THE CITY OF BRENTWOOD
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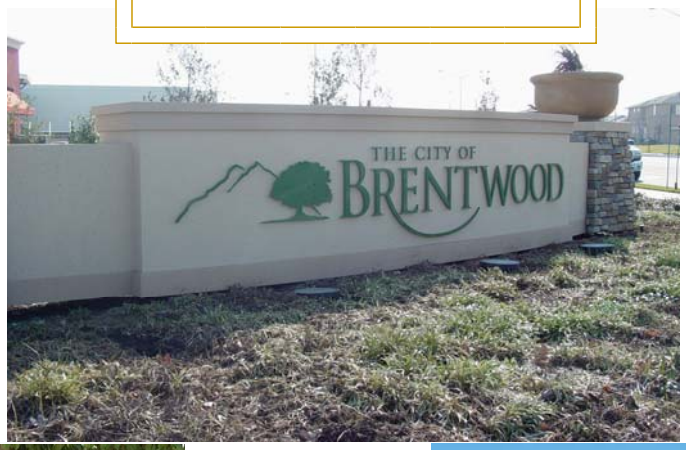
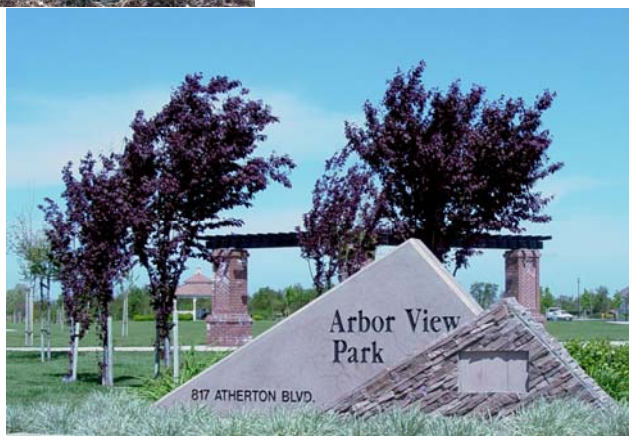
Fiscal Model





PREPARED BY:
THE FINANCE DEPARTMENT

CITY OF BRENTWOOD

FISCAL ANALYSIS MODEL

February 2007

MANAGEMENT PARTNERS
INCORPORATED

List of Principal Officials

City Officials

Robert Taylor .....Mayor

Robert Brockman ..... Vice Mayor

Chris Becnel ..... Councilmember

Brandon Richey ..... Councilmember

Erick Stonebarger ..... Councilmember

Executive Team

Donna Landeros .....City Manager

Damien Brower .....City Attorney

Craig Bronzan .....Director of Parks & Recreation

Karen Chew .....Assistant City Manager

Pamela Ehler .....City Treasurer / Director of Finance & Information Systems

Mark Evenson ..... Chief of Police

Bailey Grewal .....Director of Public Works / City Engineer

Howard Sword ..... Director of Community Development

THE CITY OF
BRENTWOOD
HERITAGE • VISION • OPPORTUNITY

February 2007

The Honorable Mayor, Members of the City Council and Citizens of the City of Brentwood
City of Brentwood
Brentwood, California 94513

Dear Mayor, Members of the City Council and Citizens of the City of Brentwood:

We are excited to present you with the City of Brentwood's Fiscal Model. The primary objective of the fiscal model is to take a ten year look down the road in order to insure that the City has a financially healthy future.

The fiscal model provides a detailed analysis and projection of the next ten years of revenues, expenses, and fund balance. City Council adopted the development of a fiscal model as one of their goals in an effort to identify potential financial difficulties before they become a reality. The fiscal model will give the City Council tools to establish priorities and determine the direction of the City - all the while knowing that the City will be able to financially sustain those goals.

The fiscal model is a dynamic tool that allows staff to run countless "what-if" scenarios and easily assess the fiscal impact of a single or multiple changes. The interactive version of the model will be available through the Finance Department to assist City staff in studying the financial implications of their long term planning decisions.

Work on the fiscal model began in late 2005 and incorporated input from every City Department. Each department analyzed their workloads in conjunction with City service standards and developed a staffing needs master plan. These requests were balanced against an ever shifting economic outlook and were carefully analyzed to confirm that each new position would play a role in bringing Brentwood's vision to reality. From there we continued to update and fine tune the model for every conceivable detail…from the future debt service requirements at the new City Hall to the extra appropriation needed every other year for the elections.

We would like to express our appreciation to all of the City Departments for their contributions and hard work in developing the fiscal model. Special recognition is given to Kerry Breen, Business Services Manager, for his role as the City's principal lead on the project. Appreciation is also expressed to the Mayor and the City Council for their interest and support in planning and conducting the financial activities of the City in a responsible and responsive manner.

Respectfully submitted,

Donna Landeros

Donna Landeros
City Manager

Pamela Ehler

Pamela Ehler
City Treasurer
Director of Finance and Information Systems

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TABLES AND GRAPHS

EXECUTIVE SUMMARY

The City of Brentwood and Management Partners, Inc have developed a sophisticated fiscal model that reviews the City's current fiscal condition, and provides a 10-year fiscal forecast.

The model is an Excel spreadsheet that analyzes 48 revenues and all of the City's General Fund expenditures. There are over 15,000 data points, which are interlocking, and will be updated by the City staff.

The program is designed to take a single variable, like the number of housing units, and change both revenues and service costs associated with it in each of the subsequent years. A single change in the growth assumption may trigger changes in more than 2,000 data elements in the model.

The model has four interlinked sections:

- A development model
- Expense models for each department and division, summarized at the General Fund level, and supported by a staffing and compensation model
- A revenue model for each major revenue; and
- A fund balance model.

This fiscal model is important, and different, in several ways. First, the shortcoming of traditional financial models is that they usually have only a few inflationary assumptions and therefore can be significantly inaccurate. The City's model identifies as many variables as possible while at the same time making it easy for City staff to update and maintain.

Second, in many cities, especially older, built out cities, growth is limited. These cities' projection models become an extension of their current budget, with only minor adjustment for growth. For cities, like Brentwood, which are expanding in major areas, and increasing in population, the fiscal model begins to resemble a development impact model.

In this case, the City and Management Partners chose to cover both needs – **to first build a development impact model, on a citywide basis; then build an annual budget projection model, based on the development impact model.**

The model is a complete fiscal impact model of the City's General Plan. From that standpoint, it can answer the critical question: Does the City of Brentwood's planned development support itself, and can we still have a solvent and healthy city in 10 years and at build out?

Third, the model serves as the foundation and starting point for the development of the City's budget. The development growth component of the model contains a year-by-year assessment of planned residential and commercial/industrial development. It is detailed down to the housing unit, and even includes planned growth for hotel rooms.

The model becomes the basis for future budget projections, using the growth in income from development (property and sales taxes, etc.), and then provides the base data for the increased demand for services, which translates into cost on the expense side of the budget.

The model also allows staff to "what if" any number of scenarios and update the model as soon as new information is available.

The key variables driving the City's future fiscal condition are:

- The pattern of development
- Staff growth
- Compensation, especially health and retirement costs
- The growth of property taxes and sales taxes from new development
- The continuation of revenues from assessment districts

This new fiscal model will be an invaluable tool for the City's current and future policymakers to examine these variables, insuring that the City of Brentwood's vision is brought to reality, and that the City will continue to enjoy a stable financial future.

FISCAL MODEL FORECAST

Key Finding: ***The City's future fiscal health is good and the outlook is manageable, but within limited parameters. Small changes in operation costs or changes in the economy can have much larger impacts over the course of a decade than might be imagined.***

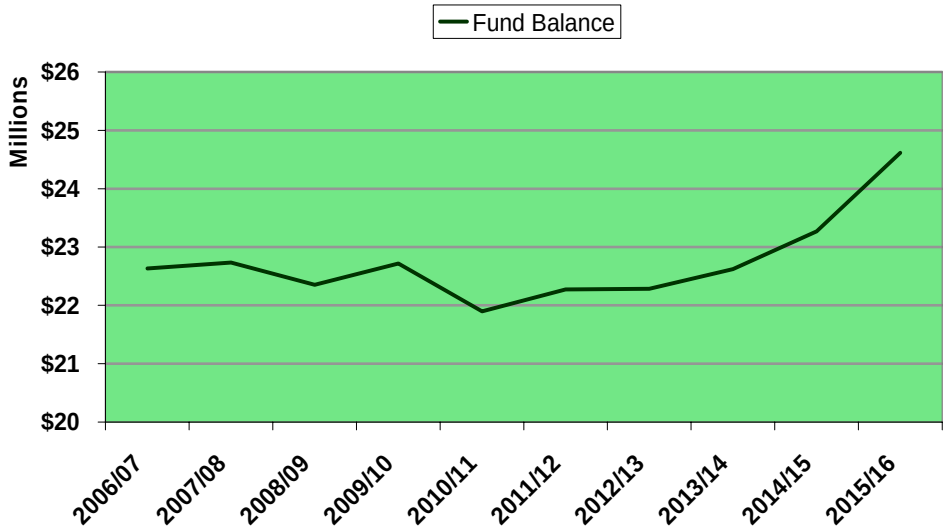
This report will illustrate the primary summary tables for growth and development, revenues and expenses, including staffing changes and fund balance. The City of Brentwood's future fiscal health is good and the outlook is manageable, but within limited parameters. Small changes in operational costs or changes in the economy can have much larger impact over the course of a decade than might be imaged.

The key variables driving the City's future fiscal condition are:

- The pattern of development
- Staff growth
- Compensation, especially health and retirement costs
- The growth of property taxes and sales taxes from new development
- The maintenance of revenues from assessment districts

The model projects that the City will be able to maintain healthy fund balances within the current Council guidelines, which are provided in the Fund balance section. The best single reference to the City's healthy condition is illustrated in the Fund Balance Summary (Table 14 in the Attachments section) and in the graph summarizing the results shown below.

GRAPH 1: BRENTWOOD FUND BALANCE



If current trends continue, and plans for development progress, even if more slowly, the service and staff expenses to support that growth can be funded.

Over the next ten years, fund balance is projected to increase by an estimated total $2,101,174. This is a slower growth rate than in recent years. For example, the surplus from 2005/06 (when reserves increased by $3 million) is thought to be extraordinary and not something that can be counted on going forward.

GROWTH PROJECTION MODEL

Key Finding: ***The City's annual population growth rate will stabilize between 2% and 4% over the next decade. The population boom of the late 1990's and early 2000's, where annual double digit percentage increases were the norm, is finished.***

The growth model is summarized in Tables 1 and 2. Table 1 reports residential growth. The residential growth estimates have been developed by City staff and outside consultants assisting with the General Plan. They are based on the number of residential housing starts, and are translated into estimated residents, assuming that 2.86 people live in single-family homes and 3.38 live in multiple-family units. The estimated residents per housing unit figures are based on Bay Area data.

TABLE 1: GROWTH PROJECTION SUMMARY – RESIDENTIAL

Year	Total Units	Single Family	Persons Per Unit	Multi Family	Persons Per Unit	Population Service Units	Annual Growth Rate
			2.86		3.38		
Est. 2005/06	**14,837**	**13,592**	**40,126**	**1,245**	**4,915**	**45,045**	**6.7%**
2006/07	600	546	1,562	54	183	1,744	3.9%
2007/08	600	546	1,562	54	183	1,744	3.7%
2008/09	700	637	1,822	63	213	2,035	4.2%
2009/10	700	637	1,822	63	213	2,035	4.0%
2010/11	600	546	1,562	54	183	1,744	3.3%
2011/12	600	546	1,562	54	183	1,744	3.2%
2012/13	500	455	1,301	45	152	1,453	2.6%
2013/14	500	455	1,301	45	152	1,453	2.5%
2014/15	500	455	1,301	45	152	1,453	2.5%
2015/16	500	455	1,301	45	152	1,453	2.4%
Sub-Total	**5,800**	**5,278**	**15,096**	**522**	**1,766**	**16,858**	
Total	**20,637**	**18,870**	**55,222**	**1,767**	**6,681**	**61,903**	

The total number of new houses planned through 2016 is 5,800, which will create 16,858 new residents. The City is expected to see a higher level of development before 2010, but after that, the annual growth rate is projected to be less than 3.5%. The total population is estimated to be 61,903 in 2016. Build out is estimated to occur in 2025 with a total population of approximately 75,000.

The growth model is key to future revenue and expense assumptions. A small change today can create significant changes years later. For example, the housing growth rate was recently updated to reflect the downturn in development. Previously, 3,100 units were projected to be built by 2010, but that has now been adjusted to 2,600 units. That change

in reduced growth will result in approximately $300,000 in reduced revenues in 2016. That single change in data adjusts more than 4,500 other estimates related to expenses and revenues. The change occurs instantly and a model has built in report tables, graphs and charts so the staff can present the changes quickly.

Commercial growth is planned at a modest rate, since a significant burst in growth already occurred, with major shopping center developments already in the base figures.

TABLE 2: GROWTH PROJECTION SUMMARY – COMMERCIAL

Year	Commercial Square Ft.	Office Square Ft.	Industrial Square Ft.	Growth Rate
Est. 2005/06	**6,838,481**	**541,947**	**19,250,756**	
2006/07	121,391	18,888	14,400	0.8%
2007/08	301,073	69,708	64,140	2.2%
2008/09	231,378	73,520	50,820	1.8%
2009/10	258,366	50,820	50,820	1.7%
2010/11	147,427	196,417	25,456	2.6%
2011/12	147,427	196,417	25,456	2.5%
2012/13	147,427	196,417	25,456	2.5%
2013/14	147,427	196,417	25,456	2.4%
2014/15	147,427	196,417	25,456	2.3%
2015/16	147,427	196,417	25,456	2.3%
Sub-Total	**1,796,770**	**1,391,438**	**332,916**	
Total	**8,635,251**	**1,933,385**	**19,583,672**	

REVENUE SUMMARY

Key Finding: ***The growth of key revenues results in a healthy annual growth rate of approximately $38 per capita, per year. The per capita revenue yield will be $1,196, or 40.5% greater than today. This revenue growth keeps up with expected inflation and new anticipated service levels required by new development.***

Brentwood's revenue growth pattern will reflect the fact that the City is planning to expand into major areas and increase by about 30% in population by 2016. The key question is: will there be sufficient resources to support the new growth?

The revenue projection model is based on both the growth projection model and traditional inflationary pressures in a city's budget. For example, property taxes will grow from the inflation in home prices and turnover, in addition to new housing. Sales taxes increase from commodity price increase and new retail outlets. Therefore, in each case the revenues are projected by linking elements from both databases.

The major contributor to the future tax base is the dependency on real estate development and the value of housing. There also is significant retail and other non-residential development planned that will add to the City's revenue base.

The local and state economy has seen gains unlike any within the last 40 years. This trend has slowed considerably and we do not expect that it will continue. In particular, rising interest rates and significant increases in gas prices, which increase the cost of commuting, may make future growth less attractive than in recent years. That said, the demand for new housing continues to grow in California and especially the eastern portion of Contra Costa County.

The revenues have been projected using the planning and growth rates from City planning processes, including the City General Plan. The estimates were reviewed during November and December, and all indicators point to a flattening of tax revenue growth at levels reminiscent of the early 1990s.

Components of the property tax model include single-family and multiple-family units, their different values and their projected turnover to new owners. These elements provided financial data for property taxes, as well as property transfer taxes. The non-residential development includes different values and growth rates for commercial, retail, office and industrial growth by square feet. This data helps project property taxes, property transfer taxes, Transient Occupancy Tax (TOT), sales taxes and business license revenues.

Fees related to growth are connected to the housing data and projected together. Non-housing-related revenues, like interest earnings or business license revenues are projected using variables unique to that application. Interest earnings, for example, are tied to the tax revenues and available fund balance. These variables change if any revenue assumption is altered.

Table 3 summarizes the growth in revenues (not including transfers in) through 2016. The growth of key revenues results in a healthy annual growth rate of approximately $38 per capita, per year. The per capita revenue yield will be $1,196, or 40.5% greater than today. This resource growth keeps up with expected inflation and new anticipated services levels required by new development. Additionally, the City will utilize approximately $3.3 million to $4.0 million in resources from other funds in the form of transfers.

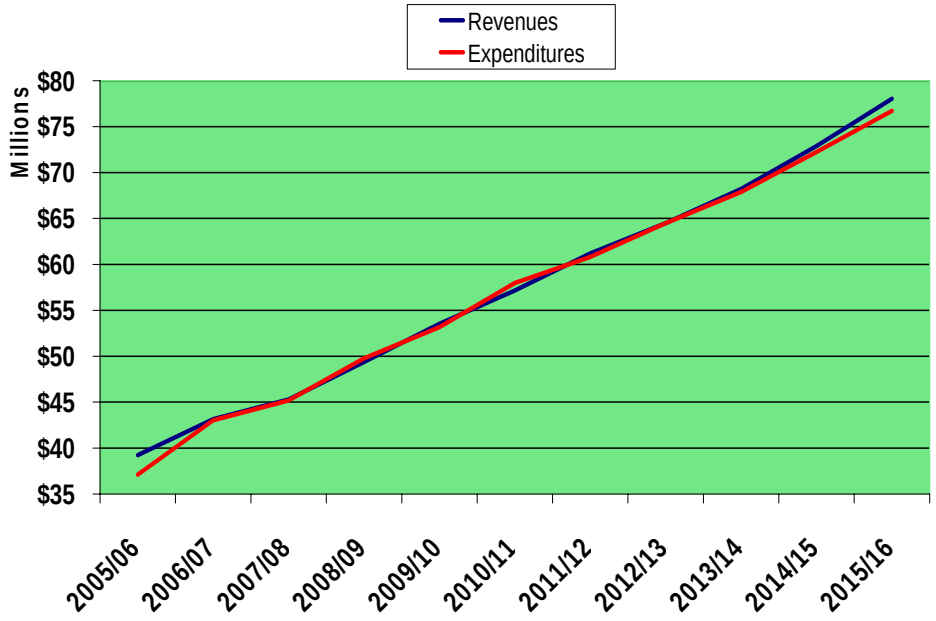
TABLE 3: REVENUE SUMMARY

Revenue Summary	2006/07	2015/16	Total Increase	% Growth
Property Tax	$8,052,939	$21,530,677	$13,477,738	167.4%
Property Transfer	$600,000	$963,783	$363,783	60.6%
Sales Tax	$5,535,627	$15,809,061	$10,273,434	185.6%
Franchise Fees	$920,893	$1,840,869	$919,976	99.9%
Transient Occupancy Tax	$150,000	$698,098	$548,098	365.4%
Motor Vehicle	$3,638,660	$6,490,159	$2,851,499	78.4%
Investment	$1,250,000	$2,415,046	$1,165,046	93.2%
Business License	$631,250	$1,533,467	$902,217	142.9%
Building, Planning, Engineering Fees	$7,335,041	$5,561,443	($1,773,598)	-24.2%
Parks & Recreation	$4,519,245	$7,048,645	$2,529,400	56.0%
Interfund Services	$5,270,484	$7,832,441	$2,561,957	48.6%
Other	$1,914,216	$2,304,601	$390,385	20.4%
Revenue Total	**$39,818,355**	**$74,028,290**	**$34,209,935**	**85.9%**
Per/capita	**$851**	**$1,196**	**$345**	**40.5%**

The declines in property transfers and building-related fees are the result of less building activity in later years. Property taxes reflect both new homes and inflation. The sales tax increase anticipates new construction and pricing inflation, and it also is affected by population growth. Within the model, it is measured in value per/square feet; as that element grows, so does the tax base. A year-to-year analysis is provided in Table 12, found in the Attachments section of this report.

When revenues are compared to expenditures (not including transfers) they have similar growth rates and it is not until 2009/10 that the City has their first year where there is more revenue ($114,986) than expenses. This trend continues for the remaining years. For the early years where expenses are higher, sufficient transfers and fund balance provide sufficient resources to maintain all programs. Transfers include revenues such as Gas Tax and Measure C funding.

GRAPH 2: REVENUES AND EXPENDITURES



The fact that revenues keep pace with expenses over the next ten years allows the City's fund balance and reserves to be preserved. The two years where reserves will be used are offset by the eight years of projected surpluses.

EXPENSE SUMMARY

Key Finding: ***The City projects that City staff funded by the General Fund will grow by 85.4 positions to meet new services demands created by future development; 62.4 of these positions will come in the next five years. The average annual increase of expenses per capita is $30.72 or 3.1% - slightly less than the projected growth in revenues.***

Brentwood's expense growth pattern also will reflect the fact that the City's population will continue to grow. The key question is: can we maintain staffing and service levels, provide for capital expansion, and maintain equipment and buildings while staying within the resources available?

The expense projection model, like the revenue model, is based on both the growth projection model and traditional inflationary pressures in a city's budget. For example, salaries will grow from inflation in compensation and benefits, in addition to the new staff required to meet new service demands. Internal services charges will need to keep up with commodity pricing, and line items like utility costs or the price of asphalt for roads. Therefore, the expense model links elements from both the budget and growth databases.

The total City General Fund expenses will increase from $40.7 million in 2006/07 to $70.9 million in 2015/16 not including transfers to other funds. Expense transfers are estimated to range from $2.4 to $ 5.8 million and are to cover expenses such as CIP projects, the Pavement Management Program, and retiree medical costs. Of the $70.9 in total expenses, approximately $9.1 million annually in 2016 will have been created by additional staff and their cost in salaries and benefits. That doesn't include the effect of compounding the expense once those jobs are filled. The average annual increase of expenses per capita is $30.72 or 3.1%; this assumes modest compensation adjustments annually for employees and the desired additional staff to meet the new service demands of a growing population. The rate of population and employee growth is just under 3% a year.

The fastest growing City department is Police. This is due to adding 17 positions in 2008/09 to bring the department up to the City policy of 1.5 officers for each 1,000 residents. This figure also includes hiring the requisite support staff for these officers. The staffing model includes support staffing at 25% of sworn officers. The earlier these costs are added, the longer the cumulative cost increase is compounded.

Table 4 shows expenses by Department.

TABLE 4: EXPENSE SUMMARY BY DEPARTMENT

Department Summary	2006/07	2015/16	Growth	% Growth	Annual Avg.
General Government	$7,664,175	$12,893,185	$5,229,010	68.2%	$581,001
Police	$14,648,365	$28,417,186	$13,768,821	94.0%	$1,529,869
Parks & Recreation	$6,547,413	$10,122,007	$3,574,594	54.6%	$397,177
Community Develop.	$5,972,042	$9,027,630	$3,055,588	51.2%	$339,510
Engineering	$2,978,487	$5,201,183	$2,222,696	74.6%	$246,966
P W-Streets	$2,853,913	$5,258,005	$2,404,092	84.2%	$267,121
Total Expenses	**$40,664,395**	**$70,919,197**	**$30,254,802**	**74.4%**	**$3,361,645**
Per/capita	**$869.13**	**$1,145.65**	**$276.52**		**$30.72**

For the Police Department, there will be a 94.0% increase in costs to meet new service demands. The second largest cost growth will be the General Government group which will grow by $5.2 million by 2016. The General Government departments include Legislation, City Manager, City Clerk, City Attorney, Human Resources and Finance/Non Departmental. This model is only reporting on the General Fund, so other departments, such as Information Services, Redevelopment, and Enterprises are not included in any of these discussions.

On a percentage basis, or share of the budget which Table 5 illustrates, the relative distribution of resources remains about the same. The police department gain of 2.1% is a small increase in share, and much smaller than what might be expected given the growth in staff. This illustrates that the remainder of the city departments as a whole are growing rapidly as well.

Engineering cost growth is higher than expected due to reallocating existing employees from the Capital Improvement Program to Engineering, although their percentage share of the budget remains almost constant. Parks growth is lower than expected due to the fact that some of their new hires will be funded from other funding sources such as the Citywide Parks District.

Budget percentages are shown in Table 5

TABLE 5: SUMMARY OF DEPARTMENT'S SHARE OF BUDGET

Department Summary	2006/07	2015/16	Old Share	New Share
General Government	$7,664,175	$12,893,185	17.2%	18.2%
Police	$14,648,365	$28,417,186	38.0%	40.1%
Parks & Recreation	$6,547,413	$10,122,007	16.3%	14.3%
Community Development	$5,972,042	$9,027,630	14.2%	12.7%
Engineering	$2,978,487	$5,201,183	7.4%	7.3%
P W-Streets	$2,853,913	$5,258,005	6.9%	7.4%
Total Expenses	**$40,664,395**	**$70,919,197**	**100.0%**	**100.0%**
Per/capita	**$869.13**	**$1,145.65**		

This mini-report is an example of the many that exist in the model. Mini-models and reports are in each department section of the model for department managers and city policy makers. Each department section provides extensive budget data for budget planning. This was a special effort which included department input and the Finance staff. The results are summarized in the section below dedicated to "Mini-Model and Reports". A year-by-year projection of expenses is available on Table 13 in the Attachments section.

The City projects that City staff funded by the General Fund will grow by 85.4 positions to meet new service demands created by future development; 62.2 of these positions will come in the first five years of the model (Table 6). Some positions will be transferred from CIP to the General Fund as development eases. The total cost of these positions will be $9.1 million annually by 2015/16. Police staff increases will account for $4.5 million or approximately 50% of that cost. (Table 7)

The staffing includes the total staff projections through build out. In that way this model is conservative as some hiring will almost certainly occur after 2016. This approach adds additional costs earlier, and insures that all staffing is accounted for within the next 10 years - with the exception of the Police Department whose staffing is directly tied to population growth only through 2015/16.

These staffing increases are merely projections included in the current version of the fiscal model. They are intended to be flexible and the City may wish to shift priorities or reanalyze workloads at any point, thereby changing the staffing projections. All staff increases would require sufficient funding through the budget and the approval of the City Manager and City Council.

A summary of staffing increases is presented in Table 6.

TABLE 6: SUMMARY OF STAFFING INCREASES

Year	General Gov.	Police	Streets	Parks	Com. Dev.	Engineering	Total
Current	**28.0**	**77.0**	**14.8**	**22.8**	**34.4**	**17.6**	**194.6**
2007/08	2.4	0.7	1.0	1.3	0.0	1.2	6.5
2008/09	3.4	17.2	1.0	2.0	1.0	1.2	25.8
2009/10	3.4	3.8	1.0	2.0	1.0	1.2	12.4
2010/11	2.9	3.3	1.0	0.0	2.0	1.2	10.4
2011/12	2.4	3.3	1.0	0.3	-1.0	1.2	7.1
2012/13	2.0	2.7	2.0	1.0	-1.0	0.0	6.7
2013/14	1.0	2.7	1.0	0.3	-2.0	0.0	3.0
2014/15	3.0	2.7	1.0	0.0	0.0	0.0	6.7
2015/16	1.0	2.7	1.0	2.0	0.0	0.0	6.7
Total New	**21.4**	**39.1**	**10.0**	**8.8**	**0.0**	**6.2**	**85.4**
Total	**49.4**	**116.1**	**24.8**	**31.5**	**34.4**	**23.8**	**280.0**

All of the increase in Engineering staff and 1.85 of the increase in General Government is attributable to the reallocation of employees from CIP to the General Fund. No employees are funded in CIP by the end of the model. In some cases, staffing levels and costs are actually planned to decrease. The model includes planned decreases in staffing in areas supporting development activity. The revenue side of the model illustrates decreased revenues from development fees, and the staffing portion illustrates the reduction of staffing.

TABLE 7: SUMMARY OF STAFFING COST INCREASES

Year	General Gov.	Police	Streets	Parks	Com Dev	Engineering	Total
2007/08	$202,489	$54,211	$83,025	$99,457	$0	$133,455	$572,637
2008/09	$442,682	$1,886,137	$85,101	$126,075	$78,797	$136,792	$2,755,584
2009/10	$366,197	$429,793	$87,228	$193,839	$96,920	$140,211	$1,314,187
2010/11	$243,225	$377,604	$89,409	$0	$198,687	$143,717	$1,052,642
2011/12	$303,737	$387,044	$91,644	$7,955	($101,826)	$147,310	$835,865
2012/13	$165,257	$330,600	$187,869	$139,163	($104,373)	$0	$718,515
2013/14	$106,982	$338,865	$96,284	$8,358	($258,539)	$0	$291,949
2014/15	$319,830	$347,337	$98,691	$0	$0	$0	$765,858
2015/16	$187,329	$356,020	$101,159	$187,329	$0	$0	$831,837
Total	**$2,337,728**	**$4,507,611**	**$920,409**	**$762,176**	**($90,335)**	**$701,484**	**$9,139,073**

Table 7 reports only those costs that are created by adding new positions or subtracting as positions go away. Over the next 9 years, $9.1 million in additional salary and benefits costs will be added to fund the increase in positions illustrated above. In 2015/16 that will equal approximately 17.4% of total salaries and benefits of $52,651,720.

Increases also will need to occur in compensated benefits. To model this citywide, a "note pad" like the one illustrated in Table 8 is part of the staffing analysis component. This creates composite rate adjustments on an annual basis that each operating budget references. Any change in these variables changes hundreds of other cost estimates in each department's individual model. For the purpose of planning and this report, average compensation adjustments are set at 5% for the first five years of the model and 6% thereafter. Health insurance increases are based on past history and are estimated at 10% and 8% over the next decade.

If health-care costs keep rising at higher rates, this will significantly affect the total cost estimates for services significantly. The cost of health benefits have increased significantly over the last seven years. The estimates here are realistic, but optimistic, that this trend will flatten as interest earnings on investments (a major component of insurance rates) increase. Retirement benefits costs have averaged between 14.5% and 28% of salary costs over the last eight years, but have started to reflect better investment returns.

For this reason, the future estimates anticipate a reduction relative to salary costs. These two variables are very sensitive and can jeopardize a balanced budget. We conducted a trial where for the second five years of the model health benefits increase 15% per year rather than 10% and PERS costs represent 27% of salaries instead of 23%. By making just these changes, the City's annual operating expenses in 2015/16 would increase by $3.7 million and the ending fund balance of $24.6 million would be reduced to approximately $18 million. The model may be updated as frequently as necessary to track the changes in experience and project out the probable future trends. We recommend that the City watch these particular cost elements very closely. Table 8 shows current assumptions.

TABLE 8: COMPENSATION GROWTH ASSUMPTIONS

1st Five Years	2nd Five Years	
5.0%	6.0%	Average additional compensation
1.050	1.060	Inflation factor personnel services
10.0%	8.0%	Annual increase for health care benefits
1.100	1.080	Inflation factor for health care benefits
27.0%	23.0%	Retirement as a Percent of Salaries
4.0%		Annual increase for other expenses
1.040		Inflation factor for other expenses

Total salaries and benefits are compared to total expenses in Table 9. The purpose of this analysis is to answer the questions:

1) Are staffing costs increasing as a percent of total operations?
2) Are staffing costs growing faster than our projected revenues?

In the analysis of total salaries and benefits illustrated in Table 9, total salary and benefits expenses will grow $25.1 million or 91.0 percent over the estimated 2007/08 budget of $27.5 million. The growth rate of overall personnel costs will outpace the growth rate of revenues by approximately 20%. By 2015/16, personnel costs will have grown from 67.8% of budget to 74.2% percent of budget. As a percent of revenues, personnel costs also will grow from 65.1% to 71.1%. This sub-report can be found in the "Staff Analysis" section of the model.

Table 9 contains a summary of staffing cost increases.

TABLE 9: SUMMARY OF STAFFING COST INCREASES

Year	Salary & Benefits Total	Operating Expenses	Operating Revenues	% of Operating Expenses	% of Operating Revenues
2007/08	$27,563,468	$40,664,395	$42,340,007	67.8%	65.1%
2008/09	$31,654,860	$42,396,655	$46,291,537	74.7%	68.4%
2009/10	$34,624,336	$46,887,138	$50,292,207	73.8%	68.8%
2010/11	$37,319,377	$50,177,221	$53,772,958	74.4%	69.4%
2011/12	$39,373,591	$53,349,214	$57,687,595	73.8%	68.3%
2012/13	$42,433,519	$55,817,539	$60,865,025	76.0%	69.7%
2013/14	$45,266,398	$62,523,127	$64,474,369	72.4%	70.2%
2014/15	$48,879,252	$66,670,601	$69,001,316	73.3%	70.8%
2015/16	$52,651,720	$70,919,197	$74,028,290	74.2%	71.1%
Growth	**91.0%**	**74.4%**	**74.8%**		

Our report and analysis did not cover three types of funds: Internal Service Funds (ISF), Enterprise Funds and Capital Development. In the case of ISFs, the model assumes an increase rate structure to support internal services funds in the same proportion as the overall City. That translates to a rate increase added to each department's change line item in their model. Since ISFs have to balance against rates, we will assume that they do and did not model them.

Similarly, Enterprise Funds are dependent on resources outside the City's General Fund and must remain balanced. Since they do not appear in the General Fund, they were not modeled. Finally, some operating capital items are included in the model, but the majority of larger projects that are planned to be funded with special assessments are not included, since they will not be part of the General Fund. The fund balance analysis within the model reports the planned designated reserves from the fund to be set aside for capital.

FUND BALANCE

Key Finding: ***The General Fund balance is currently $22.5 million. We project that it will range from as low as $21.9 million in 2010/11 to as high as $24.6 million in 2015/16 (See Table 14 in the attachments section). During this period, there are projected to be just two years, 2008/09 and 2010/11 – where expenses (and expense transfers) would exceed revenues. Over the next ten years fund balance is forecasted to increase by $2.1 million.***

The fund balance model is based on generally accepted accounting formats that report beginning balances, plus revenues, less expenses and considered transfers both in and out of the fund. This model considers all those elements and is formatted to be consistent with the City's annual comprehensive finance reports.

Based upon the assumptions outlined above, the modeling reports the beginning and ending fund balance of the General Fund for the City. This is generally considered an overall benchmark of fiscal health. A minimal desire is to maintain a 10% to 15% ending balance. To maintain a position of modest health, a 20% level might be considered best. In Brentwood, the Council has set the desired level at 30%.

Based on the expected growth from development, as formulated in the growth model, and the increases in revenue, offset by the expenses required to meet the service needs of that growth, the General Fund of the City is able to stay healthy over the next 10 years.

The General Fund balance will range from a low of $21.9 million in 2010/11 to a high of $24.6 million in 2015/16 (See Table 14 in the attachments section). During this period, there are projected to be just two years, 2008/09 and 2010/11, where expenses (and expense transfers) would exceed revenues. In those years, expenses would exceed revenues by approximately $380,000 and $819,500 respectively. Year-to-year analysis is provided in Table 14 (in the attachment section),

Table 10 below provides a summary.

TABLE 10: SUMMARY FUND BALANCE

General Fund Balance	2006/07	2015/16	Ending Variance	% Growth
Beginning Balance	**$22,514,338**	**$23,270,074**	**$755,736**	**3.4%**
Annual Revenue	$39,818,355	$74,028,290	$34,209,935	85.9%
Transfer In	$3,314,686	$4,027,529	$712,843	21.5%
Sub-Total	$43,133,041	$78,055,818	$34,922,777	81.0%
Operations	$40,664,395	$70,919,197	$30,254,802	74.4%
Transfers Out	$2,352,149	$5,791,183	$3,439,034	146.2%
Sub-Total	$43,016,544	$76,710,380	$33,693,836	78.3%
Net Increase(Decrease)	$116,497	$1,345,438	$1,228,941	
Ending Balance	**$22,630,836**	**$24,615,512**	**$1,984,677**	**8.8%**
Undesignated Balance	$13,730,836	$15,715,512	$1,984,677	14.5%
Percent of Operations	**33.77%**	**22.16%**		

Fund Balance is comprised of two components, designated and undesignated reserves. Designated reserves are amounts that are earmarked for specific purposes. The General Fund has designated fund balances for Pavement Management, Facility reserves, Village Community Resource Center reserves, Compensated Absences reserves, Storm Drainage reserves, City Hall reserves, and Information Systems Technology reserves. Undesignated reserves can be used to help the City through economic uncertainties, local disasters, contingencies for unseen operating or capital needs, and is also necessary for cash flow requirements.

While this report provides an overview of the projected future of Brentwood's fiscal condition, it is static. This is the best information we have in February 2007. As mentioned above, changes in health or retirement costs could change this picture; a reduction in planned growth would reduce both expense and revenue assumptions.

The model that this consulting effort has created leaves the City with a very dynamic tool to monitor and manage the City's fiscal condition.

COMPARISON TO OTHER CITIES

Key Finding: ***Brentwood is expected to have at total of approximately 422 employees in ten years. This employee count includes employees funded from outside of the General Fund, such as Water, Wastewater, Solid Waste, and Redevelopment. These projections indicate that the fiscal and staffing projections for Brentwood are reasonable given what is observed in other similar cities.***

Management Partners undertook a comparable analysis to test the reasonableness of the model's projections. Comparable cities were selected based upon current populations comparable to that of Brentwood's estimated population in 2015/16. Their current staffing were compared to that projected in the model, and the expenses were inflated by 4% to simulate comparable budgets. It is impossible to precisely compare cities to each other because organizational structure and financial structures are always different. However, while any one comparison is likely to be flawed, examining a range of cities can give a general idea as to reasonableness. While there is no real way to compare cities in today's circumstance with what Brentwood might look like in 2016, the analysis below helps to establish the reasonableness of the model's overall approach.

With recent changes to the model which reduced the projected population for 2016, Brentwood's population would rank third in ascending order. Brentwood is expected to have at total of approximately 422 employees in ten years. This employee count also includes non General Fund employees, such as employees funded through Water, Wastewater, Solid Waste, and Redevelopment. These projections indicate that the fiscal and staffing projections for Brentwood are reasonable given what is observed in other similar cities.

Table 11 illustrates Brentwood's future expenses and staffing to comparable cities.

TABLE 11: COMPARISON CITIES

City	Comparables				
	Population	Citywide Emp/ FTEs	2016 GF*	Emp/ 1000 pop	GF $/pop
Turlock	67,669	356	$35,998,210	5.3	$531.97
Pittsburg	62,547	294	$50,024,557	4.7	$799.79
Petaluma	54,846	334	$53,397,740	6.1	$973.59
Lodi	62,133	491	$64,130,654	7.9	$1,032.15
Brentwood	61,903*	422*	$71,753,564	6.8	$1,159.13
San Rafael	55,716	417	$65,800,260	7.5	$1,180.99
Walnut Creek	64,196	363	$76,262,342	5.7	$1,187.96
Milpitas	63,383	566	$97,428,293	8.9	$1,537.14
Pleasanton	65,950	443	$113,741,334	6.7	$1,724.66

* Estimated figures

SUB-MODELS AND REPORTS

Key Finding: ***There are an unlimited number of additional reports that the fiscal model can generate. Complex analysis and specific "what-if" scenarios that used to take several hours can now be performed in a matter of minutes. Users and policy makers will have the ability of seeing data in new and powerful ways.***

The detail of the model provides for the creation of a number of automatic reports. In each department, for example, an analysis is included of the expenses against some service indicator. This is a demand-based model, not an output model. Therefore, it is a benchmark against service indicators, not department performance. Despite some shortcomings, Management Partners believes it provides useful information for management and policy makers.

Sub-models and reports are in each department section of the model for department managers and city policymakers. The comparison of "old share" of budget to the department's "new share" at the end of the build-out period is an example of a mini-model. But there are many more that will help policy makers understand the changing dynamic of the City's resources. The following are some other examples:

- The fund balance model compares the ending fund balance available to the City's desired level of 30% of "undesignated" balance. This includes a projection of future designations.
- The Human Resources department includes a section modeling health-care and retirement costs, as well as staff increases.
- Human Resources also has a section comparing the growth of staff costs to both total operations and revenue growth. The expenses are tracked on a cost per capita basis; this is also used in most departments.
- In Public Works, a mini report is built around the number of lane miles. The report provides a year-to-year comparison of operating cost to lane miles.
- Community Development has an output model that measures the tax base growth related to development, compared to Community Development operating costs.

To create these sub–models, Management Partners worked with City staff during the process of the model development. In some cases, department staff provided benchmark indicators, while in others cases they were developed as the data became available. In those areas where data could be applied to service levels, they were linked and a mini report was provided within the model.

A complete review of all the models has already occurred as Finance staff has experimented with them for the last four to five months.

CONCLUSION

From the beginning, this project was a collaborative effort. The Governmental Finance Officers Association recommends that all local governments maintain a long-term financial projection. GFOA recommendations note that the development of such models is typically a task best undertaken by an experienced, outside consulting firm and that resources that can be devoted to such an effort. However, GFOA also stresses that the model must be developed with input from staff and that staff must be able to seamlessly take over operation of the model for it to have maximum utility.

This process and the resultant financial model is reflective of the most current thinking on long term municipal finance modeling.

The development of this model was done with substantial support and ongoing involvement from the City of Brentwood Finance Department. Pamela Ehler and Kerry Breen, in particular, have worked tirelessly to help test the model during these past months.

The City department staff has been very helpful in the early stages, providing all the base data for the budget and in the later stages helped with staffing information and updates.

Finally we would like to thank City Manager Donna Landeros for her continuing support through a long project.

ATTACHMENTS

TABLE 12: BRENTWOOD REVENUE SUMMARY

Revenue Summary	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Property Tax										
Existing Residential Base	$8,052,939	$8,213,998	$9,117,416	$10,147,039	$11,314,480	$12,443,008	$13,618,249	$14,748,035	$15,923,037	$17,157,519
New Residential	$0	$393,369	$489,447	$591,436	$519,770	$535,363	$456,569	$470,267	$493,765	$508,578
Residential Turnover	$0	$331,276	$341,214	$354,153	$364,777	$372,854	$384,039	$392,519	$404,295	$416,424
New Commercial	$0	$164,801	$370,780	$640,689	$961,594	$1,336,794	$1,769,770	$2,264,191	$2,823,925	$3,448,155
Sub -Total	$8,052,939	$9,103,443	$10,318,857	$11,733,317	$13,160,621	$14,688,019	$16,228,628	$17,875,012	$19,645,022	$21,530,677
Property Transfer	$600,000	$950,389	$1,068,718	$1,172,256	$1,125,648	$1,108,536	$1,031,690	$849,481	$905,483	$963,783
Sales Tax	$5,535,627	$6,701,848	$7,834,493	$9,169,250	$10,242,411	$11,296,106	$12,324,512	$13,417,117	$14,577,411	$15,809,061
Franchise Fees	$920,893	$994,564	$1,074,130	$1,160,060	$1,252,865	$1,353,094	$1,461,341	$1,578,249	$1,704,509	$1,840,869
Transient Occupancy Tax	$150,000	$315,000	$330,750	$347,288	$546,978	$574,327	$603,043	$633,195	$664,855	$698,098
Motor Vehicle	$3,638,660	$4,002,526	$4,402,779	$4,843,056	$5,085,209	$5,339,470	$5,606,443	$5,886,765	$6,181,104	$6,490,159
Investment	$1,250,000	$1,393,642	$1,481,900	$1,620,204	$1,760,227	$1,882,054	$2,019,066	$2,130,276	$2,256,603	$2,415,046
Business License	$631,250	$733,465	$840,854	$966,970	$1,044,497	$1,127,865	$1,217,892	$1,315,110	$1,420,095	$1,533,467
Building Fees	$3,477,380	$2,792,876	$3,337,060	$3,452,703	$3,075,805	$3,183,549	$2,761,381	$2,859,804	$2,962,617	$3,070,017
Engineering Fees	$3,130,353	$2,488,631	$2,185,847	$1,847,041	$1,930,158	$2,017,015	$2,107,781	$1,851,334	$1,934,644	$2,021,703
Planning Fees	$727,308	$578,210	$507,861	$429,143	$448,454	$468,634	$489,723	$430,140	$449,496	$469,724
Parks & Recreation	$4,519,245	$4,827,402	$5,164,665	$5,508,835	$5,746,106	$5,969,020	$5,993,022	$6,271,458	$6,551,112	$7,048,645
Interfund Services	$5,270,484	$5,507,656	$5,755,500	$6,014,498	$6,285,150	$6,567,982	$6,863,541	$7,172,401	$7,495,159	$7,832,441
Other	$1,914,216	$1,950,356	$1,988,122	$2,027,587	$2,068,829	$2,111,926	$2,156,963	$2,204,026	$2,253,207	$2,304,601
Sub -Total	$31,765,416	$33,236,564	$35,972,679	$38,558,891	$40,612,337	$42,999,576	$44,636,397	$46,599,356	$49,356,294	$52,497,613
Revenues Total	**$39,818,355**	**$42,340,007**	**$46,291,537**	**$50,292,207**	**$53,772,958**	**$57,687,595**	**$60,865,025**	**$64,474,369**	**$69,001,316**	**$74,028,290**
Growth	$2,663,484	$2,521,652	$3,951,529	$4,000,670	$3,480,751	$3,914,638	$3,177,429	$3,609,344	$4,526,948	$5,026,974
%	7.17%	6.33%	9.33%	8.64%	6.92%	7.28%	5.51%	5.93%	7.02%	7.29%
Per/capita	**$851.04**	**$872.42**	**$915.46**	**$956.10**	**$989.47**	**$1,061.50**	**$1,057.74**	**$1,092.86**	**$1,141.47**	**$1,195.88**

TABLE 13: BRENTWOOD EXPENDITURE SUMMARY

Department	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
General Government:										
Legislative	$311,946	$325,789	$414,735	$356,228	$447,044	$385,796	$478,998	$425,096	$520,818	$469,646
City Clerk	$655,043	$645,620	$748,696	$822,020	$859,948	$976,843	$1,064,589	$1,120,056	$1,178,755	$1,246,559
City Manager	$891,113	$931,428	$1,099,626	$1,151,656	$1,276,120	$1,318,004	$1,386,819	$1,460,550	$1,538,626	$1,622,316
Human Resources	$799,450	$837,782	$870,745	$913,227	$1,049,169	$1,086,311	$1,136,075	$1,305,072	$1,458,678	$1,541,182
City Attorney	$802,772	$915,386	$1,111,194	$1,234,917	$1,322,552	$1,464,100	$1,538,069	$1,617,019	$1,810,224	$2,093,478
Finance *(Including Non- Departmental)*	$4,203,851	$3,954,314	$4,089,156	$4,512,263	$4,620,132	$4,914,096	$5,212,441	$5,370,472	$5,713,470	$5,920,004
Total General Government	**$7,664,175**	**$7,610,319**	**$8,334,152**	**$8,990,310**	**$9,574,964**	**$10,145,148**	**$10,816,988**	**$11,298,262**	**$12,220,569**	**$12,893,184**
Police	$14,648,365	$15,399,950	$18,024,609	$19,336,871	$20,670,069	$21,748,322	$23,261,784	$24,873,473	$26,589,700	$28,417,186
P W-Streets	$2,853,913	$2,970,230	$3,187,337	$3,418,111	$3,663,439	$3,878,169	$4,259,439	$4,571,389	$4,903,806	$5,258,005
Comm. Dev.	$5,972,042	$6,262,628	$6,597,696	$6,973,100	$7,458,251	$7,557,451	$7,846,071	$8,045,044	$8,551,932	$9,027,630
Engineering	$2,978,487	$3,259,065	$3,486,876	$3,745,781	$4,021,311	$4,269,192	$4,425,934	$4,662,932	$4,913,869	$5,201,183
Parks & Recreation	$6,547,413	$6,894,463	$7,256,467	$7,713,046	$7,961,178	$8,219,255	$8,701,739	$9,072,025	$9,490,723	$10,122,007
Total Expenses	**$40,664,395**	**$42,396,655**	**$46,887,138**	**$50,177,221**	**$53,349,214**	**$55,817,539**	**$59,311,959**	**$62,523,127**	**$66,670,601**	**$70,919,197**

TABLE 14: BRENTWOOD FUND BALANCE SUMMARY

General Fund	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
Beginning Fund Balance	**$22,514,338**	**$22,630,836**	**$22,734,157**	**$22,354,198**	**$22,717,128**	**$21,897,806**	**$22,274,190**	**$22,282,362**	**$22,620,578**	**$23,270,074**
Revenue	$39,818,355	$42,340,007	$46,291,537	$50,292,207	$53,772,958	$57,687,595	$60,865,025	$64,474,369	$69,001,316	$74,028,290
Transfer In	$3,314,686	$2,954,936	$3,095,764	$3,239,617	$3,371,001	$3,506,045	$3,629,319	$3,757,021	$3,889,595	$4,027,529
Sub-Total	$43,133,041	$45,294,943	$49,387,301	$53,531,825	$57,143,959	$61,193,641	$64,494,344	$68,231,390	$72,890,911	$78,055,818
Operations	$40,664,395	$42,396,655	$46,887,138	$50,177,221	$53,349,214	$55,817,539	$59,311,959	$62,523,127	$66,670,601	$70,919,197
Transfers Out	$2,352,149	$2,794,967	$2,880,121	$2,991,673	$4,614,068	$4,999,718	$5,174,212	$5,370,047	$5,570,814	$5,791,183
Sub-Total	$43,016,544	$45,191,622	$49,767,260	$53,168,895	$57,963,282	$60,817,257	$64,486,171	$67,893,174	$72,241,416	$76,710,380
Net	$116,497	$103,321	($379,959)	$362,930	($819,322)	$376,384	$8,173	$338,216	$649,496	$1,345,438
Ending Fund Balance	**$22,630,836**	**$22,734,157**	**$22,354,198**	**$22,717,128**	**$21,897,806**	**$22,274,190**	**$22,282,362**	**$22,620,578**	**$23,270,074**	**$24,615,512**