THE CITY OF PLEASANTON

BUDGET ADVISORY COMMITTEE
REGULAR MEETING AGENDA

Thursday, January 16, 2025
6:00 PM

Pleasanton Library Meeting Room
400 Old Bernal Avenue
Pleasanton CA, 94566

Public participation: It is requested that members of the public wishing to address the Committee submit a speaker card. When the public comment period is opened on an agenda item, individuals may speak once per agenda item.

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1. Call to Order
   Roll Call

2. Introductions

3. Welcome by City Manager

4. General Public Comment – Comments are limited to items not listed on the agenda.

5. Budget Advisory Committee (BAC) Purpose and Scope

6. BAC Participation Guidelines
   a. Attachment 1 – Budget Advisory Committee Participation Guidelines

7. Review and Recap of January 9, 2025 Budget Workshop

8. Review of General Fund Budget and Department Operating Budgets
   a. Attachment 2 – Budget Advisory Committee Orientation Materials

9. Future Meeting Dates and Budget Engagement Calendar

10. Adjournment
    Next meeting date: February 13, 2025
    Pleasanton Library Meeting Room, 400 Old Bernal Avenue

Accessible Public Meetings

The City of Pleasanton will provide special assistance for citizens with disabilities to participate in public meetings upon advance notice. If you need an auxiliary hearing aid or sign language assistance at least two working days advanced notice is necessary. Please contact the Office of the City Clerk 123 Main Street, Pleasanton, CA 94566, or (925) 931-5027.

Budget Advisory Committee Participation Guidelines

1. Purpose and Focus

- **Stay on Mission**: Focus on the City's budget goals and priorities when discussing or making recommendations.
- **Serve the Community**: Make recommendations that reflect the needs and interests of the entire community

2. Meeting Conduct

- **Respect Others**: Treat fellow members, staff, and the public with respect, even when you disagree.
- **Share the Floor**: Ensure everyone has an equal chance to speak and share their ideas.
- **Stay Civil**: Avoid personal attacks, inappropriate language, or disruptive behavior.
- **Stick to the Agenda**: Only discuss topics listed on the posted agenda to comply with legal requirements.

3. Communication

- **Be Transparent**: All discussions, decisions, and materials must be shared openly with the public.
- **Listen First**: Pay attention to others' ideas and viewpoints before responding.
- **No Interrupting**: Let others finish speaking before you start.
- **Avoid Private Discussions:** Do not discuss committee business through private messages, emails, or calls with other members outside of meetings.

4. Decision-Making

- **Base It on Facts**: Make recommendations that rely on data, facts, and the needs of the community.
- **Work Through Disagreements**: Address conflicts in a constructive way and aim for common ground.
- **Vote Publicly:** All decisions, including votes, must happen during open meetings.
- **Declare Conflicts:** Let the group know if you have a conflict of interest and step back from related discussions or votes.

5. Accountability

- **Attend Meetings**: Attend all meetings or notify staff if you cannot make it. Consistent attendance is expected.
- **Be Prepared**: Read all agenda materials in advance to contribute to discussions effectively.
- **Follow the Rules**: Meetings must follow the Brown Act, ensuring openness and transparency.

6. Inclusivity

- **Welcome All Voices**: Respect and value the different perspectives and experiences that each member brings to the table.
- **Ensure Accessibility**: Make sure meetings and materials are accessible to everyone, including people with disabilities, by providing accommodations like interpreters or closed captioning when needed.

7. Public Engagement

- **Include the Public**: Allow time for public comments during meetings and consider their input in your decisions.
- **Be Transparent**: Agendas must be posted 72 hours before regular meetings and meeting minutes must be shared with the public.

Attachment 2

Budget Advisory Committee Orientation Materials

<u>Reading Materials</u>

1. **City Council's Adopted Biennial Budget FY 2023-25**
    a. The adopted budget is accessible through the following link: https://www.cityofpleasantonca.gov/assets/our-government/finance-department/budget-overview/Budget%20Book%20FY23.24-24.25%2011.22.23.pdf

    b. Please review the following sections:
        i. Organization Chart (page 24/PDF page 32)
        ii. Budget Summary (pages 28-40)
        iii. Revenue, Expenditure and Fund Balance Summaries (pages 41-62)
        iv. History of Full-Time City Staffing (pages 63-64)
        v. Department Narratives and Budgets (pages 66-181)

2. **Thursday, January 9, 2025 – City Council Budget Workshop Packet**
    a. Attached - Exhibit A.

CITY COUNCIL **Exhibit A**
SPECIAL MEETING - WORKSHOP AGENDA

Thursday, January 9, 2025
5:30 PM

City Council Chamber
200 Old Bernal Avenue
Pleasanton, CA 94566

The meeting will be held in-person.
To submit written public comment regarding an open session item on this meeting agenda visit: https://forms.cityofpleasantonca.gov/f/writtenpubliccomment. Comments will be accepted by the City Clerk's Office until 12:00 p.m. on the day of the Council meeting.

In Person at Council Chamber:
- Submit a physical speaker card to the City Clerk at the meeting. When your name is called, please provide comment at the podium.

CALL TO ORDER
- Roll Call

PUBLIC COMMENT - Comments are limited to 3 minutes and to only those items listed on the agenda.

WORKSHOP

1. City Council Budget Workshop: Budget Update, Budget Principles and Key Financial Policies

ADJOURNMENT

Notice

Under Government Code §54957.5, any writings/documents regarding an open session item on this agenda and items received by the City Clerk's Office by 12:00 p.m. on the day of the meeting provided to a majority of the City Council after distribution of the agenda packet will be available for public inspection on the City's website https://www.cityofpleasantonca.gov/ and also at the Pleasanton Library located at 400 Old Bernal Ave., Pleasanton, CA 94566.

There is a 90-day limit for the filing of a challenge in the Superior Court to certain City administrative decisions and orders, which require a hearing by law, the receipt of evidence, and the exercise of discretion. The 90-day limit begins on the date the decision is final (Code of Civil Procedure § 1094.6). Further, if you challenge an action taken by the City Council in court, you may be limited, by California law, including but not limited to Government Code §65009, to raising only those issues you or someone else raised in the public hearing, or in written correspondence delivered to the City Council prior to or at the public hearing. The City Council may be requested to reconsider a decision if the request is made prior to the next City Council meeting, regardless of whether it is a regular or special meeting.

Accessible Public Meetings

The City of Pleasanton can provide special assistance for persons with disabilities to participate in public meetings. To make a request for a disability-related modification or accommodation (e.g., an assistive listening device), please contact the City Clerk's Office at 123 Main Street, Pleasanton, CA 94566 or (925) 931-5027 at the earliest possible time. If you need translation or interpretation assistance, please provide at least two working days' notice prior to the meeting date.

CITY COUNCIL AGENDA REPORT

January 9, 2025
Finance

TITLE: CITY COUNCIL BUDGET WORKSHOP: BUDGET UPDATE, BUDGET PRINCIPLES AND KEY FINANCIAL POLICIES

SUMMARY

The City operates on a two-year budget cycle. Prior to July 1 of every odd numbered year, the City Manager submits to the City Council a proposed two-year budget for the subsequent two fiscal years (the biennial budget). In preparation for the development of the fiscal years (FY) 2025/27 budget and upcoming meetings with the City Council, community, and/or Budget Advisory Committee (if the City Council chooses to establish), staff is providing a budget presentation at a January 9, 2025, City Council workshop. The objective of the workshop is to provide the City Council and the public with a high-level overview of the City's budget, financial challenges, budget principles, and key financial policies. Staff will also seek input from the City Council regarding the budget principles that will be used to guide the FY 2025/27 and future budget development. Among the topics that will be covered at the January 9 workshop are:

- Budgets and budget process
- Restricted vs. unrestricted funds/sources
- Financial challenges
- Infrastructure and state of good repair needs
- Reserves and pension and retiree medical trust funds
- Long-range financial planning and forecast assumptions
- Key financial policies
- Budget principles.

This workshop and presentation is a high-level introduction to the City's budget; there will be other opportunities for City Council and community input as the City develops the FY 2025/27 budget. A budget development timeline and calendar will be shared in a separate agenda item regarding the proposed budget engagement plan on the January 9, 2025, City Council meeting agenda.

RECOMMENDATION

1. Receive a budget presentation, including budget principles and key financial policies
2. Provide feedback and approve high-level budget principles

BACKGROUND

The City is confronting significant fiscal challenges, which have been presented to the City Council and the public over the past 20 months.

Long-Range Financial Forecast Model

In 2023, staff began to develop and share the City's first detailed long-term financial forecast model. Forecasting is a critical component of any prudent financial management practice, as it provides insight into the organization's future financial state and allows for proactive planning and development of fiscal strategies to address potential issues on the horizon. As the comprehensive financial forecast model was finalized, staff updated the forecast to reflect capital and deferred maintenance needs. Staff developed and presented two long-range financial forecast scenarios, normal and recession, and both scenarios showed the City facing an ongoing, structural budget gap.

At the March 19, 2024, City Council meeting, staff presented the assumptions that were used to develop the General Fund long-term forecast and discussed alternative forecast scenarios. At that meeting, staff also solicited direction regarding proposed reductions to discretionary funding as part of a cost containment strategy (see the City Council Agenda Packet from March 19, 2024, at the link https://pleasantonca.portal.civicclerk.com/event/135/files/report/243).

Projected General Fund Structural Deficit
The City's biennial budget includes revenue and expenditure projections and consists of two primary components: the Operating Budget and the Capital Budget. The General Fund is the City's primary unrestricted operating fund and accounts for more than 60 percent of the Citywide operating budget. The current fiscal year General Fund budget is about $154.0 million, excluding transfers to other funds.

Forecasts show the City faces significant fiscal challenges in both the operating and capital budgets. The forecasted General Fund structural deficit averages $13 million annually over the next eight years, starting in FY 2025/26, rising to approximately $22 million in a potential recession scenario. This includes insufficient revenue to cover all funding needs and insufficient funding for many program areas.

Factors contributing to this deficit include, but are not limited to, slowing real estate development activity, declining retail sales activity including at the Stoneridge Shopping Center, increasing insurance, utility and other operating costs, as well as the growing number of unfunded mandates from the State (e.g., housing element, housing annual progress report, SB 1383 waste and organics recycling, concealed weapon permitting, reporting on police annual activities, water). The City lost more than $12 million in revenue during and post-pandemic, and revenue has not rebounded to the pre-pandemic level. COVID-era federal assistance programs, such as American Rescue Plan Act (ARPA) stimulus funds, are no longer available. In addition, rising personnel costs, including pensions, competitive salaries, and benefits continue to be a major cost driver, and the City must address over $200 million in unfunded retiree medical and pension liabilities.

State Auditor's Report and Prior Indications of Financial Challenges
While the recent pandemic exacerbated the City's financial challenges, there were indications of the City's financial challenges prior to the pandemic. For example, the State Auditor's Office (SAO) monitored California cities' financial health for fiscal years 2016/17 through 2020/21 based on the information reported in cities' Annual Comprehensive Financial Reports (ACFR). The SAO used the following criteria to rank cities:

- **Financial Reserve:** Does the city have sufficient financial reserves to cover

unexpected costs or shortfalls in revenue?
- **Debt Burden:** How is the city's level of debt compared to its income?
- **Cash Position/Liquidity:** Is the city able to pay its bills in the coming fiscal year?
- **Revenue Trends:** Is the city's revenue going down over time?
- **Retirement Obligations:** Does the city have the ability to pay for retirement benefits it committed to its employees?

The SAO ranked more than 460 cities in the first four years and ranked more than 430 cities in the fifth year (fewer cities were included toward the end of this audit work due to reporting delays during the pandemic). Importantly, *lower ranking means higher financial risk.* As shown in the table below, the City's financial conditions deteriorated over the years; Pleasanton's financial stability ranking went from 150th for FY 2017/18 to 61st for FY 2020/21, or from the bottom 32% of California cities to the bottom 14%.

	Overall Rank					
Fiscal Year	Pleasanton	Danville	Dublin	Livermore	San Ramon	Number of Cities Ranked
FY 16/17	145	428	461	258	231	470+
FY 17/18	150	428	470	269	133	470+
FY 18/19	130	436	471	240	221	470+
FY 19/20	86	411	458	248	199	460+
FY 20/21	61	428	412	203	139	430+

Overall, Pleasanton ranked lower than the other four Tri-Valley cities. San Ramon had financial challenges, but through cost reductions and the recent voter approval of a 1% local sales tax increase in November 2024, it is in a much more stable financial position moving forward. Dublin and Livermore continue to be in a solid financial position with continued growth, and their investments in various areas, such as public infrastructure, help to improve the quality of life for their residents.

Due to other priorities, the SAO stopped ranking cities after 2022, following the rating of cities' FY 2020/21 financial reports.

Infrastructure Needs and Asset Management Planning
The City is also facing a significant infrastructure funding gap for maintaining and upgrading community assets such as streets, parks, and public facilities. The draft 10-year infrastructure plan, which is a high-level assessment of the City's infrastructure needs, was presented to the City Council at its March 21, 2023, meeting (see the City Council Agenda Packet from March 21, 2023, at the link https://weblink.cityofpleasantonca.gov/WebLink/0/doc/305411/Page1.aspx). That plan showed a gap of approximately $900 million for both General Fund and Enterprise Funds over 10 years. In recognition of this urgent need, in October 2023 the City Council adopted the 5-year citywide ONE Pleasanton Strategic Plan, which included as a top City Council Priority strategy C.2. *Investing in Our Environment* - Develop an Asset Management Plan to address comprehensive long-term planning for maintenance, renovation, repair and/or replacement of the infrastructure and public facilities to meet current and future needs. Work on the Asset Management Plan has been underway since last year, and staff is preparing an update on the plan to the City Council in early 2025.

Cost-Saving Actions Taken to Address the General Fund Deficit

In light of the City's financial challenges, the City Council directed staff to implement strategies to begin to address the identified issues with the General Fund, including reducing costs and identifying new revenue sources. The City Council approved $2.5 million in reductions from the current fiscal year's budget (see the City Council Agenda Packet from May 21, 2024, at the link https://pleasantonca.portal.civicclerk.com/event/137/files/agenda/354). Further reductions to the General Fund will necessitate continued community input and City Council approval, as additional changes/reductions will impact service levels, including fewer employees to do the work. Key actions already taken are described below.

1. Redirecting Capital Improvements Funds

   At the March 19, 2024, City Council meeting, the City Council defunded/deferred $18.9 million in General Fund-supported capital projects to fund critical storm drain projects resulting from the 2023 winter storms (see the City Council Agenda Packet from March 19, 2024, at the link https://pleasantonca.portal.civicclerk.com/event/135/files/agenda/231).

2. Limiting City Staffing Levels

   As a full-service organization, the City relies primarily on employees to deliver a range of municipal services. The number of budgeted General Fund positions has remained flat over the past five years. Multiple positions have been frozen, meaning the positions will be held vacant until funding can be identified.

3. Controlling Contract Service Costs and New Services and Programs

   The City has reduced costs associated with contract and professional services, including for technical support, communications, program/department strategic plans, system implementation, etc. In addition, City departments are not permitted to start new services and programs funded by the General Fund, which has stifled innovation and measures that could improve service levels (e.g., drone program for Police Department).

4. Delaying Projects and Purchases of Vehicles and Equipment

   Critical projects, such as Fire Station 2 (identified as a priority renovation/rebuild project over a decade ago) and other City facility renovations have been deferred (including the police gun training range and secure parking, HVAC projects, and many others). Purchases of non-essential vehicles and equipment have been delayed or have been downgraded, resulting in more costly maintenance bills and issues with regulatory agencies.

5. Reducing City Staff Travel and Training Budget

   The City's current Travel and Training Budget has been reduced by nearly 22% from the adopted fiscal year 2023/24 budget. About half (47%) of the total $538,000 annual training budget is assigned to public safety to meet required training and certifications. This budget also includes emergency operations training that ensures staff is prepared to respond during emergencies. The remaining travel and training budget ensures that City staff is trained and abreast of changing regulations and best practices to ensure compliance and high-quality service delivery to the community, as the City has a strong interest in maintaining a well-prepared and trained workforce. Pleasanton consistently pays salaries at the middle of the range for comparable cities (not at the high end of the range), and the City needs to be able to attract and retain high-quality employees to meet the needs and expectations of City leadership and the community.

6. Developing a Contingency (Reduction) Menu for Service Reductions

   In early 2024, staff presented a contingency menu to the City Council. The menu was developed to evaluate spending reductions *across the organization*. While no decisions were made, the menu provides an opportunity to see the kinds of reductions that will need to be considered to achieve a balanced budget. The menu was developed to include proposed reductions from every City department, leaving room for policy makers (elected officials) to guide and direct priorities as reductions are made (see the City Council Agenda Packet from May 21, 2024, at the link https://pleasantonca.portal.civicclerk.com/event/214/files/agenda/338).

New Revenue Strategies and Sales Tax Measure PP
In addition to reductions, the City has taken proactive steps to explore new revenue options heading into the next two-year budget, including:

1. Analyzing and Updating Fee Models (Development Impact Fees, User Fees, Credit Card Fees)

   The City studied potential adjustments to development impact fees (fees imposed on new developments), user fees for City facilities and services, and credit card processing fees. The City Council approved the revised fees in December (see the City Council Agenda Packet from December 17, 2024, at the link https://pleasantonca.portal.civicclerk.com/event/305/files/agenda/717). While development impact fees, which are restricted revenue sources, are used to fund housing and capital related projects that may indirectly reduce General Fund expenses, they will not come close to addressing the structural fiscal deficit.

2. Economic Development and Growth

   The City is continuing to support economic development efforts to bring new businesses and jobs to Pleasanton and expand the city's tax base. Highlights such as the new Costco will bring much-needed new tax revenue; it should be noted that the revenue from the store is already reflected in the long-term financial projection. However, the City cannot rely on growth alone to solve the ongoing structural fiscal deficit. For example, recent changes in the real estate market, including a notable slowing in office building occupancy and development and the potential for commercial building property tax reassessments, will be another setback for the City's budget. Also, development timelines can be lengthy and often unpredictable with environmental and procedural legal challenges, as illustrated by the Costco opening and development delays. The City's recently adopted 2023 Economic Development Strategic Plan (see link at https://www.cityofpleasantonca.gov/assets/our-government/economic-development/2023-economic-development-plan.pdf) includes goals around updating rules and regulations to further streamline the process. These changes will require significant staff time and financial resources, which unfortunately are not fully available at this time.

3. Revenue Measure –½ Cent Sales Tax (Measure PP)
The City's current sales tax rate is 10.25%, but only 1% comes to the City directly to support services and programs. The remainder goes to the State, County, and other taxing agencies such as BART. After extensive community engagement and a comprehensive evaluation of other revenue options (hotel tax, property transfer tax, general obligation bonds, utility users tax, assessment districts, etc.), in July 2024, the City Council voted to place Measure PP: Pleasanton Essential Services Protection Measure on the November 2024 ballot; the measure did not pass. If the measure had been successful, the City would have raised approximately $10 million per year in General Fund revenue, all of which would have stayed in Pleasanton and been locally controlled (see the City Council Agenda Packet from July 16, 2024, at the link https://pleasantonca.portal.civicclerk.com/event/139/files/agenda/469).

Prior Budget Update Presentation to City Council
On September 17, 2024, the City Council received an update on the state of the City's budget in preparation for the development of the next two-year budget (see the City Council Agenda Packet from September 17, 2024, at the link https://pleasantonca.portal.civicclerk.com/event/302/files/report/613).

This report expands upon and updates that report, with additional information to help the new councilmembers and the public understand the City's financial challenges and the decisions that lie ahead.

DISCUSSION
Budget Overview

Budgets and Budget Process

A budget is a financial plan that projects revenues and expenditures for a set period of time. The City's budget reflects the following:

- The strategic goals and values of the City Council and community
- Community priorities
- Operational needs
- Long-range financial plan.

The guidelines and standards issued by the Government Finance Officers Association (GFOA) and Governmental Accounting Standards Board (GASB) guide the development of the City's budget.

The City operates on a two-year budget cycle with each fiscal year beginning on July 1 and ending on June 30. In the second year of a two-year budget cycle, the City starts developing the budget for the next two fiscal years. As a full-service city, the City provides a wide range of services and programs to the community, for which it prepares an Operating Budget and a Capital Budget.

The Operating Budget focuses on essential City services such as police and fire, community services, community development, economic development, and sewer and water operations. Costs include personnel costs, annual facility/system operating costs and other operating expenses. These expenses are funded largely by tax revenues, fees and charges, interest income, intergovernmental funds and other smaller sources of revenue.

The Capital Budget focuses on the design, construction and maintenance of city infrastructure. The City develops a four-year Capital Improvement Program (CIP) to plan for these costs. Funds are assigned in the budget to cover the first two years of the plan and the remaining two years are presented for planning purposes. Capital investments are critical in building and maintaining infrastructure to support a livable, vibrant community. Once the City's Asset Management Plan has been developed, it will also help to guide the development of the CIP, especially related to capital improvements (to enhance the value of a property) versus repair and replacement.

The City's funds include the key categories described below. Special Revenue Funds and Enterprise Funds are restricted funds that cannot be used to support essential services such as public safety. Capital Projects Funds are also restricted funds unless the funding sources are from the General Fund. Internal Service Funds are designated for repair and replacement and employee benefits.

- **General Fund** – The City's primary unrestricted operating fund
- **Special Revenue Funds** – A fund used to collect money that must be used for specific purposes (e.g., housing impact fee, grants, special assessments, and donations)
- **Capital Projects Funds** – A fund that accounts for capital improvements (e.g., Measure BB, Gas Tax, and Transportation Impact Fee)
- **Enterprise Funds** – A self-supporting fund that sells goods and services for a fee/service charge (e.g., Water, Sewer, Golf, and Cemetery operations)
- **Internal Service Funds** – A fund used to track goods and services provided between departments and funds (e.g., building maintenance, vehicle replacement, and IT replacement).

For context, the size of the total City operating budget for FY 2024/25 is about $240.0 million, and the capital budget is about $57.0 million. The General Fund portion of the operating budget is approximately $154.0 million.

Please refer to the slides attached to this staff report regarding the City's revenue sources, restricted vs. unrestricted sources, cost of services, and capital financing. Reference materials related to the basics of municipal revenue, glossary of financial management terms, and financial management for elected officials are also attached to this staff report.

<u>City Budget Update</u>

As the City started to develop its FY 2023/24 and FY 2024/25 budgets in early 2023, financial challenges were identified in the operating and capital budgets. The City was lacking financial resources to fund priority community projects. As a result, in March 2024, the City Council approved the reallocation of over $8.0 million in General Fund funded projects to support higher priority capital projects. The operating budget, due to limited financial resources, also excluded/underfunded many program areas such as liability insurance and repair and replacement (facilities, parks, storm drain systems, etc.). The long-term financial forecast also indicates expense growth will outpace revenue growth (see the Long-range Financial Planning section of this report for more detail). In short, additional resources are needed to sustain City services and programs in the future and/or service levels will have to be reduced so that costs are not exceeding revenue on an ongoing basis. The following discussion sections outline the key areas for consideration in developing the next two-year budget.

Infrastructure and "State of Good Repair" Needs

The draft 10-year infrastructure plan, discussed above, showed a $900 million funding gap for both the General Fund and Enterprise Funds over 10 years. This plan shows an approximate "state of good repair" need for City infrastructure and facilities, which would require the City to invest approximately $90 million per year.

For example, the City's Repair and Replacement Program is significantly underfunded (see table below for program areas). With additional one-time contributions to the Facilities Renovation and Park & Median Renovation Funds at the end of FY 2023/24, the fund balances are only $3.8 million and $1.0 million, respectively. Considering there are more than 100 City buildings and structures and more than 40 parks to repair and maintain, these amounts are insufficient.

No	Program Area
1	Facilities Renovation
2	Park & Median Renovation
3	Storm Drain Systems
4	Police Vehicle Replacement
5	Fire Apparatus Replacement
6	Vehicle Replacement (non-public safety)
7	Equipment Replacement
8	Information Technology Replacement
9	Street Light Replacement
10	Traffic Signal Replacement

The City also had to purchase a new police communications system during FY 2023/24 through a lease arrangement due to insufficient funds in the IT Replacement Fund, and purchase a fire engine with borrowed funds because replacement funds have not been set aside over the years due to the lack of available resources. Capital funding for the City's stormwater systems comes solely from the General Fund. Stormwater systems, like water and sewer systems, require significant infrastructure investments over time; the General Fund does not have the needed resources to set aside for this program.

While the Asset Management Plan is under development, the Water System Management Plan has been completed and shows more than $260.0 million in infrastructure funding needs over 20 years. Of this amount, more than $100.0 million represents needed investments for health and safety related projects such as emergency backup generator replacements, near- and long-term improvements for water supply, projects that address pipeline deficiencies or improve fire system flow, and tank and booster station rehabilitation or replacement. These are capital investments required to meet mandates and compliance requirements. Years of low rates resulted in a lack of available resources to fund critical infrastructure, which leaves current and future water rate customers having to pay more to maintain the existing system. The Sewer Management Plan is expected to be completed soon ,and is expected to show a similar significant funding gap.

Damages from the 2023 winter storms resulted in significant unexpected costs. As noted, more than $18 million in capital project funding was diverted to fund safety-related storm drain projects by the City Council in March 2024 because other funding sources were not available. With the deferral/defunding of capital projects to fund critical storm drain projects, the City is further behind in maintaining and replacing its aging infrastructure. The City's infrastructure will continue to age and deteriorate without a significant infusion of new revenue resources, especially with capital costs continuing to grow.

Unfunded Retiree Medical and Pension Liabilities
As shown in the tables below, the City's unfunded retiree medical and pension liabilities remain significant at more than $200.0 million. As noted in the soon to be published FY 2023/24 Annual Comprehensive Annual Financial Report (ACFR), the unfunded pension liability is expected to increase slightly because CalPERS did not meet its 6.8% discount rate in FY 2022/23. The FY 2024/25 unfunded pension liability is expected to be lower due to a greater than 9.0% investment return in FY 2023/24. There is a one-year lag in adjusting unfunded pension liability impacted by investment gain/loss. Fluctuations are expected from year to year as impacted by investment return/loss and demographic data used by CalPERS to project pension costs. The discount rate set by CalPERS has decreased over the years from 7.5% to 6.8%. As a result, high pension contributions are required from member agencies.

Fiscal Year 2022/23 Net OPEB Liability

Total Unfunded Liability	Total
Total OPEB liability	89,964,000
Plan fiduciary net position	69,186,500
Net OPEB liability	**20,777,500**
Funded status	**77%**

Fiscal Year 2022/23 Net Pension Liability

Total Unfunded Liability	Total
Total pension liability	668,118,947
Plan fiduciary net position	457,472,510
Net pension liability	**210,646,437**
Funded status	**68%**

The annual General Fund pension contribution is currently more than $20.0 million, which only represents the minimum contribution required by CalPERS. Pension liability is like a mortgage – the longer the liability is outstanding, the higher the interest expense. As shown in the table below, the City's pension costs have increased by more than 80% over an eight-year period.

General Fund Pension Payments

	FY 2023/24 Actual	FY 2022/23 Actual	FY 2021/22 Actual	FY 2020/21 Actual	FY 2019/20 Actual	FY 2018/19 Actual	FY 2017/18 Actual	FY 2016/17 Actual
	21,139,934	20,501,373	18,821,854	17,236,098	15,174,468	13,640,875	12,112,920	11,665,690
Year-over-year Change	638,562	1,679,519	1,585,756	2,061,630	1,533,593	1,527,954	447,230	
% Change	3.1%	8.9%	9.2%	13.6%	11.2%	12.6%	3.8%	

<u>Long-Range Financial Planning</u>

Long-range financial planning helps the City to diagnose potential risks, focus on long-term objectives, and stimulate big-picture thinking. Beyond the biennial budget and multi-year capital planning, the City needs to identify long-term financial trends. The long-term financial forecast projects revenues, expenses, and key factors, such as challenges that may have significant budgetary impacts on City operations, beyond the actual or projected results for one or two fiscal years.

As the City completed the development of its first comprehensive financial forecast model, the projection was updated to reflect the City's significant needs in both the operation and capital areas. The goal was to provide the City's full financial picture and challenges to the community as the City embarked on the exploration of a potential revenue measure. It would not be prudent to understate the City's funding needs, as Pleasanton residents' quality of life will be impacted when services are provided at a lower level either due to insufficient revenues and/or deteriorated facilities and infrastructure.

The City uses reasonable assumptions for revenue and expenditure projections when developing financial assumptions. Revenues are projected conservatively, and costs are projected less aggressively.

The long-term projection shows revenue projections including property tax–which is the City's largest revenue source–growing at 3.5% annually, sales tax–which is the second largest revenue source–growing at 2.0% annually, Interfund Charges and Recreation Fees growing at 3.0% annually, and all other revenues growing at 2.0% annually.

Expenditure assumptions include personnel costs (the City's largest expenditure category) growing by approximately 3.3% annually. Salary and general benefit cost categories are assumed to increase at 3.0%, but the overall increase is greater mostly due to growing pension liabilities through FY 2030/31 based on the projection provided by CalPERS. Non-personnel costs are collectively projected to grow by approximately 2.7% annually. Additionally, an annual contribution to capital funds ranges from $3.0 million in FY 2025/26 to $4.5 million in FY 2032/33. The annual contribution to the Capital Improvement Program is below the City's $5.0 million minimum goal. An average annual contribution of approximately $5.9 million, in addition to the baseline capital contribution, is also included in the forecast model to fund deferred infrastructure maintenance costs. Combined, these contributions represent a small fraction of the overall deferred infrastructure maintenance needs based on staff's preliminary infrastructure assessment study from March 2023.

A revised property tax projection for the current fiscal year shows about 4.0 growth.% While this is slightly higher than the assumption of 3.5%, it does not account for the likely downward adjustments expected in the commercial market in the coming years and will not address the significant projected structural deficit the City faces. Sales tax growth without Costco is projected at only 1.2% for the current fiscal year according to the City's sales tax consultant.

As part of the financial forecast, it was assumed that employee costs would go up 3% per year. However, recent contract negotiations saw significantly higher increases over a three-year period. Additionally, contract negotiations for three labor groups will take place in 2025.

In summary, variations are expected as a long-term financial projection intends to identify the trend line so the City can implement budget solutions to reduce costs and generate additional revenues. If revenue projection is more aggressive, expenditure projection needs to be more conservative.

Reserves and Pension and Retiree Medical Trust Funds

The City's key reserves include those set aside in the General Fund and the Rainy Day (Capital) Reserve Fund. Funds are also set aside in the pension and retiree medical trust accounts to offset unfunded liabilities, as stated above.

Reserves

The Government Finance Officers Association (GFOA) recommends maintaining at least 16.7% of unrestricted reserves in the General Fund; the City's General Fund reserve target is 20%. At the end of FY 2022/23 (FY 2023/24 audited financial reports have not been published), the City's unrestricted reserve reported in the Annual Comprehensive Financial Report (ACFR), including committed, assigned, and unassigned fund balance, totaled $38.6 million; this includes the $6.6 million Rainy Day (Capital) Reserve intended for capital projects. Currently the General Fund reserve target is met.

By comparison, the City of Dublin (with a smaller General Fund) reported $245.4 million in unrestricted reserve in its ACFR, and the City of Livermore (with a similar General Fund) reported $78.2 million. Compared to these neighboring cities, Pleasanton's unrestricted reserve is alarmingly low, clearly indicating that other cities are better prepared to address emergencies and other unforeseen expenses. The City of Danville and the City of San Ramon reported $26.2 million and $26.1 million in unrestricted reserve in their General Fund, respectively. However, since both cities are not full-service cities as fire services for both Contra Costa cities are provided through a special district, their reserve levels are also strong compared to Pleasanton's $38.6 million.

The table below shows the percentages of Tri-Valley cities' FY 2022/23 unrestricted General Fund reserve as a percentage of their FY 2022/23 actual expenditure, excluding transfers to other funds, as these transfers for some cities can be significant in some years or one-time in nature. Reserve calculation is not required for this type of expenditure. Pleasanton has the lowest reserve percentage compared to the other four cities.

Please note that the City's General Fund reserve policy requires the calculation be based on next year's operating budget, and the Rainy Day Reserve and other program reserves, which will be spent down over time for capital needs, to be excluded from the calculation. Using the FY 2023/24 budget and excluding other reserves for calculation, the reserve is 20.0%.

City/Town	FY 2022/23 General Fund Unrestricted Reserve	FY 22/23 General Fund Expenditures Excluding Transfers Out	Unrestricted Reserve as a Percentage of General Fund Expenditures
Pleasanton	38,559,576	133,540,493	**29%**
Danville	26,197,436	25,063,807	**105%**
Dublin	245,407,619	91,983,803	**267%**
Livermore	78,216,068	119,289,797	**66%**
San Ramon	26,146,512	51,764,242	**51%**

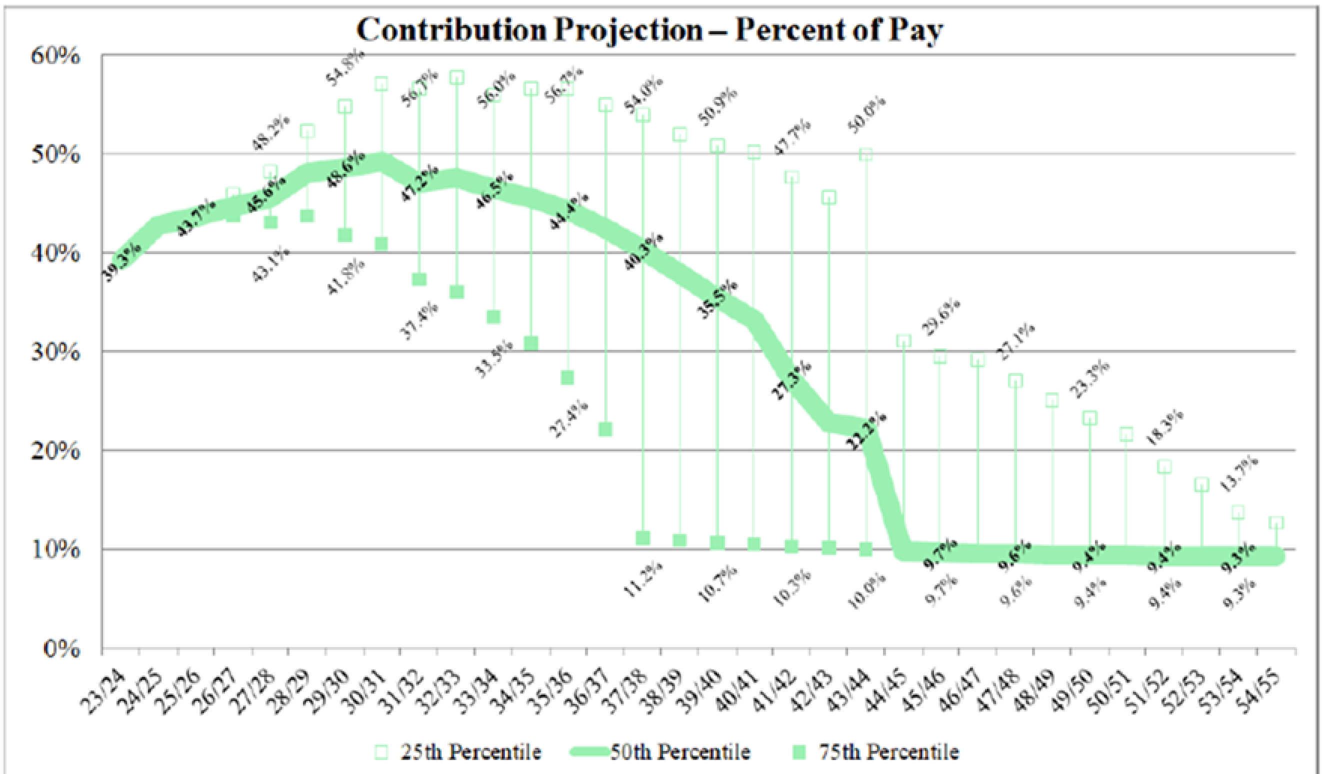
<u>Pension and Retiree Medical Trust Funds</u>
Like some agencies, the City established Section 115 pension and retiree medical trust funds to mitigate costs and pay down its unfunded liabilities. At the end of FY 2022/23, the total market value of the pension trust assets was $46.3 million. Due to improvements in the market, the total market value was $51.1 million at the end of FY 2023/24. With changing market conditions, the investment balance is expected to fluctuate from time to time.

Due to the General Fund structural deficit, the City Council requested an analysis on the use of trust funds to bridge the budget gap. The City engaged an actuarial consultant to conduct the analysis, and the consultant presented the results and recommendation to the City Council on May 21, 2024 (see the City Council Agenda at the link https://pleasantonca.portal.civicclerk.com/event/214/files/agenda/338), advising the City not to use the funds or minimum use of the funds. Without the pension trust funds, the City's funded status is below state average.

As part of the analysis, the consultant projected the City's pension costs over the next three decades using three scenarios, as shown in the chart below. Over the next 12 years, the City's pension contributions are expected to remain high. If pension trust funds are used aggressively, the City will face significant challenges in meeting its obligations during the peak period (still years away) and sustaining City services and programs, as funds will not be available at that time. For example, if $10.0 million is withdrawn from the pension trust starting in FY 2025/26, with $51.1 million in trust funds the funds will almost be depleted in about five years and left with about $1.1 million. The General Fund structural deficit remains even with the use of pension trust funds since this is not a one-time budget problem.

COMBINED MISCELLANEOUS AND SAFETY

Miscellaneous



The City's pension costs are expected to go down significantly in about 20 years, as more members enroll in the newer/less generous benefit plans. At that point, the City can divert its resources to fund capital improvements and deferred maintenance. Given the City does not have the financial resources for significant capital investments and the half-cent sales tax measure did not pass (and there is no plan, or guarantee of success, for any future measure), deferred maintenance costs are expected to increase significantly over time as community assets continue to age. Costs to repair will be higher the longer the maintenance is deferred.

The unfunded retiree medical liability is lower than the pension liability, and the market value of the assets totaled $81.3 million at the end of FY 2023/24, including the City's share of assets with Livermore-Pleasanton Fire Department (LPFD). As the liability is paid down over time, resources should also be diverted to fund deferred maintenance.

While it may be appropriate to use one-time money, such as reserves and trust funds, to bridge the budget gap temporarily, the City needs to develop a long-term plan to sustain services and programs and address the significant deference maintenance needs.

Budget Policies and Principles

Key Financial Policies

Financial policies provide guidelines for financial decision-making and set the strategic intent for financial management. Financial policies promote long-term thinking, manage risks to financial conditions, and ensure best practices are utilized by an organization.

The City's key financial policies include:

- **Investment Policy**—The policy was comprehensively reviewed and updated in FY 2022/23. The City Council approved the policy in June 2023 and re-adopted it in June 2024 as part of the annual review.
- **Purchasing Policy** – The policy was last updated and approved by the City Council in April 2024.
- **Debt Management Policy** – The policy was reviewed as part of the 2024 Water Bond issuance in June 2024. There were no recommended changes from the finance team.
- **Reserve Policy** – The policy was updated and approved by the City Council in June 2023 as part of the budget adoption.

    1. The reserve target and reserve range for the General Fund and key Enterprise Funds (Water and Sewer) are presented below. **It should be noted that Water and Sewer revenues and other restricted resources cannot be used to support General Fund operations.**

- General Fund:

    Reserve range: 16.7% to 25%
    Target: 20%

- Water Fund and Sewer Fund:

    Reserve range: 30% to 40%
    Target: 35%

Budget Principles

The City is always guided by the GFOA general principles in developing the budget.

1. Establish broad goals to guide government decision making

2. Develop approaches to achieve goals

3. Develop a budget consistent with approaches to achieve goals

4. Evaluate performance and make adjustments.

For the upcoming two-year budget development, additional discussion and alignment around generally agreed-upon principles to inform methodology is particularly critical in the current budget cycle, which is likely to include trade-offs and program/service cuts with tangible impacts to the community and the City organization.

It is important to note the development of the two-year budget is a discrete process that is time-sensitive and requires significant staff time. Because the financial issues facing the City have developed over many years, choices will have to be made about how the City will spend/invest limited funds on programs, services, and capital needs. To guide the budget development work, staff is seeking early City Council direction on the principles that will be used to develop the FY 2025/27 budget. While somewhat nuanced, the examples provided below are principles, not a methodology. The principles will be used by staff to develop the budget, with additional input from the community and City Council expected in the months to come.

The sample principles are intended to spark discussion regarding the priorities and tradeoffs in developing a balanced budget. The list below is not an exhaustive list of all principles that can be or might be applied, nor does selection of one or more priority principles mean that others cannot be applied. At this time, staff is seeking input on the top three to five principles that should be top of mind for City staff as the budget is developed.

- **Long-Term Fiscal Stability** – Prioritize placing Pleasanton on a solid foundation for long-term fiscal sustainability over short-term outcomes. Mitigate future risks by taking precautionary actions, such as maintaining fund balances in all key operating funds and identifying and funding unfunded liabilities with surplus funds when available.
- **Use One-Time Revenues and Reserves for One-Time Uses** – One-time revenues should be used for one-time expenditures. Annual budgets should not become overly reliant upon cyclical, unreliable, or one-time revenues. During economic downturns and budgetary contractions, the use of reserves (e.g., rainy day funds or other reserves) may be used to ease the transition to downsized or reorganized operations.
- **Organizational Health** – Promote and maintain an inclusive work environment that supports professional growth and development to retain and attract highly qualified employees.
- **Protect Core and Essential Services** – Prioritize the preservation of essential over non-essential programs and services. [Staff is not suggesting a definition for “essential” at this time, but will engage more deeply with the community and City Council during the budget development process.]
- **Community Engagement and Equity** – Actively engage and seek input from the community to ensure a collaborative and transparent decision-making process. Ensure that communities most impacted by service reductions are considered when making decisions.
- **Strategic Plan Alignment** – The City’s mission, vision, and values and the City Council’s priorities and direction should be used to strategically guide the budget development process. [The City Council will be asked to provide updated input/direction on this Strategic Plan priorities at the planned January 29, 2025, City Council Retreat.]
- **Prioritize Infrastructure** – Maintain and enhance Pleasanton’s infrastructure. Capital improvement projects, including related maintenance costs, should be identified at the planning stage so these amounts can be recognized and budgeted where appropriate. Funding of capital projects will require current, planned resources and one-time funds.
- **Support and Partnerships** – Maintain and support a strong positive relationship

between the City, school district, and non-profit community.
- **Civic Pride** – Support and implement programs and activities that enhance quality of life and wellness, celebrate arts and diversity, and promote civic pride.

As suggested, staff is seeking City Council direction regarding three to five principles that will be considered during the development of the two-year operating and capital budgets. In the absence of guiding principles, staff will develop a budget that may, or may not, meet the City Council's expectations. This important policy direction is a critical early step in the process which does not suggest an outcome or pre-commit the City Council; it is simply an important starting point before what will ultimately be several iterative discussions with the community and City Council before the City Manager's budget recommendation to the City Council in April/May 2025.

EQUITY AND SUSTAINABILITY

Ensuring the City's long-term fiscal sustainability allows the City to continue providing programs and services that benefit all residents. These services include programs to advance environmental sustainability by continuing to implement strategies from the City's Climate Acton Plan (CAP) 2.0 as well as public safety, recreation, community and economic development and other services that create a livable, vibrant, and equitable community.

OUTREACH

This is an informational report only.

STRATEGIC PLAN ALIGNMENT

This item aligns with the ONE Pleasanton strategic plan goal of *Funding Our Future* that supports financial health and sound fiscal policies.

FISCAL IMPACT

This is an informational report only; there is no specific fiscal impact from receiving this report.

Prepared by:	Submitted by:	Approved by:
Susan Hsieh, Director of Finance	Susan Hsieh, Director of Finance	Gerry Beaudin, City Manager

Attachments:
1. Basics of Municipal Revenue
2. Brief Glossary of Financial Management Terms
3. Financial Management for Elected Officials
4. Budget Presentation and Principles Discussion

INSTITUTE FOR LOCAL GOVERNMENT℠

Promoting Good Government at the Local Level

Understanding the Basics of Municipal Revenues in California: Cities, Counties and Special Districts

2016 Update

Table of Contents

OVERVIEW

Each one of California's 39 million residents lives within the boundaries of one of the state's 58 counties. Nearly 33 million people also live in one of California's 482 cities.[i] Californians are also served by 2,156 independent special districts.

Counties, cities and special districts provide a vast array of municipal services to residents and businesses. These services include public safety (police, fire and emergency services), parks and recreation, roads, flood protection, sewers, water, electricity, refuse disposal, recycling and other utilities. Counties have an additional role as a provider for many state-mandated services, such as foster care, public health care, jails, criminal justice and elections.[ii]

These municipal local governments rely on a variety of revenues to pay for the services and facilities they provide. The amount and composition of revenues:

- Differ between cities, counties and special districts largely because of differences in responsibilities; and
- Vary among cities, among counties and among special districts depending in part on differences in governance responsibilities.

There is a complex web of legal rules for collecting and using the variety of revenues available to municipal governments in California. These rules derive from the state constitution, state statute and court cases further interpreting those laws.

This guide provides an overview of the sources of county, city and special district revenues in California. It is an introduction to a complex topic. You can find further information in the resources listed on the last page.

How To Use This Information

These materials are not technical or legal advice. You should consult technical experts, attorneys and/or relevant regulatory authorities for up-to-date information and advice on specific situations.

CITY REVENUES IN CALIFORNIA

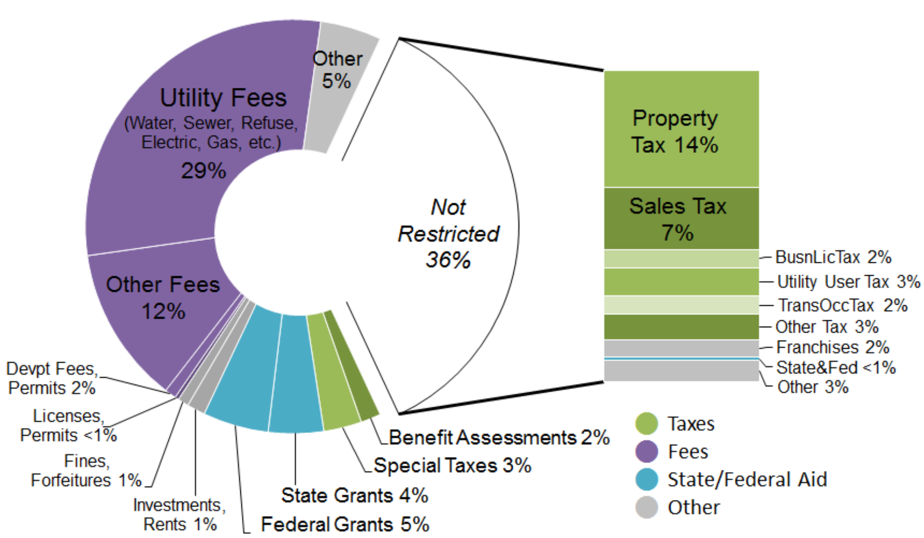
Incorporated cities (including those that refer to themselves as “towns”) are responsible for a broad array of essential frontline services tailored to the needs of their communities. These include:

- Law enforcement and crime prevention,
- Fire suppression and prevention, natural disaster planning and response, emergency medical response and transport,
- Land use planning and zoning, building safety,
- Local parks and open spaces, recreation,
- Water supply, treatment and delivery,
- Sewage collection, treatment and disposal,
- Storm water collection and drainage,
- Solid waste collection, recycling and disposal,
- Local streets, sidewalks, bikeways, street lighting and traffic controls, and
- Public transit.

Cities that are responsible for providing all or most of these functions are called “full service” - the services can be provided in-house or contracted through a private entity or another public agency. In other cities, some of these functions are the financial responsibility of other local agencies such as the county or special districts. For example, in about thirty percent of California cities, a special district provides and funds fire services. In sixty percent, library services are provided and funded by another public agency such as the county or a special district.

The mix of service responsibilities and local choice regarding service levels affects the amount and composition of revenues of each city.

California City Revenues



Thia is a statewide mash-up of city revenues. Individual cities vary.
Source: Author's computations from data from California State Controller 2014-15.
Does not include the City/County of San Francisco.

COUNTY REVENUES IN CALIFORNIA

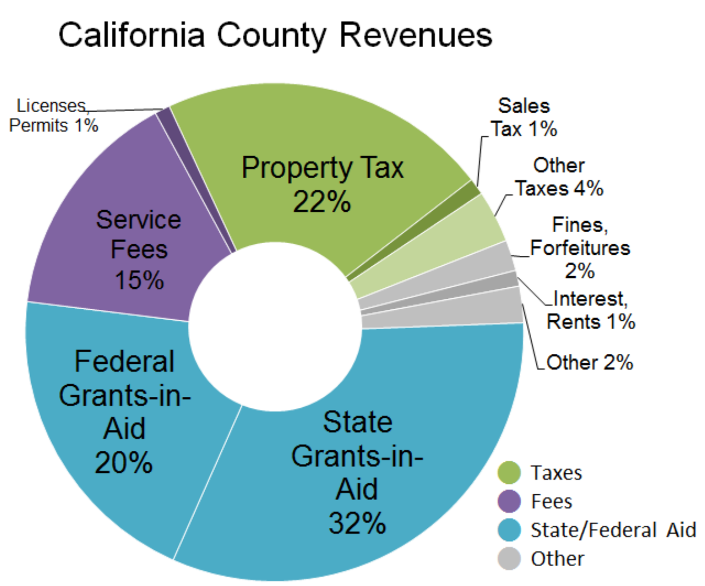
California counties are responsible for three general areas of municipal services: 1) delegated state and federal programs, 2) countywide public services and 3) essential frontline services for residents not receiving those services from a city or special district, often in unincorporated areas (outside city boundaries).

In unincorporated areas, counties provide the essential frontline services that cities provide that are not provided by a special district. These can include police protection (through a county sheriff), roads, planning and building safety.

Counties also provide public services to all county residents, whether they live in or outside of cities. These countywide functions include:

- Public assistance (notably welfare programs and aid to the indigent),
- Public health services (including mental health and drug/alcohol services),
- Local elections,
- Local corrections, detention and probation facilities and programs (including juvenile detention), and
- Property tax collection and allocation for all local agencies, including school districts.

Funding from the federal and state government, primarily for health and human services, is the largest source of county revenues. Property taxes and sales and use taxes are the primary funding sources for many county services that do not have a dedicated state or federal funding source.



Source: Author's computations from data from California State Controller 2014-15. Includes the County/City of San Francisco.

General and Functional Revenues

Municipal revenues may be viewed as falling into two broad categories: general revenues and functional revenues.

General revenues can be used for any legitimate public purpose. General purpose taxes, especially property and sales taxes, account for most general city revenues statewide.

Functional revenues are restricted by law to a particular use. These include funds derived from fees or rates that the local agency charges for public services, including municipal utilities such as water, sewer, and garbage collection, airports, marinas, harbors and water ports. Functional revenues also include most state or federal grants as they are usually restricted for particular programs.

SPECIAL DISTRICT REVENUES IN CALIFORNIA

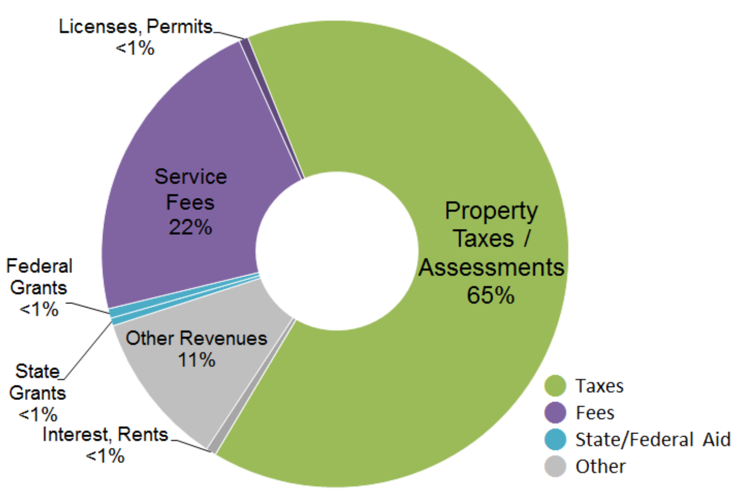
Most special districts provide one or a few municipal services to a particular geographic area. These include both enterprise and non-enterprise services. Enterprise services are funded primarily through charging a fee for service. For example, water and irrigation districts charge utility rates and fees from consumers of those services. Non-enterprise services generally do not lend themselves to fees and are primarily funded by property taxes, with relatively small amounts of fee and state and federal grant revenue. Library and fire protection services are examples of non-enterprise services.

Other districts are multifunction, providing a number of municipal services. Community services districts (CSDs) can provide as many as 32 different types of services, approximating the scope of some cities. Multifunction districts have both enterprise and non-enterprise elements and may, like cities or counties, use an array of different revenue sources.

Types of Special Districts

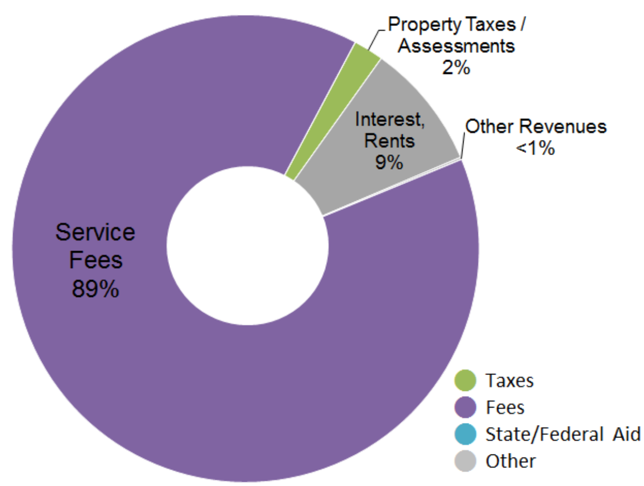
- Air Quality Management / Air Pollution Districts
- Airport Districts
- Cemetery Districts
- Community Services Districts
- Flood/Drainage Districts
- Fire Districts
- Harbor Districts
- Healthcare Districts
- Irrigation Districts
- Library Districts
- Memorial Districts
- Municipal / Resort Improvement Districts
- Open Space Districts
- Parks and Recreation Districts
- Police Protection / Ambulance Districts
- Public Utility Districts
- Reclamation Districts
- Resource Conservation Districts
- Sanitary Districts
- Waste Management Districts
- Water Districts

California Special District Revenues
Typical District (fire) Providing Non-Enterprise Services



Source: Author's computations from data from California State Controller 2014-15.

California Special District Revenues
Typical District (water) Providing Enterprise Services



Source: Author's computations from data from California State Controller 2014-15.

THE STATE LEGISLATURE, LOCAL GOVERNMENTS AND THE VOTERS

The options available to local officials in governing, managing their finances and raising revenues to provide services needed by their communities are limited. Voters have placed restrictions as well as protections in the state constitution. The state's voters and the California Legislature have acted in various ways, to support and provide, and to limit and withdraw financial powers and resources from cities, counties and special districts.

Some of the most significant limitations on the local revenue-raising include:

- Property taxes may not be increased except with a two-thirds vote to fund a general obligation bond.
- The allocation of local property tax among a county, and cities, special districts and school districts within each county is controlled by the Legislature.
- Voter approval is required prior to enacting, increasing or extending any type of local tax.
- Assessments to pay for public facilities that benefit real property require property owner approval.
- Fees for the use of local agency facilities and for services may not exceed the reasonable cost of providing those facilities and services.
- Fees for services such as water, sewer and trash collection are subject to property owner majority protest.

The Legislature has enacted many complicated changes in state and local revenues over the past 30 years. Voters have approved state constitutional protections limiting many of these actions at times followed by even more complicated maneuvers by the Legislature in efforts to solve the financial troubles and interests of the state budget.

Reacting to actions of the Legislature and the deterioration of local control of fiscal matters, local government interests placed on the ballot, and voters approved, Proposition 1A in 2004 and Proposition 22 in 2010. Together, these measures prohibit the state from:

- Enacting most local government mandates without fully funding their costs. The definition of state mandate includes a transfer of responsibility or funding of a program for which the state previously had full or partial responsibility.
- Reducing the local portion of the sales and use tax rate or altering its method of allocation, except to comply with federal law or an interstate compact.
- Reducing the combined share of property tax revenues going to the county as well as cities and special districts in a county.
- Borrowing, delaying or taking motor vehicle fuel tax allocations, gasoline sales tax allocations, or public transportation account funds.

TAXES

According to the California Constitution, every local agency charge is a "tax," unless it falls into a list of specified exceptions:[iii]

- User fees for a specific benefit, privilege, service or product provided to the payor. Items include: fees for parks and recreation classes, some utilities, public records copying fees, DUI emergency response fees, emergency medical and ambulance transport service fees.
- Regulatory fees for reasonable regulatory costs of issuing licenses and permits, and performing inspections and enforcement such as health and safety permits, building permits, police background checks, pet licenses, bicycle licenses and permits for regulated commercial activities.
- Rental fees imposed for entrance to or use of government property. These include: facility room rentals, equipment rentals, park, museum and zoo entrance fees, golf greens fees, on and off-street parking and tolls.
- Fines or penalties such as parking fines, code enforcement fees and penalties, late payment fees, interest charges and other charges for violation of the law.
- A charge imposed as a condition of property development such as building permit fees, construction and grading permits, development impact fees and fees for California Environmental Quality Act requirements.
- Benefit assessments and property related fees imposed in accordance with the provisions of Article XIII D (Proposition 218) such as a lighting and landscape assessment and fees for property related services such as many retail water and sewer fees.[iv]

In contrast to an assessment or a fee, a tax need not be levied in proportion to specific benefit to a person or property. Tax revenues are an important source of funding for both county and city services and for many special districts. In addition to local taxes, counties rely significantly on tax dollars allocated from the state and federal governments.

	TAX- General	TAX- Parcel or Special (earmarked)	G.O. BOND (w/tax)	Fee / fine / rent
City / County	Majority voter approval	Two-thirds voter approval	Two-thirds voter approval	Majority of the governing board*
Special District	n/a	Two-thirds voter approval	Two-thirds voter approval	Majority of the governing board*
K-14 School	n/a	Two-thirds voter approval (parcel tax)	55% voter approval**	Majority of the governing board*
State	For any law that will increase the taxes of any taxpayer, two-thirds of each house of the Legislature - or approval of majority of statewide voters.		Statewide majority voter approval	Majority of each house

* Additional procedures apply for property related fees.
** Per Proposition 39 (2000), maximum tax rate limits and other conditions apply for a 55% threshold school bond or threshold is two-thirds.

Counties and cities may impose a variety of taxes. Taxes fall into one of two categories: general or special.

A general tax is imposed to raise general-purpose revenues. Counties and cities may use revenues from a general tax for any lawful public purpose. A majority of voters must approve the decision to impose, increase or extend a general tax. A general tax may only be submitted for voter approval at an election for city council or board of supervisors unless a unanimous vote of the governing board declares an emergency.

A special tax is a tax imposed for a specific purpose. For example, a city may increase the sales and use tax by adding a special use tax for public safety, the acquisition of open space or transportation projects. All taxes imposed by special districts are considered special taxes. Since the tax is for a specific purpose, the revenues may only be used for that purpose. Two-thirds of voters must agree to enact, increase or extend a special tax.

	General Tax	Special Tax
Use of Revenues	Unrestricted	Specific purpose
Governing Body Approval	• Counties and general law cities: two-thirds • Charter cities: majority • Transactions and use taxes: two-thirds • Special districts may not adopt general taxes.	Majority
Voter Approval	Majority	Two-thirds
Other Rules	A general tax election must be consolidated with a regularly scheduled general election of members of the governing body, unless an emergency is declared by unanimous vote (among those present) of the governing body.	Special tax funds must be deposited in a separate account. The taxing agency must publish an annual report including: 1) the tax rate; 2) the amounts of revenues collected and expended; and 3) the status of any project funded by the special tax.

County Property Tax Administration

County Assessor. The assessor sets values on property and produces an annual property tax assessment roll.

County Auditor-Controller. The auditor-controller receives the assessed values from the assessor and calculates the amount of property tax due.

County Treasurer-Tax Collector. The treasurer-tax collector administers the billing, collection, and reporting of property tax revenues levied annually throughout California for not only the county, but also cities, schools and special districts.

PROPERTY TAXES

All counties and cities in California receive property tax revenues. Many special districts do too. For all counties and most cities and non-enterprise special districts, property taxes are the largest source of discretionary revenues.

How Property Taxes Are Calculated in California

The property tax is imposed on “real property” (land and permanently attached improvements such as buildings) and tangible personal property (movable property such as boats, aircraft and business equipment).

The maximum tax rate permitted on real property for general purposes is one percent of the property's assessed value plus voter approved rates to fund indebtedness (general obligation bonds, requiring two-thirds voter approval).

The tax rate is applied to the assessed value (AV) of the property. The assessed value of real property is the “full cash value” of the property in 1975-76 or at change of ownership, whichever is more recent, adjusted annually by the change in the Consumer Price Index (CPI), not to exceed an annual increase of two percent. The value of new construction is additional. If a property changes hands, then the assessed value becomes the full cash value upon change in ownership.

If a property’s market value falls below its factored base year value, it may be temporarily reassessed to its lower actual value but in future years may be reassessed at the lesser of its actual value or its factored base year value. This can result in increases of more than two percent as a property’s actual value returns to its earlier value, as when the housing market rebounds from a slump.

Property Tax Revenue Distribution

Counties allocate property taxes to the county as well as cities, special districts and school districts within the county according to state law. Allocations among local agencies vary from place to place due to differences in the service responsibilities among agencies serving different areas and differences in the tax rates enacted by those agencies prior to Proposition 13 in 1978. Full-service cities generally receive higher shares than those that do not provide the complete range of municipal services. For example, in a city where fire services are provided by a special district, the city will get a lower share, with a portion of the property tax revenues going instead to the special district.

Property tax revenues among local governments are, of course, also dramatically affected by differences in the assessed value of properties among jurisdictions. A ten percent share in a community of average property values will result in less revenue than in a similar size wealthy bedroom community, or a community that also has a sizable business/industrial area.

Property Tax in Lieu of Vehicle License Fee

In addition to their regular apportionment of property taxes, cities and counties receive property tax revenues in lieu of Vehicle License Fees (VLF). In 2004, the Legislature permanently reduced the VLF rate from two percent to 0.65 percent and compensated cities and counties for their revenue loss with a like amount of property taxes, dollar-for-dollar. Each agency's property tax in lieu of VLF allocation increases annually in proportion to the growth in gross assessed valuation in that city or county.

What is "ERAF?"

The property tax revenues received by school districts in each county include amounts from the county "Educational Revenue Augmentation Fund" (ERAF) created by the California Legislature in 1991 as a way to reduce state general fund spending on schools. These funds receive some property tax that was previously allocated to counties, cities and special districts.

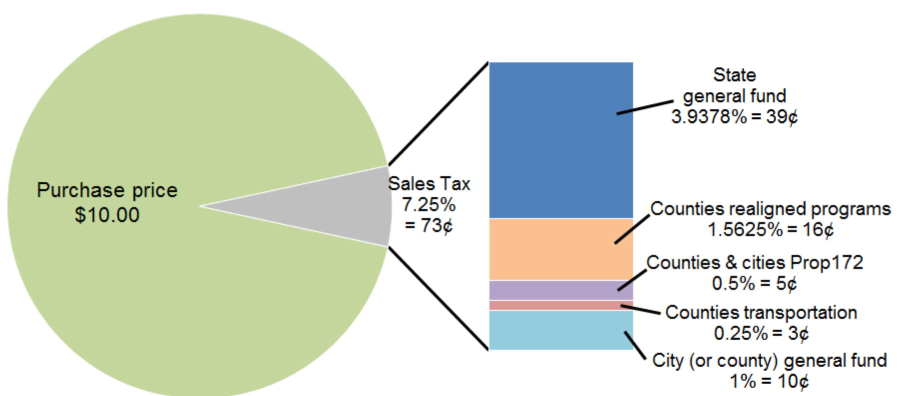
Since 2004, California's Constitution has prohibited the Legislature from increasing the amount of property tax shifted from counties, cities and special districts to ERAF or similar schemes. The state Constitution requires a two-thirds vote of the Legislature to change the allocation of property tax among the county, cities and special districts within a county.

SALES AND USE TAXES

Consumers are familiar with the experience of going to a store, buying something and having an amount added for sales tax. Services are generally exempt from the sales tax as well as certain items, like most groceries and medicine. The sales tax is assessed as a percentage of the amount purchased.

The "base" statewide sales tax rate of 7.25 percent includes amounts to:

- The state general fund (3.9375 percent),[v]
- County realignment programs (state health/ welfare and corrections / law enforcement programs shifted from the state, 1.5625 percent),
- Supplemental local law enforcement grants (0.50 percent),[vi]
- Transportation programs in the county where the transaction occurs (0.25 percent), and
- The city where the transaction occurs (1.00 percent).[vii] If the transaction occurs in an unincorporated area, the 1.00 percent amount goes to the county.



Rates effective January 1, 2017 after the expiration of the 0.25% Proposition 30 temporary rate.
In addition to the base, statewide rate of 7.25 percent, local voters may authorize additional "transactions and use tax" rates. These additional rates raise the total effective rate to as much as 9.75% in some locations.

Cities, counties and countywide transportation agencies may impose sales tax rates to be added on to the "base" statewide sales and use tax rate. The add-on rates are actually "transactions and use taxes" and are allocated to the jurisdiction where the taxed product is received or registered (as in the case of a motor vehicle purchase). Over 120 cities have enacted transaction and use taxes of up to one percent, most commonly with majority voter approval for general purposes. Many counties and county transportation agencies have enacted rates, most commonly with two-thirds vote for specific purposes. Under current state law, the maximum combination of transactions and use tax rates in any location may not exceed two percent.[viii]

State Sales and Use Tax Administration

The State Board of Equalization collects local sales and use tax revenues from the retailer and sends revenue from local rates and allocations back to cities and counties. In addition to administering the sales and use tax system, the State Board of Equalization collects and allocates other state taxes including fuel, tobacco and alcohol taxes.

The "Use Tax" Part of the Sales and Use Tax

California's sales tax has a relative called the "use tax." While the sales tax is imposed on the seller, the use tax is imposed on the purchaser and at the same rate as the sales tax. The most common example of use tax is for the purchase of goods from an out-of-state retailer for use in California.

Out-of-state retailers doing business in California are required to report to the State Board of Equalization the jurisdiction to which sold items are delivered. If the retailer has a physical presence (nexus) in California, they must collect use tax when goods are delivered to purchasers in this state. If the seller does not collect and remit the use tax, the purchaser is legally obligated to report and pay.

Business License Tax (BLT)

Most cities and a few counties have enacted business license taxes. Business license tax rates are set individually by each city and county most commonly based on gross receipts (overall business revenue) or levied at a flat rate, but may be based on the quantity of goods produced, number of employees, number of vehicles, square footage of the business or some combination of factors.

If a business operates in more than one city, a city may only tax that portion of the business's activities conducted within the city. In most cases, business license taxes are not imposed for regulatory purposes (as the term "license" might imply) but to raise revenues for general municipal purposes (i.e. a tax). If imposed as a fee to pay for the cost of regulating the business, the fee may not exceed the reasonable cost of regulating the business. (See "regulatory fees.")

Transient Occupancy Tax (TOT) or Hotel Bed Tax

Most cities and some counties impose a transient occupancy tax or hotel bed tax on persons staying thirty days or less in hotels, motels and similar lodgings, including mobile homes. A county may impose a transient occupancy taxes only in the county area outside city limits. Typically, the lodging provider collects the tax from guests and turns the funds over to the county or city.

Transient occupancy taxes are imposed by most cities and counties and range from three and a half percent to 15 percent. For cities with a transient occupancy tax, it provides seven percent of general revenues on average, and as much as 17 percent in some cities. Any increase or extension of a local tax requires voter approval.

Utility User Tax (UUT)

Many cities impose utility user taxes on the consumption of utility services, including (but not limited to) electricity, gas, water, sewer, telephone (including mobile phone and long distance), sanitation and cable television. Counties may levy utility user taxes in county area outside city limits. Any increase or extension of a local tax requires voter approval.

Utility companies usually collect utility user's taxes from their customers as part of their regular billing procedures and remit the funds collected to the city or county which imposed the tax.

Over 150 cities and a few counties levy utility user rates varying from one to 11 percent. For those jurisdictions with utility user taxes, it provides an average of 15 percent of general revenue and often as much as 22 percent.

Parcel Tax

A parcel tax is a special tax on a parcel – or unit – of real property. Unlike the property tax, a parcel tax may not be based on the value of property. Instead, parcel taxes are generally based on a flat per-parcel rate.

A parcel tax may be enacted, increased or extended by a city, county, special district or school district only with two-thirds voter approval, even for general purposes.

Documentary Transfer Taxes and Property Transfer Taxes

A documentary transfer tax is a tax imposed on the transfer of interests in real estate. Counties tax at a rate of 55 cents per $500 of the property's value. Cities may impose the tax at up to one half of that amount, which is credited to the payment of the county tax. The Constitution allows charter cities[ix] to enact a property transfer tax, with voter approval, on the value of real estate that is sold. In these cases, the entire county documentary transfer tax rate goes to the county. All cities and counties in California have documentary transfer taxes or property transfer taxes.

Other Taxes

A city or county may impose other types of taxes within the limitations of and if not prohibited by state law. These include: admissions taxes, parking taxes, construction/development taxes, local vehicle registration taxes.

SERVICE CHARGES, ASSESSMENTS AND FEES

Utility Rates

Utility rates are fees for utility services charged to users who pay for special district, county or city provided water, sewer, electric or other utility services. Utility rates cover some or all of the cost of providing the service, which may include operations, maintenance, overhead, capital improvements and debt service.

Utility rates for water, sewer services and certain other utilities belong to a special category of fees called a “property-related fees.” A local government must follow certain specific procedures to impose, extend or increase a property-related fee.

To impose a property-related fee, the agency must first hold a public hearing. At the hearing, a majority of affected property owners can prevent the fee’s adoption by filing written protests. If a majority of affected property owners do not protest the fee and the fees pays for sewer, water or refuse collection, then an election is not required and the governing body may approve the fee. Other property-related fees require approval, either of two-thirds of the electorate residing in the affected area or of a majority of the owners of the property who would pay the fee.

Benefit Assessments

Assessments are charges by cities, counties or special districts on real property to pay for public facilities or services within an area which benefit either real property or businesses. A common type of assessment is one used to pay for landscaping and lighting in a neighborhood. The amount of the assessment must reflect the special benefit to the property that results from the improvements. Assessments on property are typically collected through the owner’s annual property tax bill.

A local government must follow certain specific procedures to impose benefit assessments. When a local agency considers an assessment, a majority of property owners may defeat the assessment in a public hearing procedure. If the proposed assessment is not defeated in a public hearing procedure, then a majority of the property owners subject to the charge must approve the assessment by a mailed ballot. The property owners’ votes are weighted according to how much their property will be charged.

User Fees

A city, county or special district may impose fees, charges and rates for services and facilities it provides. Examples include fees for checking plans for new construction or for recreation classes. The amount of a fee may not exceed the cost of providing the service or granting a benefit or privilege. This cost may include overhead, capital improvements and debt service.

Regulatory Fees

Regulatory fees pay for the cost of issuing licenses and permits, performing investigations, inspections and audits and the administrative enforcement of these activities. Examples include a fee to pay for the cost of processing pesticide license applications or a fee to inspect restaurants for health and safety compliance.

Development Impact Fees

Development impact fees are imposed on new construction (like new houses, apartments, shopping centers or industrial plants). They pay for improvements and facilities required to serve new development and to reduce the impacts of new development on a community.

Development impact fees (also known as “AB 1600 fees” after legislation adopted that governs such fees) pay for community amenities such as streets, sewers, parks and schools. They may not be used for day-to-day operating expenses.

The ordinance or resolution establishing the fee must explain the connection between the development project and fee. For example, a library impact fee must be connected to the demand for library services created by the construction of the development project.

The amount of the fee must not exceed the cost of providing the service or improvement that the fee pays for.

Local Debt Financing Tools

Local governments borrow money to pay for land, facilities and equipment that may require more funding than current revenues provide. Not a revenue source, but a way to leverage the timing of revenues, debt financing methods are important tools in government finance. Local governments may issue bonds and other debt instruments to finance improvements and services. These loans are paid off through taxes, assessments or fees. A variety of debt financing tools are available:

- **General Obligation Bonds.** General obligation bonds are essentially IOUs issued by public entities to finance large projects. General obligation bonds are backed by property tax revenue, which is used to repay the bond over a twenty- to thirty-year period. Increasing the property tax to repay the debt requires two-thirds voter approval and may only be done to acquire or improve real property.
- **Lease-Purchase Agreements.** In a lease-purchase agreement, sometimes called “certificates of participation,” the agency leases an asset for a period of years with the option to purchase the land or improvement at the end of the lease. The amount of the lease is equivalent to the principal and interest that would be paid if the transaction were financed as a loan.
- **Benefit Assessment and Special Tax Financing.** Benefit assessment financing is supported by benefit assessments on the property to fund acquisition of property and improvement of infrastructure and additional facilities of benefit to the property that is charged. Similarly special taxes, such as Mello-Roos taxes, may be financed with bonds to provide public improvements.
- **Revenue Bonds.** Revenue bonds are issued to acquire, construct or expand public projects for which fees, charges or admissions are charged. Because the debt service is paid from income generated by the facility or related service, such debt is considered self-liquidating and generally does not constitute debt of the issuer, subject to constitutional debt limitations.
- **Tax Allocation (Tax Increment).** Tax allocation bonds (sometimes referred to as tax-increment financing) are issued by Enhanced Infrastructure Financing Districts or Community Revitalization and Investment Authorities and repaid from the growth in property tax revenue (i.e., tax increment) and other designated revenues over a certain period, largely as a result of the funded projects in the area.

REVENUES FROM OTHER GOVERNMENT AGENCIES

Counties, cities and many special districts also receive revenues from the state and federal government. For example, over half of county revenues statewide come from state and federal sources. This reflects the role of counties in implementing state policy and programs for health and human services.

Gas Tax or Highway Users Tax

The state imposes per gallon tax on gasoline of 27.8 cents as of July 1, 2016. These funds are apportioned to cities and counties, primarily on the basis of their populations. Local gas tax revenues must be spent on research, planning, construction, improvement and maintenance of public streets, highways and mass transit. The federal government's 18.4 cents per gallon rate pays primarily for federal highways with some local grants.

Motor Vehicle License Fee (VLF)

The Motor Vehicle License Fee is a state imposed and collected tax on ownership of a registered vehicle. Counties receive vehicle license fee revenues to fund certain health, social service and public safety programs that were realigned to counties in 1991 and 2011.

State Public Safety Sales Tax

Proposition 172, a ballot measure approved in 1993, imposed a one-half percent state sales tax to be used for local public safety activities. The state distributes Proposition 172 revenues to each county based on its proportionate share of statewide taxable sales. Many cities receive a share of those funds based on losses to the state's ERAF property tax diversions.

State Mandate Reimbursement

The state constitution requires the Legislature to reimburse local governments for their costs to implement a state-mandated new program or higher level of service in an existing program. The Constitution requires the Legislature to suspend most state mandates in any year in which full funding is not provided for that mandate. The Commission on State Mandates determines the level of reimbursement in response to a claim for reimbursement filed by a local agency. The process typically takes several years during which time, local governments must spend money to comply with the mandate.

Federal and State Grants and Aid

The federal and state governments provide a wide variety of funds to counties, and a more limited set to cities and special districts. Federal and state grants comprise a large proportion of county revenues because of the many programs and responsibilities counties carry out on behalf of the federal and state governments. These funds are almost entirely restricted to specified uses. Examples include certain health, mental health, social and child welfare services.

Categorical grants support a defined program area. Categorical grants typically go to local agencies that either meet predetermined funding criteria or compete for project funding through an application process.

Block grants provide funding to a broad functional area. For example, federal Community Development Block Grant (CDBG) funds support local housing and economic development activities.

RENT FOR USE OF PUBLIC PROPERTY

Rents, Royalties and Concessions

Another way cities and counties and some special districts pay for public services is to charge rent for use of the public's property. An example is royalties from natural resources taken from land the public owns. Others include selling advertisements in publications or on buses, as well as, receiving a percentage of net profits from concessionaires operating on public property.

Franchise Fees

Franchise fees are a form of rent for use of public streets and roadways. Examples of businesses that pay franchise fees include trash collectors, cable television companies, electric utilities and oil and natural gas pipeline companies. Federal and state law limits the amount of some franchise fees (for example, video and cable television franchise fees). Franchise fees for provision of video services (like television programming) are limited and administered by the state.

FINES, FORFEITURES AND PENALTIES

Violations of the law often result in a fine of some kind. Fines, forfeitures and penalties may be imposed for many reasons. Typical examples include traffic violations, court fines, penalties and interest on late or unpaid taxes.

- State law determines the distribution of fines and bail forfeitures imposed by the state.
- State law apportions revenues for parking violations and surcharges between issuing agencies and the counties.
- A city or county may impose fines, forfeitures and penalties for civil violation of local ordinances.
- Bail for local code violations charged criminally is established by the local courts with input from the city or county.

Maintenance of Effort Requirements (MOE)

When cities and counties receive funding for programs from the state or federal government, such funding may come with strings attached. A common condition is that the city or county commit to a certain level of funding. This commitment is called "maintenance of effort."

Local agencies also receive reimbursement for revenue lost as a result of some tax exemptions and reductions. An example includes the homeowners' property tax exemption, which eliminates the property tax on a small portion of the assessed valuation of owner- occupied residential property.

OTHER REVENUES

There are other local government revenues, comparatively minor in amounts. These include interest earned on investments, sales of surplus property and gifts.

ACKNOWLEDGEMENTS

Special thanks to Michael Coleman whose expertise contributed to the 2016 update of this publication. Michael Coleman is a leading expert on California local government revenues, spending and financing. He is the creator of CaliforniaCityFinance.com, the California Local Government Finance Almanac, an online resource of data, analyses and articles on California municipal finance and budgeting.

The Institute also appreciates the contributions from the staff of the California Special Districts Association, the California State Association of Counties and the League of California Cities for their contributions and suggestions to this revised document.

ENDNOTES

[i] California Department of Finance, Demographic Research Unit www.dof.ca.gov/Forecasting/Demographics/Estimates/
[ii] Cal. Const. art. XI, § 1(a). *See also* Cal. Gov't Code § 23002 ("The several existing counties of the State and such other counties as are hereafter organized are legal subdivisions of the State."). *People ex rel. Younger v. County of El Dorado*, 5 Cal. 3d 480, 491, 96 Cal. Rptr. 557 (1971)
[iii] Cal. Const. art XIIIC, section 1(e)
[iv] A complete discussion of this list of seven exceptions can be found in the *Proposition 26 Implementation Guide* published by the League of California Cities.
[v] Proposition 30 imposed an additional state general fund sales tax of 0.25 percent from 2013 through 2016, for a total base rate of 7.5% during that time.
[vi] See "State Public Safety Sales Tax" under "Revenues From Other Government Agencies."
[vii] In some cities, by historic agreement, the city collects less than 1.00 percent, with the difference allocated to the county. For example, in San Mateo county each city receives 0.95% of transaction within its jurisdiction and 0.05% goes to the county general fund. For a full list of local sales tax rates see Table 23A of the California State Board of Equalization Annual Report. http://www.boe.ca.gov/annual/table23a.htm
[viii] Except in the counties of Los Angeles, Alameda and Contra Costa where the maximum is 2.5 percent. Revenue and Tax Code §7251 et seq.
[ix] For more information on Charter Cities see www.cacities.org/chartercities

Resources for Further Information

Coleman, Michael. *California Municipal Revenue Sources Handbook*, League of California Cities 2014.

Multari, Michael, Michael Coleman, Kenneth Hampian, Bill Statler. *Guide to Local Government Finance in California*, Solano Press Books, 2012.

California Legislative Analyst's Office. www.lao.ca.gov

"California Local Government Finance Almanac: Data, Statistics, Analyses on California City, County and Special District Finance." www.californiacityfinance.com

"Financial Management for Elected Officials." Institute for Local Government. www.ca-ilg.org/post/financialmanagement

"Learn About Cities." League of California Cities. www.cacities.org/Resources/Learn-About-Cities

"What Do Counties Do?" California State Association of Counties. www.csac.counties.org/californias-counties

"What are Special Districts and What Do They do?" California Special Districts Association. www.csda.net/special-districts/

Notes

ABOUT THE INSTITUTE FOR LOCAL GOVERNMENT

The Institute for Local Government (ILG) is the nonprofit 501(c)(3) research and education affiliate of the League of California Cities, the California State Association of Counties and the California Special Districts Association. Its mission is to promote good government at the local level with practical, impartial and easy-to-use resources for California communities.

For more information and to access the Institute's resources, visit www.ca-ilg.org.

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Brief Glossary of Financial Management Terms

Note: The following glossary is designed to help non-finance experts understand some of the terminology used in public agency financial management. Public agency financial management frequently involves terms that are unfamiliar to non-experts, the definitions of which also involve other unfamiliar terms. The definitions and explanations offered below sometimes sacrifice technical accuracy in order to promote a general understanding of what a term means.

The Institute for Local Government encourages those that wish absolute technical accuracy to consult additional sources.

Accounting Standards	Generally accepted accounting principles (sometimes referred to by the acronym GAAP) published by the Governmental Accounting Standards Board (sometimes referred to by the acronym GASB) that guide local and state agencies' recording and reporting of financial information. The standards establish such guidelines as when transactions are recognized and annual financial report content.
Accrual Basis Accounting	An accounting method in which revenues (or income) are entered into the accounting system when they are payable (even though the money may not have been received yet), and expenses are recognized when the commitment to pay is made (even though no payment may have occurred yet). *Compare with Cash Basis Accounting.*
Bond	An interest-bearing promise to repay a specified sum of money borrowed (known as the principal amount) by a specified date. *See also "General Obligation Bonds."*
CalTRUST	A joint powers authority created by public agencies to provide a safe and convenient method for public agencies to pool their assets for investment purposes.
Capital Budget	A spending plan for improvements to or acquisition of land, facilities, and infrastructure. The capital budget balances revenues and expenditures, specifies the sources of revenues, and lists each project or acquisition.
Capital Improvement Program (CIP)	The section in the agency's budget for capital improvement projects, such as street or park improvements, building construction, and various kinds of major facility maintenance.

Capital Outlay	Spending that results in the acquisition of or addition to the agency's land, buildings, equipment, machinery, vehicles, and the like to provide services to the community (sometimes these are referred to as "fixed assets"). .
Cash Basis Accounting	An accounting method in which revenues are entered into the agency's accounting system when the cash is received and spending is entered into the system when the agency makes a payment. To comply with generally accepted accounting principles, local agencies must use accrual basis accounting, rather than cash basis. *Compare with "Accrual Basis of Accounting."*
Construction / Development Tax	A tax imposed on development and/or the availability or use of public agency services. *See also "Development Impact Fees."*
Contingency	In budgets, an amount that is set aside to meet unforeseen circumstances.
Debt Financing	Issuing bonds and other kinds of debt instruments to finance agency activities in service to the public.
Debt Service	Annual principal and interest payments an agency owes on money that it has borrowed.
Debt Service Funds	One or more funds in an agency accounting system established to track payments made to repay principal and interest on debt.
Development Impact Fees	Amounts charged in connection with land development to pay for facilities or services that will be needed to serve the new development that are tied to the proportionate costs of providing those facilities or services to that development.
Enterprise Fund	A separate fund used to account for services supported primarily by service charges. An example would be a solid waste fund supported by charges solid waste service receivers pay.
Entitlement Program	A benefit program in which funding is allocated according to eligibility criteria. All persons or agencies must meet the criteria specified by federal or state laws in order to receive the benefit.
Estimated Revenue	The amount of revenue the agency expects receive during a fiscal year.

Expenditure	An amount paid for goods and services associated with the provision of public services, including payments for debt retirement and capital outlays.
Fee	A charge for the cost of providing a particular service. Public agency fees may not exceed the estimated reasonable cost of providing the particular service or facility for which the fee is charged, plus overhead.
Fines, Forfeitures and Penalties	Revenues received and/or bail monies forfeited upon when an individual is convicted of a misdemeanor or municipal infraction.
Full Faith and Credit	When a local agency uses debt financing, more specifically general obligation bonds, it makes a pledge to bondholders the agency will use all available funds to meet the agency's obligation to repay bondholders.
Full-Time Equivalent (FTE)/Staff Year	The number of hours per year that a full-time employee is expected to work. If there are two workers, each of whom works half that number of hours per year, the two workers together equal one full-time equivalent or one staff year.
Fund	A self-balancing set of accounts. For agencies with more complex budgets, accounting information is organized into funds, each with separate revenues, expenditures, and fund balances.
Fund Balance	Difference between the assets (revenues and other resources) and liabilities (amounts spent or committed to) of a particular fund.
General Fund	Fund used to account for all financial resources except those accounted for in another fund (for example, enterprise or grant funds). Usually, the general fund is the largest fund in a local agency.
General Obligation (G.O.) Bonds	A form of debt in which the agency pledges its "full faith and credit" to collect enough money each year to repay the amount borrowed plus interest.
General Tax	A tax imposed for general governmental purposes, the proceeds of which are deposited into the general fund. An agency must comply with certain procedural requirements to impose, increase or extend a general tax, including securing approval of the tax by majority vote of the electorate. *See also "special tax."*

Generally Accepted Accounting Principles (GAAP) Uniform minimum standards used by state and local agencies for financial recording and reporting which have been established by the Governmental Accounting Standards Board (sometimes referred to by the acronym GASB).

Governmental Accounting Standards Board (GASB) – The body that sets accounting standards for governmental entities at the state and local levels.

Grant A payment of money from one entity to another for a specified purpose, activity or facility. Generally, grants do not have to be repaid by the recipient, as long as the recipient uses the funds for the promised purposes, activities or facilities.

Intergovernmental Revenue Revenues from other public agencies in the form of grants, entitlements, shared revenues or payments in lieu of taxes.

Investment Earnings Revenue earned from the investment of public funds.

Licenses and Permits These represent the agency's permission to engage in certain kinds of activities. Local agencies often charge fees designed to reimburse local agency for costs of regulating activities being licensed, such as licensing of animals, bicycles, etc.

Lien A claim on assets, especially property, for the payment of taxes or utility service charges.

Liquidity The ability to convert a security into cash promptly with minimum risk of principal.

Local Agency Investment Fund (LAIF) A special investment fund in the state treasury into which local agencies may deposit money for investment.

Maintenance of Effort (MOE) A requirement often imposed as a condition of receiving certain kinds of funding, that the agency maintain a certain level of spending. The goal of such requirement is to have the funding being provided increase the level of spending on the program (and conversely, avoid having the extra funding be used to replace existing spending).

Mandate A state of federal requirement that local agencies perform a task in a particular way or perform a task to meet a particular standard, often without providing the revenues to do so.

One-Time Expenditures

A term used to differentiate routine, ongoing costs within a given budget from non-recurring costs that will not be repeated in future years. A capital expenditure can be a one-time expenditure (although an agency may need to evaluate whether the agency will incur maintenance or replacement costs. This category may also include single-year appropriations for special purposes.

Other Post Employment Benefits (OPEB)

A pension is a form of "post-employment benefit," that is, a benefit an employee receives after their service to the agency ends. *Other* forms of such benefits can include health insurance and other health-related benefits provided to former employees.

Performance Measures

Indicators used in the budget to show items such as 1) the amount of work accomplished, 2) the efficiency with which tasks were completed, and 3) the effectiveness of a program. Such indicators can help the public understand what public agency spending accomplishes.

Portfolio

The collection of investments held by a local agency.

Prevailing Wage

The basic hourly rate paid on public works projects to a majority of workers engaged in a particular craft, classification or type of work within the locality and in the nearest labor market area (if a majority of such workers are paid at a single rate). Prevailing wage laws require all bidders to use the same wage rates when bidding on a public works project.

Principal

The original amount of a bond or debt (sometimes also referred to as "face" or "par value"), not including accrued interest.

Program Revenues

Income generated by programs and/or dedicated to offset the program's costs.

Rating

Letters and numbers used by rating agencies to express their assessment of the likelihood of a bond or debt being repaid.

Rating Agencies

Firms that evaluate the likelihood bonds or debts will be repaid by assigning ratings to those bonds or debts. A bond rating is often the single most important factor affecting the interest cost on bonds. There are three major rating agencies for municipal bonds: Moody's Investors Service, Standard & Poor's, and Fitch Ratings.

Realignment	Actions taken by the State of California in 1991 and 2011 to restructure the state-county fiscal relationship by making certain health, social service, criminal justice, and mental health service programs county responsibilities, and providing some funding to help pay for the new responsibilities.
Rents	Revenues received through the rental of public properties to private parties such as convention space and library facilities.
Reserve	Amounts set aside to provide a funding source for extraordinary or unforeseen expenses or revenue shortfalls. Sometimes also referred to as "fund balance(s)" to reflect multiple agency funds. *See also* definition of "fund."
Revenue	Income received by the local agency. For more information on **sources** of county and city revenues, see Institute for Local Government, *Understanding the Basics of County and City Revenues* (2008), available at www.ca-ilg.org/revenueguide.
Revenue Bonds	A form of debt in which the agency pledges the income received from the operation of the facilities being financed with the debt to repay the amounts borrowed plus interest.
Salaries and Benefits	Salaries includes the compensation paid to full-time, part-time, temporary, and extra-help employees, including overtime, vacation pay, sick leave pay and any type of premium pay. Benefits include the agency's share of the costs for health, dental, life insurance, retirement, Social Security and Workers' Compensation.
Sales Tax	A tax imposed on the total retail price of merchandise sold by a retailer.
Secured Roll	A list containing all assessed property secured by land subject to local taxation
Securities	Pieces of paper (sometimes referred to as "instruments") that represent financial value. Examples include bonds and stocks.
Service Charges	Amounts charged to cover the cost of providing services to individuals or companies.

Short-Term Financing Methods	Techniques used for many purposes, such as meeting anticipated cash flow deficits, interim financing of a project, and project implementation. Using these techniques involves issuance of short-term notes.
Special Revenue Fund	Funds used to account for proceeds from specific revenue sources that are legally restricted as to how the revenues may be spent. A special revenue fund must have a separate budget adopted annually.
Tax and Revenue Anticipation Notes (TRANS)	A short term loan that local agencies use to even out cash flow during the year. The loans take the form of a debt ("note") that is secured by anticipated tax and other revenue collections.
Tax Base	The objects or transactions to which a tax is applied (for example parcels of property, retail sales, etc.). State law or local ordinances define the tax base and the objects or transactions exempted from taxation.
Tax Rate	The amount of tax applied to the tax base. The rate may flat, incremental or a percentage of the tax base, or any other reasonable method.
Total Appropriations and Total Revenues	The consolidation of all revenues and expenditures for all funds. The purpose is to report accurately the full amount of governmental revenues and expenditures for the budget period
Use Tax	A tax imposed on the use or storage of tangible personal property when sales tax is not paid. *See also "sales tax."*
User Fee	Fees charged for the use of a public service or program. An example is fees charged to participants in recreation programs. User fees for property-related services are referred to as property-related fees.
Utility Rate	A category of user fee paid by the user of utility services.
Utility Users Tax	Tax imposed on the consumer (residential and/or commercial) of any combination of electric, gas, cable television, water, and telephone services.
Vehicle License Fee (VLF)	Annual registration fee imposed on vehicles.

Williamson Act and Open Space Subvention Officially known as the California Land Conservation Act of 1965, a law that allows local agencies to enter into contracts with private landowners to restrict specific parcels of land to agricultural or related open space use. In return, landowners receive property tax assessments which are much lower than normal because they are based upon farming and open space uses as opposed to full market value. The program contemplates local agencies receive an annual subvention of forgone property tax revenues from the state.

Yield The total amount of revenue an agency expects to receive from a tax, determined by multiplying the tax rate by the tax base. Also, the annual rate of return on an investment, expressed as a percentage of the investment.

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LOCAL GOVERNMENT BASICS

Financial Management for Elected Officials: Questions to Ask

Inside: Key Things to Know About

- Local Agency Financial Policies
- Budget Creation and Monitoring
- Financial Reporting
- Long-Term Financial Planning
- Cash Management and Investments
- Capital Financing & Debt Management
- Purchasing and Contracting Practices
- Finance Terminology (Glossary)

www.ca-ilg.org/financialmanagement

Introduction

One of an elected official's most important responsibilities is oversight of agency finances. Local agency finance can be complex. In addition, local agencies face significant financial constraints in California; this includes revenue instability due to state budget decisions and economic factors, state-mandated activities and procedural restrictions on raising new revenues.

What can elected officials do to exercise the kind of careful fiscal stewardship over taxpayer resources that the community expects?

This guide provides a series of tips and questions to assist elected officials in performing this important function. In reviewing these ideas, it is important to keep in mind that local agencies vary by size, complexity of operation, and scope of activities. As a result, some of the questions and practices described may not make sense for every local agency. For example, as a budget and accounting matter, some agencies perform one function and may therefore have one "fund." Others may have multiple funds.

This guide is a starting point for conversations between local elected officials and staff. The ultimate goal is to help make sure that everyone is playing their necessary and proper roles as informed and responsible stewards of scarce public agency resources.

Where to Find What

Local Agency Financial Policies and Practices

Financial policies can provide a solid foundation for sound public agency fiscal practices. Adopted by the governing body, such policies provide:

- A means through which the governing body can communicate its collective policy judgments and goals to staff, the public and others.
- Direction to staff and standards against which current practices can be measured, and proposals for changes in practices can be evaluated.

Ratings agencies (who assess local agencies' credit for borrowing) also look at local agencies' financial policies; well-crafted polices can mean higher rating grades which can translate into lower borrowing costs.

Questions to Ask

Financial Policies

- Does the agency have written financial policies?
- If so, what do they cover? See sidebar on next page for a checklist of possible topics.
- How often does the governing body review them?
- With respect to each policy, is it clear who is responsible for implementing that policy?
- What procedures does management use to make staff aware of such policies? What training does staff receive to allow them to competently implement such policies?
- How does the agency monitor compliance with such policies?

Financial Practices

- Are agency accounting policies and procedures documented in writing?
- What kinds of practices does the agency use (sometimes referred to as "internal controls") to make sure that the agency has systems for cross checks to minimize the risk of mistakes or maximize the likelihood that misconduct is detected?
- Does agency financial staff participate in relevant professional organizations to keep abreast of developments in the field and best practices?

- Are agency financial staff familiar with and do they adhere to the codes of ethics applicable to their professions? For example, both the California Society of Municipal Finance Officials[1] and the California Municipal Treasurers Association[2] have codes of ethics.

Financial Planning Policies.[3]

- **Budget Policy.** Such a policy commits to a balanced operating budget (and defines what that is) and requires that decision-makers be alerted when deviations are either planned or otherwise occur.

- **Long-Range Planning.** Such a policy supports financial analysis and strategies to assess the long- term implications of current and proposed capital improvement needs, cost of services, operating budgets, budget policies, cash management and investment policies, program and assumptions. For example, a capital improvement plan enables the agency details the agency's plans and relative priorities for making improvements to and replacing capital facilities (a process that normally takes years to complete).[4]

Checklist of Financial Policy Topics[5]

Local agencies have various—and various levels—of financial policies. Some policies relate to big picture, strategic topics (for example, budget policy, long-range planning and debt policy); others are very specific and practical policies (for example, credit card policies and expense reimbursement).

Having a range of policies (from big picture to practical and operational) helps an agency to chart a wise course financially and avoid operational missteps. Whether a specific policy makes sense given the nature and scope of an agency's operations will vary.

- **Asset Inventory.** Such a policy requires an up-to-date listing of all major capital assets including. The policy can also require an assessment of asset condition and a plan for replacing assets (sometimes referred to as a "capital plan"). The definition of what constitutes a "major" asset is established by local policy, as is the determination of how often the inventory is to be updated.

- **Long-Range Planning for Pension and Other Post-Employment Benefit Costs.** Such a policy analyzes how the agency will meet the future costs of agency employee pensions and other employee benefit obligations.

- **Reserve and Other Fund Balances.** Such a policy enables decision-makers to maintain a prudent level of resources to protect against a need to reduce service levels or increase revenues due to revenue shortfalls or unpredicted one-time expenses. Specific kinds of reserves can also enable an agency to set aside moneys to replace assets (for example, fleet replacement reserves).

Revenue Policies.[6] These policies help decision-makers understand and manage revenue flows.

- **Revenue Diversification.** Such a policy encourages a diversity of revenue sources to protect the agency against fluctuations in individual sources, such as sales taxes, which can rise and fall dramatically with the general economy.

- **User Fees and Charges.** Such policies establish the extent to which users of agency services are expected to cover the cost of providing the service and how those costs are determined. Note that most fees may only be used for the purposes for which they were collected and may not exceed the cost of providing the service for which the fee is charged.[7] Such policies also can provide for regular review of fee levels and calculation methods to assure that the agency meets its objectives relating to cost-recovery on an ongoing basis.

- **One-Time and Unpredictable Revenues.** A goal of such a policy is to encourage the use of one-time or unplanned revenues for one-time needs or reserve replenishment rather than for ongoing expenses.

- **Limited Purpose Revenues.** By law or policy, certain revenues must be spent for specific purposes (for example, proceeds from special taxes). This policy explains which funds are restricted and why, limits their use to those purposes, and explains how the agency tracks their use to ensure the funds are spent only on permissible expenses.

Expense Policies.[8] These policies enable decision-makers to manage and monitor how the agency incurs expenses.

- **Financial Reporting.** Financial reports compare actual expense levels (and revenue levels) to those predicted in the agency's budget. This policy specifies the content and frequency (for example, quarterly) of these reports to decision-makers and the public.

- **Debt Financing.** This kind of policy allows an agency to specify when it can use debt for either short- or long-term needs. The policy also establishes what levels of debt and debt service payments are appropriate for the agency. It can also be a tool for complying with ongoing disclosure requirements associated with the agency's debt and monitoring compliance with those requirements.

- **Expense Reimbursement.** Such policies determine the circumstances under which elected officials and staff may be reimbursed for expenses incurred in the course of their service to the agency. This includes setting limits on certain kinds of expense levels (for example, meals and hotel rates) according to community standards. Policies also specify the kind of documentation that must be provided to demonstrate that the expense was incurred in compliance with the policy before an expense will be reimbursed. Agency counsel should review the policy for compliance with AB 1234 and other state laws.[9]

- **Credit and Purchase Card Use Policies.** The practice of issuing credit cards to agency officials and staff is increasingly rare because of the potential for misuse, either accidentally or intentionally. It can however, be useful to have one or more agency credit cards to make travel arrangements and the like. Some agencies also use purchase cards. A policy specifies controls to prevent misuse of such cards.[10]

- **Petty Cash Policies.** Such a policy provides guidelines and accountability mechanisms for day-to-day cash handling by the agency and its departments.

Cash Management and Investments. State law requires agencies to adopt an investment policy specifying how the agency may invest funds not needed for the agency's immediate and short-term needs.[11] Such a policy allows the governing body to establish and keep current the agency's investment philosophy and risk tolerance. Although well-defined policies are more than a list of allowed investments,[12] such policies should be reviewed by agency counsel to make sure that the agency's investments and practices conform with state law.[13]

Purchasing/Procurement. These policies determine the processes the agency uses in determining with whom it does business (including under what circumstances contracts are competitively bid) and which staff have decision-making responsibility in that area. Such policies also typically specify how the opportunity to do business with the agency is to be announced, with the goal being to reach

Budget Creation and Monitoring

Budgets are an agency's tool for linking near-term goals with the resources available to achieve them, while keeping in mind long-term goals and resources and how the agency's annual budget fits into its capital plan. Budgeting typically involves:

1. Establishing goals and priorities for the agency;
2. Allocating resources according to those goals and priorities; and
3. Comparing actual expenses and revenues to those estimated in the current budgeted expenses, making adjustments during the course of the budget year as necessary.

As important of a function as budgeting is, decision-makers may find that their options are limited in determining how the agency's monies are actually spent. The limitations may result from legal restrictions on how funds may be used, matching funds issues (that will result in loss of revenues if the agency does not spend a certain amount), and state mandates.

Budgets play the following roles:

- **Financial Plan.** The budget document shows where agency revenues come from and how they are used. It demonstrates an agency's ability to meet recurring expenses with recurring revenues. As the fiscal year proceeds, there may need to be adjustments in the agency's financial plan—the role of elected officials is to understand why such adjustments were necessary and what steps were taken to avoid having to make these adjustments.

- **Communications Tool.** The document also is an opportunity to explain to decision-makers, the news media, staff and the public:

  - What the agency does and why;
  - How the agency is organized to deliver programs and services;
  - The kinds of programs, services and activities planned for the budget period and what kinds of costs are involved;
  - Key fiscal issues facing the agency; and
  - How the agency assesses the efficiency and effectiveness of agency efforts (see also note on performance measurement on page 11).

- **Yardstick.** Once adopted, local officials and others can use budget numbers as a reference against which to compare expenditures and revenues throughout the year. As such, the budget provides an ongoing financial management tool to make sure the agency spends within its means and balances expenses against revenues.

The budget document should be easily understood by the average member of the community. To help make this happen, financial information can be presented a variety of ways (including text, tables and charts). Including performance measures in the budget document can help the public see the relationship between costs and benefits.

Because of the public information role the budget document serves, the Government Finance Officers Association recommends that budget documents be shared via the agency's website.[14]

Questions to Ask

Role of Governing Body Members

- Do governing body members have a clear understanding of their role in the budget process?
- Do governing body members have a meaningful opportunity to shape major goals and objectives *before* the preliminary budget is prepared (for example, in budget workshops conducted sufficiently in advance of the preliminary budget's preparation)?
- Do governing body members feel like they have been given an opportunity to understand and react to key decision points within a preliminary budget (versus being subjected to a long, random presentation about numbers)?

General Questions about the Numbers in the Budget

- What are the budget's underlying assumptions (examples of key assumptions include population changes, projected case loads or service demands, state and federal funding, construction activity, utilities costs, service demands, inflation, and interest rates)? Are these assumptions realistic? What are the potential sources of uncertainty and risks regarding these assumptions?
- Does the budget explain the projections for the most significant general fund revenue sources? (These probably account for close to a large percentage of total general fund revenues.)
- For agencies providing social services, how are caseload and benefit costs forecast and managed?

Budgets Don't Tell the Whole Story

Operating budgets and financial reports do not address many important issues that decision-makers must consider. For example, they do not:

- Show postponed or avoided costs (for example, deferred maintenance on facilities or infrastructure)
- Use of one-time or expiring revenue sources.
- Indicate changes in purchasing power due to inflation or deflation.
- Measure the decline or depreciation of infrastructure (like roads, bridges and sewer lines) and public facilities (like buildings and parks).

Local officials may wish to ask staff to provide an analysis of how these variables affect the agency's ability to deliver services and facilities.

- Does the budget summarize major expenses:
  - By function or program tied to areas of public service(s) or facilities the agency provides?
  - By category? (Examples include capital expenses, debt service, and operating expenses like staffing, contract services, and supplies).
  - By fund type? (Examples include the general fund and various enterprise funds, if the agency has special funds).
- Is the budget balanced by one-time fixes or is there a sustainable long-term funding strategy (this is also an issue to be addressed in the agency's long-term financial planning documents, see page 14)?
- Does the budget clearly show the beginning and ending balances in each fund (fund balances)?
- Is the general fund budget balanced (in other words, are there enough projected revenues to fund estimated expenses)?
- Does the budget use one-time revenues only for one-time expenses (rather than ongoing expenses)?
- Does any fund have a deficit (in other words, is it projected to spend more than it brings in)? Why? Is it the deficit temporary or permanent?
- What are the most significant changes since last year's adopted budget?
- With respect to the agency's general fund, how is the fund balance projected to change?
  - How are other funds' fund balances projected to change?
  - How will any resulting changes affect the agency's compliance with its reserve policies?
- Does the budget compare actual expenses and revenues from past years so decision-makers and the public can understand how the agency's budgeted numbers compared to reality?
- Does the budget show changes in the agency's overall financial condition? What measures of financial condition does it use?

- How does the agency's budget compare with other agencies in the geographic area (both for the next fiscal year and the trend over the past five years)?
  - If there are differences, what are they and what factors account for the differences? (For example, are other agencies using different assumptions and why?)
  - Is the agency's budget dependent on any other agencies, in terms of revenues (or expenditures)?
  - Are the other agencies planning changes that should affect the agency's assumptions?

Local Agency Budgeting: Resources for Further Information

Government Finance Officers Association, *Recommended Budget Practices: A Framework for Improved State and Local Budgeting* (1998), available at www.gfoa.org/services/dfl/budget/RecommendedBudgetPractices.pdf

Institute for Local Government, *A Local Official's Guide to Public Engagement in Budgeting* (2010), available at www.ca-ilg.org/public-engagement-best-practices/engaging-public-budgeting.

- Where is the agency in terms of constitutional limits on state and local spending? (In 1979 the California voters in 1979 approved a ballot measure[15] that limited the growth in state and local spending to a formula tied to increases in population and inflation. Finance professionals sometimes refer to this as the "Gann Limit" named after the ballot measure's sponsor. Local voters can approve an increase in the formula, for a period of up to years.[16])

- If changes to the budget prove necessary during the fiscal year, why are those adjustments necessary? What steps were taken to avoid having to make mid-year changes? What steps can be taken to avoid such changes in the future?

Personnel-Related Questions

- What procedures does the agency use to forecast and manage projected personnel expenses?[17] When do labor agreements expire?

- How does the agency set its salary and benefit levels or ranges?
  - Are there salary-setting guidelines available for positions within the agency? Has the agency considered and followed them?18
  - Does the agency research and consider salaries and benefits other agencies provide for positions with similar responsibilities in the agency's geographic area?
  - How are changes in compensation determined? For unrepresented employees not subject to a memorandum of understanding, are changes based on an annual goal-setting and performance review process? What other variables does the agency consider (overall agency fiscal health, public perception, relationship to other agencies' practices, etc.)?

- Note: If the agency uses employment contracts, carefully consider the potential future fiscal impacts of automatic contract renewals, automatic increases in compensation, and provisions linking compensation increases to third-party contracts. These may hamper the agency's abilities to control its costs in the future.

- Are position vacancies monitored (including length of each vacancy), to determine if salary savings can be achieved, if position actually required, or if service levels are suffering?

- What is the status of the agency's funding for pension and other post employment benefits liabilities?

Public Information and Transparency

- What processes will the agency use to inform the public about budget issues? What mechanisms will there opportunities will be provided for public input on budget challenges and priorities?

Are the agency's budget and supporting documents made available on the agency's website?[19]

Note about Performance Measurement

"Performance measurement" (which is sometimes known by other names) enables an organization to assess its performance against organizational goals. This can occur as part of the budgeting process or as part of general management practices involving assessing the degree to which an organization's activities and priorities are aligned with pursuit of an organization's mission and strategy. Under either approach, the Government Finance Officers' Association recommends that performance measurement be linked to budget decision-making. See www.gfoa.org/downloads/budgetperfmanagement.pdf

More specifically, performance measurement is a management tool for systematically collecting clearly defined data regarding the effectiveness and efficiency of service delivery. The initial questions for elected officials to ask are:

1) Whether and how the agency uses performance measurement to assess its activities,
2) If the organization uses performance measurement, how is the resulting data analyzed and used in management decision-making (including decisions on allocating resources), and
3) How are those results communicated to elected officials and the community?

There are a number of good sources on performance measurement for public agencies, including the International County-City Management Association (ICMA—icma.org/en/results/center_for_performance_measurement/home and the Government Finance Officers Association (GFOA – www.gfoa.org/index.php?Itemid=250&id=479&option=com_content&task=view).

Financial Reporting and Accounting

Financial reports are an essential oversight tool. There are two basic kinds of financial reports:

- **Interim Reports.** These include monthly reports, quarterly reports and mid-year budget reviews.

- **Annual Reports.** Well-managed public agencies typically prepare a report at the end of the year explaining revenues and expenditures levels.

In addition, local agencies that receive federal or other grant moneys may be subject to specific funder financial reporting requirements.[20]

Good interim reporting identifies important trends in time for local officials to act on them before serious problems arise. Audited financial reports alert governing body members if there are irregularities in financial practices and financial reporting. Both kinds of reports require a solid financial information system to track revenues and expenditures and provide that information to decision-makers.

Questions to Ask

Interim Reporting

- What kind of reports do agency managers receive? What do they do with them?

- How often do elected officials receive interim financial reports? Does staff review the information in these reports with local officials?

- Do the reports provide meaningful information that gives local officials an accurate portrayal of the agency's current financial picture to date?

- Do the reports compare expectations with actual results? Do they discuss key variances between the two?

Some Financial Warning Signs

- Operating expenses exceeding revenues by more than five percent during the year
- Large mid-year variances in budgeted revenues and expenditures versus actual
- Inadequate or late financial reports
- Depletion of reserves to balance budget, for example if the reserves fall below ten percent of operating costs.
- Outstanding loans between funds at the end of the fiscal year
- Expenses exceeding revenues for two consecutive years, with the second year's deficit being larger than the first year's
- Debt service exceeds 10 percent of current revenues
- Increase in debt service as percentage of operating budget each year
- Qualified auditor's opinions
- Reports of internal control weaknesses from the agency's auditors with no corresponding plan to address (or repeated reports of such weaknesses from year to year)
- Large turnover in staff responsible for monitoring financial status

- Are there adverse patterns?
- Does staff have a plan to address problem areas?
- Are there inconsistencies or conflicting trends?
- Do the reports identify areas of uncertainty or risk in any forecasts contained in the reports?
- Do the reports frequently contain surprises (unexpected developments)?

Annual Reporting

- Are the annual financial reports prepared by a certified public accountant, in accordance with generally accepted accounting principles? Are these reports audited by an outside or independent auditor?
- Have all the required disclosures, for example, those required by the Governmental Accounting Standards Board (GASB—sometimes pronounced "gaz-bee") been made?
- How long has the outside or independent auditor been auditing the agency? Does the agency periodically change auditors every few years to provide a fresh view of the agency's financial practices and reports?
- What is the relationship between the auditor and both the agency staff and the governing body? Is the auditor getting the information he or she needs in a timely manner? Is communication open and encouraged?
- Are the audited annual financial reports timely—within six months after year-end?
- Should the agency have an audit committee to select and supervise the work of the outside or independent auditor?[21]
- Are the auditors' opinions "unqualified?" (An "unqualified" opinion means that the auditor concludes the agency followed all accounting rules and that its financial reports present an accurate picture of the agency's financial condition. A qualified opinion is a significant warning sign that demands attention from the governing body.)
- Does the auditor prepare a transmittal letter that clearly and concisely describes the agency's fiscal status?
- Does the auditor issue a letter to the governing body reporting on the agency' internal controls?
- Does the agency follow the "Award for Excellence in Financial Reporting" guidelines of the Government Finance Officers Association?[22] If not, why not?

Looking Ahead: Long-Term Financial Planning

- **Why Do Fiscal Forecasts?** Forecasting helps the agency think about the factors affecting the agency's fiscal health (and what can and cannot be done about them). Forecasting also helps elected officials, staff and the community understand the long- term fiscal challenges and opportunities they face, as well as possible advance warning of future uncertainties (for example, voter initiatives and state budget decisions).

- **Recognize Limitations.** Circumstances change and assumptions become outdated. Clearly stating the agency's assumptions in making a forecast encourages the review, and re-evaluation of those assumptions, when necessary.

Questions to Ask

- Does the agency periodically prepare and / or update a long-term fiscal forecast?

- If so, does the forecast take into account key variables relating to revenues and expenses? Variables include demographic factors like changes in population and case loads. They can include economic factors like inflation, new construction, property values and the overall business climate (which can affect sales taxes). Other external factors can include legislative developments and court decisions. Projected costs related to pension obligations and labor agreements are another potential variable.

- Does the forecast reach clear conclusions about what these variables mean for the agency's future revenues and expenses?

- Does the forecast also identify areas of risk and uncertainty that may limit the degree to which the agency can rely on the forecast?

- To what extent are the results of the forecast shared with decision-makers, the news media and the public?

- What level of detail do decision-makers want to receive regarding the agency's long-term financial planning? (Some governing bodies will want fairly detailed information whereas others will want bigger picture information. There is not a right level of detail – the goal is to give governing body members the level of detail that makes them comfortable.)

Cash Management and Investments

Sometimes, public agencies have funds on hand that are being held for longer-term needs. These may be invested in a variety of bonds (but not stocks), notes and other instruments allowed by state law.

The governing body's role is to be a wise steward of the public's resources. The objectives in managing public funds are, in priority order:

1. Safety (the likelihood that the agency will get all its money back)

2. Liquidity (the agency's ability to withdraw funds on short notice)

3. Yield (the interest or other return on the investment)

In light of these objectives, prudent public agency investment managers never seek to earn maximum returns on the agency's portfolio at the expense of safety or liquidity. This would expose the agency to an unacceptable level of too much risk.

Instead, they focus on seeking to earn a reasonable rate of return on the agency's investments, while preserving capital in the overall portfolio and meeting the cash flow needs of the agency.

There are funds that specialize in investing public agency funds; the Local Agency Investment Fund (LAIF) of the State Treasurer's office and CalTrust are examples.

Questions to Ask

- What oversight procedures does the agency use for its investments? Who is responsible for the day-to-day supervision of the agency's investment activities? If that authority has been delegated to the agency's treasurer, has that authority been delegated annually as required by law?[23]

- If that authority has been contracted out, who is responsible for oversight?

- What is the agency's investment policy? Is it understandable? Does the governing body review it annually as the law requires?[24]

- Do governing body members receive and review periodic investment reports?[25] Do these reports include an analysis of cash flow needs?

- Are the investment reports clear and understandable? (A lack of clarity can be a sign of problems or undue investment complexity.)

- Do the reports show numerous investments and transactions? Why? (Many public agencies do not have portfolios that justify "active" management with lots of sales, purchases and trades.)

- Are the agency's investments diverse or are the agency's assets invested in just a few places?

- Do the agency's policies allow investments in derivatives or other potentially high-risk instruments? Does that agency have any such high risk investments?

- Are any bank holdings over the FDIC insurance limit (which may vary from bank to bank) and do such depositories otherwise comply with state and federal standards to provide security for public agency deposits?[26]

Capital Financing and Debt Management

Debt financing is neither a "bad" nor a "good"—it is simply a tool for achieving community goals. However, debt does come at the price of costs of issuance and interest charges, as well as the obligation to make regular loan payments and conform to market disclosure and terms of the debt instruments on an ongoing basis.[27] Allowing these payments to become a dominant part of the agency's budget limits the agency's ability to respond to unplanned expenses.

Debt financing is usually appropriate for:

- **Temporary Short-Term Cash Flow Issues.** An agency may need to bridge cash flow gaps while waiting to receive key revenues (like property taxes in December and franchise fees in April). The agency may cover these gaps by issuing "tax" or "revenue" anticipation notes (sometimes known by the acronym "TRANs"). In this case, any amount borrowed must generally be paid back within a year.

- **Long-Term Improvements.** Debt financing is also appropriate for truly high-priority, one-time improvements – when it makes sense for current taxpayers to share the cost with those who will benefit 20 or 30 years in the future. By contrast, borrowing for ongoing operational expenses or short-term capital needs is inadvisable. The length of the debt should never exceed the useful life of the debt-financed asset.

Any agency's ability to borrow and repay debt capacity is limited. Amounts borrowed for today's project are funds that cannot be borrowed tomorrow. Amounts required for debt repayment in the future are funds that will not be available for other programs and services.

Recognizing the significance of the decision to incur long-term debt for a public agency, California's constitution requires the public voters to approve debt[28] that would be repaid from future general fund revenues.[29] While there are a number of exceptions to this requirement (including the special fund doctrine for revenue bonds[30] and an exception for financing leases), the constitutional principle is important to keep in mind. Incurring debt obligates the community into the future and reduces financial flexibility. Accordingly, the benefits of doing so should outweigh these costs.[31]

Questions to Ask

- Does the agency have a multi-year capital improvement plan? (Having such a plan enables decision-makers to consider key factors like project priorities, debt capacity and what role fees will play in financing).
    - If the agency has such a plan, is it realistic? If not, what steps are necessary to make it realistic?

- If an agency has such a plan, what does the plan *not* include? For example, does it assume that new development will bear the costs of capital improvements necessitated by that development? If so, the plan should so state.

- Does the multi-year capital improvement plan include specific information about how future maintenance costs will be paid for? It's not wise to build an asset the agency cannot afford to maintain.

- Does the agency have clear capital financing and debt management policies? Who is responsible for implementing and monitoring compliance with these policies?

  - Do these policies provide decision criteria for when incurring debt is appropriate?

  - Do these policies address what type of debt financing is appropriate (for example, a) variable versus fixed rates, and b) are interest rate swap agreements allowable and under what circumstances?)

  - Do these policies address protection of credit quality?

  - Do these policies address debt capacity?

  - Do these policies address costs/benefits of risk examinations for proposed debt?

  - Do these policies address who is on the agency's financing team and how consultants like bond counsel, financial advisors, trustees, assessment engineers and underwriters are selected? Are the selection criteria being followed?

  - Do these policies address disclosure to and relations with debt rating agencies?

  - Do these policies address who is responsible for conformance with bond covenants (obligations the agency agrees to as part of bond financing) on an ongoing basis?

- Does the agency have a debt advisory committee? If so, does the membership of the committee include representatives from the local community?

Purchasing and Contracting Practices

Procurement policies and practices enable an agency to promote maximum value and economy for the agency's constituents through fair and competitive processes. The goal underlying such policies is to select vendors and service providers using processes in ways that minimize opportunities for favoritism and that provide for competitive pricing. For service providers, the task also involves assessing whether the provider's skills best meet the agency's needs.

Purchasing presents a number of ethical and legal hazards for local officials, despite what can be a relatively small impact on overall agency spending. This is because missteps can undermine the public's overall confidence in the agency's financial practices. For more information, see www.ca-ilg.org/post/fair-procurement.

For public works projects, state law generally defines when local agencies must use competitive bidding.[32]

Questions to Ask

- What steps does the agency use to have a fair, open and competitive purchasing process?
- Does the agency's purchasing process explain the respective roles of staff and elected officials in that process?
- Have employees involved in the purchasing process received training or informational materials on the importance of both the appearance and substance of fairness in the procurement process?
- Are the purchasing rules straightforward enough so that everyone who has a part in implementing them understands the underlying goals and key rules? One element of clarity can be having separate policies depending on the nature of the purchase (for example, one for goods, one for services and another for public works projects).
- If the agency has a decentralized purchasing system (in other words, if purchase are made separately by different departments), does the agency have clear organization-wide standards and guidelines?
- Does the agency take advantage of cooperative purchasing opportunities with other public agencies?
- Does the agency have policies in place to comply with applicable prevailing wage requirements? These are especially common for vehicles and other big-ticket items.
- Would increased reliance on "just-in-time" deliveries that eliminate large inventories and warehouse systems be useful for the agency?

- Does the agency have policies in place for the proper disposal of surplus property? How has staff been made aware of such policies?
- Is the agency alert to and actively monitor contract terms for cost escalators and automatic renewals that can cause increases that can cause the agency to lose control of costs?
- Are staff responsible for purchasing decisions required to file annual disclosure statements relating to economic interests and gift receipt (known as "Form 700s")?

**Limits on Agency Expenses/
Proper Uses of Public Resources**

Invariably, there are more worthy uses for public funds than there are funds available. Deciding how limited public resources will be allocated is a key responsibility of elected officials, although it is important to acknowledge that decision-makers may have less discretion than one might expect in deciding how public monies are spent.

That being said, the law imposes some basic restrictions on how public resources may be used. For example, any use of public resources must serve the needs of the agency's constituents. California's Constitution expresses this principle by prohibiting "gifts" of public funds by the Legislature, general law cities, and agencies created by state statute;[33] some city charters also contain this restriction. Agency counsel can provide guidance on the issue of what constitutes an impermissible gift of public funds. An example, however, is a payment to another public agency for their purposes, with no benefit flowing back to the donor agency's constituents.[34]

Along similar lines, personal or political uses of public resources also are not allowed.[35] This prohibition applies to not only public money, but also to anything paid for with public money (for example, agency equipment, supplies and staff time). An example of how this prohibition applies is that public resources may not be used for advocacy efforts on ballot measures. (For more information, see www.ca-ilg.org/BallotMeasureLegalIssues). Elected officials should ask how staff and newly elected officials are made aware of these restrictions.

Finally, local agencies must adopt expense reimbursement policies for elected and appointed officials.[36] Agency counsel should review the policy for compliance with state law. Most agencies have adopted expense reimbursement policies for staff as a matter of sound practice.

Brief Glossary of Financial Management Terms

Note: The following glossary is designed to help non-finance experts understand some of the terminology used in public agency financial management. Public agency financial management frequently involves terms that are unfamiliar to non-experts, the definitions of which also involve other unfamiliar terms. The definitions and explanations offered below sometimes sacrifice technical accuracy in order to promote a general understanding of what a term means.

The Institute for Local Government encourages those that wish absolute technical accuracy to consult additional sources.

Accounting Standards	Generally accepted accounting principles (sometimes referred to by the acronym GAAP) published by the Governmental Accounting Standards Board (sometimes referred to by the acronym GASB) that guide local and state agencies' recording and reporting of financial information. The standards establish such guidelines as when transactions are recognized and annual financial report content.
Accrual Basis Accounting	An accounting method in which revenues (or income) are entered into the accounting system when they are payable (even though the money may not have been received yet), and expenses are recognized when the commitment to pay is made (even though no payment may have occurred yet). *Compare with Cash Basis Accounting.*
Bond	An interest-bearing promise to repay a specified sum of money borrowed (known as the principal amount) by a specified date. *See also "General Obligation Bonds."*
CalTRUST	A joint powers authority created by public agencies to provide a safe and convenient method for public agencies to pool their assets for investment purposes.
Capital Budget	A spending plan for improvements to or acquisition of land, facilities, and infrastructure. The capital budget balances revenues and expenditures, specifies the sources of revenues, and lists each project or acquisition.
Capital Improvement Program (CIP)	The section in the agency's budget for capital improvement projects, such as street or park improvements, building construction, and various kinds of major facility maintenance.

Capital Outlay
Spending that results in the acquisition of or addition to the agency's land, buildings, equipment, machinery, vehicles, and the like to provide services to the community (sometimes these are referred to as "fixed assets"). .

Cash Basis Accounting
An accounting method in which revenues are entered into the agency's accounting system when the cash is received and spending is entered into the system when the agency makes a payment. To comply with generally accepted accounting principles, local agencies must use accrual basis accounting, rather than cash basis. *Compare with "Accrual Basis of Accounting."*

Construction / Development Tax
A tax imposed on development and/or the availability or use of public agency services. *See also "Development Impact Fees."*

Contingency
In budgets, an amount that is set aside to meet unforeseen circumstances.

Debt Financing
Issuing bonds and other kinds of debt instruments to finance agency activities in service to the public.

Debt Service
Annual principal and interest payments an agency owes on money that it has borrowed.

Debt Service Funds
One or more funds in an agency accounting system established to track payments made to repay principal and interest on debt.

Development Impact Fees
Amounts charged in connection with land development to pay for facilities or services that will be needed to serve the new development that are tied to the proportionate costs of providing those facilities or services to that development.

Enterprise Fund
A separate fund used to account for services supported primarily by service charges. An example would be a solid waste fund supported by charges solid waste service receivers pay.

Entitlement Program
A benefit program in which funding is allocated according to eligibility criteria. All persons or agencies must meet the criteria specified by federal or state laws in order to receive the benefit.

Estimated Revenue
The amount of revenue the agency expects to receive during a fiscal year.

Expenditure	An amount paid for goods and services associated with the provision of public services, including payments for debt retirement and capital outlays.
Fee	A charge for the cost of providing a particular service. Public agency fees may not exceed the estimated reasonable cost of providing the particular service or facility for which the fee is charged, plus overhead.
Fines, Forfeitures and Penalties	Revenues received and/or bail monies forfeited upon when an individual is convicted of a misdemeanor or municipal infraction.
Full Faith and Credit	When a local agency uses debt financing, more specifically general obligation bonds, it makes a pledge to bondholders the agency will use all available funds to meet the agency's obligation to repay bondholders.
Full-Time Equivalent (FTE)/Staff Year	The number of hours per year that a full-time employee is expected to work. If there are two workers, each of whom works half that number of hours per year, the two workers together equal one full-time equivalent or one staff year.
Fund	A self-balancing set of accounts. For agencies with more complex budgets, accounting information is organized into funds, each with separate revenues, expenditures, and fund balances.
Fund Balance	Difference between the assets (revenues and other resources) and liabilities (amounts spent or committed to) of a particular fund.
General Fund	Fund used to account for all financial resources except those accounted for in another fund (for example, enterprise or grant funds). Usually, the general fund is the largest fund in a local agency.
General Obligation (G.O.) Bonds	A form of debt in which the agency pledges its "full faith and credit" to collect enough money each year to repay the amount borrowed plus interest.
General Tax	A tax imposed for general governmental purposes, the proceeds of which are deposited into the general fund. An agency must comply with certain procedural requirements to impose, increase or extend a general tax, including securing approval of the tax by majority vote of the electorate. *See also "special tax."*

Generally Accepted Accounting Principles (GAAP)	Uniform minimum standards used by state and local agencies for financial recording and reporting which have been established by the Governmental Accounting Standards Board (sometimes referred to by the acronym GASB).
Governmental Accounting Standards Board (GASB) –	The body that sets accounting standards for governmental entities at the state and local levels.
Grant	A payment of money from one entity to another for a specified purpose, activity or facility. Generally, grants do not have to be repaid by the recipient, as long as the recipient uses the funds for the promised purposes, activities or facilities.
Intergovernmental Revenue	Revenues from other public agencies in the form of grants, entitlements, shared revenues or payments in lieu of taxes.
Investment Earnings	Revenue earned from the investment of public funds.
Licenses and Permits	These represent the agency's permission to engage in certain kinds of activities. Local agencies often charge fees designed to reimburse local agency for costs of regulating activities being licensed, such as licensing of animals, bicycles, etc.
Lien	A claim on assets, especially property, for the payment of taxes or utility service charges.
Liquidity	The ability to convert a security into cash promptly with minimum risk of principal.
Local Agency Investment Fund (LAIF)	A special investment fund in the state treasury into which local agencies may deposit money for investment.
Maintenance of Effort (MOE)	A requirement often imposed as a condition of receiving certain kinds of funding, that the agency maintains a certain level of spending. The goal of such requirement is to have the funding being provided increase the level of spending on the program (and conversely, avoid having the extra funding be used to replace existing spending).
Mandate	A state of federal requirement that local agencies perform a task in a particular way or perform a task to meet a particular standard, often without providing the revenues to do so.

One-Time Expenditures	A term used to differentiate routine, ongoing costs within a given budget from non-recurring costs that will not be repeated in future years. A capital expenditure can be a one-time expenditure (although an agency may need to evaluate whether the agency will incur maintenance or replacement costs. This category may also include single-year appropriations for special purposes.
Other Post Employment Benefits (OPEB)	A pension is a form of "post-employment benefit," that is, a benefit an employee receives after their service to the agency ends. *Other* forms of such benefits can include health insurance and other health-related benefits provided to former employees.
Performance Measures	Indicators used in the budget to show items such as 1) the amount of work accomplished, 2) the efficiency with which tasks were completed, and 3) the effectiveness of a program. Such indicators can help the public understand what public agency spending accomplishes.
Portfolio	The collection of investments held by a local agency.
Prevailing Wage	The basic hourly rate paid on public works projects to a majority of workers engaged in a particular craft, classification or type of work within the locality and in the nearest labor market area (if a majority of such workers are paid at a single rate). Prevailing wage laws require all bidders to use the same wage rates when bidding on a public works project.
Principal	The original amount of a bond or debt (sometimes also referred to as "face" or "par value"), not including accrued interest.
Program Revenues	Income generated by programs and/or dedicated to offset the program's costs.
Rating	Letters and numbers used by rating agencies to express their assessment of the likelihood of a bond or debt being repaid.
Rating Agencies	Firms that evaluate the likelihood bonds or debts will be repaid by assigning ratings to those bonds or debts. A bond rating is often the single most important factor affecting the interest cost on bonds. There are three major rating agencies for municipal bonds: Moody's Investors Service, Standard & Poor's, and Fitch Ratings.

Realignment	Actions taken by the State of California in 1991 and 2011 to restructure the state-county fiscal relationship by making certain health, social service, criminal justice, and mental health service programs county responsibilities, and providing some funding to help pay for the new responsibilities.
Rents	Revenues received through the rental of public properties to private parties such as convention space and library facilities.
Reserve	Amounts set aside to provide a funding source for extraordinary or unforeseen expenses or revenue shortfalls. Sometimes also referred to as "fund balance(s)" to reflect multiple agency funds. *See also* definition of "fund."
Revenue	Income received by the local agency. For more information on **sources** of county and city revenues, see Institute for Local Government, *Understanding the Basics of County and City Revenues* (2008), available at www.ca-ilg.org/revenueguide.
Revenue Bonds	A form of debt in which the agency pledges the income received from the operation of the facilities being financed with the debt to repay the amounts borrowed plus interest.
Salaries and Benefits	Salaries includes the compensation paid to full-time, part-time, temporary, and extra-help employees, including overtime, vacation pay, sick leave pay and any type of premium pay. Benefits include the agency's share of the costs for health, dental, life insurance, retirement, Social Security and Workers' Compensation.
Sales Tax	A tax imposed on the total retail price of merchandise sold by a retailer.
Secured Roll	A list containing all assessed property secured by land subject to local taxation
Securities	Pieces of paper (sometimes referred to as "instruments") that represent financial value. Examples include bonds and stocks.
Service Charges	Amounts charged to cover the cost of providing services to individuals or companies.

Short-Term Financing Methods	Techniques used for many purposes, such as meeting anticipated cash flow deficits, interim financing of a project, and project implementation. Using these techniques involves issuance of short-term notes.
Special Revenue Fund	Funds used to account for proceeds from specific revenue sources that are legally restricted as to how the revenues may be spent. A special revenue fund must have a separate budget adopted annually.
Tax and Revenue Anticipation Notes (TRANS)	A short term loan that local agencies use to even out cash flow during the year. The loans take the form of a debt ("note") that is secured by anticipated tax and other revenue collections.
Tax Base	The objects or transactions to which a tax is applied (for example parcels of property, retail sales, etc.). State law or local ordinances define the tax base and the objects or transactions exempted from taxation.
Tax Rate	The amount of tax applied to the tax base. The rate may flat, incremental or a percentage of the tax base, or any other reasonable method.
Total Appropriations and Total Revenues	The consolidation of all revenues and expenditures for all funds. The purpose is to report accurately the full amount of governmental revenues and expenditures for the budget period
Use Tax	A tax imposed on the use or storage of tangible personal property when sales tax is not paid. *See also "sales tax."*
User Fee	Fees charged for the use of a public service or program. An example is fees charged to participants in recreation programs. User fees for property-related services are referred to as property-related fees.
Utility Rate	A category of user fee paid by the user of utility services.
Utility Users Tax	Tax imposed on the consumer (residential and/or commercial) of any combination of electric, gas, cable television, water, and telephone services.
Vehicle License Fee (VLF)	Annual registration fee imposed on vehicles.

Williamson Act and Open Space Subvention

Officially known as the California Land Conservation Act of 1965, a law that allows local agencies to enter into contracts with private landowners to restrict specific parcels of land to agricultural or related open space use. In return, landowners receive property tax assessments which are much lower than normal because they are based upon farming and open space uses as opposed to full market value. The program contemplates local agencies receive an annual subvention of forgone property tax revenues from the state.

Yield

The total amount of revenue an agency expects to receive from a tax, determined by multiplying the tax rate by the tax base. Also, the annual rate of return on an investment, expressed as a percentage of the investment.

References and Resources

Note: Sections in the California Code are accessible at leginfo.legislature.ca.gov. Fair Political Practices Commission regulations are accessible at www.fppc.ca.gov/index.php?id=52. A source for case law information is www.findlaw.com/cacases/ (requires registration).

1 The California Society of Municipal Finance Official Code of Ethics can be found at: www.csmfo.org/index.cfm?fuseaction=Detail&CID=4&NavID=154 .

2 The California Municipal Treasurers Association Code of Ethics can be found at: www.cmta.org/?page=4 .

3 GFOA Recommendations: Adoption of Financial Policies, with cross references to National Advisory Council on State and Local Budgeting (NACSLB), www.gfoa.org/downloads/budgetAdoptionofFinancialPolicies.pdf.

4 *See* GFOA website with long-term financial planning resources: www.gfoa.org/index.php?option=com_content&task=view&id=360&Itemid=186.

5 GFOA Recommendations: Adoption of Financial Policies, with cross references to National Advisory Council on State and Local Budgeting (NACSLB), www.gfoa.org/downloads/budgetAdoptionofFinancialPolicies.pdf.

6 GFOA Recommendations: Adoption of Financial Policies, with cross references to National Advisory Council on State and Local Budgeting (NACSLB), www.gfoa.org/downloads/budgetAdoptionofFinancialPolicies.pdf.

7 *See, for example,* Cal. Gov't Code § 66016.

8 GFOA Recommendations: Adoption of Financial Policies, with cross references to National Advisory Council on State and Local Budgeting (NACSLB), www.gfoa.org/downloads/budgetAdoptionofFinancialPolicies.pdf.

9 *See* Cal. Gov't Code § 53232.2(b) ("If a local agency reimburses members of a legislative body for actual and necessary expenses incurred in the performance of official duties, then the governing body shall adopt a written policy, in a public meeting, specifying the types of occurrences that qualify a member of the legislative body to receive reimbursement of expenses relating to travel, meals, lodging, and other actual and necessary expenses."). *See also* www.leginfo.ca.gov/calaw.html for additional information on what such policies must include.

10 *See* GFOA Best Practices: Purchasing Cards, www.gfoa.org/downloads/PurchasingCardFINAL.pdf for suggested practices for preventing and detecting abuse.

11 *See* Best Practices for Treasury Management, Government Finance Review (April 2000), available at www.gfoa.org/downloads/CASHTreasuryapr00.pdf. The California Municipal Treasurers' Association offers sample investment policies at www.cmta.org/?page=39.

12 Back to Basics: Making the Case for Investment Policies, *Government Finance Review* (August 2002) available at www.gfoa.org/downloads/CASHInvestPol0802.pdf.

13 *See* Cal. Gov't Code §53600 and following (note that an agency is not required to authorize the full range of all investments allowed by state law). *See also* http://www.leginfo.ca.gov/calaw.html for specific statutory language.

14 GFOA Recommended Best Practice: Using Websites to Improve Access to Budget Documents and Financial Reports (2003), www.gfoa.org/downloads/caafr-budgets-to-websites.pdf . *See also* www.gfoa.org/downloads/websitepresentation.pdf.

15 *See* Cal. Const. art. XIIIB (added by Proposition 4 on the 1979 ballot and sometimes referred to as the "Gann Limit" after the ballot measure's leading proponent). *See also* Cal. Gov't Code § 7900 and following.

16 Cal. Const. art. XIIIB, § 4.

17 *See* GFOA Recommended Best Practice: Managing the Salary and Wage Budgeting Process (2010), www.gfoa.org/downloads/GFOA_ManagingtheSalaryandWageBudgetingProcessBP.pdf.

18 *See, e.g.,* League of California Cities City Manager Compensation Guidelines, available at www.cacities.org/UploadedFiles/LeagueInternet/91/911307cc-e899-43cb-ba97-7d28bf20640c.pdf

19 GFOA Recommended Best Practice: Using Websites to Improve Access to Budget Documents and Financial Reports (2003), www.gfoa.org/downloads/caafr-budgets-to-websites.pdf . *See also* www.gfoa.org/downloads/websitepresentation.pdf.

20 *See* Single Audit Act Amendments of 1996, OMB Circular A-133, the OMB Circular Compliance Supplement and Government Auditing Standards, www.whitehouse.gov/omb/financial_fin_single_audit.

21 GFOA Recommendation: Audit Committees (2008), www.gfoa.org/downloads/caafrAudit_Committee_revised.pdf.

22 Available at www.gfoa.org/downloads/GENERALPURPOSECHECKLIST.pdf.

23 *See* Cal. Gov't Code § 53607.

24 *See* Cal. Gov't Code § 53646(a).

25 *See* Cal. Gov't Code §§ 53607, 53646(b).

26 *See* Cal. Gov't Code § 53630 and following.

27 GFOA Recommendation: Understanding Your Continuing Disclosure Obligations for Debt (2010), www.gfoa.org/downloads/GFOA_understandingcontinuingdisclosureBP.pdf.

28 Cal. Const. art. XVI, § 18(a) ("No county, city, town, township, board of education, or school district, shall incur any indebtedness or liability in any manner or for any purpose exceeding in any year the income and revenue provided for such year, without the assent of two-thirds of the voters of the public entity voting at an election to be held for that purpose, except that with respect to any such public entity which is authorized to incur indebtedness for public school purposes, any proposition for the incurrence of indebtedness in the form of general obligation bonds for the purpose of repairing, reconstructing or replacing public school buildings determined, in the manner prescribed by law, to be structurally unsafe for school use, shall be adopted upon the approval of a majority of the voters of the public entity voting on the proposition at such election; nor unless before or at the time of incurring such indebtedness provision shall be made for the collection of an annual tax sufficient to pay the interest on such indebtedness as it falls due, and to provide for a sinking fund for the payment of the principal thereof, on or before maturity, which shall not exceed forty years from the time of contracting the indebtedness.") Note that subdivision (b) goes on to provide for additional details relating to school debt.

29 *See Rider v. City of San Diego*, 18 Cal.4th 1035, 1045 (1998).

30 *See, for example, California Housing Finance Agency v. Elliott*, 17 Cal. 3d 575, 587 (1976).

31 *See generally*, GFOA Recommendation: Debt Management Policy (1995 and 2003), www.gfoa.org/downloads/debt-management-policy.pdf .

32 For county projects, the threshold for complying with state law relating to public work contracts and bidding procedures is based on population: counties with populations of 500,000 or more ($6,500); counties with populations of 2 million or more ($50,000); and all other counties ($4,000). *See* Cal. Pub. Cont. Code §§ 20120-20123. *See also* Cal. Pub. Cont. Code § 20390- 20409 (relating to work on county roads). For general law cities, public works projects worth more than $5,000 are subject to the state's competitive bidding requirements. Cal. Pub Cont. Code §§ 20160-20162. The state's Public Contract Code also has various competitive bidding requirements for special districts based on the kind of district. See Cal. Pub. Cont. Code §§ 20190-20381. Note that it is a misdemeanor to split projects to avoid competitive bidding requirements. *See, e.g.*, Cal. Pub. Cont. Code §§ 20123.5, 20163.

33 Cal. Const. art. XVI, § 6.

34 *See, for example, Golden Gate Bridge & Highway Dist. v. Luehring*, 4 Cal. App. 3d 204 (1970).

35 *See* Cal. Gov't Code § 8314; Cal. Penal Code § 424. *See also* Cal. Gov't Code § 54964.

36 *See* Cal. Gov't Code § 53232.2(b) ("If a local agency reimburses members of a legislative body for actual and necessary expenses incurred in the performance of official duties, then the governing body shall adopt a written policy, in a public meeting, specifying the types of occurrences that qualify a member of the legislative body to receive reimbursement of expenses relating to travel, meals, lodging, and other actual and necessary expenses."). *See also* www.leginfo.ca.gov/calaw.html for additional information on what such policies must include.

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Although the Institute endeavors to help local officials understand technical and legal concepts that apply to their public service, these materials are not technical or legal advice. Officials are encouraged to consult technical experts, attorneys and/or relevant regulatory authorities for up-to-date information and advice on specific situations.

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Budget Presentation & Principles Discussion

January 9, 2025

THE CITY OF PLEASANTON

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Objectives

1. Budgets and Budget Process
2. Restricted vs. Unrestricted Sources
3. Budgets Do Not Include All the Funding Needs
4. Financial Challenges
5. Long-Range Financial Planning
6. Key Financial Policies
7. Budget Principles

2

THE CITY OF PLEASANTON

2

Budgets and Budget Process

3

Understanding the City Budget

- A ***budget*** is a financial plan projecting revenues and expenditures for a defined period of time

Budgeting involves the following:

- Establishing goals and priorities for the City
- Allocating resources according to Council goals and priorities
- Comparing actual revenues and expenses to budget and making adjustments as necessary
- Anchoring to Long-Term Forecasts

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Resources Guiding Budget Format and Components

- Government Finance Officers Association (GFOA)
  - ✓A resource, an educator, a facilitator, and an advocate for members — 23,000+ finance professionals
- Governmental Accounting Standards Board (GASB)
  - ✓An independent organization that establishes accounting and financial reporting standards
- State – California Constitution and Government Codes

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Budgeting by Fund

- A ***Fund*** is a self-balancing set of accounts used to track financial transactions and activities, including revenues and expenses (ex. Housing Fund)
- The City has 90+ funds — ***provides transparency and accountability***
- The City Fund types include:
  - General Fund
  - Special Revenue Funds
  - Capital Projects Funds
  - Enterprise Funds
  - Internal Service Funds
  - Others: debt service, trust, and agency

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Unrestricted vs. Restricted Funds

“Restricted funds cannot be used for General Fund operations”

- **General Fund** – The City’s primary **unrestricted** operating fund
- **Special Revenue Funds** – A fund used to collect money that must be used for specific purposes **(restricted)**
- **Capital Projects Funds** – A fund that accounts for capital improvements (**restricted and unrestricted** if funded by the General Fund)
- Enterprise Funds – A self-supporting fund that sells goods and services for a fee/service charge **(restricted)**
- **Internal Service Funds** – A fund used to track goods and services provided between departments and funds **(designated for specific purposes)**

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Operating Budget vs. Capital Budget

Operating Budget

- Focuses on essential city services
- Includes personnel costs, facility operating costs, and other operating expenses

Capital Budget

- Focuses on the development of city infrastructure
- Investments are critical in building and maintaining infrastructure to support a livable, vibrant community

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The City's Budget Process

- A budget takes months to develop and involves community input

January - April
Budget Development
Public Engagement

May
Budget Presentation

June
Budget Adoption

Prepare
- Staff develops a proposed budget based on Council and community goals and priorities

Review
- Staff presents the proposed budget to Council and community for consideration

Adjust
- Staff adjusts the budget based on Council and community feedback

Adopt
- The Council adopts the final budget in June

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City Revenue Sources

Taxes

Fees

Grants

Other

Taxes
- Primary source for General City services and programs
- Unrestricted
- New taxes/changes require voter approval

Fees
- Recover cost for providing specific services
- Require nexus to cost of service
- Subject to State Constitution

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City Revenue Sources (cont.)

Taxes

Fees

Grants

Other

Grants
- Programs (Measure BB, Measure F, Gas Tax)
- Projects (Housing, Street, Public Safety)
- Compliance with federal/state/other funding requirements

Other
- Interest income
- Reimbursements and fines
- Donations
- Interfund transfers

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City Expenditure Categories

Personnel	Transportation & Training
Materials, Supplies & Services	Other Expenditures - Capital Outlay - Debt Service - Transfers out

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Budgets Do Not Include All the Funding Needs

- According to the Institute of Local Governments, operating budgets and financial reports do not reflect important issues such as deferred maintenance
- Table is from the provided reference materials

Budgets Don't Tell the Whole Story

Operating budgets and financial reports do not address many important issues that decision-makers must consider. For example, they do not:

- Show postponed or avoided costs (for example, deferred maintenance on facilities or infrastructure)
- Use of one-time or expiring revenue sources.
- Indicate changes in purchasing power due to inflation or deflation.
- Measure the decline or depreciation of infrastructure (like roads, bridges and sewer lines) and public facilities (like buildings and parks).

Local officials may wish to ask staff to provide an analysis of how these variables affect the agency's ability to deliver services and facilities.

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City Budget Overview

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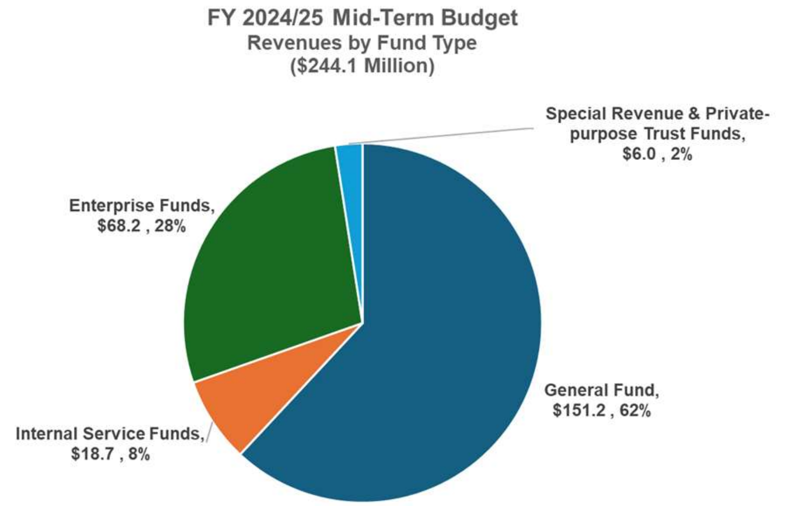
Where Do City Funds Come From?



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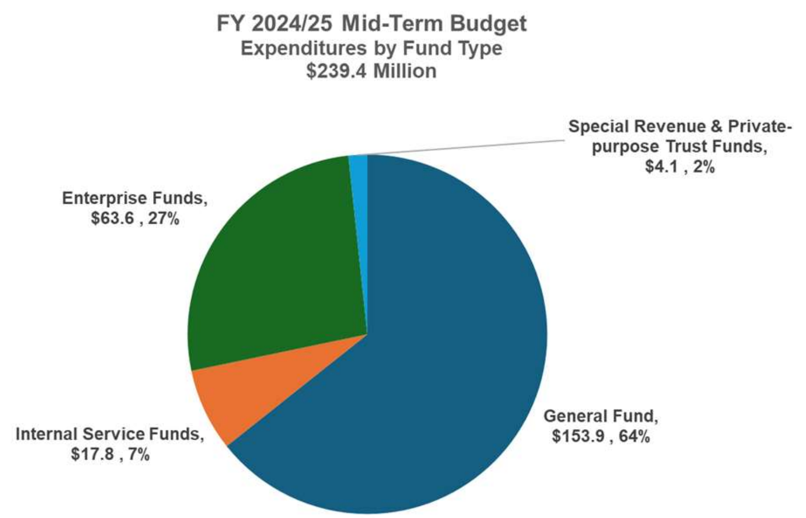
15

How Big Is Our City Budget?



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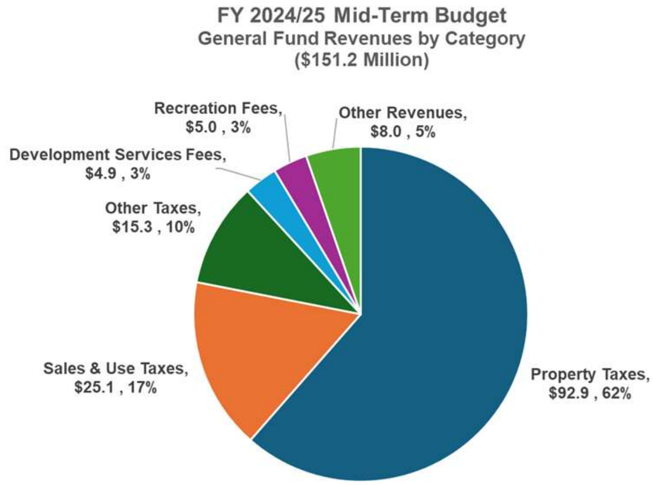
Where Does General Fund Money Come From?

- The General Fund is the City's primary operating fund



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Where Does Your Property Tax Dollar Go?

- Property Tax is the General Fund's major revenue source

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Sales & Use Tax Rate

- Sales Tax is the General Fund’s second largest revenue source
- Pleasanton’s current sales tax rate is 10.25%
- The City **receives $0.10 for every $10 of purchases** made by residents, businesses, and visitors
- Sales tax rate can go up to 10.75%
  - For example, cities of Union City and Newark

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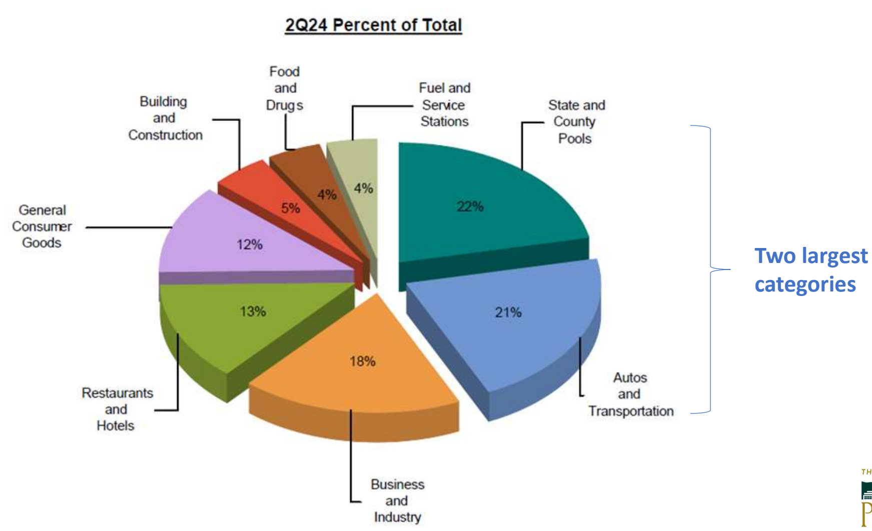
Sales Tax by Category



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Hotel Tax

- Hotel Tax was the General Fund's third largest revenue source pre-pandemic
- Pleasanton's hotel tax rate is 8%
- Annual revenue:
  - Pre-pandemic: >$6.5M
  - Post-pandemic: ~$4.0M to $5.0M
  - Lost $12.0M in revenue (so far)

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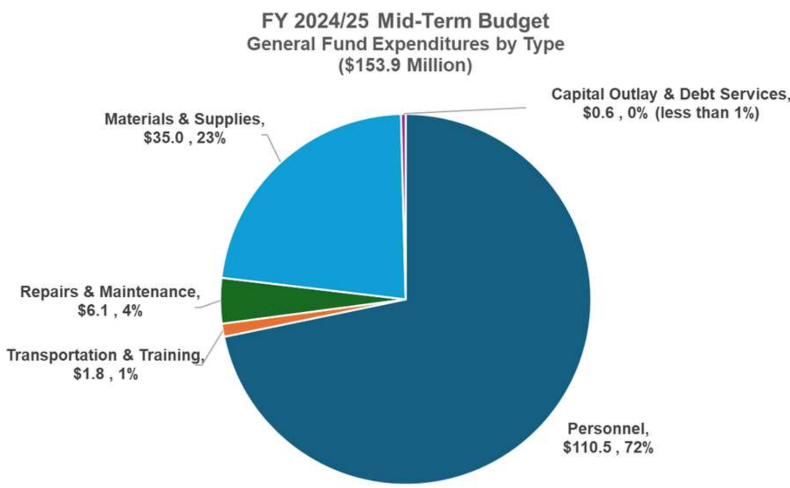
What Does the General Fund Pay For?

- Close to 50% of the General Fund budget supports public safety programs



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Enterprise Funds
FY 2024/25 Operating Budget $64M

Fund	Financial Health
Water	It is expected to be stable over time with rate increase; lack of funding for capital investments
Sewer	Stable but lack of funding for capital investments
Golf	Stable but still owes the General Fund money/loan
Cemetery	Weak - fund balance will likely be depleted this fiscal year; ongoing subsidy from the General Fund and owes the General Fund money/loan
Transit	Subsidized by the General Fund although not every year

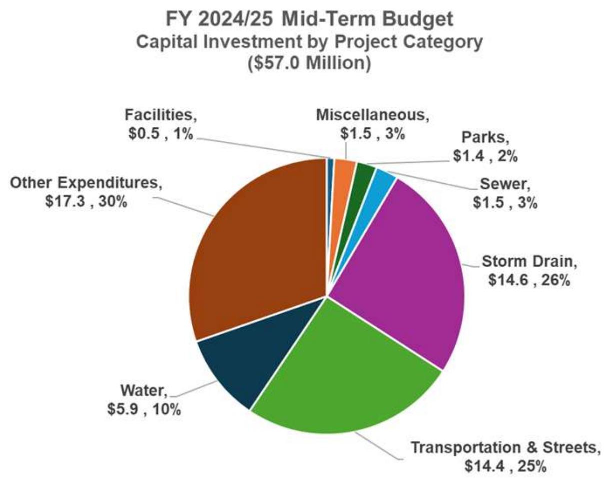
Enterprise Funds are self-supporting funds where rates and fees are designed to cover the cost of operations, maintenance, repair and replacement of facilities and infrastructure

Capital Improvement Program

- **Repair and Replacement (R&R)** addresses routine maintenance and provides immediate repair to maintain the condition of existing infrastructure
- **Capital Improvements** addresses long-term capital replacements, additions, and upgrades that add value to capital assets and focuses on enhancing asset value and useful life, leading to long-term benefits and improving operations

Capital Improvement Program (cont.)

- $18M in various projects were defunded/deferred to fund critical storm drain projects



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Financial Challenges

- The City faces significant fiscal challenges in both the operating and capital budgets
  - Forecasted General Fund structural deficit
    - Insufficient revenues to cover all the funding needs
    - Insufficient funding for many program areas
    - $13M in projected average annual deficit
    - $22M in projected average annual deficit (recession scenario)
  - Significant infrastructure funding gap
    - $900M for both the General Fund and Enterprise Funds over 10 years
  - Unfunded retiree medical and pension liabilities
    - Over $200M

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Contributing Factors to Financial Challenges

- Slowing real estate development activity
- Declining retail sales activity, including at the Stoneridge Shopping Center
- Reduced and not yet recovered hotel tax revenue
- Phasing out of federal COVID-response stimulus funds
- Increasing insurance costs
- Increasing operating supplies and materials costs
- Increasing contract service costs
- Growing number of unfunded mandates from the State
- Rising personnel costs, including pensions, competitive salaries, and benefits

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Contributing Factors to Financial Challenges (cont.)

- Addition of new programs and services without full consideration of long-term costs
- Lack of pre-planning and funding for medium- and long-term community needs
- Lack of community engagement and deeper dialogue regarding the City's financial situation
- Focus on a "pay-go" model of operating the City as capital funding didn't keep up and needs stacked up

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Ranking of Local Government Financial Health by State Auditor

- The State Auditor's Office monitored cities' financial health for fiscal years 2016/17 through 2020/21 based on the Annual Comprehensive Financial Reports (ACFR)
- Ranking criteria:
  - **Financial Reserve:** Does the city have sufficient financial reserves to cover unexpected costs or shortfalls in revenue?
  - **Debt Burden:** How is the city's level of debt compared to its income?
  - **Cash Position/Liquidity:** Is the city able to pay its bills in the coming fiscal year?
  - **Revenue Trends:** Is the city's revenue going down over time?
  - **Retirement Obligations:** Does the city have the ability to pay for retirement benefits it committed to its employees?

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Ranking of Tri-Valley City Financial Health

- Lower ranking means higher financial risk
- The City's financial conditions deteriorating for nearly a decade
- Ranking went from 150th for FY 2017/18 to 61st for FY 2020/21, or from the bottom 32% of California cities to the bottom 14%

	Overall Rank					
Fiscal Year	**Pleasanton**	**Danville**	**Dublin**	**Livermore**	**San Ramon**	**Number of Cities Ranked**
FY 16/17	145	428	461	258	231	470+
FY 17/18	150	428	470	269	133	470+
FY 18/19	130	436	471	240	221	470+
FY 19/20	86	411	458	248	199	460+
FY 20/21	61	428	412	203	139	430+

- Pleasanton is a full-service city

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Comparison of Tri-Valley City Unrestricted General Fund Reserve

- Pleasanton has the lowest reserve percentage based on the FY22/23 ACFR
- San Ramon is in a much more stable financial position with the passage of a 1% sales tax measure
- Dublin and Livermore continue to be in a solid financial position with continued growth and investments in public infrastructure

City/Town	FY 2022/23 General Fund Unrestricted Reserve	FY 22/23 General Fund Expenditures Excluding Transfers Out	Unrestricted Reserve as a Percentage of General Fund Expenditures
Pleasanton	38,559,576	133,540,493	29%
Danville	26,197,436	25,063,807	105%
Dublin	245,407,619	91,983,803	267%
Livermore	78,216,068	119,289,797	66%
San Ramon	26,146,512	51,764,242	51%

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Actions Taken to Address the General Fund Deficit

- Redirected over $18M in General Fund supported capital projects to fund critical storm drain projects
- Reduced $2.5M from the current year's budget
- Limited City staff/employee expansion (and continue to "freeze" positions)
- Reduced City staff travel and training budget
- Controlled contract service costs and new services and programs
- Delayed projects and purchases of vehicles and equipment
- Developed a continency (reduction) menu for service reductions

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Actions Taken to Address the General Fund Deficit (cont.)

New Revenue Options:

- Analyzing and updating fee models
- Economic development and growth
- Revenue measure – a ½ cent sales tax (Measure PP) was unsuccessful in the November 2024 General Election

Extensive Community Outreach to Bring Awareness:

- Conducted six months of extensive community engagement to raise awareness
- Created the City's First City-wide Strategic Plan to most effectively deploy resources and meet community expectations
- Presented to the City Council more than 10 times in the last 20 months regarding City budget/fiscal situation

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Significant Infrastructure Funding Gap

Presented to the City Council in March 2023

Ten-Year Infrastructure Plan
State of Good Repair

Fund	Repair and Replacement	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
520	Traffic Signal	350,000	390,000	430,000	460,000	490,000	520,000	540,000	550,000	570,000	580,000
516	IT	300,000	330,000	370,000	400,000	420,000	450,000	460,000	480,000	480,000	490,000
515	Facilities (PUSD Middle Schools included)	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000	1,650,000
519	Street Lights	200,000			270,000		300,000				330,000
517	Callippe R&R	250,000	250,000	150,000	250,000	250,000	250,000	250,000	250,000	250,000	250,000
434	Sewer	1,000,000	110,000	120,000	130,000	140,000	150,000	150,000	160,000	160,000	160,000
424	Water	1,500,000	170,000	180,000	200,000	210,000	220,000	230,000	240,000	240,000	250,000
518	Parks	1,300,000	1,430,000	1,590,000	1,720,000	1,830,000	1,930,000	2,000,000	2,060,000	2,100,000	2,140,000
511	Police - Equipment	105,500	30,000	20,000	250,000	760,000	30,000	40,000	110,000	1,450,000	50,000
511	Police - Vehicles	1,082,000	470,000	1,000,000	690,000	80,000	1,310,000	680,000	700,000	720,000	730,000
513	Fire - Vehicles & Equipment	1,000,000	200,000	2,500,000	200,000	2,500,000	200,000	2,500,000	200,000	2,500,000	200,000
514	Equipment - General Fund (not included PD & Fire)	250,000	300,000	400,000	300,000	400,000	300,000	300,000	400,000	400,000	400,000
510	Vehicle - General Fund (not included PD & Fire)	730,000	550,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000
	General Funded Repair and Replacement Total	**$ 11,567,500**	**$ 7,730,000**	**$ 10,860,000**	**$ 8,970,000**	**$ 11,180,000**	**$ 9,760,000**	**$ 11,250,000**	**$ 9,250,000**	**$ 12,970,000**	**$ 7,830,000**
	Capital Improvement Program	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	Miscellanous (Funds 201,203,441)	11,045,000	10,990,000	15,795,000	14,710,000	8,995,000	7,520,000	4,630,000	5,050,000	30,340,000	16,650,000
	Parks (Funds 129, 201,203, 221,222)	6,689,026	2,323,000	8,269,000	16,661,000	11,775,000	14,737,000	13,234,000	2,960,000	6,792,000	2,033,000
	Storm Drain (Fund 441)	3,700,000	2,470,000	2,420,000	2,270,000	3,510,000	750,000	3,070,000	4,010,000	4,000,000	3,650,000
	Transportation (Funds 172 201,211)	36,571,000	38,452,000	4,463,000	10,943,000	48,293,000	8,680,000	6,305,000	5,073,000	7,772,000	10,193,000
	General Funded Capital Improvement Projects Sub Totals	**$ 58,005,026**	**$ 54,235,000**	**$ 30,947,000**	**$ 44,584,000**	**$ 72,573,000**	**$ 31,687,000**	**$ 27,239,000**	**$ 17,093,000**	**$ 48,904,000**	**$ 32,526,000**
	Transportation (Funds 160,162,165,166,170,172,212)	10,500,000	10,650,000	10,800,000	10,950,000	11,100,000	11,250,000	11,400,000	11,550,000	11,700,000	11,850,000
	Captial Improvment Projects (Non Enterprise) Sub Totals	**68,505,026**	**64,885,000**	**41,747,000**	**55,534,000**	**83,673,000**	**42,937,000**	**38,639,000**	**28,643,000**	**60,604,000**	**44,376,000**
	Enterprise Funds										
	Water (Funds 421,431)	28,500,000	34,100,000	20,220,000	6,600,000	15,550,000	16,340,000	12,300,000	15,000,000	12,900,000	21,490,000
	Recycled Water (Fund 426)	900,000	2,200,000	610,000	1,060,000	710,000	740,000	6,100,000	1,830,000	0	1,690,000
	Sewer (Funds 431/432)	5,500,000	3,850,000	4,900,000	3,300,000	4,910,000	6,700,000	3,800,000	5,550,000	11,600,000	6,290,000
	Enterprise Funded Capital Improvement Projects Sub Totals	$ 34,900,000	$ 40,150,000	$ 25,730,000	$ 10,960,000	$ 21,170,000	$ 23,780,000	$ 22,200,000	$ 22,380,000	$ 24,500,000	$ 29,470,000
	General Funded CIP and Repair and Replacement Totals	$ 69,572,526	$ 61,965,000	$ 41,807,000	$ 53,554,000	$ 83,753,000	$ 41,447,000	$ 38,489,000	$ 26,343,000	$ 61,874,000	$ 40,356,000
	Capital Improvment Projects, Enterprise and R&R Totals	**$ 114,972,526**	**$ 112,765,000**	**$ 78,337,000**	**$ 75,464,000**	**$ 116,023,000**	**$ 76,477,000**	**$ 72,089,000**	**$ 60,273,000**	**$ 98,074,000**	**$ 81,676,000**

Average General Funded CIP and Repair and Replacement Totals $52,000,000

Capital Improvment Projects, Enterprise and Repair and Replacement Totals $88,700,000

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Aging Community Infrastructure

Police Department HVAC installed in 1997

Deteriorating pool deck at Aquatic Center

Fire Station 2 deteriorating interior walls and floor

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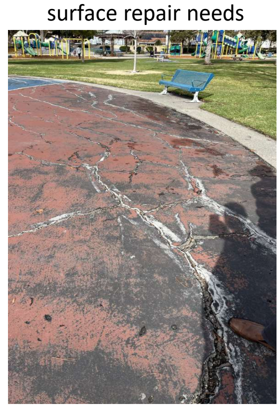
Aging Community Infrastructure (cont.)

Deteriorating Roadway at Busch Road

Arroyo Mocho Trail repair needs

Play Court surface repair needs



Police Shooting Range repair needs

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Financing Capital Projects

Pay-as-You-Go (Cash)

- Funding capital projects with cash
- Save interest costs
- Long wait time for new projects
- Inflation risk

Pay-as-You-Use (Debt)

- Funding capital projects with borrowed funds such as bond issuance
- Incur borrowing costs
- Costs are saved through accelerated construction *(i.e., inflation and preventative maintenance exceed the interest paid on the funds)*

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Unfunded Retiree Medical and Pension Liabilities

- Unfunded liabilities remain significant at over $200M, impacted by factors such as CalPERS investment loss
- Balances are as of June 30, 2023

Total Unfunded Liability	Total
Total OPEB liability	89,964,000
Plan fiduciary net position	69,186,500
Net OPEB liability	**20,777,500**
Funded status	**77%**

Recommendation from the City's actuary consultant regarding the use of Section 115 Pension Trust Funds: **Not to use the funds or minimum use of the funds at this time**

Total Unfunded Liability	Total	Less PARS Pension Trust	Net Pension Liability Less Trust Funds
Total pension liability	668,118,947		668,118,947
Plan fiduciary net position	457,472,510	46,270,093	503,742,603
Net pension liability	**210,646,437**	**(46,270,093)**	**164,376,344**
Funded status	**68%**		**75%**

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Long-Range Financial Planning
Key Financial Policies
Budget Principles

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Key Financial Policies - The Foundation of Fiscal Health

- Investment Policy
  - ✓Setting guidelines for prudent investments of City funds
- Purchasing Policy
  - ✓Establishing guidelines for the purchases of goods and services
- Debt Management Policy
  - ✓Establishing guidelines for the issuance and management of all financings of the City
- Reserve Policy
  - ✓Setting aside funds for emergencies and economic uncertainties

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Key Operating Reserve Targets

- General Fund:
  - Reserve range: 16.7% to 25%
  - Target: 20%
- Water Fund:
  - Reserve range: 30% to 40%
  - Target: 35%
- Sewer Fund:
  - Reserve range: 30% to 40%
  - Target: 35%

Long-Range Financial Planning

- Helps the City to diagnose potential risks, focus on long-term objectives, and stimulate big-picture thinking
- The City needs to identify long-term financial trends beyond the biennial budget and multi-year capital planning
- Revenue projection is conservative
  - 3.5% in annual property tax growth
  - 2.0% in annual sales tax growth
- Expenditure projection is not aggressive
  - 3.0% in annual salary and general benefit increase
- Expenditure projection needs to be more conservative if revenue projection is more aggressive

Long-Range Financial Planning (cont.)

- Use of one-time money such as pension trust funds will not solve the structural deficit

City of Pleasanton
General Fund Ten-Year Financial Forecast
Summary Level

	2024 Budget	2025 Budget	2026 Est.	2027 Est.	2028 Est.	2029 Est.	2030 Est.	2031 Est.	2032 Est.	2033 Est.
Revenues	$ 150,932,872	$ 155,243,805	$ 158,247,600	$ 162,894,450	$ 166,700,100	$ 171,656,200	$ 176,767,300	$ 182,039,400	$ 187,476,800	$ 193,084,700
Expenditures	$ 150,928,760	$ 155,714,679	$ 169,036,417	$ 174,700,785	$ 180,579,690	$ 187,138,974	$ 192,445,878	$ 197,393,974	$ 201,712,934	$ 206,220,954
ANNUAL SURPLUS/(SHORTFALL)	$ 4,112	$ (470,874)	$ (10,788,817)	$ (11,806,335)	$ (13,879,590)	$ (15,482,774)	$ (15,678,578)	$ (15,354,574)	$ (14,236,134)	$ (13,136,254)
Shortfall Reduction Measures										
Budget Reduction (Non-Personnel)	-	-	2,162,000	2,206,000	2,251,000	2,297,000	2,343,000	2,390,000	2,438,000	2,487,000
Drawdown of Pension Trust Funds	-	-	4,000,000	5,000,000	7,000,000	9,000,000	9,000,000	9,000,000	3,000,000	-
Adjusted Projected Annual Shortfall	$ 4,112	$ (470,874)	$ (4,626,817)	$ (4,600,335)	$ (4,628,590)	$ (4,185,774)	$ (4,335,578)	$ (3,964,574)	$ (8,798,134)	$ (10,649,254)

General Fund Reserves	2024 Budget	2025 Budget	2026 Est.	2027 Est.	2028 Est.	2029 Est.	2030 Est.	2031 Est.	2032 Est.	2033 Est.
Beginning Balance	50,664,595	49,908,707	49,407,833	44,781,016	40,180,681	35,552,091	31,366,317	27,030,739	23,066,165	14,268,032
Ending Balance	**49,908,707**	**49,407,833**	**44,781,016**	**40,180,681**	**35,552,091**	**31,366,317**	**27,030,739**	**23,066,165**	**14,268,032**	**3,618,778**
Beginning Unrestricted GF Reserve	29,559,876	29,563,988	29,093,114	24,466,297	19,865,962	15,237,372	11,051,598	6,716,020	2,751,446	(6,046,687)
Ending Unrestricted GF Reserve	29,563,988	29,093,114	24,466,297	19,865,962	15,237,372	11,051,598	6,716,020	2,751,446	(6,046,687)	(16,695,941)
Unrestricted GF Reserve Percentage	20.0%	19.1%	15.4%	12.1%	9.0%	6.3%	3.7%	1.5%	-3.2%	-8.6%
Recommended Unrestricted Reserve Target Level	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%

Reserves Depleted

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Budget Principles

- The City is always guided by the GFOA general principles in developing the budget:
  1. Establish broad goals to guide government decision making
  2. Develop approaches to achieve goals
  3. Develop a budget consistent with approaches to achieve goals
  4. Evaluate performance and make adjustments

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Budget Principles (cont.)

- Staff is seeking input on the top three to five principles that will guide the 2025-27 budget development
- The intent is to spark discussion regarding the priorities and tradeoffs in developing a balanced budget

Budget Principles (cont.)

- **Long-Term Fiscal Stability** – Prioritize placing Pleasanton on a solid foundation for long-term fiscal sustainability over short-term outcomes. Mitigate future risks by taking precautionary actions, such as maintaining fund balances in all key operating funds and identifying and funding unfunded liabilities with surplus funds when available
- **Use One-Time Revenues and Reserves for One-Time Uses** – One-time revenues should be used for one-time expenditures. Annual budgets should not become overly reliant upon cyclical, unreliable, or one-time revenues. During economic downturns and budgetary contractions, the use of reserves (e.g., rainy day funds or other reserves) may be used to ease the transition to downsized or reorganized operations.
- **Organizational Health** – Promote and maintain an inclusive work environment that supports professional growth and development to retain and attract highly qualified employees.

Budget Principles (cont.)

- **Protect Core and Essential Services** – Prioritize the preservation of essential over non-essential programs and services.
- **Community Engagement and Equity** – Actively engage and seek input from the community to ensure a collaborative and transparent decision-making process. Ensure that communities most impacted by service reductions are considered when making decisions.
- **Strategic Plan Alignment** – The City's mission, vision, and values and the City Council's priorities and direction should be used to strategically guide the budget development process.

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Budget Principles (cont.)

- **Prioritize Infrastructure** – Maintain and enhance Pleasanton's infrastructure. Capital improvement projects, including related maintenance costs, should be identified at the planning stage so these amounts can be recognized and budgeted where appropriate. Funding of capital projects will require current, planned resources and one-time funds.
- **Support and Partnerships** – Maintain and support a strong positive relationship between the City, school district, and non-profit community.
- **Civic Pride** – Support and implement programs and activities that enhance quality of life and wellness, celebrate arts and diversity, and promote civic pride.

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Next Steps

January – February 2025
Mid-Year Budget Update

January – April 2025
2025-27 Budget Development and Community Engagement

May – June 2025
Proposed Budget Presentation and Budget Adoption

Discussion