



City of Emeryville

CALIFORNIA

MEMORANDUM

DATE: May 21, 2019
TO: Honorable Mayor and Members of the City Council
FROM: Christine Daniel, City Manager
SUBJECT: **Presentation And Review Of The City Of Emeryville Proposed Budget For Fiscal Years 2019-20 And 2020-21**

RECOMMENDATION

Staff recommends that the City Council review and discuss the Proposed Budget for Fiscal Years 2019-20 and 2020-21.

BUDGET MESSAGE

City Mission Statement

“The City of Emeryville provides innovative and responsive services to the community to create and sustain a vibrant, livable city.”

I am pleased to present the Proposed Budget for the 2019-20 and 2020-21 Fiscal Years. This budget focuses on the City’s long-term financial health and reflects fiscal strategies to sustain services to the community for the long term. While modest revenue growth is projected throughout the forecast, expenditures are expected to outpace revenues in the long run due to increasing operating costs. Plans for Emeryville’s financial future must be mindful of volatile economic cycles, unfunded pension liabilities and the needs of the City’s growing population. This proposed budget offers a balanced approach to these challenges.

Citywide Budget

The budget establishes a financial plan for operations and capital improvements across all City funds and programs. Emeryville uses a two-year budget to provide a longer-term view of its resources and the cost of services. In each fiscal year of this two-year budget cycle, citywide operating expenditures exceed \$80 million, and together with the capital budget exceeds \$95 million. Discretionary tax and fee revenues are appropriated in the General Fund, while restricted revenues and grants have dedicated funds to provide separate accountability.

2019-21 Citywide Budget

	<u>2019-20</u>	<u>2020-21</u>
Operating Budget		
General Fund	\$ 44,744,236	\$ 46,220,081
Other Funds	<u>36,981,360</u>	<u>36,695,846</u>
	81,725,596	82,915,927
Capital Budget	<u>14,437,490</u>	<u>19,097,500</u>
	\$ 96,163,086	\$102,013,427

As part of the 2019-21 budget development, the City prepared a Five-Year Financial Projection for fiscal years 2019-20 through 2023-24. Please refer to the General Fund Long-Term Forecast section for details.

Budget Philosophy

▪ 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.*
6. *Capital improvement projects, including related maintenance costs, should be identified with community input. 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.*

This budget continues to respect the long-term fiscal philosophy of the City Council. The budget philosophy includes the major principles elaborated below. Specifically, this budget demonstrates these principles by presenting a balanced General Fund budget; updating and establishing financial policies to provide resources to sustain services and programs; setting funds aside to mitigate the impacts of rising pension costs.

Economic Climate

In his January 2019 State Budget, the Governor notes that the current economic expansion will be the longest in modern history in July 2019 with historic low unemployment rates. The State forecasts that the economy and state revenues are expected to continue to grow in the near term. However, while the economy remains healthy, growth is expected to slow down. The State also acknowledges rising risks that may impact economic growth, including a large decline in the stock market, policy divergences with the federal government, and structural issues such as an aging population and lack of housing. These risks may also impact local economy.

In Emeryville, General Fund revenues are highly dependent upon sales and hotel taxes that can fluctuate with economic cycles. The economic climate is an important driver of the financial condition of Emeryville and accordingly, the scope of services that can be delivered.

Recession factors are not built into the 2019-21 budget as the near-term economic outlook remains positive. However, many economists predict a contraction within the next two to three years. The City has strategically invested in prudent reserves to ensure the continuity of services during economic downturns and as a contingency for unexpected events. This budget retains a 50% economic uncertainty reserve to provide flexibility to sustain services during inevitable economic cycles.

Despite continued growth in major revenue categories, the long-term forecast presents fiscal challenges that will impact the City's ability to balance its operating budget going forward. Most notably, these changes include 1) the slowing of sales tax revenue growth as consumers evolve their buying habits; 2) slow growth in utilities user tax due to continued decline in telecommunication revenues and the installation of solar alternatives and increased use of renewable energy; 3) rising pension costs due to CalPERS discount rate reduction; and 4) increase in insurance costs due to claim experience and industry rate increase (e.g., general liability and worker's compensation). The City should continue to maintain fiscal discipline and identify revenue opportunities to sustain vital city services and programs in the long run.

Local Economy

Although Emeryville's population growth was negligible in 2018, there are almost 500 housing units currently under construction, and another 500+ units that will be under construction soon. These will result in significant population growth during the 2019-20 and 2020-21 Fiscal Years. With growth and low unemployment, the Emeryville economic outlook remains positive. Specifically, the State Employment Development Department reports the unemployment rate in Emeryville registered 2.8% in March 2019 compared to an annual average of 2.6% in 2018. Comparatively, Alameda County's unemployment rates registered 3.3% and 3.0%, respectively.

The City's population reached 11,994 in 2018. This population is consistent with past and anticipated future trends. During the 48 years since 1970, Emeryville's annual growth has averaged about 3.2%. The General Plan anticipates this growth, showing a 71% increase in population, from 9,727 in the "base year" of 2008 to 16,600 in the "horizon year" of 2030. The Association of Bay Area Government (ABAG) projects the Emeryville population will reach 21,000 by 2040.

A number of housing development projects are in the pipeline which will support continued population growth. Near term development includes completion of the 105-unit "Intersection" modular housing project at 3800 San Pablo Avenue, the 87-unit "Estrella Vista" affordable housing

project at 3706 San Pablo Avenue, and the 223-unit "Theater Site" and 66-unit "Parcel C2" at the Public Market. Farther out, anticipated projects include one additional Public Market project (167-unit "Shellmound Site") and the 186-unit "Nady" project at 6701 Shellmound Street. The 500-unit Sherwin Williams Mixed Use Project is anticipated to begin construction in 2019.

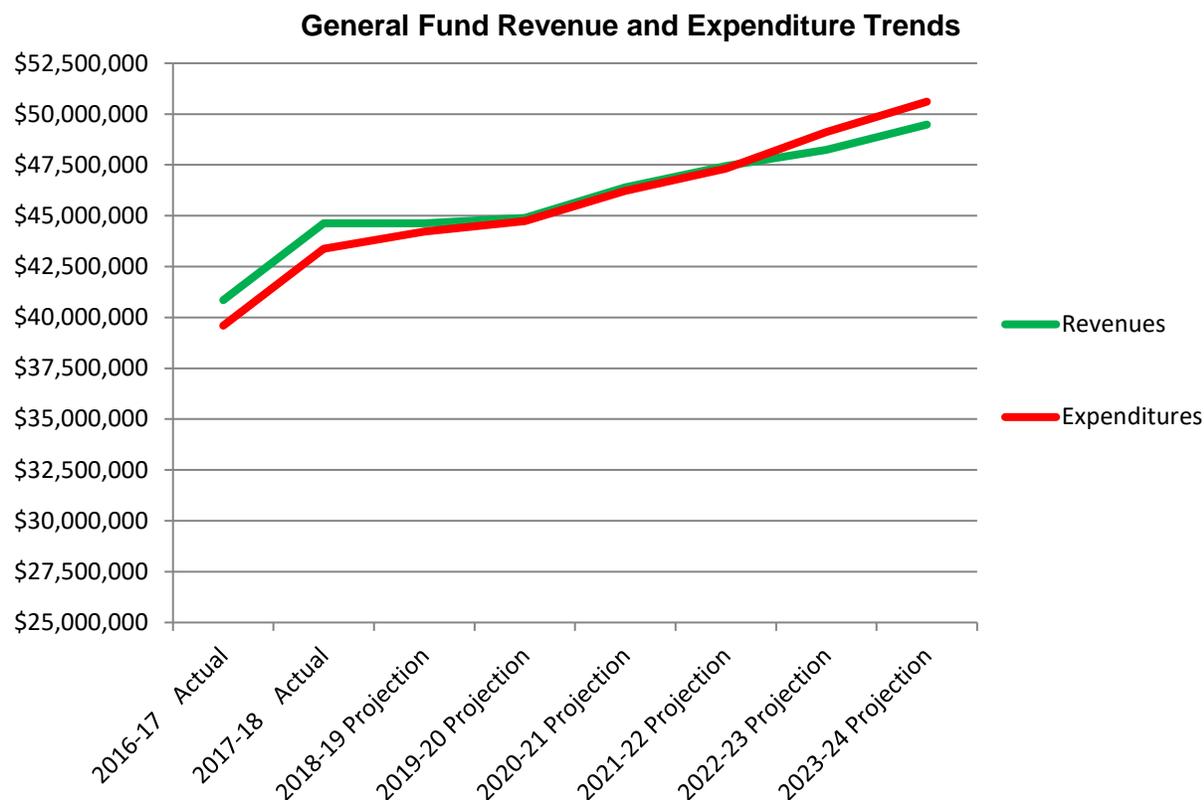
Population growth in the larger, regional East Bay (East Bay refers to the Oakland-Fremont-Hayward Metropolitan District, covering Alameda and Contra Costa Counties) is also providing a boost to the local economy, including the local real estate market. According to the U.S. Census Bureau's County population estimates, the East Bay's population grew by 10.1% from 2010 to 2018, compared to 9.7% growth in San Francisco County, 8.8% growth in Santa Clara County, and 6.2% growth statewide. We expect that the East Bay population will continue to grow in the coming years due to the abundance of high-quality jobs located in the San Francisco Bay Area, and the region's higher home affordability as compared to San Francisco and the South Bay. Hindering regional population growth may be the lack of available housing units. The deficiency of units has affected home price appreciation over the last several years, and prices are now beginning to level off after years of increases across the East Bay region. Data from the California Association of Realtors for March 2019 indicates that the median price for a single-family home in Alameda County is now \$911,000, which represents a decrease of 4.6% when compared to March 2018. This median price is 44% less expensive than San Francisco and 30% less expensive than the South Bay.

Emeryville's office market remains strong, with vacancy declining from approximately 14% in 2013 to less than 6% in early 2018. With the recent completion of the EmeryStation West/Transit Center project, vacancy temporarily increased to approximately 13%, however several tenants quickly leased space in the project with move-in dates anticipated in 2019, consequently the vacancy rate is expected to decrease again over the course of this year. Reflecting continued demand, average rents increased from approximately \$30 per square foot annually in 2014 to \$44 per square foot in 2019, according to real estate data firm CoStar. Rent growth from April 2018 to April 2019 was 4.4%.

General Fund Long-Term Forecast

Overview

The General Fund Long-Term Forecast serves as the foundation for the 2019-21 budget. It helps to guide resource allocations and to plan for the future. The projection reflects the budget-balancing strategies presented below. As depicted in the graph below, \$0.9 million and \$1.1 million deficits are projected in fiscal years 2022-23 and 2023-24. The small surpluses of \$143,000, \$175,000 and \$126,000 for fiscal years 2019-20, 2020-21, and 2021-22 result from the City's new Parking Management Program, and those funds need to be set aside to support the program in the long run.



Budget-Balancing Strategies

The Five-Year Forecast reflects strategies to build a secure financial future, with the goal to achieve a balanced 2019-21 budget and to reduce deficits in future years. These budget strategies include allocating additional tax increment revenues to the General Fund and the Public Art Fund, incorporating salary and benefit savings into the budget, modestly drawing down the pension reserve, and recovering indirect overhead costs from enterprise/special funds. A strategy is also proposed to set aside estimated surplus from the new Parking Management Program to fund costs in future years. This will ensure sufficient funding for this program in the long run.

Strategy #1 – Update Residual Tax Increment Policy

Tax Increment revenues are currently allocated to the General Fund, Capital Improvement Fund, Affordable Housing Fund, and the Economic Development Fund. The Public Art Program is in need of funding for ongoing programs and the annual Celebration of the Arts; the proposed change reflects a 2.5% allocation to this fund starting in fiscal year 2019-20. General Fund expenditures are expected to outpace revenues in the long run, and additional revenues are needed to sustain vital city services and programs. The proposed change reflects an additional 25% allocation to the General Fund starting in fiscal year 2020-21. However, no change to the General Fund allocation is proposed in fiscal year 2019-20.

Recommendations

- Revise the policy to increase the allocation to the General Fund from 25% to 50%, allocate 2.5% to the Public Art Fund, and reduce the allocation to the Capital Improvement Fund from 50% to 47.5% in fiscal year 2019-20 and to 22.5% effective fiscal year 2020-21.

The table below summarizes the current allocations, proposed allocations for fiscal year 2019-20 and proposed allocations effective July 1, 2020.

Residual Property Tax Reserve and Use Policy

	Current Allocation of Receipts	FY 19-20 Proposed Allocation of Receipts	Effective July 1, 2020 New Allocation of Receipts
General Fund 101	25.0%	25.0%	50.0%
General Capital Improvement Fund 475	50.0%	47.5%	22.5%
Affordable Housing Fund 299	20.0%	20.0%	20.0%
Public Art Fund 243	0.0%	2.5%	2.5%
Economic Development Fund 202	5.0%	5.0%	5.0%
	100%	100%	100%

The allocations to the General Fund and the Public Art Fund are estimated at \$6.1 million and \$0.7 million over a five-year period. The proposed reallocation of \$6.8 million away from the Capital Improvement Fund is not expected to impact the 2019-24 Capital Improvement Program (CIP). Commercial transfer tax generated in the 2017-19 budget cycle is expected to be \$3.6 million higher than budgeted due to several large transactions, partially offsetting the reduction. For example, the Novartis building was sold in the current fiscal year and the commercial transfer tax is expected to be about \$1.6 million. In the prior CIP, \$0.5 million was planned for commercial transfer tax in the 2019-20 fiscal year. This amount has been increased to \$1.0 million as the commercial real estate market is expected to remain healthy in the near term. With the increase in budgeted commercial transfer tax, together with funds accumulated from prior years, sufficient funds are available to support the 2019-24 CIP.

The increased allocation to the General Fund will help to support city services and programs, and the allocation to the Public Art Fund will provide funding for ongoing programs and the Annual Celebration of the Arts. It should be noted that certain operating expenses are budgeted in Non-Departmental Operations and will be distributed to City departments pending update of the Residual Tax Increment Policy.

Strategy #2 – Budget General Fund Salary and Benefit Savings

Recommendations

- Incorporate an assumption of 1% salary and benefit savings annually into the General Fund budget.

Savings are expected due to vacancies, and the annual amount may vary depending on the number of unfilled positions and the length of vacancies. The 1% annual savings are estimated to range from \$235,000 to \$270,000 annually over a five-year period. These are conservative estimates based on savings achieved in recent years. In the past, General Fund staffing savings were not incorporated into the budget but realized during the fiscal year.

Strategy #3 – Draw Down Pension Reserve

Recommendations

- Allocate \$500,000 from the Section 115 Pension Reserve to offset the increase in pension costs starting in fiscal year 2021-22, while continuing to make deposits into the fund as annual budgets allow.

The City has set aside \$10.7 million to mitigate the impacts of rising pension costs. The strategy proposes to draw down \$500,000 from the reserve starting in fiscal year 2021-22 to offset the increase in pension costs, thereby supporting the General Fund budget. Withdrawing funds from the reserve/Pension Trust is consistent with the City's policy, as the intent of the trust is to generate a reasonable level of growth and assets will eventually be used to fund the City's CalPERS pension obligations. Pension costs are expected to increase significantly due to the CalPERS discount rate reduction to 7%.

The City has demonstrated good fiscal discipline in building up its pension reserve over the years and should continue the practice of depositing annual surplus funds into the reserve as available. General Fund surplus is expected in fiscal year 2018-19 due to increase in revenue assumptions and one-time savings and cost shift. Staff recommends transferring \$2.1 million into the Pension Reserve in the current fiscal year. This contribution will help to ensure adequate funding for pension benefits in future years.

Strategy #4 – Recover Overhead Costs from Enterprise/Special Funds

City departments provide various support to enterprise/special funds to carry out program activities. Currently the General Fund recovers salary and benefit costs (direct costs) from these funds. This strategy proposes to allocate indirect costs to the Community Development Technology, Marina, and Sewer Funds. Other special funds may be identified in future budget cycles. The current indirect overhead rate is 45.76% of salaries and benefits. The recovery is estimated to range from \$215,000 to \$230,000 annually over a five-year period.

Recommendations

- Recover overhead costs from enterprise/special funds starting in fiscal year 2020-21 to ensure full cost recovery to the General Fund.

Strategy #5 – Establish a Financial Policy for Parking Management Program

There are always uncertainties regarding revenue streams when it comes to new programs. Therefore, long-range planning is crucial. A financial policy will ensure parking revenues are used to support program related expenses.

Recommendations

- Revenues generated by the Parking Management Program should be used to cover salaries and benefits, overhead costs, and other operating and capital related expenditures. When there are surpluses, funds should be set aside to support the program in future years.

Budget Proposals

New budget requests incorporated into the budget are presented in the Summary of Budget Proposals. The budget proposals include General Fund and Non-General Fund requests. These changes will ensure service delivery and operational efficiency. The table below summarizes the cost impact by fund. Net cost to the General Fund total \$471,000 and \$496,000 for fiscal years 2019-20 and 2020-21 with \$456,000 and \$474,000 attributable to the Parking Management

Program. Parking Management costs are expected to be offset by parking meter revenues. Highlights are discussed below.

Fund	2019-20 Projection	2020-21 Projection	2021-22 Projection	2022-23 Projection	2023-24 Projection
General Fund 101	471,310	496,260	517,760	540,460	566,360
Police Impound Fund - State 210	30,100	5,600	5,700	5,700	5,700
Police Impound Fund - Federal 211	39,200	-	-	-	-
Child Development Fund 230	-	-	-	-	-
Grant Fund 254	15,000	15,000	15,000	15,000	15,000
Community Development Technology Fund 268	3,250	3,270	3,280	3,290	3,300
Affordable Housing Fund 299	153,700	155,100	-	-	-
Capital Improvement Fund 475	37,100	35,800	35,000	34,300	33,500
Total	749,660	711,030	576,740	598,750	623,860

General Fund

- Add a Parking Manager and one and a half Police Services Technician positions to support the newly created Parking Management Program. Related operating and capital expenditures are also budgeted.
- Add a half time Human Resources (HR) Technician to support recruitments and HR functions. Other operating costs for the HR Department are reduced to offset the increase (no cost impact).

Child Development Fund

- Reduce the number of Lead Teacher positions from six to two; increase the number of Teacher Assistant positions from three to five and add two Part-time Teacher Substitute positions. No cost impact as the Center is currently operating at the proposed staffing level with a lower cost.

Affordable Housing Fund

- Add a Community and Economic Development Coordinator position to deliver the affordable housing bond program that was approved by the voters in June 2018 (Measure C). The City needs to develop an expenditure plan and provide the staff resources necessary to implement it. The expenditure plan needs to be developed prior to issuance of the bonds; therefore, a funding source is required to "bridge" to bond expenditures.

Capital Improvement Fund

- Freeze the vacant Administrative Analyst position.
- Budget temporary personnel services to support the South Bayfront Bridge and other capital/maintenance projects.

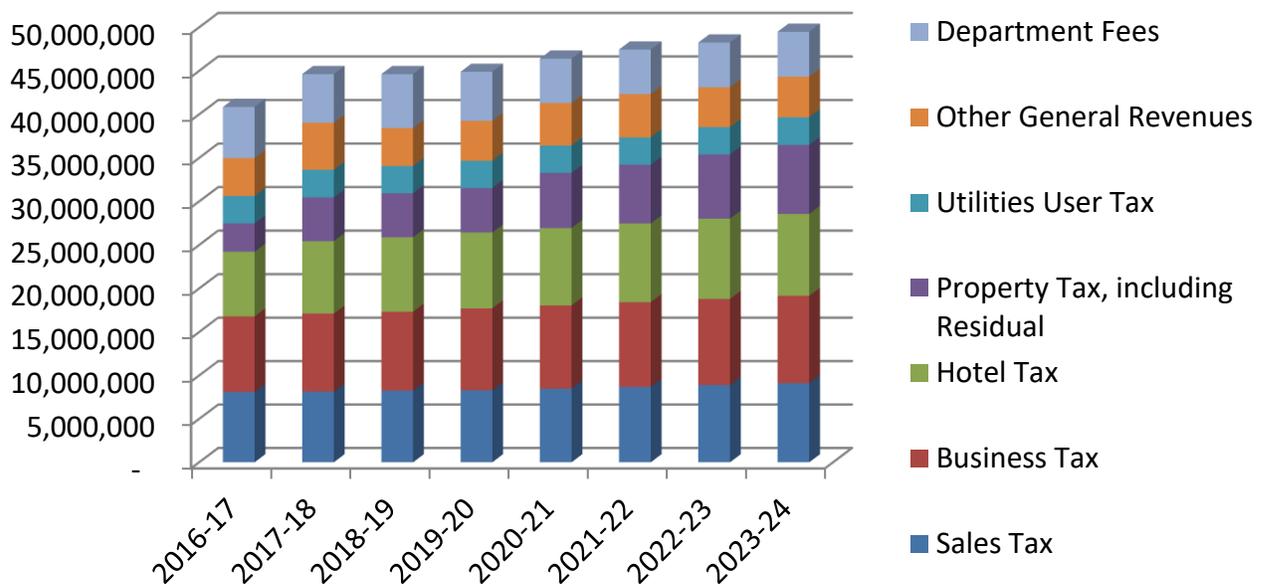
Revenue Projections

General Fund revenue projections include conservative revenue estimates developed using historical information, economic forecasts, advice from revenue consultants and local information about current events in Emeryville. The City's General Fund revenues have grown in the 2017-19 budget cycle due to new revenue sources and one-time revenues, including a hotel opened in 2016, large residential real estate sales, tax increment allocation, major development projects,

grants, and increases in fee revenues. A new cannabis tax resulted from the passage of Measure S in November 2018 and also contributed to the growth. Fiscal years 2017-18 and 2018-19 revenues totaled \$44.6 million for each of the two years. Note that 2018-19 results remain estimates and are subject to achieving tax and fee revenues.

Fiscal years 2019-20 and 2020-21 General Fund revenues are expected to reach \$44.9 million and \$46.4 million, a 4% cumulative growth from fiscal year 2018-19. The increase is primarily due to the 25% additional tax increment allocation proposed above and the new parking revenues budgeted in the Public Works and Police Departments. The parking revenues are estimated at \$1.7 million for the two budget years. The General Fund will also benefit from the new cannabis tax in the 2019-21 budget cycle, estimated at \$0.7 million. Development revenues are expected to be lower than the revenues budgeted in the 2017-19 budget cycle; major projects are not included in the 2019-21 budget because it is difficult to estimate the timing of these projects. Detailed General Fund revenue trend information is presented in the General Fund and Reserve Summary section. The chart below shows the General Fund revenue trends.

General Fund Revenue Trends



Property Taxes - Property Tax revenues are projected to increase approximately 3% per year. Emeryville’s property tax revenues are particularly variable since Alameda County does not use the Teeter Plan to allocate assessed taxes to its taxing agencies, and instead distributes actual cash receipts. Emeryville’s property tax is also limited since a significant geographic area of the city is within its redevelopment project area footprint. Increases in property assessed values within the project area are captured by the Successor Agency then returned if unspent to taxing agencies in the form of Residual Tax Increment. The City’s property taxes including vehicle license fees (backfilled by property tax) are projected to be \$3.8 million in fiscal year 2019-20, less than 10% of total General Fund revenues. Property taxes are a more stable revenue source compared to sales taxes, hotel taxes, and business taxes.

Sales Tax - The City uses a third party, MuniServices, to analyze and project local retail Sales Tax activity. Sales Tax projections are provided both *with* and *without* assumed economic cycle contraction during the budget/projection period. For the purpose of planning for sustainable General Fund service costs, the five-year General Fund projection includes the smoother, gross

sales tax revenue projection, without an assumed economic contraction, since the City holds a separate reserve to brace for inevitable economic cycles and corresponding tax revenue fluctuations. Annual growth is projected to range from 2.3% to 3%. Fiscal year 2019-20 sales tax revenues are projected at \$8.3 million.

Transient Occupancy Tax (TOT) - Hotel Tax is one of the City's primary revenue sources and is projected to grow by about 2% annually in the next five years. With the opening of a new hotel in November 2016, TOT revenue is projected to reach \$8.7 million in fiscal year 2019-20.

Business License and Card Room Taxes – Business License and Card Room Taxes are expected to grow by 1.5% and 2% annually. Fiscal year 2019-20 revenues are estimated at \$9.1 million.

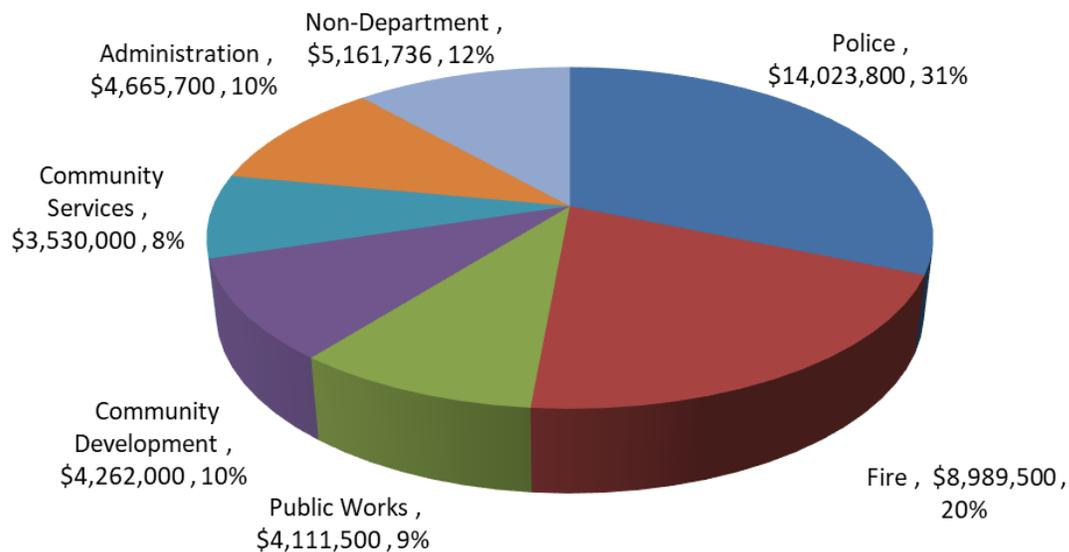
Sales tax, hotel tax and business tax revenues comprise almost 60% of the General Fund revenue. These major revenue sources are sensitive to business cycles.

Economic Cycles - MuniServices has estimated the impact of an economic contraction, with a four-year sales tax revenue risk of \$3.3 million. The total economic cycle impact to Emeryville would extrapolate when adding in Transient Occupancy Tax and Business License revenues. For the purpose of assessing revenue growth sensitivity in the five-year projection, a 1% change in total annual General Fund annual revenues is calculated at \$0.5 million, and 5% is \$2.5 million. Given the City's reliance on revenue sources that are sensitive to economic fluctuations, it is essential to maintain a sound Economic Contingency Reserve to brace for inevitable annual tax revenue fluctuations.

Expenditure Projections

The pie chart below shows the fiscal year 2019-20 General Fund expenditures by program. Police and Fire comprise more than 50% of the General Fund budget. Significant operating expenditures are discussed below.

2019-20 General Fund Expenditures by Program



Cost of Services: Salaries and Benefits

As a service organization, the City’s key cost is salary and benefits. City-wide salary and benefit costs are projected to grow from \$27.5 million in fiscal year 2019-20 to \$30.0 million in fiscal year 2023-24. The General Fund share grows from \$23.5 million to \$25.7 million during this period. Details are presented in the City-wide Organization section.

Salaries - Salaries are projected at the contract rate for employee groups with existing contracts, and these labor agreements expire in June 2019. The City is currently in negotiation with employee groups. Therefore, salary adjustment assumptions are not reflected in the projections above and budgets will be distributed to City departments pending the outcome of those negotiations. The projections include scheduled step increases.

Pension - The City contracts with the State CalPERS to administer pension benefits for its retirees. A supplemental PARS retirement plan is also provided for certain Police officers. 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 Actual	FY 18-19 Projection	FY 19-20 Projection	FY 20-21 Projection	FY 21-22 Projection	FY 22-23 Projection	FY 23-24 Projection
Pension - PERS Normal Cost	1,194,780	1,624,118	1,884,597	2,027,179	2,032,952	2,042,643	2,047,467
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	143,408	123,098	123,908	124,490	124,654	124,818
Total	3,064,614	3,988,577	4,830,967	5,301,787	5,728,642	6,051,597	6,239,285
Year-over-year Increase		30%	21%	10%	8%	6%	3%

Medical Insurance - Medical insurance premiums are projected to increase 3% per year based upon recent provider discussion regarding estimates for future years. The City currently covers 80% of medical premium increases and employees pick up the remaining 20%. Annual costs are estimated to be approximately \$2.4 million in the 2019-21 budget cycle.

Workers Compensation – The City is self-insured for Workers Compensation claims up to a self-insurance retention threshold and purchases excess insurance for larger claims. To assess the sufficiency of the internal rates paid by City programs to the City’s Worker’s Compensation Fund, staff considered five years of actual claims history by program and concluded that a 5% annual increase is necessary to ensure adequate funding for claims and premiums. Annual costs are estimated to be approximately \$1.2 million in the 2019-21 budget cycle.

Total Salaries and Benefits - With these assumptions, after filling crucial vacancies, total salary and benefits grow 3% per year on average through the 2023-24 projection period. The projected growth does not include salary adjustment assumptions.

Cost of Services - Fire Contract

The City provides fire services through a contract with the Alameda County Fire Department (ACFD). ACFD has provided five-year estimates of the cost to maintain the current staffing model of two 3-person companies. This contract is expected to reach \$8.8 million by fiscal year 2023-24 from \$7.5 million in fiscal year 2019-20. The annual increase ranges from 3.3% to 5.5% over the projection period.

Cost of Services – General Liability and Other Insurance

The City has experienced significant increases in general liability and other insurance costs such as property insurance in recent years. 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. As summarized in the table below, the growth is projected to exceed 15% every year over the projection period. Annual premium and claim expenses are expected to range from \$0.9 million to \$1.7 million.

	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24
	Actual	Projection	Projection	Projection	Projection	Projection	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 Increase		21%	24%	17%	17%	18%	18%

Cost of Services – Inter-fund Transfers

The General Fund regularly contributes between \$2.0 million and \$3.0 million per year to programs outside of the General Fund, including Community Programs, Child Development, PBID (Emergy-Go-Round), Debt Service, and the Litigation Internal Service Fund.

Other/one-time transfers to reserve and program funds vary depending on available resources. The five-year projection reflects proposed transfers to the Pension Reserve in the first three years for \$390,000, \$308,000, and \$58,000.

Child Development Program - The City’s Child Development program operates outside the General Fund. It receives fees and grants to support teacher salaries and other operating costs. The program relies upon the General Fund for additional support to close its gap between revenues and expenditures. The General Fund subsidies in fiscal years 2019-20 and 2020-21 are projected to be \$1.1 million and \$1.2 million.

Reserves

Fortunately, the City holds reserves that can sustain cash flow while budget strategies are considered and implemented for long-term stability. General Fund reserves are presented in the General Fund and Reserve Summary section.

Pension Reserve - Emeryville has set aside a \$10.7 million pension reserve/Section 115 Trust that is available to invest or to buy down its CalPERS liability to reduce and stabilize future pension funding requirements. The reserve can mitigate but not eliminate long-term pension cost increases.

Economic Contingency Reserve - The City's budget policy targets a 50% economic contingency reserve; the Reserve currently holds \$21.0 million. The balance is expected to increase to \$22.4 million at the end of fiscal year 2018-19 with a projected \$1.4 million transfer from the General Fund. This balance represents 50% of the proposed fiscal year 2019-20 General Fund operating expenditures. This reserve is intended to brace for revenue fluctuations that are inevitable during natural economic cycles.

Unassigned Balance - With projected deficits in fiscal years 2022-23 and 2023-24, the \$3.8 million unassigned balance will drop to \$1.7 million if budget solutions are not identified.

Capital Improvement Program

The City has prepared a \$99.8 million Five-year Capital Improvement Program (CIP) with 84 projects, supported by a variety of funding sources, for the 2019-24 capital planning period. The CIP is a long-term planning tool that guides the design, construction and maintenance of the City's infrastructure. The proposed funding plan includes appropriations of \$14.4 million in fiscal year 2019-20 and \$19.1 million in fiscal year 2020-21. As presented in the CIP Project List, some projects are only partially funded pending potential housing bond funds and other future funding sources. The unfunded amount totaled \$55.0 million with \$0.8 million in fiscal year 2019-20 and \$8.0 million in fiscal year 2020-21.

The table below summarizes proposed CIP projects by category.

CIP Summary by Category						
Category	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24	Total
Community Facilities	\$ 8,580,527	\$ 1,750,000	\$ 525,000	\$ 125,000	\$ 125,000	\$ 11,105,527
Facilities Maintenance	680,516	400,000	250,000	250,000	250,000	1,830,516
Housing	678,300	7,075,000	6,420,000	150,000	22,650,000	36,973,300
Information Technology	150,000	205,000	205,000	250,000	150,000	960,000
Marina	-	250,000	-	-	-	250,000
Pedestrian/Bicycle	761,000	395,000	460,000	1,034,000	284,000	2,934,000
Public Art	155,000	-	-	-	-	155,000
Sanitary Sewer	300,000	300,000	300,000	300,000	300,000	1,500,000
Streetscape System	535,000	143,000	13,700,000	58,000	250,000	14,686,000
Transportation	1,925,147	8,249,500	2,436,436	12,289,000	990,000	25,890,083
Vehicles	672,000	330,000	166,000	1,239,000	1,066,000	3,473,000
Total	\$14,437,490	\$19,097,500	\$24,462,436	\$15,695,000	\$26,065,000	\$ 99,757,426

The proposed 2019-24 CIP continues to advance the goals and priorities established by the City Council in recent years. The City has successfully completed a number of projects or are currently underway. Highlights are separately described in the City's Capital Improvement Program. The South Bayfront Bridge is a high priority project. The recent construction bids received by the City indicate that the overall project cost will exceed the original budget estimate by almost \$9.0 million. Fortunately, the City set aside a \$7.5 million capital reserve that can be used to bridge this gap. The remainder of the gap is proposed to be covered by the fund balance in the general Capital Improvement Fund. This will significantly reduce the remaining fund balance in the Capital Improvement Fund.

City Council Goals and Priorities

The City Council is committed to providing high quality services for the entire Emeryville community. The City Council has identified the following as its major Goals and Priorities. The 2019-21 budget prioritizes the resources that are required to support these major projects.

1. South Bayfront Bridge
2. Housing Bond Expenditure Plan
 - a. Corp Yard Remediation
3. Active Transportation Safety
 - a. Multi-Modal Connectivity
 - b. 40th Street Redesign
4. Art Center
5. Disaster Preparedness
6. Parking Management
7. Rail Safety / Quiet Zones
8. Revenue Generating Ballot Measures for 2020; Other Revenue Opportunities Within the Next Two-Year Budget Cycle
9. Library Services
10. Cultivate a Healthy Organization; Be a Model Employer and Build Capacity for Excellent Service
11. Build a Code Enforcement Program

Conclusion

Emeryville has a long history of prudent fiscal policies and management that enabled the City to weather the 2008 recession, as well as the 2012 dissolution of redevelopment. The 2019-21 Budget continues this tradition, focusing on fiscal sustainability to ensure the City can continue to deliver quality services to the community long into the future. The proposed Budget is a plan to accomplish the goals and priorities of the City Council, within existing resources and in accordance with the City's budget philosophy. The proposed Budget also reflects the work of the entire City organization, including among others: patrol officers, maintenance workers, accountants, engineers, recreation leaders, and planners. The people of the organization bring to life the projects, programs and services enjoyed by the Emeryville community and this Budget illustrates their service and commitment.

I want to thank Finance Director Susan Hsieh and Finance Department staff Peggy Xu, Eileen Birkeland, Desiri Vink, Sandy Caires and Qiana James for all of their hard work preparing this budget and the associated financial documents. I also want to thank the directors of every City Department who carefully prepared their department budgets, being mindful of resource constraints while also introducing creativity and innovation into their departments' work.

Staff looks forward to working with the City Council to sustain a fiscally healthy City, while continuing to deliver excellent services to Emeryville residents, business owners, workers and visitors.

PREPARED BY: Susan Hsieh, Finance Director

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



Christine Daniel, City Manager

ATTACHMENTS

- 2019-21 Proposed Budget