Date of Release: July 1, 2015

CITY MANAGER BUDGET MESSAGE:
FINAL FY 2015-17 TWO-YEAR BIENNIAL GENERAL FUND (GF) OPERATING BUDGET

To the Honorable Mayor and Members of the San Pablo City Council:

Please accept on behalf of myself and the City's Budget Team, the Final Two-Year Biennial GF Operating Budget (FINAL BUDGET) for Fiscal Year 2015-17. Pursuant to San Pablo Municipal Code Section 3.04.230, the FINAL BUDGET document enclosed herein provides detailed financial information about the policies, expenditures and revenues forecasted for the City's upcoming two-year operational period beginning July 1, 2015 and ending June 30, 2017.

BUDGET & FISCAL ACCOMPLISHMENTS

Previously, the City Council adopted the Biennial Operating Budget for the period FY 2013-15 which will conclude this June 30, 2015. Since January 2015, the new budget cycle was initiated by the City Manager, and internal budget planning has been completed by City Departments. The new FINAL BUDGET for the FY 2015-17 period was prepared, presented and submitted for formal consideration and adopted by the City Council in June 2015. During this budget process, there were several noteworthy fiscal reform achievements that are highlighted, as follows:

- **GF Designated Reserves Allocation Growth**

For the projected year-end FY 2014-15 period, the City is completing a successful and financially productive year. All City Departments are on-target to spend nearly all of their respective allocated budgets through June 30, 2015. However, the City's GF Operating Budget through its audit process has realized a substantial budget surplus at the end of the previous FY 2012/13 and FY 2013/14 periods, respectively. These year-end budget surpluses consists of cost savings related to staffing attrition, cost savings from FTE retirements, unforeseen revenue increases from one-time federal and state grants, increased sales tax revenue, and other external revenue sources combined.

Since January 2014, following Fiscal Resiliency Policies adopted in October 2013, the City Council has maintained the fiscal practice of allocating year-end audited fund balance to new GF Designated Reserves. Much of this year-end audited fund balance is being allocated as one-time budget allocations by the City Council during the course of the fiscal operating period. In February 2015, the City Council approved a new allocation of $12.5M in year-end audited fund balance for special designated future purposes. Some large allocations approved by the City Council from GF Designated Reserves during FY 2014/15 included: $400,000 to fund City-wide annual vehicle fleet replacement, a $500,000 annual SPEDC operating subsidy,

$400,000 to fund EMS Squad Operating Agreement, and $5M designated under Capital Project Reserves for ongoing economic development and project planning for the following projects implemented during FY 2014/15 which include: proposed County Library Relocation Project, Circle S/Plaza San Pablo Master Plan, and City-wide Municipal Broadband Fiber Optic Project.

Additionally, the ongoing and continued practice of using year-end audited fund balance for future allocations (which totaled $12.5M in FY 2014/15) was also instrumental in achieving favorable bond ratings from rating agencies for restructuring the Local Successor Agency's (LSA)/RDA debt obligations incurred by the former redevelopment agency in September 2014, and assisted with acquiring terms for a recent $18.5M issuance of new Lease Revenue Bonds (Series 2015A and 2015B) by the City, and its Joint Powers Financing Authority in March 2015.

However, with increased operating expenses planned for the FY 2015-17 and beyond, there are risks associated with adding new financial cost obligations to the General Fund Operating Budget if and when year-end audited fund balance diminishes in future years.

- **Restructured $56.5M in RDA/LSA Debt Obligations**

The City and LSA re-issued $56.5M in new bonds initiated in June 2014 and completed in September 2014 which resulted in a new AA- bond rating by S&P and a total restructuring of the City's future annual debt service obligations. This was a significant re-structuring of the former redevelopment agency debt obligations and resulted in approximately $2M annually in debt service cost savings for the City's GF Operating Budget. Upon entering the new FY 2015-16 period, these annual cost savings combined with other budget cost strategies will enable the City to fund other pre-identified financial contingencies on the horizon, and to focus on strategic economic objectives to develop economic diversification in accordance with the core values and needs of the community at-large to meet those financial challenges.

- **RDA Dissolution Statute Compliance (June 2014)**

During FY 2014/15, the City and Local Successor Agency (LSA), successfully completed all redevelopment (RDA) dissolution requirements which was achieved with adoption by the State of CA Department of Finance (DOF) of the City/LSA's Long Range Property Management Plan (LRPMP) in June 2014. Once approved, the City continues to complete ongoing economic development projects on former RDA assets, and explore and effectively invest in attainment of other external sources of alternative project funding, including the U.S. Treasury's New Market Tax Credit (NMTC) Financing Program implemented for key public projects since FY 2013/14.

Additionally, an adopted LRPMP enables the LSA to dispose of former RDA assets within the redevelopment project area with all sale proceeds to the State of CA. Plaza San Pablo, a former RDA asset, is the City/LSA's main economic development site. Despite the site being an asset of the State of CA, the City can realize other economic benefits such as: new job creation, sales tax generation, and other business development which results in economic spillover/synergy within the City.

U.S. Treasury New Market Tax Credit Financing Program

Since FY 2013/14, the City and SPEDC have leveraged General Fund (GF) designated reserves funding from year-end fund balance, along with state or other grants obtained by the City, to construct new public facility projects, such as the San Pablo Community Center completed in June 2014, and the new Rumrill BNSF Sports Field Project slated for completion in August 2015. These two (2) projects involved a partnership with the San Pablo Economic Development Corporation (SPEDC), using its non-profit (501c 3) designation, to serve as a conduit for NMTC financing and enabled the City to enlarge its project funding to build these significant new public facilities in San Pablo. NMTC allocations to the City and SPEDC to date have totaled approximately $5.3M in NMTC investor investment for the development of the City's newest public facility projects.

GRADUAL OPTIMISM, BUT RISKS REMAIN

After reviewing these fiscal reform achievements, the City Manager informed the City Council during his Annual Report for CY 2014 that he expected FY 2015-17 to be a period focused on **"gradual optimism, with a note of caution, as risks do remain."** This theme will continue for FY 2015-17 once more as recommended by the City Manager.

Fiscal Resiliency Reserve Policy Reforms

The City's fiscal outlook needs to be one focused on the implementation of guiding principles of "fiscal resiliency" to ensure that enough resources are safely earmarked for dealing with future financial contingencies. This means that the City **DOES NOT** maintain a windfall of revenue to spend year-to-year in the GF Operating Budget. There continues to emerge the ability to use one-time GF Designated Reserve Funding Allocations for CIP and economic development projects. But, based on fiscal reform achievements, the City's fiscal situation is **very cautionary** for the next FY 2015-17 GF Operating Budget cycle.

There must be continued resolve by City Council and City staff to monitor and ensure that modest revenue increases or year-end audited fund balance is carefully managed as the City's budget stabilizes, with revenues and expenses in **close alignment** each fiscal year period.

FINANCIAL FOCUS FOR FY 2015-17

- **Proper fiscal management, internal controls, and maintenance of City Departmental expenditure levels while balancing and clearly defining City Council priorities must be determined to plan accordingly, and to maintain a balance with competing demands for limited resources until economic development projects or strategies are in place.**

(continued)

- **Keeping to a clear and strong financial plan and maintaining the City's 50% General Fund Catastrophic Reserve Policy, using all year-end surplus cost savings (or year-end fund balance) to build up the City's GF Designated Reserves, and careful deployment of these one-time resources to meet unforeseen contingencies and economic development projects undertaken by the City is the continued focus of this current City Administration in making prudent and sound financial recommendations to the City Council.**

- **In October 2013, the City Council adopted new *Fiscal Resiliency Reserve Policy* to ensure long-term economic viability while working on long-term economic development projects (i.e. Circle S project site; DMC site, Municipal Broadband Fiber Optic Project, etc.). These future projects using increased one-time GF Designated Reserves from year-end cost savings (or audited fund balance) and must be managed very prudently to generate investment and return on the City's economic development projects.**

KEY COST FACTORS FOR FY 2015-17 BUDGET PERIOD

Casino San Pablo Revenue

In accordance with the MSA between the City and Lytton Tribe, the City has realized incremental growth each year from Casino San Pablo based on actuals received to the City. Currently, Casino San Pablo revenue represents nearly 60% of all General Fund Operating Revenue for FY 2015-17. For the period ending June 30, 2014, the single audit from the City's Auditor indicated a total of $17.9M received from Casino San Pablo. For the period ending June 30, 2015, it is anticipated that Casino revenue may increase to $18.3M based on current cash flow actuals to date (unaudited). A fiscally conservative revenue projection of $18M will be included in the FY 2015/17 GF Operating Budget in case of any future revenue fluctuations. This is a prudent approach to ensure the City's major revenue source is conservatively projected to cover all associated expenses in the Preliminary DRAFT FY 2015-17 GF Operating Budget.

FY 2015-17 Capital Improvement Budget Funds (Tier 1): $1.2M

The City Manager is recommending a total of $1.2M from the City's GF Operating Budget to fund CIP program expenditures (Tier I CIP projects), such as annual city-wide street pavement maintenance and other designated public projects as approved by City Council. Additionally, during FY 2014/15, following appointment of the City's new City Engineer, a $2.9M CIP cost reconciliation internal audit was completed using previously approved CIP budget allocations. Thus, the $2.9M cost reconciliation combined with the new GF transfer of $1.2M will provide ample project funds for expenditure as part of the FY 2015-17 CIP Budget to coincide with adoption of the FY 2015-17 Two-Year GF Operating Budget. Modifications will likely follow during the Mid-Year Budget Review to adjust CIP funding due to changes in project planning or grant resources received during the next FY 2015-16 period.

Salary & Benefit Costs Increased

For FY 2015/17 GF Operating Budget contains a 2.0% COLA adjustment for all Miscellaneous and Public Safety employees in accordance with adopted 3-year Employee Labor MOUs, effective July 1, 2015. A 2.0% COLA is also included for FY 2016/17 in accordance with the Employee Labor MOUs, effective July 1, 2016. Total Salary and Benefit Costs budgeted for FY 2015/16 is $21.7M (including proposed additional FTE as well as the additional cost of the Smoothing payment required by CalPERS) which is essentially flat when compared with the current year budget. This was accomplished by closely evaluating annual actual expenses relative to budgeted expenses and more closely aligning the up-front budget with actual experience, since labor increases associated with the Employee Labor MOUs are now known.

No (0) FTE Layoffs for 5 consecutive years

The City Council has not been faced with the decision to proceed with any FTE layoffs to balance the City's operating budget since FY 2010/11. This represents five (5) consecutive FY periods without FTE layoffs as a budget balancing cost saving measure. There are no recommended FTE Layoffs by the City Manager for FY 2015-17.

Sales Tax Measure K and New EMS Operating Agreement with Contra Costa County Fire Protection District (ConFire)

In June 2014, San Pablo voters passed a new Sales Tax Measure K which provided a quarter (1/4) cent sales tax increase in perpetuity to fund emergency medical services at County Fire Station #70 in San Pablo. The City projects that Measure K Sales Tax proceeds will generate approximately $600,000 annually. This will be allocated as new revenue to the City's GF Operating Budget but earmarked to offset the $1.2M new EMS Operating Agreement with ConFire to fund and operate a new EMS Squad Unit at County Fire Station #70. This $1.2M operating expense will be subsidized by the City's GF Operating Budget escalating after three years to $1.5M beginning in FY 2018/19.

Economic Development & New Asset Management

Beginning in FY 2014/15, the City Manager's Office has a functioning Economic Development Program which consists of increased program expenditures related to ongoing project planning, consultant costs, construction management, and other asset management costs. For the upcoming FY 2015-17 period, these costs are anticipated to increase by $416,201 from FY 2014/15 projected actual levels (unaudited). This increased funding allocation is a direct result of ongoing project management of key economic development projects, including but not limited to: private development and public improvements for Plaza San Pablo, City-wide RDA asset disposition, and asset acquisition from the City's successful real estate negotiations with the West Contra Costa Health Care District (WCCHCD). The City acquired certain WCCHCD assets for $7.5M using Lease Revenue Taxable Bonds issued by the City, and its Joint Powers Financing Authority in February 2015 during FY 2014/15. As part of this transaction, the City will be including operating and maintenance costs for asset management for two (2) medical office buildings and a 2.5 acre parking lot adjacent to Casino San Pablo acquired from WCCHCD. These new operating and maintenance costs will be substantially offset by existing lease revenue from tenants in these medical office buildings. Lease revenue is projected at $300,000 – 350,000 annually from asset acquisition, and will assist in paying a portion of the City's debt service obligations for the $18.5M Lease Revenue Bonds issuance in March 2015 which totals approximately $915,000 annually.

Future New Market Tax Credit (NMTC) Financing Projects

The City and the SPEDC will continue to work in partnership to help attain additional NMTC funding from project investors for future projects where applicable. For the upcoming NMTC cycle in 2015-17, if approved by the U.S. Congress, there are two major projects of significance under private-public partnership development scenarios being developed for consideration which include:

- El Portal Language Institute and Park Reconstruction Project (New)
- City Administration Building and Medical Use Facility for Lot 5 of Plaza San Pablo (New)

ECONOMIC RISKS FOR FY 2015-17 BUDGET PERIOD

FY 2015-17 GF Operating Budget Outlook

For FY 2015-17 the City will not be faced with a significant budget deficit or shortfall. With the improved financial outlook over the last two year budget cycle, the City Manager is proposing a FINAL BUDGET that is balanced with a narrow margin which holds the line on major spending, avoids the need for significant spending cuts, and allows for investment in staffing resources and GF Designated Reserves in a cautionary manner due to increases in operational requirements, and management of new public facilities (i.e. San Pablo Community Center, Rumrill Sports Field Project). Additionally, with increased revenue of $1,304,184 from FY 2013/14 from the implementation of the Measure Q (MQ) Sales Tax Measure passed by the local voters in June 2012, there will be additional GF budget allocation tied to MQ expenditure programs to augment GF budget spending. Additionally, with the implementation of succession planning due to key retirements during the last 2012-2014 period, the City has nominal increases in staffing allocation where internal service delivery, efficiencies, and cost impacts can be managed, with no service level impacts to the community.

City's Major Economic Risk

Despite our good progress, significant work toward achieving a more desirable level of budget stability, with a focus on securing necessary amendments to the City's Municipal Services Agreement (MSA) with the Lytton Tribe and Casino San Pablo is **critically needed.** This means altering the MSA to protect the City from financial insolvency from the potential Class III gaming required to sustain the Lytton Casino if other Mega Casinos projects become viable in the East Bay region. Several attempts have been made by the City Manager to address this issue with Lytton Tribal representatives. There has been no response from the Lytton Tribe despite submittal of revised MSA language by City officials. This remains a critical objective for the City to ensure our long term financial outlook.

New GF Revenue Sources Needed

The City must continue to implement and support economic diversification strategies which aim at generating new General Fund revenue sources to the City's budget, such as supporting parking expansion for the Lytton Casino to enhance Class II gaming operations which maximize revenue to the City's General Fund. Additionally, a potential future acquisition of the DMC site for economic development with mixed use development uses which would complement the community and enhance the economic vitality of Casino San Pablo. The WCCHCD approved an asset disposition plan in May 2015 for the DMC site and the City maintains a "right of first refusal" to potentially acquire this site in the future. If acquired, the DMC site could be the City's major in-fill economic development site to create new revenue sources and job creation for the City's GF Budget.

Until new revenue sources are achieved, proper fiscal management, internal controls, new economic revenue, and expenditure discipline for ongoing City Departmental expenditure levels while balancing City Council priorities must be achieved during the next FY 2015-17 budget cycle. With competing demands for limited resources, economic development strategies must be in place and exercised to generate new revenue opportunities at all times.

City Manager Fiscal Risk Warnings

Fiscal deficits could quickly return the City if the following risks are not properly acknowledged and addressed over the next FY 2015-17 budget period, as follows:

1) **City must create new economic development:** Projects that will yield new economic revenue diversification, support ongoing new in-fill development, and result in job creation to increase revenues to the City's GF Operating Budget annually must be supported.

2) **Avoid Frivolous GF Spending:** The pace of economic recovery is still uncertain: Limited revenue gains must not be dampened by **frivolous spending** as revenues remain considerably unpredictable. Expenses cannot exceed revenues; it's basic math.

3) **Rising health care costs are rampant:** As the state implements health care reform, budgetary spending in this area must be monitored to combat the impacts of health care inflation. If this inflation rises faster than expected, annual General Fund spending may be impacted in the short-term to deal with these employee cost factors, including ongoing implementation of the new Affordable Health Care Act on employers.

4) **Rising retiree health care costs unsustainable**: Health care costs are projected to rise by nearly 40 – 60% for some public agencies over the next one to three years. We

must continue to monitor this growing unsustainable liability. Retirement perks must be eliminated – the City can no longer afford these post-retirement benefits.

5) **Investment in Deferred Maintenance:** Critical infrastructure and City asset replacement (i.e. fleet vehicles, equipment, and computers) will need to be monitored and replacement policies updated and formalized for City Departments as this allows for the delivery of key public services.

6) **Preservation of Casino Revenue:** Class II gaming must be preserved and combatting economic threats (i.e. Mega Casinos) to the City's **single most important revenue source** to the City's General Fund must be undertaken to avoid a Class III enterprise for Casino San Pablo unless an MSA amendment can be obtained to keep current revenue levels constant to avoid reductions by 50-60% of current projected revenue levels.

7) **CalPERS Method 5 Smoothing Policy**: Ongoing implementation and development of a contingency funding plan for addressing liabilities associated with the CalPERS Method 5 Smoothing Policy is needed, through designating future year-end audited fund balance to deal with these actuarial cost impacts projected during 2015-2020 period.

8) **Practicable Labor Partnerships:** Annual salary and labor costs must be practical and modest increases achieved within the City's revenue capabilities. Labor partnerships are essential as 3-year adopted Employee Labor MOUs are set to expire on June 30, 2017.

MEETING THE FISCAL CHALLENGES

Budget Strategies for FY 2015-17

During the previous FY 2013-15 budget cycle, the City's Budget Team eliminated potential risks which would have resulted in operating deficits. As the City developed the DRAFT BUDGET for FY 2015-17, the City's Budget Team again turned to a combination of strategies, including looking to a multi-year approach to our solving financial issues. This included the following:

(1) Adopting a multi-year operational budget;
(2) Reducing operational costs compared to FY 2013-15 base-year levels;
(3) Projecting realistic revenues to meet projected expenditures;
(4) Implementation of recent Measure Q and K Sales Tax Measures;
(5) Funneling "one-time funds" following year-end audit to create positive balances in the GF Designated Reserves for economic development

Major Cost Factors for FY 2015-17

Please note that the FINAL BUDGET for FY 2015-17 is built upon a series of assumptions related to stabilizing operating costs through efficiencies, consolidation of budget expense accounts, cost savings from succession planning, and front-loading health care and pension costs. There are major cost factors contained in the FINAL BUDGET to be continually monitored. Increases in Year 1 (FY 2015/16) of the FINAL BUDGET include the following:

- **Employee Labor Costs:** Effective July 1, 2015, a 2% cost-of-living increase (COLA) for miscellaneous and safety employees will be implemented. This represents a $275,000 increase from the final year of multi-year employee labor groups' MOU's which expired on June 30, 2014. All negotiated cost factors and/or savings realized from collective bargaining with employee labor groups are incorporated into the FY 2015-17 period.

- **PERS Method 5 Smoothing Policy Impacts:** As previously advised during FY 2013-15, a cost of $1,213,510 is budgeted in FY 2015-16 to address the new mortality rate assumptions, lowered investment rates of return, etc. under the CalPERS adopted Method 5 Smoothing Policy adopted in 2013 which increases to $1.5M in FY 2016-17.

- **New Staffing Increase:** An increase of approximately $400,000 in new FTE allocation for FY 2015-16, including $204,000 in Community Services and $107,000 in Public Works to meet operational needs is recommended as a Supplemental Budget request from the City Manager.

- **Workers' Compensation Costs:** An increase of $490,000 in the City's premium for continued participation in the self-insured municipal risk pool authority due to a rebate period ending is a significant cost factor for FY 2015-16.

- **Unemployment Insurance (UI) Costs:** An increase of approximately $33,000 to reflect a 6.6% increase in the City's UI costs are included for FY 2015-16.

- **Professional Services Costs:** An increase of approximately $972,000 in professional services costs are anticipated across City Departments to cover expenses related to economic development, ConFire EMS consulting ($42,000); Full Service Community Schools, Team for Youth, and additional program offerings at the Community Center and through Measure Q ($280,000); lease/rental payments for the Community Center ($85,000) and Rumrill Sports Park ($60,000); on-call contractual services in Public Works ($357,000), and other planned contingencies for FY 2015-17.

- **Community Affairs:** An increase of $1,200,000 to cover the cost of the EMS Operating Agreement with CCCFPD at County Fire Station #70. This annual operational cost is partially offset by an increase of approximately $650,000 from the Measure K Sales Tax initiative for FY 2015-16.

- **Special Department Expenses**: An increase of $916,000 in debt service obligations for the 2015A and 2015B Lease Revenue Bonds issued in March 2015 used to purchase WCCHCD properties, fund the County Library Relocation Project, and proposed Municipal Fiber-Optic Broadband Project in FY 2015/16.

- **Network Expenditures**: An increase of approximately $40,000 to address critical computer infrastructure needs in FY 2015-16. This keep vital City services functioning internally.

- **Utilities**: An increase of $175,660 in annual loan payments for the Solar Project (this increased cost should be offset by savings in electric energy bills); approximately $68,000 annually due to EBMUD rate increases; and approximately $50,000 for the higher price of gasoline.

- **Program Costs and Supplies:** An increase of $75,000 for median improvements to address drought concerns for FY 2015-16.

- **No FTE Layoffs:** For FY 2015-16, there are no anticipated employee FTE layoffs planned as a cost savings or budget reduction strategy.

Major Revenue Factors for FY 2015-17

For FY 2015-17, in preparing for General Fund revenue forecasts, realistically conservative revenue projections were used to determine Total Revenues for budget balancing purposes. Many of these revenue projections were factored into the DRAFT BUDGET, as follows:

- **Casino Revenue:** A total of $18 million budgeted for FY 2015-16, a slight decrease is budgeted from the projected $18.3 million projected for end of FY 2014-15, based on actuals of $17,951,434 received in FY 2013-14.

- **Property Tax Revenue**: No adjustments from prior years. However, a nominal increase of approximately $11,000 (3.6%) is anticipated for FY 2015-16 in assessed valuation.

- **Sales Tax Revenue:** A projected increase of $20,000 over FY 2014-15 projected amounts is anticipated due to Measure Q Sales Tax Measure generation for FY 2015-17. The Measure K Sales Tax revenue is budgeted at $650,000, an increase of $270,000 over anticipated receipts in the current fiscal year (the first Measure K receipts arrived in January 2015). An overall projected increase of $31,142 (1.5%) is budgeted for other Sales Tax receipts due to increases in retail and internet sales for FY 2015-17.

- **Franchise Tax Revenue:** A projected decrease of approximately $50,000 (7.0%) is budgeted in FY 2015-16 due to lowered projected actuals for the period ending FY 2014-15. Franchise Tax revenue is generally associated with the City's Refuse Franchise Fee with Republic Services, Inc.

- **Gas Tax Revenue (State of CA Apportionment):** A projected decrease of approximately $34,500 (6.3%) from FY 2014 actuals is conservatively budgeted in FY 2015-17 due to the lower cost of fuel in the State of California

FINAL ADOPTED BUDGET RECOMMENDATIONS – BUDGET SUMMARY

The following table represents the preliminary DRAFT BUDGET summary (expense vs. revenue) for the period FY 2013-15, as follows:

FINAL ADOPTED FY 2015-17 TWO YEAR GF BUDGET SUMMARY:

	FY 2015-16	FY 2016-17
TOTAL OPERATING REVENUES:	$35.6M	$35.6M
TOTAL OPERATING EXPENDITURES:		
➢ Total Salary & Benefits	$20.1M	$21.0M
➢ Total Service and Supplies	$12.0M	$12.1M
➢ PERS Smoothing (2015-2020)	$ 1.2M	$ 1.5M
➢ CIP Budget Transfer	$ 1.2M	$ 1.0M
TOTAL EXPENDITURES:	($34.5M)	($35.6M)
NET BUDGET TOTAL:	$1.1M	$0.0M
CITY MANAGER SUPPLEMENTAL BUDGET RECOMMENDATIONS:		
1. Additional FTE Staffing	$0.4M	- -
2. GF Designated Reserves:		
➢ Future PERS Smoothing Increases	$0.3M	- -
➢ Park Improvements	$0.4M	- -
SUMMARY TOTAL(S):	$0.0M	$0.0M

BUDGET SERVICES AD-HOC SUBCOMMITTEE REVIEW

On May 28, 2015, the City Manager and City's Budget Team reviewed the proposed expenditure plans for City Departments and projected revenues with the Budget Ad-Hoc

SubCommittee (Mayor Chao Rothberg/Vice-Mayor Kinney). Following discussion of the preliminary DRAFT BUDGET, the Budget Ad-Hoc SubCommittee reviewed the City Manager's proposed recommendations for the City Council's Public Budget Hearing scheduled on June 1, 2015, and proceeded following the public budget hearing, with budget adoption on June 15, 2015 by the City Council.

City Manager Supplemental Policy Recommendation #1:

- **Additional FTE Staffing Resources = $400,000**

The City Manager recommends a supplemental budget request of approximately $400,000 for Additional FTE allocation of (+10.35 FTE Net Increase) to meet City operational requirements in the following City Departments:

City Departments:	FTE Increase:
• City Attorney	+0.20 FTE
• City Manager	(0.50 FTE)
• Community Services	+8.55 FTE
• Development Services	+0.60 FTE
• Finance	+0.00 FTE
• I.T.	+0.00 FTE
• Police	+0.50 FTE
• Public Works	+1.00 FTE
Total Net FTE Increase:	+10.35 FTE

A majority of net FTE Increases are budget neutral with the exception of a significant resource allocation of part-time staffing needed in Community Services for facilities operation and maintenance of the San Pablo Community Center and new Rumrill Sports Field Project upon completion in August 2015.

City Manager Supplemental Policy Recommendation #2:

- **GF Designated Reserve Allocation / PERS Method 5 Smoothing = $300,000**
- **GF Designated Reserve Allocation / Park Improvements = $400,000**

The City Manager recommends a supplemental budget policy request of $700,000 in the remaining proposed budget surplus be earmarked to augment existing GF Designated Reserve Allocations for the following:

- **PERS Method 5 Smoothing Policy Increases (2015-2020)**

CalPERS (PERS) adopted a Method 5-year smoothing policy in 2013 which will impact all PERS contract agencies for a 5-year period beginning in FY 2015/16 through FY 2019/2020. This is to counteract gains and losses experienced during the Great Recession period in the PERS Investment Fund and to avoid substantial costs increases to PERS Contribution Rates for contract agencies such as the City of San Pablo. It is estimated that Method 5 Smoothing Policy increase will have a cumulative impact of $6.5M during the next 5 year period on the City's GF Budget. In January 2014, the City Council already earmarked $1,000,000 for this contingency and an additional $300,000 is being recommended by the City Manager for this ongoing expense over the next 5-year period. Additional fund balance will need to be earmarked following completion of subsequent year-end audits as a funding priority since the GF Budget Revenues will not be sufficient to handle this long-term financial liability.

- **Park Improvements**

In May 2015, the City Council received a presentation from First 5 of West Contra Costa which received a grant from Kaiser Permanente to provide a community supported evaluation of the City's existing park facilities. The data shared with the City will be used to provide one-time CIP funding to be allocated during FY 2015-17 period for capital repairs and long term capital improvements to all City parks. Additionally, the Rumrill Sports Park Field Project will require a projected project subsidy of up to $100,000 from the GF to complete the project by August 2015. Since the NMTC Financing for the project cannot be modified, the City must cover additional construction expenses associated with the revised environmental clean-up and abatement costs associated with the revised Remediation Action Workplan (RAW) required by State Department of Toxics Substances Control. In January 2014, the City Council already earmarked $500,000 for this contingency and allocated approximately $63,000 during FY 2014/15 for an EBMUD water meter required for the project. This remaining balance will be sufficient to cover the anticipated Rumrill Sports Field Project shortfall of up to $100,000, with additional GF Designated Reserve allocation being recommended by the City Manager to supplant these allocations during FY 2014/15 as approved by the City Council. Additional one-time funding and allocation for future park improvements identified by First 5 of West Contra Costa Audit during the upcoming FY 2015-17 period will be needed to address park facilities deficiencies and capital improvements.

ANALYSIS OF UNDESIGNATED FUND BALANCE (RESERVES)

During FY 2008/09, the City Council established a formal financial policy of maintaining a reserve of at least 50 percent of the General Fund's annual operating expenditures as undesignated fund balance. This balance is to be used to provide for temporary financing for unanticipated extraordinary needs of an emergency nature; for example, costs related to a natural disaster or calamity, economic recession, or an unexpected liability created by Federal or State legislative action.

FISCAL RESILIENCY RESERVE POLICY

On October 21, 2013, in order to protect the fiscal solvency of the City and to achieve greater fiscal resiliency, the City Council took the important step of establishing the *Fiscal Resiliency*

Reserve Policy (Resolution 2013-159). This new policy adopted by City Council Resolution established several new reserves and funded each at the recommended level in accordance with a pre-designated formula along with audited financial figures provided by the Comprehensive Annual Financial Report (CAFR).

FISCAL RESERVES FOR FY 2015-17 PERIOD:

	FY 2015/16	FY 2016/17
• Catastrophic Reserve (50%)	$17,088,368	$17,428,752
• Budget Stabilization Reserve (5%)	$ 1,708,837	$ 1,742,875
• City Manager's Contingency Account(1%)	$ 341,767	$ 348,575

PROPOSED GF DESIGNATED RESERVES FOR FY 2015-16:

• General Fund Stabilization Reserves	$ 3,955,297*
• Future Capital Project Reserves	$ 8,550,000*
Projected Total:	**$ 12,505,297***

**Projected GF Designated Reserve & Capital Project Reserve for CC adoption 06/15/15.*

CONCLUSION AND ACKNOWLEDGEMENTS

The City Manager wishes to thank the City's Budget Team and City employees who participated in the budget planning process for FY 2015-17. Without their support, the City Manager would not be able to present a "balanced budget" for review and consideration to the City Council for the FY 2015-17 period.

I would like to acknowledge and thank the City's Executive Leadership Group for their tremendous efforts in helping to develop efficient budget spending plans to keep in-line with previous base year levels, and for the time and effort they spent in analyzing fiscal impacts and options to keep projected expenses in-line with projected revenue levels.

As reiterated, a more permanent, long-term financial strategy to avoid the constant cycle of adding increased operating costs resulting in constant downsizing of the organization must be achieved. There needs to be constant monitoring of efficient spending (versus the reluctance to make frivolous spending) in the future due to the fiscal risk warnings outlined by the City Manager in this Budget Message. Additionally, the City Manager recommends following the financial guiding principles as we continue to exercise **"fiscal resiliency"** in the coming two-year period, as follows:

- **Continue service delivery efficiencies using new emerging technologies to minimize annual operating costs; and**
- **Promote revenue growth opportunities; and**

- **Spend within Allocated Budget Levels; and**
- **Target one-time funding investments to meet economic development goals**

ACKNOWLEGEMENTS

I also want to thank a few key staff members who significantly assisted in the preparation and timely delivery of this budget, namely Assistant City Manager Reina J. Schwartz, Finance Director Kelly Sessions, and Assistants to the City Manager Charles Ching and Tina Gallegos. My thanks also extend to all City employee support staff for their reflections and focus on the "bigger budget picture".

Finally, I also want to thank the City Council for their support of this City Administration. My staff and I greatly appreciated the opportunity to work with the City Council and public on the biennial budget adoption process and to implement the Final Adopted Budget for the 2015-17 fiscal year period.

Respectfully submitted:

Matt Rodriguez, City Manager

Date: 7-1-15

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