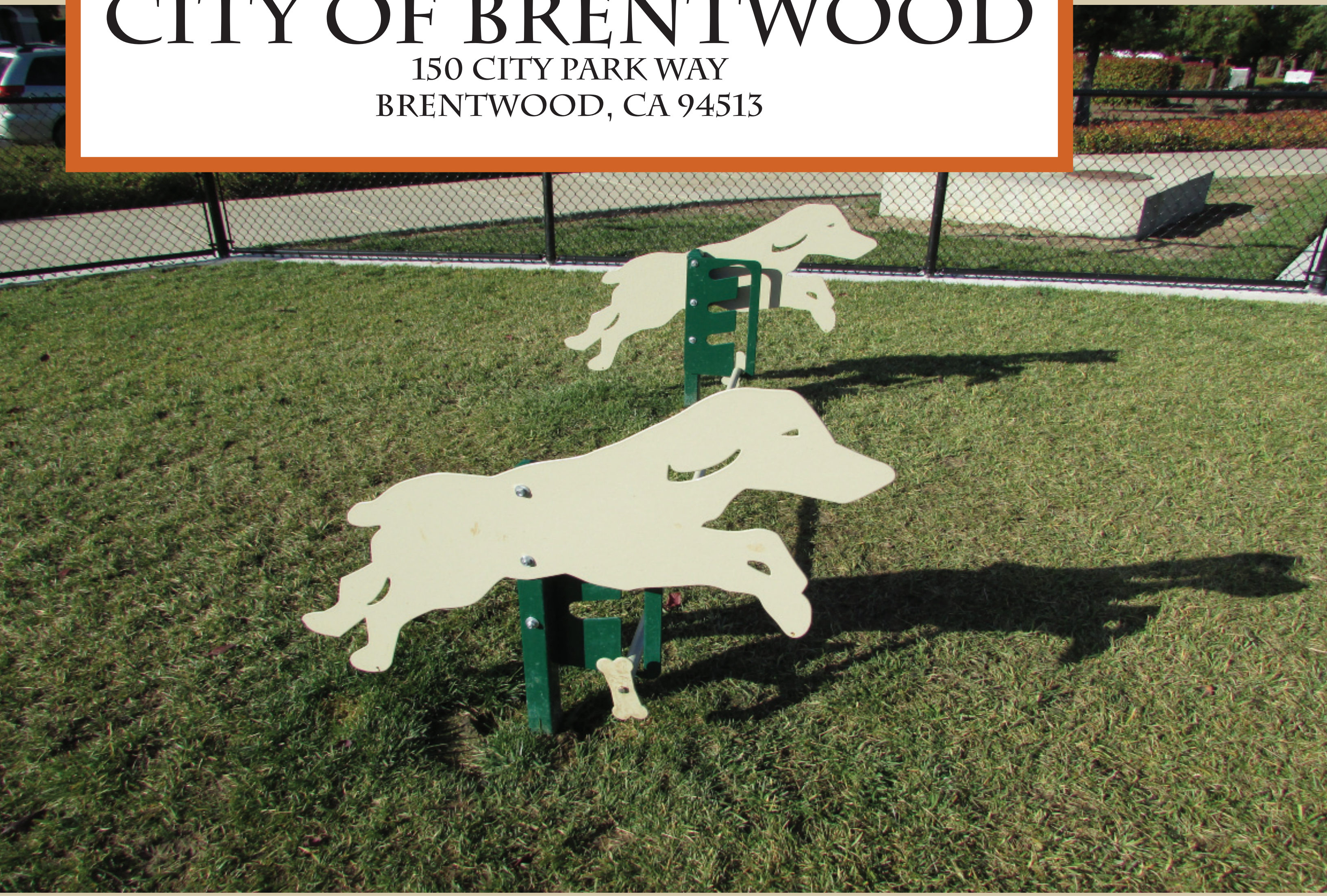
City of Brentwood

150 City Park Way
Brentwood, CA 94513



General Fund Fiscal Model

2012/13 - 2021/22

The City of Brentwood

Heritage • Vision • Opportunity

List of Principal Officials

City Council

Robert Taylor .... Mayor

Joel Bryant .... Vice Mayor

Steve Barr .... Council Member

Gene Clare .... 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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THE CITY OF BRENTWOOD
HERITAGE ▪ VISION ▪ OPPORTUNITY

April 2013

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 2012/13 – 2021/22 General Fund Fiscal Model ("Fiscal Model"). The primary objective of the Fiscal Model is to construct a ten year forecast in order to help 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 have had to develop new ways of doing business, reduce service levels and employee costs, and have sought additional funding from their constituents in an effort to simply maintain existing operations. The dual challenges of shrinking revenue bases and escalating employee benefit costs put a tremendous strain on local budgets, and at the same time, State takeaways have resulted in additional fiscal challenges for local agencies. Suffice it to say, as the economy begins to improve the need for long range forecasting and fiscal stability analysis 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***. The Fiscal Model provides the City Council with a tool to help determine the financial feasibility of any priorities or goals they may wish 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 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 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: employee cost impacts resulting from the recently signed labor bargaining unit agreements including health insurance, employee pension contributions, retiree medical, and cost of living increases; the new statewide pension reform legislation and the impacts that employee turnover will have on future employee costs; impacts from a projected rising interest rate environment; separate modeling of residential and commercial property valuations for purposes of property tax revenues; the beginning of a turnaround in the housing market and the fiscal impacts associated with the State's dissolution of California redevelopment agencies.

Although the shortfalls identified in previous Fiscal Models have largely been eradicated, continued fiscal caution remains critical. The economic recovery remains vulnerable, and improvements in the housing market and the uptick in development activity may not last. The City remains at risk of future State takeaways and property tax revenues remain subject to County methodology in determining assessed valuation amounts. The loss of Redevelopment has left a significant funding gap in the City's capital improvement project plans and underfunding in the City's pension and other post-employment benefits will require increased allocation of resources in the future. One-time budgetary solutions have played a key role in maintaining a balanced budget. As a result, increased revenues will not provide an immediate increase in resources since the gaps left by the expiration of the one-time solutions must first be filled. All the while, increased development activity and an increased population base are putting additional demands on City staff resources. Ensuring the availability and stability of the ongoing financial resources necessary to implement a long-range staffing plan is critical.

The narrowing of the projected budget gaps in this year's Fiscal Model are reflective not only of a slightly improved economy, but also the steps taken to address rising long-term employee benefit costs. New contracts with the City's labor bargaining units have provided the City with greater cost certainty concerning health insurance and retiree medical costs. Although pension rates are established by the Public Employees' Retirement System (PERS) and are subject to significant increases, the City also achieved reduced benefit levels in this area which will help control cost growth in the future. Increased pension and retiree medical funding requirements are likely to act as two of the City's most significant challenges in our efforts to continue our commitment to maintaining a balanced General Fund budget.

While the City was significantly impacted by the length and depth of the recession, it continues to remain financially stable and well-positioned for the future. The City has the necessary resources available, through a $10.5 million Budget Stabilization Fund and the continued maintenance of a 30% General Fund reserve, to continue on its plan of utilizing Budget Stabilization funds in the intermediate-term while the cost-containment plans and improving economy generate longer term financial benefits. Through proactive planning and strong leadership from the City Council, the City can achieve its goals without having to endure the dramatic service reductions seen at many other agencies.

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 projects a fiscal future in which the combination of an improving economy and the savings generated from labor negotiations have narrowed a significant portion of the budgetary gap identified in last year's model. This optimism is tempered, however, with the realization that the economic recovery remains vulnerable and improvements in the housing market and increased development activity may not last. The City remains at risk of future State takeaways and property tax revenues remains subject to adjustments made at the County Assessor's office. The loss of Redevelopment has also left a significant funding gap in the City's capital improvement project plans and underfunding in the City's pension and other post-employment benefits will require increased allocation of resources in the future. In addition, in March 2013 PERS also informed member agencies to prepare for potentially significant rate increases which would begin to take effect in FY 2015/16. These changes will be considered by the PERS Board in mid-April 2013. While this Fiscal Model includes substantial increases in PERS rates, it is possible that future rates adopted by PERS may prove to be even higher still. PERS has informed member agencies that additional actuarial changes are likely to be considered in 2014. These unknown variables create risk that expenditure growth will exceed the projections contained in this model. If PERS were to adopt all of the actuarial changes currently being discussed the General Fund would see expenditures rise by approximately $1 million per year by the latter years of the model.

General Fund revenues are projected to begin growing at a moderate pace, with increases in property tax, sales tax and development revenues contributing to an average annual ongoing revenue growth rate of 3.9% over the next ten years. Development activity is expected to be key in this growth, with single family building permit counts having risen from a low of 31 permits in the 2008/09 fiscal year to a projected total of 268 in 2012/13. While a short term reduction from this elevated level is anticipated, a baseline level of 200 permits is projected to continue. It is important to note that this increase in permit activity does not result in the additional building of units over the long-term, as units previously expected to be constructed in the five to ten year timeframe of the Fiscal Model have simply been moved forward.

The improved outlook in the Fiscal Model reflects not only an improved economy, but also the significant steps the City and its labor bargaining units have taken in addressing rising long-term employee benefit costs. New labor contracts have provided the City with greater cost certainty concerning medical insurance costs and, although pension and retiree medical costs have a dependency upon investment returns and actuarial assumptions, the City also achieved reduced benefit levels in these areas which will help control their cost growth rates to some degree. With 2/3 of the General Fund's budget being allocated towards employee compensation costs, cost containment in this area was critical. As a result of the new labor contracts, the growth rate of ongoing revenues is projected to exceed the growth rate of expenses.

The Fiscal Model addresses immediate staffing needs of the Police Department, and a long-range staffing plan is being developed and will be brought separately to the City Council for consideration. In the interim, performance measures and workload indicators will continue to be monitored on a regular basis.

Although the City maintained a balanced General Fund budget throughout the downturn, the utilization of one-time budgetary solutions was a key factor in this success. For example, Fiscal Year 2012/13 contains a total of $2.9 million in one-time revenues and the General Fund projects future reliance on one-time revenues (including Budget Stabilization funds) throughout the next decade. Replacing the loss of one-time revenues with recurring and reliable on-going revenues will be critical in ensuring a strong fiscal future. While the use of one-time revenues are projected to cease by the end of the Fiscal Model, it is only done by allocating all of the revenue gains from an improving economy and to fill this gap, without allocating any resources for new programs during this timeframe.

Over the past half-decade the City established a $10.5 million Budget Stabilization Fund. The Budget Stabilization Fund will be strategically used as an intermediate term funding source to help bridge the General Fund budget gap while long-term budget solutions accumulate savings and economic improvement provides additional revenues. This strategy has allowed the City to avoid immediate and dramatic service level reductions while still preserving the City's long-term fiscal health. The City also established an Insurance Internal Service Fund to help offset the rising cost of other post-employment benefits (OPEB) as a part of a long-term pre-funding strategy of retiree medical costs. The Insurance Fund was established in FY 2004/05 with the savings generated through the City's annual prepayment of pension costs along with annual workers compensation savings. Without the Insurance Fund, the General Fund impacts from OPEB over the next several years would be much greater.

At the end of the 2012/13 fiscal year, the City is projected to have a General Fund balance of $18.3 million, with an unassigned (also referred to as "reserves") fund balance of $11.7 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.

While the City was significantly impacted by the economic downturn, it continues to maintain fiscally healthy reserves and has the necessary tools and resources available to ensure it will enjoy an even 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 of the Appendix.

EXHIBIT 1: General Fund Summary - Condensed

General Fund	2013/14	2015/16	2017/18	2019/20	2021/22
Beginning Fund Balance	$18,349,770	$17,536,663	$17,372,536	$17,207,413	$17,018,458
Revenues	$31,108,989	$33,893,481	$36,891,625	$39,656,467	$42,904,823
Transfer In	$7,804,584	$5,142,221	$5,765,991	$6,476,458	$7,268,947
Budget Stabilization Transfer In	$250,000	$2,550,000	$1,450,000	$925,000	$41,999
Total Revenues	**$39,163,573**	**$41,585,702**	**$44,107,616**	**$47,057,925**	**$50,215,769**
Operations	$37,216,659	$38,729,670	$40,519,516	$42,820,654	$45,055,004
Operational Transfers Out	$1,373,493	$1,609,964	$1,697,331	$1,813,866	$1,949,090
Total Expenses	**$38,590,152**	**$40,339,634**	**$42,216,847**	**$44,634,520**	**$47,004,094**
Net Operations before OPEB	$573,421	$1,246,068	$1,890,769	$2,423,405	$3,211,675
OPEB	$610,937	$1,279,433	$1,930,976	$2,471,170	$3,199,444
Operating Surplus / (Required Savings/Reductions)	**($37,516)**	**($33,365)**	**($40,207)**	**($47,765)**	**$12,231**
Capital Projects/Non Operating Transfers	$297,600	$46,432	$47,298	$48,199	$49,136
Ending Fund Balance	**$18,014,654**	**$17,456,866**	**$17,285,031**	**$17,111,449**	**$16,981,553**
Assigned/Committed Fund Balance	$5,947,000	$5,250,000	$4,500,000	$4,500,000	$4,500,000
Unassigned Fund Balance	$12,067,654	$12,206,866	$12,785,031	$12,611,449	$12,481,553
30% Reserve Requirement	$11,348,279	$12,002,731	$12,735,148	$13,587,547	$14,476,334

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 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, projections 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 second and third tier employee benefit levels along with the impacts that employee turnover will have in cost savings from these new tiers; 2) a comprehensive model for forecasting property tax revenues which includes separate models for residential and commercial properties, a model for projecting property tax increases associated with property turnover and new development and the impacts of variable County Assessor property tax assessment adjustments, both commercial and residential 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 and their unique labor contracts. The Fiscal Model is also continually updated for changes at the State level, including the impacts of the State's dissolution of redevelopment.

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 cost-of-living increases, health care costs, retiree medical and pension funding, overtime and workers compensation costs, and the impacts that the various tiered benefit levels and employee turnover will have on these costs. These expenses are further broken down between miscellaneous and public safety employees.
4. A revenue model for each major revenue source.
5. A fund balance 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?***

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 single family and multi-family 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 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), community facilities district revenues and franchise fees. Changing expenditure drivers, such as projected annual increases in health care or supplies and services 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 Fiscal Model shows that although improvement in the long-term forecast has been achieved, continued fiscal caution remains paramount. It will take the entirety of the next decade for increasing revenues and cost-savings measures to fully bridge the current operational funding gap in the General Fund.***

The long-term fiscal goal of the City is to fully fund its pension and retiree medical obligations while maintaining a balanced budget and 30% reserves. The forecast can quickly change, however, as 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 continued fiscal monitoring and caution are critical. Minor deviations from the assumptions in the Fiscal Model could result in ongoing deficits. Although the City has already taken many steps to ensure long-term fiscal strength, any deterioration in the economic recovery would likely result in additional actions being needed to maintain a balanced budget.

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 an economic recovery will have on the City's future.
- Staffing needs in response to a rising population or other workload indicators.
- Compensation cost increases, especially retirement, workers compensation, health care, OPEB and cost of living increases and how the second and third tier of employee benefit levels combined with employee turnover will impact the City's long-term finances.
- The growth of property tax, sales tax, development revenue and community facilities district revenue from new development, and the demands for services that these gains would have on the City.
- Housing price inflation, the property valuation methodology of the County Assessor's office and the rate of property turnover in the City.
- 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, the General Fund is projected to operate slightly short of a balanced budget. While projecting a shortfall is not desirable minor changes in the variables of the model can have impacts which could significantly change this outlook – for better or worse. While the Fiscal Model does not project significant savings or expenditure reductions will be needed to allow the General Fund to operate with a balanced budget and maintain existing fund balance levels, the model is highly sensitive to even the slightest changes. While an increase in development activity or in the housing market would change the outlook of the model in a positive manner, potential pension rate increases that are currently being discussed by PERS could result in a significant downward adjustment in the model's forecast. Refer to Exhibit A-5 for an illustration of potential PERS rate increases. At this time, continued caution and fiscal monitoring are the recommended course of action to ensure continued fiscal strength.

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, exclusive of transfers, of $11.9 million over the next decade. The increase in expenditures thus requires that an additional $3.6 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 25.9% in its unassigned fund balance, considered a reasonable amount in comparison to most cities, but below the optimal level of fiscal strength established by the City Council and what staff would recommend. This 4.1% shortfall equates to $2.0 million of fund balance. It will be important to consider the need to continually ensure that sufficient funds are available to increase the City's unassigned fund balance as expenditures increase.

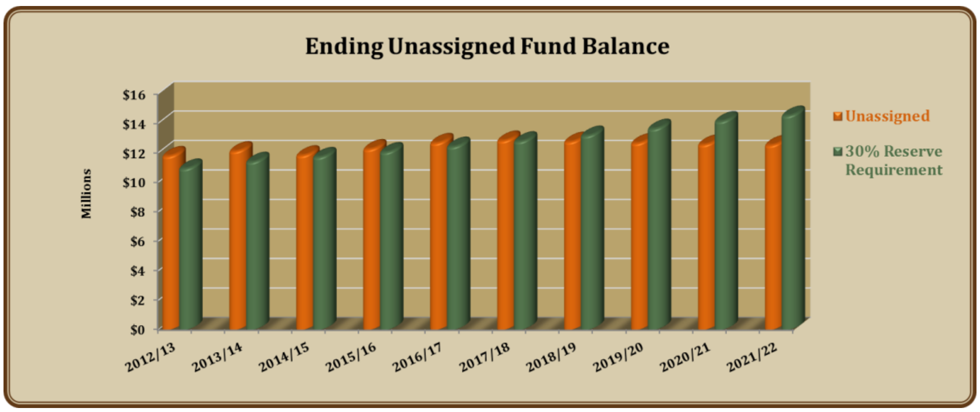
It should be noted that current accounting reporting standards do not require unfunded OPEB obligations be counted against a reserve balance. Likewise, although the City discloses the funding status of the pension plan in the notes to the financials, it does not record the gains or losses associated 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. 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 projected pension rate increases over the next decade.

It is important to remain cognizant that actuarial assumption changes may result in higher rates than have been included in the model. The Fiscal Model projects PERS rates for sworn employees rising from 27.35% of salary to 38.15% over the next decade. Non-sworn rates rising have been projected to rise from 17.01% of salary to 24.31% during this same time period. Even these extreme increases, however, would not be sufficient to capture the full increase which could occur if PERS adopts the full series of actuarial assumption changes which they have been or will likely soon consider. These decisions will be made by the PERS Board over the next 13 months. These increases reflect the impacts that would result if PERS proceeds with a recently proposed plan to reduce the smoothing and amortization periods of investment losses. This change, which is expected to be considered by the PERS Board in April 2013, would greatly impact the City's rates, with increases of 7% to 11% of payroll expected to be phased in during the last five years of the model. While changes of this magnitude clearly impacts the City's long-term financial projections, a significant portion of these increases will be offset through increased employee contributions and through lower benefit levels (and thus lower pension rates) offered to new employees.

In addition to these increases, however, staff has also been informed that the PERS Board is likely to considering another series of adjustments related to their assumed investment rate of return and in their mortality rate assumptions. These additional changes, which will be considered by the PERS Board in the spring of 2014, would result in an additional pension cost increase of approximately 8% of payroll for sworn employees and 4% for non-sworn employees. **These impacts, which are not included in this Fiscal Model, would total approximately $1 million per year, with the impacts being felt beginning in the 2016/17 fiscal year.**

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

EXHIBIT 2: Ending Unassigned Fund Balance



The recession and resulting revenue declines were the primary factor in the City's initial cost cutting actions during the 2007/08 fiscal year. Following years of steep declines, revenues bottomed out while expenditure growth, and in particular employee benefit costs associated with workers compensation, health care, retiree medical and pensions placed new strains on the General Fund budget. The City addressed the expenditure concerns through labor negotiations, and achieved a moderate level of cost certainty for the next several years, although long-term pension costs remain vulnerable to actuarial changes currently being considered by PERS. On the whole, with the Fiscal Model forecasting revenue growth at a pace greater than inflation and expenditure growth being fairly mild, the Fiscal Model's outlook presents a stronger financial future than has been seen in a long time.

While operating surpluses and expanded programs would be a welcome change from the budgetary stresses of the past half-decade, the Fiscal Model does not project the economic recovery will be sufficient to do little more than fill the gaps as the one-time budgetary solutions wind down. These solutions were critical in allowing the City to maintain its existing high service levels without suffering any losses in public safety and code enforcement during the downturn. In Fiscal Year 2012/13, a total of $2.9 million of one-time revenues are included in the Fiscal Model. While the General Fund is projected to have a $0.8 million surplus for this fiscal year, the analysis of one-time revenues illustrates that an operational funding gap of $2.1 million truly exists and must be closed with new revenues before additional funding commitments can be undertaken.

One-time revenues are forecast to remain at $2.9 million in FY 2013/14 (including $250,000 from the Budget Stabilization Fund). This marks the end of the projected one-time revenues in the General Fund (other than the Budget Stabilization Fund). Beginning in FY 2014/15, the funding gap in the General Fund (amount covered by the Budget Stabilization Fund) is $2.6 million, with subsequent years requiring funding of $2.6 million in FY 2015/16; $2.4 million in FY 2016/17; $1.5 million in FY 2017/18; and $1.0 million in FY 2018/19. This subsidy declines further in subsequent years, until only $41,999 (the last of the Budget Stabilization Fund balance) is drawn in FY 2021/22.

Additionally, the City has put itself in a position to be able to implement its long-term retiree medical prefunding plan through strategic use of the Insurance Internal Service Fund. 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. Through contributions from the Insurance Fund, the General Fund can be allowed to phase in the impacts of retiree medical prefunding over time.

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 **¼ of 1%**, per year over the next decade, results in a total cumulative General Fund savings of **$2.4 million**. This fiscal impact of this seemingly minor quarter point reduction in the annual cost of living adjustment would more than cover the projected shortfall of $1.9 million in the General Fund's 30% reserve. This illustrates the degree by which the projections in the latter part of the model are subject to economic or structural changes.

The key to maintaining fiscal strength is to continually plan ahead and 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.

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 and third tiers of employee benefit levels are 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 remains to be able to provide an excellent level of service to our residents while maintaining a balanced budget, 30% reserves and fully funded OPEB and pension obligations.

GROWTH PROJECTION MODEL

<u>Key Finding:</u>* *Development activity has increased over the past several years, rising from a low of just 31 single family residential (SFR) building permits to a projected total of 268 in the 2012/13 fiscal year. While a short term reduction from this level is anticipated, a baseline level of 200 SFR permits is expected to continue. This does not, however, result in additional building units in the City over the long term. The City's population growth rate is expected to remain fairly consistent over the next decade, with annual gains in the low to mid 1% range. SFR 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). Historical data going back to FY 2008/09 has also been presented to give the reader a better idea of the trends which have helped shape the growth projection forecast.

EXHIBIT 3: Growth Projection Summary – Residential

Year (Jan 1)	Total Units	Single Family	Multi Family	Added Population	Total Population	Annual Population Growth %
2008/09	31	31	-	96	51,950	2.7%
2009/10	135	135	-	(556)	51,394	-1.1%
2010/11	109	109	-	636	52,030	1.2%
2011/12	227	173	54	545	52,575	1.0%
2012/13	268	268	-	831	53,406	1.6%
2013/14	200	200	-	620	54,026	1.2%
2014/15	200	200	-	620	54,646	1.1%
2015/16	240	200	40	744	55,390	1.4%
2016/17	240	200	40	744	56,134	1.3%
2017/18	290	250	40	899	57,033	1.6%
2018/19	285	250	35	884	57,917	1.5%
2019/20	280	250	30	868	58,785	1.5%
2020/21	305	275	30	946	59,731	1.6%
2021/22	305	275	30	946	60,677	1.6%
Total New	**2,613**	**2,368**	**245**	**8,102**	**60,677**	**15.41%**

The total number of new single family houses planned through 2022 is 2,368. Combined with the 245 multiple-family permits, the City is expecting 8,102 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 has bottomed and that the low interest rate environment and availability of affordable land have helped speed development up and shifted some activity from future years into the current environment. If these estimates hold true, the City will have a population of approximately 60,677 in 2022. 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. Demand for City services also increases as population rises.

Development assumption changes create 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 gain of **$20 million** of revenue through FY 2021/22. Just that single change in the forecasting adjusts all of the other financial impacts. The change occurs instantly and the model has built in exhibits and charts so staff can quickly review the changes.

Exhibit 4 presents several years of historical data along with projected commercial, office and growth over the next ten years. Commercial growth, which has declined over the past several years, is forecast to remain sluggish over the next decade. Little growth in office development is expected to occur, given the availability of vacant buildings in other cities which can, in most cases, be attained at a lower cost than constructing new office buildings. Minor industrial activity is expected during the next few years before falling to a minimal level.

EXHIBIT 4: Growth Projection Summary – Commercial, Office and Industrial

Year	Commercial Sq. Ft	Office Sq. Ft	Industrial Sq. Ft
2008/09	15,861	-	-
2009/10	11,200	-	-
2010/11	22,616	-	12,100
2011/12	3,153	-	22,174
2012/13	18,000	-	22,000
2013/14	10,000	-	10,000
2014/15	-	10,000	30,000
2015/16	30,000	20,000	-
2016/17	-	-	-
2017/18	10,000	-	10,000
2018/19	15,000	-	10,000
2019/20	15,000	-	10,000
2020/21	15,000	-	10,000
2021/22	15,000	-	10,000
Total New	**128,000**	**30,000**	**112,000**

REVENUE SUMMARY

<u>Key Finding:</u>* After years of declines, led primarily by development revenues and property taxes, General Fund revenues have begun posting annual increases, with additional gains expected to be seen as the housing market recovers and sustainable development activity resumes. Despite these gains, the City is not projected to match its peak revenue, received in FY 2006/07, until FY 2017/18. This decade long stretch of revenue stagnation put a tremendous strain on the City's operating budget and was the primary factor behind the City's initial workforce reductions and the impetus for the necessity of concessions from the labor bargaining units. Moderate revenue gains are projected to be realized through the ten years of the Fiscal Model; however, these gains must first be used to fill gaps left by the expiration of one-time revenues.

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 an 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. Of this trio of top General Fund revenues, only sales tax has managed to avoid significant declines. It was these sudden and dramatic revenue declines which were the main cause of the City's cost reduction efforts in the later part of the 2000's. Additional cost containment efforts proved necessary as revenues then stagnated while expenditures (and in particular employee benefit costs) increased at rates far exceeding inflation. With labor contracts in place which will provide the City with a measure of cost control over some portions of employee benefit costs, the Fiscal Model projects that the General Fund will be in a position to see annual operating revenue growth exceed inflationary pressures on the City's expenses as a whole.

Property tax revenue, which has fallen by over 33% from its peak, is forecast to increase by 1.9% in FY 2013/14. This would be the first annual increase following five consecutive annual declines suffered by the City. The key components of property tax revenue (i.e. new development, property turnover and the annual CPI adjustment by the County assessor) have been separately forecast for the first time in this year's model. Additionally, the relative contributions to property taxes between residential and non-residential property has also been separately forecast. Exhibit 5 illustrates the relative contributions to the General Fund's property tax revenues as forecast by the Fiscal Model:

EXHIBIT 5: Annual Contributions to Property Tax Revenue Changes

Fiscal Year	CPI Adjustment	Turnover	New Development	Total
2012/13	-3.60%	0.50%	1.00%	-2.10%
2013/14	0.03%	0.48%	1.43%	1.94%
2014/15	0.80%	0.49%	1.47%	2.75%
2015/16	1.30%	0.50%	1.64%	3.43%
2016/17	1.72%	0.50%	1.63%	3.84%
2017/18	1.82%	0.50%	1.93%	4.25%
2018/19	1.90%	0.49%	1.88%	4.28%
2019/20	1.90%	0.49%	1.84%	4.23%
2020/21	1.90%	0.49%	1.97%	4.36%
2021/22	1.90%	0.48%	1.93%	4.32%

The CPI adjustments shown in the table above are reflective of the expectation that commercial property valuations will remain sluggish and that annual CPI adjustments for those properties are not counted on for several years. With residential valuations comprising nearly 80% of the City's overall assessed valuation, however, the impacts from the commercial sector will be less than what will be experienced in other cities.

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). The Fiscal Model does not include any recovery for these properties, however, although a portion of this recovery is likely being captured in a roundabout manner through turnover. With the average parcel turning over at a 9.5% premium to what the property is currently being assessed at, the City is poised to see modest increases in property tax revenue simply as properties are bought and sold.

Despite the projection of a modest recovery in the housing market and a continuation of development activity, 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 2015/16, once the former Agency has completed funding its obligations towards capital projects to which it had been contractually obligated to fund at the time of dissolution. Unfortunately, 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 annual property tax receipts from the former Agency starting at only $150,000. The dissolution of redevelopment has also resulted in significant reductions in the availability of funds for capital projects.

The City's per capita property tax revenue (the average amount received by the City per resident) is projected to be $118.49 in the 2013/14 fiscal year. Each city receives a differing percentage of each property tax dollar paid in their individual city. Brentwood is allocated an average of 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, and other cities have differing receipts based upon public safety or parks services which they may provide), 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 (with population figures as of Jan 2012 the most recent available). 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 6, show the City takes in less property tax revenue per capita than the average comparison city. Results from the previous fiscal year have also been presented to assist in short term trend analysis.

EXHIBIT 6: Multi-City Comparison of Property Tax Revenue

City	1/1/2012 Population	2013/14 Est. General Fund Property Tax	2013/14 Est. Revenue Per Capita	2012/13 Est. Revenue Per Capita
Pleasanton	71,269	43,451,949	609.69	602.77
Benicia	26,919	12,358,662	459.11	438.74
Dublin	46,785	21,452,590	458.54	409.58
Mountain View	75,275	22,846,795	303.51	284.45
Livermore	82,400	23,161,047	281.08	268.88
Sunnyvale	142,896	33,564,131	234.89	222.20
Oakland	395,341	81,935,283	207.25	180.37
Fremont	217,700	44,893,346	206.22	197.27
San Rafael	58,305	11,297,459	193.76	193.49
Martinez	36,225	6,324,448	174.59	168.57
Danville	42,450	7,168,495	168.87	167.16
Union City	70,646	8,842,178	125.16	122.20
Brentwood	**52,575**	**6,229,638**	**118.49**	**117.46**
Vallejo	115,928	13,628,042	117.56	105.43
Vacaville	92,092	9,764,587	106.03	103.06
Fairfield	106,379	9,598,667	90.23	86.51
Stockton	295,707	25,762,702	87.12	82.85
Pleasant Hill	33,440	2,189,153	65.47	64.43
Average Comparison City	109,018	$ 21,359,398	$ 195.92	$ 177.79

Sales tax, currently the General Fund's second largest individual revenue source, performed remarkably well throughout the downturn and has continued to post strong numbers as the economy has recovered. 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%, 7.3% in 2011, and 6.4% in 2012. For comparison, Contra Costa County was down over 17% in 2009, eked out a 0.7% gain in 2010 before rebounding with a 7.2% gain in 2011 and a 7.5% gain in 2012. Longer term, the City expects sales tax to post average annual gains of 4.0% through the duration of the ten years of this Fiscal Model. This growth reflects continued incremental increases in consumer discretionary spending over the short term, although the overall pace of sales tax growth is projected to only slightly outpace the combination or inflation, population increases and new commercial development contained within the assumptions of the Fiscal Model.

Exhibit 7 provides per capita information and comparisons of the City's sales tax revenue vis-à-vis other local agencies. Sales tax information on a calendar year basis 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. The results from the previous calendar year have also been included to assist in trend analysis.

EXHIBIT 7: Multi-City Comparison of Sales Tax Revenue

City	1/1/2012 Population	2012 Calendar Year Gross Sales Tax	2012 Revenue Per Capita	2011 Revenue Per Capita
Dublin	46,785	$ 16,576,257	$ 354.31	$ 304.27
Walnut Creek	65,233	$ 20,210,129	$ 309.81	$ 288.64
Pleasanton	71,269	$ 20,100,989	$ 282.04	$ 285.97
Livermore	82,400	$ 21,459,381	$ 260.43	$ 241.93
Pleasant Hill	33,440	$ 7,290,261	$ 218.01	$ 200.91
Concord	123,206	$ 26,171,034	$ 212.42	$ 198.61
Fremont	217,700	$ 35,344,537	$ 162.35	$ 150.47
Tracy	83,900	$ 13,596,190	$ 162.05	$ 144.54
Martinez	36,225	$ 5,217,660	$ 144.03	$ 145.72
Pittsburg	64,706	$ 8,703,028	$ 134.50	$ 100.27
Manteca	69,815	$ 9,251,027	$ 132.51	$ 126.07
Union City	70,646	$ 9,195,602	$ 130.16	$ 117.50
Stockton	295,707	$ 37,363,635	$ 126.35	$ 122.65
Richmond	104,887	$ 13,164,724	$ 125.51	$ 126.19
Danville	42,450	$ 5,210,104	$ 122.74	$ 118.46
Oakland	395,341	$ 47,104,402	$ 119.15	$ 113.39
Brentwood	**52,575**	**$ 6,158,462**	**$ 117.14**	**$ 111.29**
San Ramon	74,378	$ 8,544,899	$ 114.88	$ 113.29
Antioch	103,833	$ 10,883,254	$ 104.81	$ 97.95
Oakley	36,532	$ 1,519,391	$ 41.59	$ 43.44
Average Comparison City	103,551	$ 16,153,248	$ 168.74	$ 157.58

The property tax and sales tax charts clearly illustrate that Brentwood does not receive nearly the level of funding from property and sales taxes that other local jurisdictions receive, and in the long-term may need some form of additional revenue enhancement in order to maintain the high standards for which the City has become known.

In looking at total General Fund revenue, the Fiscal Model is forecasting average annual increases of 3.0% per year, with an average annual increase of 1.6% in per capita revenue. This means 1.4% of revenue growth is attributable to an increased population base, while 1.6% represents inflationary or other activity related increases within the existing base. Excluding one-time revenues, however, average annual revenue increases of 3.9% are expected, with a 2.5% increase in per capita revenue. The largest drivers of this increase are related to development activity which is forecast to increase throughout the decade, as discussed in the "Growth Projection Model" portion of the Fiscal Model.

Absent one-time revenues, which currently include a distribution of residual redevelopment funds and reimbursement from capital projects for General Fund costs, the General Fund has a projected shortfall of $2.1 million in FY 2012/13. This helps explain why, at first glance, it would seem as if projected moderate revenue growth should provide an immediate opportunity to enhance programs or services. A significant portion of the revenue growth forecast in the Fiscal Model will first be needed to fill the gap left by the expiration of one-time revenues. Exhibit 8 presents the use of one-time revenues (including Budget Stabilization Funding) over the next decade. The use of the Budget Stabilization Fund is presented in Exhibit 10.

EXHIBIT 8: One-Time Revenues

Fiscal Year	One-Time Revenue	Total Revenue	One-Time Revenue as a % of Total Revenue
2012/13	$ 2,905,719	$ 38,340,981	7.58%
2013/14	$ 2,941,509	$ 39,163,573	7.51%
2014/15	$ 2,575,000	$ 40,428,130	6.37%
2015/16	$ 2,550,000	$ 41,585,702	6.13%
2016/17	$ 2,375,000	$ 42,872,898	5.54%
2017/18	$ 1,450,000	$ 44,107,616	3.29%
2018/19	$ 1,025,000	$ 45,458,676	2.25%
2019/20	$ 925,000	$ 47,057,925	1.97%
2020/21	$ 600,000	$ 48,830,685	1.23%
2021/22	$ 41,999	$ 50,215,769	0.08%

Exhibit 9 presents details concerning the composition of General Fund revenue and compares FY 2012/13 to FY 2021/22 to determine long-term trends in the revenue mix of the City.

EXHIBIT 9: Revenue Summary

Revenue Summary	2012/13	2021/22	Total Increase	Avg Growth Rate	Current Per Capita
Property Tax					
Existing Base	$5,974,299	$7,061,423	$1,087,124	1.9%	$114.83
New Residential	$108,275	$1,064,054	$955,779	28.9%	$2.08
Res. Turnover	$22,881	$308,563	$285,682	33.5%	$0.44
New Com/Ind	$5,360	$46,072	$40,712	27.0%	$0.10
Former RDA	$0	$190,492	$190,492	N/A	$0.00
Sub -Total	**$6,110,814**	**$8,670,604**	**$2,559,790**	**4.0%**	**$117.46**
Property Transfer	$347,213	$394,925	$47,712	1.4%	$6.67
Sales Tax	$6,100,000	$8,676,077	$2,576,077	4.0%	$117.24
Franchise Fees	$1,253,087	$1,816,970	$563,883	4.2%	$24.08
Transient Occupancy Tax	$253,000	$468,715	$215,715	7.1%	$4.86
Motor Vehicle License	$2,513,523	$3,455,755	$942,232	3.6%	$48.31
Investment Income	$275,000	$742,646	$467,646	11.7%	$5.29
Business License	$518,342	$685,686	$167,344	3.2%	$9.96
Building Fees	$1,369,323	$2,365,836	$996,513	6.3%	$26.32
Engineering Fees	$1,538,227	$2,280,914	$742,687	4.5%	$29.56
Planning Fees	$145,451	$486,895	$341,444	14.4%	$2.80
Parks and Recreation	$2,455,271	$3,423,064	$967,793	3.8%	$47.19
Interfund Services	$6,061,556	$7,565,552	$1,503,996	2.5%	$116.50
Other	$1,512,066	$1,871,184	$359,118	2.4%	$29.06
Recurring Transfers In	$4,982,388	$7,268,947	$2,286,559	4.3%	$95.76
Total Recurring Revenue	**$35,435,262**	**$50,173,770**	**$14,738,509**	**3.9%**	**$681.05**
Non-Recurring Revenue	$2,905,719	$41,999	($2,863,720)	-37.5%	$55.85
Total	**$38,340,981**	**$50,215,769**	**$11,874,789**	**3.0%**	**$736.90**
Per Capita - Recurring	$664	$827	$163	2.5%	
Per Capita Total	$718	$828	$110	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 $10.5 million from previous General Fund savings. As the Fiscal Model shows, the City is going to need every dollar from the Budget Stabilization Fund as an interim budgetary solution, one which helps bridge the budget gap while longer-term solutions are given time to produce more substantial savings. This allows for continuity of the services being provided by the City while addressing long-term fiscal concerns at the same time. This concept played a critical role during the labor negotiations, as it became evident that while savings from a second tier would be substantial over time; immediate savings were relatively minor. Exhibit 10 summarizes the usage of the Budget Stabilization Fund (considered one-time revenues in the Fiscal Model).

Exhibit 10, presented on the following page, summarizes the General Fund's drawdown of the Budget Stabilization Fund.

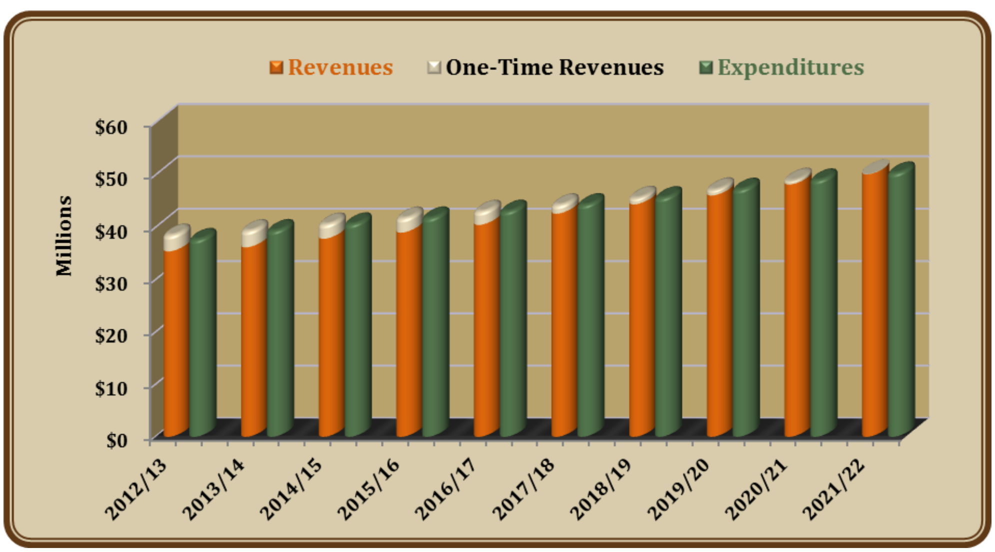
EXHIBIT 10: Budget Stabilization Fund Usage

Fiscal Year	Beginning Budget Stabilization Fund Balance	Transfer to (from) General Fund	Ending Budget Stabilization Fund Balance
2012/13	$ 10,491,999	$ (1,300,000)	$ 11,791,999
2013/14	$ 11,791,999	$ 250,000	$ 11,541,999
2014/15	$ 11,541,999	$ 2,575,000	$ 8,966,999
2015/16	$ 8,966,999	$ 2,550,000	$ 6,416,999
2016/17	$ 6,416,999	$ 2,375,000	$ 4,041,999
2017/18	$ 4,041,999	$ 1,450,000	$ 2,591,999
2018/19	$ 2,591,999	$ 1,025,000	$ 1,566,999
2019/20	$ 1,566,999	$ 925,000	$ 641,999
2020/21	$ 641,999	$ 600,000	$ 41,999
2021/22	$ 41,999	$ 41,999	$ -

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 over the intermediate term. However, the eventual exhaustion of these funds underscores the need for continued fiscal awareness and caution. 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, allowing the General Fund to phase in its contribution requirements. The General Fund Budget will ultimately have to absorb these costs once the Insurance Fund is exhausted.

Exhibit 11 illustrates that the General Fund has substantially replaced one-time revenues with ongoing revenues and is just short of a balanced budget.

EXHIBIT 11: Revenues and Expenditures



EXPENSE SUMMARY

***<u>Key Finding:</u>* The City must continue to carefully monitor expenses in order to operate with a balanced budget. The City has made great strides in securing intermediate-term cost certainty through labor negotiations; however, several of the costliest benefits, such as pensions and OPEB, remain highly susceptible to factors beyond the City's control. The level of underfunding in the pension and OPEB plans remain a concern and should continue to be closely monitored. With the City having a very limited ability to increase revenues, budgetary constraints must be managed through the expenditure side.**

Since the City has only minor control over its revenue growth, it is largely on the expense side where the City must remain vigilant in order to ensure fiscal sustainability. 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 2012/13 fiscal year. Despite these efforts, the City also has unfunded OPEB obligations and upcoming pension rate increases related to underfunded pension plans which, as dictated by accounting standards, are not (yet) reported as General Fund liabilities. A detailed discussion of OPEB and pension costs is presented later in this section. While the 2013/14 fiscal year is projected to be the first time the Budget Stabilization Fund is used to help balance the General Fund, an ongoing subsidy from the Budget Stabilization Fund will be required in order to maintain a balanced budget through FY 2021/22, after which point the General Fund would be self-sustaining.

General Fund deficits over and above what the Budget Stabilization Fund can cover during the next decade are projected to be relatively minor, representing approximately $1/10^{th}$ of 1% of the overall operating budget. Given the numerous variables and economic assumptions that comprise the Fiscal Model, it is certainly possible this outlook would change with relatively minor changes in the overall economy. Even minor changes such as a half percent adjustment in the annual supplies and services budget result in changes which are significantly larger than the minor operational shortfall in the model. However, absent the Budget Stabilization Fund, the deficits range from a high of $2.6 million in FY 2014/15 to a break-even point in FY 2021/22. During this time the entire Budget Stabilization Fund Balance of $10.5 million is projected to be used.

The Fiscal Model addresses immediate staffing needs of the Police Department, and a long-range staffing plan is being developed and will be brought separately to the City Council for consideration. In the interim, performance measures and workload indicators will continue to be monitored on a regular basis.

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 2.5% for personnel costs and 9% 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 figures.

In total, General Fund operating expenses are projected to increase from $37.5 million in FY 2012/13 to $50.2 million in FY 2021/22. This equates to an average annual expenditure growth rate of 3.3%, which is a decline from the 3.6% average annual growth rate projected in the previous Fiscal Model. The savings associated with the new labor contracts have been partially responsible for this decline, although the single largest expenditure increases are still projected to come from OPEB. With a great deal of OPEB costs resulting from service already performed, it is much more difficult to control increases related to this expense.

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. Analysis of the spending categories identify underlying trends and variables which impact specific expenses across all departments.

A. *DEPARTMENT EXPENDITURE ANALYSIS*

Exhibit 12 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, Finance and Information Systems and Non-Departmental. Detailed expenditure data for each of these departments can be found in Exhibit A2.

Unlike the previous Fiscal Model, in which the Police Department was projected to have far and away the highest expenditure growth rate, the adoption of a second tier in police benefits has served to bring their projected cost increases in line with the rest of the City. The projected increases are now projected to be in a much tighter range across all departments, rising between 2.3% and 2.7%. Parks, as a result of being allocated annual replacement costs for the Community Center and Senior Center, has a slightly higher growth rate than the other departments.

EXHIBIT 12: Expense Summary by Department (OPEB Unallocated)

Department Summary	2012/13	2021/22	Total Increase	Avg Growth Rate
General Government	$6,107,600	$7,587,120	$1,479,520	2.4%
Police	$16,470,450	$20,607,211	$4,136,761	2.5%
Parks and Recreation	$4,823,407	$6,105,521	$1,282,114	2.7%
Community Development	$3,396,850	$4,266,457	$869,607	2.6%
Public Works	$5,276,378	$6,488,695	$1,212,317	2.3%
OPEB	$235,490	$3,199,444	$2,963,954	33.6%
Operational Transfers Out	$1,189,389	$1,949,090	$759,701	5.6%
Total	**$37,499,564**	**$50,203,538**	**$12,703,974**	**3.3%**
Per Capita	$702	$827	$125	1.8%

The figures in Exhibit 12 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 13 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. Including OPEB costs, which are projected to increase at an average annual growth rate of 33.6%, departmental annual expenditure increases range from 3.0% to 3.4%. These costs do not include any funds for additional staffing. Community Development increases at a higher rate as a result of having the majority of their operating costs coming from staffing.

EXHIBIT 13: Expense Summary by Department

Department Summary	2012/13	2021/22	Total Increase	Avg Growth Rate
General Government	$6,134,291	$8,008,135	$1,873,844	3.0%
Police	$16,612,395	$22,331,114	$5,718,719	3.3%
Parks and Recreation	$4,839,726	$6,362,937	$1,523,210	3.1%
Community Development	$3,418,287	$4,604,595	$1,186,308	3.4%
Public Works	$5,305,475	$6,947,667	$1,642,192	3.0%
OPEB	$0	$0	$0	0.0%
Operational Transfers Out	$1,189,389	$1,949,090	$759,701	5.6%
Total	**$37,499,564**	**$50,203,538**	**$12,703,974**	**3.3%**
Per Capita	$702	$827	$125	1.8%

A comparison of each department's percentage share of the budget for both FY 2012/13 and FY 2021/22 is illustrated in Exhibit 14 below. As was the case in Exhibit 12, the impacts of OPEB are so significant the results are skewed. By FY 2021/22 OPEB as a "department" becomes 6.4% of the General Fund all by itself.

EXHIBIT 14: Department's Share of Budget (Excluding OPEB from Departments)

Department Summary	2012/13	2021/22	2012/13 Share	2021/22 Share
General Government	$6,107,600	$7,587,120	16.3%	15.1%
Police	$16,470,450	$20,607,211	43.9%	41.0%
Parks and Recreation	$4,823,407	$6,105,521	12.9%	12.2%
Community Development	$3,396,850	$4,266,457	9.1%	8.5%
Public Works	$5,276,378	$6,488,695	14.1%	12.9%
OPEB	$235,490	$3,199,444	0.6%	6.4%
Operational Transfers Out	$1,189,389	$1,949,090	3.2%	3.9%
Total	**$37,499,564**	**$50,203,538**	**100.0%**	**100.0%**

Allocating the OPEB costs to the appropriate department once again provides a preferred way of analyzing the data. Exhibit 15 on the following page shows the results once OPEB costs have been allocated. Only minor changes are seen among each departments relative share.

EXHIBIT 15: Department's Share of Budget

Department Summary	2012/13	2021/22	2012/13 Share	2021/22 Share
General Government	$6,134,291	$8,008,135	16.4%	16.0%
Police	$16,612,395	$22,331,114	44.3%	44.5%
Parks and Recreation	$4,839,726	$6,362,937	12.9%	12.7%
Community Development	$3,418,287	$4,604,595	9.1%	9.2%
Public Works	$5,305,475	$6,947,667	14.1%	13.8%
Operational Transfers Out	$1,189,389	$1,949,090	3.2%	3.9%
Total	**$37,499,564**	**$50,203,538**	**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 tiers for new miscellaneous employees hired on or after October 1, 2010 and for new sworn employees hired on or after September 1, 2012, the impacts from the adoption of the California Public Employees' Pension Reform Act of 2013 (PEPRA) and the most current pension and OPEB payment requirements. Also included in these forecasts are projected increases in dispatch costs.

B. CATEGORY COST ANALYSIS

To understand the City's main cost driver, an analysis of the two main expenditure categories (personnel costs and supplies and services costs) has been undertaken. Exhibit 16 illustrates the relative importance and projected growth patterns for each.

EXHIBIT 16: Summary of Cost Increases by Type of Expense

Year	Salary and Benefits Total	Other Expenses Total	Total Operating Expenses	Recurring Revenues	Total Revenues
2012/13	$ 25,239,528	$ 12,260,036	$ 37,499,564	$ 35,435,262	$ 38,340,981
2013/14	$ 26,405,705	$ 12,795,384	$ 39,201,089	$ 36,222,064	$ 39,163,573
2014/15	$ 26,957,989	$ 13,513,120	$ 40,471,109	$ 37,853,130	$ 40,428,130
2015/16	$ 27,781,949	$ 13,837,118	$ 41,619,067	$ 39,035,702	$ 41,585,702
2016/17	$ 28,685,274	$ 14,225,093	$ 42,910,367	$ 40,497,898	$ 42,872,898
2017/18	$ 29,627,336	$ 14,520,487	$ 44,147,823	$ 42,657,616	$ 44,107,616
2018/19	$ 30,548,652	$ 14,939,898	$ 45,488,550	$ 44,433,676	$ 45,458,676
2019/20	$ 31,698,218	$ 15,407,472	$ 47,105,690	$ 46,132,925	$ 47,057,925
2020/21	$ 32,795,658	$ 16,079,355	$ 48,875,013	$ 48,230,685	$ 48,830,685
2021/22	$ 33,518,430	$ 16,685,108	$ 50,203,538	$ 50,173,770	$ 50,215,769
Avg Growth Rate	**3.2%**	**3.5%**	**3.3%**	**3.9%**	**3.0%**
Total Growth Rate	**32.8%**	**36.1%**	**33.9%**	**41.6%**	**31.0%**

Exhibit 16 illustrates that salary and benefit expenses are projected to grow by $8.3 million, or 32.8%, over the next decade. This equates to an average annual growth rate of 3.2%. This is an improvement from the projections in the prior Fiscal Model, which projected annual increases of 3.6% and a total increase of 37.2%. While this pace exceeds the growth of projected revenue growth, it falls within the confines of the pace of projected **recurring** revenue growth.

The General Fund's "Other Expenses", which comprise 32.7% of the overall FY 2012/13 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; increased replacement funds being set aside for parks, the Police Station, new Senior Center and Civic Center buildings, along with costs for items such as dispatch which are projected to grow at a faster rate than inflation.

With over 2/3 of the General Fund's budget going towards personnel costs, focusing our attention on these costs provides the best insight as to the projected future expenditure structure of the City. 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 a 2.5% cost of living adjustment for fiscal years 2012/13 through 2014/15, followed by 2 consecutive years of 2.0% annual increases (in accordance with existing bargaining unit contracts). The labor contracts run through fiscal year 2016/17, at which point a 2.0% annual increase is assumed for the remaining years of the Fiscal Model (these are not contractually obligated but merely assumed here for presentation and forecasting purposes – the Fiscal Model does not establish any employee obligations beyond what has been approved in the existing labor contracts). These salary increases also lead to an increase in pension costs, as described below.

b) **Public Safety –** Following a 1% cost of living adjustment in FY 2012/13, the Fiscal Model includes annual increases of 2.0%; 3.0%; 2.0%; and 1.0% through FY 2016/17 in accordance with the existing labor contracts. The remaining years of the Fiscal Model assume a 2% annual increase in the same manner as is assumed for the miscellaneous employees.

A summary of the cost increases associated with cost of living adjustments are presented in Exhibits 20 and 21 found on page 30.

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 miscellaneous employees was raised from "2% @ 55" to "2.7% @ 55".

In 2010 a second tier was adopted for miscellaneous employees, lowering the benefit to "2% @ 60", effective for employees hired on or after October 1, 2010. In 2012 a second tier was adopted for sworn employees, lowering the benefit to "3% @ 55", effective for those employees hired on or after September 1, 2012.

In addition, the City previously opted to offer enhanced pension benefits by including optional items 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 eliminated in the second tier for miscellaneous employees).

The passage of PEPRA created a third tier of benefit levels for those employees hired on or after January 1, 2013 who are not considered "classic employees" (generally those employees who were not a PERS member prior to January 1, 2013 – classic employees fall into the City's second tier for pension benefits). PEPRA created a "2% @ 62" retirement plan for miscellaneous members and a "2.7% @ 57" plan for safety members. In addition, PEPRA requires that employees who fall under these provisions pay half of the normal cost of their pension benefit, up to specified caps.

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 17 and 18), PERS is actively addressing those shortfalls through rate increases as discussed below and illustrated in Exhibit 20. In this way, the Fiscal Model captures the expenditure impacts of closing the existing unfunded pension liability.

There is risk that pension rates could increase at a much faster rate than anticipated in the Fiscal Model. The Fiscal Model includes the impacts that would result if PERS proceeds with a recently proposed plan to reduce the smoothing and amortization periods of investment losses. This change, which is expected to be considered by the PERS Board in April 2013, would greatly impact the City's rates, with increases of 7% to 11% of payroll expected to be phased in during the last five years of the model. While changes of this magnitude clearly impacts the City's long-term financial projections, a significant portion of these increases will be offset through increased employee contributions and through lower benefit levels (and thus lower pension rates) offered to new employees.

In addition to these increases, however, staff has also been informed that the PERS Board is likely to considering another series of adjustments related to their assumed investment rate of return and in their mortality rate assumptions. These additional changes, which will be considered by the PERS Board in the spring of 2014, would result in an additional pension cost increase of approximately 8% of payroll for sworn employees and 4% for non-sworn employees. **These impacts, which are not included in this Fiscal Model, would total approximately $1 million per year, with the impacts being felt beginning in the 2016/17 fiscal year.**

The City has historically not had to present a liability on its financial statements for any underfunding in the PERS pension plans so long as the City made its full annual required payment, as determined by PERS. Governmental Accounting Standards Board (GASB)

Statement Number 68 will change these rules, however, and by FY 2014/15 the City will be required to begin recording a liability for any underfunding in the pension plan. Given the existing unfunded liabilities in the City's pension plans, this will have a negative impact on the City's financial statements. It should be noted that these liabilities have long been disclosed as footnotes in the financial statements and the act of moving them to the financials does not represent a true deterioration of the City's financial position. Further, the Fiscal Model has always addressed a portion of the underfunding in the pension plan by incorporating higher projected pension rates in the future years of the model. These rates will help bring the pension plans back to a fully funded status.

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 –** As discussed above, the City now has three tiers of pension benefit levels. PERS, however, has elected to pool all miscellaneous employees into the same plan and charge one blended pension rate. Through conversations with PERS, staff has been able to estimate the effective pension contribution rate for each of the tiers. These rates are then blended together, using assumed turnover and PEPRA participation percentages, to arrive at a single rate for purposes of the Fiscal Model. This blended rate is currently 17.01% of salary (with the City picking up an additional 4% of the employee's pension contribution requirements for tier 1 employees for a tier one rate of 21.01%). This rate is projected to decline to 16.78% of salary by FY 2015/16, saving the General Fund an estimated $0.4 million in that year alone (largely due to increased employee contributions). After this point, however, the rate increases discussed above are expected to commence. By FY 2020/21, the blended employer rate is projected to be 21.30% - an increase of over 4% from today's levels. This City is well prepared for this increase, however, largely due to the fact that the City will no longer contribute the 4% of salary towards the employee pension costs of tier 1 employees, thus largely offsetting this rate increase. This will help keep the effective PERS rate relatively stable. Should PERS implement the additional actuarial changes tentatively scheduled to be considered in 2014, as described above, the rate would likely exceed above 25% and cost the General Fund an additional $0.3 million per year.

   It was the concern over potential increased pension costs that led the City to negotiate a second tier PERS benefit structure for miscellaneous employees. Under the second tier, employees hired after October 1, 2010:

   - Earn reduced pension benefit of 2% @ 60 rather than 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 pay the full 7% employee share of PERS

Under PEPRA, the new third tier of employees (which includes non-classic employees hired after January 1, 2013) will receive a pension benefit identical to the one implemented for the second tier, with the exception of a lowered benefit level (2% @ 62) and mandatory contributions equaling ½ of the normal cost of the pension plan.

As a result of the cost controls established through the second and third tiers and through increased employee pension contributions, pension expenses are projected to cost only an additional $0.3 million on an annual basis by the end of the next decade. As described above, these figures include the majority of the impacts from proposed actuarial changes being considered by PERS in April of 2013, but do not, however, include costs for future potential pension rate increases which would result from changes which may be considered in 2014. These additional changes threaten to add a significant financial burden. Refer to Exhibit A-5 for an illustration of potential PERS rate increases.

The funding ratio of the City's Miscellaneous Plan has also started to recover, following investment losses suffered by PERS. The impacts from the second and third tiers are not likely to result in significant improvements in these ratios for several years. The funded ratio is, however, expected to improve over time as a result of increased pension rates from PERS. In the short term the funded ratio may decline further if PERS adopts a lower assumed rate of return or an increased life expectancy assumption in 2014. Exhibit 17 presents the current and historical funding status of the City's Miscellaneous PERS Pension Plan (data includes all Citywide non-safety employees and not just General Fund). The data illustrates that the funding levels of the pension plan, after falling to as low as 58% in 2009, has rebounded to 75% as of June 2011 (the most recent valuation available).

EXHIBIT 17: 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%
6/30/2011	**$ 70,784,681**	**$ 52,889,164**	**$ 17,895,517**	**74.72%**

b) **Public Safety –** The pension costs associated with public safety employees are more expensive than those for 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 higher rates.

Concern over potential increased pension costs led the City to also negotiate a second tier PERS benefit structure for sworn employees. Under the second tier, employees hired on or after September 1, 2012:

- Earn reduced pension benefit of 3% @ 55 rather than 3% @ 50.
- 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 pay the full 9% employee share of PERS

Under PEPRA, the new third tier of employees (which includes non-classic employees hired after January 1, 2013) will receive a pension benefit identical to the one implemented for the second tier, with the exception of a lowered benefit level (2.7% @ 57) and mandatory contributions equaling ½ of the normal cost of the pension plan.

Unlike the City's miscellaneous plan, in which the plan consists of a mixture of all of the City's miscellaneous employees, the City will have three separate safety plans with three separate rates – one for each of the tier levels. In this way, the City will be able to immediately recognize savings when employee turnover occurs rather than having to wait for PERS to adjust their rates to reflect the turnover.

The projected employer PERS contribution rate is expected to rise from 27.35% of salary for tier 1 employees in the 2012/13 fiscal year to 30.90% of salary by FY 2015/16. As was the case with the miscellaneous group, however, increased employee contributions will serve to provide the City with an overall lower cost and the City's actual contribution percentage amount will drop from 33.35% to 30.90% during this timeframe. Unfortunately, the safety rates will then be subjected to the same factors which significantly increase the miscellaneous rates, with the tier one employer paid rate forecast to reach 38.15% by FY 2020/21. Actuarial changes which may be considered by PERS in 2014 would cause this rate to increase higher still. If these changes are made, pension rates would increase by an additional 7% of payroll, resulting in an additional General Fund expense of approximately $700,000. These impacts would be felt beginning in FY 2016/17. When combined with the potential impacts of additional actuarial changes made to the miscellaneous pension plan, the annual additional impact to the General Fund could exceed approximately $1 million. Refer to Exhibit A-5 for an illustration of potential PERS rate increases.

Once again, the impacts of the second tier and the third tiered PEPRA employees will serve to help control what otherwise would be rapidly escalating pension costs. Even though the projected employer rates for second tier employees are forecast to rise from 20.06% in FY 2012/13 to 28.30% in FY 2020/21; and PEPRA contribution rates from 11.5% to 14.75%, these rates for the second and third tiers are still below what the City is currently paying for tier one employees. As such, pension expense is expected to be just only slightly higher in FY 2021/22 than today. Absent the labor concessions and PEPRA, this figure would have been estimated at an additional annual cost of $1.4 million.

The primary cause of the decrease in the funded ratio in the City's Safety Plan in the late 2000's was also 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.

As illustrated in Exhibit 18, the funding status of the Safety PERS plan increased from a low point of 60.2% in June 2009 to 74.6% by June 2011. Additionally, specific information regarding the City's proportionate share of the liability in the plan was not readily available until the 2011 actuarial report. The City is in a slightly better position than the plan as a whole, with a funded ratio of 78.9%.

EXHIBIT 18: 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%
6/30/2011	$10,951,745,049	$8,164,486,471	$2,787,258,578	74.55%
6/30/2011*	**$ 34,116,659**	**$ 26,924,094**	**$ 7,192,565**	**78.92%**

Note that the City participates in a Statewide public safety pool plan and as such, Brentwood's share of this pool is less than 1%.
** CalPERS began providing the City with specific information for the City's plan as of June 30, 2011. These figures are specific for the City's portion of the Safety pool.*

iii. Other Post Employment Benefits (OPEB)

a) Miscellaneous/Public Safety – OPEB costs will grow faster than any other General Fund expense over the next decade. OPEB costs in the Fiscal Model are based on the City's June 30, 2011 actuarial study (a study is only required every two years) and incorporate the City Council direction to incrementally 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.

OPEB benefits offered to miscellaneous and public safety employees have historically been 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 had always been that public safety employees can retire earlier; resulting in a shorter timeframe to set aside funds and a longer time period that the employee will draw the benefit.

The City took steps to help control the long-term growth of OPEB costs through the recently completed labor negotiations. Through these negotiations, a second and third tier benefit level for OPEB was established. The first tier, for employees who retired by June 30, 2012, saw no change in benefit level and will continue to receive benefits with a rising coverage cap indexed to increases in Kaiser medical rates. The second tier, for existing employees hired prior to July 1, 2012, will have a stricter cap on the monthly benefit level paid for by the City. Miscellaneous employees agreed to a monthly cap of $1,226 or the Kaiser employee only rate (whichever is greater), while Sworn employees agreed to a monthly cap of the greater of $1,500 or the Kaiser employee only rate. The third tier, for employees hired on or after July 1, 2012, will offer employees the Public Employees' Medical and Hospital Care Act (PEMHCA) minimum. As a result, as employees turn over the City's long term OPEB commitment will level off and, over the long term, decline.

Current annual OPEB funding from the General Fund to the Insurance Fund is set at $1,051 per miscellaneous employee and $2,052 per public safety employee (this reflects only minor pre-funding contributions). **These amounts are projected to increase to $16,575 per miscellaneous employee and $23,265 per public safety employee over the next decade**. While the adoption of the new tiered benefit levels resulted in a decline in long-term funding commitments, the budgetary constraints that OPEB will put on the General Fund over the next decade will continue to present a considerable challenge.

The City (including all funds, not just the General Fund) has a current unfunded OPEB obligation of $10.5 million, as is reported in the City's Comprehensive Annual Financial Report (CAFR). This amount is projected to rise to $12.5 million by the end of the current fiscal year, and reach $18.8 million by the end of the decade (see Exhibit 19). Although the projected liability in ten years is approximately $3 million lower than had been projected in the previous actuarial report, the fact that the City's liability is projected to rise to this level ***despite projected City wide contributions of $33.3 million to fund OPEB during this timeframe*** illustrates how expensive this benefit will become.

Included in the Fiscal Model is the drawdown of the Insurance Internal Service Fund 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 the long-term savings associated with the reduced OPEB benefits 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 "Annual Underfunding Amount" included in Exhibit 19 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 or if any of the long-range actuarial assumptions proved to be inaccurate (e.g. medical inflation or mortality rates) and not wanting to have funds tied up in an irrevocable trust account if a change to OPEB benefits were to be considered. Exhibit 19 presents the "Annual OPEB Cost" as opposed to the actuarially required contribution since the Annual OPEB Cost captures all of the annual adjustments to the liability while the annual required contribution does not. In this way, funding 85% of the annual required contribution gives the impression that the liability continues to grow, while looking at the more meaningful metric of the Annual OPEB Cost illustrates that by 2022 the City is virtually no longer increasing its liability.

EXHIBIT 19: Current and Historical Funding Status – OPEB

Fiscal Year Ending	Annual OPEB Cost	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	$ 1,600,000	38.55%	$ 2,550,000	$ 10,519,500
6/30/2013*	$ 3,651,000	$ 1,669,000	45.71%	$ 1,982,000	$ 12,501,500
6/30/2014*	$ 3,806,000	$ 2,076,000	54.55%	$ 1,730,000	$ 14,231,500
6/30/2015*	$ 3,960,000	$ 2,513,000	63.46%	$ 1,447,000	$ 15,678,500
6/30/2016*	$ 4,104,000	$ 2,971,000	72.39%	$ 1,133,000	$ 16,811,500
6/30/2017*	$ 4,237,000	$ 3,447,000	81.35%	$ 790,000	$ 17,601,500
6/30/2018*	$ 4,342,000	$ 3,927,000	90.44%	$ 415,000	$ 18,016,500
6/30/2019*	$ 4,368,000	$ 4,029,000	92.24%	$ 339,000	$ 18,355,500
6/30/2020*	$ 4,383,000	$ 4,135,000	94.34%	$ 248,000	$ 18,603,500
6/30/2021*	$ 4,386,000	$ 4,240,000	96.67%	$ 146,000	$ 18,749,500
6/30/2022*	$ 4,385,000	$ 4,354,000	99.29%	$ 31,000	$ 18,780,500
**Projected*					
Total	**$ 55,869,000**	**$ 37,088,500**	**66.38%**	**$ 18,780,500**	**$ 18,780,500**

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 health insurance inflation rate starting at 9% in FY 2012/13 and grading down to 5% by the end of the decade. Projected health insurance cost increases were one of the key costs that were brought under control through the recently negotiated labor contracts with the City's bargaining units.

The new labor agreements call for stricter caps on City paid health insurance coverage, along with a second tiered benefit for new employees hired on or after July 1, 2012. The caps were structured to largely match the caps established for OPEB, as discussed above, with miscellaneous employees hired prior to July 1, 2012 having a cap of the greater of $1,226 or the Kaiser employee-only rate and sworn employees having a cap of the greater of $1,500 or the Kaiser employee-only rate. Employees hired on or after July 1, 2012 have a cap of the Kaiser employee-only rate.

These changes have significantly reduced the projected budget impacts of future health insurance costs for the City. The combination of limiting the cost increases of current employees while offering a reduced benefit level for new employees as turnover occurs results in projected annual health insurance cost increases to the General Fund of less than 1% through FY 2015/16, with increases slowly bringing the annual cost increase rate up to a peak of 2.6% by the end of the upcoming ten years. As with other employee benefits which have become tiered, employee turnover rates will have a significant impact to the costs ultimately borne by the City.

Exhibits 21 and 22, found on the following page, 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. As discussed throughout this forecast there remains a risk that PERS may increase pension rates by a significant amount above what has already been forecast, resulting in much higher pension costs over the course of the next decade. These costs could exceed approximately $1 million. Refer to Exhibit A-5 for an illustration of potential PERS rate increases.

EXHIBIT 20: Significant Salary and Benefit Cost Increases – Misc. Employees

Fiscal Year	Salary Cost of Living Allowance Increase	Increase in Salary Expense	Imputed Employer Paid Pension Tier 1	Imputed Employer Paid Pension Tier 2	Imputed Employer Paid Pension Tier 3	Blended Employer Paid Pension Rate	Increase in Pension Expense	Increase in OPEB Expense	Increase in Health Insurance Expense	Increase in Salary; Pension; OPEB and Health Insurance Expense	Average Annual Cost Increase Per Employee
2012/13	2.50%	$220,602	21.305%	13.645%	6.250%	20.518%	($138,583)	($93,534)	$0	-$11,516	-$109
2013/14	2.50%	$226,117	18.905%	13.245%	6.250%	18.275%	($161,505)	$224,111	$3,967	$292,689	$2,782
2014/15	2.50%	$231,770	17.105%	13.445%	6.250%	16.700%	($107,328)	$183,785	$7,805	$316,032	$2,981
2015/16	2.00%	$190,051	17.305%	13.645%	6.250%	16.785%	$39,932	$183,323	$12,825	$426,131	$4,019
2016/17	2.00%	$193,852	18.705%	14.745%	6.600%	17.827%	$135,645	$192,539	$17,595	$539,631	$5,090
2017/18	2.00%	$197,729	20.105%	15.845%	6.950%	18.804%	$133,763	$165,259	$22,005	$518,757	$4,893
2018/19	2.00%	$201,684	21.505%	16.945%	7.300%	19.712%	$131,259	$148,810	$25,943	$507,696	$4,789
2019/20	2.00%	$205,717	22.905%	18.045%	7.650%	20.546%	$128,095	$147,841	$29,294	$510,947	$4,819
2020/21	2.00%	$209,832	24.305%	19.145%	8.000%	21.304%	$124,228	$240,573	$31,948	$606,581	$5,721
2021/22	2.00%	$214,028	24.305%	19.145%	8.000%	20.800%	($9,442)	$159,362	$38,219	$402,168	$3,793
Total	23.70%	$2,091,382					$276,064	$1,552,068	$189,601	$4,109,115	$38,778

EXHIBIT 21: Significant Salary and Benefit Cost Increases - Public Safety Employees

Fiscal Year	Salary Cost of Living Allowance Increase	Increase in Salary Expense	CalPERS Pension Rates Tier 1	CalPERS Pension Rates Tier 2	CalPERS Pension Rates Tier 3	Effective Blended CalPERS Rate - all Tiers	Increase in Pension Expense	Increase in OPEB Expense	Increase in Health Insurance Expense	Increase in Salary; Pension; OPEB and Health Insurance Expense	Average Annual Cost Increase Per Employee
2012/13	1.00%	$68,069	33.349%	20.057%	11.500%	32.063%	($106,618)	($51,860)	$0	($90,408)	($1,458)
2013/14	2.00%	$137,500	31.340%	20.774%	11.500%	29.671%	($123,626)	$151,336	$54,729	$219,939	$3,547
2014/15	3.00%	$210,375	30.200%	22.300%	11.500%	28.303%	($36,391)	$150,884	$33,106	$357,974	$5,774
2015/16	2.00%	$144,458	30.900%	22.800%	11.500%	28.322%	$42,281	$150,504	($1,008)	$336,236	$5,423
2016/17	1.00%	$73,673	32.350%	23.900%	11.875%	28.961%	$68,410	$158,070	$1,902	$302,056	$4,872
2017/18	2.00%	$148,820	33.800%	25.000%	12.500%	29.530%	$86,285	$135,675	$4,624	$375,405	$6,055
2018/19	2.00%	$151,797	35.250%	26.100%	13.250%	30.028%	$83,396	$122,170	$7,089	$364,451	$5,878
2019/20	2.00%	$154,833	36.700%	27.200%	14.000%	30.442%	$79,200	$121,374	$9,225	$364,631	$5,881
2020/21	2.00%	$157,929	38.150%	28.300%	14.750%	30.770%	$74,489	$197,506	$10,963	$440,887	$7,111
2021/22	2.00%	$161,088	38.150%	28.300%	14.750%	29.823%	($28,251)	$130,833	$14,766	$278,435	$4,491
Total	20.69%	$1,408,542					$139,175	$1,266,492	$135,396	$2,949,605	$47,574

FUND BALANCE SUMMARY

***Key Finding**: At the end of the 2012/13 fiscal year, the City is projected to have a General Fund balance of $18.4 million, with an unassigned fund balance of $11.7 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 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 the savings from long-term solutions begin to accumulate.*

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 beyond any shortfall identified through the adoption of the operating budget.

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. While the long-term savings achieved through the recently completed labor negotiations have helped narrow the projected operating gap, current projections illustrate that the City will deplete the entire Budget Stabilization Fund over the next ten years while still falling $2.0 million short of maintaining a 30% reserve. While a continued economic recovery may prove sufficient to cover this projected shortfall, continued caution is recommended until further long-term financial clarity is available.

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. Despite the adoption of a second and third tier for OPEB benefits for new employees, it is this rising cost of funding OPEB that is the most significant budgetary challenge moving forward.

Additional expenditure reductions or revenue enhancements will be needed for the City to maintain a 30% reserve. As discussed previously, the 30% reserve threshold increases proportionately with expenses over time, meaning the City must operate with a small surplus in order to increase the reserves in proportion to the increases in expenses. Exhibit 22, on the following page, provides a Fund Balance Summary.

EXHIBIT 22: Fund Balance Summary

General Fund Balance	2012/13	2021/22	Total Increase	Avg Growth Rate
Beginning Balance	$18,539,970	$17,018,458	($1,521,512)	-0.9%
Annual Revenue	$30,452,874	$42,904,823	$12,451,949	3.9%
Transfers In	$7,888,107	$7,310,946	($577,161)	-0.8%
Sub-Total	$38,340,981	$50,215,769	$11,874,788	3.0%
Operations	$36,074,685	$45,055,004	$8,980,319	2.5%
Operational Transfers Out	$1,189,389	$1,949,090	$759,701	5.6%
Other Post Employment Benefits	$235,490	$3,199,444	$2,963,954	33.6%
CIP Transfers Out	$1,031,617	$49,136	($982,481)	-28.7%
Sub-Total	$38,531,181	$50,252,674	$11,721,493	3.0%
Net Increase (Decrease)	($190,200)	($36,905)	$153,295	
Ending Balance	**$18,349,770**	**$16,981,553**	**($1,368,217)**	**-0.8%**
Assigned/Committed	$6,612,500	$4,500,000	($2,112,500)	-3.5%
Unassigned	$11,737,270	$12,481,553	$744,283	0.7%
Percent of Operations	**32.3%**	**25.9%**		

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 $800,000 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 in support of the General Fund). 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, and is currently in the process of a Water, Wastewater and Solid Waste Study which is expected to be presented to the City Council in the summer of 2013. 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.

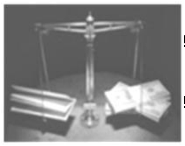
SUB-MODELS AND REPORTS

***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, various employee benefit tier levels, health care and retirement costs and 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, property turnover and increases from existing properties. Each of these are further broken down into subcategories, including residential, commercial, office and industrial.
- 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. Each year the Fiscal Model is refined and improved to ensure continued utility and reliance. 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	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Property Tax:										
Existing Base	$5,974,299	$6,112,908	$6,162,429	$6,245,214	$6,358,549	$6,483,183	$6,618,909	$6,760,370	$6,907,728	$7,061,423
New Residential	$108,275	$83,226	$168,949	$269,075	$372,205	$501,217	$631,854	$764,117	$912,234	$1,064,054
Residential Turnover	$22,881	$29,383	$59,949	$91,748	$124,828	$159,074	$194,527	$231,230	$269,227	$308,563
New Commercial	$5,360	$4,122	$9,753	$14,486	$19,414	$23,421	$28,245	$33,922	$39,861	$46,072
Redevelopment	$0	$0	$0	$150,000	$155,142	$161,106	$167,946	$175,131	$182,539	$190,492
Sub-Total	**$6,110,815**	**$6,229,638**	**$6,401,080**	**$6,770,523**	**$7,030,137**	**$7,328,001**	**$7,641,481**	**$7,964,769**	**$8,311,589**	**$8,670,604**
Property Transfer	$347,213	$286,875	$299,141	$313,219	$321,874	$342,097	$353,107	$364,177	$381,853	$394,925
Sales Tax	$6,100,000	$6,362,992	$6,634,889	$6,928,806	$7,175,799	$7,449,945	$7,738,940	$8,034,896	$8,350,526	$8,676,077
Franchise Fees	$1,253,087	$1,290,680	$1,337,758	$1,392,760	$1,453,251	$1,520,122	$1,589,288	$1,660,785	$1,737,335	$1,816,970
Transient Occupancy Tax	$253,000	$260,590	$345,095	$359,284	$374,888	$392,139	$409,981	$428,425	$448,172	$468,715
Motor Vehicle	$2,513,523	$2,538,658	$2,608,523	$2,697,949	$2,801,649	$2,920,603	$3,045,562	$3,174,378	$3,312,693	$3,455,755
Investment	$275,000	$275,000	$333,220	$434,733	$541,422	$647,176	$751,976	$749,259	$745,901	$742,646
Business License	$518,342	$533,736	$555,288	$572,575	$589,969	$607,890	$626,470	$645,618	$665,350	$685,686
Building Fees	$1,369,323	$1,389,299	$1,448,477	$1,622,569	$1,652,944	$1,970,708	$2,025,400	$2,076,969	$2,286,781	$2,365,836
Engineering Fees	$1,538,227	$1,664,569	$1,725,862	$1,847,045	$1,853,735	$2,031,047	$2,072,471	$2,109,733	$2,227,863	$2,280,914
Planning Fees	$145,451	$156,722	$289,979	$298,048	$307,087	$393,546	$405,476	$417,764	$472,575	$486,895
Parks and Recreation	$2,455,271	$2,474,190	$2,552,884	$2,648,787	$2,756,980	$2,878,778	$3,005,733	$3,136,787	$3,277,304	$3,423,064
Interfund Services	$6,061,556	$6,316,850	$6,442,706	$6,572,866	$6,672,745	$6,844,094	$7,009,970	$7,182,568	$7,373,632	$7,565,552
Other	$1,512,066	$1,329,190	$1,377,674	$1,434,317	$1,496,612	$1,565,479	$1,636,708	$1,710,339	$1,789,172	$1,871,184
Sub-Total	**$24,342,059**	**$24,879,351**	**$25,951,496**	**$27,122,958**	**$27,998,955**	**$29,563,624**	**$30,671,082**	**$31,691,698**	**$33,069,157**	**$34,234,219**
Transfers In	$7,888,107	$8,054,584	$8,075,554	$7,692,221	$7,843,806	$7,215,991	$7,146,113	$7,401,458	$7,449,939	$7,310,946
Total Revenues	**$38,340,981**	**$39,163,573**	**$40,428,130**	**$41,585,702**	**$42,872,898**	**$44,107,616**	**$45,458,676**	**$47,057,925**	**$48,830,685**	**$50,215,769**
Growth	$1,301,030	$822,592	$1,264,557	$1,157,572	$1,287,196	$1,234,717	$1,351,060	$1,599,250	$1,772,759	$1,385,085
%	3.51%	2.15%	3.23%	2.86%	3.10%	2.88%	3.06%	3.52%	3.77%	2.84%
Per Capita	$717.92	$724.90	$739.82	$750.78	$763.76	$773.37	$784.89	$800.51	$817.51	$827.59

EXHIBIT A2: General Fund Expenditure Summary

Department	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Legislative	$337,263	$337,658	$344,633	$352,653	$362,116	$371,665	$381,088	$392,340	$406,469	$421,368
City Clerk	$386,255	$356,750	$411,745	$369,347	$429,676	$388,121	$450,068	$408,308	$475,813	$430,416
City Manager	$797,314	$827,852	$837,607	$855,006	$877,263	$899,487	$921,671	$946,055	$973,335	$993,886
Human Resources	$626,141	$642,035	$650,865	$664,458	$681,446	$698,449	$715,540	$734,802	$756,925	$774,227
City Attorney	$857,708	$890,937	$901,984	$920,384	$943,640	$966,884	$990,499	$1,016,810	$1,046,437	$1,069,502
Finance (Including Non Departmental)	$3,102,919	$3,229,756	$3,274,935	$3,344,601	$3,418,292	$3,492,216	$3,579,202	$3,682,100	$3,795,156	$3,897,721
Total General Government	**$6,107,600**	**$6,284,988**	**$6,421,769**	**$6,506,449**	**$6,712,433**	**$6,816,822**	**$7,038,068**	**$7,180,415**	**$7,454,135**	**$7,587,120**
Police	$16,470,450	$16,990,002	$17,355,485	$17,739,190	$18,083,595	$18,525,590	$18,966,493	$19,688,736	$20,196,475	$20,607,211
Streets	$2,682,358	$2,776,870	$2,831,580	$2,886,578	$2,950,167	$3,013,450	$3,074,991	$3,153,365	$3,235,054	$3,303,730
Community Development	$3,396,850	$3,527,557	$3,579,719	$3,656,542	$3,752,147	$3,847,848	$3,941,826	$4,048,411	$4,171,561	$4,266,457
Engineering	$2,594,020	$2,655,496	$2,691,420	$2,744,408	$2,809,793	$2,875,258	$2,943,978	$3,022,532	$3,111,670	$3,184,965
Parks and Recreation	$4,823,407	$4,981,746	$5,085,773	$5,196,503	$5,319,373	$5,440,548	$5,568,645	$5,727,195	$5,918,694	$6,105,521
OPEB	$235,490	$610,937	$945,605	$1,279,433	$1,630,042	$1,930,976	$2,201,955	$2,471,170	$2,909,249	$3,199,444
Operational Transfers Out	$1,189,389	$1,373,493	$1,559,758	$1,609,964	$1,652,817	$1,697,331	$1,752,594	$1,813,866	$1,878,175	$1,949,090
Total Expenses	**$37,499,564**	**$39,201,089**	**$40,471,109**	**$41,619,067**	**$42,910,367**	**$44,147,823**	**$45,488,550**	**$47,105,690**	**$48,875,013**	**$50,203,538**
Growth	$1,605,690	$1,701,525	$1,270,020	$1,147,958	$1,291,300	$1,237,456	$1,340,727	$1,617,140	$1,769,323	$1,328,525
%	4.47%	4.54%	3.24%	2.84%	3.10%	2.88%	3.04%	3.56%	3.76%	2.72%
Per Capita	$702.16	$725.60	$740.61	$751.38	$764.43	$774.08	$785.41	$801.32	$818.25	$827.39

EXHIBIT A3: General Fund Financial Summary

General Fund	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Beginning Fund Balance	$18,539,970	$18,349,770	$18,014,654	$17,536,663	$17,456,866	$17,372,536	$17,285,031	$17,207,413	$17,111,449	$17,018,458
Revenues	$30,452,874	$31,108,989	$32,352,576	$33,893,481	$35,029,092	$36,891,625	$38,312,563	$39,656,467	$41,380,746	$42,904,823
Transfer In	$9,188,107	$7,804,584	$5,500,554	$5,142,221	$5,468,806	$5,765,991	$6,121,113	$6,476,458	$6,849,939	$7,268,947
Budget Stabilization Transfer In	($1,300,000)	$250,000	$2,575,000	$2,550,000	$2,375,000	$1,450,000	$1,025,000	$925,000	$600,000	$41,999
Total Revenues	**$38,340,981**	**$39,163,573**	**$40,428,130**	**$41,585,702**	**$42,872,898**	**$44,107,616**	**$45,458,676**	**$47,057,925**	**$48,830,685**	**$50,215,769**
Operations	$36,074,685	$37,216,659	$37,965,746	$38,729,670	$39,627,508	$40,519,516	$41,534,001	$42,820,654	$44,087,589	$45,055,004
Operational Transfers Out	$1,189,389	$1,373,493	$1,559,758	$1,609,964	$1,652,817	$1,697,331	$1,752,594	$1,813,866	$1,878,175	$1,949,090
Total Expenses	**$37,264,074**	**$38,590,152**	**$39,525,504**	**$40,339,634**	**$41,280,325**	**$42,216,847**	**$43,286,595**	**$44,634,520**	**$45,965,764**	**$47,004,094**
Net Operations before OPEB	$1,076,907	$573,421	$902,626	$1,246,068	$1,592,573	$1,890,769	$2,172,081	$2,423,405	$2,864,921	$3,211,675
OPEB	$235,490	$610,937	$945,605	$1,279,433	$1,630,042	$1,930,976	$2,201,955	$2,471,170	$2,909,249	$3,199,444
Operating Surplus / (Required Savings/Reductions)	**$841,417**	**($37,516)**	**($42,979)**	**($33,365)**	**($37,469)**	**($40,207)**	**($29,874)**	**($47,765)**	**($44,328)**	**$12,231**
Capital Projects/Non Operating Transfers	$1,031,617	$297,600	$435,012	$46,432	$46,861	$47,298	$47,744	$48,199	$48,663	$49,136
Ending Fund Balance	**$18,349,770**	**$18,014,654**	**$17,536,663**	**$17,456,866**	**$17,372,536**	**$17,285,031**	**$17,207,413**	**$17,111,449**	**$17,018,458**	**$16,981,553**
Assigned/Committed Fund Balance	$6,612,500	$5,947,000	$5,750,000	$5,250,000	$4,750,000	$4,500,000	$4,500,000	$4,500,000	$4,500,000	$4,500,000
Unassigned Fund Balance	$11,737,270	$12,067,654	$11,786,663	$12,206,866	$12,622,536	$12,785,031	$12,707,413	$12,611,449	$12,518,458	$12,481,553
30% Reserve Requirement	$10,893,053	$11,348,279	$11,673,405	$12,002,731	$12,377,265	$12,735,148	$13,120,787	$13,587,547	$14,099,051	$14,476,334

EXHIBIT A4: Key Assumptions in Fiscal Model

Categories	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Annual Expense Percentage Changes														
Supplies and Services	-20.5%	-1.5%	5.9%	-1.5%	6.1%	5.0%	1.0%	1.0%	1.0%	1.0%	2.0%	2.5%	2.5%	3.0%
Internal Services	-0.7%	-2.1%	37.2%	7.3%	17.4%	0.7%	7.4%	2.6%	1.9%	1.8%	0.5%	2.5%	2.5%	2.4%
Miscellaneous Employee COLA	3.0%	0.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Sworn Employee COLA	6.0%	3.6%	0.0%	0.0%	1.0%	2.0%	3.0%	2.0%	1.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Health Care Rates	8.3%	6.9%	4.2%	6.1%	9.0%	8.5%	8.0%	7.5%	7.0%	6.5%	6.0%	5.5%	5.0%	5.0%
Worker's Compensation	-7.1%	13.6%	4.7%	23.2%	29.1%	4.0%	4.0%	4.0%	4.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Percentage of Employee Turnover					5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Percentage of New Employees in PEPRA					33.0%	36.5%	40.0%	43.5%	47.0%	50.5%	54.0%	57.5%	61.0%	64.5%
Annual Revenue Percentage Changes														
General Inflation (Revenues)	3.2%	0.3%	2.4%	3.5%	2.0%	2.3%	2.5%	2.8%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Investment Rate of Return	5.6%	3.4%	1.3%	1.1%	0.8%	1.0%	1.5%	2.0%	2.5%	3.0%	3.5%	3.5%	3.5%	3.5%
Home Price Increases	-21.0%	2.0%	-2.7%	5.2%	8.0%	3.0%	3.0%	3.0%	3.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Property Tax Increases														
Annual Property Tax Assessor CPI Adjustment	N/A	N/A	N/A	N/A	-3.6%	0.0%	0.8%	1.3%	1.7%	1.8%	1.9%	1.9%	1.9%	1.9%
Property Tax Increase Due to New Development	N/A	N/A	N/A	N/A	1.0%	1.4%	1.5%	1.6%	1.6%	1.9%	1.9%	1.8%	2.0%	1.9%
Property Tax Increase Due to Turnover	N/A	N/A	N/A	N/A	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%	0.5%
Total Property Tax Increases	-10.2%	-19.5%	-3.1%	-3.9%	-2.1%	1.9%	2.8%	3.4%	3.8%	4.2%	4.3%	4.2%	4.4%	4.3%
Taxable Assessed Valuation (in thousands)	7,405,957	6,109,983	5,859,886	5,598,393	5,479,155	5,585,697	5,739,417	5,936,176	6,164,344	6,426,072	6,701,015	6,984,443	7,288,771	7,603,544
Notable Expenditures														
Dispatch Costs	627,328	702,607	772,549	742,430	764,225	825,363	891,392	962,703	1,039,720	1,122,897	1,212,729	1,309,747	1,414,527	1,527,689
% Annual Increase in Dispatch	12.00%	12.00%	10.00%	-3.90%	2.9%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
OPEB	444,984	-	-	380,884	235,490	610,937	945,605	1,279,433	1,630,042	1,930,976	2,201,955	2,471,170	2,909,249	3,199,444
% Annual Increase in OPEB	N/A	N/A	N/A	N/A	-38.2%	159.4%	54.8%	35.3%	27.4%	18.5%	14.0%	12.2%	17.7%	10.0%
PERS Pension Expenses	4,067,508	4,060,055	3,793,891	4,305,272	4,060,070	3,774,939	3,631,220	3,713,433	3,917,488	4,137,536	4,352,192	4,559,487	4,758,203	4,720,510
% Annual Increase in PERS Pension Expenses	5.3%	-0.2%	-6.6%	13.5%	-5.7%	-7.0%	-3.8%	2.3%	5.5%	5.6%	5.2%	4.8%	4.4%	-0.8%
Emergency Preparedness Payback	-	-	-	-	25,000	25,000	25,000	25,000	25,000	25,000	25,000	250,000	250,000	250,000
New Civic Center Replacement Set Aside	-	-	-	-	250,000	340,000	373,600	410,614	451,400	496,355	545,918	600,578	730,000	863,500
Pavement Management	559,603	-	-	-	-	-	200,000	215,208	221,664	228,314	235,164	242,218	249,485	256,970
Notable Revenues														
Development Revenue	2,765,183	3,186,172	3,071,578	3,372,553	3,703,001	3,960,590	4,191,818	4,473,337	4,498,271	5,059,271	5,147,398	5,229,195	5,593,206	5,721,453
Sales Tax	4,803,716	5,038,880	5,258,382	5,691,384	6,100,000	6,362,992	6,634,889	6,928,806	7,175,799	7,449,945	7,738,940	8,034,896	8,350,526	8,676,077
% Annual Increase in Sales Tax Revenue	-0.5%	4.9%	4.4%	8.2%	7.2%	4.3%	4.3%	4.4%	3.6%	3.8%	3.9%	3.8%	3.9%	3.9%
Budget Stabilization Subsidy for General Fund	(2,100,000)	(3,500,000)	(4,660,000)	(233,300)	(1,300,000)	250,000	2,575,000	2,550,000	2,375,000	1,450,000	1,025,000	$925,000	$600,000	41,999
Property Tax Received through RDA Dissolution	-	-	-	-	-	-	-	150,000	155,142	161,106	167,946	175,131	182,539	190,492
Development Related Assumptions														
Population	51,950	51,394	52,030	52,575	53,406	54,026	54,646	55,390	56,134	57,033	57,917	58,785	59,731	60,677
Population Growth Rate	2.7%	-1.1%	1.2%	1.0%	1.6%	1.2%	1.1%	1.4%	1.3%	1.6%	1.5%	1.5%	1.6%	1.6%
Single Family Building Permits	31	135	109	173	268	200	200	200	200	250	250	250	275	275
Multi Family Building Permits	-	-	-	54	-	-	-	40	40	40	35	30	30	30
Commercial Development Square Feet	15,861	11,200	22,616	3,153	18,000	10,000	10,000	30,000	10,000	10,000	15,000	15,000	15,000	15,000
Office Development Square Feet	-	-	-	-	-	-	10,000	20,000	-	-	-	-	-	-
Industrial Development Square Feet	-	-	12,100	22,174	22,000	10,000	30,000	-	-	10,000	10,000	10,000	10,000	10,000
Median Housing Price	292,250	298,000	290,000	305,000	335,000	345,050	355,402	366,064	377,045	386,472	396,133	406,037	416,188	426,592

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.

EXHIBIT A5: Preliminary PERS Rate Change Analysis

MISCELLANEOUS EMPLOYEES	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Current Base Miscellaneous Pension Rate	17.01%	16.61%	16.80%	17.00%	17.00%	17.00%	17.00%	17.00%	17.00%
PERS changes to be considered in April 2013:									
Smoothing Method 5 (Impacts begin 2015/16)				1.00%	2.20%	3.40%	4.70%	6.20%	6.20%
Projected rates if 2013 change adopted	17.01%	16.61%	16.80%	18.00%	19.20%	20.40%	21.70%	23.20%	23.20%
Miscellaneous (Tier 1) Rate in Fiscal Model [1]	17.31%	16.91%	17.11%	17.31%	18.71%	20.11%	21.51%	22.91%	24.31%
PERS changes which may be considered in 2014:									
Mortality (Impacts begin 2016/17)					1.50%	1.88%	2.25%	2.63%	3.00%
Discount Rate (Impacts begin 2016/17)					1.25%	1.56%	1.87%	2.18%	2.49%
Projected rates if 2013 and 2014 changes adopted	17.01%	16.61%	16.80%	18.00%	21.95%	23.83%	25.82%	28.00%	28.69%

(1) Rate presented is for Tier 1 employees only - the current base rate is different due to Tier 2 employees bringing down the overall rate. Unlike the Safety pension plan, PERS pools all MISC employees into one plan and provides the City one base rate.

SAFETY EMPLOYEES	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Current Base Safety Pension Rate	27.35%	28.34%	30.20%	30.90%	31.50%	32.10%	32.10%	32.10%	32.10%
PERS changes to be considered in April 2013:									
Smoothing Method 5 (Impacts begin 2015/16)				1.50%	3.50%	5.50%	7.60%	10.20%	10.20%
Projected rates if 2013 change adopted	27.35%	28.34%	30.20%	32.40%	35.00%	37.60%	39.70%	42.30%	42.30%
Safety (Tier 1) Rate in Fiscal Model [1]	27.35%	28.34%	30.20%	30.90%	32.35%	33.80%	35.25%	36.70%	38.15%
PERS changes which may be considered in 2014:									
Mortality (Impacts begin 2016/17)					1.50%	1.88%	2.25%	2.63%	3.00%
Discount Rate (Impacts begin 2016/17)					2.44%	3.05%	3.66%	4.27%	4.88%
Projected rates if 2013 and 2014 changes adopted	27.35%	28.34%	30.20%	32.40%	38.94%	42.52%	45.61%	49.19%	50.18%

(1) Rate presented is for Tier 1 employees only - PERS will set up a new pension plan for the City's second and third tiers which will have their own individual base rates.

Note: The Base rates in both projections are based upon June 30, 2011 CalPERS actuarial reports (the most recent available) and is specific for the City of Brentwood. The projected increases for the Smoothing, Mortality and Discount Rates were estimated by CalPERS as the median increases of a "typical agency". The City's increases under any of these actuarial changes may be higher or lower depending upon the City's unique circumstances.