

# CITY MANAGER'S BUDGET MESSAGE



To the Honorable Mayor and Members of the City Council,

On behalf of City Staff, it is my privilege to present to the residents of the City of Burbank the adopted budget for Fiscal Year (FY) 2018-19. Each year, the City's budget represents a series of challenges and difficult decisions required to adequately fund the excellent level of services and programs the residents of this City have come to expect. This year was no exception. Following several public meetings, the City Council approved this budget, which will fund public safety, transportation, libraries, parks and open space, reliable utility services, street improvements, facility upgrades, as well as many other municipal programs and services.

Over the past few years, City of Burbank has seen its revenues slowly begin to rebound from the economic recession, similar to other cities in California. Despite healthy economic growth, increases to employee pension costs and the once potential loss of the City's Burbank Water and Power (BWP) In-Lieu of Tax transfer led to a long term annual recurring General Fund operating deficit projection approaching \$30.5 million. The City Manager's Office, along with City Staff, has continued to implement a multi-year strategic plan which aims to correct the City's structural deficit and deal with the significant backlog of infrastructure needs that if not addressed will inevitably deteriorate the quality of roads, facilities and services the Burbank community has grown to expect. Progress has already been made in several areas; however, there is still much more work to be done in order to achieve a structurally balanced budget and address the City's infrastructure backlog in the years to come.

The Adopted FY 2018-19 Budget includes strategic spending meant to address some of these identified needs while still considering the long-term structural balance of our Five-Year Financial Forecast. Achieving a structurally balanced budget in the years to come will require tough decisions on how and where to invest limited funds, while encouraging smart development to enhance revenue growth. That being said, with the City Council's continued leadership and fiscal responsibility, I am confident we will enter this new budget cycle and those to come strongly positioned to meet the challenges that lie ahead.



## **BUDGET OVERVIEW**

### **ADOPTED BUDGET SUMMARY**

The FY 2018-19 budget totals nearly \$612 million in appropriations for all funds with the General Fund totaling \$171 million. **Table 1** illustrates the source of funds and appropriations for each fund or fund type for the FY 2018-19 Budget.

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**Table 1: City of Burbank Resources and Appropriations FY 2018-19**

<b>FUND/FUND GROUP</b>	<b>ESTIMATED RESOURCES</b>	<b>ADOPTED APPROPRIATIONS</b>
General Fund	\$ 167,644,799	\$ 171,153,978
Special Revenue Funds (incl. Cap. Projects Fund)	63,713,869	51,439,110
Internal Services Funds	42,016,508	46,265,443
Enterprise Funds	36,614,759	39,271,943
Water and Electric (BWP)	265,713,242	283,258,266
Successor Agency	8,995,595	9,569,464
Housing Authority	9,207,271	9,840,062
Parking Authority	864,900	923,446
<b>TOTAL ALL FUNDS</b>	<b>\$ 594,770,943</b>	<b>\$ 611,721,711</b>

**BUDGET DEVELOPMENT PROCESS**

At the beginning of the budget development process, staff projected a recurring deficit of \$1.7 million heading into FY 2018-19. While across the board budget reductions were not required, departments were asked not to request any new budget items unless it is operationally required or can be absorbed by an offsetting budget cut or additional revenue.

Staff made significant efforts to maintain spending at existing budget levels citywide; however, some departments did identify immediate needs for items that required funding, such as contractual obligations and critical deferred maintenance. Some of the more notable new budget items are listed below.

- Preventative Maintenance for City Facilities - \$600,000
- Computer Aided Dispatch (CAD) System Replacement at Verdugo Fire Communications Center - \$264,000
- Implementation of Coordinated Integrated Monitoring Program (CIMP) and Enhanced Watershed Management Plan (EWMP) for the Upper Los Angeles River Watershed - \$252,985
- Police Department Communication Equipment and Software Maintenance - \$119,500

The City Manager reviewed in detail the proposed budget requests during the months of March and April and, at that point, decided on proposed changes to the budget. The City Council reviewed the Proposed Budget in its entirety during three Budget Study Sessions that took place during the months of April and May. Staff incorporated feedback received from the Council during those meetings into a final budget which was adopted at the public hearing on May 22, 2018.

Through a variety of changes to revenue and expense projections and internal service fund cost savings initiatives, the budget as adopted has a recurring deficit of approximately \$83,000 for FY 2018-19. It should be noted however, that this assumes no salary or benefit increases for any of the City's bargaining groups in FY 2018-19. Overall, the General Fund budget increased by approximately 2.5% from FY 2017-18. The General Fund is still expected to have a total available balance of nearly \$14.2 million at the end of FY 2018-19. This projected balance does not include any General Fund amounts currently held in reserves or anticipated redevelopment loan repayments expected to be received in FY 2018-19.

**GENERAL FUND REVENUE**

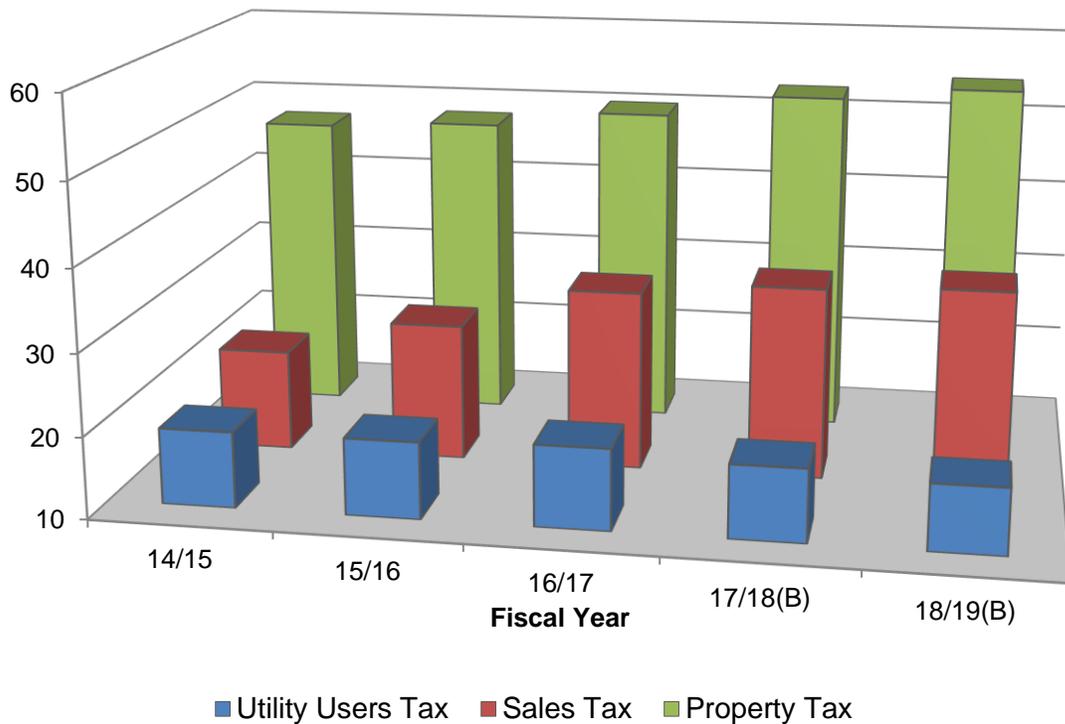
Overall, the City's recurring revenue estimates for FY 2018-19 increased 1.1 percent over revised FY 2017-18 projections. Solid growth in several revenues including sales tax, property tax, and service charges were offset by decreases to utility users' tax, intra-city service charges, and building permits. Sales tax, property tax, and the utility users' tax continue to be the largest revenue sources, representing 68 percent of the General Fund's recurring revenue.

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**Chart 1** highlights three years of actual results and two years of projections for the top three revenue sources for General Fund dollars: Sales Tax, Property Tax and Utility Users Tax. For more detail on the City's General Fund revenue projections and assumptions, refer to the "Revenues" section of this budget document.

**Chart 1: Top General Fund Revenue Categories (\$1,000,000s)**



**Burbank Water and Power In-Lieu of Taxes Transfer:**

The City's Burbank Water & Power Department (BWP) pays the in-lieu of tax instead of paying other taxes and fees that a private utility would pay in other cities. Following a court ruling in September of 2017 which found that the City's BWP In-lieu of Taxes transfer was in violation of Proposition 26 and Proposition 218 voting requirements, the City was ordered to discontinue the revenue transfer. The In-Lieu of Taxes transfer was authorized by the City Charter in 1958, and allowed the City's General Fund to receive no more than seven percent of gross electric retail revenues in lieu of taxes. This transfer helps make the General Fund whole for taxes and fees it may have otherwise received from a private utility, such as a franchise fee, property taxes and business license fees. This transfer is projected to generate approximately \$12.5 million in annual revenue and is used by the City to pay for essential services like street lighting, police, fire and other community services and infrastructure. To address this issue, the City took Measure T to the voters on June 5, 2018, which passed and restored the BWP transfer to the General Fund

**Citywide Fee Schedule:**

In the prior fiscal year, Burbank completed a citywide fee study which was presented to the City Council during the FY 2017-18 budget process. As a result of these efforts, the City Council accomplished several goals. First, the City was able to document compliance with California Proposition 26, which limits certain fees collected to the reasonable cost of providing the service. Second, the City Council established a cost recovery policy, which provides a set of principles



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to determine when and if cost recovery is appropriate for different types of fees for services based on the benefits a user receives above a general taxpayer. Lastly, the City Council approved the expansion of the Burbank Program Activity and Service Subsidy (PASS) program citywide, which provides financial assistance to low income residents for City programs and services. This popular program has allowed the City to implement its cost recovery model while protecting the residents who are most in need of City services.

For FY 2018-19, the City Council adopted increases to all citywide fees in accordance with the cost recovery policy, either by continuing to move towards the policies established in FY 2017-18 or by CPI. In accordance with industry accepted best practices, Financial Services Staff recommends undertaking a new citywide fee study every five years to ensure that the City remains compliant with Proposition 26 and that applicable fees remain at no more than the reasonable cost of providing the service.

## **GENERAL FUND APPROPRIATIONS**

This year's adopted City of Burbank recurring appropriations amount is \$167.5 million. General Fund appropriations are mainly driven by labor costs. In fact, over 80 percent of this year's recurring General Fund budget is related to salaries and benefits.

### *Memorandum of Understanding (MOU) Projected Costs:*

Salaries and benefits currently comprise over 80% of the General Fund operating budget. Thus, the memorandum of understanding (MOU) negotiation process for the City's bargaining groups plays a significant role in determining the City's financial position. The City's Financial Policies dictate that Burbank strives to pay relevant market rates to all of the City's labor groups. Market rates are determined through salary and benefit surveys which compare the City's job classifications to those of similar organizations throughout the region.

In prior fiscal years, the City Council took steps through the negotiated MOU process to start to bring Burbank employee salaries to market levels. However that initiative has been put on hold until the City's financial position can accommodate the growth in expenditures. As such, the General Fund forecast assumes zero salary growth for open MOUs in FY 2018-19, with a return to market rates in FY 2019-20 and beyond.

In January of 2018, the City Council approved a revision of the City's Financial Policies regarding employee compensation to include that the City and employees will evenly share the Normal Cost of the California Public Employees' Retirement System (CalPERS) pension. The General Fund financial forecast assumes a phase in of this policy over a three year period beginning in FY 2018-19, which will ultimately result in a savings to the General Fund of over \$3.5 million annually.

### *Public Employees Retirement System (PERS) Costs:*

Over the past decade, CalPERS pension rates have become the fastest growing expense in the City's financial forecast. In recent years, the City of Burbank has taken actions towards mitigating these pension costs increases, including sending lump sum contributions to CalPERS to decrease the City's unfunded liability and increasing employee contributions towards their pension rates, along with implementing the changes directed by the Public Employees' Pension Reform Act (PEPRA) adopted by the State of California in 2012. Most recently, the City Council revised their financial policies to dictate that the City and employees will evenly share the Normal Cost of employee pensions. Even with these actions however, Burbank will still experience an average increase in pension costs of over \$4 million among the City's three plans for FY 2018-19. **Table 2** shows the actual CalPERS employer rates and unfunded actuarial liability (UAL) contributions for the three employee classifications for the current year (FY 2017-18), next fiscal year (FY 2018-19) and the projected employer rates and contributions for the following two fiscal years (FY 2019-20 and FY 2020-21).

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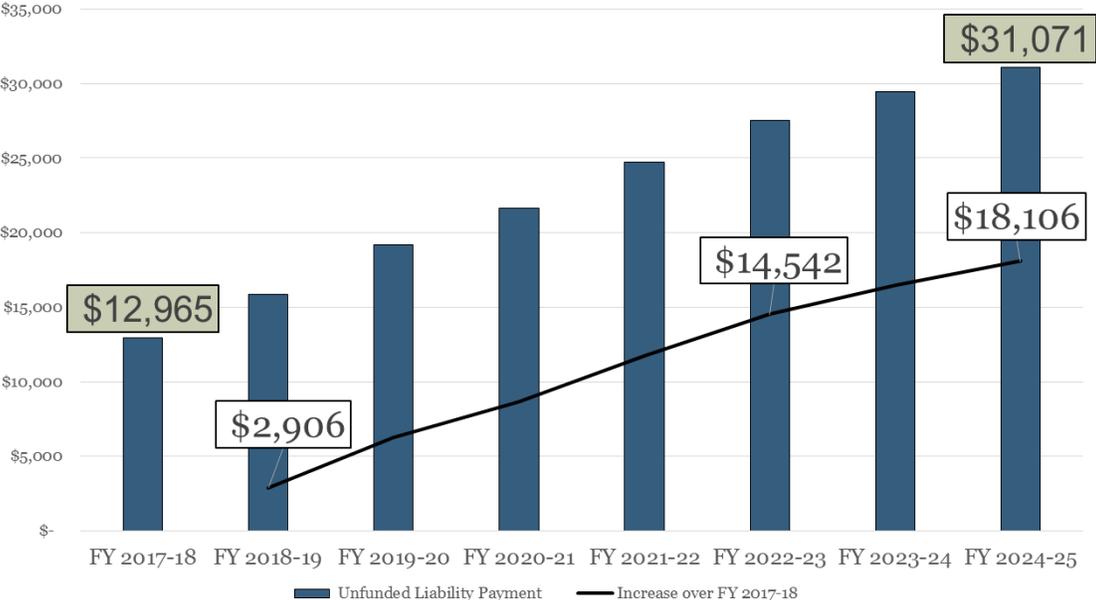
**Table 2: City of Burbank Pension Costs FY 2017-18 – FY 2020-21**

Classification	Actual* FY 2017-18	Actual* FY 2018-19	Projected FY 2019-20	Projected FY 2020-21
Police 3% @ 50 Rate	22.807%	22.286%	23.2%	25.1%
Police Liability Payment	\$4,270,554	\$5,210,858	\$6,288,000	\$7,076,000
Fire 3% @ 55 Rate	15.316%	15.975%	16.8%	18.5%
Fire Liability Payment	\$2,364,232	\$3,151,236	\$4,044,000	\$4,647,000
Misc 2.5% @ 55 Rate	8.468%	8.863%	9.4%	10.4%
Misc Liability Payment	\$12,512,983	\$14,843,764	\$17,554,000	\$19,560,000

\* Amounts shown are the total amounts due if the City were to continue to pay CalPERS on a monthly basis. For FY FY 2018-19 the City Council approved the prepayment of the liability payment which will result in a net savings of \$810,845 citywide.

Due to deferred pension funding and changes imposed by CalPERS, including a reduction to their assumed investment return from 7.5% to 7%, the City’s required payment towards the unfunded pension liability is projected to significantly increase over the next decade. Based on the latest projections provided by CalPERS, the General Fund’s unfunded liability payment will increase from \$12.9 million in FY 2017-18 to \$31.1 million by FY 2024-25. **Chart 2** illustrates the General Fund’s projected annual unfunded liability payment and tracks the delta between the projected payment and the current fiscal year (FY) 2017-18 unfunded liability payment.

**Chart 2: General Fund CalPERS Unfunded Liability Payment Projection (\$1,000s)**

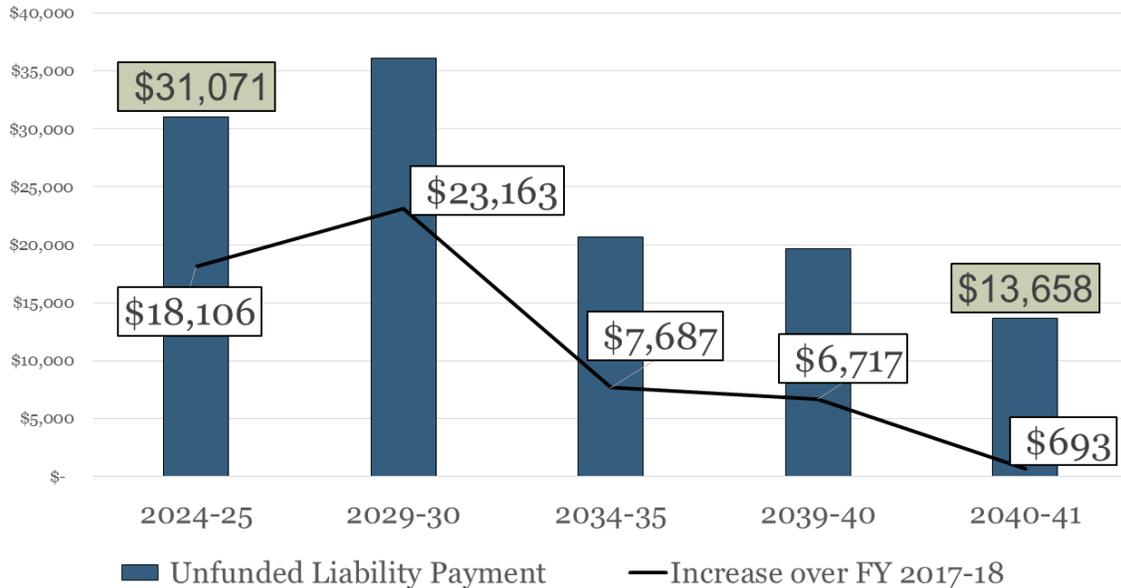


The total citywide unfunded pension liability is projected at just under \$365.5 million; the General Fund’s portion of this liability can be estimated at \$257.2 million. Due to the magnitude of this liability, it will take more than 20 years before the City’s unfunded liability payment returns to the current year level. Based on CalPERS current assumptions and projections, we can expect the General Fund payment to return to the current year level in FY 2040-41. **Chart 3** illustrates the projected liability recovery from FY 2024-25 through FY 2040-41.

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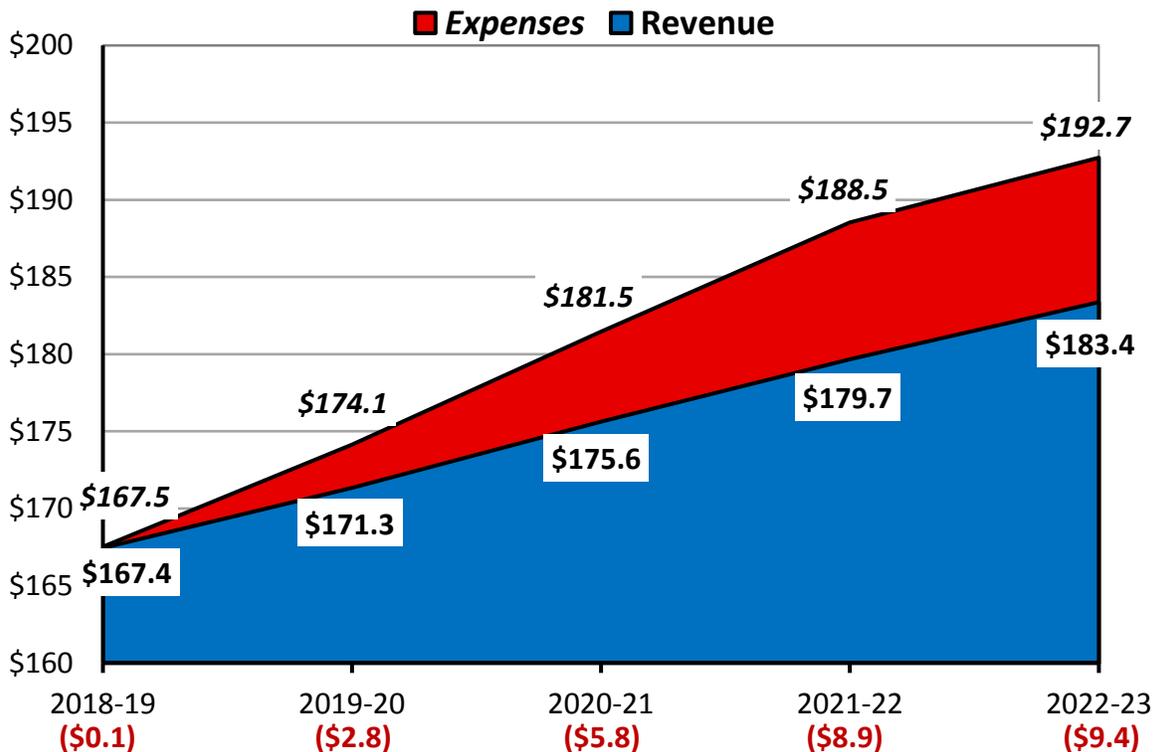
**Chart 3: Unfunded Pension Liability Amortization: Recovery Projection (\$1,000s)**



## GENERAL FUND FIVE-YEAR FORECAST

Along with the passage of Measure T and the restoration of the In-Lieu of Tax transfer, the City Council has implemented an additional \$9 million in revenue and cost saving measures, as outlined later in this report. As a result, the City's General Fund Forecast now projects an \$83,000 recurring deficit in FY 2018-19, growing to \$9.4 million in year five (FY 2022-23). **Chart 4** illustrates the relationship between recurring revenue and expenditures for the foreseeable future.

**Chart 4: General Fund Financial Forecast FY 2018-19 through FY 2022-23 (\$1,000,000s)**



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Currently, it is staff's expectation that recurring revenue growth over the next five years (FY 2018-19 through FY 2022-23) will average 2% while recurring expenditure growth will average 3.1%. Additionally, without corrective action, the General Fund will deplete its available one-time funds (not including formal reserves or set-asides) in FY 2021-22. The FY 2018-19 Adopted Budget assumes the use of one-time funds to close this projected gap while City staff and City Council work together to develop long term sustainable strategies to correct the structural deficit and address the backlog of high priority infrastructure and capital needs facing the City in the coming years, as will be outlined later in this message.

## NON-GENERAL FUNDS

### INTERNAL SERVICE FUNDS

The City of Burbank utilizes seven Internal Service Funds to accumulate monies for specific purposes, such as equipment replacement and insurance. As part of an overall effort to identify ways to reduce recurring costs, each year staff examines each internal service fund rental rates to see if savings could be achieved. Life cycles and replacement costs of city equipment are reviewed and the health of each overall fund is analyzed to insure that funds will be available for future scheduled replacements.

*Workers Compensation Fund:* In FY 2017-18, the City achieved a ten percent savings to our Citywide Workers Compensation (Fund 531) rates, as a result of a multi-year effort to stabilize the growth of Burbank's future liability in the Workers Compensation Fund. Through an administrative effort led by the Management Services Department to effectively manage cases and reduce claims, Workers' Compensation experienced a downward trend in open claims which reduces the City's overall financial exposure. In the last seven years (FY 2010-11 to FY 2016-17), the annual number of workers' compensation claims has averaged 163 claims per year. In the prior twelve years (FY 1998-99 to FY 2009-10), that total number averaged 233 claims per year.

*Municipal Building Maintenance Fund:* Due to the identified need of additional resources for infrastructure, in FY 2014-15, the City Council approved a five-year plan increase in the General Fund's contribution to the Municipal Building Maintenance Fund (Fund 534). This fund provides for the maintenance of all general government buildings and facilities, including City Hall, the Community Services Building (CSB), and all of the parks, recreation centers, library branches and fire stations throughout the City. Many of these aging facilities are in need of upgrades such as seismic retrofitting, HVAC replacement and roof repair, which had been put on hold due to the economic downturn. The contribution to Fund 534 has increased by \$100,000 in each subsequent year of the plan and will reach the five-year funding goal of \$1.5 million in FY 2018-19. This financial commitment is just one step towards reinvesting in the City's infrastructure needs, as will be outlined later in this message.

*Information Technology (IT) Fund:* For FY 2018-19, the City completed the conversion of the entire IT Department to an Internal Service Fund by consolidating the General Fund IT budget and the Computer Equipment Replacement Fund budget into the newly renamed Information Technology Fund. This will give the City one single view of the department, making it easier to manage funds and to demonstrate the true cost of services being provided by the department. Over the last 10 years, the trend in local government has been to move IT departments to Internal Service Funds in order to better track costs, manage staff, and plan for future equipment replacement. Both the City of Glendale and the City of Pasadena operate their respective IT departments in a similar manner.

As a result of this consolidation, some changes have been made within this budget document. First the budget and staffing for the IT department has moved from the General Fund "Information Technology" section of the budget to the Internal Services Fund section, under Fund 537. The second change is spread throughout the budget in each cost center's line item for Fund 537 Rental Rates. Across all departments and funds, the IT rental rate amounts now include the full cost of IT services instead of just the equipment and software. While the overall the budget for IT has remained fairly consistent, the rental rates will vary widely by department and fund based on their actual usage of IT services. This provides better transparency in rate development, and also gives departments more ability to manage and control their IT costs.

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## **SPECIAL REVENUE FUNDS**

The City has several Special Revenue Funds which are administered by various departments and fund infrastructure improvements as well as a range of City programs. These funds receive restricted revenues that can only be used for specific purposes, such as Gas Tax Funds for street construction and maintenance or Housing and Urban Development (HUD) funds for affordable housing. The following highlights some of the special revenue funds which have new appropriations for FY 2018-19:



*Funds 104, 105, 107 and 108 (Transportation Funds):* These funds provide transit programs and public improvements through the use of Local Return money generated by ½ cent sales tax increases that were approved by Los Angeles County voters in 1980, 1990, 2008 and 2016. Within all of the City's transportation funds, nearly \$6.8 million has been appropriated in FY 2018-19 to fund the BurbankBus system (including fixed-route, senior and disabled transit), maintenance and improvements to the Downtown Metrolink Station, and various street improvements throughout the City.

*Fund 122 (Community Development Block Grant):* Community Development Block Grant (CDBG) monies go to fund both public service projects as well as capital projects designed to benefit persons of low to moderate income. For FY 2018-19, \$159,610 in public service funding has been appropriated for local non-profit groups including the Armenian Relief Society, BCR "A Place to Grow", Boys and Girls Club, Burbank Coordinating Council, Burbank Family YMCA, Burbank Noon Lions, Burbank Temporary Aid Center, Burbank Unified School District (BUSD), Family Promise of the Verdugos, Family Service Agency of Burbank, Kids Community Dental Clinic, and the Salvation Army. In addition, capital project funds totaling \$857,330 will assist in funding bungalow rehabilitation at the Boys & Girls club, ADA accessible locker rooms at the YMCA, and various Community Development projects to address homelessness and promote economic development.

*Fund 123 (Road Maintenance and Rehabilitation Fund):* New for FY 2018-19, this fund was established to account for Burbank's share of funding from the Road Repair and Accountability Act (SB 1), adopted by the State of California in April 2017. For FY 2018-19 the City is estimated to receive \$1.7 million, all of which is appropriated to fund citywide road maintenance and rehabilitation as well as critical safety projects.

*Fund 125 (Gas Tax Fund):* The City of Burbank appropriated \$251,770 of its allocation of FY 2017-18 Highway Users Tax Act (HUTA) funds for the purpose of resurfacing and reconstructing streets and sidewalks, throughout the City.

*Fund 127 (Public Improvements Fund):* This program funds public improvements through the receipt of Development Impact Fees. For FY 2018-19, the City Council allocated \$200,000 for Buena Vista/Riverside Improvements, \$573,394 for Midtown Commercial Corridor pedestrian and signal improvements, and \$200,000 for the construction of the I-5 High Occupancy Vehicle (HOV) / Empire Interchange, along with fiber and network upgrades at several Parks & Recreation facilities.

*Fund 128 (Affordable Housing Programs):* The City receives funds annually from the U.S. Department of Housing and Urban Development (HUD) for affordable housing programs. For FY 2018-19, Burbank is estimated to receive \$383,797 in HOME program funds to improve substandard housing in the City and \$462,908 in Permanent Supportive Housing (PSH) funds which will be utilized for rental assistance and supportive services for chronically homeless persons.



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*Fund 129 (Street Lighting):* The General Fund directs 1.5 percent of the 7 percent BWP In-Lieu of Tax fee transfer revenue to this fund for the purpose of maintaining citywide street lights. Approximately \$3 million is appropriated this year for street lighting improvements and maintenance.

## **ENTERPRISE FUNDS**

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. The City of Burbank currently has four Enterprise Funds: Electric, Water, Water Reclamation & Sewer, and Refuse.

Each Enterprise Fund must ensure that its revenues cover operating expenses, including depreciation and cost of providing goods and services to users/customers. Revenues may be comprised of service charges/fees/sales, interest, and other income. Three of Burbank's four Enterprise Funds required rate increases FY 2018-19 as outlined below.

*Water Reclamation and Sewer Fund:* The Public Works Department administers this Fund and its main objective is to operate and maintain the City's Water Reclamation Plant and Industrial Waste Monitoring in compliance with federal, state and local regulations. The Water Reclamation & Sewer Fund's adopted budget reflects an overall rate increase of 2% for FY 2018-19, which equates to a monthly cost increase of \$.48 for the average single family dwelling. The increase is needed because of increased charges from the City of Los Angeles for sewage treatment services, labor and utility costs to operate Burbank's wastewater treatment plant, and capital projects to improve the sewer system.

*Refuse Collection and Disposal Fund:* This Fund is also administered by the Public Works Department and consists of four programs: Refuse Collection, Refuse Disposal, Recycling and Street Sweeping. One of the main goals of the Fund is to maintain fees at a level sufficient to fund operating costs and future capital improvements, while continuing to keep the rates as low as possible to customers. The adopted budget includes a 1% rate increase for the Refuse Fund in FY 2018-19, which equates to a monthly cost increase of \$.33 for the average residential customer.

*Electric Fund:* Burbank Water and Power (BWP) administers this fund, which supplies and distributes to the City of Burbank and its consumers electricity that is reliable, sustainable and cost efficient. The Electric Utility strives to keep rates competitive, while providing sufficient funding for operations and maintenance, including covering the rising costs of energy and providing funds for system reliability and capital improvements. For the second year in a row, there is no rate increase for the Electric Fund in FY 2018-19.



The BWP Electric Fund's FY 2018-19 Budget has a total of \$247 million in overall appropriations, with a projected operating income of \$232 million. The FY 2018-19 CIP budget for the Electric Fund is approximately \$22 million.

*Water Fund:* Also administered by BWP, the Water Fund supplies potable and recycled water to the City of Burbank and its customers. The Water Utility is committed to providing safe drinking water reliably at competitive rates, promoting sustainability, and drought proofing a portion of the water supply by investing in the Recycled Water System. The City Council approved a 4.9% rate increase for FY 2018-19 which represents an increase of approximately \$3.01 to the average residential customer. The increase is necessary because of the increased cost of purchased water, operations and maintenance.

The Water Fund Budget includes total appropriations of \$37 million, with a projected operating income of approximately \$33 million. The Water Fund CIP Budget for FY 2018-19 totals approximately \$5 million.

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## **HOUSING AUTHORITY**

The City's Housing Authority is funded by the United States Department of Housing and Urban Development (HUD), and the use of funds is pursuant to federal government regulations. The Housing Authority will continue to concentrate on expanding housing opportunities for very low-income housing families, avoiding concentrations of assisted housing, and using existing housing stock as affordable housing. This year, \$8 million has been budgeted for housing assistance payments.

Since the dissolution of Redevelopment in February 2012, the Burbank Housing Authority has assumed oversight of the Low and Moderate Income Housing Fund, which provided funding for the City's Affordable Housing Program. The objective is to utilize available funds to implement the Focus Neighborhood Revitalization Program to transform once-blighted areas into healthy neighborhoods that encourage community engagement, heightened community identity, and that foster a meaningful quality of life. The Housing Authority now receives debt reimbursement payments associated with the debt between the former Redevelopment Agency and the City. As required by State law, 20 percent of the reimbursement payments are restricted to affordable housing purposes only.



## **PARKING AUTHORITY**

The Parking Authority Fund provides for the acquisition, construction, maintenance, and operation of all City-owned or operated public parking facilities within the City of Burbank. Revenue sources include monthly parking permit fees, lease fees, the Downtown Public Facility Maintenance District levy, and various public-private parking agreements within the downtown area. The FY 2018-19 Parking Authority Budget will maintain its \$923,446 annual appropriation to provide for the maintenance of City-owned public parking lots and structures as well as the City's share of operating expenses for privately owned parking structures that contain a public parking component. The Parking Authority Fund has experienced several years of operating losses, and its

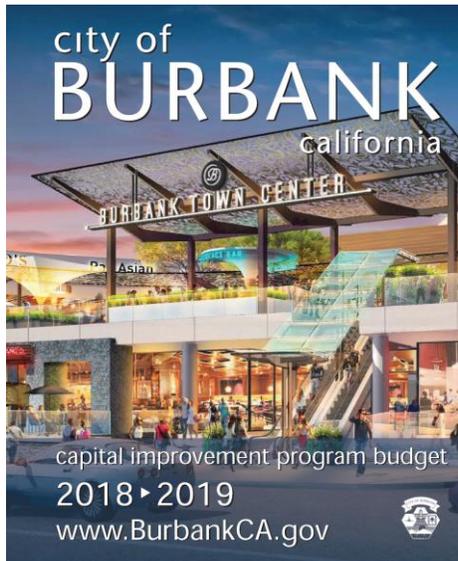
expenses will once again exceed its revenues in FY 2018-19. This fund will require future action on the part of the City Council to enhance revenues in order to keep pace with maintenance and utility costs.

## **STATE BUDGET IMPLICATIONS FOR THE FY 2018-19 BUDGET**

On June 27, 2018, Governor Brown signed the FY 2018-19 State of California Budget including a State General Fund Budget of \$201.3 billion with a General Fund total of \$138.7 billion. This year's State Budget maintains a balanced budget for FY 2018-19. California has passed eight consecutive on-time budgets, kept its spending in line with revenues, and fully filled its Rainy Day Fund. However, the State will continue to face uncertain times with the repercussions of the federal tax bill. The Governor continues to stress the importance of planning ahead before the next recession begins. By aggressively making optional supplemental deposits in 2016-17 and 2018-19, the Rainy Day Fund has been brought to the maximum level allowed under the State Constitution. Setting aside a portion of the budget surplus will mitigate the magnitude and length of budget cuts in the event of a recession or major federal policy change.

The Governor's budget also reflects the first full year of implementation for the Road Repair and Accountability Act of 2017 (SB 1), which provides funding for both state and local transportation infrastructure. The 2018-19 State budget includes \$4.6 billion in transportation funding of which \$1.2 billion is proposed for cities and counties for street repair and maintenance, public transportation and street projects. The City of Burbank is estimated to be eligible to receive SB 1 funding of \$1.7 million in FY 2018-19. However, in order to receive these dollars, the City must be able to reach an overall General Fund street funding annual commitment of nearly \$8.6 million, including staff time; roadway, signal and sidewalk maintenance and capital projects. Based on the current financial forecast, it may be difficult for the City to meet this threshold in the future, and therefore this funding could be lost. Staff will continue to monitor developments in the state budget process and provide updates to the City Council as necessary.

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## **CAPITAL IMPROVEMENT PROGRAM**

Although the Capital Improvement Program (CIP) Budget document is developed in conjunction with the operating budget, it is submitted separately in order to provide more detailed information for each of the 200 capital projects taking place within the City of Burbank. The document itself is a cooperative effort among City staff responsible for their respective projects. Major capital improvements can often be complex projects requiring several years of strategic planning, design, funding, and ultimately, construction. The CIP is a five-year program designed to tie the planning of capital improvements to realistic, reliable funding sources to ensure that both planning and implementation of such projects are balanced with available resources.

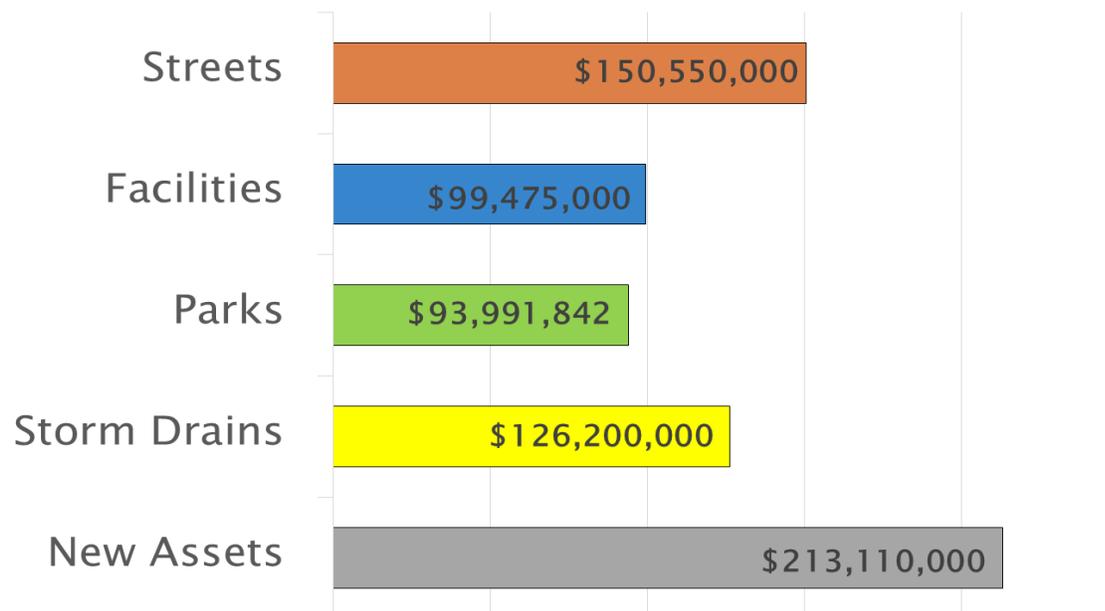
Of the City's total budget for FY 2018-19, approximately 7.5 percent is appropriated for Capital Improvements. The multi-year Capital Improvement Program totals \$460 million, including FY 2018-19 appropriations of \$46 million and prior year appropriations of \$293 million. Included in this year's \$46 million

total is \$5.1 million in grant funds the City anticipates receiving in FY 2018-19. Approximately \$121 million in future year appropriations will be required to complete all of the projects included in this year's Capital Improvement Program Budget.

### Unfunded Infrastructure Needs:

In addition to the fiscal challenges mentioned previously in this report, the City also faces a significant backlog of unfunded infrastructure needs. If not addressed, the growing infrastructure backlog will inevitably result in the deterioration of the quality of our roads, facilities and services the Burbank community has grown to expect. In total, the City has identified just over \$683 million of unfunded infrastructure needs. This total includes \$470 million in deferred maintenance for existing City assets and \$213 million for new City assets which would help meet an identified City need or otherwise improve the quality of life or character of the City for our residents. **Chart 5** details the broad categories of identified infrastructure needs.

**Chart 5: \$683 Million Total Identified Unfunded Infrastructure**



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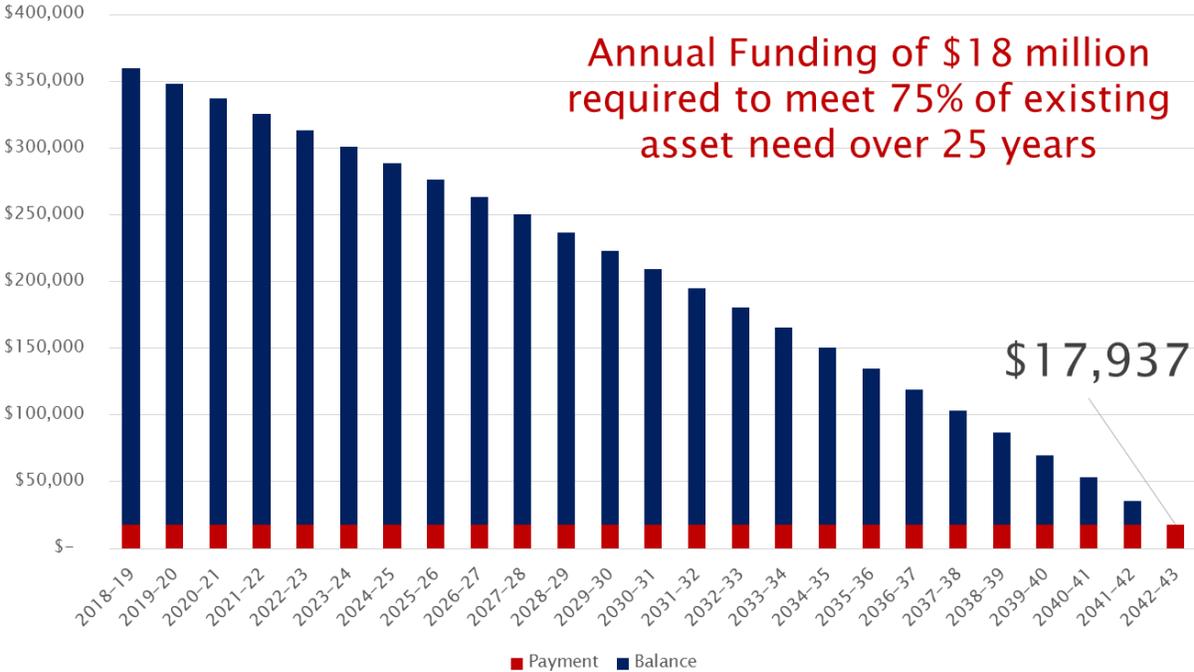
Investing in the City's infrastructure has been one of the City Council's top priorities. As part of the FY 2018-19 budget, the City Council allocated \$3.9 million in unrestricted General Fund dollars towards infrastructure. Of the \$3.9 million allocated, \$3.3 million went towards funding City street pavement improvements. In order to achieve this level of funding, the City applied \$2.9 million of available one-time funds received from Former Redevelopment Agency loan repayments. The use of the one-time funds does provide immediate assistance toward slowing the rate of our street deterioration, however a larger and long-term sustainable funding source will need to be identified in order to see improvement in our overall street pavement condition. To sustainably improve the pavement condition of City streets, an \$8 million annual funding source will be required. This goal could be achieved through the following funding plan:

Existing Annual Funding*:	\$3,000,000
SB1 Annual Revenue	\$2,500,000
Commit City SB1 Match from Potential New Revenue Source	<u>\$2,500,000</u>
<b>Total Sustainable Long-Term Street Pavement Funding</b>	<b><u>\$8,000,000</u></b>

*\*Includes the use of existing restricted dollars and \$1 million from the General Fund.*

Should the City want to address 75% of the total identified unfunded infrastructure for existing City assets over the next 25 years, the City would require an annual funding source of nearly \$18 million as shown in Chart 6.

**Chart 6: Required Funding to Meet 75% of Existing Asset Need Over 25 Years (\$1,000s)**



**ESSENTIAL ELEMENTS TO SECURE BURBANK'S FUTURE**

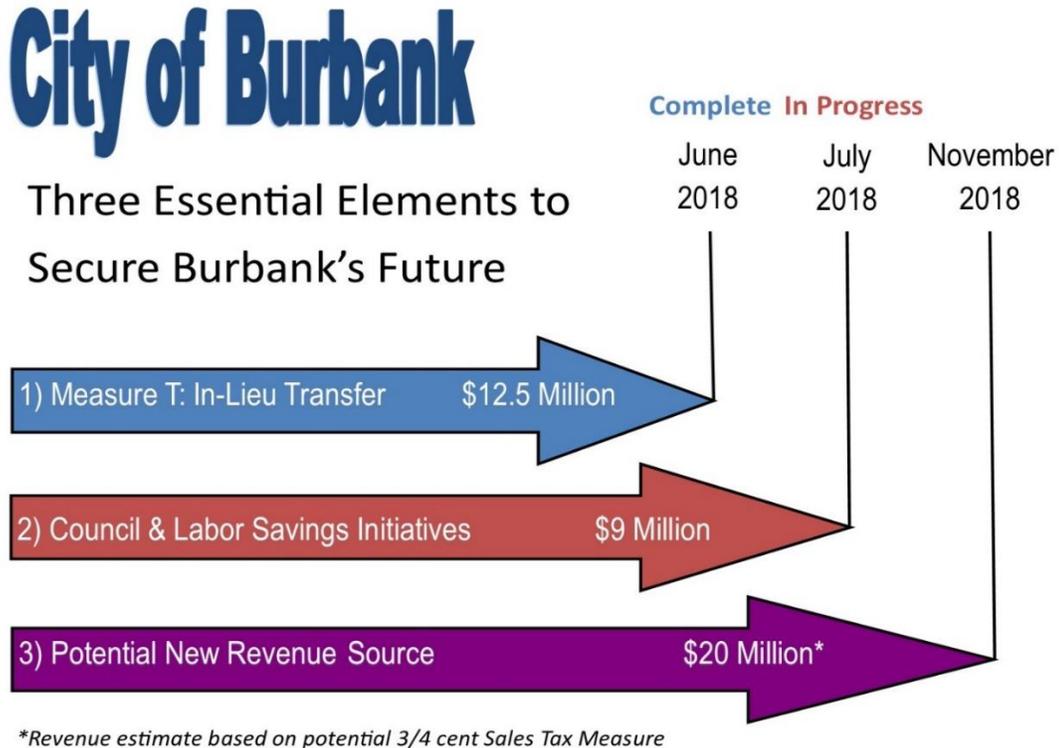
As mentioned previously, increases to employee pension costs and the once potential loss of the City's Burbank Water and Power (BWP) In-Lieu of Tax transfer led to a long term annual recurring General Fund operating deficit projection approaching \$30.5 million. The City Council, labor groups, and staff have been working collaboratively toward implementing a multi-year strategic plan which aims to sustainably correct the City's structural deficit and begin to deal with the significant backlog of infrastructure needs while, at the

# CITY MANAGER'S BUDGET MESSAGE



same time, preserving the City's high quality services. To that end, three essential elements have been identified as necessary in order to secure Burbank's future. **Chart 7** details the three essential elements identified.

**Chart 7: Three Essential Elements to Secure Burbank's Future**



## **ESSENTIAL ELEMENT 1: MEASURE T: IN-LIEU OF TAXES TRANSFER**

The first element, which is now complete, is Measure T which was approved by voters on June 5, 2018. The passage of Measure T modified language in the City Charter which allowed the City to become compliant with both Proposition 26 and 218 and preserved the City's long standing practice of transferring no more than 7% of gross electric retail sales to the General Fund. This voter approved measure effectively protects \$12.5 million in annual funding used by the General Fund to fund essential City services and infrastructure. With a preliminary passage rate of approximately 80%, Measure T results confirm the community's commitment toward sustaining valued City services and infrastructure by helping to preserve the City's long-term financial health.

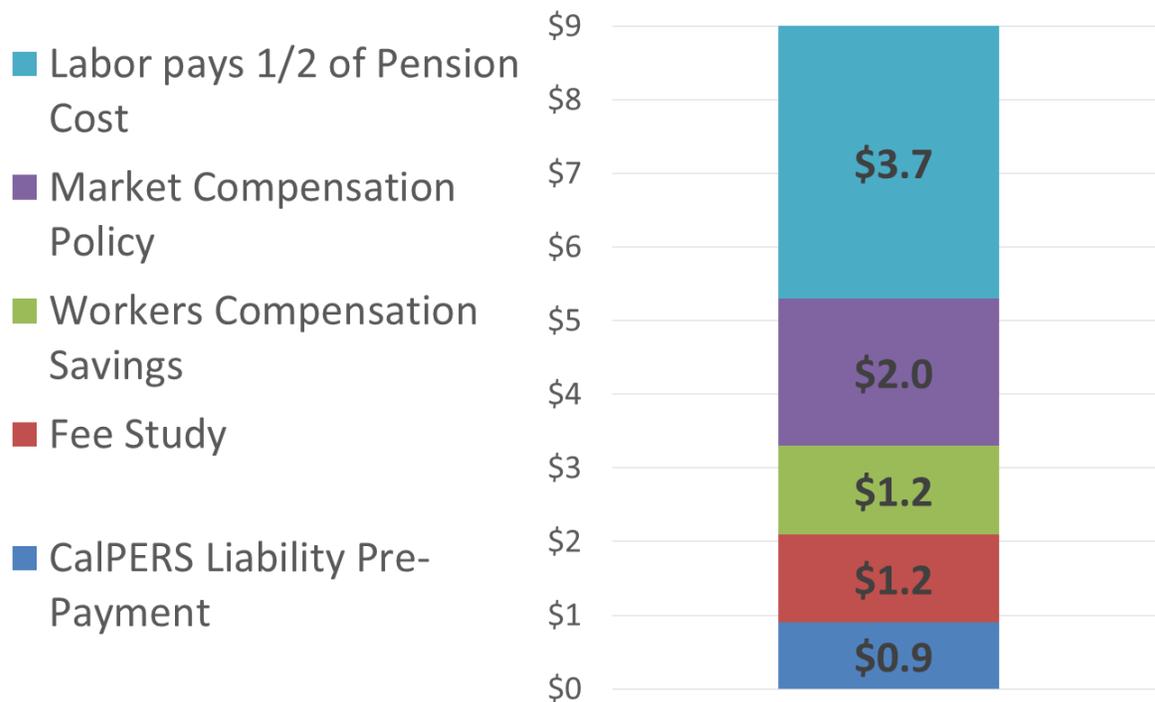
## **ESSENTIAL ELEMENT 2: COUNCIL AND LABOR SAVINGS INITIATIVES**

The second element directed by the City Council is to identify and implement long-term sustainable cost saving measures with minimal to no impacts on community services. Thus far, an estimated \$9 million in annual savings have been identified and are projected to be fully implemented by the end of our five year forecast. **Chart 8** below details the significant Council and labor initiatives which will save the City an estimated \$9 million annually for the long-term.

# CITY MANAGER'S BUDGET MESSAGE



**Chart 8: Council and Labor \$9 Million Savings Initiatives (\$1,000,000s)**



In addition to these long-term sustainable initiatives, the City Council also imposed shorter-term cost saving measures aimed at generating additional one-time savings. The generated one-time savings could be used as bridge funding to allow the City more time to implement a long-term strategic plan that will secure Burbank's fiscal health. These measures include no new salary increases for staff in all labor groups and a citywide hiring freeze.

### **ESSENTIAL ELEMENT 3: POTENTIAL NEW REVENUE SOURCE**

On June 26, 2018, Staff presented various revenue options to the City Council that could be available to the City to generate additional General Fund revenue. When evaluating the various potential revenue sources, three general criteria were applied:

- 1) Is the revenue sufficient?
  - Revenue generated should address the remaining structural gap and provide funding to at least begin to address the City's Infrastructure backlog.
  - With total required annual funding of nearly \$28 million, the City should focus efforts on options that generate +\$15 million annually.
- 2) Is the source of funds fair and equitable to Burbank constituents?
  - Revenue source should not be overly burdensome to Burbank residents. Burbank services and infrastructure benefit residents, local businesses and the surrounding communities.
- 3) Will it be successful and timely?
  - A complex tax change may be difficult for voters to understand. Further, a solution requiring multiple votes of the people may lead to voter fatigue.
  - The identified solution needs to be executed in a timely manner such that the valued City services can be preserved and the growth of the infrastructure backlog is curtailed.

When we applied the above criteria of sufficiency, fairness, and likelihood of success, a local transaction and use tax, which is commonly referred to as a sales tax, measure matched best:

# CITY MANAGER'S BUDGET MESSAGE

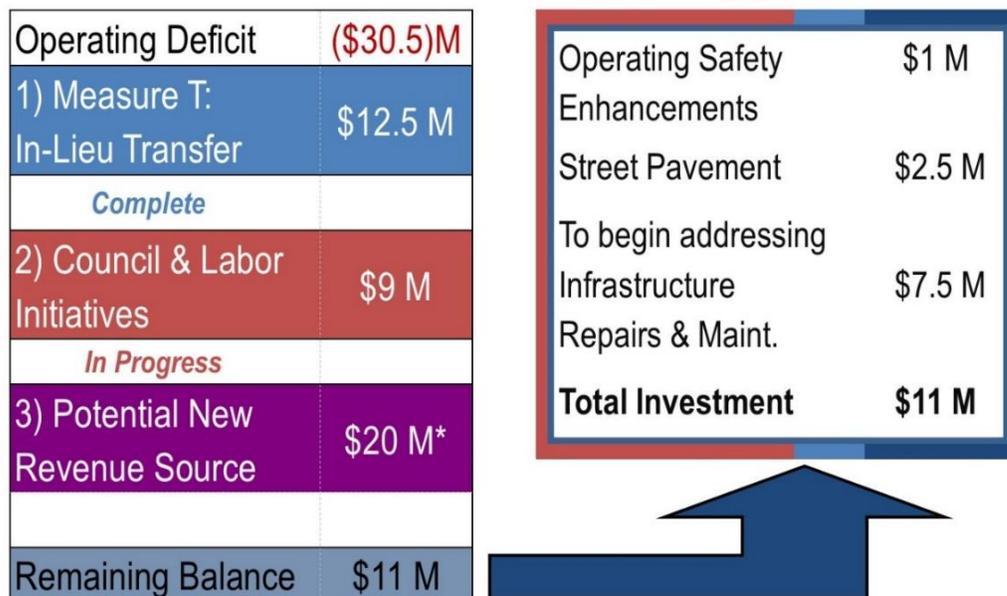


1. A ¾ cent sales tax measure would generate approximately \$20 million annually.
2. Historical trends show that roughly one-third of City sales tax revenue comes from resident spending, one-third comes from local business spending, and the final one-third comes from non-Burbank residents shopping in local Burbank businesses. This distribution helps ensure that all Burbank constituents contribute equitably towards the solution.
3. A local sales tax measure can be taken to the voters for consideration as early as November, 2018.

On July 17, the Burbank City Council voted unanimously to place a measure on the November 6, 2018 ballot, allowing the voters to decide whether to implement a ¾ cent local sales tax. Should the Burbank voters approve the measure, the City could not only close the remaining operating structural gap but provide significant new funding to begin to address infrastructure needs. **Chart 10** below shows how the City could choose to invest the combined benefits brought forth through the thoughtful and strategic execution of the three essential elements.

**Chart 10: Three Essential Elements to Secure Burbank's Future Investment Strategy (\$1,000,000s)**

## City of Burbank Three Essential Elements to Secure Burbank's Future



\*Revenue estimate based on potential 3/4 cent Sales Tax Measure

### CITY COUNCIL GOALS

As noted previously, addressing the City's budget deficit is the City Council's top priority heading into the new fiscal year. The City Council also holds periodic goal setting workshops, with the most recent one taking place on Saturday, August 5, 2017. The goal setting process assists policy leaders in developing a future focus, discuss issues and opportunities facing the community, set strategic direction and determine priorities. Council goal setting also provides a clear message to city staff as to what the Council aims to accomplish in the upcoming planning period. The Council discussed and ranked their priorities for the next two years as shown on the following page.

# CITY MANAGER'S BUDGET MESSAGE



1. Budget
2. Housing
3. Economic Development
4. Governance
5. Traffic and Parking

The City Council's goals drive the City's Work Program which is prepared annually by City staff. The highlights of the FY 2017-18 Work Program as well as the Work Program goals for FY 2018-19 can be found within the individual department sections of this budget document. The elements of the Work Program are above and beyond the core services to the community that the City provides and part of our continuous improvement efforts. In keeping with the practice of recent years, the Adopted FY 2018-19 Budget closely links the operating and capital expenditure plans with the priorities established by the City Council.



## CONCLUSION

The adopted budget represents a tremendous amount of work by Department Managers and key members of their staff, and I would like to thank all of those responsible for the successful completion of this year's budget. Special thanks go to the Financial Services Department Budget Staff, who spent countless hours developing this budget into a single working document. Lastly, I would also like to thank the City Council for their leadership as policymakers throughout the budget process, and for making difficult, yet responsible decisions that will guide this City through challenging times. I am proud and confident that this year's FY 2018-19 Budget meets the needs of the Burbank community.

The budget adopted by the Burbank City Council funds top notch safety and emergency services, traffic mitigation and street improvement projects, responsible and reliable delivery of utilities, and a multitude of community programs and services which benefit youth, seniors and residents of all ages. However, there is still much work to be done to complete the implementation of the City Council's plan to secure Burbank's future in the coming years. Warren Buffet once said "Someone's sitting in the shade today because someone planted a tree a long time ago." By developing long-term strategies to correct the structural deficit, mitigate rising pension costs and address the City's backlog of infrastructure and capital needs, the City of Burbank will be well positioned to rise to our financial challenges in the decades to come.

Fortunately for Burbank, we are still in much better financial condition than our neighboring cities both in Los Angeles County and throughout the State. This is largely due to our historically conservative approach to fiscal matters and the solid financial policies adopted by the Council. We have a diverse revenue base, and we continue to make strong efforts in economic development which will help provide fiscal health into the future and allow us to continue to provide quality municipal programs and services to the Burbank community.

Thank you for allowing me the opportunity to play a role in the continuing success of this great City.

Respectfully submitted,

A handwritten signature in blue ink that reads "Ron Davis".

Ron Davis  
City Manager