

BUDGET AND FINANCE COMMITTEE REPORT relative to proposed actions to address the 2016-17 deficit and restore the Reserve Fund level, and issuance of a Judgment Obligation Bond.

Recommendations for Council action:

1. INSTRUCT departments, in order to curtail expenditures, to:

- a. Withdraw any new and unbudgeted spending proposals to be resubmitted, only if warranted, as part of the 2017-18 Budget process.
- b. Make any necessary adjustments to mitigate their own shortfalls within existing department resources, inclusive of adjusting their hiring plans for the year.
- c. Prioritize and expedite the hiring, for civilian vacancies, of fully special-funded positions and/or positions required to implement mandated programs resulting from settlements while holding other positions vacant until the Mid-Year Financial Status Report is considered. **(Bonin - No; Krekorian, Englander, Martinez, Blumenfield - Yes)**

2. APPROVE the following, in order to strengthen General Fund revenues:

- a. Instruct the Office of Finance, with the assistance of the Offices of the City Administrative Officer (CAO) and the City Attorney, to negotiate Transient Occupancy Tax collection agreements with short-term and vacation rental websites similar to that recently formed with Airbnb (Council file [C.F.] No. 16-0600).
- b. Adopt the series of recommendations proposed by the CAO regarding the regulation of billboards (C.F. No. 11-1705) including those related to issuing a Request for Information and a Request for Qualifications to assess the opportunities and potential costs and benefits from siting billboards on public parcels in conjunction with the development of a comprehensive policy, subject to the approval by the Council. **(Bonin - No; Krekorian, Englander, Martinez, Blumenfield - Yes)**
- c. Instruct the CAO to work with major event venues in the City to ensure that the City is fully reimbursed when events at those venues require special services.
- d. Hold in abeyance or disapprove any new policies under consideration that could further reduce current year General Fund receipts. **(Bonin - No; Krekorian, Englander, Martinez, Blumenfield - Yes)**

3. APPROVE the following, in order to restore the Reserve Fund:

- a. Instruct the CAO, with the assistance of the City Attorney, to proceed with a Judgment Obligation Bond issuance of between \$50 and \$70 million to reimburse the Reserve Fund for extraordinary liability payouts made resulting from settlements and judgments. **(Englander - No; Krekorian, Martinez, Blumenfield, Bonin - Yes)**

- b. Set as a priority for Fiscal Year 2017-18, the appropriation of adequate funding to address liabilities based on a comprehensive review of existing cases by the City Attorney and risk mitigation efforts by departments, in particular those experiencing high levels of litigation.
 - c. Instruct the CAO to report back with recommendations to expedite the repayment of outstanding Reserve Fund loans and the release of prior-year encumbrances.
4. INSTRUCT departments Citywide to provide budget reduction suggestions in an exercise in contract and expense reductions.
 5. REQUEST the Controller to report on the feasibility of borrowing from special funds.

Fiscal Impact Statement: The CAO reports that if the expenditure and revenue recommendations in this report are adopted, they will support efforts to address the 2016-17 deficit by reducing departmental deficits, generating savings that can be used for Citywide deficits, and protecting and increasing revenues in the current year. While the issuance of Judgment Obligation Bonds would increase the balance in the Reserve Fund, the recommendation to proceed with the Judgment Obligation Bond does not yet authorize the issuance of debt and therefore has no impact at this time.

Community Impact Statement: None submitted.

SUMMARY

At its regular meeting held on January 9, 2017, the Budget and Finance Committee considered a report from the CAO dated January 6, 2017 relative to proposed actions to address the Fiscal Year 2016-17 deficit and restore the Reserve Fund level, including curtailing expenditures, strengthening revenues, and the issuance of a Judgment Obligation Bond.

The CAO and the Assistant CAO addressed the Committee and provided a brief overview of its report. The CAO reported that a deficit of approximately \$200 million for FY 2016-17 due primarily to larger than expected legal liabilities and revenues below what was budgeted. The CAO's report proposes a number of recommendations to resolve the deficit such as disapproval of any non-budgeted new programs, prioritizing only the hiring consistent with Mayor and Council citywide goals (such as the sidewalk program, and homeless initiative), expansion of other revenue streams such as agreements with Airbnb and other home-sharing platforms, and most important: directing the CAO to work with the City Attorney to seek a Judgment Obligation Bond of \$50 to \$70 million to cover the cost of some of the cases.

The CAO discussed maintaining the Reserve Fund at a level of at least 5 percent and that to do so would require any Job Obligation Bond to be issued within the fiscal year (under the proposed schedule in the CAO report). The CAO also proposed a FY 2017-18 budget for liabilities of at least \$120 million (versus the \$60 million budgeted for FYs 2016-17 and 2015-16). The Committee concurred with the CAO relative to working through the budget process to increase the amount budgeted for liabilities, but expressed concern about the issuance of a Judgment Obligation Bond to pay for what it considers an ongoing expense.

During further discussion of the proposed Judgment Obligation Bond, the Committee inquired about the use of the Budget Stabilization fund as an alternative and the ramifications for not reimbursing the Reserve Fund for liabilities and the Reserve Fund falling below 5 percent. The CAO advised the Committee that the Budget Stabilization Fund rules, based on Council's direction, permit it to be used only when certain revenues fall below a certain threshold (typically in a recession) and would require Council to amend the entire structure of the Fund. Regarding allowing the Reserve Fund to fall below 5 percent, the CAO advised that the City has an excellent rating due primarily to following its stated Financial policies and that a one-time dip in the Reserve Fund would probably be seen by the rating agencies as an anomaly. But if that were to occur in subsequent fiscal years, the City's bond rating could be negatively affected, and a downgrade could cost the City \$5 million plus in additional costs for every bond it issues. The CAO noted that ultimately, the Judgment Obligation Bond was deemed the most prudent option to deal with this fiscal year's unexpected increase in liabilities.

The Committee also discussed at length the CAO's various recommendations for reduction of the deficit and generating revenue. Committee members expressed concern relative to Recommendation No. 1c (as duplicative of Recommendation No. 1b), Recommendation No. 2b (as being perceived that the Committee is making a policy decision relative to approving the siting of billboards on City property), Recommendation No. 2d, and Recommendation No. 3a (that issuance of a Judgment Obligation Bond is being used to pay for an ongoing expense). As a result of the various concerns, the Committee Chair separated the above Recommendations for voting by the Committee. Additionally, the Committee Vice Chair moved that City departments be instructed to undergo a budget reduction exercise to identify savings that could be used for paying FY 2016-17 liabilities rather than the issuance of a Judgment Obligation Bond, and that the Controller be requested to report on the feasibility of borrowing from special funds. Lastly, the Committee Chair moved that Recommendation No. 2b be amended to add that the matter is still subject to Council approval.

After consideration and after providing an opportunity for public comment, the Committee unanimously approved the CAO report recommendations as amended above (with the exception of "No" votes by various Committee members on Recommendations No. 1c, 2b, 2d, and 3a of this Committee report). This matter is now forwarded to the Council for its consideration.

Respectfully Submitted,

BUDGET AND FINANCE COMMITTEE

<u>MEMBER</u>	<u>VOTE*</u>
KREKORIAN:	YES
ENGLANDER:	YES
MARTINEZ:	YES
BLUMENFIELD:	YES
BONIN:	YES

* See Recommendations above for details of vote.

REW 1/11/17 FILE NO. 16-1322