



City of Emeryville

CALIFORNIA

MEMORANDUM

DATE: April 4, 2017

TO: Carolyn Lehr, City Manager

FROM: Susan Hsieh, Finance Director

SUBJECT: Fiscal Year 2016-17 Mid-Year Budget Review

RECOMMENDATION

Staff recommends that the City Council review and approve the proposed budget adjustments for fiscal year 2016-17.

BACKGROUND

In the first year of each two-year budget cycle, the City conducts a mid-cycle budget review to adjust revenue and expenditure projections as necessary. The budget adopted by Council in June 2016 covers fiscal years 2016-17 and 2017-18. At the Fiscal Workshop on March 13, 2017, the Council directed staff to change the budget cycle going forward to be consistent with the City Council even year elections. The change will provide new council members the opportunity to review and set new goals. With this change, fiscal year 2016-17 is the end of the current budget cycle, and the next budget cycle covers fiscal years 2017-18 and 2018-19. Therefore, this mid-year report only includes proposed budget adjustments for fiscal year 2016-17, and the adjustments cover both the General Fund and other funds.

Because the FY 16-17 General Fund revenues are lower than projected, together with higher than expected General Fund expenditures, staff proposes to transfer \$530,565 excess reserves from the Economic Uncertainty Reserve Fund to cover the shortfall.

Staff plans to submit the 2017-19 General Fund budget to Council for approval in June 2017. Developing a comprehensive budget is a major undertaking that requires thorough analysis. A formal 2017-19 budget for other operating funds, and the approved General Fund budget, will be incorporated into the budget and presented to Council for consideration in the coming months. Meanwhile, expenditures will be expended based on the adopted 2016-18 budget, while the 2017-19 spending plan is being developed.

This report is presented in three parts. The first part provides an overview about the General Fund year-to-date revenues and expenditures through February 28, 2017. The second part presents proposed budget adjustments to the General Fund and other funds. The third part describes requested staff resources and programs that are not funded due to funding limitations.

DISCUSSION

I. General Fund Financial Performance for the Period Ended February 28, 2017

Overview

This section summarizes the City's General Fund financial performance for the eight months ending February 28, 2017, which represents the completion of 67% of the fiscal year. Revenue and expenditure data for the same period in FY 15-16 are provided for comparative purposes. Please note that this report is on a cash basis, meaning only revenues received and expenditures paid by February 28, 2017 are recorded.

Year-to-date revenues were \$23.5 million, and year-to-date expenditures were \$22.7 million. Revenues exceeded expenditures by \$847 thousand. Revenue is \$453 thousand or 2% below prior year actual primarily due to the decrease in real property transfer tax. Additionally, the "commercial" transfer tax was recorded in the General Fund in FY 15-16 whereas the tax is committed for CIP projects in FY 16-17 and is recorded in the General Capital Fund, which partly attributed to the year-over-year variance. Expenditures are \$3.1 million or 16% higher than prior year actual mainly due to increase in personnel costs and timing of recording the pension payment to CalPERS. The one-time payment (\$1.3 million) to CalPERS for the FY 16-17 unfunded pension liability was recorded in the first quarter. In FY 15-16, the payment (\$1.1 million) to CalPERS was recorded in the General Fund in the third quarter.

Year-end General Fund revenues are projected to be lower than budgeted. General Fund expenditures are expected to increase primarily due to an additional sizable subsidy to the Child Development Center (ECDC). Certain budgeted transfers/expenditures will be cancelled to offset the increase in expenditures and decrease in revenues. Excess reserves in the Economic Uncertainty Reserve Fund will be used to bridge the remaining gap.

The analysis below summarizes the significant revenue and expenditure variances. Staff has proposed budget adjustments for certain revenue and expenditure categories, which are discussed in detail in the next section of this report.

General Fund Revenues

General Fund revenues through February 28, 2017 totaled \$23.5 million, or 59% of the \$40 million annual budget. Please note that revenues such as Property Tax 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.

Revenues by category are summarized as follows:

CITY OF EMERYVILLE
Fiscal Year to Date Receipts through February 2017 and February 2016 (is at 67% of fiscal year)

Revenues By Category	FY16-17 Budget	FY16-17 Actual	Budget vs. Actual Variance	% of Budget	FY15-16 Actual	FY16-17 vs FY15-16 Variance	
Sales Tax	8,149,000	3,887,317	4,261,683	48%	3,135,867	751,450	24%
Transient Occupancy Tax	7,400,000	3,978,367	3,421,633	54%	3,778,363	200,004	5%
Business License Tax	5,196,000	3,664,873	1,531,127	71%	3,273,275	391,598	12%
Utility Users Tax	3,000,000	1,947,991	1,052,009	65%	1,731,081	216,910	13%
Cardroom Tax	2,400,000	1,558,546	841,454	65%	1,477,285	81,262	6%
Licenses and Permits	5,831,100	3,919,196	1,911,904	67%	4,281,152	(361,956)	-8%
Property Tax	1,873,000	1,403,484	469,516	75%	1,109,961	293,523	26%
Franchises	1,567,400	925,061	642,339	59%	877,555	47,507	5%
Vehicle License Fee In Lieu	775,200	408,914	366,286	53%	384,076	24,838	6%
Real Property Transfer Tax	1,800,000	680,746	1,119,254	38%	2,392,473	(1,711,727)	-72%
Other Revenues	1,746,244	982,137	764,107	56%	1,335,385	(353,248)	-26%
Transfers In	285,000	190,000	95,000	67%	223,333	(33,333)	-15%
Total	\$ 40,022,944	\$ 23,546,634	\$ 16,476,310	59%	\$ 23,999,805	\$ (453,171)	-2%

The City's top two revenue sources are sales tax and transient occupancy tax. Together they represent about 38% of the total General Fund revenues. The following are highlights of key revenue results:

Sales Tax: Receipts and advances received through December are 48% of budget. These receipts include net reductions of \$396 thousand for the East Bay Bridge (EBB) Shopping Center Revenue Sharing Agreement with the City of Oakland, which was processed for three quarters. Although current year actual is higher than prior year actual, revenue is expected to be slightly below budget based on the updated projection provided by our Sales Tax Consultant MuniServices.

Transient Occupancy Tax (TOT): Transient occupancy tax totaled \$3.9 million including remittances through January. Year-to-date actual is 54% of budget and is 5% higher than the same time period last year. The City's fifth hotel (Hyatt Place) was opened in late November. The projected revenue for this hotel is included in the budget. Based on the revenue trend, budget adjustment is not anticipated for this revenue category.

Cardroom Tax: Cardroom tax receipts through January of \$1.5 million were greater than budgeted by 7%, and are 6% greater than prior year's total. Thus, year-end actual is expected to exceed budget.

Real Property Transfer Tax: Real property transfer tax through January of \$680 thousand is 38% of budget. This is 72% lower than the prior year actual. The significant year-over-year variance is partly due to the "commercial" transfer tax. In FY 15-16, "commercial" transfer tax was recorded in the General Fund. This year the "commercial" transfer tax is committed for CIP projects and is budgeted in the General Capital Fund. In other words, only "residential" transfer tax is recorded in the General Fund. Due to lower than expected "residential" transfer tax revenue, a significant adjustment of \$670 thousand will be proposed for mid-year budget review.

Other Revenues: Other revenues include charges for current services, grants, parking citations, vehicle code fines, and miscellaneous revenues. Year-to-date actual of \$764

thousand is 56% of budget, which is a 26% decrease from prior year. Revenues from parking citation and vehicle code fines are projected to be lower than budgeted due to staffing shortages in the Police Department. All traffic officers have been reassigned to patrol duties resulting in decreased activity in traffic enforcement. In addition, certain Community Services revenues such as classes and fieldtrips will be reduced to reflect lower than expected levels of enrollment.

License and Permits: There will be small adjustments to the license and permits category to reflect expected decreases in cardroom application and taxicab permit fees (competition from Lyft and Uber).

Transfers In: The projected FY 16-17 General Fund shortfall in the amount of \$531 thousand will be covered by a contribution from the Economic Uncertainty Reserve Fund per Council direction. The proposed adjustment will be discussed in the next section.

General Fund Expenditures

General Fund expenditures through February 28, 2017 totaled \$22.7 million, or 57% of the \$40 million annual budget. Current year expenditures are \$3.1 million higher than the same period last year primarily due to increases in salaries and benefits (restored/new positions, pension costs, worker's comp, etc.) and timing of recording pension payment to CalPERS as discussed earlier. Year-to-date expenditures are within budget and are summarized by category and department as follows:

General Fund Expenditures by Type

Expenditures By Type	FY16-17 Budget	FY16-17 YTD Actual	Budget vs. Actual Variance	% of Budget	FY15-16 YTD Actual	FY15-16 vs. FY16-17 Variance	
Staffing	\$ 21,573,548	\$ 13,526,232	\$ (8,047,316)	63%	\$ 11,111,638	\$ 2,414,594	22%
Contract Services	10,577,192	5,048,117	(5,529,075)	48%	4,776,707	271,410	6%
Maintenance	2,295,659	1,200,419	(1,095,240)	52%	1,080,449	119,970	11%
Supplies	1,224,700	393,794	(830,906)	32%	488,303	(94,509)	-19%
Utilities	735,920	442,972	(292,948)	60%	427,268	15,704	4%
Insurance	499,000	456,017	(42,983)	91%	426,829	29,187	7%
Education & Training	339,367	105,691	(233,676)	31%	85,095	20,596	24%
Advertising/Printing & Publication	256,250	84,272	(171,978)	33%	67,184	17,088	25%
Fees & Charges	55,000	10,647	(44,353)	19%	7,066	3,581	0%
Programs & Grants	76,500	20,699	(55,801)	27%	15,000	5,699	38%
Rental & Leases	126,700	55,048	(71,652)	43%	55,251	(203)	0%
Other	386,000	85,088	(300,912)	22%	(44,043)	129,131	-293%
Capital	113,000	0	(113,000)	0%	10,006	(10,006)	0%
Transfers Out	1,789,959	1,269,518	(520,441)	71%	1,092,817	176,701	16%
Total	\$40,048,795	\$ 22,698,514	\$ (17,350,281)	57%	\$ 19,599,569	\$ 3,098,945	16%

General Fund Expenditures by Department

Expenditures By Department	FY16-17 Budget	FY16-17 YTD Actual	Budget vs. Actual Variance	% of Budget	FY15-16 YTD Actual	FY15-16 vs. FY16-17 Variance	
City Council	\$ 194,986	\$ 113,246	\$ (81,740)	58%	\$ 105,778	\$ 7,468	7%
City Manager	581,538	433,914	(147,624)	75%	457,543	(23,629)	-5%
City Clerk	1,175,611	341,552	(834,059)	29%	218,810	122,741	56%
Public Information Office	144,000	25,083	(118,917)	17%	36,389	(11,305)	-31%
City Attorney	680,041	281,673	(398,369)	41%	238,738	42,934	18%
Information Technology	682,078	419,600	(262,478)	62%	361,780	57,820	16%
Finance	1,175,720	634,522	(541,198)	54%	541,198	93,325	17%
Human Resources	855,227	498,372	(356,855)	58%	479,195	19,177	4%
Community Development Services	4,740,553	1,750,435	(2,990,118)	37%	2,078,500	(328,064)	-16%
Public Works	3,429,677	1,911,241	(1,518,436)	56%	1,826,515	84,726	5%
Non-Departmental Operations	3,410,020	2,260,420	(1,149,600)	66%	2,034,853	225,567	11%
Police	12,686,850	7,550,102	(5,136,748)	60%	6,503,914	1,046,188	16%
Fire	6,906,422	4,693,447	(2,212,975)	68%	3,211,220	1,482,227	46%
Community Services	3,386,072	1,784,909	(1,601,163)	53%	1,505,138	279,771	19%
Total	\$40,048,795	\$ 22,698,514	\$ (17,350,281)	57%	\$ 19,599,569	\$ 3,098,945	16%

Police and Fire comprise about 50% of total General Fund expenditures. Departments and expense categories with significant favorable/unfavorable variances are discussed below. Please note that operating expenditures such as insurance, training, printing and communications, grants, fees, and contract obligations are cyclical in nature depending on program activities and timing of expenditures. Some costs were incurred in the early part of the year, but some costs will incur later during the year.

Staffing through February 28, 2017 costs were below budget by about 4%, or approximately \$800 thousand due to savings from unfilled positions. The year-over-year variance of \$2.4 million is reduced to \$1.3 million when the FY 15-16 pension contribution mentioned above is included. Budget adjustments will be proposed to eliminate savings and include costs associated with job reclassifications and temporary personnel.

Transfers Out are at 71% of budget due to a \$470 thousand transfer to the Child Development Fund and a \$300 thousand transfer to the IT Fund in the first quarter. Transfers out are expected to increase significantly due to the additional \$845 thousand subsidy to the Child Development Center. To partly offset this increase, the \$300 thousand transfer to the IT Fund will be cancelled. Transfer to the PBID Fund (Emery-Go-Round) will be increased slightly by \$26 thousand.

City Clerk and Public Information Office: Expenditures are expected to be lower than budgeted mainly due to the Citywide Records Management Project. \$620 thousand in professional services and supplies were budgeted in this fiscal year. Based on the current progress, \$93 thousand will be spent this year and \$99 thousand will be spent in FY 17-18. The remaining \$400 thousand will be spent in future years. To partially offset the increase in expenditures and decrease in revenues, the General Fund will not earmark funds for the remaining project. The \$400 thousand will be charged to the IT Fund and included in the 2017-22 CIP Program.

Community Development Services: Year-to-date expenditures are 37% of budget mainly due to lower than expected contract services and delay in receiving invoices. In

general, February invoices and some late invoices from the second quarter are not received until March. The City engages outside consultants for some building and planning activities. Certain budgeted professional services expenditures correspond to budgeted license and permit revenues, and these costs will not occur until revenues for new development projects are recognized.

II. Proposed Budget Adjustments for Fiscal Year 2016-17

Overview Mid-Year Budget Review

As part of the mid-year budget review process, Finance and Department Heads/Budget Liaisons performed a comprehensive review of revenues and expenditures for all city funds. Also, staff evaluated program needs to ensure funds will be available to support vital City services and programs. At the Fiscal Workshop on March 13, 2017, the City Council directed staff to continue to follow the City's budget philosophy as outlined below. The Council affirmed the City's desire for sound financial management. These budget principles reflect best practices that are highly recommended by the Government Finance Officers Association.

City Budget Principles

- 1. Current year expenditures should be supported by current year revenues. One-time revenues should not be used for ongoing costs, but should instead be used for necessary one-time expenditures or to strengthen fund reserves.*
- 2. Fund balances should be maintained in all major operating funds that provide for unforeseen circumstances. The appropriate level of fund balance depends on the particular fund.*
- 3. Unfunded liabilities should be identified and funded with surplus funds when they are available. Liabilities that are currently accruing should be funded currently.*
- 4. When necessary, a strategy should be formulated and implemented to address potential impacts of the State budget and other State actions that may affect City revenues.*
- 5. The operating costs of any planned capital improvement should be estimated in the planning stage, so that these amounts can be recognized and budgeted.*

Budget adjustments were developed based on the City Council's direction, projected revenue and expenditure results, and program levels that reflect the community's strategic goals and objectives. This section presents the proposed adjustments for the General Fund and other funds. Appendices A and B show adjustments by department/fund.

Overview Proposed General Fund Budget Adjustments

The summary tables below present the adopted FY 16-17 General Fund budget (by department and by type), proposed adjustments, and proposed revised budget. Please note that the adopted budget includes special appropriations approved by the City Council through February 28, 2017. The General Fund revenue adjustments total \$(357,265), reducing the adopted budget from \$40,022,944 to \$39,665,679. This decrease is already offset by a proposed contribution in the amount of \$530,565 from the Economic Uncertainty Reserve Fund. The General Fund expenditure adjustments total \$(383,116), reducing the adopted budget from \$40,048,795 to \$39,665,679. Following the summary tables are narratives describing the proposed General Fund revenue and expenditure adjustments.

(See Tables next page)

Revenues By Category	Adopted Budget	Proposed Adjustment	Proposed Revised Budget
Sales Tax	\$ 8,149,000	\$ (150,000)	\$ 7,999,000
Transient Occupancy Tax	7,400,000		7,400,000
Business License Tax	5,196,000		5,196,000
Utility Users Tax	3,000,000		3,000,000
Cardroom Tax	2,400,000	200,000	2,600,000
Licenses and Permits	5,831,100	(17,100)	5,814,000
Property Tax	1,873,000		1,873,000
Property Tax Residual Payment/Tax Increment Revenue	-	-	-
Franchises	1,567,400		1,567,400
Vehicle License Fee In Lieu	775,200		775,200
Real Property Transfer Tax	1,800,000	(670,000)	1,130,000
Other Revenues *	1,746,244	(250,730)	1,495,514
Transfers In	285,000	530,565	815,565
Total Revenues	\$ 40,022,944	\$ (357,265)	\$ 39,665,679

Expenditures By Department	Adopted Budget	Proposed Adjustment	Proposed Revised Budget
City Council	\$ 194,986	\$ 1,027	\$ 196,013
City Manager	581,538	106,877	688,415
City Clerk	1,175,611	(477,403)	698,208
Public Information Office	144,000	-	144,000
City Attorney	680,041	(64,342)	615,699
Information Technology	682,078	-	682,078
Finance	1,175,720	(15,835)	1,159,885
Human Resources	855,227	-	855,227
Community Development Services	4,740,553	(33,457)	4,707,096
Public Works	3,429,677	(128,630)	3,301,047
Non-Departmental Operations **	3,410,020	622,416	4,032,436
Police	12,686,850	(309,939)	12,376,911
Fire	6,906,422	7,753	6,914,175
Community Services	3,386,072	(91,583)	3,294,489
Total Expenditures	\$ 40,048,795	\$ (383,116)	\$ 39,665,679
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(25,851)	25,851	-

Expenditures By Type	Adopted Budget	Proposed Adjustment	Proposed Revised Budget
Staffing	\$ 21,573,548	\$ (722,401)	\$ 20,851,147
Contract Services	10,577,192	(88,531)	10,488,661
Maintenance	2,295,659	101,600	2,397,259
Supplies	1,224,700	(249,000)	975,700
Utilities	735,920	1,000	736,920
Insurance	499,000	(25,000)	474,000
Education & Training	339,367	1,000	340,367
Advertising/Printing & Publication	256,250	4,000	260,250
Fees & Charges	55,000		55,000
Programs & Grants	76,500		76,500
Rental & Leases	126,700	23,287	149,987
Other	386,000		386,000
Capital	113,000	4,000	117,000
Transfers Out **	1,789,959	566,929	2,356,888
Total	\$ 40,048,795	\$ (383,116)	\$ 39,665,679

* Include \$6,108 Public Works food waste grant approved by Council during FY 16-17.

** Include \$31,959 special appropriation approved by Council during FY 16-17 to increase the transfer to PBID Fund 805.

Proposed General Fund Revenue Adjustments

The following are proposed General Fund revenue adjustments. Revenues are projected to decrease by \$887,830. The shortfall is expected to be reduced to \$357,265 with a \$530,565 contribution from the Economy Uncertainty Reserve Fund. Proposed adjustments are presented in Appendix A.

- \$150,000 decrease in Sales Tax based on updated projection provided by Sales Tax Consultant MuniServices.
- \$200,000 increase in Card Room Tax due to higher than expected revenue.
- \$17,100 decrease in Licenses and Permits due to reduction in number of taxi cabs and offset by a slight increase in Cardroom application fee.
- \$670,000 decrease in Real Property Transfer Tax due to lower than expected revenue.
- \$250,730 decrease in Other Revenues. Shortage in police staffing resulted in decreased proactive activity in parking and traffic enforcement, which caused a decline in parking/traffic related revenues. Decrease in demand for specialized police services also contributed to the overall decrease. Rental/class/other fees for Community Services have been adjusted to reflect lower than expected activity levels.
- \$530,565 transfer/excess reserves from the Economy Uncertainty Reserve Fund to balance the General Fund budget.

Proposed General Fund Expenditure Adjustments

The following are proposed General Fund expenditure adjustments required to balance the FY 16-17 budget. Expenditures are projected to decrease by \$383,116. This is the combined result of increase in expenditures, savings from unfilled positions (approximately \$722,000), and cancellation of budgeted transfers and expenditures (approximately \$700,000). The significant adjustments include an additional subsidy of \$845,256 to the Child Development Center. The changes below are summarized by department, and proposed adjustments are included in Appendix A.

Police

- The decrease of \$309,939 in expenditures is due to salary and benefit savings from unfilled positions. The savings (\$534,401) was reduced by position reclassifications approved by City Council (\$70,462), overtime increase (\$140,000), and increased facility maintenance and equipment costs (\$14,000).

Fire

- The increase of \$7,753 in expenditures is due to increased facility maintenance costs (\$10,600) and increase in service contract (\$24,279) with the Alameda County Fire Department (ACFD). The overall increase is offset by lower than budgeted pension contribution (\$27,126). ACFD's latest projection indicated that the FY 16-17 expenditures will be increased from \$6,186,266 to \$6,210,545.

Public Works

- Decrease of \$128,630 in expenditures.
- \$138,507 staffing cost allocation to the Marina Fund to reflect maintenance activities associated with the Marina.
- \$47,723 savings from an unfilled position.
- \$57,600 to cover additional operating expenses such as landscape and facility maintenance costs.

Community Development

- Decrease of \$33,457 in expenditures.
- \$105,057 savings from unfilled positions.
- \$4,000 to cover increased communication and advertising costs.
- \$67,600 to pay for professional services including Fair Workweek and Minimum Wage (\$120,000) and other contract services (\$67,600). The \$187,600 increase is reduced by a \$120,000 transfer to Fund 299 for housing related activities.

Community Services

- The decrease of \$91,583 in expenditures is mainly due to savings from personnel costs and decrease in program costs. The overall decrease is offset by \$22,015 budgeted for a new Aquatic Coordinator position due to extended pool hours.

Non-Departmental

- Decrease of \$222,840 in expenditures.
- \$55,487 to cover higher than expected operating expenses such as facility maintenance and professional services.
- \$21,673 to fund increased general contribution for Emery-Go-Round.
- \$300,000 transfer to IT Fund is cancelled and these funds will be used to cover the Child Development Center subsidy.

Child Development Center (Non-Departmental)

- The increase of \$845,256 in expenditures is due to additional subsidy to the Child Development Center. The Center's revenues are projected to reduce significantly due to lower than expected enrollment. The FY 16-17 General Fund subsidy amounted to \$1,315,256 with this additional contribution.

Administration

- The decrease of \$449,676 in expenditures is mainly due to the Citywide Records Management Project mentioned earlier. Professional services and supplies will be reduced by \$526,271. This reduction is offset by an increase in personnel costs to utilize a temporary employee for this project and to refill the Assistant City Manager position.

Proposed Budget Adjustments to Other Funds

The narratives below describe the proposed adjustments to other funds. Across other funds, revenues are projected to decrease by \$673,529, and expenditures are projected to increase by \$835,230. Significant revenue changes include revenue reduction for the Child Development Center, decrease in residual tax increment revenue due to the Successor Agency's Corporation Yard remediation, and an increase in commercial transfer tax. Significant expenditure changes include contribution (excess reserves) to the General Fund to balance the 16-17 budget. The decline in tax increment revenue over the next few years will impact programs and CIP projects funded by the Economic Development, Housing, and General Capital funds. Staff may need to reduce funding for certain low priority projects when preparing the CIP for the next budget cycle. Commercial transfer tax is projected to be higher than budgeted due to several large sales transactions. Adjustments by line item are presented in Appendix B.

Economic Development Fund (#202)

The residual tax increment revenue is expected to decrease by \$93,263 due to the Successor Agency Corporation Yard remediation. Significant clean-up costs will incur in the next few years, thus reducing the allocations to the City and other taxing entities.

Community Programs Fund (#203)

The Economy Development and Housing Division plans to spend \$60,000 on homeless related programs to address the City's homeless problems.

Gas Tax Fund (#220)

Based on the updated projection provided by the League of California Cities, Emeryville's share of gas tax revenue allocation from the State is projected to decrease by \$9,158.

General Plan Fund (#225)

An adjustment in the amount of \$21,224 has been proposed to reflect salary and benefit savings.

Child Development Center Fund (#230)

The net revenue adjustment of \$245,256 reflects a decrease in revenues and an increase in subsidy from the General Fund. The enrollment at the Child Development Center is lower than expected resulting in a decrease in revenues of \$600,000. This reduction together with a shortfall projected earlier resulted in an additional General Fund subsidy of \$845,256. Due to lower enrollment, program costs are expected to decrease by \$95,356. Adjustments have been proposed to reflect these changes.

Public Arts Fund (#243)

The Economy Development and Housing Division has proposed to increase professional services by \$40,000.

Litigation Fund (#270)

Legal costs associated with sewer operations will be recorded in the Sewer Fund, thus a \$30,000 budgeted transfer to the Litigation Fund is not needed.

Economic Uncertainty Reserve Fund (#275)

As discussed earlier, \$530,565 will be transferred to the General Fund to balance the FY 16-17 budget.

Housing Fund (#299)

- The residual tax increment revenue is expected to decrease by \$373,051 due to the Successor Agency Corporation Yard remediation described above.
- Professional services expenses are projected to increase by \$319,500 due to higher than anticipated legal and consultant costs. Certain costs associated with tenant protection are included in this adjustment. This change also includes prior year encumbrance balances and \$120,000 reclassified from the General Fund for a housing related contract.
- Homeless program expenses are projected to increase by \$38,000. This amount was approved by the City Council in June 2016 and the expenditures incurred in FY 16-17.
- The Housing Fund pays property taxes for properties recorded in this fund, and \$12,500 is needed to cover the payments.

General Capital Fund (#475)

- The revenue reduction of \$199,986 reflects an expected decrease in residual tax increment revenue of \$1,399,986 due to the Successor Agency Corporation Yard remediation described above, and an expected increase in commercial property transfer tax of \$1,200,000 due to several large transactions.
- The expenditure reduction of \$141,496 reflects salary and benefit savings from unfilled positions, but offset by an increase in professional services.

Marina Fund (#495)

Staffing costs associated with the Marina maintenance activities are budgeted at \$150,390. The General Fund has absorbed the costs in the past.

Sewer Fund (#510)

Salaries and benefits are anticipated to increase by \$5,401 due to a higher pay range budgeted for the Deputy Public Works Director to make the position more attractive.

Major Maintenance Fund (#650)

Facility operating “revenue” and facility operating “charges” are projected to increase by \$65,000 due to higher than anticipated contract amount. Revenues are collected from General Fund departments and expenses are paid out of this fund.

Information Technology Fund (#670)

The General Fund subsidy to the Child Development Center has increased significantly. Staff proposes to cancel the \$300,000 budgeted transfer to the IT Fund and use the money to cover the subsidy.

PBID Fund (#805)

- The City's general benefit contribution for Emery-Go-Round is projected to increase by \$21,673 per TMA's budget. The General Fund will transfer funds into the PBID Fund to cover this increase. The FY 16-17 total contribution is projected to be \$522,632
- The shuttle services budget is expected to be lower than budgeted. The budget will be reduced by \$128,050, from \$3,949,363 to \$3,821,313.

III. Unfunded Positions and Programs

Below is a list of unfunded positions and programs with an estimated annual cost of \$3,071,000. These positions and programs are not included in the proposed budget adjustments due to funding limitations. This is a combined list of proposals made by Departments last year and during this mid-year budget review. Staff will continue to monitor revenues closely and advise the Council should additional funds become available to fund priority positions/programs.

No.	Department/Fund	Position/Program	Estimated Annual Cost
1	Police	Sergeant	\$ 226,000
2		Two Trainees	151,000
3	Fire	4 Persons Engine Staffing	2,074,000
4	Public Works	Two Interns (Environmental Programs)	40,000
5		Operations and Facilities Manager	166,000
6	Community Services	Program Coordinator - ECCL Aquatics/Sports Program	93,000
7	Community Development	Code Enforcement Officer	141,000
8		Berkeley Food & Housing Homeless Outreach Program	80,000
9	Earthquake Reserve Fund	Recommended Reserve Target: \$5M (\$1.3M reserve as of 2/28/17)	100,000
Total			\$ 3,071,000

Challenges and Opportunities

Emeryville and other cities in California will continue to feel the budget pressure due to rising pension costs. It would be challenging to balance a budget when expenses outpace revenue growth. Staff will explore options to increase revenues and develop measures to reduce costs. Our goal is to deliver vital city services and programs through the most efficient and effective ways. The following steps will help staff to accomplish this task.

- Evaluate cost recovery strategies and adjust fees as necessary.
- Continue to pursue grants aggressively to free up capital funds for General Fund operations.

- Compare Emeryville's tax rates with neighboring cities' rates (sales tax, hotel tax, business license tax, utility users tax, real property transfer tax, etc.); identify revenue categories with potential to increase revenues.
- Identify ways to deliver services more effectively and efficiently to reduce costs.
- Based on trend lines related to the Child Development Center, create a Council Ad Hoc Committee to work with staff on options.
- Carefully evaluate costs and identify ongoing revenue sources before implementing new programs.

REVIEW BY CITIZENS COMMITTEES

Staff will present the FY 16-17 proposed revised budget to the Budget Advisory Committees in late March 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

As discussed earlier, the General Fund budget relies on a contribution from reserves in the amount of \$530,565. The General Fund budget will reduce revenues by \$357,265, amending the adopted budget from \$40,022,944 to \$39,665,679. The General Fund budget will reduce expenditures by \$383,116, amending the adopted budget from \$40,048,795 to \$39,665,679.

All Other Funds budgets will reduce revenues by \$673,529 and increase expenditures by \$835,230.

PREPARED BY: Susan Hsieh, Finance Director

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



Carolyn Lehr, City Manager

Attachments:

1. Resolution
2. Appendix A - FY 16-17 Proposed Budget Adjustments to the General Fund
3. Appendix B - FY 16-17 Proposed Budget Adjustments to Other Funds