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Staff Report for the 2014-15 Budget Amendment Reflecting Projected Budget Adjustments to the City's General Fund, Special Revenue Funds, Enterprise Funds and Internal Service Funds Budget

SUMMARY AND RECOMMENDATION

Staff recommends that the City Council review and accept the 2014-15 Budget Amendment reflecting projected budget adjustments, and adopt a resolution approving the 2014-15 Budget Amendment to the General Fund, Special Revenue Funds, Enterprise Funds, and Internal Service Funds Budget.

BACKGROUND

On June 3, 2013, the City Council adopted the City's first biennial budget for 2013-14 and 2014-15. The two-year budget reflects the vision of the City Council and supports the goals re-established by the Council on February 1, 2014. The two-year budget process requires an update to the second fiscal year 2014-15 based on the changes that have occurred over the last 12 months. Revenue estimates change and City service needs transform as the City Council goals and objectives are realized. Enhancements to the General Fund, Special Revenue Funds, and Enterprise Funds Budget implements the vision and direction for the broad range of services that meet the needs of the community in accordance with City Council policy. The 2014-15 budget amendment supports and adheres to the City Council's established resource allocation plan.

The City's quarter cent sales tax Measure Z was approved by over 60% of the voters in the November 2010 election. Measure Z's passage provides vital funding for continued maintenance of City services and is set to expire on March 31, 2018. Measure Z revenues are controlled locally for local services such as library after-school and summer programs, neighborhood patrol officers and fire prevention services. The Measure Z Oversight Committee convened on July 25, 2013 and provided the annual report to the Community and City Council on September 16, 2013. The annual report confirmed that the Measure Z revenues were accounted for and properly spent in accordance with the voter's wishes. (Refer to Exhibit 5.)

DISCUSSION

Budget Considerations

The 2014-15 budget is the plan and the resource allocation that guides and assures implementation of the City Council policy and priorities. Several considerations have arisen over the last few months regarding additional resources and resource use that are now taken into account when proposing budget adjustments for 2014-15:

- GASB 67 and 68: In 2013-14 the Government Accounting Standards Board (GASB) Statement Number 67 revises existing guidance for the financial reports of most pension plans and in 2014-15 GASB Statement Number 68 will be implemented related to new pension reporting requirements. These requirements:
 - Recognize long-term obligation as liabilities on the balance sheet for the first time,
 - Measure annual pension benefit costs more comprehensively and comparably, and
 - Enhance pension plans disclosures and required supplementary information.
- Alameda County Fire Department Services: The 2014-15 adopted budget includes \$19,593,100 for contract fire services (a 3% increase from the 2013-14 adopted budget) and \$600,000 for the Other Post Employment Benefit (OPEB) set-aside. Alameda County proposed:
 - \$19,877,543 in contract service costs (the majority of the increase is associated with salaries and benefits) for 2014-15, and
 - \$720,000 for an engine replacement and part-time Deputy Fire Marshal SUV replacement.The proposed additional costs from Alameda County are not included in the 2014-15 projected budget.
- Pension Changes: In April 2014, CalPERS announced a significant increase in the City of San Leandro's pension cost of \$1,150,000 per year. This increase represents almost \$13,000 per safety employee cost, commencing in 2015-16. The City's safety plan pension cost was \$2,700,000 in 2012-13. Despite the League of California Cities and CalPERS effort to clarify cause and effect, assumptions are unclear that have led to San Leandro receiving the largest incremental liability of any city in the State. The City has requested the CalPERS Board defer its May 21, 2014 authorization to allow time to understand the new methodology and impact on the 2015-16 budget. In the interim, staff has included the increased annual cost on the General Fund 7 year forecast (refer to Exhibit 3). This added cost continues a troubling trend of CalPERS' modified assumptions leading to increased costs during the past several years.
- PERS/OPEB Unfunded Liabilities are greater than \$100 million. The rising liability is partially offset by the City employees' new agreements in 2013, which require all to share in pension and healthcare costs.
- Economic Trends: the current economic trends throughout the Bay Area show improvement in the housing market, auto and retail sales, and the job market, at rates exceeding the original projections. Consequently, the amended 2014-15 budget reflects increases in sales tax revenues and property tax revenues.

The 2014-15 budget amendment incorporates estimated revenues and planned expenditures for all funds. The following attached Exhibits provide summary data for all funds and for the General Fund:

- Exhibit 1 reflects the changes for All Funds revenues, resources and expenditures from the 2014-15 adopted budget to the 2014-15 projected budget
- Exhibit 2 reflects the changes for the General Fund revenues, resources and expenditures from the 2014-15 adopted budget to the 2014-15 projected budget
- Exhibit 3 is the graphical presentation of the General Fund 7 Year Forecast for Fiscal Years 2013-14 through 2019-20
- Exhibit 4 is the graphical presentation of the General Fund Reserves
- Exhibit 5 is the Measure Z Oversight Committee Annual Report of Measure Z Sales Tax June

30, 2013

The following discussion focuses on variances from the revenue and expenditure plans and allocations contemplated in the 2014-15 projected budget update.

General Fund

The General Fund finances the operations of the City that have no special or dedicated revenue sources and pays for basic municipal services. The projected 2014-15 General Fund expenditures total \$86.0 million and expected revenues of \$84.3 million, including \$1.7 million contributed from fund balance to finance the projected expenditures. The largest added expenditure is the San Leandro Hospital subsidy in the amount of \$1 million. Highlights based on the 2014-15 projected changes to the operating budget are set forth below.

General Fund Expenditures (refer to Exhibit 2)

- **Salaries and Benefits:** The salaries and benefits in the projected 2014-15 budget include the following updates:
 - Salary increases for both safety and miscellaneous based on the agreed-upon Memoranda of Understanding (MOU)
 - Employees sharing in the pension costs based on the MOU
 - The total 2014-15 projected increase is \$254,000 or a 0.6% increase
- **Services and Supplies:** The projected 2014-15 services and supplies include the following updates:
 - Local preference policy for \$100,000
 - Emergency preparedness for \$100,000
 - Next generation implementation in the General Fund for \$400,000
 - Legal services increased to reflect the agreement for \$136,500
 - Building permit costs associated with increased volume for \$200,000
 - Parks maintenance increase for \$51,000
 - The total 2014-15 projected increase is \$987,500, or a 13.5% increase.
- **Internal Service Fund Allocation:** The Equipment Maintenance Fund needs to replace equipment earlier than originally planned (patrol vehicle and towable man lift) which are the primary additional costs allocated to the General Fund totaling \$150,000.
- **Other:** The projected 2014-15 other increased expenditures include \$1,000,000 to San Leandro Hospital and \$450,000 for community investment, totaling \$1,450,000 for 2014-15.
- **Transfers:** The transfers from the General Fund projected for 2014-15 increased by \$400,000 due to one-time needs of \$50,000 for the Business Improvement District (BID) and \$350,000 for Capital Improvement Projects (Casa Peralta improvements and Marina Boulevard streetscape pre-design).

General Fund Revenue (refer to Exhibit 2)

- **Property Tax:** The assessed property values furnished in March 2014 by the Alameda County Tax Assessor's Office estimate an increase of 4.6% (excluding Kaiser exempt property); the projected 2014-15 property tax revenues reflect an increase of 2%, or \$363,000. A 2015 budget adjustment may be warranted pending the final tax roll report in August, 2014.
- **Sales Tax:** The updated sales tax revenues furnished by the City's consultant on February 21, 2014 reflect an increase of 6.7%, or \$1.88 million, based on better than anticipated sales in the City; therefore, the projected 2014-15 sales tax revenues include the optimistic projections of 6.7% increase.
- **Franchise Fees:** The year-to-date actual revenues annualized for cable and Oro Loma exceed the current year's budget; therefore, included are the estimated increases totaling \$195,000 in the projected 2014-15 franchise fee revenues.
- **Utility Users' Tax (UUT):** The UUT for electricity and gas actuals for the current year are under budget which may reflect a combination of conserving energy and alternative energy usage; therefore, the projected 2014-15 UUT shows a decrease of \$119,000, or a 1.1% decline.
- **Licenses & Permits:** The building permit revenue is projected to increase in 2014-15 by \$200,000 in order to cover advanced and long-term planning costs.

The remaining taxes and other revenues for 2014-15 are not expected to change.

Special Revenue Funds (refer to Exhibit 1)

Special Revenue Funds include revenues that have either restrictions on their use or special reporting requirements such as gas tax revenues from the State. The City has 19 special revenue funds, with 12 of these funds reflecting projected changes to the 2014-15 revenues totaling a decrease of \$98,807. The 2014-15 projected expenditures estimate an increase of \$104,330. The Special Revenue funds highlighted for consideration are the Gas Tax Funds, and the Affordable Housing Asset Fund.

- **Gas Tax Funds:** The State gas tax revenues based on the January 2014 State report shows a \$380,700 decrease in revenues associated with the Board of Equalization projections of gas consumption and gas rates. In response to this decrease in revenues, the Gas Tax Fund decreased the annual overlay and street sealing work for 2014-15. In May, 2014, the State will issue an updated gas tax revenue report, and if significantly different, it shall be presented to Council for consideration.
- **Affordable Housing Asset Fund:** This fund accounts for assets received from affordable housing activities and programs from the former Redevelopment Agency Low/Moderate Housing fund and acts as its Successor Agency. The 2014-15 projected revenues are increasing by \$187,000 with 93% related to reimbursements and principal loan repayments.

Enterprise & Internal Service Funds (refer to Exhibit 1)

Four Enterprise Funds make up the City's business type operations. The Water Pollution Control Plant Fund, Environmental Services Fund, Shoreline Enterprise Fund, and the Storm Water Fund are City municipal operations designed to fully recover costs through user fees. The overall 2014-15 projected revenues increased by \$81,915 and the projected expenditures increased by \$342,915 with the majority of these changes found in the Water Pollution Control Plant Fund. Although the projected changes to the Shoreline Fund are minimal, and the deficit continues to diminish, it is important to note that the fund has long-term liabilities of over \$9 million in loans (\$7.1 million General Fund advance and \$1.9 million Cal-Boat loan).

There are also four Internal Service Funds that operate as business activities, exclusively supporting the City's internal operations. The Facilities Maintenance Fund, Information Technology Fund, Self Insurance Fund, and Equipment Maintenance Fund are the City's Internal Service Funds. The overall 2014-15 projected revenues increased by \$307,648 and the projected expenditures increased by \$256,947 with the majority of these changes found in the Equipment Maintenance Fund.

- **Water Pollution Control Plant:** The 2014-15 projected revenues increased by less than 1%, or \$88,910, primarily due to increased interest income. Expenditures increased by 3.7%, or \$353,758, essentially due to increased salaries and benefits.
- **Equipment Maintenance Fund:** The 2014-15 revenues and expenditures increased by \$224,332, or 8%, primarily associated with the early replacement of two vehicles: one patrol vehicle and a towable man lift.

Budget Adjustments

The 2014-15 projected budget adjustments fund summary is reflected on Attachment 1 of the corresponding resolution. Likewise, the projected 2014-15 detail adjustments by fund and by division are summarized on Attachment 2 of the resolution.

Current Agency Policies

- The City Council approves all adjustments to the City's revenue and expenditure appropriations.

Previous Actions

- City Council adopted the 2013-15 Biennial Budget on June 3, 2013.

Fiscal Impacts

The total reduction in the 2014-15 projected ending fund balance for the General Fund amounts to \$1,725,000. The projected fund balance at the end of 2014-15 is \$12,678,000. (See Exhibit 4 for a nine year history).

ATTACHMENTS

- Exhibit 1 Summary of 2014-15 Revenues and Resources by Category for all Funds and Summary of 2014-15 Operating Expenditures by Fund Type
- Exhibit 2 General Fund Summary of Revenues and Expenditures and General Fund Statement of Fund Balances
- Exhibit 3 is the graphical presentation of the General Fund 7 Year Forecast for Fiscal Years 2013-14 through 2019-20
- Exhibit 4 is the graphical presentation of the General Fund Reserves
- Exhibit 5 is the Measure Z Oversight Committee Annual Report of Measure Z Sales Tax June 30, 2013

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