



City of Emeryville

CALIFORNIA

MEMORANDUM

DATE: July 11, 2017

TO: Carolyn Lehr, City Manager

FROM: Susan Hsieh, Finance Director
Cindy Montero, Assistant City Manager

SUBJECT: Budget Update Fiscal Year 2017-18 and 2018-19

RECOMMENDATION

Staff recommends that City Council receive an update on the fiscal year 2017-18 and 2018-19 budget, and provide comments and/or recommendations to staff.

BACKGROUND

In January 2017, the City initiated the mid-cycle budget review covering fiscal years (FY) 2016-17 and 2017-18. In February 2017, staff started developing a five-year financial projection to provide a long-term view of the City's finances. As part of the budget review, staff identified that certain revenues were lower than projected while some expenditures were higher than expected. The General Fund was projected to have a deficit in FY 2016-17, and expenses were expected to outpace revenue growth. This, coupled with CalPERS' announcement in December 2016 regarding discount rate reduction from 7.5% to 7%, means that the structural budget deficit is expected to continue into future years.

Upon identifying the deficit, staff took immediate action to control costs including freezing vacant positions and cutting back on other operating expenses such as professional services, printing/advertising, and training.

In February 2017, staff provided the Joint Budget Committee an overview about the City's financial outlook. At the March 2017 Fiscal Workshop, staff sought direction from the City Council to address the structural budget deficit. At the workshop, the Council affirmed the City's commitment for sound financial management and directed staff to continue to follow the City's budget philosophy when balancing the budget. The City Council requested that staff adjust the two-year budget cycle to align with the City Council election cycle.

Subsequent to the March Fiscal Workshop, staff amended the FY 16-17 General Fund budget to reflect the City Council's values and service priorities. The revised budget was reviewed by the Budget Advisory Committee in late March 2017.

On April 4, 2017, staff presented the amended FY 16-17 budget to the Council and provided an overview of the City's financial conditions. At the meeting, the City Council directed staff to develop revenue enhancement and cost reduction strategies to eliminate the structural budget deficit in future years. Council also directed staff to hire a financial advisor to prepare a bonding capacity analysis as part of the evaluation for revenue options. The Mayor appointed a two-member Council Ad Hoc Committee to work with staff on exploring cost savings opportunities and service delivery models. Staff was also directed to hire an actuary to analyze pension funding requirements and provide options on how to deploy the City's \$13 million pension reserve.

After the April meeting, staff and the financial consultant continued to develop the General Fund Five-Year Projection. After meeting with the two-member Council Ad Hoc Committee, departments were directed to identify 10% cost reductions. All departments came up with cost savings except the Fire Department, since fire services are outsourced to the Alameda County Fire Department. Where appropriate, cost reductions such as professional services, supplies, and training were reduced from the baseline budget and incorporated into the long-term projection. Reductions that directly impact service levels such as contracts and positions were summarized on a separate list for Council consideration.

In May 2017, staff presented the short-term and long-term fiscal strategies to the Budget and Governance Committee. These potential budget solutions include revenue enhancement options and cost reduction strategies. At the meeting, the Committee also reviewed citywide services and discussed budget priorities.

An actuary study was completed and presented to the Council on June 6, 2017, along with the financial consultant presentation of the General Fund Five-Year Projection. The projection indicates that the budget gaps ranged from \$1.5 million in FY 17-18 and \$3.2 million in FY 18-19 to \$6 million in FY 20-21. The cumulative revenue growth from 2017 to 2021 is only 5%, much lower than the 20% cumulative expenditure growth.

At the June 20, 2017, Council meeting, NBS presented a wide range of revenue options such as general/special purpose taxes, fees, and special assessments. Proposed cost reductions were also presented at this meeting. Cost reductions such as professional services, supplies, and training were reduced from the baseline budget and incorporated into the long-term projection. Reductions that directly impact service levels such as contracts and positions were summarized on a separate list and presented. The menu of options included reductions to vacant and some occupied positions, allocation to other funds contracts, closing of the Emeryville Child Development Center (ECDC), and outsourcing police dispatch services. At the meeting, the City Council directed staff to remove ECDC and dispatch services from the menu. These actions resulted in significant deficits remaining in both FY 17-18 as well as FY 18-19.

SEIU Proposal

During the Council Meeting, SEIU suggested the following budget adjustments to balance the City's budget (information extracted from the SEIU letter):

- Reallocate the Residual Tax Increment ("Boomerang Funds") by another 25% or \$1.3 M in 2017/2018 from Capital Investments. Reducing Residual Tax Increment contributions to capital improvements will balance the pace of development with available staffing. This will allow the City's investment in hiring 16 positions last year to benefit the City, rather than throwing away the investment in people that was so carefully made in 2017.
- Include the interest on the City's investments (\$400,000 per year) in the list of revenue sources, as has been done in past years. Much of this interest is generated by the Economic Uncertainty Reserve, and the City is not drawing on that reserve; therefore, the interest will continue to accrue.
- Use the PERS reserve to address current PERS impacts on the current budget. That is the purpose of this reserve.

DISCUSSION

Meetings with SEIU Regarding Proposed Budget Solutions

Staff met with SEIU representatives on June 27 and July 3, 2017, to further discuss these strategies. In the initial meeting, SEIU President Miroo Desai and Member Amber Evans met with staff and were asked to provide more detail to the proposals above.

Ms. Evans also stated that SEIU made the proposals as to not draw down the current General Fund reserve. June 27 recommendations by SEIU included:

- Freezing Assistant City Manager position.
- Increase ECDC fees by 10% (which was previously approved by the Council).
- Use Boomerang funds/Tax Increment revenue to balance the budget.
- Use the City's Pension reserves to balance the budget.
- Use interest earnings generated from the Economic Uncertainty Reserve Fund to support operating costs.
- In discussion, SEIU representatives endorsed exploring parking pricing (net of transportation demand management efforts) and cannabis siting and taxation as revenue generating mechanism with near term potential, as staff are currently working on such efforts, as opposed to a parking tax or other efforts with significant electoral or legal hurdles

- Additionally, SEIU's stated goal was to avoid any layoff of SEIU members, due to the desire to use funds and staff now to arrive at new revenue in year three and avoid a cycle of diminishing returns on PERS payments from employees.

At the July 3 meeting, the group focused on ECDC revenue-generating ideas, such as:

- Changing the master fee schedule to allow for the same fees for infant and toddler, (currently there is a different rate for infants and for toddlers).
- Consider elimination of the State contract and readjust ratios to meet a higher enrollment number.
- Possibility of elimination of the Infant Program
- Consider food contract elimination or reduction
- Annual fee increases to avoid growth of General Fund subsidy
- City Management spoke of using future part-timers to cover vacations and leaves; SEIU agreed that this is a best practice among other child care facilities.

Another meeting is scheduled for July 10th to further discuss citywide budget proposals.

The group also discussed making this an ongoing agenda item for the ECDC Labor-Management committee.

Meeting with the Ad Hoc Revenue Task Committee

At the June 20th meeting, the City Council appointed an Ad Hoc Revenue Task Committee, consisting of Councilmember Martinez and Vice Mayor Bauters. On June 29th, the City Manager and Finance Director met with the Committee to discuss the revenue study that will be performed by NBS. During the meeting, the Committee made the following comments:

- Perform a fee comparison with other cities to ensure the City charges all the necessary fees for services provided.
- Ensure that the consultant understands the City's budget gaps and provide recommendations that will enable the City to bridge those gaps.
- Explore revenue/funding options such as parking pricing (meters) a parking tax, cannabis tax, housing general obligation bonds, sales tax, hotel tax, soda tax, and utility users tax.
- Polls should be developed and conducted properly so the process for ranking revenue options is simple.
- Use a balanced approach in proposing tax/revenue increases to residents, businesses, and property owners.
- Potential revenue options should bring benefits to the community such as creating a better parking management system, reducing traffic, providing affordable housing, and expanding economic development.

- Create a high quality living environment for people (e.g. a safe/green city).

The Committee will meet with NBS to discuss the specific activities associated with this study.

Meeting with the Budget Advisory Committee

The Budget Advisory Committee met on June 29th, and the Committee focused its discussion on revenue opportunities. Vice Mayor Bauters attended the meeting as the Council Liaison and shared with the Committee about the key points mentioned above. Overall the Committee's vision and values are consistent with the Ad Hoc Revenue Task Committee's. The Committee emphasized the importance of using a balanced approach to generate more revenues so that the City remains in a competitive position to continue to attract and retain residents and businesses. Revenue measures should lead to benefits for the community such as improving the transportation system and reducing congestion for residents. The Committee had the following comments:

- Understand residents' service needs and the City's customer base (e.g. what do young people want here and who shops in the City).
- Ensure that the City charges enough to large corporations for the services provided (e.g. create a new tax/fee if necessary and or audit of existing fees paid).
- Consider reaching out to big businesses for financial help.
- Obtain funding/grants from other agencies to help improve the City's air quality and mitigate pollution level.
- Focus on economic development to attract, retain and expand businesses.
- Evaluate the pros and cons of different revenue measures to ensure the outcome will benefit the community as a whole (e.g. cannabis tax, hotel tax and short-term rentals, soda/bottle tax, parking tax, bonds).
- Create a family-friendly and business-friendly city.

CONCLUSION

NBS will conduct a revenue study to help the City identify revenue options. NBS will coordinate a team including a polling consultant and a community outreach consulting firm for this assignment. It will take some time to identify revenue options. A series of presentations/updates will be provided to the City Council and Budget Committees in the next several months. The next step is to conduct polls to understand the community's appetite and focus on more specific revenue opportunities.

Staff recommends that no changes to financial policies be contemplated until after the consultants have recommended revenue options. The recommendations will help us to better understand the City's financial outlook.

As part of the discussion this evening, staff will request general direction or goals on balancing each of the two budget years

Staff believes it is crucial to receive further guidance from the City Council and the Budget Advisory Committee regarding balancing each of the two fiscal years. With this perspective, staff will then present alternative budget solutions for City Council's consideration.

PREPARED BY: Susan Hsieh, Finance Director
Cindy Montero, Assistant City Manager

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



Carolyn Lehr, City Manager