

City Council Meeting: June 5, 2019
Agenda Item: 4.A

To: Mayor and City Council
From: Gigi Decavalles-Hughes, Director, Finance Department, Budget
Subject: Financial Status Update, Fiscal Year 2019-21 Proposed Biennial Budget, and Fiscal Year 2019-20 Proposed Capital Improvement Program Budget

Recommended Actions

Staff recommends that the City Council:

1. Receive the FY 2019-20 through FY 2028-29 Financial Status Update, the FY 2019-21 Proposed Biennial Budget, the FY 2019-20 Proposed Capital Improvement Program (CIP) Budget and the Framework (Attachment A);
2. Review and provide direction to staff regarding Pier-related matters which discussion and direction shall not include Councilmember Morena: the Pier Fund; Proposed Capital Improvement Program (CIP) Pier-related projects; and Pier-related efficiencies;
3. Approve the six-year strategy outlined in this report and 13-year paydown of the City's current unfunded liability with California Public Employees Retirement System (CalPERS);
4. Approve the revised Framework to achieve a Sustainable City of Wellbeing and the Action Plans associated with the Council adopted Framework Priorities;
5. Provide direction to staff on the FY 2019-21 Proposed Biennial Budget and FY 2019-20 CIP Budget (Attachment A);
6. Receive an update from the City Manager about the methodology to be used for analyzing and making recommendations on mid- and long-term program changes (attached to April 30, 2019 staff report), including the convening of a Budget Task Force reporting to the City Manager; and
7. Review and comment on the grant funding recommendations included in the attached Cultural/Art Organizational Support Program (OSP) for the FY2019-21 funding cycle.

Executive Summary

This report formally presents the FY 2019-21 Proposed Biennial Budget and Capital Improvement Program Budget for FY 2019-20 for City Council discussion and direction in anticipation of final adoption at the June 25th Council meeting.

As outlined in the City Manager's Message transmitting the proposed budget, *"the next three biennial budgets represent an important inflection point for Santa Monica's future."*

This Biennial Budget marks the beginning of a six-year effort to shift from traditional “maintenance of effort” budgeting to performance-based, outcome-driven budgeting that will allow us to maintain fiscal balance in a changing economy, eliminate the threat of our unfunded pension liability, sustain our ability to recruit and retain the best available talent, and invest in a 21st Century government that works better and costs less.

The Biennial Budget, consistent with previous Council guidance, implements a 13-year paydown of the City’s existing \$448 million unfunded pension liability. While this action requires additional expenditures for the next 13 years, this prudent proactive measure will save the City more than \$100 million over the next 30 years.

The FY 2019-21 Proposed Biennial Budget (Attachment A) is balanced, with resources reallocated to invest in achieving key Council and community priorities and maintaining the City’s core services, as well as budget reductions and investments that will slow the growth of future year shortfalls during a fiscally challenging period. The Proposed Biennial Budget is \$712.1 million in FY 2019-20 and \$755.9 million in FY 2020-21. The significant increase is due to the inclusion of major capital improvement projects funded in part through bond proceeds. The FY 2019-21 Proposed Budget includes efficiencies, eliminations and investments which are detailed in the budget document. In addition, the Efficiencies, Eliminations and Investments list (Attachment B) shows the dollar value associated with each proposed change.

With significant input from the community in January 2019 the Council identified six budget priorities: *Affordability*; *Climate Change*; *Engaged and Thriving Community*; *Keeping Neighborhoods Safe*; *Mobility and Access*; and *Reduce Homelessness*. These priorities are part of the Framework as sub-outcomes, dedicated work streams organized by outcome area. Staff has developed a Plan of Action for all six of these Framework Priorities, included in the budget, which detail current and new investments designed to achieve key outcomes. During the next two years, through the City’s active performance management process, known as SaMoStat, staff will drive and monitor the progress of both new and existing investments to meet targets and achieve outcomes.

The Proposed Budget also includes fee changes, most of which are to reflect automatic cost of living adjustments, that are being presented to Council for consideration and will be brought for adoption as a fee resolution along with the budget on June 25.

Staff has updated the Ten-Year Forecast that was presented to Council on January 22, 2019 to reflect the Proposed Budget as well as the elements of the City's proposed six-year plan, which include additional budget reductions in the second and third biennial budgets. If the budget plan is approved, the General Fund updated forecast, called the Financial Status Update, shows three years of positive General Fund balances reducing by nearly half the shortfall anticipated in FY 2028-29.

The financial status of other funds remains relatively stable. However, the Housing Authority Fund is projected to require subsidies throughout the forecast period. The Pier Fund is also projected to require subsidies as the combination of operating and large capital expenditures are outpacing the growth of revenues during the forecast period.

Prior to taking formal action on June 25, 2019, staff also recommends that the City Council review and comment on the grant funding recommendations included in the Organizational Support Program (OSP) for Arts and Culture Nonprofits for the FY 2019-21 funding cycle.

Discussion

Six Year Strategy

On January 22, 2019 (Attachment C), Council reviewed the Ten-Year Financial Forecast for the period FY 2019-20 through FY 2028-29. The Forecast's best, baseline and worst case scenarios provided a range of impacts that the General Fund could be required to withstand. In the baseline scenario, General Fund expenditures would exceed projected revenues in FY 2020-21. On January 26, 2019, the City Council held a retreat at which time they identified Framework Priorities to help inform the budget process.

On April 30, 2019 (Attachment D), Council received staff's high level preview of the FY 2019-21 Proposed Biennial Budget and the six-year strategy for shaping a government that works better and costs less. As noted in the January 22 and April 30 reports, while Santa Monica's financial health remains strong, traditional revenue streams are growing at a slower rate due to changes in the modern economy. Pension costs are projected to increase significantly to address statewide unfunded public pension liabilities. The threat of a recession looms ahead after the longest sustained economic expansion in our nation's modern history. Finally, profound technological, economic and demographic changes are reshaping our lives, affecting both the public and private sectors and rendering old ways of doing business and delivering services increasingly obsolete.

Based on the April forecast, if no adjustments were made to the budget we would expect the General Fund shortfall to grow to between \$34 and \$47 million over the next ten years. A projection of the proposed efficiencies and eliminations, offset by additional pension pay-downs, pushed the initial shortfall from FY 2020-21 to FY 2023-24 and lowered the projected shortfall by 50% over the 10-year period.

The FY 2019-21 Proposed Biennial Budget includes the foundation for a longer-term effort to reduce the budget in order to close the projected shortfalls that would otherwise begin in FY 2020-21 and to reallocate limited resources to outcome areas, and particularly Framework Priorities, that may require greater investment.

Economic Update

In July, the continued growth of the national economy is expected to set the record as the longest expansion in modern times. Consumer spending continues to be strong, reflecting job growth and wage increases. However, the stock market, after showing strong growth for most of the period since the November 2016 election, has shown recent signs of volatility and the bond market is signaling a future recession. The policy impacts of the new administration, particularly in the area of trade, adds to the economic uncertainty in the world economy. History would indicate that the U.S. economy is likely to head into a recession sometime within the next four years.

The California economy has been following the same basic pattern as the national economy with strong job growth and increased economic activity. The Governor's proposed budget noted that State revenues are now tracking higher than expectations, but most of the increase is from personal income taxes, while sales taxes are trailing projections. While the budget does project a continuation of moderate revenue growth for at least the next three years, even a moderate recession could result in significant revenue declines and challenge the ability of the State to maintain a balanced budget.

At the local level, taxes, which represent nearly 70% of General Fund revenues, are projected to have mild growth over the next two years. Over the next ten years, tax revenue growth is also projected to be moderate. A recession would likely have a significant negative impact on City tax revenues. The following is a summary of the three largest tax revenue sources:

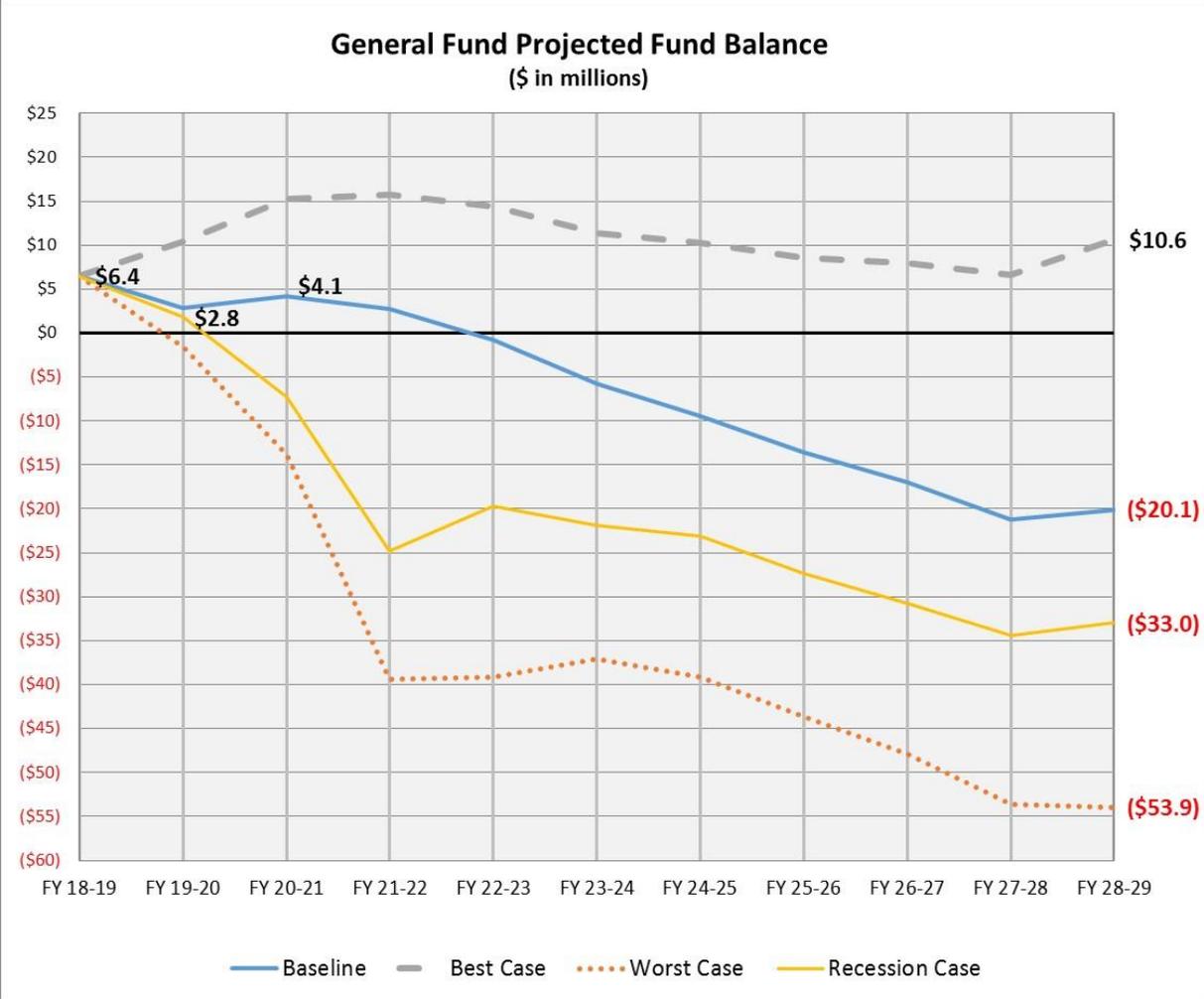
- Assessed value increases, on which the City's property tax revenue is based, have been strong the last three years and moderate increases are expected for at least the next two years.
- Sales tax growth is expected to be modest going forward reflecting the continuing shift of sales to on-line platforms as well as the departure of several large retailers. While sales tax is now being collected on all out-of-state purchases due to recent court decision, much of these new taxes will go into State or County pools, and the City receives a lower share than from actual point-of-sale activity.
- Tourism, which provides a strong stimulus to the local economy by creating jobs and generating revenues, continues to be one of the best performing components of the local economy. Transient Occupancy Tax revenue growth has averaged nearly 10% annually over the last seven years. Moderate growth is expected over the budget period as average room rates continue to increase and a new luxury hotel will open in early FY 2019-20.

Non-tax revenues reflect a parking rate adjustment that is within the administrative authority of the City Manager. A detailed description of revenue assumptions can be found on pages 128-150 of the Proposed Budget. Overall annual General Fund

revenue growth is anticipated to be 2.7% during this period but will decrease to almost 2.3% over the 10-year period.

General Fund Financial Status Update

The General Fund Forecast shown in this report includes the efficiencies and eliminations as well as the pension pay-downs included in the April 30 report. It also incorporates the one-time and ongoing enhancements included in the FY 2019-21 Proposed Biennial Budget, as well as some adjustments made to longer term revenue projections. Specifically, revenue estimates have been fine-tuned to reflect higher Transient Occupancy Tax revenues due to higher room rate growth, partially offset by lower assumptions related to development, buildings requiring seismic retrofitting, non-recurrence of one-time revenues and a flattening of revenues from other sources. With these changes, an initial shortfall of \$0.8 million is projected to occur in FY 2022-23, with an ultimate shortfall of \$20 million a decade from now (with future action needed in later years to eliminate it altogether). Key elements included in the FY 2019-21 Proposed Budget are included in the *Proposed FY 2019-21 Biennial Budget* section below.



Other Fund Status

In other funds, similar to the General Fund, the impact of increasing pensions, the cost of significant initiatives such as water self-sufficiency and zero waste (in the Water and RRR Funds, respectively), capital costs (in the Pier and Beach Funds) and flattening revenues (as is the case with Big Blue Bus) are also putting greater stress on fund balances and/or will drive greater rate increases.

As the **Water and Wastewater Funds** make progress on numerous projects that will help achieve water self-sufficiency by 2023, including the Arcadia Water Treatment Plant Expansion Project in the Water Fund and the Sustainable Water Infrastructure Project (SWIP) in the Wastewater Fund, additional funding is required in the short term to complete capital projects while also maintaining current operations and ensuring that

water and wastewater fund reserve levels remain healthy. To address the funds' ability to meet these needs, a water and wastewater rate study is currently underway. The results from the rate study will set water and sewer bill rates for calendar years 2020 to 2024.

Resource Recovery and Recycling (RRR) Fund will maintain a positive but decreasing fund balance until FY 2025-26 as the global market for recyclable materials is expected to worsen due to the China Waste Ban and RRR's fund position is adversely impacted by the global domino effect. To address the projected shortfall, an operational study and solid waste rate study will explore ways to find expenditure efficiencies and identify additional cost recovery. Staff will likely recommend an increase to solid waste rates to respond to higher recycling costs, potentially new zero waste programming in order to achieve the goal of "Zero Waste by 2030" as outlined in the Council-approved Zero Waste Plan, and to ensure that the RRR Fund is self-sufficient.

The **Big Blue Bus (BBB) Fund** will maintain a positive fund balance over the next eight years. Despite the challenges associated with the decline in county-wide ridership, the department remains committed to making the necessary service improvements, investments and operational efficiencies to achieve greater service delivery while maintaining a balanced budget. The Big Blue Bus fund includes a small increase in operating revenue due to the increase in State Transit Assistance (STA) funding as a result of state legislation which provides public transportation funding through the use of gasoline tax and vehicle registration fees. BBB's fund balance also reflects the department's effort to identify operational efficiencies to mitigate rising budgetary cost associated with workers' compensation, overtime, and supplies and expenses. In alignment with the City's Vision for zero-emissions by 2030, BBB will introduce its first zero-emission battery electric bus (BEB) during the first year of the biennial budget. BBB will take delivery of 19 BEBs in the second year of the biennial. BBB continues to make strides to close the gap between expenditures and revenues and expects to achieve a balanced budget over the ten-year-forecast.

The **Airport Fund** five-year forecast indicates that the fund will generate adequate revenues to sustain its operations throughout the next five years. The Airport Fund is expected to fulfill its loan obligation to the General Fund by FY 2020-21. Airport closure is scheduled for January 2029.

The **Community Broadband Fund** will maintain a positive fund balance throughout the next ten years. Community Broadband operations focuses on providing high quality services at an exceptional value to the Santa Monica community. Community Broadband also monitors the changing telecommunications environment to advocate for sound, sustainable state and federal policies in support of community broadband. Beginning in FY 2019-20, surplus revenues from the Community Broadband fund are moved to the General Fund to support citywide infrastructure and operations.

The **Beach Fund** will not be able to fully sustain both operating and capital expenditures in the last two years of the forecast. The projection reflects conservative parking revenue growth due to the recent declining trend in the number of cars parked at the beach. Staff will continue to monitor fund performance and plan to identify other sources of revenues and/or consider other ways to capture revenue from beach visitors for use of the beach. Beach visitors are expected to increase so there will be demand for increased services in maintenance, security and recreational programming.

The **Cemetery Fund** will maintain a positive fund balance until FY 2028-29, although beginning in FY 2026-27 lot sale revenues are expected to decrease significantly due to depletion of adult plot inventory. Staff is in the process of assessing overall Cemetery operations, its staffing model and projected plot sales including green burial plots. Staff will explore options to reduce ongoing administrative costs at the Cemetery, including the possibility of the City maintaining the property while contracting out service operations, with the goal of keeping a positive fund balance.

The **Housing Authority Fund** has a projected operating shortfall of approximately \$0.9 million to \$1.5 million annually throughout the next ten years. This assumes a continuation of the current funding levels and no reductions to U.S. Department of

Housing and Urban Development (HUD) funding to housing authorities. The Housing Authority will continue to require an operating subsidy from Successor Agency residual payments set aside in the Special Revenue Source Fund.

The **Pier Fund** is not able to sustain an adequate balance to cover both its operating costs and large capital expenditures. Capital needs that cannot be funded by the Pier Fund must compete with General Fund-supported capital needs. General Fund subsidies to support Pier Fund capital needs are projected to total \$14 million over the ten-year forecast period. It has been Council practice to subsidize the Pier as a public space rather than create a loan receivable to the General Fund. Additionally, the Pier Fund has a projected operating structural deficit of \$0.5 million in FY 2021-22 that increases to \$1.1 million in FY 2022-23 due to an anticipated decrease in lease revenues from construction impacts of the Pier Bridge Replacement Project. The Pier Fund will require an operating subsidy from the General Fund in FY 2021-23 (this is included in the General Fund forecast).

FY 2019-21 Proposed Biennial Budget and the Framework for a Sustainable City of Wellbeing

The Proposed Biennial Budget for the City of Santa Monica, including both operating and capital spending, is balanced and totals \$712.1 million in FY 2019-20 and \$755.9 million in FY 2020-21. The largest part of the budget is the General Fund, where most municipal services are funded. The proposed General Fund budget is \$418.9 million in FY 2019-20 and \$503.3 million in FY 2020-21. The FY 2019-21 Proposed Budget marks the beginning of a six-year transition from maintenance of effort budgeting to one based on our Framework Priorities and focusing on a government that works better and costs less and includes the following elements:

- The first step in the transition to a performance-based budget built on a new Framework for a Sustainable City of Wellbeing (“Framework”). The Framework organizes work around the achievement of seven major outcomes. Each outcome is further broken into sub-outcomes, work streams which define specific areas of focus. Each of these uses outcome metrics to assist in determining whether outcomes are achieved. For the first time as part of the budget process,

department work is mapped to and organized around the achievement of these outcomes. Over the next two years, these activities will each be measured in terms of how they contribute to the outcome, and the resources they require, to determine their value.

- A plan to proactively achieve the repayment of the City's existing unfunded pension liability, estimated at \$448 million. As recommended by the Pension Advisory Committee and directed by City Council on January 22, 2019, staff is proposing an accelerated 13-year pay down of the unfunded liability. This would result in \$106 million in savings over 30 years and better position the City to weather significant upcoming pension contribution increases and other fiscal challenges. The recommended pay-down would require payments to be made over and above the annual required contribution. The payment would be \$9.3 million citywide in the first year of the biennial budget (approximately \$8 million above the \$1.3 million currently set aside for additional unfunded liability pay downs) and \$7.3 million in the second year (approximately \$6 million above what is currently set aside). In the General Fund, the amounts are \$6.2 million in FY 2019-20 and \$5.6 million in FY 2020-21. Staff proposes using \$4.5 million in one-time General Fund savings to offset the payments in addition to incremental and ongoing budget reallocations of \$3.1 million over two years. This dedicated source would continue throughout the 13-year period and would grow (through consumer price index increases) to cover later year increases. In years where the additional payments are lower and therefore require less than the identified dedicated funding amount, unused funds would be available to cover other one-time needs.
- A multi-phased effort to close the projected shortfalls and reallocate limited resources to outcome areas that may require greater investment (including the pension pay-downs noted above):
 - In the FY 2019-21 Proposed Budget, a reduction of \$10.9 million and 8.5 FTEs in the General Fund and \$6.4 million and 19.5 FTEs in other funds, reflecting streamlining, historical savings and belt tightening; adjustments to

fully capture the cost of doing business or to leverage funding from alternative sources; and in some small cases, a realignment of programs and services to follow industry best practices or adjust to lower participation levels. These changes, which will have limited impact on the community, are within our current contractual obligations, and require little or no policy change. These changes are detailed in each Department Budget Summary within the budget book as well as combined in one list in the Appendix section. In addition, Efficiencies, Eliminations and Investments List (Attachment B) shows the dollar value associated with each proposed change.

- Staff has identified more impactful program changes that may result in restructuring, discontinuation or shifting to another public, non-profit or private entity for service delivery. These will require additional analysis and outreach to determine feasibility, plan of action and impacts to the community, our partners, or specific vulnerable populations. While the April 30, 2019 staff report contemplated Council review of the items on this list during the June 5, 2019 study session, the process has been updated to anticipate that the Council will consider the items once analysis has been completed. This will allow the scope and impact of each change to be defined before Council consideration. There are various timelines for these changes:
 - Proposed changes slated for analysis during the upcoming year, to be incorporated into the FY 2020-21 Budget. A \$1.5 million General Fund reduction target for these changes has already been incorporated into the Proposed Budget Plan for FY 2020-21.
 - Proposed changes slated for analysis during FY 2020-21, to be incorporated into the FY 2021-25 budgets. These are anticipated to result in a \$2.5 million General Fund budget reduction.
 - In addition, staff is working on additional restructuring and streamlining that is anticipated to ultimately yield \$2 million in General Fund savings before the third biennial cycle.

- A strategy to look at potential new revenue sources as well as promote a strong local economy and sustained business investment. Staff will research and recommend options for new or enhanced revenue sources, including one or more revenue measures to be included on the 2020 ballot if feasible and new revenue streams that Council could adopt in the next budget cycle.

Applying Performance Management and the Framework

The City is embarking on a performance management strategy designed to create a culture of using data to drive decision making. In order to do this, the City is developing a system of measuring three different types of information:

- Divisions will internally track input metrics to help understand what it is we are doing and how much we are doing of it;
- As part of the budget process, departments will track output metrics to understand how effectively and efficiently we are doing activities. These metrics (Attachment E) will be incorporated into the FY 2019-21 Adopted Budget book, and data towards them will be reported annually through the budget; and
- The Framework, through the [Citywide Dashboard](#), will track outcome metrics

The performance management structure connects these three metrics to understand how the programs we run are tied to the achievement of key outcomes for members of the community. The SaMoStat process is an internal management tool that will allow us to monitor and track our progress on this work.

Over time, as part of the six-year implementation of performance based budgeting, we will use performance data to understand which programs are working, and which are in need to process improvement. In the next year, the Office of Performance Management will begin the development of a performance improvement strategy to use performance data to identify programs in need of process improvement and implement and track the progress of process improvement strategies.

Investments to Help Achieve Framework Priorities and Values

Staff is proposing to make additional investments using one-time savings and reallocated funds made available through budget efficiencies. Without adding additional staff overall, these new one-time as well as ongoing investments would cover program extensions and enhancements that further the Framework Priorities and Values shown below.

A total of \$200,000 in one-time General Funds and \$4 million of Housing Trust Funds over two years is allocated to initiatives furthering the goals of the **Affordability** Framework Priority, including a new pilot program to help people who live or work in Santa Monica meet credit requirements for City-funded affordable housing, and the expansion of the Preserving Our Diversity (POD) pilot program, which provides low-income seniors with cash-based financial assistance and care management from 22 households to a range of 200 to 400 households.

Supporting the **Climate Change** Framework Priority, \$500,000 in General Funds over two years, with ongoing costs of \$450,000 in future years, is allocated to new operations and maintenance costs associated with the new City Services Building, and a restructuring of Water Resources staffing to implement and maintain new and existing infrastructure (such as the Olympic Well Field Restoration and the Arcadia Water Treatment Plan expansion) that is helping the City reach water self-sufficiency by 2023. Additionally, six capital projects are furthering the goals of the Climate Change priority, through an expansion of our EV charging ports, the development of a Groundwater Sustainability Plan and Urban Water Management Plan, expansion of the non-potable water system, and equipment updates at the City's water facilities.

Beginning in 2014, the City of Santa Monica pioneered a focus on defining and measuring the wellbeing of our City's residents. The goal was to use the results to harness government and community efforts to improve community and individual wellbeing. In 2019, the City will hold a Wellbeing Summit to broaden involvement by residents and community institutions in this effort. Wellbeing work is at the heart of the Council's **Engaged and Thriving Community** Framework Priority, under the

Community Outcome Area. This Priority focuses on Santa Monica being a city that engages community members with opportunities to effectively partner with local government to promote a thriving community. It emphasizes investing in our human capital, particularly in preventative programs that allow people to flourish. Activities included in this plan are designed to ensure that every member of the Santa Monica community can participate in democratic decision-making and shared efforts to improve community and individual quality of life.

Continued efforts to implement enhancements adopted in past budgets are supporting Santa Monica's ongoing commitment to fighting crime and **Keeping Neighborhoods Safe**. We have reached full staffing in our police officer ranks through a concerted recruitment process, combined with the ability to "over-hire" up to 9 additional officers to ensure attrition does not put us back below the budgeted baseline. In the upcoming budget cycle, we will continue our successful efforts to deploy new hires to directly impact crime and safety, as well as to maintain strong misdemeanor prosecution in support of law enforcement efforts. As a result of SMPD's increased staffing and deployment strategies, we are seeing a trend of falling Part One Crime in Santa Monica. We are also focused on other threats to life safety. The new Fire Station #1 will replace a seismically unstable facility with an expanded modern structure capable of housing multiple apparatus and up to 20 personnel.

Changes to two existing positions in the Mobility Division will further the City's Framework Priority of **Mobility and Access** and facilitate more effective inter-departmental collaboration and strategic project implementation, as well as provide divisional leadership and supervision, and a study focused on traffic engineering, traffic management and curb management to improve Big Blue Bus travel time and reduce delays for buses travelling in the city, with a goal of making the bus service more attractive and useful. Additionally, eleven capital projects are added in FY 2019-20 to further Mobility and Access goals. These include the design or construction of safer bike and pedestrian amenities, replacement of bus equipment and new technologies to enhance the BBB customer experience, and improving our streets, sidewalks and

crosswalks. Altogether, these investments total, on an ongoing basis, \$80,000 in the General Fund and \$250,000 in the Big Blue Bus Fund.

A total of \$3 million in General Funds over two years is allocated to extend and enhance intensive initiatives supporting the **Reduce Homelessness** Framework Priority for another two years. This funding will maintain the Homeless Multidisciplinary Street Team (HMST) and C3 (City + County + Community) homeless engagement team at their current levels and extend the limited-term Senior Advisor to the City Manager on Homelessness position, Library Services Officers at the Library and as-needed social worker, while enhancing the C3 team presence during this time to engage a greater share of the City's homeless population by expanding the team's coverage to other impacted areas, such as the beach and parks outside of the Downtown area. It is anticipated that the upcoming reimagining of the Human Services Grants Program will be in line with the City's Framework and will consider the need to focus efforts on Reducing Homelessness in the years following the FY 2019-21 Biennial Budget. There will be continued work to identify and leverage non-City resources and partnerships to support ongoing costs.

Supporting the **Resilience and Accountability Values**, \$2.8 million in General Funds over two years, with ongoing costs of \$1.6 million in future years, is allocated to operations and maintenance costs related to new capital projects supporting contract management software, cyber security systems, and process automation, as well as additional staffing capacity in the Human Resources Department to facilitate the shift from transactional to strategic and value-added customer service. This position will be responsible for key strategic administrative initiatives as well as special projects such as Civil Service, Municipal Code and classification reform.

Finally, supporting the **Stewardship Value**, \$14 million in ongoing and reserve funds from all City operating funds is allocated towards the 13-year pay-down of the City's current unfunded pension liability.

In addition, funds are reallocated to programs and activities supporting the **Connected Community, Physical Health, and Built Environment** sub-outcomes. These investments total up to \$280,000 in ongoing costs by the second year of the Biennial Budget.

Fees and Charges

City user fees subject to annual administrative cost of living adjustments (COLA) will increase by 4.2% on July 1, 2019, reflecting the projected FY 2019-20 increase in total City compensation, which includes salary and benefit costs. In addition, several new fees or modifications to existing fees are proposed:

- New fees for wireless facility permits
- Conversion of existing water neutrality per fixture retrofit fees to one composite fee of \$.18 per gallon saved from a suite of indoor water fixture retrofits and City landscape projects. The proposed fee was formulated using existing Water Neutrality fixture fees, input from the City's Public Landscape Division, CA plumbing and building codes, industry standard water usage studies, and projected retrofits over five years. The rate is simpler and a more efficient method of determining the in-lieu offset fee.
- There will also be other minor modifications to the fee and fine schedules for clean-up items such as description changes, deletion of program fees that are no longer being charged, and consistency with State law.

A list of the new fees and modifications are included (Attachment F). Staff will return to Council with any necessary implementing ordinances and resolutions at the time of Budget Adoption.

Proposed FY2019-21 Cultural Art Organizational Support Program

The Cultural Affairs Division's Organizational Support Program (OSP) provides stable support for the City's resident arts and culture nonprofits. OSP funding helps secure Santa Monicans' access to world-class cultural opportunities by providing multi-year support for our organizations' operational expenses, up to 10% of the organization's operating budget. The OSP application process re-opened this year to solicit proposals

for the grant period FY2019-21. A request for applications was distributed broadly on February 13, 2019. The City received 22 eligible submittals by the March 25 deadline. Applications were reviewed by a diverse group of arts professionals, including regional experts in each of the artistic/cultural disciplines represented in the applicant pool.

In addition, a Community Needs Grant Program Assessment was commissioned by the Cultural Affairs Division in the Fall of 2018 to make recommendations regarding cultural grant programs. The report identified issues of equity and inclusion as well as the high cost of rent in Santa Monica as issues of concern to the community. The report's recommendations and the staff actions taken in response are provided in the Organizational Support Program (OSP) Grants for Arts and Culture Nonprofits 2019-21 (Attachment G).

Twenty organizations are being recommended for funding, a significant increase from the thirteen approved in the previous round. Opening the OSP program to a greater number of small organizations that serve diverse constituencies helps address equity issues that arose in the Community Needs Assessment. The total recommended funding level for FY2019-21 is \$401,887. This amount is similar to the funding level Cultural Affairs had proposed four years ago for the previous grant period, prior to the departure from the City of the Santa Monica Museum of Art and the closure of Virginia Avenue Project.

Capital Improvement Program (CIP) Budget

On June 12, 2018 (Attachment H), Council adopted the first year and approved the second year of the FY 2018-20 Biennial Capital Improvement Program Budget. The changes outlined in the CIP Addendum portion of the Proposed Budget are revisions to the second year of the approved Biennial CIP Budget, FY 2019-20. These changes are limited to needs that have arisen during the first year of the Biennial CIP Budget and cannot be deferred until the next biennial CIP budget process. Budget plan numbers for FY 2020-21 through FY 2022-23 are included as a planning tool to demonstrate total anticipated capital funding needs.

The revised FY 2019-20 CIP Budget totals \$136.4 million. This represents an increase of \$21 million from the originally proposed FY 2019-20 CIP Budget and a decrease of \$49.8 million compared to the FY 2018-19 Adopted Budget of \$186.2 million. The capital program primarily advances the Place & Planet outcome area by developing, protecting, and maintaining City-owned infrastructure. The FY 2019-20 CIP Budget represents major project support to water projects that advance the City's efforts to achieve water self-sufficiency by 2023.

General Fund CIP Budget Changes

General Fund capital projects total \$25.4 million, or 19% of the total CIP budget. Approximately \$11 million of this amount represents new exception year projects funded using released budget from prior-year project savings, canceled projects or alternative resources that replaced General Funds. Budget changes are outlined in detail in the CIP Addendum section of the FY 2019-21 Proposed Biennial Budget (Attachment A). Approximately 70% of the new General Fund capital funding is allocated to the Place & Planet Outcome Area for projects including the Demolition of Parking Structure 3, Network Infrastructure Replacement, Rooftop Fall Protection and Access Retrofits, and Civic Parking Garage Glass Replacement projects.

Non-General Fund Budget Changes

The total net increase proposed for Non-General Fund budgets is approximately \$9.8 million. All of the proposed budget increases can be fully supported by existing fund balance or dedicated alternative funding sources. A significant portion of the Non-General Fund budget increases are due to \$3.4 million in net budget increases for water, wastewater and stormwater runoff projects. The remaining significant Non-General Fund increases are from an appropriation of \$2.4 million in Child Care Linkage Fee funding that will relieve currently appropriated General Fund monies for the construction of the Early Childhood Lab School, \$0.8 million in Transportation Impact Fee revenues for the Bergamot Station Connectivity Improvements Project and \$1.3 million in the CDBG Funds toward the 19th Street Land Acquisition Project. These

budget increases as well as smaller changes are outlined in detail in the CIP Addendum section of the 2019-21 Proposed Biennial Budget (Attachment A).

Updated Fiscal Policies

The Proposed Budget includes updated Fiscal Policies that incorporate the following:

- On May 5, 2018, Council received the Compensation and Staffing Report prepared by Moss Adams, LLP, the City's internal auditor. One of the key recommendations of the study was for the City to adopt a Fiscal Sustainability Philosophy. This philosophy is included on pages 376-377 of the budget book, as part of the City's Fiscal Policies.
- On October 9, 2018, the Council approved a performance management policy to formally commit to create a data-driven culture in Santa Monica. The policy states that the Council supports the use of data to inform decision making processes and deliver responsive results to create a model 21st Century government. The Office of Performance Management, within the City Manager's Office, is responsible for carrying out this policy by developing an organization-wide approach to the development, tracking, monitoring, and reporting of performance data. This policy is now included in the Fiscal Policies on page 380.
- On January 22, 2019, Council received a report from the City Manager regarding a set of principles, developed by the City Manager's Pension Advisory Committee, on handling the City's unfunded pension liability. These principles are also included in the fiscal policy on page 380.
- Finally, on page 383 of the Fiscal Policies, staff has changed the guidelines for fund reserve requirements for the Water, Wastewater and RRR Funds. These funds are currently undergoing rate studies. As part of the studies, our consultants have been tasked with providing guidelines for best industry practices regarding the reserve levels required in these specific areas, understanding specific challenges and needs, in order to best protect ratepayers, operations and assets. Staff will return to Council with updated policies for these funds along with the results of the rate studies.

Community Engagement

Throughout the budget process that began in late summer 2018, staff has conducted a varied outreach effort with stakeholders on the new budget process, to determine Framework Priorities, and to inform them of the potential impacts of proposed efficiencies. The process began with a one-day workshop in July 2018, at which members of the City's leadership team and program experts began understanding and developing the process of performance-based budgeting. Leading up to the January 26, 2019 Council Retreat, more than 3000 community members (primarily residents, but also respondents who work in Santa Monica, business owners, and property owners) participated in the SamoSays survey to identify Framework Priorities. Staff also held community "pop-up" events at Farmer's Markets and other community events to ask for input on the process. Finally, the City Manager met with 43 community members who signed up online to participate in five informal briefings on the new budget process. Since January, staff has conducted several All-Hands meetings on the budget process and department leadership has been communicating proposed program changes to their staff as well as to stakeholders, including program participants, vendors and partners. A list of the outreach (Attachment I) conducted with members of the public, commissions and boards, and other City partners in the past two months is attached.

Engagement will continue through the City Manager's Budget Task Force deliberations to ensure that those potentially affected by future program changes, in the community and among our workforce, are consulted for their input into the Task Force's discussions and recommendations.

Next Steps

Staff will embark on a longer term effort to review a set of potential program changes that may result in restructuring, discontinuation or shifting to another service delivery model. The first set of changes will be assessed during the upcoming year, with final proposals to be incorporated into the FY 2020-21 budget approved by Council. The second set of changes will be assessed during the second year of the Biennial and proposed for the FY 2021-25 budget years.

As the goal of these changes is to better focus our limited resources on the most important needs of the community, the City Manager will appoint 11 individuals (six community members and five staff members) to serve as a Budget Task Force to analyze budget efficiency/reduction measures developed by city staff. These evaluations will include plans for program and service changes that would cut costs and/or improve performance. The Budget Task Force will conduct its deliberations consistent with the Brown Act. The Budget Task Force would bring its recommendations to the City Manager to aid in the preparation of future budget recommendations to the City Council. The Budget Task Force will evaluate ideas generated by City Departments in two phases:

1. In FY 2019-20 for implementation in FY 2020-21 (also called “Mid-term Program Changes”) with a goal of identifying at least \$1.5 million of reduced expenses; and
2. During FY 2020-21 to be implemented over the following two biennial budget cycles (called “Long-term Program Changes” for FY 2021-25) with a goal of identifying at least \$2.5 million of reduced expenses.

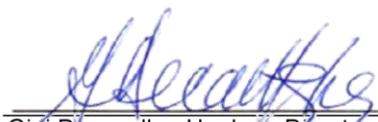
Financial Impacts and Budget Actions

Staff will return to Council on June 25, 2019 to recommend adoption of the first year and approval of the second year of the FY 2019-21 Biennial Budget, as well as the adoption of the second year of the FY 2018-20 Capital Improvement Program Biennial Budget.

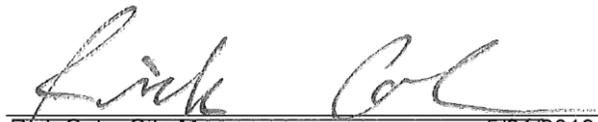
Prepared By: Susan Lai, Budget Manager

Approved

Forwarded to Council


Gigi Decavalles-Hughes, Director

5/30/2019


Rick Cole, City Manager

5/31/2019

Attachments:

- A. FY 2019-21 Proposed Biennial Budget
- B. Efficiencies Eliminations and Investments
- C. January 22, 2019 Staff Report (Web Link)
- D. April 30, 2019 Staff Report (Web Link)
- E. Draft Metrics by Department
- F. Proposed Fee and Rate Adjustments
- G. FY 2019-21 Proposed OSP Grants
- H. June 12, 2018 Staff Report (Web Link)
- I. FY 2019-21 Budget Outreach
- J. Written Comments
- K. Powerpoint Presentation