Developing a Fiscal Health Response Plan

What We’ll Cover

1. The Problem
2. Our Solution
3. In Action

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City of San Luis Obispo

- The City of San Luis Obispo, located on Central Coast, midway between L.A. and the Bay Area
- Charter City
- Population: 47,500
- 2017-18 Total Budget: $153 million
- Major Revenue Sources: Sales Tax, Transient Occupancy Tax (TOT), Property Tax

What is the Problem We are Trying to Solve with the Plan?
The Problem - If We Did Nothing

If We Do Something (FHRP)
San Luis Obispo is committed to…

- Good Fiscal Management
- Public Engagement
- Quality Services

Purpose of the Plan

The purpose of the Plan is to establish a framework to respond to the long-term fiscal impacts of the significant increases in required pension contributions to the CalPERS retirement system over three-years.
Plan Includes 12 Critical Components

- Problem
- General & Enterprise Funds
- Key Policies and Principles
- Integration with Financial Planning Process
- Elements of Plan
- New Revenues
- New Ways of doing Business
- Employee Concessions
- Prepayment or a Trust
- External Impacts to Plan
- Communication
- Plan Implementation

Outreach and Engagement

- Fiscal Health webpage
- E-notification category to sign up to receive updates
- Community Information Session on October 5, 2017
- Staff Information Sessions on December 6, 2017 and April 12, 2018
- Several press releases, news items and social media posts resulting in media coverage
- Open City Hall topic
- Staff surveys
- Frequently Asked Questions by topic
- Regular email updates to staff
Outline of the FHRP

Key Components To Achieve a Structurally Balanced Budget

- New Revenues
- Operating Reductions and New Ways of Doing Business
- Employee Concessions

Options to Address Unfunded Liabilities

- Prepayment of CalPERS
- Section 115 Pension Trust Formation

Key Components: A Balanced Allocation

General Fund

- New Revenues: 30 - 40%
- Concessions: 20 - 30%
- Ways of Doing Business Operating Reductions: 30 - 40%
New Revenues 2018-19

The General Fund’s primary sources of revenues are from taxes and fees for services.

- In November the Cannabis Tax ballot measure passed by 80%
- Tax revenues from Cannabis are not anticipated until the fourth quarter 2019.
- Staff has projected $100,000 in revenues from this tax in 2018-19 and up to $1.5 Million in the subsequent years.

Operating Reductions and New Ways of Doing Business

### Operating Reductions

1.1. Debt Refinancing  
2. Energy Efficiency and Less Consumption  
3. Renegotiated Agreements with Vendors  
4. Proactive Compliance with Collections  
5. Improved Risk Management  
6. Proactive Fiscal Management

### New Ways of Doing Business

1. Energy Efficiency  
2. Enterprise Resource System  
3. Equipment Replacement  
4. Thoughtful Re-Organizations
Employee Concessions

All City Employees and All Funds Over the FHRP Three Year Term

In addressing unfunded pension liability as it relates to concessions – the City’s adopted Fiscal Sustainability Philosophy, Compensation Philosophy, and Labor Relations Objectives which will provide guidance.

The City will meet and confer in good faith with its represented employee groups regarding the impacts of changes to wages, hours, and/or working conditions.

Options for Addressing Unfunded Liability

1. Quantitative and Qualitative analysis of pre-payment to CalPERS or Investment in Trust.
2. Advantages and disadvantages of accelerated pre-payments.
3. Advantages and disadvantages of investment policy choices and Trust Administrator.
4. Legal analysis and documentation.
5. Recommendations for funding and amounts.
External Impacts to the Plan

- Plan based on fiscal forecast assumptions with multiple inputs and multiple economic resources. However, it is an estimate and there could be external forces which impact it in the future.

Changes in Economic Conditions  Diablo Power Plant Closure
Further CalPERS Changes  Natural Disaster

Implementing the FHRP

- The Plan will guide the Financial Plan process for the development of the City’s Major City Goals and Financial Plan for 2019-21

2018-21 General Fund Target $7.5M
## Implementing the FHRP

### General Fund 2018-19 Supplement

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Revenues</td>
<td>$100,000</td>
</tr>
<tr>
<td>Operating Reductions</td>
<td>$1,120,000</td>
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<tr>
<td>New Ways of Doing Business</td>
<td>$270,000</td>
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</tbody>
</table>

### As applied to Budget Functions

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Community Safety</td>
<td>$78k</td>
</tr>
<tr>
<td>Fiscal Health &amp; Governance</td>
<td>$576k</td>
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<tr>
<td>Culture and Recreation</td>
<td>$140k</td>
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<tr>
<td>Environmental Health &amp; Open Space</td>
<td>$90k</td>
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<tr>
<td>Infrastructure &amp; Transportation</td>
<td>$208k</td>
</tr>
<tr>
<td>Community &amp; Neighborhood Livability</td>
<td>$10k</td>
</tr>
</tbody>
</table>

## Operational Reductions and New Ways of Doing Business Adopted for 2018-19

- All departments evaluated expenditure trends over the past five years to identify operational savings.
- Consultant services and other agreements have been renegotiated to realize reductions while not resulting in operational impacts.

**Total reductions of $1,372,000 in 2018-19**
2019-21 Financial Plan General Fund

- The 2019-21 Financial Plan will include General Fund **reductions and new revenues of approximately $ 4.3 million dollars.**
- In addition to the Concessions of $1.9 million in ALL Funds to be achieved during the three-year period

| 2.8 million in New Revenues |
| 1.5 million in Efficiencies and New Ways of Doing Business |

What Have We Learned

- Outreach and Engagement Is Critical to Success
- Collaboration Across the Organization and Community Produces an Implementable Plan
- Education with Chambers, Business Groups, Community Partners, Advisory Bodies and in particular labor, is imperative.
- Data and Analytics Help Drive the Story