

General Fund Fiscal Model 2014/15 - 2023/24



City of Brentwood
150 City Park Way
Brentwood, CA 94513



Every year the City selects photographs for the covers of its major financial documents that highlight the City of Brentwood - the Capital Improvement Program (CIP), the General Fund Fiscal Model, the Operating Budget, the Cost Allocation Plan, the Comprehensive Annual Financial Report (CAFR), the Combined Community Facilities District (CFD) Annual Report for Special Taxes Levied and the Public Facilities Fee Report. Shown on the cover is a beautiful sunset view from the Shadow Lakes Golf Course.



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

- Gustavo “Gus” Vina City Manager
- Damien Brower City Attorney
- Pamela Ehler City Treasurer/Director of Administrative Services
- 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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April 2015

The Honorable Mayor, Members of the City Council and Citizens of the 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 2014/15 – 2023/24 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 economic downturn experienced several years ago imposed significant financial challenges on local agencies throughout the State. 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, resulted in additional fiscal challenges. In Brentwood, maintaining the high service levels expected by our residents with 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 Administrative Services 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 operational cost increases associated with a planned Police Dispatch Center.



The Fiscal Model projects that the City is on course to ultimately achieve a balanced General Fund, but only in the last year of the forecast. Increasing revenues, and in particular rebounding 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 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 the County methodology in determining assessed valuation amounts. The loss of the Redevelopment Agency has left a major funding gap in the City's capital improvement project plans and will require an increased allocation of resources in the future.

The City is also facing challenges due to increasing expenses in several areas of City operations, including the planned opening of a City owned and operated Police Dispatch Center in July 2017. The City has also elected to proactively address its unfunded Other Post-Employment Benefits (OPEB) obligation by increasing trust contributions in the near term. At the same time, rising pension contribution requirements, while helping to reduce the City's unfunded pension liability, result in a decrease of financial resources available for other uses. The funding for the general benefit portion of Landscape and Lighting Assessment District (LLAD) costs along with the demands of increasing parks replacement and street maintenance have also contributed to the projected full use of the Pension/OPEB Obligation Fund balance to offset deficits until the final year of the forecast. Even with the use of the Pension/OPEB Fund balance, the goal of maintaining General Fund reserves of 30% is not achieved in this forecast.

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. 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.

Quality of life for the citizens of Brentwood is a high priority for the Mayor and City Council. To ensure that quality of life continues to be our focus into the future, the Mayor and City Council will launch into workshops later this year to discuss their priorities over the next two years and to capture these priorities in a strategic plan. This strategic plan will complement the city's two year budget cycle as well as its ten year fiscal model that provides for long term fiscal stability. Identifying high priorities in such a plan will also allow staff to organize and prioritize resources so that Council's priorities are accomplished. This kind of planning will serve our public well by ensuring that the services and projects that support quality of life in our community will continue.

Respectfully submitted,



Gustavo "Gus" Vina
City Manager



Pamela Ehler
City Treasurer/Director of Administrative Services



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 economic downturn, however the additional revenues will be insufficient to both cover expenses and maintain the General Fund 30% reserve. This model projects that entire Pension/OPEB Obligation Fund of \$16.9 million will be utilized to balance the General Fund expenditures by the end of the forecast. In the final year of the forecast, when revenues finally exceed expenditures, any excess revenue will be necessary to increase the amount of General Fund reserves until the 30% reserve goal is reached over time.

General Fund revenues began to increase in fiscal year (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 FY 2014/15 assessed valuation. This increase significantly improved the City's fiscal outlook and the Fiscal Model includes a projected 5.82% increase in assessed valuation for FY 2015/16. 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. The improved revenue outlook must also be tempered with the realization that the current level of development and economic activity may not last. In addition, the loss of the Redevelopment Agency left a significant funding gap in the City's capital improvement project plans.

On the expense side, the City is still facing many challenges including: the additional costs of the plan to open the Police Dispatch Center in July 2017; increased costs to proactively address the City's unfunded OPEB obligation by increasing contributions to work towards fully funding the annual actuarial required contribution (ARC); significant pension rate increases by the California Public Employees' Retirement System (PERS); additional funding required for the general benefit portion of costs for LLAD's; and increasing parks replacement and street maintenance costs. To offset some of these increased costs, the City continues to improve efficiencies. For example, the City recently merged the Finance and Information Systems Department with the Administration Department (Human Resources and City Clerk divisions), to form the Administrative Services Department resulting in approximately \$400,000 in savings to the General Fund that have been incorporated into the forecast.

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. Additional staffing costs have been included in the model for the planned Police Dispatch Center. These estimated additional costs have been included in non-personnel line items along with amounts for the anticipated operational costs of the center.

During the recession, and in the years following, the City utilized one-time revenues to balance the General Fund. Over the next several years, increasing contributions towards unfunded benefit obligations, the cost of the planned Police Dispatch Center and additional expenses outlined above will 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 2023/24.



At the end of FY 2014/15, the City is projected to have a General Fund balance of \$19.2 million, with an unassigned fund balance (also referred to as “reserves”) of \$12.7 million. This meets the City Council’s 30% unassigned fund balance goal.

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	2015/16	2017/18	2019/20	2021/22	2023/24
Beginning Fund Balance	\$ 19,183,052	\$ 18,136,199	\$ 17,386,765	\$ 16,664,401	\$ 15,929,126
Revenues	37,367,287	40,243,805	42,872,483	46,199,628	49,644,627
Transfer In	4,824,431	5,464,380	6,130,033	6,837,112	7,542,498
Total Revenues	42,191,718	45,708,185	49,002,516	53,036,740	57,187,125
Operations	39,997,003	43,846,692	46,281,559	48,579,885	50,873,880
Operational Transfers Out	1,729,437	2,214,396	2,440,273	2,579,855	2,724,673
OPEB	2,119,664	2,784,001	3,061,681	3,140,807	3,267,696
Total Expenses	43,846,104	48,845,089	51,783,513	54,300,547	56,866,249
Net Operations before Pension/OPEB Transfers	(1,654,386)	(3,136,904)	(2,780,997)	(1,263,807)	320,876
Pension/OPEB Transfer In	1,495,000	2,977,000	2,622,000	1,105,000	-
Operating Surplus	(159,386)	(159,904)	(158,997)	(158,807)	320,876
Capital Projects/Non Operating Transfers	312,656	214,006	200,479	207,134	214,195
Ending Fund Balance	\$ 18,711,010	\$ 17,762,289	\$ 17,027,288	\$ 16,298,459	\$ 16,035,807
Assigned/Committed Fund Balance	\$ 6,657,093	\$ 5,000,000	\$ 5,200,000	\$ 5,400,000	\$ 5,600,000
Unassigned Fund Balance	\$ 12,053,917	\$ 12,762,289	\$ 11,827,288	\$ 10,898,459	\$ 10,435,807
Unassigned Fund Balance %	27%	26%	23%	20%	18%
30% Reserve Requirement	\$ 13,153,831	\$ 14,653,527	\$ 15,535,054	\$ 16,290,164	\$ 17,059,875
<i>Note: The City's Unfunded PERS Pension Liability is \$30.3 million as of June 30, 2013.</i>					
<i>The City's Unfunded OPEB Liability is \$32.6 million as of June 30, 2013.</i>					



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 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; and 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. 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 will operate with a surplus only in the long-term. 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 increasing costs 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 Fiscal Model shows that the City will be unable to maintain the 30% reserve goal for the duration of the model. The General Fund surplus generated in the long-term will be needed to increase the reserve in order to meet the 30% goal and will generally not be available for future expenses.

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 over the past few 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 the economic recovery will have on the City's future.
- Staffing needs in response to a rising population.
- The planned opening of the Police Dispatch Center and associated costs.
- 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 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).



- Funding for the general benefit portion of LLAD costs.
- Increasing parks replacement transfers to fully fund the amount required for maintaining the City's parks.

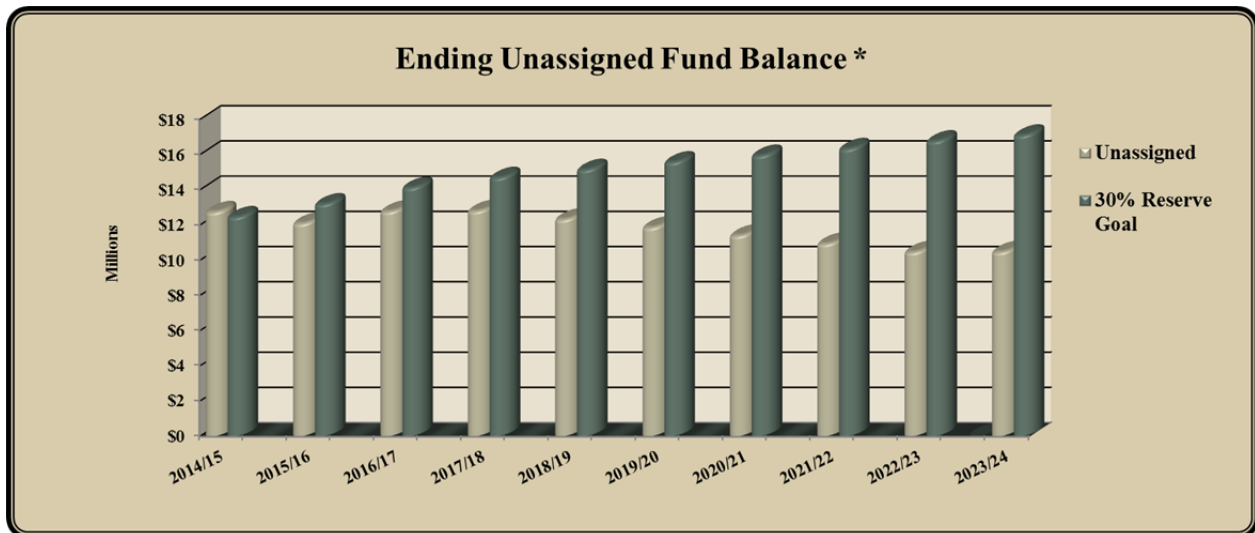
Fund balance, along with annual additions/draws from fund balance, is the best indicator of a City's financial health. These are illustrated together in the General Fund Financial Summary located on page A3 of the Appendix. As indicated in the Summary, the General Fund is projected to require a subsidy from the Pension/OPEB Obligation Fund over the next eight years, drawing down the full fund balance of \$16.9 million by FY 2022/23.

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 Comprehensive Annual Financial Report (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's plan to increase funding for OPEB to the annual required contribution; and 2) PERS increasing 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 pension and/or OPEB rates than have been included in the model. The Fiscal Model projects the annual City paid portion of PERS for Sworn employees will increase from \$1.8 million to \$2.3 million over the next decade. Non-sworn funding contribution requirements are projected to increase from \$1.5 million to \$2.1 million during this same time period. These estimated cost increases include all known variables, including the recent mortality, smoothing and risk pooling methodology changes made by PERS in May 2014. These projections include no change in the discount rate during the forecast period. PERS investment returns have exceeded the current discount rate by a substantial margin in the recent reporting period and the expectation built into the model is that the discount rate will remain the same for the remaining years in the forecast. This assumption will be evaluated annually in light of PERS actual returns and adjusted as necessary in future models.

Exhibit 2, presented on the following page, shows a comparison of projected ending unassigned fund balance and the 30% reserve goal.

EXHIBIT 2: Ending Unassigned Fund Balance



**Note: The City's Unfunded PERS Pension Liability is \$30.3 million as of June 30, 2013.
The City's Unfunded OPEB Liability is \$32.6 million as of June 30, 2013.*

In FY 2014/15, the significant increase in property taxes due to an 18.64% increase in the City’s 2014/15 assessed valuation, coupled with increased development revenues have resulted in the General Fund being balanced exclusive of one-time revenues for the second year since the recession. However, a projected slowdown in development to a more sustainable 275 new units per year, along with an increase in projected expenditures will bring back the need for one-time revenues for the next eight fiscal years. 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 and will be critical to providing necessary services, such as the planned Police Dispatch Center, in the upcoming years. Even with the use of one-time revenue sources, the goal of maintaining General Fund reserves of 30% will not be achieved in this forecast.

Beginning in FY 2015/16, the operational gap in the General Fund is projected to be \$1.7 million, and with the projected opening of the Police Dispatch Center, increases to a peak of \$3.4 million in FY 2016/17. This gap will be closed by transfers from the Pension/OPEB Fund. The funding gap then narrows and is eliminated by FY 2023/24, as pension and OPEB increases subside and the impacts from the second and third tier bargaining solutions begin to have a larger impact.

It is important to recognize that 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 **\$2.5 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 lays 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. 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 fund the OPEB and pension obligations.



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 six 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	350	350	-	1,550	56,291	2.8%
2015/16	275	275	-	1,085	57,376	1.9%
2016/17	275	275	-	853	58,229	1.5%
2017/18	275	275	-	853	59,082	1.5%
2018/19	250	250	-	853	59,935	1.4%
2019/20	250	250	-	775	60,710	1.3%
2020/21	280	250	30	775	61,485	1.3%
2021/22	280	250	30	868	62,353	1.4%
2022/23	280	250	30	868	63,221	1.4%
2023/24	280	250	30	868	64,089	1.4%
Total New	2,795	2,675	120	9,348	64,089	17.08%

*Decrease due to true-up 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 2024 is 2,675. Combined with the 120 multiple-family permits, the City is expecting 9,348 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 64,089 in 2024. 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.

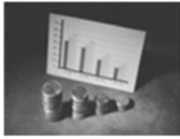
The growth model is the key to future revenue and, to a lesser extent, expense assumptions. Virtually all of the City’s largest revenue sources are impacted by development, either directly through development fees, or indirectly through the impacts of having a larger property and sales tax base from 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 **\$16.5 million** of revenue through FY 2023/24. 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

Fiscal 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	8,490	-	-
2014/15	-	-	20,000
2015/16	25,000	-	10,000
2016/17	50,000	-	50,000
2017/18	50,000	10,000	50,000
2018/19	25,000	-	-
2019/20	25,000	-	-
2020/21	15,000	-	10,000
2021/22	15,000	-	10,000
2022/23	15,000	-	10,000
2023/24	15,000	-	10,000
Total New	235,000	10,000	170,000



REVENUE SUMMARY

Key Finding: *After years of declines, primarily in development revenues and property taxes, General Fund revenues are posting healthy annual increases. Recent strong increases in property tax revenues combined with a return to normal levels of development revenue are projected to result in a General Fund surplus in the final year of the Fiscal Model; 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 major 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 picked 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 accelerated, 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. The Fiscal Model includes a projected 5.82% increase in assessed valuation for FY 2015/16 and development activity at a slightly slower, more sustainable pace. Increases in assessed valuation are especially significant as they 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. Despite significantly increased revenues from property taxes and development, the Fiscal Model still forecasts the drawdown of the entire \$16.9 million balance 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. 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 balanced budget to occur, although not until FY 2023/24.

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.

Property tax revenue, which peaked at \$9.2 million in FY 2007/08, fell by over 33% from this level during the recession, bottoming out at \$6.0 million in FY 2012/13. Following an assessed valuation increase of 8.4% in FY 2013/14 and 18.64% in FY 2014/15, an increase of 5.82% is projected for FY



2015/16. This increase would bring the City’s property tax revenue back up to \$8.3 million. Despite these increases, the Fiscal Model does not project that the City will surpass (excluding Redevelopment property tax receipts) the previous property tax revenue peak until FY 2017/18. According to this projection, the City will experience a 10-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 FY 2014/15 are actual amounts.

EXHIBIT 5: Annual Contributions to Property Tax Revenue Changes

Fiscal Year	CPI/Prop. 8 Adjustments	New Development	Turnover	Total
2014/15	N/A	N/A	N/A	18.64%
2015/16	2.93%	2.43%	0.45%	5.82%
2016/17	1.82%	1.95%	0.44%	4.21%
2017/18	1.82%	1.98%	0.44%	4.24%
2018/19	1.82%	1.91%	0.43%	4.17%
2019/20	1.82%	1.69%	0.43%	3.94%
2020/21	1.82%	1.65%	0.43%	3.90%
2021/22	1.82%	1.74%	0.43%	3.99%
2022/23	1.82%	1.70%	0.42%	3.95%
2023/24	1.82%	1.68%	0.42%	3.92%

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 includes a slight gain from Proposition 8 recapture amounts in FY 2015/16 and no additional recapture gains in future years, 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 2017/18. This ongoing annual revenue source is projected to average over \$400,000 in 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 \$3 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 \$143.38 for FY 2014/15. 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 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.

EXHIBIT 6: Multi-City Comparison of Property Tax Revenue

City	1/1/2014 Population	2014/15 Est. General Fund Property Tax	2014/15 Est. Revenue Per Capita	2013/14 Est. Revenue Per Capita
Pleasanton	73,067	\$ 48,038,541	\$ 657.46	\$ 620.97
Dublin	53,462	26,302,922	491.99	428.04
Benicia	27,454	13,472,738	490.74	467.76
Livermore	84,852	25,730,066	303.23	281.96
Fremont	223,972	49,323,202	220.22	207.16
Oakland	404,355	88,210,484	218.15	206.03
Martinez	36,842	7,116,522	193.16	179.63
Walnut Creek	66,183	12,658,543	191.27	176.63
Danville	43,146	8,023,282	185.96	173.28
San Ramon	77,270	11,746,185	152.01	140.39
Brentwood	54,741	7,848,738	143.38	120.29
Union City	72,155	9,766,806	135.36	127.33
Tracy	85,146	11,411,834	134.03	118.58
Vacaville	93,613	11,511,992	122.97	111.99
Vallejo	118,470	14,508,931	122.47	113.06
Fairfield	110,018	11,391,299	103.54	93.83
Concord	124,656	12,104,033	97.10	87.92
Stockton	300,899	28,460,961	94.59	87.75
Antioch	106,455	8,655,359	81.31	67.78
Pleasant Hill	33,872	2,485,326	73.37	67.26
Oakley	38,075	1,978,703	51.97	43.28
Average Comparison City	106,129	\$ 19,559,356	\$ 203.06	\$ 186.71

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 6.4% annual growth rate over the past five years. By comparison, Contra Costa County sales taxes were down over 17% in 2009 and have averaged a 5.8% annual growth rate over the past five years. Longer term, the City expects sales tax to post average annual gains of 4.1% through the duration of the 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	1/1/2014 Population	2014 Calendar Year Gross Sales Tax	2014 Revenue Per Capita	2013 Revenue Per Capita
Dublin	53,462	\$ 18,851,350	\$ 352.61	\$ 349.67
Walnut Creek	66,183	21,387,603	323.16	320.20
Livermore	84,852	26,165,159	308.36	311.52
Pleasanton	73,067	21,758,258	297.79	290.73
Benicia	27,454	6,541,305	238.26	231.06
Concord	124,656	29,422,227	236.03	222.00
Pleasant Hill	33,872	7,751,541	228.85	220.62
Vacaville	93,613	18,976,196	202.71	186.74
Fairfield	110,018	20,816,083	189.21	175.74
Tracy	85,146	15,851,110	186.16	182.39
Fremont	223,972	39,559,475	176.63	162.89
Martinez	36,842	5,378,904	146.00	162.20
Stockton	300,899	41,331,117	137.36	129.76
Union City	72,155	9,221,306	127.80	127.22
Brentwood	54,741	6,802,403	124.27	120.16
Danville	43,146	5,298,208	122.80	121.78
Oakland	404,355	49,177,635	121.62	115.98
San Ramon	77,270	9,373,569	121.31	126.50
Vallejo	118,470	13,128,116	110.81	109.14
Antioch	106,455	11,795,355	110.80	103.22
Oakley	38,075	1,537,979	40.39	41.03
Average Comparison City	106,129	\$ 18,101,186	\$ 185.85	\$ 181.46

Looking at total General Fund revenue, as summarized in Exhibit 9 on page 15, the Fiscal Model is forecasting average annual increases of 3.0% per year, with an average annual increase of 1.5% in per capita revenue. This means 1.5% of annual revenue growth is attributable to an increased population base, while 1.5% represents inflationary or other activity related increases within the existing base. Excluding one-time revenues, average annual revenue increases of 3.3% are expected, with a 1.8% 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 2.1% annual rate, with new development and the onset of redevelopment property tax distributions bringing the overall average annual increase to 4.3%. Sales tax is projected to increase at an average rate of 4.1% 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. 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 approximately \$600,000 may be available for this purpose, with a cumulative ten-year surplus of over \$6.5 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 property tax and more normal levels of development revenue allowed the General Fund to have recurring revenues exceed expenditures by a projected \$2.4 million in FY 2014/15, the pace of increase in assessed valuations of property is not expected to continue. When coupled with projected personnel and other cost increases in the upcoming years, annual deficits and reliance on the transfer of the entire Pension/OPEB Obligation Fund balance is anticipated to meet expenditures. Although the property tax and development revenue increase has provided a source of funds to fill a portion of 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, on page 16, illustrates the drawdown of the Budget Stabilization portion of the Pension/OPEB Obligation Fund to zero.

EXHIBIT 8: One-Time Revenues

Fiscal Year	One-Time Revenue	Total Revenue	One-Time Revenue as a % of Total Revenue
2014/15	\$ 1,185,658	\$ 43,811,109	2.71%
2015/16	1,495,000	43,686,718	3.42%
2016/17	3,264,000	46,796,544	6.97%
2017/18	2,977,000	48,685,185	6.11%
2018/19	3,007,000	50,192,713	5.99%
2019/20	2,622,000	51,624,516	5.08%
2020/21	1,836,000	52,876,114	3.47%
2021/22	1,105,000	54,141,740	2.04%
2022/23	590,477	55,602,997	1.06%
2023/24	-	57,187,125	0.00%

Exhibit 9, on the following page, presents details concerning the composition of General Fund revenue and compares FY 2014/15 to FY 2023/24 to highlight long-term trends in the City’s revenue mix.

EXHIBIT 9: Revenue Summary

Revenue Summary	2014/15	2023/24	Total Increase	Avg. Growth Rate	Current Per Capita
Property Tax					
Existing Base	\$ 7,848,738	\$ 9,471,919	\$ 1,623,181	2.1%	\$ 139.43
New Residential	-	1,486,529	1,486,529	N/A	-
Residential Turnover	-	365,181	365,181	N/A	-
New Commercial / Ind	-	76,753	76,753	N/A	-
Redevelopment	275,000	489,149	214,149	6.6%	4.89
Sub -Total	\$ 8,123,738	\$ 11,889,531	\$ 3,765,793	4.3%	\$ 144.32
Property Transfer	378,000	567,826	189,826	4.6%	6.72
Sales Tax	6,681,142	9,606,735	2,925,593	4.1%	118.69
Franchise Fees	1,355,214	1,977,059	621,845	4.3%	24.08
Transient Occupancy Tax	285,427	416,396	130,969	4.3%	5.07
Motor Vehicle License	3,256,924	4,730,719	1,473,795	4.2%	57.86
Investment Income	100,000	541,590	441,590	20.6%	1.78
Business License	601,433	791,491	190,058	3.1%	10.68
Building Fees	2,200,931	2,361,120	160,189	0.8%	39.10
Engineering Fees	1,862,557	2,251,698	389,141	2.1%	33.09
Planning Fees	406,390	360,706	(45,684)	-1.3%	7.22
Parks and Recreation	2,779,661	4,045,150	1,265,489	4.3%	49.38
Interfund Services	6,956,742	8,147,956	1,191,214	1.8%	123.59
Other	1,650,450	1,956,650	306,200	1.9%	29.32
Recurring Transfers In	5,986,842	7,542,498	1,555,656	2.6%	106.36
Total Recurring Revenue	\$ 42,625,451	\$ 57,187,125	\$ 14,561,674	3.3%	\$ 757.23
Non-Recurring Revenue	\$ 1,185,658	\$ -	\$ (1,185,658)	-100.0%	\$ 21.06
Total	\$ 43,811,109	\$ 57,187,125	\$ 13,376,016	3.0%	\$ 778.30
Per Capita - Recurring	\$ 757.23	\$ 892.31	\$ 135.08	1.8%	
Per Capita Total	\$ 778.30	\$ 892.31	\$ 114.01	1.5%	
<i>Note: The City's Unfunded PERS Pension Liability is \$30.3 million as of June 30, 2013.</i>					
<i>The City's Unfunded OPEB Liability is \$32.6 million as of June 30, 2013.</i>					

While analyzing trends in revenues or expenses, comparing the first and last years of a ten-year period is a useful tool for spotting long-term trends. However, 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 necessary revenue source emerges – Pension/OPEB Obligation funding.

A total of \$17.7 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 \$16.9 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 \$1.2 million of citywide 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 reflects, the General Fund is projected to utilize the entire 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 at the same time addressing long-term fiscal concerns. However, the Fiscal Model shows that the City will be unable to maintain the 30% reserve goal for the duration of the model. The General Fund surplus generated in the longer-term will be utilized to build the reserve balance until the 30% goal is reached. 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*
2014/15	\$ 16,896,477	\$ -	\$ 16,896,477
2015/16	16,896,477	1,495,000	15,401,477
2016/17	15,401,477	3,264,000	12,137,477
2017/18	12,137,477	2,977,000	9,160,477
2018/19	9,160,477	3,007,000	6,153,477
2019/20	6,153,477	2,622,000	3,531,477
2020/21	3,531,477	1,836,000	1,695,477
2021/22	1,695,477	1,105,000	590,477
2022/23	590,477	590,477	-
2023/24	-	-	-

*Note: The City's Unfunded PERS Pension Liability is \$ 30.3 million as of June 30, 2013.
The City's Unfunded OPEB Liability is \$32.6 million as of June 30, 2013.*

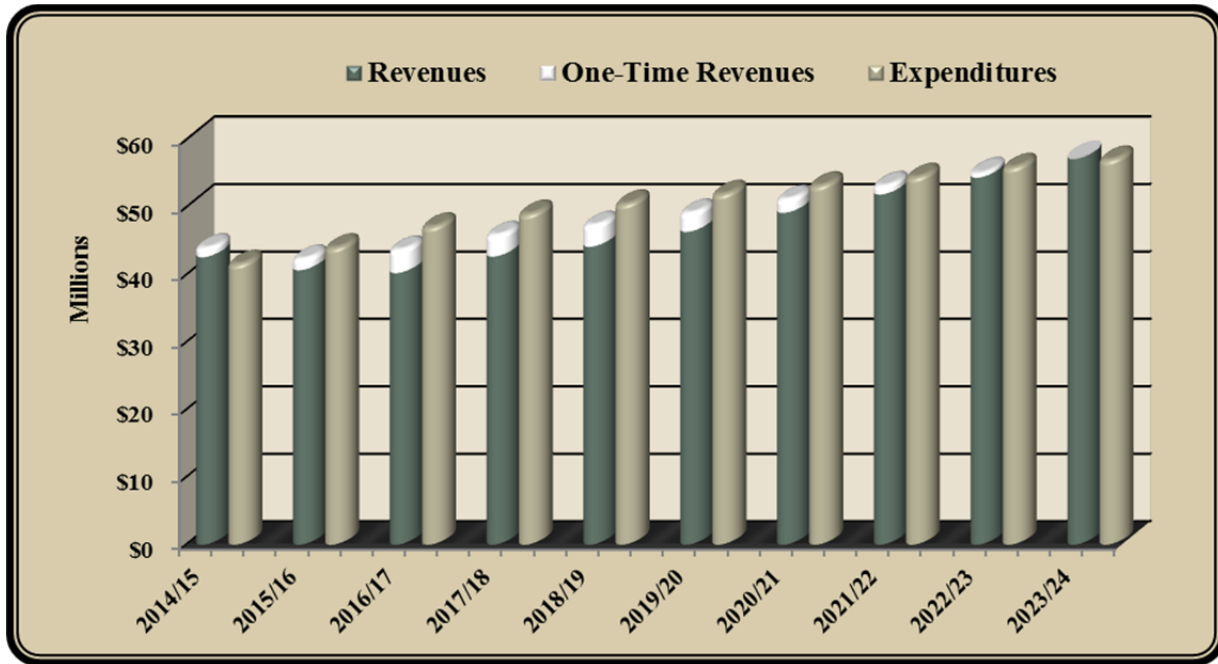
**Figures reflect amounts available for transfer to the General Fund and do not include the funds to be used in support of OPEB costs.*

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 a Pension/OPEB Obligation Fund balance of zero at the end of the term of the model increases the potential risk of the City facing fiscal years in which expenses exceed revenues without the availability one-time revenues to make up the deficit.

Exhibit 11, 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 2.7% of General Fund revenues in FY 2014/15.

During the next several years, approximately 1.1% to 7.0% of General Fund revenues are comprised of one-time revenues. By FY 2023/24 no further one-time revenues are anticipated.

EXHIBIT 11: Revenues and Expenditures





EXPENSE SUMMARY

Key Finding: *The City will likely take on higher levels of expenses in the upcoming years for items such as the planned Police Dispatch Center, pay down of unfunded Pension and OPEB liabilities and funding of the general benefit portion of LLAD costs among other expected operating cost increases in the forecast. The City has secured intermediate-term cost certainty through labor negotiations including second and third tier employee benefit levels; however, several benefits remain highly susceptible to factors beyond the City's control. The City's limited ability to increase revenues and the commitment of funds for necessary services in upcoming years has required the use of the entire Pension/OPEB Obligation Fund to balance the budget.*

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 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 combined with normal levels of development have positively affected revenues, the City will be facing increasing expenditures to provide necessary services.

The City is facing many challenges including the additional costs of the plan to open the Police Dispatch Center in July 2017. Adding to expenses are costs to proactively address the unfunded OPEB obligation by accelerating contributions to ultimately achieve a fully funded ARC. Additionally, the City is facing pension rate increases put in place by PERS beginning in FY 2016/17 and continuing throughout the duration of the model. In response to recent legal developments, the City has also included additional costs for transfers to LLAD's for the general benefit portion of costs incurred by the districts. Also included in the model are increased amounts for parks replacement and street maintenance funding. To offset a portion of these increased costs, the City continues to improve efficiencies. For example, the City recently merged the Finance and Information Systems Department with the Administration Department (Human Resources and City Clerk divisions), to form the Administrative Services Department resulting in approximately \$400,000 in savings to the General Fund.

Due to these increased costs, annual operating deficits averaging \$1.5 million per year are projected during the ten years of the Fiscal Model. These deficits will be covered by transfers from the Pension/OPEB Obligation Fund.

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. As the Pension/OPEB Obligation Fund is expected to be fully utilized by the end of the Fiscal Model period, there is little cushion for expenditures to rise above the levels assumed in the forecast. As such, continued caution in increasing expenses is warranted.



The Fiscal Model addresses the immediate staffing needs of the Police Department and includes the costs associated with the Police Overstaffing plan. Additional staffing costs have been included in the model for the planned Police Dispatch Center. These estimated additional costs have been included in non-personnel line items along with amounts for the anticipated operational costs of the Center.

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 4.3% for personnel costs (with a range of 2.6% - 5.9%). Exclusive of dispatch costs, the savings for supplies and services have averaged 21.3% (with a range of 19% - 24%). 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 3.5% for personnel costs and 16% for supplies and services, exclusive of dispatch costs. 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 included in the Fiscal Model equate to approximately \$2.2 million (4.9% of expenses) in FY 2015/16 and increase to \$2.7 million (4.7% of expenses) by FY 2023/24.

In total, General Fund operating expenses are projected to increase from \$41.4 million in FY 2014/15 to \$56.9 million in FY 2023/24. This equates to an average annual expenditure growth rate of 3.6%.

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 CAFR, the General Government category combines the following City administrative departments: City Manager, City Attorney, Administrative Services, Community Services and Non-Departmental. Detailed expenditure data for each of these departments can be found in Exhibit A2.

The projected annual increases range between 2.3% for general government to 4.2% for police. Exhibit 12 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. These costs do not include any funds for additional staffing beyond those needed for the new Police Dispatch Center along with the costs of the Police Overstaffing.

EXHIBIT 12: Expense Summary by Department (OPEB Allocated)

Department Summary	2014/15	2023/24	Total Increase	Avg. Growth Rate
General Government	\$ 6,436,555	\$ 7,920,069	\$ 1,483,514	2.3%
Police	18,404,164	26,761,796	8,357,632	4.2%
Parks and Recreation	5,086,440	6,517,327	1,430,887	2.8%
Community Development	4,114,720	5,314,787	1,200,067	2.9%
Public Works	5,946,115	7,627,597	1,681,482	2.8%
Operational Transfers Out	1,425,000	2,724,673	1,299,673	7.5%
Total	\$41,412,994	\$56,866,249	\$15,453,255	3.6%
Per Capita	\$736	\$887	\$152	2.1%

A comparison of each department’s percentage share of the budget for both FY 2014/15 and FY 2023/24 is illustrated in Exhibit 13. Allocating the OPEB costs to the appropriate departments once again provides a preferred way of analyzing the data.

EXHIBIT 13: Department’s Share of Budget (OPEB Allocated)

Department Summary	2014/15	2023/24	2014/15 Share	2023/24 Share
General Government	\$ 6,436,555	\$ 7,920,069	15.6%	13.9%
Police	18,404,164	26,761,796	44.4%	47.1%
Parks and Recreation	5,086,440	6,517,327	12.3%	11.5%
Community Development	4,114,720	5,314,787	9.9%	9.3%
Public Works	5,946,115	7,627,597	14.4%	13.4%
Operational Transfers Out	1,425,000	2,724,673	3.4%	4.8%
Total	\$41,412,994	\$56,866,249	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 from the adoption of the California Public Employees’ Pension Reform Act of 2013 (PEPRA); 3) the most current pension rates which include the impacts of updated PERS rates; and 4) the planned increase in OPEB contributions to fully fund the ARC.

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. On the following page, Exhibit 14 illustrates the relative importance and projected growth patterns for each.

EXHIBIT 14: Summary of Cost Increases by Type of Expense

Fiscal Year	Salary and Benefits Total	Other Expenses Total	Total Operating Expenses	Recurring Revenues	Total Revenues
2014/15	\$ 26,916,714	\$ 14,496,280	\$ 41,412,994	\$ 42,625,451	\$ 43,811,109
2015/16	28,789,565	15,056,539	43,846,104	42,191,718	43,686,718
2016/17	30,176,895	16,778,954	46,955,849	43,532,544	46,796,544
2017/18	31,206,348	17,638,741	48,845,089	45,708,185	48,685,185
2018/19	32,206,114	18,146,027	50,352,141	47,185,713	50,192,713
2019/20	33,121,436	18,662,077	51,783,513	49,002,516	51,624,516
2020/21	33,727,768	19,307,476	53,035,244	51,040,114	52,876,114
2021/22	34,391,275	19,909,272	54,300,547	53,036,740	54,141,740
2022/23	35,069,577	20,692,141	55,761,718	55,012,520	55,602,997
2023/24	35,648,707	21,217,542	56,866,249	57,187,125	57,187,125
Avg. Growth Rate	3.2%	4.3%	3.6%	3.3%	3.0%
Total Growth Rate	32.4%	46.4%	37.3%	34.2%	30.5%

Exhibit 14 shows salary and benefit expenses are projected to grow by \$8.7 million, or 32.4%, over the next decade. This equates to an average annual growth rate of 3.2%. 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% of the overall FY 2014/15 General Fund projected expenses, are projected to grow at an average annual rate of 4.3%. All Police Dispatch Center estimated costs are currently included in the model in “other expenses” which is inflating this figure when in reality, a significant portion of the dispatch costs will be from personnel. The combined ten-year average rate of growth for total expenditures is 3.6% exceeding the growth rate of recurring revenues of 3.3%.

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 \$250,000 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 utilize the assets. The General Fund, at a departmental level, is projected to contribute \$1.8 million towards replacement internal service funds in FY 2015/16. 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 18 and 19 found on page 30.

ii. Cost of Living Adjustments

- a) **Non-sworn** – The Fiscal Model includes a 3.5% cost of living adjustment for FY 2014/15, followed by two consecutive years of 3.0% annual increases (in accordance with recently adopted side letters). 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 3% cost of living adjustment beginning July 1, 2014 and an additional 1.5% on January 1, 2015, the Fiscal Model includes an increase of 3.5% in FY 2015/16 and 2.5% in FY 2016/17 in accordance with the recently adopted side letters. The remaining years of the Fiscal Model assume a 2% annual increase in the same manner as is assumed for the Non-sworn employees.

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 15, on page 25 and Exhibit 16, on page 27), PERS is actively addressing those shortfalls through rate increases as discussed below and illustrated in Exhibit 18 and 19 on page 30. In this way, the Fiscal Model captures the expenditure impacts of closing the existing unfunded pension liability.

The Fiscal Model includes increases in the total pension contributions for Sworn and Non-sworn employees over the term of the Fiscal Model. These cost increases include impacts from the implementation of a reduced smoothing and amortization period policy adopted by the PERS Board in April 2013, as well as the impacts from the adoption of mortality assumptions in 2014. 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. Since males make up a large percentage of the Sworn group, those costs have been disproportionately impacted.

The City's rates for Sworn employees will decrease from 30.01% of salary in FY 2014/15 to 21.80% in FY 2023/24, however this rate "reduction" does not take into account newly required annual payments for the City's portion of the plan's unfunded obligation. 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. As a result of the allocation of the unfunded liability from the statewide PERS pool to individual agencies, the City is required to pay its share of the pool's unfunded liability in annual lump sum payments. Although the City, which has relatively fewer retirees and a larger current workforce, was allocated a much smaller share of the unfunded liability than those cities which had a greater number of retirees and a relatively older workforce, the annual lump sum payments will add approximately \$420,000 (approximately 6% of salaries) to the FY 2015/16 PERS contributions and add approximately \$907,000 (approximately 11% of salaries) in FY 2023/24. While there are no annual lump sum payment requirements for Non-sworn staff, their costs are also expected to increase with the blended PERS rate projected to rise from 16.58% in FY 2015/16 to 18.90% in the last year of the forecast.

This Fiscal Model eliminates the previous assumption of a reduction to the assumed investment rate of return (discount rate). This change seems unlikely in the near term given that the most recent year's investment returns have exceeded the discount rate (18.42% in FY 2013/14). Although there is no indication that the discount will change in the near future, the City will continue to monitor potential changes in the rate and incorporate them into future forecasts.

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 during 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 ARC. The Fiscal Model includes a plan to increase contributions with a goal of fully funding the ARC, which 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 single 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 16.58% of salary in FY 2014/15. After this point, the rate increases discussed above are expected to commence. 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 be higher. Exhibit 18 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.

Despite the cost controls established through the second and third tiers, pension expenses are projected to increase by an additional \$587,000 over the next



decade. Exhibit 18, on page 30, 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, gains from a strong market were reflected in the June 30, 2013 valuation. 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 15 presents the current and historical funding status of the City’s Non-sworn PERS Pension Plan (data includes all citywide 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 76.0% as of June 2013 (the most recent valuation available).

EXHIBIT 15: Current and Historical Funding Status – Citywide 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%
6/30/2013	84,943,593	64,523,303	20,420,290	75.96%

- 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 decrease from 30% of salary for Tier 1 employees in FY 2014/15 to 21.8% of salary by FY 2023/24. However, the annual lump sum payment for the City's share of the statewide pool of unfunded liability will add approximately \$420,000 to the FY 2015/16 PERS contributions and will rise to approximately \$907,000 in FY 2023/24. In total, annual pension costs for Sworn employees are projected to increase by \$541,000 by the end of the model.

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 16, on the following page, the funding status of the Sworn PERS plan increased from a low point of 60.2% in June 2009 to 77.5% by June 2013. 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 16: 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%
6/30/2013*	City	44,179,102	34,249,854	9,929,248	77.53%

*PERS 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 a plan to increase contributions towards the goal of fully funding the 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 \$122. As a result, as

employees turnover the City's OPEB obligations will level off and, over the long term, decline.

FY 2014/15 annual OPEB funding from the General Fund to the Pension/OPEB Obligation Fund was set at \$6,198 per Non-sworn employee and \$9,442 per Sworn employee. As the City continues towards funding OPEB benefits as they are earned and paying off the unfunded liability for previous service and retirees, **these amounts are projected to increase to \$15,895 per Non-sworn employee and \$24,211 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.

As of June 30, 2014, the City (including all funds, not just the General Fund) has a net OPEB obligation of \$14.2 million, as is reported in the City's CAFR. This amount is estimated to rise to \$15.7 million for the fiscal year ended June 30, 2015 (see Exhibit 17). The Fiscal Model addresses this significant unfunded liability by increasing contributions toward the goal of fully funding the ARC. The actual impact of this acceleration on the total unfunded OPEB obligation is currently being calculated in an updated actuarial study to be completed before the end of FY 2014/15. Estimates of the June 30, 2015 liability have been included in the Exhibit 17, but are subject to change upon receipt of the completed actuarial study.

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 majority of the forecast). 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 17, on the following page reflects the City's progression in ramping up the funding of its actuarially determined required contribution.

EXHIBIT 17: 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	31,964,000	1,146,000	3.59%
6/30/2013	3,651,000	1,669,000	45.71%	1,982,000	12,501,500	34,494,000	1,892,000	5.49%
6/30/2014	3,806,000	2,076,000	54.55%	1,730,000	14,231,500			
6/30/2015	4,036,000	2,520,000	62.44%	1,516,000	15,747,500			

* Actuarial reports only available through June 30, 2013

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 \$1,722, and subject to 10% maximum annual increase

As a result of the divergent caps, health insurance costs are expected to remain relatively flat for Non-sworn employees, with annual increases of less than \$10,000 per year over the next ten years. However, on the Sworn side projections indicate average annual increases of over \$65,000 per year over the ten-year period.

Exhibits 18 and 19, 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 20, on page 31 illustrates the impacts that various components are projected to have on future pension rates.

To clarify the impact of changes in the cost assumptions above on total expenditures by fiscal year, Exhibit A5 has been prepared that begins with the prior year’s Fiscal Model total expenditures, quantifies the changes in major assumptions in the current year and arrives at the total projected expenditures for each year in the current Fiscal Model. This exhibit can be found on page A5 of the Appendix.

EXHIBIT 18: 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
2014/15	3.50%		17.29%	12.28%	11.87%	16.58%					
2015/16	3.00%	\$ 273,409	18.22%	13.02%	12.37%	17.20%	\$ 110,764	\$ 457,003	\$ 3,857	\$ 845,033	\$ 7,603
2016/17	3.00%	281,612	19.34%	14.14%	13.49%	18.40%	156,784	198,062	9,240	645,698	5,809
2017/18	2.00%	193,373	19.94%	14.74%	14.09%	18.77%	72,467	161,103	9,181	436,124	3,924
2018/19	2.00%	197,241	20.54%	15.34%	14.69%	19.14%	74,560	137,358	9,025	418,184	3,762
2019/20	2.00%	201,186	21.44%	16.24%	15.59%	19.82%	107,487	12,766	8,770	330,209	2,971
2020/21	2.00%	205,209	21.44%	16.24%	15.59%	19.59%	16,727	9,484	8,411	239,831	2,158
2021/22	2.00%	209,313	21.44%	16.24%	15.59%	19.36%	16,483	33,295	8,831	267,922	2,411
2022/23	2.00%	213,500	21.44%	16.24%	15.59%	19.13%	16,220	33,961	9,273	272,953	2,456
2023/24	2.00%	217,770	21.44%	16.24%	15.59%	18.90%	15,938	34,640	9,737	278,084	2,502
Total	26.13%	\$ 1,992,613					\$ 587,431	\$ 1,077,672	\$ 76,324	\$ 3,734,039	\$ 33,596

EXHIBIT 19: 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	Annual Lump Sum Payment	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
2014/15	3.50%		30.01%	21.37%	11.50%	26.33%						
2015/16	3.50%	\$ 237,213	20.68%	15.63%	11.15%	24.38%	\$ 419,824	\$ (74,091)	\$ 388,301	\$ 38,987	\$ 590,410	\$ 8,946
2016/17	2.50%	175,368	21.80%	16.50%	11.50%	26.22%	510,219	174,874	168,287	79,017	597,545	9,054
2017/18	2.00%	143,802	21.80%	16.50%	11.50%	27.12%	605,661	103,808	136,884	78,509	463,003	7,015
2018/19	2.00%	146,678	21.80%	16.50%	11.50%	28.04%	706,371	108,424	116,708	77,180	448,990	6,803
2019/20	2.00%	149,611	21.80%	16.50%	11.50%	28.97%	812,577	113,230	10,847	74,993	348,682	5,283
2020/21	2.00%	152,603	21.80%	16.50%	11.50%	28.77%	835,238	28,956	8,058	71,925	261,543	3,963
2021/22	2.00%	155,656	21.80%	16.50%	11.50%	28.57%	858,458	28,744	28,290	75,522	288,211	4,367
2022/23	2.00%	158,769	21.80%	16.50%	11.50%	28.36%	882,323	28,577	28,855	79,298	295,499	4,477
2023/24	2.00%	161,944	21.80%	16.50%	11.50%	28.15%	906,851	28,383	29,432	83,263	303,022	4,591
Total	26.13%	\$ 1,481,643						\$ 540,905	\$ 915,663	\$ 658,694	\$ 3,596,904	\$ 54,499

Note: The City's Unfunded PERS Pension Liability is \$30.3 million as of June 30, 2013.
 The City's Unfunded OPEB Liability is \$32.6 million as of June 30, 2013.

EXHIBIT 20: Projected PERS Rates

Projected Sworn PERS Rates											
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
SWORN 3% at 50											
PERS Rates	39.01%	29.68%	30.80%	30.80%	30.80%	30.80%	30.80%	30.80%	30.80%	30.80%	30.80%
Total Pension Rate	39.01%	29.68%	30.80%	30.80%	30.80%	30.80%	30.80%	30.80%	30.80%	30.80%	30.80%
Less Employee Contributions	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%
City Paid PERS Rate	30.01%	20.68%	21.80%	21.80%	21.80%	21.80%	21.80%	21.80%	21.80%	21.80%	21.80%
SWORN 3% at 55											
PERS Rates	30.37%	24.63%	25.50%	25.50%	25.50%	25.50%	25.50%	25.50%	25.50%	25.50%	25.50%
Total Pension Rate	30.37%	24.63%	25.50%	25.50%	25.50%	25.50%	25.50%	25.50%	25.50%	25.50%	25.50%
Less Employee Contributions	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%
City Paid PERS Rate	21.37%	15.63%	16.50%	16.50%	16.50%	16.50%	16.50%	16.50%	16.50%	16.50%	16.50%
SWORN 2.7% at 57 (PEPRA)											
PERS Rates	23.00%	22.65%	23.00%	23.00%	23.00%	23.00%	23.00%	23.00%	23.00%	23.00%	23.00%
Total Pension Rate	23.00%	22.65%	23.00%	23.00%	23.00%	23.00%	23.00%	23.00%	23.00%	23.00%	23.00%
Less Employee Contributions	-11.50%	-11.50%	-11.50%	-11.50%	-11.50%	-11.50%	-11.50%	-11.50%	-11.50%	-11.50%	-11.50%
City Paid PERS Rate	11.50%	11.15%	11.50%	11.50%	11.50%	11.50%	11.50%	11.50%	11.50%	11.50%	11.50%
Plus Lump Sum Contribution	\$ -	\$ 419,824	\$ 510,219	\$ 605,661	\$ 706,371	\$ 812,577	\$ 835,238	\$ 858,458	\$ 882,323	\$ 906,851	\$ 932,062
Projected Non-sworn PERS Rates											
	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
NON-SWORN 2.7% at 55											
PERS Normal Cost	19.67%	20.10%	20.10%	20.10%	20.10%	20.10%	20.10%	20.10%	20.10%	20.10%	20.10%
Amortization of Non-Sworn Plan (projected rate increases)	5.62%	6.12%	7.24%	7.84%	8.44%	9.34%	9.34%	9.34%	9.34%	9.34%	9.34%
Total Pension Rate	25.29%	26.22%	27.34%	27.94%	28.54%	29.44%	29.44%	29.44%	29.44%	29.44%	29.44%
Less Employee Contributions	-8.00%	-8.00%	-8.00%	-8.00%	-8.00%	-8.00%	-8.00%	-8.00%	-8.00%	-8.00%	-8.00%
City Paid PERS Rate	17.29%	18.22%	19.34%	19.94%	20.54%	21.44%	21.44%	21.44%	21.44%	21.44%	21.44%
NON-SWORN 2% at 60											
PERS Normal Cost	13.65%	13.90%	13.90%	13.90%	13.90%	13.90%	13.90%	13.90%	13.90%	13.90%	13.90%
Amortization of Non-Sworn Plan (projected rate increases)	5.62%	6.12%	7.24%	7.84%	8.44%	9.34%	9.34%	9.34%	9.34%	9.34%	9.34%
Total Pension Rate	19.28%	20.02%	21.14%	21.74%	22.34%	23.24%	23.24%	23.24%	23.24%	23.24%	23.24%
Less Employee Contributions	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%
City Paid PERS Rate	12.28%	13.02%	14.14%	14.74%	15.34%	16.24%	16.24%	16.24%	16.24%	16.24%	16.24%
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%	12.50%
Amortization of Non-Sworn Plan (projected rate increases)	5.62%	6.12%	7.24%	7.84%	8.44%	9.34%	9.34%	9.34%	9.34%	9.34%	9.34%
Total Pension Rate	18.12%	18.62%	19.74%	20.34%	20.94%	21.84%	21.84%	21.84%	21.84%	21.84%	21.84%
Less Employee Contributions	-6.25%	-6.25%	-6.25%	-6.25%	-6.25%	-6.25%	-6.25%	-6.25%	-6.25%	-6.25%	-6.25%
City Paid PERS Rate	11.87%	12.37%	13.49%	14.09%	14.69%	15.59%	15.59%	15.59%	15.59%	15.59%	15.59%
Non-Sworn Proj. Blended Rate (actual City rate for Non-Sworn)	16.58%	17.20%	18.40%	18.77%	19.14%	19.82%	19.59%	19.36%	19.13%	18.90%	18.66%

Note: The Non-sworn plans are blended into one citywide 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. Employee Contributions are not adjusted until a 1% increase in the Normal Cost is reached.



FUND BALANCE SUMMARY

Key Finding: At the end of FY 2014/15, the City is projected to have a General Fund balance of \$19.2 million, with an unassigned fund balance of \$12.7 million. This meets the City Council's 30% unassigned fund balance goal; however, this is the only year in the Fiscal Model in which the goal is achieved. Personnel costs including rising pension rates, costs to proactively address the unfunded OPEB and additional costs for services such as the planned Police Dispatch Center exceed the projected revenues in the model until FY 2023/24.

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 benchmark 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% goal, however, the impacts of rising operational costs over the term of the forecast result in the 30% reserve level not being met; although the dollar balance of the reserve will remain virtually unchanged due to transfers from the Pension/OPEB fund. 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 goal 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 \$12.4 million is sufficient to provide for a 30% reserve in FY 2014/15, an increase to \$17.1 million is required by FY 2023/24 simply to keep pace with expenditure growth. Thus, the General Fund would have to generate a \$4.7 million surplus over the next decade in order to simply maintain the 30% reserve.

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 increase contributions to achieve a fully funded OPEB ARC is incorporated in the Fiscal Model. Despite the adoption of a second and third tier for OPEB benefits for new employees the rising cost of funding OPEB is one of the most significant budgetary challenge moving forward.

EXHIBIT 21: Fund Balance Summary

General Fund Balance	2014/15	2023/24	Total Increase	Avg. Growth Rate
Beginning Balance	\$ 17,139,493	\$ 15,929,126	\$ (1,210,367)	-0.8%
Revenues	36,638,609	49,644,627	13,006,018	3.4%
Transfers In	7,172,500	7,542,498	369,998	0.6%
Sub-Total	43,811,109	57,187,125	13,376,016	3.0%
Operations	38,713,633	50,873,880	12,160,247	3.1%
Operational Transfers Out	1,425,000	2,724,673	1,299,673	7.5%
OPEB	1,274,361	3,267,696	1,993,335	11.0%
Capital Projects/Non-Operating Transfers	354,556	214,195	(140,361)	-5.4%
Sub-Total	41,767,550	57,080,444	15,312,894	3.5%
Net Increase (Decrease)	2,043,559	106,681	(1,936,878)	
Ending Balance	\$ 19,183,052	\$ 16,035,807	\$ (3,147,245)	-1.8%
Assigned/Committed	6,479,556	5,600,000	(879,556)	-1.5%
Unassigned	12,703,496	10,435,807	(2,267,689)	-2.0%
Percent of Operations	31%	18%		
Unassigned Balance at 30% Reserves	12,423,898	17,059,875	4,635,977	3.6%
Surplus (Deficit) Reserve Balance	\$ 279,598	\$ (6,624,067)	\$ (6,903,665)	-242.1%

Note: The City's Unfunded PERS Pension Liability is \$30.3 million as of June 30, 2013.

The City's Unfunded OPEB Liability is \$32.6 million as of June 30, 2013.

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 \$1.1 million in assigned funds for this purpose by FY 2023/24. 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 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.



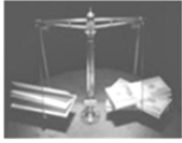
SUB-MODELS AND REPORTS

Key Finding: *There are an unlimited number of additional reports the Fiscal Model can generate. Complex analysis and specific “what-if” scenarios, which used to take several days, can now be performed in a matter of hours 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.
- 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 California Society of Municipal Finance Officers 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 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	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Property Tax										
Existing Base	\$ 7,848,738	\$ 8,079,040	\$ 8,230,214	\$ 8,387,588	\$ 8,551,371	\$ 8,721,775	\$ 8,898,745	\$ 9,082,495	\$ 9,273,474	\$ 9,471,919
New Residential	-	189,945	342,919	499,716	660,434	810,194	963,698	1,133,690	1,307,931	1,486,529
Residential Turnover	-	35,184	71,609	109,317	148,355	188,769	230,607	273,920	318,760	365,181
New Commercial/Industrial	-	1,152	9,959	24,992	37,417	47,277	55,777	63,335	69,904	76,753
Redevelopment	275,000	-	-	385,908	402,268	419,032	435,550	452,530	470,572	489,149
Sub-Total	\$ 8,123,738	\$ 8,305,321	\$ 8,654,700	\$ 9,407,522	\$ 9,799,846	\$ 10,187,047	\$ 10,584,377	\$ 11,005,970	\$ 11,440,641	\$ 11,889,531
Property Transfer	378,000	438,895	454,901	470,431	478,920	494,482	515,126	532,173	549,719	567,826
Sales Tax	6,681,142	6,981,996	7,303,887	7,636,816	7,939,837	8,242,767	8,538,081	8,855,152	9,182,036	9,606,735
Franchise Fees	1,355,214	1,415,216	1,473,051	1,534,402	1,599,519	1,666,588	1,737,860	1,814,530	1,894,225	1,977,059
Transient Occupancy Tax	285,427	298,064	310,245	323,167	336,881	351,007	366,018	382,165	398,950	416,396
Motor Vehicle	3,256,924	3,446,389	3,591,367	3,743,622	3,899,633	4,053,350	4,211,373	4,379,271	4,552,156	4,730,719
Investment	100,000	191,831	243,243	290,179	337,483	382,509	425,682	466,603	505,252	541,590
Business License	601,433	620,043	639,814	660,212	680,639	701,697	723,142	745,243	768,019	791,491
Building Fees	2,200,931	1,850,096	1,957,152	2,022,800	1,893,157	1,955,928	2,133,525	2,206,881	2,282,718	2,361,120
Engineering Fees	1,862,557	1,885,400	1,977,318	2,029,447	1,950,252	1,994,413	2,101,952	2,150,683	2,200,587	2,251,698
Planning Fees	406,390	314,591	322,882	331,714	310,880	320,005	329,718	339,740	350,066	360,706
Parks and Recreation	2,779,661	2,924,575	3,046,089	3,174,248	3,307,575	3,441,536	3,581,321	3,730,683	3,885,148	4,045,150
Interfund Services	6,956,742	7,090,263	6,940,806	7,100,682	7,268,870	7,431,770	7,608,143	7,794,735	7,944,613	8,147,956
Other	1,650,450	1,604,607	1,457,845	1,518,563	1,583,007	1,649,384	1,719,921	1,795,799	1,874,672	1,956,650
Sub-Total	\$ 28,514,871	\$ 29,061,966	\$ 29,718,600	\$ 30,836,283	\$ 31,586,653	\$ 32,685,436	\$ 33,991,862	\$ 35,193,658	\$ 36,388,161	\$ 37,755,096
Transfers In	\$ 7,172,500	\$ 6,319,431	\$ 8,423,244	\$ 8,441,380	\$ 8,806,214	\$ 8,752,033	\$ 8,299,875	\$ 7,942,112	\$ 7,774,195	\$ 7,542,498
Total Revenues	\$ 43,811,109	\$ 43,686,718	\$ 46,796,544	\$ 48,685,185	\$ 50,192,713	\$ 51,624,516	\$ 52,876,114	\$ 54,141,740	\$ 55,602,997	\$ 57,187,125
Growth	\$ 5,909,341	\$ (124,391)	\$ 3,109,826	\$ 1,888,641	\$ 1,507,528	\$ 1,431,803	\$ 1,251,598	\$ 1,265,626	\$ 1,461,256	\$ 1,584,128
%	15.59%	-0.28%	7.12%	4.04%	3.10%	2.85%	2.42%	2.39%	2.70%	2.85%
Per Capita	\$778.30	\$761.41	\$803.66	\$824.03	\$837.45	\$850.35	\$859.98	\$868.31	\$879.50	\$892.31





EXHIBIT A2: General Fund Expenditure Summary

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Legislative	\$ 370,544	\$ 404,175	\$ 419,467	\$ 430,062	\$ 439,397	\$ 451,233	\$ 461,485	\$ 474,114	\$ 497,029	\$ 506,935
City Clerk	332,969	349,234	415,030	370,507	435,126	388,738	456,978	407,594	481,423	426,624
City Manager	748,014	645,216	668,875	684,713	699,444	717,265	732,093	749,809	768,006	782,543
Human Resources	685,007	621,349	643,277	659,157	673,842	691,662	707,476	726,233	745,527	761,227
City Attorney	910,032	946,213	980,096	1,003,219	1,024,942	1,050,996	1,072,794	1,098,009	1,123,891	1,145,706
Finance	1,777,908	1,708,761	1,771,443	1,814,645	1,853,945	1,902,379	1,944,087	1,995,098	2,047,570	2,088,036
Non Departmental and Community Services	1,416,352	1,305,836	1,354,087	1,397,500	1,441,482	1,489,553	1,540,190	1,593,536	1,659,430	1,707,113
Total General Government	\$ 6,240,826	\$ 5,980,784	\$ 6,252,275	\$ 6,359,803	\$ 6,568,178	\$ 6,691,826	\$ 6,915,103	\$ 7,044,393	\$ 7,322,876	\$ 7,418,184
Police	\$ 17,713,391	\$ 18,946,298	\$ 20,496,025	\$ 21,494,977	\$ 22,061,442	\$ 22,809,725	\$ 23,361,436	\$ 23,927,455	\$ 24,508,294	\$ 24,990,527
Streets	2,831,359	2,884,682	2,979,038	3,052,917	3,115,689	3,197,990	3,271,964	3,350,005	3,430,091	3,508,673
Community Development	3,994,773	4,106,222	4,251,674	4,354,981	4,450,208	4,566,208	4,667,042	4,785,179	4,906,607	5,007,221
Engineering	2,943,111	3,024,228	3,130,247	3,205,566	3,276,199	3,360,964	3,434,204	3,518,436	3,604,959	3,678,795
Parks and Recreation	4,990,173	5,054,789	5,241,403	5,378,448	5,500,998	5,654,846	5,796,844	5,954,417	6,133,677	6,270,480
OPEB	1,274,361	2,119,664	2,486,014	2,784,001	3,038,068	3,061,681	3,079,223	3,140,807	3,203,623	3,267,696
Operational Transfers Out	1,425,000	1,729,437	2,119,173	2,214,396	2,341,359	2,440,273	2,509,428	2,579,855	2,651,591	2,724,673
Total Expenses	\$ 41,412,994	\$ 43,846,104	\$ 46,955,849	\$ 48,845,089	\$ 50,352,141	\$ 51,783,513	\$ 53,035,244	\$ 54,300,547	\$ 55,761,718	\$ 56,866,249

EXHIBIT A3: General Fund Financial Summary

General Fund	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Beginning Fund Balance	\$ 17,139,493	\$ 19,183,052	\$ 18,711,010	\$ 18,136,199	\$ 17,762,289	\$ 17,386,765	\$ 17,027,288	\$ 16,664,401	\$ 16,298,459	\$ 15,929,126
Revenues	36,638,609	37,367,287	38,373,300	40,243,805	41,386,499	42,872,483	44,576,239	46,199,628	47,828,802	49,644,627
Transfer In	7,172,500	4,824,431	5,159,244	5,464,380	5,799,214	6,130,033	6,463,875	6,837,112	7,183,718	7,542,498
Total Revenues	\$ 43,811,109	\$ 42,191,718	\$ 43,532,544	\$ 45,708,185	\$ 47,185,713	\$ 49,002,516	\$ 51,040,114	\$ 53,036,740	\$ 55,012,520	\$ 57,187,125
Operations	38,713,633	39,997,003	42,350,662	43,846,692	44,972,714	46,281,559	47,446,593	48,579,885	49,906,504	50,873,880
Operational Transfers Out	1,425,000	1,729,437	2,119,173	2,214,396	2,341,359	2,440,273	2,509,428	2,579,855	2,651,591	2,724,673
OPEB	1,274,361	2,119,664	2,486,014	2,784,001	3,038,068	3,061,681	3,079,223	3,140,807	3,203,623	3,267,696
Total Expenses	\$ 41,412,994	\$ 43,846,104	\$ 46,955,849	\$ 48,845,089	\$ 50,352,141	\$ 51,783,513	\$ 53,035,244	\$ 54,300,547	\$ 55,761,718	\$ 56,866,249
Net Operations before Pension/OPEB Transfers	2,398,115	(1,654,386)	(3,423,305)	(3,136,904)	(3,166,428)	(2,780,997)	(1,995,130)	(1,263,807)	(749,198)	320,876
Pension/OPEB Fund Transfer In	-	1,495,000	3,264,000	2,977,000	3,007,000	2,622,000	1,836,000	1,105,000	590,477	-
Operating Surplus	2,398,115	(159,386)	(159,305)	(159,904)	(159,428)	(158,997)	(159,130)	(158,807)	(158,721)	320,876
Capital Projects/Non Operating Transfers	354,556	312,656	415,506	214,006	216,096	200,479	203,758	207,134	210,612	214,195
Ending Fund Balance	\$ 19,183,052	\$ 18,711,010	\$ 18,136,199	\$ 17,762,289	\$ 17,386,765	\$ 17,027,288	\$ 16,664,401	\$ 16,298,459	\$ 15,929,126	\$ 16,035,807
Assigned/Committed Fund Balance	\$ 6,479,556	\$ 6,657,093	\$ 5,400,000	\$ 5,000,000	\$ 5,100,000	\$ 5,200,000	\$ 5,300,000	\$ 5,400,000	\$ 5,500,000	\$ 5,600,000
Unassigned Fund Balance	\$ 12,703,496	\$ 12,053,917	\$ 12,736,199	\$ 12,762,289	\$ 12,286,765	\$ 11,827,288	\$ 11,364,401	\$ 10,898,459	\$ 10,429,126	\$ 10,435,807
Unassigned Fund Balance %	31%	27%	27%	26%	24%	23%	21%	20%	19%	18%
30% Reserve Requirement	\$ 12,423,898	\$ 13,153,831	\$ 14,086,755	\$ 14,653,527	\$ 15,105,642	\$ 15,535,054	\$ 15,910,573	\$ 16,290,164	\$ 16,728,515	\$ 17,059,875
Reserve Surplus (Shortfall)	\$ 279,598	\$ (1,099,914)	\$ (1,350,556)	\$ (1,891,238)	\$ (2,818,878)	\$ (3,707,766)	\$ (4,546,172)	\$ (5,391,705)	\$ (6,299,389)	\$ (6,624,067)

EXHIBIT A4: Key Assumptions in Fiscal Model

KEY ASSUMPTIONS	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
REVENUES										
Property Taxes										
Annual Property Tax Assessor CPI Adjustment	NA	2.93%	1.82%	1.82%	1.82%	1.82%	1.82%	1.82%	1.82%	1.82%
Property Tax Increase Due to New Development	NA	2.43%	1.95%	1.98%	1.91%	1.69%	1.65%	1.74%	1.70%	1.68%
Property Tax Increase Due to Turnover	NA	0.45%	0.44%	0.44%	0.43%	0.43%	0.43%	0.43%	0.42%	0.42%
Total Property Tax Increase	18.64%	5.82%	4.21%	4.24%	4.17%	3.94%	3.90%	3.99%	3.95%	3.92%
City Taxable Assessed Valuation (in thousands)	\$ 7,049,854	\$ 7,459,964	\$ 7,773,781	\$ 8,103,349	\$ 8,441,045	\$ 8,773,777	\$ 9,115,829	\$ 9,479,258	\$ 9,853,480	\$ 10,239,994
Sales Tax Increases	3.62%	4.50%	4.61%	4.56%	3.97%	3.82%	3.58%	3.71%	3.69%	4.63%
General Inflation (Revenues)	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.00%	3.00%
Investment Rate of Return (Avg of previous 3 years)	0.60%	0.73%	0.97%	1.30%	1.60%	1.90%	2.20%	2.50%	2.80%	3.10%
Home Price Increases	2.50%	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)	\$ 450,000	\$ 461,250	\$ 472,781	\$ 484,601	\$ 496,716	\$ 509,134	\$ 521,862	\$ 534,909	\$ 548,281	\$ 561,988
DEVELOPMENT										
Single Family Building Permits	350	275	275	275	250	250	250	250	250	250
Multi Family Building Permits	-	-	-	-	-	-	30	30	30	30
Commercial Development (Square Feet)	-	25,000	50,000	50,000	25,000	25,000	15,000	15,000	15,000	15,000
Office Development (Square Feet)	-	-	-	10,000	-	-	-	-	-	-
Industrial Development (Square Feet)	20,000	10,000	50,000	50,000	-	-	10,000	10,000	10,000	10,000
Development Revenue	\$ 5,219,878	\$ 4,800,087	\$ 5,007,352	\$ 5,133,961	\$ 4,904,289	\$ 4,997,846	\$ 5,270,870	\$ 5,381,809	\$ 5,497,341	\$ 5,256,869
EXPENSES										
Personnel										
Non-Sworn Employee COLA	3.50%	3.00%	3.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Sworn Employee COLA	3.50%	3.50%	2.50%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Health Care Rates (City cost lower for nonsworn due to cap)	4.05%	7.50%	7.00%	6.50%	6.00%	5.50%	5.00%	5.00%	5.00%	5.00%
Workers' Compensation	4.00%	4.00%	4.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
OPEB Costs	\$ 1,274,361	\$ 2,119,664	\$ 2,486,014	\$ 2,784,001	\$ 3,038,068	\$ 3,061,681	\$ 3,079,223	\$ 3,140,807	\$ 3,203,623	\$ 3,267,696
OPEB Annual Increase	95.36%	66.33%	17.28%	11.99%	9.13%	0.78%	0.57%	2.00%	2.00%	2.00%
Pension Costs	\$ 3,295,410	\$ 3,332,084	\$ 3,663,741	\$ 3,840,016	\$ 4,023,000	\$ 4,243,718	\$ 4,289,401	\$ 4,334,628	\$ 4,379,425	\$ 4,423,746
Pension Annual Increase	1.11%	1.11%	4.81%	4.77%	5.49%	1.08%	1.05%	1.03%	1.01%	0.99%
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 PEPR	40.00%	43.50%	47.00%	50.50%	54.00%	57.50%	61.00%	64.50%	68.00%	71.50%
Other Expenses										
Supplies and Services	2.50%	2.50%	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.00%	3.00%
Internal Services	2.25%	3.38%	3.00%	3.00%	0.83%	3.00%	3.00%	3.00%	3.00%	3.00%
Dispatch Costs	\$ 845,459	\$ 1,237,961	\$ 2,251,284	\$ 2,690,277	\$ 2,730,381	\$ 2,790,942	\$ 2,874,670	\$ 2,960,910	\$ 3,049,738	\$ 3,141,230
Dispatch Annual Increase	2.07%	46.42%	81.85%	19.50%	1.49%	2.22%	3.00%	3.00%	3.00%	3.00%

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: Significant Changes in Expenses from FY 2013/14 - 2022/23 to 2014/15 - 2023/24 General Fund Fiscal Model

Significant Changes in Expenses	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Total Expenses FY 2013/14 Fiscal Model	\$ 42,669,150	\$ 44,790,379	\$ 46,673,579	\$ 48,254,779	\$ 50,066,086	\$ 51,586,056	\$ 52,797,699	\$ 54,107,899
Police Dispatch ⁽¹⁾	341,774	1,301,326	1,683,322	1,663,008	1,659,527	1,675,371	1,689,653	1,702,204
Legal - Human Resources ⁽²⁾	-	50,000	51,350	52,788	54,319	55,949	57,627	59,356
Operational Transfers Out:								
Pavement Managemnt Program Funding ⁽³⁾	125,000	160,000	200,000	240,000	280,000	288,400	297,052	305,964
Landscape and Lighting Assessment District General Benefit ⁽⁴⁾	-	250,000	255,000	260,100	265,302	270,608	276,020	281,541
Parks Replacement ⁽⁵⁾	150,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
Subtotal Operational Transfers Out	275,000	610,000	655,000	700,100	745,302	759,008	773,072	787,504
Administrative Reorganization ⁽⁶⁾	(410,702)	(425,087)	(434,281)	(443,673)	(454,173)	(462,126)	(470,234)	(478,499)
PERS Discount Rate ⁽⁷⁾	(14,769)	(307,830)	(324,148)	(417,149)	(540,130)	(446,082)	(527,083)	(521,023)
PERS Rate Reduction ⁽⁸⁾	(76,977)	(243,532)	(418,758)	(569,411)	(700,193)	(775,600)	(680,547)	(578,219)
OPEB Contribution Acceleration ⁽⁹⁾	490,916	300,440	237,259	380,722	175,701	31,259	31,884	32,521
Personnel Costs Increases ⁽¹⁰⁾	147,533	651,035	486,438	489,210	528,289	355,162	364,540	378,121
Other Net Differences	424,179	229,118	235,329	241,767	248,785	256,247	263,936	271,853
Total Expenses FY 2014/15 Fiscal Model	\$ 43,846,104	\$ 46,955,849	\$ 48,845,089	\$ 50,352,141	\$ 51,783,513	\$ 53,035,244	\$ 54,300,547	\$ 55,761,718

⁽¹⁾ Net increase in costs over the City's current contract for dispatch services.

⁽²⁾ Increase in estimated legal services for labor counsel.

⁽³⁾ Increase in transfer out for Pavement Management Program funding.

⁽⁴⁾ Estimated General Benefit transfers out for LLAD.

⁽⁵⁾ Increase in transfers out for parks replacement costs.

⁽⁶⁾ Estimated savings from the Administrative Services department reorganization.

⁽⁷⁾ Removal of impact of quarter point reduction in PERS discount rate.

⁽⁸⁾ Estimated PERS rates in the prior Fiscal Model were conservative and cost reduction reflects better than expected current PERS rates.

⁽⁹⁾ Estimated effect of accelerating the contributions to OPEB - actuarial study of accelerated contribution is currently in progress.

⁽¹⁰⁾ Personnel cost increases projected by the model net of Administrative reorganization savings, PERS rate reduction and PERS discount rate change.