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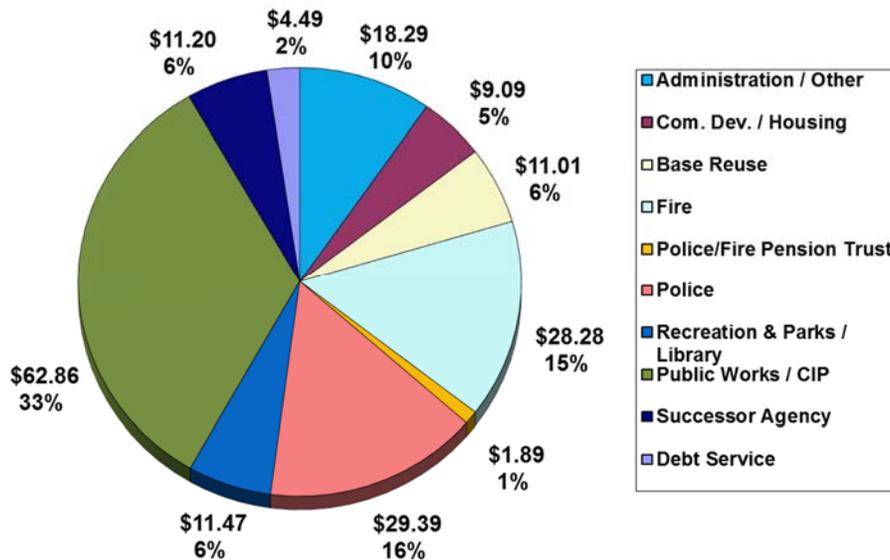


**City of Alameda**  
**2263 Santa Clara Avenue**  
**Alameda, California 94501**  
**(510) 747-4881**

June 2, 2015

Honorable Mayor and Members of the City Council:

The City of Alameda's Annual Budgets for Fiscal Years (FY) 2015-16 and 2016-17 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 2015-16 and 2016-17 are \$188.0 million and \$174.4 million respectively, of which 39% and 43% respectively represents the General Fund, the City's main source of unrestricted funds. These proposed budgets fund a total of 415 full time equivalent positions (excluding positions of Alameda Municipal Power) for both fiscal years. Of these all city funds total proposed budgets, approximately 15% is for Fire, 16% Police, 33% 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 budget for FY 2015-16 and FY 2016-17 represents a 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.

**Overview of the General Fund Proposed Operating Budget for FY 2015-16 and 2016-17**

This is the first budget in the last three years where departments were not required to cut their budgets. Moreover, although the General Fund available fund balance is declining in the next five years, it will remain positive and be slightly shy of the City's 20% fund balance reserve policy. This is a stark change

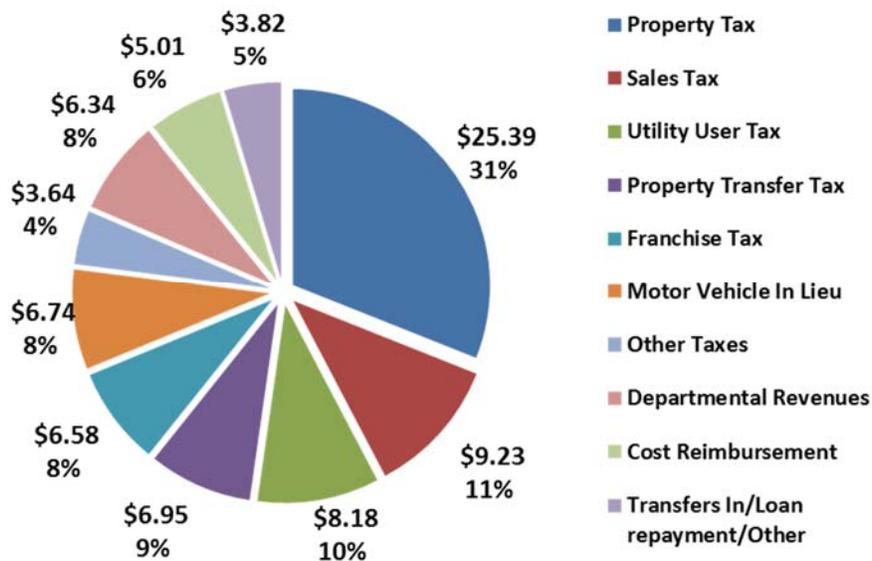
from the projections of the last budget, when the General Fund balance was estimated to be zero after five years. This is the beneficial result of previous cuts made to get expenditures under control, and also a sign of the improving economy. Still, additional efforts will be needed to achieve balanced budget in the next few years. Staff will continue to closely monitor the fiscal health of the City throughout the next 24 months.

**5-Year Forecast for FY 2015-16 through FY 2019-20**  
(in millions)

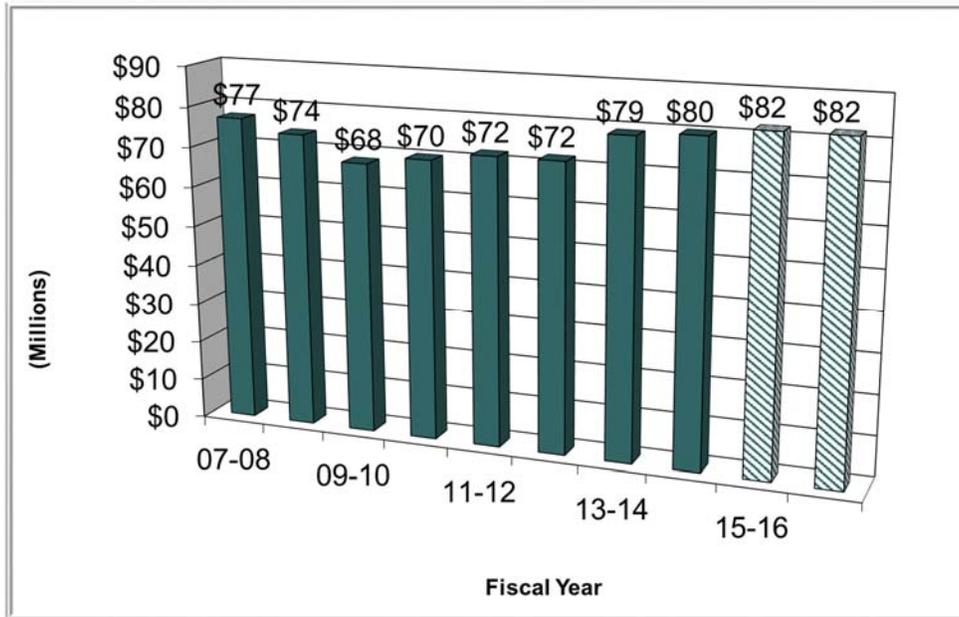
	15-16	16-17	17-18	18-19	19-20
<b>Beginning Fund Balance</b>	\$ 29.6	\$ 30.8	\$ 29.6	\$ 26.6	\$ 22.4
<b>Revenues</b>	\$ 81.4	\$ 81.6	\$ 82.8	\$ 84.0	\$ 85.2
<b>Transfers In</b>	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5
<b>Expenditures &amp; Transfers Out</b>	\$ (80.7)	\$ (83.3)	\$ (86.2)	\$ (88.7)	\$ (91.0)
<b>Use of FY 2015-16 Surplus</b>	\$ -	\$ 1.2	\$ -	\$ -	\$ -
<b>Annual Operating Results</b>	\$ 1.2	\$ -	\$ (3.0)	\$ (4.2)	\$ (5.3)
<b>Ending Fund Balance</b>	\$ 30.8	\$ 29.6	\$ 26.6	\$ 22.4	\$ 17.0
% of annual expenditures and transfers out	38%	36%	31%	25%	19%

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 they comprise 79% of total revenues for FY 2015-16, as shown on the graph below. The remaining 21% includes revenues such as departmental revenues, cost reimbursements from other funds, and interest revenues.

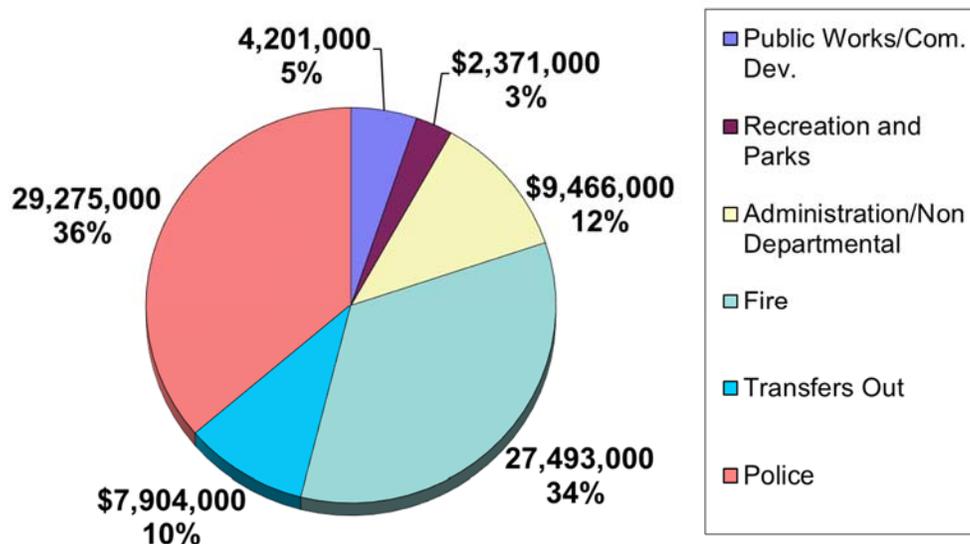


Total General Fund revenues for FY 2015-16 are projected to be approximately \$81.9 million, with a slight projected increase to \$82.0 million in FY 2016-17. The City has exceeded the pre-recession revenue levels as can be seen on the next page. The revenue projections are based on staff's analysis 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.



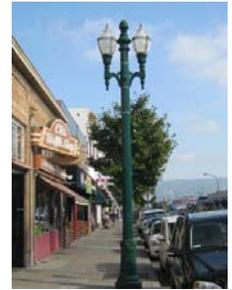
General Fund expenditures are projected to increase to \$80.7 million in FY 2015-16 and to \$83.3 million in FY 2016-17. The increases are due primarily to increases in retirement and health insurance rates, and the incorporation of the financial impacts of the new Memorandums of Understanding (MOUs) approved for the City's safety employees bargaining groups. Contracts for non-safety employees are due to expire in December 2015.

Like many California cities, a significant portion of General Fund expenditures goes towards public safety (36% for Police, 34% 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.



## Projected Deficit in Fiscal Year 2016-17

In addressing this budget, staff proposed expenditure cuts with accompanying staff and service reductions and the use of projected FY 2015-16 surpluses as well as the use of fund balance reserves. In order to minimize any direct impacts to the community, the City Council provided direction to staff to utilize FY 2015-16 surplus of \$1.2 million to balance the FY 2016-17 budget. As a result, at the end of FY 2016-17 General Fund reserves are expected to decline to \$29.6 million or 36% of annual expenditures, which is still well above the 20% Council policy.



## Five-Year Forecast

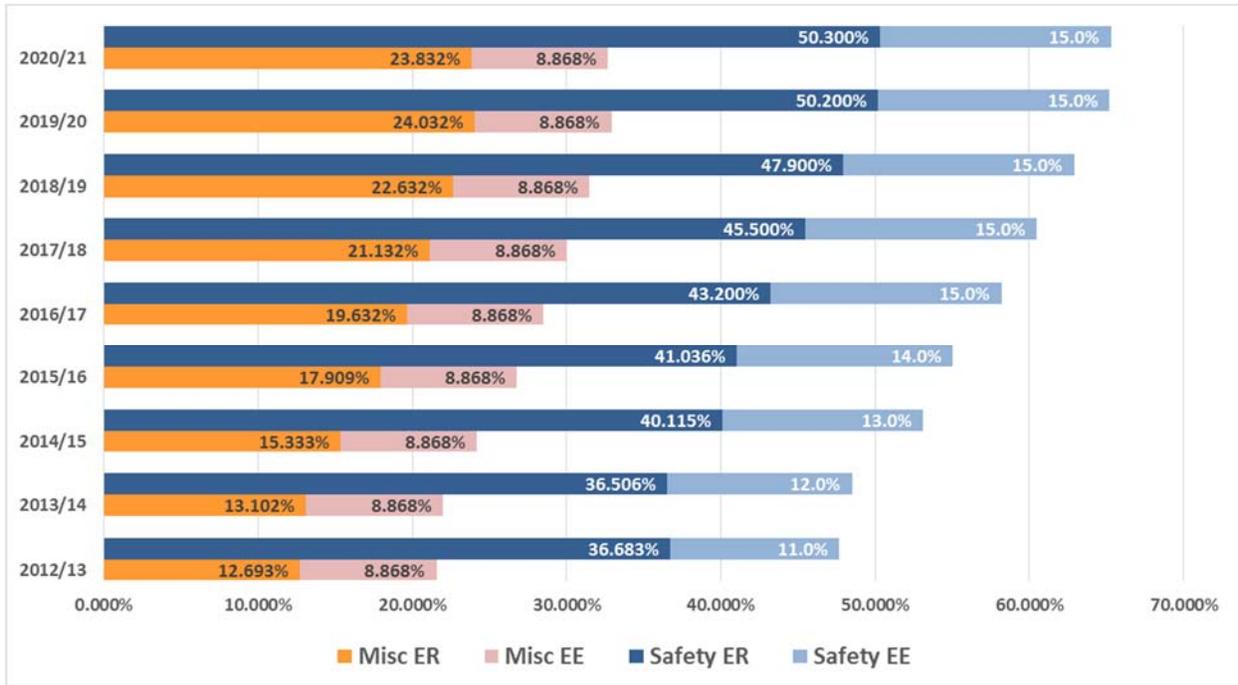
In the five-year forecast, projected General Fund deficits range from approximately \$1.2 to \$5.3 million annually beginning in FY 2016-17. Absent any future corrective action, the City's available reserves will be reduced to approximately \$17.0 million or 19% of projected expenditures by FY 2019-20.

The projected cost increases in future years are largely attributed to changes in CalPERS smoothing method for employer contribution rates and increase in other post-employment benefits (OPEB) costs. These cost increases, absent expenditure reductions or revenue enhancements, will have a significant impact on the General Fund reserves. Because reserves are a finite resource, spending down the reserves is not 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.

The five-year forecast includes the following assumptions:

- Overall annual revenue growth of 0-2%.
- Director of Technology and Innovation and IT Systems Coordinator are new positions added in this budget cycle to address severe shortage of resources as well as dated information technology infrastructure. Both positions are equally funded by the General Fund and Alameda Municipal Power.
- New agreed upon salary increases for safety employees (with a minimum of 2.0% for 2016 through 2018, 0% for 2019 and 3% for 2020) based upon increases realized in specified tax revenues of the General Fund.
- New Miscellaneous and Safety PERS rates, which include the effect of the changes made by CalPERS to their Amortization and Smoothing Policies, which were utilized to level rate fluctuations over a five instead of a fifteen year period. CalPERS is implementing these changes beginning in FY 2015-16, as shown on the next page.

These rates are based on assumption that CalPERS will continue to earn a 7.5% rate of return on its investments annually. If 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 rates shown on the next page, miscellaneous employees pay 8.868% of the total percentage; whereas, public safety employees, for FY 2015-16, will be paying 14.0% of the total percentage, increasing to a 15.0% of the total percentage in FY 2016-17.



- Health and Other Post-Employment Benefits (OPEB) are projected to increase on average 4% and 8%, respectively, per year. Current miscellaneous employees pick up 50% of the annual health increase. Current sworn safety employees will be paying 50% of the annual health increase in 2017 up from 25% in 2016. 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 2013 was approximately \$91 million.

In April 2015, to address the looming OPEB cost increases, the City negotiated with its safety employees a six year contract that provides for establishment of an OPEB Trust to which current active members will contribute up to 4% of Police Officer or Fire Fighter base salary (2% in 2016, 3% in 2017 and 4% in 2018 and thereafter). This provision will go into effect in January 2016. In addition, the City will make a \$5 million lump sum contribution in January 2016 coupled with annual contributions of \$250,000 for ten years. No withdrawals will be made out of the Trust until January 2019. Although this contract provision will not have any impact in the current biennial budget and only minimal impact on the five-year forecast, it will provide substantial annual savings on the “pay-as-you-go” amount in the future years allowing the City to get over the hurdle of CalPERS smoothing described earlier. Assuming these employee contributions continue into the future, City’s OPEB actuary projects the City’s cumulative savings to be over \$47 million over 30 year period.

## Other Budget Highlights for Fiscal Year 2015-2016

### A. Fire (SAFER) Grant

A Fire Department grant (known as the SAFER grant), which was being used to fund six firefighter positions, expired in September 2014. The Department applied for a new SAFER grant in the spring of 2015. The outcome of the application will not be known until the fall of 2015. Because of the timing, the Fire Department’s overtime budget was increased by \$500,000 in each year. Staff will provide council with additional updates regarding this grant as information becomes available.



## **Community Paramedicine Grant**

In October 2013, the Fire Department was provisionally accepted by the State of California Emergency Medical Services Agency (EMSA) to represent Alameda County in the Community Paramedicine Pilot Project. The funds for this program will be provided entirely by Alameda County. The goal of the Community Paramedicine Pilot Project is to determine whether paramedics working in an expanded role will help improve overall health systems integration, efficiency and/or fill identified healthcare needs. The program will include:

1. Providing follow up-care for persons recently discharged from the hospital and at increased risk of a return to the emergency room or readmission to the hospital.
2. Addressing the needs of frequent 911 callers or frequent visitors to emergency rooms by helping them access primary care and other social services.

The Department will appoint an existing Division Chief as the EMS Division Chief, and backfill regular Fire staff including the hiring of three limited term Firefighters.

### **B. Library**

As part of the budget workshop discussions, the City Council directed staff to increase hours of the Library and provide additional funding for materials. This two year budget includes funding for two additional hours on Wednesday mornings and \$60,000 for materials in both FY 2015-16 and 2016-17.

### **C. Proposed Non General Fund Staffing Changes**

In addition to the staffing changes proposed for General Fund, other non-General Fund programs proposed to add new positions as described in the table on the next page.

Community Development	
Management Analyst (Economic Development)	1.00
Supervising Building Inspector	1.00
Base Reuse	
Redevelopment Project Manager	1.00
Executive Assistant	1.00
Public Works	
Project Manager II (partially funded by Parks & Recreation)	1.00
Maintenance Worker II	<u>1.00</u>
Total	6.00

### **Departmental Goals for FY 2015-16 and 2016-17**

The City's departments have a number of significant goals planned for FY 2015-16, 2016-17 and beyond.

#### City Council

- Establish work-plan priorities for Charter Officers that address community needs and organizational services;
- Evaluate management practices to ensure high-quality customer service to Alameda's residents and businesses;
- Enforce fiscal sustainability in all City programs and services; and
- 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; and
- 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;
- Promote the highest level of customer service; and
- Generate revenue from civil marriage ceremonies.



### 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;
- Support opportunities for the City Council to play a leadership role at the regional, state and national level on issues of importance to the community;
- Promote interagency relationships with other public entities to ensure efficient and effective service delivery;
- Ensure that information requests made by residents, businesses, Council members and other local stakeholders are addressed promptly and thoroughly; and
- Foster effective working relationships with the business community, school districts and residents.

### 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;
- Update the City's credit card policy, purchasing policy and procedures manual and implement new procedures; and
- Update or establish written documentation for various finance policies and procedures.



### 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 workforce planning;
- Assist with the competitiveness of the City for attraction and retention of qualified staff; and
- 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 at a level to prevent any interruptions of occupancy; and
- Ensure City vehicles are maintained to prevent any service interruptions.

### Library

- Provide a broad and diverse collection of books and other library materials to meet the varied interests and needs of the community;
- Promote collaboration among staff to attain high-performance and customer-focused library;
- Use new technology to optimize the development and delivery of library services; and
- Provide library programs and publications to educate, enrich and inform library users.



### Recreation and Parks

- Provide flexible recreation activities that address community needs as they arise;
- Provide innovative, inclusive and accessible programs to youth, teens and seniors that encourage positive personal growth in the areas of social, educational and health enrichment; and
- Improve park maintenance services and project management through efficient staff management.



### Community Development

- Prepare and administer equitable and flexible land use plans, regulations, and programs;
- Facilitate the reuse and redevelopment of Alameda Point, Alameda Landing and the Northern Waterfront;
- Actively promote a business-friendly environment by creating a citywide business attraction, retention, expansion program, participating in trade shows/events and partnering with the City's business associations;
- Promote business and reduce commercial vacancies in the City; and
- Improve customer satisfaction through streamlined permit processing, including Alameda at Your Service and records management systems.



### Base Reuse

- Facilitate the transfer, reuse and development of former federal lands by effectively implementing planning and contractual development documents for Alameda Point;
- Assist with development 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; and
- Facilitate State legislation to restore tax increment funds to former military properties.



### Housing

- Administer the City's various affordable housing funds to maintain and expand the supply of affordable housing;
- Implement the Five-Year Affordable Housing Pipeline 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; and
- Maintain policies and procedures for effective and efficient operation of the CDBG and HOME programs.



### Fire

- Protect and preserve the lives and property of Alameda's residents and business community during emergencies;
- Develop and implement strategies to navigate economic challenges and to sustain viable fire and emergency medical services;
- Enhance efficient service delivery through the use of new technology, improved training methods, and regional and community partnerships; and
- Analyze and develop solutions to enhance emergency medical service delivery within the city.



### Police

- Respond to Priority One and non-emergency call for service within designated time frames;
- Enhance efficient service delivery through the use of technology;
- Recruit, hire and develop qualified men and women from a diverse community to maintain high levels of service to the community; and
- 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 local, regional, state and federal funding opportunities to address deferred maintenance needs;
- Support City operations with a safe, functional and reliable facility and fleet; and
- Plan, develop, and maintain an efficient multi-modal transportation system.

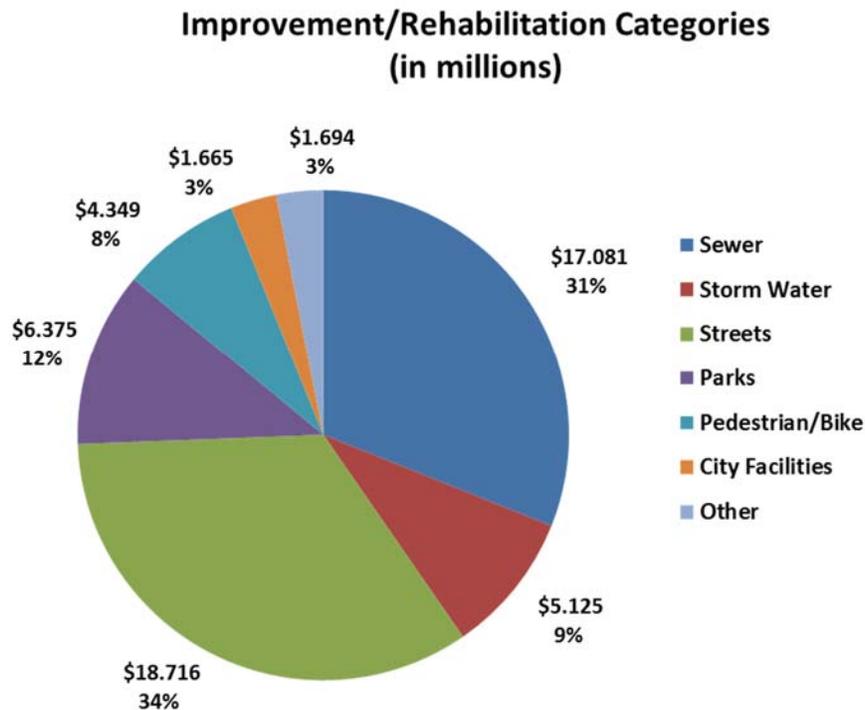


### Capital and Maintenance Projects Proposed for FY 2015-16 and 2016-17

The proposed capital projects budget for FY 2015-17 totals approximately \$55 million, as summarized on the chart below. Two main categories of the capital projects relate to sewer rehabilitation (31%) and streets and streets related rehabilitation (34%). The General Fund is scheduled to contribute \$985,000 over the two year period toward the capital and maintenance project programs. Some of the major projects proposed include the following (amounts represent two year totals):

Category	Name of Project	FY 2015-17 Budget
Sewer	Rehabilitation	\$11.5 million
Sewer	Pump Stations	\$5.6 million
Streets	Signals, striping and systems	\$1.5 million
Streets	Street reconstruction	\$2.4 million
Streets	Pavement Management Program	\$10.0 million
Streets	Sidewalk rehabilitation	\$3.0 million
Streets	Urban Forest maintenance	\$1.5 million
Pedestrian/Bike	Cross Alameda Trail (Apezzato)	\$1.8 million
Pedestrian/Bike	Cross Alameda Trail (Jean Sweeney)	\$2.5 million
Storm Water	Rehabilitation	\$1.1 million
Storm Water	Pump Stations	\$4.0 million
City Facilities	Rehabilitation	\$1.7 million
Parks	Jean Sweeney Open Space Park (Phase 1)	\$2.0 million
Parks	Estuary Park (Phase 1)	\$3.7 million

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



Despite ongoing investment in public infrastructure, the City still has a significant amount of deferred maintenance and unfunded capital projects. Public Works department is working with a consultant who will provide more accurate estimate of the deferred maintenance cost and priority order of addressing it.

## Summary

The City is able to present a balanced budget for the General Fund for FY 2015-16 and 2016-17 through a combination of the use of one-time funds and the use of the carryover of projected budget savings from FY 2014-15 and 2015-16. Unfortunately, the City's 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.

The City Council and City staff have worked together 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, the City Manager's Office and Finance staff who produced the budget document and contributed critical insights and untold 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 putting together this budget.

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, maintaining facilities and infrastructure, and proactively responding to changing fiscal realities.

Respectfully submitted,



Elizabeth D. Warmerdam  
Interim City Manager

