to our collective role in returning this City to a more prosperous condition.

Respectfully,



Mark Scott
City Manager