# STAFF REPORT

AGENDA NO:
MEETING DATE: May 9, 2018

**To:** Honorable Mayor and City Council

**Date:** May 9, 2018

**From:** Carol Augustine, Finance Director – (650) 558-7222

**Subject:** Study Session: Fiscal Year 2018-19 Budget

## RECOMMENDATION

The purpose of this report is to give an overview on the development of the 2018-19 fiscal year budget, and receive Council comment and direction. No Council action is required.

## BACKGROUND

Development of the fiscal year 2018-19 budget has been underway since January, and the final budget document is beginning to take shape. Before finalizing the proposed budget for City Council approval at a public hearing in June, staff wishes to provide this budget overview for Council comment and direction. As always, this important effort should reflect the priorities and needs of the Burlingame community. Through the budget process and guided by Council discussion, City staff has endeavored to identify resident priorities and make sure those priorities are reflected in each of the department's budget proposals.

Although a summary of current economic conditions was provided with the mid-year report in March, an updated summary is intended to give context to the upcoming fiscal year revenue forecast. Any major changes from the mid-year forecast and results of prior fiscal years are identified and explained.

The economy in the Bay Area has had 10 years to improve since the Great Recession that started in 2008. While significant growth has occurred, the City continues to be ever cognizant of the uncertainty that results from the ebbs and flows of the economy, including continued ambiguity surrounding federal policy and the possible impact on the State of California and its cities. Staff remains focused on establishing fiscal policies that will sustain Burlingame's long-term financial strength through all economic environments, while continuing the transparent, accountable stewardship the community expects and deserves. The City has sought to identify any unfunded liabilities and aggressively set aside funds to decrease the burden of such legal obligations on future year budgets. In addition, the City has established reserve levels that will allow the City to deal with the inevitable downturns in the economy as well as potential emergencies and unforeseen events. In addition to funding day-to-day operations, prior year liabilities, and currently unfunded facilities and infrastructure projects, the budget will necessarily reflect limited fiscal capacity to take on new priorities, unexpected opportunities, or needs identified by the public for which there is no funding.

## DISCUSSION

**Economic Conditions –** The following information and analyses on the economic forces affecting local government agencies has been compiled largely from reports provided by HdL Companies, the City's sales tax consultant, in partnership with Beacon Economics, LLC. The evaluation is included here to offer additional perspective to the projections contained in both the revenue and expenditure budgets for each of the City's various funds for the 2018-19 fiscal year.

### *National Economy*

Data from the Bureau of Economic Analysis (BEA) showed the nation's economy continuing to hold promise after a solid year of growth in 2017. U.S. real GDP increased 2.73 percent in 2017, the highest rate since 2014, with the most acceleration seen in the third and fourth quarters. The increase in real GDP from the prior calendar year reflects solid consumer spending and an uptick in private inventory investment and in commercial fixed investment. This measure of the nation's economic growth indicates a slightly faster pace than experienced in previous years, reflecting relative strength in the global economy. According to Beacon Economics, a leading independent economic research and consulting firm, moderately low inflation and interest rates continue to support spending. Prospects for the national economy in the near-term are even better, with good momentum resulting from the Tax Cut and Jobs Act (TCJA) signed into law in late December.


The U.S. unemployment rate was 4.1 percent in March 2018, which is largely accepted as full employment, as a result of a tight labor market and more full-time hiring. This rate has remained stable since October 2017, though job openings remain high and the number of workers available decreases. Most economists anticipate that national unemployment will remain low going into 2020. And growth in payrolls is projected to push the unemployment rate a bit lower. Lower unemployment typically pushes wages higher, so inflation is expected to move higher as well. As a result, interest rates, both on the short end of the yield curve and longer-term rates, are expected to increase. In addition, higher wages should bolster consumer confidence, leading to potentially higher personal consumption expenditures, which will also put upward pressure on inflation. And yet, inflation is expected to stay below the 2 percent Fed target rate for the near future.

US retail trade rose by 0.6 percent month-over-month in March, recovering from a 0.1 percent drop in February and beating market expectations of a 0.4 percent gain. U.S. consumers continue to be relatively bullish on the economy: despite a modest retreat in the consumer confidence level in March, the index levels remain historically high, having reached the highest level since 2000 in February 2018. This suggests strong growth in consumer spending in the months ahead.


However, there are certain risks that should not be ignored in the coming year, including a worsening labor shortage that could have implications for years to come. Other potential risks to the economy include the growing federal deficit. As the huge Baby Boomer generation retires over the next decade, there will be a sharp rise in federal entitlement spending but without the corresponding revenues to pay for the increase. And the recently enacted tax overhaul bill will make a bad deficit situation worse. The new tax plan will also have an unintended consequence for the U.S. economy—higher interest rates and tighter lending markets. According to the Beacon Economics forecast, “The U.S. economy suffered badly during the past two asset bubbles and it’s likely that the Fed will try to head off a third by being aggressive in 2018….Such efforts will flatten the yield curve and slow lending – and that will more than offset the modest stimulative effect of the tax cuts.”

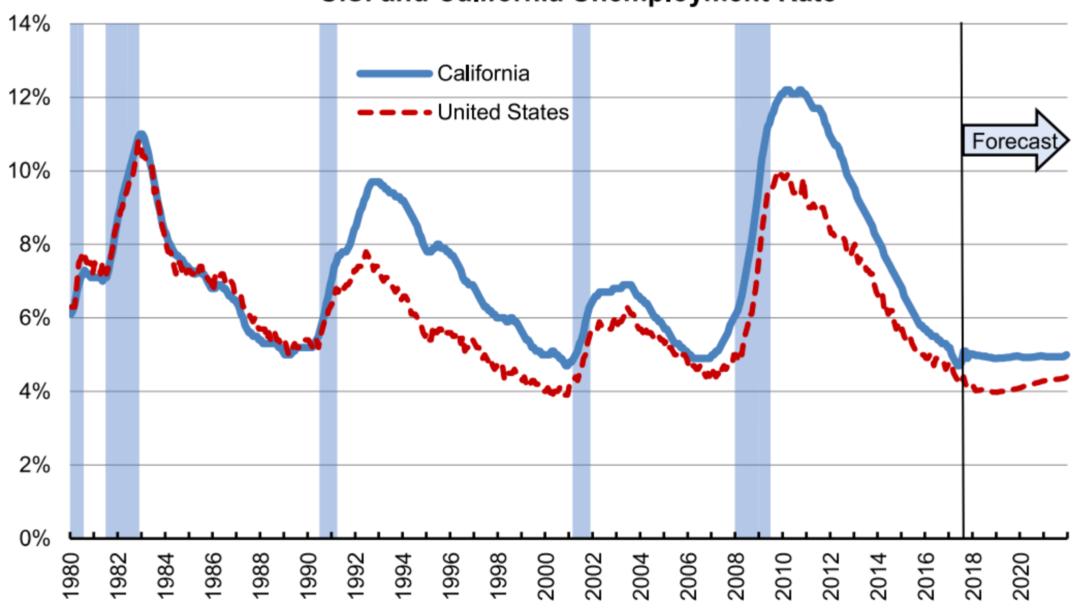
In addition, a protectionist trade strategy emerged from the nation’s capital in March: import tariffs on steel and aluminum represent the first major step. The extent to which the country’s policy change escalates and threatens global and domestic economic growth will depend on how some of the nation’s main trading partners, notably the EU and China, react.

### *State Economy*

Although California turned in a solid performance in 2017, the economy exhibited slower growth than the nation as a whole. With GDP growth of 2.1 percent, California's economy accounts for 14.2 percent of the U.S. GDP.

The unemployment rate for California fell to a record low of 4.3 percent on a seasonally adjusted basis in March 2018, down from a 5.0 percent rate in March 2018. Nearly every industry in the state continued to add jobs year-over-year, with the categories of Education and Health Services leading the way. Manufacturing continued its slight decline in jobs in 2017. Job growth in the Leisure and Hospitality Industry followed closely behind. With these decreases, the state's unemployment rate is moving ever closer to parity with the nation overall.

**U.S. and California Unemployment Rate**



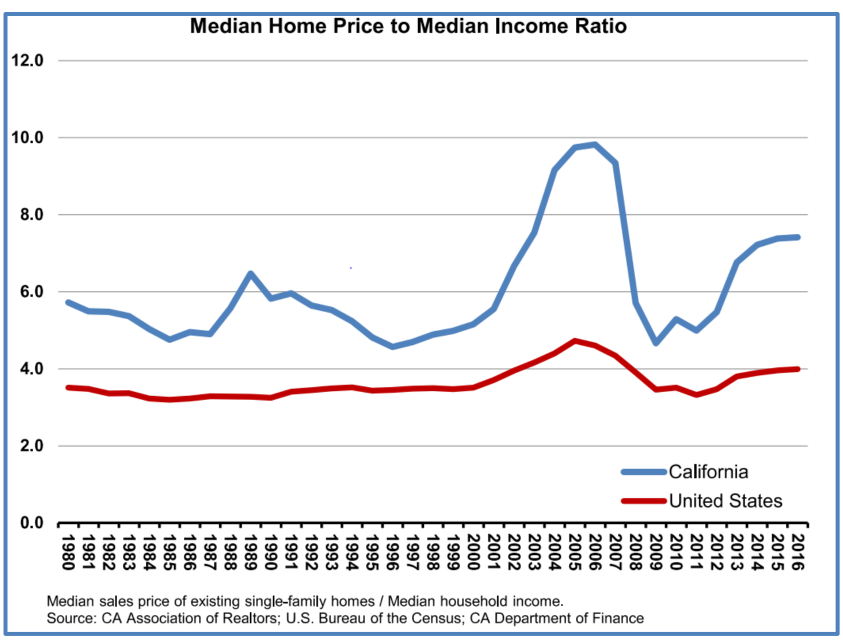

Shaded areas indicate U.S. recessions.
Source: U.S. Bureau of Labor Statistics; CA Employment Development Department, Labor Market Information Division; CA Department of Finance, Governor's Budget Forecast.

The latest jobs numbers from the state Employment Development Department (EDD) show California employment continuing to grow across industries and the unemployment rate at an all-time low. Job growth for the year ending in February increased 2.3 percent over February 2017 levels – well ahead of the national job growth of 1.6 percent over the same period. The unemployment rate in California reached another record low, dropping to 4.3% in February. "The record low unemployment rate signals a taut labor market, but the labor force has been growing at a moderate pace and has enabled the state's industries to continue hiring," said Robert Kleinhenz, Executive Director of Research at Beacon Economics and the UCR Center for Forecasting. "Looking at individual industries, continued increases in construction jobs reflect ongoing strength in that sector, while California manufacturing has seen a welcome surge in hiring in recent months following a slowdown at this time a year ago." Key findings in the report include:

- The Construction sector led job gains in February, adding 6,800 positions to payrolls. With yet another solid month of job gains, year over year growth in this industry now stands at a sizeable 9.5%.
- Other sectors adding a significant number of jobs include Health Care (6,700 jobs), Administrative Support (6,500 jobs), and Manufacturing (3,500 jobs). With this strong month of gains, year over year growth in Health Care stands at 3.4%, Administrative Support is at 2.3%, and Manufacturing is at 0.8%.
- Job counts were not up across all sectors in the latest numbers, with Education Services (-3,900 jobs), Other Services (-2,800 jobs), and Government (-2,500 jobs) all shedding a significant number of positions during the month. Still, year over year gains remain positive with jobs in Education Services expanding by 4.5%, in Other Services by 0.6%, and in Government by 1.1%.

Economists expect real personal income growth in the state, estimated to be 3.1 percent in 2017, to increase in the range of 3.9 percent to 4.5 percent in each of the next two years, as a tighter labor market results in higher wages for more workers. California’s minimum wage also will increase in future years under state law. Also, consumer inflation has averaged 1.9 percent in California and 1.6 percent in the nation since 2010, as measured by the Consumer Price Index. Inflation began to pick up in 2016 due to increasing housing costs, medical costs, and energy prices. Consumer inflation is poised to hover between 2 - 2.5 percent annually from 2018-2020.

It is no coincidence that slower labor force growth has occurred as the cost of living has soared in California. Since 1990, the California median has consistently exceeded the US median by more than 50 percent; now it is nearly double. As long as growth in the supply of housing remains low, home prices are expected to increase at above average rates in the near future. As can be seen in the chart below, median home prices in California have been rising faster than median household income. This condition leads to more crowded conditions, especially in areas where jobs are being added. The housing constraints are assumed to lead to a slower job growth in the governor’s budget forecast.



Per Beacon Economics, California and its regions should experience continued growth in economic activity and jobs throughout 2018. However, California will have to deal with labor shortage issues and housing affordability concerns. In addition, the state must face up to long-run water problems, even though drought conditions across most of the state have been alleviated in the past two years. The state and its regions must do more to ensure that the all-important statewide water system will be reliable for future generations. Infrastructure needs in transportation and other systems will also have to be addressed in order to support a growing state economy in the decades ahead.

Finally, recent national tariffs on imported and exported goods could ultimately set back California's economy. Not only are exports are a large part of the California economy, but tariffs on many imported goods, such as solar panels, could have an outsize effect on California.

***Local Economy***

Beacon Economics provides analysis of the economy of the San Francisco Metropolitan Division (MD) in their quarterly "Regional Outlook" report. The MD covers the counties of San Francisco and San Mateo.

With its emphasis on the tech sector, the San Francisco Bay Area economy continued to outperform the nation in 2017. The nine-county Bay Area experienced an unemployment rate of 2.5%; the San Mateo County unemployment as of December 31, 2017 (not seasonally adjusted) was 2.1% – the lowest in the state. An additional job surge in January was fueled in part by very large technology companies, such as Google, Apple, Adobe Systems, and Facebook, which are hiring employees at a rapid pace. Growth is expected to continue, with the Bay Area's economy growing at a faster rate than nearly all other large metropolitan areas in the country.

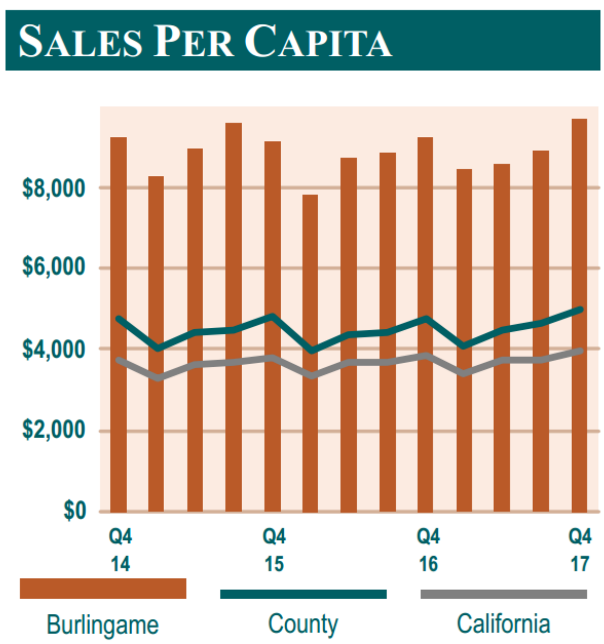
However, Beacon Economics anticipates job growth in San Francisco to expand at a more subdued rate of approximately 1 percent over the next year. The firm sees housing costs slowing the pace of people moving into the region. While the influx of highly educated professionals has been a primary driver of growth, the rising cost of living in the area often offsets wage advantages, and net migration is expected to decline over the next few years.

The median home price in San Francisco climbed by 6.4% between the third quarter of 2016 and the third quarter of 2017, reaching $1.3 million. Over the same period, the median price of a home in nearby Oakland increased by 12.4%, and in San Jose by 14.0%. Home sales also continue to rise despite San Francisco having one of the highest median home prices in California. Between the third quarters of 2016 and 2017, sales grew by 2.3%, indicating steady demand from high-earners in the region. Beacon Economics is forecasting the median home price in San Francisco to continue rising over the next year, but at a slower pace. Meanwhile, sales activity will remain lively as the region continues to benefit from income gains.

Rents in the area appear to have stabilized from the frenzied growth of the last few years, or are at least increasing at a slower rate. In an area of sky-high rents and housing prices, this is small comfort for tenants who must dig even deeper to live in the area. As job growth exacerbates the demand for housing, there is little relief in sight for the high cost of Bay Area housing in the near future.

Because the San Francisco Metropolitan area continues to be one of the United States' top tourist destinations, Burlingame continues to see strength in hotel tax revenues and consumer spending. With an 86.4 percent occupancy rate in the first eight months of this fiscal year, hotels in the area are among the most occupied in the country. (The nationwide average for hotel occupancy rates in 2017 was 65.9 percent.) Burlingame's revenues from TOT (transient occupancy tax) were up 5.1 percent from the same period last year. All indications are that travel and tourism is alive and well in the Bay Area. Although federally-imposed travel restrictions could negatively impact tourism and the area's occupancy rates in the future, there are no current indications of any slowdown in this industry.

As in other cities in the region, spending on autos, general consumer goods, and restaurants was up through the first half of calendar year 2017. Burlingame sales tax receipts in the 4th quarter of 2017 were 1.6 percent higher than the same quarter of the previous year (compared to an increase of 7.0 percent county-wide, and 3.6 percent for the state as a whole). Generally, the City experienced a solid quarter for auto sales and rentals, building-construction supplies, and some categories of business-related purchases. Higher fuel prices and strong restaurant patronage also contributed to the overall increase. However, the temporary closure of a major retailer within the general consumer goods group hampered growth in that business group.




Again, although increasing incomes and wages among local residents have helped fuel taxable sales, the high cost of housing in the region could impede growth in consumer spending in coming years. As more and more residents spend a larger portion of their income on housing, less money is left to purchase goods and services. In short, the state and local economic outlook is expected to coincide with the national outlook of continued recovery. As the San Francisco Bay Area was previously a "hot spot" for the growing economy, it is expected to experience a stabilization effect sooner than other parts of the state.

The transaction tax that resulted from November's successful Measure I, effective April 1, 2018, will fund additional safety services and enhanced streets and sidewalk maintenance activities, as well as provide partial support to the construction of a new Community Center, which is long overdue for replacement. Other liabilities await funding, however. The deferral of maintenance to infrastructure and facilities has resulted in an increase of projects on the City's list of "unfunded needs." In addition, the growing cost of previously-incurred pension liabilities must be addressed: the establishment of a § 115 Trust for this purpose was intended to prevent these costs from burdening operating budgets in the next 5-10 years. But it must be funded while the local economy is exhibiting strength. Staff will strive to identify all deferrals and liabilities, and recommend their systematic funding within the operating budget (of the appropriate fund) whenever possible.

## General Fund

Burlingame's fiscal year 2017-18 budget anticipated that the local economy would continue to gain momentum at a moderate pace, and the long-term forecast reflected relative stability for at least the next several years. Departments were not required to provide expenditure reductions for the mid-year analysis, which was presented to the City Council in March. However, departments were asked to identify, to the extent possible, additional funding sources or revenues to offset any additional budgetary needs. As a result, General Fund revenues were adjusted upward (approximately 2.2 percent) to reflect the most up-to-date projections based on current economic realities; and expenditures were increased (slightly over 1 percent), largely to forward initiatives approved by the Council earlier in the fiscal year. In addition to these changes, the City Council approved General Fund appropriations to further the Community Center Project design ($428,000), and provided the funding necessary to study the potential impacts of cell tower/antenna leases ($75,000). Based upon an actual increase in unrestricted General Fund balance of $3.3 million from the prior fiscal year, the City Council also directed the transfer of $2.3 million to the Capital Investment Reserve (in the City's Capital Projects Fund), and approved an additional $1 million contribution to the § 115 Trust Fund established with Public Agency Retirement Services (PARS) to augment funding of the City's pension obligations.

The City's 2017-18 fiscal year General Fund budget now reflects all of these mid-year budget changes, with revenues anticipated to be over $1.5 million higher than projected in the FY 2017-18 adopted budget. For fiscal year 2018-19, General Fund revenues are expected to grow to $74.9 million – an additional 6.3 percent overall. Although revenue projections for the 2018-19 fiscal year are significantly (3.8 percent) higher in total from the five-year forecast presented with the mid-year report, the $2.8 million difference is the result of two major changes in the forecast. All General Fund revenues are discussed in more detail in this report. Each revenue line item was refined to reflect existing and anticipated changes in terms of the local economy. Departmental expenditure budgets remain tight, deviating less than ½ of one percent from the recent five-year forecast.

In establishing departmental budgets for the upcoming fiscal year, emphasis was placed on the desire to maintain current service levels, particularly in public safety, lay the groundwork for delivery of the established objectives accompanying Measure I funding, preclude any increase in unfunded liabilities, and prepare to address the City's current unfunded needs. As a result, the initial expenditure budgets for the 2018-19 fiscal year continue to reflect significant fiscal restraint on the part of all departments.

## General Fund - Revenues

The following table shows the current forecast of fiscal year 2017-18 General Fund revenue projections in the context of recent-year actual amounts and current-year estimated amounts. The 2017-18 Adjusted Budget column includes the revenue amendments approved with the mid-year report on March 14th. These fiscal year 2018-19 projections reflect continued improvement over the current mid-year projections for many revenue sources. The increase in General Fund revenues for the upcoming fiscal year is well over the $1.7 million increase projected in the General Fund Five-Year Forecast presented in March, due largely to the addition of Measure I sales tax revenue, and acknowledgement that property tax revenues will probably be augmented by a much larger ERAF refund than previously (conservatively) included in budgetary projections.

**CITY OF BURLINGAME, CA**
**SUMMARY OF GENERAL FUND REVENUES**

| | FY15-16 Actual | FY16-17 Actual | FY17-18 Adjusted Budget | FY18-19 Proposed | $ Change from Prior Year | % Change from Prior Year |
|---|---|---|---|---|---|---|
| **Property Tax** | $17,645,289 | $18,932,795 | $20,150,000 | $21,335,000 | $1,185,000 | 5.9% |
| **Sales and Use Tax *** | 12,827,673 | 12,089,288 | 12,205,000 | 14,367,000 | 2,162,000 | 17.7% |
| **Transient Occupancy Tax** | 26,092,240 | 26,262,930 | 27,400,000 | 27,950,000 | 550,000 | 2.0% |
| **Other Taxes** | | | | | | |
| Franchise Tax | 1,604,757 | 1,633,303 | 1,669,000 | 1,766,000 | 97,000 | 5.8% |
| Business Tax | 985,568 | 976,307 | 994,000 | 998,000 | 4,000 | 0.4% |
| State HOPTR | 63,710 | 62,669 | 62,000 | 60,000 | (2,000) | -3.2% |
| Real Property Transfer Tax | 499,514 | 352,108 | 360,000 | 370,000 | 10,000 | 2.8% |
| **Licenses & Permits** | 86,154 | 88,069 | 88,000 | 88,000 | 0 | 0.0% |
| **Fines, Forfeitures and Penalties** | 864,393 | 898,184 | 910,700 | 909,500 | (1,200) | -0.1% |
| **Use of Money & Property** | 200,196 | 182,216 | 165,000 | 165,000 | 0 | 0.0% |
| **Charges for Services** | 4,470,274 | 6,023,353 | 5,337,775 | 5,693,000 | 355,225 | 6.7% |
| **Other Revenue** | 35,974 | 74,712 | 30,500 | 30,000 | (500) | -1.6% |
| **State Subventions** | 146,530 | 281,916 | 251,216 | 113,000 | (138,216) | -55.0% |
| **Interest Income** | 757,153 | 184,900 | 840,000 | 1,092,000 | 252,000 | 30.0% |
| **Total, General Fund Revenue** | **$66,279,425** | **$68,042,750** | **$70,463,191** | **$74,936,500** | **$4,473,309** | **6.3%** |

*Sales and Use Tax - FY18-19 Proposed Budget includes Measure I tax revenue of $1.75M.

Revenues from **property taxes** are expected to remain strong in the 2018-19 fiscal year. As of the writing of this report, the tax roll established by the County Assessor's Office shows a growth of 5.83 percent in assessed value for the City of Burlingame over the prior year. (This includes an inflation factor of two percent for all properties; the remaining growth is attributable to higher assessed values of properties that have changed ownership over the course of the year.) Although there is not a one-to-one correlation of the change in assessed values to the change in property tax eventually allocated to the City, it is a good indication of how property tax receipts will trend in the upcoming year.

The forecast for property tax revenues therefore shows an increase of nearly 5.9 percent from the current year's property tax estimate. The increase reflects a revenue assumption change -- the inclusion of Excess ERAF[a] revenue. In prior years, property tax revenue projections were slightly minimized due to uncertainties in the annual distributions from the County's Educational Revenue Augmentation Fund (ERAF). Higher State funding for education was anticipated with changes to the Local Control Funding Formula legislation enacted with the fiscal year 2013-14 state budget, with the higher funding translating to higher draws from county ERAFs statewide. It was also feared that ERAF monies could be used to satisfy other State commitments, which would ultimately eliminate any excess ERAF that had in the past been returned to the cities and other local governmental agencies that contribute to the fund.

For these reasons, revenues from excess ERAF refunds have been considered one-time revenues, and not fully budgeted. However, the improved economy is having the opposite effect on the County's ERAF funds, as it appears that the State can meet its obligations to educational agencies from the improved property tax revenues of recent years. In fact, higher property tax revenues result in more funds from local agencies being held in the ERAF fund, and fewer demands are being made on these funds. It appears that the ERAF refunds will not only continue, but grow larger as long as the State's economy remains strong. In addition, the manner in which ERAF refunds are calculated and paid to contributing agencies (up to three fiscal years after the funds are withheld) suggests that agencies within the county will have ample warning of any legislative impacts on the calculation and distribution of ERAF refunds. Therefore, the full amount of anticipated ERAF refunds ($1.7 million) is included in the property tax projection for fiscal year 2018-19. This change in assumption causes the property tax projection to be $900,000 higher than projected in the General Fund Five-Year Forecast presented with the Mid-year Report in March. Other property tax line item revenues, both secured and unsecured, are expected to remain strong.

***TOT (Transient Occupancy Tax)*** revenues constitute Burlingame's largest General Fund revenue and are usually a good indicator of current economic activity. At mid-year, the forecast for TOT for the current (2017-18) fiscal year was increased $529,000 (2.0 percent) to reflect growth in receipts year-to-date. Hotels in the area continue to experience very high occupancy rates (averaging 86.4 percent). The fiscal year 2018-19 budget forecast anticipates a further rise (2.0 percent) in this revenue source. Although occupancy rates should level off in the near future, and the number of Burlingame hotel rooms is not increasing, the average daily room rate (ADR) is expected to rise moderately despite the completion of new hotels along the Peninsula. The five-year forecast shows a continued rise in these revenues until the 2019-20 fiscal year, when a new 350-room hotel at SFO is expected to open.

***Sales tax*** receipts also reflected a fairly healthy economy this past year. Since the end of the State's "triple flip" revenue swapping procedure in fiscal year 2015-16, this revenue source now reflects true economic activity, and, as such, should be much easier to project in coming years.

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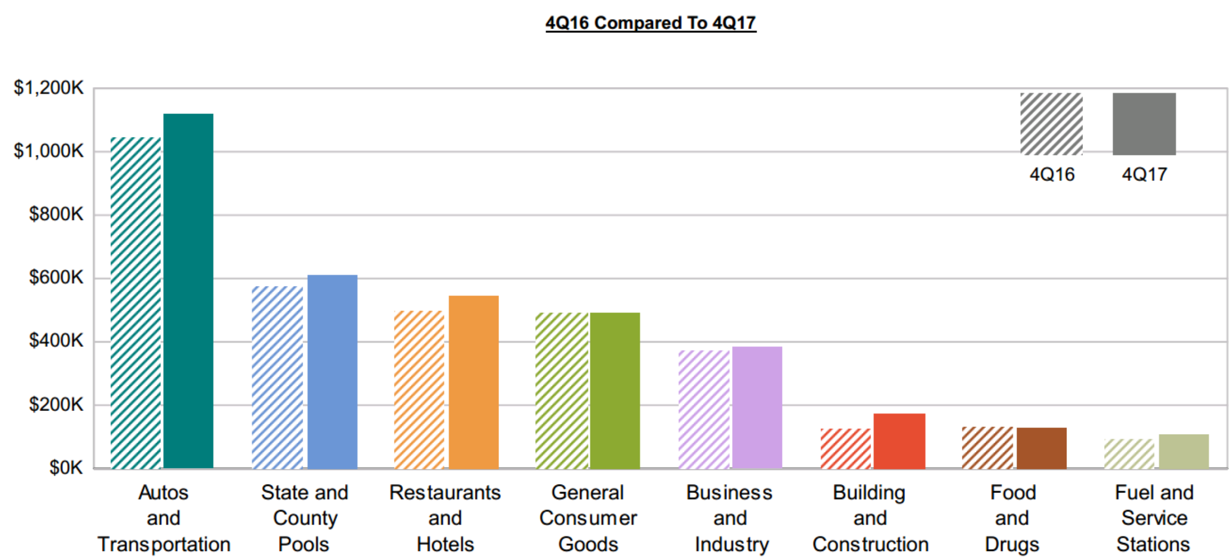
a Educational Revenue Augmentation Fund (ERAF) is a mechanism used by the State to shift funding from local property tax dollars to schools. When local property tax dollars shifted into ERAF exceed what is necessary to fund the schools, those excess funds are returned to the local taxing entities (cities, special districts) via Excess ERAF revenue

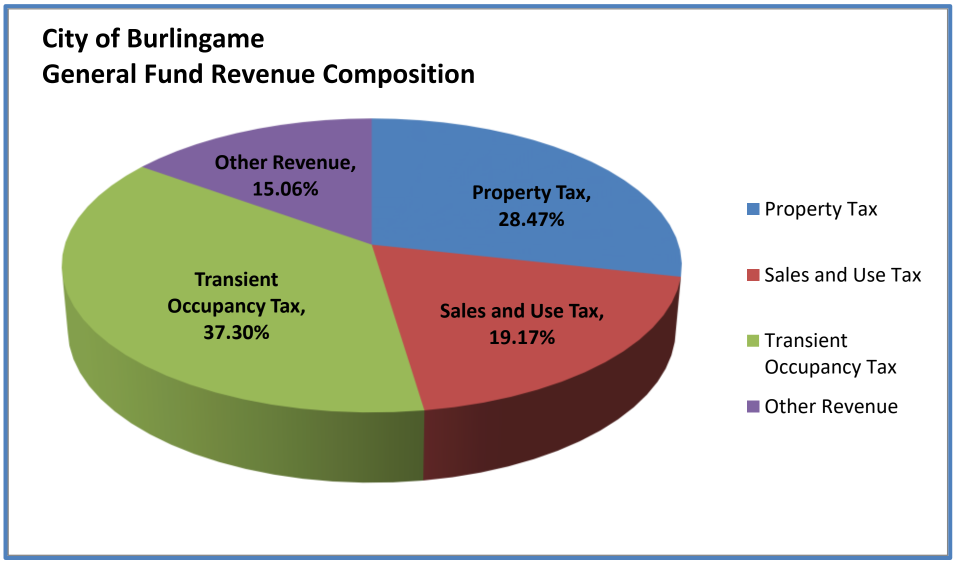
The proposed sales tax revenue budget for fiscal year 2018-19 is comprised of a projected $12.6 million in the Bradley Burns (local 1%), and an estimated $1.8 million from the City's new ¼ cent Measure I transactions tax that went into effect on April 1st. Although these are both reported as General Fund sales and use tax revenues, the two taxes are not applied to the same transactions. Measure I monies are separately budgeted, and will be recorded in a separate sub-fund to allow for maximum transparency and accountability, and ease of presentation and audit for the Measure I Citizens' Oversight Committee. The inclusion of Measure I revenues in the proposed budget causes the Sales and Use Tax revenues for 2018-19 to be $1.8 million higher than the estimate projected in March's five-year forecast.

The Local 1% sales tax projection represents a 3 percent increase over the current year's budget of $12.2 million from this revenue source. Transaction data from the fourth quarter of calendar year 2017 is now available, and supports this fairly positive revenue picture. Sales taxes are expected to be higher in most major industry groups. However, transactions in the City's Auto and Transportation sector leveled off considerably in the third quarter of 2016, and are expected to remain fairly flat through 2018 and 2019. The slow-down is not particular to Burlingame, and is a predictable result of the auto industry's seven years of expansion following the recession. The sector is still strong, comprising 33 percent of the City's local sales tax receipts

Sales tax receipts from the Fuel and Service Stations sector are anticipated to increase at a higher rate than other sectors (5.4%), while Business to Business sales are projected to increase by less than 1% in the coming fiscal year.




As can be seen from the pie chart below, 84.9 percent of General Fund revenues (per the initial fiscal year 2018-19 budget) are derived from TOT, property tax, and sales tax receipts. Because TOT and sales tax revenues are closely linked to the local economy, these revenues tend to be much more volatile than property taxes and most other revenue sources. For long-range fiscal planning purposes, these revenues should bolster the General Fund reserve when the economy is strong, and be used to support General Fund services in times of economic downturn. The volatility of these revenues is a major consideration in the City's risk-based reserve policy.




***Other taxes*** consist largely of ***franchise fees*** and the City's ***business license tax***, comprising less than 2.4 and 1.4 percent, respectively, of the City's General Fund revenue sources. The solid waste franchise fee makes up nearly half of all franchise fee revenues for the City. While solid waste rates have not increased since 2012, changes in the collection, disposal, and recycling processes have resulted in increased costs, which will be considered in the establishment of rates to be effective January 1, 2019. Service volumes are also on the rise due to significant development activity; additional accounts will bolster system revenues and associated franchise fees paid to the City. Gas and Electric utilization/consumption and rates have also increased in recent years, as reflected in the fiscal year 2018-19 franchise fees projection from these utilities.

**CITY OF BURLINGAME, CA**
**FRANCHISE TAXES**

| | FY15-16 Actual | FY16-17 Actual | FY17-18 Adjusted Budget | FY18-19 Proposed | $ Change from Prior Year | % Change from Prior Year |
|---|---|---|---|---|---|---|
| **Gas** | $109,865 | $114,754 | $115,000 | $130,000 | $15,000 | 13.0% |
| **Electric** | 228,920 | 240,826 | 242,000 | 280,000 | 38,000 | 15.7% |
| **Garbage** | 699,539 | 715,184 | 742,000 | 775,000 | 33,000 | 4.4% |
| **AT&T Cable TV** | 437,018 | 449,851 | 459,000 | 475,000 | 16,000 | 3.5% |
| **Wave Astound** | 25,079 | 24,138 | 24,000 | 23,000 | (1,000) | -4.2% |
| **AT&T Video Service** | 104,336 | 88,550 | 87,000 | 83,000 | (4,000) | -4.6% |
| **Total, Franchise Taxes** | **$1,604,757** | **$1,633,303** | **$1,669,000** | **$1,766,000** | **$97,000** | **5.8%** |

***Business license taxes***, generally $100 per business establishment, should also remain stable. In addition, ***property transfer taxes***, charged when properties change ownership, decreased last year as turnover in the real estate market has slowed. These tax receipts are anticipated to remain at a long-term average of $370,000 in fiscal year 2018-19, though even a small number of large property sales in the city could bolster this line item revenue.

***Licenses and permits*** consist largely of alarm permit fees and taxicab licenses. These revenues, which account for less than ½ of one percent of total General Fund revenues, are not expected to deviate significantly from current collections. Revenues from activities in the category of ***fines, forfeitures and penalties***, are expected to level off now that “smart meters” have been installed in the City’s downtown, reducing the number of citations issued. Although compliance with parking restrictions throughout the city is necessary to support the safe and fair turnover of the limited parking facilities available to residents, businesses, and customers, this is an excellent result attributable to the convenience of the new meters.

**CITY OF BURLINGAME, CA**
**CHARGES FOR SERVICES BY DEPARTMENT**

| | FY15-16 Actual | FY16-17 Actual | FY17-18 Adjusted Budget | FY18-19 Proposed | $ Change from Prior Year | % Change from Prior Year |
|---|---|---|---|---|---|---|
| **Police** | $59,456 | $91,258 | $90,250 | $78,500 | ($11,750) | -13.0% |
| **Parks** | 148,572 | 153,036 | 167,000 | 177,000 | 10,000 | 6.0% |
| **Recreation** | 2,637,496 | 2,827,667 | 2,970,125 | 3,192,000 | 221,875 | 7.5% |
| **Aquatics** | 0 | 233,198 | 247,000 | 262,000 | 15,000 | 6.1% |
| **Planning** | 577,413 | 875,485 | 536,500 | 657,200 | 120,700 | 22.5% |
| **Public Works** | 421,996 | 1,192,274 | 582,600 | 575,000 | (7,600) | -1.3% |
| **Library** | 619,507 | 640,982 | 732,500 | 742,000 | 9,500 | 1.3% |
| **Other** | 5,834 | 9,453 | 11,800 | 9,300 | (2,500) | -21.2% |
| **Total, Departmental Fees** | **$4,470,274** | **$6,023,353** | **$5,337,775** | **$5,693,000** | **$355,225** | **6.7%** |

Revenues from ***charges for services*** increased significantly in fiscal year 2016-17 due largely to fees generated in the Public Works Department from development projects of higher structural complexity, requiring special permits that reflected significant staff time. As these Public Works activities return to more normal levels, the department is anticipating the need to conduct storm water discharge compliance reviews, for which a fee will be charged sufficient to cover additional costs to the department. Other than a resumption in the volume of development application services in the Planning Department, service volumes in most other departments are not anticipated to deviate notably in any one area or department. (County booking fees are no longer being recorded as revenues in the Police Department, as these are County revenues.) Receipts from recreational services indicate a continued demand in this area; the additional revenue from expanded programs is somewhat offset by the expenses associated with these recreation programs. The Master Fee Schedule is being updated to keep up with the current cost of providing services, and the revised schedule will be effective at the beginning of the 2018-19 fiscal year. The revenue projection for this category as a whole has increased somewhat ($248,000) from March’s five-year forecast, based on the departmental projections for this revenue source as shown above.

Finally, interest income on the City’s investment portfolio is predicted to rise with increasing yields on the City’s portfolio as well as an increase in the size of the portfolio. In the past year, the average yield to maturity on the City’s portfolio has risen from 1.24 percent to 1.77 percent (as of March 31$^{st}$), a 42.75 percent increase. The portfolio itself increased 10.4 percent. Because interest attributed to the City’s Capital Investment Reserve and other governmental capital project funds is credited to the General Fund, these interest earnings should continue to grow until the funds are appropriated to the City's infrastructure needs.

Burlingame invests in only the safest of securities (the highest priority of the City's investment policy is preservation of capital), and yields on many maturities of U.S treasuries increased to highs not seen since 2008. The Federal Open Market Committee (FOMC) increased the federal Funds target rate by 0.25 percent in March (to 1.75 percent), and the market expects future increases, albeit gradual. In the meanwhile, corporate notes and negotiable CDs offer significant yield pickup relative to short-term government securities. Supranationals now also provide additional diversification to the City's investments, comprising 4 percent of the portfolio.

| Fund | 2016-17 Actual | 2017-18 Adjusted Budget | 2018-19 Proposed Budget |
|---|---|---|---|
| General Fund | $ 584,842 | $ 840,000 | $ 1,092,000 |
| Burlingame Avenue Assessment Dist. | 3,885 | 6,000 | 7,000 |
| Gas Tax Fund | 12,539 | 18,000 | 23,000 |
| Measure A Fund | 16,127 | 23,000 | 30,000 |
| Water Fund | 154,284 | 222,000 | 288,000 |
| Sewer Fund | 154,215 | 222,000 | 288,000 |
| Solid Waste Fund | 43,218 | 62,000 | 75,000 |
| Parking Enterprise Fund | 68,153 | 98,000 | 128,000 |
| Building Enterprise Fund | 66,152 | 95,000 | 124,000 |
| Landfill Fund | 11,936 | 17,000 | 22,000 |
| Worker's Compensation Fund ISF | 61,276 | 88,000 | 115,000 |
| Facilities Services Fund ISF | 3,448 | 5,000 | 6,000 |
| Equipment Services Fund ISF | 60,445 | 87,000 | 113,000 |
| Information Services Fund ISF | 6,598 | 9,000 | 12,000 |
| OPEB Retiree Medical ISF | 674 | - | - |
| General Liability ISF | 37,836 | 55,000 | 72,000 |
| Other Local Grants/Donations | 2,091 | 3,000 | 4,000 |
| Public TV Access Fund | 4,371 | 6,000 | 8,000 |
| Development Fees | 40,623 | 60,000 | 78,000 |
| Storm Drainage Fund | 151,154 | 218,000 | 283,000 |
| Debt Service Fund | 50,757 | 73,000 | 95,000 |
| **Total** | **$ 1,534,624** | **$ 2,207,000** | **$ 2,863,000** |

As shown in the chart above, all funds are projected to benefit from higher interest earnings in fiscal year 2018-19. Note that an assumption about the year-end "mark-to-market" adjustment is not included in the City's budget, and the FY 2016-17 actual interest earnings are shown without that year-end adjustment.

## General Fund - Expenditures

The following table shows the proposed fiscal year 2018-19 General Fund expenditures by department/area as compared to the current year adjusted budget:

CITY OF BURLINGAME, CA
SUMMARY OF GENERAL FUND EXPENDITURES

| | | | FY18-19 | | |
|---|---|---|---|---|---|
| By General Fund Department | FY16-17 Actuals | FY17-18 Adjusted Budget | FY18-19 Proposed | $ Change from Prior Year | % Change from Prior Year |
| City Council | $359,692 | $355,699 | $385,071 | $29,372 | 8.3% |
| City Manager | 735,829 | 823,277 | 849,583 | 26,306 | 3.2% |
| City Attorney | 577,890 | 906,965 | 948,990 | 42,025 | 4.6% |
| City Clerk | 282,246 | 366,167 | 392,391 | 26,224 | 7.2% |
| Elections | 74,466 | 168,000 | 0 | (168,000) | -100.0% |
| Finance | 2,063,962 | 2,242,805 | 2,369,665 | 126,860 | 5.7% |
| Human Resources | 780,164 | 956,176 | 921,539 | (34,637) | -3.6% |
| Central County Fire + Disaster Preparedness | 10,761,242 | 10,851,669 | 11,106,979 | 255,310 | 2.4% |
| Police & Dispatch | 14,206,009 | 15,543,678 | 16,585,795 | 1,042,117 | 6.7% |
| Parking Enforcement | 585,108 | 638,422 | 682,090 | 43,668 | 6.8% |
| Public Works | 4,456,522 | 6,397,129 | 6,145,429 | (251,700) | -3.9% |
| Community Development | 1,530,975 | 1,861,358 | 1,941,729 | 80,371 | 4.3% |
| Aquatics Center | 419,971 | 510,500 | 602,800 | 92,300 | 18.1% |
| Library | 4,710,029 | 5,181,277 | 5,554,025 | 372,748 | 7.2% |
| Parks | 4,143,637 | 4,848,133 | 5,016,926 | 168,793 | 3.5% |
| Recreation | 4,019,738 | 4,560,586 | 4,771,800 | 211,214 | 4.6% |
| **TOTAL, Operating Expenditures** | **$49,707,480** | **$56,211,841** | **$58,274,812** | **$2,062,971** | **3.7%** |

Again, expenditure budgets are compared with the prior fiscal year as well as with the current year (2017-18) adjusted budget. The FY 2017-18 Adjusted Budget column includes all budget revisions approved by the City Council since the beginning of the fiscal year, including mid-year budget revisions.

To allow a comparable operating picture as the adopted budget for fiscal year 2017-18, the fiscal year 2018-19 proposed budget provides a consistent application in accounting principles and budgetary assumptions, as well as a systematic allocation of the costs of funding the City's long-term liabilities. For example, retiree medical benefits, shown on a "pay-as-you-go" basis as a non-departmental expense prior to FY 2014-15, are now shown in the departmental budgets. Both the normal (current year benefits earned by active employees) and amortized (benefits earned in all prior years) costs of the retiree medical program are part of the regular operating budgets. Note, however, that pension costs are shown within the departmental budgets only to the extent that the CalPERS required employer contributions are made. Additional contributions approved by the Council for the § 115 Pension Trust are not shown as expenses in the City's operating budget; such contributions are shown as reserved cash for the payment of pension obligations in future years.

Overall, departmental expenditures are shown as increasing 3.7 percent in the proposed budget over the current fiscal year 2017-18 adjusted budget. Much of the increase (68.6 percent) is the result of increases in personnel costs, despite keeping growth in the City's workforce to a minimum. Since personnel costs represent a large investment in the City's current and future resources, requests for increases in Full Time Equivalent (FTE) positions are carefully monitored to ensure they provide the best on-going value for the City.

As can be seen in the table above, the largest share of the General Fund budget is allocated to Police services such as 911 emergency response, neighborhood patrols, crime prevention, and investigation programs. Maintaining public safety as the City's number one priority while enhancing additional quality of life services remains the City's vision and goal.

***Personnel Changes***

The fiscal year 2018-19 budget proposes a handful of changes in personnel/positions that are deemed necessary to effectively carry out the City's priorities and support both General Fund and Capital Improvement Program activities. Several of these changes entail modest increases or decreases in hours for specific positions; all are proposed to more closely align actual duties performed by staff with the job classification. The proposed classification plan changes have all been presented to the City's bargaining units.

A Police Officer position is proposed to be added in the Police Department in accordance with the Measure I spending plan. Although the department is able to handle its current call volume, that volume is expected to grow markedly as the population increases and as various commercial projects come online. The department will add the Officer to either the Patrol, the new Community Response Team, or the Traffic Unit, as needed to most effectively support public safety efforts as assured by Measure I. The cost of an additional Police Officer is just under $200,000 (including the long-term costs of CalPERS pension benefits) annually.

The proposed budget for the Parks and Recreation Department reflects a change in the use of two positions. The Program Outreach Specialist position, which was added as a .80 FTE (Full Time Equivalent) position to the budget in FY 2017-18, remains unfilled. An analysis of personnel use within the department identified a more pressing need for resources in the area of programming. Increased program offerings dictate that savings from deleting this position be used to increase the hours of the Program Coordinator position, currently filled as a .75 FTE position, to a full time position. It appears that the design of promotional materials for the Department can be supported with existing personnel. These changes amount to a net decrease of .55 FTE for the department.

The Library has proposed changes in the hours of two part-time regular positions: a decrease in hours of a recently vacated 1.0 FTE Library Assistant II position in the Children's Department to a 0.63 FTE position is proposed to be offset by an increase of a current 0.63 FTE Librarian I position to full-time status. These changes are requested to most effectively meet the organizational and programming needs within the Library's Children's Department. The net increase in wages and benefits due to the difference in the two positions' pay scales is less than $2,500 annually.

These changes amount to a net increase of personnel positions in the General Fund by 0.45 FTE as shown in the chart below. No other changes are proposed to the City's workforce for the upcoming fiscal year.

**CITY OF BURLINGAME, CA**
**PROPOSED BUDGET FISCAL YEAR 2018-19**
**AUTHORIZED FULL-TIME EQUIVALENT POSITIONS**

| Department | 2017-18 Adopted | 2018-19 Proposed | Change Since Prior Year |
|---|---|---|---|
| **GENERAL FUND** | | | |
| City Attorney | 2.50 | 2.50 | 0.00 |
| City Clerk | 1.50 | 1.50 | 0.00 |
| City Manager | 2.13 | 2.13 | 0.00 |
| Community Development - Planning | 6.75 | 6.75 | 0.00 |
| Finance | 10.25 | 10.25 | 0.00 |
| Human Resources | 3.00 | 3.00 | 0.00 |
| Library | 22.88 | 22.88 | 0.00 |
| Parks | 20.50 | 20.50 | 0.00 |
| Police | 46.00 | 47.00 | 1.00 |
| Police - Communications | 7.00 | 7.00 | 0.00 |
| Police - Parking Enforcement | 4.00 | 4.00 | 0.00 |
| Public Works - Engineering | 12.75 | 12.75 | 0.00 |
| Public Works - Streets & Storm Drain | 8.03 | 8.03 | 0.00 |
| Recreation | 11.80 | 11.25 | (0.55) |
| **Total General Fund** | **159.09** | **159.54** | **0.45** |

To the extent position changes are agreeable to the City Council, a staff report with the revised staff position listing and updated job descriptions will be brought forward to the Council to be approved by resolution prior to the beginning of the new fiscal year.

Shown below are appropriations by department or functional area:

**CITY OF BURLINGAME, CA**
**SUMMARY OF GENERAL FUND EXPENDITURES**

| Description | FY16-17 Actuals | FY17-18 Adjusted Budget | FY18-19 Proposed | $ Change from Prior Year | % Change from Prior Year |
|---|---|---|---|---|---|
| **General Government** | $4,874,249 | $5,819,089 | $5,867,239 | $48,150 | 0.8% |
| **Public Safety & Traffic** | | | | | |
| Central County Fire + Disaster Preparedness | 10,761,242 | 10,851,669 | 11,106,979 | 255,310 | 2.4% |
| Police & Dispatch | 14,206,009 | 15,543,678 | 16,585,795 | 1,042,117 | 6.7% |
| Parking Enforcement | 585,108 | 638,422 | 682,090 | 43,668 | 6.8% |
| **Public Works** | 4,456,522 | 6,397,129 | 6,145,429 | (251,700) | -3.9% |
| **Community Development - Planning** | 1,530,975 | 1,861,358 | 1,941,729 | 80,371 | 4.3% |
| **Leisure & Cultural Services** | | | | | |
| Aquatics Center | 419,971 | 510,500 | 602,800 | 92,300 | 18.1% |
| Library | 4,710,029 | 5,181,277 | 5,554,025 | 372,748 | 7.2% |
| Parks & Recreation | 8,163,375 | 9,408,719 | 9,788,726 | 380,007 | 4.0% |
| **Total Expenditures** | **$49,707,480** | **$56,211,841** | **$58,274,812** | **$2,062,971** | **3.7%** |

The 2018-19 fiscal year budget proposed for the General Fund can also be compared to the current year budget by category of expenditure.

**CITY OF BURLINGAME, CA**
**SUMMARY OF GENERAL FUND EXPENDITURES BY TYPE**

| Description | FY16-17 Actuals | FY17-18 Adjusted Budget | FY18-19 Proposed | $ Change from Prior Year | % Change from Prior Year |
|---|---|---|---|---|---|
| **Personnel Costs** | $25,754,672 | $29,059,967 | $30,475,759 | $1,415,792 | 4.9% |
| **Non-Personnel Costs** | 20,266,011 | 22,818,297 | 23,369,572 | 551,275 | 2.4% |
| **Internal Services** | 3,587,253 | 4,124,377 | 4,187,333 | 62,956 | 1.5% |
| **Capital Outlay** | 99,544 | 209,200 | 242,148 | 32,948 | 15.7% |
| **Total Expenditures** | **$49,707,480** | **$56,211,841** | **$58,274,812** | **$2,062,971** | **3.7%** |

***Personnel Costs*** – When reviewing the proposed 2018-19 fiscal year General Fund expenditure budget by type, note that personnel costs increase 4.9 percent (approximately $1.4 million) when compared to the current year. The increase is due largely to the inclusion of regular salary increases, calculated according to contractually-agreed upon increases for most employees, including hourly employees. Additional staffing proposals were kept to a minimum as previously outlined – an increase of 0.45 FTE is included in the General Fund budget at a cost of approximately $95,000. Increases in CalPERS pension costs—based on the required employer contribution rates for both Safety and Miscellaneous Employee Plans—also contribute to the growth in personnel costs, as shown below. Again, contributions to the § 115 Trust for pension obligations are not included in the budget as an expenditure at the time of contribution. Only when the trust fund is drawn upon to pay required CalPERS employer contributions will the expenditures be recorded.

**CITY OF BURLINGAME, CA**
**GENERAL FUND WAGES & BENEFITS DETAIL**

| Personnel Cost | FY17-18 Adjusted Budget | FY18-19 Proposed | $ Change from Prior Year | % Change from Prior Year |
|---|---|---|---|---|
| Wages | $ 18,354,484 | $ 19,065,685 | $ 711,201 | 4% |
| Benefits: | | | | |
| Retirement | 4,771,375 | 5,312,435 | 541,060 | 11% |
| Health Premiums | 2,871,317 | 2,968,157 | 96,840 | 3% |
| Medicare | 269,098 | 286,371 | 17,273 | 6% |
| OPEB Current | 1,039,901 | 1,034,179 | (5,722) | -1% |
| Workers' Compensation | 728,827 | 728,828 | 1 | 0% |
| Dental, Vision, Life, LTD | 307,724 | 294,400 | (13,324) | -4% |
| Other Benefits | 717,241 | 785,704 | 68,463 | 10% |
| | **$ 29,059,967** | **$ 30,475,759** | **$ 1,415,792** | **4.9%** |

***Non-Personnel Costs*** – This category of costs is increasing 2.4 percent in the 2018-19 fiscal year proposed budget when compared to the current year budget. Though not a large percentage increase for the fiscal year, the change represents not only regular cost increases, but an attempt to address the City Council's initiatives for the year. Departments were careful to review contract services to ensure that only projects that were necessary *and* could realistically be addressed in the upcoming fiscal year were included in the budget proposal.

It should be noted that not all expenses are incurred every fiscal year. For example, the proposed budget for fiscal year 2018-19 does not include an appropriation for election expenses, whereas the adopted budget for the current fiscal year includes $168,000 for this expense. In addition, certain expenditures may be anticipated in the delivery of services that provide a high level of cost recovery, increasing revenues at the same rate as the increased expense. The Recreation budget includes an increase in the contractual services budget for the costs associated with Enrichment enrollment and enhanced class offerings. As these programs are very popular, the additional costs will be offset with revenue (charges for services) in the department.

## General Fund Operations Summary

A summary of the General Fund operations per the FY 2018-19 proposed budget is shown below:

**CITY OF BURLINGAME, CA**
**GENERAL FUND OPERATING SUMMARY**

| | FY16-17 Actuals | FY17-18 Adjusted Budget | FY18-19 Proposed Budget |
|---|---|---|---|
| **Total Revenue** | $68,042,750 | $70,463,191 | $74,936,500 |
| **Expenditures** | | | |
| **Departmental Expenditures** | (49,707,480) | (56,211,841) | (58,274,812) |
| **Transfers In/Out - Debt Service** | (3,474,575) | (3,277,833) | (3,109,939) |
| **Transfers In/Out - Other** | (4,566,440) | (6,408,111) | (7,044,883) |
| **Total Expenditures** | (57,748,495) | (65,897,785) | (68,429,634) |
| **Net Operating Revenue** | 10,294,255 | 4,565,406 | 6,506,866 |
| **Transfer to Capital Investment Reserve** | (7,000,000) | (5,300,000) | (2,000,000) |
| **Change in General Fund Balance** | **$ 3,294,255** | **$ (734,594)** | **$ 4,506,866** |

As anticipated with the mid-year budgetary changes approved by the City Council in March, the General Fund shows a budgetary surplus (net operating revenues) for fiscal year 2017-18 of nearly $4.6 million prior to funding the CIP Capital Investment Reserve. The adopted budget provided for a $3 million transfer to the reserve due to the surplus experienced in fiscal year 2015-16; this amount was increased to $5.3 million with mid-year results that reflected higher revenues than anticipated in fiscal year 2016-17.

Note, too, that additional budgetary savings are a certainty, because the expenditure budgets reflect the limit of spending levels for each department. Departments are only able to expend or commit funds up to this legal level of budgetary control. Because these budgetary controls are established within each category of departmental expenditures, budgetary savings tend to average two to four percent of the annual expenditure budget.

The initial General Fund budget for fiscal year 2018-19 anticipates a surplus of over $4.5 million. As previously noted, the budget provides funding of $2 million for an increase in the Capital Investment Reserve in the City's Capital Projects Fund, to provide partial funding of the City's most immediate facilities' needs. This transfer to fund future capital projects is $1 million less than in the prior year's adopted budget in recognition of an additional $1 million in debt service which, when combined with the $1 million from the Measure I revenues, will provide funding for a bond issuance of approximately $30 million for the long-anticipated Community Center. Unlike the current Capital Projects Fund Balance, the Capital Investment Reserve will not be appropriated to a specific project. Rather, it will accumulate for capital projects as prioritized by the City Council, to be initiated when timing is optimal and sufficient other funding is identified. The City has an extensive list of currently unfunded capital needs, both in facilities and infrastructure, which makes continued funding of this reserve imperative.

## General Fund Debt Service Obligations

As can be seen in the schedule of General Fund Debt Service Obligations below, the net General Fund Debt Service (not reimbursed by other funds) will decrease by 66.1 percent in the upcoming fiscal year, due largely to the decrease in debt service requirements for the 2006 Pension Obligation Bonds. Note that this schedule depicts only current debt service obligations. The proposed budget includes an additional $2 million in General Fund debt service costs ($1 million specifically funded from Measure I monies) with the issuance of additional lease revenue bonds in FY 2018-19. The approximate $30 million in bond proceeds will help fund a new Community Center at the site of the City's current Recreation Center.

**CITY OF BURLINGAME, CA**
**GENERAL FUND DEBT SERVICE OBLIGATIONS**

| Description | Maturity | FY17-18 Adopted | FY18-19 Proposed | $ Change from Prior Year | % Change from Prior Year |
|---|---|---|---|---|---|
| **2006 Pension Obligation Bonds** | FY2036 | $3,845,225 | $956,648 | ($2,888,577) | -75.1% |
| **2010 Corp Yard Lease Refunding Bonds** | FY2021 | 1,164,875 | 1,164,275 | (600) | -0.1% |
| **2012 Lease Revenue Bond*** | FY2042 | 549,888 | 550,888 | 1,000 | 0.2% |
| **Debt Administration Costs** | | 15,000 | 13,000 | (2,000) | -13.3% |
| **Subtotal, Principal and Interest** | | **5,574,988** | **2,684,811** | **(2,890,177)** | **-51.8%** |
| **Contributions from Other Funds** | | **(2,296,965)** | **(1,574,872)** | **722,093** | **-31.4%** |
| **Net General Fund Debt Service** | | **$3,278,023** | **$1,109,939** | **($2,168,084)** | **-66.1%** |

*100% reimbursed by the Special Assessment District and Parking Enterprise

## General Fund Balance

The General Fund shows a projected total fund balance of more than $36.8 million at the end of the 2018-19 fiscal year. As previously stated, budgetary savings in the current fiscal year should provide a higher beginning fund balance than shown in the chart below:

**CITY OF BURLINGAME, CA**
**CHANGES TO GENERAL FUND BALANCE**

| | FY17-18 Adjusted Budget | FY18-19 Projected |
|---|---|---|
| **Beginning of Year Balance (Budget/Audit)** | $ 33,057,408 | $ 32,322,814 |
| **Projected Revenues & Expenditures** | | |
| Projected revenues | 70,463,191 | 74,936,500 |
| Projected departmental expenditures | (56,211,841) | (58,274,812) |
| **Subtotal, Revenues Net of Expenditures** | 14,251,350 | 16,661,688 |
| **General Fund Long-Term Debt** | (3,277,833) | (3,109,939) |
| **Transfer to CIP Capital Investment Reserve** | (5,300,000) | (2,000,000) |
| **Other Transfers In (Out) of General Fund** | (6,408,111) | (7,044,883) |
| **Projected General Fund Balance, net of transfers** | **$ 32,322,814** | **$ 36,829,680** |

The schedule below shows how the $4.5 million change in fund balance will impact the reporting of General Fund reserve levels:

**CITY OF BURLINGAME, CA**
**GENERAL FUND BALANCE ASSIGNMENTS**

| | FY16-17 Actual Results | FY17-18 Adjusted Budget | FY18-19 Proposed |
|---|---|---|---|
| **Economic Stability Reserve** | $ 16,200,000 | $ 16,913,000 | $ 17,985,000 |
| **Catastrophic Reserve** | 2,000,000 | 2,000,000 | 2,000,000 |
| **General Plan Reserve** | 0 | 0 | 0 |
| **Contingency Reserve** | 500,000 | 500,000 | 500,000 |
| **Subtotal, Assigned Fund Balance** | 18,700,000 | 19,413,000 | 20,485,000 |
| **Add: Restricted for Pension Trust Fund (PARS)** | 0 | 4,139,920 | 6,977,920 |
| **Add: Unassigned Fund Balance** | 14,357,408 | 8,769,894 | 9,366,760 |
| **Total, Ending Fund Balance** | **$ 33,057,408** | **$ 32,322,814** | **$ 36,829,680** |

As of June 30, 2018, a fund balance of approximately $32.3 million represents 45.9 percent of the General Fund's total expenditures of $70.4 million for the year. Although this would normally be considered a very strong level of reserves, the City Council adopted a risk-based General Fund Reserve Policy that targets reserve levels as a percentage of General Fund budgeted revenues (before transfers). Because the policy is based on an assessment of the City's revenue volatility and infrastructure risks, as well as the possibility of extreme events, the City Council's reserve management strategies reflect best practices in public finance. In addition, the City's fund balances now include amounts that are restricted – set aside for use only to pay unfunded pension obligations due to CalPERS. These obligations are large. Valued at approximately $57.7 million as of the beginning of the current fiscal year, the amount due from these liabilities will increase in the near future due to the application of more realistic discount rates (as well as other assumption changes) in the coming years. Due to the magnitude of the unfunded pension liabilities, the City established a § 115 trust fund with Public Agency Retirement Services (PARS) in October 2017, making an initial contribution of $3.7 million. ($3.1 million of this contribution was from General Fund monies.) The intent of the trust fund is to grow these contributions at a higher yield than can be generated in the City's own portfolio so that monies are available when the required employer contribution rates to CalPERS, which will increase rapidly in the next 5-10 years, exceed certain threshold rates.

The following schedule shows the same General Fund Balance changes, but includes not only revenues and expenditures, but funding of the reserves according to Council policy, and the contributions accumulating in the § 115 Trust Fund. Although a total change in fund balance of $4.5 million is shown, unassigned and unrestricted fund balance increases by only $597,000.

**CITY OF BURLINGAME, CA**
**GENERAL FUND BALANCE ASSIGNMENTS**

| | Unassigned Fund Balance | Restricted for Pension Trust Fund (PARS) | Assigned Fund Balances: Economic Stability Reserve | Assigned Fund Balances: Catastrophic Reserve | Assigned Fund Balances: Contingency Reserve | Total Fund Balance |
|---|---|---|---|---|---|---|
| **Beginning Balance at 7/1/2018** | $ 8,769,894 | $ 4,139,920 | $ 16,913,000 | $ 2,000,000 | $ 500,000 | $ 32,322,814 |
| **Changes in 2018/19:** | | | | | | |
| **Projected Revenues** | 74,936,500 | | | | | 74,936,500 |
| **Projected Expenditures** | (58,274,812) | | | | | (58,274,812) |
| **Transfer Out to Debt Services** | (3,109,939) | | | | | (3,109,939) |
| **Transfer Out to CIP Replacement Reserve** | (2,000,000) | | | | | (2,000,000) |
| **Other Transfers In/Out, net** | (7,044,883) | | | | | (7,044,883) |
| **Transfer to Restricted & Assigned Fund Bal.** | (3,910,000) | 2,838,000 | 1,072,000 | - | - | - |
| **Subtotal, Changes in 2018/19** | 596,866 | 2,838,000 | 1,072,000 | - | - | 4,506,866 |
| **Ending Balance at 6/30/2019** | **$ 9,366,760** | **$ 6,977,920** | **$ 17,985,000** | **$ 2,000,000** | **$ 500,000** | **$ 36,829,680** |

The FY 2018-19 General Fund's projected surplus will be first used to increase the Economic Stability Reserve to the level prescribed by the City's General Fund Reserve Policy: (The policy calls for an Economic Stability Reserve of 24 percent of budgeted revenues, a Catastrophic Reserve of $2.0 million, and a $500,000 Contingency Reserve.) Increased revenues projected in FY 2018-19 require an increase in reserves of nearly $1.1 million. After reflecting the contribution to the City's § 115 Trust fund for pensions, the remaining fund balance will be reported as "unassigned fund balance".

***Measure I Fund***– Though Measure I revenues and expenditures are part of General Fund operations, these monies will be accounted for in a separate sub-fund to provide greater transparency in reporting the uses of this new funding source. This accounting treatment will also facilitate external audit activities and allow a straight-forward review by the Measure I Oversight Committee. Approved by voters in November 2017, this general purpose ¼% transaction tax went into effect on April 1st. However, the Measure I Expenditure Plan was adopted by the City Council in February. The budget priorities from the public engagement surrounding Measure I included public safety; street and sidewalk maintenance; and safe, adequate park and recreation programs and facilities. The tax is expected to provide approximately $1.75 million in additional revenue. Initial-year expenditures will include funding for one police officer, $1 million in debt service for an anticipated Lease Revenue bond issuance for the new Community Center construction project, and approximately $575,000 for specific street and sidewalk improvements identified in the 2018-19 Capital Improvement Plan. The chart below shows $23,000 in administrative services, largely for the State's preparation and administration of the tax in this first fiscal year. The City has also contracted with HdL for audit services for the ¼% tax, but these fees will be shown as a direct reduction of the Measure I tax revenues received. Initial revenues will not be received until after the current fiscal year, though any funds received for the quarter ended June 30, 2018 will be accrued as revenues to the current fiscal year.

**CITY OF BURLINGAME, CA**
**MEASURE I**

| | FY18-19 Proposed |
|---|---|
| **Projected Revenues** | $ 1,750,000 |
| **Projected Expenditures:** | |
| Public Safety - adding 1.0 FTE police officer | (172,810) |
| Administrative Services | (23,000) |
| **Total Expenditures** | (195,810) |
| **Projected Transfer (Out):** | |
| Transfer Out to Street Capital Project Fund | (575,000) |
| Transfer Out to Debt Service Fund | (1,000,000) |
| **Total Transfer (Out)** | (1,575,000) |
| **Revenues (Under) Expenditures & Transfer Out** | $ (20,810) |

## Unfunded Needs

The City has long recognized the need to balance ongoing operations and services with a significant list of unfunded needs. These unfunded needs are largely reflected in the City's aging facilities, many of which are utilized by the public. Nearly four years ago, the City Council ranked a new downtown parking garage as the highest priority for small businesses and shoppers alike, followed by a new Community Center and essential City Hall upgrades to enhance public access to policy decision-making. As funding options have been pursued, other capital needs have been identified that will require funding as well as stretch the organization's capacity in the future, such as the Broadway Grade Separation project. In addition, unfunded pension liabilities are requiring immediate attention, as the interest on these obligations begins to outpace efforts to pay down these expenses for prior year service.

In order to facilitate the funding of some of the capital projects needed, the City has explored whether it can partner with private developers to build one or more parking garages at little or no cost to the City, and/or in conjunction with providing the much-needed development of low-income housing. The City continues regular investments in building maintenance and infrastructure maintenance through the five-year CIP, but this approach has not proved to be sufficient in averting further unfunded needs. In the past year, the passage of Measure I has helped advance the replacement of the City's World War II-era Recreation Center at Washington Park with a new, more functional Community Center. A new lease revenue bond issue is now contemplated in FY 2018-19 to make the new Community Center a reality. In addition, more infrastructure (specifically, street and sidewalk) repairs and replacement will be made possible with Measure I funds.

To the extent possible, funds are being set aside in the City's Capital Investment Reserve within the Capital Projects Fund. The reserve balance as of the end of the current fiscal year is anticipated to be $25.8 million. However, the reserve is being funded by annual surpluses and one-time revenues, and as such will be the first General Fund resources that will be reduced or eliminated when the economy inevitably retracts. The City Council has also taken steps to address funding the growing unfunded pension liabilities with CalPERS. Recent actuarial studies show that the City's CalPERS contribution rates are expected to surge from the current Misc./Safety rates of 22.9%/42.0% to 40.6%/86.2% (as a percent of payroll) in the next 10-15 years. The 2018-19 fiscal year will be the second year for funding the § 115 Trust Fund. The trust fund was established to augment the City's budget when required CalPERS employer rates exceed a pre-determined threshold. Although staff continues to analyze additional options for funding pension obligations, these unfunded needs will be kept in mind when assessing the City's long-term fiscal health.

## Other Funds

Although the General Fund is the main operating fund of the City, the City utilizes various enterprise, capital, internal service, and special revenue funds to account for both governmental and business-like activities. The activities accounted for in these other funds are significant and wide-ranging. Staff analyzes all funds at least monthly to ensure that they are self-sustaining and carry adequate fund balances for periods of uncertainty.

The chart below shows initial expenditure budgets for the City's larger funds for the 2017-18 fiscal year:

| CITY OF BURLINGAME, CA<br>BUDGET SUMMARY BY FUND | FY17-18<br>Adjusted Budget | FY18-19<br>Proposed |
|---|---|---|
| General Fund | $56,211,841 | $58,274,812 |
| Capital Projects | 25,586,800 | 22,100,000 |
| Financing Authority | 7,634,037 | 4,747,600 |
| Building Enterprise | 1,757,187 | 2,137,350 |
| Landfill Fund | 252,223 | 258,004 |
| Parking Enterprise | 704,657 | 792,492 |
| Sewer Enterprise | 10,903,192 | 10,915,726 |
| Solid Waste Enterprise | 674,925 | 797,284 |
| Water Enterprise | 14,679,866 | 14,865,720 |
| Special Revenue Funds | 264,650 | 215,500 |
| Other Funds | 482,540 | 946,666 |
| **Total** | **$119,151,918** | **$116,051,154** |

## Capital Projects Fund

The 2017-18 fiscal year Capital Projects Program budget was increased during the year to provide additional appropriations of $428,800 (for design and CEQA documentation services for the Burlingame Community Center and Washington Park renovation project) and $350,000 (for the City's contribution toward the resurfacing of Burlingame School District fields). The 2018-19 fiscal year budget is based on the CIP (Capital Improvement Program) as presented earlier this year, and was updated to include $400,000 of funding for the Skyline Park project, discussed with the City Council in April. A complete presentation of 2018-19 fiscal year Capital Projects Program activities has been prepared by Public Works for this (May 9, 2018) Budget Study Session.

| CITY OF BURLINGAME<br>CAPITAL IMPROVEMENT PROGRAM | General Fund | Other Funds/Sources | FY18-19 Total |
|---|---|---|---|
| Facilities CIP | $2,810,000 | $0 | $2,810,000 |
| Parking & Garages CIP | 0 | 0 | 0 |
| Parks & Trees CIP | 3,105,000 | 0 | 3,105,000 |
| Sewer CIP | 0 | 5,200,000 | 5,200,000 |
| Storm Drain CIP | 0 | 4,020,000 | 4,020,000 |
| Streets CIP | 1,325,000 | 2,640,000 | 3,965,000 |
| Water CIP | 0 | 3,000,000 | 3,000,000 |
| **All CIP Funding Sources, FY2018-19** | **$7,240,000** | **$14,860,000** | **$22,100,000** |

Note that both the current year and FY 2018-19 transfers to the Capital Investment Reserve will not be included as Capital Projects Fund appropriations. This will occur once the funding for a specific capital project is determined, and a budget for the project is established within the Capital Improvement Program. Although deferred infrastructure maintenance must be avoided for a truly sustainable budget, it is difficult to determine the appropriate annual investment into comprehensive maintenance programs and the Capital Investment Reserve that will provide for assets that retain a targeted condition level. But it is clear that past investment in infrastructure has not been adequate. A $3 million transfer to the Capital Investment Reserve has served as a placeholder in past budgets, representing an affordable investment in these unfunded infrastructure projects. For the FY 2018-19 Budget, this amount was reduced to $2 million in recognition of an additional $1 million in debt service requirements needed for the lease revenue bond issuance that will provide funding for the Community Center project. The balance in the reserve, assuming no projects are funded from this source during the fiscal year, will be $27.8 million as of June 30, 2019.

**Solid Waste Fund and Landfill Funds**:

As noted in the mid-year report, FY 2018-19 will present significant changes in the City's Solid Waste Enterprise Fund. Since the challenging years of 2011 and 2012, when significant increases in Solid Waste rates were necessary to pay off a deficit position from the 2001-2010 contract for solid waste services, revenues have been adequate to generate surpluses within the Solid Waste Fund. The higher rates ended the need for General Fund transfers to support activities of the Solid Waste Fund; revenues became sufficient to pay the costs of all solid waste contracts and City-provided services, and funding of a Solid Waste Rate Stabilization Reserve was possible. Because of this reserve, rate increases have not been required despite increasing costs over the years. For calendar year 2018, estimated revenues from collections for Burlingame ($10.9 million) will fall short of the costs of the City's collection contractor (Recology) of $5.8 million; disposal & processing fees of $3.5 million; franchise fees of $740,000; funding of the City's landfill post-closure costs ($465,000); and $655,000 for costs borne by the City, including street sweeping and steam cleaning and maintenance of public receptacles. A slight reduction in the utility's rate stabilization reserve is anticipated.

Mid-year budget adjustments reflected a $39,600 increase for additional part-time staff to augment maintenance services in the Broadway Business District as directed by the Council in November: such services include cleaning pavers, power washing concrete sidewalks, street sweeping, litter debris pickup, and the cleaning of public lots. These costs will continue to be charged to the Solid Waste Fund in future years. The largest increase in the fund's appropriations, however, is necessitated by the disparity between the costs of the utility and the revenues generated, which has become significant in recent years. The shortfall is anticipated to be approximately $185,000 for calendar year 2018, so the reserve will again be tapped before rates can be appropriately adjusted for the second half of the fiscal year.

Although reserve levels in the Solid Waste Fund have allowed the City to avoid rate increases in recent years, the utility faces significant challenges in the future. The fire at the Material Recovery Facility at the Shoreway Recycling Center in September of 2016 will require a significant capital investment in fire suppression equipment and strategic changes in collection and disposal operations to protect the future insurability of the Center. In addition, changes in the market for recyclable materials will drive even higher capital investment at Shoreway. To insure that the fund can endure these challenges and is in good fiscal position when the current franchise agreement with Recology terminates at the end of 2020, rates will be reviewed early in fiscal year 2018-19. A multi-year approach to collecting funds sufficient for the new franchise agreement will probably be needed. The new agreement was reviewed by the Council in January; it allows for an extension of the services provided by Recology through the year 2035.

Solid Waste rates also include a 5 percent surcharge for landfill post-closure costs. The surcharge provides revenues to the Landfill fund to cover maintenance and monitoring functions at the landfill site, and will serve to reduce the $2.2 million fund deficit that results from the liability recorded for future post-closure costs. Although the surcharge rate remains the same, an increase of $30,200 in this revenue is anticipated in fiscal year 2017-18 based on prior year actual and year-to-date receipts.

## Water & Sewer Funds

Winter rains brought an end to a severe five-year drought in northern California in 2017. With improving reservoir levels and water consumption easing back into higher, pre-drought patterns, revenues in the Water and Sewer Utilities are much less difficult to accurately anticipate than just a few years ago. In response to the drought, which created higher costs and lower revenues (due to conservation efforts) for both these funds, the City raised water rates over a three-year period. The rate increases, which were needed to cover the higher cost of wholesale water purchased from the San Francisco Public Utilities Commission (SFPUC) and to continue to fund prudent capital improvements in the Water utility, amounted to 9 percent in 2017, 7.5 percent in 2018, and 7.5 percent in 2019.

**CITY OF BURLINGAME, CA**
**CHANGES TO WATER FUND BALANCE**

| | FY17-18 Adjusted Budget | FY18-19 Projected |
|---|---|---|
| **Beginning of Year Balance (Budget/Audit)** | $ 8,581,186 | $ 8,371,933 |
| **Projected Revenues & Expenses** | | |
| Projected revenues | 17,602,500 | 18,598,000 |
| Projected operating expenses | (15,967,115) | (16,228,569) |
| **Subtotal, Revenues Net of Expenses** | 1,635,385 | 2,369,431 |
| **Interest Revenues (Expenses)** | (550,751) | (449,151) |
| **Transfers - General Fund - Contributions for Debt Service** | (871,189) | (509,242) |
| **Other Transfers In (Out) of Water Fund** | (422,698) | (428,580) |
| **Projected Water Unrestricted Net Position** | **$ 8,371,933** | **$ 9,354,391** |

In fiscal year 2018-19, water consumption is projected to match prior-year experience. Due to the rate increases, projected revenues are anticipated to be nearly $1 million higher than estimated for the current fiscal year. Funding of capital projects/infrastructure within the Water utility will increase $250,000 (to $3 million). As with other operating funds, the cost of debt service will decrease, as the fund's contribution toward payments on the City's pension obligation bonds is reduced.

Projected revenues for the Sewer Fund are projected to increase less than 3 percent in fiscal year 2018-19, as no rate increases were indicated for the fund as part of the 2016-17 rate study. Funding of capital projects/infrastructure within the Sewer utility will increase $500,000 (to $5.2 million). As with the Water Fund, the cost of debt service will decrease $362,000 from current year levels.

**CITY OF BURLINGAME, CA**
**CHANGES TO SEWER FUND BALANCE**

| | FY17-18 Adjusted Budget | FY18-19 Projected |
|---|---|---|
| **Beginning of Year Balance (Budget/Audit)** | $ 8,693,215 | $ 10,554,164 |
| **Projected Revenues & Expenses** | | |
| Projected revenues | 16,028,000 | 16,505,000 |
| Projected operating expenses | (12,473,618) | (12,629,081) |
| **Subtotal, Revenues Net of Expenses** | 3,554,382 | 3,875,919 |
| **Interest Revenues (Expenses)** | (607,574) | (498,645) |
| **Transfers - General Fund - Contributions for Debt Service** | (871,189) | (509,242) |
| **Other Transfers In (Out) of Sewer Fund** | (214,670) | (212,037) |
| **Projected Sewer Unrestricted Net Position** | **$ 10,554,164** | **$ 13,210,159** |

***Gas Tax (HUTA) and Road Repair and Accountability Act (RRAA) of 2017*** – The Gas Tax is a special revenue fund used to account for the revenue received from the State of California derived from gasoline taxes. These funds may only be used for street purposes as specified in the State Streets and Highways Code, and so they have always been an important revenue source for the City's Streets Capital Improvement Program.

As discussed in the Mid-year Report, the Road Repair and Accountability Act of 2017 (SB1) provides a significant new investment in California's transportation systems of about $5.2 billion per year over the next decade, split equally between state and local investments. The Act enhances HUTA allocations through increases in per gallon fuel excise taxes, diesel fuel sales taxes, and vehicle registration taxes; stabilization of the problematic price-based fuel tax rates; and inflationary adjustments to rates in future years. The Act will more than double local streets and road funds now allocated through the Highway Users Tax Account (HUTA) by also providing funds from new taxes through a new Road Maintenance and Rehabilitation Account (RMRA.

Fiscal year 2017-18 provided only a partial year of funding from these new sources. The first full year of funding will be FY 2018-19. In that year, the allocations to local streets and roads and other transportation programs will increase substantially. RMRA funds to local streets and roads in FY 2017-18 are currently estimated by the state Department of Finance at $453 million including loan repayments. In fiscal year 2018-19 this figure goes up to $1.2 billion. For Burlingame, total HUTA revenues will climb from an estimated $835,000 in the current fiscal year to nearly $1.2 million in the new fiscal year. Although an initiative to repeal the new taxes will likely be included on the November 2018 ballot, use of these funds is slated for specific street paving and reconstruction projects in the 5-year Capital Improvement Project Plan.

## Internal Service Funds

Internal service funds (ISFs) are used to account for internal costs that are borne by all departments/programs of the City. Allocation of these centrally-incurred cost is performed based on estimated usage or other metrics.

**CITY OF BURLINGAME, CA**
**INTERNAL SERVICE FUNDS**

| | FY16-17 Actuals | FY17-18 Adjusted Budget | FY18-19 Proposed | $ Change from Prior Year | % Change from Prior Year |
|---|---|---|---|---|---|
| **Admin & Info Technology ISF** | $1,081,618 | $1,253,911 | $1,334,387 | $80,476 | 6.4% |
| **Facilities Services ISF** | 1,402,531 | 1,563,871 | 1,716,612 | 152,741 | 9.8% |
| **Fleet & Equipment ISF** | 1,178,029 | 1,706,502 | 1,879,332 | 172,830 | 10.1% |
| **OPEB Retiree Medical ISF** | 4,425,862 | 4,838,078 | 5,093,603 | 255,525 | 5.3% |
| **General Liability ISF** | 1,045,148 | 1,510,000 | 1,510,000 | 0 | 0.0% |
| **Worker's Comp ISF** | 513,266 | 758,000 | 823,612 | 65,612 | 8.7% |
| **Total** | **$9,646,454** | **$11,630,362** | **$12,357,546** | **$727,184** | **6.3%** |

Although the proposed budgets for all of the City's ISFs are increased over the current year spending levels, the impact is spread city-wide and impacts each department and program differently. For example, even though funding for the General Liability ISF (through internal charges to departments) has not increased, the allocations to some departments are diminished, while others bear a higher percentage of the charges based on past frequency and severity of General Liability claims.

The highest budgetary increase is proposed in the Fleet and Equipment ISF. The Capital Outlay budget for the division includes replacement of seven vehicles: five Police vehicles with required equipment and accessories, one truck for Parking Enforcement, and one van for Facilities Management. It also includes replacement of one Sewer Cleaning Truck and two Street Sweepers. These costs will obviously increase the allocation of this ISF to the Police Department, as newer vehicles result in higher depreciation costs.

Beyond regular increases in personnel costs, the proposed budget for the Facilities Services ISF includes an increase in the estimated cost for the new janitorial contract. In the long run, aging facilities will continue to require higher repair and maintenance costs.

**General Fund Five-Year Financial Forecast**

The five-year forecast was last updated with the fiscal year 2017-18 mid-year report in March. General Fund revenues reflected in total in the initial fiscal year 2018-19 budget are approximately 3.85 percent ($2.8 million) more than in the five-year forecast, due largely to the inclusion of $1.75 million in new Measure I revenues, and an additional $900,000 in property tax revenues, in anticipation of continued ERAF refunds of amounts similar to those received in prior years. General Fund expenditures are approximately 2.5 percent ($1.7 million) more than projected for FY 2018-19 in the forecast due to the inclusion of Measure I expenditures and transfers for debt service. Where the five-year forecast anticipated a $3.4 million surplus for fiscal year 2018-19 (before funding the City's § 115 Trust for pension obligations), this initial budget shows a $4.5 million surplus prior to such funding. For all intents and purposes, the assumptions of the five-year forecast remain in place, except for the full inclusion of ERAF rebates in property tax revenue projections. Staff will continue to monitor economic conditions and analyze events that could impact the City's future revenue or expenditure composition. Changes that significantly alter the City's long-term projections will be brought to the Council's attention.

Longer term financial planning is not limited to the General Fund. The City's other operating funds are also examined for unfunded liabilities and future vulnerabilities, and adjustments are made as needed. To the extent these funds are not self-sustaining, they can indicate a drag on the City's General Fund operations. To avoid such a condition, long-term plans are updated frequently, and any changes in the outlook of these funds are brought to the City Council's attention through the budget, mid-year analysis, and financial reporting processes currently in place.

**FISCAL IMPACT**

The preliminary General Fund budget for the 2018-19 fiscal year calls for projected revenues of $74.9 million, with expenditures and net transfers out of $70.4 million. Much of the remaining $4.5 million operating surplus will be used to further fund the City's § 115 Trust Fund for pension obligations ($2.8 million from the General Fund) and bolster (by nearly $1.1 million) the Economic Stability Reserve, as prescribed in the City's General Fund Reserve Policy. Obviously, this seemingly balanced preliminary budget cannot fully address all of the unfunded needs identified in previous budget discussions. As these unfunded needs generally reflect the long-term degradation of City facilities and other infrastructure, it is unclear as to whether the budget can be considered sustainable over the long-term. The preliminary budget does provide for an additional $2 million transfer out of the General Fund to the Capital Projects Fund in order to increase the Capital Investment Reserve to help curtail the creation of additional capital needs. The General Fund balance is estimated to be $36.8 million at the end of fiscal year 2018-19.

The budgets for all other funds have been equally reviewed and analyzed in the context of long-term fiscal planning. At this time, these funds appear to be self-sustaining, with operations that do not pose a threat to the City's long-term fiscal health. More detail on each of these funds will be provided in the final 2018-19 Budget document.