

Mid-Cycle Budget Update 2018-19

City Council Workshop
May 18, 2018



Mid-Cycle Budget Workshop Objectives

1. Provide update on current 2-year budget
 - a. Current year FY 2017-18
 - b. Upcoming year FY 2018-19
2. Look ahead to 5-year forecast through 2022
3. With this context, discuss mid-cycle policy options
 - a. Department program requests?
 - b. New initiatives?
 - c. Maximize pension funding?
 - d. Hold reserves to future needs?

2017-18 General Fund Status

How does the current year look?

2017-18 General Fund Status

- Actions at March 2018 mid-year report
 - Revenues: +\$7 million (including large transfer tax pick up)
 - Expenditures: included \$16 million pension reserve payments (December \$11 million, March \$5 million)
 - Baseline revenues covered baseline expenditures
- New news/May 2018 projection
 - Revenues: +\$1 million (transfer tax from Site A, mutual aid/GEMT)
 - Expenditures: on track
 - Budget amendment: +\$88k homelessness
 - Baseline revenues continue to cover baseline expenditures, with surplus

2017-18 General Fund Status

| | FY17-18 Mid-Year | May 2018 Updates | FY17-18 Projected | |
|----------------------------|-----------------------------|-----------------------------|------------------------------|------------------------------|
| Revenues | | | | |
| Baseline Revenues | \$ 95,126,000 | \$ 281,000 | \$ 95,407,000 | Taxes; Fire Mutual Aid; GEMT |
| Large Transfer Taxes | 3,900,000 | 750,000 | 4,650,000 | Sale of Site A |
| | <u>99,026,000</u> | <u>1,031,000</u> | <u>100,057,000</u> | |
| Expenditures | | | | |
| Baseline Expenditures | 94,671,869 | 88,000 | 94,759,869 | Homelessness Budget Added |
| Pension/OPEB Reserve | 16,360,068 | - | 16,360,068 | |
| | <u>111,031,937</u> | <u>88,000</u> | <u>111,119,937</u> | |
| Net Annual Activity | | | | |
| Baseline Operations | \$ 454,131 | \$ 193,000 | \$ 647,131 | |
| With Large Transfer Taxes | \$ 4,354,131 | \$ 943,000 | \$ 5,297,131 | |
| With Pension/OPEB Reserve | <u>\$(12,005,937)</u> | <u>\$ 943,000</u> | <u>\$(11,062,937)</u> | |

2018-19 General Fund Update

How does next year look? 2nd year of the 2-year budget

2018-19 General Fund Revenues

| | <u>2016-17</u> | <u>2017-18</u> | <u>2018-19</u> |
|--------------------------------|-----------------------------|------------------------------|-----------------------------|
| | Actual | Projected | Projected |
| Property Taxes | 36,090,128 | 37,894,000 | 39,229,000 |
| Property Transfer Tax | 10,333,813 | 14,500,000 | 10,385,000 |
| Sales Tax | 10,094,100 | 10,250,000 | 10,444,000 |
| UUT | 9,061,296 | 9,308,000 | 9,494,000 |
| Franchise | 5,345,930 | 5,319,000 | 5,319,000 |
| Transient Occupancy Tax | 2,126,612 | 2,100,000 | 2,100,000 |
| Business License | 2,087,317 | 2,220,000 | 2,220,000 |
| Program Revenues | 6,087,048 | 5,985,000 | 5,938,000 |
| Cost Allocation Reimbursements | 7,032,897 | 6,642,000 | |
| Sale of Property | 1,514,513 | | |
| Other | 1,250,587 | 1,620,000 | 1,598,000 |
| Transfers In | 3,289,000 | 4,219,000 | 4,222,000 |
| Total | <u><u>\$ 94,313,241</u></u> | <u><u>\$ 100,057,000</u></u> | <u><u>\$ 90,949,000</u></u> |

2018-19 General Fund Updates

Revenue

- Total
 - +\$3.5 million from adopted budget
 - +\$0.4 million from March 2018 projection (midyear report)
- Property related taxes, including MVLF
 - Includes residual tax increment flowing through Successor Agency
 - +\$2 million from adopted budget 4% growth vs. prior year
- Other taxes
 - +\$0.6 million Sales Tax, 2% growth vs. prior year
 - +\$1.4 million Transfer Tax, from \$9 to \$10.4 million

2018-19 General Fund Updates

Expenditures

- Salary changes
 - +\$0.5 million - Other (BRI, mutual aid OT, pension rates)
- Benefit changes
 - \$(1.0) million - pension reserve payment savings
- Net changes
 - \$(0.5) million decrease in expenditures

2018-19 General Fund Projection (Baseline)

| | Adopted Budget | Revenue/ Salary Updates | Cost Plan Net Impact | Mid-Cycle Projection |
|----------------------------|---------------------------|--|---------------------------------|---------------------------------|
| Revenues | \$ 92,993,000 | \$ 3,925,000 | \$ (5,969,000) | \$ 90,949,000 |
| Expenditures | 95,863,000 | (536,000) | (5,263,000) | 90,064,000 |
| Net Annual Activity | (2,870,000) | \$ 4,461,000 | \$ (706,000) | \$ 885,000 |
| Use of Reserve (a) | \$ 2,870,000 | | | |
| Net Results | - | | | |

(a) Original budget included draw on reserves; includes \$1.5M investment in IT Strategic Plan

2018-19 New Program Requests

General Fund Summary

| | | |
|-----------------------|----|-----------|
| Fire | \$ | 1,108,267 |
| Police | \$ | 231,617 |
| Parks | \$ | 45,000 |
| Community Development | \$ | 170,000 |
| Administration | \$ | 54,979 |
| | | <hr/> |
| | \$ | 1,609,863 |

2018-19 New Budget Requests - General Fund

| Requesting Department | Description | Cost | Comment |
|-----------------------|------------------------------------|------------|---|
| Fire | Fire Marshall | \$ 365,723 | Management and oversight to the AFD's Fire Prevention and Community Paramedicine programs |
| Fire | Fire Captain / Training | \$ 288,385 | To recruit, train and employ a diversified workforce |
| Fire | Dive Rescue Program | \$ 130,000 | Currently AFD is not equipped or trained for Dive Rescue |
| Fire | Outside Vehicle Repairs | \$ 100,000 | Increase based on recent year trend |
| Fire | Other Operating Cost Augmentations | \$ 74,200 | CPR Devices / Microfiche Services / Inspection Reports / Part Time / Training |
| Fire | Community Paramedicine Grant | \$ 60,000 | Local Match for Community Paramedicine Grant - Funding through November 2018 |
| Fire | Dispatch Services | \$ 52,959 | County Communications Center Contract / Based on Alameda Call Volume. |
| Fire | Emergency Operations Center (EOC) | \$ 37,000 | 25% Share of Emergency Operation Center |

2018-19 New Budget Requests - General Fund

| Requesting Department | Description | Cost | Comment |
|-----------------------|-----------------------------------|------------|---|
| Police | Police | \$ 138,617 | Other Operating Cost Augmentations |
| Police | Maintenance Contracts | \$ 56,000 | Various Operating Contracts |
| Police | Emergency Operations Center (EOC) | \$ 37,000 | 25% Share of EOC |
| Recreation & Parks | Park Maintenance | \$ 45,000 | Removing trees posing safety hazards / Specialized Arborist reports |
| Community Development | Homelessness Programs | \$ 120,000 | Mobile Outreach Contract / In the field support / Approved by City Council March 2018 |
| Community Development | County Impact Grant | \$ 50,000 | Homeless Outreach Team / Paid from County grant - no net budget impact |
| Administration | Administration | \$ 54,979 | City Council / City Clerk / City Manager Augmentation Requests |

2018-19 New Budget Requests - Non-General Fund

| Requesting Department | Description | Cost | Comment |
|-----------------------|--------------------------------|------------|---|
| Fire | SAFER Grant | \$ 493,000 | Paid from Federal Grant Funds - Six positions with Grant Extension until October 2018 |
| Fire | Community Paramedicine Program | \$ 258,000 | Paid from Grant Funds - Three positions with Grant Extension until November 2018 |
| Police | State COPS Grant | \$ 70,023 | Various Safety Equipment |
| Library | Electricity | \$ 73,700 | Annualized billing correction / West End HVAC / Paid from Library Fund Reserves |
| Base Reuse | Leasing Operations | \$ 525,000 | Infrastructure and Environmental / Minor Capital Projects |
| Base Reuse | Maintenance | \$ 377,500 | AMP Infrastructure Upgrades / PG&E Infrastructure Upgrades / Improved Backflow Prevention Program / Cost Recovery |
| Risk Management | Claim Settlements | \$ 500,000 | Significant litigation matters |

2018-19 New Budget Requests - Non-General Fund

| Requesting Department | Description | Cost | Comment |
|-----------------------|------------------------------------|--------------|--|
| Community Development | CDBG | \$ 1,066,434 | Housing and other services for low-and-moderate income persons |
| Community Development | Public Art | \$ 282,500 | Award for Public Art Projects |
| Community Development | Cannabis | \$ 150,000 | Planning / Building Cannabis |
| Community Development | Tidelands | \$ 75,000 | Lease Negotiation / Documents |
| Community Development | Façade Grants | \$ 75,000 | Grants to business and property owners to improve and enhance retail districts |
| Community Development | Planning | \$ 13,000 | Planning / Building Operating Costs / Bank Fees |
| Community Development | HOME | \$ 9,865 | Updated Fund Balance |
| Public Works | Facilities Maintenance Fund | \$ 316,895 | City-wide Janitorial Contract (June 05th, 2018 agenda) |
| Public Works | Fleet / Equipment Replacement Fund | \$ 120,000 | Correction to Vehicle Replacement Budget / No change in replacement schedule / Paid from Fund Reserves |

2018-19 New Budget Requests - Non-General Fund

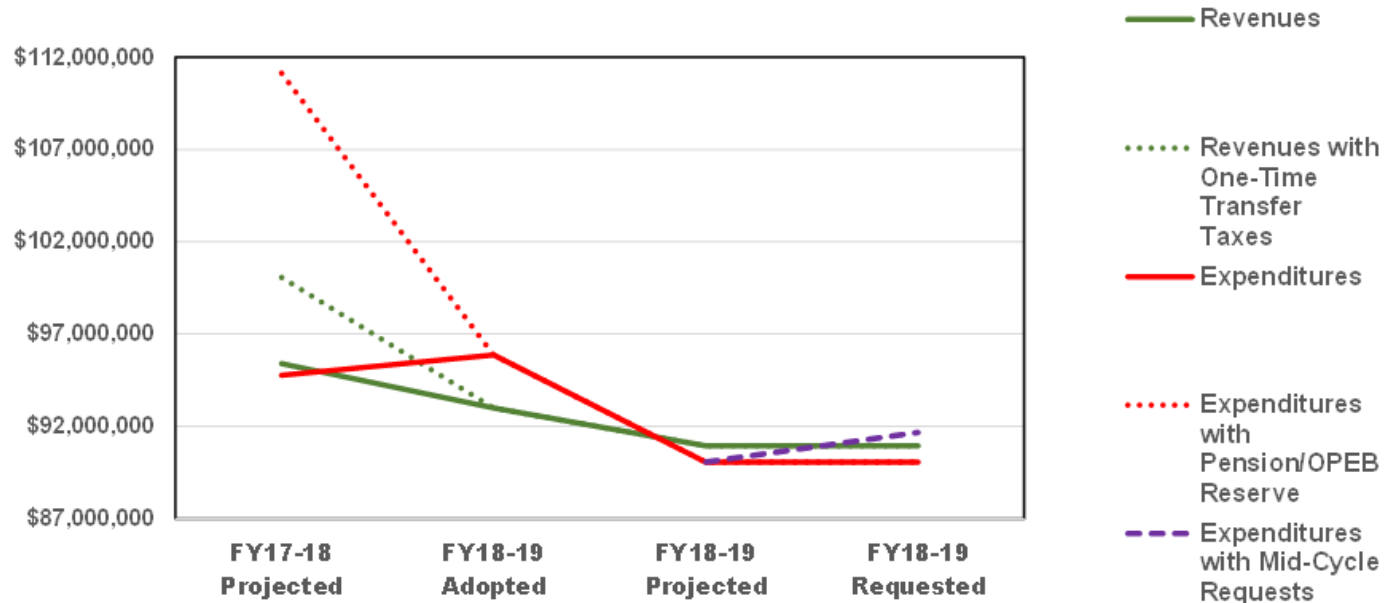
| Requesting Department | Description | Cost | Comment |
|-----------------------|---------------------------------------|--------------|---|
| Recreation & Parks | Golf Course Capital Project | \$ 500,000 | Parking Lot Improvement / Greenway Gold lease amendment / Paid from Capital Projects Fund Balance Reserve |
| Recreation & Parks | Mastick Senior Center Capital Project | \$ 100,000 | Front Entry Improvements / Paid from Mastick Senior Fundraising Reserves |
| Capital Projects | Seaplane Lagoon Ferry Terminal | \$ 7,500,000 | Accelerates existing Project - Paid from Developer Contribution |
| Capital Projects | Jean Sweeney Cross Alameda Trail | \$ 110,000 | Interim Bikeway & Pedestrian Improvements / Connection for Sherman Park users / Paid from Measure B/BB Reserves |

2018-19 General Fund Projection (With New Program Requests)

| | Adopted Budget (a) | Mid-Cycle Updates | Cost Plan Net Impact | Mid-Cycle Projection | With Program Requests |
|----------------------------|-----------------------|----------------------|-------------------------|-------------------------|--------------------------|
| Revenues | <u>\$ 92,993,000</u> | <u>\$ 3,925,000</u> | <u>\$ (5,969,000)</u> | <u>\$ 90,949,000</u> | <u>\$ 90,949,000</u> |
| | | | | - | |
| Expenditures | | | | | |
| Baseline Expenditures | 95,863,000 | (536,000) | (5,263,000) | 90,064,000 | 90,064,000 |
| Program Requests | | | | | 1,610,000 |
| | <u>95,863,000</u> | <u>(536,000)</u> | <u>(5,263,000)</u> | <u>90,064,000</u> | <u>91,674,000</u> |
| | | | | - | - |
| Net Annual Activity | | | | | |
| Baseline Operations | <u>(2,870,000)</u> | <u>\$ 4,461,000</u> | <u>\$ (706,000)</u> | <u>\$ 885,000</u> | <u>\$ (725,000)</u> |
| Use of Reserve | <u>\$ 2,870,000</u> | | | | |
| Net Results | <u>\$ -</u> | | | | |

(a) Original budget included draw on reserves; includes \$1.5M investment in IT Strategic Plan

2018-19 General Fund Mid-Cycle Projection (With New Program Requests)

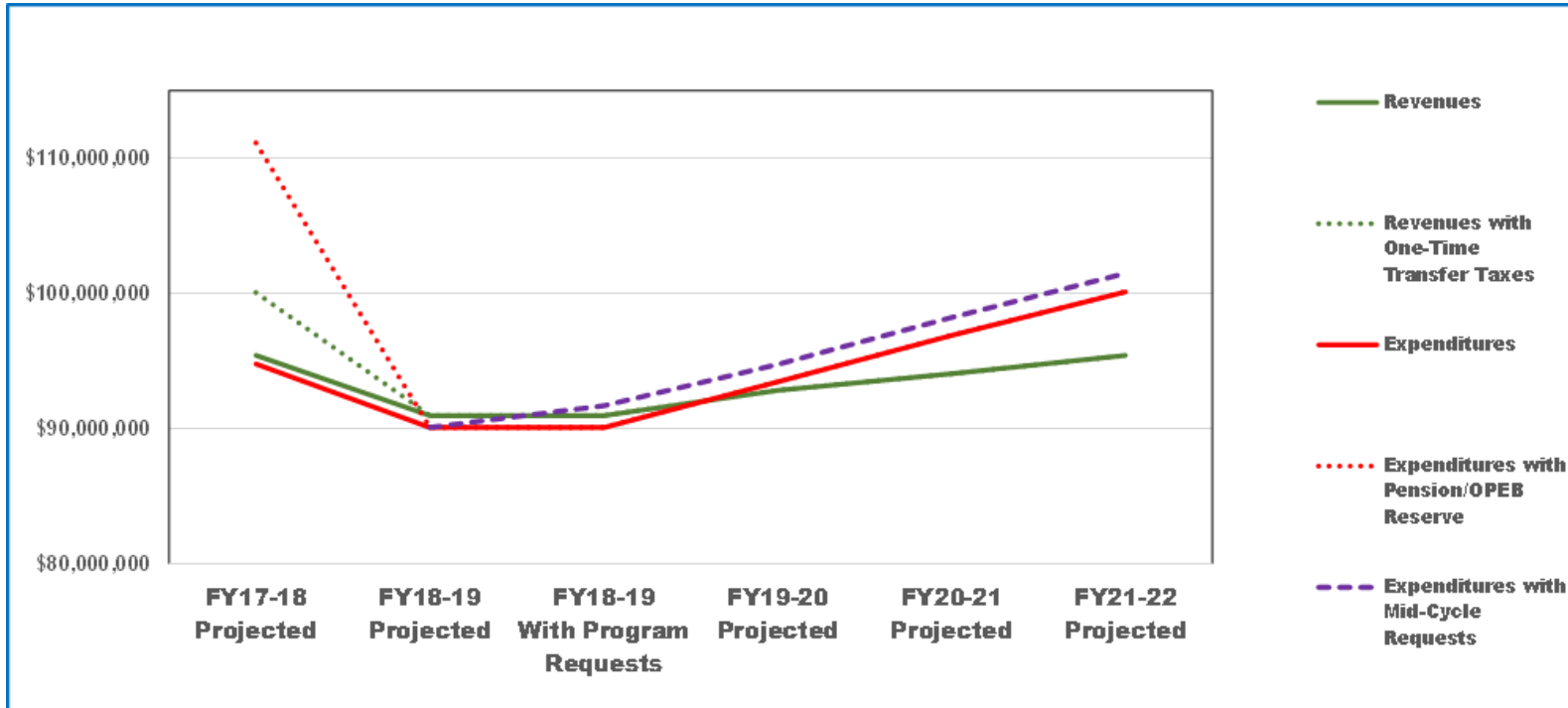


General Fund 5-Year Forecast

What is the future trend?

2018-19 General Fund 5/Year Forecast

May 2018



2018-19 General Fund 5-Year Forecast

| | FY18-19 Projected | FY18-19 Requested | FY19-20 Projection | FY20-21 Projection | FY21-22 Projection |
|----------------------------------|----------------------|----------------------|-----------------------|-----------------------|-----------------------|
| Revenues | \$ 90,949,000 | \$ 90,949,000 | \$ 92,818,000 | \$ 94,034,000 | \$ 95,389,000 |
| Expenditures | | | | | |
| Baseline Expenditures | 90,064,000 | 90,064,000 | 93,443,000 | 96,885,000 | 100,107,000 |
| Mid-Cycle Budget Requests | | 1,610,000 | 1,290,000 | 1,322,000 | 1,350,000 |
| | 90,064,000 | 91,674,000 | 94,733,000 | 98,207,000 | 101,457,000 |
| Net Annual Activity | \$ 885,000 | \$ (725,000) | \$ (1,915,000) | \$ (4,173,000) | \$ (6,068,000) |
| Available Fund Balance | | | | | |
| 25% Operating Reserve | 22,516,089 | 22,918,554 | \$ 23,683,250 | \$ 20,486,370 | \$ 14,418,370 |
| Ending Balance Above 25% Reserve | 4,661,980 | 3,655,816 | 976,120 | | |
| | \$ 27,178,069 | \$ 26,574,370 | \$ 24,659,370 | \$ 20,486,370 | \$ 14,418,370 |

General Fund 5-Year Forecast Assumptions

Revenue - Property Tax

- +2-3% assessed values
- Increased residual tax flow from successor agency (with Site A)
- New development projects in pipeline provide additional growth potential; but not included in this forecast
- +1% growth Transfer Tax 2019-22
- Sales, UUT, Franchise 0-2%
- New Fire Department cost recovery savings

General Fund 5-Year Forecast Assumptions

Expenditures

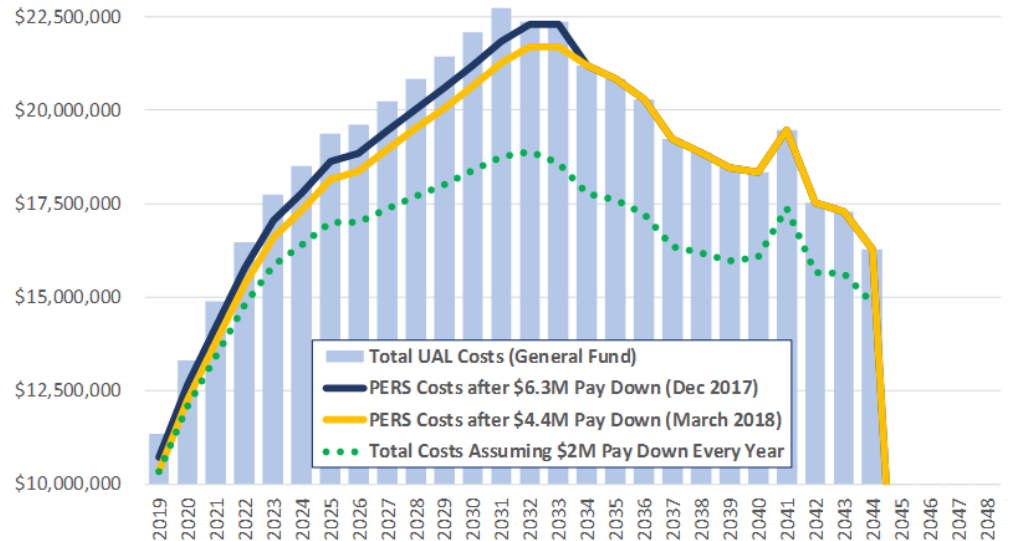
- Salaries and benefits
 - Cost of living +1-2% per year
 - Medical +3% per year
 - PERS +15% average growth per year

General Fund Annual CalPERS Payments

June 2016 Actuary Report

- Without action, payments double in 5 years
- Proactive funding policy is providing 18-19 budget relief
- \$1 million + annual CalPERS savings
- \$25 million: 15 year savings from combined 17-18 \$16 million CalPERS and 115 Trust investment

Unfunded Liability for Past Service Cost



Other Considerations

- Housing/homelessness
 - Legal aid trust fund
 - Housing assistance fund
- UP parcel acquisition “Jean Sweeney” (\$1-2 million)
- Labor contract negotiation
- CalPERS liability
- Alameda Point streets/parks maintenance transition to City operations
- FY 18-19 and 19-20 SAFER grant funding if not renewed

Discussion: Balancing Short/Long Term Issues

How can we ensure fiscal sustainability?

- Scale back 18/19 mid-cycle budget requests (on-going vs. one-time)
- Continue to pay down pension obligation?
 - \$1 million pay down = Est. \$100,000 or 10% annual savings
- Consider Fire Department cost recovery plan (2019)
- Use of one-time reserves
- Potential revenue measure

Potential Revenue Measures



Overview

- Significant financial challenges that may require reduced expense and/or increased revenue
- Alameda has had fewer revenue measures than our neighbors: Berkeley (19), Oakland (14), San Leandro (7), Alameda (4)
- Potential options include:
 1. No measure
 2. Cannabis tax
 3. Infrastructure bond
 4. Sales tax
- Timing/phasing: some options might be better fit for 2018; potential to explore other options for future elections

Option #1: No Measure

| Pros | Cons |
|---|--|
| No cost | Continues funding gaps |
| Limits tax or fee increases | Delays long-term solutions to structural deficits and deferred maintenance |
| Provides more time to consider a future measure | Postponement creates risk of less favorable economic conditions |

Option #2: Cannabis Tax

- **Estimated Annual Revenue:** \$260,000-\$770,000
- **Voter Threshold:** Requires 50% plus 1 voter approval
- **Tax Rate:** 4% excise tax applied to all cannabis businesses excluding testing labs and medicinal cannabis dispensaries (could include future adult use, but not accounted for in estimated revenue as no adult use is yet permitted)
- **Use of Funds:** General Fund

| Pros | Cons |
|--|---|
| Likely to succeed (65% support) | Significantly less revenue raised than other measures |
| New tax prior to existence of operating businesses | Uncertainty from preemption and Taxpayer Fairness proposition |

Option #3: Infrastructure Bond

- **Estimated Annual Revenue:** \$6 million annually (\$95 million bonded)
- **Voter Threshold:** Requires 67% voter support
- **Tax Rate:** Property owners pay \$23/\$100,000 of assessed (not market) value
- **Use of Funds:** Restricted to capital needs

| Pros | Cons |
|--|------------------------------------|
| Addresses significant capital needs with significant revenue | Difficult 2/3 voter threshold |
| Extensive public outreach already complete | Maintenance costs escalate |
| Surveys suggest viability (70-73% support) | Does not address operating deficit |

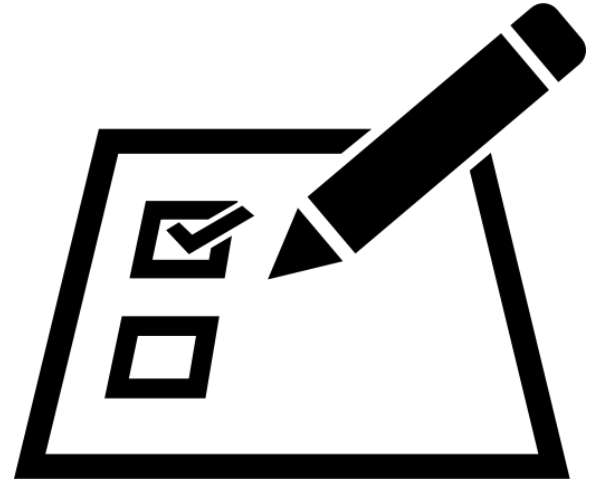
Option #4: ½ Cent Sales Tax Increase

- **Estimated Annual Revenue:** \$4.9 million
- **Voter Threshold:** Requires 50% plus 1 voter approval
- **Use of Funds:** Available for operating and/or capital needs

| Pros | Cons |
|---|---|
| Addresses significant needs and operating deficit | No guarantee for any specific program or project |
| Likely to succeed (64% support) | Some uncertainty with Taxpayer Fairness proposition |
| Visitors to Alameda contribute | Raises costs to consumers |

Future Ballots/Elections

- ❑ Winter 2019 -- Stormwater Fee
Request City Council's permission to initiate a mail-in ballot
- ❑ Spring 2019 -- FY 2019-2021 Budget Process
Consider possible revenue measure options
- ❑ November 2020, 2022, 2024 General Elections
(sales tax eligible)
- ❑ June 2019, 2021, 2023 Special Elections
- ❑ November 2019, 2021, 2023 Special Elections



Potential Schedule for 2018

May 18: Discuss revenue measures as part of FY 18/19 mid-cycle budget

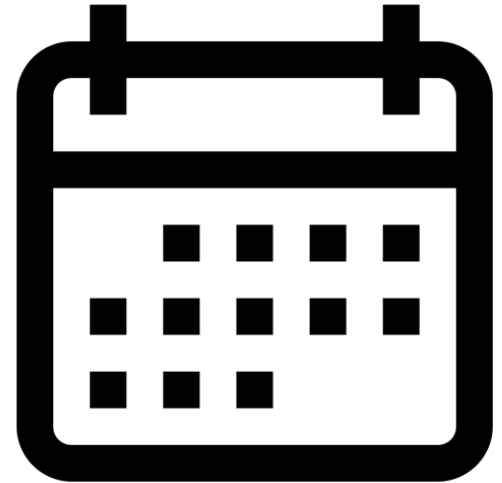
June 5: Provide direction on a) which, if any, revenue measures to consider for Nov 2018, and b) additional polling/communications support

July 10: Deadline to approve Infrastructure Bond (ordinance requires 2 readings)

July 24: Deadline to approve Cannabis, Sales Tax

August: Deadline to submit measures to Alameda County Registrar of Voters

Nov 6: General election



Topics to Consider

#1 No Revenue Measure: should staff explore any of these or other revenue measures (i.e., transient occupancy or soda taxes) for placement on future ballots?

#2 Cannabis Tax:

- *Tax rates*
 - set at 4% and applied to all cannabis businesses except testing labs and medicinal cannabis dispensaries
 - set at 4% for adult use cannabis sales in the event such businesses are permitted in the future
- *Nearby tax rates*
 - for adult use: Berkeley (5%), Oakland (5-10%)
 - for medicinal use: Berkeley (2.5%), Oakland (5%)
 - San Leandro: 6% for all permitted cannabis business types

Topics to Consider

#3 Infrastructure Bond:

- *Amount:* is \$95 million the right amount?
- *Alameda Point:* include AP's drinking water infrastructure? If yes, permit or require developer fee reimbursement for this expense? Reconcile with fiscal neutrality policy?
- *Specificity:* adopt percentages on the categories of infrastructure expenses? Include list of proposed projects for the first \$30 million in funding?
- *Guidelines:* adopt guidelines for projects in advance of the measure's vote?

Topics to Consider

#4 One-Half Cent Sales Tax Increase:

- Is this the right time?
- Should a sales tax increase address both operations and capital needs?

Recap: Topics for Discussion

- Department requests in FY 18/19
- Status quo or accelerate pension contributions
- Use of one-time reserves for other considerations
- Potential revenue measures

