



Office of the City Manager

Date: June 16, 2022
To: Budget & Finance Policy Committee
From: Dee Williams-Ridley, City Manager
Submitted by: Sharon Friedrichsen, Budget Manager
Subject: City Manager's Recommendations to the Council Fiscal Policies

RECOMMENDATION

Discuss the recommended changes to the existing Council fiscal policies pertaining to the Fiscal Years 2023 and 2024 Biennial Budget; discuss other concepts related to policies to address unfunded liabilities, provide direction to staff and refer the revised fiscal policies to Council for adoption as part of the Fiscal Year 2023 and 2024 Budget.

BACKGROUND

The Budget and Finance Policy Committee ("Committee") has reviewed and discussed the City Council's fiscal policies, including recent discussions on February 10, 2022 and June 9, 2022, as part of the Fiscal Years 2023 and 2024 budget development process. Attachment #1 to this report proposes revisions to existing policies based upon prior discussions with the Committee, including the addition of three new policies presented on June 9, 2022 intended to provide policy guidance to build the General Fund reserve and address the City's unfunded pension liabilities and capital needs.

ENVIRONMENTAL SUSTAINABILITY

There are no identifiable environmental effects or opportunities associated with the subject of this report.

CONTACT PERSON

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Attachment:
City Council Revised Fiscal Policies Effective July 1, 2022

Attachment #1
City Council Revised Fiscal Policies
Effective July 1, 2022

1. Focusing on the long-term fiscal health of the City by adopting a two-year budget and conducting multi-year planning
2. Building a prudent reserve **based upon the City's adopted General Fund Reserve policy and using the goal of reaching a reserve of 30% of the General Fund by 2027 as a guideline.**
3. Developing long-term strategies to reduce unfunded liabilities.
4. Controlling labor costs while minimizing layoffs **and promoting recruitment and retention of City staff.**
5. **Primarily** allocating one-time revenue for one-time expenditures (e.g., capital investments and deferred maintenance).
6. Requiring enterprise and grant funds to balance and new programs to pay for themselves.
7. Any new expenditure requires new revenue or expenditure reductions.
8. ~~Transfer Tax revenue in excess of \$12.5 million dollars will be treated as one-time revenue to be used for the City's capital infrastructure needs.~~
 - A. **Allocate excess property transfer tax over the baseline to short-term operational needs, General Fund reserves and the City's capital infrastructure plan, including funding an approach to returning and maintaining the City's roads at an acceptable Pavement Condition Index.**
 - B. **Increase the property transfer tax baseline for operational needs to \$18.0 million for fiscal years 2023 and 2024, with a permanent adjustment to \$16.0 million beginning in fiscal year 2025.**
 - C. **Revenue generated from Measure P is excluded (exempt) from this policy.**
9. As the General Fund subsidy to the Safety Members Pension fund declines over the next several years, the amount of the annual decrease will be used to help fund the new Police Employee Retiree Health Plan.

- ~~10. Starting in FY 2019, staff costs as approved by the City Council that exceed the enforcement fees and penalties shall be appropriated from the short-term rental taxes collected pursuant to BMC Section 23C.22.050, Section H, with the primary allocation of the rental tax to the purposes listed below: (a) Two thirds (66.7%) allocated to the Affordable Housing Trust Fund and (b) One third (33.3%) allocated to the Civic Arts Grant Fund.~~
- 11. Allocating annual savings derived from the prepayment of the annual CalPERS unfunded liability payments to the City's Section 115 Pension Trust.**
- 12. Allocating any additional revenue earned from investments that is over the annual (fiscal year) baseline of \$6 million in the following manner: 1/3 to the Section 115 Pension Trust, 1/3 to General Fund reserves and 1/3 to address the City's capital infrastructure plan.**
- 13. Based upon the audited financial status of the General Fund at fiscal year-end, allocate any additional salary savings there were achieved beyond the budgeted salary savings assumptions in the following manner: 1/3 to the Section 115 Pension Trust; 1/3 to additional Other Post-Employment Benefits (OPEB) payments and 1/3 to a new reserve for personnel-related costs such as Medical, Dental or all other personnel-related cost that has a nexus between these related costs and the savings generated from vacant positions.**