



Office of the City Manager

PUBLIC HEARING
May 28, 2013

To: Honorable Mayor and Members of the City Council
From:  Christine Daniel, City Manager
Submitted by: Teresa Berkeley-Simmons, Budget Manager
Subject: Fiscal Year 2014 & Fiscal Year 2015 Proposed Biennial Budget Hearing #2

RECOMMENDATION

Conduct a second public hearing on the FY 2014 and FY 2015 proposed biennial budget.

CURRENT SITUATION AND ITS EFFECTS

No Council action is necessary. May 28, 2013, marks the second of two public hearings on the City's Proposed FY 2014 and FY 2015 Biennial Budget, which was presented to Council on May 7, 2013. Council will consider and take action on the proposed biennial budget on June 25, 2013. The FY 2014 City Wide Work Plan was also submitted for Council's review and consideration on May 21, 2013. Council will be asked to accept the FY 2014 Work Plan along with the adoption of the proposed biennial budget.

Containing Costs: General Fund

Without balancing measures the City is facing a \$3 million General Fund shortfall in FY 2014 and a \$2.1 million shortfall in FY 2015. The proposed budget presented to Council on May 7, includes General Fund balancing measures of \$2.8 million in expenditure reductions and \$200,000 in new revenues in FY 2014. No further reductions are proposed for FY 2015.

**FY 2014 and FY 2015 Two-Year
Balancing Plan for the General Fund
(dollars in millions)**

Balancing Plan	FY 2014	FY 2015	2-Year Total
Reductions	2.8	0	2.8
Revenues	.2	0	.2
Total Balancing Plan			3.0

Budget Challenge: Health Care Costs

The average annual increase in health care costs for the last 10 years has been 9.26%. By FY 2015, we are projected to spend about \$19 million for all funds on health coverage for active employees. We will be actively engaging with our labor unions to address these costs. In addition, we are not yet clear about the full impacts on employers of the Affordable Care Act. We plan to return to Council with more information on the Affordable care Act in the fall.

Budget Challenge: California Public Employees' Retirement System (CalPERS) Rising Rates

The rising CalPERS rates alone will increase the City's costs by almost \$2.9 million for all funds over the next two-year period. We planned for those increases and they are included in our budget projections. However, on April 17, the CalPERS board voted to change the actuarial model for the pension plans. These changes are likely to have a significant impact on the City's rates in FY 2016. First, the new model provides that the plans will be 100 percent funded in a fixed 30-year time period. Previously CalPERS had used a rolling 30-year period. Second, the time period to "smooth out" the impacts of CalPERS' investment losses due to the recession was reduced from 15 years to 5 years. Finally, the rates will be structured in such a way that the first five years will be a "ramp up" period to improve the plans funded percentage. That means that FY 2016, 2017, 2018, 2019 and 2020 will have higher rates, and then the rates will flatten out.

We have contacted our outside actuary and requested his analysis of the change and the impact on the City's rates in FY 2016. We plan to provide this information to Council by the fall.

Containing Costs: Special Funds

The General Fund is less than half of the City's total budget. Without balancing measures, the projected shortfall for all funds (the General Fund plus all special funds) is \$6.5 million in FY 2014 increasing to \$8.6 million in FY 2015. Proposed balancing measures for these struggling special funds include expenditure reductions in the form of costs shifts to stronger, healthier funds and/or continued use of available fund balance. However, the use of fund balance is not a sustainable strategy for the long term and in many cases, those fund balances will be exhausted, or close to exhausted, by the end of the 2-year budget cycle if expenditures are not reduced or additional revenue is not realized. However, there may be different ways to respond to the unique circumstances of each fund.

Parks Tax Fund: Increase the parcel tax or include facilities in a capital bond measure in November 2014 for much needed capital improvements in the parks that should be undertaken to keep our facilities up to standard.

Street Light Assessment Fund: Request voter approval of a rate increase. The last time an increase went before the voters it failed. However, LED lighting may allow us to reduce the overall costs of the program and voters may be willing to approve an increase to add lighting throughout the City.

Zero Waste (Refuse Fund): Consider a new rate structure for FY 2015 (effective July 2014) to address increased maintenance costs and capital improvement costs, including the closed landfill.

Sanitary Sewer Fund: Consider a fee increase for FY 2016 in order to fund both operations and the required additional capital improvements. This fee increase could support the additional cost that is anticipated as a result of the EPA consent decree.

We will have more detailed discussions with Council, in the fall, on the various approaches to resolve the ongoing structural deficits, or anticipated increased costs, in these special funds.

FY 2014 City Wide Work Plan

The City Wide Work Plan is offered as a way to inform the City Council and the community about the work that will be undertaken throughout the year by City staff, and is coordinated with the presentation of the City's proposed Budget to assist in aligning resources with program and service priorities. Each department that reports to the City Manager has submitted a plan that describes its core or baseline services, as well as special projects that will be commenced or continued during the year. The Departments have also highlighted accomplishments from the previous fiscal year so that the Council and the community can evaluate the progress of City services and programs over time. Council will be asked to accept the FY 2014 Work Plan along with the adoption of the biennial budget on June 25th.

Referrals to the Budget Process and Special Events Funding

Council has referred a number of spending items to the budget process for consideration. Attachment 1 contains the current list of these referrals. Attachment 2 contains a list of special events and festivals as previously funded by Council, with the exception of Sunday Streets, which is included with the new budget referrals, to be considered with the budget process.

Additional Revenue

A direct impact on many of the tax funds is the annual growth tied to the Consumer Price Index (CPI) and the Personal Income Growth (PIG). The proposed budget assumed a 2 percent annual growth rate. The actual CPI number is 2.381 percent. The PIG number is 5.12 percent. The growth index for the Parks Tax and the Emergency Medical Services Tax (Paramedic Tax) is the April CPI. For the Emergency Services for the Disabled Tax, the Library Tax, and the Measure GG Fire Protection and Emergency Response Tax the Council may increase the rate of the previous year's tax by up to the greater of the CPI or PIG.

The following tables reflect additional revenue beyond the 2 percent increase assumed in the proposed budget. For CPI increases that is an additional .381 percent; for PIG increases that is an additional 3.12 percent.

**FY 2014 Funds with
Additional Revenue
Due to the Increase in the CPI**

Fund	Additional FY 2014 Revenue
Parks Tax	\$ 35,674
Paramedic Tax	\$ 9,532

The projected increases in revenues for both the CPI and the PIG are shown in the chart below.

**FY 2014 Funds with
Additional Revenue
Due to the Increase in the CPI or PIG**

	<u>Additional FY 2014 Revenue CPI</u>	<u>Additional FY 2014 Revenue PIG</u>
Measure E- Emergency Services for the Disabled	\$3,706	\$30,343
Library Tax	\$57,522	\$471,050
Measure GG- Fire Protection and Emergency Response	\$14,845	\$121,570

The increase in revenues will help these funds, some of which are struggling with a structural deficit, with the long-term fund balance. The tax rates will be presented to Council for approval on June 11, 2013.

Next Steps

Staff requests that the City Council provide comments on the proposed budget at the June 4, 2013, Council meeting so that any changes may be incorporated by the time the Agenda is printed for the June 25, 2013 meeting. Council is asked to consider and ultimately adopt the proposed budget on June 25, 2013. The proposed biennial budget includes the consideration of economic forecasts, our long-term obligations, and rising costs. We are proposing a two year stability budget as we will again be facing challenges with employee benefits in FY 2016, the first year of a five year “ramp up” period, as a result of the change in the actuarial model for the pension plans imposed by CalPERS.

CONTACT PERSON

Teresa Berkeley-Simmons, Budget Manager, City Manager's Office, 981-7000

Attachments:

- 1: Council Referrals to the Budget Process
- 2: Street Events & Festivals: Proposed FY 2014 and FY 2015
- 3: Public Hearing Notice

Date	Referrals	Source	1-Time	Ongoing	Total
January 22, 2013	Annual Grant for Sunday Streets Events	Capitelli		59,098	59,098
March 5, 2013	K to College Service	Moore; Arreguin	25,000		25,000
March 19, 2013	Berkeley Project	Wozniak		17,000	17,000
April 30, 2013	Telegraph Mural	Worthington	10,000		10,000
April 30, 2013	Telegraph Holiday Fair	Worthington		4,500	4,500
April 30, 2013	Telegraph Sunday Closure	Bates/Worthington		36,000	36,000
April 30, 2013	New Bridge Foundation	Wengraf		50,000	50,000
April 30, 2013	Options Recovery Services	Council		66,960	66,960
April 30, 2013	Youth Spirit Artworks	Council		53,007	53,007
May 21, 2013	Women's Daytime Drop-In Center	Maio		20,000	20,000
May 21, 2013	Multi-Cultural Institute	Arreguin		18,000	18,000
May 21, 2013	Traffic Calming	Moore		55,000	55,000
TOTAL:			35,000	*379,565	414,565

*Two Year Ongoing Total: \$759,130

Street Events and Festivals Proposed FY 2014 and FY 2015 Funding

EVENT NAME	Adopted FY 2011	Adopted FY 2012	Adopted FY 2013	Proposed FY 2014	Proposed FY 2015
Recurring Cash Grants					
Berkeley Arts Festival	10,000	10,000	10,000	10,000	10,000
Cesar Chavez Commemoration	4,500	4,500	4,500	4,500	4,500
Cinco de Mayo	4,050	4,000	4,000	4,000	4,000
Earth Day	4,050	4,050	4,050	4,050	4,050
Elmwood Festival	2,700	2,700	2,700	2,700	2,700
How Berkeley Can You Be?	8,100	-	-	-	-
Indigenous Peoples' Day	4,050	4,050	4,050	4,050	4,050
Juneteenth Festival	4,050	4,050	4,050	4,050	4,050
Poetry Festival	3,240	3,240	3,240	3,240	3,240
Solano Stroll	5,000	5,000	5,000	5,000	5,000
Stonewall Festival	5,400	5,000	5,000	5,000	5,000
TAA World Music Festival	4,500	4,500	4,500	4,500	4,500
Telegraph Avenue Holiday Fair	2,025	2,025	2,025	2,025	2,025
SF Mime Troupe	950	950	950	950	950
Miscellaneous/Unallocated	3,375	3,375	3,375	3,375	3,375
Subtotal:	65,990	57,440	57,440	57,440	57,440
<i>less non-recurring events (2011)</i>	<i>17,550</i>				
FY 2011 Adjusted	48,440	57,440	57,440	57,440	57,440
Recurring Expenses					
Personnel Overtime	16,200	16,200	16,200	23,314	23,314
Portable Toilets	9,000	9,000	9,000	11,500	11,500
Insurance	10,350	10,350	10,350	14,000	14,000
Subtotal:	35,550	35,550	35,550	48,814	48,814
Total Recurring Funding:	101,540	92,990	92,990	106,254	106,254
Adjustments	(17,550)	-	-	-	-
Total Costs	83,990	92,990	92,990	106,254	106,254

**NOTICE OF PUBLIC HEARING
BERKELEY CITY COUNCIL**

**FISCAL YEAR 2014 PROPOSED BUDGET HEARING #2
TUESDAY, MAY 28, 2013 – 7:00 P.M.**

The Berkeley City Council will conduct a public hearing on May 28, 2013 at 7:00 p.m. in the Council Chambers, 2134 Martin Luther King, Jr. Way to discuss the FY 2014 Proposed Budget

For further information, please contact Teresa Berkeley-Simmons, Budget Manager, 981-7000.

A copy of the agenda material for this hearing will be available on the City's website at www.CityofBerkeley.info as of May 23, 2013.

Written comments should be mailed or delivered directly to the City Clerk Department, 2180 Milvia Street, Berkeley, CA 94704, in order to ensure delivery to all Councilmembers. **Please note: e-mail addresses, names, addresses, and other contact information are not required, but if included in any communication to the City Council, will become part of the public record.** If the communication includes maps or photos or any other material not reproducible on a copy machine, fifteen copies should be provided to the City Clerk. For further information, call Mark Numainville, City Clerk, 981-6900. FAX: (510) 981-6901. TDD: (510) 981-6903.

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I hereby certify that the Notice for this Public Hearing of the Berkeley City Council was posted at the display case located near the walkway in front of Council Chambers, 2134 Martin Luther King Jr. Way, as well as on the City's website, on May 23, 2013.

Mark Numainville, City Clerk

**COMMUNICATION ACCESS INFORMATION:**

To request a disability-related accommodation(s) to participate in the meeting, including auxiliary aids or services, please contact the Disability Services specialist at 981-6346(V) or 981-7075 (TDD) at least three business days before the meeting date. Captioning services are provided at the meeting, on B-TV, and on the Internet. In addition, assisted listening devices for the hearing impaired are available from the City Clerk prior to the meeting, and are to be returned before the end of the meeting.



Attendees at public meetings are reminded that other attendees may be sensitive to various scents, whether natural or manufactured, in products and materials. Please help the City respect these needs.