

**REPORT TO MAYOR AND COUNCIL****TO THE HONORABLE MAYOR AND COUNCIL:**

DATE: May 13, 2014

SUBJECT: TRANSMITTAL OF THE BUDGET MEMO OF THE FY 2014-15 PROPOSED OPERATING BUDGET AND 10-YEAR FORECAST**Report in Brief**

Please find attached to this report the following documents:

- City Manager's Budget Memo for the FY 2014-15 Proposed Operating Budget and 10-Year Forecast
- Memo from the Measure Q Oversight Committee sharing their findings
- Proposed Operating and Capital Improvement Program Budgets for Fiscal Year 2014-15 (Separate Binder)
- Communications from the public

These are the documents which are traditionally added to the City's official budget documents once approved and will be discussed at the Budget Workshop on May 13, 2014. Information on the Proposed FY 2014-15 Capital Improvement Program budget is included in the binder, however, this information will be presented and discussed at the Budget Hearing on June 3, 2014.

Recommendation for Action

It is recommended that the City Council receive information regarding the FY 2014-15 Proposed Operating Budget and 10-Year Forecast and provide direction to staff for the development of the FY 2014-15 Adopted Operating Budget and 10-Year Forecast.

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- Attachment 1: City Manager's Budget Memo for FY 2014-15 Proposed Operating Budget and 10-Year Forecast
- Attachment 2: Memo to City Council from the Measure Q Oversight Committee
- Attachment 3: Proposed Operating Budget for Fiscal Year 2014-15 (Separate Binder)
- Attachment 4: Communications from the public

Memorandum

DATE: May 13, 2014

TO: Honorable Mayor Grayson and Members of the City Council

FROM: Valerie Barone, City Manager

SUBJECT: **Budget Message for Fiscal Year 2014-15 and Ten-Year Financial Forecasts for Fiscal Year 2014-15 through Fiscal Year 2023-24**

With this transmittal memo, the Executive Team, the Finance Department, and I present the recommended City of Concord operating budget for Fiscal Year (FY) 2014-15. The proposed annual budget is balanced, relying on voter-approved Measure Q¹ revenue to support the operations of vital city services.

Accompanying the recommended annual budget is the 10-Year Financial Forecast for the General Fund, as well as the 10-year forecasts for the City of Concord's other major funds (golf course, sewer, gas tax). Staff will present the recommended annual General Fund budget and 10-year forecasts to the City Council and the public at the Council's May 13 Budget Workshop. The Council will further consider and take action on the budget at its budget hearings on June 3 and June 24, 2014.

The proposed Fiscal Year 2014-15 annual budget demonstrates the continued success of Measure Q. Measure Q was passed by the voters to preserve vital city services, rebuild the City's reserves and provide a local revenue source that could not be taken by the State of California. Because of Measure Q support to the City's operating budget, the proposed Fiscal Year 2014-15 budget maintains city services that the public relies on. The Citizen's Oversight Committee for Measure Q affirms in its independent report to Council (Attachment 2) that the City is appropriately using Measure Q revenues to rebuild reserves and protect vital City services.

INTRODUCTION

Like many cities throughout the Country and State, Concord has been hard hit by the economic downturn that began in FY 2007-08. The recession and slow recovery forced the City to cut its workforce by 25%, defer infrastructure and facility maintenance, reduce programs and outsource

¹ Measure Q is a voter approved half-cent use and transaction tax that provides revenue to the City of Concord that cannot be taken by the State of California. The measure was approved by the voters in November 2010. Measure Q sunsets in March 2016.

services. Additionally, the Concord workforce stepped up to help with the City's deficit by paying more for health benefits, agreeing to a new lower tier of retiree pension benefits, picking up the full employee-share of retiree pension benefits, participating in a 5% furlough program for 3.5 years, and eliminating salary increases for multiple years. Even with all of these service reductions and employee give-backs, the City had to deplete \$24 million of General Fund reserves just to keep as many services and programs available to the residents as possible. Measure Q's adoption by the voters has allowed the City to rebuild its reserves and maintain vital services that the community relies on.

As discussed later in this report, an economic recovery is underway in Concord—the City is experiencing improved sales tax revenue as well as a recovering commercial and residential real estate market. Yet the recovery is not fast enough nor strong enough to fully resolve Concord's remaining fiscal challenges. Challenges still facing Concord include:

- The loss of Measure Q revenue in March 2016
- A slow economic recovery in which revenues are not keeping pace with expenditure growth
- Adjusting to the fiscal impact on the City of state revenue grabs, including the recent loss of redevelopment, which total over \$78 million for the past 20 years
- Increases in CalPERS retirement rates
- Increases in health care costs and the undetermined impact of the Affordable Care Act
- Unfunded maintenance and infrastructure needs for roads, parks, facilities, and street signs/lights
- Unfunded long-term liabilities

The proposed General Fund 10-year financial forecast assumes a modest economic recovery with average annual sales tax growth of 2.7% and average property tax growth of 2.6%. The 10-year forecast illustrates that if projected revenues are achieved and service levels and expenditure trends remain constant, annual General Fund expenditures are projected to exceed annual revenue for each of the next 10 years, although the size of the gap shrinks.

Given the City's revenue projections, service levels, and cost structure, and without any significant changes to projections or operations, the City would begin to gradually deplete its Measure Q and General Fund reserves beginning in 2016, and by FY 2021-22 the General Fund reserve would drop below 15%². The proposed 10-year financial forecast avoids this, and results in a 15% reserve at the end of the 10-year forecast by including a total of \$4 million of unidentified budget cuts to be implemented beginning in FY 2015-16, the first year following the expiration of Measure Q. The proposed 10-year forecast assumes \$2 million in expenditure/service cuts in FY 2015-16 and an additional \$2 million the following year.

² The Council has set a 15% reserve level as the minimum and defined a goal of returning to a 30% reserve when the economy is robust enough to support doing so.

However, even with this service reduction approach, the forecast relies on using \$16 million of reserves over the next 10-years.

The “General Fund 10-Year Forecast” section of the budget binder illustrates the impact of the expiration of Measure Q revenue and the necessary budgetary/service cuts, as well as its impact on the City’s reserves (see pages 21-27 in the budget binder).

Council’s Priority Focus Areas for FY 2014-15

In light of the challenges the City faces, the proposed FY 2014-15 budget provides the necessary resources for the City to make progress in each of the Council’s priority focus areas, while also limiting the increase in operating expenditures in the proposed budget to only items that are essential, align to a Council goal, or are out-side of the City’s control (such as utility costs and contractual obligations).

Last year, as part of preparing the Fiscal Year 2013-14 budget and in order to address the difficult challenges faced by the Concord organization since the start of the Great Recession, the Council defined four areas of priority focus and acknowledged two areas of constant focus as a tool to guide our organization’s work efforts and resource allocations. This approach has proved very successful and was used again this year at the start of our budget preparation cycle.

On March 22, 2014 the City Council held a workshop to confirm and refine the Council’s Priority Focus Areas for FY 2014-15. The Council made a number of modifications, including dividing one of the four priority focus areas (Long Term Financial Stability & Economic Vitality) into two, which resulted in a total of five priority focus areas and two areas of constant focus, as listed below (not listed in any priority order):

Long Term Financial Stability

- Adopt a balanced annual budget and a 10-year financial forecast that acknowledges unfunded liabilities & deferred maintenance
- Implement strategies that reduce unfunded liabilities and address the City’s Annual Required Contributions (ARC) for retiree benefits
- Outreach to the community on the City’s responsible use of Measure Q revenues and the City’s long-term financial forecast
- Pursue initiatives that enhance the City’s long-term financial stability

Economic Development

- Progress on developing the Concord Reuse Project Area
- Complete & begin implementation of the Downtown Specific Plan
- Implement strategies that enhance the economic vitality of all areas of the City
- Implement strategies that address blighted and/or vacant properties
- Support the development of housing that implements the City's Housing Element and enhances the economic vibrancy of the City

Public Safety

- Focus all City departments on public safety
- Focus on preventative measures that enhance long-term public safety
- Reduce criminal activity in Concord—pay special attention to:
 - ✓ Homeless related criminal activity, and
 - ✓ Juvenile related criminal activity
- Progress on the Family Justice Center

Infrastructure Maintenance

- Maintain existing infrastructure & facilities in a safe and operational condition
- Implement strategies that optimize all modes of travel through the City
- Implement strategies that address sewer needs
- Implement strategies that address pavement & roadway needs
- Identify backlogged park infrastructure maintenance needs

Organizational Strength & Employee Success

- Implement strategies that engage and strengthen Concord's relationship with regional, state and national organizations and elected officials
- Implement technology that enhances customer service and organizational efficiencies
- Perform timely and effective performance evaluations

- Adopt policies that address key personnel and legal needs
- Implement programs that support employee recognition and networking
- Develop employees, the executive team, and council members through training & growth opportunities

During the March 22nd workshop, the Council also acknowledged that there are two constant areas of focus for a City: Quality of Life and Customer Service. Concord, like all cities, continues to concentrate on these two areas as well.

Additionally, the City recently commissioned a customer satisfaction survey where 83% of the public said they were satisfied with City services; further they identified the following specific service priorities for the City:

- 9-1-1 emergency response services
- Neighborhood police patrols
- Gang prevention programs
- Crime investigation services
- Road maintenance and pothole repair efforts
- City street lights and traffic signals
- City parks and playgrounds
- Youth sports and recreation programs
- Senior services and the senior center

Proposed FY 2014-15 Budget Compared to FY 2013-14

FY 2014-15 is not expected to be dramatically different from our current fiscal year in that the City continues to be challenged by limited resources to accomplish all of the priority projects and programs. Consequently, the City will need to remain focused on what is most important to the community and to the Council.

While the recommended FY 2014-15 budget is a “status-quo” budget, overall expenditures have increased, primarily in the area of budgeted personnel costs. Personnel costs include the cost to fund amendments to labor contracts for the Concord Police Officers Association and Concord Police Managers’ Association, as well as changes to the budgeted savings for vacant positions, increased employee medical costs and pension costs to the California Public Employees’ Retirement System (CalPERS). In addition, the budgeted cost of full-time salaries and benefits are also increased by the addition of 8 positions that were not included in the current adopted budget for FY 2013-14. However, the costs for all of these positions, with the exception of three new dispatcher positions, are offset by either new program revenue or expenditure reductions.

Five of the positions were previously approved by Council; the remaining three are before Council for consideration as part of this budget review.

The following table provides a comparison of the FY 2014-15 proposed budget to the estimated actual revenue and expenditures for the current fiscal year, FY 2013-14.

Table 1. Proposed General Fund FY 2014-15 Budget Compared to FY 2013-14

	FY 2013-14 Est. Actual	FY 2014-15 Proposed Budget	Difference
Total Recurring Revenue (excluding Measure Q)	72,204,130*	73,378,000	1,173,870
Total Recurring Expenditures	79,138,000	81,413,000	2,275,000
Surplus/(Shortfall)	(6,933,870)	(8,035,000)	(1,101,130)

**Excludes \$1.8 million of rollover funds from the prior year (FY 2012-13) that were allocated through the mid-year update to fund the full amount of the City's annual contribution to the City of Concord Retirement System (CCRS) and post-employment medical liability, as determined by an independent actuarial report.*

Measure Q - Half-cent Local Sales Tax

Just five years ago, the City had to deplete \$24 million of its reserve funds just to keep as many services and programs available to residents as possible. On November 2, 2010, the voters of Concord passed Measure Q, establishing a half-cent use and transactions (sales) tax for five years. The establishment of a Citizens' Oversight Committee to annually review the City's use of the Measure Q tax revenue was included in the authorizing ordinance. The Citizens' Oversight Committee has the responsibility to review the annual auditor's report and to make findings to the City Council on whether the past use and proposed future use of Measure Q tax revenue is consistent with the community's priorities. The Committee's report is Attachment 2 to this report.

The City uses a portion of the annual Measure Q revenues to fund operating expenses to preserve services to the community and allocates the balance of the annual revenue to rebuild financial reserves. Measure Q has been essential in maintaining key city services such as 9-1-1 emergency response, neighborhood police patrols, gang prevention programs, crime investigation services road maintenance, pothole repair efforts, city street lights and traffic signal upkeep, city parks and playgrounds maintenance, youth sports and recreation programs, and senior services and the Senior Center.

In the current 2013-14 fiscal year, the City expects to receive a total of \$10.9 million in revenue from the half-cent Measure Q sales tax. Of this amount, it is estimated that \$6.3 million will be

used to support operations and \$4.6 million will be set aside in reserves to help fund services for additional years after the March 2016 “sunset” of the tax measure.

Additionally, consistent with the City’s strong tradition of fiscal prudence and stewardship, Measure Q has been successful in helping the City to rebuild its reserves. At the close of the current 2013-14 fiscal year, the balance of the City’s discretionary reserve accounts (which include the special reserve for Measure Q funds) is projected to be \$20.5 million. This will amount to a 28% reserve of budgeted General Fund expenditures for the upcoming FY 2014-15 budget.

As shown in Table 1 in the proposed FY 2014-15 budget, the City continues to rely heavily on Measure Q revenue to support the essential services our public relies on; \$8 million of Measure Q revenue is needed to create a balanced budget.

PROPOSED FISCAL YEAR 2014-15 GENERAL FUND BUDGET

What follows is a summary of the City’s Proposed FY 2014-15 General Fund budget. To aid the reader through this section and all of the detail provided, staff has organized the information in this section of the report into the following topics:

1. General Fund Revenues (Pg. 7)
2. Expenditure Assumptions (Pg. 17)
3. Significant Changes Other Funds (Pg. 22)
4. Measure Q Oversight Committee Findings (Pg. 25)

1. GENERAL FUND REVENUES

Total projected FY 2014-15 revenues for the General Fund are up \$1.2 million from \$72.2 million to \$73.4 million. This excludes Measure Q revenue, which is projected to be \$11.6 million, up \$731,000 from \$10.9 million in the current fiscal year. Property tax is projected to be up by 5.5%, a reflection of increased sale activity and homes selling for higher values. Total non-Measure Q sales tax is projected to increase by 2.3%, which is attributable to a continued increase in automobile sales and general growth in the local economy.

The following table provides a brief summary of the most recent estimated actuals for current year (FY 2013-14) and the budget projections for property and regular sales taxes, followed by projected revenue for Measure Q.

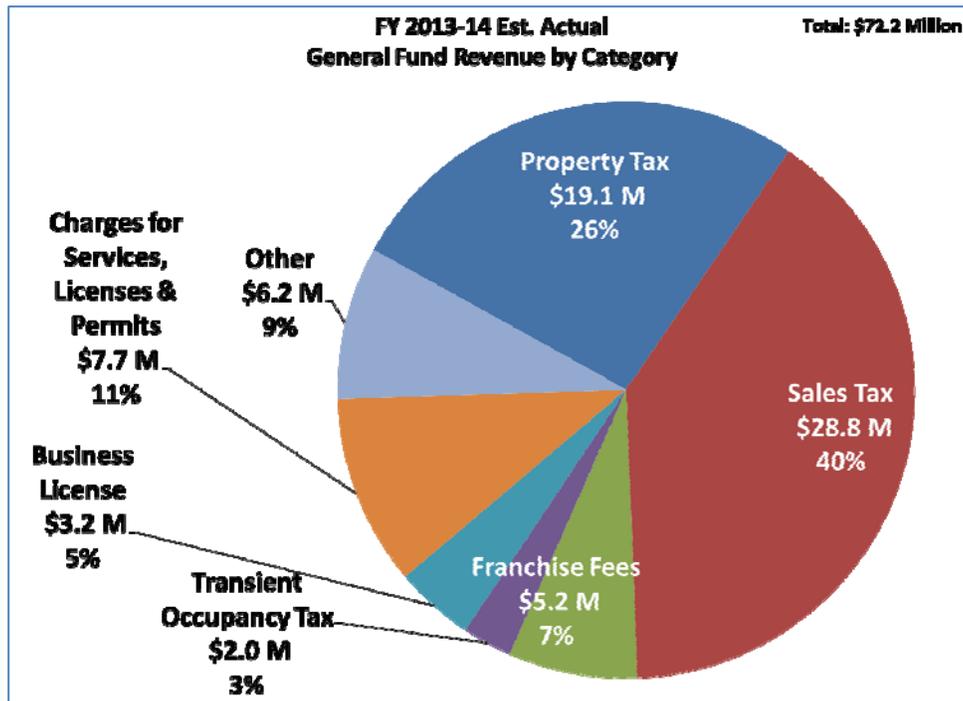
Table 2. General Fund Revenue Summary

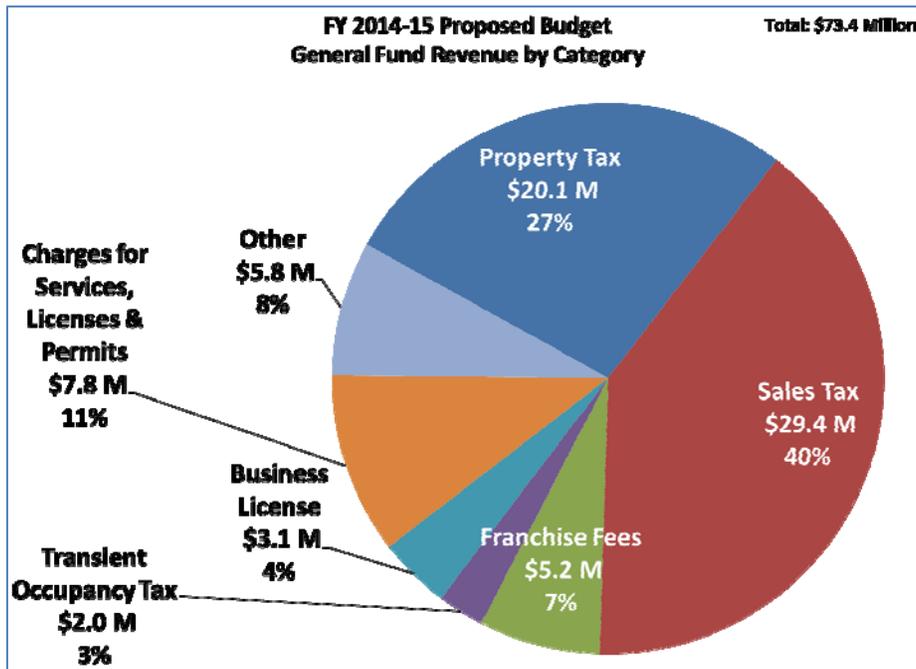
	FY 2013-14 Est. Actual	FY 2014-15 Proposed Budget	Difference
Total Recurring Revenue (excluding Measure Q)	\$72,204,130	\$73,378,000	\$1,173,870
Major Revenue Sources*			
Property Tax	19,064,000	20,115,000	1,051,000
<i>Percent of Total</i>	26%	27%	
Sales Tax	28,759,737	29,415,000	655,263
<i>Percent of Total</i>	40%	40%	
Measure Q Revenue	10,878,000	11,609,000	731,000

**Only the major revenue sources of property tax and sales tax are shown. Other categories revenue are shown and analyzed later in this report.*

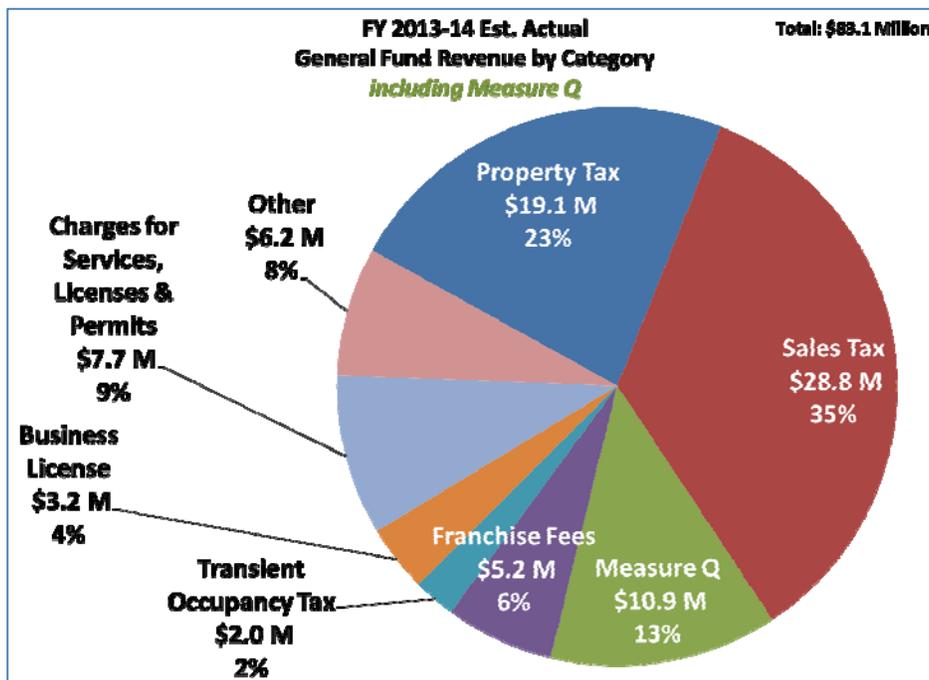
As shown in Table 2, the total increase in property and sales tax is approximately \$1.7 million, however, the total increase in General Fund recurring revenue is projected at \$1.2 million. This is a result of various changes in non-property and non-sales tax revenues sources, as described below.

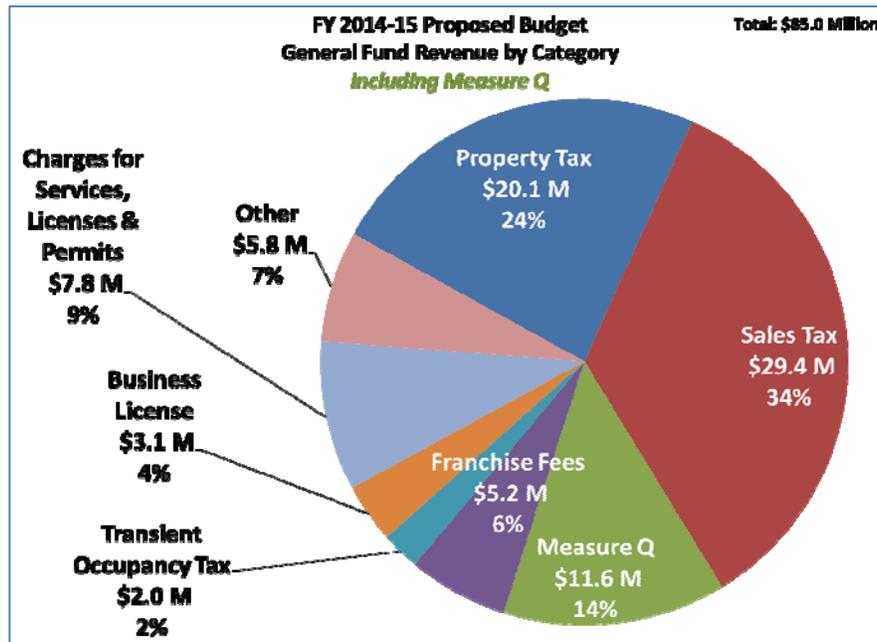
Together, property taxes and the City’s regular sales tax represent 67% of the total regular General Fund projected revenue. The following charts show General Fund revenue by category in FY 2013-14 (based on estimated actuals) and FY 2014-15 (as proposed) without Measure Q.





These next charts show General Fund revenue by category in FY 2013-14 (based on estimated actuals) and FY 2014-15 (as proposed) with Measure Q. This portrait demonstrates that revenue from the Measure Q special use and transactions (sales) tax represent a significant portion of total General Fund resources (13-14%), which as you know supports vital community services such as 911, city parks, youth sports and senior services.



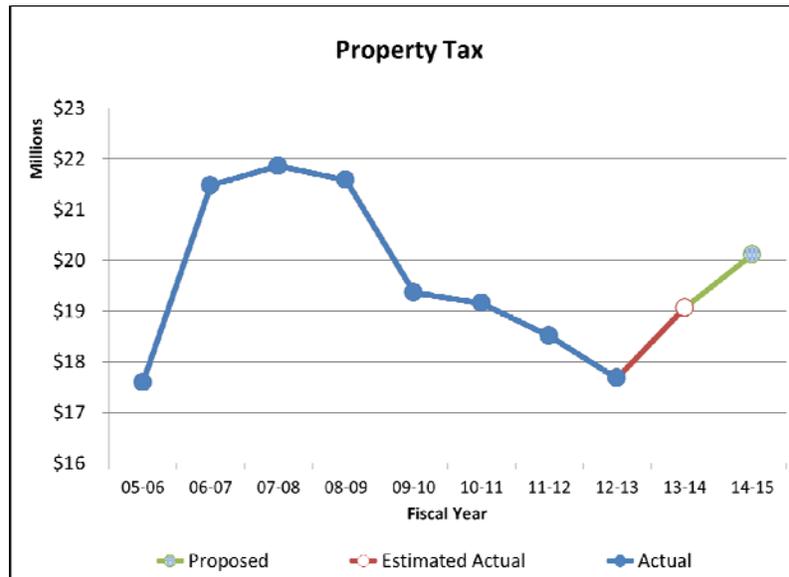


Further explanation and analysis of the City's General Fund revenues by category follow:

a. Property Tax

Property taxes represent 26% of recurring General Fund revenue. The City of Concord continues to see a recovery in property taxes as a result of increased sales activity and prices. Property taxes for FY 2014-15 are projected to be \$20.1 million, 5.5% increase over FY 2013-14. However, projected property tax revenue for FY 2014-15 is still \$2.4 million less than its peak in FY 2007-08 (property tax revenue that year was \$22.5 million).

According to the City's property tax consultant, HdL Companies, "the housing market has continued to improve in 2013 as home buying increased due to continued low interest rates and affordable prices. Foreclosure levels are back to historical norms. Median prices and numbers of sale transactions are up statewide. The median sale price of a single family home in Concord for calendar year 2013 was \$351,500; this represents a \$108,500 (35.19%) increase from 2012." As Concord remains one of the most affordable communities in Contra Costa County, this positive trend is anticipated to continue for the next two years.

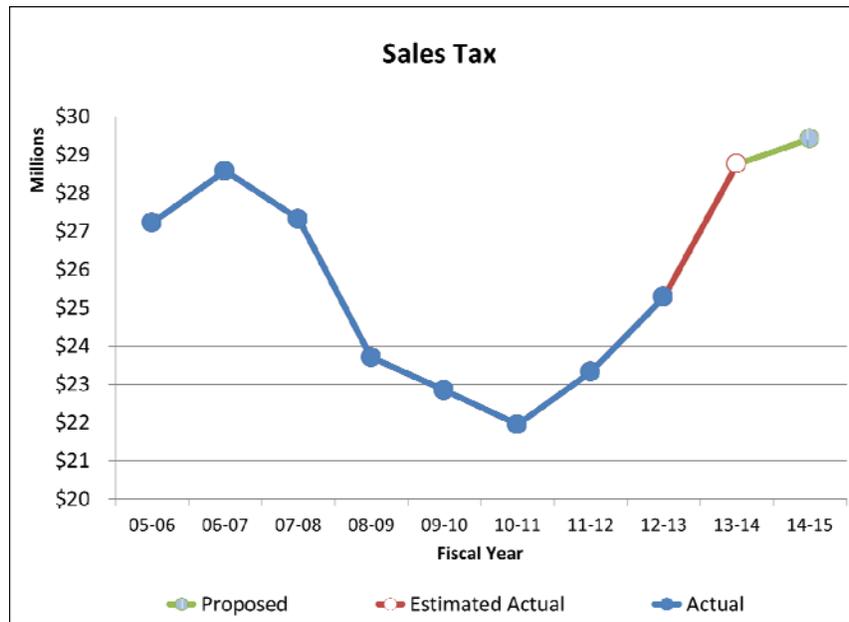


b. Sales Tax

The original Bradley-Burns 1% sales tax (non-Measure Q) comprises 40% of recurring General Fund revenue (excluding Measure Q revenue) in the proposed budget. As shown in the following graph, by the close of the current 2013-14 fiscal year, the City’s regular sales tax revenue is projected to have recovered from the recession. The proposed budget projects \$29.4 million to the General Fund in FY 2014-15. Due to this recovery of the sales tax base, staff and the City’s sales tax consultant (HdL Companies) expects the growth for this revenue source in FY 2014-15 to be slower than the prior three years. As such, a 2.3% growth rate is projected. In the past 3 years, the growth has been primarily attributed to strong auto sales. This trend has continued for the first two quarters of the current fiscal year (2013-14), but it is expected to moderate, while holding onto the gains of the past 3 years. Concord has also benefited by a general recovery in non-auto related industries, especially in the area of building and construction.

It should be noted that staff met with the City’s Sales Tax consultant in April to review updated sales tax projections for the current fiscal year. The estimated actuals of \$28.8 million are \$1.9 million higher than the current budgeted amount. At the close of the fiscal year, staff intends to request approval from Council to allocate any additional funds consistent with the Council’s policy for the use of one-time and budget surplus funds will be placed before the Council for approval on May 27, 2014.³

³ The City Council is currently developing a policy for the use of one-time and budget surplus funds that emphasizes paying down financial liabilities and investing in infrastructure to reduce deferred maintenance. The policy was

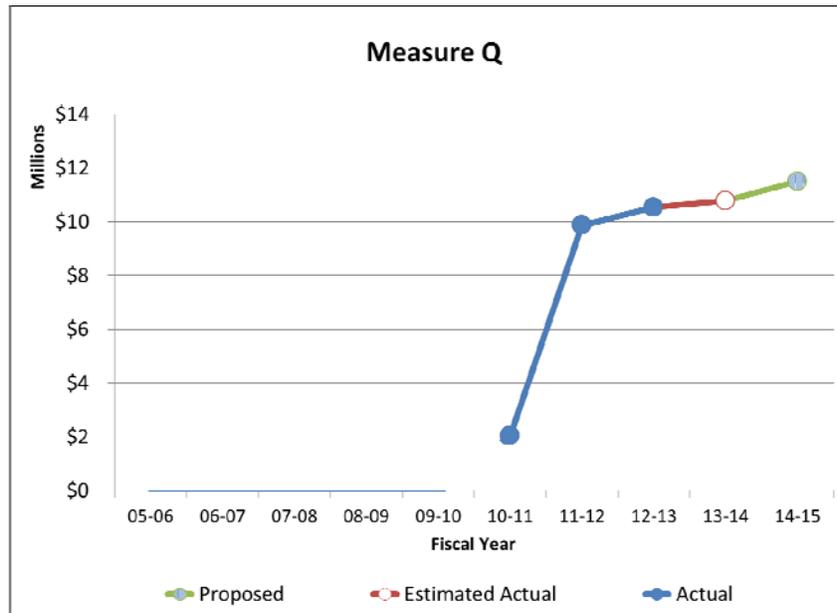


c. Measure Q

As noted earlier in this report, Measure Q is a temporary revenue source that expires in March 2016. The special use and transactions (sales) tax was approved by Concord voters in November 2010, for a 5-year term. Collection of this local revenue began on April 1, 2011, with FY 2011-12 being the first full year of receiving Measure Q funds. In that first full year, just under \$10 million was received.

In the Proposed FY 2014-15 Budget, Measure Q revenue is projected to increase by approximately \$731,000 to \$11.6 million from \$10.9 million in the current fiscal year (2013-14). This represents a 6.7% increase.

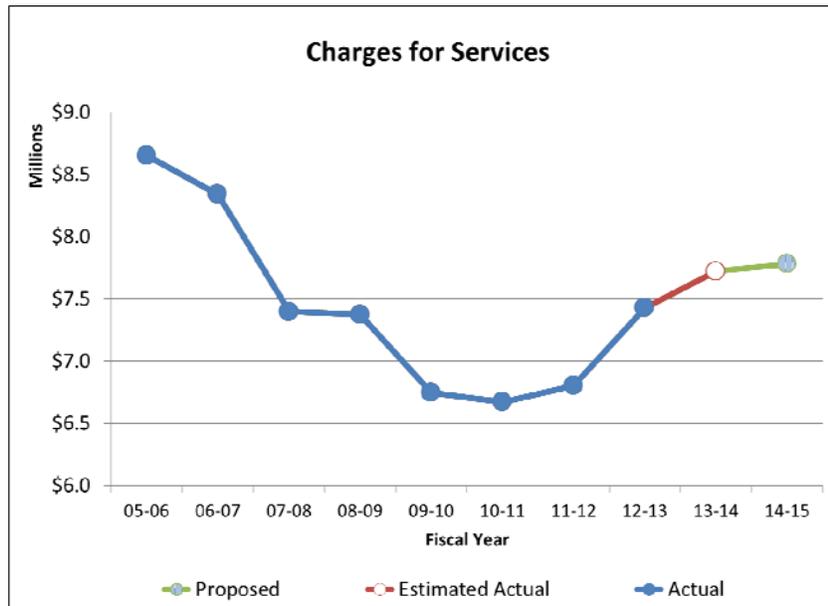
When comparing this growth rate with that of the regular Bradley-Burns sales tax, it is important to keep in mind that the taxable base is slightly different for each tax, so the growth rates are slightly different.



d. Charges for Services (*Permits, Plan Review Fees, Inspection Fees, and User Charges*)

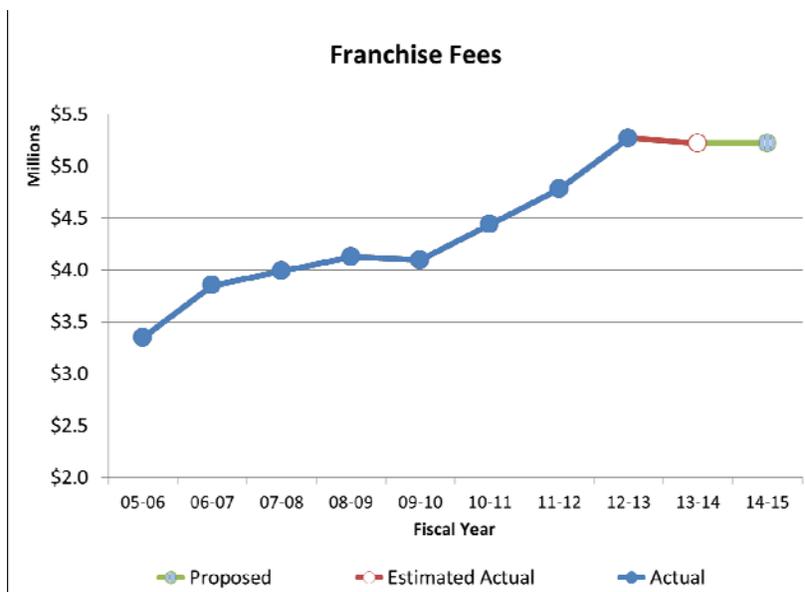
Total projected revenue in the Charges for Services category is estimated to be \$7.8 million, up \$60,000 from the current year budget. This revenue category consists of various permit charges (e.g. building, plumbing, electrical), fees for plan review, inspection fees as well as user charges for facility rentals and other direct service fee charged by City departments.

During the mid-year budget adjustments in the current fiscal year, revenue estimates were increased by \$800,000 in this category to account for increased development related (i.e. plan review fee, inspection fee, and permit) revenue. The relatively minor increase projected in FY 2014-15 of \$60,000 of new revenue on top of the amount that was added at mid-year, assumes a continuation of the increased development activity seen over the last 18 months. Overall, revenue from charges for services in other departments across the City (namely Parks & Recreation and Police) is projected to be relatively constant. The following graph shows that total revenue from service charges are still \$900,000 below their peak in the last 10-years. In FY 2005-06, total revenue from service charges was \$8.7 million, compared to the projected \$7.8 million for FY 2014-15.



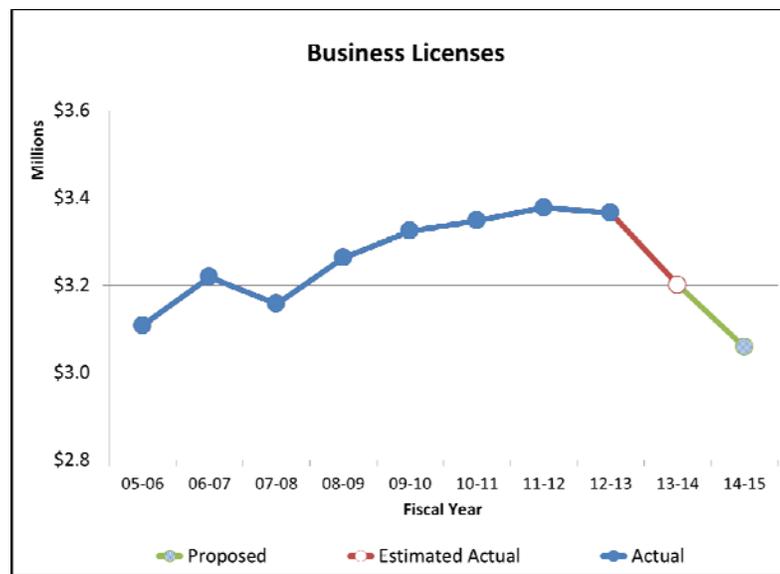
e. Franchise Fees

Franchise fees are estimated to remain constant at \$5.2 million, or 6% of General Fund revenue in FY 2014-15. Ongoing franchise fees are paid for waste management, cable, electric as well as gas utility and oil pipeline companies under individual franchise agreements.



f. Business Licenses

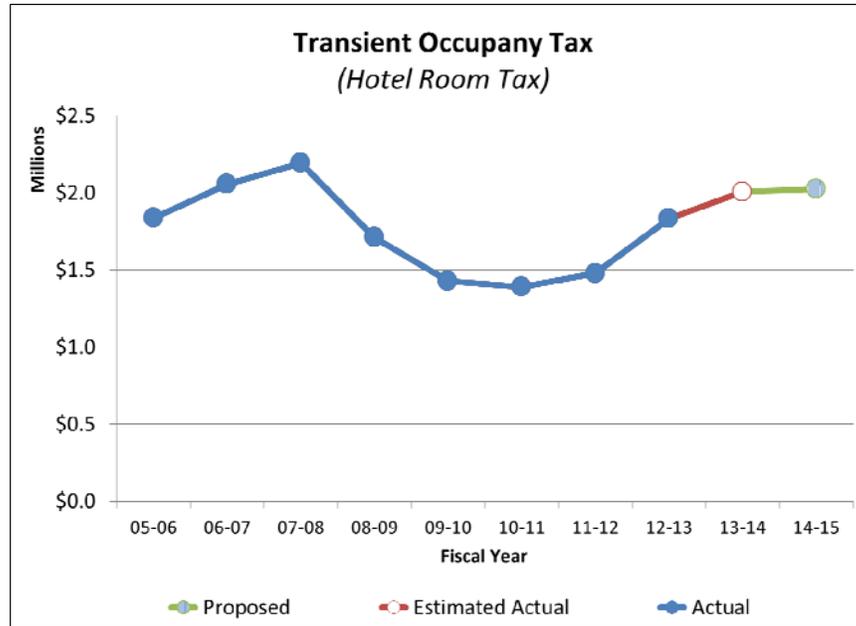
Total revenue related to business licenses is projected to be \$3.1 million in the proposed budget. This includes three distinct sources: 1) business taxes, \$2.8 million, 2) administrative and renewal fees, \$200,000, 3) penalties, \$45,000. Proposed revenue from business taxes and penalties are relatively flat and no changes to the fee structure are proposed at this time. However, the projected revenue from administrative fees reflects a \$150,000 decrease related to a prior action by the City Council to reduce business license administrative fees. The following graph shows a decline in this revenue source for the current 2013-14 fiscal year as well. This too is related to Council's prior action to reduce administrative fees. Due to when the fee reduction occurred and the annual staggered time in which businesses renew their license, the full revenue reduction is spread over two fiscal years—representing a total reduction of approximately \$280,000.



g. Transient Occupancy Tax (TOT)

Based on monthly revenue trends, estimates for the transient occupancy tax (also known as the hotel room tax) were increased by \$190,000 during the mid-year review for the current FY 2013-14 budget. This brought the total budgeted revenue to just under \$2 million. The Proposed FY 2014-15 budget projects that TOT revenue will remain relatively flat (an increase of just \$18,000). This is a conservative estimate which assumes the partial recovery in local hotel/motel room occupancies is maintained. At approximately \$2 million, this revenue source is below the peak for the last 10-years, which was in FY 2007-08. Staff will continue to monitor monthly totals of this revenue source closely and analyze any

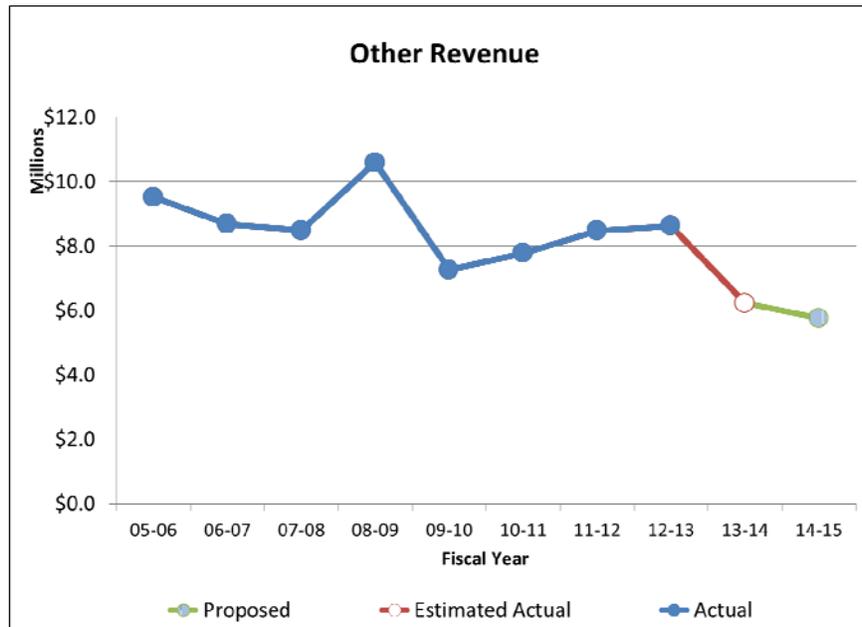
impact that the recent Diablo Valley advertising campaign by the Concord Tourism Improvement District may have.



h. Other Revenue

“Other Revenue” includes one-time special revenue, fines and forfeitures, inter-governmental, and inter-fund charges (among others). In the Proposed FY 2014-15 budget, this category is down by approximately \$400,000 (from \$6.2 million to \$5.8 million). While some revenues in this category are projected increase (with the largest increase related to rental income for Waterworld property, up by \$130,000), there were a number of individual revenue sources that declined. The most significant declining revenues in this category are a \$450,000 reduction due to the completion of a project to reconcile development deposits for permit applications from prior years and a \$60,000 decrease in State Mandated Reimbursements.

The following graph shows an overall, gradual decline in Other Revenue. This decline stems from the discontinuation of redevelopment support for General Fund operations in FY 2011-12, caused by the dissolution of the City’s Redevelopment Agency. In FY 2012-13, the City received one-time, unbudgeted revenues of \$2 million from the County (Property Tax Administration Fee refund and the Low and Moderate Income Housing fund share payment) which temporarily delayed the general decline we are seeing in this revenue category.



2. EXPENDITURE ASSUMPTIONS

Given the fiscal constraints of the City, all departments were instructed to limit the increase in operating expenditures in the FY 2014-15 budget to only items that are essential, align to a Council goal, or are related to contractual commitments that are not feasible or advisable to eliminate in the FY 2014-15 budget. For the most part, this was accomplished; the proposed budget that is before the Council increases General Fund spending on operating expenses by only \$352,000. However total expenditures in the General Fund increase by \$2.3 million (or 2.9%). As discussed below, the budgetary increase is primarily related to increasing personnel costs.

Table 3 shows the changes in total recurring expenditures from the current adopted budget and the FY 2014-15 proposed budget.

Table 3: General Fund Recurring Expenditure Summary

	FY 2013-14 Est. Actual	FY 2014-15 Budget	Prelim.	Difference
Total Recurring Expenditures	79,138,000	81,413,000		2,275,000
<i>Major Expenditure Groups*</i>				
<i>Full-time Salaries</i>	29,054,000	30,774,000		1,720,000
<i>Percent of Total</i>	37%	38%		
<i>Fringe Benefits**</i>	25,866,000	25,241,000		-625,000
<i>Percent of Total</i>	33%	31%		
<i>Part time Salaries</i>	1,913,000	1,385,000		-528,000
<i>Percent of Total</i>	2%	2%		
<i>Operating Expenses</i>	10,185,000	10,537,000		352,000
<i>Percent of Total</i>	13%	13%		

*Does not include internal service charges, capital project funding, debt or inter-fund transfers.

**Includes medical, vision, dental, life insurance, disability insurance, pension contributions and payments, deferred compensation, social security, and workers' compensation.

Table 3 shows the overall recurring General Fund expenditures are up \$2.3 million. This relates to the changes in the major expenditure groups that are shown in the table, as well as a \$700,000 increase that relates to how the City budgets for a vacancy savings. Below is a discussion of the significant factors that influence the total increase in recurring expenditures.

Vacancy Savings

In the prior two fiscal years, the City included a 3% vacancy factor for all full-time positions. This assumed that, given regular turnover and the time it takes to recruit and hire a replacement, there would be an average 3% vacancy savings citywide. In FY 2012-13, this 3% vacancy savings was not achieved and the City is not on track to achieve the budgeted vacancy savings in the current fiscal year. In the current FY 2013-14 budget, the vacancy savings is assumed at \$1.4 million. Staff is recommending that the budgetary vacancy factor in the FY 2014-15 budget be reduced to 2% for all employees, with the exception of sworn officers and staff that provide direct support for development services (building/engineering inspection as well as plan and permit review services). Staff proposes a 1% vacancy factor for sworn officers and direct development service employees in recognition of the vacancy trends for these positions and the fact that the backfill requirements for these positions do not consistently provide financial savings. The reduction of \$700,000 in budgeted vacancy savings does not increase compensation; it reflects a change in budgeting practices.

Personnel/Organizational Changes

The budgeted cost of full-time salaries and benefits are also influenced by the addition of 8 positions that were not included in the current adopted budget for FY 2013-14—although five of these positions have been approved by Council during the current fiscal year. It should be noted that the cost of several of the positions are offset by new program revenue and expenditure reductions in operating costs and other areas. Specifically, part-time salaries in some programs have been reduced to offset the cost of newly proposed positions. In addition, part-time salaries also decrease as a result of transitioning a large number of part-time/seasonal landscape and

laborer positions in the Public Works Department to contractual services through a staffing agency.

In addition, the proposed personnel costs include approximately \$440,000 to fund amendments to labor contracts for the Concord Police Officers Association (POA) and Concord Police Managers' Association (PMA) that were put before the Council for adoption on May 6, 2014.

Table 4 shows full-time positions by department for the current and proposed budgets.

Table 4. Full-time Positions

Department	FY 2013-14 Adopted	FY 2014-15 Proposed	Difference
City Attorney	4.0	4.0	-
City Council	6.0	6.0	-
Community & Economic Development	37.0	39.0	2.0
Concord Local Reuse Authority	2.0	2.0	-
Finance	19.0	19.0	-
Human Resources	6.0	7.0	1.0
Information Technology	12.0	12.0	-
Office of the City Manager	10.0	11.0	1.0
Parks & Recreation	15.0	15.0	-
Police	207.0	211.0	5.0
Public Works (includes Storm Water and Sewer)	76.0	76.0	-
Total Full-Time	394.0	402.0	8.0

The additional 8 full-time, benefited positions include:

Five positions authorized by Council during the current fiscal year.

- Police Department
 - ✓ *One Vehicle Abatement Officer*, approved by Council on September 10, 2013. The budgeted cost of \$68,000 is funded by State motor vehicle licensing and renewal fees and offset by reductions in part-time staff. This position supports the community by removing abandoned vehicles throughout the City.
 - ✓ *Three Dispatchers*, approved by Council on February 11, 2014. The budgeted cost of \$316,000 is a new appropriation from the General Fund. Staff anticipates a delayed savings in the current over time and part-time expenses in the Dispatch program as a result of adding these three full-time positions. Since Dispatchers go through an extensive post-hire training program, a significant reduction in overtime and part-time expenses is not expected until FY 2015-16. Therefore, a

reduction in these costs is not reflected in the proposed budget. These positions support the community by allowing for adequate staffing in the dispatch center which enhances community and officer safety.

- City Clerk's Division
 - ✓ One 18-month Contract Program Coordinator, approved by Council on March 25, 2014: The annual cost of \$137,000 is completely offset by reductions in personnel and operating expenses. This position will support succession planning efforts in the City Clerk's Office, help address the current records' backlog, and provide support for the replacement of the City's existing document imaging system.

Three proposed new positions for Council consideration in the proposed budget.

- Community & Economic Development Department
 - ✓ One Permit Technician I. The annual cost of \$89,000 is proposed to be completely offset by reductions in part-time support, the use of contract staff and increased program revenue.

The proposed Permit Technician I position will provide additional receptionist and development counter support, as well as assist with the Building Division's workflow and records management activities. Currently, the Building Division is staffed with three full-time Permit Center Technicians, which are supplemented by 0.5 full-time equivalent (FTE) of contractual permit technician support and 0.48 FTE of part-time administrative support. The Building Division has experienced increased call volumes and service demands over the past couple of years. This is evidenced by the increase in total annual valuation of work and permit applications processed. In addition, revenues for filing fees, plan review fees, and inspection fees have significantly increased beyond the budgeted revenues consistently over the last two fiscal years. This is most noticeable by the \$800,000 in additional development related revenue that was adjusted in the FY 2013-14 mid-year update.

As an addition to the normal workload, in March 2014, Building Division Permit Technicians began imaging all of the Community and Economic Development Department's development review documents on an ongoing basis. The City's existing document imaging fees help to support these efforts and will also help to offset a portion of the cost for the proposed Permit Technician I position.

With the proposed Permit Technician I position, the total Permit Technician full-time staffing will be 4 FTEs. This is lower than the peak staffing level in previous

years. For example, the FY 2005-06 budget provided for 5 FTEs Permit Technicians verses the proposed 4 FTEs Permit Technicians for FY 2014-15.

- ✓ One Building Inspection Supervisor. The annual cost of \$150,000 is completely offset by reductions in the use of part-time staff, contract personnel and increased program revenue from permit activities.

In an effort to be more responsive to building code enforcement needs, address the increase in inspection workload, and provide improved efficiencies, staff recommends the addition of one Building Inspection Supervisor position. The position will reduce the number of direct reports to the Chief Building Official (currently at 10 FTEs), support succession planning in the Department by providing a supervisor position, and provide additional daily supervision and support to the inspection and building code enforcement activities within the City. This position will take over the duties of a vacant 0.48 FTE part-time position and a 0.5 FTE contract inspector that works for building code enforcement. This will result in improved customer service.

With the proposed Building Inspection Supervisor position, the total building inspection full-time staffing level in the FY 2014-15 budget is considerably lower than the peak staffing level in previous years. For example, the FY 2005-06 budget provided for 1 Building Inspection Supervisor, 3 Senior Building Inspectors, and 5 Building Inspectors, for a total of 9 FTEs. The proposed budget for FY 2014-15 provides for a total of 4 FTEs (1 Building Inspection Supervisor and 3 Building Inspectors).

- Human Resources Department

- ✓ One Human Resources Specialist. The annual cost of \$117,000 is completely offset by reductions in various operating expenses in the Human Resources department.

The proposed addition of a Human Resources Specialist position will restore one of two positions that were eliminated in the Human Resources Department during the 2009-10 fiscal year downsizing. The position is necessary due to the increased demands being placed on the Human Resources Department through the Federal Affordable Care Act and new State regulations around retirements as well as the increased work demands coming out of the City organization as the economy has begun to improve.

The proposed position will support two programs within the Human Resources Department: 1) Recruitment and Selection and 2) Organization Training and Employee Development. When the position was eliminated, the City had a hiring freeze and had reduced expenditures on employee training and development. In

FY 2009-10 the City had just two recruitments for full-time positions and twelve in the following year (FY 2010-11). The number of full-time recruitments has increased to more than 30 in each of the last two fiscal years and the trend is expected to continue. In addition, the number of recruitments for part-time positions has increased in the last two fiscal years. From a low of 46 part-time recruitments in FY 2011-12 to 77 part-time recruitments in FY 2012-13, and the same level is expected for the current and following fiscal year. All departments in the City rely on the Human Resources Department and this position will allow for increased customer service, as well as reduce the risk of failing to fully comply with new State and Federal regulations.

Major Fringe Benefit Changes

The Proposed FY 2014-15 Budget also includes full funding of the actuarial recommended annual contribution for CCRS, \$2.0 million. This is a change from the current fiscal year, in which a portion of the annual contribution was built into the budget and the remaining amount was paid with one-time funds at mid-year.

The proposed budget continues the City's historic budget approach of including a base level of funding for the actuarial recommended annual contribution towards retiree medical, (\$2.9 million). Controlling the cost of retiree health benefits continues to be a priority area of focus to the City Council, as indicated by the language included in the recent agreements with the Police Officers and Managers Associations. In these agreements the City and the employee groups have agreed to discuss ways to reduce the City's retiree health benefit costs. In addition, as one-time and surplus funds become available during the 2014-15 budget year, staff will seek to augment funding for retiree medical benefits, as has been done in past years. The additional amount needed, given current benefit levels, is \$1.9 million.

Major cost increases included in the fringe benefit category include higher premiums for current employee healthcare coverage (up \$706,000 across all funds) and increased CalPERS pension costs (up \$560,000).

3. SIGNIFICANT CHANGES TO OTHER FUNDS

a. Sewer Enterprise Fund – Annual Charge from CCCSD increases

On June 4, 2013, the City Council approved a two-year increase to the annual sewer service charges in the amount of \$39 for each of the two years. This brought the FY 2013-14 annual sewer charge to \$363 and the FY 2014-15 annual charge to \$402. While this represents an average increase of 11%, the City continues to have one of the lowest sewer rates among its peer jurisdictions. This level of funding has and continues to create a challenge when budgeting for operating expenses and capital improvement projects.

Concord’s Sewer Enterprise contracts with the Central Contra Costa Sanitation District (CCCSD) to provide wastewater treatment of sewage at the CCCSD treatment plant. Consequently, the Concord Sewer Enterprise pays a proportionate share (30% to 32%) of the maintenance, operation, and capital replacement costs of the CCCSD treatment plant, based on flow volumes.

In the current FY 2013-14, the total budget for CCCSD charges are \$16.7 million. Staff has recently received information from CCCSD indicating that the projected bill for the current year will be \$17.2 million (or approximately \$490,000 more than the FY 2013-14 Adopted Budget). Staff has reserved sufficient funds to cover the estimated invoice amount and will request a budgetary adjustment from the Sewer Fund Balance once the precise invoice amount is known (not likely until after the start of the 2014-15 fiscal year).

Total projected CCCSD charges in the Proposed FY 2014-15 Budget is \$18.9 million. This represents nearly 74% of the City’s Sewer Enterprise total projected expenditures. Staff has met with CCCSD staff and plans to continue such conversations to better understand the escalation in costs. Initially, it appears that the main financial drivers include: a) increased utility and chemical costs at the treatment plant; b) increased CCCSD employee costs; and c) Contra Costa County Employees Retirement Association pension and healthcare cost increases.

The following table shows a 5-year history of Central Contra Costa Sanitation District charges to the Concord Sewer Enterprise Fund.

Table 5: Five-Year History of CCCSD Charges to the Sewer Enterprise Fund

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>
	Actual	Actual	Actual	Estimated Actual	Proposed Budget
Total CCCSD Charges to the Concord Sewer Enterprise Fund	\$13.062 Million	\$13.840 Million	\$14.810 Million	\$17.192 Million	\$18.911 Million
Annual Percent Increase	2%	6%	7%	16%	10%

b. Golf Enterprise Fund – Expenses increase but covered by additional revenue

The Golf Enterprise Fund is used to account for the operations at the Diablo Creek Golf Course. Estimated revenue for FY 2014-15 is up \$24,000. This is related to increased usage of the golf course and driving range. Total proposed expenses increase by \$16,700. The most significant increase (\$15,000) is related to over-seeding. Staff is not proposing to increase course usage rates or rental fees this year. Fee increases for the golf course typically occur on a bi-annual cycle and fees were increased for the current fiscal year (FY 2013-14) and are not scheduled to increase again until FY 2015-16.

c. Gas Tax Funds – Revenue down 11%, limited funds available for new CIPs

The Proposed Budget anticipates an 11% decline in gas tax revenues. This decline is attributed to a statewide reduction in gas tax revenue as a result of a fuel tax swap that took effect in 2010. The swap reduced the sales tax on fuel, thus reducing the pool of monies shared by cities and counties.

Below is the estimated gas tax funding for the City of Concord in the current and upcoming fiscal year.

FY 2013-14

- Estimated Actual: \$3,536,000 (*down \$153,000 from Adopted Budget*)

FY 2014-15

- Projection: \$3,149,000 (*11% decrease from FY 2013-14 Est. Actual*)

Concord has historically used its annual gas tax revenue to both provide funding for capital improvement projects and finance annual operating costs for street, sidewalk and median maintenance. Due to the projected 11% decrease in revenue for FY 2014-15, staff has proposed to decrease the amount of funds to support annual maintenance by \$270,000 (from a total of \$3.3 million in the current 2013-14 fiscal year to \$3.0 million in the upcoming 2014-15 fiscal year). The reduction is in the areas of contractual services and internal service charges.

Despite this reduction, the amount of FY 2014-15 gas tax revenue available for allocation to new capital improvement projects is limited (only \$113,000).

The FY 2014-15 Capital Improvement Budget proposes a total of \$293,000 in new gas tax funded projects. The funds to support these projects are proposed to come from the remaining FY 2014-15 gas tax revenue and the City's gas tax fund balance. The estimated gas tax fund balance at the beginning of next fiscal year (7/1/2014) is projected to be just under \$2 million.

It should be noted that there are active CIP projects that received Gas Tax funding in prior years. These projects will continue and their prior allocation of Gas Tax revenues will not be affected by the decrease in revenues that is projected for the upcoming FY 2014-15.

d. Successor Agency Budget (former Redevelopment Agency)

As a part of the State of California's FY 2011-12 budget, redevelopment agencies across the State were eliminated. The City of Concord is now the fiduciary agency for the Successor Agency, which is responsible for winding down operations and property held by the former Redevelopment Agency. The Concord City Council

does not approve the Successor Agency budget; however, the agency does provide funds to reimburse the City for personnel and other administrative costs. The Successor Agency budget for FY 2014-15 has not been finalized; however the current version includes \$250,000 in personnel and administrative reimbursement to the City. These reimbursements are applied to the Finance and Community & Economic Development departments. The activities of the Successor Agency are shown in the “Fiduciary” section of the budget document (pages 284-285).

4. MEASURE Q OVERSIGHT COMMITTEE FINDINGS

The Measure Q Citizens’ Oversight Committee reviewed the FY 2014-15 Proposed Operating Budget and 10-Year Forecast and found that it is consistent with the principles adopted with the decision to place Measure Q on the ballot in 2010. The Oversight Committee has found that:

- The FY 2012-13 Annual Audit reflects that Measure Q funds were collected and appropriately spent.
- The City’s proposed General Fund budget for Fiscal Year 2014-15 protects the City’s core services.
- The City’s proposed General Fund Budget for Fiscal Year 2014-15 rebuilds the City’s reserves.
- The City’s proposed General Fund budget provides for a status quo level of service, however, expenditures increase and the City continues to rely on Measure Q revenue and reserves to support the services relied on by the community. Further, the Committee stressed that “unless significant actions are taken...the expiration of Measure Q in March 2016, will once again cause the City to rely on the use of reserves to fund on-going operations—causing the City’s reserve levels to deplete over the long-term.”

A copy of the Measure Q Citizens’ Oversight Committee report to the City Council is attached to this budget memo (Attachment 2) and the chair of the Committee is expected to address the Council at the Council’s budget study session.

CONCLUSION

Measure Q has helped our City to stay solvent, maintain services and rebuild reserve funds during one of the worst economic times of our day. For the past two decades, the State of California has taken more than \$78 million from the City, and these takeaways have had their toll. Measure Q has assisted the City with providing a guaranteed source of local funding for essential city services constituents rely on, and the State of California can’t take away.

This year's proposed budget and 10-year fiscal model emphasize the importance of Measure Q revenue in supporting essential city operations. The sobering news is that Measure Q is set to expire soon; but Concord's fiscal recovery is projected to take much longer. This results in the need to make significant cuts to services in future years (once Measure Q revenue is no longer received). Additionally, the ongoing constraints on the budget are preventing the City from adequately investing in the maintenance of the City's infrastructure—without additional investment the community will continue to experience a decrease in the quality of its roadways, sports fields, parks and community centers.

Consequently, the Council and the community have tough decisions ahead—begin planning for significant service reductions or maintain current, quality, service levels with the support of the community by extending an existing tax. In order to better understand the community's desires, Council has tasked staff with outreaching to the community on the City's responsible use of Measure Q revenues and the City's long-term financial forecast.

Concord's Mission Statement states: *Our Mission is to join with our community to make Concord a City of the highest quality. We do this by providing responsive, cost effective and innovative local government services.* This remains the organization's mission and with the Council's continued leadership; employee support, creativity and hard work; and the Concord community's support and partnership, I have no doubt that we will continue to be successful in achieving our mission.

Respectfully submitted,

A handwritten signature in black ink that reads "Valerie J. Barone". The signature is written in a cursive style with a large, stylized initial "V".

Valerie J. Barone
City Manager

City of Concord

May 13, 2014

TO: Honorable Mayor and Councilmembers

FROM: Measure Q Oversight Committee - Guy Bjerke, Chair;
Richard Eber, Vice Chair; Norm Freitas, Bill Gram-Reefer; Beri Kasper;
Dr. Harmesh Kumar; Rosanne Nieto

**SUBJECT: Measure Q Oversight Committee's Review of the FY 2012-13 Audit and
Evaluation and Report on the City's Proposed Use of Measure Q Revenues in
the Fiscal Year 2014-15 General Fund Budget**

The Measure Q Oversight Committee (Committee) met on February 26, 2014 to review the Fiscal Year (FY) 2012-13 Comprehensive Annual Financial Statement (CAFR), which includes the annual audit. At this meeting, the Committee also heard a presentation from staff on the City's long-term post-employment liabilities and infrastructure backlog.

Subsequently, the Committee met on April 9, 2014 and April 16, 2014 to review and evaluate the FY 2014-15 preliminary General Fund budget and 10-year financial forecast. The purpose of these meetings was to obtain an understanding of the preliminary budget in order to advise the Council as to whether Measure Q revenues are proposed to be spent in a manner consistent with what the voters were told during the election process: to protect core services, re-build the City's reserves, and provide more time for the City to address its on-going structural budget deficit.

The Committee has made the following findings with regard to its charge in oversight of the tax:

1. Does the FY 2012-13 Annual Audit reflect that the Measure Q tax was collected and appropriately spent?

At the February 26 meeting, the Committee determined that the presentation of the Measure Q Use and Transaction Tax in the financial statements (pages x, 15, 27, 29 and 45 of the CAFR) reflect the collection of the tax appropriately.

The Committee finds that usage of Measure Q tax revenue (\$10.6 million) was identified clearly in the annual audit (pages x, 15, 27, 29 and 45 of the CAFR). Further the Committee finds that \$5.4 million of Measure Q tax revenue went to maintain City services and the remaining \$5.2 million went into the City's reserve. Consequently, the Measure Q Committee concludes that the tax was collected and appropriately utilized.

2. Does the City's proposed General Fund Budget for Fiscal Year 2014-15 protect the City's core services?

The proposed budget estimates the collection of \$11.6 million in Measure Q revenue during the 2014-15 fiscal year and continues the City's practice, which is supported by this Committee, to use a portion of the annual Measure Q revenue to fund operations, while also allocating a portion to strengthen reserves. Of the projected Measure Q revenues for FY 2014-15, \$8.0 million will be used to maintain the City's services, including public safety, parks and recreation, infrastructure maintenance, and internal operations. In addition, the remaining \$3.6 million is allocated to reserves. Because Measure Q revenues are available no significant cuts to services are being proposed in the FY 2014-15 budget; therefore, all core services are being protected.

Consequently, the Committee finds that the use of Measure Q revenue in the FY 2014-15 budget protects the City's core services.

3. Does the City's proposed General Fund Budget for Fiscal Year 2014-15 rebuild the City's reserves?

The Committee finds that the proposed General Fund budget for FY 2014-15 rebuilds the City's reserves. The City expects a total of \$11.6 million in Measure Q revenue in FY 2014-15. Of this amount, \$3.6 million will be placed in reserves to help stabilize the City's budget in future years. The total Measure Q reserve at the end of FY 2014-15 is projected to be \$12.3 million; this reserve, when combined with the City's 15% General Fund reserve, results in a total City Reserve of unallocated funds of \$22.6 million or 28% of the budget.

Further, the proposed 10-year financial forecast illustrates that Measure Q has been successful in continuing to rebuild reserves. However, this Committee would like to express its concern that the City's annual spending continues to be more than its annual recurring revenues. While Measure Q has and continues to cover the shortfall, Measure Q is set to expire in March 2016 and the City must take future actions to stabilize the budget.

4. Does the City's proposed General Fund Budget for Fiscal Year 2014-15 make progress toward resolving the City's structural budget deficit within the next 10-years?

The Committee finds that, while the proposed General Fund budget provides for a status quo level of service, the expenditure budget grows by \$2.3 million and the City's reliance on Measure Q revenue increases by approximately \$1.8 million to maintain service levels. In total, the proposed budget uses approximately 70% of the

projected FY 2014-15 Measure Q revenue to fund operations and the remaining amount will be allocated to the Measure Q reserve.

The Committee is concerned that, although the City is experiencing some revenue growth as the economic recovery continues, the recovery has been slow and the City will continue to rely on Measure Q revenue and reserves. Unless significant actions are taken, the Committee is also concerned that the expiration of Measure Q in March 2016 will once again cause the City to rely on the use of reserves to fund on-going operations – causing the City's reserve levels to deplete over the long-term.

In anticipation of Measure Q expiring, the 10-year financial forecast includes unidentified budget cuts in the amount of \$4.0 million to be phased in beginning in FY 2015-16. However, even with \$4.0 million in budget cuts, projected revenues without Measure Q are not sufficient to address deferred infrastructure needs and other liabilities.

The Committee recognizes that significant work has been done over the last 12 months to transparently identify the magnitude of the unfunded liabilities and infrastructure maintenance challenges that face the City. Further, the Committee finds that the 10-year financial forecast includes costs for unfunded liabilities and infrastructure needs – something that was omitted from prior forecasts and highlighted by this Committee.

The Committee concurs that it makes sense to minimize service reductions while Measure Q is being collected from tax payers to preserve City services; however, the Committee also recognizes the significance of the challenges and urges the City Council and City management to develop a clear roadmap to stabilize the General Fund budget.

Conclusion

The Committee continues to encourage the City staff to think creatively to further enhance efficiencies, reduce spending and raise revenues and to present those solutions to the City Council. The Committee thanks the City Council for the opportunity to comment and make recommendations on the use of Measure Q revenue.

Attachment 3 – Proposed Operating Budget for Fiscal Year 2014-15

(SEPARATE BINDER)

Communications from the public

From: Sherry Whitmarsh [<mailto:sherrywhitmarsh@gmail.com>]
Sent: Sunday, May 04, 2014 11:23 PM
To: Barone, Valerie
Subject: Golf Fees

Dear Ms. Barone,

I request that you add \$2000 to the new budget for high school golf fees. This would allow Concord High and Ygnacio Valley High school to not pay greens fees for the boys and girls golf seasons.

Thank you.

--

Sherry Whitmarsh
mobile 925 899 4731