

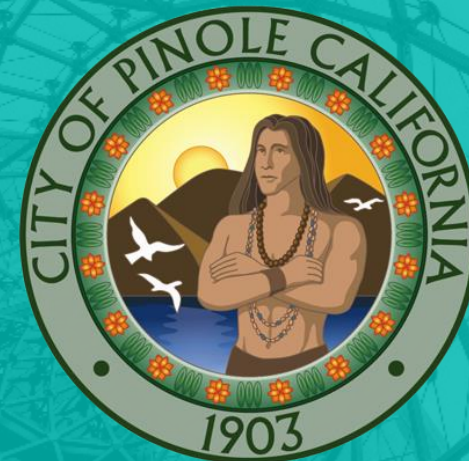


# City of Pinole General Fund Fiscal Sustainability Options and Long-Range Forecast

April 18, 2024

Andy Belknap, Director

Steve Montano, Special Advisor



INTRODUCTION

# The Team

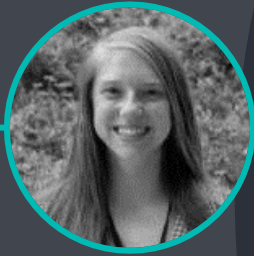
*Experienced industry professionals dedicated to the City's engagement*



**Andy Belknap**  
Managing Director



**Steve Montano**  
Special Advisor



**Jessica Oliphant**  
Senior Consultant

# Presentation Overview





# **Project Overview**

# Project Overview

Identify funding gaps between current conditions and desired conditions

Develop strategies in conjunction with City staff to close any identified gaps

Assist the City with developing a 20-year General Fund forecast that models the impact of the various fiscal sustainability strategies

# **Baseline Forecast**

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# Baseline Forecast Assumptions

Assumes the City continues current (status quo) staffing levels, service levels, and programs

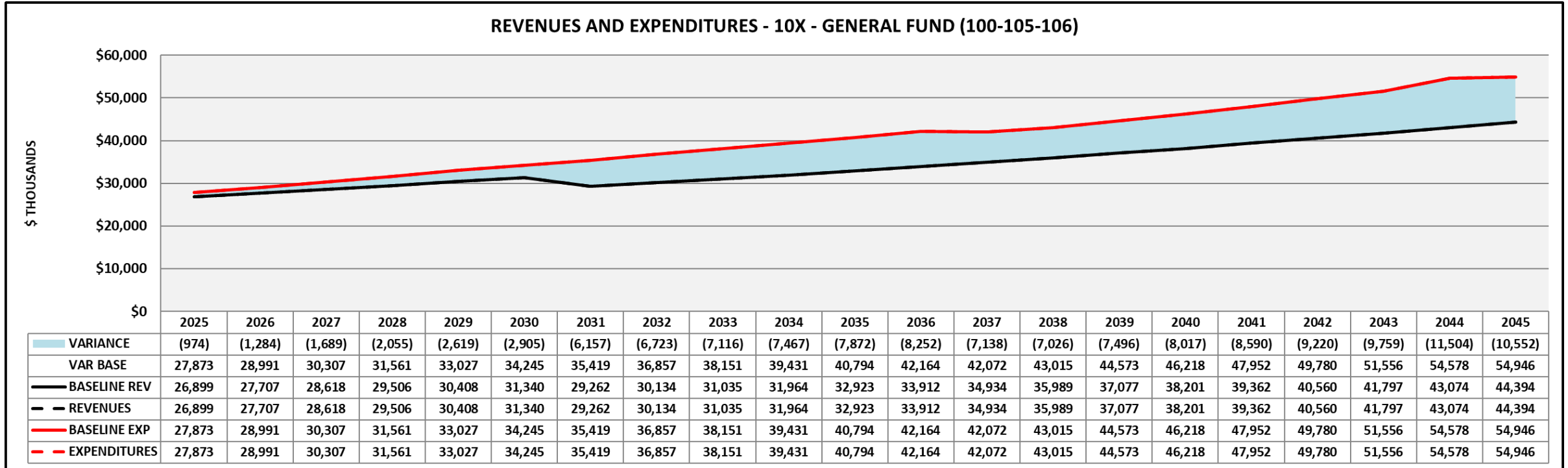
Assumes no new revenue-generating or expenditure reduction mechanisms

Baseline Forecast

Estimated average annual revenue and expenditure growth rates based on historical trends and other known factors

Factors in a periodic economic cyclical pattern that slows future growth in selected years

# Baseline Forecast – A Growing Structural Deficit

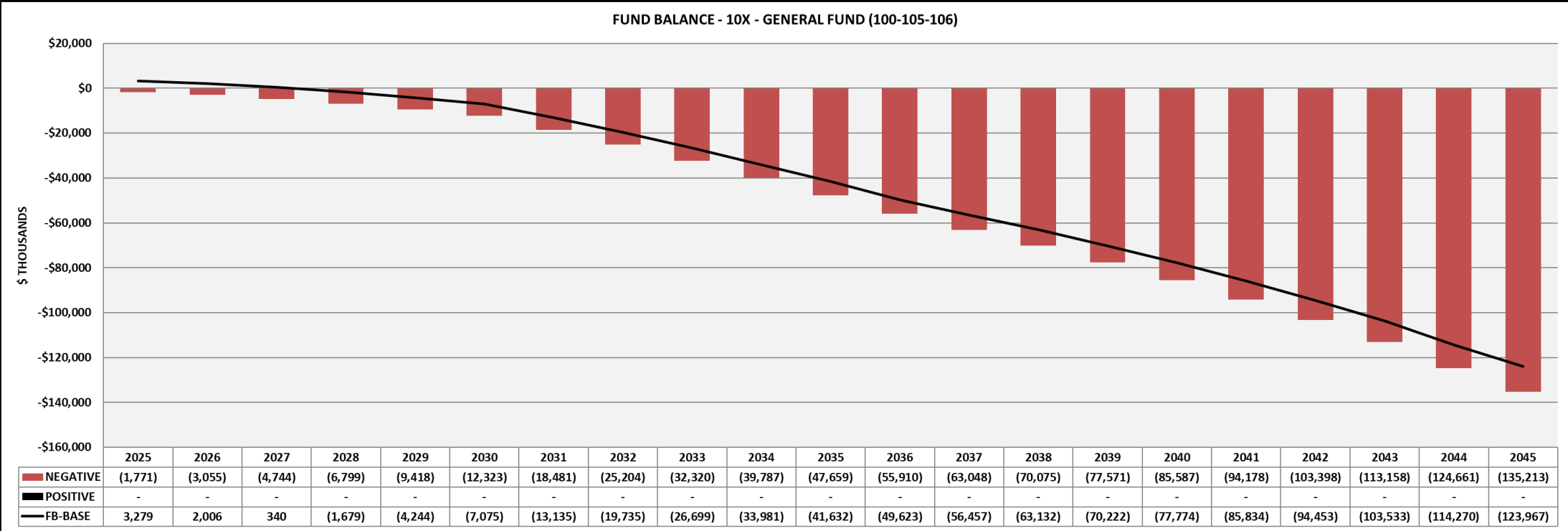


- Assumes deficits through 20-year forecast period.
- The baseline forecast indicates that the General Fund annual deficit will increase from \$974,000 in FY 2024-25 to \$10.6 million by FY 2044-45.
- Assumes pension trust funding ends in 2030
- Assumes current staffing levels
- Assumes CalPERS maintains current discount rate





# Baseline Scenario: Fund Balance Forecast





# **Strategy and Feasibility Assessment**

# Four Strategy Types

## Revenue Enhancements

- Maintaining service levels by increasing the resources available to pay for those services through new or increased revenues.

## Expenditure Controls/Cost Shifts

- Maintaining service levels through reductions in expenditures or shifting the cost burden away from the General Fund.

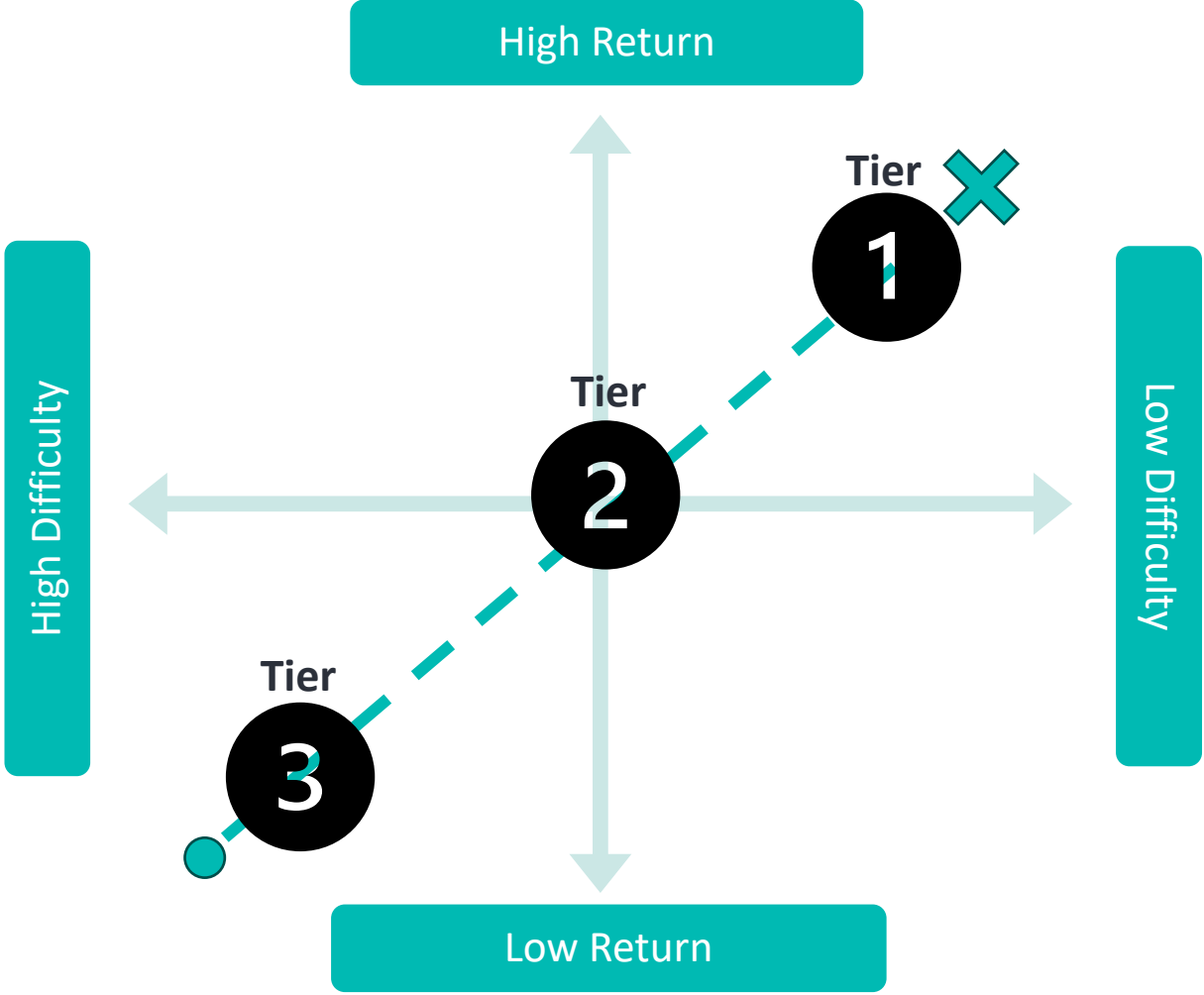
## Service Delivery and Governance Changes

- Maintaining service levels by changing the way that services are delivered, either through fiscal governance practices, contracting for services or insourcing services from other agencies.

## Service Level Reductions

- If the above strategy types do not yield sufficient fiscal savings to the General Fund, the City would need to explore service level reduction strategies in order to achieve fiscal sustainability.

# Strategy Pursuit Continuum



Factors	Tier 1	Tier 2	Tier 3
Community Support	High	Medium	Low
Technical and operational ease of implementation	High	Medium	Low
Timing necessary for implementation	Highly probable to meet timing required to resolve the structural deficit	Less than moderately probable to timely resolve deficit	Unlikely to meet the timing required to resolve the structural deficit
Disruptive impact on service delivery	Low	Medium	High
Disruptive impact within City organization	Low	Medium	High
Overall fiscal impact	High, capable of resolving the structural deficit	Moderate to high fiscal impact	Low to moderate fiscal impact



# Tier 1 Strategies

## Revenue Enhancement

- Sales tax Add-On Measure
- Business License Tax Rate Increase
- Real Property Transfer Tax
- Increase Franchise Fee Rates on Gross Receipts

## Service Delivery/Governance

- Adoption of an OPEB Funding Policy
- Adoption of a Surplus Utilization Policy
- General Fund Reserve Balance
- Develop an Internal Service Fund Cost Allocation and Reserve System
- Public Engagement in the Budget Process



# Tier 2 Strategies

## Revenue Enhancement

- Utilities Users Tax – Expand Covered Utilities and/or Increase the Tax Rate
- Parcel Tax
- Financing Capital Assets – Streets and Roads

# Tier 3 Strategies

## Expenditure Controls and Cost Shifts

- Targeted Expenditure Reductions
- Retiree Health Care Benefit
- Shift Medical Contribution Cost to Employees
- Increase Employee Pension Contributions

## Service Reduction and Eliminations








- Take No Action – leads to unplanned, uncontrolled expenditure reductions to avoid insolvency



# **Budget Strategy Scenarios**



# Strong Revenue Strategies

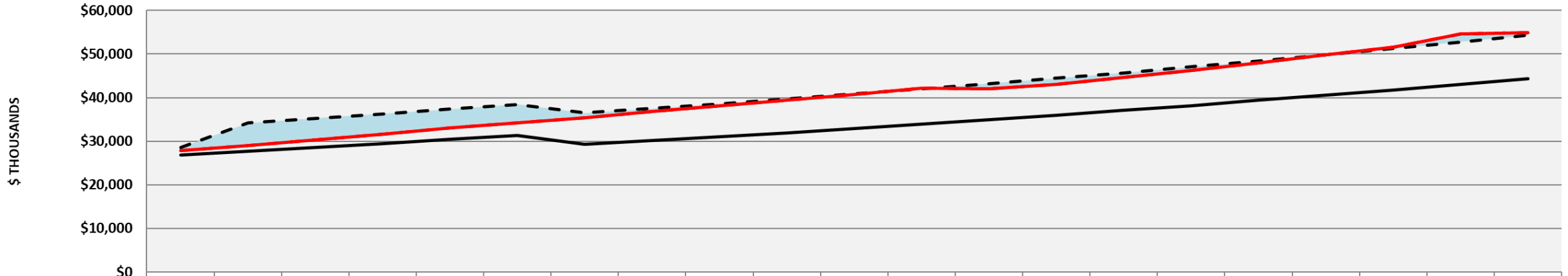
- Introduce a parcel tax 
- Increase business license tax rate or revise structure 
- Finance street and road rehabilitation 
- Additional ½ cent sales tax measure 
- Increase Franchise Fees 
- Increase UUT and expand to other 
- Real property transfer tax 



SCENARIO 1: STRONG REVENUE STRATEGIES COMPARED WITH BASELINE

# Revenues vs Expenditure

REVENUES AND EXPENDITURES - 10X - GENERAL FUND (100-105-106)

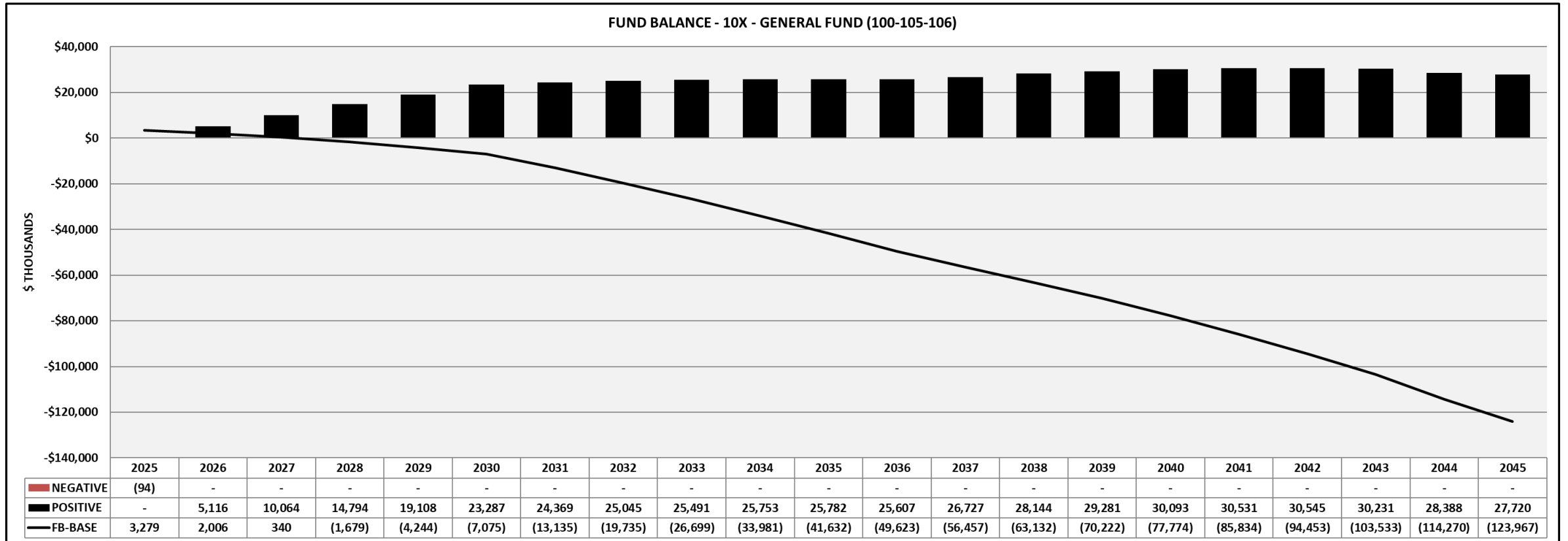


	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041	2042	2043	2044	2045
<b>VARIANCE</b>	703	5,210	4,948	4,730	4,314	4,179	1,082	676	446	262	29	(175)	1,120	1,417	1,137	812	438	14	(315)	(1,842)	(669)
<b>VAR BASE</b>	27,873	28,991	30,307	31,561	33,027	34,245	35,419	36,857	38,151	39,431	40,794	42,164	42,072	43,015	44,573	46,218	47,952	49,780	51,556	54,578	54,946
<b>BASELINE REV</b>	26,899	27,707	28,618	29,506	30,408	31,340	29,262	30,134	31,035	31,964	32,923	33,912	34,934	35,989	37,077	38,201	39,362	40,560	41,797	43,074	44,394
<b>REVENUES</b>	28,576	34,201	35,255	36,291	37,341	38,424	36,501	37,533	38,596	39,693	40,824	41,990	43,192	44,432	45,711	47,030	48,390	49,794	51,242	52,736	54,277
<b>BASELINE EXP</b>	27,873	28,991	30,307	31,561	33,027	34,245	35,419	36,857	38,151	39,431	40,794	42,164	42,072	43,015	44,573	46,218	47,952	49,780	51,556	54,578	54,946
<b>EXPENDITURES</b>	27,873	28,991	30,307	31,561	33,027	34,245	35,419	36,857	38,151	39,431	40,794	42,164	42,072	43,015	44,573	46,218	47,952	49,780	51,556	54,578	54,946



SCENARIO 1: STRONG REVENUE STRATEGIES FUND BALANCE FORECAST COMPARED WITH BASELINE

# Fund Balance Outlook










# **New Statewide Ballot Measure November 2024**

**Ballot #1935 (filed as 21-0042A1) would limit the ability of local governments to raise revenues by:**

- **Stricter rules for raising taxes, fees, assessments, and other charges**
- **Revises state constitution for props 13, 218, and 26 – challenges funding sources**
- **Restricts the use of fines and penalties to corporations and property owners that violate local environmental, public health, safety, fair housing and other ordinances**

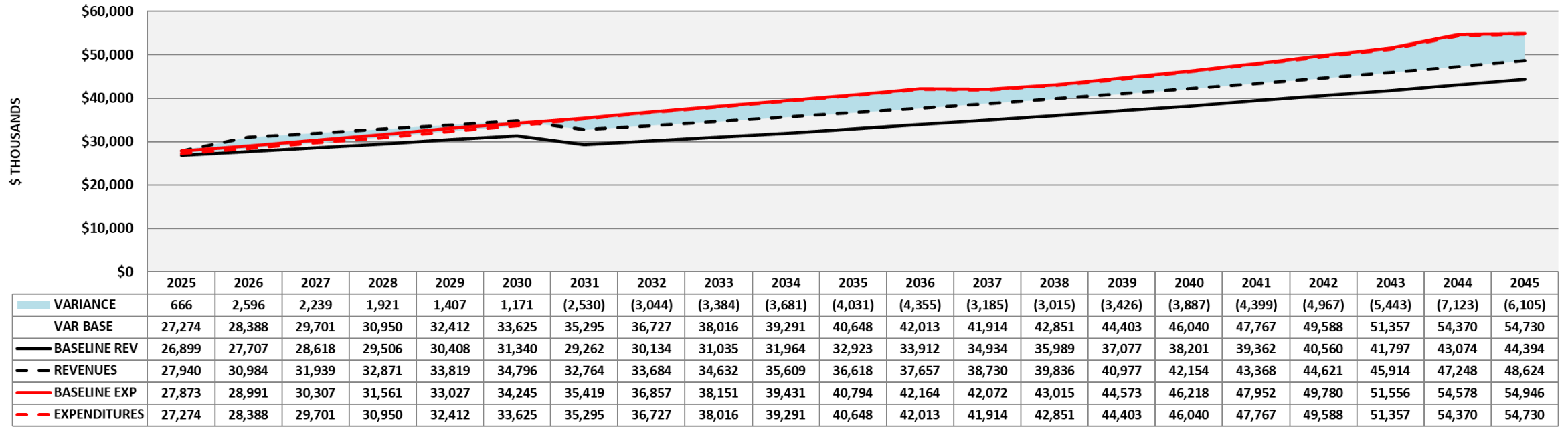
## Mixed Approach (Moderate Revenues with Cost Shifts)

- Increase employee pension contributions 
- Shift medical contribution cost to employees 
- Reduce or eliminate medical benefit for new hires 
- General Fund expenditure reductions \$500k annually through FY30 
- Increase Franchise Fees 
- Increase UUT and expand to other 
- Real property transfer tax 

SCENARIO 2: MODERATE REVENUES WITH COST SHIFT STRATEGIES COMPARED WITH BASELINE

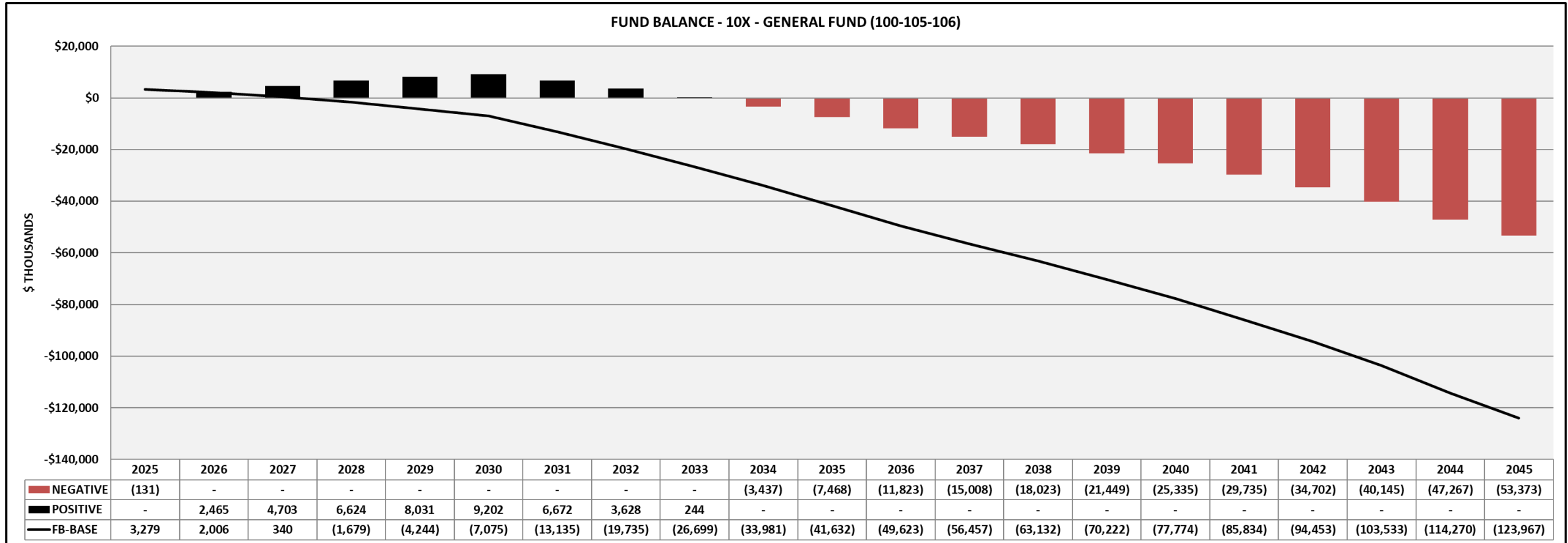
# Revenues vs Expenditure

REVENUES AND EXPENDITURES - 10X - GENERAL FUND (100-105-106)

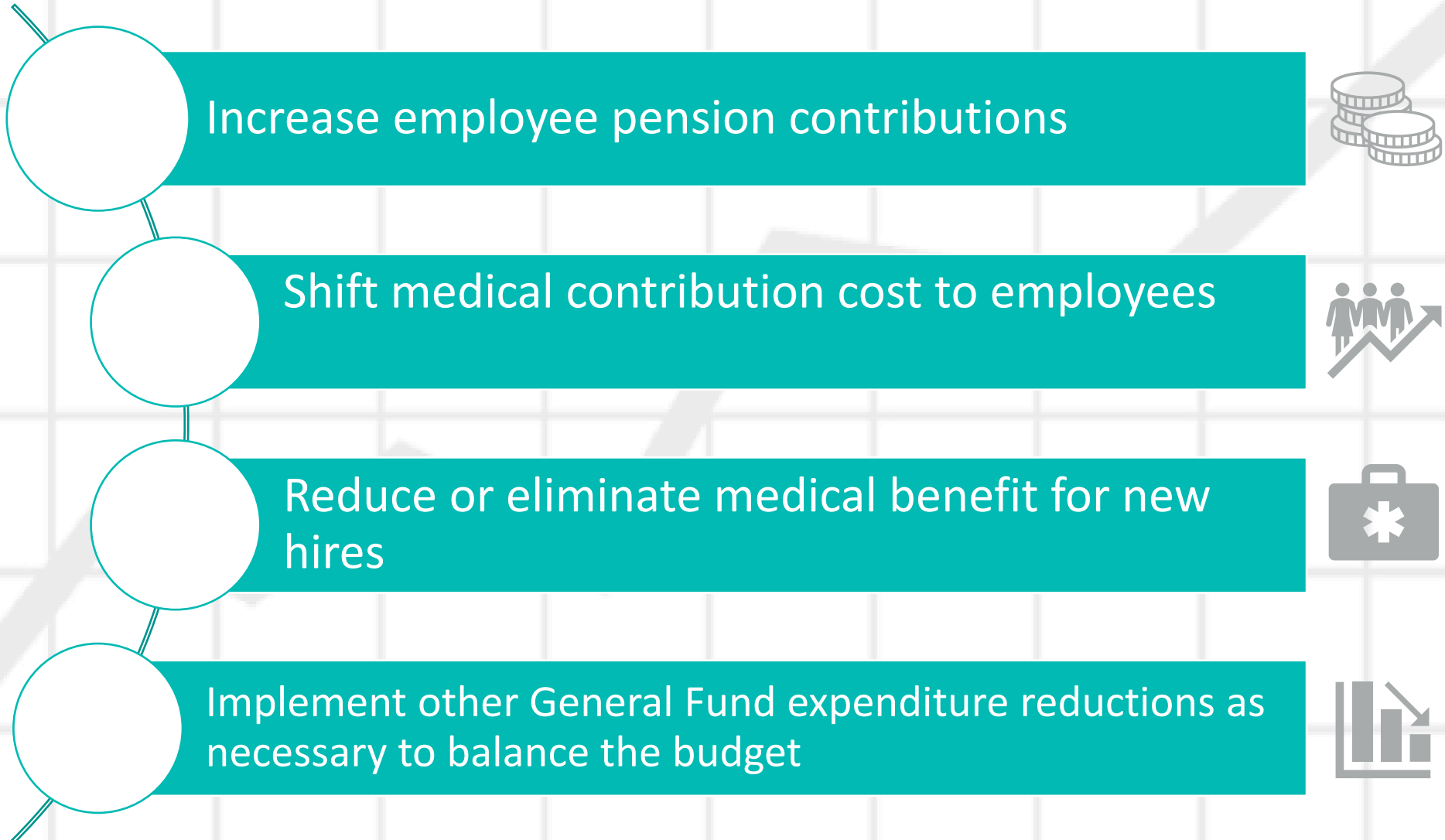


SCENARIO 2: MODERATE REVENUES WITH COST SHIFT STRATEGIES

# Fund Balance Outlook



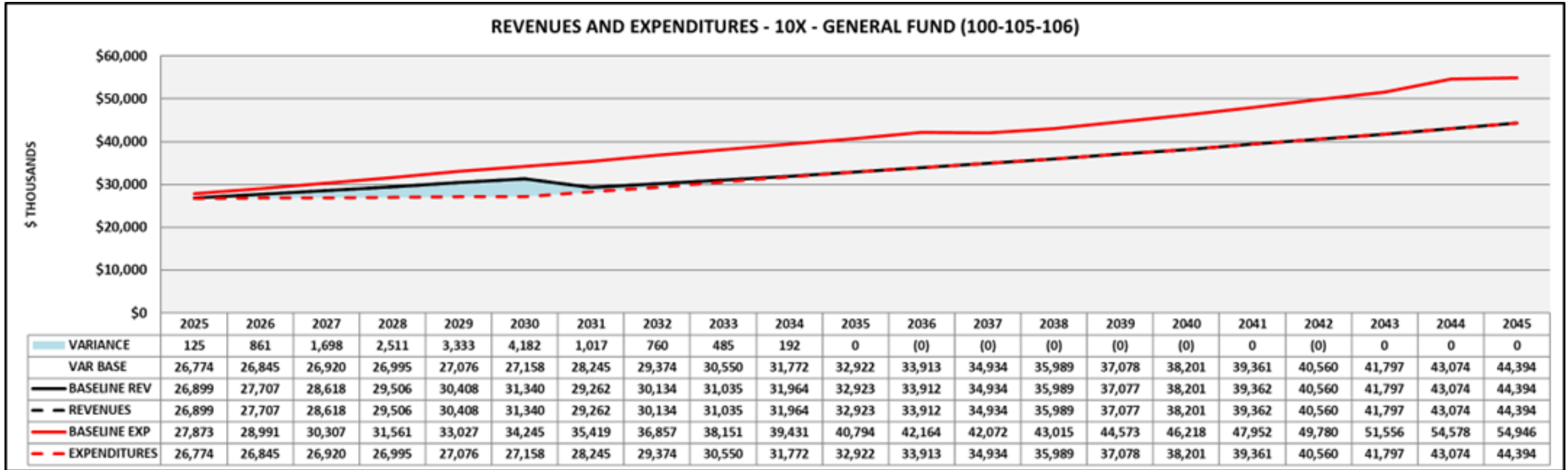
## Strong Operating Expenditure Reduction Strategies





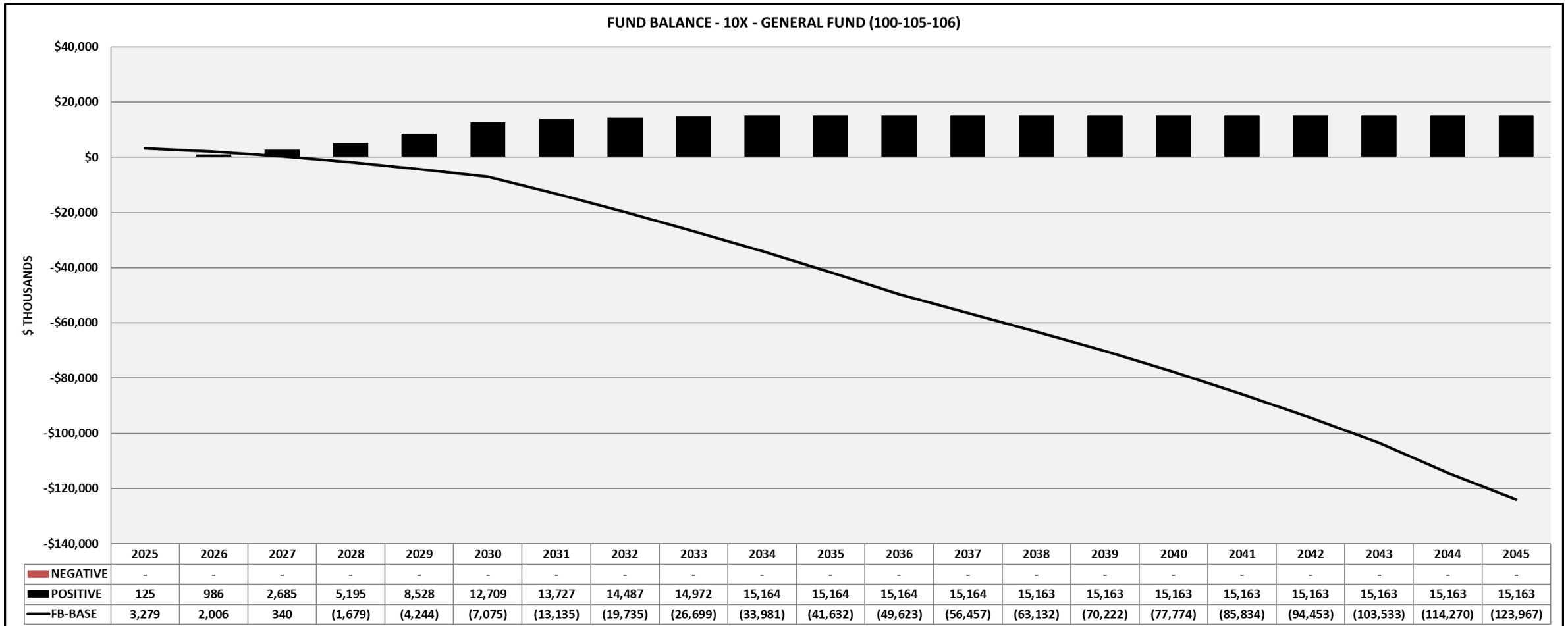
SCENARIO 3: STRONG EXPENDITURE REDUCTION STRATEGIES COMPARED WITH BASELINE

# Revenues vs Expenditure



SCENARIO 3: STRONG EXPENDITURE REDUCTION STRATEGIES

# Fund Balance Outlook

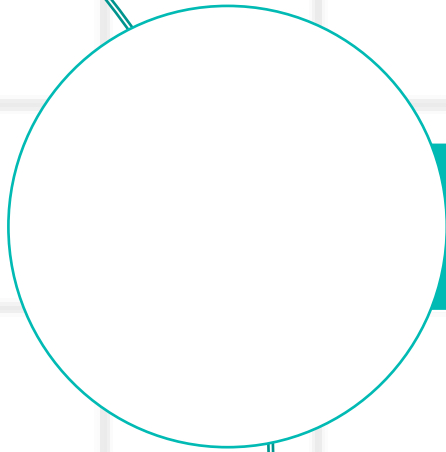


# Short-Term Expenditure Reduction – Tiered Approach

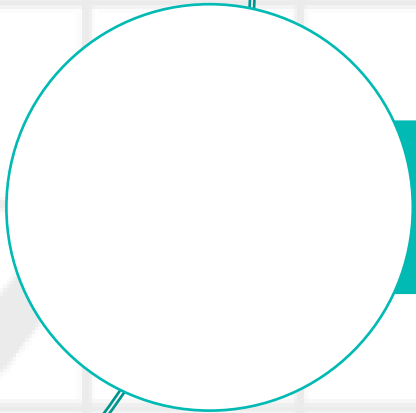
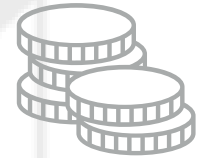
Financial First Aid - Bridging Options	Operating Cuts No Service Level Change Tier 1	Hiring Freeze Tier 2	Deferred Capital Funding & Spend Tier 3	ISF Charge Reductions Tier 4	Contingency Reserve Tier 5	Service Level Cuts Tier 6	TOTAL GAP FUNDING SOLUTIONS
<b>Salaries and Benefits</b>							
Salaries, Benefits and Other Pays		(\$75,000)					(\$75,000)
<b>Total Salaries and Benefits</b>	\$0	(\$75,000)	\$0	\$0	\$0	\$0	(\$75,000)
<b>Maintenance and Operations</b>							
Professional & Contract Services	(\$570,455)						(\$570,455)
Internal Service Premiums	(\$24,510)						(\$24,510)
Workers' Compensation							\$0
General Liability							\$0
Uninshured Claims							\$0
OPEB							\$0
Equipment Replacement/Maint	(\$13,456)						(\$13,456)
Information Technology							\$0
Maintenance & Repair	(\$48,975)						(\$48,975)
Supplies & Materials	(\$157,423)						(\$157,423)
Utilities	(\$87,941)						(\$87,941)
General Expenses	(\$53,477)						(\$53,477)
Travel & Training	(\$29,447)						(\$29,447)
Grant Operating Expenses							\$0
<b>Total Maintenance and Operations</b>	(\$985,684)						(\$985,684)
<b>Total Transfers Out</b>	(\$770,000)	\$0	\$0	\$0	\$0	\$0	(\$1,971,368)
<b>Capital</b>			(\$2,451,600)				(\$2,451,600)
<b>General Fund Discretionary Reserves</b>							\$0
<b>Total by Tier</b>	(\$1,755,684)	(\$75,000)	(\$2,451,600)	\$0	\$0	\$0	(\$4,282,284)
<b>Cumulative by Tier</b>	(\$1,755,684)	(\$1,830,684)	(\$4,282,284)	(\$4,282,284)	(\$4,282,284)	(\$4,282,284)	(\$4,282,284)



# Combined Revenue Enhancement (TUT) and Expenditure Reduction Strategies



Local Transaction and Use Tax (TUT)  
Enhancement

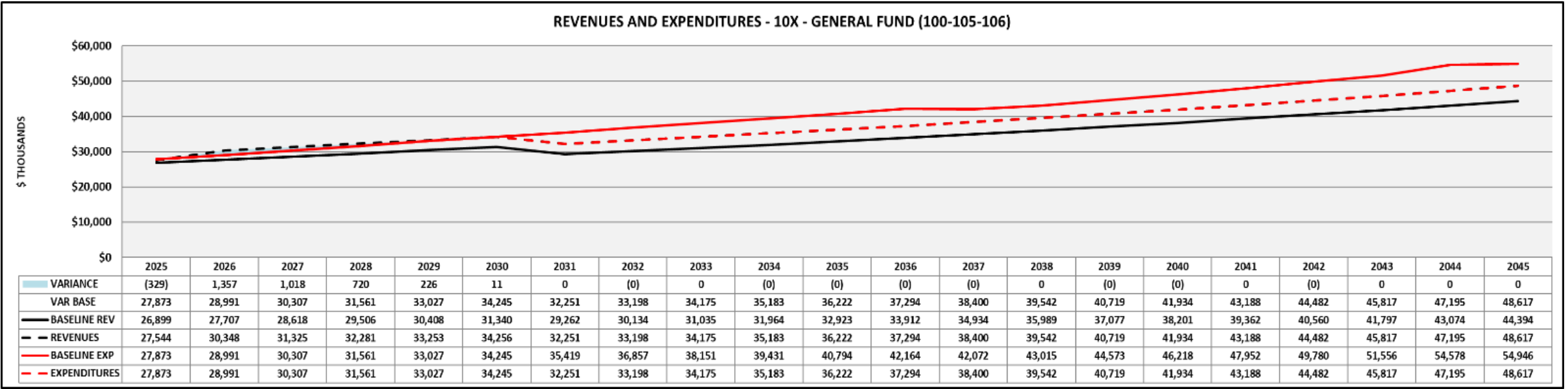


Implement General Fund Expenditure Reductions  
As Necessary to Balance the Budget



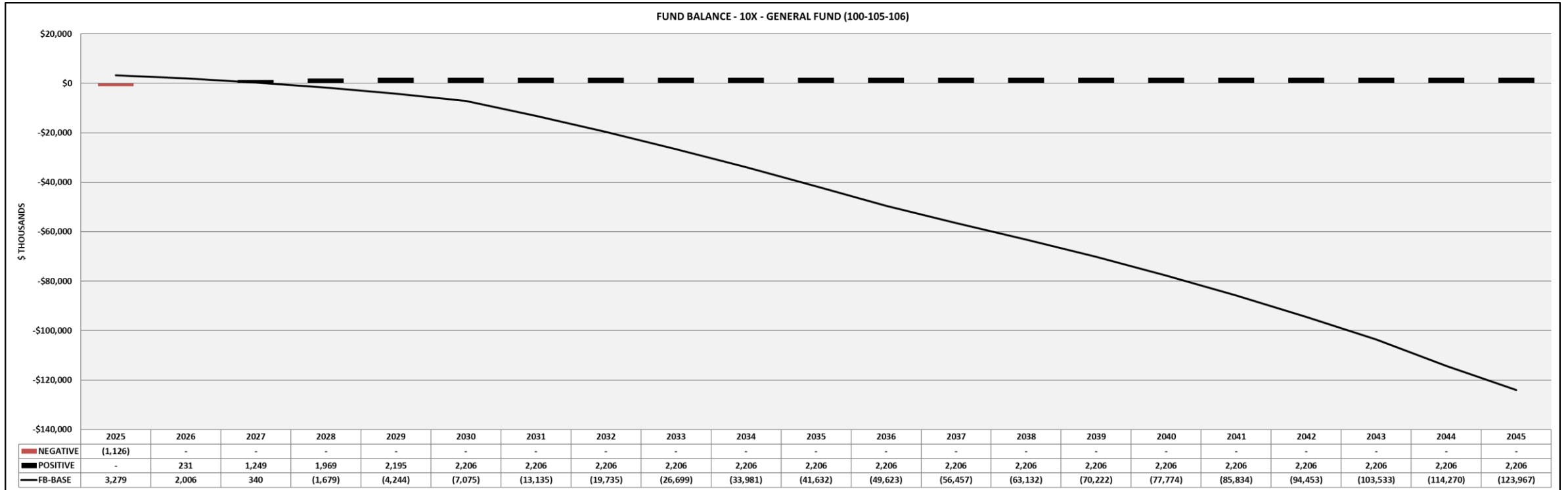
SCENARIO 4: REVENUE ENHANCEMENT (TUT) AND EXPENDITURE REDUCTION STRATEGIES

# Revenues vs Expenditure



SCENARIO 4: REVENUE ENHANCEMENT (TUT) AND EXPENDITURE REDUCTION STRATEGIES

# Fund Balance Outlook



# Long Term Expenditure Reduction Strategies

## Control Personnel Costs

- Wage freeze
- Hiring freeze
- Increase part-time labor
- Reduce hours and pay
- Close facilities
- Layoffs or reductions in force
- Increase employee contributions to pensions or OPEB

## Reduce Near-Term Capital Spending, Equipment Costs, and Annual Debt Costs

- Defer or cancel capital projects, maintenance, and/or replacement
- Defer noncapital special projects
- Use short term debt to pay for vehicles
- Reduce general fund support to other funds (reduce interfund transfers out)

## Organizational Strategies

- Small and/or temporary across the board budget cuts
- Reorganization
- Contract or implement shared services model for select programs

## Sourcing Strategies

- Outsource
- Insource
- Divest (eliminate programs)



# Scenario Packages - Closing Thoughts

- The City Council will probably need to pick from all the Scenario Packages presented here to develop a budget balancing plan that is right for Pinole
- A revenue measure in November of 2024 is probably a given and work needs to begin right away
- Consideration of any service level expansions should be very carefully considered because of the City's fiscal condition
- Work also has to begin on reducing expenditures so when vacancies occur consideration should be given to not refilling the position – at least until fiscal recovery is well underway





# **Other Recommendations**

# **Other Recommendations**

- **Adoption of OPEB Funding Policy**
- **Adoption of Surplus Utilization Policy**
- **Reduce General Fund Reserve Balance from 50% to 25% of Operating Expenditures**
- **Develop an Internal Service Fund Cost Allocation and Reserve System**
- **Public Engagement in the Budget Process**

## Adoption of an OPEB Funding Policy

### Purpose:

- Demonstrate prudent financial management practices;
- Promote long-term and strategic thinking;
- Provide guidance in making annual budget decisions;
- Reassure bond rating agencies; and
- Demonstrate to employees and the public how OPEB will be funded to ensure adequate funding for negotiated benefits.

### Policy Example:

- The City will strive to maintain assets in the OPEB trust equal to 100% of the Actuarial Liability for OPEB through regular contributions to the OPEB Trust.
- The City will strive to make regular contributions to the OPEB trust to achieve this goal.
- The funds in the OPEB trust will be used to pay the City's OPEB payments each year.
- The City will strive to contribute its Actuarially Determined Contribution (ADC) into the OPEB trust each year.

## Adoption of Surplus Utilization Policy

### Surplus Utilization Policy Example:

After deficits, reserve deficiencies and other matters of fiscal concern, the City Manager or his/her designee may recommend that any remaining budget surplus funds be allocated on a one-time basis as follows:

- 50% allocated to one-time payments that reduce long-term obligations such as unfunded pension or OPEB liability, bonded indebtedness, or lease obligations; and
- 50% allocated to facility or infrastructure improvements, equipment purchases, or other long-term capital needs that improve the community's safety, aesthetics, transportation, or quality of life.

## Budget Surplus:

Due to a variety of factors, such as economic expansion, frugal operations, or changes to various projects and programs, the City may end a fiscal year with a surplus of revenues over expenditures, encumbrances and reserve commitments.

Budget surplus funds are those funds that result after closing the City's accounting records for a fiscal year.

OTHER RECOMMENDATIONS

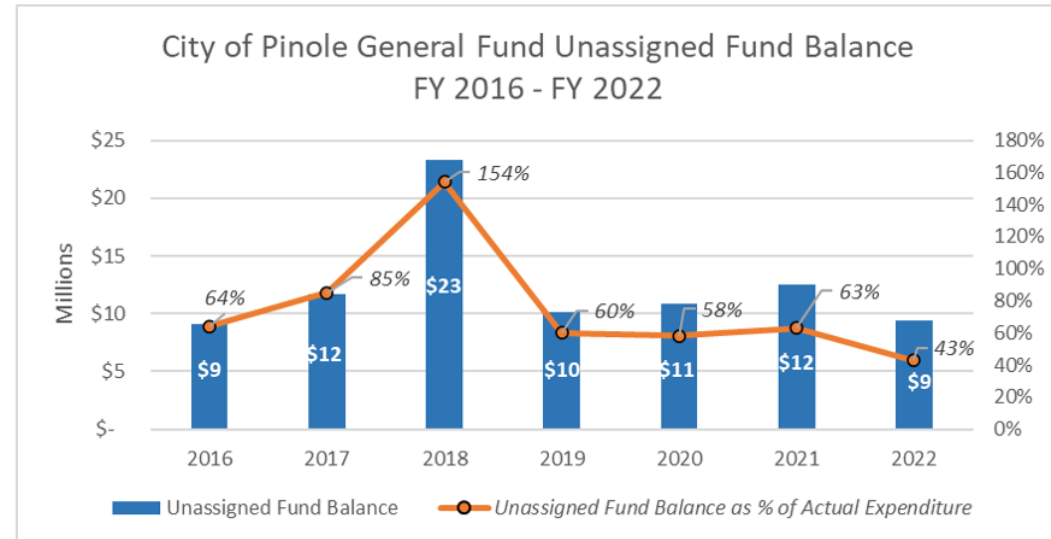
# Reduce General Fund Reserve Balance from 50% to 25%

## Comparison of Reserve Balance with Peer Cities

Jurisdiction Name	General Fund Reserves	General Fund Reserve Policy
Albany	\$11,588,267	25% of annual operating expenses
American Canyon	\$12,586,555	25% of annual operating expenses
Dixon	\$19,909,086	25% of annual operating expenses
El Cerrito	\$16,624,174	A minimum of 10% of annual operating expenses
Emeryville	\$58,883,427	50% of annual operating expenses
Martinez	\$20,677,967	A minimum of \$5,000,000 (16.2% of annual operating expense in FY 2021/22)
Pinole	\$35,256,850	50% of the City's annual General Fund ongoing operating expenditures

# GFOA Recommendation:

General governments, regardless of size, should maintain unrestricted fund balance in their General Fund of no less than two months regular General Fund operating revenues or expenditures (17% for Pinole).



## Develop an Internal Service Fund (ISF) Cost Allocation and Reserve System

### Typical Examples of ISFs:

- **Insurance Reserve Fund:** used to account for the City's self-insured general liability, uninsured claims, and workers' compensation programs.
- **Equipment Maintenance and Replacement Fund (examples):** used to account for the cost of maintaining and replacing the City's rolling stock fleet, 800 MHz radio system, parking equipment/infrastructure, and recreation and fire medical equipment.
- **Compensated Absences Fund:** used to account for the City's accumulated liability for compensated absences.
- **Retiree Medical Insurance Fund:** used to account for the cost of providing post-employment health care benefits.
- **Information Technology Fund:** used to account for the cost of maintaining and replacing the City's information technology (computer) systems.

## GFOA Best Practice:

Utilizing ISFs allows for an optimal cost allocation across all fund sources based on:

- *An equitable and pre-determined methodology;*
- *Control and consistency in service, accurate accounting and reporting;*
- *And allows for a long-term outlook when planning and budgeting.*

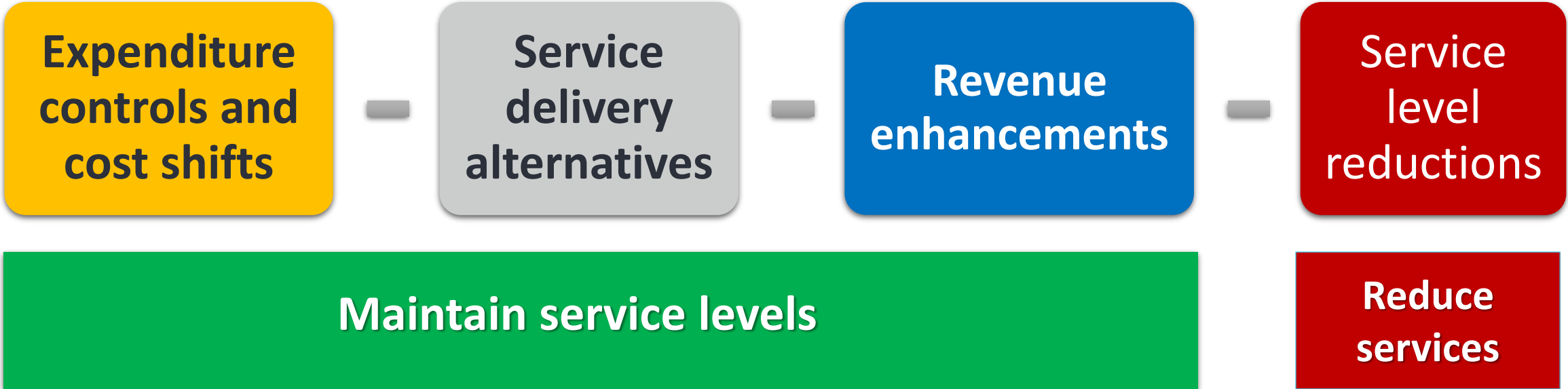
# Next Steps

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# Budget Strategy Categories



## Fiscal Sustainability Strategies





# Next Steps – November 2024 Revenue Measure

## April – May 2024

Engage polling and public opinion firm.  
Assess likely voter approval of various tax BLT and UUT tax measures being considered

## June 2024

Council makes decision whether to proceed with ballot measure

## July-August, 2024

Last date for Council to take actions to submit measure to voters for the November 5, 2024 general election.

Approve any other administrative amendments to the ordinance.

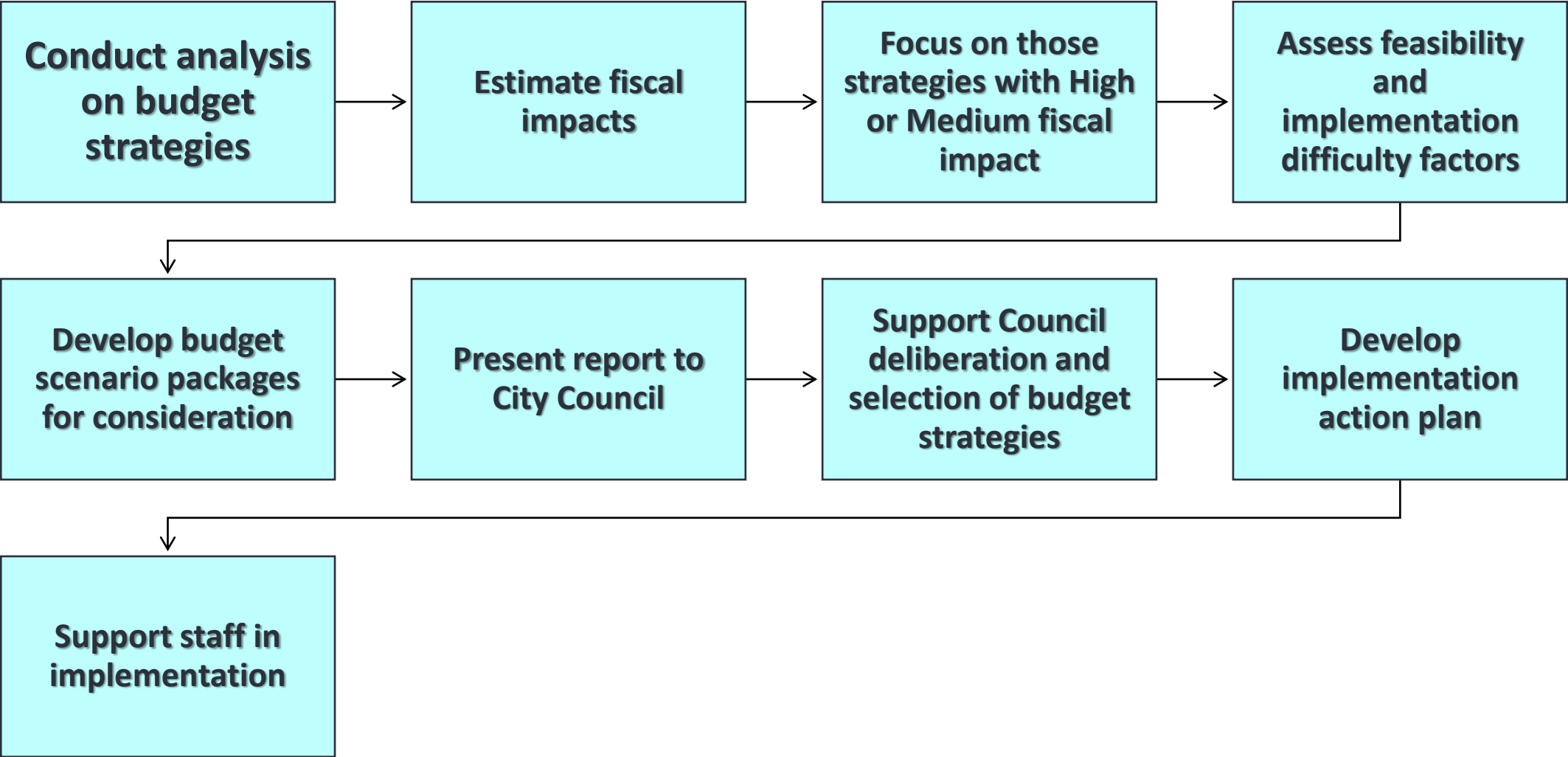
## November 5, 2024 (or in the future)

If Council decides to pursue a change, it will go before the voters at the next general election (or a future election to be determined).

## January 1, 2025

Earliest date changes to the BLT and UUT ordinance can go into effect. (UUT implementation typically takes longer to inform utilities)

# Next Steps – Fiscal Sustainability Strategies





**Questions?**