File #: 13-571, **Version:** 1

Staff Report for 2012-13 Year-End General Fund Balance

SUMMARY AND RECOMMENDATIONS

Staff recommends that the City Council designate the unbudgeted year-end General Fund surplus of $3.2 million to the economic contingency reserve to mitigate the impact of unforeseen events in the City.

BACKGROUND

The City Council reviewed the 2012-13 year-end report on October 21, 2013. Unaudited results indicate a $3.2 million increase to the General Fund undesignated fund balance as compared to the original estimate of a $1.0 million shortfall. Economic conditions indicate recovery despite 8.9% statewide unemployment. Statewide median single family home price is $441,000, an increase of 28% over the prior year. San Leandro's fiscal conditions have improved over original projections, the City's unemployment rate is 7.4% and the median home price is $400,000, a 32% increase over the prior year according to Trulia.com. Lower mortgage rates have spurred investments in housing. Lower interest rates have also boosted purchases of large ticket items, such as automobiles and home improvements, which boosted sales tax by 11% in the City. Better than expected sales tax, property tax and other revenue were the primary drivers in producing a positive budget balance.

Expenses grew at a slower pace than revenue in the prior year, which resulted in a surplus of $3.2 million.

City Council Reserve Guideline

The City Council has identified an amount equivalent to 20 percent of the General Fund expenditure budget for an economic contingency reserve. This reserve is intended to provide a cushion against fluctuations in revenue and expenses.

One Time Resources Policy

The City's policy is to avoid the use of one-time revenues to fund ongoing operations, though when considered as part of the City's Seven-Year All Fund Financial Long Term Plan, use of one-time revenue may be appropriate to bridge short-term gaps in available resources.

Council Goal

The City Council adopted its goals for 2013-2015. The first goal is to "place the City on a firm foundation for long-term fiscal sustainability.

DISCUSSION

The Council's reserve guideline for the General Fund is not achieved as of June 30, 2013. The economic contingency reserve is comprised of the major emergencies, economic uncertainty and community impact categories, and together, these funds were projected in the Adopted Biennial Budget at $11,377,000 as of 6/30/13. This reserve amount represents 14.2% of the General Fund projected 2013-14 expenditures. The $3.2 million surplus should now be designated to the economic contingency reserve.

If the Council approves the addition to the reserve, the City would still fall short of its reserve guideline indicated above. At the $80 million expenditure level, the General Fund reserve should be $16 million, or 20% of General Fund expenditures.

One significant pending item for the Council to consider is the expected appropriation of $3 million for the San Leandro Hospital subsidy. Staff expects to bring a resolution to Council approving this contract in the next few months.

Major Emergencies and Economic Uncertainty

The following summarizes many of the known calamities that could be defined as major emergencies and economic uncertainties. An increased reserve enables the City to prepare for disasters, including the opening of its Emergency Operations Center.

Natural Calamities

From time to time, the City is subject to natural calamities, including, but not limited to, earthquake, flood, wildfire, tsunami, or pipeline incident, that may adversely affect economic activity in the City, and which could have a negative impact on City finances. There can be no assurance that the occurrence of any natural calamity would not cause substantial interference to and costs for vital City services.

Seismic. The City is located in an area classified as Seismic Zone 4 by the Uniform Building Code (UBC). The area includes all of the greater San Francisco Bay Area and all of coastal California. Seismic Zone 4 is the highest risk zone classification under the UBC.

Active earthquake faults underlie both the City and the surrounding Bay Area. The eastern edge of the City is crossed by the Hayward Fault, creating the potential for significant damage. The city is also vulnerable to damage from earthquakes on the San Andreas Fault, located 10 miles to the west, and the Calaveras Fault, located 10 miles to the east. All such major faults have numerous fault complexes and branches. Recent significant seismic events include the 1989 Loma Prieta earthquake on the San Andreas Fault, centered about 60 miles south of San Francisco, which registered 6.9 on the Richter scale of earthquake intensity. That earthquake caused fires and collapses of and structural damage to buildings, highways and bridges in the Bay Area.

Enforcement of the UBC by the San Leandro Building Division helps ensure that new construction will withstand the forces associated with a major earthquake. However, many of the buildings in San Leandro pre-date the modern UBC and are susceptible to damage. The City has completed a multi-year program to retrofit unreinforced masonry buildings (URMBs), most of which are located in and around downtown.

In April 2008, the Working Group on California Earthquake Probabilities (a collaborative effort of the U.S. Geological Survey (USGS), the California Geological Society, and the Southern California Earthquake Center) reported that there is a 63% chance that one or more quakes of magnitude 6.7 or larger will occur in the Bay Area before the year 2038. Such earthquakes may be very destructive. The USGS predicts a magnitude 7 earthquake occurring today on the Hayward Fault, would likely cause hundreds of deaths and approximately $100 billion of damage. Property within the City could sustain extensive damage in a major earthquake, and a major earthquake could adversely affect the area's economic activity.

As noted above, City Hall is comprised of three structures which are combined to function as one building, all constructed on very firm soil. The building was seismically retrofitted, beginning in 1994, and a soils investigation was also conducted at that time, which investigation found the building's underlying soil to be generally high in clay content or dense in consistency and thus not considered susceptible to liquefaction. In 1994, the soil moved as part of the seismic retrofitting was excavated a minimum of five feet and replaced with engineered fill.

Flood. Flood hazards in San Leandro are associated with overbank flooding of creeks and drainage canals, dam failure, tsunamis, and rising sea level.

During the last 40 years, urbanization in the watersheds has increased impervious surface area, which has resulted in faster rates of runoff and higher volumes of storm water in the channels. Recent maps published by the Federal Emergency Management Agency (FEMA) indicate that a 100-year storm (e.g., a storm that has a 1% chance of

occurring in any given year) could cause shallow flooding in parts of southwest San Leandro.

The City's Floodplain Management Ordinance requires that new construction, additions and major home improvement projects are raised at least one foot above the base flood elevation. The City is also working with the Alameda County Flood Control and Water Conservation City to increase the carrying capacity of flood control channels. Measures being pursued include redesign of the channels, replacing undersized culverts, and keeping the channels well-maintained and free of debris.

Most of the City would be flooded in the event of dam failure at the Lake Chabot or Upper San Leandro Reservoirs. These reservoirs are owned, maintained and operated by the East Bay Municipal Utility District. Such a flood could produce catastrophic damage and casualties in the City. The dams at both reservoirs have been seismically strengthened during the last 30 years, making the risk of failure extremely low.

Wildfire. The area of the City east of Interstate 580 is classified as a "moderate" fire hazard by the California Department of Forestry. The lack of a dense tree canopy is a mitigating factor as are the relatively wide streets, gentle slopes and grassland vegetation. Nevertheless, the City lies adjacent to thousands of acres of potentially flammable coastal scrub and forested open space. There are also a number of locations in the City, particularly along San Leandro Creek, with large eucalyptus trees and other highly flammable vegetation and combustible litter. The Uniform Fire Code specifies fire mitigation requirements that are enforced by the City's Building Division. The City also requires fire-resistant roofing materials in new construction and major remodeling projects.

Tsunami. Tsunamis are long-period waves usually caused by off-shore earthquakes or landslides. Because the San Leandro shoreline does not face the open ocean, the City believes that its risk of experiencing a tsunami is very low. A 100-year frequency tsunami would generate a wave run-up of 4.4 feet at the San Leandro shoreline. Most of the shoreline is protected by rip-rap (boulders) and would not be seriously affected.

Man-made Calamities

Natural Gas Transmission Pipelines. On September 9, 2010 a Pacific Gas and Electric Company (PG&E) high pressure natural gas transmission pipeline exploded in San Bruno, California, with catastrophic results, including loss of life and the destruction of 38 homes. There are two similar transmission pipelines and numerous other types of pipelines owned, operated and maintained by PG&E located throughout the City.

PG&E's website (www.pge.com) provides information regarding its high-pressure natural gas transmission pipelines and its long range natural gas transmission pipeline planning. This information is summarized below.

According to its website, PG&E has a comprehensive inspection and monitoring program to ensure the safety of its natural gas transmission pipeline system, and uses a risk management program that inventories each of the 20,000 segments within PG&E's natural gas transmission pipeline system and evaluates them against criteria such as:

- the potential for third party damage like dig-ins from construction,
- the potential for corrosion,
- the potential for ground movement, and
- the physical design and characteristics of the pipe segment.

PG&E has also indicated that it considers the proximity of its natural gas transmission pipelines to high-density populations, potential reliability impacts and environmentally sensitive areas, and uses the data it collects to help plan and prioritize future work.

Based on all of these factors, PG&E determines which segments warrant further evaluation, monitoring or other future action. PG&E has created a list of the "Top 100" segments to help inform future work plans (although it should be noted that the pipeline that caused the explosion in the City of San Bruno was not on the Top 100 list). As conditions change from year to year, PG&E reevaluates the segments included on the list. This list can be found on PG&E's website at: http://www.pge.com.

A pipeline segment may be placed into planning for further study and long-range planning based upon its risk for one of five factors:

- Potential for Third-Party Damage,
- Potential for Corrosion,
- Potential for Ground Movement,
- Physical Design and Characteristics, and
- Overall (did not score high in any one factor of the above factors, but scored moderately high in more than one factor).

None of the natural gas transmission pipelines on the PG&E Top 100 list are located within the City. However, as noted above, the pipeline that caused the explosion in the City of San Bruno was not on the Top 100 list.

The City is not able to independently confirm the information set forth above or the information contained on the PG&E website with respect to PG&E's pipelines, and can provide no assurances as to its accuracy or completeness. Further, the City can provide no assurances as to the condition of PG&E pipelines in the City, or predict the extent of the damage to the surrounding property that would occur if a PG&E pipeline located within the City were to explode.

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