



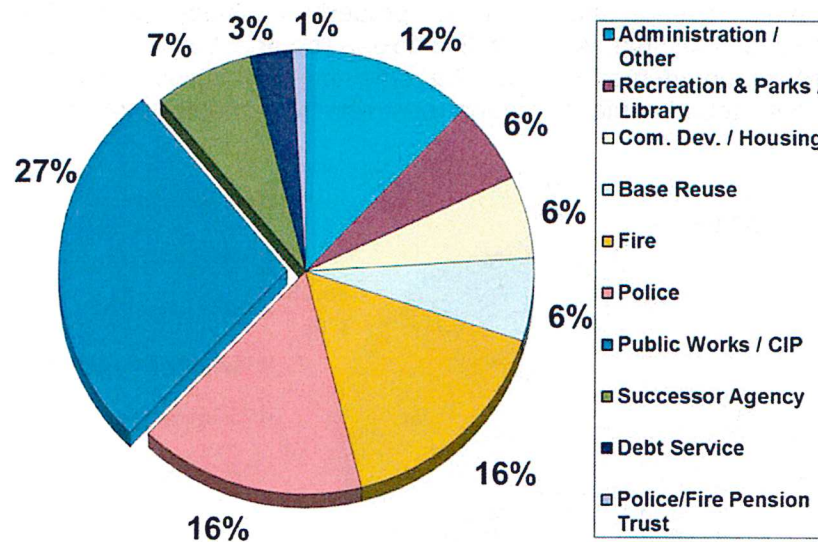
**City of Alameda**  
**2263 Santa Clara Avenue**  
**Alameda, California 94501**  
**(510) 747-4881**

June 7, 2016

Honorable Mayor and Members of the City Council:

The City's budget for FY 2015-16 and FY 2016-17 represents a two year budget, in which the City Council 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.

The City of Alameda's Annual Budget for Fiscal Year (FY) 2016-17 provides a comprehensive financial framework for all City services for next year. This is the second year of the City's biennial budget cycle. The City's total proposed expenditures budget (excluding transfers) for FY 2016-17, as revised, is \$186.0 million, of which 41% represents the General Fund, the City's main source of unrestricted funds. This proposed budget funds a total of 425 full time equivalent positions (excluding positions of Alameda Municipal Power). Of these all city funds total proposed budgets, approximately 16% is for Fire, 16% Police, 27% for Public Works, and the remainder for Recreation/Library, Community Development/Base Reuse, Administration and other programs offered by the City, as shown below:



#### **Overview of the General Fund Proposed Operating Budget for FY 2016-17**

The General Fund continues to benefit from a growing economy. This is the second year where departments were not required to cut their budgets, though still expected to hold the line on expenditures as best as possible. In spite of this, the General Fund available fund balance is expected to decline in the

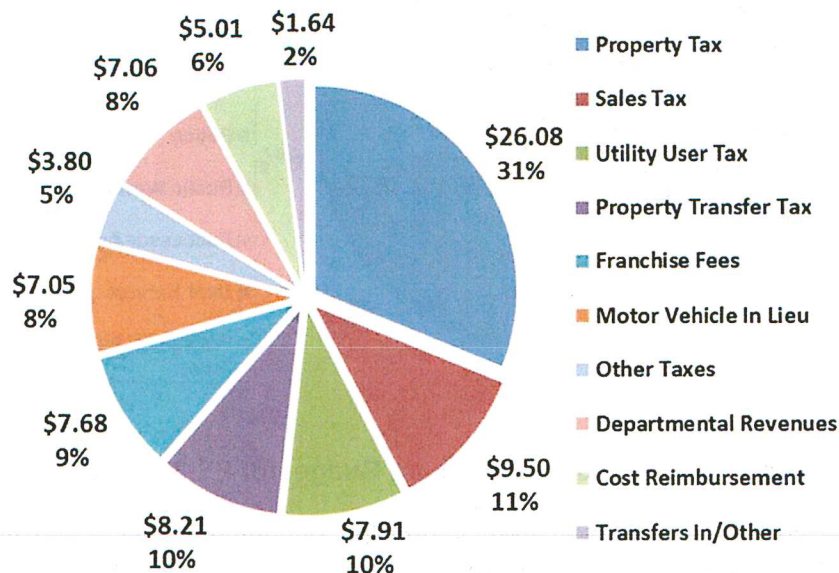
next five years and will go down to 10%, which is below the City Council set policy of 20%. In anticipation of this, the City Council, in fall 2015, set aside \$3 million for OPEB liabilities, \$3 million for the PERS smoothing effect and \$3.5 million for economic uncertainty. Additional efforts will be needed to achieve a balanced budget in the next few years. There are two ways to accomplish this: increase revenue or reduce expenditures. Staff is evaluating multiple options available including raising and maintaining tax revenue. Staff will continue to closely monitor the fiscal health of the City throughout the next 12 months and as we prepare to work on the next budget cycle.

**General Fund**  
**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>	\$ 30.2	\$ 21.1	\$ 20.3	\$ 17.8	\$ 14.2
<b>Revenues</b>	\$ 85.7	\$ 83.4	\$ 84.5	\$ 85.9	\$ 87.4
<b>Transfers In</b>	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5	\$ 0.5
<b>Expenditures &amp; Transfers Out</b>	\$ (88.8)	\$ (84.7)	\$ (87.5)	\$ (90.0)	\$ (93.1)
<b>Annual Operating Results Before Reserves</b>	\$ (2.6)	\$ (0.8)	\$ (2.5)	\$ (3.6)	\$ (5.2)
<b>Use of Designated Reserves</b>	\$ 3.0	\$ -	\$ -	\$ -	\$ -
<b>Addition to Designated Reserves</b>	\$ (9.5)	\$ -	\$ -	\$ -	\$ -
<b>Annual Operating Results</b>	\$ (9.1)	\$ (0.8)	\$ (2.5)	\$ (3.6)	\$ (5.2)
<b>Ending Fund Balance</b>	\$ 21.1	\$ 20.3	\$ 17.8	\$ 14.2	\$ 8.9
 % of annual expenditures and transfers out	24%	24%	20%	16%	10%

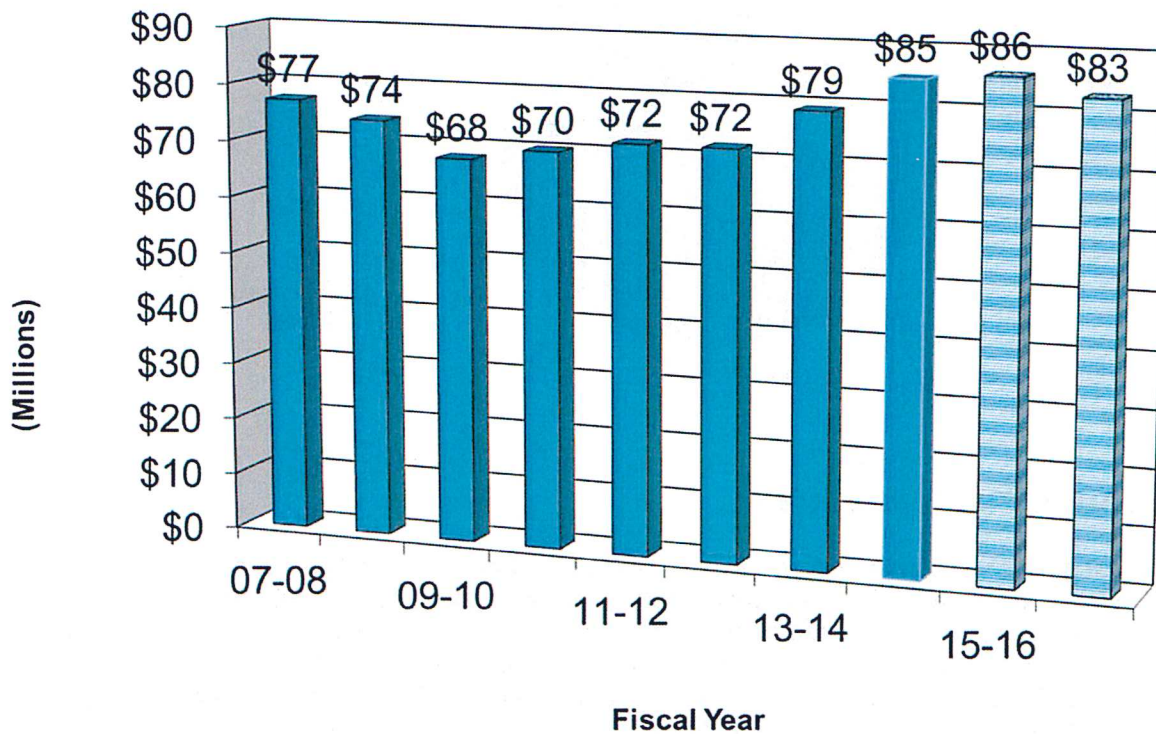
Revenue and Expenditure Forecasts

The General Fund's major revenue sources include property and sales taxes, utility users and transfer tax, franchise fees, transfer and motor vehicle in-lieu taxes. Together they comprise 79% of total revenues for FY 2016-17, as shown on the graph below. The remaining 21% includes revenues such as business license and hotel taxes, departmental revenues, cost reimbursements from other funds, and interest revenues.





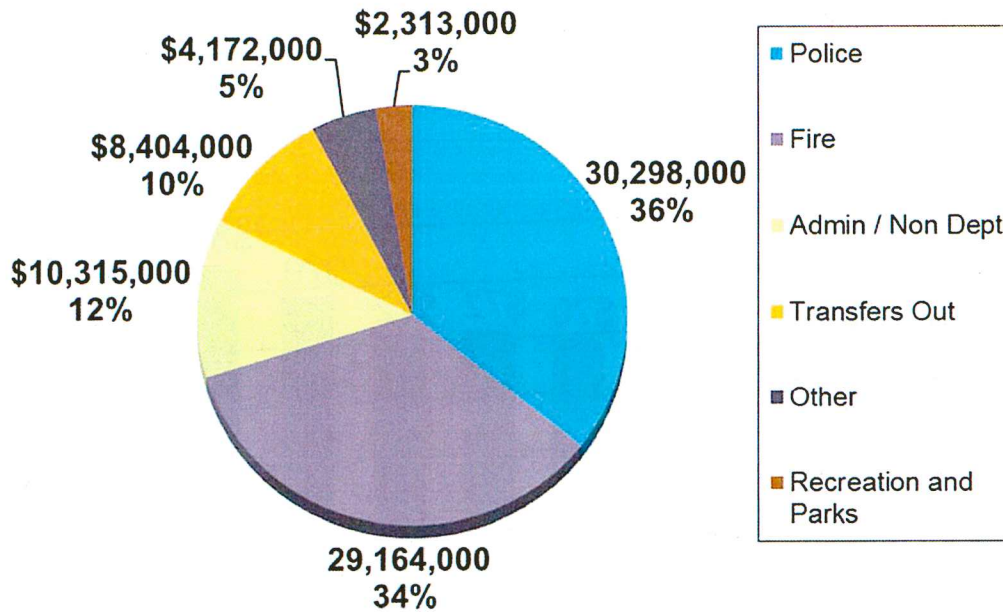
The total General Fund revenues for FY 2016-17 were originally projected to be approximately \$82.0 million, with a mid-cycle update revised projection increased to \$83.9 million. The City has surpassed the pre-recession revenue levels as can be seen below. The revenue projections are based on staff's analysis of local conditions and reflect information received from a number of sources, including the City's sales and property tax consultant, HdL Coren & Cone, Beacon Economics, as well as the County Assessor's and State Controller's offices.



As revised, General Fund expenditures are projected to increase to \$84.7 million from the original estimate of \$83.3 million in FY 2016-17. The increases are due primarily to rising 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 and miscellaneous employee bargaining groups.

Like many California cities, a significant portion of General Fund expenditures goes toward 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 in the chart below.

## General Fund Expenditures by Department



### Projected Deficit in Fiscal Year 2016-17

When the budget was put together a year ago, staff projected a \$1.2 million deficit in FY 2016-17. To address the shortfall, 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. During the budget adoption in June 2015, in order to minimize any direct impacts to the community, the City Council provided direction to staff to utilize the FY 2015-16 surplus of \$1.2 million to balance the FY 2016-17 budget. At this time, staff estimates the deficit will be reduced to approximately \$0.7 million. This is nearly half of the original estimate. As a result, at the end of FY 2016-17 General Fund reserves are expected to be at \$20.3 million or 24% of annual expenditures (including transfers out), which is above the 20% Council policy.



Close to \$500,000 of the projected deficit resulted from a one-time transfer of funds to the Rent Stabilization program recently approved by the City Council. Staff expects that this transfer will not be necessary once a fee is established to fund this program in FY 2016-17. Absent this transfer, the projected net deficit for the year would be \$250,000, which is a \$1.0 million improvement from a year ago.

### Five-Year Forecast

In the five-year forecast, projected General Fund deficits range from approximately \$0.7 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 \$8.9 million or 10% of projected expenditures by FY 2019-20.

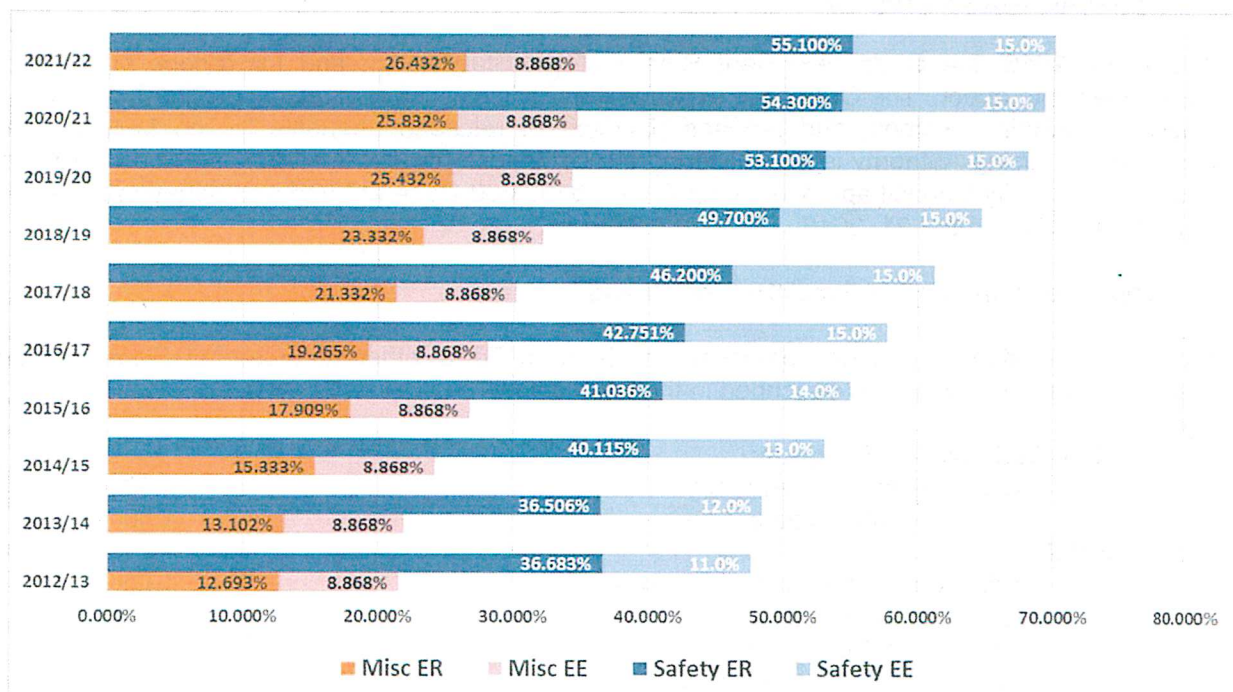
The projected cost increases in future years are largely attributed to changes in CalPERS smoothing method for employer contribution rates and increase in other post-employment benefits (OPEB) costs. These cost increases, absent expenditure reductions or revenue enhancements, will have a significant 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 0-3%;
- New positions in the City Attorney's Office and the Finance Department have been added to this budget in order to administer the new rent program approved in the spring 2016 and to address increased work load in the existing City programs. The City Attorney position is equally funded by the General Fund and Rent Stabilization program. The Finance position is General Fund funded, yet does not have a significant net impact on the current budget due to the elimination of part-time positions;
- 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 agreed upon salary increases for miscellaneous employees (with a minimum of 3.0% for 2017 and 2018) based upon increases realized in specified tax revenues of the General Fund as well as set flat rate increases; and
- 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 began implementing these changes beginning in FY 2015-16, as shown below.

These rates are based on the 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 below, miscellaneous employees pay 8.868% of the total percentage; whereas, public safety employees will be paying 15.0% of the total percentage in FY 2016-17.



- Health and Other Post-Employment Benefits (OPEB) are projected to increase on average 3.5% for safety employees and 1.8% for miscellaneous employees 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 2015 was approximately \$113 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 went into effect in January 2016. In addition, the City made 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 2016-17

### A. Fire (SAFER) Grant

The Fire Department has been approved for a FEMA sponsored SAFER grant, which funds up to 6 firefighter positions. The Department held fire academy training in the spring 2016, which yielded four graduates. Staff expects to have one more academy during FY 2016-17 to fully utilize the grant as well as to address the Department’s expected retirements. Due to the lag in timing of new firefighters going on shift, the Fire Department’s overtime budget was adjusted to \$800,000 in FY 2016-17.



### B. Rent Stabilization Program

On March 31, 2016, the City’s new Rent Review, Rent Stabilization and Limitations on Evictions Ordinance went into effect. The Ordinance expands the City’s existing rent review program, provides for limitations on certain evictions, and requires payment of relocation benefits for no fault/no cause evictions. The Housing Authority is administering the Ordinance through a staffing services agreement with the City. The City Council approved a contingent \$493,000 General Fund appropriation to fund the Program through December 31, 2016

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

In addition to the staffing changes proposed for General Fund, other non-General Fund programs proposed changes to positions as described in the table below.

#### Rent Stabilization Program:

Add Assistant City Attorney	0.50
Add Accounting Technician	1.00

#### Public Works:

Add Construction Inspection Supervisor	1.00
Eliminate Construction Inspector	(1.00)
Add Project Manager III	1.00
Eliminate Project Manager II	(1.00)
Add Project Manager I	1.00
Eliminate Assistant Engineer & OT cost	(1.00)
Add Project Manager II	1.00
Eliminate Project Manager I	(1.00)



Add Program Specialist II  
Eliminate Program Specialist I  
Total

1.00  
(1.00)  
1.50

## Departmental Goals for FY 2016-17

City Departments have a number of significant goals planned for FY 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;
- Ensure compliance with the Election Code in administering initiative petitions and ballot measures;
- Promote the highest level of customer service; and
- Generate revenue from civil marriage ceremonies.



### City Manager

- Provide leadership to the organization, including the development of solutions to on-going 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;
- 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.
- Integrate the existing Information Technology (IT) Division into a full Department of the City and develop an IT strategic plan that focuses on instituting best practices for municipal IT infrastructure.

### 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 City's various financial policies and procedures manual and implement new procedures;
- Update or establish written documentation for various finance policies and procedures; and
- Evaluate options to upgrade City's financial system.

### Human Resources

- Become a strategic partner to the Executive Management Team by developing and implementing a Human Resources approach that supports continuous improvement, collaboration and a progressive and productive work environment that meets the challenges of the organization;.
- Provide excellent, responsive and proactive 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;
- Ensure the City's compliance with federal and state mandates; and
- Continue the evaluation of options to upgrade to the current HRIS System.

### 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.

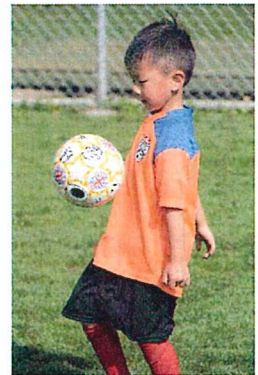
### Library

- 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

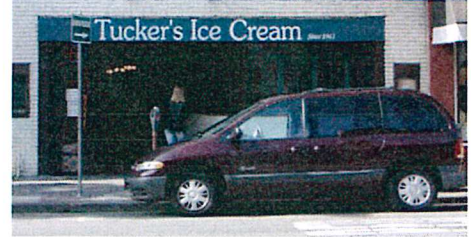
- Provide flexible recreation activities that address community needs as they arise;
- Provide innovative, inclusive and accessible programs to youth, teens and seniors that encourage positive personal growth in the areas of social, educational and health enrichment; and
- Improve park maintenance services 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;
- Manage development activities within the Tidelands areas and implement the approved land swap legislation and agreement;
- Administer an efficient and strategic commercial and residential leasing program for Alameda Point; and
- Oversee and advise Site A development implementation, including the transfer of land, infrastructure planning and design review and Phase 0 activities.



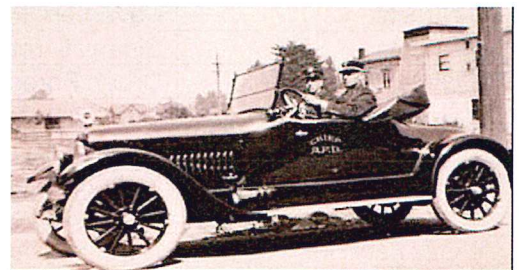
### Housing

- 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

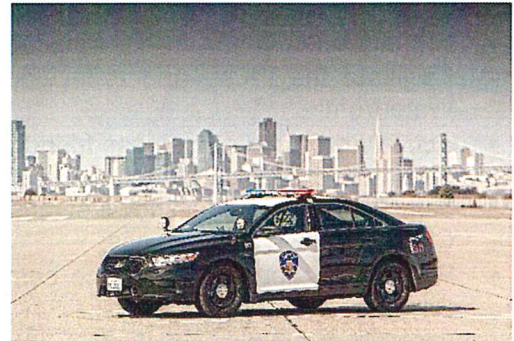
- Protect and preserve the lives and property of Alameda's residents and business community during emergencies;
- Develop and implement strategies to navigate economic challenges and to sustain viable fire and emergency medical services;
- Enhance efficient service delivery through the use of new technology, 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 calls 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;
- Continue the School Resource Officer Program, providing law enforcement liaison services to public high schools;
- Ensure all first line officers receive Crisis Intervention Training (CIT) to manage individuals in behavioral crisis using de-escalation techniques and time, distance, and cover for the safety of all individuals; and
- Increase pedestrian traffic safety awareness through enforcement, training and education.



## 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**

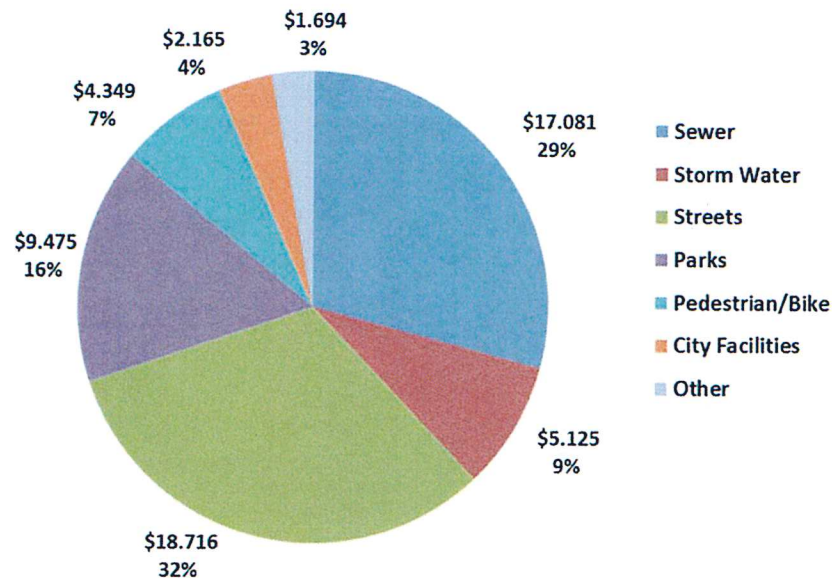
The proposed capital projects budget for FY 2015-17 totals approximately \$59 million, as summarized on the chart below. Three main categories of the capital projects relate to sewer rehabilitation (29%), streets and streets related rehabilitation (32%), and parks (16%). The General Fund is scheduled to contribute \$1.9 million over the two year period (with \$0.4 million in FY 2016-17) 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 (Appezzato)	\$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	\$2.2 million
Parks	Jean Sweeney Open Space Park (Phase 1)	\$4.3 million
Parks	Estuary Park (Phase 1)	\$3.9 million
Parks	Krusi Park Renovation	\$0.6 million



A summary of the projects by improvement and rehabilitation categories is shown on the next page:

**Improvement/Rehabilitation Categories  
(in millions)**



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 a more accurate estimate of the deferred maintenance cost and priority for addressing it.

### Summary

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

Jill Keimach  
City Manager