



City of Alameda
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June 1, 2021

Honorable Mayor and Members of the City Council:

I am pleased to present the City of Alameda's Biennial Budget for Fiscal Years (FYs) 2021-22 and 2022-23. The budget honors the City's commitment to maintaining the excellent services our community expects and deserves while addressing the goals and priorities set forth by the City Council. The budget represents the City's fiscally responsible and accountable financial plan for the two upcoming fiscal years; provides a transparent, comprehensive statement of the City's organization, operations, projected revenues and estimated expenditures; and serves as a strategic tool in communicating, implementing, and monitoring City Council direction and priorities related to City operations.

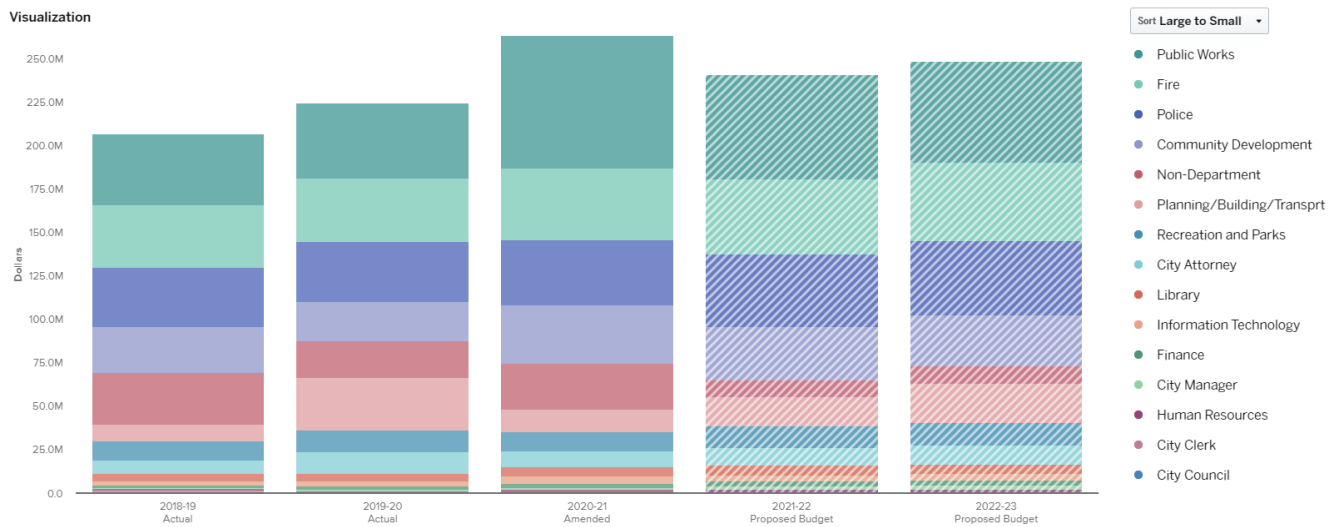
Numerous City funding sources, such as Sales Tax and Transient Occupancy Tax, were impacted by the COVID-19 pandemic and are expected to nearly recover to pre-pandemic levels over the next two years. The City has also been allocated approximately \$28 million in American Rescue Plan Act (ARPA) stimulus funding, of which approximately \$6 million may be used to make up for revenue losses due to the pandemic. The City plans to use this funding to balance the General Fund budget over the next two years in order to avoid reserve spending while revenue sources continue to recover from the pandemic-related downturn.

OVERVIEW OF THE CITYWIDE BUDGET FOR FYs 2021-22 AND 2022-23

The City's total proposed expenditure budget (excluding transfers) for FY 2021-22 is \$241.2 million, with the General Fund contributing 44.6% in FY 2021-22. The proposed budget funds a total of 469.75 full time equivalent positions (FTEs), excluding positions of Alameda Municipal Power, for FY 2021-22.

Of the FY 2021-22 proposed expenditure budget (all City funds), approximately 23.4% is for Public Works, 18.1% for the Fire Department, 17.2% for the Police Department, and 11.8% is for the Community Development, with the remainder for Recreation and Parks, City Attorney, Library, Administration, and Non-Department and other programs provided by the City as shown below:

Proposed Expenditure – All Funds [\[click to explore data\]](#)



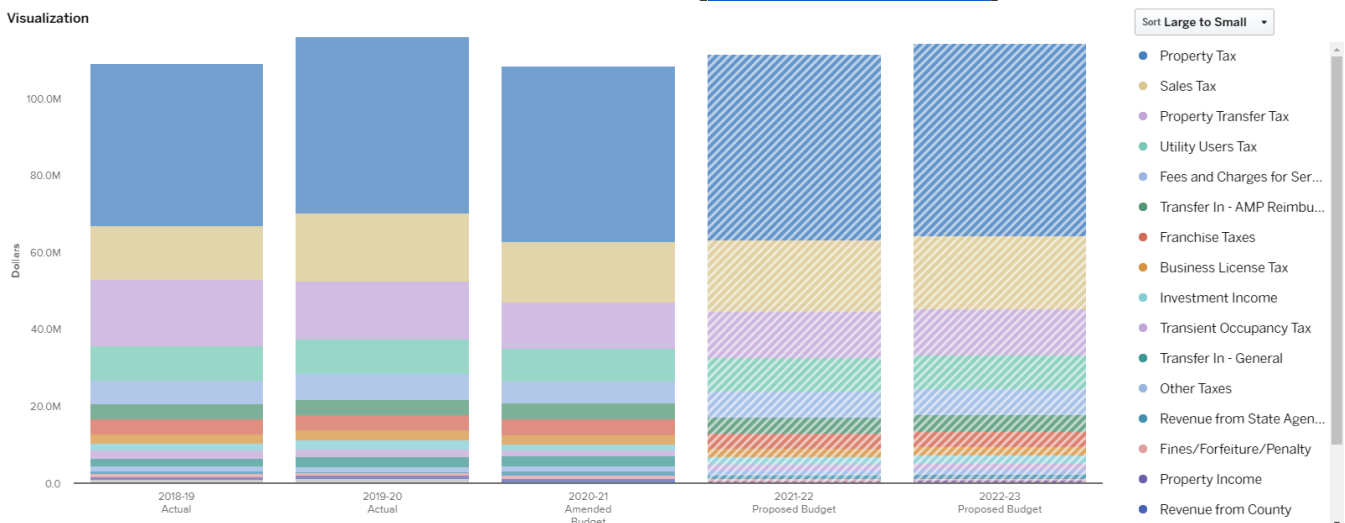
Overview of the General Fund Operating Budget for FYs 2021-22 and 2022-23

To address community needs while maintaining financial stability, the proposed budget includes realignment of spending to meet service provision goals. Based on direction from the City Council and recommendations from the Steering Committee on Police Reform and Racial Equity, the budget incorporates funding for a new Crime Analyst, a new Police Auditor, and a pilot program for shifting responsibility for responding to mental health crises from the Police Department to non-police agencies.

General Fund Revenues

The General Fund's major revenue sources are Property Tax (including Motor Vehicle License fee in-lieu), Sales and Use Taxes, Utility Users Tax (UUT), Franchise Taxes, and Property Transfer Tax. Together they comprise 81.8% of total General Fund revenues for FY 2021-22, as shown on the chart below.

General Fund Revenues [\[click to explore data\]](#)

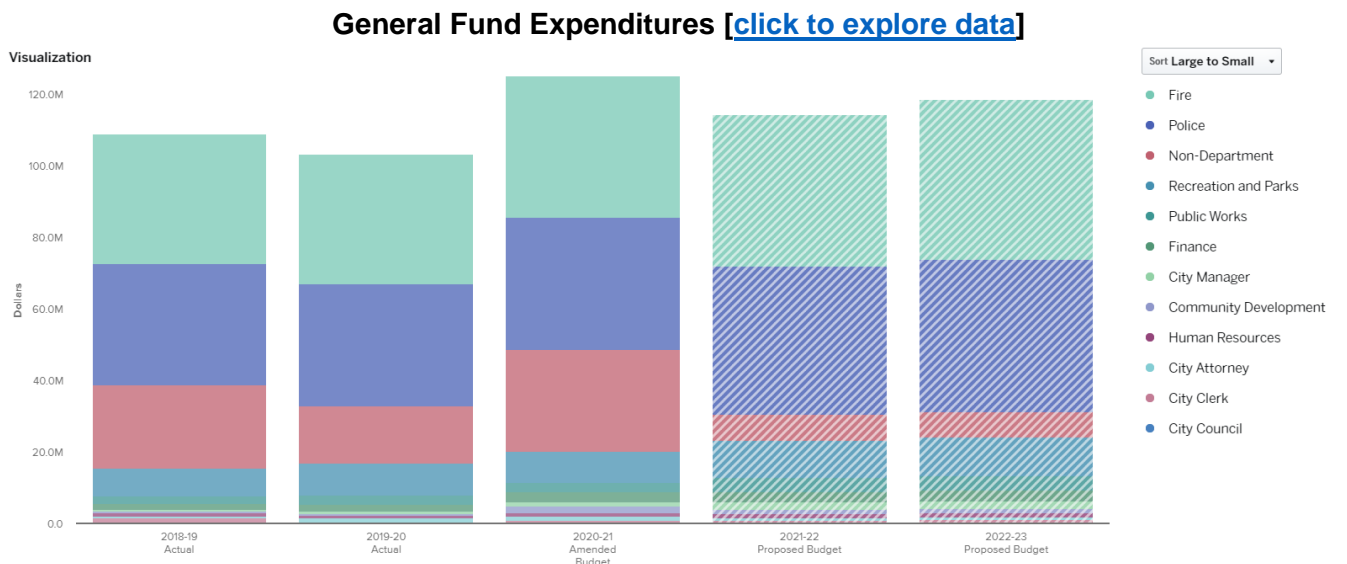


Total General Fund revenues for FY 2021-22 are projected to be approximately \$111.7 million, or approximately \$3.0 million higher than the FY 2020-21 revised budget projection of \$108.7 million. The revenue projections are based on staff’s analysis of local conditions and reflect information received from a number of sources, including the City’s UUT, Sales and Use Tax, and Property Tax consultants.

General Fund Expenditures

The proposed budget increases General Fund expenditures in FY 2021-22 from \$111.0 million in FY 2020-21 (excluding the Pension/OPEB reserve payment) to \$114.4 million. The growth in ongoing expenditures is due primarily to contractual salary increases and rise in retirement rates.

Like most Californian cities, a significant portion of General Fund expenditures goes towards Public Safety (37.6% for Fire and 36.0% for Police), with the balance allocated between Library, Recreation and Parks, Public Works, and administrative functions, as shown in the chart below:



Although Public Safety represents the majority of General Fund dollars, it should be noted that other departments, such as Public Works, Community Development, and the Library, have other dedicated sources of funding in addition to the General Fund. In FY 2021-22, the City is implementing a new Enterprise Resources Planning (ERP) system, and as part of the financial re-organization, the Recreation & Parks Department operating programs, which was previously part of the Special Revenue Fund, will be moved into the General Fund.

FIVE-YEAR FORECAST

In the five-year forecast, projected General Fund shortfalls range from approximately \$2.6 to \$4.9 million annually primarily due to unfunded pension liabilities and assumptions about increasing costs of doing business, such as cost escalation for salaries and health benefits, contractual services and capital outlay. Absent proactive, corrective actions to secure additional locally-controlled funding sources and cutting expenditures, the City’s available reserves will decline. Available fund balance is projected to drop below the City’s 25% operating reserve target by the end of FY 2022-23 and 12% of projected expenditures by the end of FY 2024-25, as shown below:

Five-Year Forecast for FY 2021-22 through FY 2024-25
(in millions)

	FY20-21 Projected	FY21-22 Proposed	FY22-23 Proposed	FY23-24 Forecast	FY24-25 Forecast
Beginning Fund Balance	\$36.3	\$38.0	\$30.3	\$25.2	\$20.7
Revenues	\$108.7	\$111.8	\$114.5	\$118.2	\$122.2
Expenditures	\$ (111.0)	\$(114.4)	\$(118.7)	\$(122.8)	\$(127.1)
Net Annual Activity	\$(2.3)	\$(2.6)	\$(4.2)	\$(4.6)	\$(4.9)
Pension/OPEB Reserve	\$(10.1)	\$(5.1)	\$(1.7)	-	-
Release Pension Reserve	\$14.1	-	-	-	-
Ending Fund Balance*	\$38.0	\$30.3	\$25.2	\$20.7	\$15.8
Ending Fund Balance % of Annual Expenditures	34%	26%	21%	17%	12%

* May not add due to rounding

The projected deficits are the result of a variety of factors including the sharp escalation of pension costs as a result of CalPERS losses during the Great Recession, changes in longevity assumptions, increases in costs of doing business, and revenue losses related to the economic impacts of COVID-19. As our community recovers from the COVID-19 pandemic, the City will explore options such as new revenue measures and potential expenditure reductions to improve the financial outlook.

The five-year forecast includes the following assumptions, several of which are highly important to maintaining City services:

- Following a decrease in FY 2020-21 related to COVID-19, various revenue sources are projected to stabilize in FY 2021-22 and increase at rate of zero to 5.0%, with an overall average annual growth of 3.3%.
- Negotiated salary adjustments in 2022 are 1% for miscellaneous employees, 2% for firefighters, and no increases for fire department and sworn police personnel. Contracts for miscellaneous employees expire in June 2022.
- Salaries and employee benefits are projected to increase by an average of 3.5% per year.

WORKFORCE CHANGES

The budget includes addition of ten (10) new full-time positions in FY 2021-22 and one (1) new position in FY 2022-23. Two (2) positions in Planning, Building & Transportation and Recreation & Parks are recommended for upgrade. Recommendations for upgrade of four (4) other positions in Community Development and Finance are pending the results of classification studies.

The budget also includes transition of twelve (12) firefighter positions from Staffing for Adequate Fire and Emergency Response (SAFER) grant funding to the General Fund. The City received SAFER grant awards from the Federal Emergency Management Agency (FEMA) in 2017 and 2018 that are set to expire

in February 2022 and March 2023. When the grant-funding expires, the positions will transition to the General Fund.

ORGANIZATIONAL UPDATES AND CHANGES

The budget has been prepared according to the financial structure of the City's new Enterprise Resource Planning (ERP) system that is set to go-live in July 2021. The new financial structure includes consolidation of some special revenue funds according to their fund grouping in the Comprehensive Annual Financial Report.

The most significant change to the financial structure relating to the City's operating budget is the incorporation of the Recreation Fund in the General Fund. The Recreation Fund previously served as a special revenue fund for collecting Recreation & Parks program revenues and supporting department operations. In recent years, recreation fees have not been sufficient to support department operations, so the Recreation Fund has been receiving General Fund transfers ranging from \$1.8 million to \$2.5 million annually. This General Fund transfer to the Recreation Fund will no longer be needed due to the new financial structure and the portion of the Recreation & Parks operations not covered by program revenues will be covered by other General Fund revenue sources.

It should be noted that the historic budget and actuals data presented as part of this proposed budget has been converted to the new financial structure for comparison purposes. As a result, General Fund revenues and expenditures appear higher than previously presented due to the incorporation of the Recreation Fund in the General Fund.

SUMMARY

The COVID-19 pandemic presented unique and unprecedented challenges for maintaining a high level of service to our community. Staff will return to City Council in the coming months to further explore options for optimizing the City's use of the \$28 million ARPA stimulus funding for meeting the Council and community's goals and ensuring that the City maintains fiscal sustainability.

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, which honors our commitment to maintaining the quality of life for every resident. 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.

With the City Council's leadership and the help of our community, we can continue to maintain strong fiscal stewardship while ensuring our budget and financial policies reflect spending consistent with the community's priorities.

Respectfully submitted,

Eric Levitt
City Manager