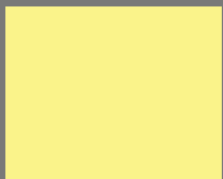


CITY OF BRENTWOOD

150 City Park Way Brentwood, CA 94513



GENERAL FUND
FISCAL MODEL
2011/12 - 2020/21



Every year the City selects a theme for the covers of its major financial documents - the Capital Improvement Program (CIP), the Fiscal Model, the Operating Budget, the Cost Allocation Plan, the Comprehensive Annual Financial Report (CAFR), the Public Facilities Fee Report and the Combined Community Facilities District Special Report. *This year each of the covers showcases an aspect of the “Downtown Brentwood Road to Revitalization”.*

COVER: Public art pieces help showcase the Downtown area. Examples of downtown public art include the mural at the City Hall, shown on the cover, and the Downtown Brentwood street sign shown here.



List of Principal Officials

City Council

- Robert Taylor Mayor
- Steve Barr Vice Mayor
- Robert Brockman Council Member
- Joel Bryant Council Member
- Erick Stonebarger Council Member

Executive Team

- Paul R. Eldredge City Manager
- Damien Brower City Attorney
- Craig Bronzan Director of Parks and Recreation
- Karen Chew Assistant City Manager
- Pamela Ehler City Treasurer / Director of Finance and Information Systems
- Mark Evenson Chief of Police
- Bailey Grewal Director of Public Works / City Engineer
- Casey McCann Director of Community Development



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March 2012

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 pleased to present you with the City of Brentwood's 2011/12 – 2020/21 General Fund Fiscal Model ("Fiscal Model"). The primary objective of the Fiscal Model is to construct a ten year forecast in order to ensure the City has a financially healthy future. The size and scope of long-term financial challenges facing local agencies in California has never been greater. Local agencies throughout the State are developing new ways of doing business just in order to maintain existing operations, as the dual challenges of shrinking revenue bases and escalating employee benefit costs continue to put a strain on local budgets. At the same time, continued threats of State raids and takeaways are a constant peril. Suffice it to say, the need for long range forecasting and sound financial planning has never been greater.

The Fiscal Model provides detailed analysis and projections of the next ten years of revenues, expenses and fund balance of the **General Fund**. Several years ago the City Council adopted the development of a Fiscal Model as one of their goals in an effort to identify potential financial difficulties before they became a reality. The Fiscal Model provides the City Council with a tool to help determine the financial feasibility of any priorities or goals they may choose to adopt. The Fiscal Model also alerts management and the City Council to potential shortfalls and affords them the time to develop practical solutions with minimal impacts to our citizens.

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

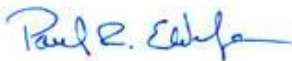
Work on the Fiscal Model began in 2003 and was a collaborative effort involving every City Department. The first version of the Fiscal Model was first presented to the City Council in 2004. At that time, the model provided a snapshot of the City's financial future but did not have the input flexibility needed to allow for dynamic modeling of alternate scenarios. An updated version of the model was prepared in 2007, and since that time staff has utilized the model in the budget development process and continues to refine and improve upon the capabilities of the model. Since the model's creation, we have continued to update and fine tune the model for every conceivable detail. Examples of variables incorporated into the model include: projected retirement contribution rate increases; impacts of bargaining unit agreements; a long-term funding strategy for retiree medical costs; the impacts from a projected rising interest rate environment; continued weakness in the housing market and the fiscal impacts associated with the State's dissolution of California redevelopment agencies.

The Fiscal Model has identified future structural General Fund shortfalls. These shortfalls are the result of a combination of years of revenue declines along with the realities of escalating personnel benefit costs. While pension, health care and retiree medical costs are projected to continue to escalate over the long-term, strategies and options for managing these long-term expenditure increases are being developed. City staff remains committed to operating with a balanced budget and will incorporate the requisite budget recommendations needed to present a balanced General Fund budget to the City Council in June.

While the City has been significantly impacted by the recession, it continues to remain financially healthy and well-positioned for the future. The City has the necessary resources available to allow for the implementation of a planned and controlled expenditure reduction plan to allow the General Fund to operate in a fiscally sustainable manner while avoiding the drastic cuts and service reductions seen at many other agencies. Through proactive planning and strong leadership from the City Council, our City has remained fiscally stable. Over the past three fiscal years the City was able to use accumulated General Fund savings to establish a \$10.3 million Budget Stabilization Fund. This provides the City with a funding source to help bridge the gap while long-term budget solutions are implemented. Key to this plan will be the timely implementation of long-term cost control measures in order to ensure sufficient cost savings are available once our temporary funding sources have been exhausted.

We would like to express our appreciation to all of the City Departments for their contributions and continued efforts in developing and implementing the Fiscal Model. Special recognition is given to Kerry Breen, Assistant Finance Director, 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,



Paul R. Eldredge
City Manager



Pamela Ehler
City Treasurer / Director of Finance and Information Systems





EXECUTIVE SUMMARY

The Fiscal Model has identified an ongoing budgetary shortfall which must be addressed to ensure the continued financial strength of the City. The City has maintained fiscal health throughout the economic downturn by remaining committed to protecting its reserves, and through proactive cost reduction measures, which served to ensure the City's operating expenditures did not exceed its revenues. The City must develop a long-term strategy to control expenditure growth and bring it in line with revenue growth in order to maintain a balanced budget.

General Fund revenues are projected to post decreases in both 2011/12 and 2012/13 – the fifth and sixth consecutive years of declines - during which time revenues are expected to fall by \$7.3 million. Although revenue growth is expected to return in 2013/14, the rate of growth is forecast to be modest, with average annual increases of 2.9% over the decade. This decade long stretch of revenue stagnation has put a tremendous strain on the City's long-term operating budget and was the primary cause of the City's previous cost cutting actions and workforce reductions.

Development activity is expected to increase only moderately over the course of the decade, rising from 100 permits in 2012/13 to 300 permits in 2019/20. The City's population growth rate is expected to remain below 1% until 2014/15 and peak at 1.8% in 2019/20. The key variables impacting the City's future revenue forecast include this projected level of development activity, sales tax growth, both from new development and from consumer spending activity, and housing price inflation (or deflation).

As was discussed in the previous Fiscal Model, while declining revenues were the main cause of the City's budget reductions, future years will bring challenges on the expenditure side. The City is facing significant increases in its pension and other post employment benefits (OPEB) costs over the next several years, while at the same time health care cost increases continue to outpace the rate of inflation. Action to reduce future expenditures is needed in order to allow the City to fully fund its pension and retiree medical obligations and to maintain a long-term balanced budget.

The Fiscal Model does not project any staffing level increases over the next decade, as staff believes incremental workload changes resulting from forecasted population increases can be successfully managed by existing staff. In addition, the high costs currently associated with adding new staff presents too significant of a financial barrier to either allow for or to justify the added cost. Despite not adding any new staff, expenditure growth is projected to increase at an average annual rate of 3.8% over the next five years and 3.6% over the next decade, primarily due to rising employee benefit costs. This far exceeds the projected revenue growth rates of 2.4% over the next five years and 2.9% for the next decade.

Key variables impacting the City's future expenditure forecast include: compensation growth trends, especially retirement costs; wage and health care cost increases and funding requirements for OPEB and staff growth. Strategies and options for managing the long-term expenditure challenges have been developed, with a significant portion of these strategies to be negotiated with the City's labor bargaining groups. The results of these negotiations are likely to substantially alter the projections contained throughout this Fiscal Model and to significantly reduce the shortfalls currently projected.



At the end of the 2011/12 fiscal year, the City is projected to have a General Fund balance of \$17.8 million, with an unassigned (also referred to as “reserves”) fund balance of \$10.9 million. This meets the City Council’s 30% unassigned fund balance goal, with the caveat being the City’s unfunded pension and OPEB liabilities must be carefully managed in the future. The City has continued to maintain reserves of 30% throughout this economic downturn.

Over the past several years the City has also been able to establish a \$10.3 million Budget Stabilization Fund. The Budget Stabilization Fund is projected to be strategically used as an intermediate term funding source to help bridge the budget gap while long-term budget solutions are put in place and begin to accumulate savings. Using this strategy will allow the City to avoid immediate and dramatic service level reductions, while still preserving the City’s long-term fiscal health.

In addition to the Budget Stabilization Fund, the City also established a \$4.8 million Insurance Internal Service Fund which is being used to help offset the rising cost of OPEB. The Insurance Fund was established in FY 2004/05 with the savings earned through the City’s annual prepayment of pension costs along with annual workers compensation savings. The Insurance Fund peaked at \$5.7 million in FY 2007/08 and since that time it has been used to assist in the pre-funding of OPEB. Without the Insurance Fund, the General Fund impacts from OPEB would be much greater.

Key to ensuring success of the long-term plan for the Budget Stabilization and Insurance Funds will be the timely implementation of long-term cost control measures. Long-term cost control measures must be quickly developed in order to allow sufficient time for expenditure savings to accumulate and become large enough to supplant these temporary funding sources.

While the City has been significantly impacted by the economic downturn, it continues to retain fiscally healthy reserves and has the necessary tools and resources available to ensure it can emerge from the recession with a stronger, more sustainable fiscal future. A condensed version of the Fiscal Model, with annual projections for every second year, is presented below. The full ten-year projections can be found in Exhibit A3, on page A3.

EXHIBIT 1: General Fund Revenue Summary - Condensed

General Fund	2012/13	2014/15	2016/17	2018/19	2020/21
Beginning Fund Balance	\$17,839,720	\$17,153,432	\$16,712,733	\$16,269,674	\$15,824,206
Revenue	\$29,309,509	\$31,617,001	\$34,269,138	\$37,286,330	\$40,599,747
Transfer In	\$4,012,143	\$4,291,688	\$4,763,224	\$5,518,074	\$6,448,576
Budget Stabilization Transfer In	\$2,600,000	\$1,550,000	\$850,000	\$0	\$0
Sub-Total	\$35,921,652	\$37,458,689	\$39,882,362	\$42,804,404	\$47,048,323
Operations	\$36,456,110	\$38,158,686	\$39,906,811	\$42,153,267	\$44,458,916
Operational Transfers Out	\$840,074	\$855,275	\$1,174,097	\$1,212,006	\$1,264,249
Sub-Total	\$37,296,184	\$39,013,961	\$41,080,908	\$43,365,273	\$45,723,165
Net Operations before OPEB	(\$1,374,532)	(\$1,555,272)	(\$1,198,546)	(\$560,869)	\$1,325,158
OPEB	\$668,113	\$1,536,659	\$2,739,262	\$3,607,809	\$3,998,655
Required Savings/Reductions	(\$2,042,645)	(\$3,091,931)	(\$3,937,808)	(\$4,168,678)	(\$2,673,497)
Capital Projects	\$249,871	\$220,057	\$221,232	\$222,430	\$223,652
Ending Fund Balance	\$17,589,849	\$16,933,375	\$16,491,501	\$16,047,244	\$15,600,554
Assigned/Committed Fund Balance	\$6,813,353	\$5,695,768	\$4,526,793	\$4,500,000	\$4,500,000
Unassigned Fund Balance	\$10,776,496	\$11,237,607	\$11,964,709	\$11,547,244	\$11,100,554
30% Reserve Requirement	\$10,776,496	\$11,237,607	\$11,964,709	\$12,841,321	\$14,114,497



INTRODUCTION

Work on the original Fiscal Model began in 2003 and was a collaborative effort involving every City Department. The first version of the Fiscal Model was presented to the City Council in 2004. At that time, the combination of rapid development and soaring home prices were providing the City’s General Fund with significant annual revenue increases. Sound fiscal management dictated staff should investigate the long-term viability of the City once it began to approach build-out. We needed to determine if the City’s operations would be sustainable in an environment with little development revenue and modest annual revenue increases. Although the severity of the recent recession was not predicted at that time, City staff understood the rapid growth, which had lasted several years, could not be sustained.

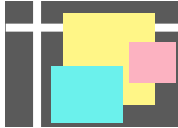
The first version of the Fiscal Model was designed to provide a snapshot of the City’s financial future but did not have the input flexibility which would easily allow for annual updates and the modeling of a myriad of various potential scenarios. This need provided the impetus for the creation of an interactive and dynamic version of the model which was prepared in 2007. Since that time, City staff has continued to revise and improve upon the model. These achievements were recognized in 2008, when the Fiscal Model was one of only three documents recognized for an award by the California Society of Municipal Finance Officers (CSMFO) in the “Innovation” category.

The Fiscal Model was designed to be a living document, allowing staff to continually update the model as often as needed to keep up with changing economic conditions. The Fiscal Model takes the City’s current financial position and, using numerous assumptions and variables, provides a full ten year fiscal forecast. Several improvements have been added to the Fiscal Model over the years to address economic realities not included in the original Fiscal Model. Some of these improvements include: 1) modeling the impacts of the recently implemented second tier for new miscellaneous employees; 2) a comprehensive model for forecasting property tax “recapture” amounts which occur when property valuations, which were temporarily reduced by the County Assessor’s office, are eligible to increase at a rate greater than 2% as a result of a housing market recovery and 3) a breakdown of employee costs into miscellaneous and public safety employee groupings which allow the user to isolate the impacts that cost of living adjustments, pension rate increases, OPEB costs and rising health care expenses have on each employee group. The Fiscal Model is also continually updated for changes at the State level, with this year’s Fiscal Model including the impacts of the State’s dissolution of redevelopment along with the State’s raiding of City motor vehicle revenue.

The Fiscal Model has five interlinked sections:

1. A development model.
2. Expense models for each department and division, summarized at the General Fund level and supported by a staffing and compensation model.
3. An employee compensation model, including variables for health care, retiree medical and pension funding, broken down between miscellaneous and public safety employees.
4. A revenue model for each major revenue source.
5. A fund balance model.

This Fiscal Model is important and different in several ways. First, the shortcoming of traditional financial models is they usually have only a few inflationary assumptions and therefore can be



significantly inaccurate. This methodology does not incorporate many of the significant variables which can substantially change the projections. The City's Fiscal Model identifies as many variables as possible, while at the same time allowing staff to easily update and maintain the model. For example, adjustments are easily made for new building permit issuances, housing price inflation, the bi-annual election costs borne by the City Clerk's office and for the different projected Public Employees Retirement System (PERS) pension rate increases for miscellaneous and public safety employees.

Second, in many cities growth has already occurred and future development will be limited. These cities' projection models become an extension of their current budget, with only minor adjustments for growth. For cities like Brentwood, who have had a downturn in development but still have growth ahead of them, the Fiscal Model begins to resemble a development impact model.

The Fiscal Model is a complete fiscal impact model based upon 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?***

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

The Fiscal 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 costs on the expense side of the budget. With the economic downturn, there have been a number of one time expenditure reductions. These include the drawdown of surplus fund balances, accumulated over the past five to ten years, in the City's Pavement Management Program and several of its Internal Service funds. The impacts of returning to previous funding levels, once the surpluses are exhausted, are also accurately modeled in the projections.

The model also allows staff to explore any number of "what if" scenarios and easily update and analyze the model as often as new information becomes available.

The Fiscal Model analyzes every one of the City's General Fund revenues and expenditures. There are over 25,000 interlocking data points, which allow a seemingly minor individual adjustment to the Fiscal Model to be accurately reflected throughout the model. For example, if staff were to adjust the projected number of single family housing permits, which requires changing just one cell in the program, the Fiscal Model would not only automatically adjust the City's Building, Planning and Engineering revenue for the increased fees, but it would also provide minor boosts to many of the City's other revenues, including: property tax; property transfer tax; sales tax; motor vehicle license revenue; investment income (due to an increase in projected cash) and franchise fees. Changing expenditure drivers, such as projected annual increases in health care or capital outlay costs can also be done by changing a single cell in the model. The assumptions in the model are set for each individual year, meaning staff can analyze each individual assumption for each individual year, providing a more accurate forecast. The key assumptions (less than 10% of the total number of assumptions) can be found on page A4 of the Appendix.

This Fiscal Model will continue to be an invaluable tool for the City's current and future policymakers, ensuring 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 healthy financial position can be maintained as long as the City remains committed to: 1) avoiding the use of reserves to fund ongoing expenses and 2) closing future budget deficits. To this end, action to reduce future expenditures is required. The Fiscal Model has identified significant reductions which will be necessary to allow the City to fully fund its pension and retiree medical obligations while maintaining a balanced budget for the long-term. The City has reserves of 30% which will be difficult to maintain given future expenditure pressures, although funds from the City's Budget Stabilization and Insurance Fund may bridge the gap while long-term cost solutions are implemented. Small changes in operational costs, or changes in the economy, can have much larger impacts over the course of a decade than might be imagined. Any sudden change in the economy, either positive or negative, can substantially impact the forecasts.*

This report will quantify the various aspects of the City's budget, including growth, development, revenues, expenses, staffing changes and fund balance. The City of Brentwood's existing fiscal health is good, but significant projected deficits over the next decade suggest that actions must be taken in order to ensure the long-term health of the City.

Small changes in operational costs, or changes in the economy, can have much larger impacts over the course of a decade than might be expected. The key variables impacting the City's future fiscal condition are:

- The pattern of development, including the impacts a mild recovery will have on the City's future.
- Staff growth (there are no new employees in this Fiscal Model).
- Compensation cost increases, especially retirement, health care, OPEB and cost of living increases.
- The growth of property tax and sales tax from new development.
- Housing price inflation (or deflation).
- Outside cost pressures (e.g. dispatch cost increases).
- The impacts of recent Legislative actions (e.g. State raids of City motor vehicle revenue and the dissolution of redevelopment).

Fund balance, along with annual additions/draws from fund balance, is the best indicator of a City's financial health. These are illustrated together in the Financial Summary located on page A3 of the Appendix. As indicated in that Summary, significant savings or expenditure reductions are needed to allow the City to operate with a balanced budget and maintain existing fund balance levels.

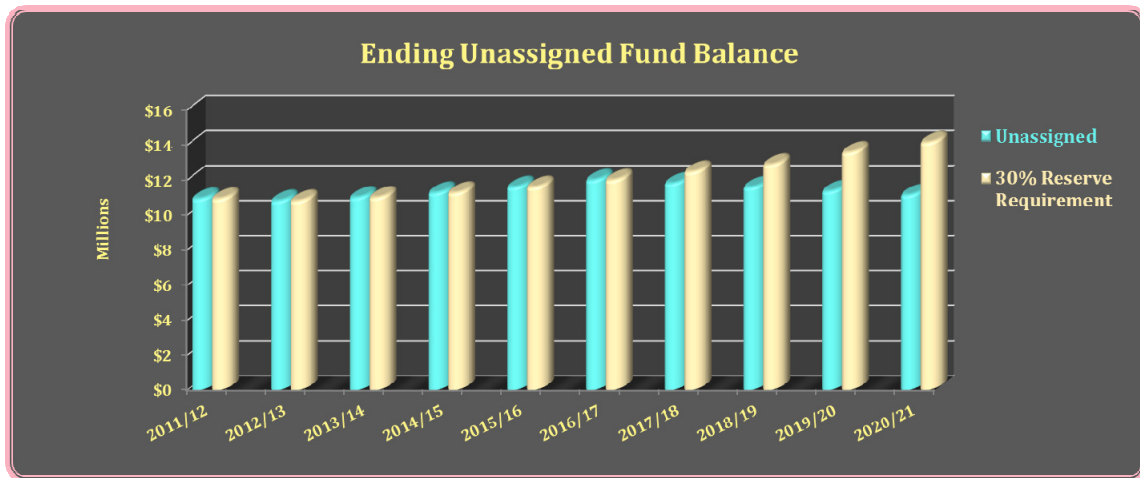


The City Council has adopted a 30% unassigned fund balance goal for the General Fund. The Fiscal Model shows this ratio cannot be maintained simply by operating with a balanced budget. This is due to the mathematical fact that maintaining a reserve as a percentage of expenditures requires funds to be added to reserves as expenditures increase. The Fiscal Model forecasts total expenditure increases of \$10.7 million over the next decade. The increase in expenditures thus requires that an additional \$3.2 million be set aside in the General Fund’s unassigned fund balance in order to maintain the 30% ratio. By the end of the next decade, simply operating with a balanced budget will leave the General Fund with only 23.6% as unassigned fund balance, considered a reasonable amount in comparison to most California cities, but below the optimal level of fiscal strength established by the City Council and what staff would recommend.

It should be noted that current accounting reporting standards do not require unfunded OPEB obligations be counted against a reserve balance. Likewise, the City does not record the gains or losses associated with its pension obligations. As such, the City’s 30% unassigned Fund Balance does not take into account unfunded pension or OPEB liabilities. These liabilities are scheduled to be paid off through: 1) the City Council directed plan to increase funding for OPEB over the next decade to fund 85% of the annual required contribution and 2) PERS adjusting their rates higher to cover the pension shortfall, the impacts of which were felt significantly during the 2011/12 fiscal year. While the City’s existing fund balance figures do not include these unfunded liabilities, the Fiscal Model captures their impacts through the increased funding requirements included in the projections over the next decade.

Exhibit 2 below shows a comparison of projected ending unassigned fund balance and the 30% reserve requirement:

EXHIBIT 2: Ending Unassigned Fund Balance



Over the next ten years, assuming the required savings and/or reductions are incorporated, unassigned fund balance is forecast to remain virtually unchanged. As a result of rising expenditures, which in turn leads to a higher reserve requirement, by FY 2017/18 the City is no longer projected to have 30% reserves. The unassigned fund balance percentage continues to fall after FY 2017/18, ultimately reaching 23.6% in FY 2020/21, at which point the General Fund would be \$3 million short of the 30% threshold.

While the recession and resulting revenue declines were the primary factor in the City’s initial cost cutting actions, the Fiscal Model forecasts revenues will increase at a level which keeps pace with inflationary pressures over the course of the next decade. With revenues on the rebound, the question

becomes, “Why does the City still need to reduce expenditures in order to balance the budget?” As detailed later in the Fiscal Model, there are significant expenditure increases facing the City in the near future. These increases are a result of many factors: increased pension contribution requirements; retiree medical cost increases; health care increases and the expiration of certain short-term solutions, such as utilizing excess fund balances in our Internal Services Funds and Pavement Management Program. Budgetary pressures from outside influences, such as rising dispatch service costs, are also negatively impacting the long range forecast. It simply will not be possible to maintain a balanced budget without implementing cost saving measures.

As stated in the “Key Finding” at the beginning of this section, changes made today can result in significant impacts when considered over the course of a decade. For instance, lowering the annual projected cost of living adjustment for staff salaries by just **1%**, per year over the next decade, results in a total cumulative General Fund savings of **\$10 million**.

This example illustrates the degree by which changes made today compound themselves and amount to significant changes over time. The key is to continually plan ahead, and to be proactive rather than reactive. Therein lies one of the benefits of the Fiscal Model – an early warning system which allows City management to address projected shortfalls in a timely manner, allowing for proactive decisions to be considered and affording the City time to allow savings from long-term cost solutions to ultimately grow and provide fiscal sustainability.

Additionally, the City has put itself in a position to be able to implement long-term solutions while the \$10.3 million in the Budget Stabilization Fund and \$4.8 million in the Insurance Fund are used to help offset the deficits in the shorter term. The Insurance Fund was established in FY 2004/05 with funding coming from the City’s savings achieved through prefunding annual pension payments and through workers compensation savings. The long-term plan for the Insurance Fund was to subsidize funding for OPEB as costs increased. The Fiscal Model includes this OPEB subsidy from the Insurance Fund, while the Budget Stabilization fund is forecast to fill remaining budget gaps over the intermediate term. However, caution must be exercised, as the Fiscal Model draws down the entire Budget Stabilization and Insurance Funds over the next several years under the assumption that long-term budget solutions will be implemented and the General Fund will be self supporting once the savings from those solutions are allowed to compound.

This proactive approach to managing expenses has served the City well over the past few years, as sound fiscal decisions have allowed the City to maintain its balanced budget. The newly implemented second tier for miscellaneous employees is already generating savings. Proactive fiscal management allows the City Council to make informed, albeit difficult, decisions which serve to protect the fiscal health of the City, as opposed to being put in the position of limited choices due to exhausted reserves and a structural deficit, as is the situation plaguing many cities in California. The City’s financial goal is to have an annually balanced budget and 30% reserves while maintaining full funding of its OPEB and pension obligations.





GROWTH PROJECTION MODEL

Key Finding: Development activity is expected to remain extremely slow over the next several years, with minor growth forecast for the later part of the decade. The City’s population growth rate is expected to remain below 1% until FY 2014/15 and peak at 1.8% in FY 2019/20. Single family building permit issuances will recover to only 20% of the volume issued during the peak years of the early 2000’s.

The City’s growth model is summarized in Exhibits 3 and 4. Exhibit 3 presents projected residential growth. This is based on the number of residential housing permits, which is translated into estimated residents based on an assumption of 3.1 people per household. The estimated residents per housing unit figures are based on data provided by the Association of Bay Area Governments (ABAG).

EXHIBIT 3: Growth Projection Summary – Residential

Year (Jan 1)	Total Units	Single Family	Multi Family	Added Population	Total Population	Annual Population Growth %
Jan 2011					52,029	
2011/12	100	100	-	310	52,339	0.6%
2012/13	100	100	-	310	52,649	0.6%
2013/14	135	125	10	419	53,068	0.8%
2014/15	195	150	45	605	53,673	1.1%
2015/16	245	200	45	760	54,433	1.4%
2016/17	244	200	44	756	55,189	1.4%
2017/18	280	250	30	868	56,057	1.6%
2018/19	280	250	30	868	56,925	1.5%
2019/20	330	300	30	1,023	57,948	1.8%
2020/21	330	300	30	1,023	58,971	1.8%
Total	2,239	1,975	264	6,942	58,971	13.3%

The total number of new single family houses planned through 2021 is 1,975. Combined with the 264 multiple-family permits, the City is expecting 6,942 new residents over the next decade. The increase in building permits is consistent with the forecast in the City’s Capital Improvement Program (CIP). These numbers reflect the belief that development activity is expected to remain sluggish for the near-term. If these estimates hold true, the City will have a population of approximately 58,971 in 2021. At build out, the City is estimated to have a total population of approximately 76,226 residents according to the General Plan.

The growth model is the key to future revenue, and, to a lesser extent, expense assumptions. Virtually all of the City’s largest revenue sources are impacted by development, either directly through development fees, or indirectly through the impacts of having a larger property and sales tax base from which to support operations. Similarly, expenses increase with development. A small assumption change creates significant impacts when looked at over the course of a decade.

For example, increasing the single family building permits by **100** units per year over the life of this Fiscal Model adds a total net gain of **\$17 million** through FY 2020/21, resulting in fewer reductions needed in order to balance the operating budget. Of course, this result is considered unlikely, considering the model already forecasts a tripling of development activity from today’s levels. Just that single change in the forecasting adjusts all of the other financial impacts related to expenses and revenues. The change occurs instantly and the model has built in exhibits and charts so staff can quickly review the changes. This year’s Fiscal Model includes two hypothetical situations – what would be the financial impact to the General Fund if development activity either increased or decreased by 50 single family building permits per year from current estimates? These “what-if” scenarios are found in the Appendix on pages A5 and A6.

It should be noted there are no staffing additions included in the Fiscal Model, as projected population increases are such that existing staff can manage the incremental workload. In addition, the costs associated with adding new staff present a significant financial barrier. As such, future staffing needs, if applicable, will be carefully weighed against these costs and will be brought separately to the City Council for consideration.

Exhibit 4 presents projected commercial growth. Commercial growth, which has declined substantially over the past several years, is forecast to remain sluggish over the next decade. Minor growth in office development is expected to occur in a few years, and some growth in industrial development is also expected in the next several years.

EXHIBIT 4: Growth Projection Summary – Commercial

Year	Commercial Sq. Ft	Office Sq. Ft	Industrial Sq. Ft
2011/12	10,000	-	10,000
2012/13	18,000	-	22,000
2013/14	15,000	10,000	50,000
2014/15	20,000	10,000	10,000
2015/16	15,000	-	10,000
2016/17	15,000	-	10,000
2017/18	15,000	-	10,000
2018/19	15,000	-	10,000
2019/20	15,000	-	10,000
2020/21	15,000	-	10,000
Total	153,000	20,000	152,000



REVENUE SUMMARY

Key Finding: *General Fund revenues are projected to post declines in FY 2011/12 and FY 2012/13, representing the fifth and sixth consecutive years of decline. Annual revenue increases are forecast beginning in FY 2013/14, although the City is not projected to match its peak revenue from FY 2006/07 until FY 2017/18. This decade long stretch of revenue stagnation has put a tremendous strain on the City's operating budget and was the primary factor behind the City's initial cost cutting actions and workforce reductions. Largely due to increases projected in the latter part of the decade, as moderate development activity begins to return, revenue growth is expected to increase at an average annual rate of 2.9% over the next ten years, with annual increases ranging from a negative 1.1% in FY 2012/13 to 5.5% in FY 2019/20.*

Revenue growth enhances the City's ability to: 1) provide services to the public; 2) maintain public safety standards and 3) keep up with the increased costs of City maintenance, such as landscaping and street maintenance. Unfortunately, Brentwood's revenue trends reflect the fact that the country has been through a historic economic downturn. Several years ago development revenue was the City's primary revenue source. It has since been supplanted by property tax, sales tax and motor vehicle license revenue. Unfortunately, of this trio of top General Fund revenues, only sales tax has managed to remain relatively stable. The top revenue source, property tax, has declined by 33% from its peak. While revenue declines were the main cause of the City's previous cost reduction efforts, projected expenditure increases, and in particular staffing costs, are responsible for the future projected budget shortfalls (see Exhibit A3: Financial Summary).

Property tax revenue in FY 2012/13 is forecast to decrease by 2.0%. Staff is comfortable this is a conservative, yet reasonable estimate and has had this estimate confirmed by the City's outside property tax consultant. This would be the fifth consecutive annual property tax decline suffered by the City. Looking ahead, the Fiscal Model forecasts only a minor recovery of property taxes over the next decade. Included in the model is a variable housing price inflation factor, ranging from 2.0% in FY 2013/14 and peaking at 2.5% in the later years of the model (see Exhibit A4 for a list of all key assumptions in the Fiscal Model). This results in the median housing price reaching \$352,706 in ten years. Under this scenario, even if housing prices escalate to rise at 3% throughout the 2020's, the median housing price would not be projected to reach \$500,000 until 2033, and would not reach the previous peak price point until 2042.

While lowered property values have put a significant strain on the City's budget, the City does have the potential to recapture a portion of these reduced revenues should the housing market stage a recovery. By law, if a property is reassessed downward to "fair market value" under the current ownership, its assessed value can be increased more than the statutory 2% in future years to keep up with the fair market value. Once a property changes hands, however, the new sales price is locked in and the City has permanently lost the ability to recover lost property taxes from that parcel (other than waiting for annual 2% increases or for a future sale at a higher price to generate additional property tax).



Staff obtained assessed valuation data for every residential parcel in the City and was able to link the projected housing price increases contained in the Fiscal Model, projected property turnover rates and existing assessor reductions to calculate a “recapture” amount. As a result of largely static housing prices, the combination of these input factors currently indicate that over the next decade the City will receive a property tax recapture amount of less than \$25,000. This recapture represents a recovery of less than 1% of the total amount of property taxes lost by the City, however, it is important to recognize that a more robust housing market recovery would have the potential to generate much larger property tax revenues should the County Assessor elect to reassess a lowered property higher than the 2%, as is required by Proposition 8. With such a low projected recovery rate, potential recapture amounts have been excluded from the Fiscal Model, although a housing rebound would allow for recapture amounts to be considered for inclusion in future models. Any amount received under this scenario represents additional revenues which have not been forecast, thus leaving a little bit of upside to the forecast.

Despite the projection of a minor recovery in the housing market, and a return of some development, the Fiscal Model does not predict the City will match its peak property tax revenue, achieved in FY 2007/08, during the next decade. Extending the Fiscal Model out an additional five years reveals that property tax revenue is projected to finally once again reach FY 2007/08 levels in FY 2024/25.

The dissolution of redevelopment by the California Legislature will also provide a small boost to property tax revenues. The General Fund is projected to begin receiving property tax revenues previously allocated to the Redevelopment Agency in FY 2013/14. However, the projected receipts are relatively small when compared to what the Redevelopment Agency used to receive in tax increment. Whereas the former Redevelopment Agency received in excess of \$4.5 million in annual tax increment, the Fiscal Model includes just \$150,000 in new General Fund property tax revenues. The overall impact of the dissolution of redevelopment is anticipated to be neutral to the General Fund from an operational budget perspective, with significant reductions in the availability of funds for capital projects being the primary city wide impact.

The City’s per capita property tax revenue (the average amount received by the City per resident) is projected to be \$117.46 in the 2012/13 fiscal year. Each city receives a differing percentage of each property tax dollar paid in their individual city. Brentwood is allocated 13.4 cents out of each dollar paid by its residents. The fact that different cities receive different allocations, along with differing property values and land use (e.g. Pleasanton has significant office and commercial property tax revenue which raises their per capita receipts), results in significant variances in the per capita property tax amount among cities in California.

Using projections provided by the City’s property tax consultant, the City developed a comparison of Brentwood’s General Fund property tax revenue, on a per capita basis, with other local cities. The comparable cities were selected based on available data and represent only the General Fund portion for each City, with no allowance being made for other property tax revenue which may be received (e.g. Parks and Recreation property tax, which is received by Brentwood but not included in these figures). With property tax being the City’s top revenue source, and thus a key factor in determining the level of service provided to Brentwood residents, this is an important metric to analyze. The results, presented in Exhibit 5, show the City takes in less property tax revenue per capita than the average comparison city.

EXHIBIT 5: Multi-City Comparison of Property Tax Revenue

City	1/1/2011 Population	Est. 2012/13 General Fund Property Tax	Prop. Tax Revenue Per Capita
Pleasanton	70,643	\$ 42,581,320	\$ 602.77
Benicia	27,118	\$ 11,897,715	\$ 438.74
Dublin	46,743	\$ 19,144,884	\$ 409.58
Mountain View	74,723	\$ 21,255,157	\$ 284.45
Livermore	81,687	\$ 21,963,805	\$ 268.88
Sunnyvale	141,099	\$ 31,352,004	\$ 222.20
Fremont	215,711	\$ 42,553,003	\$ 197.27
San Rafael	58,136	\$ 11,248,914	\$ 193.49
Oakland	430,666	\$ 77,678,727	\$ 180.37
Martinez	35,958	\$ 6,061,517	\$ 168.57
Danville	42,215	\$ 7,056,522	\$ 167.16
Union City	69,850	\$ 8,535,579	\$ 122.20
Brentwood	52,029	\$ 6,111,090	\$ 117.46
Vallejo	116,508	\$ 12,283,718	\$ 105.43
Vacaville	93,011	\$ 9,585,740	\$ 103.06
Fairfield	104,815	\$ 9,067,976	\$ 86.51
Concord	122,676	\$ 10,359,703	\$ 84.45
Stockton	293,515	\$ 24,317,027	\$ 82.85
Pleasant Hill	33,279	\$ 2,144,201	\$ 64.43
Average Comparison City	111,073	\$ 19,747,295	\$ 177.79

Sales tax, the General Fund’s second largest individual revenue source, has been a rare bright spot in this difficult economy. Brentwood was the only city in Contra Costa County with sales tax growth during calendar year 2009. Sales tax revenue rose again in 2010 by 6.5% and by 7.3% in 2011. For comparison, Contra Costa County was down over 17% in 2009 and eked out a 0.7% gain in 2010 before rebounding with a 7.2% gain in 2011. Longer term, the City expects sales tax to post average annual gains of 3.5% through the duration of the ten years of this Fiscal Model. This limited growth reflects the assumption that the consumer will continue to remain cautious in their discretionary spending and focus on improving their personal balance sheets, as well as the projection the City is unlikely to see significant commercial development over the near term as discussed in the “Growth Projection Model” section of the Fiscal Model. The current environment is thought to bear close resemblance to the “new normal” which will be experienced over the long-term.

Exhibit 6 provides per capita information and comparisons of the City’s sales tax revenue vis-à-vis other local agencies. Sales tax information is readily available for every city in California, and this comparison consists of several of Brentwood’s neighboring cities. The exhibit shows that although the City has made progress, it still has a ways to go in order to generate comparable per capita sales tax revenue.

EXHIBIT 6: Multi-City Comparison of 2011 Sales Tax Revenue

City	1/1/2011 Population	2011 Calendar Year Gross Sales Tax	Sales Tax Revenue Per Capita
Dublin	46,743	\$ 14,222,381	\$ 304.27
Walnut Creek	64,707	\$ 18,677,137	\$ 288.64
Pleasanton	70,643	\$ 20,201,906	\$ 285.97
Livermore	81,687	\$ 19,762,832	\$ 241.93
Pleasant Hill	33,279	\$ 6,686,211	\$ 200.91
Concord	122,676	\$ 24,364,964	\$ 198.61
Fremont	215,711	\$ 32,458,821	\$ 150.47
Martinez	35,958	\$ 5,239,935	\$ 145.72
Tracy	83,420	\$ 12,057,422	\$ 144.54
Richmond	104,220	\$ 13,151,583	\$ 126.19
Manteca	68,410	\$ 8,624,297	\$ 126.07
Stockton	293,515	\$ 36,000,192	\$ 122.65
Danville	42,215	\$ 5,000,884	\$ 118.46
Union City	69,850	\$ 8,207,324	\$ 117.50
Oakland	392,932	\$ 44,554,462	\$ 113.39
San Ramon	73,109	\$ 8,282,173	\$ 113.29
Brentwood	52,029	\$ 5,790,422	\$ 111.29
Pittsburg	63,730	\$ 6,390,034	\$ 100.27
Antioch	103,054	\$ 10,094,501	\$ 97.95
Oakley	35,997	\$ 1,563,867	\$ 43.44
Average Comparison City	102,694	\$ 15,066,567	\$ 157.58

In looking at total General Fund revenue, the Fiscal Model is forecasting average annual increases of 2.9% per year, with an average annual increase of 1.6% in per capita revenue. This means 1.3% of revenue growth is attributable to an increased population base, while 1.6% represents inflationary or other activity related increases within the existing base. Following a fifth consecutive annual revenue decline in FY 2011/12, revenues are forecast to decline for a sixth consecutive year, by 1.1%, in FY 2012/13. The remaining eight years of the Fiscal Model have an average annual growth rate of 3.4%, indicative of a return of some development activity and stability in the housing market. Exhibit 7 summarizes revenue growth over the next decade.

EXHIBIT 7: Revenue Summary

Revenue Summary	2011/12	2020/21	Total Increase	Avg Growth Rate	Current Per Capita
Property Tax					
Annual Base	\$6,235,525	\$7,487,598	\$1,252,073	2.1%	\$119.14
New Residential	\$0	\$136,159	\$136,159	N/A	N/A
Res. Turnover	\$0	\$22,957	\$22,957	N/A	N/A
New Com/Ind	\$0	\$66,485	\$66,485	N/A	N/A
Redevelopment	\$0	\$180,400	\$180,400	N/A	N/A
Sub -Total	\$6,235,525	\$7,893,599	\$1,658,074	2.7%	\$119.14
Property Transfer	\$260,455	\$361,748	\$101,293	3.7%	\$4.98
Sales Tax	\$5,550,000	\$7,591,332	\$2,041,332	3.5%	\$106.04
Franchise Fees	\$1,223,247	\$1,792,106	\$568,859	4.3%	\$23.37
Transient Occupancy Tax	\$225,000	\$427,760	\$202,760	7.4%	\$4.30
Motor Vehicle License	\$2,585,584	\$3,138,211	\$552,627	2.2%	\$49.40
Investment Income	\$400,000	\$800,967	\$400,967	8.0%	\$7.64
Business License	\$510,430	\$682,551	\$172,121	3.3%	\$9.75
Building Fees	\$900,000	\$2,486,581	\$1,586,581	12.0%	\$17.20
Engineering Fees	\$1,414,107	\$2,642,335	\$1,228,228	7.2%	\$27.02
Planning Fees	\$225,000	\$664,609	\$439,609	12.8%	\$4.30
Parks and Recreation	\$2,530,199	\$3,398,481	\$868,282	3.3%	\$48.34
Interfund Services	\$5,835,517	\$6,742,939	\$907,422	1.6%	\$111.49
Other	\$1,478,024	\$1,976,528	\$498,504	3.3%	\$28.24
Transfers In	\$6,946,573	\$6,448,576	(\$497,997)	-0.8%	\$132.72
Total	\$36,319,661	\$47,048,323	\$10,728,662	2.9%	\$693.93
Per Capita	\$694	\$798	\$104	1.6%	

While analyzing trends in revenues or expenses by comparing the first and last years of a ten-year period is a useful tool for spotting long-term trends, such analysis does not provide a complete picture of how the City may be faring on an annual basis. In looking at the City's revenue projections on an annual basis, as opposed to just the first and last years, a new revenue source emerges during the early to mid years of the forecast. This revenue source is the Budget Stabilization Fund.

The Budget Stabilization Fund has accumulated a total of \$10.3 million from previous General Fund savings. As the Fiscal Model shows, the City is about to enter some extremely challenging years – ones in which no reasonable budget reductions could be implemented which could possibly serve to immediately balance an annual budget. The Budget Stabilization Fund can be utilized as an interim solution, one which helps bridge the budget gap while longer term solutions are implemented. During the establishment of the second tiered retirement plan for new miscellaneous (non-public safety) workers this very concept was utilized. It was determined that while the savings from the second tier would be substantial over time, the fact that immediate savings from the plan were relatively minor warranted the use of the Budget Stabilization Fund as a tool to fill the budget gap while the savings amount was given time to grow. Exhibit 8 summarizes the usage of the Budget Stabilization (considered revenues in the Fiscal Model).

The City is fortunate to be in the position to be able to utilize the Budget Stabilization Fund to help bridge the projected budget deficit for the next five years. However, the eventual exhaustion of these funds underscores the immediate need to implement long-term budgetary measures which will eventually offset

the loss of Budget Stabilization funding. The City’s Insurance Fund is projected to be used in the same way – the OPEB costs discussed in this model are net of funding contributions from the Insurance Fund. Once the \$4.8 million in the Insurance Fund is exhausted a long-term funding solution will be needed. Exhibit 8, presented below, summarizes the General Fund’s drawdown of the Budget Stabilization Fund and includes a summary of the usage of the Insurance Fund.

EXHIBIT 8: Budget Stabilization and Insurance Fund Usage

Fiscal Year	Beginning Insurance Fund Balance	Draw to Support Citywide OPEB	Ending Insurance Fund Balance	Beginning Budget Stabilization Fund Balance	Transfer to General Fund	Ending Budget Stabilization Fund Balance
2011/12	\$ 4,805,612	\$ 934,897	\$ 3,966,236	\$ 10,259,239	\$ 1,794,019	\$ 8,465,220
2012/13	\$ 3,966,236	\$ 1,002,000	\$ 3,051,104	\$ 8,465,220	\$ 2,600,000	\$ 5,865,220
2013/14	\$ 3,051,104	\$ 944,000	\$ 2,170,588	\$ 5,865,220	\$ 2,200,000	\$ 3,665,220
2014/15	\$ 2,170,588	\$ 842,000	\$ 1,379,651	\$ 3,665,220	\$ 1,550,000	\$ 2,115,220
2015/16	\$ 1,379,651	\$ 589,000	\$ 805,330	\$ 2,115,220	\$ 950,000	\$ 1,165,220
2016/17	\$ 805,330	\$ 380,000	\$ 442,380	\$ 1,165,220	\$ 850,000	\$ 315,220
2017/18	\$ 442,380	\$ 104,000	\$ 332,707	\$ 315,220	\$ 315,220	\$ -
2018/19	\$ 332,707	\$ 48,000	\$ 295,429	\$ -	\$ -	\$ -
2019/20	\$ 295,429	\$ 3,000	\$ 284,689	\$ -	\$ -	\$ -
2020/21	\$ 284,689	\$ 4,000	\$ 272,420	\$ -	\$ -	\$ -

Note: The Insurance Fund has transactions other than OPEB which impact the ending Fund Balance.

While years prior to FY 2011/12 were balanced without transfers from the Budget Stabilization Fund, the current Fiscal Model indicates that not only will these transfers be needed, but that annual savings or reductions, ranging from \$2,042,645 to \$4,168,678, must be achieved in order to maintain a balanced budget. While these amounts assume OPEB funding ramps up significantly, it is important to note the current OPEB prefunding policy can be re-evaluated in the future should it be fiscally necessary to do so. If OPEB is excluded from the model, the annual deficits fall to a range of surplus of \$1,325,158 to a deficit of \$1,555,272.

Exhibit 9 provides a snapshot of the City’s projected revenues and expenditures over the decade, **absent any reductions or savings.**



EXHIBIT 9: Revenues and Expenditures (Before Reductions)

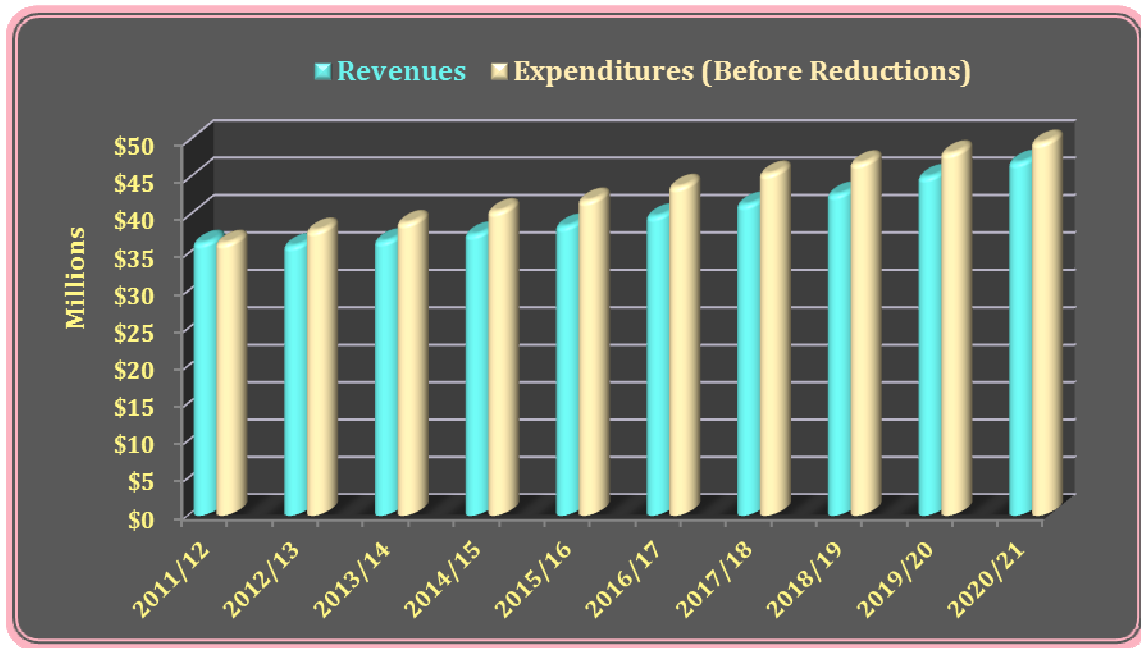


Exhibit 9 clearly illustrates the structural deficit facing the City over the next decade. During the early years of the model, the Budget Stabilization and Insurance funds help shore up the deficit to manageable levels. By the middle part of the decade, these funds will be depleted and the deficits will likely be too large to be dealt with at that time, absent any other expenditure reductions previously mentioned. As development returns towards the end of the model, the deficits then come back down, although not enough to result in a balanced budget. As the model has illustrated, changes made today will compound and can have substantial impacts on the model over time, making this a recommended approach to managing the projected deficit.

It is important to note that the fund balance model in this report assumes the identified savings or reductions amount will be incorporated into future operating budgets. This is due to the City’s proven history of fiscal responsibility and maintaining a balanced budget. This practice has allowed the City to be in a position to remain solvent while the economy has remained stagnant. The City’s strong levels of reserves have remained fully intact, while other cities have started depleting their reserves in the hope the worst of the economic downturn has passed. If the City elected not to address the structural deficit, the existing fund balance would only cover the shortfall until FY 2017/18 before eventually running out.





EXPENSE SUMMARY

Key Finding: *The City must control expenses in order to operate with a balanced budget. Although revenues are expected to keep pace with inflation over the long-term, expenditure pressures result in persistent projected deficits over the next decade, with the most significant expenditure increases being employee staffing costs. Even without adding any new staff over the next decade, reductions must still be implemented in order to ensure fiscal sustainability. Absent these reductions, expenditure growth is expected to increase at an average annual rate of 3.6% over the next decade, while revenues are increasing at just 2.9%.*

Since the City has only minor control over its revenue growth, it is largely on the expense side where the City must look to balance the projected deficit. The City has already reduced staffing levels, trimmed supplies and services budgets and implemented significant cost saving measures in order to balance the budget and maintain 30% reserves through the 2011/12 fiscal year. The City does have unfunded OPEB obligations and upcoming pension rate increases related to underfunded pension plans which, as dictated by accounting standards, are not reported as General Fund liabilities. A detailed discussion of OPEB and pension costs is presented later in this section. Unfortunately, projected expenditure increases in future years require that further reductions be considered. Absent these reductions, the City will operate with a structural deficit. The 2011/12 fiscal year is also projected to be the first time that the Budget Stabilization Fund is used to help balance the General Fund. The funds in the Budget Stabilization Fund are intended to be used to help balance the General Fund in the short-term while long-term solutions are implemented.

The expense projection model, like the revenue model, is based on both the growth projection model and traditional inflationary pressures in the City's budget. For example, salaries will grow from inflation in compensation and benefits and Internal Service fund charges will need to keep up with commodity pricing. Therefore, the expense model links elements from both the budget and growth databases.

There are no staffing additions included in this Fiscal Model for two reasons. First, the projected population increases are mild enough to suggest existing staff can manage the incremental workload through increased productivity and technological advances. Second, it would not be fiscally responsible to project additional staffing level increases given the current costs associated with adding staff. Future staffing needs, if applicable, will be carefully weighed against these costs and will be brought separately to the City Council for consideration. Performance measures and workload indicators will continue to be monitored on a regular basis (e.g. the annual Police Benchmarking Report).

All discussions of expenditures in this section, including the exhibits, are presented without incorporating any of the required savings or reductions identified as necessary to balance the General Fund budget. While the City fully expects savings and/or reductions to occur, the breakdown of the reductions by department and by type (e.g. supplies and services, personnel) has not been determined and to include them would require an assumption regarding the City Council's spending priorities. As the reductions are adopted, the Fiscal Model will be updated to reflect a more accurate distribution of the expenditure budget.



Each year, the General Fund winds up with expenditure savings when compared to the adopted budget. Historically, these savings have been approximately 3% - 5% of personnel costs, while in excess of 10% of the supplies and services budget is typically unspent. In order to accurately model the General Fund's anticipated results, the Fiscal Model has a built in budgetary expenditure savings of 2% for personnel costs and 7% for supplies and services. These percentages are less than the savings amounts historically realized by the City, and, in this way, the Fiscal Model is designed to represent actual projections and results as opposed to budgetary projections.

In total, General Fund operating expenses, absent reductions or savings, will increase from \$36.3 million in FY 2011/12 to \$49.7 million in FY 2020/21. This equates to an average annual expenditure growth rate of 3.6%, which is not sustainable, especially in light of the City's projected revenue growth rate of 2.9%. **Over the next five years the disparity is even greater, with expenses projected to grow at an average annual rate of 3.8% while revenues are increasing at an annual rate of just 2.4%.**

The Fiscal Model presents two ways of analyzing expenditures. First at a departmental level (e.g. what are the spending needs of each department and how does the City allocate a limited supply of resources in the most desirable manner), and second, at a category level (e.g. total salary expense, pension expense and analyzing the cost drivers which will impact those expenses). The departmental analysis is a reflection of "how the pie is divided" and is a zero-sum game – increases in one department's expenditure allocation percentages will result in a decrease of another and is largely driven by City Council spending priorities. The analysis of the spending category details identify the underlying trends and variables impacting specific expenses across all departments.

A. DEPARTMENT EXPENDITURE ANALYSIS

Exhibit 10 presents a summary comparison of expenditures by Department. Note: For financial reporting consistency with the City's Comprehensive Annual Financial Report (CAFR), the General Government category combines the following City administrative departments: City Administration, City Attorney and Finance and Information Systems. Detailed expenditure data for each of these departments can be found in Exhibit A2.

Absent any modifications to the current cost structure, the Police Department is projected to have the highest annual expense growth rate at 3.0%. This is due to two primary factors. First, police benefit costs, especially pension related expenses, are projected to increase faster than miscellaneous employee benefit costs, which are slowing due to the newly implemented second tier. Second, police dispatch costs are projected to rise at a much faster pace than inflation (12%).

The remaining City departments are all forecasted to have expenses increase at an average annual rate between 1.9% and 2.1%.



EXHIBIT 10: Expense Summary by Department (OPEB Unallocated)

Department Summary	2011/12	2020/21	Total Increase	Avg Growth Rate
General Government	\$6,147,304	\$7,281,279	\$1,133,975	1.9%
Police	\$16,440,730	\$21,448,892	\$5,008,162	3.0%
Parks and Recreation	\$4,628,954	\$5,600,218	\$971,264	2.1%
Community Development	\$3,199,362	\$3,824,570	\$625,208	2.0%
Public Works	\$5,316,705	\$6,303,957	\$987,252	1.9%
OPEB	\$389,579	\$3,998,655	\$3,609,076	29.5%
Operational Transfers Out	\$197,027	\$1,264,249	\$1,067,222	22.9%
Total	\$36,319,661	\$49,721,820	\$13,402,159	3.6%
Per Capita	\$694	\$843	\$149	2.2%

The figures in Exhibit 10 do not tell a complete story, as the rapid escalation in OPEB costs, which are in fact individual departmental employee benefit expenses, have been tracked separately in the Fiscal Model. Exhibit 11 allocates the General Fund's OPEB costs to the appropriate department in order to provide a truer analysis of where the funds are being spent on a departmental basis. Once OPEB costs are factored in, Police costs are projected to rise at a 3.9% annual growth rate, even without additional staffing. The growth rates of the remaining departments range from 2.6% to 3.1%.

EXHIBIT 11: Expense Summary by Department

Department Summary	2011/12	2020/21	Total Increase	Avg Growth Rate
General Government	\$6,202,410	\$7,846,888	\$1,644,478	2.6%
Police	\$16,644,719	\$23,542,644	\$6,897,925	3.9%
Parks and Recreation	\$4,661,364	\$5,932,878	\$1,271,514	2.7%
Community Development	\$3,241,719	\$4,259,321	\$1,017,603	3.1%
Public Works	\$5,372,422	\$6,875,839	\$1,503,417	2.8%
OPEB	\$0	\$0	\$0	0.0%
Operational Transfers Out	\$197,027	\$1,264,249	\$1,067,222	22.9%
Total	\$36,319,661	\$49,721,820	\$13,402,159	3.6%
Per Capita	\$694	\$843	\$149	2.2%

A comparison of each department's percentage share of the budget for both FY 2011/12 and FY 2020/21 is illustrated in Exhibit 12. As was the case in Exhibit 10, the impacts of OPEB are so significant that the results are skewed. By FY 2020/21 OPEB as a "department" becomes 8.0% of the General Fund all by itself and actually exceeds the entire cost of the General Fund portion of the Community Development Department.

EXHIBIT 12: Department's Share of Budget (Excluding OPEB from Departments)

Department Summary	2011/12	2020/21	2011/12 Share	2020/21 Share
General Government	\$6,147,304	\$7,281,279	16.9%	14.6%
Police	\$16,440,730	\$21,448,892	45.3%	43.1%
Parks and Recreation	\$4,628,954	\$5,600,218	12.7%	11.3%
Community Development	\$3,199,362	\$3,824,570	8.8%	7.7%
Public Works	\$5,316,705	\$6,303,957	14.6%	12.7%
OPEB	\$389,579	\$3,998,655	1.1%	8.0%
Operational Transfers Out	\$197,027	\$1,264,249	0.5%	2.5%
Total	\$36,319,661	\$49,721,820	100.0%	100.0%

Allocating the OPEB costs to the appropriate department once again provides a preferred way of analyzing the data. Exhibit 13 below shows the results once OPEB costs have been allocated. As might be expected, the allocation of resources declines for each department with the exception of Police, who are projected to increase their proportionate share from 45.8% to 47.3%.

EXHIBIT 13: Department's Share of Budget

Department Summary	2011/12	2020/21	2011/12 Share	2020/21 Share
General Government	\$6,202,410	\$7,846,888	17.1%	15.8%
Police	\$16,644,719	\$23,542,644	45.8%	47.3%
Parks and Recreation	\$4,661,364	\$5,932,878	12.8%	11.9%
Community Development	\$3,241,719	\$4,259,321	8.9%	8.6%
Public Works	\$5,372,422	\$6,875,839	14.8%	13.8%
Operational Transfers Out	\$197,027	\$1,264,249	0.5%	2.5%
Total	\$36,319,661	\$49,721,820	100.0%	100.0%

Examples of significant personnel cost variables specifically addressed in these expenditure forecasts include the impact of the current employee labor contracts which include the second tier for new miscellaneous employees hired on or after October 1, 2010; along with the most current pension and OPEB payment requirements.

As previously discussed, the Fiscal Model does not contain funding for any additional positions over the next decade. Current projections assume existing staff can manage the workload increases associated with the City's minor population increases. If growth should accelerate, it is likely additional revenues would become available to potentially allow for staffing increases, although the current costs of adding additional staff are somewhat prohibitive.

B. CATEGORY COST ANALYSIS

To understand what the City's main cost drivers are, an analysis of the two main expenditure categories (personnel costs and supplies and services costs) must be undertaken. To illustrate the

relative importance and projected growth patterns for each, Exhibit 14 summarizes these categories.

EXHIBIT 14: Summary of Cost Increases by Type of Expense

Year	Salary and Benefits Total	Other Expenses Total	Total Operating Expenses	Operating Revenues
2011/12	\$ 25,272,598	\$ 11,047,063	\$ 36,319,661	\$ 36,319,661
2012/13	\$ 26,276,413	\$ 11,687,884	\$ 37,964,297	\$ 35,921,652
2013/14	\$ 27,256,195	\$ 11,734,664	\$ 38,990,859	\$ 36,546,203
2014/15	\$ 28,303,678	\$ 12,246,942	\$ 40,550,620	\$ 37,458,689
2015/16	\$ 29,465,704	\$ 12,515,001	\$ 41,980,705	\$ 38,537,456
2016/17	\$ 30,623,263	\$ 13,196,907	\$ 43,820,170	\$ 39,882,362
2017/18	\$ 32,085,134	\$ 13,496,852	\$ 45,581,986	\$ 41,447,546
2018/19	\$ 32,930,842	\$ 14,042,240	\$ 46,973,082	\$ 42,804,404
2019/20	\$ 33,793,721	\$ 14,511,181	\$ 48,304,902	\$ 45,136,037
2020/21	\$ 34,664,324	\$ 15,057,496	\$ 49,721,820	\$ 47,048,323
Avg Growth Rate	3.6%	3.5%	3.6%	2.9%
Total Growth Rate	37.2%	36.3%	36.9%	29.5%

Exhibit 14 illustrates that salary and benefit expenses are projected to grow by \$9.4 million, or 37.2%, over the next decade (with no additional staffing). This equates to an average annual growth rate of 3.6%. As was previously noted, revenues are only projected to grow at 2.9%, making the rate of growth in staffing costs unsustainable.

The General Fund’s “Other Expenses”, which comprise just 30% of the overall General Fund budget, are projected to grow at an average annual rate of 3.5%. The primary cost drivers for these expenses are: the resumption of funding for programs which are currently drawing from accumulated savings, such as pavement management; the projected increases in dispatch costs; increased replacement funds being set aside for the new Senior Center and Civic Center buildings, along with items such as the new East Bay Regional Communications Systems (EBRCS) police radio equipment. These increases are in spite of very low (1% annually for several years) assumed levels of growth in the City’s ongoing supplies and services, capital, and internal service fund costs.

With 70% of the General Fund’s budget going towards personnel costs, focusing our attention on these costs provides the best chance of identifying items which are causing long-term projected shortfalls. An analysis of the major personnel costs (e.g. salary costs, pension expenses, OPEB and health care costs) can further help identify future expense drivers.

In order to appropriately analyze and forecast these expenses, the Fiscal Model must break down the costs by two separate classifications for City employees – miscellaneous and public safety. This breakdown is necessary because the City offers different benefit levels to employees largely based upon this classification, and the growth rates of each expense can vary significantly between these two classifications.

i. Cost of Living Adjustments

- a) **Miscellaneous** - The Fiscal Model includes the 2.5% cost of living adjustment for FY 2011/12 (in accordance with existing bargaining unit contracts) followed by 2.0% annual increases for the remainder of the decade (which are not contractually obligated but merely assumed here for presentation and forecasting purposes – the Fiscal Model does not assume any deviations from past agreements, including historical salary increases, health insurance coverage, employee contributions to PERS or OPEB benefits). The City has the ability to further control these costs through the negotiation of annual cost of living adjustments. These salary increases also lead to an increase in pension costs, as described below.
- b) **Public Safety** – Following a 0% cost of living adjustment in FY 2011/12, the Fiscal Model includes annual 2.0% cost of living adjustments for Public Safety employees, although once again it is important to note that the use of this number does not represent a contractual obligation. The City has the ability to further control these costs through the negotiation of annual cost of living adjustments.

ii. Pensions (PERS)

The City pays PERS a percentage of each employee's salary in order to fund that employee's retirement. PERS sets their rates to ensure adequate funds are and will be available for retirees. During times of budget surpluses, many cities in California, including Brentwood, enhanced retirement benefits for their employees. In 2000, the City changed the public safety formula from 2% @ 50 to 3% @ 50, and in 2003 the formula for the general (miscellaneous) employees was raised from 2% @ 55 to 2.7% @ 55. In 2010 a second tier was adopted for miscellaneous employees, lowering the benefit down to 2% @ 60. In addition, the City opted to further enhance pension benefits by including benefits such as using an employee's highest annual salary for purposes of determining annual pension benefits and including a maximum 5% annual cost of living adjustment for retirees rather than the standard 2% (these two enhanced benefits were also eliminated in the second tier for miscellaneous employees).

PERS sets the annual pension contribution rates and the City pays the amount requested. Pensions are pre-funded (meaning money is set aside as the employee works, rather than paid by the City after the employee retires). Although the City's pension plans have unfunded liabilities (see Exhibits 15 and 16), PERS is actively addressing those shortfalls through rate increases as illustrated in Exhibit 18. In this way, the Fiscal Model captures the expenditure impacts of closing the existing unfunded pension liability.

There is a significant risk that pension rates will increase at a much faster rate than anticipated in the Fiscal Model. These increases would occur if PERS changes their actuarial assumptions concerning future investment returns. PERS currently assumes an annual investment rate of return of 7.75%. Many have argued that this rate of return is overly optimistic and is unlikely to occur. Being that a lower future rate of investment return requires additional assets be set aside today in order to have sufficient funds down the road, this action would immediately cause a significant increase in the City's PERS rates. PERS has estimated the City's contribution rates could increase by 7% - 8% of salary should the actuarial changes under consideration be adopted. With each 1% PERS



rate increase costing the General Fund approximately \$165,000, the potential worst case scenario impact to the General Fund could be an annual cost increase of \$1.2 - \$1.3 million.

The City does not have to present a liability on its financial statements for the unfunded PERS liability as long as the annual required payment, as determined by PERS, is paid. There has been discussion towards requiring government agencies to begin recording unfunded liabilities and presenting them in their financial statements. Given the existing unfunded liability amounts in the City's pension plans, this would have a negative impact on the City's financial statements.

Note: The City does report an unfunded OPEB obligation in its financials, but only to the extent that the City does not make 100% of its actuarially determined annual required contribution. The City has adopted a plan to achieve 85% funding of this annual payment amount by FY 2017/18, and is reflected in the increased OPEB costs in the Fiscal Model.

Following is a discussion of the pension costs associated with Miscellaneous and Public Safety employee groups:

- a) **Miscellaneous** – The gross projected PERS contribution rate is expected to rise from 24.914% of salary in FY 2011/12 to 25.2% of salary over the next three years. While this change is relatively minor, the increase comes on the heels of an increase from 22.482% to 24.914% in the 2011/12 fiscal year. By the end of the next decade, pension expenses are projected to cost an additional \$0.9 million on an annual basis and a cumulative \$6.6 million over the course of the decade. It was concern over these rapidly increasing pension costs that led the City to negotiate a second tier PERS benefit structure for miscellaneous employees. Under the second tier, new employees hired after October 1, 2010:

- Receive reduced pension benefits of 2% @ 60 versus the previous 2.7% @ 55.
- Are subject to a cap on retirement cost of living increases of 2% versus the previous 5%.
- Have their pension benefit determined by the highest average three years of annual salary rather than highest one year.
- Immediately begin paying the full employee share of PERS, 7% of salary due to the reduced benefits described above. The previous employee share was 8%.

In addition, employees hired before October 1, 2010 agreed to:

- Immediately contribute 1% of salary towards PERS in the first year of the agreement, 2010/11 and a 2% contribution in the second year.
- Accept annual 2.5% cost of living salary increase for two years.

The budgetary impacts of establishing the second tier are already being realized. As noted above, the increase in PERS rates is projected to cost the City \$6.6 million over the next decade; however, the savings from the second tier is



projected to reduce this amount by \$3.8 million, for net cost increase of \$2.8 million from current levels.

With tier one employees contributing 2% towards pension costs, the net City contribution rate for these employees is currently 22.914%. As a result of tier two employees paying the full employee's share of pension costs, along with reduced benefits levels, the City's contribution rate for tier two employees has effectively been cut in half (11.445%). It should be noted that all miscellaneous employees are pooled together in the City's Miscellaneous PERS plan and PERS charges the same rate per employee – the savings from tier two will result in lower PERS rates for all employees as opposed to actually having different contribution rates for different employees. A 50/50 mix of tier one and two employees would result in a City contribution rate of 17.18% - the midpoint between the two rates.

The City has the ability to further control these costs through negotiating for increased employee contributions to PERS for first tier employees, as second tier employees already contribute their full employee share.

The primary cause of the decrease in the funded ratio in the City's Miscellaneous Plan was the investment losses suffered by PERS. The impacts from the second tier will not make a significant impact on these ratios for several years. The funded ratio is expected to improve, however, as a result of the increased pension rates set by PERS.

EXHIBIT 15: Current and Historical Funding Status – Miscellaneous PERS Pension Plan

Fiscal Year Ending	Accrued Liabilities	Market Value of Assets	Unfunded Liability	Funded Ratio
6/30/2005	\$ 30,745,530	\$ 26,523,944	\$ 4,221,586	86.27%
6/30/2006	\$ 37,323,519	\$ 29,802,610	\$ 7,520,909	79.85%
6/30/2007	\$ 43,082,548	\$ 35,656,589	\$ 7,425,959	82.76%
6/30/2008	\$ 49,977,718	\$ 41,409,270	\$ 8,568,448	82.86%
6/30/2009	\$ 59,231,285	\$ 34,563,042	\$ 24,668,243	58.35%
6/30/2010	\$ 64,448,656	\$ 41,666,759	\$ 22,781,897	64.65%

- b) **Public Safety** – The pension costs associated with public safety employees will escalate more rapidly than miscellaneous employees. This is due to two primary factors. First, on average public safety employees retire earlier than miscellaneous employees, meaning there is a shorter timeframe in which to set aside enough funds for the eventual retirement of each employee. Second, public safety employees have more lucrative pension plans (i.e. 3% @ 50). The combination of richer benefits and a shorter timeframe in which to accumulate the funds needed to pay for these benefits results in a high sensitivity to investment losses (see Exhibit 16).



The projected PERS contribution rate is expected to rise from 35.746% of salary in the 2011/12 fiscal year to 37.168% of salary over the next three years. While once again this change appears to be relatively minor, the increase is in addition to an increase from 30.523% to 35.746% experienced in the 2011/12 fiscal year. By the end of the decade, pension costs for safety employees are projected to rise by \$1.1 million on an annual basis, and cost the General Fund a total of \$7.8 million during this time period. There are no second tier savings to offset these costs. As such, while the costs of rising pensions for the miscellaneous employees are largely mitigated due to the second tier and employee contributions, rising pension costs for public safety are projected to continue their unabated escalation, as shown in Exhibit 19. The City has the ability to control these costs through the negotiation of a second tier for new hires and/or requiring existing employees to contribute towards their retirement.

The primary cause of the decrease in the funded ratio in the City’s Safety Plan was the investment losses suffered by PERS. The funded ratio is expected to improve, however, as a result of the increased pension rates set by PERS.

EXHIBIT 16: Current and Historical Funding Status – Safety PERS Pooled Pension Plan

Fiscal Year Ending	Accrued Liabilities	Market Value of Assets	Unfunded Liability	Funded Ratio
6/30/2005	\$ 6,367,049,264	\$ 5,449,784,537	\$ 917,264,727	85.59%
6/30/2006	\$ 7,278,049,834	\$ 6,469,775,316	\$ 808,274,518	88.89%
6/30/2007	\$ 7,986,055,176	\$ 7,903,684,460	\$ 82,370,716	98.97%
6/30/2008	\$ 8,700,467,733	\$ 7,596,723,149	\$ 1,103,744,584	87.31%
6/30/2009	\$ 9,721,675,347	\$ 5,850,794,301	\$ 3,870,881,046	60.18%
6/30/2010	\$ 10,165,475,166	\$ 6,650,160,763	\$ 3,515,314,403	65.42%

iii. Other Post Employment Benefits (OPEB)

- a) **Miscellaneous/Public Safety – OPEB costs are projected to present the single largest obstacle in attempting to balance the City’s General Fund budget.** OPEB costs in the Fiscal Model are based on the City’s June 30, 2010 actuarial study (a study is only required every two years) and incorporate the City Council direction to gradually increase funding over the next several years until the City achieves 85% funding of the actuarially computed annual required contribution (ARC). This would complete a shift from pay-as-you-go financing to pre-funding, as is done with the City’s PERS pension plan. Pre-funding allows for investment earnings, rather than City contributions, to pay for the majority of the costs. This is in contrast to pay-as-you-go financing, which essentially shifts the burden of responsibility for benefits offered to current employees to future citizens of the City who must pay these costs after the employee has retired and is no longer providing any service to the City.

The OPEB benefits offered to miscellaneous and public safety employees are similar in nature; with the largest difference being public safety employees are



eligible for a slightly higher coverage amount. The main cost difference for the City is that public safety employees can retire earlier; resulting in a shorter timeframe to set aside funds and a longer time period the employee will draw the benefit. Current annual OPEB funding from the General Fund is set at \$2,060 per miscellaneous employee and \$2,652 per public safety employee (this reflects only minor pre-funding contributions). **These amounts are projected to increase to \$21,074 per miscellaneous employee and \$27,125 per public safety employee over the next decade**, as the City achieves 85% annual funding of the actuarial required contribution.

The City (including all funds, not just the General Fund) has a current unfunded OPEB obligation of \$8.0 million, as is reported in the City's CAFR. This amount is projected to rise to \$10.6 million by the end of the current fiscal year, and reach \$21.7 million by the end of the decade (see Exhibit 17). Perhaps the most alarming fact is that the City's liability is projected to rise to this level **despite projected City wide contributions of \$33.8 million to fund OPEB during this same timeframe**. The costs for OPEB are so significant that if the City did not have an OPEB obligation, the General Fund would be projected to run a surplus of \$1.3 million (albeit with no new staffing and holding expenses below inflation levels), without any additional reductions, by the end of the decade. The impacts from the rising costs of OPEB are of paramount concern going forward.

Included in the Fiscal Model is the drawdown of \$4.5 million from the Insurance Internal Service Fund (see Exhibit 8) to help offset these costs over the next several years. In this way, the Insurance Fund is acting much like the Budget Stabilization Fund. These funds can help keep the General Fund balanced while long-term solutions are given a chance to develop and generate sufficient expenditure savings to allow the General Fund to operate in a fiscally responsible (i.e. balanced) manner over the long-term. The City has the ability to control OPEB costs through the negotiation of a lowered benefit tier. There are many different potential plans the City could implement, for both new hires and potentially for existing employees. The "Annual Underfunding Amount" included in Exhibit 17 reflects the City's progression towards funding 85% of the actuarially determined required contribution. The City elected to only fund 85% for many reasons, including wanting to avoid a situation where overfunding may occur if investment returns exceeded expectations and not wanting to have funds tied up in an irrevocable trust account if a change to OPEB benefits were to be considered.

EXHIBIT 17: Current and Historical Funding Status – OPEB

Fiscal Year Ending	Annual Required Contribution (ARC)	City Actual Contribution	Annual Funding Ratio	Annual Underfunding Amount	Net OPEB Obligation
6/30/2009	\$ 3,006,000	\$ 545,043	18.13%	\$ 2,460,957	\$ 2,460,957
6/30/2010	\$ 3,208,000	\$ 570,457	17.78%	\$ 2,637,543	\$ 5,098,500
6/30/2011	\$ 3,883,000	\$ 1,012,000	26.06%	\$ 2,871,000	\$ 7,969,500
6/30/2012*	\$ 4,150,000	\$ 1,518,000	36.58%	\$ 2,632,000	\$ 10,601,500
6/30/2013*	\$ 4,433,000	\$ 2,002,000	45.16%	\$ 2,431,000	\$ 13,032,500
6/30/2014*	\$ 4,727,000	\$ 2,544,000	53.82%	\$ 2,183,000	\$ 15,215,500
6/30/2015*	\$ 5,027,000	\$ 3,142,000	62.50%	\$ 1,885,000	\$ 17,100,500
6/30/2016*	\$ 5,328,000	\$ 3,789,000	71.11%	\$ 1,539,000	\$ 18,639,500
6/30/2017*	\$ 5,624,000	\$ 4,480,000	79.66%	\$ 1,144,000	\$ 19,783,500
6/30/2018*	\$ 5,906,000	\$ 5,204,000	88.11%	\$ 702,000	\$ 20,485,500
6/30/2019*	\$ 6,091,000	\$ 5,448,000	89.44%	\$ 643,000	\$ 21,128,500
6/30/2020*	\$ 6,274,000	\$ 5,703,000	90.90%	\$ 571,000	\$ 21,699,500
<i>*Projected</i>					
Total	\$ 57,657,000	\$ 35,957,500	62.36%	\$ 21,699,500	\$ 21,699,500

iv. Health Insurance

- a) **Miscellaneous/Public Safety** – Health insurance rates are projected to continue increasing at a rate exceeding inflation for the intermediate term. The Fiscal Model assumes an annual inflation rate ranging between 5.00% - 5.57% for health insurance. Over the next decade this amounts to an annual \$0.9 million cost for miscellaneous employees and an annual \$0.5 million annual increase for public safety. The City has the ability to control these costs through the negotiation of a reduced coverage level or through employee cost sharing.

The following exhibits summarize the impacts the four aforementioned cost drivers - salary increases, pensions, OPEB, and health care - will have on the General Fund's miscellaneous and public safety employee costs over the next decade. The increased costs equate to an average increase of \$52,856 per miscellaneous employee and \$78,008 per public safety employee.



EXHIBIT 18: Significant Salary and Benefit Cost Increases – Misc. Employees

Fiscal Year	Salary Cost of Living Allowance Increase	TOTAL Increase in Salary Expense	CalPERS Pension Rates	Increase in Pension Expense	Less Employee Pension Contributions and Tier 2 Reductions	TOTAL Increase in Pension Expense	TOTAL Increase in OPEB Expense	TOTAL Increase in Health Insurance Expense	TOTAL Increase in Salary; Pension; OPEB and Health Insurance Expense	Average Cost Increase Per Employee
2011/12	2.50%	\$225,409	24.914%	\$321,925	(\$110,925)	\$211,000	\$124,057	\$42,884	\$603,349	\$5,742
2012/13	2.00%	\$419,852	25.005%	\$453,828	(\$155,516)	\$298,311	\$217,387	\$162,399	\$1,097,948	\$10,450
2013/14	2.00%	\$622,457	25.100%	\$535,674	(\$213,281)	\$322,393	\$372,810	\$241,992	\$1,559,651	\$14,844
2014/15	2.00%	\$832,998	25.200%	\$606,642	(\$273,389)	\$333,253	\$596,496	\$325,564	\$2,088,310	\$19,875
2015/16	2.00%	\$1,051,712	25.100%	\$644,876	(\$335,915)	\$308,961	\$857,463	\$413,315	\$2,631,450	\$25,045
2016/17	2.00%	\$1,278,841	25.100%	\$694,241	(\$400,934)	\$293,307	\$1,192,992	\$505,453	\$3,270,593	\$31,128
2017/18	2.00%	\$1,514,635	25.100%	\$747,890	(\$468,524)	\$279,366	\$1,528,521	\$602,199	\$3,924,720	\$37,353
2018/19	2.00%	\$1,759,664	25.100%	\$802,566	(\$538,765)	\$263,801	\$1,901,330	\$703,782	\$4,628,577	\$44,052
2019/20	2.00%	\$2,014,211	25.100%	\$858,290	(\$611,740)	\$246,551	\$2,013,173	\$810,443	\$5,084,378	\$48,390
2020/21	2.00%	\$2,278,564	25.100%	\$915,080	(\$687,532)	\$227,548	\$2,125,016	\$922,438	\$5,553,567	\$52,856
Total	22.497%	\$11,998,341		\$6,581,011	(\$3,796,521)	\$2,784,490	\$10,929,244	\$4,730,469	\$30,442,545	

EXHIBIT 19: Significant Salary and Benefit Cost Increases - Public Safety Employees

Fiscal Year	Salary Cost of Living Allowance Increase	TOTAL Increase in Salary Expense	CalPERS Pension Rates	Increase in Pension Expense	Less Employee Pension Contributions and Tier 2 Reductions	TOTAL Increase in Pension Expense	TOTAL Increase in OPEB Expense	TOTAL Increase in Health Insurance Expense	TOTAL Increase in Salary; Pension; OPEB and Health Insurance Expense	Average Cost Increase Per Employee
2011/12	0.00%	\$0	35.746%	\$350,142	\$0	\$350,142	\$172,192	\$44,026	\$566,360	\$9,135
2012/13	2.00%	\$137,146	36.349%	\$532,639	\$0	\$532,639	\$295,303	\$74,102	\$1,039,189	\$16,761
2013/14	2.00%	\$280,120	36.768%	\$613,578	\$0	\$613,578	\$472,485	\$121,833	\$1,488,016	\$24,000
2014/15	2.00%	\$428,759	37.168%	\$695,349	\$0	\$695,349	\$679,197	\$171,951	\$1,975,255	\$31,859
2015/16	2.00%	\$583,231	37.568%	\$779,339	\$0	\$779,339	\$944,969	\$224,575	\$2,532,114	\$40,841
2016/17	2.00%	\$743,711	37.568%	\$835,245	\$0	\$835,245	\$1,210,742	\$279,830	\$3,069,528	\$49,509
2017/18	2.00%	\$910,376	37.568%	\$896,547	\$0	\$896,547	\$1,506,045	\$337,848	\$3,650,816	\$58,884
2018/19	2.00%	\$1,083,638	37.568%	\$959,167	\$0	\$959,167	\$1,594,635	\$398,767	\$4,036,207	\$65,100
2019/20	2.00%	\$1,263,699	37.568%	\$1,023,133	\$0	\$1,023,133	\$1,683,226	\$462,732	\$4,432,790	\$71,497
2020/21	2.00%	\$1,450,767	37.568%	\$1,088,474	\$0	\$1,088,474	\$1,767,388	\$529,895	\$4,836,524	\$78,008
Total	19.509%	\$6,881,447		\$7,773,613	\$0	\$7,773,613	\$10,326,181	\$2,645,559	\$27,626,799	



FUND BALANCE SUMMARY

Key Finding: *At the end of the 2011/12 fiscal year, the City is projected to have a General Fund balance of \$17.8 million, with an unassigned fund balance of \$10.9 million. This meets the City Council's 30% unassigned fund balance goal, with the caveat the aforementioned unfunded pension and OPEB liabilities must be carefully managed in the future. The Fiscal Model assumes the required savings and/or reductions will be implemented (see Exhibit A3: Financial Summary). This assumption is consistent with the City's continuing commitment to balance the budget without relying on reserves. The City has strong cash balances in the Internal Services funds, of which the Budget Stabilization Fund and the Insurance Fund are forecast to help bridge near-term shortfalls while long-term solutions are implemented.*

The fund balance model is based on generally accepted accounting formats that report beginning balances, plus revenues, less expenses and transfers both in and out of the fund. This model considers all those elements and is formatted to be consistent with the City's CAFR. One time transfers out for CIP projects are also included in these figures, causing decreases in fund balance despite the ongoing adoption of balanced operating budgets.

Based upon the assumptions outlined throughout the Fiscal Model, the model generates reports detailing the beginning and ending fund balance of the General Fund. Fund balance is generally considered an overall benchmark of fiscal health. A minimal desire is to maintain a 10% to 15% ending unassigned fund balance. To maintain a position of modest health, a 20% level might be considered best. In Brentwood, the City Council has set the desired level at 30%. The City currently meets the 30% requirement and has continued to stress the importance of balancing the budget without relying on reserves. Staff is currently working on budget solutions for the 2012/13 fiscal year which, if approved, will allow the City to avoid using reserves at any point so far during this economic downturn. However, the Budget Stabilization Fund will be required to balance the General Fund for the intermediate term (5-6 years) while longer term solutions are implemented.

Financial best practices dictate the City maintain a 30% reserve while at the same time fully funding its required PERS and OPEB contributions. The City has always fully funded its required PERS contributions, and a plan to annually fund 85% of the City's OPEB obligation has been approved by the City Council and is incorporated in the Fiscal Model. It is this rising cost of funding OPEB that is the most significant budgetary challenge moving forward.

Significant expenditure reductions will be needed for the City to avoid drawing down on its reserves once the Budget Stabilization funds have been depleted. As discussed previously, the 30% reserve threshold increases proportionately with expenses over time, meaning the City must operate with small a surplus in order to increase the reserves in proportion to the increases in expenses. Exhibit 20 provides a Fund Balance Summary.

EXHIBIT 20: Fund Balance Summary

General Fund Balance	2011/12	2020/21	Total Increase	Avg Growth Rate
Beginning Balance	\$18,271,519	\$15,824,206	(\$2,447,313)	-1.6%
Annual Revenue	\$29,373,088	\$40,599,747	\$11,226,659	3.7%
Transfers In	\$6,946,573	\$6,448,576	(\$497,997)	-0.8%
Sub-Total	\$36,319,661	\$47,048,323	\$10,728,662	2.9%
Operations	\$35,733,055	\$41,785,419	\$6,052,364	1.8%
Operational Transfers Out	\$197,027	\$1,264,249	\$1,067,222	22.9%
Other Post Employment Benefits	\$389,579	\$3,998,655	\$3,609,076	29.5%
CIP Transfers Out	\$431,799	\$223,652	(\$208,147)	-7.0%
Sub-Total	\$36,751,460	\$47,271,975	\$10,520,515	2.8%
Net Increase (Decrease)	(\$431,799)	(\$223,652)	\$208,147	N/A
Ending Balance	\$17,839,720	\$15,600,554	(\$2,239,166)	-1.4%
Assigned/Committed	\$6,943,822	\$4,500,000	(\$2,443,822)	-3.9%
Unassigned	\$10,895,898	\$11,100,554	\$204,656	0.2%
Percent of Operations	30.0%	23.6%		N/A

Fund Balance is comprised of several designations which can be summarized as two main components, Assigned/Committed and Unassigned funds. Assigned/Committed funds are amounts which are earmarked for specific purposes. Examples of this in the General Fund include \$400,000 for a potential Chevron Property Tax refund and \$1,000,000 for a General Plan update. Unassigned funds can be used to help the City through economic uncertainties, or local disasters, and to provide contingencies for unseen operating or capital needs. Unassigned funds can also be used for cash flow management. The City strives to maintain 30% in unassigned fund balance. While the City's unassigned fund balance remains relatively stable over the decade, it is not keeping up with the growth needed to keep pace with expenditure increases. For every \$1 million in additional expenditures, the City needs to set aside \$300,000 in unassigned fund balance in order to maintain 30% reserves.

This report and analysis does not include the following types of funds: Enterprise, Special Revenue, Debt Service, Fiduciary or Capital Projects, and provides only limited review of the Internal Service funds (to the extent the General Fund contributes to them, and the usage of the Budget Stabilization and Insurance Funds). The City typically conducts rate studies every five years in order to ensure the expenses of the Enterprise funds are fully recovered through appropriate user fees. In this way, the City is constantly monitoring and updating the long-term projections for these funds and ensuring their long-term health. The City also conducts an annual ten-year look at capital projects and development impact fee funds as a part of the CIP budgeting process. Debt Service funds are reviewed each time the City performs a debt issuance to ensure adequate coverage for debt payments. Special Revenue and Fiduciary funds can only be spent for specific purposes and only after receiving the funds.

Finally, some operating capital items are included in the model, but the majority of larger projects which are planned to be funded with special assessments are not included since they will not be part of the General Fund.



SUB-MODELS AND REPORTS

Key Finding: *There are an unlimited number of additional reports the Fiscal Model can generate. Complex analysis and specific “what-if” scenarios, which used to take several days, can now be performed in a matter of hours. Users and policy makers have the ability of seeing data in new and powerful ways.*

The detail of the Fiscal Model provides for the creation of a number of automatic reports. For example, in each department an analysis of the expenses against some service indicator can easily be conducted. This allows for benchmarking against service indicators and for easy comparisons of the operating costs and efficiencies of various departments over time. This provides useful information for management and policymakers.

Sub-models and reports are in each department section of the Fiscal 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 decade is an example of a mini-model. There are many other sub-models which can help policy makers understand the changing dynamic of the City’s resources. The following are some examples:

- The fund balance model compares the ending unassigned fund balance available to the City’s desired level of 30%. This includes a projection of future assignments and commitments.
- The employee compensation section includes a model for OPEB, tier 2, health care and retirement costs, as well as staffing headcount changes.
- The Human Resources section has a report comparing the growth of staff costs to both total operations and revenue growth. The expenses are tracked on a cost per capita basis. This report is also used in most other department sections.
- Per capita costs for each department, along with per capita revenues by revenue source, are tracked and provide meaningful information to staff.
- Questions regarding how much property tax or sales tax revenue the City receives per resident can be easily answered and analyzed to determine how the City compares with other agencies.
- There is an output model which measures the property tax base growth related to new development, as compared increases from existing properties.
- The Police Department has a sub-model allowing for analysis between funding levels and the police benchmark indicators adopted by the City Council.



CONCLUSION

From the beginning this project has been a collaborative effort. The Government Finance Officers Association (GFOA) recommends all local governments maintain a long-term financial projection. GFOA recommendations note the development of such models is typically a task best undertaken by an experienced, outside consulting firm and that resources be devoted to such an effort. However, GFOA also stresses the model must be developed with input from staff and staff must be able to seamlessly take over operation of the model for it to have maximum utility. While the City’s original Fiscal Model was developed with the assistance of an outside consultant, the City has since assumed responsibility for the upkeep and production. In this way, this financial model is reflective of the most current thinking and best practices in long-term municipal finance modeling.

Our Fiscal Model was one of only three documents recognized by CSMFO at their annual conference in 2008, winning an award in the “Innovation” category.

The Fiscal Model could not be completed without the hard work of City staff, and the continued support of the City Council and City Manager, whose leadership has allowed the City to maintain its healthy reserves and have put the City in a position to identify the necessary actions needed to successfully navigate the current economic downturn.



EXHIBIT A1: General Fund Revenue Summary

Revenue	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Property Tax:										
Annual Base	\$6,235,525	\$6,069,348	\$6,047,563	\$6,083,196	\$6,219,417	\$6,416,477	\$6,659,432	\$6,930,829	\$7,191,483	\$7,487,598
New Residential	\$0	\$35,601	\$47,824	\$66,726	\$86,951	\$88,432	\$106,687	\$109,355	\$132,838	\$136,159
Residential Turnover	\$0	\$0	\$0	\$0	\$5,955	\$8,620	\$10,872	\$13,057	\$17,901	\$22,957
New Commercial	\$0	\$6,141	\$15,439	\$22,092	\$29,201	\$35,875	\$43,056	\$50,603	\$58,360	\$66,485
Redevelopment	\$0	\$0	\$150,000	\$149,765	\$151,105	\$155,095	\$160,039	\$166,512	\$173,300	\$180,400
Sub -Total	\$6,235,525	\$6,111,090	\$6,260,826	\$6,321,779	\$6,492,629	\$6,704,499	\$6,980,086	\$7,270,356	\$7,573,882	\$7,893,599
Property Transfer	\$260,455	\$269,772	\$274,279	\$284,273	\$297,534	\$304,787	\$320,969	\$331,175	\$350,344	\$361,748
Sales Tax	\$5,550,000	\$5,762,147	\$5,982,026	\$6,216,719	\$6,431,576	\$6,648,578	\$6,872,813	\$7,104,517	\$7,343,939	\$7,591,332
Franchise Fees	\$1,223,247	\$1,267,190	\$1,315,290	\$1,369,744	\$1,430,231	\$1,493,002	\$1,561,274	\$1,632,287	\$1,710,590	\$1,792,106
Transient Occupancy Tax	\$225,000	\$233,083	\$241,930	\$326,946	\$341,384	\$356,367	\$372,663	\$389,613	\$408,303	\$427,760
Motor Vehicle	\$2,585,584	\$2,505,471	\$2,501,547	\$2,523,928	\$2,590,578	\$2,673,152	\$2,781,277	\$2,894,650	\$3,013,248	\$3,138,211
Investment	\$400,000	\$405,596	\$435,797	\$533,836	\$634,000	\$731,946	\$827,659	\$818,786	\$809,890	\$800,967
Business License	\$510,430	\$526,090	\$542,171	\$564,271	\$587,164	\$605,110	\$623,606	\$642,666	\$662,309	\$682,551
Building Fees	\$900,000	\$985,362	\$1,137,718	\$1,382,318	\$1,665,363	\$1,719,413	\$1,988,166	\$2,056,956	\$2,403,055	\$2,486,581
Engineering Fees	\$1,414,107	\$1,453,142	\$1,565,693	\$1,738,232	\$1,924,208	\$2,009,443	\$2,195,790	\$2,294,179	\$2,530,749	\$2,642,335
Planning Fees	\$225,000	\$249,123	\$291,899	\$337,106	\$422,085	\$435,130	\$527,665	\$543,961	\$644,686	\$664,609
Parks and Recreation	\$2,530,199	\$2,547,641	\$2,594,360	\$2,660,790	\$2,755,673	\$2,860,907	\$2,984,607	\$3,113,731	\$3,252,873	\$3,398,481
Interfund Services	\$5,835,517	\$5,596,208	\$5,716,777	\$5,846,358	\$5,990,692	\$6,080,160	\$6,239,615	\$6,393,190	\$6,569,784	\$6,742,939
Other	\$1,478,024	\$1,397,594	\$1,450,644	\$1,510,701	\$1,577,414	\$1,646,644	\$1,721,942	\$1,800,263	\$1,886,623	\$1,976,528
Sub -Total	\$23,137,563	\$23,198,419	\$24,050,131	\$25,295,222	\$26,647,902	\$27,564,639	\$29,018,046	\$30,015,974	\$31,586,393	\$32,706,148
Transfers In	\$6,946,573	\$6,612,143	\$6,235,246	\$5,841,688	\$5,396,925	\$5,613,224	\$5,449,414	\$5,518,074	\$5,975,762	\$6,448,576
Total Revenues	\$36,319,661	\$35,921,652	\$36,546,203	\$37,458,689	\$38,537,456	\$39,882,362	\$41,447,546	\$42,804,404	\$45,136,037	\$47,048,323
Growth		(\$398,009)	\$624,551	\$912,486	\$1,078,767	\$1,344,906	\$1,565,184	\$1,356,858	\$2,331,633	\$1,912,286
%		-1.10%	1.74%	2.50%	2.88%	3.49%	3.92%	3.27%	5.45%	4.24%
Per Capita	\$693.93	\$682.29	\$688.67	\$697.91	\$707.98	\$722.65	\$739.38	\$751.94	\$778.91	\$797.82



EXHIBIT A2: General Fund Expenditure Summary

Department	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Legislative	\$314,327	\$319,441	\$323,766	\$330,651	\$340,793	\$351,240	\$362,287	\$374,919	\$387,834	\$401,040
City Clerk	\$389,907	\$447,141	\$406,097	\$462,878	\$422,227	\$481,868	\$441,441	\$504,707	\$464,300	\$530,215
City Manager	\$987,167	\$1,011,219	\$1,030,315	\$1,051,914	\$1,072,271	\$1,093,722	\$1,117,557	\$1,143,202	\$1,169,494	\$1,196,453
Human Resources	\$668,209	\$683,148	\$695,259	\$710,407	\$724,503	\$739,307	\$755,637	\$773,588	\$791,981	\$810,832
City Attorney	\$855,515	\$873,896	\$888,981	\$908,816	\$926,126	\$944,317	\$964,410	\$986,734	\$1,009,610	\$1,033,055
Finance (Including Non Departmental)	\$2,932,179	\$2,846,076	\$2,872,129	\$2,959,610	\$3,004,482	\$3,051,083	\$3,101,267	\$3,169,176	\$3,238,634	\$3,309,684
Total General Government	\$6,147,304	\$6,180,921	\$6,216,547	\$6,424,276	\$6,490,402	\$6,661,537	\$6,742,599	\$6,952,326	\$7,061,853	\$7,281,279
Police	\$16,440,730	\$16,922,832	\$17,320,729	\$17,863,432	\$18,360,478	\$18,853,653	\$19,568,622	\$20,181,766	\$20,827,171	\$21,448,892
Streets	\$2,684,512	\$2,723,448	\$2,758,219	\$2,822,262	\$2,864,927	\$2,909,666	\$2,958,860	\$3,020,355	\$3,083,327	\$3,147,818
Community Development	\$3,199,362	\$3,269,399	\$3,325,765	\$3,395,487	\$3,454,581	\$3,516,900	\$3,586,255	\$3,663,730	\$3,743,147	\$3,824,570
Engineering	\$2,632,193	\$2,675,188	\$2,713,126	\$2,778,283	\$2,829,859	\$2,883,740	\$2,942,520	\$3,012,051	\$3,083,242	\$3,156,139
Parks and Recreation	\$4,628,954	\$4,684,322	\$4,741,489	\$4,874,946	\$4,977,858	\$5,081,315	\$5,189,105	\$5,323,039	\$5,460,050	\$5,600,218
OPEB	\$389,579	\$668,113	\$1,068,980	\$1,536,659	\$2,137,961	\$2,739,262	\$3,407,375	\$3,607,809	\$3,808,243	\$3,998,655
Operational Transfers Out	\$197,027	\$840,074	\$846,004	\$855,275	\$864,639	\$1,174,097	\$1,186,650	\$1,212,006	\$1,237,869	\$1,264,249
Subtotal Expenses	\$36,319,661	\$37,964,297	\$38,990,859	\$40,550,620	\$41,980,705	\$43,820,170	\$45,581,986	\$46,973,082	\$48,304,902	\$49,721,820
Required Savings/Reductions	\$0	(\$2,042,645)	(\$2,444,656)	(\$3,091,931)	(\$3,443,249)	(\$3,937,808)	(\$4,134,440)	(\$4,168,678)	(\$3,168,865)	(\$2,673,497)
Total Expenses	\$36,319,661	\$35,921,652	\$36,546,203	\$37,458,689	\$38,537,456	\$39,882,362	\$41,447,546	\$42,804,404	\$45,136,037	\$47,048,323



EXHIBIT A3: General Fund Financial Summary

General Fund	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Beginning Fund Balance	\$18,271,519	\$17,839,720	\$17,589,849	\$17,153,432	\$16,933,375	\$16,712,733	\$16,491,501	\$16,269,674	\$16,047,244	\$15,824,206
Revenue	\$29,373,088	\$29,309,509	\$30,310,957	\$31,617,001	\$33,140,531	\$34,269,138	\$35,998,132	\$37,286,330	\$39,160,275	\$40,599,747
Transfer In	\$5,152,554	\$4,012,143	\$4,035,246	\$4,291,688	\$4,446,925	\$4,763,224	\$5,134,194	\$5,518,074	\$5,975,762	\$6,448,576
Budget Stabilization Transfer In	\$1,794,019	\$2,600,000	\$2,200,000	\$1,550,000	\$950,000	\$850,000	\$315,220	\$0	\$0	\$0
Sub-Total	\$36,319,661	\$35,921,652	\$36,546,203	\$37,458,689	\$38,537,456	\$39,882,362	\$41,447,546	\$42,804,404	\$45,136,037	\$47,048,323
Operations	\$35,733,055	\$36,456,110	\$37,075,875	\$38,158,686	\$38,978,105	\$39,906,811	\$40,987,961	\$42,153,267	\$43,258,790	\$44,458,916
Operational Transfers Out	\$197,027	\$840,074	\$846,004	\$855,275	\$864,639	\$1,174,097	\$1,186,650	\$1,212,006	\$1,237,869	\$1,264,249
Sub-Total	\$35,930,082	\$37,296,184	\$37,921,879	\$39,013,961	\$39,842,744	\$41,080,908	\$42,174,611	\$43,365,273	\$44,496,659	\$45,723,165
Net Operations before OPEB	\$389,579	(\$1,374,532)	(\$1,375,676)	(\$1,555,272)	(\$1,305,288)	(\$1,198,546)	(\$727,065)	(\$560,869)	\$639,378	\$1,325,158
OPEB	\$389,579	\$668,113	\$1,068,980	\$1,536,659	\$2,137,961	\$2,739,262	\$3,407,375	\$3,607,809	\$3,808,243	\$3,998,655
Required Savings/Reductions	\$0	(\$2,042,645)	(\$2,444,656)	(\$3,091,931)	(\$3,443,249)	(\$3,937,808)	(\$4,134,440)	(\$4,168,678)	(\$3,168,865)	(\$2,673,497)
Capital Projects	\$431,799	\$249,871	\$436,417	\$220,057	\$220,642	\$221,232	\$221,828	\$222,430	\$223,038	\$223,652
Ending Fund Balance	\$17,839,720	\$17,589,849	\$17,153,432	\$16,933,375	\$16,712,733	\$16,491,501	\$16,269,674	\$16,047,244	\$15,824,206	\$15,600,554
Assigned/Committed Fund Balance	\$6,943,822	\$6,813,353	\$6,189,571	\$5,695,768	\$5,151,496	\$4,526,793	\$4,500,000	\$4,500,000	\$4,500,000	\$4,500,000
Unassigned Fund Balance	\$10,895,898	\$10,776,496	\$10,963,861	\$11,237,607	\$11,561,237	\$11,964,709	\$11,769,674	\$11,547,244	\$11,324,206	\$11,100,554
30% Reserve Requirement	\$10,895,898	\$10,776,496	\$10,963,861	\$11,237,607	\$11,561,237	\$11,964,709	\$12,434,264	\$12,841,321	\$13,540,811	\$14,114,497

EXHIBIT A4: Key Assumptions in Fiscal Model

Categories	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Annual Expense Percentage Changes and Rates										
Supplies and Services	0.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	2.0%	2.0%	2.0%
Internal Services	0.0%	0.0%	0.0%	1.0%	1.0%	1.0%	1.0%	2.0%	2.0%	2.0%
Capital Outlay	0.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	2.0%	2.0%	2.0%
Miscellaneous Employee COLA	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Sworn Employee COLA	0.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Health Care Costs	5.6%	5.6%	5.6%	5.6%	5.6%	5.0%	5.0%	5.0%	5.0%	5.0%
City PERS contribution as a % of salary - MISC Tier 1	22.9%	23.0%	23.1%	23.2%	23.1%	23.1%	23.1%	23.1%	23.1%	23.1%
City PERS contribution as a % of salary - MISC Tier 2	11.4%	11.5%	11.6%	11.7%	11.6%	11.6%	11.6%	11.6%	11.6%	11.6%
City PERS contribution as a % of salary - Safety	35.7%	36.3%	36.8%	37.2%	37.6%	37.6%	37.6%	37.6%	37.6%	37.6%
Annual Revenue Percentage Changes										
General Inflation (Revenues)	3.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Home Price Increases	2.0%	0.0%	2.0%	2.0%	2.0%	2.0%	2.5%	2.5%	2.5%	2.5%
Investment Rate of Return	2.0%	1.5%	2.0%	2.5%	3.0%	3.5%	4.0%	4.0%	4.0%	4.0%
Employee Tier 2 Assumptions										
Tier 2 - Pension Benefit Reduction - New Hires (MISC)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Tier 2 - Pension Benefit Reduction - New Hires (SAFETY)	No	No	No	No	No	No	No	No	No	No
Tier 2 - Employee Paid PERS Rate - Existing Staff (MISC)	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Tier 2 - Employee Paid PERS Rate - Existing Staff (SAFETY)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Tier 2 - City Paid Employee PERS Rate - New Hires (MISC)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Tier 2 - City Paid Employee PERS Rate - New Hires (SAFETY)	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Tier 2 - OPEB Reduction for New Hires (MISC)	No	No	No	No	No	No	No	No	No	No
Tier 2 - OPEB Reduction for New Hires (SAFETY)	No	No	No	No	No	No	No	No	No	No
Notable Expenditures										
Parks GF Subsidy-(Citywide Parks, Rplmnt, Landscape Div)	\$ 3,027,658	\$ 3,089,932	\$ 3,106,629	\$ 3,183,251	\$ 3,200,971	\$ 3,208,982	\$ 3,202,958	\$ 3,227,737	\$ 3,245,975	\$ 3,261,310
% Annual Increase in Parks Subsidy	9.5%	2.1%	0.5%	2.5%	0.6%	0.3%	-0.2%	0.8%	0.6%	0.5%
Dispatch Costs	\$ 742,430	\$ 831,522	\$ 931,304	\$ 1,043,061	\$ 1,168,228	\$ 1,308,416	\$ 1,465,425	\$ 1,641,276	\$ 1,838,230	\$ 2,000,000
% Annual Increase in Dispatch	-3.9%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%	8.8%
City Election Costs	\$ -	\$ 48,480	\$ -	\$ 49,454	\$ -	\$ 50,448	\$ -	\$ 51,972	\$ -	\$ 54,072
Emergency Preparedness Payback	\$ -	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 194,000	\$ 194,000	\$ 194,000	\$ 194,000
New Civic Center Replacement Set Aside	\$ -	\$ -	\$ -	\$ -	\$ 45,000	\$ 90,000	\$ 135,000	\$ 180,000	\$ 225,000	\$ 270,000
Pavement Management	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 300,000	\$ 303,000	\$ 309,060	\$ 315,241	\$ 321,546
Notable Revenues										
Development Revenue	\$ 3,189,107	\$ 3,337,627	\$ 3,625,810	\$ 4,069,241	\$ 4,604,893	\$ 4,739,426	\$ 5,269,798	\$ 5,436,528	\$ 6,103,679	\$ 6,302,958
Budget Stabilization Subsidy to General Fund	\$ 1,794,019	\$ 2,600,000	\$ 2,200,000	\$ 1,550,000	\$ 950,000	\$ 850,000	\$ 315,220	\$ -	\$ -	\$ -
Property Tax Recovery through Prop 8	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Property Tax Received through RDA Dissolution	\$ -	\$ -	\$ 150,000	\$ 149,765	\$ 151,105	\$ 155,095	\$ 160,039	\$ 166,512	\$ 173,300	\$ 180,400
Development Related Assumptions										
Population	52,339	52,649	53,068	53,673	54,433	55,189	56,057	56,925	57,948	58,971
Population Growth Rate	0.6%	0.6%	0.8%	1.1%	1.4%	1.4%	1.6%	1.5%	1.8%	1.8%
Single Family Building Permits	100	100	125	150	200	200	250	250	300	300
Multi Family Building Permits	-	10	45	45	44	30	30	30	30	30
Commercial Development Square Feet	10,000	18,000	15,000	20,000	15,000	15,000	15,000	15,000	15,000	15,000
Office Development Square Feet	-	-	10,000	10,000	-	-	-	-	-	-
Industrial Development Square Feet	10,000	22,000	50,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Median Housing Price	\$ 295,200	\$ 295,200	\$ 301,104	\$ 307,126	\$ 313,269	\$ 319,534	\$ 327,522	\$ 335,710	\$ 344,103	\$ 352,706
Sales Tax per Square Foot - New Stores	\$ 1.38	\$ 1.42	\$ 1.47	\$ 1.51	\$ 1.56	\$ 1.60	\$ 1.65	\$ 1.70	\$ 1.75	\$ 1.80

Note: These assumptions form the basis for the Fiscal Model. Items such as staff CPIs are merely estimates and do not represent agreed upon increases.