

Staff responses to CABTF questions submitted prior to Session 2  
Community Advisory Budget Task Force  
November 3, 2020

	QUESTION	STAFF RESPONSE
1. JG	Does the staff use these two spreadsheets provided yesterday to inform and propose budget allocations across departments? If so, how?	<p>Budget development for 2020-21 began in late 2018. Staff was initially apprised of the financial course of the 2020-21 budget from salary and benefit estimates coming from the Finance Department's Position Control procedure and departments' requests for the balance of the proposed budget line-items. The process does not include a predetermined budget "allocation across departments." Predetermining the share of budget among departments can be featured in a program budget process—undertaken by few cities. San Leandro's line-item approach primarily demands detailed analysis of proposed incremental changes in line items. Spreadsheets distributed with the October 28, 2020 agenda—the 2020-21 General Fund Revenue Budget and the 2020-21 General Fund Expenditure Budget—show revenue and expenditure budget line-item amounts as amended for 2020-21 by the City Council on June 15, 2020. The initial 2020-21 budget was approved by the City Council as the second-year of the biennial budget approved on June 3, 2019.</p> <p>These line item amounts are the final step in the budget development process for 2020-21.</p>
2. JG	My initial request for spreadsheets was related to the tables/schedules included in the 2019-2021 budget document, as I am trying to facilitate (among other things) trend and ratio analysis. Will we have access to those spreadsheets?	Worksheets will be provided as soon as possible.
3. JG	More generally, the pre-read presents a number of "avg per year" growth rates (e.g., PDF page 26 of 65). Have these been computed as CAGRs (compound annual growth rates) or has staff used a different method? If the latter, please describe how it is calculated.	A number of revenue and expenditure slides in Understanding the City Budget presentation included trend information showing "avg per year" (average per year). This calculation simply reflects the percent change in the budgeted 2005-06 and 2020-21 numbers, divided by the 15-year period. Four-fiscal years were selected to provide historical context. The Great Recession and the COVID pandemic are two of the most impactful events affecting city budgets since Proposition 13. The effects of both are shown in the 2005-06 to 2020-21 fiscal year range.
4. JG	Does staff compare the dollar growth rates for revenue and	The underlying structure of any budget recognizes that virtually all data points are estimates. The 2020-21 budget began with staff

	<p>expenses to Bay Area inflation rate data from the Bureau of Labor statistics for the Bay Area? If so, what sources/data series are the staff using?</p>	<p>initially estimating revenues and expenditures in late 2018. Having an understanding of leading indicators impacting the local economy are essential. Generally for any city budget, projected economic growth, projected housing valuations and sales, projected consumer confidence and retail activity, projected jobs and unemployment, and similar indicators and indexes prove most useful.</p> <p>The City uses a variety of other information sources. For example, tax consultants for sales tax, the County Assessor for property tax, CalPERS for pension and health care costs, the League of California Cities financial consultant, Michael Coleman, and Management Partners for long-term financial forecasting.</p> <p>Change in the Consumer Price Index as reported by the Bureau of Labor Statistics is a handy analytical tool. To the extent change in CPI is used, generally applicable is All Urban Consumers or the Urban Wage Earners and Clerical Workers (Consumer Price Index – CPI) Current Series for San Francisco-Oakland-Hayward.</p>
5. JG	<p>PDF 15 of 65 presents information on "General Fund expenditures-comparative cities." What other cities has staff considered for comparison purposes? What data source does staff use to prepare this comparison? Is this information readily available for other cities in California?</p>	<p>The budget comparisons presented in Understanding the City Budget focus on San Leandro, along with Hayward, Alameda, and Union City. The cities were selected only from Alameda County. Other criteria included size, proximity to one another, and comparable levels of municipal functions and services.</p> <p>Fairly comparing cities' operations and budgets is a risky exercise. Rigorous analysis is required to understand the operations, characteristics, and environments for assessment. Comparing budgets is equaling challenging.</p> <p>The General Fund amounts used in the comparisons required adjustments to fairly permit comparison. Hayward does not offer recreation services—residents live in Hayward Area Recreation District's jurisdiction—and revenues from the voter-approved Transaction tax are recorded in a separate revenue fund—not the General Fund. Union City leisure services are funded in a special revolving fund—not the General Fund. Funds from a voter-approved Lighting and Landscaping District are also recorded outside the General Fund. Alameda's General Fund conforms to San Leandro's General Fund structure. General Fund totals were adjusted in Hayward and Union City for comparison purposes. These cities' adopted budgets are available on each city's website. In addition to analyzing the three additional budgets, SL Finance staff contacted finance personnel in each city to confirm some information.</p>
6. JG	<p>PDF 17 of 65 states: "City share 12% of each \$1 collected—lowest rate in County." What is the root cause for the low <u>share</u>? Is this an outcome that the City of San Leandro can influence? If so, how? Finally, what are the shares for other cities in the County?</p>	<p>After Proposition 13 was adopted (in 1978), additional legislation was adopted to provide formulas for how property taxes were to be distributed to government entities. Cities, counties, schools, and special districts were to be granted their share of the tax dollars based on the average taxes they levied in the three years prior to Proposition 13.</p>

		<p>Through the 1950's, 1960's, and the 1970's up to 1977-78, the San Leandro City Council nominally <u>lowered</u> the City's property tax rate annually.</p> <p>As a result of Proposition 13, statewide property tax revenues were cut by 60%. San Leandro received a low average of 12% of all taxes collected in the community prior to the ballot measure; under AB-8 it continued receiving 12%.</p> <p>Provisions of AB-8, approved by the Legislature, can be amended by the Legislature. For 40-years, AB-8 has remained unchanged—for any agency receiving a higher percent, another would receive a lower percent.</p> <p>The share of property tax revenue distributed to various cities is summarized below:</p> <ul style="list-style-type: none"> <li>• San Leandro—12%</li> <li>• Alameda—26%</li> <li>• Hayward—16%</li> <li>• Union City—16%</li> </ul>
7. JG	PDF 21 of 65, what is assumed/determined root cause of the stated negative 3% annual growth rate in transfer tax revenue?	<p>The sensitivity of property transfer tax revenue relates to it applying to all residential, commercial, and industrial property sales. Except in significantly volatile residential sales period, revenue from residential sales remains fairly stable quarter to quarter. By contrast, unusually high value commercial and industrial parcels infrequently transfer. When a sale is undertaken, the resulting revenue to the City can be extraordinary—but one-time.</p> <p>Fiscal year 2005-06 reflects unexpected sales levels from the housing market boom leading up to the Great Recession. Revenue of \$6,400,000 in 2005-06 has never been matched in any subsequent year since—this revenue outlier results in the stated negative trend.</p>
8. JG	PDF 24 of 65, what is driving the 7% growth rate? Is it more business, more registrations, higher fees per business, etc.?	<p>Measure OO, approved by the City voters in November 2016, modified the business license tax rates applied to parking lots (primarily long-term parking for Oakland International Airport) and warehouse and distribution businesses. Each was previously charged low flat fee plus either a per-space or a per-employee fee. This change in the tax rates increased business licenses revenue by \$1,200,000.</p>
9. JG	PDF 26 of 65, the growth rate of salaries and benefits appears to outpace Bay Area inflation over the time period presented. Does staff agree with that initial impression? If not, please explain why not. If so, please explain the underlying driver for the excess rate of increase? The same	<p>The trend presented for Salaries and Benefits simply shows total budgeted salaries and benefits from 2005-06 in intervals through 2020-21. No year by year detailed analysis was undertaken.</p> <p>During this period, employees received negotiated salary and benefit adjustments, benefit costs were transferred from the City to some employees, retirement benefits and City employer contribution for new Safety employees were reduced, and the number of General Fund staff was reduce by 8 employees.</p> <p>The overall benefit package has been reduced over this period.</p>

	question(s) apply for PDF 27 of 65.	The presentation reports a 65% increase in salaries and benefits from 2005-06 to 2020-21. The change in CPI over the same period amounts to a 50% increase. The drivers of this change are many and complex. However, the “underlying driver” is the unprecedented increases in employer contributions rates levied on the City by CalPERS.
10. JG	PDF 30 of 65, what is the current balance of each reserve account? It is currently unclear to me whether/how the table at the bottom of this page describes what reserves are available for "emergencies, fiscal stabilization, or Rainy Day."	<p>As reported in Understanding the City Budget, the City maintains two General Fund reserve accounts. The reserve amounts reported in the presentation reflect anticipated balances at the end of 2020-21. On June 30, 2020, the available balances total:</p> <ul style="list-style-type: none"> <li>• Major Emergencies \$5,000,000</li> <li>• Economic Uncertainty \$32,255,000</li> </ul> <p>As amended, the 2020-21 General Fund budget totals revenues exceeded by expenditures by \$8,500,000. At year end, any existing imbalance will be offset by an appropriation from the Economic Uncertainty reserve.</p>
11. JG	PDF 33 of 65, what are the primary elements in which we see revenue shortfall? For example, is the fall in sales tax revenue the primary source of the variance? (This appears to be partially addressed at PDF 38 of 65, but note my comments there.)	Long term financial forecasts portray future General Fund deficits—both long-term (pre-COVID) and from fiscal impacts from COVID-19. As previously discussed, the COVID-19 impacts result from lower sales tax, property transfer tax, and transient occupancy tax. The look and shape of the COVID-19 recovery is to be determined. Pre-COVID forecasts merely reflect the anticipated trend of revenues falling short of offsetting expenditure levels needed for maintaining current services.
12. JG	PDF 35 of 65, who has the legal obligation to pay the employees' pension benefit, is it CalPERS or the City? If CalPERS was unable to meet its obligation, does CalPERS' obligation legally fall upon the City? Is the level of benefit to be paid mandated by CalPERS based on tenure, or is that negotiated with bargaining units at each contract negotiation? Finally, I seem to recall that the pension obligations with respect to ALCo might be handled a bit differently. If so, please provide some insight.	<p>The City contracts with CalPERS for retirement benefits for retired members and health care benefits for both active and eligible retired members. These obligations entail significant contractually determined annual payments by the City to CalPERS. Once a member is retired, payments of monthly retirement benefits are the obligation of CalPERS. This obligation solely rests with CalPERS.</p> <p>CalPERS offers a limited number of levels of benefit to new hires, primarily determined by Safety or Miscellaneous classifications. Benefit level are generally not the subject of bargaining unit MOU negotiations.</p> <p>Alameda County Fire Department personnel are not City employees. However, ACFD employee benefits, including CalPERS costs, are a contractual element of the costs paid by the City for fire services.</p>
13. JG	PDF 36 of 65, what proportion of \$15 million in streets and roadway work is performed by	The \$15,000,000 in major capital project street work is anticipated to be completed by outside contractors. A small portion of the project work for design and bidding could be done by employees of the Engineering and Transportation Department.

	employees, and what proportion is outsourced?	In addition to this Capital Improvement Program streets and roadways work, the Public Works Department includes a Streets Division (\$8,104,000—28 employees) in the General Fund operating budget. This division consists of sections responsible for city street trees, graffiti removal, parking lot maintenance, street sweeping, and traffic signals and signs. The pavement management section in Public Works is responsible for street medians and roadway surface failures ranging from pothole patching, crack-sealing, and some reconstruction.
14. JG	PDF38 of 65, while percentages are useful, presenting the absolute dollar decrease is likely more helpful for understanding impact, e.g., a 10% decrease in anticipated sales tax probably matters more than a 50% decrease in the occupancy tax.	<p>The 2020-21 City budget was amended to account for estimated revenue losses from COVID-19. In summary the changes included:</p> <ul style="list-style-type: none"> <li>• Sales tax (-10%)—\$5,600,000</li> <li>• Property transfer tax (-25%)—\$1,200,000</li> <li>• Transient occupancy tax (-50)—\$500,000</li> <li>• Department charges (11%)—\$300,000</li> </ul>
15. JG	PDF 40 of 65, in what areas does the City of San Leandro self-insure? Is there a separate legal entity that holds those monies for "safe-keeping?" Are anticipated obligations currently underfunded or overfunded?	<p>The City retains the Self-Insurance Fund for accounting of all insurance related costs coming from City operations. Insurance premiums charged to each operating department provide required revenue to the fund. Fund expenditures include those arising from workers compensation, general liability, unemployment, and property coverage.</p> <p>The City is a member of the Local Agency Workers Compensation Excess Joint Powers Authority (LAWCX). The City's self-insured retention limit for workers compensation is \$250,000 per claim. Coverage includes limits of \$45 million for excess workers compensation, \$5 million for employer's liability, and a statutory excess layer of \$50 million. The City is also a member of the California Joint Powers Risk Management Authority (CJPRMA). The City's is self-insured for the first \$500,000 for liability losses. General liability coverage is an aggregate of \$40 million. Periodic actuarial analysis is used to set the Fund reserve levels. The Self-Insurance projected Fund Balance as of June 30, 2020 is estimated at \$2,505,000. The funds are held by the City, not a separate "legal entity."</p>

