



MEMORANDUM

DATE: March 19, 2020
TO: Christine Daniel, City Manager
FROM: Susan Hsieh, Finance Director
SUBJECT: **Mid-Cycle Review Of The Two-Year Budget For Fiscal Years 2019-20 And 2020-21 And Proposed Budget Amendments**

RECOMMENDATION

Staff recommends that the City Council review and approve the proposed budget adjustments for fiscal years 2019-20 and 2020-21.

BACKGROUND

The City’s 2019-21 Budget was adopted by the Council on June 4, 2019. Finance staff has conducted the mid-cycle budget review together with all city departments and recommends the adjustments discussed in this staff report.

DISCUSSION

General Fund Proposed Budget Adjustments

General Fund – Summary of Proposed Budget Adjustments

The table below summarizes the General Fund proposed budget adjustments for fiscal years 2019-20 (FY 2020) and 2020-21 (FY 2021). FY 2020 revenue/expenditure budget is projected to increase by \$3.5 million, and FY 2021 revenue/expenditure budget is projected to increase by \$1.8 million.

	FY 19-20 Adopted Budget	FY 19-20 Proposed Adjustment	FY 19-20 Proposed Revised Budget	FY 20-21 Adopted Budget	FY 20-21 Proposed Adjustment	FY 20-21 Proposed Revised Budget
Revenues	\$ 44,887,200	\$ 3,548,784	\$ 48,435,984	\$ 46,395,700	\$ 1,792,380	\$ 48,188,080
Expenditures	\$ 44,744,236	\$ 3,548,784	\$ 48,293,020	\$ 46,220,081	\$ 1,792,380	\$ 48,012,461
Surplus	\$ 142,964	\$ -	\$ 142,964	\$ 175,619	\$ -	\$ 175,619

General Fund – Proposed Revenue Adjustments

Performance of the General Fund Revenues - The table below presents the General Fund revenues for the six months ended December 31, 2019. Revenues totaled \$17.8 million, or 40% of the \$44.9 million annual budget. Please note that revenues such as Property Tax, Residual Tax Increment, and Vehicle License Fee In Lieu are not evenly distributed. The County distributes these taxes based on historical trends and collections, and these

taxes are normally collected by the County in December and April. Significant variances are discussed as part of the proposed budget adjustments below.

General Fund Revenues for the Period Ended December 31, 2019

Revenues By Category	FY19-20 Budget (Forecast)	FY19-20 Actual	Actual vs. Budget Variance	% of Budget (Forecast)	FY18-19 Actual	FY19-20 vs FY18-19 Variance
Sales Tax	\$ 8,277,000	\$ 2,086,531	\$ (6,190,469)	25%	\$ 2,966,599	\$ (880,068) -30%
Transient Occupancy Tax	8,720,000	3,775,323	(4,944,677)	43%	3,624,495	150,828 4%
Business License Tax	6,169,000	231,915	(5,937,085)	4%	268,610	(36,695) -14%
Cannabis Tax	360,000	207,122	(152,878)	58%	-	207,122 n/a
Utility Users Tax	3,128,400	1,134,997	(1,993,403)	36%	1,261,706	(126,710) -10%
Cardroom Tax	2,904,000	1,213,092	(1,690,908)	42%	1,192,889	20,202 2%
Licenses and Permits	3,312,800	3,183,949	(128,851)	96%	2,815,930	368,019 13%
Property Tax	2,876,000	1,134,963	(1,741,037)	39%	1,050,517	84,447 8%
Residual Tax Increment	1,329,300	-	(1,329,300)	0%	-	- n/a
Franchises	1,876,000	804,834	(1,071,166)	43%	733,816	71,018 10%
Vehicle License Fee In Lieu	897,000	481,945	(415,055)	54%	452,743	29,202 6%
Real Property Transfer Tax	1,278,000	2,533,993	1,255,993	198%	456,439	2,077,554 455%
Other Revenues	3,698,200	1,005,220	(2,692,980)	27%	2,269,045	(1,263,825) -56%
Transfers In	61,500	30,750	(30,750)	50%	30,750	(0) 0%
Total	\$ 44,887,200	\$17,824,633	\$ (27,062,567)	40%	\$17,123,539	\$ 701,094 4%

General Fund Revenue Adjustments – The proposed General Fund revenue adjustments are outlined below.

Revenues By Category	FY 19-20 Adopted Budget	FY 19-20 Proposed Adjustment	FY 19-20 Proposed Revised Budget	FY 20-21 Adopted Budget	FY 20-21 Proposed Adjustment	FY 20-21 Proposed Revised Budget
Sales Tax	\$ 8,277,000	\$ 347,000	\$ 8,624,000	\$ 8,471,100	\$ 181,000	\$ 8,652,100
Transient Occupancy Tax	8,720,000		8,720,000	8,887,000		8,887,000
Business License Tax	6,169,000	369,500	6,538,500	6,261,000	408,200	6,669,200
Cannabis Tax	360,000	140,000	500,000	360,000	-	360,000
Utility Users Tax	3,128,400	(59,916)	3,068,484	3,141,600	(60,620)	3,080,980
Cardroom Tax	2,904,000		2,904,000	2,962,000		2,962,000
Licenses and Permits	3,312,800	527,200	3,840,000	2,681,300	228,200	2,909,500
Property Tax	2,876,000	178,000	3,054,000	2,960,000	242,000	3,202,000
Residual Tax Increment	1,329,300	257,300	1,586,600	2,454,200	547,900	3,002,100
Franchises	1,876,000	147,200	2,023,200	1,927,000	152,400	2,079,400
Vehicle License Fee In Lieu	897,000	48,000	945,000	924,000	62,000	986,000
Real Property Transfer Tax	1,278,000	2,058,000	3,336,000	1,304,000	(80,000)	1,224,000
Other Revenues	3,698,200	(463,500)	3,234,700	3,785,700	111,300	3,897,000
Transfers In	61,500		61,500	276,800		276,800
Total Revenues	\$ 44,887,200	\$ 3,548,784	\$ 48,435,984	\$ 46,395,700	\$ 1,792,380	\$ 48,188,080

- An increase of \$347,000 in Sales Tax in FY 2020 and \$181,000 in FY 2021 based on updated projections provided by the City’s consultant Avenu/MuniServices.

- An increase of \$369,000 in Business License Tax in FY 2020 and \$408,000 in FY 2021. FY 2020 projection reflects a 2% increase over FY 2019 actual, and a 2% increase is also projected for FY 2021.
- An increase of \$140,000 in Cannabis Tax in FY 2020 based on current revenue trends. No adjustment for FY 2021 as one of the businesses is leaving the City in the current fiscal year.
- A decrease of \$60,000 in Utility Users Tax in FY 2020 and \$60,000 in FY 2021 based on updated projections provided by the City's consultant Avenu/MuniServices.
- An increase of \$527,000 in Licenses and Permits in FY 2020 and \$228,000 in FY 2021 due to higher than expected development activities. It should be noted that a portion of the increase in both fiscal years is expected to be offset by increases in expenditures associated with cost recovery projects.
- An increase of \$178,000 in Property Tax in FY 2020 and \$242,000 in FY 2021 due to the increase in assessed value.
- An increase of \$257,000 in Residual Tax Increment in FY 2020 and \$548,000 in FY 2021 primarily due to lower than projected funding request for the Corporation Yard remediation project for the fiscal year 2020-21 ROPS (Recognized Obligation Payment Schedule) period. The funding request impacts the revenues for both fiscal years as a portion of the funding distribution is received in FY 2020. The allocation to the General Fund is 25% in FY 2020 and 50% in FY 2021.
- An increase of \$48,000 in Vehicle License Fee In Lieu in FY 2020 and \$62,000 in FY 2021 due to the increase in assessed value.
- An increase of \$2.1 million in Real Property Transfer Tax in FY 2020 and a decrease of \$80,000 in FY 2021 due to a large one-time transaction incurred in the current fiscal year. The sale of the Courtyard at 65th Street apartments generated \$2.1 million in revenues. Without this transaction, the current year projection is expected to be lower than budgeted. The FY 2021 projection is reduced to reflect expected real estate activities. It should be noted that the City's budget policy requires one-time revenue to be used for one-time expenditures and unfunded liabilities.
- A decrease of \$463,000 in Other Revenues in FY 2020 and an increase of \$111,000 in FY 2021 mainly due to the deletion of \$837,000 in parking revenues in the current fiscal year and projected overtime reimbursement for the Police Department associated with community special events (approximately \$169,000 per fiscal year). FY 2020 adjustments also reflect \$249,000 in PBID grant

reimbursement for FY 2019, \$29,000 reduction in parking enforcement revenues, and \$15,000 reduction in recreation revenues. The increase in FY 2021 also reflects \$16,000 increase in recreation fees and offset by \$65,000 reduction in parking revenues.

General Fund – Proposed Expenditure Adjustments

Performance of the General Fund Expenditures - The table below presents the General Fund expenditures for the six months ended December 31, 2019. Expenditures totaled \$20.7 million, or 46% of the \$44.7 million annual budget. Significant variances are discussed as part of the proposed budget adjustments below.

General Fund Expenditures for the Period Ended December 31, 2019

Expenditures By Department	FY19-20 Budget (Forecast)	FY19-20 YTD Actual	Actual vs. Budget Variance	% of Budget (Forecast)	FY18-19 YTD Actual	FY18-19 vs. FY19-20 Variance	
City Council	\$ 203,600	\$ 90,310	\$ (113,290)	44%	\$ 98,184	\$ (7,874)	-8%
City Manager	450,900	249,908	(200,992)	55%	314,615	(64,707)	-21%
City Clerk	613,700	285,152	(328,548)	46%	249,637	35,515	14%
Public Information Office	-	-	-	n/a	18,783	(18,783)	-100%
City Attorney	619,600	251,290	(368,309.96)	41%	281,330	(30,040)	-11%
Information Technology	771,100	379,238	(391,862)	49%	374,753	4,485	1%
Finance	1,223,100	633,601	(589,499)	52%	523,866	109,735	21%
Human Resources	783,700	336,329	(447,371)	43%	370,987	(34,658)	-9%
Community Development Services	4,262,000	1,625,571	(2,636,429)	38%	1,243,349	382,222	31%
Public Works	4,111,500	1,579,703	(2,531,797)	38%	1,444,397	135,306	9%
Non-Departmental Operations	5,161,736	2,391,999	(2,769,737)	46%	1,959,942	432,057	22%
Police	14,023,800	7,082,527	(6,941,273)	51%	6,639,734	442,794	7%
Fire	8,989,500	4,428,592	(4,560,908)	49%	3,996,391	432,200	11%
Community Services	3,530,000	1,404,704	(2,125,296)	40%	1,519,912	(115,209)	-8%
Total	\$ 44,744,236	\$ 20,738,923	\$ (24,005,313)	46%	\$ 19,035,880	\$ 1,703,043	9%

Expenditures By Type	FY19-20 Budget (Forecast)	FY19-20 YTD Actual	Actual vs. Budget Variance	% of Budget (Forecast)	FY18-19 YTD Actual	FY18-19 vs. FY19-20 Variance	
Staffing	\$ 23,484,700	\$ 12,528,996	\$ (10,955,704)	53%	\$ 11,887,110	\$ 641,886	5%
Contract Services	11,626,400	4,266,906	(7,359,494)	37%	3,770,463	496,443	13%
Maintenance	2,909,300	1,302,576	(1,606,724)	45%	1,080,921	221,655	21%
Supplies	855,300	298,603	(556,697)	35%	315,249	(16,646)	-5%
Utilities	758,100	257,140	(500,960)	34%	252,694	4,446	2%
Insurance	833,000	834,652	1,652	100%	655,342	179,310	27%
Education & Training	354,500	98,003	(256,498)	28%	139,843	(41,840)	-30%
Advertising/Printing & Publication	106,900	29,716	(77,184)	28%	72,149	(42,433)	-59%
Fees & Charges	69,200	31,780	(37,420)	46%	8,636	23,144	268%
Programs & Grants	127,700	20,886	(106,814)	16%	48,539	(27,653)	-57%
Rental & Leases	450,700	63,823	(386,877)	14%	53,432	10,391	19%
Other	508,200	(59,226)	(567,426)	-12%	(77,244)	18,018	-23%
Capital	53,000	-	(53,000)	0%	-	-	n/a
Transfers Out	2,607,236	1,065,069	(1,542,167)	41%	828,745	236,324	29%
Total	\$ 44,744,236	\$ 20,738,923	\$ (24,005,313)	46%	\$ 19,035,880	\$ 1,703,043	9%

General Fund Expenditure Adjustments – The proposed General Fund expenditure adjustments are outlined below. Please note that the adjustments reflect salary and certain benefit increases resulted from the new labor agreements that are effective July 1, 2019. The adjustments also reflect savings from unfilled positions and lower than expected medical premiums. Unfunded pension liabilities are expected to be prepaid at the beginning of each fiscal year to achieve interest savings (approximately \$100,000 per year). These projected increases and savings were budgeted in Non-Departmental Operations in the adopted budget and are distributed to department budgets as part of the budget amendment.

Expenditures By Department	FY 19-20 Adopted Budget	FY 19-20 Proposed Adjustment	FY 19-20 Proposed Revised Budget	FY 20-21 Adopted Budget	FY 20-21 Proposed Adjustment	FY 20-21 Proposed Revised Budget
City Council	\$ 203,600	\$ (600)	\$ 203,000	\$ 208,900	\$ (1,300)	\$ 207,600
City Manager	450,900	3,300	454,200	432,900	14,400	447,300
City Clerk	613,700	14,400	628,100	686,500	26,700	713,200
City Attorney	619,600	22,900	642,500	631,900	30,800	662,700
Information Technology	771,100	11,000	782,100	782,900	28,900	811,800
Finance	1,223,100	42,600	1,265,700	1,253,600	94,100	1,347,700
Human Resources	783,700	23,500	807,200	809,300	16,600	825,900
Community Development Services	4,262,000	66,800	4,328,800	3,755,400	174,200	3,929,600
Public Works	4,111,500	(254,100)	3,857,400	4,206,400	513,900	4,720,300
Non-Departmental Operations	5,161,736	4,251,604	9,413,340	5,932,681	436,900	6,369,581
Police	14,023,800	(421,400)	13,602,400	14,430,400	437,000	14,867,400
Fire	8,989,500	(184,100)	8,805,400	9,523,500	(38,600)	9,484,900
Community Services	3,530,000	(27,120)	3,502,880	3,565,700	58,780	3,624,480
Total Expenditures	\$ 44,744,236	\$ 3,548,784	\$ 48,293,020	\$ 46,220,081	\$ 1,792,380	\$ 48,012,461

Expenditures By Type	FY 19-20 Adopted Budget	FY 19-20 Proposed Adjustment	FY 19-20 Proposed Revised Budget	FY 20-21 Adopted Budget	FY 20-21 Proposed Adjustment	FY 20-21 Proposed Revised Budget
Staffing	\$ 23,484,700	\$ (785,720)	\$ 22,698,980	\$ 24,181,700	\$ 775,880	\$ 24,957,580
Contract Services	11,626,400	219,900	11,846,300	11,480,400	385,200	11,865,600
Maintenance	2,909,300	(75,000)	2,834,300	3,044,400	(21,700)	3,022,700
Supplies	855,300	(85,000)	770,300	862,400	(83,000)	779,400
Utilities	758,100	-	758,100	777,400	191,200	968,600
Insurance	833,000	(87,100)	745,900	983,000	(93,000)	890,000
Education & Training	354,500	(4,000)	350,500	362,900	-	362,900
Advertising/Printing & Publication	106,900		106,900	107,400		107,400
Fees & Charges	69,200	60,000	129,200	69,400	60,000	129,400
Programs & Grants	127,700	3,000	130,700	103,000	-	103,000
Rental & Leases	450,700	(14,000)	436,700	464,500	-	464,500
Other	508,200	(169,500)	338,700	1,061,600	(689,100)	372,500
Capital	53,000	(53,000)	-	53,000	16,900	69,900
Transfers Out	2,607,236	4,539,204	7,146,440	2,668,981	1,250,000	3,918,981
Total	\$ 44,744,236	\$ 3,548,784	\$ 48,293,020	\$ 46,220,081	\$ 1,792,380	\$ 48,012,461

Police

- The decrease of \$421,000 in expenditures in FY 2020 is mainly due to savings from unfilled positions and an additional \$50,000 allocation to the Supplement Law Enforcement Fund (grant funds) offset by increases in cost of living adjustment (COLA) and the following expenditures accounts:
 - Increase of \$189,000 in overtime costs and \$169,000 is expected to be reimbursed from businesses for community special events.
 - Increase of \$30,000 in vehicle operation expenditures due to higher than expected repair and maintenance costs.
 - Increase of \$60,000 in prisoner processing fees due to the close of North County jail. The City now needs to use the Berkeley jail at a higher cost.
- The increase of \$437,000 in expenditures in FY 2021 is due to COLA increase and overtime increase of \$169,000, net of projected salary and benefit savings from positions and savings from the prepayment of unfunded pension liability. The increase in overtime is expected to be reimbursed as discussed above.

Fire

- The decrease of \$184,000 in expenditures in FY 2020 is due to \$47,000 savings from the prepayment of unfunded pension liability and lower than expected fire contract cost. The updated estimate provided by the Alameda County Fire Department (ACFD) projects \$137,000 in savings.
- The decrease of \$39,000 in expenditures in FY 2021 is due to \$51,000 in projected savings from the prepayment of unfunded pension liability offset by higher than expected contract cost of \$12,000.

Public Works

- The decrease of \$254,000 in expenditures in FY 2020 is mainly due to savings from the Parking Management Program of \$304,000 and from traffic light repair/maintenance of \$134,000. The savings are offset by increases in janitorial services of \$40,000 due to additional service locations and supplies and city engineering and on-call traffic engineering services of \$156,000.
- Besides COLA increase, the increase of \$514,000 in expenditures in FY 2021 is mainly due to the following:
 - \$319,000 in operating expenditures for the Parking Management Program is budgeted based on the IPS contract approved by the City Council.
 - \$40,000 for janitorial services and \$148,000 for engineering services offset by \$140,000 savings from traffic light repair/maintenance.

- \$22,000 for street sweeper services and \$33,000 for telecommunication and professional service expenditures.
- The revised budget proposes to reclassify the Environmental Programs Technician position to Environmental Programs Analyst effective FY 2020. The projected increase in staffing cost of \$7,000 for FY 2020 is covered by the General Fund and the increase of \$28,000 in FY 2021 is covered by the Measure D Fund.
- The revised budget proposes to reclassify the Deputy Director of Public Works position to Public Works Operation and Facility Manager, reflecting the position that is currently being filled.

Community Development

- The increase of \$67,000 in expenditures in FY 2020 and \$174,000 in FY 2021 is mainly due to increases in professional services associated with development projects offset by savings from unfilled positions. The increase in professional services is expected to be reimbursed by developers and corresponds to the increase in reimbursable revenues discussed above.

Community Services

- The decrease of \$27,000 in expenditures in FY 2020 is mainly due to reductions in operating costs such as supplies and field trip expenses offset by increases in part-time staffing costs of about \$100,000 to support various community service programs. These changes will help to improve operational efficiency.
- The increase of \$59,000 in expenditures in FY 2021 is mainly due to the staffing adjustments described above and the increase in operation and maintenance costs for ECCL offset by reductions in other operating expenditures such as after school expenses and supplies.

Non-Departmental Operations

- The increase of \$4.2 million in expenditures in FY 2020 is due to the following:
 - \$45,000 contribution to the PBID Fund due to the increase in General Benefit Contribution.
 - \$110,000 contribution to the Accrued Benefits Fund to cover higher than expected retirement payouts and lower than expected recovery from the General Fund and other funds due to unfilled positions.
 - \$210,000 contribution to the Information Technology Fund for online business license implementation including estimated maintenance costs for 10 years. Funding for this program is consistent with council goals and priorities to build capacity for excellent service.

- \$150,000 contribution to the new Equipment Replacement Fund for the replacement of body worn camera (\$100,000) and radios (\$50,000).
 - \$1.6 million contribution to the General Capital Fund to provide seed money for the 40th-San Pablo Transit Hub project. This project is currently unfunded. The proposed transfer is consistent with council goals and priorities.
 - \$1.7 million contribution to the General Capital Fund to provide funding for the Horton Landing Park Expansion project due to lower than expected revenues accumulated in the Park Impact Fee Fund.
 - \$760,000 contribution to the Major Maintenance Fund to replenish funds due to increased facility operations maintenance cost (\$300,000), provide funding to renovate the Child Development Center as originally anticipated (\$110,000), and provide funding to replace the HVAC system at the Civic Center (\$350,000) with an all-electric system. Please refer to the capital projects section below for more details.
 - The proposed transfers above are offset by a \$87,000 reduction to the insurance budget due to a prior year refund and a \$200,000 reduction to the other operating expenses budget due to the redistribution of COLA and pension savings to city department budget.
- The increase of \$437,000 in expenditures in FY 2021 is due to the following:
 - \$625,000 contribution to the PERS Liability Reserve/Section 115 Pension Trust to fund pension liabilities.
 - \$625,000 contribution to the Disaster Fund as there is still a funding gap to the City's \$5 million goal.
 - The proposed transfers above are offset by a \$93,000 reduction to the insurance budget and a \$720,000 reduction to the other operating expenses budget due to the redistribution of COLA and pension savings to city department budget.

It should be noted that if year-end revenues and savings are not sufficient to cover the proposed transfers, the contribution amounts will be reduced to avoid depleting the General Fund reserve. This is consistent with the City's practice.

Administration

(Includes City Council, City Manager, City Clerk, City Attorney, Information Technology, Finance, and Human Resources).

- The increase of \$117,000 in expenditures in FY 2020 is mainly due to adjustments for COLA. There are also reclassifications between expenditure accounts to reflect current operational needs.
- The increase of \$210,000 in expenditures in FY 2021 is mainly due to COLA increase and overtime adjustment.

- The revised budget proposes to eliminate the half time Office Assistant position and delete the \$50,000 professional service budget for the Finance Department effective FY 2021, and use the savings to create a 70% Accountant position to improve operational efficiency.
- The revised budget proposes to eliminate the half time Office Assistant position and use the savings to increase the Human Resources Technician position from 50% to 80% for the HR Department effective FY 2020 to improve operational efficiency.

The updated staffing summary is attached to this staff report.

Proposed Budget Adjustments to Other Funds

Proposed budget adjustments to other funds are described below.

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Fund Description	Fiscal Year 2019-20			Fiscal Year 2020-21			Justification for Adjustments
	Revenue Increase / (Decrease)	Expenditure Increase / (Decrease)	Net Impact	Revenue Increase / (Decrease)	Expenditure Increase / (Decrease)	Net Impact	
Economic Development - Fund 202	\$ 51,400	\$ 86,792	\$ (35,392)	\$ 54,800	\$ -	\$ 54,800	Adjust tax increment revenue based on updated projection. Increase expenditure budget to account for funds rolling over for the Façade Program.
Environmental Programs - Fund 204	40,400	40,400	-	-	-	-	Adjust revenue and expenditure budget to account for one-time revenue from Waste Management.
Community Development Block Grant - Fund 205	4,700	4,700	-	4,700	4,700	-	Adjust revenue and expenditures due to additional funding.
Police Impound (State) - Fund 211		(20,786)	20,786		-	-	Delete operating supply budget and budget for the purchase of body worn cameras and maintenance cost.
Gas Tax - Fund 220		(22,000)	22,000		(22,000)	22,000	Reduce operating expenditures based on projected activities.
General Plan Maintenance - Fund 225		(8,187)	8,187		(8,900)	8,900	Reclassify \$23K from professional services to the 40th-San Pablo Avenue Bus Hub Study project (see the capital projects section below); adjustment to staffing costs resulted in a net reduction to budget.
Child Development Center - Fund 230	(80,000)	(89,200)	9,200	-	(20,300)	20,300	Reduce revenue projection based on current enrollment number. Reduce expenditure budget to reflect savings from staffing costs and credit card processing fees.
Park Impact Fee - Fund 237		(1,700,000)	1,700,000		-	-	Cancel a portion of the prior appropriation for the Horton Landing Parking Expansion project due to lower than expected revenues accumulated for this project (see the capital projects section below).
Public Art - Fund 243	25,700		25,700	27,400		27,400	Adjust tax increment revenue based on updated projection.
Supplemental Law Enforcement - Fund 252		50,000	(50,000)		50,000	(50,000)	Increase staffing allocation to the grant fund due to available fund balance.
Grants - Fund 254	7,610	-	7,610	-	32,700	(32,700)	Transfer of \$7K from the General Capital Fund to close out the Safe Route to School project. FY 2021 expenditure is for the purchase of body worn cameras using JAG grants.
Measure D - Fund 266		-	-		28,000	(28,000)	Reclassify the Environmental Programs Technician to Environmental Programs Analyst; FY 2020 increase in staffing cost is covered by the General Fund and FY2021 increase is covered by the Measure D Fund.
Community Development Technology - Fund 268		3,000	(3,000)		3,000	(3,000)	Adjust budget to reflect the purchase of Adobe software for Community Development.
Disaster - Fund 277	-		-	625,000		625,000	General Fund contribution to increase reserve; the reserve goal is \$5M.
MESA - Fund 295	(1,058,000)	(1,058,000)	-	(48,100)	(48,100)	-	Adjust revenue and expenditure budget for the Management of Emeryville Services Authority (MESA) Fund; this fund records staffing costs for MESA employees; reductions are resulted from unfilled positions and benefit savings.
Affordable Housing - Fund 299	205,900	(91,400)	297,300	219,100	500	218,600	Adjust tax increment revenue based on updated projection. Reduction in expenditure is primarily due to the unfilled Coordinator position for the Housing Bond Program.

General Capital Fund - Fund 475	6,953,700	5,651,270	1,302,430	746,500	3,700	742,800	FY 2020 revenue adjustment reflects increases in tax increment revenue of \$489K and in real property transfer revenue of \$3.2M due to a few large transactions; \$3.3M transfer from the General Fund for the 40th-San Pablo Avenue Bus Hub and the Horton Landing Park projects. FY 2021 revenue adjustment reflects increases in tax increment and real property transfer revenues of \$246K and \$500K. FY 2020 expenditure adjustment reflects a \$2.4M transfer to the pension reserve resulted from excess commercial transfer tax generated in the 2017-19 budget cycle, a \$7K transfer to the Grants Fund to close out the Safe Route to School project, and \$1.6M and \$1.7M in funding for the two projects mentioned earlier; increases were offset by \$46K in staffing savings. FY 2021 expenditure adjustment reflects COLA increase.	
Marina - Fund 495		(14,700)	14,700		700	(700)		Adjust staffing costs.
Sewer Operations - Fund 510		(19,700)	19,700		500	(500)		Adjust staffing costs.
Sewer Connection Fee - Fund 513		300,000	(300,000)		300,000	(300,000)		Transfers to the Sewer Capital Improvements Fund to support capital projects.
Worker's Compensation - Fund 600		(109,000)	109,000		-	-		Reduce budget based on current expenditure trends.
Major Maintenance - Fund 650	760,000	760,000	-	-	-	-		Contribution from the General Fund to provide funding for major maintenance projects, renovation of the Child Development Center, and the HVAC system replacement at the Civic Center as described in the capital projects section below.
Equipment Replacement - New Fund	150,000		150,000		-	-		Contribution from the General Fund to cover replacement for body worn cameras (\$100K) and radios (\$50K).
Technology - Fund 670	210,000		210,000		-	-		Contribution from the General Fund to cover costs for online business license implementation and maintenance.
Accrued Benefits - Fund 700	110,000	81,000	29,000		-	-		Contribution from the General Fund to cover higher than expected retirement payouts and lower than expected recovery from other funds. Expenditure is adjusted to reflect the higher payout.
PERS Liability Reserve - Fund 715	2,425,960		2,425,960	625,000		625,000		\$2.4M transfer from the General Capital Fund resulted from excess commercial transfer tax generated in the 2017-19 budget cycle; \$625K transfer from the General Fund to fund pension liabilities.
Property Based Improvement District - Fund 805	489,800	395,100	94,700	458,630		458,630		Adjust revenue budget due to projected increase in assessment. Adjust expenditure budget based on the compensation approved by the City Council for the 2020 service year.
Total	\$ 10,297,170	\$ 4,239,289	\$ 6,057,881	\$ 2,713,030	\$ 324,500	\$ 2,388,530		

Proposed Budget Adjustments to Capital Projects

Appropriations for capital projects must be budgeted at the project level, and the proposed adjustments are presented below and included in other funds above.

Project #	Description	FY 2019-20	FY 2019-20	FY 2019-20	FY 2020-21	FY 2020-21	FY 2020-21	Justification for Adjustments
		Adopted Budget	Proposed Adjustment	Proposed Revised Budget	Adopted Budget	Proposed Adjustment	Proposed Revised Budget	
General Plan Maintenance - Fund 225								
17225017	40th-San Pablo Transit Hub and 40th Street Feasibility Study	253,654	22,613	276,267				Increase CIP project funding per increase in CD+A contract. The contract amendment was approved by the City Council on November 19, 2019.
	Total	253,654	22,613	276,267	-	-	-	
Park Impact Fee - Fund 237								
17237003	Horton Landing Park Expansion	-	(1,700,000)	(1,700,000)				Cancel a portion of prior appropriation as actual revenues received are not sufficient to cover project costs. Replace funding with General Fund contribution into the General Capital Fund (see explanation below).
	Total	-	(1,700,000)	(1,700,000)	-	-	-	
General Capital Fund - Fund 475								
17237003	Horton Landing Park Expansion	-	1,700,000	1,700,000				Use General Fund contribution to cover a portion of the project cost.
T-13	40th-San Pablo Transit Hub and 40th Street Reconstruction	-	1,564,700	1,564,700				Use General Fund contribution to provide seed money for this unfunded project.
	Total	-	3,264,700	3,264,700	-	-	-	
Major Maintenance - Fund 650								
15650008	General Major Maintenance Program	250,000	(150,000)	100,000	250,000	(150,000)	100,000	Reduce budget to make funds available for facility operations maintenance contracts.
15650008	General Major Maintenance Program	See above	300,000	300,000				Replenish project funds due to funding shift described above.
16475013	Child Development Center Rehabilitation	-	110,000	110,000				Provide funding for the renovation of ECDC.
15650018	Civic Center HVAC Upgrade	-	350,000	350,000				Provide funding to replace the HVAC system at Civic Center with electric connection. Natural gas is currently used for the system.
	Total	250,000	610,000	860,000	250,000	(150,000)	100,000	

Proposed Allocations for 2017-19 Budget Cycle Excess Commercial Property Transfer Tax

On June 19, 2018, the City Council adopted the Commercial Property Transfer Tax Policy. The purpose of this policy is to provide guidance for the allocation of commercial property transfer tax revenue to ensure proper funding for capital projects, pension obligations, and other important city projects. Commercial property transfer tax revenues are recorded in the General Capital Fund. The policy is effective for the 2017-19 budget cycle. The policy states the following:

In a two-year budget cycle, if the commercial property transfer tax revenue exceeds the budget, including budget adjustments made during that budget cycle, 50% of the excess funds shall be allocated either toward the annual contribution payments of the City's pension costs or to the Pension Reserve/Trust,

and the remaining 50% shall be allocated to any one-time expenditures based on City Council direction.

The Finance Department shall calculate the excess funds after the City's annual audit and Comprehensive Annual Financial Report have been published. Before funding pension costs and other one-time expenditures, the Finance Department shall review the fund balance in the Capital Project Fund to ensure resources are available to fund capital projects. In some budget cycles, actual revenues may be lower than budgeted revenues resulting in a funding deficiency. Allocations shall be adjusted accordingly before submitting budget adjustments/projects to City Council for consideration.

Staff has calculated the excess commercial property transfer tax revenue for the 2017-19 budget cycle using audited numbers, and the excess revenue and proposed allocations are presented below. In accordance with the policy, staff recommends transferred \$2.4 million to the Pension Reserve/Section 115 Pension Trust and keep the remaining \$2.4 million in the General Capital Fund to replenish the capital reserve account. Staff recommends setting aside \$1.2 million in the infrastructure reserve and \$1.2 million in the implementation reserve.

In the 2016-18 budget cycle, the City Council set aside \$7.5 million in the capital reserve including \$5 million for infrastructure reserve and \$2.5 million for implementation reserve. The infrastructure reserve is to ensure funds are available to support the long-term stewardship of the City's capital infrastructure, and the implementation reserve is to ensure that the City can deliver and implement its Capital Improvement Program. In fiscal year 2018-19, the \$7.5 million capital reserve was committed for the South Bayfront Bridge project due to a funding gap. Keeping the \$2.4 million in the General Capital Fund will help to replenish a portion of the depleted reserve.

The proposed allocation of \$2.4 million to the Pension Reserve is included in the adjustments for other funds above.

Budgeted Revenue	
Fiscal year 2017-18	1,000,000
Fiscal year 2018-19	1,000,000
Total	2,000,000

Actual Revenue	
Fiscal year 2017-18	3,574,358
Fiscal year 2018-19	3,277,578
Total	6,851,936

Excess revenue	4,851,936
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Excess Revenue Allocations	
50% for Pension	
Reserve/Section 115 Trust	2,425,968
50% for Capital Reserve	2,425,968

Capital Reserve Breakdowns	
Infrastructure Reserve	1,212,984
Implementation Reserve	1,212,984

Establishment of a Section 115 OPEB (Other Post-Employment Benefits) Trust

Background

As part of the 2019-21 budget development, the Budget and Governance Committee and the Budget Advisory Committee recommended evaluating the City's OPEB funding strategies. Subsequent to budget adoption, the Budget and Governance Committee held meetings to discuss the City's OPEB liabilities and funding strategies. The section below provides some background information about the City's other post-employment benefits.

As part of a comprehensive benefit program, the City provides post-employment benefits to employees who retire from the City. These benefits include medical, dental, and vision benefits. The benefit coverages are determined through the memorandums of understanding with employee bargaining groups. Employees must meet certain requirements in order to receive the benefits. For example, Miscellaneous employees must retire from the City with more than 11 years of service to be eligible for the benefits. In addition, caps are set for benefit amounts.

In July 2012, the City contracted out fire services with the Alameda County Fire Department (ACFD). The City's firefighters were transferred to the ACFD, and a side fund liability was created for these employees for prior service credits.

OPEB Assets and Liabilities

Over the years the City has taken proactive measures to fund its OPEB liabilities. In 2006, the City joined a Voluntary Employee Beneficiary Association (VEBA Trust), specifically to cover the reimbursement to eligible retirees for medical plan premiums deducted from their monthly pension checks, to a negotiated, capped level. A VEBA Trust is a tax-exempt benefit plan qualifying under Section 501(c)(9) of the Internal Revenue Code whereby funds can be set aside on a tax-exempt basis for health care related expenses.

Based on a recent study conducted by the City's consultant Bartel and Associates, the City's OPEB liability has increased from \$6.9 million to \$8.3 million since the previous valuation. The two main reasons for the increase are the addition of implied subsidy and the decrease in discount rate. Both of these changes are required by GASB (Governmental Accounting Standards Board) 75. Implied subsidy represents the retirees' excess of claims over premiums. Active employees and retired employees that are in the CalPERS health insurance plan pay the same premiums. This practice creates an OPEB liability based on the theory that retirees have higher utilization of health care benefits than active employees. Unless the premium rate for retirees is set to fully recover their health costs, the premium for retirees is understated. The retirees' excess of claims over premiums create an implied subsidy.

The discount rate is based on a projection of the expected contributions versus benefit payments passing through the Voluntary Employee Beneficiary Association (VEBA Trust). The sooner the assets are projected to decrease to zero, the lower the discount rate. According to GASB, only assets held in a trust are allowed to be used to offset OPEB liability. The City's net OPEB liability is \$5.9 net of the \$2.4 million assets held in the VEBA trust. In other words, the discount rate would be increased if assets held in the City's reserve fund were transferred into a trust account. A higher discount rate would reduce the City's OPEB liability. It should be noted that the discount rate is also determined based on projected investment return from the trust.

In addition to the VEBA Trust, the City established a Reserve Fund to accumulate assets to fund the OPEB liabilities. Assets from the VEBA Trust and Reserve Fund are summarized below. The funded status for the City's OPEB liabilities is 82%.

Summary of OPEB Assets and Liabilities

Description	Amount	Notes
Liabilities		
OPEB Liability - City	8,345,958	
OPEB Liability - ACFD		Net of \$504,000 assets held in the County's OPEB trust as of 9/30/2019
	3,221,000	
Total Liabilities	11,566,958	
Assets		
VEBA Trust	2,376,441	Asset balances as of
Reserve Fund	7,150,462	9/30/2019
Total Assets	9,526,903	
Funding Gap	2,040,055	
Funded Status	82%	

Budget and Governance Committee Recommendation

At the February 13, 2020 meeting, the Budget and Governance Committee recommended establishing a \$3 million trust with PARS to reduce the City's OPEB liability and achieve higher investment returns over the long run. The Committee requested staff to provide information to the Council regarding the PARS OPEB program and seek direction from the City Council regarding the establishment of a trust account.

The City currently participates in the PARS Post-Employment Benefits Trust program (Program) for the pre-funding of its CalPERS pension liabilities. The Program is qualified under Section 115 of the Internal Revenue Code and is considered a tax-exempt trust under the relevant statutory provisions of the State of California. Within the Program, the City can also take advantage of the ability to pre-fund its OPEB obligations through a separate investment account. By managing the pre-funding of its pension and OPEB obligations in the Program, the City can gain administrative and cost efficiencies.

Attached to this staff report is a flyer summarizing PARS' OPEB program. PARS offers five investment strategies through their investment manager HighMark. This is the same investment manager that is used for the City's Pension Trust. The investment returns over a 10-year period for the active investment portfolios are summarized below and a slide is also attached to this staff report detailing returns from one year to 10 years. About 40% of the PARS accounts participate in the Moderate strategy and about 29% participate in the Balanced strategy.

Active Portfolio Returns		
Strategy	Equity	10 Years
Capital Appreciation	65-85%	9.00%
Balanced	50-70%	8.25%
Moderate	40-60%	7.44%
Moderately Conservative	20-40%	5.96%
Conservative	5-20%	4.71%

Staff recommends that the City Council authorize the Budget and Governance Committee and the Budget Advisory Committee to work with PARS/HighMark to review the investment strategies and recommend a suitable strategy for the City’s OPEB trust. Staff will present the Joint Committee’s recommendation to the Council.

Forward-Looking Statements

The spread of coronavirus is impacting businesses worldwide, especially the airline and hotel industries. Restricted travel and cancellation of conferences will reduce hotel revenues if it continues for a considerable period of time. The City has five hotels and a significant reduction in hotel stays will reduce the hotel tax collected by the City. Staff will continue to monitor the situation and the potential impact on the City’s revenues.

Pension costs are expected to continue to increase in future years. The City should continue to take proactive measures to fund its pension and OPEB obligations. The goal is to have these liabilities 100% funded in the long run. Funding these liabilities will help the City to stabilize costs and sustain vital services and programs.

To ensure long-term fiscal sustainability, the City should continue to focus on prudent spending, promote the use of best practices, maintain adequate fund balances and reserves, and actively seek new revenue opportunities.

REVIEW BY CITIZENS COMMITTEES

Staff will present the 2019-21 Proposed Revised Budget to the Budget and Governance Committee and the Budget Advisory Committee on March 12th and receive feedback on the proposed adjustments and strategies being presented to the Council. During the oral report, staff will summarize the comments made by the committee.

FISCAL IMPACT

- The FY 2020 General Fund expenditure budget will increase by \$3.5 million, amending the adopted budget from \$44.7 million to \$48.2 million.
- The FY 2021 General Fund expenditure budget will increase by \$1.8 million, amending the adopted budget from \$46.2 million to \$48.0 million.
- All Other Funds budgets for FY 2020 will increase revenues by \$10.3 million and increase expenditures by \$4.2 million.

- All Other Funds budgets for FY 2021 will increase revenues by \$2.7 million and increase expenditures by \$324,000.

PREPARED BY: Susan Hsieh, Finance Director

**APPROVED AND FORWARDED TO THE
CITY COUNCIL OF THE CITY OF EMERYVILLE:**



Christine Daniel, City Manager

ATTACHMENTS

- Draft Resolution
- Appendix A - FY 19-21 Proposed Budget Adjustments to the General Fund
- Appendix B - FY 19-21 Proposed Budget Adjustments to Other Funds
- Appendix C - FY 19-21 Proposed Budget Adjustments to Capital Projects
- FY 19-21 Revised Staffing Summary
- PARS OPEB Program Summary
- PARS OPEB Investment Returns