



# City of Emeryville

CALIFORNIA

## MEMORANDUM

**DATE:** April 2, 2019  
**TO:** Christine Daniel, City Manager  
**FROM:** Susan Hsieh, Finance Director  
**SUBJECT:** **Presentation of Fiscal Years 2019-20 and 2020-21 General Fund Baseline Budget and Five-Year Preliminary Forecast**

**Resolution Of The City Council Of The City Of Emeryville Amending  
The Budget For Fiscal Year 2018-19**

### RECOMMENDATION

1. Staff is requesting that City Council consider the General Fund Baseline Budget projections for the upcoming two-year budget cycle and provide feedback. City Council feedback will assist staff in preparing the proposed budget for City Council consideration at an upcoming budget special meeting scheduled for May 21, 2019.
2. Staff recommends that the City Council review and approve, by resolution, the proposed budget adjustments for Fiscal Year 2018-19.

### DISCUSSION

Staff is presenting Council with a General Fund Baseline Budget projection to frame the development of the upcoming two-year budget for Fiscal Years 2019-20 and 2020-21. The information in this report includes a five-year financial projection for Fiscal Years 2018-19 through 2023-24. Additionally, proposed budget adjustments for the current Fiscal Year 2018-19 are provided for Council consideration.

The purpose of the Baseline Budget is to project the revenues available to support City services, and to compare these revenues with the current cost of maintaining existing services. The Baseline Budget assumes continuation of current staffing levels, professional services, supplies, maintenance and utilities, with cost estimates projected for future fiscal years. The focus of the Baseline Budget is the General Fund since it comprises the unrestricted funds of the City that are the most flexible to support the City's program objectives.

This report includes the following information as context for the next budget cycle including specifically revenue and expenditure projections for the General Fund:

- A. Summary of City's Budget Principles
- B. General Fund Revenues – Trend Analysis and Projections
- C. General Fund Expenditures – Trend Analysis and Projections
- D. Preliminary Long-Term Forecast and Reserve Analysis

- E. Fiscal Year 2018-19 Mid-Year Budget Review and Proposed Budget Adjustments
- F. Review by Citizens Committees
- G. Next Steps

After receiving feedback from City Council on the Baseline Budget, staff will develop the proposed two-year budget for Fiscal Years 2019-2020 and 2020-2021, as well as the forecast through Fiscal Year 2023-24. Department proposals to modify the Baseline Budget are currently under evaluation. The 2019-21 proposed budget for all City funds will be presented for City Council consideration at a special meeting on May 21, 2019.

## **A. Summary of City Budget Principles**

As published in prior budget documents, the City has established a long-term budget philosophy with the following major principles. As the City steps into the next budget cycle, it is timely to revisit and reaffirm this budget philosophy. The City's budget principles continue to reflect best practices for municipal budgeting. No changes are recommended at this time.

### Summary of City's 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 and Agency 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.
- 6) Capital improvement projects, including related maintenance costs, should be identified and prioritized. The funding of many of these projects will require current, planned resources, such as special revenues, grants, and surplus general funds. The City will adhere to prudent spending of discretionary funds to allow the City to provide the necessary resources for capital improvements, including one-time expenditures and adequate replacement reserves.

## **B. General Fund Revenues - Trend Analysis and Projections**

### Current Year Revenues; FY 2018-2019

The City's General Fund revenues have grown in the 2017-19 budget cycle due to new revenue sources and one-time revenues. Fiscal Year 2017-18 revenues totaled \$44.6 million and Fiscal Year 2018-19 revenues are projected at \$44.6 million, compared to \$40.8 million in Fiscal Year 2016-17.

As reflected in the table below, a new hotel opened in November 2016, and added revenue to the General Fund through the Transient Occupancy Tax. A limited amount of Cannabis Tax revenue is expected in Fiscal Year 2018-2019 due to the passage of Measure S in November 2018. License and permit revenues fluctuate based on expected development activities and a portion of the revenue is considered non-recurring revenue; the unspent balance is carried over to the next year to support development activities. 25% of the Residual Tax Increment revenue is allocated to the General Fund; this allocation started in Fiscal Year 2017-18. Real Property Transfer Tax revenue reached \$2.5 million in Fiscal Year 2017-18 due to a few large transactions from the sale of "residential" properties<sup>1</sup>. Other revenues increased mainly due to the rental revenue resulting from the full operation of ECCL and one-time grant revenue from the Alameda County Transportation Commission.

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<sup>1</sup> The City's Commercial Property Transfer Tax Policy states that revenues from "commercial" real estate transfer tax should be used to support the City's capital program. Commercial property transfer tax is unpredictable and specific projects can be phased to match the timing when this revenue is realized. In some years, commercial property transfer tax may exceed budgeted revenue resulting in excess funds. 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. Commercial property transfer tax revenues are recorded in the Capital Project Fund.

### Current Year: 2019 General Fund Revenue Projection

| Revenues By Category        | 2016-17<br>Actual    | 2017-18<br>Actual    | 2018-19<br>Projection |
|-----------------------------|----------------------|----------------------|-----------------------|
| Sales Tax                   | \$ 8,083,312         | \$ 8,128,760         | \$ 8,259,200          |
| Transient Occupancy Tax     | 7,426,301            | 8,321,942            | 8,563,000             |
| Business License Tax        | 5,998,070            | 6,138,281            | 6,079,000             |
| Cannabis Tax                | -                    | -                    | 137,000               |
| Utility Users Tax           | 3,155,991            | 3,181,325            | 3,120,900             |
| Cardroom Tax                | 2,712,935            | 2,846,360            | 2,847,000             |
| Licenses and Permits        | 4,782,413            | 3,966,534            | 4,673,846             |
| Property Tax                | 2,437,188            | 2,737,218            | 2,795,000             |
| Residual Tax Increment      | -                    | 1,424,861            | 1,387,000             |
| Franchises                  | 1,692,106            | 1,788,571            | 1,828,000             |
| Vehicle License Fee In Lieu | 812,578              | 860,183              | 871,000               |
| Real Property Transfer Tax  | 1,244,061            | 2,450,416            | 1,252,451             |
| Other Revenues              | 1,189,642            | 2,714,662            | 2,723,188             |
| Transfers In                | 1,314,802            | 61,500               | 87,981                |
| <b>Total</b>                | <b>\$ 40,849,398</b> | <b>\$ 44,620,613</b> | <b>\$ 44,624,566</b>  |

### Future Year Revenues; FY 2019-2020, FY 2020-2021

With this updated Fiscal Year 2018-19 revenue base, the revenue table below presents preliminary forecasts for Fiscal Years 2019-2020, 2021-22, 2022-23, and 2023-24. General Fund revenue projections include conservative revenue estimates developed using historical information, economic forecasts, revenue consultants and local information about current events in Emeryville. Please note that recession factors are not built into this projection. While the U.S. economy remains generally healthy according to key economic indicators, growth is expected to slow down.

General Fund Revenues are projected to be \$44.2 million for Fiscal Years 2019-20 and 2020-21, and grow to \$45.1 million in Fiscal Year 2021-22, \$45.7 million in Fiscal Year 2022-23 and \$46.7 million in Fiscal Year 2023-24. Revenue for Fiscal Years 2019-20 and 2020-21 is lower than Fiscal Year 2018-19 revenue, primarily due to the reduced projection for license and permit revenues. Revenue growth assumptions are described below.

### Future Years: General Fund Revenue Projection

| Revenues By Category        | 2018-19<br>Projection | 2019-20<br>Projection | 2020-21<br>Projection | 2021-22<br>Projection | 2022-23<br>Projection | 2023-24<br>Projection |
|-----------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Sales Tax                   | \$ 8,259,200          | \$ 8,384,000          | \$ 8,597,100          | \$ 8,828,400          | \$ 9,060,800          | \$ 9,292,300          |
| Transient Occupancy Tax     | 8,563,000             | 8,720,000             | 8,887,000             | 9,056,000             | 9,229,000             | 9,406,000             |
| Business License Tax        | 6,079,000             | 6,169,000             | 6,261,000             | 6,354,000             | 6,449,000             | 6,545,000             |
| Cannabis Tax                | 137,000               | 360,000               | 360,000               | 360,000               | 360,000               | 360,000               |
| Utility Users Tax           | 3,120,900             | 3,128,400             | 3,141,600             | 3,148,100             | 3,159,800             | 3,175,500             |
| Cardroom Tax                | 2,847,000             | 2,904,000             | 2,962,000             | 3,021,000             | 3,081,000             | 3,143,000             |
| Licenses and Permits        | 4,673,846             | 3,312,800             | 2,681,300             | 2,681,800             | 2,682,300             | 2,682,800             |
| Property Tax                | 2,795,000             | 2,876,000             | 2,960,000             | 3,046,000             | 3,135,000             | 3,226,000             |
| Residual Tax Increment      | 1,387,000             | 1,329,300             | 1,227,100             | 1,366,300             | 1,626,200             | 1,843,700             |
| Franchises                  | 1,828,000             | 1,876,000             | 1,927,000             | 1,979,000             | 2,033,000             | 2,088,000             |
| Vehicle License Fee In Lieu | 871,000               | 897,000               | 924,000               | 952,000               | 981,000               | 1,010,000             |
| Real Property Transfer Tax  | 1,252,451             | 1,278,000             | 1,304,000             | 1,330,000             | 1,357,000             | 1,384,000             |
| Other Revenues              | 2,723,188             | 2,861,600             | 2,874,600             | 2,913,300             | 2,450,400             | 2,490,300             |
| Transfers In                | 87,981                | 61,500                | 61,500                | 61,500                | 61,500                | 61,500                |
| <b>Total</b>                | <b>\$ 44,624,566</b>  | <b>\$ 44,157,600</b>  | <b>\$ 44,168,200</b>  | <b>\$ 45,097,400</b>  | <b>\$ 45,666,000</b>  | <b>\$ 46,708,100</b>  |

**Sales Tax** reflects an average increase of 2% for each of the first two budget years. Increases for the out years range from 2.5% to 2.7%. These estimates are provided by the City's sales tax consultant. Sales Tax projections for Fiscal Year 2019-20 and the remaining years of the forecast reflect additional online sales tax revenues expected from the *Wayfair* Decision. Beginning April 1, 2019, retailers located outside of California are required to register with the CDTFA (California Department of Tax and Fee Administration), collect the California use tax, and pay the tax to the CDTFA based on the amount of their sales into California, even if they do not have a physical presence in the state. This is applicable to retailers that sell tangible goods for delivery into California through the Internet, mail-order catalogs, telephone, or any other means. While there has been discussion regarding raising these thresholds, the current thresholds for remitting this tax are

- the retailer's sales into California exceed \$100,000, or
- the retailer made sales into California in two hundred (200) or more separate transactions.

With collections beginning in April, the City should begin seeing revenues in the August 2019 clean-up payment. The annual revenue is estimated at \$200,000.

**Transient Occupancy Tax (TOT)** revenue is one of the City's primary revenue sources. With the opening of a new hotel in November 2016, TOT revenue is projected to reach almost \$8.6 million in Fiscal Year 2018-19 and grow by about 2% annually in the next five years. Sales Tax and TOT revenues represent about 40% of the General Fund revenue budget. These particular revenue sources will fluctuate with economic cycles. Budget dependence on these cyclical, economically sensitive revenue sources is mitigated by the City's reserve for economic contingency.

**Business License Tax** is mainly based on gross revenues of Emeryville business and is projected to grow by 1.5% annually in the next five years. It should be noted that the revenue for Fiscal Year 2017-18 includes \$140,000 in one-time revenue associated with the Tax Discovery Program, and this level of revenue is not expected in future years.

**Cannabis Tax** is a new revenue source and is projected to be flat for budget purposes. Measure S was approved by Emeryville voters In November 2018; the election results were certified by the City Council in December 2018 and the tax rates took effect the same month. Therefore, partial year revenue is expected in Fiscal Year 2018-19. Due to slower than expected growth in the cannabis sector, the state and many cities have reduced their revenue projections significantly. The City has taken a prudent approach to estimate the revenue as this new resource is expected to support ongoing expenditures. Projections will be updated as more current financial data becomes available.

**Utility Users Tax** is projected to grow by less than 0.5% annually in the next five years. The revenue for Fiscal Year 2018-19 is expected to be lower than budgeted. Revenue from the telecommunication category continues to decline due to competition and the increased commoditization of services; growth from the electric category is expected to decrease over time due to the installation of solar alternatives and cost reduction in renewable energy; revenue from the natural gas category depends on pricing and usage and a decrease is anticipated over the next five years partly due to power generation from renewable sources.

**Cardroom Tax and Real Property Transfer Tax** are expected to grow at an annual rate of 2% in the next five years. Note that the “residential” property transfer tax is allocated to the General Fund and the “commercial” transfer tax is committed for capital projects.

**Licenses and Permits** are budgeted based on expected development activities. Major projects are not included in the projections because it is difficult to estimate the timing of these projects. The City will bring the revenues and expenditures associated with major projects as mid-cycle budget revisions once more current information becomes available. The projection of \$4.7 million for the current fiscal year is much higher than the future year projections mainly due to large development projects that have already paid fees.

**Property Tax, Vehicle License Fee in Lieu and Franchise Fee** are projected to grow by 3% annually in the next five years.

**Residual Tax Increment Revenue** is projected to increase by about 4% in Fiscal Year 2019-20 due to expected completion of certain development projects. A 3% annual increase is projected in the following four years. When taking into account the funding required to support the Corp Yard remediation project, the 25% distribution to the General Fund is expected to fluctuate over the next five years. The funding request for the Corp Yard project was submitted to the Department of Finance as part of the Fiscal Year 2019-20 ROPS (Recognized Obligation Payment Schedule) submission.

**Other Revenues** include charges for services, grants, investment earnings and miscellaneous revenues. The \$0.5 million annual grant from the Alameda County Transportation Commission for the City's general benefit contribution to Emery-Go-Round is expected to end in Fiscal Year 2021-22. The City first received this grant in Fiscal Year 2017-18. For many of the recreation fees and fees for the Child Development Center, a 3% annual increase is included in the projections. Staff will be updating the Fiscal Year 2019-20 Master Fee Schedule and plans to propose the updated schedule to City Council for consideration in June 2019. In general City fees are updated annually based on the San Francisco Bay Area CPI (Consumer Price Index) increase.

### **C. General Fund Expenditures - Trend Analysis and Projections**

General Fund program departments continue to operate within their budget allocations for Fiscal Year 2018-19. Expenditure savings of approximately \$1.8 million are anticipated across expenditure categories and programs, and a significant portion of the savings is from professional services and salary and benefits. Additionally, the City achieved interest savings by making a lump sum payment to CalPERS for the Fiscal Year 2018-19 unfunded pension contribution. Lower than expected medical costs also resulted in savings. Details regarding the Fiscal Year 2018-19 proposed budget adjustments are presented below.

Expenditures for Fiscal Year 2018-19 are projected at \$40.7 million, higher than the \$39.6 million in Fiscal Year 2016-17, but lower than the \$43.4 million in Fiscal Year 2017-18. Higher expenditures in the prior year were primarily due to one-time contributions to support various City programs and unfunded pension liabilities.

### Current Year: 2018-2019 Expenditure Projection

| Expenditures By Type               | 2016-17<br>Actual    | 2017-18<br>Actual    | 2018-19<br>Projection |
|------------------------------------|----------------------|----------------------|-----------------------|
| Staffing                           | \$ 19,771,512        | \$ 20,203,061        | \$ 21,852,888         |
| Contract Services                  | 9,630,935            | 9,960,574            | 10,657,958            |
| Maintenance                        | 2,068,371            | 2,330,090            | 2,603,709             |
| Supplies                           | 733,473              | 664,275              | 870,262               |
| Utilities                          | 701,561              | 857,330              | 830,619               |
| Insurance                          | 439,063              | 539,603              | 638,830               |
| Education & Training               | 202,250              | 216,406              | 347,553               |
| Advertising/Printing & Publication | 141,114              | 98,977               | 162,187               |
| Fees & Charges                     | 17,361               | 23,285               | 67,300                |
| Programs & Grants                  | 25,196               | 120,167              | 109,130               |
| Rental & Leases                    | 259,602              | 417,938              | 427,750               |
| Other                              | 300,525              | 275,459              | 159,032               |
| Capital                            | 13,966               | 48,220               | 6,000                 |
| Transfers Out                      | 5,290,809            | 7,625,837            | 1,997,970             |
| <b>Total</b>                       | <b>\$ 39,595,737</b> | <b>\$ 43,381,223</b> | <b>\$ 40,731,188</b>  |

### By Program Department

| Expenditures By Department     | 2016-17<br>Actual    | 2017-18<br>Actual    | 2018-19<br>Projection |
|--------------------------------|----------------------|----------------------|-----------------------|
| City Council                   | \$ 171,490           | \$ 191,890           | \$ 204,165            |
| City Manager                   | 660,238              | 735,979              | 585,310               |
| City Clerk                     | 561,355              | 513,159              | 597,810               |
| Public Information Office      | 42,945               | 49,205               | 105,000               |
| Information Technology         | 642,214              | 682,868              | 738,032               |
| City Attorney                  | 539,570              | 509,638              | 594,487               |
| Finance                        | 1,028,921            | 1,028,307            | 1,213,766             |
| Human Resources                | 783,839              | 732,126              | 755,880               |
| Community Development Services | 3,541,928            | 3,182,455            | 3,884,628             |
| Non-Departmental Operations    | 6,876,727            | 9,369,894            | 3,975,122             |
| Police                         | 11,527,417           | 12,158,849           | 13,233,469            |
| Fire                           | 6,885,895            | 7,701,535            | 8,222,274             |
| Public Works                   | 3,308,157            | 3,232,765            | 3,329,791             |
| Community Services             | 3,025,040            | 3,292,554            | 3,291,454             |
| <b>Total</b>                   | <b>\$ 39,595,737</b> | <b>\$ 43,381,223</b> | <b>\$ 40,731,188</b>  |

Moving ahead to Fiscal Years 2019-20 and 2020-21, the cost to sustain current service levels is projected to grow by over \$3.8 million from projected Fiscal Year 2018-2019 levels of \$40.7 million to \$44.5 million in Fiscal Year 2020-21. The increase is primarily in salaries and benefits, as presented in the following table. General Fund expenditures are projected to reach \$48.5 million in Fiscal Year 2023-24.

### Future Years: Baseline Expenditure Projection

| Expenditures By Type               | 2018-19<br>Projection | 2019-20<br>Projection | 2020-21<br>Projection | 2021-22<br>Projection | 2022-23<br>Projection | 2023-24<br>Projection |
|------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Staffing                           | \$ 21,852,888         | \$ 23,073,900         | \$ 23,748,100         | \$ 24,368,509         | \$ 24,847,727         | \$ 25,164,555         |
| Contract Services                  | 10,657,958            | 11,329,700            | 11,179,900            | 11,314,300            | 11,751,100            | 11,965,100            |
| Maintenance                        | 2,603,709             | 2,909,300             | 3,044,400             | 3,266,550             | 3,405,710             | 3,571,879             |
| Supplies                           | 870,262               | 855,300               | 862,400               | 872,500               | 877,400               | 884,000               |
| Utilities                          | 830,619               | 758,100               | 777,400               | 797,300               | 817,800               | 839,000               |
| Insurance                          | 638,830               | 833,000               | 983,000               | 1,161,000             | 1,373,000             | 1,625,000             |
| Education & Training               | 347,553               | 354,500               | 362,900               | 368,000               | 377,300               | 382,500               |
| Advertising/Printing & Publication | 162,187               | 106,900               | 107,400               | 108,000               | 108,600               | 109,200               |
| Fees & Charges                     | 67,300                | 69,200                | 69,400                | 69,600                | 69,900                | 70,200                |
| Programs & Grants                  | 109,130               | 127,700               | 129,700               | 131,700               | 133,700               | 135,700               |
| Rental & Leases                    | 427,750               | 450,700               | 464,509               | 479,327               | 494,255               | 509,293               |
| Other                              | 159,032               | 507,700               | 514,800               | 582,100               | 589,800               | 597,900               |
| Capital                            | 6,000                 | -                     | -                     | -                     | -                     | -                     |
| Transfers Out                      | 1,997,970             | 2,214,536             | 2,304,281             | 2,466,789             | 2,544,381             | 2,600,041             |
| <b>Total</b>                       | <b>\$ 40,731,188</b>  | <b>\$ 43,590,536</b>  | <b>\$ 44,548,190</b>  | <b>\$ 45,985,675</b>  | <b>\$ 47,390,673</b>  | <b>\$ 48,454,368</b>  |

### By Program Department

| Expenditures By Department     | 2018-19<br>Projection | 2019-20<br>Projection | 2020-21<br>Projection | 2021-22<br>Projection | 2022-23<br>Projection | 2023-24<br>Projection |
|--------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| City Council                   | \$ 204,165            | \$ 203,600            | \$ 208,900            | \$ 209,100            | \$ 215,300            | \$ 215,800            |
| City Manager                   | 585,310               | 451,000               | 433,100               | 437,300               | 441,000               | 443,400               |
| City Clerk                     | 597,810               | 613,900               | 686,700               | 647,500               | 705,900               | 663,600               |
| Public Information Office      | 105,000               | -                     | -                     | -                     | -                     | -                     |
| Information Technology         | 738,032               | 764,400               | 776,300               | 790,100               | 799,100               | 806,200               |
| City Attorney                  | 594,487               | 619,700               | 632,100               | 638,100               | 641,800               | 644,300               |
| Finance                        | 1,213,766             | 1,180,400             | 1,215,600             | 1,242,600             | 1,267,800             | 1,283,900             |
| Human Resources                | 755,880               | 778,900               | 804,400               | 829,800               | 850,700               | 859,500               |
| Community Development Services | 3,884,628             | 4,262,700             | 3,756,100             | 3,811,409             | 3,853,027             | 3,888,555             |
| Non-Departmental Operations    | 3,975,122             | 4,568,536             | 4,847,881             | 5,146,389             | 5,527,081             | 5,848,641             |
| Police                         | 13,233,469            | 13,862,800            | 14,257,900            | 14,596,900            | 14,876,800            | 15,138,800            |
| Fire                           | 8,222,274             | 8,992,800             | 9,525,000             | 9,925,700             | 10,361,500            | 10,714,600            |
| Public Works                   | 3,329,791             | 3,808,600             | 3,893,209             | 4,086,677             | 4,180,565             | 4,290,972             |
| Community Services             | 3,291,454             | 3,483,200             | 3,511,000             | 3,624,100             | 3,670,100             | 3,656,100             |
| <b>Total</b>                   | <b>\$ 40,731,188</b>  | <b>\$ 43,590,536</b>  | <b>\$ 44,548,190</b>  | <b>\$ 45,985,675</b>  | <b>\$ 47,390,673</b>  | <b>\$ 48,454,368</b>  |

Key operating costs for the two budget years are described below.

### Salaries and Benefits

As a service organization, the City's primary cost is staff salary and benefits. For Fiscal Year 2019-20, General Fund staffing costs are projected to be \$23.1 million, or 53% of the \$43.6 million baseline budget. The increases in salaries and benefits in the baseline budget are primarily due to rising pension costs; no cost of living adjustments are included in the Baseline Budget as labor negotiations are currently underway.

As presented in the table below, City-wide pension costs are expected to increase significantly over the next five years. Due to the CalPERS discount rate reduction to 7%, public agencies are required to pay higher normal costs starting in Fiscal Year 2018-19 and the rates will continue to increase through Fiscal Year 2020-21. In addition, contributions to the unfunded pension liability will continue to increase in the next five years. For the 2019-20 and 2020-21 budget years, the total increases for pension costs are expected to be 21% and 10%. Pension costs are projected at \$4.8 million and \$5.3 million for the 2019-20 and 2020-21 budget years. Between Fiscal Years 2017-18 and 2023-24, the City's pension costs are expected to more than double to \$6.2 million. As of June 30, 2018, the City's net pension liability totaled \$44.1 million. The City has set aside approximately \$10.7 million in a Section 115 Pension Trust and reserve fund to mitigate rising costs.

|                                    | FY 17-18<br>Actual | FY 18-19<br>Projection | FY 19-20<br>Projection | FY 20-21<br>Projection | FY 21-22<br>Projection | FY 22-23<br>Projection | FY 23-24<br>Projection |
|------------------------------------|--------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| Pension - PERS Normal Cost         | 1,194,780          | 1,624,119              | 1,844,887              | 1,982,809              | 1,997,509              | 2,006,138              | 2,009,994              |
| Pension - Unfunded Liability       | 1,718,587          | 2,221,051              | 2,823,272              | 3,150,700              | 3,571,200              | 3,884,300              | 4,067,000              |
| Pension - Supplemental Police Plan | 151,247            | 102,955                | 123,098                | 123,908                | 124,490                | 124,654                | 124,818                |
| <b>Total</b>                       | <b>3,064,614</b>   | <b>3,948,125</b>       | <b>4,791,256</b>       | <b>5,257,417</b>       | <b>5,693,199</b>       | <b>6,015,092</b>       | <b>6,201,812</b>       |
| Year-over-year Increase            |                    | 29%                    | 21%                    | 10%                    | 8%                     | 6%                     | 3%                     |

Safety and non-safety labor contracts expire in June 2019, and, as noted above, the City is in negotiation with employee groups. Accordingly, no salary adjustments are included in this Baseline Budget projection pending the outcome of those negotiations. Merit increases and expected increases in benefits such as medical insurance and worker's compensation are included in the projection. City-wide medical insurance and worker's compensation are the other key cost drivers. They are estimated at \$2.3 million and \$1.2 million for Fiscal Year 2019-20 and \$2.4 million and \$1.3 million for Fiscal Year 2020-21. An annual increase of 3% for medical insurance and 5% for worker's compensation is expected in the next five years. Worker's compensation charges to City departments are used to pay for insurance premium and claim expenses. Please refer to the section below regarding further discussion about worker's compensation.

### Other Operating Expenditures

The Baseline Budget reflects expected increases in contracts/operating expenditures such as the increases spelled out in contracts. Significant operating expenditures include the fire service contract with the Alameda County Fire Department (ACFD), maintenance costs, general liability and other insurance, and worker's compensation insurance.

The costs for the fire services contract are projected at \$7.5 million and \$7.9 million for budget years 2019-20 and 2020-21, and, assuming the contract is extended beyond its

current termination date of June 2020, the contract amount is expected to reach \$8.8 million in Fiscal Year 2023-24 based on the estimates provided by the ACFD.

Key maintenance costs are associated with landscape, facility, vehicle, and equipment maintenance. The maintenance category also includes technology and vehicle replacement charges. These internal service charges are used to fund/replace various technologies and vehicles, and the rates are set based on expected service levels/replacement costs. Maintenance expenditures are projected to be \$2.9 million and \$3.0 million for the 2019-20 and 2020-21 budget years.

City-wide general liability and other insurance (e.g., property insurance) are expected to continue to increase significantly in the next five years, as summarized in the table below. The growth is projected to exceed 15% every year in the next five years, and the premium ranges from \$0.9 million to \$1.7 million. Worker's compensation premium and claim expenses are expected to grow at an average rate of 5% after Fiscal Year 2019-20. These increases are mainly attributed to growth in City payroll, the City's claim experience, the insurance pool's overall claim experience, and the industry rates. This level of increase is expected to continue according to our insurance provider.

|                                     | FY 17-18<br>Actual | FY 18-19<br>Projection | FY 19-20<br>Projection | FY 20-21<br>Projection | FY 21-22<br>Projection | FY 22-23<br>Projection | FY 23-24<br>Projection |
|-------------------------------------|--------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|
| General Liability & Other Insurance | 582,854            | 703,686                | 876,000                | 1,026,000              | 1,204,000              | 1,416,000              | 1,668,000              |
| Year-over-year Change               |                    | 21%                    | 24%                    | 17%                    | 17%                    | 18%                    | 18%                    |
| Worker's Comp Insurance             | 1,446,336          | 1,395,800              | 1,353,100              | 1,412,100              | 1,506,200              | 1,582,400              | 1,669,100              |
| Year-over-year Change               |                    | -3%                    | -3%                    | 4%                     | 7%                     | 5%                     | 5%                     |

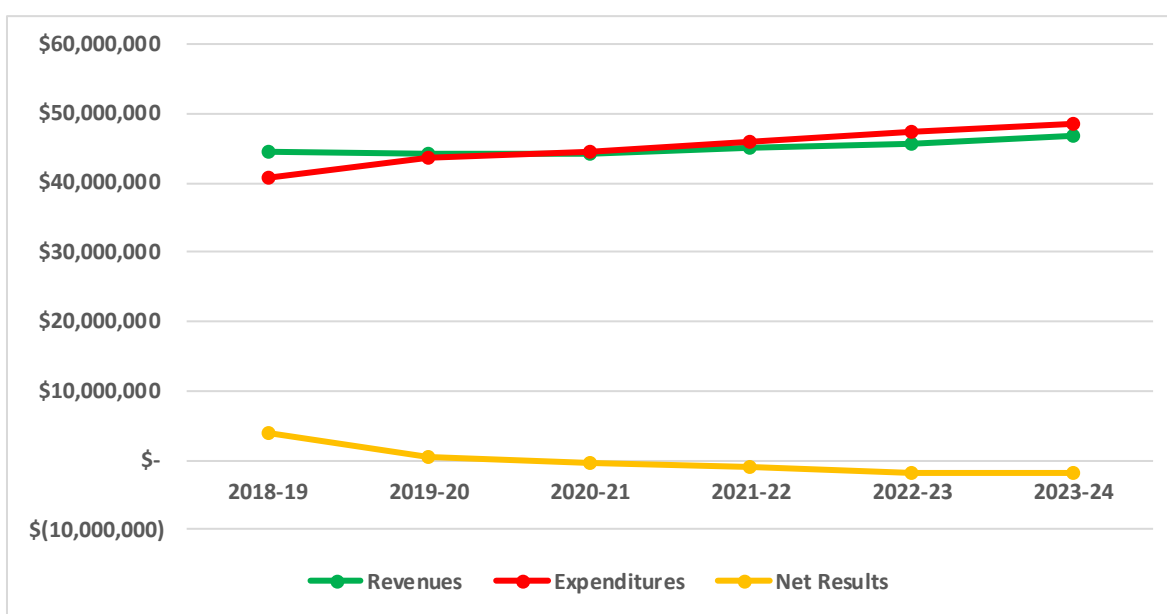
The City needs to be mindful when adding or expanding programs and services as pension costs will continue to rise. Other operating expenditures mentioned above are also expected to increase significantly. When contemplating new services/programs, sustainability should be taken into consideration to ensure services can continue in the long run.

#### **D. Preliminary Long-Term Forecast and Reserve Analysis**

The chart below summarizes the General Fund projected revenues, baseline expenditures, and net results for Fiscal Year 2018-19 through Fiscal Year 2023-24. A surplus of \$3.9 million is expected in Fiscal Year 2018-19 mainly due to an increase in revenue assumptions, the new cannabis tax, savings from vacant positions and other operating expenditures, and one-time cost shift to building and planning fees. Even though the Fiscal Year 2018-19 proposed budget adjustments reflect a reduction in license and permit revenues, the revised budget is higher than the original budget. It should be noted that certain amendments related to increases to development revenues and expenditures were approved by the Council in December 2018. With the increase in

development revenues, the City is able to recover other direct and indirect costs incurred to support development activities.

Of the projected surplus, an estimated \$0.4 million needs to be set aside for development activities. The remaining \$3.5 million can be used to support one-time programs/reserves and pay down unfunded liabilities, but should not be used for ongoing costs. A \$0.6 million surplus is projected for the 2019-20 budget year. Before consideration of any negotiated increases for labor contracts, or any department program augmentation requests, the 2020-21 Baseline Budget reflects an annual deficit of \$0.4 million. In the final years of the forecast, the deficits are estimated at \$0.9 million for Fiscal Year 2021-22 and \$1.7 million for Fiscal Years 2022-23 and 2023-24.



|              | 2018-19       | 2019-20       | 2020-21       | 2021-22       | 2022-23        | 2023-24        |
|--------------|---------------|---------------|---------------|---------------|----------------|----------------|
| Revenues     | \$ 44,624,566 | \$ 44,157,600 | \$ 44,168,200 | \$ 45,097,400 | \$ 45,666,000  | \$ 46,708,100  |
| Expenditures | \$ 40,731,188 | \$ 43,590,536 | \$ 44,548,190 | \$ 45,985,675 | \$ 47,390,673  | \$ 48,454,368  |
| Net Results  | \$ 3,893,379  | \$ 567,064    | \$ (379,990)  | \$ (888,275)  | \$ (1,724,673) | \$ (1,746,268) |

In December 2018, the City Council received the results of the Fiscal Year 2017-18 financial audit. At that time, the City's Comprehensive Annual Financial Report (CAFR) showed a combined General Fund Economic Contingency and Undesignated reserve of \$24.5 million, or about 59% of annual expenditures. The following table provides a recap of the fund balance reserves from June 2018, including other programs and pension reserves, totaling \$41.3 million. The Unassigned balance is reported in the General Fund main operating fund. Other reserves are reported in the General Fund sub-funds and funds are committed for specific purposes, not for general operations.

|                                | Reserves at<br>6/30/18 |
|--------------------------------|------------------------|
| Economic Uncertainty           | 20,677,300             |
| Unassigned                     | 3,843,833              |
| Pension Reserve                | 10,734,245             |
| Pension Plan (the Old Plan)    | 263,008                |
| Disasters                      | 3,382,403              |
| Program Reserves               |                        |
| Economic Development           | 1,647,919              |
| Community Programs             | 572,100                |
| Community Development Projects | 80,000                 |
| Small Business Incentives      | 100,000                |
| <b>Total</b>                   | <b>41,300,808</b>      |

The June 2018 fund balance is expected to increase with combined Fiscal Year 2018-19 revenue and expenditure results contributing a surplus for the year. Note that a portion of the surplus is related to one-time savings from unfilled positions and certain program expenditures, and these savings will not recur as positions are filled and purchases are made. If the Fiscal Year 2019-20 budget is set at the \$43.6 million level, about \$1.0 million needs to be transferred to the Economic Uncertainty reserve at the end of Fiscal Year 2018-19 to meet the City's 50% reserve policy. The 50% reserve is calculated based on next year's General Fund operating budget. This transfer will be from the General Fund and thus will reduce the \$3.5 million surplus. This level of reserve is appropriate for Emeryville as more than 60% of the General Fund revenues are sensitive to business cycles (i.e., sales tax, hotel tax, and business tax). During an economic downturn, the City will experience contraction sooner than cities with a large property tax base, a stable revenue source.

Staff will develop strategies to balance the 2019-21 General Fund budget and make recommendations to invest one-time funds to advance the City's mission, taking into consideration funding needs for facility maintenance, programs, capital projects and unfunded liabilities. The goal is to ensure prudent spending to sustain vital city services in the long run.

#### **E. Fiscal Year 2018-19 Mid-Year Budget Review and Proposed Budget Adjustments**

The tables below summarize the proposed budget adjustments for the General Fund. General Fund revenues are expected to exceed budget by \$0.3 million due to a net increase from various revenue categories and offset by a decrease in license and permit revenues. General Fund expenditures are expected to be under budget by \$1.8 million primarily due to savings from the Community Development and Police departments. Justifications for budget adjustments are included below. Please note that the "FY 2018-19 Budget" column includes special appropriations and revenue adjustments approved by the City Council during the 2017-19 budget cycle.

Please noted that the Budget & Governance and Budget Advisory Committees reviewed the proposed budget adjustments on March 14<sup>th</sup> and recommended approval to the City Council. After the agenda packet was published for the joint meeting, Community Development updated their revenue and expenditure projections, reducing license and permit revenues by about \$0.8 million and reducing professional service expenditures by about \$0.3 million. The net reduction is about \$0.5 million. The budget adjustments presented to the Committees did not include those reductions, but staff advised the Committees about the updated projections.

| Revenues By Category        | FY 2018-19 Budget   | FY 2018-19 Proposed Adjustment | FY 2018-19 Proposed Revised Budget | Justification                                                                                                                                                                                                                                                                                                 |
|-----------------------------|---------------------|--------------------------------|------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Sales Tax                   | \$ 8,298,755        | \$ (39,555)                    | \$ 8,259,200                       | Adjust budget based on updated projection provided by the consultant.                                                                                                                                                                                                                                         |
| Transient Occupancy Tax     | 8,330,547           | 232,453                        | 8,563,000                          | Increase budget based on current revenue trend.                                                                                                                                                                                                                                                               |
| Business License Tax        | 5,912,920           | 166,080                        | 6,079,000                          | Increase budget based on expected growth.                                                                                                                                                                                                                                                                     |
| Cannabis Tax                | -                   | 137,000                        | 137,000                            | New revenue source resulted from the passage of Measure S in November 2018.                                                                                                                                                                                                                                   |
| Utility Users Tax           | 3,187,630           | (66,730)                       | 3,120,900                          | Reduce budget due to lower than expected revenue from the telecommunication and natural gas categories.                                                                                                                                                                                                       |
| Cardroom Tax                | 2,700,000           | 147,000                        | 2,847,000                          | Increase budget based on current revenue trend.                                                                                                                                                                                                                                                               |
| Licenses and Permits        | 5,429,467           | (755,621)                      | 4,673,846                          | Various license and permit revenue adjustments to Community Development (\$758,000 in revenue reduction), Police, Fire and other departments resulted in a net decrease.                                                                                                                                      |
| Property Tax                | 2,532,614           | 262,386                        | 2,795,000                          | Adjust budget due to increase in assessed value.                                                                                                                                                                                                                                                              |
| Residual Tax Increment      | 1,490,944           | (103,944)                      | 1,387,000                          | Reduce budget to reflect expected funding for the Corp Yard Remediation project. A portion of the funding for fiscal year 2019-20 will be distributed in June 2019.                                                                                                                                           |
| Franchises                  | 1,716,350           | 111,650                        | 1,828,000                          | Increase budget based on expected growth.                                                                                                                                                                                                                                                                     |
| Vehicle License Fee In Lieu | 888,066             | (17,066)                       | 871,000                            | Reduce budget to reflect expected revenue level.                                                                                                                                                                                                                                                              |
| Real Property Transfer Tax  | 1,252,451           | -                              | 1,252,451                          |                                                                                                                                                                                                                                                                                                               |
| Other Revenues              | 2,510,682           | 212,506                        | 2,723,188                          | Increase Community Service revenues by \$234,000 based on expected program activities (e.g., rental, camps, afterschool programs); reduce Police parking/traffic enforcement revenues by \$118,000 and offset by an increase in other revenue of \$75,000; increase other miscellaneous revenues by \$22,000. |
| Transfers In                | 61,500              | 26,481                         | 87,981                             | Adjust budget to reflect reimbursement from the Marina Fund for fiscal year 2017-18 PBID payment.                                                                                                                                                                                                             |
| <b>Total</b>                | <b>\$44,311,926</b> | <b>\$ 312,640</b>              | <b>\$44,624,566</b>                |                                                                                                                                                                                                                                                                                                               |

| Expenditures<br>By Department     | FY 2018-19<br>Budget | FY 2018-19<br>Proposed<br>Adjustment | FY 2018-19<br>Proposed<br>Revised<br>Budget | Justification                                                                                                                                                                                                                                                                                        |
|-----------------------------------|----------------------|--------------------------------------|---------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| City Council                      | \$ 204,165           | \$ -                                 | \$ 204,165                                  | Reduce professional services, training, and travel budget.                                                                                                                                                                                                                                           |
| City Manager                      | 585,310              | -                                    | 585,310                                     |                                                                                                                                                                                                                                                                                                      |
| City Clerk                        | 597,810              | -                                    | 597,810                                     |                                                                                                                                                                                                                                                                                                      |
| Public Information Office         | 105,000              | -                                    | 105,000                                     |                                                                                                                                                                                                                                                                                                      |
| Information Technology            | 754,533              | (16,501)                             | 738,032                                     |                                                                                                                                                                                                                                                                                                      |
| City Attorney                     | 594,487              | -                                    | 594,487                                     |                                                                                                                                                                                                                                                                                                      |
| Finance                           | 1,213,766            | -                                    | 1,213,766                                   |                                                                                                                                                                                                                                                                                                      |
| Human Resources                   | 755,880              | -                                    | 755,880                                     |                                                                                                                                                                                                                                                                                                      |
| Community<br>Development Services | 4,723,156            | (838,528)                            | 3,884,628                                   | Reduce salary and benefit budget by \$129,000 due to a vacancy; reduce professional services budget by \$674,000 based on expected development activities; reduce graffiti/code enforcement budget by \$18,000; adjust other operating expenditures with a net reduction of \$17,000.                |
| Non-Departmental<br>Operations    | 4,179,839            | (204,717)                            | 3,975,122                                   | Reduce library services budget by \$255,000 to \$120,000 as the anticipated increase from Oakland is not expected in the current fiscal year; increase PBID General benefit contribution by \$68,000 based on the TMA compensation approved by the Council; reduce administrative budget by \$6,000. |
| Police                            | 13,730,172           | (496,703)                            | 13,233,469                                  | Reduce salary and benefit budget by \$717,000 due to vacant positions and increase overtime budget by \$206,000 (\$511,000 in net savings); increase safety supply budget by \$14,000.                                                                                                               |
| Fire                              | 8,397,406            | (175,132)                            | 8,222,274                                   | Reduce unfunded pension liability budget by \$40,000 as interest savings was achieved by making the contribution early; reduce fire budget by \$135,000 based on the latest projection provided by the Alameda County Fire Department.                                                               |
| Public Works                      | 3,410,389            | (80,598)                             | 3,329,791                                   | Reduce salary and benefit budget due to unfilled positions.                                                                                                                                                                                                                                          |
| Community Services                | 3,301,579            | (10,125)                             | 3,291,454                                   | Adjustments to various program related accounts resulted in a net savings.                                                                                                                                                                                                                           |
| <b>Total</b>                      | <b>\$42,553,492</b>  | <b>\$ (1,822,304)</b>                | <b>\$40,731,188</b>                         |                                                                                                                                                                                                                                                                                                      |

The tables below summarize the proposed budget adjustments for Other Funds, reflecting \$2.3 million in revenue reduction and \$0.8 million in increase in expenditures. Impact fees are adjusted based on expected development activities, taking into consideration credits received by developers and timing of projects.

| Fund Description                     | Fiscal Year 2018-19           |                                   |             | Justification                                                                                                                                                                                                                                                                               |
|--------------------------------------|-------------------------------|-----------------------------------|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                      | Revenue Increase / (Decrease) | Expenditure Increase / (Decrease) | Net Impact  |                                                                                                                                                                                                                                                                                             |
| 202 Economic Development             | \$ (20,789)                   |                                   | \$ (20,789) | Reduce tax increment revenue due to anticipated funding distribution for the Corp Yard remediation project.                                                                                                                                                                                 |
| 203 Community Programs               |                               | \$ 3,688                          | (3,688)     | Increase community grants budget by \$14,000 and reduce communication/publication budget by \$10,000.                                                                                                                                                                                       |
| 210 Police Impound Fund - State      | 18,510                        |                                   | 18,510      | Transfer from the federal Police Impound Fund to correct a prior year coding error.                                                                                                                                                                                                         |
| 211 Police Impound Fund - Federal    |                               | 18,510                            | (18,510)    | Transfer to the state Police Impound Fund to correct a prior year coding error.                                                                                                                                                                                                             |
| 225 General Plan Maintenance         | (338,469)                     |                                   | (338,469)   | Adjust budget based on expected development activities. Some projects will be developed after fiscal year 2018-19.                                                                                                                                                                          |
| 230 Child Development                | (33,625)                      |                                   | (33,625)    | Increase grant revenue by \$9,000 and reduce parent fees by \$43,000.                                                                                                                                                                                                                       |
| 237 Park Impact Fee                  | (659,781)                     | 34,213                            | (693,994)   | Transfer \$28,000 from the Traffic Impact Fee fund to correct a prior year coding error; reduce impact fee by \$688,000 based on expected development activities and credits received by developers; transfer \$34,000 to the Traffic Impact Fee fund to correct a prior year coding error. |
| 239 Affordable Housing Impact Fee    | (401,533)                     |                                   | (401,533)   | Reduce revenue based on expected development activities and credits received by developers. Some projects will incur in future years.                                                                                                                                                       |
| 250 Traffic Impact Fee               | (737,307)                     | 27,727                            | (765,034)   | Transfer \$34,000 from the Park Impact Fee fund to correct a prior year coding error; reduce impact fee by \$772,000 based on expected development activities; transfer \$28,000 to the Park Impact Fee fund to correct a prior year coding error.                                          |
| 252 Supplemental Law Enforcement     |                               | 34,576                            | (34,576)    | Adjust personnel costs based on updated projection.                                                                                                                                                                                                                                         |
| 268 Community Development Technology | 441,893                       |                                   | 441,893     | Budget \$183,000 in technology fee in the new fund. This fund is split from the Technology Fund; Transfer \$258,000 from the Technology Fund to reflect project expenditures incurred in prior years as these expenditures will be reclassified to the new fund.                            |
| 299 Affordable Housing               | (333,156)                     |                                   | (333,156)   | Reduce tax increment revenue by \$83,000 due to anticipated funding distribution for the Corp Yard remediation project; cancel \$250,000 budgeted for the sale of properties.                                                                                                               |
| 475 General Capital                  | (207,789)                     |                                   | (207,789)   | Reduce tax increment revenue due to anticipated funding distribution for the Corp Yard remediation project.                                                                                                                                                                                 |
| 495 Marina                           |                               | 26,481                            | (26,481)    | Reimburse the General Fund for fiscal year 2017-18 PBID payment.                                                                                                                                                                                                                            |
| 660 Vehicle Replacement              |                               | 207,716                           | (207,716)   | Adjust vehicle replacement budget as prior year carryover balance is cancelled for the upcoming CIP budget development.                                                                                                                                                                     |

|                                         |                       |                   |                       |                                                                                                                                                                                                                                                     |
|-----------------------------------------|-----------------------|-------------------|-----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 670 Information Technology              |                       | 258,647           | (258,647)             | Transfer prior year Trakit related expenditures to the new fund split from the Information Technology Fund.                                                                                                                                         |
| 700 Accrued Benefits                    |                       | 60,000            | (60,000)              | Accrued leave payout is expected to be higher than budgeted due to retirements and resignations.                                                                                                                                                    |
| 715 PERS Liability Reserve              |                       | 60,000            | (60,000)              | Expected administrative and investment fees for the Section 115 Pension Trust established in June 2018.                                                                                                                                             |
| 805 Property Based Improvement District | (19,391)              | 55,180            | (74,571)              | Increase revenue and shuttle service expenditure budget by \$68,000 based on the TMA compensation approved by the City Council; reduce assessment revenue by \$87,000 based on updated projection; reduce other operating expenditures by \$13,000. |
| <b>Total</b>                            | <b>\$ (2,291,437)</b> | <b>\$ 786,738</b> | <b>\$ (3,078,175)</b> |                                                                                                                                                                                                                                                     |

## F. REVIEW BY COMMITTEES

The Budget and Governance and Budget Advisory Committees held a joint meeting on March 14, 2019 to review the General Fund Baseline Budget and the proposed budget adjustments for Fiscal Year 2018-19. The Committees approved the proposed budget adjustments and made the following comments and recommendations:

- Use tactical strategies to invest money to fund the City's pension obligations.
- Consider developing a policy for other post-employment benefits liability (retiree medical benefits) to set the funding level at 90%.
- Continue to look at new revenues and opportunities.

## G. NEXT STEPS

After receiving City Council feedback, staff will update the General Fund Baseline Budget and further incorporate program department requests for program and staff augmentations. The budget calendar for consideration of the two-year budget is as follows.

| <b><i>Date</i></b> | <b><i>Item</i></b>                                      | <b><i>Description</i></b>                           |
|--------------------|---------------------------------------------------------|-----------------------------------------------------|
| March 14, Thursday | Joint Budget & Governance/ Advisory Committees          | Review of Base Level General Fund Budget            |
| April 2, Tuesday   | Regular Council Meeting                                 | Presentation of Base Level General Fund Budget      |
| May 7, Tuesday     | Regular Council Meeting                                 | Discussion on Five-Year Capital Improvement Program |
| May 16, Thursday   | Proposed Joint Budget & Governance/ Advisory Committees | Budget Workshop                                     |
| May 21, Tuesday    | Special City Council Meeting                            | Budget Study Session/Department Presentations       |
| June 4, Tuesday    | Regular Council Meeting                                 | Budget Adoption                                     |

**PREPARED BY:** Susan Hsieh, Finance Director

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



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Christine Daniel, City Manager

**ATTACHMENTS**

- Draft Resolution – FY 18-19 Budget Amendment
- Exhibit A - FY 2018-19 General Fund Proposed Budget Adjustments
- Exhibit B - FY 2018-19 Other Funds Proposed Budget Adjustments