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Staff Report for the City of San Leandro City Council Public Hearing and Adoption of the Proposed 2019-20 and 2020-21 Biennial Budget for the City of San Leandro, the Successor Agency to the Redevelopment Agency of the City of San Leandro, and the San Leandro Public Financing Authority

SUMMARY AND RECOMMENDATION

Staff recommends that the City of San Leandro City Council conduct a public hearing and take public testimony regarding the City Manager's Proposed Biennial Budget, for fiscal years 2019-20 and 2020-21. At the conclusion of the public hearing and after Council's deliberations, staff requests that Council provide final direction regarding the 2019-20 and 2020-21 proposed Biennial Budget adoption:

Specifically, staff recommends that the City of San Leandro City Council approve the following Resolutions to adopt the City Manager's fiscal years 2019-20 and 2020-21 Proposed Biennial Budget as reviewed by City Council on May 20, 2019:

1. Resolution adopting the Biennial Budget of the City of San Leandro for fiscal years 2019-20 and 2020-21.
2. Resolution adopting the Biennial Budget for the Successor Agency to the Redevelopment Agency of the City of San Leandro (SARA) for fiscal years 2019-20 and 2020-21.
3. Resolution adopting the Biennial Budget of the Public Financing Authority of the City of San Leandro for fiscal years 2019-20 and 2020-21.

BACKGROUND

On May 20, 2019 the City Manager presented the Proposed Biennial Budget for 2019-20 and 2020-21. The Biennial Budget represents the City's fundamental financial planning and communications tool, describing how resources are allocated to implement Council policies and goals, as well as providing the legal basis for the expenditure of public funds.

Overall, the Biennial Budget expenditures proposed for 2019-20 and 2020-21 total \$185.9 million and \$190.8 million, respectively. The City's General Fund accounts for \$116.8 million in 2019-20, and \$120.3 million in 2020-21. The SARA is \$6.3 million and \$6.8 million for 2019-20 and 2020-21, respectively. Enterprise activities (Water Pollution Control Plant, Environmental Services, Shoreline and Storm Water) are \$18.9 million and \$20.7 million for 2019-20 and 2020-21, respectively. Capital Improvement activities are \$5.3 million and \$5.0 million for 2019-20 and 2020-21, respectively (note the Financial Software System Installment 1 is reflected on the CIP list and funding is captured in the Information Technology Internal Service Fund for \$300,000); and all other fund activities equal \$38.6 million and \$37.9 million for 2019-20 and 2020-21, respectively.

Staff began planning the 2019-20 and 2020-21 biennial budget in the summer of 2018, and started discussions with the City Council Finance Committee regarding a comprehensive financial forecast model. On January 28, 2019 the financial forecast model was presented to City Council during a work session for hands-on use and assumption changes. As part of the Biennial Budget process, the City Council reaffirmed its vision for the City during its Annual Planning session February 2, 2019. These areas of focus help set the framework for the City's budget development. Since January, staff has continued biennial budget discussions with the City Council through a CIP work session and budget presentation during a Council meeting that focused on budget forecasts, net post employment liabilities, service initiatives and the City's capital needs.

Budget Analysis

A number of factors influence the long-term fiscal health of the City:

- Net post employment liabilities
- Service level demands
- CalPERS rate change impact
- Labor agreements
- Community and social service programs support
- Fire contract services, equipment and increased CalPERS and OPEB costs
- Maintain reserve levels
- Capital Improvement Program

The 2019-20 and 2020-21 General Fund Biennial Budget reflects revenue growth largely attributed to sales tax revenues associated with Measure HH. The strong East Bay housing market helps City property tax revenues with increased assessed values from 5.7% to 6.2%. Strong revenues, combined with an organizational commitment to hold the line on new expenditures, has resulted in a proposed budget that is balanced without the use of reserves for 2019-20.

The General Fund disbursements include \$10.6 million transfers out to other funds during the next two years. Of the total \$10.6 million, \$300,000 would go directly to the Information Technology Fund for Enterprise Resource Planning software and \$10.3 million would fund a variety of capital

improvements, including streets, Farrelly Pool, and City buildings.

In addition to the General Fund, the City maintains other key revenue funds that range from the Water Pollution Control Plant to Special Revenue funds. Multi-year forecasts for each fund, for the most part, show these funds to be balanced in terms of available resources and projected requirements for both fiscal years. There is, however, one fund that requires additional attention in order to achieve long-term financial stability.

The Storm Water Fund is projected to be in deficit for 2019-20 and 2020-21. The Storm Water fund experienced a shortfall in 2016-17 of \$22,000, with the shortfall projected to increase to \$480,000 in 2024-25. The fund is only able to partially support basic storm drain maintenance; additional review and analysis is required to mitigate or eliminate the anticipated shortfalls.

Current City Council Policy

- Article V of the City of San Leandro Charter requires the City Manager to submit the Proposed Budget to the City Council at least thirty-five days prior to the beginning of each fiscal year and for Council to adopt the Budget following a Public Hearing, by no later than June 30th.

Previous City Council Actions

- January 28, 2019 City Council held a Budget Work Session for the financial forecast model
- February 2, 2019 City Council Winter Planning Session established goals for the new fiscal year's Biennial Budget and reviewed the overall Biennial Budget and forecast assumptions.
- February 19, 2019 City Council held a Budget Work Session on the proposed 2019-20 and 2020-21 Biennial Budget Capital Improvement Program.
- April 15, 2019 City Council Budget presentation
- May 6, 2019 City Council held a Public Hearing and approved the increases in fees and charges for City department services for fiscal year 2019-20 and the annual CPI adjustment to the City's EMS Tax, 9-1-1 Tax and the Business License Tax.
- May 14, 2019 City Council received the City Manager's 2019-20 and 2020-21 Proposed Biennial Budget document.
- May 20, 2019 City Council discussed the proposed Biennial Budget.

Summary of Advisory Committee Review/Public Outreach Efforts

All City Council meetings were properly noticed in accordance with the City Charter and California law.

Fiscal Impact

The 2019-20 and 2020-21 proposed Biennial Budget expenditures for all City funds are \$185.9 million and \$190.8 million, respectively. The 2019-20 and 2020-21 proposed Biennial Budget expenditures for the General Fund Budget are \$116.8 million and \$120.3 million, respectively.

Budget Authority

- The Charter of the City of San Leandro.

CONCLUSION

Staff recommends the City Council adopt the attached Resolutions approving the 2019-20 and 2020-21 Biennial Budgets for the City, and its various agencies and component units.

PREPARED BY: David Baum, Finance Director, Finance