STAFF REPORT

AGENDA NO:

MEETING DATE: March 14, 2018

To: Honorable Mayor and City Council

Date: March 14, 2018

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

Subject: Adoption of a Resolution Amending the FY 2017-18 Operating and Capital Budgets to Reflect the Recommended Mid-year Adjustments

RECOMMENDATION

Staff recommends that the City Council accept the FY 2017-18 Mid-year Financial Summary and Five-Year Financial Forecast, and adopt the attached resolutions amending the FY 2017-18 Operating and Capital Budgets to reflect the recommended mid-year adjustments and further fund the Capital Investment Reserve in the City's Capital Projects Fund.

BACKGROUND

This report summarizes the City's mid-year fiscal status by providing an analysis of anticipated revenues and expenditures in comparison to the current adjusted budget for the 2017-18 fiscal year. Revised forecasts incorporate final 2016-17 fiscal year results, year-to-date cash flow, and other data points that were not available when the budget was originally developed.

To the extent possible, trends or emerging items that were not included in the City's operating budget have been identified, and the budgetary impacts of these items have been assessed. In addition, this report notes changes in activities that have very little overall impact to the budget, but allow for better alignment with Council goals and departmental directives. Although the focus of the mid-year review is the City's General Fund, this report also provides an update for other funds where fiscal changes are noted. The attached budget resolutions are recommended so that the current budget will not only provide the proper funding needed to carry out the programs and activities anticipated through June 30, 2018, but will also more accurately reflect the financial condition of the City as it enters the FY 2018-19 budget process. Having the latest projections reflected in the current budget enhances the forecasting process and allows decision makers to have greater confidence in the information provided within the budget development framework. In addition, during this time of moderate economic growth, the City may choose to set aside further funding for an ever-growing list of unmet capital needs and other liabilities.

Considering current economic conditions and this most recent analysis of operations, staff has updated the assumptions and projections incorporated in the City's five-year financial forecast for the General Fund. This long-term forecast establishes an appraisal of fiscal sustainability beyond the current budget cycle, providing important context to the annual budget process.

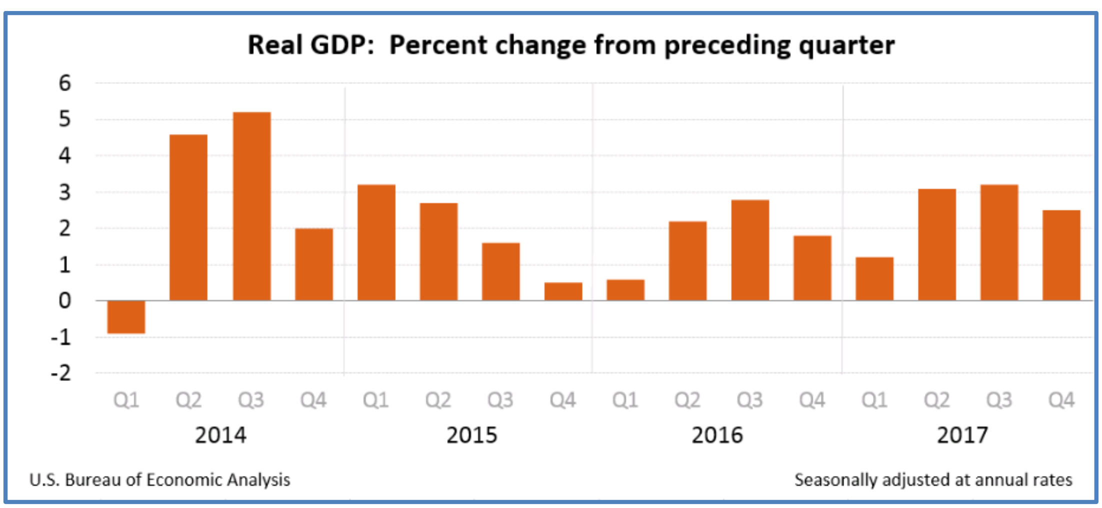
DISCUSSION

Economic Conditions

National Economy

At the time the City's FY 2017-18 budget was being prepared, the national economy was picking up momentum after a somewhat sluggish 2016. Most forecasts indicated that the economy would continue to grow at a moderate pace (2½ - 3 percent), perhaps less sporadically than in recent years. U.S. real GDP had increased 1.85 percent in 2016, slightly below the rate experienced in 2015. The U.S. unemployment rate had dropped to 4.4 percent (in April 2017) - its lowest level in a decade. Despite gasoline prices that were rising after enjoying lower rates in 2016, consumer spending was increasing at a healthy clip. Mortgage rates, though also rising, remained relatively low, hovering just above the 4 percent mark. And inflation continued to be relatively stable at a very low rate. The Federal Reserve had raised the benchmark interest rate (December 2016 - 25 basis points) only once since the prior year, but indicated a willingness to make further adjustments as the economy improved. All the factors of internal growth appeared to be positive. The possibility of any significant weakening in foreign economies, which could restrain the country's economic growth, had dissipated. However, the election of Donald Trump had caused economists to rethink their outlook: the impact of future changes in economic policies created a lot of uncertainty around the direction of the national economy going forward

In the end, 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. As the U.S. economy continues to chug along, real GDP growth is projected to grow in the range of 2.0-2.6 percent in upcoming years.



The U.S. unemployment rate was 4.1 percent in January 2018, which is largely accepted as full employment, as a result of a tight labor market and more full-time hiring. This rate continues to drop as job openings remain high and the number of workers available decreases, and most economists anticipate that national unemployment will remain low going into 2020. 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.

Although retail sales growth in January was down slightly (mainly due to a drop in auto sales) U.S. consumers are still relatively bullish on the economy. Holiday sales rose 5.4 percent from a year ago. Since consumer spending accounts for nearly 70 percent of the U.S. economic activity, these numbers reinforce a positive start to 2018.

The U.S. economy is in the ninth year of its current expansion. Most economists find little reason to expect that this expansion will stall or reverse in 2018; in fact, the tax reform bill enacted in December is likely to provide good momentum with short-term fiscal stimulus. 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."

So, although the economy headed into 2018 in a solid position, there is a lot of uncertainty about future economic policies and how they will influence the national economy going forward.

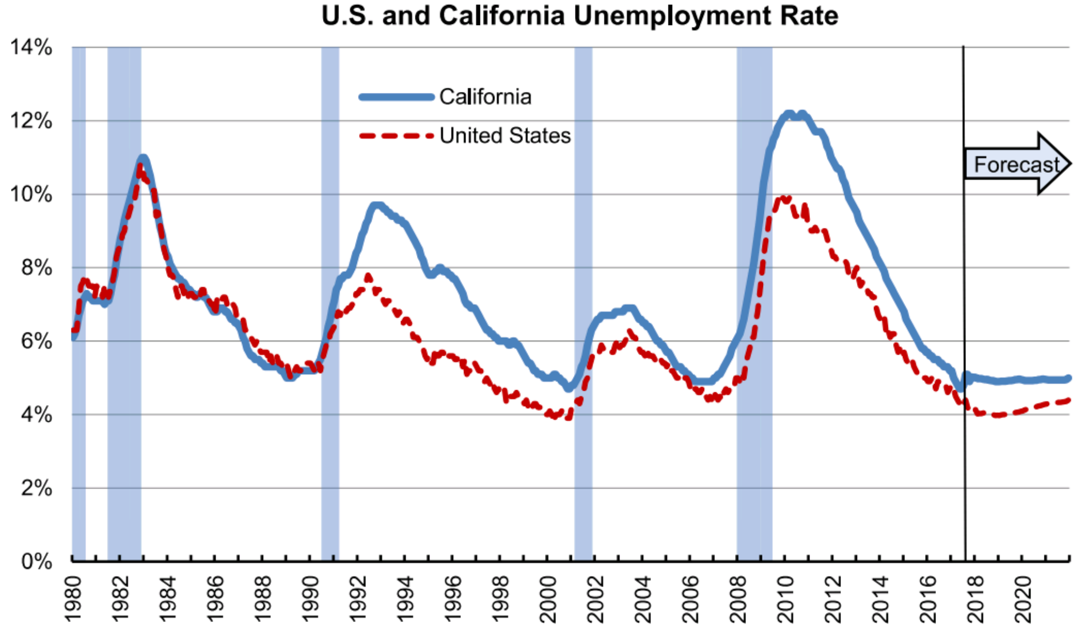
Overview	Actual	Q1/18	Q2/18	Q3/18	Q4/18	2020	
GDP Growth Rate	2.50	2.2	2.1	2.6	2.8	2	percent
Unemployment Rate	4.10	4.1	4.2	4	4	4.2	percent
Inflation Rate	2.10	2.2	2.3	2.4	2.5	2.5	percent
Interest Rate	1.50	1.75	2	2	2.25	3	percent
Balance of Trade	-53118.00	-50000	-49300	-50500	-53000	-59000	USD Million
Government Debt to GDP	105.40	108	108	108	108	109	percent

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 4.4 percent on a seasonally adjusted basis in January 2018, down from a 5.2 percent rate in January 2017. 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

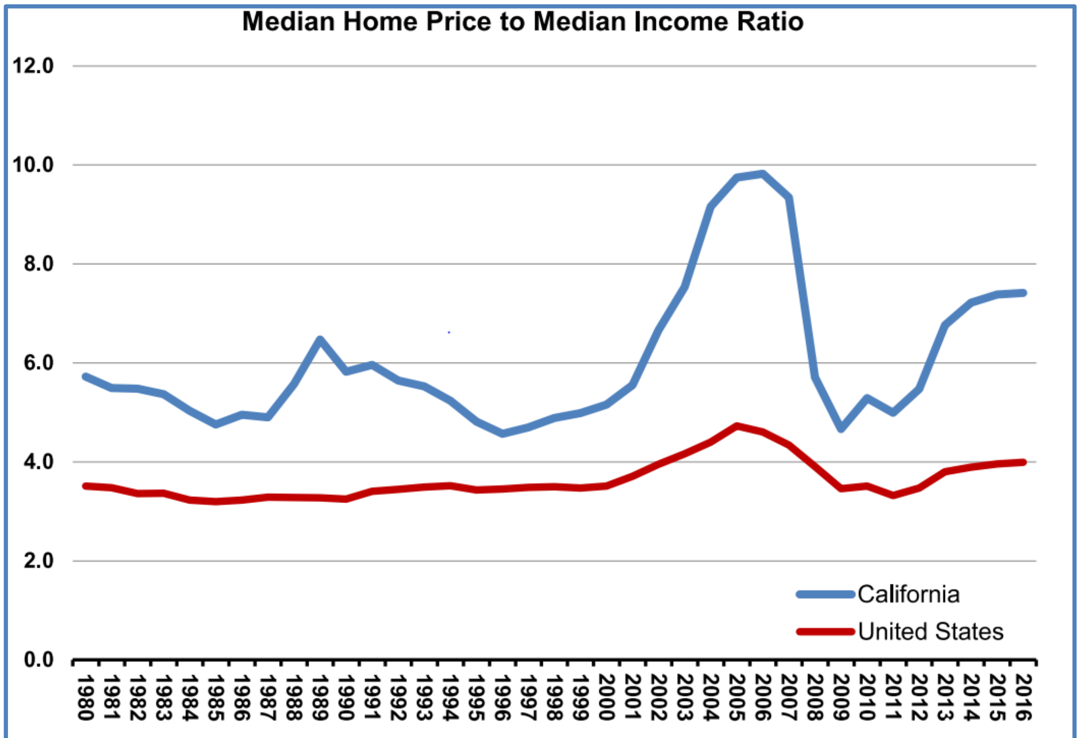


Shaded areas indicate U.S. recessions.
Source: U.S. Bureau of Labor Statistics; CA Employment Development Department, Labor Market Information Division; CA Department of Finance, Governor's Budget Forecast.

Job openings across skilled and unskilled occupations alike have reached record high rates; however, the state's employers are unable to hire the workers they need to expand. Therefore, unemployment should remain low, but the labor market will be unable to experience more than about 1.5% job growth per year.

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.



Median sales price of existing single-family homes / Median household income.
Source: CA Association of Realtors; U.S. Bureau of the Census; CA Department of Finance

The state's ever-worsening housing shortage is a major issue according to Robert Kleinhenz, Beacon Economics' Executive Director of Research. Kleinhenz believes that the federal tax overhaul, which will cut the limit on mortgage interest deductions from $1 million to $750,000 and also impose a $10,000 limit on state and local tax deductions, will exacerbate the shortage by decreasing home ownership. "The homeownership rate in California is already considerably lower compared to the U.S. as a whole, mainly because the median home price is more than twice that of the nation," said Kleinhenz. "Historically, middle-income households in California have been able to count on the deductibility of mortgage interest and property taxes to soften the blow but this change in the tax code will put the American Dream of homeownership further out of reach for more California residents."

The Allen Matkins/UCLA Anderson Forecast - California Commercial Real Estate Survey reflects favorable changes to the California commercial real estate market, due in large part to the recent federal tax overhaul. The tax bill is expected to increase the rate of return on commercial real estate and make investment more attractive. The biannual survey projects a three-year outlook for California's commercial real estate industry and forecasts potential opportunities and challenges affecting office, multi-family, retail, and industrial sectors. The latest survey (December 2018) showed increased office developer sentiment for the Northern California office markets; with all three markets (San Francisco, East Bay and Silicon Valley) at least at the dividing line between optimism and pessimism. Similarly, the sentiment for San Diego and Orange County markets has also rebounded from the June 2017 survey. The Los Angeles market continues to have optimistic sentiment by the survey panel thanks to the entertainment and tech sectors.

Keeping the state on a path to long-term fiscal stability, Governor Jerry Brown proposed a $131.7 billion General Fund budget plan for FY 2018-19 that fills the state's Rainy Day Fund to its constitutional target, fully implements the state's K-12 school funding formula two years ahead of schedule, and provides $4.6 billion for the first year of a 10-year transportation improvement plan. The plan reflects a healthy one-time surplus and increases funding for education, health care, and other core priorities. But with growing uncertainty about the impacts of new federal policies, combined with a longer-than-average economic expansion, the budget continues to bank higher revenues into reserves and pay down debts and liabilities. This emphasis on long term fiscal health policies in the State budget reduces the risk of future budget gimmicks and revenue grabs that have plagued California's local governmental agencies in the past.

Local Economy

In California there continues to be a marked difference between the coastal counties and the inland counties in employment-loss recovered. With its emphasis on the tech sector, the San Francisco Bay Area economy continued to outperform the nation in 2017, with an unemployment rate (in the nine-county Bay Area at 2.5%. San Mateo County unemployment as of December 31, 2017 not seasonally adjusted) was 2.1% – the lowest in the state. Then in January, the Employment Development Department (EDD) reported that the Bay Area gained an additional 11,900 jobs – one-third of all the jobs added statewide. The job surge 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 through the end of the fiscal year, 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.

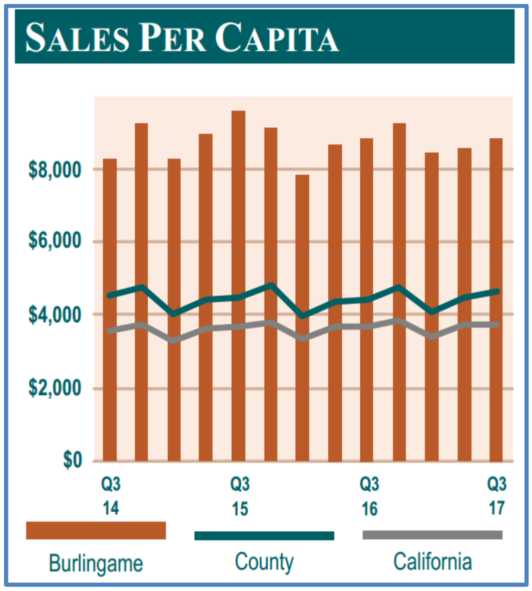
The median home price in San Francisco climbed by 6.4% between the third quarter of 2016 and the third quarter of 2017, reaching $1.3 million. Over the same period, the median price of a home in nearby Oakland increased by 12.4% and in San Jose by 14.0%. Home sales also continue to rise despite San Francisco 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.

As a result of the current high demand, building permit issuance has continued to increase in the region. From the first to the third quarter of 2017, there were 3,082 multi-family permits issued, up 57.6% compared to the same time last year. Single family permits have also jumped, totaling 69 through the first three quarters of 2017, an 81.6% increase compared to the same period in 2016. 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 87.1 percent occupancy rate in the first six 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.) Revenues were up 5.9 percent from the same period last year. As noted in the General Fund Revenue analysis (***Attachment A***), transient occupancy (hotel) tax receipts in fiscal year 2016-17 leveled off somewhat, increasing less than one percent ($171,000) over the prior fiscal year. However, as noted in previous analyses, federally imposed travel restrictions could negatively impact tourism and the area's occupancy rates in the years to come.

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 3rd 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.

Even with the positive economic trends of recent years, budgets have been developed with a relatively conservative approach. The 2009 recession brought home the realization that some of the City's largest sources of revenue are highly volatile, inexorably linked to the health of the general economy and events that cannot be anticipated in the short term. The recovery has been tentative at times, and accompanied by increases in certain operating costs – particularly in the area of personnel benefits – that need to be considered. The General Fund five-year financial forecast is provided in the final section of this report. In conjunction with the General Fund Reserve Policy, this long-term approach to the City's budget helps ensure that future economic downturns can be managed effectively.

Although renewed emphasis on budgeting for the longer-term will provide more certainty for future budgets, the City cannot have a true budgetary "surplus" if unfunded needs continue to grow. The establishment of the Other Post-Employment Benefits (OPEB) trust account was a significant step in assessing unfunded retiree medical liabilities and systematically providing for them within the operating budget. Although pension reform has somewhat curbed the growth of these liabilities *in the long term*, accrued obligations need to be addressed *now* to cover the growing number of retirees claiming benefits. CalPERS has responded by greatly increasing employer contributions through lower discount rate assumptions and decreased amortization periods for the accrued liabilities.

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." Staff will strive to identify these deferrals and recommend their systematic funding within the operating budget (of the appropriate fund) whenever possible.

General Fund

The City's FY 2017-18 budget anticipated a moderate pace of continued economic growth, with no significant enhancement in the level of services offered by the City. With revenues expected to slightly outpace those of fiscal year 2016-17, the budget supported an aggressive contribution to the newly established §115 Trust for pension obligations, necessary in light of the ever-increasing employer contribution rates projected for the next 10-15 years.

Now, with more than half of the fiscal year of actual transactions under analysis, the City's year-end General Fund revenues are currently projected to be over $1.5 million higher than projected in the FY 2017-18 adopted budget. Most of the growth comes from increased tax revenues; a small downward adjustment in investment income offsets the revenue gains in other areas. Details of the City's General Fund Revenue analysis at mid-year are provided in ***Attachment A*** of this report. Departmental expenditure budget revisions are discussed in more detail in ***Attachment B*** of this report. The adjustments reflect an attempt to adjust certain departmental budgets to more accurately reflect current needs, in response to unanticipated events, a change in programming direction, or access to information that was not available at the time the FY 2017-18 budget was proposed. The resulting departmental budgets should provide a clearer, more transparent picture of operating needs going forward. This is particularly important in establishing the framework for the FY 2018-19 budget, where funds needed for continued service levels will be considered in the context of the City Council's established goals.

In addition to adjustments in departmental operating expenditures, a significant budget adjustment is needed to certain transfers in/out of the General Fund. The explanation for these adjustments, largely related to the City's budgeted contributions to the §115 Trust for pension obligations, follows the discussion of General Fund Revenues and Expenditures, below.

General Fund - Revenues

The following table shows the mid-year assessment of fiscal year 2017-18 General Fund revenues. There are three columns for the 2017-18 fiscal year: The "FY17-18 Current Budget" column shows the revenue budget adopted by the City Council last June; the "FY17-18 Midyear Projection" column shows the most current projection for the fiscal year; and the final "FY17-18 Midyear Amendment" column reflects a summary of proposed revenue amendments to the FY 17-18 budget for the City Council's approval with this Mid-year Report. For comparison purposes, the table also includes the City's actual General Fund revenues in fiscal year 2016-17, as well as figures for the previous fiscal year. Year-to-date revenues are not included here as the timing variability within each different category greatly complicates the analysis and would make for a confusing presentation as a whole. However, year-to-date receipts may be discussed in the various categories of revenue as they relate to a revised FY 2017-18 projection.

CITY OF BURLINGAME, CA SUMMARY OF GENERAL FUND REVENUES	FY15-16 Actuals	FY16-17 Actuals	FY17-18 Current Budget	FY17-18 Midyear Projection	FY17-18 Midyear Amendment	Year-End Up (Down) %
Property Tax	$ 17,645,290	$ 18,932,794	$ 19,189,000	$ 20,150,000	$ 961,000	5.0%
Sales and Use Tax	12,827,673	12,089,288	12,205,000	12,205,000	0	0.0%
Transient Occupancy Tax	26,092,240	26,262,931	26,871,000	27,400,000	529,000	2.0%
Other Taxes						
Franchise Tax	1,604,758	1,633,303	1,630,000	1,669,000	39,000	2.4%
Business Licenses	985,568	976,307	994,000	994,000	0	0.0%
State HOPTR	63,710	62,669	62,000	62,000	0	0.0%
Real Property Transfer Tax	499,514	352,108	360,000	360,000	0	0.0%
Licenses & Permits	86,154	88,069	88,500	88,000	(500)	-0.6%
Fines, Forfeitures and Penalties	864,393	898,184	901,500	910,700	9,200	1.0%
Use of Money & Property	200,196	182,216	165,000	165,000	0	0.0%
Charges for Services	4,470,274	6,023,353	5,257,500	5,337,775	80,275	1.5%
Other Revenue	35,972	74,711	30,500	30,500	0	0.0%
State Subventions	146,530	281,916	238,216	251,216	13,000	5.5%
Interest Income	757,153	184,900	945,000	840,000	(105,000)	-11.1%
Total, General Fund Revenue	**$ 66,279,425**	**$ 68,042,749**	**$ 68,937,216**	**$ 70,463,191**	**$ 1,525,975**	**2.2%**

The key factors that pertain to staff's recommended adjustments to each of the City's General Fund revenue categories are discussed in ***Attachment A*** of this report. The amended forecast for the City's largest revenue sources (Property Tax, Sales Tax and Transient Occupancy Tax) is not only based on the previous year's receipts, but also on the continued strength of the local economy as reflected in cash receipts for the current fiscal year. In fact, the City's major revenue sources are generally keeping pace with the FY 2016-17 actual amounts, with most comparing favorably to the prior fiscal year. The recommended adjustments equate to a 2.2 percent increase in General Fund revenues when compared to the FY 2017-18 adopted budget, and a 3.5 percent increase over last year's revenues for the fund. Note that FY 2016-17 actual amounts are taken from the City's Comprehensive Annual Financial Report, and therefore reflect interest income revenue adjusted for a reduction in the City's investment portfolio at the fiscal year end. The adjustment is required by governmental accounting standards, but creates large variations from year to year in the amount of interest income reported. As explained in Attachment A, the budget for this line item assumes no change in the market value of the City's portfolio, as this measure is difficult to anticipate and does not adequately reflect the City's true return on investments. Without the FY 2016-17 adjustment in interest income, the current year-over-year increase in revenues anticipated for the General Fund is approximately 2.6 percent.

General Fund - Expenditures

The following table shows the mid-year assessment of FY 2017-18 General Fund expenditures by critical service area:

CITY OF BURLINGAME, CA
SUMMARY OF GENERAL FUND EXPENDITURES

By General Fund Program	FY15-16 Actuals	FY16-17 Actuals	FY17-18 Adopted Budget	FY17-18 Midyear Projection	FY17-18 Midyear Amendment	Year-End Up (Down) %
General government	$ 4,477,401	$ 4,874,249	$ 5,799,089	$ 5,819,089	$ 20,000	0.3%
Public Safety	24,625,071	25,552,359	26,937,169	27,033,769	96,600	0.4%
Public Works	4,693,548	4,456,522	5,958,029	6,322,129	364,100	6.1%
Community Development	1,405,794	1,530,975	1,836,358	1,861,358	25,000	1.4%
Leisure & Cultural Services	12,257,646	13,293,375	15,034,613	15,100,496	65,883	0.4%
Total, Operating Expenditures	**$47,459,460**	**$49,707,480**	**$55,565,258**	**$56,136,841**	**$571,583**	**1.0%**

Again, there are three columns for fiscal year 2017-18. The "FY17-18 Adopted Budget" column shows the budget adopted by the City Council in June 2017. Although the departmental budgets were internally adjusted for encumbrances of the prior fiscal year, the encumbrances are excluded for this mid-year analysis. The second FY 2017-18 column shows the new mid-year projection for each program area's current year expenditures. The final FY 2017-18 column shows the resulting amendments to the FY 2017-18 adjusted budget to reflect additional resources required (or anticipated operational savings) by departments for the remaining fiscal year. For comparison purposes, the table also includes the City's General Fund actual expenditure performance in fiscal year 2016-17, as well as figures for the previous fiscal year. Budgetary savings (positive expenditure variances) within the General Fund in fiscal year 2016-17 were experienced in all departments, resulting in expenditures of $3.1 million (roughly 6.1 percent) less than budgeted for the fiscal year. Since local government expenditure budgets (appropriations) serve as the legal level of budgetary control, some level of savings will be realized in any fiscal year. Although departmental budgets were analyzed for both underfunded operating needs *and* anticipated budgetary savings, the focus was on ensuring budget adequacy for General Fund operations for the remainder of the fiscal year.

There are fewer adjusting entries recommended for expenditure budgets in this analysis than recommended for the City's General Fund revenues. Most expenditure adjustments were fairly minimal in amount, or offset by operational savings elsewhere in the department. Proposed revisions to General Fund Expenditure Budgets are explained in detail in ***Attachment B***.

Again, additional budgetary savings are a certainty, because the expenditure budgets reflect the upper 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 2-4 percent of the annual expenditure budget. Although the City experiences larger variances, especially in the area of personnel costs, in years when there are a high number of position vacancies, the number of vacancies appears to have been fairly low in recent years. For this reason, staff anticipates that the City will experience a budgetary savings in the departmental budgets in the range of $1 - $2 million in the current fiscal year.

Contributions to the §115 Trust Fund for Pensions – As previously noted, planned contributions to the pension trust fund established with Public Agency Retirement Services (PARS) were included in the adopted budget as transfers out of the City's various funds in the amount of $3.7 million. In October of last year, an investment strategy was developed, and the funds were transferred to the trust. Although funds contributed to the trust are restricted in use solely for the City's pension obligations, per the Governmental Accounting Standards Board (GASB) implementation guidance for Statement No. 67, *Financial Reporting for Pension Plans*, the assets of the §115 Trust continue to be assets of the City. Unlike the trust fund established for the City's retiree medical obligations, the assets of the pension trust are considered to be under the control of the employer, who benefits through reduced future cash flow demands on General Fund resources. This flexibility, and the ability to manage disbursements of the funds, gives rise to the conclusion that the fund is an asset of the City. In other words, the trust fund contributions are merely a transfer of the City's available cash to another asset (restricted cash), and contributions to the trust cannot be recorded as current-year expenditures. In light of this determination, the transfers out from the various funds for contributions to the pension trust account must reversed.

Contributions to the §115 Trust for pensions will not impact *total* fund balance, but merely be reflected as "restricted" fund balance for financial reporting purposes. For the General Fund, the adjustment is reflected as a decrease of $3.1 million in transfers out. Two additional changes (increases) in transfers out of the General Fund are made necessary due to changes in other funds. These adjustments are described in the "Other Funds" section of this mid-year report.

Amendments to General Fund Transfers In (Out)
Fiscal Year 2017-18

Description	**Amount $**
Pension Trust Fund - Transfer Reversal	$ 3,139,920
Solid Waste Fund	(28,600)
Parks & Trees CIP Fund	(350,000)
Net Change to Transfers In (Out)	$ 2,761,320

General Fund Operating Summary

A summary of the impacts to the General Fund of the adjustments made as a result of this mid-year analysis is shown in the schedule below:

CITY OF BURLINGAME, CA
GENERAL FUND OPERATING SUMMARY

	FY16-17 Actuals	FY17-18 Adopted Budget	FY17-18 Midyear Projection	FY17-18 Midyear Amendment
Total Revenue	$ 68,042,749	$ 68,937,216	$ 70,463,191	$ 1,525,975
Expenditures				
Departmental Expenditures	(49,707,480)	(55,565,258)	(56,136,841)	(571,583)
Transfers In (Out)	(8,041,015)	(12,023,164)	(9,261,844)	2,761,320
Total Expenditures	(57,748,495)	(67,588,422)	(65,398,685)	2,189,737
Net Operating Revenue	10,294,254	1,348,794	5,064,506	3,715,712
Transfer to Capital Investment Reserve	(7,000,000)	(3,000,000)	(3,000,000)	0
Change in General Fund Balance	**$ 3,294,254**	**$ (1,651,206)**	**$ 2,064,506**	**$ 3,715,712**

Adjusted by the recommended amendments in this report, the General Fund shows a projected surplus (positive net operating revenues) for fiscal year 2017-18 of nearly $2.1 million, which is an improvement over the $1.6 million deficit provided for in the adopted budget. This initial operating deficit was allowed in order to provide additional transfers out of the General Fund in support of the City's Capital Investment Reserve ($3 million) and initial funding of a §115 Trust for pension liabilities ($3.1 million). Budgetary savings were anticipated to completely offset this operating deficit. The reversal of Transfers Out for pension funding revises the General Fund fiscal year 2017-18 operating summary significantly, though there has been no great underlying shift in the City's use of resources or its financial position.

General Fund Balance

Once all the mid-year adjustments are posted, the General Fund shows a projected total fund balance of over $35 million at the end of the 2017-18 fiscal year.

CITY OF BURLINGAME, CA
CHANGES TO GENERAL FUND BALANCE

	FY 2017-18 Midyear Projection
FY 2016-17 Beginning Fund Balance	$ 33,057,408
Projected Revenues & Expenditures	
Projected better than budgeted revenue performance	70,463,191
Projected departmental expenditures	(56,136,841)
Subtotal, Revenues Net of Expenditures	14,326,350
General Fund Long-Term Debt	(5,579,688)
Transfers In (Out) of General Fund	(6,682,156)
Projected General Fund Balance, net of transfers	**$ 35,121,914**

Although the mid-year budget projections for fiscal year 2016-17 reflected only a slight increase in fund balance, the General Fund experienced a surplus for the year, as revenues of the fund exceeded expenditures and net transfers by nearly $3.3 million. The relatively large unassigned fund balance of over $14.3 million at the beginning of the current fiscal year reflects an increase of approximately the amount of this surplus.

CITY OF BURLINGAME, CA
GENERAL FUND BALANCE ASSIGNMENTS

	FY2016-17 Actuals	FY2017-18 Midyear Projection	Up (Down) $	Up (Down) %
Economic Stability Reserve	$ 16,200,000	$ 16,913,000	713,000	4.4%
Catastrophic Reserve	2,000,000	2,000,000	0	0.0%
General Plan Reserve	0	0	0	0.0%
Contingency Reserve	500,000	500,000	0	0.0%
Subtotal, Assigned Fund Balance	18,700,000	19,413,000	713,000	3.8%
Add: Restricted for Pension Trust Fund (PARS)	0	3,139,920	3,139,920	0.0%
Add: Unassigned Fund Balance	14,357,408	12,568,994	(1,788,414)	-12.5%
Total, Ending Fund Balance	**$ 33,057,408**	**$ 35,121,914**	**$ 2,064,506**	**6.2%**

Once funded as approved in the General Fund Reserve Policy, the City's reserves ($19.4 million) comprise the largest portion of the General Fund's ending balance. The $3.1 million contribution to the §115 Trust Fund for pensions is now shown as a "restricted fund balance". And approximately $12.6 million remain as "unassigned fund balance", available for future appropriation. In recognition of the City's large backlog of facility needs, staff has in recent years recommended that surpluses of the prior year be used to provide additional funding to the Capital Investment Reserve. However, the recent focus on the unfunded liabilities from pension benefits provided by the California Public Employees' Retirement System (CalPERS) calls for a review and prioritization of the City's unfunded liabilities as a whole.

General Fund Reserve Policy and Capital Investment Reserve – In January 2015, the City Council approved a General Fund Reserve Policy that recognized the need for adequate reserves to guard against future economic downturns, as well as to provide a hedge for catastrophic events. The policy dictates an annual review and adjustment in the Economic Stability Reserve. In addition, in recognition of Burlingame's significant unfunded capital planning/facility needs and the continued impact of these needs on the City's financial flexibility, the Council also approved the establishment of a Capital Investment Reserve within the Capital Improvement Projects (CIP) Fund. The purpose of the Capital Investment Reserve was to prevent further accumulation of unfunded liabilities that aging facilities represent. The reserve was initially funded with a General Fund transfer of $3 million, a reflection of the fund's operating surplus in fiscal year 2013-14. Since that time, the reserve has grown largely as a result of surpluses generated during the continued economic expansion of recent years.

CITY OF BURLINGAME, CA
CHANGES TO CAPITAL INVESTMENT RESERVE

Beginning Balance Established 3/31/15 (FY14-15)	**$ 3,000,000**
Budget Transfer from General Fund in FY 2015-16	3,000,000
Add'l Budget Transfer from General Fund in FY 2015-16 (mid-year)	5,000,000
Decrease in Catastrophic Reserve Fund (mid-year)	2,500,000
Ending Balance 6/30/16	**$ 13,500,000**
Budgeted Transfer from General Fund in FY 2016-17	3,000,000
Add'l Budget Transfer from General Fund in FY 2016-17 (mid-year)	4,000,000
Ending Balance 6/30/17	$ **20,500,000**
Budget Transfer from General Fund in FY 2017-18	$ 3,000,000
Budgeted Ending Balance 6/30/18	$ **23,500,000**

Note that, unlike other amounts reflected in the fund balance of the Capital Projects Fund, Capital Investment Reserve funding will not be appropriated to a specific project. Rather, it will accumulate for capital projects to be initiated when timing is optimal and sufficient other funding is identified.

As of June 30, 2018, the General Fund's projected fund balance of $35.1 million represents 53.7 percent of General Fund operating expenditures of $65.4 million. Because $3.1 million is restricted for pension benefits through the §115 Trust Fund, a better measure of coverage may be that the unrestricted fund balance of $32 million equates to 48.9 percent of the fund's operating expenditures. The City's General Fund Reserve Policy and resulting reserve target was based on an assessment of the City's revenue volatility and infrastructure risks, as well as the possibility of extreme events, in establishing a reserve target specifically for the City of Burlingame. As such, the Council's reserve management strategies reflect best practices in public finance. The $19.4 million in reserves represents an amount equal to 27.5 percent of projected General Fund revenues (excluding one-time revenues) for the year; the reserve policy calls for an Economic Stability Reserve of 24 percent of budgeted revenues, a Catastrophic Reserve of $2 million, and a $500,000 Contingency Reserve. As previously noted, this leave an unassigned fund balance of nearly $12.6 million.

Other Funds

All City funds were reviewed for this mid-year analysis. The recommended revenue adjustment for most funds is the result of anticipated earnings allocations from the City's investment portfolio, explained in the General Fund Revenues section of this report (Attachment A). The recommended adjustments for interest income in each of the funds are shown below:

Interest Income Amendments
FY 2017-18

Fund	2016-17 Actual	Current Budget	2017-18 Midyear Projection	2017-18 Midyear Amendment
General Fund	$ 584,842	$ 945,000	$ 840,000	$ (105,000)
Burlingame Avenue Assessment D	3,885	9,000	6,000	(3,000)
Gas Tax Fund	12,539	40,386	18,000	(22,386)
Measure A Fund	16,127	44,614	23,000	(21,614)
Water Fund	154,284	370,500	222,000	(148,500)
Sewer Fund	154,215	343,000	222,000	(121,000)
Solid Waste Fund	43,218	107,000	62,000	(45,000)
Parking Enterprise Fund	68,153	115,000	98,000	(17,000)
Building Enterprise Fund	66,152	107,000	95,000	(12,000)
Landfill Fund	11,936	-	17,000	17,000
Worker's Compensation Fund ISF	61,276	133,000	88,000	(45,000)
Facilities Services Fund ISF	3,448	7,000	5,000	(2,000)
Equipment Services Fund ISF	60,445	130,000	87,000	(43,000)
Information Services Fund ISF	6,598	15,000	9,000	(6,000)
OPEB Retiree Medical ISF	674	3,000	-	(3,000)
General Liability ISF	37,836	63,000	55,000	(8,000)
Other Local Grants/Donations	2,091	6,000	3,000	(3,000)
Public TV Access Fund	4,371	8,000	6,000	(2,000)
Development Fees	40,623	19,000	60,000	41,000
Storm Drainage Fund	151,154	236,000	218,000	(18,000)
Debt Service Fund	50,757	8,000	73,000	65,000
Total	**$ 1,534,624**	**$ 2,709,500**	**$ 2,207,000**	**$ (502,500)**

The other major adjustment to the FY 2017-18 budget that affects many funds is the reversal of the "transfer out" of each fund to the §115 Trust Fund established for the City's pension obligations.

Again, these adjustments are necessary, as contributions to the trust remain as assets of the City, instead of expenses. These contributions will be shown as restricted fund balance in each fund.

CITY OF BURLINGAME, CA
CONTRIBUTION TO PENSION TRUST/RESERVE
(BY FUND)

	FY 17-18
General Fund	$ 3,139,920
Admin/IT	5,641
Building Enterprise	82,011
Facilities	56,212
Fleet/Equipment	36,669
Landfill Fund	4,752
Parking Enterprise	19,122
Sewer Enterprise	169,791
Solid Waste Enterprise	30,101
Water Enterprise	205,573
Total	$ 3,749,792

Capital Projects Fund – Only one adjustment was identified for the City's Capital Projects Fund. Based on the agreement with the Burlingame School District approved in June, the City will contribute $350,000 toward the resurfacing of Franklin and Osberg Fields if the work is done in the current fiscal year. (The fields were installed earlier this year.) In addition, the City has agreed to contribute 50% toward the cost of the future resurfacing of the two turf fields; that resurfacing is anticipated to take place ten years from the date of the initial installation.

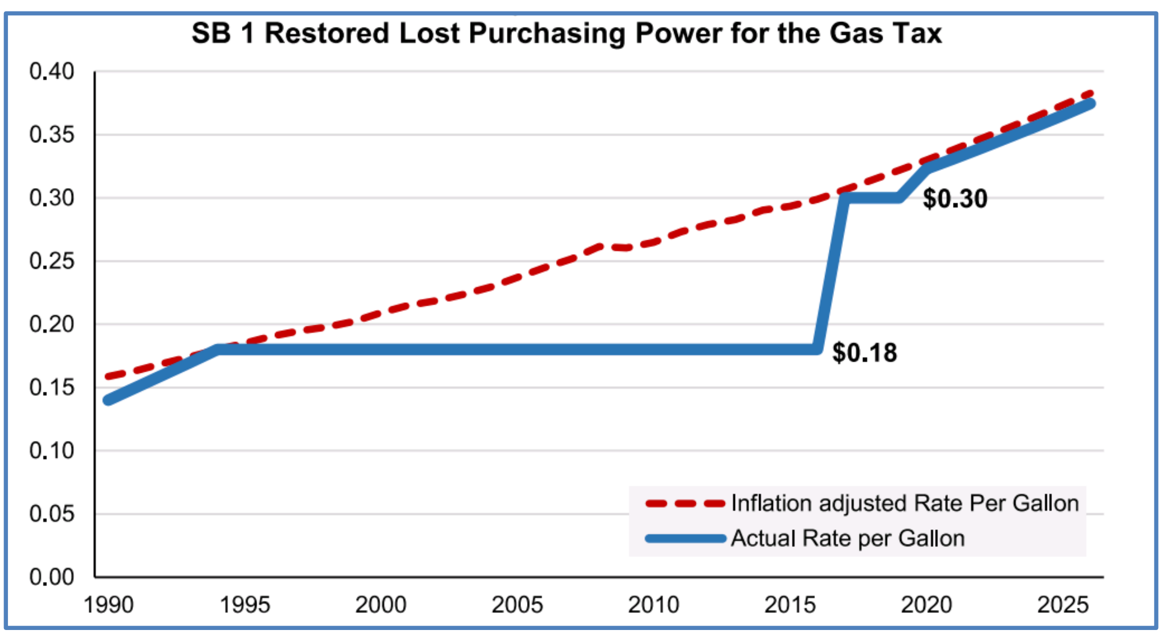
A CIP project has been established in the Parks and Trees Capital Improvement Program specifically to fund the resurfacing of the Franklin and Osberg Fields per the agreement. Although the project will not result in a capital asset for the City, it allows for an annual appropriation (currently estimated at $170,000 to $188,000 per year) in future budgets for this commitment.

Measure A Fund – This fund accounts for the City's share of the special half-cent sales tax to fund transportation-related projects and programs. Based on improved sales tax revenues county-wide, the FY 2016-17 budget was set at a fairly aggressive level of $824,000. However, actual revenues for the year were well below target. Current year revenues are coming in only slightly higher than last year, so the $824,000 budget may not be achieved. However, no budget adjustment is recommended at this time. $2.2 million of Measure A Funds is appropriated for transportation-related capital programs in the current fiscal year.

				2017-18		
Description	2014-15 Actuals	2015-16 Actuals	2016-17 Actuals	Adopted Budget	Midyear Projection	Midyear Amendment
Measure A	$ 789,049	$ 767,021	$ 799,100	$ 824,000	$ 824,000	$ -
Gas Tax (HUTA)	859,096	667,918	583,770	835,400	849,100	13,700
	$ 1,648,145	**$ 1,434,940**	**$ 1,382,870**	**$ 1,659,400**	**$ 1,673,100**	**$ 13,700**

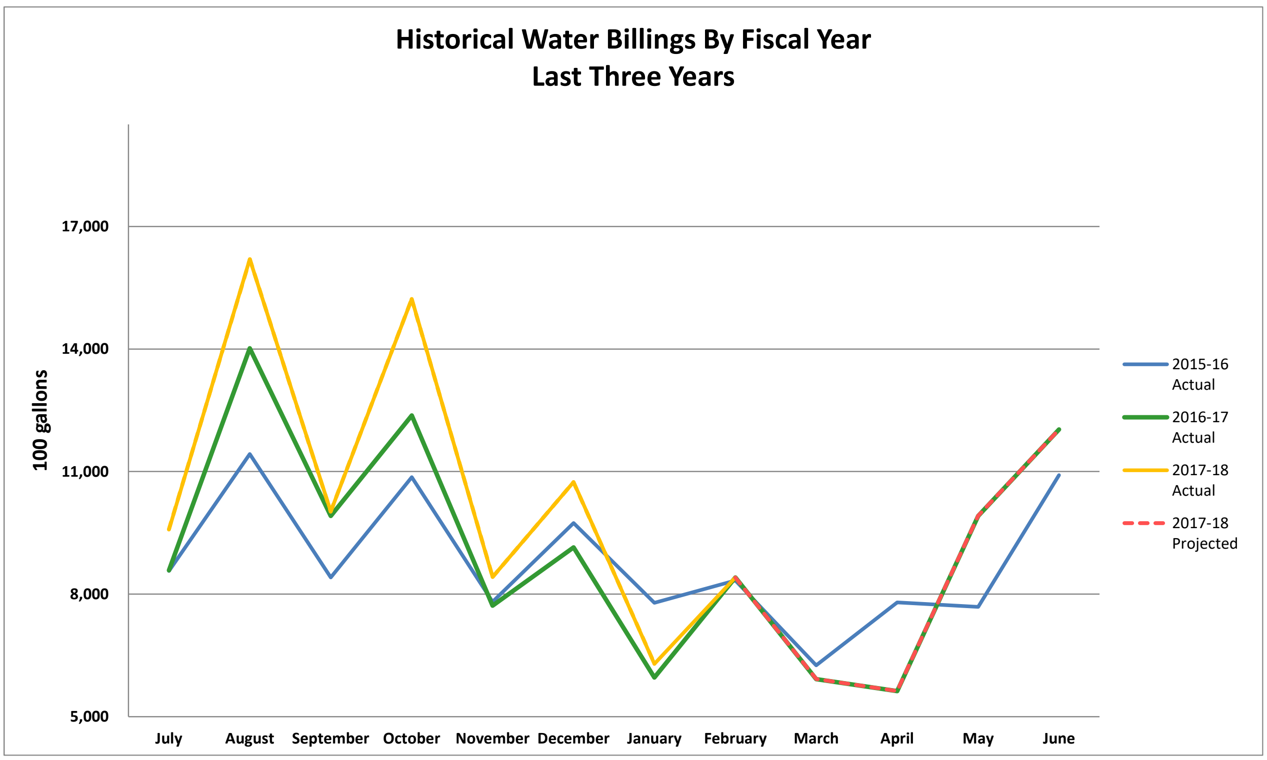
Gas Tax (HUTA) and Road Repair and Accountability Act (RRAA) of 2017 – The Gas Tax is a special revenue fund used to account for the revenue received from the State of California derived from gasoline taxes. These funds may only be used for street purposes as specified in the State Streets and Highways Code, and so they have always been an important revenue source for the City's Streets Capital Improvement Program. The projection of Highway Users Tax (HUTA) revenues is complex, with differing allocations derived from various sections of the Code, and differences in the allocation of gasoline tax revenues from diesel and fuel use tax revenues. Calculations have been further complicated by the State's gasoline sales tax/excise tax swap introduced in 2010, and formulas to ensure that cities and counties are "made whole" from impacts of the swap. Due to the nature of these allocations, this revenue source has been erratic from year to year. In the ups and downs of the HUTA formulas, recent year allocations have reflected a reduction for a prior year over-collection of excise tax revenue, as well as a downward trend in taxable sales of gasoline. As a result, road and transit investments have not kept pace with the growth in transportation needs across the state.

Fortunately, 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 by also providing funds from new taxes through a new Road Maintenance and Rehabilitation Account (RMRA). The RMRA allocations include funds from the additional taxes enacted by SB1: a 12 cent gasoline excise tax, a 20 cent diesel fuel excise tax, and transportation improvement fees (vehicle registration taxes). In addition, the Act provides for the payment of $225 million of transportation loans to be repaid over three years. Revenues from the RMRA were included in the FY2017-18 adopted budget for the City's Gas Tax Fund; the current fiscal year is a partial year of funding from these new sources. The most recent projections indicate a light increase ($13,700) in the revenues that were initially projected. The first full year of funding will be 2018-19.



Storm Drainage Fund – The Storm Drainage Fund accounts for the storm drainage fees collected due to an assessment approved by parcel owners in the City at a special election in May 2009. A budget adjustment is needed to address an error in accounting for the storm drain fees that are assessed but not billed on school district properties. These fees should be subsidized by the City's General Fund, but in the past two years have not been charged as budgeted in the Streets and Storm Drain's Division budget. An additional General Fund appropriation will allow for the proper payment of the fees for fiscal years 2015-16 and 2016-17, increasing Storm Drainage Fund revenues by $87,000.

Water & Sewer Funds – Due to the reduced water consumption that resulted from state mandates during the drought conditions of recent years, and increased capital and operating costs of the water system - including the cost of wholesale water purchased from the San Francisco Public Utilities Commission (SFPUC) - the City found it necessary to raise water rates. After the City completed a water rate study in 2016, the City Council approved rate increases equivalent to 9 percent in 2017, 7.5 percent in 2018, and 7.5 percent in 2019.



However, winter rains in 2017 brought an end to drought conditions in Northern California. As indicated in the graph above, water consumption in FY 2016-17 dropped to new lows when the rains began, but bounced back to higher levels during the summer months. Consumption levels have remained higher for the first eight months of the current fiscal year, and are projected to match prior-year experience for the next four months. (Note that the City's water billings are issued on a bi-monthly cycle, creating the up-and-down pattern from month to month.) As such, revenues of the fund are anticipated to be on target with the 2017-18 fiscal year budget, and no adjustment to these revenues is anticipated at this time. The City will continue to closely monitor consumption patterns in the coming months. Further information and updates will be provided to the Council as the 2018-19 fiscal year budget for the Water Fund is developed. A direct reimbursement to the Water and Sewer Funds for utility services provided to City facilities and parks based on consumption is assumed in the FY 2017-18 budget; these costs also appear to be in line with budgeted amounts.

Only minor adjustments to the operating expenditure budgets of these enterprise funds are recommended for the current fiscal year. Overall, budgetary savings in the area of equipment maintenance are anticipated in these funds ($19,900 in the Water Fund and $50,000 in the Sewer Fund) for the current fiscal year. In addition, the Wastewater Treatment Plant operating budget can be decreased by $14,100, which is the cost of the State Water Resources Control Board permit for the storm water system. This fee is more appropriately paid from the General Fund's Street and Storm Drainage Division budget.

Solid Waste and Landfill Funds – Although significant increases in Solid Waste rates were necessary in 2011 and 2012 to pay off a deficit position from the 2001-2010 contract for solid waste services, revenues in subsequent years 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 they provided surplus funding of a Solid Waste Rate Stabilization Reserve. Despite increasing costs over the years, rate increases have not been required. 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.

The recommended budget adjustments reflect 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. In the current year, these additional costs will be totally offset by anticipated savings in the fund's non-personnel operating budget. A final adjustment is recommended to decrease the budgeted transfer to the City's General Fund by $28,600, in conjunction with a decrease in the city management fee collected within the solid waste rates. Lastly, the amount collected for rate stabilization should be decreased ($65,850); the anticipated operating deficit dictates that the amount included in the 2018 calendar year rates for this reserve will be spent on services rather than put aside for future rate increases.

Current reserve levels in the Solid Waste Fund will allow the City to modulate future rate increases, and insure that it 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, and may provide a multi-year approach to collecting funds sufficient for the new franchise agreement. 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.

CITY OF BURLINGAME, CA
SOLID WASTE FUND REVENUES

Description	FY15-16 Actuals	FY16-17 Actuals	FY17-18 Adopted Budget	FY17-18 Midyear Projection	FY17-18 Midyear Amendment	Year-End Up (Down) %
STEAM CLEANING DOWNTOWN	$ 75,000	$ 116,550	$ 116,500	$ 160,450	$ 43,950	37.7%
AB939 ADMINISTRATION	174,885	178,796	174,000	140,000	(34,000)	-19.5%
STREET SWEEPING FEE	234,980	263,300	263,300	295,800	32,500	12.3%
CITY MGMT FEE	115,200	86,600	86,600	58,000	(28,600)	-33.0%
RATE STABILIZATION FEE	174,885	134,202	112,500	46,650	(65,850)	-58.5%
MISCELLANEOUS REVENUE	32,742	38,915	-	31,200	31,200	0.0%
Total	**$ 807,691**	**$ 818,363**	**$ 752,900**	**$ 732,100**	**$ (20,800)**	**-2.8%**

As noted, rates include a five 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.

***Building Enterprise Fund* –** Revenues in the Building Enterprise Fund (largely construction permits and building plan check fees) for the last fiscal year were significantly higher than in the previous fiscal year, due to an increase in the volume and value of permits pulled. Although the revenue and expenditure budgets of the fund were adjusted mid-year, revenues came in significantly higher ($1.3 million) than projected in the 2016-17 fiscal year budget.

CITY OF BURLINGAME, CA
BUILDING FUND REVENUES

Description	FY15-16 Actuals	FY16-17 Actuals	FY17-18 Adopted Budget	FY17-18 Midyear Projection	FY17-18 Midyear Amendment	Year-End Up (Down) %
Construction Permit Fee	$ 1,291,504	$ 1,141,928	$ 1,180,000	$ 1,856,000	$ 676,000	57.3%
Building Plan Check Fees	906,080	2,897,866	1,010,000	729,000	(281,000)	-27.8%
Microfilm/Other Fees	58,240	46,996	40,000	101,000	61,000	152.5%
Total	**$ 2,255,824**	**$ 4,086,790**	**$ 2,230,000**	**$ 2,686,000**	**$ 456,000**	**20.4%**

Because these revenues are difficult to project, and can swing significantly depending on the timing of large development projects, mid-year adjustments are typically recommended only if specific permits for large projects are on the horizon. However, in the current fiscal year the Building Division has experienced a 3 percent year-to-date increase in the volume of building permit applications. The Building Division has also seen a 7 percent increase in the number of building plan checks, but these permits are of smaller value on average than those pulled in fiscal year 2016-17. Although no large projects are expected to create a spike similar to that which occurred last year, an overall upward adjustment in these fees of $456,000 is indicated for fiscal year 2017-18.

***Parking Enterprise Fund* –** The Parking Enterprise Fund provides for the maintenance and upkeep of the City's parking lots and metering equipment, including maintenance and utility service for the new electric vehicle charging stations in Parking Lot V. Excess revenues that accumulate in the fund are intended to provide funding for future parking facilities and associated revenue mechanisms.

CITY OF BURLINGAME, CA
PARKING FUND REVENUES

Description	FY15-16 Actuals	FY16-17 Actuals	FY17-18 Adopted Budget	FY17-18 Midyear Projection	FY17-18 Midyear Amendment	Year-End Up (Down) %
Parking Fees	$ 2,281,495	$ 2,412,523	$ 2,335,000	$ 2,475,000	$ 140,000	6.0%
Electric Vehicle Charging Station Fees	11,618	14,958	12,000	15,000	3,000	25.0%
Monthly Parking Permits	356,142	338,849	356,000	356,000	0	0.0%
Total	$ 2,649,255	$ 2,766,330	$ 2,703,000	$ 2,846,000	$ 143,000	5.3%

The installation of 730 new smart meters in the City's downtown areas in the spring of 2017 has contributed to an increase in parking fee revenue of 2.6 percent over last fiscal year totals. However, the cost of monthly maintenance charges, meter batteries and thermal paper was also higher than anticipated – an additional $81,000 appropriation is recommended for the fund to cover these costs through the remainder of the fiscal year. In addition, the increased number of meters added at the end of last year resulted in slightly higher costs for armored car services, so an additional $7,000 is indicated for the fund's contractual services budget.

Internal Service Funds – Internal service funds are used to account for internal costs that are borne by all departments/programs of the City. Allocation of these centrally incurred costs is performed based on estimated usage or other metrics. Changes to the budget of an internal service fund do not necessarily require an offsetting change in the fund's revenues (charges to the participating departments), as each fund has a separate fund balance that can vary due to need. However, these funds are carefully monitored to ensure that departments are appropriately and adequately charged.

Administration/Information Services Internal Service Fund – The budget for this fund includes not only information services, but also the costs of maintenance for centralized printing and mailing equipment. One small ($9,800) budget enhancement is proposed for the current fiscal year to provide funding for an expansion of the new Wi-Fi system at City Hall to the Recreation Center. The network cabling installation (contractual services) for this project was considered a prudent investment, significantly improving the previous Wi-Fi system that was increasingly unreliable.

Facilities Services Fund – The Facilities Services Fund is used to account for the costs of services provided by the Public Works Department in maintaining and repairing the City facilities, including custodial services, on a departmental cost-reimbursement basis. The midyear fund analysis resulted in the proposal for an increased appropriation totaling $34,059 in the area of contractual services. The additional appropriation should cover the cost of property appraisal services for City-owned properties, increased sprinkler inspection costs, additional janitorial services for the City's Main Library, and unforeseen window repairs, also at the Main Library building. The funding request is offset somewhat by anticipated savings in the Facilities Division's equipment maintenance budget.

Unfunded Needs

The identification and funding of capital projects and otherwise unfunded, long-term needs of the City has been a priority of the City Council for many years. In November 2013, staff presented the City Council with a list of unfunded needs as well as broad cost estimates for the various projects. After extensive public outreach, staff asked the City Council to prioritize the projects so that funding plans could be developed. A new downtown parking garage was ranked highest, followed by the Community Center, and City Hall. Since that time, City staff has explored various options/partnerships with private developers to build one or more parking garages at little or no cost to the City. Options to partner with developers on construction of a new City Hall were also considered. Most recently, the Council approved a Measure I spending plan that included partial debt financing of a new Community Center. Staff is currently working with the City's financial advisor to assemble a financing team to assist in the possible lease-revenue bond issuance for this purpose.

As funding options are explored, other capital needs have been identified that will compete for General Fund resources and challenge the organization's capacity to successfully undertake future projects. A large number of City buildings, in addition to the facilities previously identified, have served their original intended design life and are in need of major improvements. Though the City regularly invests in building maintenance, major building components are overdue for replacement. A Building Facilities Condition Assessment Study and Capital Improvement Master Plan, which identify maintenance needs and capital improvements necessary to extend the lifespan of the City's existing facilities, was performed in 2016. The study concluded that the City should consider replacing older buildings before maintenance costs increase significantly. It also concluded that, while staff is able to manage its current work load, additional resources are needed to properly maintain the buildings and manage new capital projects.

Although funds are being set aside in the City's Capital Investment Reserve, the amount of funding seems to diminish when compared with the growing set of unfunded needs. In addition, 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. Major projects, such as the Broadway Grade Separation project, will require a financing package of hundreds of millions of dollars, well beyond the City's budgetary or financing capacity. This project is currently undergoing environmental studies that the City partially funded ($500,000), but the grants that will provide for the actual construction of the project will require City matching funds of $12-20 million. While staff explores opportunities to obtain the external funding to advance such projects in the coming years, other, non-capital needs, such as accrued pension liabilities, present additional challenges that should be kept in mind when reviewing the current General Fund Five-Year Forecast.

General Fund Five-Year Financial Forecast

The five-year forecast attached to this report as ***Attachment C*** was developed using the FY 2017-18 budget, adjusted for the recommended adjustments in this report, as a starting point for estimating revenues and expenses of future operating budgets.

To evaluate the ongoing impact of each of the updated General Fund projections described in the City's five-year forecast, it is important to consider which adjustments reflect one-time events, and which represent a fundamental change in the City's revenue or expenditure structure. One-time revenues cannot be relied upon to augment ongoing services, just as non-reoccurring costs will not drain the General Fund on a continuing basis. Therefore, no sale of property or other General Fund assets are assumed in the five-year forecast. In addition, revenues associated with the recently enacted Measure I ¼ % transaction/sales tax is not included, nor are the offsetting expenditures identified in the Measure I spending plan. These revenues and expenditures will be included in future long term forecasts once more is known about the amount of additional revenues raised by the measure.

The five-year forecast was prepared with careful consideration to each revenue and expenditure category. These analyses roll up to the summary forecast shown in ***Attachment C***. General Fund revenues are monitored closely, and projections are based upon a rolling forecast model that combines actual results with smoothed, multi-year historical data. When appropriate, compound annual growth rates (CAGR) are utilized to smooth cumulative year-over-year growth, as though growth has occurred steadily over the specified period of time. Adjustments are also made for known and/or assumed financial factors such as economic and legislative changes at the national, state, and local level. Forecast assumptions may also utilize information from third-party experts, published industry indices, and/or data collected from City departments. This procedure for analysis allows a different CAGR or growth assumption to be applied for every account within a revenue or expenditure category. For example, if solid waste franchise fees are anticipated to grow faster than electric franchise fees, these different growth rates can be part of the assumptions. However, the casual reader will not be able to determine these forecast assumptions by simply calculating a growth ratio.

The rest of this report attempts to articulate major deviations from a flat growth assumption within any category; the assumptions are summarized in the tables below:

Forecasted Revenue Assumptions

Revenue Description	Annual Growth Assumption	Explanatory Comments
Property Tax	Secured 5% - 7.5%	The actual assessment roll growth, per the County Assessor, is based on the January 1 lien date and continuing trend of low property turnover. The housing market may cool in the next few years due to rising interest rates, but continued Bay Area insulation is expected due to high demand. In FY 2020-21, the Burlingame Point project will be included in the City's assessed valuation data.

Revenue Description	Annual Growth Assumption	Explanatory Comments
ERAF Rebate	Varies – expected to decline	Adjustments made for Educational Revenue Augmentation Fund (ERAF) rebate, decreasing over the next five years due to growing demands on ERAF funds. The City will continue to treat largely as **one-time revenue.**
Sales Tax	1.6% - 2.6%	Based upon recent Q3 2017 sales tax data and the HdL Companies' long-term forecast. Indications of a shift of consumer spending on services (rather than taxable goods) and statewide concerns regarding diminishing sales tax base could limit growth. Measure I not included, but will follow same growth.
Transient Occupancy Tax	1% - 2%	Based upon assumption that average daily room rates will be constrained by price elasticity. Includes an assumption for some diversion of revenue as a result of new SFO hotel in fiscal year 2019-20.
Other Taxes - Franchise Tax	1.0% - 3.0%	Based upon expected gross revenue changes for PG&E, garbage, and cable TV.
Other Taxes - Business Licenses	1.0% - 3%	Despite record highs in passenger traffic at SFO, minimal growth is expected from the long term parking business licenses tax, which is based on gross receipts. Growth will also be slow in general business license revenue, as it is based upon volume of businesses rather than gross receipts.
Other Taxes - State HOPTR	Flat	Limited to growth in the number of homeowner occupied parcels.
Other Taxes - Transfer Tax	2.5%	Based upon historical patterns and consistently low inventories of properties for sale.
Licenses & Permits **Fines, Forfeitures & Penalties**	Less than 1%	Based primarily on no/slight annual adjustments to fees, and a very small increase in volume. Not included here is an assumption for added parking lots or garages over the next five years due to unknown implementation date.
Charges for Services	2% - 2.5%	Growth based primarily on consumer price index adjustments to fees. Not included here is an assumption for increased programming at new Community Center, or decrease for current facility closure, due to unknown implementation date.

Revenue Description	Annual Growth Assumption	Explanatory Comments
Use of Money & Property	2.5%	The assumption is based upon current long-term lease information, which permits adjustments based upon consumer price indices, as well as a scheduled increase to the monthly rent for various leases. No assumptions have been made for the Golf Center lease.
Other Revenue	No growth	No growth projected due to one-time revenue.
State Subventions	Flat	The forecast assumes that mandated cost recoveries from past years will continue to decrease as the State makes progress in paying these liabilities.
Interest Income	50% - 2018-19; 10% thereafter	Based upon expected cash balances and increases in Federal Funds rate per most recent Federal Reserve policy analysis.

Forecasted Expenditure Assumptions

Expenditure Description	Explanatory Comments
Salaries & Wages	Includes effect of current collective bargaining agreements, including recently approved agreements with labor groups and increased wages for part-time employees effective January 1. Assumes an annual growth in salaries of 2-3% for out years, as well as normal merit step increases.
Benefits	Includes an annual growth rate of 5% - 6.5% for January 1 changes in health care rates, per the most recent OPEB study. Also includes expected PERS contribution rate increases (14.4% average annually for Safety and 11.5% for Misc. employees) coupled with forecast increases in salaries & wages. Also included are employee contributions to health care and PERS in accordance with current MOUs.
Operating Costs	Based upon cost of living adjustments for most non-personnel costs and expected changes in utility rates. A 3% compounded annual growth rate is assumed for most operating costs. A 6% escalation factor for service from Central County Fire is also assumed.
	Operating costs include a payroll surcharge assessed on full-time employees to fund

Expenditure Description	Explanatory Comments
Operating Costs (cont.)	*previously incurred* costs associated with retiree medical benefits for former employees (implemented in fiscal year 2014-15).
Internal Services	Based upon a 3% blended escalation factor.
Capital Outlay	Includes a base of $230K based upon historical use and 3% growth rate.
Transfers In (Out)	Assumes reimbursements for debt service, increasing General Fund investments in Capital Projects (with a floor of 2 of the 12% TOT tax revenue), and support of City shuttle programs.
Debt Service	Includes actual debt service for all current outstanding bond issues. Assumes no refinancing of current debt and no new general obligation debt issuances.

In the five-year forecast, property tax revenues are assumed to grow at a rate higher than inflation, but not as quickly as in recent years. Although growth in Burlingame's assessed value in fiscal year 2016-17 was 7.85 percent, and current-year property tax revenue was based on a roll 6.47 percent higher, growth in the roll so far for fiscal year 2018-19 indicates that an increase of at least 5.2 percent in property taxes can be anticipated. This rate includes an inflationary factor of slightly over 1 percent as reported by the State Board of Equalization for December 2017. The inflationary factor is capped at 2 percent annual growth. The rest of the growth is from re-assessments, usually the result of properties changing ownership. If the economy continues to strengthen, assessed values should also increase steadily, and the inflationary factor will most likely be back to 2 percent in future years. As a result, the assumed growth factor is 6.0 percent for secured property taxes in most fiscal years 2019-20 through 2021-22. Although a bump-up (to 7.5 percent) of these projected revenues is allowed in 2020-21 for the anticipated completion of the Burlingame Point development, the potential revenue impact of other future (specific) development, is NOT included in the long-term forecast.

Property tax revenues as a whole exhibit a much slower rate of growth than secured property taxes in the five-year forecast due to the possible diminishment of excess ERAF refunds. Long a part of the City's property tax revenue stream, the refunding of amounts remaining in the County's Educational Revenue Augmentation Fund (ERAF) to the subsidizing local governments is projected to diminish considerably. These ERAF refunds may even come to an end if the State's uses of ERAF are intensified. The five-year forecast assumes these ERAF refunds diminish by $400,000 by fiscal year 2022-23.

The City's Transient Occupancy Tax (TOT) revenue has grown in recent years to be the City's largest General Fund revenue source. A surge in both occupancy and hotel room rates has resulted in a 22.9 percent increase in the City's TOT revenues in the past three years. The rate was last increased six years ago from 10 to 12 percent (effective January 1, 2010), and that rate is assumed to remain unchanged in future years.

Yet the revenues generated from TOT are very volatile. As noted in the risk-based analysis of the City's General Fund reserve needs, receipts are directly tied to changes in average daily room rates (ADR) of the City's 3,742 hotel rooms. As occupancy rates are already very high, and room rates show some signs of leveling off, it is unreasonable to assume these revenues will continue to grow as they have in the past few years. A growth rate of 1.0 percent is applied to the City's base TOT revenue for most years of the forecast. A downward adjustment is included in fiscal year 2019-20 to reflect the completion of a 350-room hotel at SFO. Although the timing and impact of the new hotel on area ADRs and occupancy rates is far from certain, staff has prudently calculated that there will be a negative impact on TOT revenues sufficient to offset any gains for the first two years of operation.

The City's sales tax base has continued to grow with the economic recovery of past years, but the forecast for the upcoming fiscal year and the four years beyond calls for a growth rate of only 1.6 - 2.6 percent. Due to consumer trends that indicate a decrease in the purchase of goods and materials in favor of non-taxable transactions (i.e., services), this more conservative growth rate is appropriate.

Income from the City's investments has increased very modestly with the growing economy. Though yields on the short-term, risk-averse investments (typical for inclusion in municipal portfolios) have languished with historically low rates for so many years, interest rates are beginning to rise and are expected to increase in the next couple of years. Any increase to the very low yield rates will result in significant growth factors. For example, if a 1 percent investment yield grows moderately to 1.5 percent in the fifth year of the forecast, this represents a 50 percent growth over the period. Note that this revenue source has been greatly diminished in recent years and is no longer a significant contribution to General Fund revenues. However, as interest rates rise, staff will continue to optimize the portfolio's performance while balancing the priorities of safety, liquidity and yield

The limited revenues received in the categories of Licenses and Fines are assumed to grow only modestly for purposes of the five-year forecast. Charges for Services are forecast to grow at a rate of 2.5 percent annually. Although increases in fees were anticipated due to the completion of the City's Cost Allocation and User Fee studies in fiscal year 2015-16, the studies did not result in measurable additional revenue. For the most popular services, the City either found its fees to be adequate to cover costs, or determined that the general public benefitted from the provision of these services. It is appropriate that fees for services that provide a public benefit are subsidized by general revenues (i.e., taxes). Fees will be additionally discussed in detail with the presentation of the Master Fee Schedule in April.

With revenues forecasted to grow an average of 2.8 percent annually in the next five years, the examination of General Fund expenditures becomes critical in the evaluation of the City's long-term fiscal health. In particular, assumptions regarding future personnel costs (which constitute over half of the General Fund budget) must be carefully considered. Whereas City revenues can vary widely with the economy, decisions made about employee costs have less of an immediate impact on operating budgets, but carry long-term implications that could stifle the ability to provide an appropriate level of services in the future. The trend of most concern in governmental expenditures has been anticipated for many years, and is reflected in large unfunded pension obligations.

Last year, the California Public Employees' Retirement System (CalPERS) voted to reduce its investment return assumption to 7 percent from 7.5 percent over the course of three years. The action was a consequence of the weak performance in recent years of the CalPERS investment portfolio, a prolonged low-interest rate environment, and attempts to limit future volatility in investment returns. Outside investment advisors generally believe that investment returns over the next 10 years will be well below the 7.5 percent current assumed return, and likely even below 7 percent. The annual rate of return (ROR) will decrease as follows:

Valuation Date	Discount Rate	Fiscal Year of Initial Impact	Fiscal Year of Full Impact
6/30/2016	7.375%	2018/19	2022/23
6/30/2017	7.250%	2019/20	2023/24
6/30/2018	7.000%	2020/21	2024/25

Decreasing the ROR increases the likelihood that assets set aside to fund retirement obligations will be sufficient to meet the demand of retiring workers. Investment returns will be relied upon less, and contributions relied upon more, in order to fund pension obligations. The resulting higher contribution rates for employers and employees will exacerbate existing pension funding challenges. As the ROR decreases, these funding levels will drop, placing the City further behind in meeting pension obligations.

The City has always reflected a conservative CalPERS rate in its five-year forecast. However, the impact of the discount rate change is severe. The rates shown below reflect rates provided by CalPERS (through FY 2019-20); subsequent year rates are based on an actuarial study recently updated by Bartel Associates (the City's external actuary). Note that the most immediate impact of the discount rate assumed by CalPERS will be seen in a large increase in the UAL (unfunded accrued liability) of prior years.

Estimated CalPERS Rate										
	Misc. Rate					Safety Rate				
Fiscal Year	Normal Cost		UAL Payment	Total Contributions	Total as % of Payroll	Normal Cost		UAL Payment	Total Contributions	Total as % of Payroll
2017-18	$ 1,540,000	+	$ 2,004,000	$ 3,544,000	24.60%	$ 1,012,000	+	$ 1,179,000	$ 2,191,000	45.20%
2018-19	1,695,000	+	2,428,000	4,123,000	26.05%	1,091,000	+	1,480,000	2,571,000	50.40%
2019-20	1,808,000	+	2,862,000	4,670,000	28.60%	1,170,000	+	1,790,000	2,960,000	56.40%
2020-21	2,013,000	+	3,173,000	5,186,000	30.90%	1,305,000	+	2,025,000	3,330,000	61.60%
2021-22	2,035,000	+	3,637,000	5,672,000	32.80%	1,330,000	+	2,348,000	3,678,000	66.00%
2022-23	2,092,000	+	4,042,000	6,134,000	34.40%	1,374,000	+	2,615,000	3,989,000	69.50%

Since personnel costs are such a large portion of the General Fund budget, these changes in employer contribution rates have a significant impact on the fund's five-year projection.

Salaries and wages have been broadly projected at levels that assume all existing labor agreements are adhered to until expiration. The City's most recent labor contracts, while reflecting concern over increasing employee benefit costs, also acknowledge the improved economy and the higher cost of living in the Bay Area. The contracts provide a balance in the four major cost areas of employee compensation: salary, health premium contributions, pension obligations, and retiree medical, though the cost to the City continues to grow in all these areas. The long-term forecast reflects growth in salaries and wages at a level of 2.5 percent once these contracts expire.

Another part of the personnel cost budgets is the pre-funding of retiree medical benefits (OPEB). Funded on a pay-as-you-go basis until the 2013-14 fiscal year, the cost of these benefits, largely incurred in prior years, is now being pre-funded through an (external) irrevocable trust. These costs represent a surcharge of approximately 30 percent on regular salaries and benefits. The *normal* cost (cost of the benefit earned by active employees for the current fiscal year) is included in all personnel cost projections, and should decrease over time because retiree medical benefits offered to new employees (since 2012) are greatly reduced in this area. An actuarial valuation as of June 30, 2016 confirms the amount of the surcharge needed to continue funding these benefits for the next two fiscal years.

With respect to non-personnel expenditures, it should be noted that the General Fund transfer out (expenditure) for the CIP was previously based on a set portion of the City's TOT revenues (2 of the 12 percentage point TOT rate) – about $4.5 million for 2017-18. The regular transfer amount was intended to reflect the annual cost of maintaining the City's current infrastructure in its current condition, and has been considered an essential part of a sustainable budget. However, due to the identification of the City's many unmet capital project needs in recent years, particularly in regards to aging City facilities, the transfer amount based on TOT revenue is now considered a *minimum* annual transfer amount.

Although capital spending has been able to proceed at a rate higher than other General Fund expenditures, beginning with the 2016-17 fiscal year budget, staff has recommended that the budgeted transfer from the General Fund to the Capital Projects Fund be established based on the City's capital needs for the upcoming fiscal year (as opposed to a portion of TOT revenues), to the extent there is staff capacity in the organization to accomplish the identified projects. The five-year forecast shows a leveling off of this transfer in FY2019-20, since the $6.8 million transfer currently anticipated for FY2018-19 includes funding for several non-reoccurring projects, (such as the $500,000 Finance/ERP software system). After that, a 2.4 percent growth factor is applied to this transfer for capital projects.

While annual funding of $3 million for the Capital Investment Reserve in the Capital Projects Fund has been assumed in prior forecasts, this amount has been decreased to $2 million in FY2018-19 and beyond, due to the anticipated funding of new debt that will be issued for the Community Center. For purposes of the five-year forecast, it is assumed that the General Fund will provide $1 million annually to service this debt, and the Capital Investment Reserve will grow at a slower pace than in recent years. No assumptions have been made regarding the use of the current Capital Investment Reserve for capital spending, as these will be subject to the City Council's priorities.

Although the broad assumptions that underlie the five-year forecast are considered to be conservatively realistic, any number of risk factors could result in a less positive forecast, including ineffective monetary policy by the Federal government, a major retrenchment of consumer spending, increased unemployment, escalating inflation, or an emergency event. Conversely, improved revenues from the implementation of business development strategies in progress may provide the headwind - in the form of higher revenues - for continued surplus in the future. No single strategy is assumed to succeed (and included in the five-year forecast) until the result is imminent. For example, the forecast includes a slightly higher-than-normal increase in property tax revenues in the 2019-20 fiscal year in acknowledgement of the Burlingame Point development, but no other assumptions (in revenues or expenditures) were modified for the project. Nor are the revenues and accompanying expenditure increases associated with the Top Golf development included in the forecast. Staff has endeavored to provide the most realistic budgetary projections possible using the most recent data available. Analysis of the General Fund and the City as a whole will continue through the development of the fiscal year 2018-19 budget, and will undoubtedly provide revisions to this five-year forecast.

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 other financial reporting processes currently in place.

FISCAL IMPACT

Authorization of the budget amendments described in this report updates the previous allocation of City resources for the 2017-18 fiscal year, reflecting changes in economic conditions and the City's current fiscal year-to-date performance. The City Council may consider revisions to the mid-year adjustment in the attached budget resolution, and/or additional amendments to the FY 2017-18 budget. For example, the Council may want to consider the use of some portion of the General Fund's unassigned fund balance to fund specific long-term portions of the unfunded pension liability with CalPERS. The overall goal is to provide the most accurate picture of the 2017-18 fiscal year's standings in preparation for the FY 2018-19 budget and to assist decision makers in planning for the City's needs in the long-term.

Exhibit:

- Mid-year Budget Amendments Resolution

City of Burlingame
FY 2017-18 Mid-year Report
Attachment A – General Fund Revenues

Property Taxes – The San Francisco Bay Area housing sector has been a sustaining factor in the local economy throughout the most difficult of past economic downturns. As shown in the graph below, property tax revenues leveled off in fiscal year 2010-11 and 2011-12, but have increased by 38.5 percent in the last five years. Assessed property values continue to rise, increasing 6.45 percent in the past year, after rising 7.85 percent in the prior year. The local housing market is very strong, despite a persistent lack of inventory. And though credit conditions remain relatively tight, recent years have seen a renewed interest in commercial real estate development.

Property tax rolls are established prior to the beginning of the fiscal year. In FY 2017-18, Burlingame's roll value (land and improvements) has increased 4.78 percent, including an inflationary factor of 1.02 percent applied to all California property assessments. This is similar to the growth experienced in the rolls at this time last year. As shown in the chart below, the preponderance of the City's property tax revenues (nearly 70 percent) comes from secured property taxes, which are established by the tax rolls and diminished only through refunds on successful appeals to the County Assessor's Office.

			2017-18		
Description	**2015-16 Actuals**	**2016-17 Actuals**	**Adopted Budget**	**Midyear Projection**	**Midyear Amendment**
Current Secured Property Tax	$ 11,946,937	$ 12,942,596	$ 13,614,000	$ 13,760,000	$ 146,000
Secured Supplemental Property Taxes	455,228	456,885	545,000	400,000	(145,000)
Unsecured Property Tax	649,049	681,080	683,000	693,000	10,000
Property Tax in Lieu of VLF	2,849,279	3,067,794	3,247,000	3,272,000	25,000
ERAF Refund	1,461,327	1,490,294	800,000	1,720,000	920,000
Unitary Tax	283,469	294,145	300,000	305,000	5,000
Total	**$ 17,645,289**	**$ 18,932,795**	**$ 19,189,000**	**$ 20,150,000**	**$ 961,000**

In FY 2016-17, actual property tax revenue receipts were within ½ percent of the budget (as adjusted at mid-year), representing a 7.3 percent increase in property taxes over the prior year. Revenues from secured property taxes were expected to rise approximately 5.3 percent in FY 2017-18, but since the final assessed roll for Burlingame reflects a 6.45 percent rise over the prior year, an upward adjustment of $146,000 in the Secured Property Taxes budget is indicated. Other components of property tax revenues were conservatively budgeted. Supplemental Property tax revenues are dependent on the volume and value of property transfers and new construction, so vary significantly from year to year. Receipts to date have been lower than in the prior year, so a decrease in this revenue ($145,000) is anticipated. Property Tax in Lieu of VLF is also allocated based on growth in the County's secured property tax roll, and is projected to come in $25,000 higher than initially budgeted for 2017-18.

In addition, the City continues to expect adjustments in the County's ERAF (Educational Revenue Augmentation Fund) distributions, as these may negatively impact the City's excess ERAF reimbursement in comparison to prior years. Excess ERAF reserves are held by the County and distributed when all other obligations of the funds have been met. The ERAF reimbursement received early in January consisted of 45 percent of the excess ERAF amount for each of the current and prior fiscal years, plus the remaining ERAF reserve balances for fiscal year 2015. Due to growing demands on the ERAF funds, these reimbursements have leveled off and are expected to decline. The County continues to warn that, as funding for education grows and other State commitments are satisfied through the ERAF funds, excess ERAF distributions could decline significantly, and even be eliminated. For fiscal year 2017-18, the City's excess ERAF distribution was nearly $230,000 higher than in the prior year. But these funds were very conservatively budgeted, and a $920,000 mid-year increase is proposed to bring this line item up to the actual amount received in 2017-18. The uncertain future of ERAF refunds makes this a highly unreliable revenue source, a factor that has been taken into consideration in the City's long-term projections. Even though excess ERAF distributions have contributed significantly to General Fund revenues for quite some time, these refunds should be considered as "one-time" revenues, used to fund reserves or applied to one-time expenses.

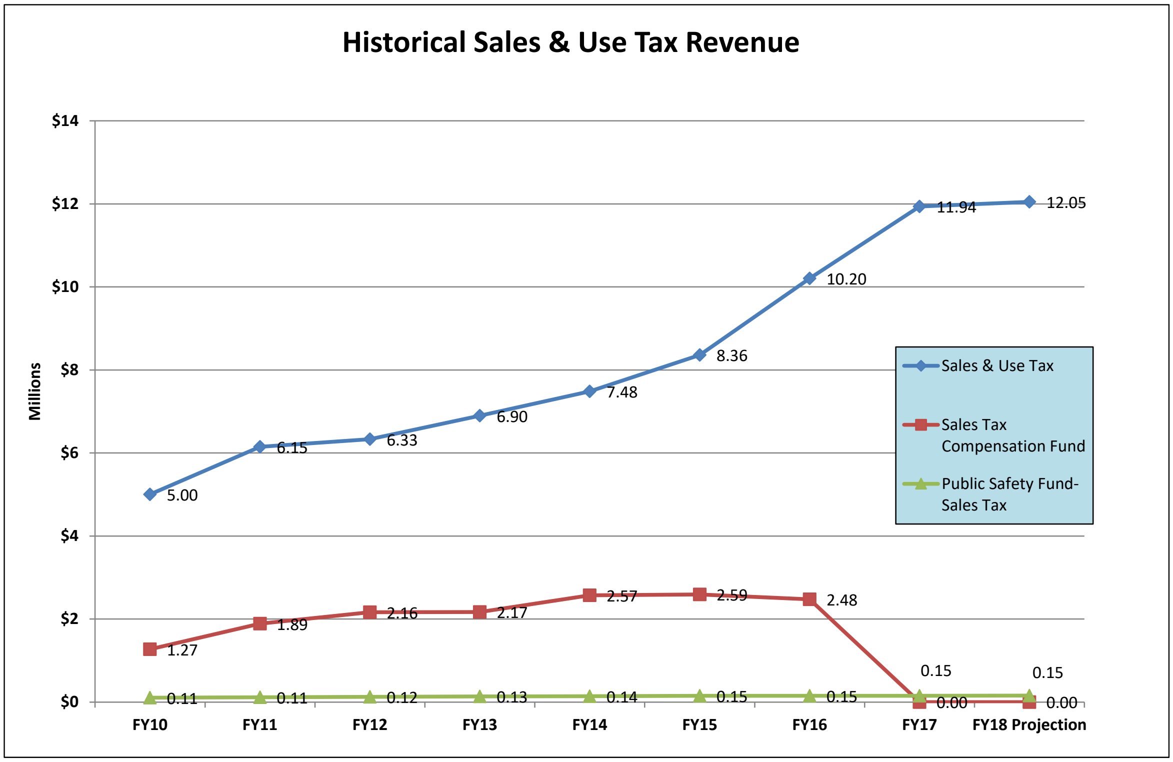
Unsecured property taxes (assessed on business fixtures, business personal property, boats, aircraft, etc.) are only slightly higher than in the prior fiscal year, and a $10,000 increase in this budget is recommended. Unitary Tax revenue was a bit short of budget in the prior fiscal year. However, a higher assessment of utility-owned properties is reflected in the County Assessor's role, so a slight ($5,000) upward adjustment in the FY 2017-18 budget is proposed for this line item.

Sales and Use Taxes – The table below shows the City's sales tax revenues over the past eight years, as well as a projection for the current fiscal year. The recession was obviously marked by a severe decline in consumer spending and associated taxable transactions. With the economy recovering, sales tax revenues surged upward in FY 2010-11, and continued to grow at an impressive pace. By FY 2013-14, these revenues had surpassed pre-recessionary levels. The "Triple Flip" (a State revenue swapping scheme which began in 2004) process was wrapped up in May 2016, creating a one-time bump in sales tax revenues of nearly $1 million for the 2015-16 fiscal year. But with this aberration excluded, it appears that taxable sales transactions have remained healthy for the past few years.

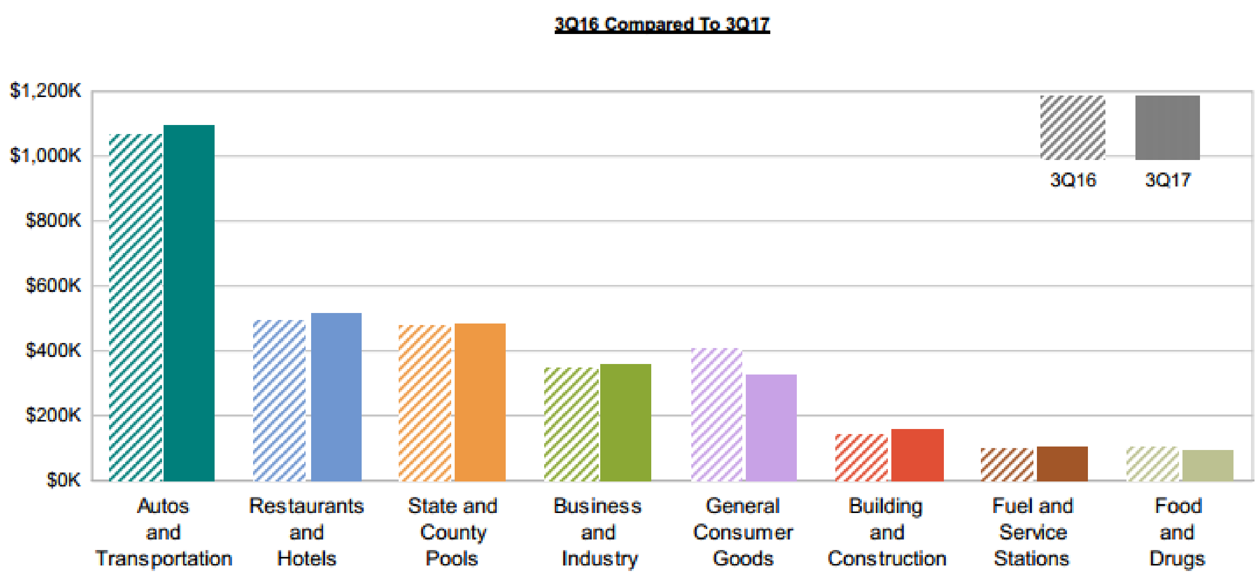
Fiscal Year 2010-18 Sales & Use Tax Revenue
(in millions)

Description	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018 (Est.)
Sales & Use Tax	$ 5.00	$ 6.15	$ 6.33	$ 6.90	$ 7.48	$ 8.36	$ 10.20	$ 11.94	$ 12.05
Sales Tax Compensation Fund	1.27	1.89	2.16	2.17	2.57	2.59	2.48	-	-
Public Safety Fund-Sales Tax	0.11	0.11	0.12	0.13	0.14	0.15	0.15	0.15	0.15
Grand Total	$ 6.38	$ 8.15	$ 8.62	$ 9.20	$ 10.20	$ 11.10	$ 12.83	$ 12.09	$ 12.21
Year-over-year change	*-23.68%*	*27.74%*	*5.71%*	*6.73%*	*10.84%*	*8.87%*	*15.56%*	*-5.76%*	*0.96%*

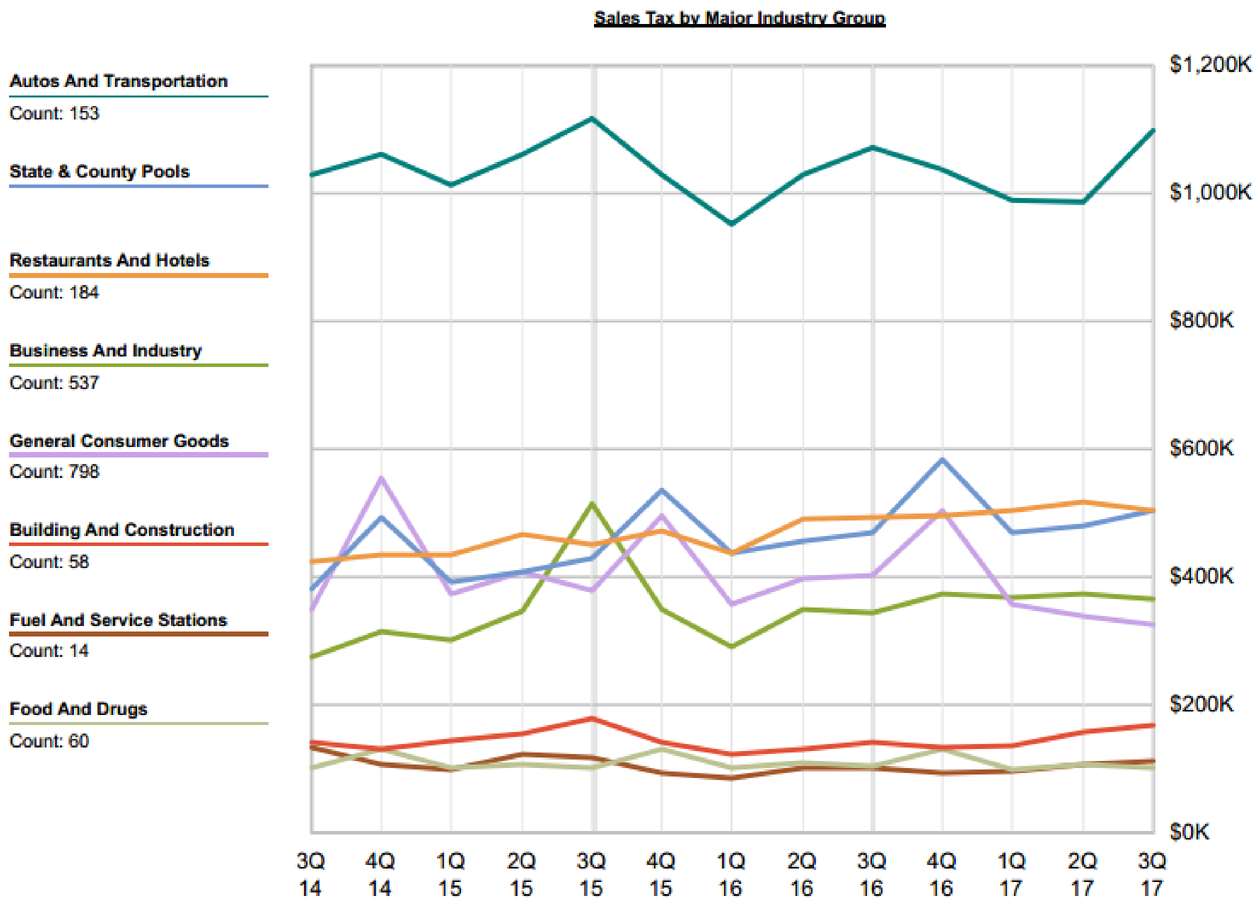
The chart below shows total sales tax receipts from the Bradley Burns (local 1 %) allocations from the State Board of Equalization (SBOE), the amounts received from the State's Sales and Use Tax Compensation (SUTC) Fund, and the additional Public Safety Sales Tax. In future years, the local sales tax allocations will be received in whole, and the State's SUTC Fund will be retired.



Because of the time lag in the reporting and submission of sales taxes to the California Department of Taxes and Fee Administration (CDTFA), only one quarter's data is available from which to project the City's FY 2017-18 revenues from this source. Although a review of Burlingame's 3rd quarter data for 2017 (remitted to the CDTFA in October – December 2016), indicates an improvement in taxable transactions of approximately 1.6 percent. The chart below shows that sales tax revenues continue to increase moderately, with many major industry groups reporting a positive change compared to the same quarter of 2015.



Revenues from transactions in the City's largest sector – Autos and Transportation – increased slightly in the comparable quarter. This is noteworthy in that the quarter marked the anticipated leveling off of auto sales state-wide. However, relatively low interest rates and more fuel-efficient drive trains continue to support the auto industry.



Growing faster than most other components of local sales tax receipts in recent years, the allocation of taxes from the countywide use tax pool constitutes a larger portion of total sales tax revenues than ever before. Use tax is the responsibility of the buyer rather than the seller and does not involve a California "point of sale". Therefore, the tax is coded to the county of use and then distributed to each jurisdiction in the county on a pro rata share of taxable sales. While these receipts represent only 10-12 percent of the total sales tax revenues (and are categorized by major industry group along with point-of-sale receipts), the increase reflects a continued acceleration of online shopping for merchandise shipped from out of state. This trend, along with a shift in consumer spending habits to non-taxable goods and services, puts pressure on brick-and-mortar retailers and the underlying sales tax base for local governments.

The City's FY 2017-18 adopted budget assumed only moderate growth in sales tax revenues due to the anticipated slowdown in auto sales. Year-to-date receipts indicate that sales and use tax revenue will indeed exceed those of the prior year. This revenue budget for fiscal year 2017-18 is only slightly lower than the projection provided by HdL, the City's sales tax consultant. Therefore, no budget adjustment is proposed at this time.

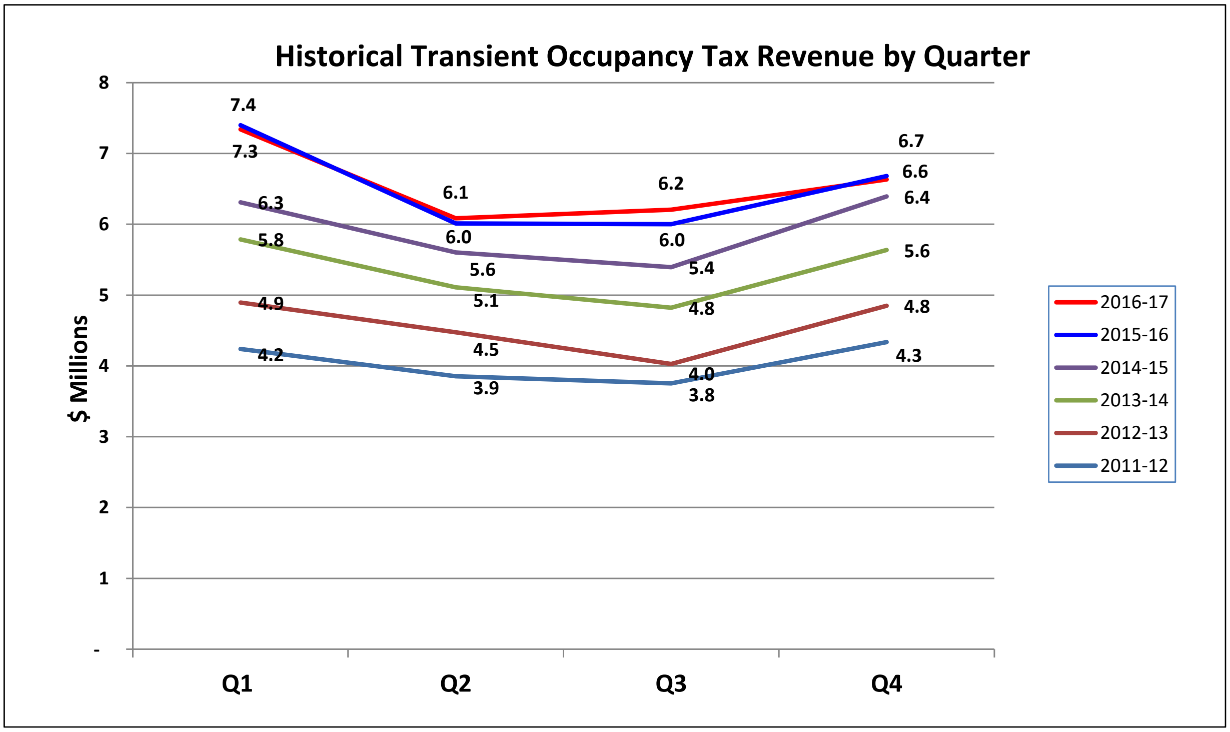
Burlingame's new ¼ cent Measure I transactions tax will go into effect on April 1. Taxpayers have 30 days at the end of the quarter to submit their returns, and the CDTFA takes six weeks to process the quarterly returns. Thus, Burlingame will not see a full quarter allocation until mid-September, although advances will begin with the June payment. Because of this timing difference, the Measure I revenues are NOT included in the FY 2017-18 General Fund budget of revenues and expenditures, and are not included in the five-year forecast. However, beginning with the 2018-19 budget, Measure I monies will be budgeted 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 new transactions tax is anticipated to have no effect on the City's regular sales and use tax receipts. The additional ¼ cent transaction tax, expected to yield more than $1.75 million annually, is levied only on tangible personal property consumed, taken possession of, registered or delivered within the jurisdiction imposing the tax. The tax is not levied on merchandise delivered to customers outside the city limits or autos registered to buyers from outside its jurisdiction. However, Burlingame will receive transactions tax on autos that residents or businesses purchase from outside the city and any merchandise that is delivered from outside the city. Because auto dealerships comprise such a large segment of taxable transactions in Burlingame, the estimated revenues from Measure I are less than a full 25% of the sales and use tax

Transient Occupancy Taxes (TOT) – TOT revenues constitute Burlingame's largest General Fund revenue source, and are usually a good indicator of current economic activity. TOT revenues are reported and paid to the City each month (for the prior month), so results as of January 31, 2017 reflect the first six months of the fiscal year. The budget for FY 2017-18 was established based on TOT collections through March 2017, when 2016-17 fiscal year-end results were projected to be approximately $26.2 million. This projection represented a slight increase (less than ½ of one percent) from the prior fiscal year, despite the absence of any significant regional events such as Super Bowl L of 2015. Continued low vacancy rates and a steady rise in average daily room rates (ADR) supported the original fiscal year 2017-18 budget projection of nearly $26.9 million – a projected growth of 2.5 percent in TOT revenue.

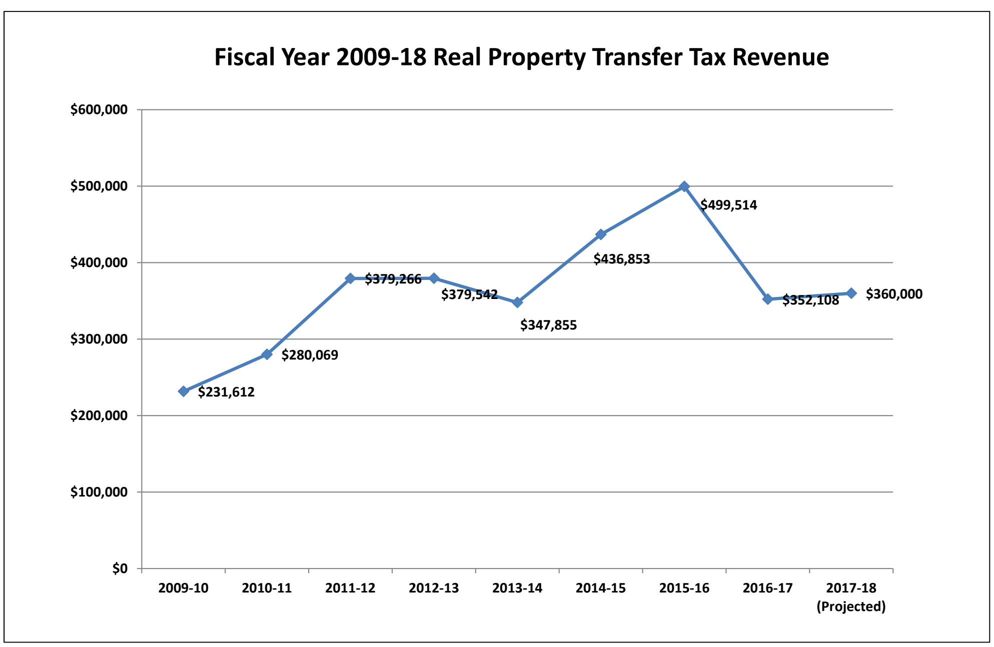
In fact, the City ended the 2016-17 fiscal year with over $26.2 million in TOT revenues (see graph on the next page, where Q1 shows results for July through September of each fiscal year). And occupancy rates as reported by the City's hotels remained robust in the first half of the current fiscal year. Burlingame hotels reported an average occupancy rate of 87.1 percent between July and December 2017 and an ADR of approximately $201. This level of activity is expected to continue for the remainder of the current fiscal year. A new projection of $27.4 million is proposed at mid-year for TOT revenues, representing a 4.3 percent growth rate in the 2017-18 fiscal year.

However, TOT revenues continue to be highly vulnerable to the cyclical nature of tourism and changes in the economy. The City continues to project TOT revenues conservatively, as hotel room pricing has far outpaced local pricing indices as well as inflation; as such, it is expected that in the near term, price elasticity will constrain growth. In addition, construction of a new on-site 350-room hotel at SFO has begun; the hotel is scheduled to open in July 2019. The impact of the additional supply of rooms in the region is considered in the City's five-year forecast.

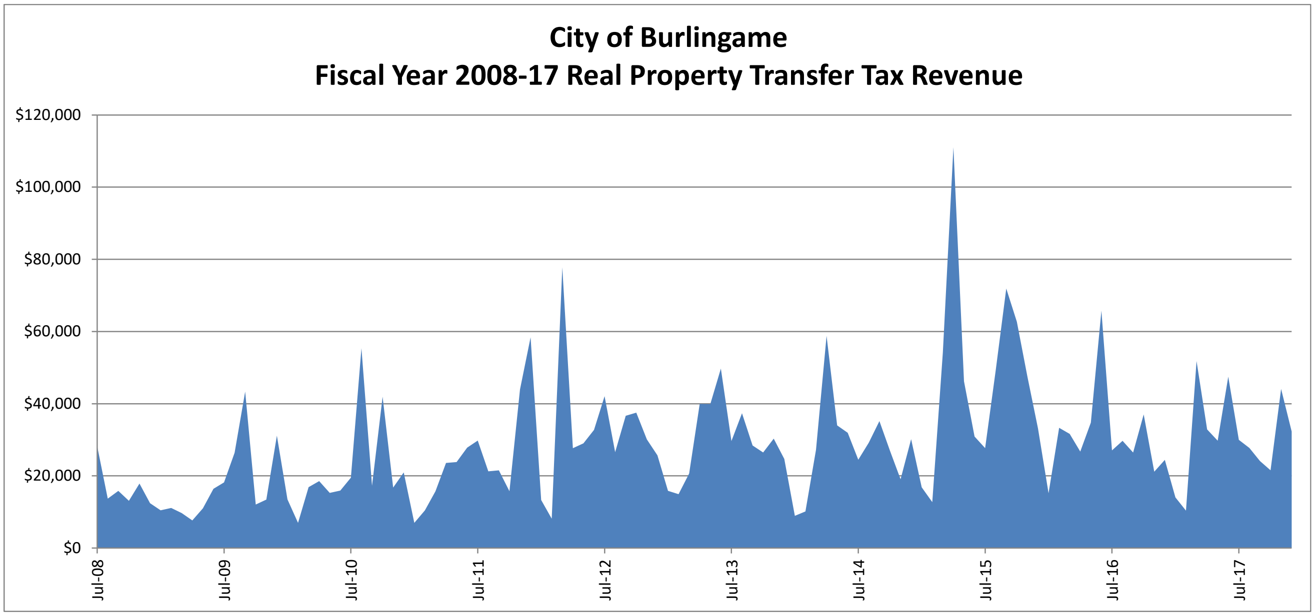


Other Taxes – A number of other sources provide tax revenues to the City's General Fund. Although they are consolidated for reporting purposes, prior year actual amounts and the current year activity for each source have been reviewed for the most accurate projection of FY 2017-18 year-end results.

Real Property Transfer Tax revenues returned to a more normal range in fiscal year 2016-17, after experiencing a number of large property sales in the prior two fiscal years. The City receives property transfer tax revenue the month following a real property transaction, splitting the 0.11 percent tax evenly with the County. Although improved home values have pushed these receipts higher with the recovering economy, property turnover in the area continues to be relatively low.



Month to month variation in real estate sales (reflected in the chart below) makes this revenue difficult to project. Although current year receipts are slightly stronger than experienced last year, no change is recommended to the budgeted revenue projection for property transfer tax.



Year-to-date ***Business License Tax*** revenues are coming in at a slightly higher rate than last year. This includes the special business license tax (5 percent of revenues) assessed on airport parking enterprises, which comprises over 40 percent of this revenue line item. The budget of $994,000 for the current fiscal year represents a 2.1 percent increase over the 2016-17 fiscal year results for business license revenues. While a higher volume of licenses might be expected in an improving economy, the cost of an annual business license in Burlingame is small ($100 for most businesses). Unless airport parking enterprises experience a significant change in operations, this remains a relatively small and somewhat fixed revenue source. Staff believes that the budgeted amount is on target for this fiscal year.

The largest category of Burlingame's ***Franchise Fees*** is derived from the regional garbage hauler (8 percent of revenues), and is collected and remitted monthly. An $18,000 increase is indicated for garbage franchise fee; although rates remain unchanged from the prior year, service account volumes have increased. Franchise fees for the provision of gas and electric utilities were slightly over the estimated budgets in the prior fiscal year. Although the City does not receive these revenues until April, there is no indication that the current year's revenues will deviate significantly, so only minor budget adjustments are necessary. Likewise, staff proposes an upward adjustment for cable franchise fee revenues, as these came in ahead of budget last year, and current fiscal year receipts remain strong. This increase will be offset by a continued decline in demand for video services, and the associated franchise fee revenues.

Franchise Taxes			FY2017-18		
Description	2015-16 Actuals	2016-17 Actuals	2017-18 Adopted Budget	Midyear Projection	Midyear Amendment
Gas	$ 109,866	$ 114,755	$ 111,000	$ 115,000	$ 4,000
Electric	228,920	240,826	224,000	242,000	18,000
Garbage	699,539	715,184	724,000	742,000	18,000
Cable TV & Wave Astound	462,098	473,988	469,000	483,000	14,000
AT&T Video Service	104,336	88,550	102,000	87,000	(15,000)
Total	**$ 1,604,758**	**$ 1,633,303**	**$ 1,630,000**	**$ 1,669,000**	**$ 39,000**

Licenses and Permits – General Fund revenue in this category, consists largely of alarm and overnight parking permit fees, along with taxicab licenses. Last year, this revenue source increased only slightly compared to the previous year. With a budget of $88,500, these receipts account for a very small part of total General Fund revenues. Only slight adjustments are recommended to the various line items that comprise this revenue source, based on year-to-date activity.

Fines, Forfeitures and Penalties – This category consists largely of revenue from parking citations and vehicle code violation fines. The Police Department has refined their projections to reflect a slightly higher volume of parking citations ($23,500) and fewer than anticipated vehicle code violations ($19,000). Also, code enforcement violations were projected at a minimal amount, and can be increased (based on year-to-date activity) by $4,700.

Investment Income – Yields on municipal portfolios dropped steadily following the 2008 market downturn. Over recent years, the Federal Reserve has implemented monetary policies to keep credit affordable and inflation in check to help the economy recover from the recent recession. Similar to other cities, Burlingame invests in only the safest of securities (the highest priority of the City's investment policy is preservation of capital), and yields have continued to hover at historic lows for such investments.

Maintaining its focus on safety and liquidity, the City transferred $10 million from LAIF during the first quarter of fiscal year 2017-18 to invest in a similar vehicle, CAMP (California Asset Management Program). CAMP is a California Joint Powers Authority established in 1989. The CAMP pool is similar to LAIF, and is a permitted investment for all local agencies under the California Government Code §53601(p). Although both pools have similar terms and offer daily liquidity, many public agencies use both LAIF and CAMP funds in order to diversify the liquid portion of their investment holdings. Currently, CAMP offers a slight yield advantage (an incremental 0.07 percent).

In this midyear report, staff takes the opportunity to adjust the budget for interest income projections. Income from the City's investment holdings has always been difficult to forecast due to the requirement to "mark-to-market" the portfolio at each year end. As shown in the chart below, the change in market value has a significant impact on the reported earnings of the portfolio – a yield to maturity at cost on the main portfolio of securities was 1.81% as of December 31, 2017, compared to a "total return" of 1.14 percent when the change in the portfolio value is included.

Main Portfolio Earnings Analysis
As of December 31, 2017

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Past Year
Interest Earned	401,871	426,821	422,433	444,160	1,695,284
+ Change in Value	4,329	58,831	-80,861	-699,083	-716,783
= Portfolio Earnings	406,200	485,652	341,572	-254,923	978,501
Total Return %	**0.49%**	**0.55%**	**0.37%**	**-0.26%**	**1.14%**
Quarter-over-Quarter Change in 2-Year U.S. Treasury Yield	***+0.07%***	***+0.12%***	***+0.11%***	***+0.40%***	**-**

Notes:

- *Performance on trade-date basis, gross (i.e., before fees) in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).*
- *Quarterly returns are presented on an unannualized basis.*
- *May not sum to total due to rounding.*

In this and future fiscal years, staff recommends that the budget reflect investment income *with the mark-to-market adjustment removed* for all funds. Such treatment recognizes that the City typically holds its investments to maturity, and removes the uncertainty of the market place from the City's revenue forecasts. Therefore, "actual" interest income received in the prior year has been restated to reflect earnings unadjusted for market value as of June 30, 2017, and budgets have been established to reflect interest earning prior to the market adjustment at year end. Budgets established for the current year were inflated by earnings of prior years and should be reduced to earnings anticipated on a regular accrual basis.

The City has contracts with PFM Asset Management, LLC. for outside investment advisory services. PFM assists in the annual review of the City's ongoing cash flows and investment goals, and recommends any appropriate revisions in the investment policy. The managed portfolio's benchmark is the Bank of America Merrill Lynch 1-5 Year U.S. Treasury Index, with a duration of 2.59 years. The market value of the portfolio as of December 31, 2017, was $155.4 million, consisting of a $102.7 million managed pool of top-rated securities, $38.7 million in the State Local Agency Investment Fund (LAIF), and $14.0 million California Asset Management. The City's aggregate investments (including the very liquid investments in LAIF and CAMP) State and County investment pools) averaged a yield to maturity of 1.6 percent.

This aggregate yield to maturity on the City's investments compares favorably with the 1.11 percent reported in last year's mid-year analysis. The Local Agency Investment Fund (LAIF), which holds the majority of the City's idle cash, is yielding 1.239 percent, up from 0.719 percent one year ago (as of December 31st). Revenues from the City's investments are therefore anticipated to be higher than in the prior fiscal year in total. However, it would not be prudent to include an assumption about the year-end "mark-to-market" adjustment in forecasting this revenue. Actual income earnings are allocated out to other City funds based on average cash balance throughout the fiscal year. As cash balances vary from year to year within the different funds, interest earnings by fund are difficult to project. Of the total interest earnings now projected for the 2017-18 fiscal year, $840,000 is projected to be General Fund interest revenue. Staff has proposed adjustments to the interest revenue budgets in all funds (page 15 of this staff report) that will be credited with any material interest earnings in FY 2017-18. These mid-year adjustments will provide a more accurate projection of interest earnings to the various funds for future budgets.

State Subventions (Intergovernmental revenues) – Through various pieces of legislation and propositions, the State of California is required to reimburse local agencies for their costs when the State mandates that the agencies provide a new program or higher level of service. This reimbursement process is known as mandated cost claiming. Over the years, many of these state mandates have been suspended to save the state money, and receipts for prior claims were so erratic that they are no longer included in the City's budget. Other State subvention programs, such as the COPS and transportation funds allocated to cities through C/CAG, are more consistent, and make up the majority of this $250,000 budget.

Receipts of State Motor Vehicle License Fees (VLF) totaled $13,300 in FY 2016-17. Following the 2011 State Budget Act, which stripped most remaining VLF allocations from cities, revenues from this source are not significant and always uncertain. Thus, the City is no longer budgeting this revenue. However, barring major changes in this state allocation, the City can expect to receive $13,000 from this revenue source in the current fiscal year.

Charges for Services – As seen in the chart below, most departments generate some amount of receipts in this revenue category. With a budget of over $5.2 million, these receipts account for approximately 7.3 percent of Burlingame's total General Fund revenues.

CITY OF BURLINGAME, CA
CHARGES FOR SERVICES BY DEPARTMENT

Department	FY15-16 Actuals	FY16-17 Actuals	FY17-18 Current Budget	FY17-18 Midyear Projection	FY17-18 Midyear Amendment	Year-End Up (Down) %
Police	$ 59,456	$ 91,258	$ 66,500	$ 90,250	$ 23,750	35.7%
Parks	148,572	153,036	158,000	167,000	9,000	5.7%
Recreation	2,637,496	2,827,667	2,962,000	2,970,125	8,125	0.3%
Aquatics	0	233,198	130,000	247,000	117,000	90.0%
Planning	577,413	875,485	657,200	536,500	(120,700)	-18.4%
Public Works	421,996	1,192,274	500,300	582,600	82,300	16.5%
Library	619,507	640,982	779,000	732,500	(46,500)	-6.0%
Other	5,834	9,453	4,500	11,800	7,300	162.2%
Total, Departmental Fees	**$ 4,470,274**	**$ 6,023,353**	**$ 5,257,500**	**$ 5,337,775**	**$ 80,275**	**1.5%**

General Fund revenues in this category increased considerably in FY 2016-17 compared to the previous year due largely to one-time fees for Public Works services. Several larger projects of higher structural complexity progressed through the development process. In fact, one of the projects called for special encroachment permits for subsurface shoring systems, a permit for which a fee was first established in the FY 2016-17 Master Fee Schedule. Because the department has experienced an unanticipated increase in plan check services volume in the current fiscal year, the mid-year estimate for these services provides for a $59,300 revenue increase. In addition, it appears that other public works fees for services will be $28,000 higher than initially anticipated; a slight decrease ($5,000) is expected in state highway maintenance fees.

The Municipal Code authorizes staff to inspect industrial and commercial facilities for storm water discharge compliance as required under the Municipal Regional Stormwater NPDES Permit (MRP). The County's Environmental Health Services Division has conducted these inspections on behalf of the City since 1996, but due to budget cuts, these services have been eliminated as of December 31, 2017. In order to maintain compliance, City staff will conduct these inspections (anticipated to average 400 inspections annually) or have them conducted by an outside consultant. A new fee to cover the cost of these inspections will be proposed for the 2018-19 Master Fee Schedule.

Receipts from recreational services in fiscal year 2016-17 were 7.2 percent above that experienced in the prior fiscal year, indicating a continued demand for recreational offerings. Minor adjustments are recommended to Recreation revenue projections due to mid-year program changes: The Serve 'n Splash Park revenue ($40,000) will not be realized due to closure of the pool; a deck replacement will keep the pool closed during the summer months. A new event for the department (Muddy Mile) was planned after the fiscal year began, and provided revenues of $8,125. And registrations in after-school enrichment programs were higher than anticipated, allowing for an upward adjustment in revenues of $40,000. Projected revenue for the Aquatics program is $117,000 higher – the amount was underestimated at the beginning of the fiscal year, but a recent change in the billing cycle for this reimbursement from the Burlingame Aquatic Club allows for a more accurate estimate for the year-end revenue.

Revenue will remain generally as budgeted for Parks. A small increase of $9,000 in Parks Special Services is supported by validated organization enrollment numbers for field use.

While the volume of development remains fairly high, activity levels have subsided from the very high pace of the last two years. Revenues from development fees are running lower than initially projected for the fiscal year, and a downward adjustment for both Zoning/Sign Plan Checking ($35,700) and other Planning Fees ($85,000) is indicated.

The revenue projection for Police Services should be adjusted $23,750 upward due to a review of all fees and volumes for services in the department. The revision is comprised of a range of small ($2,000-7,500) increase across five service revenues that include false alarm charges, special police services and vehicle release fees.

The FY 2017-18 Burlingame Library budget included revenues from the opening of a Passport Intake Office. Since the opening of this office last year, volumes for the services offered have been lower than anticipated. The $60,000 revenue projection for the current year needs to be adjusted downward to $30,000. Other library service fee revenues came in slightly below budget last year, and a minor decrease ($4,500) in the current year budget is indicated for this revenue.

In addition, remuneration for the provision of library services to the Town of Hillsborough is calculated after each year-end and based on average per-capita costs (within Peninsula Library System budgets) applied to two-thirds of the population of Hillsborough. The new projection is less than originally estimated by $12,000. This downward adjustment is also reflected in the attached FY 2017-18 mid-year budget amendment.

The Finance Department receives an administrative fee from the San Mateo County Convention and Visitors Bureau of $9,300 for the processing of the Tourism Business Improvement District. The charge was calculated to cover the cost of processing receipts from all participants/hotels of the district other than those located in Burlingame. The amount of the fee was updated for fiscal year 2016-17, but the budget did not report the revision. Therefore, an increase in this line item of $5,300 is indicated. In addition, the City Clerk’s Office received $2,000 in filing fee revenue early in the fiscal year, and an adjustment should be made for this unbudgeted amount.

Other Revenues – The City receives other miscellaneous revenues from time to time. The budget for these miscellaneous revenues (unclaimed property from the State, rebates, miscellaneous reimbursements, and refunds of prior-year expenses, etc.). Such amounts average about $30,000 annually, and there is no indication that this revenue category will need adjustment in the current fiscal year.

City of Burlingame
FY 2017-18 Mid-year Report
Attachment B – General Fund Expenditures

The following table shows the FY 2017-18 mid-year assessment of departmental (operating) General Fund expenditures:

CITY OF BURLINGAME, CA
SUMMARY OF GENERAL FUND EXPENDITURES

Description	FY15-16 Actuals	FY16-17 Actuals	FY17-18 Adopted Budget	FY17-18 Midyear Projection	FY17-18 Midyear Amendment	Year-End Up (Down) %
General Gov't (Admin Svcs)	$ 4,477,401	$ 4,874,249	$ 5,799,089	$ 5,819,089	$ 20,000	0.3%
Public Safety						
Central County Fire (Burlingame)	10,966,697	10,761,242	10,851,669	10,851,669	-	0.0%
Police & Dispatch	13,658,374	14,791,117	16,085,500	16,182,100	96,600	0.6%
Public Works	4,693,548	4,456,522	5,958,029	6,322,129	364,100	6.1%
Community Development - Planning	1,405,794	1,530,975	1,836,358	1,861,358	25,000	1.4%
Leisure & Cultural Services						
Aquatic Center	336,689	419,971	510,500	510,500	-	0.0%
Library	4,385,376	4,710,029	5,190,727	5,181,277	(9,450)	-0.2%
Parks & Recreation	7,535,581	8,163,375	9,333,386	9,408,719	75,333	0.8%
Total Expenditures	**$ 47,459,460**	**$ 49,707,480**	**$ 55,565,258**	**$ 56,136,841**	**$ 571,583**	**1.0%**

Although many of the proposed mid-year budget amendments are off-set within each department or division, they are described in detail below to illustrate changes in operations that were not anticipated at the time the FY 2017-18 budget was adopted.

CITY OF BURLINGAME, CA
SUMMARY OF GENERAL FUND EXPENDITURES

By General Fund Categories	FY15-16 Actuals	FY16-17 Actuals	FY17-18 Adopted Budget	FY17-18 Midyear Projection	FY17-18 Midyear Amendment	Year-End Up (Down) %
Salaries & Wages	$ 15,469,014	$ 16,689,110	$ 18,331,083	$ 18,354,484	$23,401	0.1%
Benefits	8,767,936	9,065,562	10,630,483	10,705,483	75,000	0.7%
Operating Costs	19,920,557	20,266,011	22,270,115	22,743,297	473,182	2.1%
Internal Services	3,247,960	3,587,253	4,124,377	4,124,377	0	0.0%
Capital Outlay	53,993	99,544	209,200	209,200	0	0.0%
Total Expenditures	**$47,459,460**	**$49,707,480**	**$55,565,258**	**$56,136,841**	**$571,583**	**1.0%**

General Fund Personnel Costs

The challenge of any public sector agency is to provide competitive salary and benefit packages in order to recruit and retain quality talent, while keeping the cost of providing these packages at a reasonable and sustainable level. Negotiated or imposed contracts in years since the recession have resulted in significant savings and have assisted in achieving structural benefit changes that will help control future employee benefit costs. For example, Burlingame employees are now paying a portion of the employer's retirement rate in addition to the employees' rate, as well as a larger portion of their health care premiums. Retiree medical benefits have been significantly reduced for new hires, and provisions for the payout of sick leave hours have been curtailed. Although many of these savings are evident in recent-year budgets, the savings from some of these actions will not be realized in full for many years. In the current more favorable economic environment, compensation increases are anticipated to keep up with cost-of-living indexes. But the costs of prior-year pension obligations are anticipated to grow significantly in the next five years, and these changes will put added pressure on personnel costs beginning with the upcoming FY 2018-19 budget.

Because personnel budgets are based on full occupancy (no vacancies) of permanent positions, budgetary savings will occur in most every department. However, personnel cost savings due to vacancies are difficult to estimate and vary by departments and programs, so no budget adjustments have been made on a City-wide basis.

It should also be noted that most health plan rates were increased effective January 1, 2018; the increases ranged from -15.3 to +22.6 percent, depending on the plan, with an average of 2.3 percent across all plans. However, because the overall premium increase in the plans used most by the City's current employees was minimal, no adjustment is being made to the departmental budgets to cover the impact of these rate changes for the last half of the current fiscal year.

Note that personnel costs (and total operating expenditures) for the General Fund have (since FY 2014-15) included contributions to the irrevocable trust fund established in October 2013 for the purpose of funding the City's retiree medical benefit obligations (OPEB). The full costs of these past and current obligations are now reflected in the departmental budgets. As best practices would dictate, the City is committed to contributing the annual required contribution to the trust fund in both good and bad financial times, using conservative, realistic assumptions that are adjusted based on bi-annual actuarial reports specific to the City's program and its participants. Unlike pension liabilities, the City's OPEB is a closed program and less susceptible to volatile swings in annual contributions.

General Fund Appropriation Adjustments

Total General Fund expenditures increased 6.0 percent in the FY 2017-18 budget (not including contributions to the new pension trust fund) as compared with the prior year's adjusted budget. The increase in the operating budget is largely due to strategic increases in City-wide FTE (full time equivalent) staff positions and personnel hours needed to carry out the City's priorities. A very minor increase in the operating expenditures budget ($572,000) is recommended for the FY 2017-18 General Fund appropriations, largely due to unanticipated operational needs as described by department, below.

Administrative Services – The budget for this group of departments supplies the resources that support services often referred to as "general government" activities. Although each department is bound by a separate budget, recommended adjustments are fairly minor, and they are combined in this report to give an overall context to the administrative costs of the City.

Anticipating a key vacancy in **Finance**, management sought to add interim consultant resources to assist the department in advancing several key initiatives. The additional contract services, initiated during the recruitment process for a new Deputy Finance Director, was intended to support staff during the mid-year analyses and development of the FY2018-19 budget. The consultant will also assist in recommending improvements to the city's existing chart of accounts in preparation for a new ERP implementation in the 2018-19 fiscal year.

An adjustment is also proposed to allow for a change in the **City Council**'s Meeting, Conference and Travel Expense Policy. As discussed at their November 20, 2017 meeting, each Council member is appropriated a $3,000 budget (plus an additional $1,000 for the Mayor) annually. In addition, this budget contains adequate funding for the Commissioners dinner and certain other annual regional meetings and functions. The overall estimated increase in this budget line item is $5,000.

Police – Early this fiscal year, the Police Department purchased body-worn camera equipment for all police officers. Additional equipment was then requested that had not been anticipated in the original purchase. Specifically, the Council approved the purchase of additional holster signal units (sidearm units) for the body worn cameras, in order to assist the officers with operating the cameras more efficiently in the field. Staff recommended that Parking Enforcement Officers also be equipped with body-worn cameras. In addition, an interface program that allows for the direct download of camera footage was procured. These additions to the contract cost $21,600 more than the initial procurement included in the adopted budget. A budget amendment to increase overtime, with an offsetting decrease in regular salaries ($100,000), is also proposed. This cost-neutral amendment will allow the department to manage the impact of two unanticipated vacancies (a disability retirement and a resignation) coupled with several long-term injuries within the force.

The benefits budget in the Police Department should be increased by $75,000 to fund the approximate amount of final payouts due to the retirements in the current fiscal year. Although the total liability for compensatory leave balances earned by employees is reported in the City-wide financial statements, departmental budgets only provide for the compensatory time expected to be earned by each employee during the fiscal year. The adjustment does not reflect higher expenses of the department, only increased disbursement of benefits previously earned.

Offsetting revisions in the budget (an increase in the overtime budget and a decrease in the need for par-time hours) is proposed for Police Communications. This revision between part-time salaries and over-time will more clearly reflect the true distribution of overtime shifts among dispatchers for future budgets. In addition, a reallocation of funding currently budgeted for equipment maintenance ($7,900) to increase the budget for contractual services will ensure a more accurate reflection of anticipated costs in providing dispatch services.

Parks and Recreation – Several small adjustments are recommended to the 2017-18 fiscal year budget for the **Parks Division.** Increased funding is needed for the Broadway Downtown area: the removal of existing pots, removal/replacement of trees, the addition of ground cover to bulb outs and corners, adjustments/improvements in the utility boxes and irrigation control system, among other maintenance activities approved by the City Council in November will require an additional $50,000 in the Parks budget for supplies and materials. A budget increase of $9,000 for part-time salaries in the division will allow for additional trash pickup in the area on Monday mornings. Additional funding is also proposed to cover increased expenses ($5,500) to the division for the Muddy Mile event (planned after the fiscal year began), and to supply dispensaries and bags ($2,500) to encourage proper disposal of dog waste along Burlingame Avenue.

Although the **Recreation Division** will be unable to offer five weeks of the Serve ‘n Splash program due to the pool closure (saving $15,000 of anticipated contractual expenses), an increase in class offerings for after-school enrichment programs will increase contractor costs by $26,890. A budget addition of $13,833 in contractual services is requested for funding Fung Collaboratives for phases 2 and 3 of the Burlingame Community Public Art initiative. Savings totaling $17,390 in the department exist in several operating cost areas due to the under-budget completion of certain programs (specifically teen trips and Throwback Thursdays), thus minimizing additional appropriation needs within the department.

Library – A decrease in the budget for part-time salaries ($9,450) is proposed to offset a request for additional janitorial activities, provided by the Facilities Service Internal Service Fund, for the Main Library. These additional services, formerly tasked to a part-time employee, are not adequately covered in the current city-wide janitorial contract. The need should be resolved in the upcoming fiscal year, as these services will be included in the scope of the new janitorial contract.

Community Development Department – Adjustments are recommended for both part-time salaries ($15,000) and overtime ($10,000) within the Community Development Department: The workload of the Planning Division has increased and maintained a level that has required additional hours by clerical staff to assist with packet preparation and distribution, and noticing for public hearing before the Planning Commission.

Public Works – A budget amendment is proposed to correct the accounting for the storm drain fees, associated with school district properties, which are subsidized by the General Fund. As described earlier in the report, the Storm Drainage Fund revenues have not been adequately credited for these fees, which were intended to be funded in the **Streets and Storm Drainage Division**, for several years. Additional funds are needed to correct prior year Storm Drainage fee revenues ($43,085 in 2015-16 and $43,948 in 2016-17). In the current fiscal year, the General Fund’s Streets and Storm Drainage budget is short approximately $20,000 of the fees associated with the school properties ($44,829).

Other adjustments are recommended to more accurately reflect the needs of operations within the division. Much of the additional maintenance work and improvements for the Broadway Business District as outlined in the October 20, 2017 staff report on the subject (excerpt below) has been initiated and is expected to require approximately $243,000 in the current fiscal year.

Public Works Improvements:

Work Description	**Estimated Costs**
Re-caulk all sidewalk expansion joints for an approximate length of 1400 feet between El Camino Real and California Drive	$145,000
Re-caulk failed expansion joints at concrete benches located at several intersections in the Business District	$60,000
Increase power washing of the entire sidewalk between El Camino Real and California Drive from twice a year to four times a year in addition to performing regular ongoing cleaning activities	$40,000
Replace eight existing garbage cans with new recycle/garbage combo units	$15,000
Refurbish an additional 25 garbage cans by powder coating	$10,000
Re-paint the 12 small green fences at intersections	$8,000
Total	**$278,000**

And finally, an additional $14,100 is required to provide sufficient funding for payment of the State Water Resources Control Board permit for the storm water system. The fee was previously charged to the Waste Water Treatment Plant Budget, but is more appropriately a General Fund expense.

City of Burlingame
FY 2017-18 Mid-year Report
Attachment C – General Fund Five-Year Forecast

Revenue Categories	*(Revised) Budget 2017-18*	*Forecast 2018-19*	*Forecast 2019-20*	*Forecast 2020-21*	*Forecast 2021-22*	*Forecast 2022-23*
Property Tax	$ 20,150,000	$ 20,403,000	$ 21,552,000	$ 22,830,000	$ 24,120,000	$ 25,499,000
Sales Tax	12,205,000	12,561,000	12,759,000	12,963,000	13,170,000	13,381,000
Transient Occupancy Tax	27,400,000	27,948,000	27,948,000	28,227,000	28,510,000	28,795,000
Other Taxes - Franchise Tax	1,669,000	1,686,000	1,703,000	1,754,000	1,806,000	1,860,000
Other Taxes - Business Licenses	994,000	998,000	1,002,000	1,024,000	1,047,000	1,051,000
Other Taxes - State HOPTR	62,000	62,000	62,000	62,000	62,000	62,000
Other Taxes - Transfer Tax	360,000	360,000	369,000	378,000	388,000	397,000
Licenses & Permits	88,000	88,000	89,000	89,000	90,000	90,000
Fines, Forfeitures & Penalties	910,700	911,000	920,000	929,000	938,000	948,000
Use of Money & Property	165,000	169,000	173,000	178,000	182,000	187,000
Charges for Services	5,337,775	5,445,000	5,581,000	5,720,000	5,863,000	6,010,000
Other Revenue	30,500	31,000	31,000	31,000	31,000	31,000
State Subventions	251,216	234,000	234,000	234,000	234,000	234,000
Interest Income	840,000	1,260,000	1,386,000	1,525,000	1,677,000	1,845,000
Total Revenues	**$ 70,463,191**	**$ 72,156,000**	**$ 73,809,000**	**$ 75,944,000**	**$ 78,118,000**	**$ 80,390,000**
Expenditure Categories						
Salaries & Wages	(18,354,484)	(19,016,000)	(19,735,000)	(20,434,000)	(21,105,000)	(21,760,000)
Benefits	(10,705,483)	(11,334,000)	(12,430,000)	(13,427,000)	(14,362,000)	(15,215,000)
Operating Costs	(22,743,297)	(23,747,900)	(24,812,300)	(25,919,700)	(27,074,100)	(28,278,100)
Internal Services	(4,124,377)	(4,248,100)	(4,375,600)	(4,506,800)	(4,642,000)	(4,781,300)
Capital Outlay	(209,200)	(215,500)	(221,900)	(228,600)	(235,500)	(242,500)
Total Expenditures	**(56,136,841)**	**(58,561,500)**	**(61,574,800)**	**(64,516,100)**	**(67,418,600)**	**(70,276,900)**
Operating Revenue	14,326,350	13,594,500	12,234,200	11,427,900	10,699,400	10,113,100
Transfers In (Out)	(5,984,011)	(6,062,600)	(5,893,100)	(6,027,200)	(6,166,600)	(6,306,300)
Capital Investment Reserve	(3,000,000)	(2,000,000)	(2,000,000)	(2,000,000)	(2,000,000)	(2,000,000)
Debt Service	(3,277,833)	(2,112,000)	(2,128,000)	(2,143,000)	(1,770,000)	(1,786,000)
Change in Fund Balance before Adjustments	**$ 2,064,506**	**$ 3,419,900**	**$ 2,213,100**	**$ 1,257,700**	**$ 762,800**	**$ 20,800**
Adjustments						
Pension Trust 115	(3,139,920)	(2,833,000)	(2,264,000)	(1,741,000)	(1,285,000)	(895,000)
Change in Fund Balance after Adjustments	**$ (1,075,414)**	**$ 586,900**	**$ (50,900)**	**$ (483,300)**	**$ (522,200)**	**$ (874,200)**