

MEASURE Z FUND FIVE-YEAR FINANCIAL PLAN

OVERVIEW

The collection of an additional one-cent sales tax authorized by voters through Measure Z began on April 1, 2017. After hearing recommended Measure Z spending options from City staff and the Budget Engagement Commission, on May 16, 2017, the City Council approved a five-year Measure Z Spending Plan for 33 initiatives covering public safety, financial discipline/responsibility, critical operating needs, facility capital needs, quality of life, and technology. For the purposes of this Measure Z Five-Year Financial Plan, the tenets of the original spending plan have been carried through two additional years, FY 2020/22 and FY 2022/23.

REVENUE ASSUMPTIONS

The one-cent sales tax projection used in the Measure Z Five-Year Plan is based on reports from economic consultants and a review of FY 2017/18 revenue performance to date. A modest 1% growth is projected in this revenue source.

EXPENDITURE ASSUMPTIONS

The expenditure projections for Measure Z assume a continuation of the spending priorities defined in the May 2017 adoption of the FY 2016-2021 spending plan and include adjustments made to the plan per subsequent City Council action, such as the redirection of Contingency Funds for the Archives for the New Main Library project. Key changes from the initial Five-Year Spending Plan (FY 2016-2021) are discussed below.

FINANCIAL DISCIPLINE/RESPONSIBILITY

As a result of prudent financial planning and the adoption of balancing measures in the General Fund, General Fund reserves are expected to remain above 20% for FY 2018/19 and FY 2019/20. Measure Z funding will not be required to support General Fund reserve balances in those fiscal years. Contributions to the General Fund are expected to relate only to operating expenditures, as provided for in Spending Item # 18 – Funding Gap. To provide cushion against potential future funding gaps in Measure Z and to address unanticipated expenses, a Measure Z Spending Contingency (Spending Item #4) of \$2 million has been included in each year of the spending plan, through FY 2022/23. Also within the Financial Discipline/Responsibility spending category, estimates have been updated to reflect the actual cost to Measure Z as a result of refinancing of the interest-only Bond Anticipation Note (Spending Item #2). The City's increased bond rating helped to save approximately \$225,000 per year over the initial projections, and \$2.25 million over ten years.

PUBLIC SAFETY

The resounding success of the Police Vehicle Refurbishment Program (Spending Item #12) resulted in an estimated savings of \$2.74 million over four years and eliminated the need for vehicle financing. The Five-Year Plan assumes a continuation of the vehicle refurbishment program with nominal 2% cost increases each year. Spending Item #14 – Fire Vehicle Replacement, has been updated to reflect actual debt service costs. Projections for all positions funded by Measure Z have been extended in the financial plan through FY 2022/23 and incorporate the impacts of employee Memorandums of Understanding and rising CalPERS costs.

Several critical unfunded needs of the Fire Department and Parks, Recreation and Community Services Department were identified during the development of the FY 2018-2020 Two-Year Budget; the funding of these critical needs will enhance public safety and service, consistent with the purpose of Measure Z. The items added to the Measure Z Spending plan include:

- Ongoing Cost, Spending Item #34: The addition of six Firefighters to bring staffing levels on new fire trucks to four Firefighters for all shifts.

- One-time Costs of \$1.45 million: \$250K for Fire safety turnouts and HazMat monitors (Spending Item #35 through 38); \$500,000 grant match and supplemental funding for Fire radios; \$100,000 for the Parks, Recreation and Community Services Department’s Summer Pools Program; and \$600,000 for furniture, fixtures and equipment at the Arlington Youth Innovation Center, expected to become operational in July or August of 2019.
- The Fire Department has applied for a \$2 million grant to fund the purchase of new radios; if the grant is not awarded, Measure Z funds will be used to complete the purchase (included in Spending Item #36). Unused funds will be returned to Measure Z fund balance reserves.

CRITICAL OPERATING NEEDS

In the initial Measure Z Spending Plan, Spending Item # 18 – Funding Gap estimates were based on a five-year model largely associated with union contracts and a slowing of revenue growth. In the FY 2018-2023 Five-Year Plan, this spending item has been updated and extended to FY 2022/23 with 3% annual increases in costs based on historical CPI.

FACILITY CAPITAL NEEDS

The City Council modified the spending plan of several capital projects during FY 2017/18, including the Main Library (including the addition of Library Archives – Spending Item #23a), Police Headquarters, and Museum Expansion and Rehabilitation. To date, debt has not been issued for these projects, but debt service estimates have been updated in the spending plan to reflect the modification of the capital projects and related debt service projections.

QUALITY OF LIFE

The originally adopted amounts for the Spending Items in these categories are extended through FY 2022/23. Staffing levels remain unchanged; related personnel costs were updated to reflect the impacts of employee Memorandums of Understanding and CalPERS costs.

TECHNOLOGY

The Measure Z FY 2018-2023 Five-Year Financial Plan includes \$1 million in Spending Item # 33 – Technology Projects for future technology projects and needs based on citywide audit programs and other assessments. Funding may be used for hardware, new software, and cybersecurity. Each proposed project will be brought to the City Council for approval.

SUMMARY OF MEASURE Z SPENDING BY CATEGORY

FY 2018-23 Measure Z Spending Plan Categories					
Spending Category	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23
Financial Discipline/Responsibility	6,173,554	3,674,490	3,674,489	3,674,478	3,673,062
Public Safety	17,054,129	18,848,850	21,418,935	22,753,581	22,463,728
Critical Operating Needs	15,410,246	20,454,126	12,438,518	12,805,507	13,180,465
Facility Capital Needs	4,204,500	8,251,500	10,083,925	11,534,438	11,534,440
Quality of Life	4,261,128	4,299,948	4,333,922	4,365,159	4,392,451
Technology	2,000,000	2,000,000	2,000,000	1,000,000	1,000,000
TOTAL MEASURE Z SPENDING	49,103,557	57,528,914	53,949,789	56,133,163	56,244,146

FUND BALANCE

Measure Z fund balance is projected to increase in all years with the exception of FY 2019/20, during which a planned use of fund balance reserves will occur to fund excess expenditures. Based on the updated Measure Z Five-Year Spending Plan, it is anticipated that Measure Z will achieve approximately \$15.7 million in fund balance reserves by FY 2022/23, which is a result of effectively managing expenditures and taking advantage of current interest rates for proposed capital projects.

MEASURE Z FIVE-YEAR FINANCIAL PLAN

Spending Item	Estimated FY 2017/18	Adopted FY 2018/19	Adopted FY 2019/20	Projected FY 2020/21	Projected FY 2021/22	Projected FY 2022/23
SALES TAX REVENUE	54,000,000	54,540,000	55,085,400	55,636,254	56,192,617	56,754,543
EXPENDITURES						
1. 20% General Fund Reserve	15,000,000	-	-	-	-	-
2. Payoff of the Balloon \$32 million Pension Obligation Bond	1,675,000	1,673,554	1,674,490	1,674,489	1,674,478	1,673,062
3. Funding for Workers Comp and General Liability	2,500,000	2,500,000	-	-	-	-
4. Measure Z Spending Contingency		2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
5. Additional Sworn Police Positions	3,700,000	5,672,185	8,068,849	9,662,335	11,011,488	11,592,714
6. Public Safety Non-Sworn Positions and Recruitment Costs	903,500	1,076,026	1,148,157	1,203,364	1,237,364	1,260,968
7. Police Officer Lateral Hire Incentives and Recruitment Costs	-	344,360	344,360	344,360	354,691	365,332
8. Additional Dispatchers	260,000	398,661	644,859	1,024,673	1,064,317	1,102,207
9. Reinstatement of Fire Squad	792,798	843,730	942,565	1,043,233	1,110,746	1,142,054
10. Reinstatement of Captains (Training and Arson)	450,025	364,762	385,486	399,188	406,926	414,448
11. Reinstatement of Battalion Chief	282,595	262,693	276,296	287,301	292,734	297,695
12. Revised PD Vehicle Replacement and Maintenance Plan	2,014,822	2,055,119	2,096,221	2,138,146	2,180,909	2,224,527
12a. Police Fixed Wing Aircraft	382,870					
13. Refurbish PD Vehicle (Pilot Program)	50,000	-	-	-	-	-
14. Revised Fire Vehicle Replacement and Maintenance Plan	1,661,578	1,967,578	3,376,252	3,725,105	3,445,525	2,366,452
15. Fleet Facility Capital Repairs Needed	100,000	-	-	-	-	-
16. Additional Fleet Mechanics for Police Department	181,000	198,177	218,153	227,692	230,489	232,198
17. Additional Fleet Mechanics for Fire Department	181,000	207,017	228,155	241,183	244,272	246,203
18. Funding Gap - Existing Services	5,482,404	13,238,623	18,266,026	11,734,277	12,086,305	12,448,894
19. General Plan Update	2,000,000	1,500,000	1,500,000	-	-	-
20. Homeless Services	500,000	500,000	500,000	500,000	500,000	500,000
21. Principal Analyst - City Manager's Office	165,000	144,623	161,100	177,241	191,202	203,571
22. Budget Engagement Commission Support	27,000	27,000	27,000	27,000	28,000	28,000
23. New Downtown Main Library	-	2,204,500	3,819,500	3,816,825	3,817,954	3,817,954
24. New Downtown Main Library - Archives	1,000,000	1,000,000	1,300,000	-	-	-

Spending Item	Estimated FY 2017/18	Adopted FY 2018/19	Adopted FY 2019/20	Projected FY 2020/21	Projected FY 2021/22	Projected FY 2022/23
24a. Eastside Library Site Selection	100,000	-	-	-	-	-
25. New Police Headquarters	-	-	2,132,000	3,652,000	3,649,954	3,649,954
26. Museum Expansion and Rehabilitation	-	-	-	807,550	1,533,265	1,533,265
27. Downtown Parking Garage	-	-	-	807,550	1,533,265	1,533,267
28. Annual Deferred Maintenance (Existing Facilities)	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
29. Maximize Roads/Streets (Pavement Condition Index)	2,875,000	2,875,000	2,875,000	2,875,000	2,875,000	2,875,000
30. Tree Trimming	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
31. Ward Action Team - City Attorney's Office	225,000	257,082	282,065	303,921	324,298	342,186
32. Ward Action Team - City Manager's Office	165,000	129,046	142,883	155,001	165,861	175,265
33. Technology Improvements	2,000,000	2,000,000	2,000,000	2,000,000	1,000,000	1,000,000
34. 4-Person Staffing on Fire Trucks	-	263,821	1,069,497	1,122,355	1,174,120	1,218,930
35. Fire Equipment	-	250,000	-	-	-	-
36. Contingency – Fire Radios	-	2,500,000	-	-	-	-
37. Recreation – Summer Pools	-	50,000	50,000	-	-	-
38. Arlington Youth Innovation Center – Furniture, Fixtures, Equip.	-	600,000	-	-	-	-
Total Expenditures	46,674,592	49,103,557	57,528,914	53,949,789	56,133,163	56,244,146
Five-Year Financial Plan Surplus/(Deficit)	7,325,408	5,436,443	(2,443,514)	1,686,465	59,454	510,397
FUND RESERVES						
Beginning Measure Z Fund Reserve	2,600,000	9,925,408	15,361,851	12,918,337	14,604,802	14,664,256
Five-Year Financial Plan Surplus/(Deficit)	7,325,408	5,436,443	(2,443,514)	1,686,465	59,454	510,397
Ending Measure Z Fund Reserve	9,925,408	15,361,851	12,918,337	14,604,802	14,664,256	15,174,653