City of Alameda
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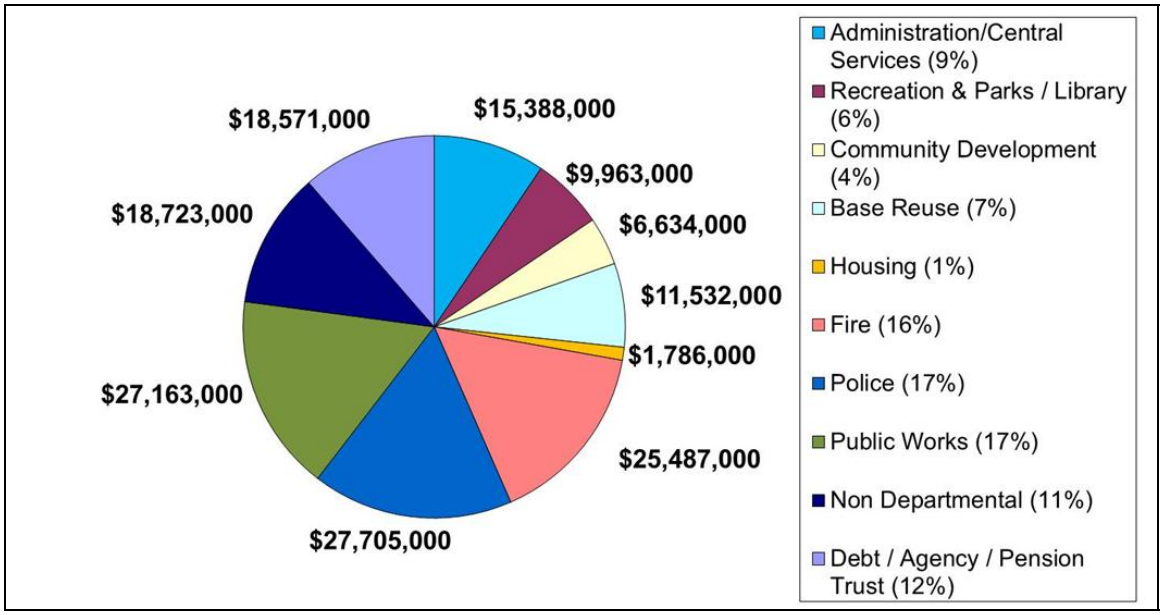
June 11, 2013

Honorable Mayor and Members of the City Council:

The City of Alameda's Annual Budgets for Fiscal Year (FY) 13-14 and 14-15 provide a comprehensive financial framework for all City services for the next two years. The City's total proposed expenditure budgets (excluding transfers) for FY 13-14 and 14-15 are $163 million and $164 million respectively, of which 41% and 42% respectively represent the General Fund, the City's main source of unrestricted funds. These proposed budgets fund a total of 406 full time equivalent employees for both fiscal years. Of these total proposed budgets, approximately 16% is for Fire, 17% Police, 17% for Public Works, and the remainder for Recreation/Library, Community Development/Base Reuse, Administration and other programs offered by the City, as shown below:



The City's budgets for FY 13-14 and FY 14-15 represent a true two year budget, in which the governing body appropriates and adopts a 24-month fiscal plan as opposed to a plan covering a 12-month period. One of the primary advantages of two-year budgets is the amount of time savings that can be realized by both staff in the preparation of the budget, and by the governing body who must review and adopt the budget. Many jurisdictions use the time saved to develop more robust strategic planning efforts, including additional engagement with the public. Next year the City will be able to focus on developing meaningful, objective performance measurements for each department.

Because this is a two year document, departments are not able to adjust their budget every year; therefore, they must be more conservative in their projections and cannot come back for additional funding (barring unforeseen circumstances). The two year budget provides funding certainty for departments and employees since they are not fearing cuts every year. Moreover, because a portion of the savings from the first year can be rolled over to the next, there is not the incentive to spend what was budgeted if it is not needed.

Overview of the General Fund Proposed Operating Budget for FY 13-14 and 14-15

Structural Deficit Issues

Staff knew when the budget was adopted in FY 12-13 that additional work was needed to bring expenditures in line with revenues. The budget presentations staff delivered in April 2013 showed the City facing a $2.7 million budget deficit for FY 13-14 and a $4.4 million deficit for FY 14-15. These projections were revised in May 2013 and the projected deficits grew to approximately $3.5 million in FY 13-14 and $5.2 million in FY 14-15. The deficit rose to $8.3 million in the last year of the five-year forecast, without any proposed corrective actions. At this rate, the City would spend down all of its General Fund reserves, as shown below, unless significant structural changes were made to the General Fund budget.

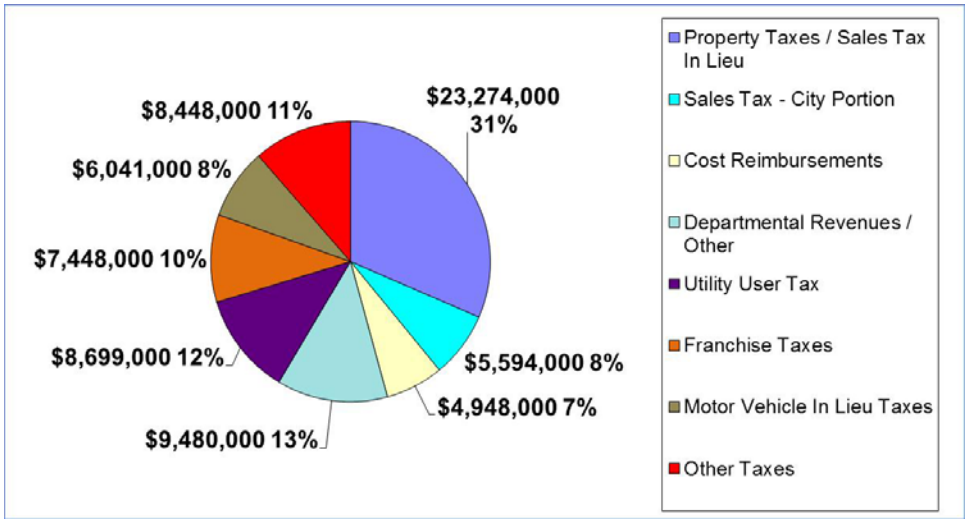
5 Year Projections for FY13-14 through 17-18 (in millions)
Without proposed changes

	13-14	14-15	15-16	16-17	17-18
Revenues	$72.8	$73.9	$75.0	$ 76.3	$ 77.7
Expenses	76.3	79.1	81.7	83.8	86.0
Deficit For Year	$(3.5)	$(5.2)	$(6.7)	$ (7.5)	$ (8.3)
Ending Available Fund Balance	$18.5	$13.3	$ 6.6	$ (0.9)	$ (9.2)
% of Expenses	24%	17%	8%	-1%	-11%

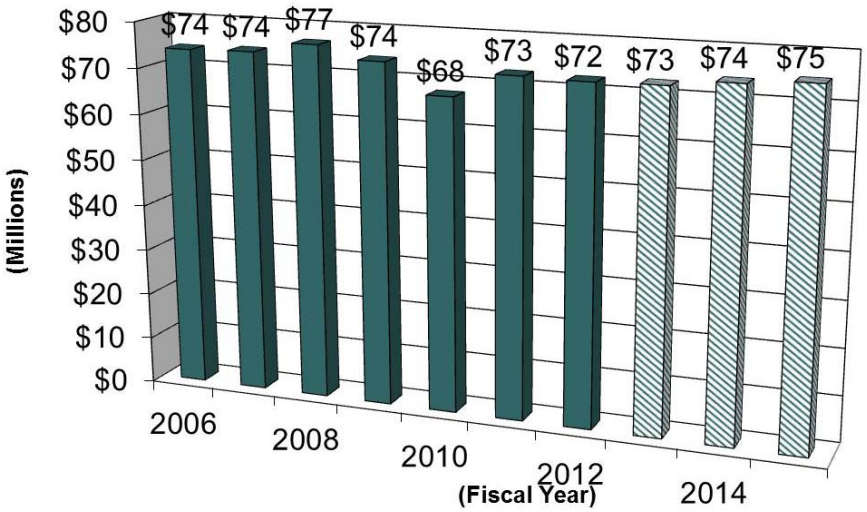
Department heads and budget managers in all departments have worked hard this year to develop a budget proposal that makes the changes necessary to balance the budgets for FY 13-14 and FY 14-15 and make a significant dent in the deficit in the out years, while minimizing any direct impacts to the community. Staff is, however, proposing a number of changes that will indirectly affect the community as staff is reduced and reorganized in the City's administrative departments. These changes are necessary in order to balance the City's budget for the next two fiscal years and partially address future shortfalls.

Revenue and Expenditure Forecasts

The General Fund's major revenue sources include property and sales taxes, utility users and franchise taxes, transfer and vehicle taxes and hotel taxes. Together these groups comprise 80% of total revenues for FY 13-14, as shown on the graph below. The remaining 20% includes revenues such as departmental revenues, cost reimbursements from other funds, and interest revenues.

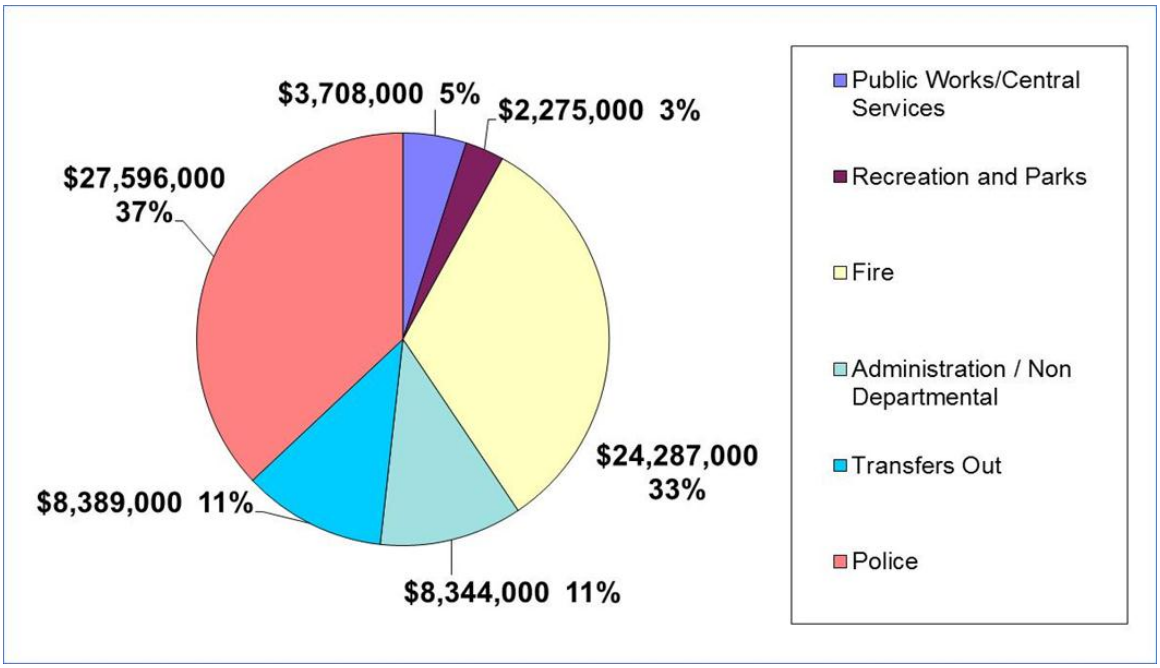


Total General Fund revenues for FY 13-14, excluding the receipt of one-time funds, are projected to be approximately $74 million, with a slight projected increase to $75 million in FY 14-15. A full return to the revenue levels of several years ago is unlikely in the near future, as displayed on the General Fund revenue trend graph below. The revenue projections are based on staff's analysis of local conditions and reflect information received from a number of sources, including the City's sales and property tax consultant as well as the County Assessor's and State Controller's offices.



General Fund expenditures, before any proposed reductions, are projected to increase to $75 million in FY 13-14 and to $77 million in FY 14-15. The increases are due primarily to increases in retirement and health insurance rates, the assumption of full staffing for the entire year and the incorporation of the financial impacts of the new Memorandums of Understanding (MOUs) approved for the City's various employee bargaining groups.

Like many California cities, a significant portion of General Fund expenditures goes towards Public Safety (37% for Police, 33% for Fire), with the balance allocated for a portion of Recreation and Parks, Public Works, administrative functions, and transfers out for retiree benefits and vacation payouts, capital and maintenance projects, a portion of library operations, and debt service on existing bonds, as summarized on the graph below:



Addressing Projected Deficits for Fiscal Years 2013-2014 and 2014-2015

In addressing the budget, staff recommends using a combination of expenditure cuts (with accompanying staff reductions), revenue enhancements, and other one-time funds, including the use of projected carryover budget savings from FY 12-13.

The budget reductions and reorganizations staff is proposing for the upcoming fiscal year will not solve the entire deficit for FY 15-16 and beyond. In order to minimize any direct impacts to the community, the proposed budget also relies on the few remaining one-time solutions to ensure balanced budgets for FY 13-14 and FY 14-15. Any decrease in the proposed budget reductions or in the use of one-time solutions will result in the need to further reduce the City's reserves. Because reserves are a finite resource, spending down the reserves is neither fiscally responsible nor a long-term solution. Moreover, it will leave the City vulnerable in the event of a major natural disaster or another downturn in the economy.

Proposed Expenditure Reductions

In developing a balanced budget for FY 13-14 and FY 14-15, staff focused on maintaining progress on important City goals across the organization, while looking for opportunities to save money by reducing expenditures in areas outside of core, street-level services. As discussed with the City Council at the April and May 2013 budget workshops, all City departments were tasked with developing scenarios in which they reduced their budgets and/or increased their revenues between 1% to 5%. Given prior budget reductions, this was a difficult process. Nevertheless, all of the departments worked to put forth budget reduction options of approximately $2.8 million in FY 13-14 and $3.4 million in FY 14-15, as summarized below:

Department Category	2013-14	2014-15
Administration	$ 831,000	$ 833,000
Police	341,000	334,000
Fire	180,000	180,000
Central Services	49,000	49,000
Library	100,000	100,000
Recreation	60,000	60,000
General Fund Capital Projects	602,000	1,427,000
Parking Meter Rates	285,000	380,000
One Time Revenues	320,000	
Total	**$2,768,000**	**$3,363,000**

Additional details regarding the proposed reductions and other major changes are as follows:

Administration: $831K FY 13-14, $833K FY 14-15 – The General Government departments include the City Council, City Manager's Office, City Attorney's Office, City Clerk's Office, as well as Human Resources and Finance. The reductions in this area include eliminating a position in the City Attorney's office, one full-time position in the City Manager's Department, a reorganization of Finance and Human Resources, a reduction of other operational costs in Human Resources, a proposed increase in business license processing fees and penalties, an elimination of a position in the Information Technology Division of the City Manager's Office, and a partial reallocation of the Cable Television Administration program to the City's Cable Special Revenue Fund.

Fire: $180K annually – The Fire Department will reduce budgetary expenditures for the purchase of equipment, materials and supplies as well as by a reduction in overtime. The Fire Department will also increase revenue by raising its fees for fire inspection services.

Police: $341K FY 13-14, $334K FY 14-15 – The Police Department is proposing an increase in parking citations which is estimated to generate $379K annually. The Department is also proposing to reallocate $100K COPS State grant funds annually for equipment replacement, to add part time staff for parking enforcement and an IT person for the implementation of a new CAD/RMS system, and to reduce their base budget by $228K over two years through reduced booking fees from the County.

Recreation and Parks: $60K annually – The Recreation and Parks Department is proposing reductions in its Hardball Field program at the College of Alameda, in Swim Center Facility Maintenance, and for other administrative contractual services. In addition, they are proposing the implementation of a park ranger program, resulting in no net additional costs to the City.

Public Works: $49K annually – The Public Works Department is primarily funded by monies outside the City's General Fund, such as the Gas Tax Fund and the Sewer Fund. For the next two fiscal years they are proposing to increase the hourly rate for fleet maintenance (excluding basic oil changes) charged to Alameda Municipal Power (AMP) and the Alameda Unified School District (AUSD).

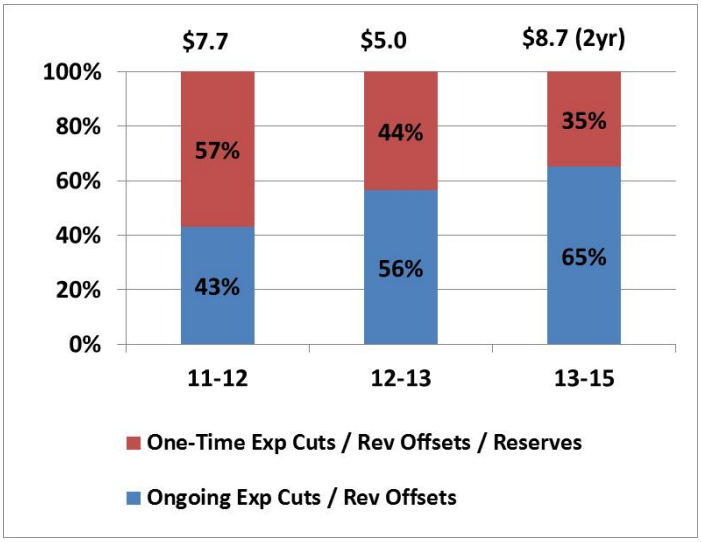
Library: $200K over two years – The Library Department's proposed reductions will primarily come from the use of remaining Measure O bond funds to fund capital outlay for both years.

Contributions for Capital/Maintenance Projects (CIPs): $602K FY 13-14, $1.427 million FY 14-15 The General Fund's contribution to Capital Projects will be reduced by both the total funding it receives as well as adjusting where the money comes from. It also reflects a more realistic number of projects that can be completed by the public works staff assigned to CIPs and maintenance projects over the next two years.

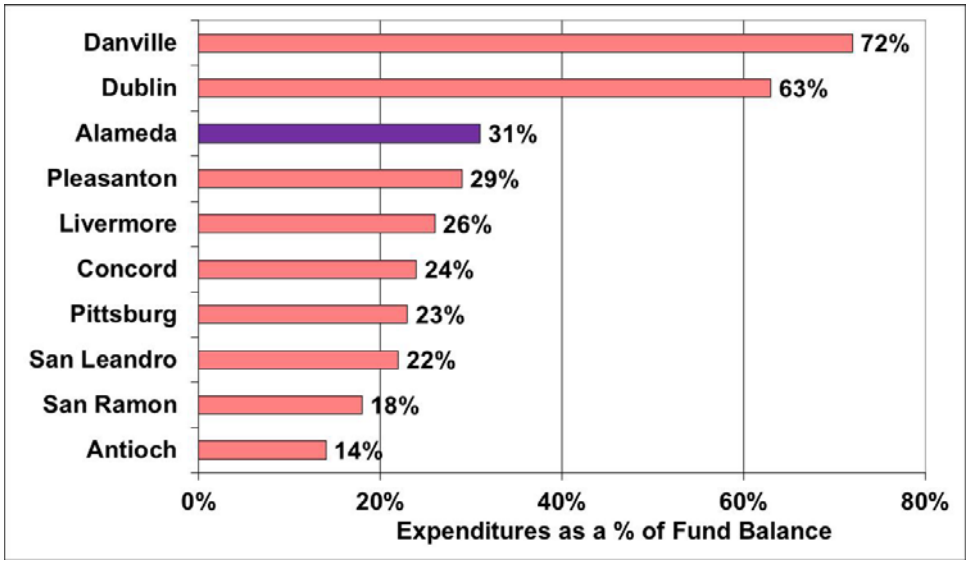
Increase Parking Meter Rates: $285K FY 13-14, $380K FY 14-15 – This proposal would increase meter rates by $.50 per hour and parking garage rates by $.25 per hour, to bring the City's charges up to the regional standard. It is anticipated that this change will generate up to $380k annually once fully implemented and take staff approximately three to six months to implement.

Use of One-Time Funds and General Fund Available Reserves

To address the remaining portion of the deficits for FY 13-14 and 14-15, staff is also proposing the use of the following one-time funds: a $320,000 reimbursement due from the Bayport Assessment District for reimbursement amounts due from prior years for public safety services, and use of General Fund projected budget savings from FY 12-13 ($.7 million FY 13-14, $1.8 million FY 14-15). As shown in the graph below, the City has significantly reduced its reliance on the use of one-time funds to address its projected deficits over the past few fiscal years.



If all of the above items are implemented, the City's General Fund is projected to have available reserves of approximately $19.5 million (25% of annual expenditures) at the end of FY 14-15. This meets the City Council's goal of maintaining a General Fund reserve level of at least 20% of annual expenditures. This reserve policy is in line with those projected by nearby cities for FY 12-13, as shown on the graph below:



Five Year Forecast with Proposed Changes

As previously discussed, projected increases in costs (including those resulting from changes in CalPERS smoothing methods for employer contribution rates) have resulted in projected General Fund deficits ranging from approximately $4 to $7 million annually beginning in FY 15-16. Absent any future corrective action, the City's available reserves will be reduced to approximately $4.0 million, or 5% of projected expenditures by FY 17-18, as shown below:

5 Year Projections for FY13-14 through 17-18 (in millions)
With Proposed Changes

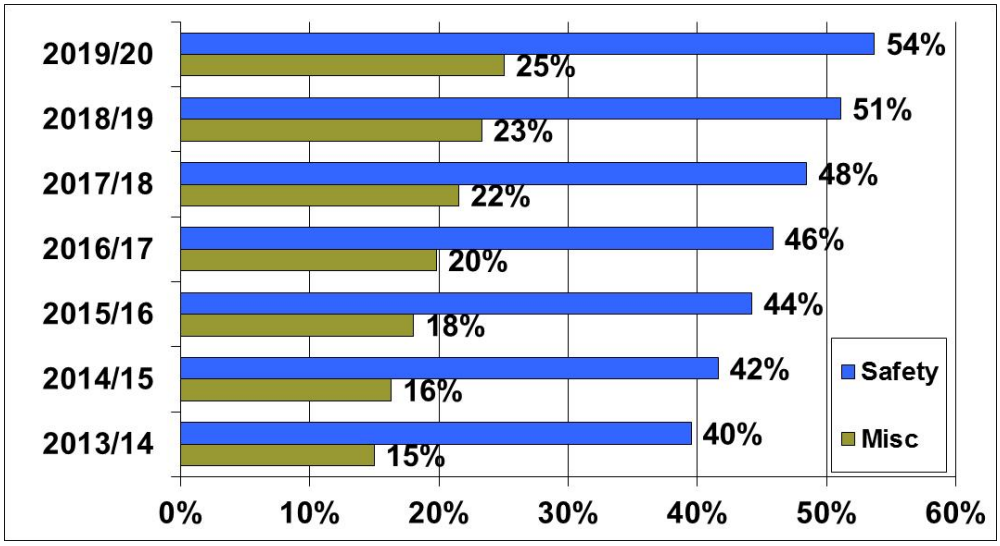
	13-14	14-15	15-16	16-17	17-18
Revenues	$73.9	$74.8	$75.9	$ 77.2	$ 78.6
Expenses	74.6	76.6	79.2	81.3	83.5
Budget Carryover from FY12-13	0.7	1.8			
New PERS Rates - Safety			0.4	0.7	1.3
New PERS Rates - Miscellaneous			0.1	0.3	0.4
Deficit For Year	$ -	$ -	$ (3.8)	$ (5.1)	$ (6.6)
Ending Available Fund Balance	$21.3	$19.5	$15.7	$ 10.6	$ 4.0
% of Expenses	29%	25%	20%	13%	5%

The five-year forecast includes the following assumptions:

- Annual revenue growth of 0-3%, versus average growth of 6% between FY 03-04 and 07-08.

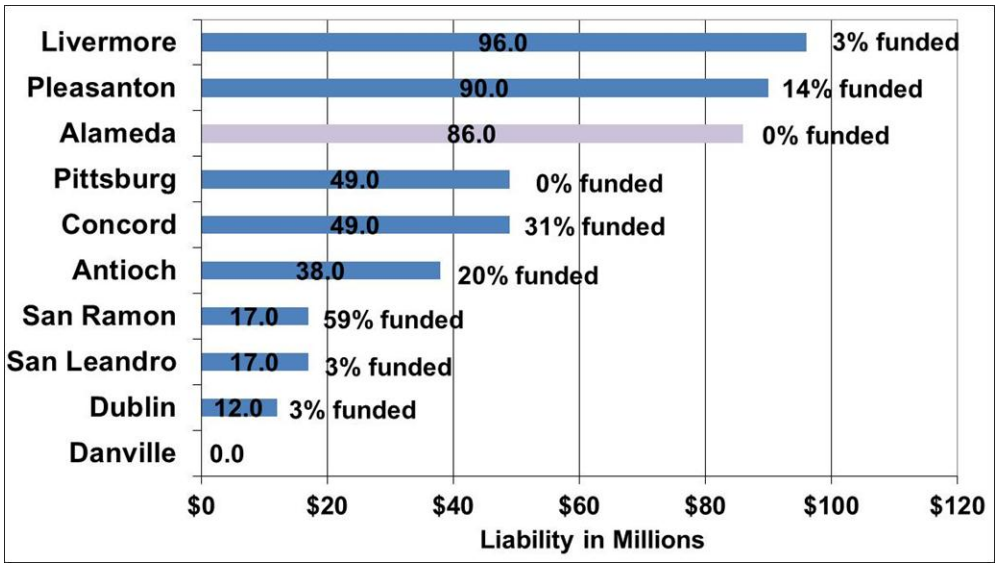
- New agreed upon salary increases for all employees (0% through calendar year 2013, followed by a minimum of 1.5% for 2014 and 2.0% for 2015 and 2016 and 0% for 2017, based upon increases realized in specified tax revenues for the General Fund).

- New Miscellaneous / Safety PERS rates, which include the projected effect of the recent changes made by CalPERS to their amortization and smoothing policies, which was to smooth changes to the rate over a five instead of a fifteen year period. CalPERS will be implementing these changes over a five year period, beginning in FY 15-16, and are incorporated in the numbers shown on the graph below.



These rates continue to assume a rate of return on PERS investments of 7.5% annually. If the PERS future rates of return are lower than this assumed rate, the City will see additional increases to its contribution rates for both Safety and Miscellaneous employees. For the employer rates shown on the graph above, miscellaneous employees pay 1.868% of the total employer percentage, on top of their 7% employee contribution. In the same manner, for FY 13-14, public safety employees will pay 3% of the total employer percentage, increasing 1% each year to a maximum of 6% of the total employer percentage, on top of their 9% employee contribution.

- Health and Other Post-Employment Benefit (OPEB) are projected to increase 12% each year, with all employees picking up between 15-25% of the annual increase in health care costs beginning FY 13-14, increasing to 50% by 2015 for Miscellaneous employees and 2017 for sworn Safety employees. It is assumed that OPEB will continue to be funded on a “pay as you go” basis. The City’s unfunded OPEB liability as of January 2011 is approximately $86 million, as shown on the graph below. The City will have a third party actuary update the unfunded OPEB analysis in 2013.



- 3% increases for all non-personnel expenses resulting from inflation beginning in FY 16-17.

Other Budget Highlights for Fiscal Year 2013-2014

Expiration of Fire (SAFER) Grant

A Fire Department grant (known as the SAFER grant), which is being used to fund six firefighter positions, is expiring in September 2014. The expiration of the grant will have significant consequences for the Fire Department, particularly in the area of overtime, should the grant not be renewed. Staff will provide Council with additional updates regarding this grant as part of the mid-cycle update to this two year budget.

Proposed Non General Fund Staffing Changes

In addition to the staffing changes proposed above, Public Works is proposing to add a New Public Works Supervisor to assist with its maintenance programs as well as an Associate Civil Engineer to assist processing new development within the City. In addition, the Base Reuse Department is proposing the elimination of one position.

Update regarding the City's Successor Agency

The State has completed their final review of the Successor's Agency's audit reports for Fiscal Year 2012-13 and has indicated that a payment of only approximately $10K of Successor Agency reserves was due and owing to the State. Staff will provide Council with additional updates regarding other items affecting the Successor Agency at a later date.

Voluntary Layoff Program

The City implemented a Voluntary Layoff Program during FY 12-13, similar to an early retirement incentive program, but open to all employees (with the exception of the Fire Department). Nine employees took advantage of the program (including three from Alameda Municipal Power (AMP)), at a cost to the City of approximately $182,000, which will be recovered through related personnel savings realized in FY 13-14.

Departmental Goals for FY 13-14 and 14-15

In spite of the significant budget reductions noted above, the City's departments have a number of significant goals planned for FY 13-14, 14-15 and beyond.

City Council

- Evaluate management practices to ensure high-quality customer service to Alameda's residents and businesses.
- Enforce fiscal sustainability in all City programs and services.
- Direct policy initiatives, as necessary, that focus on economic development and the health, safety and quality of life in the City.

City Attorney

- Provide high-quality, cost-effective legal services that are responsive to the needs of the legislative bodies and staff of the City of Alameda.
- Continue resolution of pending litigation matters at lowest possible costs to the City, while maintaining a strong City defense strategy.
- Offer legal and risk management services necessary to minimize City liability and exposure.

City Clerk

- Ensure compliance with the Sunshine Ordinance, Brown Act, Elections Code, Fair Political Practices Commission regulations and the Public Records Act.
- Provide accurate and impartial election information to candidates, campaign committees and the public.
- Develop an electronic records management system, which will assist with the completion of the Public Records Index and Records Retention Schedule.

City Manager

- Provide leadership in the development of solutions to the current fiscal challenges, including reducing costs, streamlining the organization, fostering economic development, exploring new revenue sources, and promoting interdepartmental cooperation.
- Promote interagency relationships with other public entities to ensure efficient and effective service delivery among shared customers.
- Ensure that information requests made by Council members, residents and other local stakeholders are addressed promptly and thoroughly.

Finance

- Complete annual audits for the City in accordance with standards established by the Governmental Accounting Standards Board and Government Finance Officers Association (GFOA).
- Provide accurate and timely budget and financial reports to City departments and Council, to assist in meeting departmental missions in accordance with standards established by GFOA.
- Administer City expenditures in conformance with municipal code requirements for contracts and payables.

Human Resources

- Assist the Executive Management Team to plan, manage, and coordinate changes to the City organization that make it more adaptable to changing circumstances.
- Provide excellent and responsive customer service to City departments in meeting the challenges and demands of reorganization and workforce planning.
- Review requirements of federal and state mandates to ensure that the City is in compliance.

Central Services

- Maintain City facilities in a secure, clean, and acceptable condition, as resources allow.
- Maintain City facilities to prevent any interruptions of occupancy.
- Implement the use of fuel readers to improve the tracking of vehicle maintenance.

Library

- Provide a broad and diverse collection of books and other library materials to meet the varied interests and needs of the community.
- Use new technology to optimize the delivery of library services.
- Provide library programs and publications to educate, enrich and inform users.

Recreation and Park

- Provide creative, innovative and accessible programs to youth and teens that encourage positive personal growth in the areas of social, educational, and health enrichment.
- Work cooperatively with the Alameda Unified School District (AUSD) to evaluate and develop a long-term plan to provide quality aquatic facilities for the community and students.
- Improve marketing through a stronger social media presence and innovative programming.

Community Development

- Prepare and administer equitable and flexible land use plans, regulations, and programs supporting sustainable development.
- Promote businesses and reduce commercial vacancies in historic "main street" areas, central districts and business parks.
- Support a structurally sound, safe, and accessible community through effective permits processing, inspection, and code enforcement of buildings.

Base Reuse

- Facilitate the transfer, reuse and redevelopment of former federal lands by effectively implementing planning and contractual development documents for Alameda Point.
- Assist with redevelopment activities within the Tidelands areas and implement the approved land swap legislation and agreement.
- Administer an efficient commercial and residential leasing program for Alameda Point.

Housing

- Administer the City's affordable housing funds to maintain and expand the supply of affordable housing.
- Implement the Five-Year Affordable Housing Development plan, which calls for the development of over 200 units of housing affordable to very-low, low and moderate-income families.
- Manage the Down Payment Assistance Program and Inclusionary Housing Program to provide ownership opportunities to first-time homebuyers.

Fire

- Protect and preserve the lives and property of the residents of Alameda during emergencies.
- Enhance efficient service delivery through the use of new technology, improved training methods, and regional and community partnerships.
- Analyze and develop solutions to enhance emergency medical service delivery within the city.

Police

- Enhance efficient service delivery through the use of technology.
- Increase efforts in traffic enforcement to reduce the number of pedestrian-related accidents.
- Continue the School Resource Officer Program, providing law enforcement liaison services to public high schools and middle schools.

Public Works

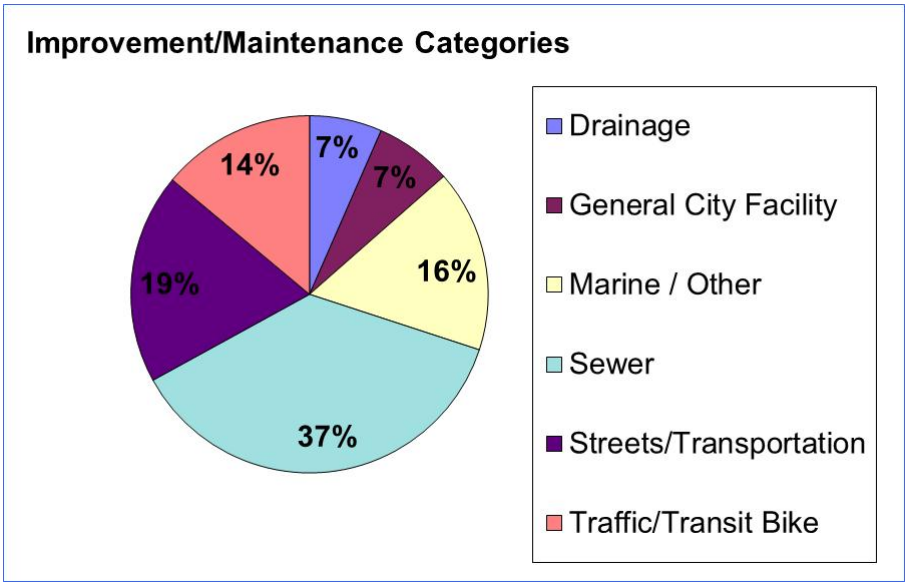
- Provide cost-effective planning, design, construction, and maintenance of public infrastructure and facilities that minimizes or reduces future operating costs and liabilities.
- Pursue grant funding opportunities to address deferred preventative maintenance needs.
- Plan, develop, and maintain a flexible and efficient multi-modal transportation system.

Capital and Maintenance Projects Proposed for FY 13-15

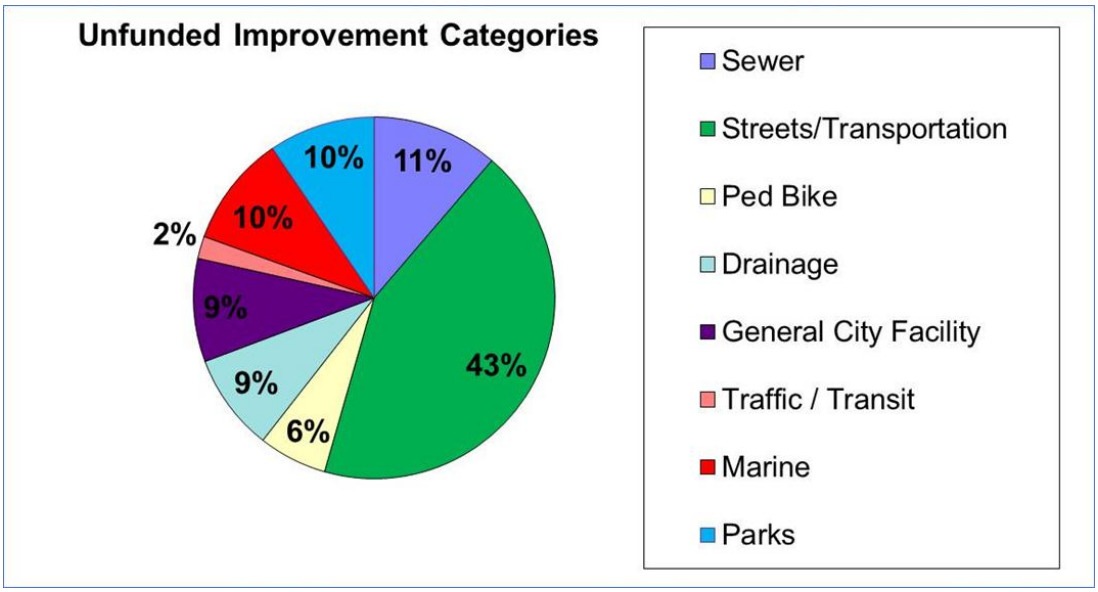
The proposed capital projects budget for FY 13-15 totals approximately $45 million, as summarized on the chart below. The majority (37%) of the costs of the capital projects relates to sewer maintenance and improvements required as a result of wet weather sewer overflow mandates and Clean Water Permit requirements. The General Fund is scheduled to contribute approximately $1 million during FY 13-15 towards the capital and maintenance project programs. Some of the major projects proposed include the following (the amounts represent two year totals):

Category	Name of Project	Two Year Totals
Sewer	Infrastructure Improvements	$15.55 million
	Infrastructure Maintenance	$1.1 million
Streets	Street Tree/Median Maintenance	$1.79 million
	Pavement Management Program	$5.64 million
Pedestrian/Bike	Sidewalk Repair Program	$1.5 million
	Bikeways and Trails	$2.0 million
Drainage	Storm Drain System Improvements	$2.5 million
	Storm Drain Maintenance	$488,000
General City Facility	Fire and Police Station Improvements	$645,000
	Design of Emergency Operations Center	$600,000
	Veterans Court Wall Construction	$750,000
	Library Improvements	$188,000
Marine	Marina Village Pier Repair	$472,855
	Estuary Crossing Shuttle	$643,000
Parks	Swim Center Renovations	$390,000
	Beltline	$238,000
Golf	Golf Course Renovations	$1.0 million
Other	Police Vehicle Replacement	$550,000
	Fire Vehicle/Apparatus Replacement	$1.1 million
	Citywide Records Management Software	$300,000
	Police CAD/RMS System Replacement	$1.0 million

A summary of the projects by improvement and maintenance categories is shown below:



The City continues to face a significant amount of deferred maintenance and unfunded capital projects. As indicated on the chart below, approximately $258 million of unfunded capital and maintenance projects are outstanding over the next five years, the largest of which are in the category of Streets and Transportation.



Summary

The City is able to present balanced budgets for the General Fund for FY 13-14 and FY 14-15 through a combination of significant structural budget reductions, the use of limited one-time funds, and the use of the carryover of projected budget savings from FY 12-13. Unfortunately, the City's difficult fiscal challenges will not end with the passage of this budget. For that reason, additional fundamental structural changes will be needed in the future in order to address the City's structural deficit and maintain prudent reserve levels in accordance with policies established by the City Council.

Over the past year, the City Council and City staff have worked collaboratively and effectively to develop a balanced budget while meeting the City's operational needs. In particular, thanks are due to members of the City's Executive Management Team and to the City Manager's Office and Finance staff who produced the budget document, contributed critical insights, and devoted countless hours of dedicated work to this major undertaking. Every manager in the organization was involved in a significant way in helping to develop a responsible and balanced approach to this budget. Lastly, a special thanks goes to Controller Fred Marsh, who was instrumental in overseeing the redesign and creation of this budget document, which was recognized in FY 12-13 for its excellence by both the Government Finance Officers Association and the California Society of Municipal Finance Officers.

On behalf of all City employees, staff looks forward to working with the City Council and the community on the implementation of this policy document. The result of the City's efforts will be a continuing commitment to providing high-quality services to the Alameda community, albeit with fewer resources, maintaining facilities and infrastructure, and proactively responding to harsh and evolving fiscal realities.

Respectfully submitted,

John A. Russo
City Manager

City of Alameda, California

People and Places in the City

City of Alameda Budget and Forecast

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