



# CITY OF SANTA BARBARA

## FINANCE COMMITTEE AGENDA REPORT

**AGENDA DATE:** June 14, 2022

**TO:** Finance Committee

**FROM:** Administration Division, Finance Department

**SUBJECT:** Fiscal Sustainability Initiative

**RECOMMENDATION:** That Finance Committee:

- A. Hear a report from staff regarding the fiscal challenges facing the City;
- B. Hear a report from staff regarding the purpose, scope, and timeline of the Fiscal Sustainability Initiative that will assess potential revenue measures and operational efficiencies; and
- C. Provide direction to staff regarding the Fiscal Sustainability Initiative and additional topics the Committee wishes to include in their review.

### **DISCUSSION:**

#### Budgetary and Fiscal Challenges

The City Council of the City of Santa Barbara is scheduled to adopt the Fiscal Year (FY) 2023 operating and capital budget at the regularly scheduled City Council meeting on June 21, 2022.

Many of the City's revenue sources, including sales tax, transient occupancy tax (TOT), downtown parking fees and departmental permits, and other revenues, were significantly impacted due to reduced economic activity directly related to COVID. Since COVID began, it is estimated that the City lost more than \$30 Million from all revenue sources.

This immediate and deep loss of revenue required budget balancing action including requiring departments to meet expenditure reduction targets in FY2021, FY2022, and FY2023. More than \$13 Million of expenditure reductions were budgeted and planned during these three years. Departments proposed many ways to achieve these reductions, most notably by holding staff positions vacant in order to achieve salary and fringe benefit savings. Many projects and initiatives were reduced or delayed. Some service level impacts were felt

by the community; however, staff prioritized minimizing those impacts in order to continue to meet existing service levels wherever possible.

The other budget balancing tool used during these challenging budget years was to utilize General Fund and other fund reserves. City Council resolution 12-066, approved on October 3, 2012, set the reserve policy targets for the General Fund and major enterprise funds. For the General Fund, a 10% contingency reserve and a 15% disaster reserve requirement is set for a total reserve of 25% of annual operating expenditures. Enterprise funds have a similar requirement with additional reserves required for capital projects. During COVID, the City has required the use of reserves in the General Fund and Downtown Parking Fund, most notably. The importance of these reserves became even more apparent over the past three years as they were utilized to minimize any additional service disruption and also achieve a level of fiscal sustainability that allows the City to address unknown events that may occur.

The City will grapple with other fiscal and budgetary challenges in the coming years as well, the most notable include the following:

- The continued economic uncertainty and potential of a recession and the revenue impacts to the City that may follow;
- The City is negotiating with multiple bargaining units at this time. The City will need to address labor challenges from rising inflation and cost of living in the region, rising healthcare and pension costs and employee retention and recruitment issues;
- Pension costs, including the City's unfunded actuarial liability (UAL) continue to rise beyond any normal growth experienced in the City's most stable revenue sources, including property tax;
- Recent inflation impacts that are likely to continue into FY2023 and potentially beyond will impact operating budgets by making service delivery more expensive;
- The City's Self Insurance Fund (SIF) has a reserve of \$8 Million, which is \$10 Million below the actuarial recommended level. The commitment made by the Finance Committee will require additional allocations into the SIF over the next nine years, which will result in additional costs to all operating departments; and
- The City has many deferred maintenance and capital improvement projects that are planned in FY2023 and the following fiscal years; however, there are many projects that are partially funded or not funded at all.

### Initiative Overview

In order to address these fiscal challenges in the long-term, staff are initiating a Fiscal Sustainability initiative to develop recommendations and solutions to ensure the City continues to meet the needs of the Santa Barbara community now and for many years to come. The objectives of this initiative are to identify and assess options that will increase revenues, create efficiencies, eliminate redundancies, and make continual process improvements that may ultimately reduce costs.

The following two staff working groups have been established to focus on this initiative:

- **Revenue Options:** Develop a revenue management strategy and a fee setting policy, assess revenue options for potential ballot measures, and consider Council-approved fee changes.
- **Operational & Process Efficiencies:** Assess organizational processes, performance and technologies, revise policies and municipal code, prioritization of city services, and identifying expenditure reductions.

The working groups will evaluate many criteria when assessing options that include legal requirements, feasibility of implementation, City Council and/or voter approval, revenue volatility, staff resources to implement, political considerations, labor considerations, technology requirements, and barriers to implementation.

In order to provide context and background for options and recommendations that may be considered, multiple city departments will be providing informational presentations to the Finance Committee that will provide information about how their programs and services are funded, different levels of service that can be provided, which priorities are fully funded, and which ones aren't legally mandated versus discretionary functions, opportunities for process streamlining, and what services are being provided that other agencies or entities may be better positioned to provide, among other topics.

#### Initiative Timeline

The Community Development, Parks & Recreation, and Library departments are scheduled to provide information presentations to the Finance Committee between July and September 2022. During that time, the working groups will be meeting to begin developing a draft list of options for the Finance Committee to consider, and that report is scheduled to be presented in late September. Final recommendations should be developed in November and presented to the City Council in December 2022. A final list of recommendations is scheduled to be developed by February 2023 so that the budgetary impacts of these changes can be incorporated into the City Administrator's financial plan for FY2024-2025 and operating and capital budget for FY2024.

#### **BUDGET/FINANCIAL INFORMATION:**

No direct costs are associated with initiating this work at this time. There may be direct costs associated with communications, polling and other consulting services that may be required depending on the level of review, and expenditure appropriation requests may be considered for Council approval at a later time. Staff anticipate a negligible amount of indirect costs associated with staff that will be directed to focus their time and efforts on the two working groups, department presentations, and other efforts. Staff will ensure any service level impacts are minimized during this process.

Any revenue generating and expenditure reducing options will be presented to the Finance Committee and City Council. Those recommendations that are ultimately approved will be budgeted in the FY2024 operating and capital budget, and future budgets to come.

**PREPARED BY:** Keith DeMartini, Finance Director

**SUBMITTED BY:** Keith DeMartini, Finance Director

**APPROVED BY:** City Administrator's Office