General Fund Fiscal Model 2013/14 - 2022/23

City of Brentwood

150 City Park Way

Brentwood, CA 94513

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

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

Steven Salomon .... Interim City Manager
Damien Brower .... City Attorney
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
Bruce Mulder .... Director of Parks and Recreation

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August 2014

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 2013/14 – 2022/23 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 past six years have presented local agencies throughout the State with significant financial challenges. Agencies developed new ways of doing business, reduced service levels and employee costs and sought additional funding from their constituents in an effort to simply maintain existing operations. At the same time, State takeaways, including the dissolution of redevelopment agencies, have resulted in additional fiscal challenges for local agencies. In Brentwood, maintaining the high service levels expected by our residents from a significantly reduced revenue base, while faced with increasing expenditure requirements, was a difficult task.

A key component to successfully navigating this difficult time has been the City's Fiscal Model. 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. Examples of variables incorporated into the model include: employee cost impacts resulting from the labor bargaining unit agreements including health insurance, employee pension contributions, retiree medical and cost of living increases; statewide pension reform legislation and the impacts that employee turnover will have on future employee costs; impacts from a future rising interest rate environment; separate modeling of residential and commercial property valuations for purposes of property tax revenues and improvements in the housing market.

The Fiscal Model projects that the City is on course to ultimately achieve a balanced General Fund. Increasing revenues, and in particular significant increases in assessed valuations and property tax revenues, will help relieve the City's current reliance upon one-time fixes. However, this process will take many years; as most of new revenues generated through the economic recovery will be consumed by increasing operational and employee benefit costs. In addition, the revenue increases enjoyed by the City over the past two years may not last - development activity could slow and another economic downturn could quickly put the City back into a deficit spending scenario. The City also remains at risk of future State takeaways and property tax revenues remain subject to County methodology in determining assessed valuation amounts. The loss of the Redevelopment Agency 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 (OPEB) plans will require an increased allocation of resources in the future. Ensuring the availability and stability of the ongoing financial resources, necessary to implement a long-range staffing plan, will be critical for the long-term success of the organization.

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,

Steven M. Salomon
Interim City Manager

Pamela Ehler
City Treasurer/Director of Finance and Information Systems

EXECUTIVE SUMMARY

The Fiscal Model projects a fiscal future in which the revenues from an improving economy will ultimately be sufficient to offset the losses suffered during the recession, although many fiscal challenges remain. Previous versions of the Fiscal Model, despite utilizing the entirety of the Pension/OPEB Obligation Fund, indicated that the General Fund could not maintain its 30% reserve. This version of the Fiscal Model not only projects that the 30% reserve will be maintained, but that $7.6 million of the Pension/OPEB Obligation Fund will remain available by the end of the forecast as well.

The improved revenue outlook must also be tempered, however, with the realization that the current level of development and economic activity may not last. On the expense side, the loss of the Redevelopment Agency left a significant funding gap in the City's capital improvement project plans and underfunding in the City's pension and OPEB will require an increased allocation of resources in the future. To this point, the California Public Employees' Retirement System (PERS) has informed all member agencies to prepare for significant rate increases which will begin in fiscal year (FY) 2016/17. Exhibit 22, on page 33, illustrates the projected PERS pension rate increases for the duration of the Fiscal Model. In addition, although the Pension/OPEB Obligation Fund is projected to have $7.6 million remaining in ten years, the fact that $5.0 million of the fund will be used in the next decade illustrates the reliance the General Fund still has upon this one-time revenue source.

This version of the Fiscal Model does not include any new staffing beyond what was approved in the 2014/15 – 2015/16 Operating Budget which included four sworn officer positions in accordance with the police overstaffing plan. A long-range police 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. It is likely that increased development will create additional demand for services which will ultimately result in increased costs for the Fiscal Model. The results of an alternative Fiscal Model which incorporates increased development and the associated expenses impact is discussed in the "Alternate Scenario" section of this report on page 7.

General Fund revenues began to increase in FY 2012/13, as development activity began to pick up and the housing market rebounded. These increases continued into FY 2013/14, as the City's property tax revenues increased for the first time following five years of declines, and development activity picked up even further. The rebounding economy, and in particular a strong housing market, led to an 18.64% increase in the City's 2014/15 assessed valuation. This increase significantly improved the City's fiscal outlook. The importance of the assessed valuation increase is magnified as it brings increased annual revenues for the General Fund, whereas development fees from increased building activity are temporary by nature.

During the recession, and in the years following, the City utilized one-time revenues to balance the General Fund. Despite the increased revenues, the Fiscal Model still forecasts the drawdown of slightly over $5.0 million of the $12.7 million Pension/OPEB Obligation Fund over the next ten years. Significant increases in employee benefit costs over the next several years will also require an increased commitment of resources. It is only from a balanced budget, free of one-time revenues, that additional revenues will provide a true surplus. The Fiscal Model does project a true surplus to develop, although this does not occur until FY 2021/22, and only then with **no** new staffing positons.

A second component of the Pension/OPEB Obligation Fund includes funds specifically reserved to help offset the rising costs of OPEB. Several years ago the City also established an Insurance Internal Service Fund as a part of a long-term funding strategy for retiree medical costs. The resources of the Insurance Fund, which have since merged into the Pension/OPEB Obligation Fund, were 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 these funds, the General Fund impacts from OPEB over the next several years would be far greater.

At the end of FY 2013/14, the City is projected to have a General Fund balance of $20.0 million, with an unassigned fund balance (also referred to as "reserves") of $14.8 million (a portion of this will be transferred to the Pension/OPEB Obligation Fund, although the Fiscal Model forecast does not change whether the funds reside in the General Fund or the Pension/OPEB Obligation Fund). 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 has always maintained fiscally responsible reserves and at the same time has the necessary tools and resources available to ensure 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	2014/15	2016/17	2018/19	2020/21	2022/23
Beginning Fund Balance	$ 19,991,493	$ 20,315,493	$ 20,154,326	$ 20,259,727	$ 20,740,362
Revenues	$ 35,486,183	$ 38,466,919	$ 41,183,273	$ 44,218,518	$ 47,488,828
Transfer In	$ 6,454,809	$ 5,584,154	$ 6,318,333	$ 7,126,490	$ 8,002,026
Sub-Total	**$ 41,940,992**	**$ 44,051,073**	**$ 47,501,606**	**$ 51,345,008**	**$ 55,490,854**
Operations	$ 38,884,208	$ 41,095,632	$ 43,956,174	$ 46,787,672	$ 49,072,710
Operational Transfers Out	$ 1,425,000	$ 1,509,173	$ 1,641,259	$ 1,750,420	$ 1,864,087
OPEB	$ 1,270,611	$ 2,185,574	$ 2,657,346	$ 3,047,964	$ 3,171,102
Sub-Total	**$ 41,579,819**	**$ 44,790,379**	**$ 48,254,779**	**$ 51,586,056**	**$ 54,107,899**
Net Operations before Pension/OPEB Transfers	$ 361,173	$ (739,306)	$ (753,173)	$ (241,048)	$ 1,382,955
Pension/OPEB Transfer In	$ -	$ 950,000	$ 1,000,000	$ 475,000	$ -
Operating Surplus/(Required Savings/Reductions)	**$ 361,173**	**$ 210,694**	**$ 246,827**	**$ 233,952**	**$ 1,382,955**
Capital Projects	$ 104,556	$ 374,705	$ 180,169	$ 185,964	$ 192,113
Ending Fund Balance	**$ 20,248,110**	**$ 20,151,482**	**$ 20,220,985**	**$ 20,307,715**	**$ 21,931,204**
Assigned/Committed Fund Balance	$ 5,229,556	$ 5,400,000	$ 5,100,000	$ 5,300,000	$ 5,500,000
Unassigned Fund Balance	$ 15,018,554	$ 14,751,482	$ 15,120,985	$ 15,007,715	$ 16,431,204
30% Reserve Requirement	$ 12,046,446	$ 12,984,362	$ 13,984,056	$ 14,950,691	$ 15,673,144

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, 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; 3) 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; 4) a breakdown of employee costs into Non-sworn and Sworn 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; and 5) the inclusion of an Alternate Scenario projected by the Fiscal Model for a different set of assumptions. The Fiscal Model is also continually updated for changes at the State level, including the impacts of the State's dissolution of redevelopment agencies.

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 Non-sworn and Sworn 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 recently adopted 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. 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 data point in the program, the Fiscal Model would not only automatically adjust the City's Building, Planning and Engineering revenue for the increased fees, but it would also provide minor boosts to many of the City's other revenues including: property tax; property transfer tax; sales tax; motor vehicle license revenue; investment income (due to an increase in projected cash) and franchise fees. Changing expenditure drivers, such as projected annual increases in health care or supplies and services costs, can also be achieved by changing a single data point in the model. The assumptions in the model are set for each individual year, meaning staff can analyze each assumption in each 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 the City will continue to enjoy a stable financial future.

FISCAL MODEL FORECAST

Key Finding: ***The Fiscal Model shows improvement in the revenue forecast and projects that the General Fund can operate with a surplus in the future. It is critical, however, that one-time revenues which have been relied upon over the past several years are replaced with this newly sustainable and reliable revenue base. Projected increases in revenues can be sufficient to fully cover future employee benefit cost increases if continued fiscal awareness and responsibility is maintained.***

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. However, the long-term forecast can quickly change 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 long-term projections.

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 has improved significantly over the past two years, but continued fiscal monitoring and caution are critical. Additionally, with so many variables and assumptions in the forecast, even minor deviations in some of the assumptions in the Fiscal Model could have significant impacts on the model's projections. Although the City has already taken many steps to ensure long-term fiscal strength, a lapse in the economic recovery would also 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 impact an economic recovery will have on the City's future.
- Staffing needs in response to a rising population, or other workload indicators, including the impact from the recently approved Police Overstaffing Plan.
- Compensation cost increases, especially retirement, workers' compensation, health care, OPEB, cost of living increases along with 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. library, animal control and storm water management cost increases).
- The impact of recent Legislative actions (e.g. State raids of City motor vehicle revenues, the lack of capital funds resulting from the dissolution of redevelopment agencies, and the loss of

reimbursement funds from the State for costs incurred by the City in complying with State mandates).

In recognition of the significant number of variables and the impacts that changing these variables has on the outlook of the Fiscal Model, an alternative Fiscal Model outlook, referred to as "Scenario 2" has been prepared. Additional details concerning the variable changes contained in Scenario 2 can be found in the next section of this report titled "Alternate Scenario" on page 7.

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 General Fund Financial Summary located on page A3 of the Appendix. As indicated in the Summary, the General Fund is projected to require a subsidy from the Pension/OPEB Obligation Fund over the intermediate term, although $7.6 million is projected to remain available in that Fund by the end of the forecast.

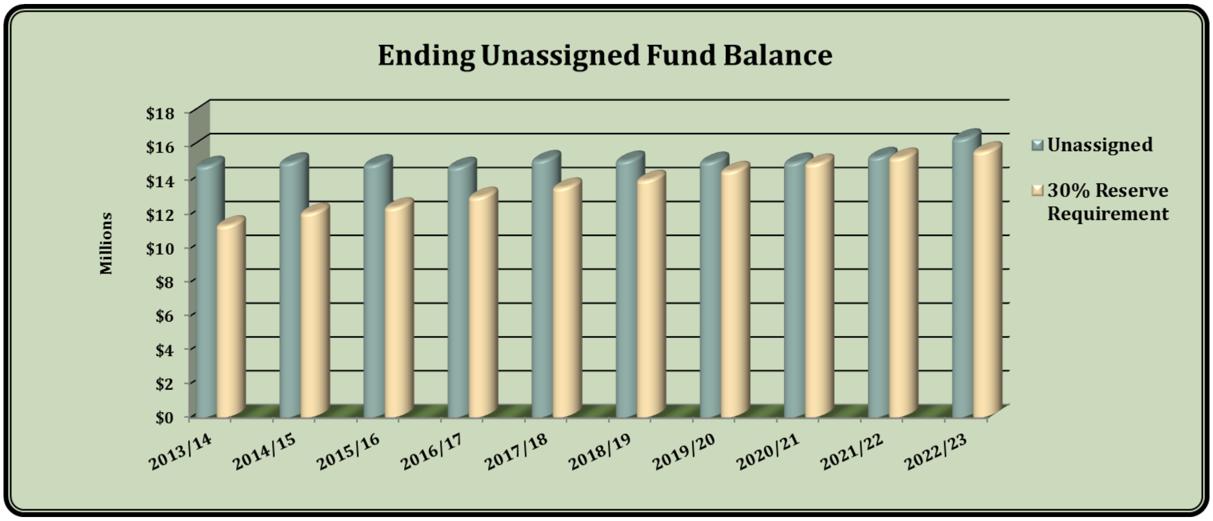
The City Council has adopted a 30% unassigned fund balance goal for the General Fund. The General Fund is projected to meet this goal throughout the forecast. While this outlook is positive, the outlook is fluid and minor changes in the variables of the model can have impacts which could significantly change this outlook – for better or worse. A decrease in development activity or a softening in the housing market would change the outlook of the model and result in projected deficit spending. As an example of how quickly the forecast can change, the July 1, 2014 release of the City's new assessed valuation numbers resulted in a cumulative improvement of over $15 million in the General Fund. At this time, continued caution and fiscal monitoring are the recommended course of action to ensure a sustainable fiscal future. The outlook, while positive, still illustrates that a $5.0 million subsidy is needed from the Pension/OPEB Fund over the next decade in order to maintain a balanced budget and the 30% reserve goal.

It should be noted that current accounting reporting standards do not require unfunded OPEB obligations be counted against a General Fund reserve balance, although they are reported in the CAFR as general governmental obligations of the City. 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 increasing their rates 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 of the fact that actuarial assumption changes may result in higher rates than have been included in the model. The Fiscal Model projects the City paid portion of PERS rates for Tier 1 Sworn employees rising from 31.34% of salary to 49.15% over the next decade. Non-sworn rates are projected to rise from 18.25% of salary to 23.85% during this same time period. These increases include all known variables, including the recent mortality, smoothing and risk pooling methodology changes made by PERS in May 2014. These projections also include the impacts of a potential quarter point reduction in the discount rate occurring in FY 2014/15. While a reduction in the discount rate has not yet been announced by PERS, staff believes that a reduction is on the horizon and has conservatively included those impacts in the Fiscal Model.

Exhibit 2, presented on the following page, 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 in FY 2007/08. Following years of steep declines, revenues bottomed out while expenditure growth, in particular employee benefit costs associated with health care, retiree medical and pensions, placed new strains on the General Fund budget. The City began to address the expenditure concerns through labor negotiations and achieved a moderate level of cost certainty for the next several years, although long-term pension costs, and to a certain degree health insurance costs, continue to remain vulnerable to external factors. Despite the increased development activity and property valuations, the Fiscal Model is forecasting expenditure growth rates which will slightly exceed expenditure growth over the long term, as the impacts of rising pension and OPEB costs are phased in.

Over the past several years the General Fund has had an existing operational deficit, with one-time revenues helping bridge recent budgetary gaps. The unsustainable increase in development activity in FY 2013/14 resulted in the General Fund being balanced exclusive of one-time revenues for the first time since the recession – a decline to more sustainable development activity will likely bring back the need for one-time revenues. These short-term funding solutions were critical in allowing the City to maintain its existing high service levels without suffering any losses in public safety during the downturn. The Fiscal Model projects this can be accomplished with the General Fund projected to operate with an operational surplus by FY 2021/22.

One-time revenues of $0.6 million are projected in FY 2014/15. Unfortunately, rising pension and OPEB costs will soon increase the need for one-time revenues (primarily in the form of Pension/OPEB Obligation Fund transfers). Beginning in FY 2015/16, the operational gap in the General Fund is projected to be $0.4 million, and increases over the next two years to a peak of $0.9 million in FY 2017/18. The funding gap then narrows and is eliminated by FY 2021/22, as pension and OPEB increases subside and the impacts from the second and third tier bargaining solutions begin to have a larger impact.

In addition to utilizing the Pension/OPEB Obligation Fund for budget stabilization purposes, the City is also projected to continue using the Pension/OPEB Obligation Fund as a part of its long-term retiree medical funding strategy. The Insurance Fund, established in FY 2004/05, was funded from City savings achieved through prefunding annual pension payments and workers' compensation savings. These funds were combined with the Budget Stabilization Fund in FY 2012/13 but have been tracked separately and will be used for purposes of lowering city wide OPEB contribution costs. These contributions will allow the General Fund to phase in the impacts of funding the retiree medical costs incrementally over the next several years. Absent this additional support, additional General Fund OPEB contributions of approximately $500,000 per year would be required over the next several years.

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, changing 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 impact of **$2.4 million**. 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 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 was the situation in many cities in California over the past several years. With revenues now increasing, the City's financial outlook is stronger than it has been in many years. The City's main financial goal continues 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.

ALTERNATE SCENARIO

***Key Finding:** The Fiscal Model is highly sensitive to changes in the assumed variables. Developing alternate scenarios allows for consideration of the fiscal impacts of a variety of potential outcomes.*

The Fiscal Model contains hundreds of variables which, when adjusted, result in forecasts which can be significantly different than the base forecast. The assumptions of the Fiscal Model are presented in Exhibit A4, found in the Appendix on page A4. Those assumptions generated the narrative, charts and tables contained throughout the Fiscal Model. An alternate forecast, Scenario 2, contains adjustments to several of these variables which lead to a significantly different outlook. The ten-year summary of Scenario 2 is presented in Exhibit A5 in the Appendix.

Scenario 2 assumes increased development activity beyond what is in the base Fiscal Model and assumes an additional 50 single-family residential building permits per year from FY 2014/15 through FY 2017/18, and an additional 25 single-family residential building permits per year from FY 2018/19 through FY 2022/23. Along with this increased development activity, Scenario 2 addresses staffing and other expenditure pressures resulting from the increased development activity and an increased population base.

The most significant cost increases included in Scenario 2 are for additional staffing needs. These costs include an additional 5 sworn officers (bringing the City's total sworn staffing count to 71), non-sworn support staff for the additional officers (an additional 1.3 full time equivalent positions) and a combined 1.75 full time equivalent positions for Parks, Public Works and Community Development for a total of approximately 8 new General Fund positions over the next decade.

In addition to increased personnel costs, Scenario 2 also includes increased supplies and services costs in a proportionate manner to the rate of population growth. These expense growth rates are consistent with the analysis from the Fiscal Sustainability component of the new General Plan, and result in a cumulative increase in supplies and services costs ranging from 3.6% to 14.4%, depending upon the specific department and function. These cost increases are in addition to standard inflation increases already included in the base Fiscal Model. Increases in internal service costs have also been included to accommodate the additional demands of additional employees and the increased population base.

The results of Scenario 2, as shown in Exhibit A5, indicate that the General Fund would exhaust the entirety of the Pension/OPEB Obligation Fund, while the General Fund would still fall $2.6 million short of the 30% reserve requirement at the end of FY 2022/23. Also concerning is that the last year of the forecast projects a shortfall of $1.1 million, indicating that a **true structural deficit** exists in this scenario. This contrasts with previous Fiscal Model forecasts, where the outlook would typically improve in the latter years of the forecast once the ramping up of the additional costs associated with pension rate increases and OPEB obligations was complete and the impacts of labor cost savings began to accumulate.

GROWTH PROJECTION MODEL

Key Finding: ***Development activity has increased over the past several years, rising from a low of just 31 single-family residential (SFR) building permits to 500 permits in FY 2013/14. Development activity is projected to continue at a slightly reduced pace going forward, with 275 single-family units projected annually through FY 2017/18 and 250 single-family units annually for the five following years. The City's population growth rate is expected to remain fairly consistent over the next decade, with annual gains in the mid 1% range.***

The City's growth model is summarized in Exhibit 3 below and Exhibit 4, on the following page. 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, with the population increase occurring the year following the issuance of the building permit. 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	355	355	-	781	53,356	1.5%
2013/14	500	500	-	1,385	54,741	2.6%
2014/15	275	275	-	1,550	56,291	2.8%
2015/16	275	275	-	853	57,144	1.5%
2016/17	315	275	40	853	57,997	1.5%
2017/18	315	275	40	977	58,974	1.7%
2018/19	290	250	40	977	59,951	1.7%
2019/20	280	250	30	899	60,850	1.5%
2020/21	280	250	30	868	61,718	1.4%
2021/22	280	250	30	868	62,586	1.4%
2022/23	280	250	30	868	63,454	1.4%
Total New	**3,090**	**2,850**	**240**	**10,098**	**63,454**	**18.93%**

**Decrease due to true-up done every ten years as part of the nationwide census.*
***Assumes a one year delay from time of building permit to increase in population.*

The total number of new single-family houses projected through 2023 is 2,850. Combined with the 240 multiple-family permits, the City is expecting 10,098 new residents over the next decade. The increase in building permits is consistent with the forecast in the City's Capital Improvement Program (CIP). If these estimates hold true, the City will have a population of approximately 63,454 in 2023. The recently completed General Plan update, which was adopted by the City Council in July 2014, has a City build-out population projection of 80,917. In comparison, Scenario 2 in the Appendix projects a population of 64,386 by 2023.

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 the 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 **$19.1 million** of revenue through FY 2022/23. 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 industrial growth over the next ten years. Commercial growth, which has declined over the past several years, is forecast to see modest activity during the middle part of the 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 annual 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	15,325	-	8,439
2013/14	10,000	-	10,000
2014/15	-	-	20,000
2015/16	75,000	-	50,000
2016/17	50,000	-	20,000
2017/18	20,000	10,000	-
2018/19	25,000	-	-
2019/20	15,000	-	10,000
2020/21	15,000	-	10,000
2021/22	15,000	-	10,000
2022/23	15,000	-	10,000
Total New	**240,000**	**10,000**	**140,000**

REVENUE SUMMARY

Key Finding: ***After years of declines, led primarily by development revenues and property taxes, General Fund revenues are now posting annual increases. During the recession, revenue declines put a tremendous strain on the City's operating budget. Recent strong increases in property tax revenues combined with continued moderate revenue gains in the Fiscal Model are projected to result in a General Fund surplus towards the end of the forecast; however, this is only if revenue gains are first used to fill gaps left by the expiration of one-time revenue solutions.***

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. The recession had a significant impact on the City's ongoing revenue base. 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. During this time, the General Fund utilized one-time revenues in order to have revenues meet expenditures on an annual basis.

In FY 2012/13 revenues began to increase, as development activity began to pick up and the housing market began to rebound. These increases continued into FY 2013/14, as the City's property tax revenues increased for the first time following five years of declines, and development activity picked up even further, with 500 single-family residential building permits issued during the year. The rebounding economy, and in particular a strong housing market, resulted in an 18.64% increase in the City's 2014/15 assessed valuation. This increase is especially significant because it will generate ongoing revenues for the General Fund, whereas development fees from increased building activity do not.

As mentioned above, during the recession and in the years following the City utilized one-time revenues, and in fact, despite significantly increased revenues, the Fiscal Model still forecasts the drawdown of $5.0 million of the Pension/OPEB Obligation Fund over the next ten years. New revenues must first replace the one-time revenues to simply bring the General Fund back into a sustainable operational balance. In addition, significant increases in employee benefit costs over the next several years will also require an increased commitment of resources. It is only from a balanced budget, free of one-time revenues, that additional revenues will provide a true surplus. The Fiscal Model does project this to occur, although not until FY 2021/22. In Scenario 2, the demands put on the General Fund by an increased population base result in the continuation of a structural deficit despite the additional revenues.

Property tax revenue is the General Fund's largest revenue source, and is received based upon the assessed valuation in the City. The importance of assessed valuation to the General Fund's budget is heightened by changes to vehicle license fee revenue made by the State approximately ten years ago. Since that time, funding has been indexed to assessed valuations changes. In FY 2013/14, over one fourth of General Fund revenue ($10.9 million) was tied to the assessed valuation in the City. On July 1, 2014 the County Assessor released the 2014/2015 County Assessment Roll which included an 18.64%

increase for the City. The magnitude of this increase, which will result in a significant increase in ongoing revenues, has dramatically altered the projections of the Fiscal Model.

Property tax revenue, which peaked at $9.2 million in FY 2007/08, fell by over 33% from this level, bottoming out at $6.0 million in FY 2012/13. Following an assessed valuation increase of 8.4% in FY 2013/14, the 18.64% increase of FY 2014/15 represents a second consecutive annual gain. Despite these increases, and despite projected annual increases of 4.2% over the five years following FY 2014/15, the Fiscal Model does not project that the City will surpass (excluding Redevelopment property tax receipts) the previous property tax revenue peak until FY 2019/20. According to this projection, the City will experience a 12 year time period during which its top revenue source will remain unchanged, while the population and the associated demand for services have continued to escalate.

The key components of property tax revenue (i.e. new development, property turnover and the annual Consumer Price Index (CPI) adjustment by the County assessor) have been separately forecast in the model. Additionally, the relative contributions to property taxes, between residential and non-residential property, have also been separately forecast. Exhibit 5, presented below, illustrates the relative projected contributions to the General Fund's property tax revenues as forecast by the Fiscal Model. Note that the figures for FYs 2013/14 and 2014/15 are actual amounts.

EXHIBIT 5: Annual Contributions to Property Tax Revenue Changes

Fiscal Year	CPI/Prop. 8 Adjustments	Turnover	New Development	Total
2013/14	N/A	N/A	N/A	8.45%
2014/15	N/A	N/A	N/A	18.64%
2015/16	1.82%	0.43%	1.89%	4.14%
2016/17	1.82%	0.43%	1.93%	4.17%
2017/18	1.82%	0.42%	2.11%	4.35%
2018/19	1.82%	0.42%	1.99%	4.23%
2019/20	1.82%	0.42%	1.79%	4.02%
2020/21	1.82%	0.42%	1.71%	3.95%
2021/22	1.82%	0.41%	1.68%	3.91%
2022/23	1.82%	0.41%	1.65%	3.89%

By law, the maximum annual CPI adjustment is 2%; however, if the CPI is less than 2% (or if the CPI adjustment would result in a property being assessed above its market value) the assessor can only apply the lesser amount. The Fiscal Model assumes average annual CPI increases of 1.82%, thus allowing for the occasional year with a lower statutory CPI. In addition, under Proposition 8, a property must be reassessed downward to "fair market value" if the calculated assessed valuation exceeds the market value. Downward reassessments during the recession were a major cause of the City's reductions in assessed valuation.

There is a potential to recapture some of this lost revenue, however. If a property receives a temporary reduction under Proposition 8 and does not change hands, the assessed value of the property can be increased more than the statutory 2% in future years to keep up with the fair market value. The City's 18.64% increase in assessed valuation included a significant amount of these Proposition 8 reassessments. The Fiscal Model does not include any additional gains beyond FY 2014/15 from Proposition 8 recapture amounts, as these adjustments are subject to the discretion of the County Assessor and assuming additional gains requires an assumption that the housing market will continue to rally.

The dissolution of redevelopment agencies by the California Legislature will also provide a boost to General Fund property tax revenues. The General Fund is currently receiving approximately $300,000 per year from property tax revenues previously allocated to the Brentwood Redevelopment Agency. However, these receipts would temporarily cease for two years if the former Agency is authorized to complete its funding obligations to capital projects it was contractually obligated to fund at the time of dissolution. As such, the Fiscal Model delays future projected property tax receipts from the former Redevelopment Agency until FY 2016/17. This ongoing annual revenue source is projected to average over $400,000 over the last half of the Fiscal Model. While this revenue is projected to become a significant funding source for the General Fund, if dissolution had not occurred the Brentwood Redevelopment Agency would have generated a projected $2.5 million in annual surplus cash that could have been used for any number of necessary projects in the City. The dissolution of the Agency has resulted in long-term funding shortfalls for several major capital projects.

The City's per capita base General Fund property tax revenue (the average amount received by the City per resident) is $120.29 for FY 2013/14. Each city receives a differing percentage of each property tax dollar paid in their individual city. Within each city there are multiple tax rate areas, which each allocate different percentages to the various taxing entities. Brentwood's largest tax rate area allocates 13.4 cents out of each dollar paid by its residents to the General Fund (in addition to 3.1 cents allocated to Parks and Recreation). The fact that different cities receive different allocations, along with differing property values and land use, results in significant variances in the per capita property tax amount among cities in California. For example, 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.

Exhibit 6, on the following page, presents a comparison of Brentwood's General Fund property tax revenues, on a per capita basis, with other local comparable cities. The comparable cities were selected from Contra Costa, Alameda, Solano and San Joaquin counties, with the figures in the Exhibit representing just the General Fund portion base portion for each City, with no allowance being made for other property tax revenue which may be received (e.g. Redevelopment or Parks and Recreation property tax, which are 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 show the City takes in less property tax revenue per capita than the average comparison city. Comparative information for FY 2014/15 is not yet available; however, Brentwood's per capita revenue for the year has been estimated at $141.12. In comparison, in FY 2007/08 the City received $182.48 in per capita property tax revenue.

EXHIBIT 6: Multi-City Comparison of Property Tax Revenue

City	1/1/2014 Population	2013/14 Est. General Fund Property Tax	2013/14 Est. Revenue Per Capita	2012/13 Est. Revenue Per Capita
Pleasanton	73,067	$ 45,372,377	$ 620.97	$ 602.77
Benicia	27,454	$ 12,841,902	$ 467.76	$ 438.74
Dublin	53,462	$ 22,883,947	$ 428.04	$ 409.58
Livermore	84,852	$ 23,925,181	$ 281.96	$ 268.88
Fremont	223,972	$ 46,398,258	$ 207.16	$ 197.27
Oakland	404,355	$ 83,309,634	$ 206.03	$ 180.37
Martinez	36,842	$ 6,617,933	$ 179.63	$ 168.57
Walnut Creek	66,183	$ 11,689,836	$ 176.63	$ 166.69
Danville	43,146	$ 7,476,169	$ 173.28	$ 167.16
San Ramon	77,270	$ 10,847,895	$ 140.39	$ 137.33
Union City	72,155	$ 9,187,759	$ 127.33	$ 122.20
Brentwood	**54,741**	**$ 6,584,600**	**$ 120.29**	**$ 113.14**
Tracy	85,146	$ 10,096,369	$ 118.58	$ 116.87
Vallejo	118,470	$ 13,393,814	$ 113.06	$ 105.43
Vacaville	93,613	$ 10,484,101	$ 111.99	$ 103.06
Fairfield	110,018	$ 10,322,849	$ 93.83	$ 86.51
Concord	124,656	$ 10,959,152	$ 87.92	$ 84.55
Stockton	300,899	$ 26,404,580	$ 87.75	$ 82.85
Antioch	106,455	$ 7,216,023	$ 67.78	$ 64.67
Pleasant Hill	33,872	$ 2,278,259	$ 67.26	$ 64.43
Oakley	38,075	$ 1,647,751	$ 43.28	$ 41.93
Average Comparison City	106,129	$ 18,092,304	$ 186.71	$ 177.29

Sales tax, currently the General Fund's second largest single revenue source, performed remarkably well throughout the downturn and continued to post strong numbers as the economy recovered. Brentwood was the only city in Contra Costa County with sales tax growth during calendar year 2009, and has averaged a 6.75% annual growth rate over the past four years. By comparison, Contra Costa County was down over 17% in 2009 and has averaged a 5.06% annual growth rate over the past four years. Longer term, the City expects sales tax to post average annual gains of 4.2% 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 of inflation, population increases and new commercial development contained within the assumptions of the Fiscal Model.

Exhibit 7, on the following page, provides per capita information and comparisons of the City's sales tax revenue in relation to other local agencies. The same comparison cities used for the property tax comparison have been used in the sales tax analysis. 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	1/1/2013 Population		2013 Calendar Year Gross Sales Tax		2013 Revenue Per Capita		2012 Revenue Per Capita
Dublin	49,890	$	17,444,819	$	349.67	$	354.31
Walnut Creek	65,684	$	21,032,015	$	320.20	$	302.07
Livermore	83,325	$	25,957,545	$	311.52	$	260.43
Pleasanton	71,871	$	20,894,851	$	290.73	$	267.94
Benicia	27,163	$	6,276,189	$	231.06	$	240.15
Concord	123,812	$	27,486,048	$	222.00	$	207.11
Pleasant Hill	33,633	$	7,420,176	$	220.62	$	212.56
Vacaville	92,677	$	17,306,937	$	186.74	$	177.37
Tracy	84,060	$	15,331,561	$	182.39	$	162.05
Fairfield	108,207	$	19,016,773	$	175.74	$	160.37
Fremont	219,926	$	35,823,708	$	162.89	$	154.24
Martinez	36,578	$	5,933,104	$	162.20	$	140.43
Stockton	296,344	$	38,454,352	$	129.76	$	126.35
Union City	71,329	$	9,074,620	$	127.22	$	123.66
San Ramon	76,154	$	9,633,785	$	126.50	$	112.01
Danville	42,720	$	5,202,534	$	121.78	$	119.67
Brentwood	**53,356**	**$**	**6,411,497**	**$**	**120.16**	**$**	**114.21**
Oakland	399,326	$	46,313,073	$	115.98	$	113.19
Vallejo	117,112	$	12,781,160	$	109.14	$	101.29
Antioch	105,117	$	10,850,636	$	103.22	$	102.19
Oakley	37,252	$	1,528,458	$	41.03	$	43.44
Average Comparison City	104,549	$	17,151,135	$	181.46	$	171.19

In looking at total General Fund revenue, the Fiscal Model is forecasting average annual increases of 3.3% per year, with an average annual increase of 1.6% in per capita revenue. This means 1.7% of annual 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, average annual revenue increases of 3.7% are expected, with a 2.0% increase in per capita revenue. The largest drivers of this increase are related to property and sales taxes. The existing property tax revenue base is projected to grow at a 3.6% annual rate, with new development and the onset of redevelopment property tax distributions bringing the overall average annual increase to 5.4%. Sales tax is projected to increase at an average rate of 4.2% annually; well below recent trends but still reflective of a growing consumer base.

One of the City's key long-term revenue sources is Community Facilities District (CFD) assessment revenue. All new development within the City is required to join a CFD, which ensures the City has sufficient funding to meet the service demands associated with the new development. While increased development activity will result in additional CFD funding, the Fiscal Model has assumed that CFD revenues generated above what was contemplated in the 2012/13 Fiscal Model are not available for General Fund usage, but rather for a future project and associated bond issuance at the discretion of the City Council. Current projections indicate that over the next several years an ongoing annual surplus of nearly $500,000 may be available for this purpose, with a cumulative ten-year surplus of over $4.5 million. These funds are **in addition** to the annual CFD transfer to the General Fund contained in the Fiscal Model.

Although a significant increase in development activity allowed the General Fund to have recurring revenues exceed expenditures by a projected $1.0 million in FY 2013/14, this level of development activity (500 single-family permits) is not expected to continue. When coupled with projected personnel cost increases during the middle to latter part of the decade, annual deficits and a reliance on transfers from the Pension/OPEB Obligation Fund are still anticipated to be needed for several years of the forecast. Although the large property tax revenue increase has provided a source of funds to largely fill this gap, additional revenue growth is still needed to remove any General Fund dependency on one-time revenues. Exhibit 8 presents the use of one-time revenues (including funding from the Pension/OPEB Obligation Fund) over the next decade and Exhibit 10 illustrates the drawdown of the Budget Stabilization portion of the Pension/OPEB Obligation Fund.

EXHIBIT 8: One-Time Revenues

Fiscal Year	One-Time Revenue	Total Revenue	One-Time Revenue as a % of Total Revenue
2013/14	$ 1,330,570	$ 41,380,863	3.22%
2014/15	$ 600,000	$ 41,940,992	1.43%
2015/16	$ 600,000	$ 42,893,626	1.40%
2016/17	$ 950,000	$ 45,001,073	2.11%
2017/18	$ 1,075,000	$ 46,883,820	2.29%
2018/19	$ 1,000,000	$ 48,501,606	2.06%
2019/20	$ 925,000	$ 50,287,852	1.84%
2020/21	$ 475,000	$ 51,820,008	0.92%
2021/22	$ -	$ 53,419,339	0.00%
2022/23	$ -	$ 55,490,854	0.00%

Exhibit 9, on the following page, presents details concerning the composition of General Fund revenue and compares FY 2013/14 to FY 2022/23 to highlight long-term trends in the City's revenue mix.

EXHIBIT 9: Revenue Summary

Revenue Summary	2013/14	2022/23	Total Increase	Avg. Growth Rate	Current Per Capita
Property Tax					
Existing Base	$ 6,584,600	$ 9,023,650	$ 2,439,050	3.6%	$ 120.29
New Residential	$ -	$ 1,247,932	$ 1,247,932	N/A	$ -
Residential Turnover	$ -	$ 299,865	$ 299,865	N/A	$ -
New Commercial / Ind	$ -	$ 68,216	$ 68,216	N/A	$ -
Redevelopment	$ 312,959	$ 471,051	$ 158,092	4.6%	$ 5.72
Sub -Total	**$ 6,897,559**	**$ 11,110,713**	**$ 4,213,154**	**5.4%**	**$ 126.00**
Property Transfer	$ 360,000	$ 532,897	$ 172,897	4.5%	$ 6.58
Sales Tax	$ 6,362,992	$ 9,236,896	$ 2,873,904	4.2%	$ 116.24
Franchise Fees	$ 1,288,625	$ 1,903,958	$ 615,333	4.4%	$ 23.54
Transient Occupancy Tax	$ 272,000	$ 401,883	$ 129,883	4.4%	$ 4.97
Motor Vehicle License	$ 2,748,701	$ 4,460,296	$ 1,711,595	5.5%	$ 50.21
Investment Income	$ 100,000	$ 642,951	$ 542,951	23.0%	$ 1.83
Business License	$ 566,822	$ 745,807	$ 178,985	3.1%	$ 10.35
Building Fees	$ 2,895,159	$ 2,285,304	$ (609,855)	-2.6%	$ 52.89
Engineering Fees	$ 2,179,073	$ 2,583,687	$ 404,614	1.9%	$ 39.81
Planning Fees	$ 363,993	$ 257,406	$ (106,587)	-3.8%	$ 6.65
Parks and Recreation	$ 2,507,659	$ 3,914,177	$ 1,406,518	5.1%	$ 45.81
Interfund Services	$ 6,827,781	$ 7,858,779	$ 1,030,998	1.6%	$ 124.73
Other	$ 1,219,402	$ 1,554,074	$ 334,672	2.7%	$ 22.28
Recurring Transfers In	$ 5,460,527	$ 8,002,026	$ 2,541,499	4.3%	$ 99.75
Total Recurring Revenue	**$ 40,050,293**	**$ 55,490,854**	**$ 15,440,561**	**3.7%**	**$ 731.63**
Non-Recurring Revenue	$ 1,330,570	$ -	$ (1,330,570)	-100.0%	$ 24.31
Total	**$ 41,380,863**	**$ 55,490,854**	**$ 14,109,991**	**3.3%**	**$ 755.94**
Per Capita - Recurring	731.63	874.51	$ 142.88	2.0%	
Per Capita Total	$ 755.94	$ 874.51	$ 118.57	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 – Pension/OPEB Obligation funding.

A total of $13.5 million from previous General Fund savings has been set aside in the Pension/OPEB Obligation Fund to help mitigate budgetary challenges in the General Fund. $0.8 million of this has been utilized as a loan for the completion of the City Park Project, with repayment to come from the former Brentwood Redevelopment Agency. The Fiscal Model, taking a conservative approach, does not include the repayment of this loan, thus the Fund begins with a balance of $12.7 million.

In 2013, the Budget Stabilization Fund was combined with the funds dedicated for OPEB expense mitigation (within the Insurance Fund) to create the new Pension/OPEB Obligation Fund. Because the

Budget Stabilization Funds were entirely attributable to the General Fund, the City is tracking the Budget Stabilization portion of the new fund separately, as depicted in Exhibit 10 below. An additional $2.4 million of city wide funds are also in the Pension/OPEB Obligation Fund for OPEB funding purposes, although those funds are projected to be fully utilized over the next ten years.

As the Fiscal Model shows, the General Fund is projected to utilize nearly half of the available balance in the Pension/OPEB Obligation Fund as an intermediate-term budgetary solution, one which bridges the budget gap while longer-term solutions are given time to produce more substantial savings. This strategy will allow for continuity of the services being provided by the City while addressing long-term fiscal concerns at the same time. Indeed, by the end of the Fiscal Model the General Fund is free from reliance upon one-time revenues and maintains a 30% reserve. Exhibit 10 summarizes the usage of the Pension/OPEB Obligation Fund (considered one-time revenues in the Fiscal Model).

EXHIBIT 10: Pension/Other Post-Employment Benefit Obligation Fund Usage

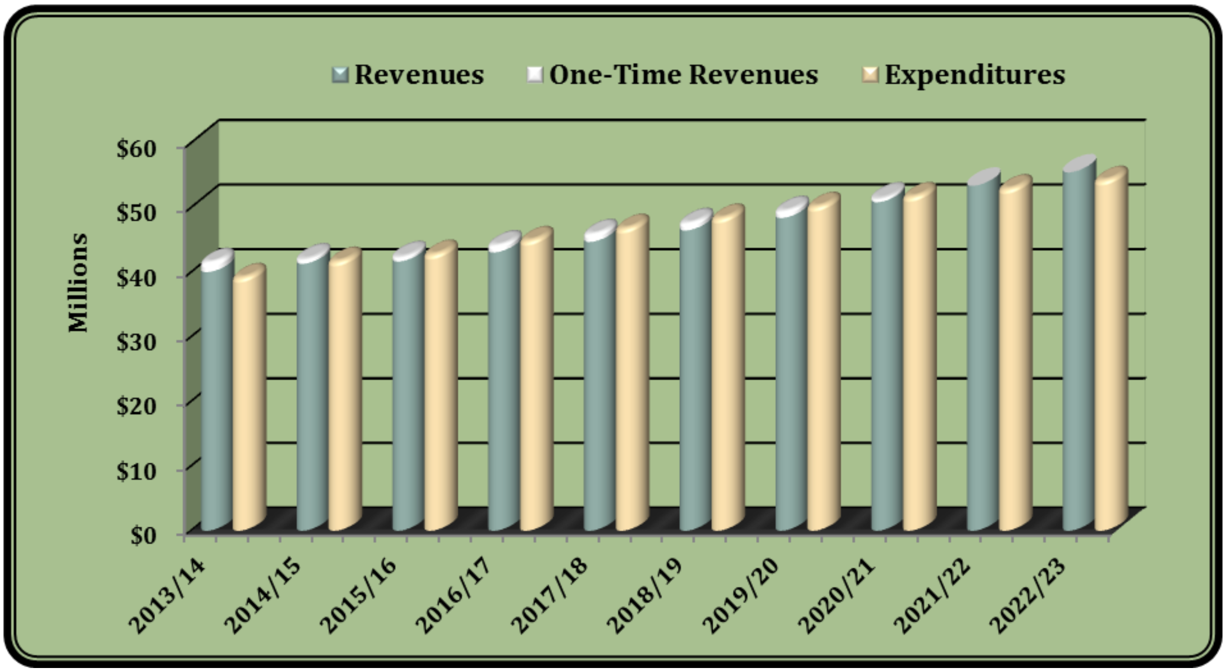
Fiscal Year	Beginning Pension / OPEB Fund Balance*	Transfer to (from) General Fund	Ending Pension / OPEB Fund Balance*
2013/14	$ 12,657,173	$ -	$ 12,657,173
2014/15	$ 12,657,173	$ -	$ 12,657,173
2015/16	$ 12,657,173	$ 600,000	$ 12,057,173
2016/17	$ 12,057,173	$ 950,000	$ 11,107,173
2017/18	$ 11,107,173	$ 1,075,000	$ 10,032,173
2018/19	$ 10,032,173	$ 1,000,000	$ 9,032,173
2019/20	$ 9,032,173	$ 925,000	$ 8,107,173
2020/21	$ 8,107,173	$ 475,000	$ 7,632,173
2021/22	$ 7,632,173	$ -	$ 7,632,173
2022/23	$ 7,632,173	$ -	$ 7,632,173

**Figures reflect amounts available for transfer to the General Fund and do not include the funds to be used in support of OPEB costs.*

By the end of the next decade, $7.6 million of the Budget Stabilization portion of the Pension/OPEB Obligation Fund remains available for the General Fund. These funds represent a source of funds that could be used should another economic downturn occur, or should the assumptions in the Fiscal Model be adjusted. It has been noted that small adjustments to the assumptions in the Fiscal Model result in significant fiscal impacts over the long term, and as such, the projection of having a $7.6 million remaining balance is far from a certainty. Case in point, Fiscal Model Scenario 2 projects a full drawdown of the fund, while still falling short of maintaining a 30% General Fund reserve.

Exhibit 1, on the following page, illustrates the timeframe by which the General Fund is projected to replace one-time revenues with ongoing revenues. One-time revenues, including transfers from the Pension/OPEB Obligation Fund, comprise approximately 3.2% of General Fund revenues in FY 2013/14. During the next several years approximately 1.4% to 2.3% of General Fund revenues are comprised of one-time revenues. By FY 2021/22 no further one-time revenues are anticipated.

EXHIBIT 11: Revenues and Expenditures



EXPENSE SUMMARY

<u>Key Finding:</u> The City must continue to monitor expenses in order to operate with a balanced budget. The City has secured intermediate-term cost certainty through labor negotiations; however, several of the costliest benefits, such as pensions, OPEB and health insurance, 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 limited ability to increase revenues, budgetary constraints should be managed through the expenditure side. Increased cost pressures resulting from development are likely to occur.

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. During the downturn the City reduced staffing levels, trimmed supplies and services budgets and implemented significant cost saving measures in order to balance the budget and maintain 30% reserves. Despite these efforts, the City still has unfunded OPEB obligations and upcoming pension rate increases related to underfunded pension plans which, as governed 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. Although the substantial assessed valuation increases for FY 2014/15 have relieved a significant amount of stress from the City's budget, annual operating deficits averaging $600,000 per year are projected during the FY 2015/16 – FY 2020/21 timeframe. These deficits will be covered by transfers from the Pension/OPEB Obligation Fund, which is projected to be drawn down to $7.6 million by the end of the Fiscal Model. The later years of the Fiscal Model project operating surpluses, which may ultimately allow for a portion of the Pension/OPEB Obligation Fund drawdowns to be replenished at a later date.

Given the numerous variables and economic assumptions which comprise the Fiscal Model, it is certainly possible, and in fact probable, this outlook will change. Even relatively minor changes in the overall economy result in large impacts to the projections. For example, adjusting supplies and services costs by 1% annually results in a cumulative change of over $3 million over the course of the next ten years. By the end of the Fiscal Model, the impact would exceed $700,000 on an annual basis. As such, the projected surpluses in the later years are far from a certainty.

The General Fund Balance is projected to remain above 30% as a percentage of expenses during the entirety of the Fiscal Model, an achievement that had not been projected in the Fiscal Model at any time since the recession.

The Fiscal Model addresses the immediate staffing needs of the Police Department and includes the costs associated with the Police Overstaffing plan. In addition, a long-range staffing plan is also being developed and will be brought separately to the City Council for consideration. In the interim, performance measures, workload indicators and staffing headcount will continue to be monitored on a regular basis. Scenario 2 of the Fiscal Model includes additional staffing and operational costs associated with increased development activity, as discussed in the "Alternate Scenario" section on page 7. Also included in the Fiscal Model are the costs associated with increasing the City paid Non-sworn health insurance cap by $100 and increasing the Sworn health cap to the cost of the lowest, full family HMO plan, subject to a 10% annual maximum increase.

Savings resulting from a decrease in future medical in-lieu costs are accounted for, as are the costs associated with the elimination of the second tier for health insurance coverage which was established to combat the difficulties experienced by the City in recruiting qualified candidates to fill vacant positions.

Each year, the General Fund winds up with expenditure savings when compared to the adopted budget. Over the past five years, the savings amounts have averaged 3.7% for personnel costs (with a range of 2.6% - 4.9%) and have averaged 15.8% for supplies and services costs (with a range of 13.5% - 18.3%). In order to accurately model the General Fund's anticipated results as opposed to its budget, the Fiscal Model has a built in budgetary expenditure savings of 2.5% for personnel costs and 13% 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 illustrate a conservative projection as opposed to budgetary figures which typically indicate a more challenging fiscal situation. The expenditure savings amounts including the Fiscal Model equate to approximately $1.7 million in FY 2013/14 and increase to $2.1 million by FY 2022/23.

In total, General Fund operating expenses are projected to increase from $39.1 million in FY 2013/14 to $54.1 million in FY 2022/23. This equates to an average annual expenditure growth rate of 3.7%.

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 identifies underlying trends and variables which impact specific expenses across all departments.

A. Department Expenditure Analysis

Exhibit 12, on the following page, 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, Community Facilities and Non-Departmental. Detailed expenditure data for each of these departments can be found in Exhibit A2.

Excluding OPEB, the projected annual increases range between 2.2% for general government to 3.9% for police.

EXHIBIT 12: Expense Summary by Department (OPEB Unallocated)

Department Summary	2013/14	2022/23	Total Increase	Avg. Growth Rate
General Government	$ 6,452,320	$ 7,832,481	$ 1,380,161	2.2%
Police	$ 16,384,192	$ 23,037,283	$ 6,653,091	3.9%
Parks and Recreation	$ 4,929,064	$ 6,282,728	$ 1,353,664	2.7%
Community Development	$ 3,972,182	$ 5,054,503	$ 1,082,321	2.7%
Public Works	$ 5,292,029	$ 6,865,715	$ 1,573,686	2.9%
OPEB	$ 652,328	$ 3,171,102	$ 2,518,774	19.2%
Operational Transfers Out	$ 1,373,493	$ 1,864,087	$ 490,594	3.5%
Total	**$39,055,608**	**$54,107,899**	**$15,052,291**	**3.7%**
Per Capita	$713	$853	$140	2.0%

The figures in Exhibit 12 do not present a complete picture 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 19.2%, departmental annual expenditure increases range from 2.6% to 4.5%. These costs do not include any funds for additional staffing, although the costs of the Police Overstaffing plan have been incorporated into these projections. In Scenario 2 of the Fiscal Model, which includes additional staffing and associated costs, the annual growth rates range from 2.9% for General Government to 5.3% for Police.

EXHIBIT 13: Expense Summary by Department (OPEB Allocated)

Department Summary	2013/14	2022/23	Total Increase	Avg. Growth Rate
General Government	$ 6,551,023	$ 8,279,194	$ 1,728,171	2.6%
Police	$ 16,724,559	$ 24,762,870	$ 8,038,312	4.5%
Parks and Recreation	$ 4,980,675	$ 6,524,451	$ 1,543,776	3.0%
Community Development	$ 4,041,806	$ 5,380,588	$ 1,338,782	3.2%
Public Works	$ 5,384,052	$ 7,296,708	$ 1,912,656	3.4%
Operational Transfers Out	$ 1,373,493	$ 1,864,087	$ 490,594	3.5%
Total	**$39,055,608**	**$54,107,899**	**$15,052,291**	**3.7%**
Per Capita	$713	$853	$140	2.0%

A comparison of each department's percentage share of the budget for both FY 2013/14 and FY 2022/23 is illustrated in Exhibit 14, on the following page. As was the case in Exhibit 12, the impacts of OPEB are so significant the results are skewed. By FY 2022/23 OPEB, as a "department", becomes 5.9% of the General Fund all by itself – greater than half the size of Parks and Recreation.

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

Department Summary	2013/14	2022/23	2013/14 Share	2022/23 Share
General Government	$ 6,452,320	$ 7,832,481	16.5%	14.5%
Police	$ 16,384,192	$ 23,037,283	42.0%	42.6%
Parks and Recreation	$ 4,929,064	$ 6,282,728	12.6%	11.6%
Community Development	$ 3,972,182	$ 5,054,503	10.2%	9.3%
Public Works	$ 5,292,029	$ 6,865,715	13.5%	12.7%
OPEB	$ 652,328	$ 3,171,102	1.7%	5.9%
Operational Transfers Out	$ 1,373,493	$ 1,864,087	3.5%	3.4%
Total	**$39,055,608**	**$54,107,899**	**100.0%**	**100.0%**

Allocating the OPEB costs to the appropriate departments once again provides a preferred way of analyzing the data. Exhibit 15 below shows the results once OPEB costs have been allocated. Minor changes are seen among each departments relative share, with every department showing a decline, except for police who inherit the reductions of the other departments. In Scenario 2 of the Fiscal Model, Police and Public Works rise to 46.7% and 13.7% of the budget, respectively.

EXHIBIT 15: Department's Share of Budget (Including OPEB in Departments)

Department Summary	2013/14	2022/23	2013/14 Share	2022/23 Share
General Government	$ 6,551,023	$ 8,279,194	16.8%	15.3%
Police	$ 16,724,559	$ 24,762,870	42.8%	45.8%
Parks and Recreation	$ 4,980,675	$ 6,524,451	12.8%	12.1%
Community Development	$ 4,041,806	$ 5,380,588	10.3%	9.9%
Public Works	$ 5,384,052	$ 7,296,708	13.8%	13.5%
Operational Transfers Out	$ 1,373,493	$ 1,864,087	3.5%	3.4%
Total	**$39,055,608**	**$54,107,899**	**100.0%**	**100.0%**

Examples of significant personnel cost variables specifically addressed in these expenditure forecasts include: 1) the impact of the current employee labor contracts including the recently signed side letters, 2) the impacts of the recently released 2015 medical insurance rates, 3) the impacts from the adoption of the California Public Employees' Pension Reform Act of 2013 (PEPRA) and 4) the most current pension and OPEB payment requirements, including the impacts of projected PERS rate increases associated with smoothing, pooling, mortality and potential discount rate assumption changes. Also included is the savings from a revised dispatch agreement.

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, on the following page, 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
2013/14	$ 25,262,581	$ 13,793,028	$ 39,055,608	$ 40,050,293	$ 41,380,863
2014/15	$ 27,832,453	$ 13,747,366	$ 41,579,819	$ 41,340,992	$ 41,940,992
2015/16	$ 28,653,564	$ 14,015,586	$ 42,669,150	$ 42,293,626	$ 42,893,626
2016/17	$ 30,201,869	$ 14,588,510	$ 44,790,379	$ 44,051,073	$ 45,001,073
2017/18	$ 31,659,839	$ 15,013,740	$ 46,673,579	$ 45,808,820	$ 46,883,820
2018/19	$ 32,766,415	$ 15,488,364	$ 48,254,779	$ 47,501,606	$ 48,501,606
2019/20	$ 34,111,942	$ 15,954,144	$ 50,066,086	$ 49,362,852	$ 50,287,852
2020/21	$ 35,025,155	$ 16,560,901	$ 51,586,056	$ 51,345,008	$ 51,820,008
2021/22	$ 35,672,715	$ 17,124,984	$ 52,797,699	$ 53,419,339	$ 53,419,339
2022/23	$ 36,236,676	$ 17,871,223	$ 54,107,899	$ 55,490,854	$ 55,490,854
Avg. Growth Rate	**4.1%**	**2.9%**	**3.7%**	**3.7%**	**3.3%**
Total Growth Rate	**43.4%**	**29.6%**	**38.5%**	**38.6%**	**34.1%**

Exhibit 16 shows salary and benefit expenses are projected to grow by $11.0 million, or 43.4%, over the next decade. This equates to an average annual growth rate of 4.1%. With recurring revenue growth of 3.7%, it is not possible to maintain a 4.1% annual growth rate in salaries and benefits without controlling non-personnel costs, cutting services or deficit spending. The most significant costs driving the salary and benefit increases are pensions, OPEB and health care.

The General Fund's "Other Expenses", which comprise 35.3% of the overall FY 2013/14 General Fund projected expenses, are projected to grow at an average annual rate of just 2.9%. As a result of this slower growth rate, total General Fund operating expenses are projected to grow at an average annual rate of 3.7%, exactly in line with the growth rate of recurring revenues. This results in a forecasted surplus by the end of the next decade, much as the General Fund experienced in FY 2013/14. In Fiscal Model Scenario 2, salary and benefit costs escalate at 4.7% per year while total operating expenses increase at an annual rate of 4.3%. These exceed the recurring revenue growth rate of 3.8% in that scenario.

i. Capital Costs

General Fund contributions towards capital projects and the replacement of capital assets are included in the Fiscal Model. Funding for new capital projects are itemized on the line item titled "Capital Projects/Non-Operating Transfers" in the Financial Summary. These amounts are relatively minor, averaging approximately $200,000 per fiscal year. The majority of the General Fund's contributions towards capital projects are for the replacement of existing capital assets (e.g. buildings/vehicles). These capital costs are funded from the City's internal service funds, which are in turn funded by the individual funds and departments which ultilize the assets. The General Fund, at a departmental level, is projected to contribute $1.4 million towards replacement internal service funds in FY 2014/15. The City's internal service funds are fully funded on an annual basis and allow the City's capital assets to be replaced as needed without causing a negative impact in the annual General Fund budget.

With two-thirds of the General Fund's budget going towards personnel costs, focusing attention towards those cost components 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 breaks down the costs by two separate classifications for City employees – Non-sworn and Sworn. This breakdown is necessary because the City offers different benefit levels to employees largely based upon these classifications, and the growth rates of each expense can vary significantly between these two classifications. A summary of these costs, broken down between Sworn and Non-sworn, is presented in Exhibits 20 and 21 found on page 32.

ii. Cost of Living Adjustments

a) **Non-sworn** – The Fiscal Model includes a 2.5% cost of living adjustment for FY 2013/14 and FY 2014/15, followed by two consecutive years of 2.0% annual increases (in accordance with existing bargaining unit contracts). The labor contracts run through FY 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) **Sworn** – Following a 2% cost of living adjustment in FY 2013/14, the Fiscal Model includes annual increases of 3%, 2% and finally 1% respectively 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 Non-sworn employees.

   A summary of the cost increases associated with cost of living adjustments are presented in Exhibits 20 and 21 found on page 32.

iii. 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 Sworn formula from "2% @ 50" to "3% @ 50", and in 2003 the formula for the Non-sworn employees was raised from "2% @ 55" to "2.7% @ 55". In 2010, a second tier was adopted for Non-sworn 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 Non-sworn 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 Non-sworn members and a "2.7% @ 57" plan for Sworn 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 Exhibit 17, on page 27 and Exhibit 18, on page 29), PERS is actively addressing those shortfalls through rate increases as discussed below and illustrated in Exhibit 20 and 21. In this way, the Fiscal Model captures the expenditure impacts of closing the existing unfunded pension liability.

The Fiscal Model includes the impacts from the implementation of a reduced smoothing and amortization period policy adopted by the PERS Board in April 2013, as well as the projected impacts from the February 2014 adoption of increased mortality assumptions. The increased mortality assumptions had a far greater impact on Safety rates due to the mortality study finding that males are living much longer than previously expected, while only a minor improvement in mortality rates were seen in females. With males making up a large percentage of the Sworn group, those rates have been disproportionately impacted. Partially offsetting these rate increases will be a change to the risk pools approved by the PERS Board in May 2014. Beginning in FY 2015/16, the PERS unfunded liability will be allocated to pool participants (the City participates in a Statewide PERS pool for safety employees) based on each agency's number of existing retirees rather than only on current employees. **This is extremely beneficial for a City like Brentwood**, which is newer and has relatively fewer retirees and a larger current work force. This change is projected to permanently reduce the Tier 1 Sworn pension rate by approximately 5% beginning in FY 2015/16.

In addition to the items discussed above, which have already been adopted by PERS, there is a reasonable likelihood the PERS Board will soon consider changes related to their assumed investment rate of return (discount rate). The impacts of a potential quarter percentage point drop in the discount rate have been included in the Fiscal Model forecast, with the assumption that the PERS Board adjusts the discount rate in 2015 and the corresponding pension rate increases begin in FY 2017/18. The impacts of a change in the discount rate are displayed in Exhibit 22 and the projected pension rates for each of the City's pension plans are also presented in Exhibit 20 and 21.

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. However, Governmental Accounting Standards Board (GASB) Statement Number 68 will change these rules 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 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 it is reflected in the increased OPEB costs in the Fiscal Model.

Following is a discussion of the pension costs associated with Non-sworn and Sworn employee groups:

a) **Non-sworn –** As discussed above, the City now has three tiers of pension benefit levels. PERS, however, combines all of the City's Non-sworn employees into one plan and thus charges one singular blended pension rate, no matter if the employee is Tier 1, 2 or 3. Through conversations with PERS, the City has been able to estimate the effective pension contribution rate for each of the individual 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 was 16.25% of salary in FY 2013/14 (with the City picking up an additional 2% of the employee's pension contribution requirements for Tier 1 employees for a Tier 1 rate of 18.25%). The City paid rate is projected to decline to 16.58% of salary in FY 2014/15 (largely due to Tier 1 employees picking up the final 2% of the employee contribution). However, after this point, the rate increases discussed above are expected to commence. By FY 2020/21, the blended employer rate is projected to peak at 24.44% - an increase of nearly 8% of salary from FY 2014/15 levels. This blended rate is dependent upon turnover – to the extent the City does not have turnover the blended rate, with a larger percentage of Tier 1 employees, could ultimately wind up higher. Exhibit 20 presents the imputed pension rates for each of the City's three Non-sworn pension plans, which are blended together to generate the actual rate paid.

   It was concern over upcoming increasing pension costs which led the City to negotiate a second tier PERS benefit structure for Non-sworn 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 (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. With a normal cost of 12.5%, PEPRA employees contribute 6.25% of salary towards their pensions.

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 an additional $0.8 million on an annual basis by the end of the next decade. Exhibit 20, on page 33, presents an illustration of projected PERS rates for Non-sworn employees. The City does not pay different rates based on the tiers, but rather pays the blended rate identified in the "Blended Employer Paid Pension Rate" column of the exhibit.

The funding ratio of the City's Non-sworn Plan has also recovered from the lows experienced during the recession. Although the funding percentage declined in FY 2012/13, it is likely that gains from a strong market will be reflected in the June 30, 2013 valuation, due to be released in the next several months. The impacts from the second and third tiers are not likely to result in significant improvements in these ratios for several years, although the funded ratio is expected to improve over time as a result of increased pension rates charged by PERS and incorporated into this Fiscal Model. Exhibit 17 presents the current and historical funding status of the City's Non-sworn PERS Pension Plan (data includes all city wide Non-sworn employees and not just General Fund employees). The data illustrates the funding levels of the pension plan, after falling to as low as 58.4% in 2009, has rebounded to 70.8% as of June 2012 (the most recent valuation available).

EXHIBIT 17: Current and Historical Funding Status – Non-sworn 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%
6/30/2012	**$ 77,927,216**	**$ 55,154,293**	**$ 22,772,923**	**70.78%**

b) **Sworn –** The pension costs associated with Sworn employees are more expensive than those for Non-sworn employees. This is due to two primary factors. First, on average, Sworn employees retire earlier than Non-sworn employees, meaning there is a shorter timeframe in which to set aside enough funds for the eventual retirement of each employee. Second, Sworn employees have more lucrative pension plans (e.g. 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 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 Non-sworn plan, in which a single plan consists of a mixture of all of the City's Non-sworn employees, the City has three separate Sworn plans with three separate rates – one for each tier. In this way, the City will be able to immediately recognize savings from employee turnover rather than waiting the two years it takes for PERS to adjust their rates to reflect turnover.

The projected employer paid PERS contribution rate is expected to rise from 31.3% of salary for Tier 1 employees in FY 2013/14 to 49.2% of salary by FY 2021/22. These increases include the anticipated impacts of a future quarter percent discount rate reduction by PERS. Absent a change in the discount rate, the employer paid PERS contribution rate is projected to increase to 44.4% of payroll within the same time period. These projected rate increases include all actions taken by the PERS Board through June 2014, including amended mortality assumption changes, which indicated that retirees were living longer than had previously been predicted; a decrease in rates from the newly adopted risk pooling change; and the impact of a new rate smoothing policy designed to help ensure the funding level in the pension plan remains above minimum thresholds. The mortality changes impacted the Safety plan disproportionately, as the study showed males were the primary beneficiaries of the increased life expectancy.

Once again, the impacts of the second tier and the third tiered PEPRA employees will help control what are otherwise rapidly escalating costs. Even though the projected employer paid rates for second tier employees are forecast to increase from 20.8% in FY 2013/14, to 40.6% by FY 2021/22, and PEPRA contribution rates from 11.5% to 13.1%, these rates for the second and third tiers are still below what the City is currently paying (31.3%) for Tier 1 employees. Employee turnover will have a positive impact on the pension costs borne by the City. Refer to Exhibit 21 for projected PERS Rates for Sworn Employees.

The primary cause of the decrease in the funded ratio in the City's PERS Sworn Plan in the late 2000's was, again, the investment losses suffered by PERS. However, the funded ratio is expected to improve as a result of the increased pension rates set by PERS (i.e. increased funding by the City) along with recent investment gains.

As illustrated in Exhibit 18, on the following page, the funding status of the Sworn PERS plan increased from a low point of 60.2% in June 2009 to 73.7% by June 2012. It should be noted specific information regarding the City's proportionate share of the liability in the plan was not readily available until the 2011 actuarial report. Prior to this time, the City only received information regarding the statewide Safety pool.

EXHIBIT 18: Current and Historical Funding Status – Sworn PERS Pooled Pension Plan

Fiscal Year Ending	Plan Type	Accrued Liabilities	Market Value of Assets	Unfunded Liability	Funded Ratio
6/30/2005	State	$ 6,367,049,264	$5,449,784,537	$ 917,264,727	85.59%
6/30/2006	State	$ 7,278,049,834	$6,469,775,316	$ 808,274,518	88.89%
6/30/2007	State	$ 7,986,055,176	$7,903,684,460	$ 82,370,716	98.97%
6/30/2008	State	$ 8,700,467,733	$7,596,723,149	$1,103,744,584	87.31%
6/30/2009	State	$ 9,721,675,347	$5,850,794,301	$3,870,881,046	60.18%
6/30/2010	State	$10,165,475,166	$6,650,160,763	$3,515,314,403	65.42%
6/30/2011*	City	$ 34,116,659	$ 26,924,094	$ 7,192,565	78.92%
6/30/2012*	**City**	**$ 38,731,904**	**$ 28,562,163**	**$ 10,169,741**	**73.74%**

**CalPERS began providing the City with specific information for the City's share of assets and liabilities on June 30, 2011.*

iv. Other Post-Employment Benefits (OPEB)

a) **Non-sworn/Sworn** – 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 most recent bi-annual actuarial valuation, dated June 30, 2013, 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 funding the obligation as the benefit is earned, as is done with the City's PERS pension plan. This funding mechanism 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 Non-sworn and Sworn employees are similar in nature; with the exception being Sworn employees are eligible for a higher coverage amount. The main cost difference for the City had always been that Sworn employees can retire earlier resulting in a shorter timeframe to set aside funds and a longer time period for the employee to draw the benefit.

The City has taken steps to help control OPEB costs through labor negotiations. Through those negotiations, a second and third tier was established. The first tier, for employees 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. Non-sworn employees agreed to a monthly cap of $1,326 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 receive the Public Employees' Medical and Hospital Care Act (PEMHCA) minimum, currently $119. As a result, as employees turn over the City's OPEB obligations will level off and, over the long term, decline. The hiring of additional employees, as modeled in Scenario 2, would not result in a significant increase in the City's OPEB funding requirements. The exact amounts would need to be calculated by an actuary, and as such, the minimal additional OPEB costs associated from these employees were not included in the forecast of Scenario 2.

FY 2013/14 annual OPEB funding from the General Fund to the Pension/OPEB Obligation Fund was set at $3,165 per Non-sworn employee and $4,443 per Sworn employee. As the City continues towards funding OPEB benefits as they are earned, **these amounts are projected to increase to $15,565 per Non-sworn employee and $23,564 per Sworn employee annually over the next ten years**. While the adoption of the tiered OPEB 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 present a considerable challenge.

The City (including all funds, not just the General Fund) has a June 30, 2013 unfunded OPEB obligation of $12.5 million, as is reported in the City's CAFR. This amount will rise to $14.2 million for the fiscal year ended June 30, 2014, and is projected to reach $19.9 million in ten years (see Exhibit 19). The fact that the City's liability is projected to rise to this level, **despite projected city wide contributions of $36.3 million to fund OPEB during this timeframe**, illustrates how expensive this benefit will become.

Included in the Fiscal Model is a drawdown of the Pension/OPEB Obligation Fund to help offset these costs over the next several years (separate from and in addition to the drawdown needed to balance the General Fund over the next several years). These funds will soften the impact of rising OPEB costs in the General Fund and allow for a systematic funding level increase while long-term savings resulting from the reduced OPEB benefits accumulate.

The "Annual Underfunding Amount" included in Exhibit 19, on the following page, 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: 1) wanting to avoid a situation where overfunding may occur if investment returns exceeded expectations; 2) if any of the long-range actuarial assumptions proved to be inaccurate (e.g. medical inflation or mortality rates) and 3) 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 the liability continues to grow, while looking at the more meaningful metric of the annual OPEB cost illustrates that by 2023 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	Actuarial Accrued Liability	Assets Held by Trustee (Projected by Actuary)	Funded Ratio of OPEB Liability
6/30/2009	$ 3,006,000	$ 545,043	18.13%	$ 2,460,957	$ 2,460,957	$ 22,885,000	$ -	0.00%
6/30/2010	$ 3,208,000	$ 570,457	17.78%	$ 2,637,543	$ 5,098,500	$ 30,282,000	$ -	0.00%
6/30/2011	$ 3,883,000	$ 1,012,000	26.06%	$ 2,871,000	$ 7,969,500	$ 29,028,000	$ 322,920	1.11%
6/30/2012	$ 4,150,000	$ 1,600,000	38.55%	$ 2,550,000	$ 10,519,500	$ 29,170,746	$ 1,146,954	3.93%
6/30/2013	$ 3,651,000	$ 1,669,000	45.71%	$ 1,982,000	$ 12,501,500	$ 31,966,528	$ 1,881,996	5.89%
6/30/2014*	$ 3,806,000	$ 2,076,000	54.55%	$ 1,730,000	$ 14,231,500	$ 34,813,413	$ 2,947,974	8.47%
6/30/2015*	$ 4,036,000	$ 2,520,000	62.44%	$ 1,516,000	$ 15,747,500	$ 37,689,114	$ 4,372,700	11.60%
6/30/2016*	$ 4,189,000	$ 2,980,000	71.14%	$ 1,209,000	$ 16,956,500	$ 40,585,072	$ 6,197,917	15.27%
6/30/2017*	$ 4,335,000	$ 3,456,000	79.72%	$ 879,000	$ 17,835,500	$ 43,497,309	$ 8,465,747	19.46%
6/30/2018*	$ 4,461,000	$ 3,937,000	88.25%	$ 524,000	$ 18,359,500	$ 46,427,015	$ 11,220,408	24.17%
6/30/2019*	$ 4,503,000	$ 4,040,000	89.72%	$ 463,000	$ 18,822,500	$ 49,360,221	$ 14,111,077	28.59%
6/30/2020*	$ 4,538,000	$ 4,146,000	91.36%	$ 392,000	$ 19,214,500	$ 52,307,552	$ 17,164,379	32.81%
6/30/2021*	$ 4,564,000	$ 4,252,000	93.16%	$ 312,000	$ 19,526,500	$ 55,272,569	$ 20,401,822	36.91%
6/30/2022*	$ 4,589,000	$ 4,365,000	95.12%	$ 224,000	$ 19,750,500	$ 58,258,052	$ 23,844,390	40.93%
6/30/2023*	$ 4,606,000	$ 4,482,000	97.31%	$ 124,000	$ 19,874,500	$ 61,256,629	$ 27,446,903	44.81%
Total	**$ 43,627,000**	**$ 36,254,000**	**83.10%**	**$ 7,373,000**	**$ 19,874,500**	**$ 61,256,629**	**$ 27,446,903**	**44.81%**

**Projected*

v. Health Insurance

a) **Non-sworn/Sworn** – Health insurance rates are projected to continue increasing at a rate exceeding inflation for the intermediate term. The Fiscal Model utilizes confirmed 2015 health insurance rates as a base and a health insurance inflation rate starting at 7.5% in FY 2015/16 and grading down to 5% by the end of the decade. These increases are consistent with the estimates provided by the City's OPEB Actuary.

The existing labor agreements call for caps on City paid health insurance coverage. Non-sworn employees hired prior to July 1, 2012 have a cap of the greater of $1,326 or the Kaiser employee-only rate and Sworn employees have a cap set at the lowest cost full family HMO health insurance plan provided by the City, currently $1,709, and subject to 10% maximum annual increase. The 2015 health insurance rates were released in June 2014, and the Sworn cap will increase by just 0.77%, to $1,722.27, in 2015.

As a result of the divergent caps, health insurance costs are expected to remain relatively flat for Non-sworn employees, with an annual increase of approximately $250,000 phased in over the next ten years. However, on the Sworn side projections indicate an annual increase of over $800,000 to occur within ten years.

Exhibits 20 and 21, on the following page, summarize the impacts the four main cost drivers - salary increases, pensions, OPEB and health care - will have on the Non-sworn and Sworn employee costs over the next decade. Exhibit 22, on page 33 illustrates the impacts that various components are projected to have on future pension rates.

EXHIBIT 20: Significant Salary and Benefit Cost Increases – Non-sworn 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	Total Annual Cost Increase Per Employee
2013/14	2.50%	$ 226,117	19.087%	11.703%	11.167%	18.247%	$ (161,505)	$ 232,293	$ (15,170)	$ 281,734	$ 2,661
2014/15	2.50%	$ 231,770	17.003%	12.275%	11.873%	16.582%	$ (118,541)	$ 337,471	$ 159,198	$ 609,898	$ 5,761
2015/16	2.00%	$ 190,051	17.621%	12.893%	12.491%	17.040%	$ 75,947	$ 193,137	$ 12,541	$ 471,676	$ 4,455
2016/17	2.00%	$ 193,852	19.905%	13.976%	13.058%	18.828%	$ 209,748	$ 300,286	$ 12,610	$ 716,497	$ 6,768
2017/18	2.00%	$ 197,729	22.322%	15.349%	14.007%	20.729%	$ 228,920	$ 194,771	$ 12,523	$ 633,944	$ 5,988
2018/19	2.00%	$ 201,684	24.303%	16.616%	14.824%	22.171%	$ 190,165	$ 59,647	$ 12,270	$ 463,765	$ 4,381
2019/20	2.00%	$ 205,717	26.585%	18.182%	15.943%	23.831%	$ 219,787	$ 123,298	$ 11,843	$ 560,645	$ 5,296
2020/21	2.00%	$ 209,832	27.966%	18.848%	15.577%	24.444%	$ 115,531	$ 87,355	$ 11,237	$ 423,954	$ 4,004
2021/22	2.00%	$ 214,028	28.400%	19.171%	15.648%	24.332%	$ 40,189	$ 32,874	$ 11,975	$ 299,067	$ 2,825
2022/23	2.00%	$ 218,309	28.400%	19.171%	15.648%	23.848%	$ (790)	$ 33,532	$ 12,749	$ 263,800	$ 2,492
Total	**23.10%**	**$ 2,089,089**					**$ 799,451**	**$ 1,594,663**	**$ 241,776**	**$ 4,724,980**	**$ 44,630**

EXHIBIT 21: Significant Salary and Benefit Cost Increases - Sworn 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	Annual Cost Increase Per Employee
2013/14	2.00%	$ 137,500	31.340%	20.774%	11.500%	28.676%	$ (293,966)	$ 169,833	$ 136,939	**$ 150,307**	**$ 2,424**
2014/15	3.00%	$ 199,856	30.014%	21.367%	11.500%	27.123%	$ (49,246)	$ 280,813	$ 134,376	**$ 565,799**	**$ 9,126**
2015/16	2.00%	$ 137,235	27.100%	23.000%	11.500%	24.796%	$ (125,604)	$ 165,000	$ 47,876	**$ 224,507**	**$ 3,621**
2016/17	1.00%	$ 69,990	32.200%	26.933%	12.049%	28.604%	$ 286,541	$ 256,540	$ 75,121	**$ 688,191**	**$ 11,100**
2017/18	2.00%	$ 141,379	37.383%	31.084%	12.160%	32.125%	$ 294,282	$ 166,397	$ 74,631	**$ 676,688**	**$ 10,914**
2018/19	2.00%	$ 144,207	41.675%	34.568%	12.424%	34.619%	$ 229,764	$ 50,957	$ 73,349	**$ 498,277**	**$ 8,037**
2019/20	2.00%	$ 147,091	46.067%	38.052%	12.691%	36.833%	$ 216,961	$ 105,336	$ 71,240	**$ 540,628**	**$ 8,720**
2020/21	2.00%	$ 150,033	48.358%	39.936%	12.961%	37.241%	$ 86,545	$ 74,629	$ 68,281	**$ 379,488**	**$ 6,121**
2021/22	2.00%	$ 153,033	49.150%	40.603%	13.095%	36.402%	$ (8,558)	$ 28,085	$ 71,750	**$ 244,310**	**$ 3,940**
2022/23	2.00%	$ 156,094	49.150%	40.603%	13.095%	34.904%	$ (62,371)	$ 28,647	$ 75,392	**$ 197,761**	**$ 3,190**
Total	**21.89%**	**$ 1,436,416**					**$ 574,349**	**$ 1,326,237**	**$ 828,955**	**$ 4,165,956**	**$ 67,193**

EXHIBIT 22: Projected PERS Rates

Projected Sworn PERS Rates

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
SWORN 3 at 50										
PERS Rates including Method 5 (Pool Base ER Rate + Class 1)	37.34%	39.01%	36.10%	38.20%	40.30%	42.30%	44.40%	44.40%	44.40%	44.40%
Discount Rate (not yet approved)					1.58%	2.37%	3.17%	3.96%	4.75%	4.75%
Mortality				3.00%	4.50%	6.00%	7.50%	9.00%	9.00%	9.00%
Total Pension Rate	**37.34%**	**39.01%**	**36.10%**	**41.20%**	**46.38%**	**50.67%**	**55.07%**	**57.36%**	**58.15%**	**58.15%**
Less Employee Contributions	-6.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%
City Paid PERS Rate	**31.34%**	**30.01%**	**27.10%**	**32.20%**	**37.38%**	**41.67%**	**46.07%**	**48.36%**	**49.15%**	**49.15%**
SWORN 3 at 55										
PERS Rates including Method 5 (Pools Base ER Rate)	29.77%	30.37%	32.00%	33.50%	35.10%	36.70%	38.30%	38.30%	38.30%	38.30%
Discount Rate (not yet approved)					1.33%	2.00%	2.67%	3.33%	4.00%	4.00%
Mortality				2.43%	3.65%	4.87%	6.09%	7.30%	7.30%	7.30%
Total Pension Rate	**29.77%**	**30.37%**	**32.00%**	**35.93%**	**40.08%**	**43.57%**	**47.05%**	**48.94%**	**49.60%**	**49.60%**
Less Employee Contributions	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%
City Paid PERS Rate	**20.77%**	**21.37%**	**23.00%**	**26.93%**	**31.08%**	**34.57%**	**38.05%**	**39.94%**	**40.60%**	**40.60%**
SWORN 2.7 at 57 (PEPRA)										
PERS Rates including Method 5	23.00%	23.00%	23.00%	23.00%	23.00%	23.00%	23.00%	23.00%	23.00%	23.00%
Discount Rate (not yet approved)					0.50%	0.75%	1.01%	1.27%	1.54%	1.54%
Mortality				0.55%	0.82%	1.10%	1.37%	1.65%	1.65%	1.65%
Total Pension Rate	**23.00%**	**23.00%**	**23.00%**	**23.55%**	**24.32%**	**24.85%**	**25.38%**	**25.92%**	**26.19%**	**26.19%**
Less Employee Contributions	-11.50%	-11.50%	-11.50%	-11.50%	-12.16%	-12.42%	-12.69%	-12.96%	-13.10%	-13.10%
City Paid PERS Rate	**11.50%**	**11.50%**	**11.50%**	**12.05%**	**12.16%**	**12.42%**	**12.69%**	**12.96%**	**13.10%**	**13.10%**

Projected Non-sworn PERS Rates

NON-SWORN 2.7 at 55	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
PERS Normal Cost Pool Plan	20.17%	19.38%	19.38%	19.38%	19.38%	19.38%	19.38%	19.38%	19.38%	19.38%
Amortization of Non-Sworn Plan (projected rate increases)	4.92%	5.62%	6.24%	6.64%	7.24%	7.84%	8.74%	8.74%	8.74%	8.74%
Discount Rate (not yet approved)					0.87%	1.31%	1.75%	2.19%	2.63%	2.63%
Mortality				1.88%	2.83%	3.77%	4.71%	5.65%	5.65%	5.65%
Total Pension Rate	**25.09%**	**25.00%**	**25.62%**	**27.90%**	**30.32%**	**32.30%**	**34.58%**	**35.97%**	**36.40%**	**36.40%**
Less Employee Contributions	-6.00%	-8.00%	-8.00%	-8.00%	-8.00%	-8.00%	-8.00%	-8.00%	-8.00%	-8.00%
City Paid PERS Rate	**19.09%**	**17.00%**	**17.62%**	**19.90%**	**22.32%**	**24.30%**	**26.58%**	**27.97%**	**28.40%**	**28.40%**
NON-SWORN 2 at 60										
PERS Normal Cost Pool Plan	13.79%	13.65%	13.65%	13.65%	13.65%	13.65%	13.65%	13.65%	13.65%	13.65%
Amortization of Non-Sworn Plan (projected rate increases)	4.92%	5.62%	6.24%	6.64%	7.24%	7.84%	8.74%	8.74%	8.74%	8.74%
Discount Rate (not yet approved)					0.43%	0.76%	1.08%	1.40%	1.73%	1.73%
Mortality				0.68%	1.03%	1.37%	1.71%	2.05%	2.05%	2.05%
Total Pension Rate	**18.70%**	**19.28%**	**19.89%**	**20.98%**	**22.35%**	**23.62%**	**25.18%**	**25.85%**	**26.17%**	**26.17%**
Less Employee Contributions	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%
City Paid PERS Rate	**11.70%**	**12.28%**	**12.89%**	**13.98%**	**15.35%**	**16.62%**	**18.18%**	**18.85%**	**19.17%**	**19.17%**
NON-SWORN 2 at 62 (PEPRA)										
PERS Normal Cost	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%	12.50%
Amortization of Non-Sworn Plan (projected rate increases)	4.92%	5.62%	6.24%	6.64%	7.24%	7.84%	8.74%	8.74%	8.74%	8.74%
Discount Rate (not yet approved)					0.27%	0.40%	0.53%	0.67%	0.81%	0.81%
Mortality				0.17%	0.25%	0.33%	0.42%	0.50%	0.50%	0.50%
Total Pension Rate	**17.42%**	**18.12%**	**18.74%**	**19.31%**	**20.26%**	**21.07%**	**22.19%**	**22.41%**	**22.56%**	**22.56%**
Less Employee Contributions	-6.25%	-6.25%	-6.25%	-6.25%	-6.25%	-6.25%	-6.25%	-6.84%	-6.91%	-6.91%
City Paid PERS Rate	**11.17%**	**11.87%**	**12.49%**	**13.06%**	**14.01%**	**14.82%**	**15.94%**	**15.58%**	**15.65%**	**15.65%**
Non-Sworn Proj. Blended Rate (actual City rate for Non-Sworn)	**18.25%**	**16.58%**	**17.04%**	**18.83%**	**20.73%**	**22.17%**	**23.83%**	**24.44%**	**24.33%**	**23.85%**

Note: The Non-sworn plans are blended into one city wide Brentwood plan and, as a result, the same rate is paid for all Non-sworn employees. This is the "Blended Rate" on the last line above. Normal Cost includes Discount Rate and Mortality, but not Amortization. Employee Contributions are not adjusted until a 1% increase in the Normal Cost is reached.

FUND BALANCE SUMMARY

<u>Key Finding</u>**: At the end of FY 2013/14, the City is projected to have a General Fund balance of $20.0 million, with an unassigned fund balance of $14.8 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 Service funds, from which the Pension/OPEB Obligation Fund is 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 account for 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 operating shortfalls.

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. Current projections illustrate that by drawing down the Pension/OPEB Obligation Fund from a current balance of $12.7 million down to a balance of $7.6 million over the next several years, the General Fund will be able to maintain a 30% reserve in every single year. As discussed previously, the Fiscal Model is made up of hundreds of variables and assumptions, and minor changes to these assumptions can result in significant impacts over time. Given the number of variables in the Fiscal Model there are many scenarios and minor changes which could ultimately result in deviations from this forecast.

The maintenance of the 30% reserve is made more difficult by increased reserve requirements resulting from additional expenditures. 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. Whereas $11.3 million is sufficient to provide for a 30% reserve in FY 2013/14, an increase to $15.7 million is required by FY 2022/23 simply to keep pace with expenditure growth. Thus, the General Fund has to generate a $4.4 million surplus over the next decade in order to simply maintain the 30% reserve. The impact of increased expenses on the reserve requirement becomes more pronounced as expenses rise, as evidenced by the $16.6 million reserve requirement in Scenario 2.

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 the rising cost of funding OPEB that is the most significant budgetary challenge moving forward.

EXHIBIT 23: Fund Balance Summary

General Fund Balance	2013/14	2022/23	Total Increase	Avg. Growth Rate
Beginning Balance	$ 18,034,685	$ 20,740,362	$ 2,705,677	1.6%
Annual Revenue	$ 34,589,766	$ 47,488,828	$ 12,899,062	3.6%
Transfers In	$ 6,791,097	$ 8,002,026	$ 1,210,929	1.8%
Sub-Total	$ 41,380,863	$ 55,490,854	$ 14,109,991	3.3%
Operations	$ 37,029,787	$ 49,072,710	$ 12,042,923	3.2%
Operational Transfers Out	$ 1,373,493	$ 1,864,087	$ 490,594	3.5%
Other Post-Employment Benefits	$ 652,328	$ 3,171,102	$ 2,518,774	19.2%
CIP Transfers Out	$ 368,447	$ 192,113	$ (176,334)	-7.0%
Sub-Total	$ 39,424,055	$ 54,300,012	$ 14,875,957	3.6%
Net Increase (Decrease)	$ 1,956,808	$ 1,190,842	$ (765,966)	
Ending Balance	**$ 19,991,493**	**$ 21,931,204**	**$ 1,939,711**	**1.1%**
Assigned/Committed	$ 5,176,000	$ 5,500,000	$ 324,000	0.7%
Unassigned	$ 14,815,493	$ 16,431,204	$ 1,615,711	1.2%
Percent of Operations	**39.3%**	**31.5%**		
Unassigned Balance at 30% Reserves	$ 11,304,635	$ 15,673,144	$ 4,368,509	3.7%
Surplus (Deficit) Reserve Balance	$ 3,510,859	$ 758,060	$ (2,752,798)	-15.7%

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, such as the next General Plan update. The Fiscal Model accumulates $1 million in assigned funds for this purpose by FY 2022/23. 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.

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 Pension/OPEB Obligation Fund 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, with the most recent study having been adopted by the City Council in December 2013. The Enterprises and Internal Service Funds are paying off their OPEB obligation over five years, with the additional funding requirements of the Internal Service Funds included in the Fiscal Model.

The City also performs ten-year forecasts of capital projects and development impact fee funds as a part of the CIP budgeting process, and is currently in the process of updating the development impact fees to ensure that new development pays for its fair share of infrastructure improvements. 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. 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.

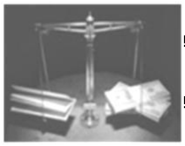
SUB-MODELS AND REPORTS

***<u>Key Finding:</u>* 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 or even minutes. Users and policy makers have the ability to see 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 sub-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 and decision makers.
- 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 is 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 performance 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 whose actions put the City in a position to emerge from the economic downturn with a strong financial base and a fiscally sustainable future.

EXHIBIT A1: General Fund Revenue Summary

Revenue	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Property Tax:										
Existing Base	$ 6,584,600	$ 7,725,064	$ 7,865,695	$ 8,012,045	$ 8,164,304	$ 8,322,932	$ 8,488,138	$ 8,659,884	$ 8,838,316	$ 9,023,650
New Residential	$ -	$ -	$ 140,396	$ 284,301	$ 446,180	$ 612,105	$ 768,090	$ 924,104	$ 1,084,019	$ 1,247,932
Residential Turnover	$ -	$ -	$ 33,099	$ 67,364	$ 102,837	$ 139,561	$ 177,579	$ 216,937	$ 257,683	$ 299,865
New Commercial / Ind	$ -	$ -	$ 5,758	$ 16,862	$ 31,710	$ 40,616	$ 48,176	$ 55,409	$ 61,677	$ 68,216
Redevelopment	$ 312,959	$ -	$ -	$ 370,015	$ 385,451	$ 402,214	$ 419,240	$ 436,109	$ 453,327	$ 471,051
Sub-Total	**$ 6,897,559**	**$ 7,725,064**	**$ 8,044,947**	**$ 8,750,587**	**$ 9,130,482**	**$ 9,517,427**	**$ 9,901,222**	**$ 10,292,444**	**$ 10,695,022**	**$11,110,713**
Property Transfer	$ 360,000	$ 410,640	$ 427,705	$ 446,635	$ 460,630	$ 470,812	$ 484,184	$ 499,945	$ 516,162	$ 532,897
Sales Tax	$ 6,362,992	$ 6,685,427	$ 7,035,651	$ 7,358,918	$ 7,660,106	$ 7,979,343	$ 8,282,110	$ 8,590,499	$ 8,908,776	$ 9,236,896
Franchise Fees	$ 1,288,625	$ 1,357,328	$ 1,411,829	$ 1,469,612	$ 1,534,048	$ 1,602,415	$ 1,672,914	$ 1,746,965	$ 1,823,943	$ 1,903,958
Transient Occupancy Tax	$ 272,000	$ 286,502	$ 298,006	$ 310,202	$ 323,803	$ 338,234	$ 353,115	$ 368,745	$ 384,994	$ 401,883
Motor Vehicle	$ 2,748,701	$ 3,238,456	$ 3,372,555	$ 3,513,254	$ 3,666,040	$ 3,821,226	$ 3,974,981	$ 4,131,915	$ 4,293,463	$ 4,460,296
Investment	$ 100,000	$ 119,949	$ 202,481	$ 264,101	$ 322,424	$ 382,932	$ 444,862	$ 506,493	$ 568,616	$ 642,951
Business License	$ 566,822	$ 583,827	$ 602,994	$ 622,218	$ 641,353	$ 661,195	$ 681,403	$ 702,228	$ 723,690	$ 745,807
Building Fees	$ 2,895,159	$ 1,783,320	$ 1,917,457	$ 2,064,616	$ 2,093,584	$ 2,033,354	$ 2,064,936	$ 2,135,962	$ 2,209,391	$ 2,285,304
Engineering Fees	$ 2,179,073	$ 2,048,461	$ 2,207,904	$ 2,310,794	$ 2,336,279	$ 2,321,519	$ 2,364,440	$ 2,435,174	$ 2,508,435	$ 2,583,687
Planning Fees	$ 363,993	$ 225,108	$ 230,844	$ 236,958	$ 243,487	$ 228,443	$ 235,195	$ 242,378	$ 249,779	$ 257,406
Parks and Recreation	$ 2,507,659	$ 2,819,147	$ 2,934,335	$ 3,055,735	$ 3,189,102	$ 3,327,217	$ 3,466,571	$ 3,610,710	$ 3,759,770	$ 3,914,177
Interfund Services	$ 6,827,781	$ 7,067,539	$ 7,219,725	$ 6,863,742	$ 7,023,363	$ 7,191,211	$ 7,353,807	$ 7,529,128	$ 7,712,396	$ 7,858,779
Other	$ 1,219,402	$ 1,135,415	$ 1,152,383	$ 1,199,547	$ 1,252,141	$ 1,307,945	$ 1,365,489	$ 1,425,932	$ 1,488,764	$ 1,554,074
Sub-Total	**$ 27,692,207**	**$ 27,761,119**	**$ 29,013,869**	**$ 29,716,332**	**$ 30,746,360**	**$ 31,665,846**	**$ 32,744,007**	**$ 33,926,074**	**$ 35,148,179**	**$36,378,115**
Transfers In	$ 6,791,097	$ 6,454,809	$ 5,834,810	$ 6,534,154	$ 7,006,978	$ 7,318,333	$ 7,642,623	$ 7,601,490	$ 7,576,138	$ 8,002,026
Total Revenues	**$ 41,380,863**	**$ 41,940,992**	**$ 42,893,626**	**$ 45,001,073**	**$ 46,883,820**	**$ 48,501,606**	**$ 50,287,852**	**$ 51,820,008**	**$ 53,419,339**	**$55,490,854**
Growth	$ 4,097,069	$ 560,129	$ 952,634	$ 2,107,447	$ 1,882,748	$ 1,617,786	$ 1,786,246	$ 1,532,156	$ 1,599,331	$ 2,071,515
%	10.99%	1.35%	2.27%	4.91%	4.18%	3.45%	3.68%	3.05%	3.09%	3.88%
Per Capita	$ 755.94	$745.07	$750.62	$775.92	$794.99	$809.02	$826.42	$839.63	$853.53	$874.51

EXHIBIT A2: General Fund Expenditure Summary

Department	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Legislative	$ 335,897	$ 360,927	$ 374,007	$ 390,509	$ 404,718	$ 417,385	$ 429,169	$ 439,371	$ 450,909	$ 472,330
City Clerk	$ 350,568	$ 381,660	$ 338,880	$ 403,692	$ 361,527	$ 427,502	$ 382,643	$ 452,199	$ 402,867	$ 476,060
City Manager	$ 804,106	$ 777,933	$ 796,215	$ 823,030	$ 849,471	$ 872,723	$ 899,522	$ 921,963	$ 943,922	$ 964,572
Human Resources	$ 626,865	$ 693,821	$ 710,275	$ 734,087	$ 757,420	$ 778,018	$ 801,877	$ 822,372	$ 843,058	$ 862,796
City Attorney	$ 869,602	$ 926,551	$ 948,389	$ 979,990	$ 1,011,232	$ 1,038,958	$ 1,070,780	$ 1,097,758	$ 1,124,265	$ 1,149,340
Finance	$ 1,756,042	$ 1,829,141	$ 1,872,743	$ 1,936,748	$ 1,998,556	$ 2,052,238	$ 2,115,449	$ 2,170,010	$ 2,226,835	$ 2,281,355
Non Departmental and Community Services	$ 1,709,240	$ 1,285,835	$ 1,278,365	$ 1,325,885	$ 1,368,524	$ 1,411,780	$ 1,458,985	$ 1,508,705	$ 1,561,107	$ 1,626,028
Total General Government	**$ 6,452,320**	**$ 6,255,868**	**$ 6,318,874**	**$ 6,593,941**	**$ 6,751,448**	**$ 6,998,604**	**$ 7,158,425**	**$ 7,412,378**	**$ 7,552,963**	**$ 7,832,481**
Police	$ 16,384,192	$ 18,046,485	$ 18,318,990	$ 19,059,372	$ 19,886,627	$ 20,606,214	$ 21,471,122	$ 22,070,665	$ 22,576,574	$ 23,037,283
Streets	$ 2,703,877	$ 2,796,926	$ 2,866,672	$ 2,955,652	$ 3,047,268	$ 3,122,324	$ 3,216,846	$ 3,301,329	$ 3,380,978	$ 3,457,843
Community Development	$ 3,972,182	$ 4,064,428	$ 4,161,069	$ 4,300,465	$ 4,437,081	$ 4,557,008	$ 4,696,735	$ 4,816,991	$ 4,938,471	$ 5,054,503
Engineering	$ 2,588,152	$ 2,740,199	$ 2,805,455	$ 2,897,956	$ 2,989,106	$ 3,070,452	$ 3,164,245	$ 3,246,050	$ 3,328,608	$ 3,407,872
Parks and Recreation	$ 4,929,064	$ 4,980,302	$ 5,108,842	$ 5,288,246	$ 5,455,911	$ 5,601,572	$ 5,777,762	$ 5,940,259	$ 6,104,399	$ 6,282,728
OPEB	$ 652,328	$ 1,270,611	$ 1,628,748	$ 2,185,574	$ 2,546,742	$ 2,657,346	$ 2,885,980	$ 3,047,964	$ 3,108,923	$ 3,171,102
Operational Transfers Out	$ 1,373,493	$ 1,425,000	$ 1,460,500	$ 1,509,173	$ 1,559,396	$ 1,641,259	$ 1,694,971	$ 1,750,420	$ 1,806,783	$ 1,864,087
Total Expenses	**$ 39,055,608**	**$ 41,579,819**	**$ 42,669,150**	**$ 44,790,379**	**$ 46,673,579**	**$ 48,254,779**	**$ 50,066,086**	**$ 51,586,056**	**$ 52,797,699**	**$ 54,107,899**

EXHIBIT A3: General Fund Financial Summary

General Fund	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Beginning Fund Balance	$ 18,034,685	$ 19,991,493	$ 20,248,110	$ 20,315,493	$ 20,151,482	$ 20,154,326	$ 20,220,985	$ 20,259,727	$ 20,307,715	$ 20,740,362
Revenues	$ 34,589,766	$ 35,486,183	$ 37,058,816	$ 38,466,919	$ 39,876,842	$ 41,183,273	$ 42,645,229	$ 44,218,518	$ 45,843,201	$ 47,488,828
Transfer In	$ 6,791,097	$ 6,454,809	$ 5,234,810	$ 5,584,154	$ 5,931,978	$ 6,318,333	$ 6,717,623	$ 7,126,490	$ 7,576,138	$ 8,002,026
Total Revenues	**$ 41,380,863**	**$ 41,940,992**	**$ 42,293,626**	**$ 44,051,073**	**$ 45,808,820**	**$ 47,501,606**	**$ 49,362,852**	**$ 51,345,008**	**$ 53,419,339**	**$ 55,490,854**
Operations	$ 37,029,787	$ 38,884,208	$ 39,579,902	$ 41,095,632	$ 42,567,441	$ 43,956,174	$ 45,485,135	$ 46,787,672	$ 47,881,993	$ 49,072,710
Operational Transfers Out	$ 1,373,493	$ 1,425,000	$ 1,460,500	$ 1,509,173	$ 1,559,396	$ 1,641,259	$ 1,694,971	$ 1,750,420	$ 1,806,783	$ 1,864,087
OPEB	$ 652,328	$ 1,270,611	$ 1,628,748	$ 2,185,574	$ 2,546,742	$ 2,657,346	$ 2,885,980	$ 3,047,964	$ 3,108,923	$ 3,171,102
Total Expenses	**$ 39,055,608**	**$ 41,579,819**	**$ 42,669,150**	**$ 44,790,379**	**$ 46,673,579**	**$ 48,254,779**	**$ 50,066,086**	**$ 51,586,056**	**$ 52,797,699**	**$ 54,107,899**
Net Operations before Pension/OPEB Transfers	$ 2,325,255	$ 361,173	$ (375,524)	$ (739,306)	$ (864,759)	$ (753,173)	$ (703,234)	$ (241,048)	$ 621,640	$ 1,382,955
Pension/OPEB Fund Transfer In	$ -	$ -	$ 600,000	$ 950,000	$ 1,075,000	$ 1,000,000	$ 925,000	$ 475,000	$ -	$ -
Operating Surplus/(Required Savings/Reductions)	**$ 2,325,255**	**$ 361,173**	**$ 224,476**	**$ 210,694**	**$ 210,241**	**$ 246,827**	**$ 221,766**	**$ 233,952**	**$ 621,640**	**$ 1,382,955**
Capital Projects/Non Operating Transfers	$ 368,447	$ 104,556	$ 157,093	$ 374,705	$ 207,397	$ 180,169	$ 183,024	$ 185,964	$ 188,993	$ 192,113
Ending Fund Balance	**$ 19,991,493**	**$ 20,248,110**	**$ 20,315,493**	**$ 20,151,482**	**$ 20,154,326**	**$ 20,220,985**	**$ 20,259,727**	**$ 20,307,715**	**$ 20,740,362**	**$ 21,931,204**
Assigned/Committed Fund Balance	$ 5,176,000	$ 5,229,556	$ 5,407,093	$ 5,400,000	$ 5,000,000	$ 5,100,000	$ 5,200,000	$ 5,300,000	$ 5,400,000	$ 5,500,000
Unassigned Fund Balance	$ 14,815,493	$ 15,018,554	$ 14,908,400	$ 14,751,482	$ 15,154,326	$ 15,120,985	$ 15,059,727	$ 15,007,715	$ 15,340,362	$ 16,431,204
30% Reserve Requirement	$ 11,304,635	$ 12,046,446	$ 12,362,595	$ 12,984,362	$ 13,534,255	$ 13,984,056	$ 14,511,335	$ 14,950,691	$ 15,297,275	$ 15,673,144
Reserve Surplus (Shortfall)	$ 3,510,859	$ 2,972,108	$ 2,545,805	$ 1,767,120	$ 1,620,071	$ 1,136,929	$ 548,393	$ 57,024	$ 43,087	$ 758,060

EXHIBIT A4: Key Assumptions in Fiscal Model

KEY ASSUMPTIONS	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
REVENUES										
Property Taxes										
Annual Property Tax Assessor CPI Adjustment			1.82%	1.82%	1.82%	1.82%	1.82%	1.82%	1.82%	1.82%
Property Tax Increase Due to New Development			1.89%	1.93%	2.11%	1.99%	1.79%	1.71%	1.68%	1.65%
Property Tax Increase Due to Turnover			0.43%	0.43%	0.42%	0.42%	0.42%	0.42%	0.41%	0.41%
Total Property Tax Increase	**8.45%**	**18.64%**	**4.14%**	**4.17%**	**4.35%**	**4.23%**	**4.02%**	**3.95%**	**3.91%**	**3.89%**
City Taxable Assessed Valuation (in thousands)	**5,942,698**	**7,049,854**	**7,341,777**	**7,648,067**	**7,980,671**	**8,318,496**	**8,653,208**	**8,994,841**	**9,346,518**	**9,709,701**
Sales Tax Increases	4.99%	5.07%	5.24%	4.59%	4.09%	4.17%	3.79%	3.72%	3.70%	3.68%
General Inflation (Revenues)	2.25%	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.00%
Investment Rate of Return (Avg of previous 3 years)	0.60%	0.60%	0.73%	0.97%	1.30%	1.60%	1.90%	2.20%	2.50%	2.80%
Home Price Increases	18.00%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
Median Housing Price ($370k in 2008, $580k in 2007, $685k in 2006)	413,000	423,325	433,908	444,756	455,875	467,272	478,953	490,927	503,200	515,780
DEVELOPMENT										
Single Family Building Permits	500	275	275	275	275	250	250	250	250	250
Multi Family Building Permits	-	-	-	40	40	40	30	30	30	30
Commercial Development (Square Feet)	10,000	-	75,000	50,000	20,000	25,000	15,000	15,000	15,000	15,000
Office Development (Square Feet)	-	-	-	-	10,000	-	-	-	-	-
Industrial Development (Square Feet)	10,000	20,000	50,000	20,000	-	-	10,000	10,000	10,000	10,000
Development Revenue	6,188,225	4,806,889	5,106,205	5,362,368	5,423,350	5,333,316	5,392,071	5,519,189	5,652,110	5,790,367
EXPENSES										
Personnel										
Miscellaneous Employee COLA	2.50%	2.50%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Sworn Employee COLA	2.00%	3.00%	2.00%	1.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Health Care Rates (Cost lower due to cap)	11.10%	4.05%	7.50%	7.00%	6.50%	6.00%	5.50%	5.00%	5.00%	5.00%
Worker's Compensation	4.00%	4.00%	4.00%	4.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
OPEB Costs	652,328	1,270,611	1,628,748	2,185,574	2,546,742	2,657,346	2,885,980	3,047,964	3,108,923	3,171,102
OPEB Annual Increase	160.72%	94.78%	28.19%	34.19%	16.53%	4.34%	8.60%	5.61%	2.00%	2.00%
Pension Costs	3,604,599	3,436,813	3,387,156	3,883,446	4,406,648	4,826,576	5,263,324	5,465,399	5,497,031	5,433,870
Pension Annual Increase	-11.22%	-4.65%	-1.44%	14.65%	13.47%	9.53%	9.05%	3.84%	0.58%	-1.15%
Percentage of Employee Turnover	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Percentage of New Employees in PEPRA	36.50%	40.00%	43.50%	47.00%	50.50%	54.00%	57.50%	61.00%	64.50%	68.00%
Other Expenses										
Supplies and Services	18.04%	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.00%
Internal Services	12.54%	2.56%	3.06%	3.00%	3.00%	0.83%	3.00%	3.00%	3.00%	3.00%
Dispatch Costs	828,279	845,459	896,187	949,958	1,006,955	1,067,373	1,131,415	1,199,300	1,271,258	1,347,533
Dispatch Annual Increase	8.38%	2.07%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%

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: Scenario 2 – Alternate General Fund Financial Summary

General Fund	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Beginning Fund Balance	$ 19,991,493	$ 20,254,745	$ 20,217,158	$ 19,972,537	$ 19,891,741	$ 19,821,374	$ 19,768,880	$ 19,689,413	$ 19,615,500
Revenues	$ 35,913,226	$ 37,569,706	$ 39,067,182	$ 40,571,619	$ 41,739,446	$ 43,254,270	$ 44,882,712	$ 46,563,356	$ 48,254,882
Transfer In	$ 6,454,809	$ 5,238,655	$ 5,591,312	$ 5,939,235	$ 6,320,148	$ 6,700,282	$ 7,076,449	$ 7,478,570	$ 7,848,735
Total Revenues	**$ 42,368,035**	**$ 42,808,361**	**$ 44,658,494**	**$ 46,510,854**	**$ 48,059,594**	**$ 49,954,552**	**$ 51,959,161**	**$ 54,041,926**	**$ 56,103,617**
Operations	$ 39,304,616	$ 40,274,607	$ 42,083,663	$ 43,903,115	$ 45,651,188	$ 47,518,071	$ 49,154,280	$ 50,586,140	$ 52,120,935
Operational Transfers Out	$ 1,425,000	$ 1,460,500	$ 1,509,173	$ 1,559,396	$ 1,641,259	$ 1,694,971	$ 1,750,420	$ 1,806,783	$ 1,864,087
OPEB	$ 1,270,611	$ 1,628,748	$ 2,185,574	$ 2,546,742	$ 2,657,346	$ 2,885,980	$ 3,047,964	$ 3,108,923	$ 3,171,102
Total Expenses	**$ 42,000,227**	**$ 43,363,855**	**$ 45,778,410**	**$ 48,009,253**	**$ 49,949,793**	**$ 52,099,022**	**$ 53,952,664**	**$ 55,501,846**	**$ 57,156,124**
Net Operations before Pension/OPEB Transfers	$ 367,808	$ (555,494)	$ (1,119,916)	$ (1,498,399)	$ (1,890,199)	$ (2,144,470)	$ (1,993,503)	$ (1,459,920)	$ (1,052,507)
Pension/OPEB Fund Transfer In	$ -	$ 675,000	$ 1,250,000	$ 1,625,000	$ 2,000,000	$ 2,275,000	$ 2,100,000	$ 1,575,000	$ 1,157,173
Operating Surplus/(Required Savings/Reductions)	**$ 367,808**	**$ 119,506**	**$ 130,084**	**$ 126,601**	**$ 109,801**	**$ 130,530**	**$ 106,497**	**$ 115,080**	**$ 104,666**
Capital Projects/Non Operating Transfers	$ 104,556	$ 157,093	$ 374,705	$ 207,397	$ 180,169	$ 183,024	$ 185,964	$ 188,993	$ 192,113
Ending Fund Balance	**$ 20,254,745**	**$ 20,217,158**	**$ 19,972,537**	**$ 19,891,741**	**$ 19,821,374**	**$ 19,768,880**	**$ 19,689,413**	**$ 19,615,500**	**$ 19,528,053**
Assigned/Committed Fund Balance	$ 5,229,556	$ 5,407,093	$ 5,400,000	$ 5,000,000	$ 5,100,000	$ 5,200,000	$ 5,300,000	$ 5,400,000	$ 5,500,000
Unassigned Fund Balance	$ 15,025,189	$ 14,810,065	$ 14,572,537	$ 14,891,741	$ 14,721,374	$ 14,568,880	$ 14,389,413	$ 14,215,500	$ 14,028,053
30% Reserve Requirement	$ 12,172,568	$ 12,571,007	$ 13,280,771	$ 13,934,957	$ 14,492,560	$ 15,121,215	$ 15,660,673	$ 16,108,519	$ 16,587,611
Reserve Surplus (Shortfall)	$ 2,852,621	$ 2,239,059	$ 1,291,766	$ 956,784	$ 228,814	$ (552,335)	$ (1,271,260)	$ (1,893,019)	$ (2,559,558)

Scenario 2 was developed utilizing the existing Fiscal Model, with the following adjustments:

- Increased development activity of 50 single-family residential building permits per year from FY 2014/15 through FY 2017/18, and an additional 25 single-family residential building permits per year from FY 2018/19 through FY 2022/23.
- Additional staffing of 5 sworn officers (bringing the City's total sworn staffing count to 71), non-sworn support staff for the additional officers (an additional 1.3 full time equivalent positions) and a combined 1.75 full time equivalent positions for Parks, Public Works and Community Development for a total of approximately 8 new General Fund positions over the next decade.
- Increased supplies and services costs in a proportionate manner to the rate of population growth. These expense growth rates are consistent with the analysis from the Fiscal Sustainability component of the new General Plan, and result in a cumulative increase in supplies and services costs ranging from 3.6% to 14.4%, depending upon the specific department and function. These cost increases are in addition to standard inflation increases already included in the base Fiscal Model Increases in internal service costs have also been included to accommodate the additional demands of additional employees and the increased population base.