

# COMMUNITY BUDGET TOWN HALL MEETING

February 1, 2020

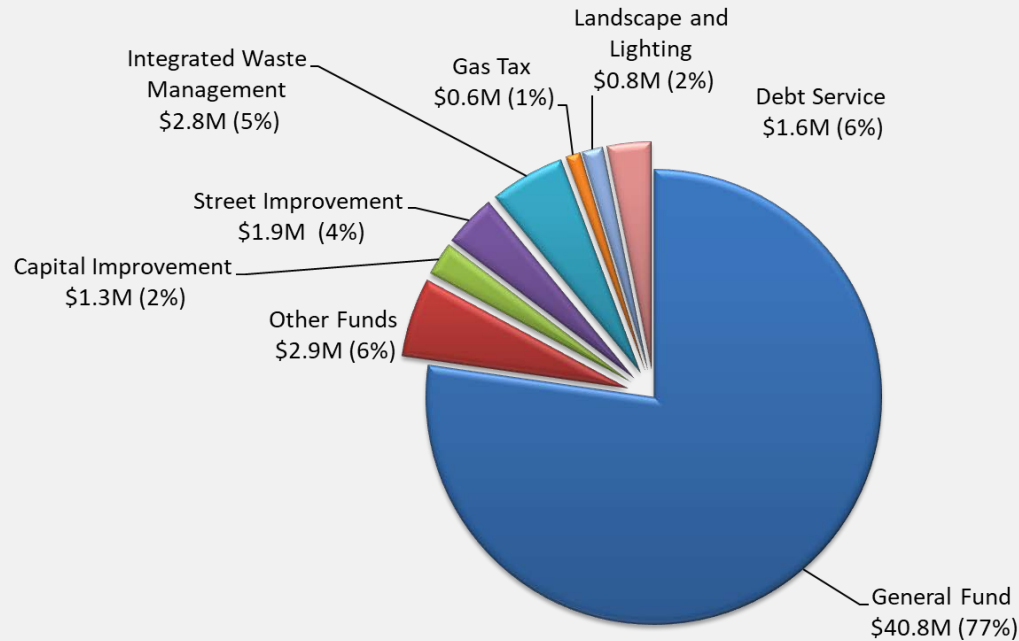
City Council Chambers



# AGENDA

- City Budget Information
  - Overall Operating Budget
  - General Fund Expenditures
  - General Fund Revenues
  - General Fund Reserves
  - Current Financial Position
- Budget Challenges
  - How did we get here?
  - What have we done?
  - What are the future challenges we face?
- Questions and Answers

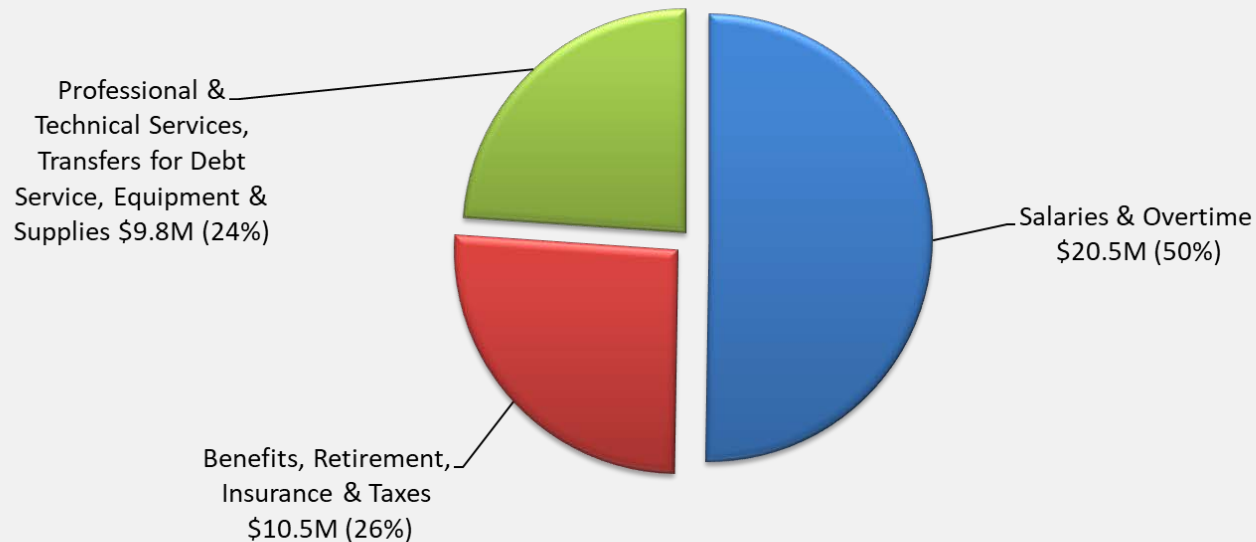
**FY 2019-20 Operating Budget**  
**Budgeted Expenditures by Fund**  
**\$52.8M total**  
**77% General Fund / 23% Restricted Funds**



The City and its Funds: One of the key principles to understand budgeting in local government is the concept of a fund. For most of us, all the money in our household is pooled together to cover expenses. Governments operate a bit differently. Public money is separated into funds, which can be thought of as separate checking accounts. The City’s main checking account is the General Fund. This fund is the City’s general operating fund, and can be used for any purpose. The General Fund is where the majority of the City’s operating budget is paid from.

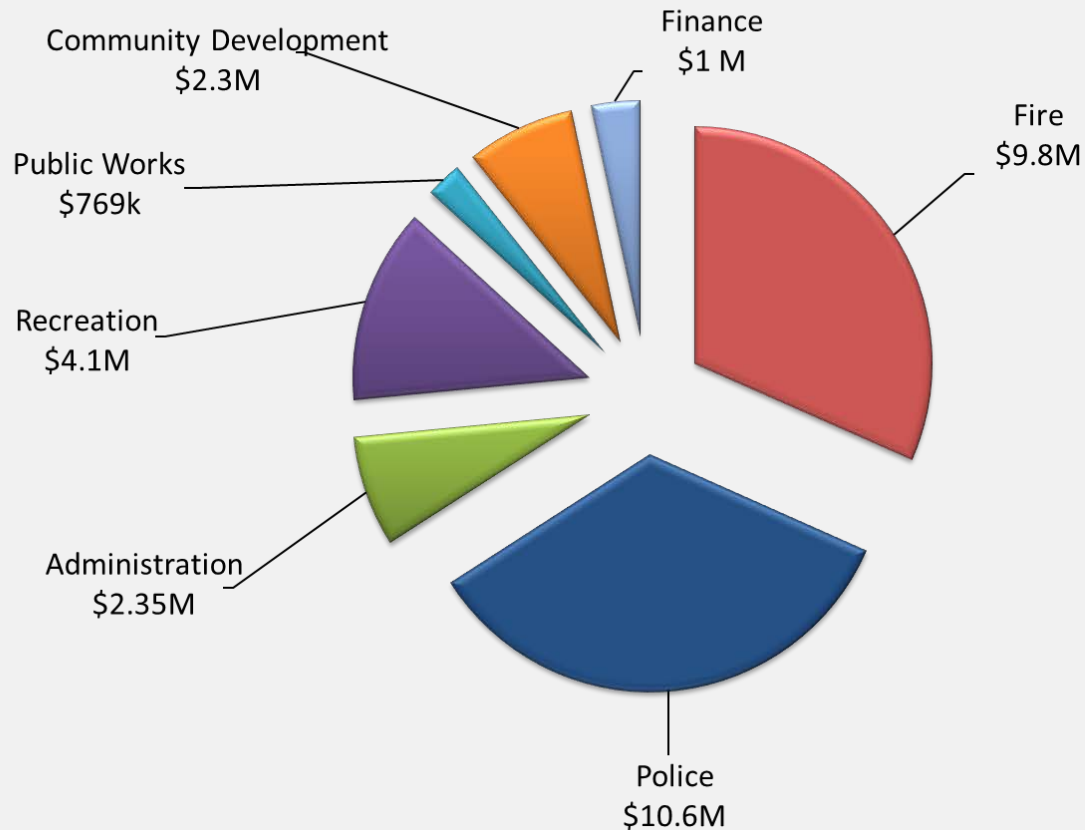
The City also has several additional checking accounts that are known as Special Purpose Funds. These funds are created for specific purposes and the money in those funds can only be spent on what the fund is created for: for example, the money that is collected for Measure A Street Improvements are deposited into that special account and the money in that account can only be spent on ongoing maintenance and improvement of our local roadways per Measure A, and cannot be used for other purposes.

## FY 2019-20 Budgeted General Fund Expenditures \$40.8M



How the General Fund is spent: The chart above shows that the majority of the costs in the General Fund are for personnel. This is because the City is a service organization, and personnel are required to provide those services. The City continues to struggle to provide its employees with competitive wages in an effort to recruit and retain excellent staff to provide the services that our residents and businesses expect. Of the City's General Fund, 76% of expenses in FY 2019-20 are budgeted to go towards employee compensation. This is primarily due to increasing pension and medical costs (shown in red in the chart above).

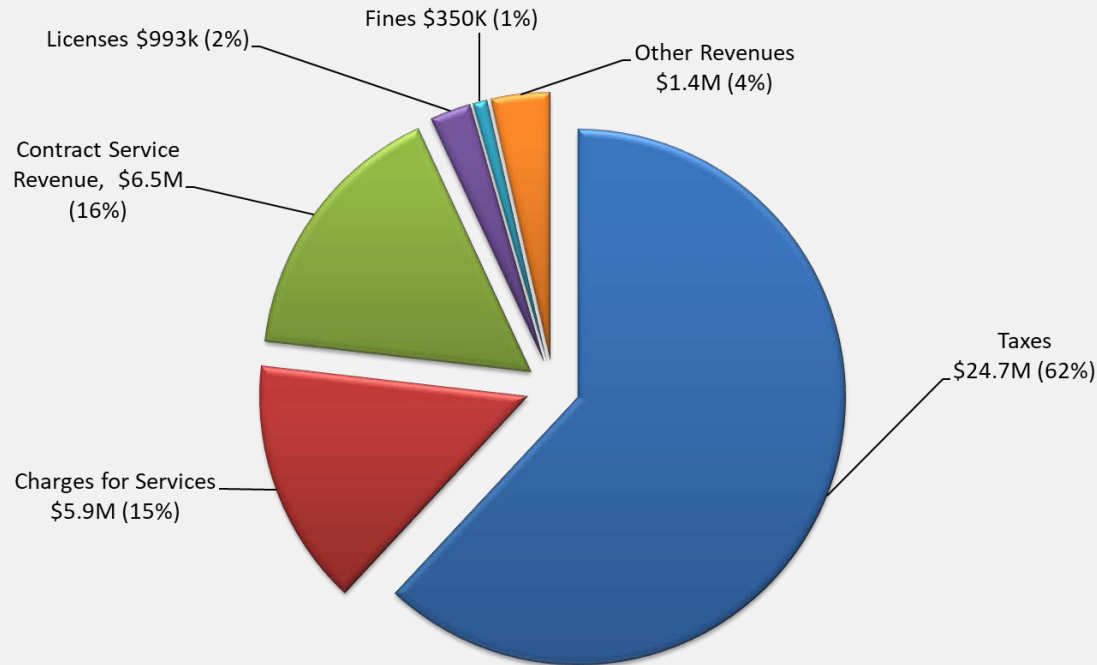
## FY 2019-20 Budgeted General Fund Personnel Costs by Department



**People Provide Services:** Unlike a business that creates or manufactures items for sale, the City provides the community with police, fire, economic development, public works, recreation, building, planning, environmental and administrative services that aren't offered by the private sector. The City has around 180 permanent positions, including life guards, pre-school teachers, engineers, planners, recycling truck drivers, analysts, police officers and firefighters plus a number of seasonal, part-time positions.

As in most cities, Public Safety (Police and Fire) make up the majority of the personnel costs in the General Fund. It should be noted that the Public Works Department has a small portion of the General Fund personnel expenditures because they are supported by many of the Special Purpose Funds, that pay for the specific projects and programs that Public Works is responsible for implementing, including capital projects, infrastructure, clean water, and recycling services.

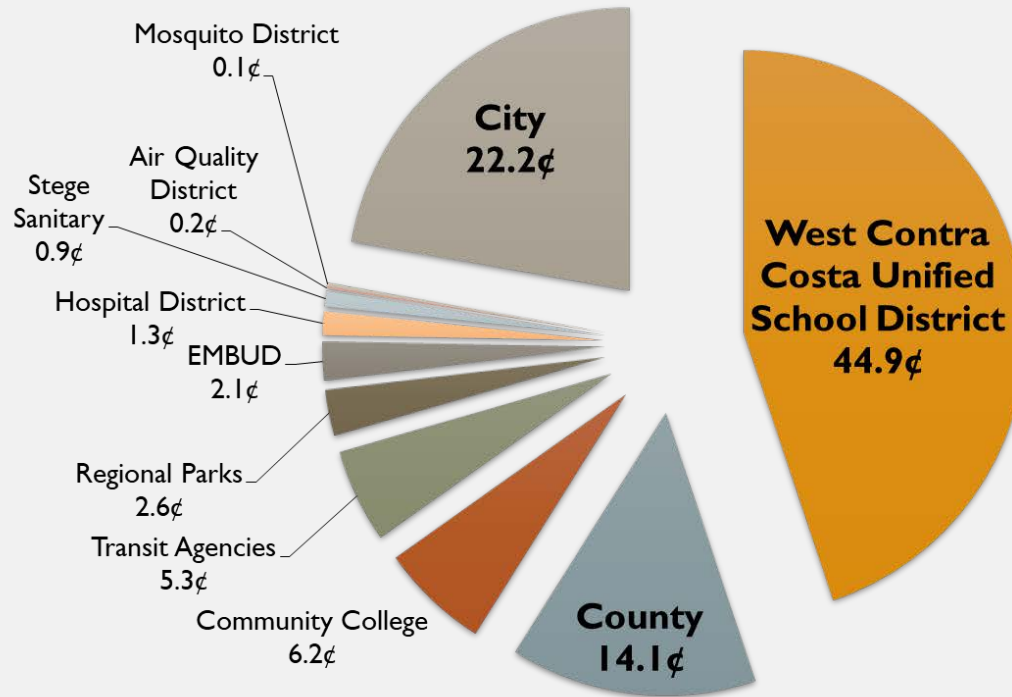
**FY 2019-20 Budgeted  
General Fund Revenue  
\$39.9M**



Where the funds come from: This chart shows what is collected to make up the City’s General Fund revenues. The majority of the City’s General Fund revenue comes from taxes, including property taxes, sales taxes, and utility user taxes. Other revenues come from fees, permits and licenses, fines, and contract revenue for the services that the City provides to other agencies, including Kensington Fire for fire protection services and the West Contra Costa Unified School District for School Resource Officers at El Cerrito High School and Portola Middle School.

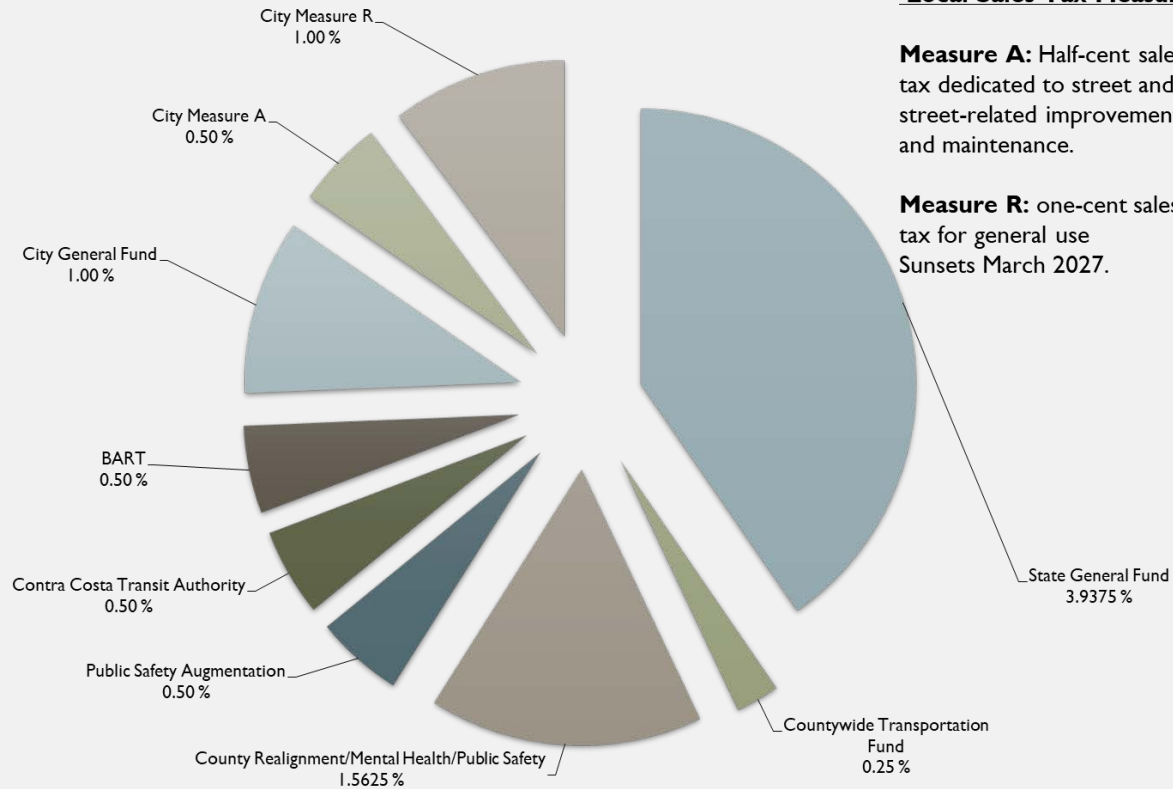
In addition to the General Fund, the City also collects revenue from Special Funds, which are restricted to the use they are intended. These include Measure A Streets, Swim Center Parcel Tax, Storm Drain, National Pollutant Discharge Elimination (NPDES), Landscape and Lighting (LLAD), State funds such as SBI for Road Repair and Gas Tax, Measure J for transportation, Integrated Waste Management, Public Art, Capital Improvements, and other Federal, State and Local grants. The total revenue is \$51 million. Most services are paid out of the General Fund, which is why we focus on this fund the most.

# Your Property Tax Dollar



Where your Property Taxes go: This chart shows how one of your property tax dollars are allocated among various agencies. For every property tax dollar collected, the City of El Cerrito receives about \$0.22.

## Sales Tax Distribution



### Local Sales Tax Measures

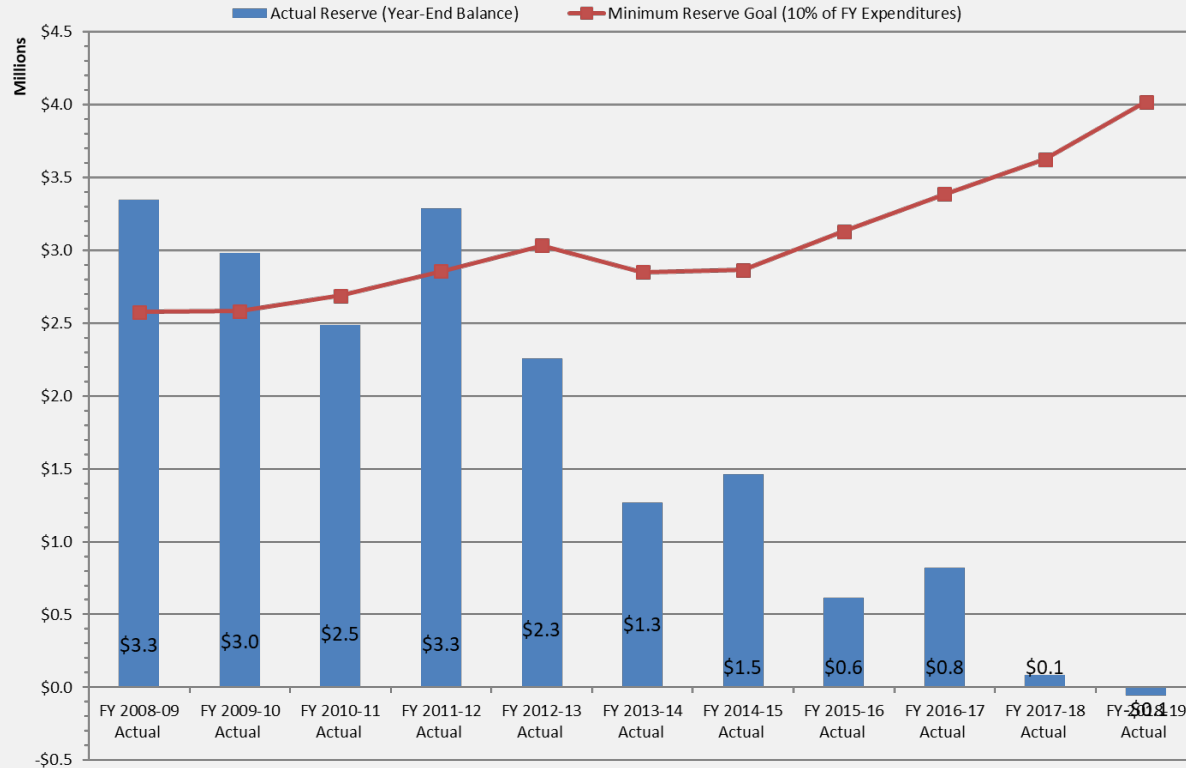
**Measure A:** Half-cent sales tax dedicated to street and street-related improvements and maintenance.

**Measure R:** one-cent sales tax for general use  
Sunsets March 2027.

Where your Sales Tax goes: This chart shows how the sales tax paid in El Cerrito is distributed. As shown above, the City receives 2.5% of the 9.75% sales tax.



### General Fund Reserve Versus 10% Reserve Goal FY 2008-09 to FY 2018-19



What's in Reserve: Another important factor in the City's budget is the General Fund Reserve. The Reserve is the difference between how much money comes into the City and how much we spend. The Reserve is essentially the City's savings account, meaning it is money set aside to protect the City from any events that could impact the financial condition of the City, and provide a safety net especially in case of emergencies.

The City's adopted Financial Policies state that the City's goal is to maintain a 10% Reserve, and last year approved a new Emergency and Disaster Recovery Fund to begin saving for emergency events. Any use of the Reserve must be approved by the City Council through the budget process or through separate appropriations. As shown in the chart above, the City has had to use the General Fund Reserve to balance the budget in recent years, dropping below the minimum. Using the Reserve in this way is not sustainable, and the City must use balancing measures to build the reserves back above the minimum amount. Additional events in recent years have not allowed the City to rebound.

In 2016, our independent auditors made a Payroll Accrual Adjustment that decreased the General Fund Reserve by \$912,139. The adjustment for accrued liabilities was made to account for payroll expense incurred at the end of the fiscal year but paid in the following year. In fiscal year 2017, the City recorded restatements to correct allocation of revenues to appropriate funds, eliminate unavailable revenues that were recorded to offset loan receivables, to reconcile cash and investments, capital assets, and accounts payable, and to account for payroll expense in the correct service period. In 2017-18, the City spent \$425,000 that had not been budgeted in order to create the Midtown Activity Center in response to WCCUSD ending our lease on the former Senior Center property.

# COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR) FY 2019



General Fund	2019 Actuals
Revenues	\$39,353,732
Expenditures	\$40,202,753
Proceeds from Sale of Land	\$800,755
Other Financing Sources	\$(95,996)
Change in Fund Balance	\$(144,262)
Beginning Fund Balance	\$87,570
Ending Fund Balance	\$(56,692)

The FY 2019 audit is an unqualified opinion, which is positive. An unqualified opinion is an independent auditor's judgment that an agency's financial statements are fairly and appropriately presented, without any identified exceptions, and in compliance with generally accepted accounting principles (GAAP). This is also known as a "clean" report, meaning that our financial statements are transparent and thorough and have not hidden important facts.

This is a very basic chart showing the General Fund Reserve balance as of the end of FY 2019. "Proceeds from Sale of Land" is considered revenue, however it is one-time revenue and considered a special item. This, as was reported to the City Council at midyear, was used to pay off the General Fund "due-to" debt from other funds and so was not included in the General Fund Reserve balance. "Other Financing Sources" include transfers and debt financing. This resulted in a change in fund balance of \$144K from the previous year, and ends with -\$56K at the end of FY 2019. We should note that we received a payment due to us from the City of Richmond in the amount of \$116K that did not make it in time for the audit close, so it was not included; our fund balance would have been a positive \$59,627. Additionally, if the "Proceeds from Sale of Land" had not been written off, that would have also appeared in the fund balance, though the write-off has a positive long-term effect.

What this chart shows is, we have work to do to build back our General Fund reserves. The CAFR is published on the City's website. We will discuss the CAFR with the City Council at the February 18, 2020 City Council meeting.

# HOW DID WE GET HERE?



- Great Recession
  - Implementing no layoffs of City staff during the recession of 2009 and 2010.
- Redevelopment Dissolution
  - The impact of redevelopment dissolution resulted in an annual loss of approximately \$1 million per year. This money had previously supported many programs related to economic development, support of the business community and our commercial areas, funding capital improvements, and helping to facilitate development. We are also in litigation with the state for \$1.3 million.
  - No layoffs of staff when Redevelopment Agency dissolved
- Dispatch Contract with City of Richmond
  - The City's opposition of the expansion of the West County Jail by the Contra Costa Sheriff in 2016 resulted in a cancellation of a dispatch contract with the County by the Sheriff. The City was forced to continue to contract dispatch with the City of Richmond that cost the City more than anticipated.
- Senior Center/Midtown Activity Center
  - Building the Midtown Activity Center in 2018 due to the West Contra Costa Unified School District (WCCUSD) unexpected decision to terminate the City's use of the Senior Center building. This has cost close to \$500K plus \$100K yearly rent for buildings.
- Audit Adjustments
  - Payroll adjustment
  - General Fund Transfers/Due-to
- City Council policies without a corresponding revenue source
  - Establishing a Minimum wage for El Cerrito in 2015, which increased the cost of summer part time workers.
  - Increasing library hours, costing \$100K per year.
  - Ongoing compliance with State Stormwater Pollution laws.
  - Maintaining Citywide street lights beyond what the City receives in revenue from the Lighting and Landscape Assessment District (LLAD).
  - Implementing implicit bias and de-escalation training in response to growing homelessness and mental health issues.
  - Funding School Resource Officers at 100% level, while the City is only reimbursed by WCCUSD at 80% and will be further cut.

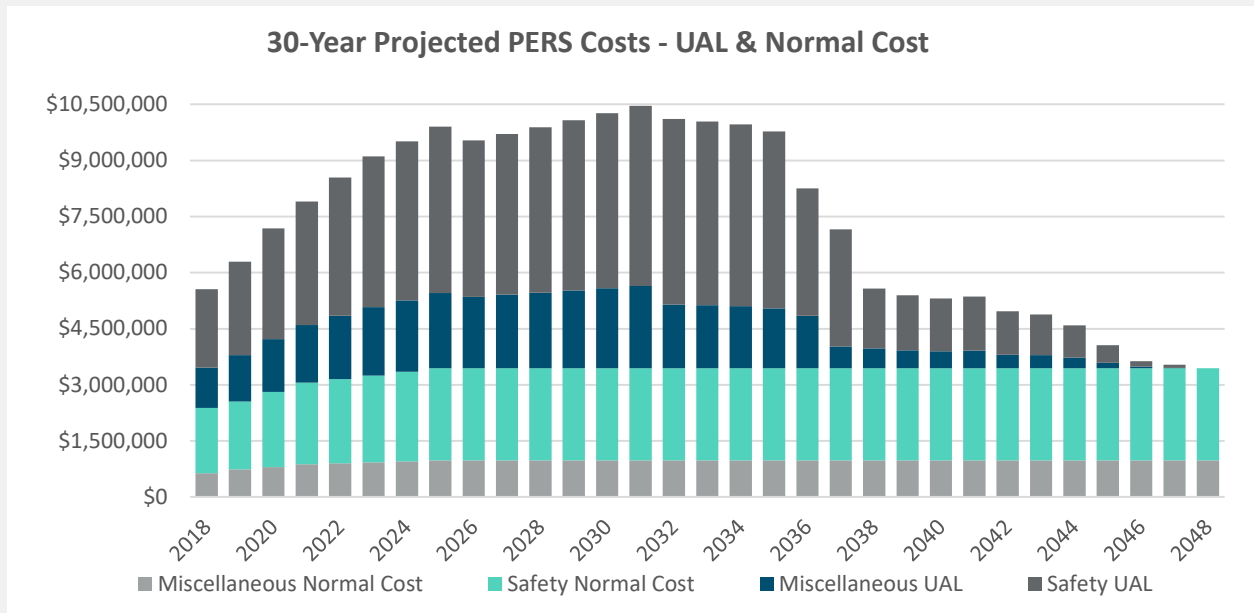
# WHAT HAVE WE DONE?

- **Actions taken during Great Recession**
  - Vacant positions were eliminated (~\$1.5 million) to help balance the budget which caused the City to have an almost 20% vacancy rate.
  - Staff made a number of wage concessions: increased pension contributions, deferred pay increases, furloughs.
  - Changed the City's health insurance broker to reduce costs in 2014.
  - Departments were reorganized to achieve better efficiencies.
  - Funding from grants and other funding sources have been secured in addition to implementing other innovative solutions to save money and maintain programs and services to the community.
  - Deferred maintenance of some City buildings and parks.
- **Revenue Measures Passed by Voters**
  - Special Taxes (2/3 required to pass, funds are restricted)
    - Measure A - Streets – 2008
    - Measure H - Parks and Recreation – 2019
  - General Taxes (50% + 1 required to pass, funds go to General Fund and are not restricted)
    - Measure R –2010, renewed 2014, sunsets 2026
    - Measure V - Charter City and Real Property Transfer Tax – 2018
- **San Pablo Avenue Specific Plan**
  - Housing and mixed-use projects currently under construction, several more are entitled.
  - Some of these properties were vacant producing very little revenue compared to what their reassessed values will be.
  - The vacant former Redevelopment Agency properties have been producing no revenue at all and will soon be producing tax of approximately \$130,000-200,000 per year, of which the City's share will be approximately \$60-100K/year.

# FUTURE BUDGET CHALLENGES

- Property Tax Revenues – expecting slower growth than in previous years
- Sales Tax Revenues – remained relatively level, but not a large sales tax base
- Personnel costs, particularly medical and benefits costs, are increasing
  - Challenge for employee retention, especially Police Department, and competition/market in Bay Area agencies
  - Pension costs rising due to decisions by CalPERS
- School District – eliminating contribution to SRO program
- Unfunded mandates from the State
- Climate Change – increasing focus on disaster preparedness and wildfire safety
  - Emergency and Disaster Recovery Fund created, but funding may not be available
- Future recession...?

# PROJECTED CALPERS PENSION COSTS



CalPERS is the statewide public pension system. There are two categories: one for Safety (Sworn Police and Fire) and Miscellaneous (non-Sworn employees). This chart shows the projected costs for a 30-year period. “Normal Cost” is the annual cost of service accrual for the upcoming fiscal year for active employees. The normal cost should be viewed as the long-term contribution rate. Unfunded Liability/Unfunded Actuarial Accrued Liability (“UAL”) means when a plan or pool’s Market Value of Assets is less than its Accrued Liability, the difference is the plan or pool’s Unfunded Liability. If the Unfunded Liability is positive, the City will have to pay contributions exceeding the Normal Cost.

CalPERS is based on “shared responsibility.” This means that retiree payments come from three sources: investment earnings, employer contributions, and employee contributions. Changes to investment earnings have a direct effect on employer contribution rates. As investment earnings decrease, employer contributions increase.

CalPERS is not fully funded. As of January 22, 2019, CalPERS only had 65% of the funds required to pay estimated retirement benefits.. CalPERS’ goal is to be 100% funded. Should we face even a mild recession, the funded status could be reduced further. Experts warn that the system may no longer be viable should the fund drop below 50-55% funded.

When CalPERS lowers its investment return target, also known as the “discount rate,” member agencies must increase contributions to make up the difference. CalPERS authorized an adjustment to the discount rate from 7.75% to 7.5% in 2014 and then to 7% in 2016. This last adjustment will be phased in over eight years with the member rates rising exponentially each year. The full impact of the discount rate adjustment will be realized in fiscal year 2024. A recent revision to the fund’s Actuarial Amortization Policy from 30 years to 20 years will go into effect in the 2021-22 fiscal year based on the actuarial valuations of 2019. While shortening the amortization schedule is fiscally prudent for the fund in the long term, in the short term this may increase City contribution amounts if CalPERS does not hit their annual investment target of 7 percent. According to CalPERS, they expect an average of 6.1 percent returns over the next ten years.

# STATE AUDITOR'S REPORT

The City was visited by a team from the State Auditor's office to review documents and interview members of City staff and the City Council. Recently, staff had a conference call with that team, and during that call they informed us that they intend to recommend performing an audit to the Joint Legislative Audit Committee, which is a committee made up of both Assemblymembers and State Senators. The State Auditor Team identified five concerns:

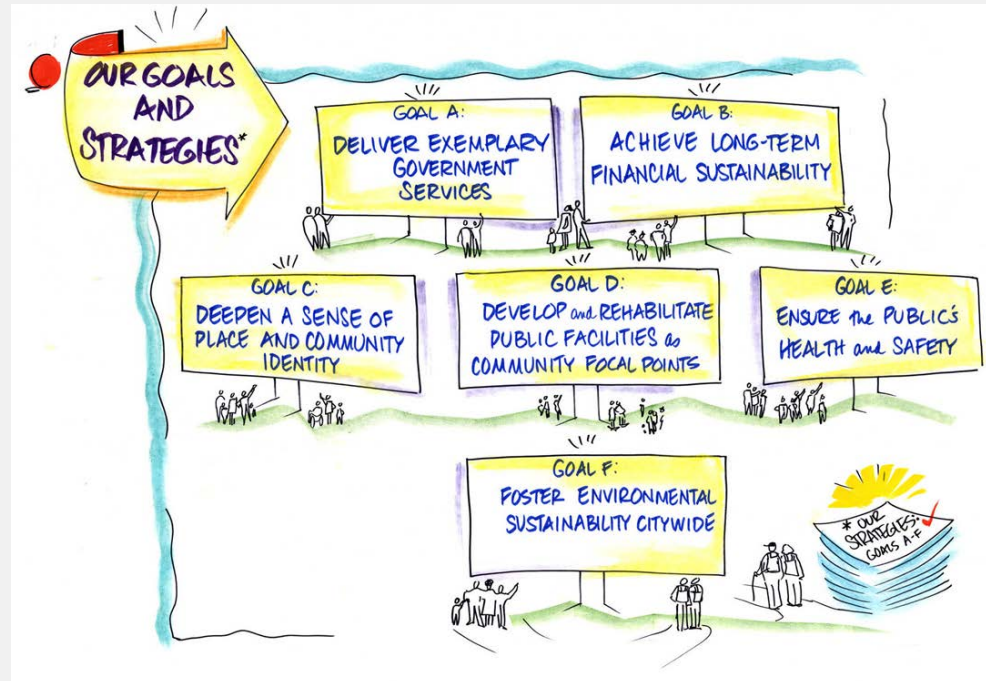
- Current Financial Condition: concerned about our low/deficit General Fund reserves
- Financial Forecast: concerned that we have not adequately planned to replenish reserves
- Pensions and OPEB: concerned about our liabilities
- Programs and Services: concerned that our General Fund cannot support our full service city
- Public Safety Staffing: concerned especially about sustaining our full service Fire Department and the overtime costs vs. vacant positions.

The City agreed that it is facing significant financial challenges and recognizes the benefits a formal audit could bring, and that we have taken action to improve our financial condition, including new voter-approved revenue sources; and has a plan to take further action, including making short- and long-term expenditure reductions. We agreed that an audit could be helpful with recommendations on items including Current Financial Condition, Financial Forecast, and Pension Liability. We did let them know that we disagreed on their assessment on:

- OPEB liability: The City does not fund, nor has a legal obligation to fund, retiree health care and acts as a pass-through between the health provider and retirees, who pay for the service.
- Programs and Services: Like all cities, the City relies on its General Fund to provide services.
- Public Safety Staffing: The City annually analyzes its staffing levels through its budget process and believes that its contractual relationships are advantageous to the City.

We also told them that we have concerns that performing an audit would present considerable scheduling issues and expend limited resources from its small staff, but that we hope that the benefits of a focused audit would be worth the State's investment in our community should the Committee decide to move forward.

# STRATEGIC PLAN UPDATE



The City is in the process of an update of our City Strategic Plan. Originally adopted in 2013 and updated in 2015, our Strategic Plan established the City's Mission, Vision, and Values, and outlined goals and objectives developed by the community that has guided our work over the past several years. The Strategic Plan was meant to cover the period through the year 2020, and it is timely that we begin this process now in light of our budget challenges. This time, rather than a "wish list" of items that reflect the community's desires, our Strategic Plan update will instead focus on prioritizing the services that our community values most, how we can provide those services in an effective manner over the next few years, and inform our upcoming Fiscal Years 2020-21 and 2021-22 biennial budget process. To do this, we will be working with the City Council, City staff, community organizations, the business community, City boards, commissions, and committees, and the community at large. We will be hosting a Community Strategic Plan Open House on Wednesday, February 12, 2020, and an online forum at [www.el-cerrito.org/onlinesurvey](http://www.el-cerrito.org/onlinesurvey) where anyone can provide feedback. We will also be including information that we learn from the budget meetings within this process as well. The City Council will then host a public workshop on the Strategic Plan on Saturday, March 14, 2020 from 9:30 a.m. to 2:00 p.m. that bring together all the information gathered to date to help shape our strategic priorities.



# FUTURE MEETINGS AND MORE INFORMATION

- February 4: City Council Meeting: Study Session on General Fund Forecast and Budget Discussion (City Hall, 7:00 p.m.)
- February 12: Community Open House on Strategic Plan Priorities (City Hall, 6:00 p.m. to 8:00 p.m.)
- February 18: City Council Meeting: FY 2019-20 Midyear Budget Adjustments and CAFR (City Hall, 7:00 p.m.)
- March 14: City Council Workshop on Strategic Plan Priorities (City Hall, 9:30 a.m. to 2:00 p.m.)
- More information:

[www.el-cerrito.org/AnnualBudgetProcess](http://www.el-cerrito.org/AnnualBudgetProcess)

[www.el-cerrito.org/strategicplan](http://www.el-cerrito.org/strategicplan)

- Feedback:

[www.el-cerrito.org/onlinesurvey](http://www.el-cerrito.org/onlinesurvey)

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