



REGULAR MEETING AGENDA

Date: 10/16/2019
Time: 5:30 p.m.
City Hall – “Sharon Heights” conference room, 2nd Fl.
701 Laurel St., Menlo Park, CA 94025

A. Call To Order

B. Roll Call

C. Public Comment

Under “Public Comment,” the public may address the Committee on any subject not listed on the agenda. Each speaker may address the Committee once under Public Comment for a limit of three minutes. The Committee cannot act on items not listed on the agenda and, therefore, the Committee cannot respond to non-agenda issues brought up under Public Comment other than to provide general information.

D. Regular Business

- D1. Approve the July 17, 2019, Finance and Audit Committee Meeting minutes ([Attachment](#))
- D2. Overview of budget software replacement product functionality
- D3. Discuss timing and content of operating and Capital Improvement Plan (CIP) budget informational workshop ([Staff Report 19-002-FAC](#))

E. Reports and Announcements

- E1. Director’s report
- E2. Subcommittee reports
 - CAFR format subcommittee
 - Budget format subcommittee
 - Infrastructure communication subcommittee
 - Pension communication subcommittee
- E3. Future agenda topics and work plan review ([Attachment](#))

F. Adjournment

At every Regular Meeting of the Commission, in addition to the Public Comment period where the public shall have the right to address the Commission on any matters of public interest not listed on the agenda, members of the public have the right to directly address the Commission on any item listed on the agenda at a time designated by the Chair, either before or during the Commission’s consideration of the item.

At every Special Meeting of the Commission, members of the public have the right to directly address the Commission on

any item listed on the agenda at a time designated by the Chair, either before or during consideration of the item.

Any writing that is distributed to a majority of the Commission by any person in connection with an agenda item is a public record (subject to any exemption under the Public Records Act) and is available for inspection at the City Clerk's Office, 701 Laurel St., Menlo Park, CA 94025 during regular business hours.

Persons with disabilities, who require auxiliary aids or services in attending or participating in Commission meetings, may call the City Clerk's Office at 650-330-6620.

Agendas are posted in accordance with Government Code §54954.2(a) or §54956. Members of the public can view electronic agendas and staff reports by accessing the City website at menlopark.org/agenda and can receive email notification of agenda and staff report postings by subscribing to the "Notify Me" service at menlopark.org/notifyme. Agendas and staff reports may also be obtained by contacting City Clerk at 650-330-6620. (Posted: 10/07/2019)



SPECIAL MEETING MINUTES – DRAFT

Date: 7/17/2019

Time: 5:30 p.m.

**City Hall – “Sharon Heights” Conference Room, 2nd Fl.
701 Laurel St., Menlo Park, CA 94025**

A. Chair Shepherd called the meeting to order at 5:41 p.m.

B. Roll Call

Present: Maguire, Mueller (arrived at 5:54 p.m. and excused at 7:40 p.m.), Shepherd, Royse, Tronson, Westcott

Absent: Combs

Staff: Lenka Diaz, Administrative Services Director, Clay Curtin, Public Engagement Manager, Dan Jacobson, Finance and Budget Manager, Brandon Cortez, Management Analyst II

C. Public Comment

- No public comment.

D. Regular Business

D1. Selection of Chair and Vice Chair

Committee member Soody Tronson was nominated for Finance and Audit Committee Chair, and member Ron Shepherd was nominated for Vice Chair.

ACTION: Motion and second (Royse/Maguire) to approve Tronson’s nomination for Chair, passed 5-0-2 (Combs, Mueller absent).

ACTION: Motion and second (Royse/Maguire) to approve Shepherd’s nomination for Vice Chair, passed 5-0-2 (Combs, Mueller absent).

D2. Approve the February 6, 2019 Finance and Audit Committee Special Meeting Minutes

The Committee received clarification regarding voting procedures.

ACTION: Motion and second (Tronson/Royse) to approve the minutes of the February 6, 2019, passed 3-0-2-2 (Maguire and Westcott abstain; Combs and Mueller absent).

D3. Recommend City Council approval of the City’s investment policy

Mayor Mueller arrived at 5:54 p.m.

Minor text changes to the policy were made before the item was brought to the committee. Changed the phrase “at large” to reflect the new “district elections.” Committee member Maguire recommended the removal of the last sentence on page five for clarity.

ACTION: Motion and second (Maguire/Westcott) to recommend City Council approval of the City's investment policy after the elimination of the last sentence on page five, passed 6-0-1 (Combs absent).

D4. Review the Finance and Audit Committee draft work plan and recommend approval to City Council

Mayor Mueller recommended that the committee shorten the workplan down to two to three key items.

The Committee agreed to focus on items to help City Council make informed decisions and create a more dynamic, interactive experience for the public.

Four subcommittees were formed:

- CAFR format subcommittee – Chair Tronson and Vice Chair Shepherd
- Budget format subcommittee – Vice Chair Shepherd
- Infrastructure communication subcommittee – Royse and Westcott
- Pension communication subcommittee – Vice Chair Shepherd and Maguire

ACTION: Motion and second (Royse/Westcott) to make approved changes to the Finance and Audit Committee workplan and recommend approval to City Council, passed 6-0-1 (Combs absent).

D5. Provide input on fiscal year 2019-20 Budget in Brief and budget document as a public communication tool

Mayor Mueller excused at 7:40 p.m.

Finance and Budget Manager Dan Jacobson solicited the committee's feedback for the creation of the upcoming budget in brief and popular annual financial report documents.

- Lynne Bramlett requested more narrative explanation with the information and provided handouts to the committee (Attachment).

No action was taken on this item.

E. Informational Items

E1. City Council Work Plan Transmittal and Capital Improvement Program (CIP) process update memo

Finance and Budget Manager Dan Jacobson informed the committee about the recent changes to improve the capital improvement plan budgeting process.

- Lynne Bramlett requested more public interaction in the process.

E2. Rolling Agenda Items

No items were added to the rolling agenda. The current list of items includes:

- Sale of assets
- Review of utility user's tax cap
- Listing of parcels exempt from property taxes
- Library financing

- Developer agreements
- Community amenities fund

F. Director's Report

F1. Director's Report

Administrative Services Director Lenka Diaz informed the members of the committee that the budget documents target completion date is August 31, 2019.

F2. Future agenda topics and Committee member reports

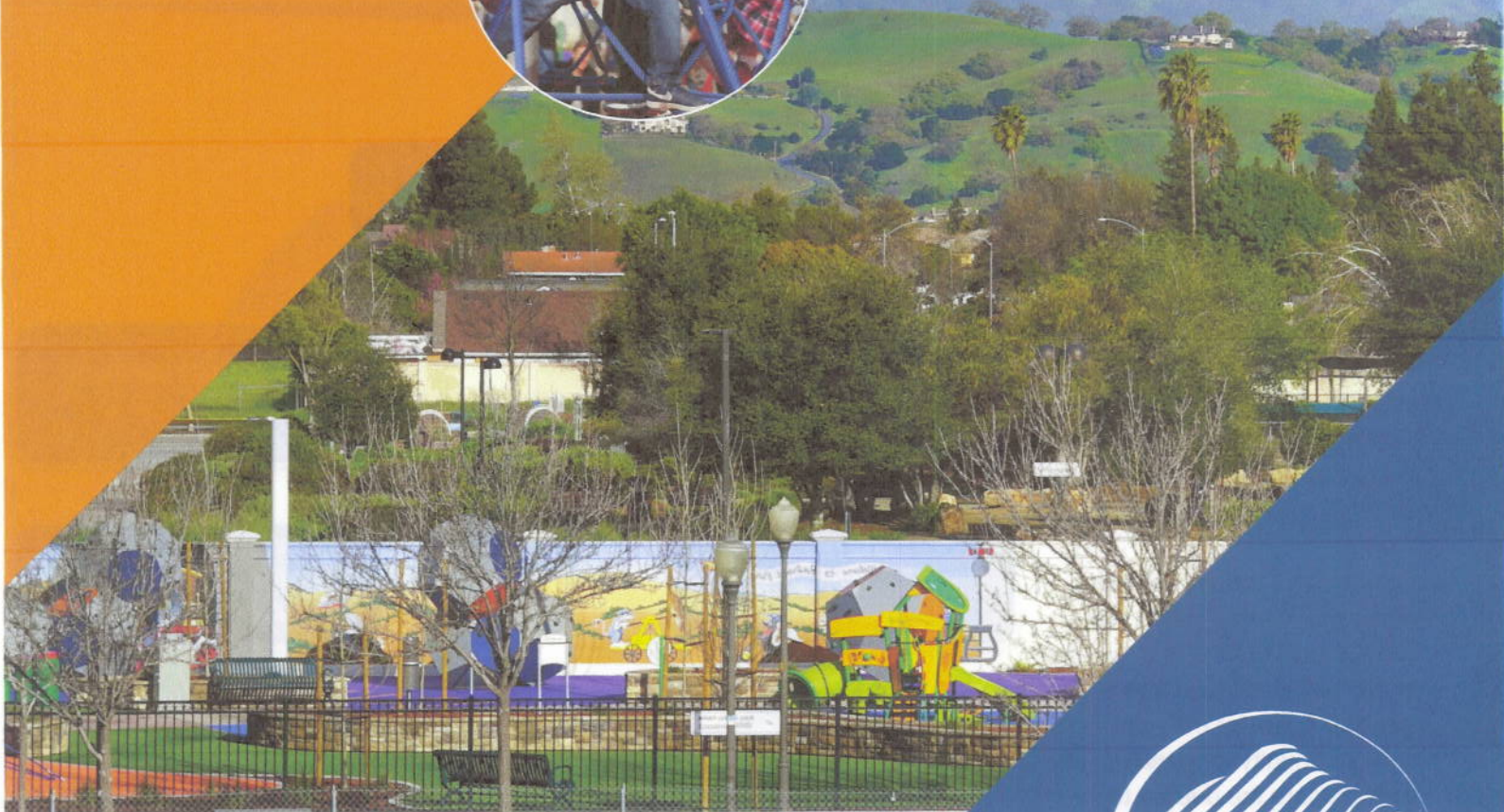
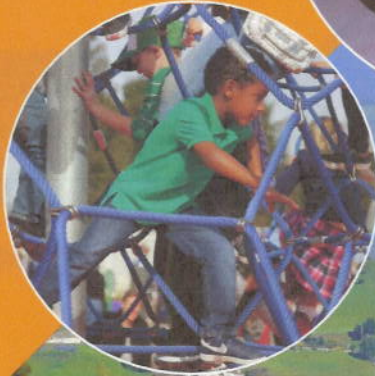
- Meeting with the auditors
- Having the 10-year forecast online

G. Adjournment

Chair Tronson adjourned the meeting at 8:21 p.m.

Fiscal Years
2018-19 and 2019-20

Budget in Brief



morganhill.ca.gov/budget

Adopted FY 2018-19 & FY 2019-20 Operating and Capital Budget

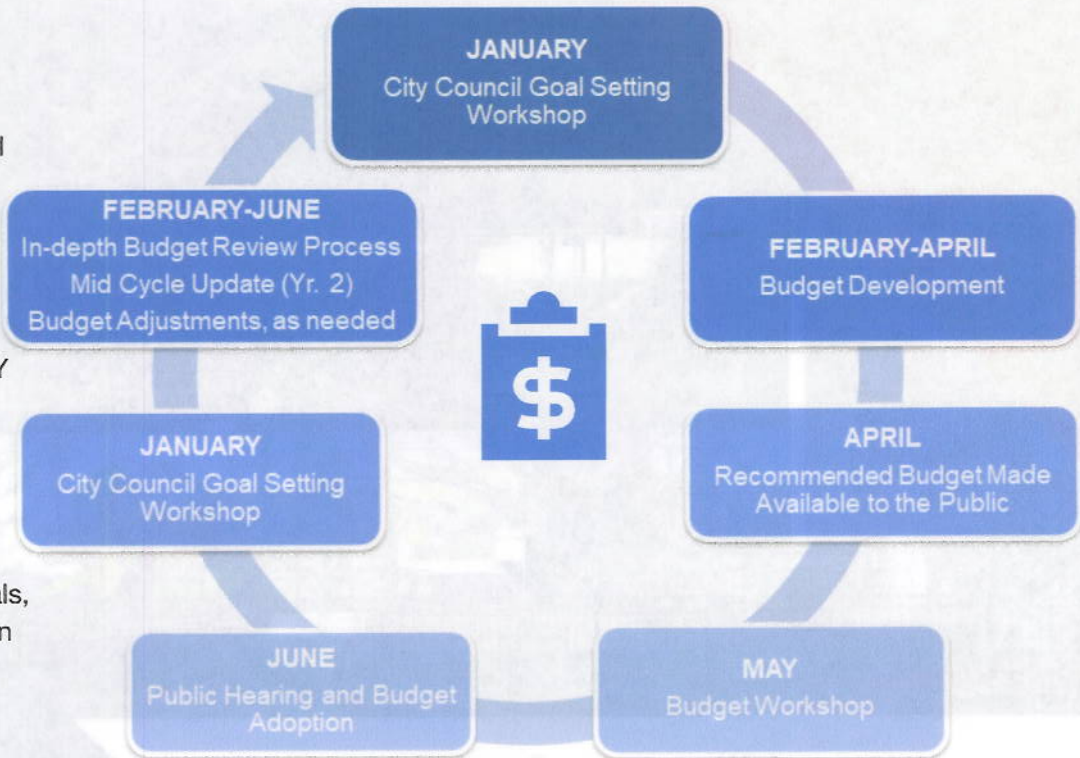
The City of Morgan Hill's Budget in Brief is intended to provide you with information about your City's Budget. The City's biennial budget is prepared much like a household spending plan. While a family might plan for such expenses as housing, food, clothing, transportation, or medical bills, the City's focus is for police and fire protection, parks, recreation, water and sewer systems, housing, economic development, roads, building maintenance, and much more. City teammates work hard to recommend a budget that aligns resources and proposes quality of life enhancements that are consistent with the City Council's and community's priorities, while maintaining fiscal responsibility. In total, the adopted Fiscal Year (FY) 2018-19 (July 1-June 30) budget is **\$157.2 million** and the FY 2019-20 budget is **\$135.5 million**.



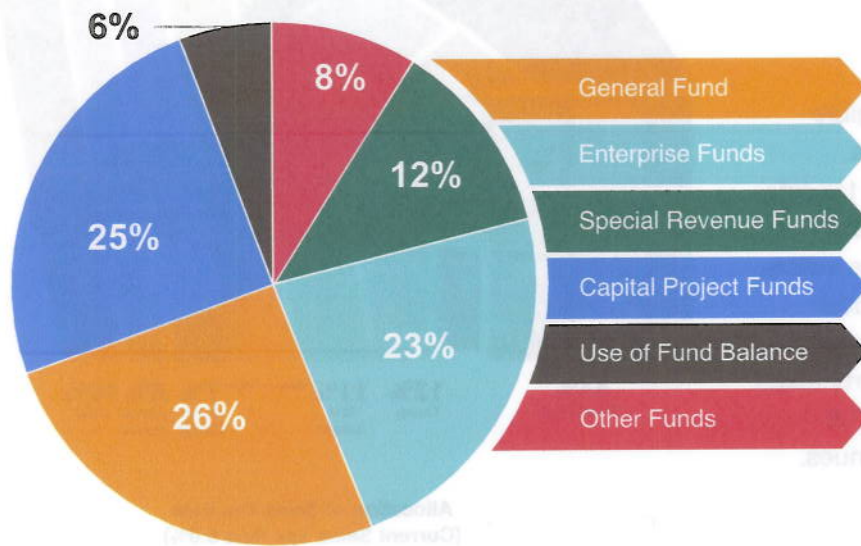
2 Year Budget Cycle

On June 6, 2018, the City Council adopted the City's two-year operating budget and six-year Capital Improvement Program (CIP). The adopted operating budget consists of two separate budget years, FY 2018-19 and FY 2019-20.

The budget process begins in January each year when the City Council conducts a two-day workshop to set its priorities, goals, and strategies for the organization and community. City teammates then prepare the budget to advance these priorities.



Where Does Your City's Money Come From?



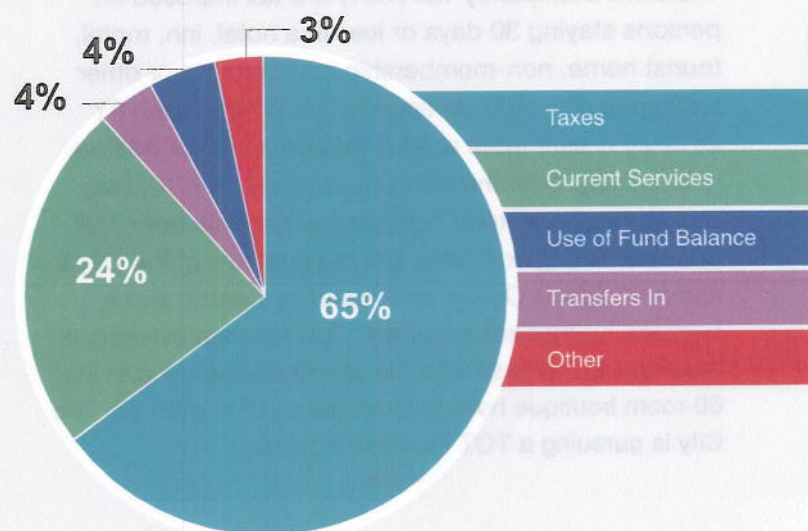
TOTAL FY 2018-19 = \$157.2 MILLION

Income for the City is generated from taxes, building permit fees, business licenses, recreation memberships, sewer and water sales, and more. The revenue is deposited into different funds, similar to bank accounts. Unlike personal bank accounts where funds can be transferred from one account to another, the City must comply with strict laws that require money be maintained in separate funds and spent for specific purposes. For example, the City may not raise water rates to pay for police services. Revenue that is not reserved for a specific purpose, like taxes, is directed into the General Fund, which pays for the general operations of the City.

GENERAL FUND

Most of the general fund money comes from the following primary sources: property tax, sales tax, and hotel taxes. Current services is made up of recreation fees for service and other service fees. Since many of these revenues are sensitive to economic conditions, the City will be exploring additional funding sources through potential revenue measures in 2018 and 2020.

General Fund Revenue Sources \$42.0 million



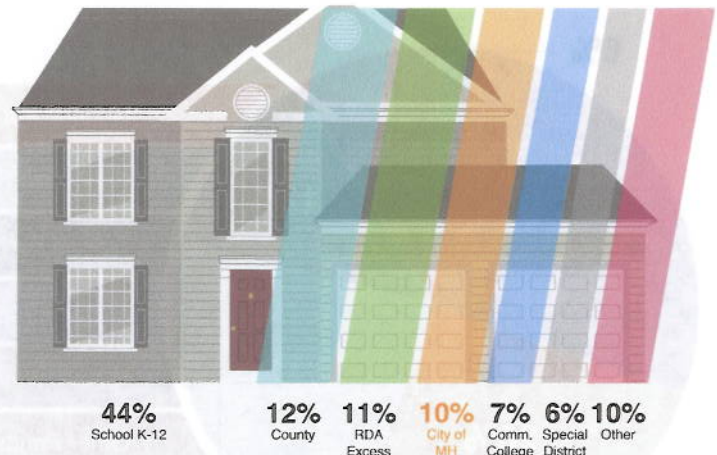
Where Does Your City's Money Come From?

GENERAL FUND (cont'd.)

Property Tax

Property tax is a tax on real property and tangible personal property based on the property value. The State Constitution limits the real property tax rate to 1% of the property's assessed value plus rates imposed to fund indebtedness approved by the voters. The largest portion of property taxes support local schools. Morgan Hill's share of the 1% is equivalent to 10 cents for every \$1.00 collected from property taxes. In FY 2018-19, property tax is projected at **\$11.9 million** or 30% of the total General Fund revenues.

Morgan Hill Property Tax 1% Distribution



Sales Tax

Sales tax is imposed on retailers for selling tangible personal property in California. The sales and use tax rate for Santa Clara County is 9%, of which Morgan Hill's share is 1%. Revenues from sales tax are expected to reach **\$9.9 million** in the coming fiscal year, or 25% of the total General Fund revenue projected. It is the second largest revenue source for the City's general fund.

Allocation of Sales Tax Rate
(Current Sales Tax Rate 9.0%)



Transient Occupancy Tax (Hotel Tax)

Transient Occupancy Tax (TOT) is a tax imposed on persons staying 30 days or less in a hotel, inn, motel, tourist home, non-membership campground or other lodging facility. TOT revenue for FY 2018-19 and FY 2019-20 is estimated at **\$2.8 million** and **\$3.1 million**, respectively. Over the past several years, the City has experienced a historic high level of revenue from TOT due to a strong economy, the regional use of the City's Outdoor Sports Center and Aquatics Center, and a burgeoning tourism economy. This revenue category is projected to increase with the anticipated opening of the 60-room boutique hotel in Downtown in FY 2019-20. The City is pursuing a TOT increase in 2018.

Special Revenue Funds

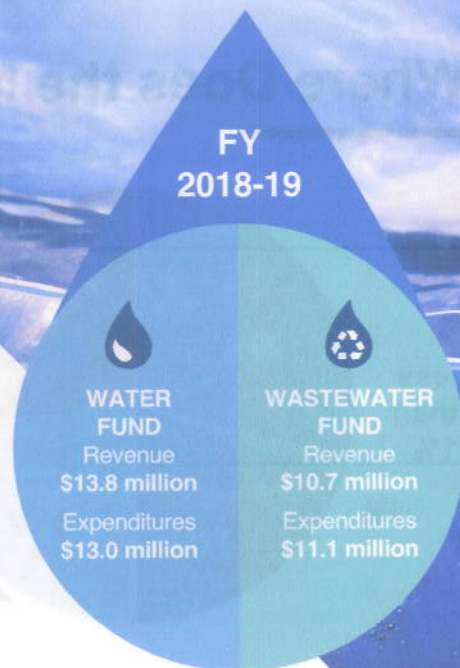
The City also receives money from a variety of other sources, which can only be used for specific purposes or projects. These sources include the collection of developer fees, gasoline taxes, housing in lieu, and more. Money collected from development fees is restricted to costs associated with processing building, engineering, planning, and land development applications. Gasoline taxes must be used to pay for road improvements and repairs, and cannot be used on general City services. In FY 18-19 special revenue funds are projected at **\$19.1 million**.

Where Does Your City's Money Come From? (cont.)

ENTERPRISE FUNDS

Water and Wastewater Funds

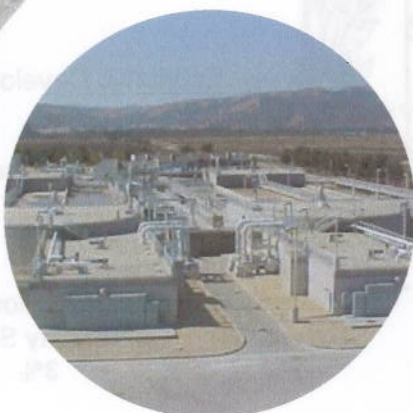
Water and Wastewater are both Enterprise Funds and account for operations that are financed and function like a private business. Separate funds are established for specific purposes, and the cost to provide the service to the public is paid with revenues generated from water sales and sewer use. For instance, money collected from customers for their water consumption goes to operate and maintain the City's water system that delivers water to your home and pays the fees to the Water District for ground water replenishment.



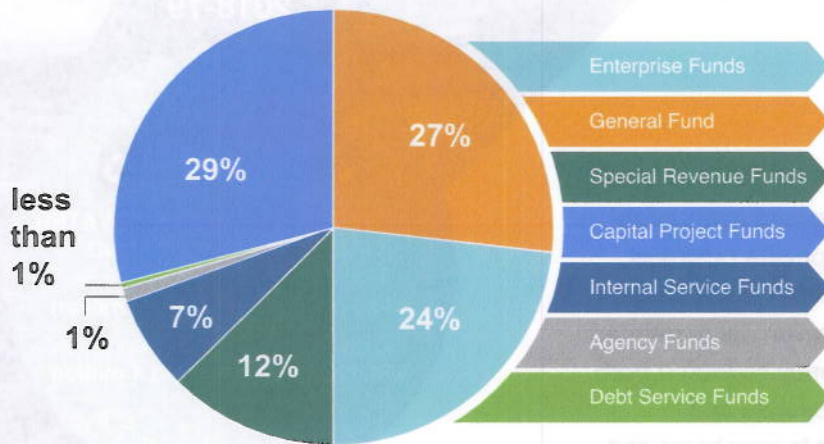
CAPITAL PROJECT FUNDS

CIP for 2018-19 through 2023-24 is \$151.5 million

A Capital Project is a project that helps build or improve City assets often called infrastructure. Morgan Hill has a wide variety of funding sources for Capital Improvement Projects (CIP). Some of these sources are steady and predictable, while others are dependent on outside agencies. New development in Morgan Hill, be it residential or commercial, is required to pay impact fees to the City, which go towards infrastructure that will be needed as the City grows. Impact fees pay for the impact the new development's presence will have on the City. New development pays the following impact fees: traffic, water, sewer, drainage, police, fire, parks, library, community/recreation center, and public facilities. These impact fees can only be used to build infrastructure and facilities and cannot be used for ongoing maintenance or operations. Other CIP funding sources include grant monies and bond proceeds.



Where Does the Money Go?



The FY 2018-19 citywide expenditure budget amount is **\$157.2 million**. As depicted in the pie chart on the left, the **largest portion** of expenditures support Capital Projects, which maintain or improve the City's infrastructure.

The **second largest expense** is attributable to the General Fund (**\$42.0 million**), which primarily funds police, fire, parks and street maintenance, economic development, recreation and community services, all of which contribute to the quality of life of our community as well as internal support functions such as Finance, Human Resources, City Clerk, and Legal Services. The **third largest expense** is for enterprise funds which support City Utilities that deliver water to residents and businesses and treat the wastewater.

GENERAL FUND DISCRETIONARY EXPENSES \$29.2 million



*Other includes: Downtown Maintenance, Park Maintenance, OPEB, Environmental Programs

Looking toward the future

Steady revenue growth coupled with conservative spending, has put the City in a stable financial position. This is due primarily to the fiscally responsible actions taken in prior years by the City Council including continuing to adhere to the sustainable budget strategy, prudently investing in service level enhancements as resources allow, and addressing areas of financial concern. This results in the ability to include additional near-term funding for maintaining street and public facility infrastructure, enhance public safety services, provide quality youth and senior services, continue to address unfunded Other Post-Employment Benefits (OPEB) and pension obligations, and undertake many exciting and needed capital improvement projects.

However, there are other significant needs in a variety of areas such as funding additional public safety resources, maintaining adequate levels of park maintenance funding, and addressing aging infrastructure, which will require additional revenue sources. Using the April 2018 Infrastructure Update Report and Master Plans as guides for policy discussions, City staff will continue to engage the City Council and the community to both educate and strategize the best way to move forward with a sustainable funding source for the General Fund. Looking ahead, the City is pursuing an increase in Transient Occupancy Tax and establishing a local Cannabis Tax in 2018, as well as the possibility of a ballot measure in 2020. This community focused effort will allow us to meet our community's needs and maintain our high quality of life, so that Morgan Hill remains a highly desirable place to live, work, play, and do business.

Sustainable Morgan Hill



Sustainable Morgan Hill Vision

Morgan Hill is a safe, inclusive, socially responsible, environmentally conscious, and economically sound community.

CITY COUNCIL ONGOING PRIORITIES

- Enhancing Public Safety
- Protecting the Environment
- Maintaining Fiscal Responsibility
- Supporting Our Youth, Seniors, and Entire Community
- Fostering a Positive Organizational Culture
- Preserving and Cultivating Public Trust
- Preserving Our Cultural Heritage
- Enhancing Diversity and Inclusiveness

2018 STRATEGIC PRIORITIES

- Community Engagement and Messaging
- Economic Development and Telecommunications
- Financial Stewardship
- Infrastructure
- Regional Initiatives



For More Information:

The City of Morgan Hill's Adopted Operating and Capital Improvement Program Budget document can be found on the City's website at

www.morgan-hill.ca.gov/budget

The entire document is also available at City Hall and the Morgan Hill Public Library. For more information about the City of Morgan Hill Budget, please contact the Budget Manager, Monica Delgado at

monica.delgado@morganhill.ca.gov



BUDGET GUIDE & BACKGROUND

HOW YOU CAN PROVIDE INPUT TO THIS BUDGET PROCESS

The Mayor and City Council welcome community suggestions, comments and questions on the FY 2017-19 Proposed Policy Budget. Community input is a key element of the budget development process. Residents are encouraged to contact their Councilmember or the City's Budget Office by email or telephone. In addition, a number of public meetings have been scheduled to review the budget and provide an opportunity for input and questions.

Engage on Social Media

Twitter	#oakbudget	twitter.com/Oakland
Facebook	www.facebook.com/Oakland	
Medium	medium.com/@Oakland	
Instagram	www.instagram.com/Oakland	

Contact the City of Oakland Budget Office

Website	beta.oaklandca.gov/issues/budget
Email	BudgetSuggestions@oaklandnet.com
Call	(510) 238-2130
Explore Data	budgetdata.oaklandca.gov

Contact your Councilmember

District #1	Dan Kalb	dkalb@oaklandnet.com	(510) 238- 7001
District #2	Abel Guillen	aguillen@oaklandnet.com	(510) 238- 7002
District #3	Lynette McElhaney	lmcelhaney@oaklandnet.com	(510) 238- 7003
District #4	Annie Campbell Washington	acampbellwashington@oaklandnet.com	(510) 238- 7004
District #5	Noel Gallo	ngallo@oaklandnet.com	(510) 238- 7005
District #6	Desley Brooks	dbrooks@oaklandnet.com	(510) 238- 7006
District #7	Larry Reid	lreid@oaklandnet.com	(510) 238- 7007
At-Large	Rebecca Kaplan	atlarge@oaklandnet.com	(510) 238- 7008

Attend the Public Budget Forums

Saturday April 29, 2017	1:00 pm - 3:00 pm	District #5 Councilmember Noel Gallo <i>Spanish interpretation /en Español</i>	Fruitvale-San Antonio Senior Center 3301 E. 12 th Street
Monday May 8, 2017	6:30 pm - 8:30 pm	District #2 Councilmember Abel Guillen	St Paul's Episcopal Church 114 Montecito Avenue
Wednesday May 10, 2017	6:30 pm - 8:30 pm	District #4 Councilmember Annie Campbell Washington	Bret Harte Middle School 3700 Coolidge Avenue
Saturday May 13, 2017	10:00 am - 12:00 pm	District #1 Councilmember Dan Kalb District #3 Councilmember Lynette McElhaney	Beebe Memorial Cathedral 3900 Telegraph Avenue (subject to change)
Wednesday May 17, 2017	6:30 pm - 8:30 pm	District #7 Councilmember Larry Reid At-Large Councilmember Rebecca Kaplan	Oakland Zoo - Snow Building 9777 Golf Links Road
Thursday May 18, 2017	6:00 pm - 8:00 pm	District #6 Councilmember Desley Brooks	Eastmont Police Department Substation 2651 73 rd Avenue
Monday May 22, 2017	6:00 pm - 8:00 pm	District #3 Councilmember Lynette McElhaney	West Oakland Senior Center 1724 Adeline Street
Thursday May 25, 2017	6:30 pm - 8:30 pm	District #2 Councilmember Abel Guillen <i>Cantonese interpretation</i>	Lincoln Recreation Center 261 11 th Street

Attend the City Council Budget Meetings

Tuesday, May 2, 2017	5:30 pm	Mayor's Oral Budget Overview
Tuesday, May 16, 2017	5:00 pm	Budget Presentation
Tuesday, May 30, 2017	5:30 pm	Special Budget Meeting
Monday, June 12, 2017	5:30 pm	Special Budget Meeting
Monday, June 26, 2017	5:30 pm	Special Budget Meeting
City Council Budget meetings will be held at Oakland City Hall, One Frank Ogawa Plaza, 3 rd Floor; and may be viewed on KTOP - TV 10		

Do you need sign language, Cantonese, Mandarin or Spanish interpreter or other assistance to participate? Please email or call 5 days in advance. ¿Necesita ayuda relacionada con una discapacidad, un intérprete en español, Cantonese, Mandarin o de Language de señas para participar? Llame o envíe un correo electrónico con 5 días de anticipación. 需要手語、粵語或普通話翻譯？請五天前聯絡我們。

BUDGET GUIDE & BACKGROUND

BUDGET OVERVIEW

At its core, a local government budget is an approved revenue and spending plan that authorizes a municipality to use public dollars to provide services. Local governments use their budgets for a variety of additional purposes, including communication, planning, accountability, and evaluation. A budget is often a reflection of a city's priorities and policies.



The City of Oakland has a two fiscal-year (biennial) budget cycle. For the City of Oakland, the fiscal year begins on July 1 and ends on June 30. This budget is being proposed for fiscal years (FY) 2017-18 and 2018-19. This same fiscal year calendar is used by the State of California, and most cities, counties, and school districts. The City policy of adopting a two-year budget is intended to improve the City's long-term planning, enhance funding stability, and to create greater efficiency in the budget development process. While the City's budget is adopted for a two year period, appropriations are divided into two one-year spending plans. During the second year of the two-year budget cycle, the Mayor and City Council conduct a midcycle budget review to address variances in estimated revenues and expenditures, and other

changes to the City's financial condition.

The City of Oakland's budget presents two principal types of data: projected revenues and planned expenditures. Revenues are monetary resources that the City anticipates will become available during the fiscal year. City revenues can be categorized by type (e.g. property tax, sales tax, business tax, permit fees, etc.). City revenues may also be divided into those that can either be expended on general City activities or those that must be restricted for specific purposes. For instance, the City's Measure KK funds may be used only for street and infrastructure improvements and affordable housing, whereas the City's business tax revenues can be used for all governmental purposes. Expenditures can be divided by type (e.g. salaries, retirement contributions, debt service, supplies, capital projects, etc.), or by the department that spends them (e.g. Police, Fire, Library, Public Works, etc.).

To ensure that restricted revenues are used only for their intended purpose, the City accounts for its financial resources in different "funds." For instance, federal grants from the U.S. Department of Transportation for road construction are held in a different fund than are revenues from the City's Public Safety & Services Measure. The largest City fund is the General Purpose Fund, which can be used for all public purposes over which the City has jurisdiction. General Purpose Fund revenues are generally unrestricted and include most taxes. The budget document presents data related to the General Purpose Fund only, and to "All Funds."

In addition to the Proposed Policy Budget, the City also issues a Proposed Capital Improvement Program (CIP) for City Council consideration. Both documents are later finalized as the Adopted Policy Budget and the Adopted Capital Improvement Program. The Policy Budget is the City's operating budget and includes the projected revenues and expenditures required to provide most City services. For instance, the operating budget includes revenues from general taxes which provides funding for police services, fire and emergency medical services, youth and recreation programs, library services, city administration, etc. The CIP, by contrast, presents planned expenditures for projects which will improve the City's infrastructure, buildings, and environment as well as major purchases such as land, buildings and equipment. For example, the CIP includes water quality projects around Lake Merritt, complete repaving of streets and roads, construction of sewer infrastructure, and construction or renovation of City buildings. The CIP is summarized in the Policy Budget in accordance with best practices. There are also other special budgets such as the Oakland Redevelopment Successor Agency, which is a separate legal entity of the City, responsible for the wind down and completion of the activities of the former Oakland Redevelopment Agency.

BUDGET GUIDE & BACKGROUND

THE BUDGET PROCESS

The budget process is the procedure through which the City formally develops, deliberates and adopts its budget. The budget process consists of several important stages: 1) Budget Development, 2) Budget Adoption, and 3) Budget Amendment. The City's Consolidated Fiscal Policy, Ordinance 13279 CMS, provides the legal framework that guides the budget process, and mandates that the City pass and adopt a balanced budget. The policy can be found in this document under Financial Policies.

Budget Development

Nov-Dec 2016: Baseline Budget Development

In the fall of 2016, the Finance Department developed a "baseline budget," which is a preliminary two-year budget that forecasted revenues and expenditures assuming the City maintained its current level of staffing, program funding and policies. The baseline budget is the foundation upon which the proposed budget is developed. The Finance Department worked in conjunction with all City departments to create the baseline budget, taking into account the latest economic projections and information on likely expenditure increases, such as fringe benefit rates for retirement and health care. This forecast of expected revenue and expenditures in the baseline budget helps the City identify whether there will be an operating surplus or the need to address a funding shortfall.

February 2017: Five-Year Financial Forecast Report

The completed baseline budget became the foundation for development of the City's Five-Year Financial Forecast which was published in February 2017. The Five-Year Financial Forecast is a planning level estimate of future revenues and expenditures and identifies potential budget issues based upon the assumed future financial environment. The Five-Year Financial Forecast assumes no policy changes will be made to the baseline budget, other than those already prescribed by law.

January-March 2017: Internal Analysis

After development of the baseline budget was complete, the City Administrator's Office directed the departments, through "budget instructions," to submit requests for changes to the baseline budget. Departmental requests might include changes such as new programs, increased appropriations, reduced expenditures, reorganizations, or shifting appropriations from one program or service to another. The Finance Department conducted an in-depth analysis of each budget request to assess its value and fiscal feasibility. Based upon that analysis, recommendations were provided to the City Administrator. The City Administrator and key staff then conducted internal budget hearings with department directors and their staff to discuss the budget proposals. The City Administrator made preliminary budget decisions based upon the results of those internal hearings, taking into consideration the Mayor and Council's stated budget priorities.

February-March 2017: Community & Council Input

In accordance with the City's Consolidated Fiscal Policy, an assessment of stakeholder needs, concerns and priorities was conducted prior to the finalization of the Proposed Budget. This takes the form of a statistically valid poll developed in conjunction with the City's Budget Advisory Committee. The Councilmembers were also invited to provide a list of key expenditure priorities for the Mayor's consideration for the Proposed Policy Budget.

BUDGET GUIDE & BACKGROUND

March-April 2017: Proposed Budget Finalized

The City Administrator provided a preliminary budget proposal to the Mayor. The Mayor weighed options, conducted additional analysis, considered City Council, community, and other stakeholder input, and issued a final Proposed Policy Budget in late April.

Budget Adoption

May-June 2017: Community Input

The Administration and City Council conduct Community Budget Forums at varied times and in different neighborhoods across the City. These meetings provide a forum for City Councilmembers to obtain input from constituents on the FY 2017-19 budget priorities and to understand questions and concerns pertaining to the Mayor's Proposed Budget.

May-June 2017: Council Deliberations

Upon presentation of the Proposed Budget, the Mayor and City Council conduct a series of public hearings to review the FY 2017-19 Proposed Budget. The City Council receives additional information and responses to questions raised regarding the Proposed Budget. Councilmembers may request amendments to the Mayor's Proposed Budget for discussion and consideration.

June 2017: Council Budget Adoption

As required by the City Charter, the City Council must adopt a balanced budget by June 30, preceding the start of the fiscal year commencing July 1. The adopted budget provides a two-year appropriation authority for all funds, and first and second-year appropriations for the Capital Improvement Program (CIP). The CIP appropriations are outlined in two annual spending plans for FY 2017-19.

Budget Amendment

March-June 2018: Midcycle Budget Amendment

Toward the end of the first year of the two-year budget cycle, the Mayor and City Council conduct a mid-cycle budget review to address variances in estimated revenues and expenditures, and other changes that may have impacted the City's financial condition. For the FY 2017-19 budget cycle, the mid-cycle review will take place between March and June 2018, and will pertain to revenues and expenditures for the FY 2018-19 fiscal year (i.e. the second year of the biennial budget).

Year-Round: Budget Amendments

The City Council has the ability to amend the budget throughout the two-year period. Appropriation of new money, or changes to the allocation of appropriations between funds or departments, requires approval by the City Council. Transfers between divisions within a department, between spending accounts, or between projects may be made at the administrative level. These transfers may be authorized by the City Administrator, Finance Department, or department directors, depending on the nature of the transfer.

BUDGET GUIDE & BACKGROUND

OVERVIEW OF BUDGET TERMS & CONCEPTS

The following section is intended to familiarize the reader with terms, concepts, and documents important to the budgetary process. Knowledge of these items will provide the reader with a better understanding of this Budget and other similar documents produced by the City.

Budgets & Fiscal Years

Budgets are plans for how organizations intend to use projected resources (revenues) for payment to perform operations or provide services (expenditures), over a defined period of time. Budgets are prospective planning tools and must be balanced between revenues and expenditures within the defined time period. The key period of time for the City of Oakland's Budget (and other financial reports) is the fiscal year (FY). The City's fiscal year begins on July 1st and ends on June 30th of the following year. Fiscal years are generally expressed as follows: the fiscal year which begins July 1, 2017 and will end June 30, 2018 is FY 2017-2018. Fiscal Years may also be divided into quarters or monthly periods for reporting purposes. It is important to note that grants awarded to the City may or may not synchronize with the City's fiscal year, and often are based on the granting agency's fiscal period or other predetermined period as determined by the grant agreement.

The Oakland City Council adopts a biennial (two-year) balanced budget by June 30th of every odd-numbered year. For instance, the City Council will adopt the FY 2017-19 Biennial Budget by June 30, 2017. The City of Oakland has received the Distinguished Budget Presentation Award from the Government Finance Officers Association of the United States and Canada (GFOA) for its biennial budgets for the past 20 consecutive fiscal years.

Revenues

Revenues can be generally understood as the sources of income for the City and are divided into several categories or fund types. Tax revenues are largely unrestricted and are allocated to the General Purpose Fund. Grant revenues are restricted by the grant agreement and often require matching contributions from other sources. Special revenues include voter-approved measures and are restricted for a specific purpose. Revenue from fines and penalties are largely unrestricted and result from enforcement activities. Based on best practices and Council policy, one-time revenues (e.g. land sales) should not be used to support ongoing expenditures. Fee and Service Charge revenues support many City functions. The rate charged for fees and service charges is regulated by state law. Generally, fees may not exceed the cost of providing a service, with a few exceptions. Fees are listed in the City's Master Fee Schedule, which is approved annually through a City Ordinance, but can be modified at any time with City Council's approval. The current Master Fee Schedule can be found at the following link:

<http://www2.oaklandnet.com/oakca1/groups/cityadministrator/documents/policy/oak060194.pdf>

Revenues are budgeted and recorded into specific accounts. These accounts are aggregated for reporting into categories, such as property tax, fines & penalties, or service charges.

Expenditures

Expenditures reflect the costs associated with the provision of services and performance of operations by the City. There are two key categories of expenditures: personnel expenditures and operations & maintenance (O&M) expenditures. Personnel expenditures include the cost for City employees to perform various functions and provide services to the public, and are expended through the City's payroll and benefits systems. These costs include salaries, overtime, retirement, and healthcare costs. O&M expenditures include

BUDGET GUIDE & BACKGROUND

non-labor related costs and are processed through the City's contracting, purchasing, and accounts payable systems. O&M expenditures include items such as contracts for services, supplies and materials, utilities, equipment purchases and debt payments. Expenditures are budgeted and recorded into many detailed accounts. These accounts are aggregated for reporting purposes into broader categories that include salaries, retirement, debt payments, or capital expenditures, among others.

Funds and Fund Transfers

Funds are groups of revenue and expenditure accounts that must be individually balanced. The City's Budget contains over 100 funds, the largest of which is the General Purpose Fund. The General Purpose Fund is unrestricted in its use. Other Funds normally have restrictions on the types of activities they support. These restrictions may be established by local ordinance, the City Charter, federal or state law, or grant agreements. The Policy Budget will often summarize information by General Purpose Fund and All Funds, which is the sum of the General Purpose Fund and all other special funds..

In certain cases, monies may be transferred between City funds. For instance, 3% of the City's annual unrestricted General Purpose Fund revenues are required to be transferred between the General Purpose Fund and the Kids First! Fund to meet the requirements of the 2009 Kids First! ballot measure (Measure D). When a transfer occurs between funds, the "sending" fund (where the transfer comes from) records an expenditure and the "receiving" fund (where the transfer goes to) records revenue. This is to ensure that the overall budget remains balanced.

Department & Organizational Structures

The City of Oakland is organized into various departments as defined in Section 2.29 of the Oakland Municipal Code. These departments are responsible for delivering the various external and internal services of the City. Departments are generally established by City Ordinance approved by the City Council. Several departments were established by the City Charter itself and generally include the name "Office" in the title. These include the Mayor's Office, the City Attorney's Office, and the City Administrator's Office. Because departments are not funds, departmental revenue and expenditures may be contained in and/or attributed to one or more funds. Likewise, one or more departments may have revenue and expenditures contained in and/or attributed to a certain fund.

Both the budget and financial forecast documents include two quasi-departments: the Capital Improvement Program and the Non-Departmental group. These two groups are distinguished from traditional departments in that they do not have operational staff attributed to them. These groups are used to record various inter-departmental projects and citywide costs, such as debt service, legally required fund transfers, or major infrastructure projects.

Internal Service Funds

Internal Service Funds charge departments for services to allow for centralized support functions between City departments. Similar to transfers, Internal Service Funds operate by recording an expenditure in the fund for which the operations are performed, and recording revenue in the Internal Service Fund for the department providing the service. For example, the Oakland Police Department (OPD) requires vehicles to operate; however, the maintenance of OPD vehicles (along with vehicles used by the Oakland Fire Department and other City departments) is provided centrally by Oakland Public Works (OPW). To reflect these costs, an internal service charge is budgeted as an expenditure for OPD from an appropriate fund. This expense is then recovered by an internal service revenue account in the equipment fund. This revenue pays for the expenses to maintain OPD's vehicle (e.g. mechanics, fuel, parts) within the equipment fund. Each Internal Service Fund apportions costs across departments and funds based on the nature of these costs.

BUDGET GUIDE & BACKGROUND

Overhead Rates

Overhead rates are used to recover costs of certain administrative functions like accounting, cash management, and information technology, which can be difficult to allocate to specific funds, functions or projects. The City utilizes an outside actuarial consultant to review rates and methodologies for its overhead rates. Overhead charges are budgeted and recorded as expenditures in any given fund, while overhead recoveries are budgeted and recorded as revenue in the overhead fund supporting the relevant administrative function.

For example, the Oakland Public Works (OPW) Department has a centralized fiscal and human resources staff. Costs for HR staff are budgeted and recorded as expenditures in the funds receiving support from OPW fiscal and human resources, based on the payroll (i.e. charged personnel) within those funds and a calculated overhead rate. Overhead recoveries are then budgeted and recorded as revenues in the OPW overhead fund to offset the costs of OPW fiscal and human resources staff.

Fund Balances & Reserves

At the end of each fiscal year, each fund's revenue collections are compared against incurred expenditures. If there were greater expenditures than revenues, then that difference is reduced from the "fund balance." A negative fund balance occurs when cumulative fund expenditures exceed cumulative fund revenues. By contrast a positive fund balance exists when cumulative revenues exceed cumulative fund expenditures. If there were revenues in excess of expenditures, a surplus occurs, which is added to that fund's fund balance.

If a positive fund balance is restricted or earmarked in its usage, it is often termed as 'reserved'. For instance, the General Purpose Fund has a 7.5 percent emergency reserve for unanticipated and insurmountable events. Therefore, the City Council may be required to direct funds from the positive fund balance to support the emergency reserve. Other funds may have a positive fund balance that must be reserved to support the purpose of that individual fund. This may include future anticipated expenditure needs such as equipment replacements, or future costs associated with a multi-year project.

Budget Balancing

The term 'balanced' refers to a budget or forecast document where all projected revenues are equal to all projected expenditures. If projected revenues exceed projected expenditures, then the budget or forecast is said to have a projected surplus. If projected expenditures exceed projected revenues, then there is a projected shortfall. By policy, the City Council must adopt a balanced budget.

A structural imbalance occurs when there is a difference between ongoing revenues and expenditures. A budget that uses one-time revenues to pay for ongoing expenditures may be balanced over the fiscal period, but suffers from a structural imbalance; in this case a structural shortfall. By contrast if ongoing revenues exceed ongoing expenditures, a budget may have a structural surplus.

Assets & Liabilities

Assets are tangible and intangible items that hold value and include City cash, investments, buildings, land and equipment. Assets can be divided into two types: current and long-term/fixed assets. Current assets include cash, receivables, and short-term investments. Long-term and fixed assets include things such as long-term investments, property, plant, and equipment that have value, but cannot be quickly converted into cash.

BUDGET GUIDE & BACKGROUND

Liabilities are amounts that the City is obligated to pay based upon prior events or transactions. For example, if the City owes money resulting from borrowing or issuing debt (e.g. bonds), those would be considered liabilities. Liabilities can also be divided into two types: current liabilities and long-term liabilities. Current liabilities are those that the City expects to pay within a one year period. This includes wages paid to active employees for hours worked, or bills for utilities. Long-term liabilities are obligations that the City will pay out over time, such as pensions, retiree medical obligations, and long-term debt service.

Unfunded Actuarial Accrued Liability (UAAL), or Unfunded Liability, is often mentioned in conjunction with government finances. UAAL is defined by the State Actuarial Standards Board as “the excess of the actuarial accrued liability over the actuarial value of assets”. Simply put, it is the amount that an entity is projected to owe that is not covered by projected future payments under a specific payment methodology, or by assets currently held by the entity.

Financial Reports & Actuals

“Actuals” are recorded revenues and expenditures that have occurred over a defined period. While budgetary values are projected prior to the close of a fiscal period, actuals are recorded after the fact. A financial report is a statement of actuals and accruals. Actuals can be divided into two categories: unaudited and audited. Unaudited actuals include those items reported in the City’s quarterly Revenue & Expenditure Reports. This financial data is distinguished from audited actuals in that they have not been evaluated by an independent financial auditor. The City has an independent financial audit conducted following the close of each fiscal year to provide an independent opinion as to whether the City’s financial statements are stated in accordance with General Accepted Accounting Principles (GAAP). The audited actuals are presented in the Comprehensive Annual Financial Report (CAFR).

BUDGET GUIDE & BACKGROUND

BACKGROUND ON CALIFORNIA LEGAL REVENUE LIMITATIONS

Public funds are highly regulated; as such, some of the major regulations that impact local revenue generation will be discussed in this section. This information serves as the background to gain understanding of how tax revenue is generated and restricted.

Propositions 13

Proposition 13, approved by voters in 1978, amended the state constitution and imposed restrictions on the collection of revenue by California's local governments. Proposition 13 declared that the maximum amount of any ad valorem tax on real property shall not exceed 1% of the full cash value of such property. That 1% tax is collected by the counties and apportioned to the cities and special districts within each County. The only exception to the 1% limitation is for bonded indebtedness for the acquisition or improvement of real property, which must be approved by a two-thirds vote of the electorate. This exception is most commonly used when voters approve a General Obligation Bond to pay for capital improvements to infrastructure such as streets, parks, and buildings. The 2016 Oakland Measure KK Infrastructure Bond was an example of the use of this exception.

Proposition 13 also requires a two-thirds vote of the qualified electors for a City to impose special taxes. Special taxes are restricted for a specific purpose rather than a general purpose, such as a tax designated for public safety or libraries. Parcel taxes are also considered special taxes regardless of the use.

Proposition 8

Proposition 8, approved by voters in 1978, strengthened Proposition 13 and established that when property values decline due to changes in the real estate market, tax assessors are obliged to conduct "decline in value reviews" so that the tax assessed is set at a lower rate if the value of the property has declined. A lower assigned value resulting from such a review is known as a "Proposition 8 reduction."

Proposition 218

Proposition 218, approved by voters in 1996, further restricted local government's abilities to raise revenue. Proposition 218 states that a majority vote of the public is required to raise general purpose taxes in Charter cities such as Oakland. This law requires that any new or increased property assessments may only be levied on properties that receive a special benefit from the project rather than a general benefit to the public, and that an engineer's report is required to ascertain the value of the special benefit. A weighted majority of property owners must approve such assessment. Proposition 218 restricts the use of property related fees so that they cannot be used to pay for a general governmental service, or a service not immediately available to the property owner.

BUDGET GUIDE & BACKGROUND

Proposition 26

Proposition 26, approved by voters in 2010, defined and restricted governments' abilities to raise revenues through fees and charges for service by defining revenues as taxes unless they met one of the criteria listed below.

- A charge imposed for a specific benefit conferred or privilege granted directly to the payer that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.
- A charge imposed for a specific government service or product provided directly to the payer that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.
- A charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections, and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof.
- A charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property.
- A fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law.
- A charge imposed as a condition of property development.
- Assessments and property-related fees imposed in accordance with the provisions of Article XIII D of the California Constitution (see Proposition 218).

Under Proposition 26, the local government bears the burden of showing that the amount charged is no more than necessary to cover the reasonable costs of the activity, and allocation of the costs to the payer bears a reasonable relationship to the payer's burdens on, or benefits received from, the activity.

BUDGET GUIDE & BACKGROUND

THE CITY OF OAKLAND'S ROLE IN SERVICE PROVISION

The City of Oakland is one of many government entities serving the residents of Oakland, California. The City is a key provider of important government services to residents; however, it is not the only provider. Understanding which services are provided by the City, and which are provided by other entities is helpful before engaging in a more in-depth analysis of City services and fiscal position.

Services Provided to Residents of Oakland by Service Provider

The following tables summarize the services provided by various government entities serving the residents of Oakland, California. In some cases, services are provided collaboratively by multiple government agencies; in those instances, the primary service provider is listed.

The City of Oakland

Police Protection
Fire Suppression
Recreation Programs
Oakland Public Libraries
Violence Prevention Services
Planning & Building
Economic Development
Head Start
Senior Centers & Services
KTOP (local government cable channel)
Housing Development & Referral Services
Rent Arbitration
Emergency Medical Response
Children & Youth Services
Parking Management
Sewers & Storm Drains
Transportation Planning
Street & Sidewalk Maintenance (local)
Parks, Trees, & Public Spaces
Street Lights & Traffic Signals
Recycling and Solid Waste
Workforce & Job Training

The Oakland Unified School District

Public Elementary, Middle, and High Schools
Adult Education
Charter Schools

East Bay Municipal Utilities District (EBMUD)

Provision of Drinking Water
Treatment of Wastewater
Public Open Spaces near reservoirs

Alameda-Contra Costa Transit (AC Transit)

Bus Transportation

Alameda County

Courts of Law
Jails & Juvenile Hall
Coroner & Medical Examiner
Probation
Registrar of Voters
Property Tax Assessment & Collection
Public Defender
District Attorney
MediCal (Medicaid)
CalFresh (Food Stamps)
CalWORKs (TANF)
Health Programs
Public Health Services
Child Support & Protection
Mental Health Services
Emergency Medical Transport (Ambulance)

The Peralta Community Colleges

Laney & Merritt Community Colleges

East Bay Regional Park District

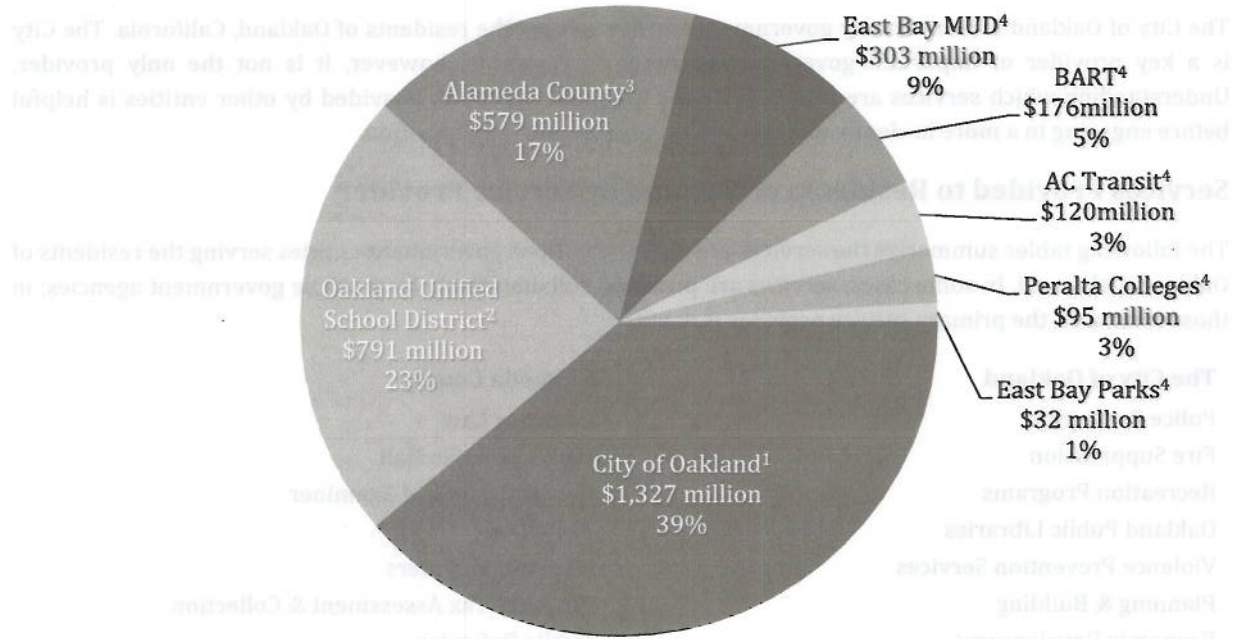
Operations of Regional Parks

Bay Area Rapid Transit District (BART)

Commuter Rail

BUDGET GUIDE & BACKGROUND

Estimated Funds expended in Oakland by Local Government Service Provider



Notes:

1. FY 2017-18 Proposed All Funds Expenditures.
2. FY 2016-17 Adopted All Funds Expenditures.
3. Based upon preliminary estimates of Core Services to Oakland residents provided by Alameda County.
4. Estimates are derived by multiplying FY 2016-17 All Funds expenditures by the ratio of Oakland residents to total population served.

Police and Fire Services – A Budget Comparison

Similar to other cities, police and fire services make up large portions of Oakland's expenditures for any given fiscal year. For the upcoming fiscal year, police and fire services are projected to account for 31% of the City's expenditures. By comparison, the city of Fremont, Alameda County's next largest city, spends roughly 43% of its budget on its police and fire services. Hayward spends 38.3% of its budget on these services. As such, the City of Oakland is in range with other local municipalities in regards to spending for police and fire services. The table below provides a comparison of public safety expenditures for several Bay Area cities:

City	All Funds Totals					
	Budget	Police	% Police	Fire	% Fire	% Police & Fire
Fremont*	\$287,171,000	\$74,555,000	26.00%	\$47,992,000	16.70%	42.70%
San Jose*	\$1,361,371,112	\$346,997,957	25.50%	\$203,413,562	14.90%	40.40%
Hayward*	\$285,583,000	\$72,294,000	25.30%	\$37,221,000	13.00%	38.30%
San Leandro*	\$148,347,755	\$32,077,487	21.60%	\$22,623,423	15.30%	36.90%
Alameda (City)*	\$174,388,844	\$30,495,000	17.50%	\$29,280,000	16.80%	34.30%
Oakland**	\$1,326,705,574	\$274,272,724	20.70%	\$139,088,100	10.50%	31.20%
Berkeley*	\$334,476,436	\$63,409,829	19.00%	\$36,273,849	10.80%	29.80%
Richmond*	\$385,438,969	\$72,594,187	18.80%	\$30,946,733	8.00%	26.80%

*From City's FY 2017 Adopted Budget.

**From Oakland's FY 2017-2018 Proposed Budget.

**STAFF REPORT****Finance and Audit Committee****Meeting Date:** 10/16/2019**Staff Report Number:** 19-002-FAC

Regular Business: Discuss timing and content of an operating and capital improvement plan (CIP) budget informational workshop

Recommendation

Staff recommends that the Finance and Audit Committee discuss timing and content of an operating and CIP budget informational workshop.

Policy Issues

Communicating financial information is included in the Finance and Audit Committee (FAC) 2019-20 adopted workplan.

Background

The FAC has previously expressed concern that the budget development process is difficult for members of the public to understand and therefore to contribute desired priorities in a manner which allows City Council to consider them for inclusion in the City's operating and CIP budget, as exemplified in the minutes from the FAC meeting February 6 (Attachment A.) Staff made a commitment to incrementally enhance the CIP process and budget document, such as the items outlined in the workplan and CIP memo transmitted to the FAC July 17 (Attachment B.) On September 24, City Council authorized a three-year agreement with OpenGov to upgrade to the City's budgeting and financial reporting software (Attachment C.) This upgrade will include a re-design of the budget book, including the five-year CIP.

Analysis

Based on concerns expressed by members of the FAC and the public that the City's budget development process is poorly understood by the community, staff plan to hold an informational workshop to provide a detailed process overview. For the informational workshop, staff have identified a number of key elements which may be presented and seeks FAC input on how to best describe the budget development process, when to hold the workshop to maximize participation and engagement, and to help identify any additional elements which should be included. The currently identified elements are described in greater detail below.

Budget process overview

The budget development process includes a number of key stakeholders with a range of responsibilities, including:

- Community members
- City Council
- City manager
- City staff

The workshop may include descriptions of these responsibilities for each of the above stakeholders or include additional information such as an organizational chart or more.

Budget development schedule

The City Council approves the activities and schedule for the annual budget process. To show the most recent example, the fiscal year 2019-20 budget included the following key items and dates:

- City Council goal setting – February 2
- Budget principle adoption – March 5
- Executive summary informational item – May 14
- Proposed budget published – May 17
- Budget study session – May 21
- Public hearing – June 4
- Budget adoption – June 18

Workshop content may include greater description of any or all of the key activities in the aforementioned schedule, helping community members to better target the specific information they wish to learn at each of these meetings. This would be in anticipation of the City Council approving a similar process to determine the upcoming fiscal year 2020-21 budget.

Public input points and media

Currently, the following venues and open times offer opportunity for the community to provide input on the annual budget:

- City Council email inbox (CCIN) – by email any time
- Public comment – in person during City Council meetings, goal setting session or public hearing
- City website goal setting page – by web access before goal setting
- “Office Hours” – in person when held by individual City Council members

Workshop content may include more comprehensive descriptions of any or all key input points and contact media, or otherwise describe which types of decisions are made by the City Council at different points.

Additional considerations

Beyond the aforementioned content, staff invites input from the FAC regarding any important content not included. Additionally, staff invites FAC input regarding the optimal time of year to hold an informational workshop, balancing the timeliness of information with other potential conflicts such as holidays.

Public Notice

Public notification was achieved by posting the agenda, with the agenda items being listed, at least 72 hours prior to the meeting.

Attachments

- A. Hyperlink – FAC minutes from February 6: menlopark.org/DocumentCenter/View/20517/D2-Combined
- B. Hyperlink – FAC agenda from July 17: menlopark.org/DocumentCenter/View/22041/E1---Work-Plan-and-CIP-memo
- C. Hyperlink – Budget and financial reporting software upgrade staff report: menlopark.org/DocumentCenter/View/22930/K1---20190924-Budget-and-Financial-Reporting-Software-selection-CC

Staff Report #: 19-002-FAC

Report prepared by:
Dan Jacobson, Finance and Budget Manager

2019-20 Finance and Audit Committee Work Plan**October 16, 2019 update**

Ref #	Approved projects	Subcommittee	Notes	10 20 30 40 50 60 40 80 90 100													
				0	% complete											100	
1	Research and recommend a tool(s) for Council's use in financial decision-making	N/A															
2	Review public documents/reporting and identify opportunities to improve presentation (formatting) and usefulness of information to Council and the general public	N/A															
2a	2019-20 Budget in Brief	N/A															
2b	2018-19 Comprehensive Annual Financial Report (CAFR)	Tronson, Shepherd															
2c	2018-19 Popular Annual Financial Report (PAFR)	N/A															
2d	Fiscal year 2020-21 budget document	Shepherd															
2e	Website dashboard	N/A															
2f	Investment reports	N/A															
3	Support delivery of easy-to-use, timely, complete and transparent financial information	N/A															
3a	Capital Improvement Plan (CIP) program	Royse, Westcott															
3b	Unfunded pension liability	Shepherd, Maguire															

Parking lot items

Sale of assets

Review of Utility Users' Tax cap

Library financing

Listing of parcels exempt from property taxes

Developer agreements

Community amenities fund

Use of multiple investment advisors

Consultant and contractor policy review

Reference documents**Location**

Fiscal year 2019-20 adopted budget <https://www.menlopark.org/ArchiveCenter/ViewFile/Item/9688>

Finance operating reports <https://www.menlopark.org/1578/Operating-reports>

Previous FAC meeting agendas and minutes <https://www.menlopark.org/AgendaCenter/Finance-Audit-Committee-5>