

General Fund Fiscal Model 2016/17 - 2025/26



City of Brentwood
150 City Park Way
Brentwood, CA 94513

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Joel Bryant Vice Mayor
Steve Barr Council Member
Gene Clare Council Member
Erick Stonebarger Council Member

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September 2016

The Honorable Mayor, Members of the City Council and Citizens 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 2016/17 – 2025/26 General Fund Fiscal Model ("Fiscal Model"). The primary objective of the Fiscal Model is to develop a ten-year forecast in order to help ensure the City has a financially healthy future.

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 priorities and goals they may wish to adopt through the strategic planning process. The Fiscal Model can also alert management and the City Council of potential future financial changes and affords them the time to develop practical solutions with minimal impacts to the services we provide to our citizens.

The Fiscal Model projects that the City is on course to achieve a balanced General Fund, but only in the last year of the forecast. During the interim years, funding gaps are projected to be closed via transfers from the Pension/OPEB Obligation Fund. The Pension/OPEB Obligation Fund is used for budget stabilization purposes and is herein referred to as the "Budget Stabilization Fund". This fund is comprised of accumulated General Fund savings from previous fiscal years totaling \$18.9 million. The ten-year forecast includes the use of virtually the entire Budget Stabilization Fund to offset deficits until the final year of the forecast. Use of the fund allows the City to meet the goal of maintaining General Fund reserves of 30% throughout the ten-year period.

Brentwood has been the fastest growing city in Contra Costa County for the last two years with increasing revenues, from strong development activity and several years of rebounding property values, reducing the City's reliance upon one-time revenues. Property values have increased significantly in the last three years from a combination of development and an improving economy, including the most recent assessed valuation increase of 8.10% for fiscal year 2016/17. Ultimately, achieving a balanced budget will still take several years, as most of the new revenue generated through the current economic recovery will be consumed by increasing demands for services driven by growth in population and development. The reliance on one-time revenues from the Budget Stabilization Fund could become a cause for concern if development activity slows in the event of an economic downturn.

The City is also facing increasing expenses in several areas of operations, including the opening of a Police dispatch center in late fiscal year 2016/17. The City has elected to proactively address its unfunded Other Post-Employment Benefits (OPEB) obligation by significantly increasing trust

contributions. At the same time, rising pension contribution requirements, while helping to reduce the unfunded pension liability, result in a decrease of financial resources available for other uses. Additionally, the City, as Successor Agency, has agreed to repay the State for certain capital project transfers made from the former Brentwood Redevelopment Agency to the City. Payments totaling \$12.5 million will be made from the General Fund over the next ten years. The effect of the payment plan, along with other expenditure increases, has resulted in the need for one-time revenues from the Budget Stabilization Fund to balance the General Fund budget.

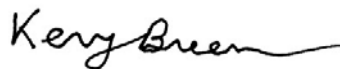
Enhancing the quality of life for the citizens of Brentwood is a high priority for the Mayor and City Council and requires planning and allocation of resources. To ensure that a high quality of life continues to be the City's focus into the future, in February of 2016, the Mayor and City Council adopted the FY 2016/17 & FY 2017/18 City of Brentwood Strategic Plan ("Strategic Plan") that further enhanced planning efforts and identification of City Council priorities. The fiscal impacts of the Strategic Plan have been incorporated into the model presented here. The ongoing strategic planning process will serve our community well by ensuring that the services and projects that support an enhanced quality of life in our community remain a priority.

We would like to express our appreciation to all of the City Departments for their contributions and continued efforts in developing and implementing the Fiscal Model. Special recognition is given to Christine Andrews, Business Services Manager, for her role as the City's principal lead on the project. Appreciation is also expressed to the Mayor and the City Council for their interest and support in planning and conducting the financial activities of the City in a responsible and responsive manner.

Respectfully submitted,



Gustavo "Gus" Vina
City Manager



Kerry Breen
City Treasurer/Director of Administrative Services



EXECUTIVE SUMMARY

The Fiscal Model projects a financial future in which operating revenues generated from an improving economy and continuing moderate development will ultimately, in the final year of the forecast, be adequate to fund the operating expenditures of the City. However, in the intermediate-term, the Fiscal Model projects that virtually the entire \$18.9 million balance in the Pension/OPEB Obligation Fund will be utilized to balance General Fund expenditures and maintain the General Fund 30% reserve. The Pension/OPEB Obligation Fund is used for budget stabilization purposes and is herein referred to as the “Budget Stabilization Fund”. The Budget Stabilization fund balance is made up of an accumulation of prior fiscal year’s General Fund savings.

General Fund revenues began to increase in fiscal year (FY) 2012/13, as development activity began to pick up and the housing market improved. 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. In FY 2014/15, the rebounding economy, and in particular a strong housing market, led to an 18.64% increase in the City’s assessed valuation (AV) followed by an increase of 12.28% in FY 2015/16 and 8.10% in FY 2016/17. These increases significantly improved property tax revenues and the City’s fiscal outlook; however, more sustainable, modest increases in AV, in the 4%-5% range, are projected for the balance of the years in the Fiscal Model. The importance of the AV growth is magnified as it brings increases in on-going annual revenues for the General Fund, whereas development fees from building activity are temporary in nature. The improved revenue outlook must also be tempered with the realization that the more recent level of development and economic activity may not be maintainable.

On the expense side, the Fiscal Model has incorporated the following items of significant impact on the General Fund budget including:

- Operating costs and staffing increases associated with the opening of a Police dispatch center late FY 2016/17
- Operational and replacement costs for the new Library in downtown Brentwood, under construction in FY 2016/17 and FY 2017/18
- Funding for initiatives adopted in the Strategic Plan
- Successor Agency payment plan expenditures:
 - Following the dissolution of California redevelopment agencies by legislative order, the California Department of Finance (DOF) determined certain transfers of funds for capital projects from the former Brentwood Redevelopment Agency (“RDA”) to the City were invalid, and the City, as Successor Agency, has agreed to repay \$12.5 million over a ten-year period at 0% interest
- Costs to proactively address the City’s unfunded OPEB obligation by increasing contributions to achieve funding of 85% of the annual actuarial required contribution (ARC) by FY 2017/18
- Projected higher pension contribution rates payable to the California Public Employees’ Retirement System (PERS)

- Increases in personnel costs due to development activity and the resulting rise in population requiring greater staffing expenditures to meet the demand for additional services

At the end of FY 2017/18, the City is projected to have a General Fund balance of \$20.8 million, with an unassigned fund balance (also referred to as “reserve”) of \$15.1 million meeting 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	2017/18	2019/20	2021/22	2023/24	2025/26
Beginning Fund Balance	\$ 21,562,305	\$ 20,296,173	\$ 18,972,561	\$ 18,630,660	\$ 19,840,635
Revenues	43,581,586	46,467,091	49,873,231	53,319,542	57,073,143
Transfer In	6,043,932	6,259,573	7,002,081	7,655,109	8,254,846
Total Revenues	49,625,518	52,726,664	56,875,312	60,974,651	65,327,989
Operations	44,878,596	48,697,310	51,658,152	54,554,518	57,597,560
Successor Agency Repayment Plan	1,294,412	1,460,783	1,638,690	1,826,938	824,328
Operational Transfers Out	2,345,693	2,562,609	2,711,048	2,865,482	3,026,277
Strategic Initiatives	438,666	-	-	-	-
OPEB	2,959,463	3,212,205	3,405,637	3,619,291	3,851,823
Total Expenses	51,916,830	55,932,907	59,413,527	62,866,229	65,299,988
Net Operations before Budget Stabilization Transfers	(2,291,312)	(3,206,243)	(2,538,215)	(1,891,578)	28,001
Budget Stabilization Transfer In	1,617,846	2,569,771	1,758,425	2,547,705	-
Operating Surplus	(673,466)	(636,472)	(779,790)	656,127	28,001
Capital Projects/Non Operating Transfers	75,000	75,000	75,000	75,000	75,000
Ending Fund Balance	\$ 20,813,839	\$ 19,584,701	\$ 18,117,771	\$ 19,211,787	\$ 19,793,636
Assigned/Committed Fund Balance	\$ 5,758,713	\$ 3,243,064	\$ 785,320	\$ 900,000	\$ 100,000
Unassigned Fund Balance	\$ 15,055,126	\$ 16,341,637	\$ 17,332,451	\$ 18,311,787	\$ 19,693,636
Unassigned Fund Balance %	30%	30%	30%	30%	31%
30% Reserve Requirement	\$ 15,055,126	\$ 16,341,637	\$ 17,332,451	\$ 18,311,787	\$ 19,342,698

Note: The City’s Unfunded PERS Pension Liability is \$28.4 million as of June 30, 2014, of this amount \$19.4 million is the responsibility of the General Fund.
 The City’s Unfunded OPEB Liability is \$41.8 million as of June 30, 2015, of this amount \$28.7 million is the responsibility of the General Fund.



INTRODUCTION

The first version of the Fiscal Model was presented to the City Council in 2004. At the time, a 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.

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.

The Fiscal Model has five interlinked sections:

- A development model
- Expense models for each department and division, summarized at the General Fund level and supported by a staffing and compensation model
- 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 broken down between Non-sworn and Sworn employees
- A revenue model for each major revenue source
- 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 allows a seemingly minor individual adjustment to be accurately reflected throughout the model. For example, if staff were to adjust the projected number of single-family residential (SFR) building 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 report and analysis does not include the following types of funds: Enterprise, Special Revenue, Debt Service, Fiduciary or Capital Projects, and provides only limited review of the Internal Service funds (to the extent the General Fund contributes to them, and the usage of the Budget Stabilization 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 studies for Solid Waste and Wastewater services having been adopted by the City Council in December 2013. The most recent Water study was completed in 2016 and accounts for the impact of reduced water usage related to the recent drought.

The City also prepares ten-year forecasts of capital projects and development impact fee funds as a part of the CIP budgeting process. The development impact fee program was updated in 2015 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 funded by the General Fund.

This Fiscal Model continues 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 an operating surplus in the long-term. It is critical, however, that one-time revenues are replaced with a sustainable and reliable revenue base. Projected increases in revenues can be sufficient to fully cover increasing costs from growth and development, if continued fiscal awareness and responsibility is maintained.*

The long-term fiscal goal of the City is to provide high quality services to a growing community while, at the same time, funding its pension and retiree medical obligations and maintaining a balanced budget with 30% reserves. The Fiscal Model shows that the City will be able to maintain the 30% reserve goal for the duration of the model by utilizing virtually the entire balance of the Budget Stabilization Fund as a one-time revenue source to offset increasing service level, pension and retiree medical costs.

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.

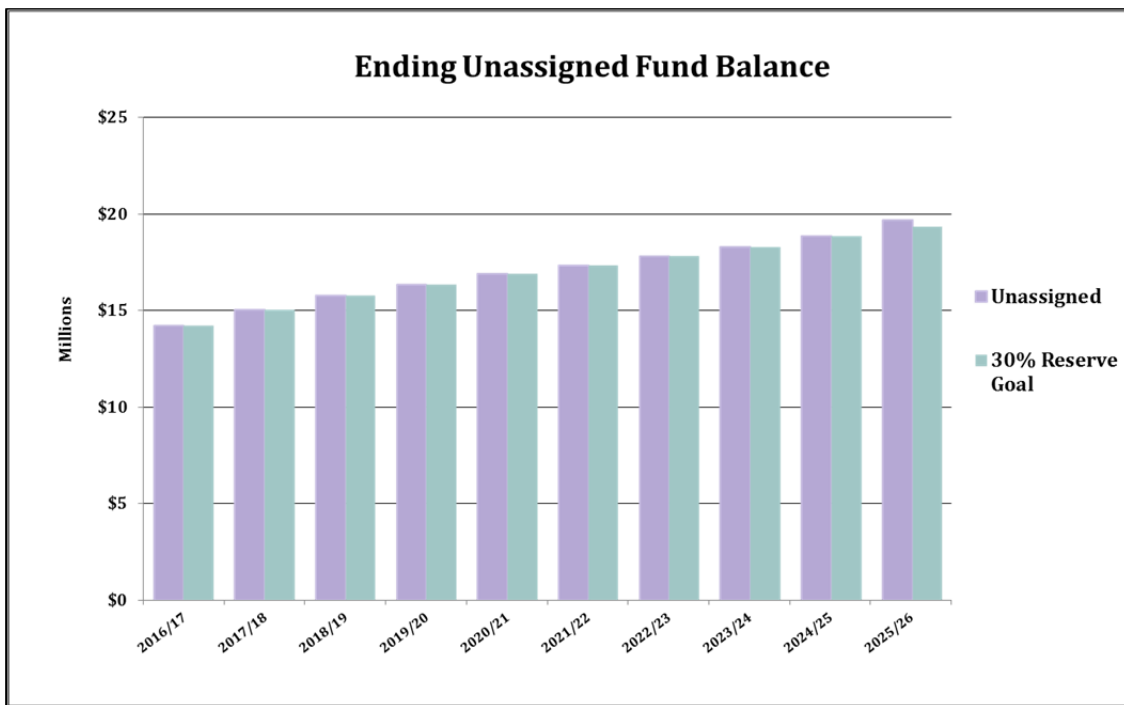
Small changes in operational costs, or changes in the economy, can have much larger impacts over the course of a decade than might be expected. The key variables impacting the City's future fiscal condition are:

- Increasing demand for City services in response to a rising population from development including, but not limited to, the Police dispatch center
- Funding for the Strategic Plan initiatives adopted by the City Council
- Successor Agency payment plan expenditures:
 - Following the dissolution of California redevelopment agencies by legislative order, the California Department of Finance (DOF) determined certain transfers of funds for capital projects from the former Brentwood Redevelopment Agency ("RDA") to the City were invalid, and the City, as Successor Agency, has agreed to repay \$12.5 million over a ten-year period at 0% interest
- The cost saving impact of employee turnover resulting in more personnel in second and third tier employee benefit levels
- The growth of property tax, sales tax, development revenue and community facilities district revenue from new development

- Housing price inflation, the property valuation methodology of the County Assessor’s office and the rate of property turnover
- Outside cost pressures (e.g. library, animal control and storm water management cost increases)
- Transfers to capital replacement funds for parks, equipment, technology and other infrastructure

Fund balance, along with annual additions/draws from fund balance, is the best indicator of a City’s financial health. This is illustrated in Exhibit A3, 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 Budget Stabilization Fund over the next eight years, drawing down virtually the entire fund balance of \$18.9 million by FY 2025/26. This subsidy will allow the City to maintain its goal of a 30% reserve for the duration of the model as presented in Exhibit 2, below.

EXHIBIT 2: Ending Unassigned Fund Balance



Note: The City’s Unfunded PERS Pension Liability is \$28.4 million as of June 30, 2014, of this amount \$19.4 million is the responsibility of the General Fund.

The City’s Unfunded OPEB Liability is \$41.8 million as of June 30, 2015, of this amount \$28.7 million is the responsibility of the General Fund.

The City’s 30% unassigned General Fund Balance does not take into account unfunded OPEB or Pension liabilities; however, the Fiscal Model captures the fiscal impact of the unfunded liabilities by including increased PERS rates and OPEB contributions in the projection over the next decade.

It is important to remain cognizant of the fact that actuarial assumption changes, or subpar investment returns, may result in higher pension and/or OPEB rates than currently included in the model. The Fiscal Model projects the annual City paid portion of PERS for both Sworn and Non-sworn employees will increase from \$3.7 million to \$5.2 million over the next decade. These projections include no change in

the PERS discount rate during the forecast period. The discount rate is the assumed rate of return on investments held by PERS. A decrease in the assumed rate would result in a potential increase in the City's required contributions. PERS investment returns exceeded the current discount rate of 7.5% during the economic recovery; however, in FY 2015/16 PERS realized a preliminary rate return of just 0.6%. The expectation built into the model is that the discount rate will remain the same for the remaining years in the forecast. 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.

Significant increases in property taxes due to rising AV's, coupled with increased development activity in recent years resulted in the General Fund being balanced exclusive of one-time revenues for the third year in a row in FY 2015/16. However, a projected slowdown in development to a more sustainable average of 283 new units per year through the end of the forecast (down from an average of 490 units over the past three years) along with an increase in projected expenditures, will bring back the need for one-time revenues from the Budget Stabilization Fund for the next eight fiscal years.

Beginning in FY 2017/18, the operational gap in the General Fund is projected to be \$2.3 million. This gap is driven by increases in service levels from both growth in population and new services, such as the Police dispatch center, along with the annual costs of the Successor Agency payment plan and one-time Strategic Initiative costs. Operational gaps in the forecast will peak at \$3.3 million in FY 2018/19. The gaps will be closed by transfers from the Budget Stabilization Fund and will be eliminated by FY 2025/26. This elimination occurs from a combination of the Successor Agency payment plan ending, pension and OPEB cost increases subsiding and employee turnover increasing the number of employees in the second and third tier pension and OPEB benefit plans, reducing contributions.

It is important to recognize 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 $\frac{1}{4}$ of 1% per year, over the next decade, results in a total cumulative General Fund impact of **\$3.0 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. This allows for proactive decisions to be considered and affords the City time to allow savings from long-term cost saving solutions to ultimately grow and provide fiscal sustainability.



GROWTH PROJECTION MODEL

Key Finding: *Development activity has been healthy over the past several years, rising to a high point since the recession with 519 SFR permits issued in FY 2015/16. Development activity is projected to continue at a more sustainable pace going forward, with an average of 283 SFR units projected annually through FY 2025/26. The City’s population growth rate is expected to remain fairly consistent over the next decade, with average 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. The total estimated population is based on the number of residential housing permits, which is multiplied by an assumption of 3.1 people per household. The population increase is expected to occur 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).

EXHIBIT 3: Growth Projection Summary – Residential

Fiscal Year	Total Units	Single Family	Multi Family	Added Population ⁽¹⁾	Total Population	Annual Population Growth %
Actual						
2012/13	355	355	-	781	53,356	1.5%
2013/14	500	500	-	1,468	54,824	2.8%
2014/15	451	451	-	2,248	57,072	4.1%
2015/16	519	519	-	1,712	58,784	3.0%
Projected						
2016/17	350	350	-	1,609	60,393	2.7%
2017/18	325	325	-	1,085	61,478	1.8%
2018/19	300	300	-	1,008	62,486	1.6%
2019/20	300	300	-	930	63,416	1.5%
2020/21	305	275	30	930	64,346	1.5%
2021/22	305	275	30	946	65,292	1.5%
2022/23	280	250	30	946	66,238	1.4%
2023/24	280	250	30	868	67,106	1.3%
2024/25	280	250	30	868	67,974	1.3%
2025/26	280	250	30	868	68,842	1.3%
Total New	3,005	2,825	180	10,058	68,842	17.11%

(1) Assumes a one-year delay from time of building permit to increase in population.

The total number of new single-family homes projected through 2026 is 2,825. Combined with the 180 multiple-family permits, the City is expecting 10,058 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

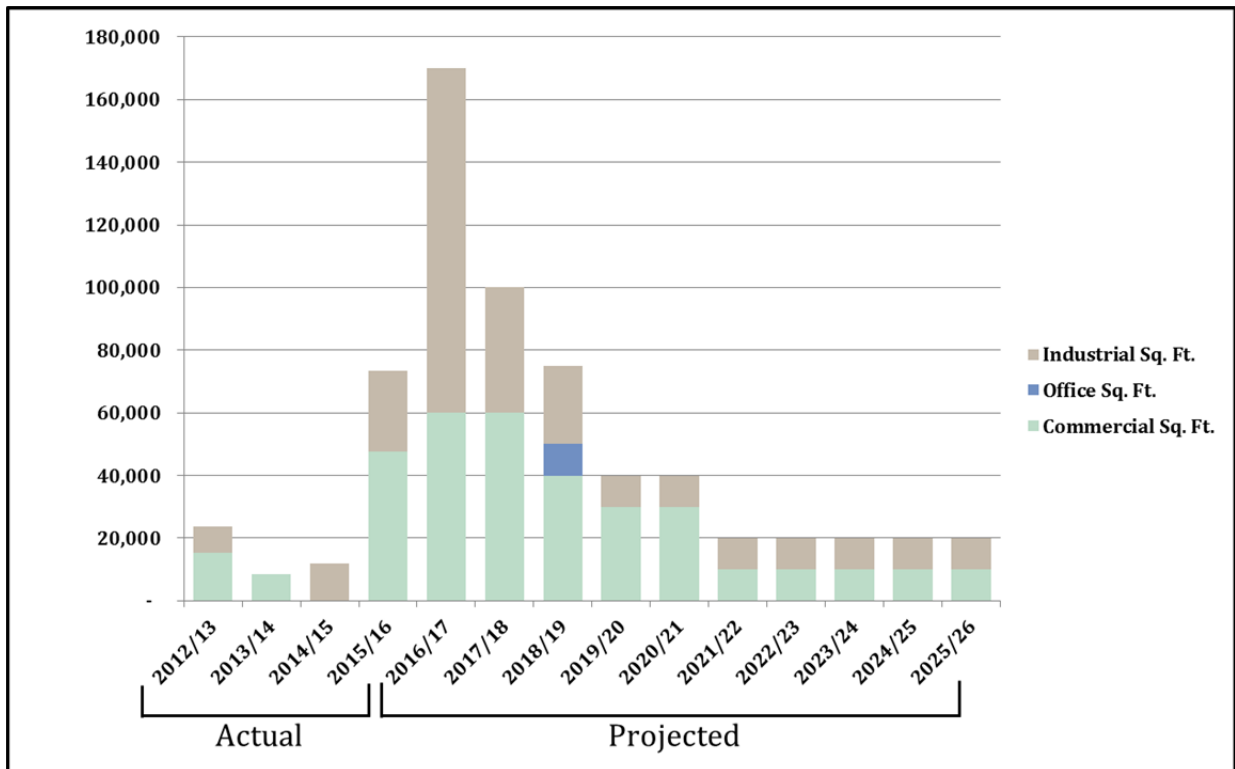
these estimates hold true, the City will have a population of approximately 68,842 in 2026. The recently completed General Plan update, which was adopted by the City Council in July 2014, has a City build-out population projection of 80,917.

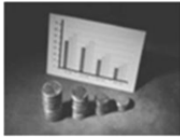
The growth model is the key to future revenue and, to a lesser extent, expense assumptions. Virtually all of the City’s largest revenue sources are impacted by development, either directly through development fees, or indirectly through the impacts of having a larger property and sales tax base from 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 SFR building permits by **100** units per year over the life of this Fiscal Model adds a total gain of **\$20.2 million** of revenue through FY 2025/26. Just that single change in the forecasting adjusts all of the other financial impacts.

Exhibit 4, below, presents 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 forecasted for modest activity in the upcoming five-year period. 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. Some significant industrial activity is expected in the upcoming years before falling to a minimal annual level thereafter.

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





REVENUE SUMMARY

Key Finding: *In the most recent fiscal years, General Fund property tax revenues have posted healthy annual increases due to rising property values. In addition, increased levels of development have resulted in one-time revenue from fees and increases in ongoing revenue sources such as sales taxes from the resulting rise in population. The improvement in revenues has produced a projected General Fund operating surplus in the final year of the Fiscal Model. However, this surplus is dependent both on continued modest development activity and modest property value increases for the duration of the model.*

Revenue growth enhances the City's ability to: 1) provide services to the public; 2) maintain public safety standards; and 3) keep up with increased costs of City maintenance, such as landscaping and street maintenance.

Following the recession, in FY 2012/13, revenues began to increase, as development activity picked up and the housing market rebounded. These increases continued into FY 2013/14, as the City's property tax revenues rose for the first time following five years of declines. In FY 2013/14, the City issued 500 SFR building permits, followed by 451 permits and an 18.64% AV increase in FY 2014/15. Permit issuance remained strong in FY 2015/16 at 519 permits and a 12.28% AV increase. The Fiscal Model includes the recently announced 8.10% increase in AV for FY 2016/17 along with development activity at a slower, more sustainable pace over the course of model with AV increases averaging just over 4% per year. Increases in AV are especially significant as they generate ongoing revenues for the General Fund. (Please see Exhibit A6-1, on page A6 of the Appendix, for a more detailed analysis of property taxes.)

The General Fund also receives approximately \$400,000 per year from on-going property tax revenues previously allocated to the former RDA. If dissolution of Redevelopment Agencies by the state had not occurred, the former RDA 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.

Another key long-term revenue source is Community Facilities District (CFD) assessment revenue transferred into the General Fund and used primarily for public safety services. 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 future capital projects or enhanced City services at the discretion of the City Council. Current projections indicate that over the next several years an ongoing annual unallocated surplus of approximately \$800,000 may be available for this purpose, with a cumulative ten-year surplus of over \$7.2 million. These funds are **in addition** to the annual CFD transfer to the General Fund contained in the Fiscal Model and will remain in the respective CFD funds until allocated by the City Council. If the Utility Users Tax and Advisory measures placed on the November 2016 ballot by the City Council pass, a portion of this unallocated surplus could be utilized to increase fire public safety services, should additional fire stations be opened in Brentwood.

Despite significantly increased revenues from property taxes and development, the Fiscal Model still forecasts the drawdown of virtually the entire \$18.9 million Budget Stabilization Fund balance over the next eight years. New revenues must first replace one-time revenues to bring the General Fund back into a sustainable operational balance by FY 2025/26. It is only from a balanced budget, free of one-time revenues, that additional revenues will provide a true surplus.

Looking at total General Fund revenue, as summarized in Exhibit 5, below, the Fiscal Model is forecasting average annual increases of 2.8% per year, with an average annual increase of 1.3% in per capita revenue. Excluding one-time revenues, average annual revenue increases of 3.6% are expected, with a 2.1% increase in per capita revenue. The largest drivers of this increase are related to property and sales taxes. Property tax revenue is projected to grow at a 4.1% average annual rate. Sales tax is projected to increase at an average rate of 3.8% annually; well below recent trends but still reflective of a growing consumer base. (Please see Exhibit A7, on page A8 of the Appendix, for a more detailed analysis of sales tax revenues.)

EXHIBIT 5: Revenue Summary

Revenue Summary	2016/17	2025/26	Total Increase	Average Growth Rate	Current Per Capita
Property Tax					
Existing Base	\$ 9,541,465	\$ 11,398,780	\$ 1,857,315	4.2%	\$ 157.99
New Residential	-	1,874,444	1,874,444	N/A	-
Residential Turnover	-	436,988	436,988	N/A	-
New Commercial / Ind	-	96,324	96,324	N/A	-
Redevelopment	398,445	468,687	70,242	1.8%	6.60
Sub -Total	\$ 9,939,910	\$ 14,275,223	\$ 4,335,313	4.1%	\$ 164.59
Property Transfer	\$ 566,378	\$ 741,094	\$ 174,716	3.0%	9.38
Sales Tax	7,411,574	10,370,613	2,959,039	3.8%	122.72
Franchise Fees	1,556,214	2,292,636	736,422	4.4%	25.77
Transient Occupancy Tax	388,604	572,497	183,893	4.4%	6.43
Motor Vehicle License	3,926,441	5,681,576	1,755,135	4.2%	65.01
Investment Income	298,829	833,307	534,478	12.1%	4.95
Business License	674,970	887,436	212,466	3.1%	11.18
Building Fees	2,564,039	2,682,058	118,019	0.5%	42.46
Engineering Fees	2,012,700	2,142,046	129,346	0.7%	33.33
Planning Fees	409,507	384,448	(25,059)	-0.7%	6.78
Parks and Recreation	3,393,508	4,947,178	1,553,670	4.3%	56.19
Interfund Services	7,192,762	8,590,988	1,398,226	2.0%	119.10
Other	1,922,842	2,672,043	749,201	3.7%	31.84
Recurring Transfers In	5,227,402	8,254,846	3,027,444	5.2%	86.56
Total Recurring Revenue	\$ 47,485,680	\$ 65,327,989	\$ 17,842,309	3.6%	\$ 786.28
Non-Recurring Revenue	\$ 3,485,742	\$ -	\$ (3,485,742)	-100.0%	\$ 57.72
Total	\$ 50,971,422	\$ 65,327,989	\$ 14,356,567	2.8%	\$ 844.00
Per Capita - Recurring	\$ 786.28	\$ 948.96	\$ 162.68	2.1%	
Per Capita Total	\$ 844.00	\$ 948.96	\$ 104.96	1.3%	

Note: The City's Unfunded PERS Pension Liability is \$28.4 million as of June 30, 2014, of this amount \$19.4 million is the responsibility of the General Fund.
The City's Unfunded OPEB Liability is \$41.8 million as of June 30, 2015, of this amount \$28.7 million is the responsibility of the General Fund.

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 – transfers from the Budget Stabilization Fund.

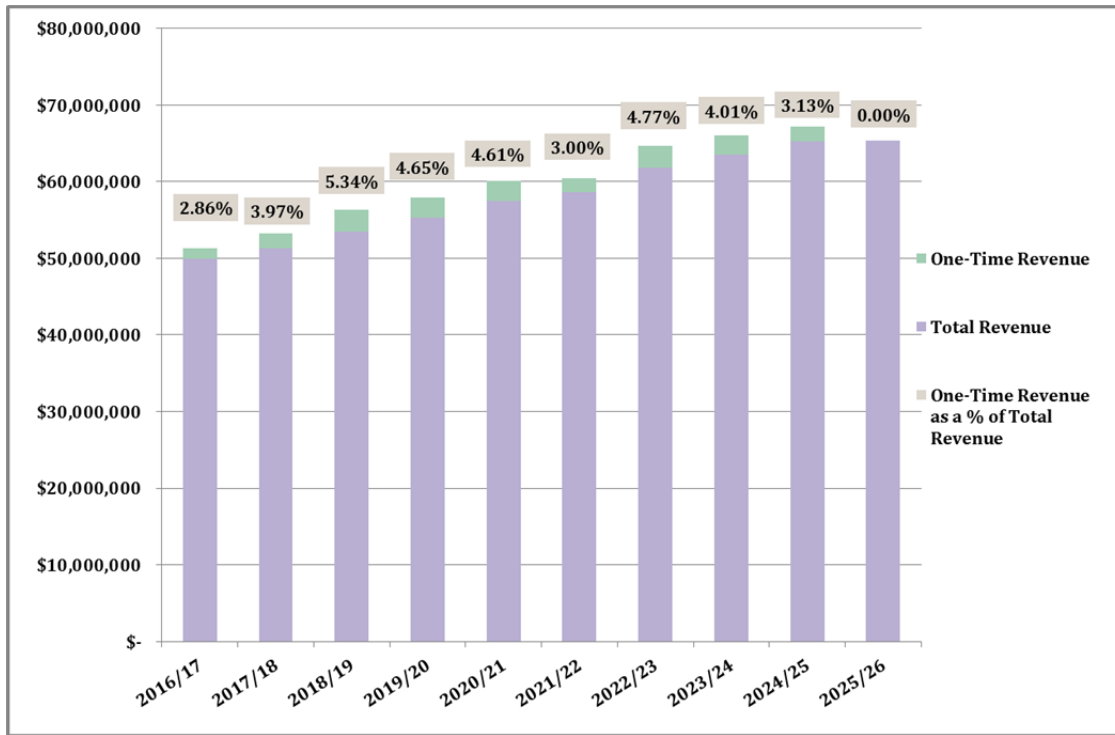
A total of \$19.7 million from previous General Fund savings has been set aside in the Budget Stabilization Fund to help mitigate budgetary challenges in the General Fund. \$0.8 million of this has been utilized as a loan for the completion of the City Park Project, with potential repayment from the former RDA. The Fiscal Model, taking a conservative approach, does not include the repayment of this loan, thus the fund begins with a balance of \$18.9 million.

The General Fund is projected to utilize virtually the entire balance in the Budget Stabilization Fund as an intermediate-term budgetary solution. This strategy will allow for meeting the demand for increased service levels from development and population growth, while at the same time providing for rising pension and OPEB costs. By utilizing this funding source, the City will be able to maintain the 30% reserve goal for the duration of the model. Exhibit A8, on page A9 of the Appendix, summarizes by fiscal year the usage of the Budget Stabilization Fund (considered one-time revenues in the Fiscal Model).

It has been noted that small adjustments to the assumptions in the Fiscal Model result in significant fiscal impacts over the long-term. The projected Budget Stabilization fund balance of only \$1.0 million 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 of one-time revenues to make up the deficit.

Exhibit 6, 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, transfers from the Budget Stabilization Fund, comprise approximately 2.86% of General Fund revenues in FY 2016/17 and by FY 2025/26 no further one-time revenues are anticipated. (For a more detailed report of revenues, please see Exhibit A1, on page A1 of the Appendix.)

EXHIBIT 6: Revenues, One-Time Revenues and Expenditures





EXPENSE SUMMARY

Key Finding: The City will likely experience higher levels of expenses in the upcoming years for: increased service levels due to recent development and population growth; expenditures under the Successor Agency payment plan agreement with the DOF and increased costs for Pension and OPEB benefits. The City has addressed rising Pension and OPEB costs through labor negotiations by including second and third tier employee benefit levels; however, several benefits remain 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 virtually the entire Budget Stabilization 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 strength. In recent fiscal years, costs saving measures along with one-time revenues have allowed the City to balance the budget and maintain 30% reserves. Although the substantial AV increases combined with high levels of development have positively affected revenues, the City will be facing increasing expenditures to provide necessary services to a growing population.

The Fiscal Model has incorporated all of the following significant factors into future expenditures:

- Operating costs and staffing increases associated with the opening of a Police dispatch center late FY 2016/17
- Operational and replacement costs for the new Library in downtown Brentwood, under construction in FY 2016/17 and FY 2017/18
- Funding for strategic initiatives adopted in the Strategic Plan
- Successor Agency payment plan expenditures:
 - Following the dissolution of California redevelopment agencies by legislative order, the California Department of Finance (DOF) determined certain transfers of funds for capital projects from the former Brentwood Redevelopment Agency ("RDA") to the City were invalid, and the City, as Successor Agency, has agreed to repay \$12.5 million over a ten-year period at 0% interest
- Cost to proactively address the City's unfunded OPEB obligation by increasing contributions to achieve funding of 85% of the ARC by FY 2017/18
- Increasing pension contribution rates payable to PERS
- Increases in personnel costs due to development activity and the resulting rise in population requiring greater staffing expenditures to meet the demand for additional services
- Transfers to capital replacement funds for parks, technology and other infrastructure

Due to these increased costs, annual operating deficits averaging \$1.9 million per year are projected during the ten years of the Fiscal Model. These deficits will be covered by transfers from the Budget Stabilization 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 virtually the entire Budget Stabilization Fund is expected to be 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 includes the costs associated with both the Police Overstaffing plan and the Police dispatch center. In addition, future personnel costs have been increased by a factor that estimates the cost of increasing service levels to the community in response to development and a rising population.

Each fiscal year, the General Fund has had actual expenditure savings when compared to the adopted budget. Over the past five years, the savings amounts have averaged 5.3% for personnel costs (with a range of 3% - 9%). Exclusive of dispatch contract costs, the savings for supplies and services have averaged 20.2% (with a range of 15% - 23%). 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 14% for supplies and services. These percentages are less than the savings amounts historically realized by the City and, in this way, the Fiscal Model is designed to illustrate a conservative projection as opposed to budgetary figures which typically indicate a more challenging fiscal situation. The expenditure savings amounts included in the Fiscal Model equate to approximately \$2.3 million (4.4% of expenses) in FY 2016/17 and increase to \$2.9 million (4.3% of expenses) by FY 2025/26.

In total, General Fund operating expenses are projected to increase from \$49.6 million in FY 2016/17 to \$65.3 million in FY 2025/26. This equates to an average annual expenditure growth rate of 3.1%.

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 7, on the following page, presents a summary comparison of expenditures by Department. For financial reporting consistency with the City's CAFR, the General Government category combines the following City 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, on page A2 of the Appendix.

The projected annual increases range between 3.2% for Parks and Recreation and Community Development to 3.5% for Police. Exhibit 7 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 include a factor that estimates the anticipated cost of increasing service levels in response to development and rising population.

EXHIBIT 7: Expense Summary by Department (OPEB Allocated)

Department Summary	2016/17	2025/26	Total Increase	Average Growth Rate
General Government	\$ 7,756,352	\$10,555,603	\$ 2,799,250	3.5%
Police	22,188,915	30,007,621	7,818,707	3.4%
Parks and Recreation	5,470,232	7,259,327	1,789,096	3.2%
Community Development	3,665,929	4,887,460	1,221,531	3.2%
Public Works	6,492,464	8,739,372	2,246,907	3.4%
Operational Transfers Out	1,892,503	3,026,277	1,133,774	5.4%
Other	2,107,000	824,328	(1,282,672)	-9.9%
Total	\$49,573,395	\$65,299,988	\$15,726,593	3.1%
Per Capita	\$ 821	\$ 949	\$ 128	1.6%

A comparison of each department's percentage share of the budget for both FY 2016/17 and FY 2025/26 is illustrated in Exhibit 8, below, including allocation of OPEB costs.

EXHIBIT 8: Department's Share of Budget (OPEB Allocated)

Department Summary	2016/17	2025/26	2016/17 Share	2025/26 Share
General Government	\$ 7,756,352	\$10,555,603	15.6%	16.2%
Police	22,188,915	30,007,621	44.8%	46.0%
Parks and Recreation	5,470,232	7,259,327	11.0%	11.1%
Community Development	3,665,929	4,887,460	7.4%	7.4%
Public Works	6,492,464	8,739,372	13.1%	13.4%
Operational Transfers Out	1,892,503	3,026,277	3.8%	4.6%
Other	2,107,000	824,328	4.3%	1.3%
Total	\$49,573,395	\$65,299,988	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; 2) the impacts from the adoption of the California Public Employees' Pension Reform Act of 2013 (PEPRA); 3) the most current pension rate forecasts and 4) the increase in OPEB contributions to fund 85% of the ARC by FY 2017/18. (For a more detailed analysis of the City's personnel costs, please see Appendix page A10.)

B. CATEGORY COST ANALYSIS

To understand the City’s main cost driver, an analysis of the two main expenditure categories, personnel costs and other expenses, has been undertaken. Exhibit 9, below, illustrates the relative importance and projected growth patterns for each.

EXHIBIT 9: Summary of Cost Increases by Type of Expense

Fiscal Year	Salary and Benefits Total	Other Expenses Total	Total Expenses	Recurring Revenues	Total Revenues
2016/17	\$ 31,784,868	\$ 17,788,526	\$ 49,573,395	\$ 47,485,680	\$ 50,971,422
2017/18	33,825,101	18,091,729	51,916,830	49,208,291	51,243,364
2018/19	35,294,929	18,615,396	53,910,326	50,614,610	53,467,660
2019/20	36,778,883	19,154,024	55,932,907	52,726,664	55,296,435
2020/21	38,137,896	19,814,172	57,952,068	54,765,345	57,414,928
2021/22	39,043,712	20,369,815	59,413,527	56,875,312	58,633,737
2022/23	40,099,879	21,067,453	61,167,332	58,809,021	61,755,221
2023/24	41,211,435	21,654,794	62,866,229	60,974,651	63,522,356
2024/25	42,334,980	22,147,085	64,482,065	63,145,467	65,185,913
2025/26	43,487,895	21,812,093	65,299,988	65,327,989	65,327,989
Avg. Growth Rate	3.5%	2.3%	3.1%	3.6%	2.8%
Total Growth Rate	36.8%	22.6%	31.7%	37.6%	28.2%

Exhibit 9 shows salary and benefit expenses are projected to grow by \$11.7 million, or 36.8%, over the next decade. This equates to an average annual growth rate of 3.5%. The most significant costs driving the salary and benefit increases are pensions, OPEB and health care. (For a more detailed analysis of the City’s personnel costs, please see page A10 of the Appendix.)

The General Fund’s “Other Expenses”, which comprise 35.8% of the overall FY 2016/17 General Fund projected expenses, are expected to grow at an average annual rate of 2.3%. The combined ten-year average rate of growth for total expenditures is 3.1%, under the growth rate of recurring revenues of 3.6%.

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 General Fund Financial Summary, Exhibit A3 on page A3 of the Appendix. These amounts are relatively minor, averaging approximately \$75,000 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 City’s internal service funds are 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. The

General Fund departments are projected to contribute \$2.4 million towards replacement internal service funds in FY 2016/17.

To help clarify the significant changes in expenditure assumptions used in the current Fiscal Model, as compared to the prior year's model, Exhibit A5 has been prepared and can be found on page A5 of the Appendix.



FUND BALANCE SUMMARY

Key Finding: At the end of FY 2016/17, the City is projected to have a General Fund balance of \$21.6 million, with an unassigned fund balance of \$14.2 million. This balance meets the City Council's 30% unassigned fund balance goal and is maintained over the ten-years of the projection. However, operating revenues do not exceed operating expenses until the final year of the Fiscal Model, requiring the use of virtually the entire Budget Stabilization Fund balance to meet expenditure demands in the intermediate-term.

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 of those elements and is formatted to be consistent with the City's CAFR. One-time transfers out for CIP projects are also included, decreasing fund balance slightly beyond any operating shortfalls.

Based upon the assumptions outlined throughout the Fiscal Model, reports are generated 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; however, the City Council has set the desired level at 30%. The City currently meets the 30% goal throughout the ten-year term of the Fiscal Model. As discussed previously, the forecast 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 projection.

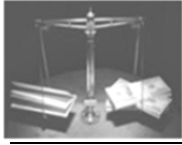
The goal of the 30% reserve is more difficult to achieve as the reserve requirement increases with additional annual expenditures. For every \$1 million in additional expenditures, the City needs to set aside \$300,000 in unassigned fund balance in order to maintain 30% reserves. Whereas \$15.1 million is sufficient to provide for a 30% reserve in FY 2017/18, an increase to \$19.3 million is required by FY 2025/26 simply to keep pace with expenditure growth.

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 Successor Agency payment plan, General Plan updates and strategic initiative funding. 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. A fund balance summary is presented in Exhibit 10 for FY 2016/17 and FY 2025/26, on the following page.

EXHIBIT 10: Fund Balance Summary

General Fund Balance	2016/17	2025/26	Total Increase	Average Growth Rate
Beginning Balance	\$ 22,986,876	\$ 19,840,635	\$ (3,146,241)	-1.6%
Revenues	42,258,278	57,073,143	14,814,865	3.4%
Transfers In	8,713,144	8,254,846	(458,298)	-0.6%
Sub-Total	50,971,422	65,327,989	14,356,567	2.8%
Operations	42,983,679	57,597,560	14,613,881	3.3%
Operational Transfers Out	1,892,503	3,026,277	1,133,774	5.4%
OPEB	2,590,213	3,851,823	1,261,610	4.5%
Capital Projects/Non-Operating Transfers	4,929,598	899,328	(4,030,270)	-17.2%
Sub-Total	52,395,993	65,374,988	12,978,995	2.5%
Net Increase (Decrease)	(1,424,571)	(46,999)	1,377,572	
Ending Balance	\$ 21,562,305	\$ 19,793,636	\$ (1,768,669)	-0.9%
Assigned/Committed	7,322,386	100,000	(7,222,386)	-11.0%
Unassigned	14,239,919	19,693,636	5,453,717	4.3%
Percent of Operations	30%	31%		
Unassigned Balance at 30% Reserves	14,239,919	19,342,698	5,102,779	3.5%
Surplus (Deficit) Reserve Balance	\$ -	\$ 350,938	\$ 350,938	N/A

Note: The City's Unfunded PERS Pension Liability is \$28.4 million as of June 30, 2014, of this amount \$19.4 million is the responsibility of the General Fund.
 The City's Unfunded OPEB Liability is \$41.8 million as of June 30, 2015, of this amount \$28.7 million is the responsibility of the General Fund.



CONCLUSION

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.

The Fiscal Model could not be completed without the hard work of City staff. The continued support and positive actions of the City Council has allowed the City to maintain its healthy reserves and 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	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Property Tax:										
Existing Base	\$ 9,541,465	\$ 9,715,162	\$ 9,896,847	\$ 10,086,497	\$ 10,284,077	\$ 10,489,851	\$ 10,704,027	\$ 10,926,886	\$ 11,158,377	\$11,398,780
New Residential	-	222,816	434,889	635,543	841,213	1,048,582	1,261,135	1,460,544	1,664,939	1,874,444
Residential Turnover	-	42,103	85,690	130,813	177,527	225,887	275,952	327,782	381,439	436,988
New Commercial/Industrial	-	17,439	35,241	49,430	60,482	70,750	78,754	84,381	90,235	96,324
Redevelopment	398,445	405,698	413,084	420,604	428,261	436,057	443,995	452,078	460,308	468,687
Sub -Total	\$ 9,939,910	\$ 10,403,217	\$ 10,865,751	\$ 11,322,886	\$ 11,791,560	\$ 12,271,126	\$ 12,763,863	\$ 13,251,671	\$ 13,755,298	\$14,275,223
Property Transfer	566,378	\$ 581,327	\$ 594,942	\$ 615,541	\$ 635,776	\$ 656,779	\$ 671,897	\$ 694,241	\$ 717,300	\$ 741,094
Sales Tax	7,411,574	7,698,718	8,042,822	8,372,241	8,712,884	9,031,125	9,358,984	9,686,344	10,023,462	10,370,613
Franchise Fees	1,556,214	1,626,191	1,698,387	1,772,918	1,852,106	1,934,898	2,020,979	2,108,092	2,198,602	2,292,636
Transient Occupancy Tax	388,604	406,078	424,106	442,717	462,491	483,166	504,661	526,414	549,016	572,497
Motor Vehicle	3,926,441	4,114,114	4,301,413	4,486,436	4,676,151	4,870,290	5,069,792	5,267,205	5,471,067	5,681,576
Investment	298,829	344,997	395,463	507,404	528,787	550,204	634,122	689,334	730,048	833,307
Business License	674,970	696,742	718,690	741,059	764,123	787,332	811,246	835,887	861,276	887,436
Building Fees	2,564,039	2,480,151	2,366,072	2,415,841	2,444,417	2,499,994	2,421,709	2,505,606	2,592,357	2,682,058
Engineering Fees	2,012,700	1,949,215	1,918,604	1,933,849	1,982,889	2,011,980	1,997,553	2,044,556	2,092,710	2,142,046
Planning Fees	409,507	391,568	372,568	383,604	363,112	374,146	351,424	362,104	373,109	384,448
Parks and Recreation	3,393,508	3,551,736	3,711,777	3,872,767	4,040,333	4,213,391	4,392,133	4,570,745	4,755,689	4,947,178
Interfund Services	7,192,762	7,324,251	7,217,009	7,396,652	7,580,022	7,776,946	7,931,359	8,142,694	8,362,496	8,590,988
Other	1,922,842	2,013,281	2,106,755	2,203,176	2,305,385	2,411,854	2,522,513	2,634,650	2,710,296	2,672,043
Sub -Total	\$ 32,318,368	\$ 33,178,369	\$ 33,868,608	\$ 35,144,205	\$ 36,348,476	\$ 37,602,105	\$ 38,688,372	\$ 40,067,872	\$ 41,437,428	\$42,797,920
Transfers In	\$ 8,713,144	\$ 7,661,778	\$ 8,733,302	\$ 8,829,344	\$ 9,274,892	\$ 8,760,506	\$ 10,302,986	\$ 10,202,814	\$ 9,993,188	\$ 8,254,846
Total Revenues	\$ 50,971,422	\$ 51,243,364	\$ 53,467,660	\$ 55,296,435	\$ 57,414,928	\$ 58,633,737	\$ 61,755,221	\$ 63,522,356	\$ 65,185,913	\$65,327,989
Growth	\$ 2,034,067	\$ 271,942	\$ 2,224,296	\$ 1,828,774	\$ 2,118,493	\$ 1,218,809	\$ 3,121,484	\$ 1,767,135	\$ 1,663,557	\$ 142,076
%	4.16%	0.53%	4.34%	3.42%	3.83%	2.12%	5.32%	2.86%	2.62%	0.22%
Per Capita	\$844.00	\$833.52	\$855.67	\$871.96	\$892.28	\$898.02	\$932.32	\$946.60	\$958.98	\$948.96

EXHIBIT A2: General Fund Expenditure Summary

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Legislative	\$ 327,680	\$ 340,792	\$ 354,392	\$ 368,816	\$ 380,461	\$ 390,029	\$ 401,364	\$ 410,818	\$ 422,823	\$ 435,185
City Manager	1,880,426	1,895,838	2,031,286	2,058,718	2,184,196	2,175,773	2,302,224	2,291,827	2,425,861	2,426,818
City Attorney	1,066,257	1,106,200	1,152,158	1,201,056	1,239,347	1,269,665	1,306,455	1,335,997	1,374,950	1,415,061
Administrative Services	2,638,046	2,737,876	2,849,450	2,968,092	3,061,528	3,136,039	3,226,038	3,298,842	3,394,138	3,492,265
Non Departmental and Community Services	1,468,654	1,514,928	1,832,376	1,883,688	1,936,538	1,990,974	2,047,043	2,104,795	2,164,278	2,225,547
Total General Government	\$ 7,381,063	\$ 7,595,634	\$ 8,219,662	\$ 8,480,370	\$ 8,802,070	\$ 8,962,480	\$ 9,283,124	\$ 9,442,279	\$ 9,782,050	\$ 9,994,876
Police	\$ 20,711,001	\$ 21,816,711	\$ 22,635,637	\$ 23,480,043	\$ 24,386,702	\$ 24,985,235	\$ 25,626,016	\$ 26,444,473	\$ 27,122,275	\$ 27,817,704
Streets	2,972,909	3,095,354	3,223,461	3,358,871	3,471,583	3,567,461	3,678,546	3,774,453	3,892,131	4,013,315
Community Development	3,469,238	3,599,783	3,746,143	3,901,708	4,024,717	4,123,297	4,241,986	4,338,488	4,464,167	4,593,581
Engineering	3,170,304	3,289,918	3,424,463	3,567,454	3,680,611	3,771,382	3,880,600	3,969,491	4,085,143	4,204,234
Parks and Recreation	5,279,164	5,481,196	5,689,131	5,908,864	6,092,104	6,248,297	6,429,006	6,585,334	6,776,748	6,973,850
Strategic Initiatives	891,182	438,666	-	-	-	-	-	-	-	-
Successor Agency Payment Plan	1,215,818	1,294,412	1,376,499	1,460,783	1,548,919	1,638,690	1,731,800	1,826,938	1,679,948	824,328
OPEB	2,590,213	2,959,463	3,117,846	3,212,205	3,309,261	3,405,637	3,508,761	3,619,291	3,734,542	3,851,823
Operational Transfers Out	1,892,503	2,345,693	2,477,484	2,562,609	2,636,101	2,711,048	2,787,493	2,865,482	2,945,061	3,026,277
Total Expenses	\$ 49,573,395	\$ 51,916,830	\$ 53,910,326	\$ 55,932,907	\$ 57,952,068	\$ 59,413,527	\$ 61,167,332	\$ 62,866,229	\$ 64,482,065	\$ 65,299,988

EXHIBIT A3: General Fund Financial Summary

General Fund	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Beginning Fund Balance	\$ 22,986,876	\$ 21,562,305	\$ 20,813,839	\$ 20,296,173	\$ 19,584,701	\$ 18,972,561	\$ 18,117,771	\$ 18,630,660	\$ 19,211,787	\$ 19,840,635
Revenues	42,258,278	43,581,586	44,734,358	46,467,091	48,140,036	49,873,231	51,452,235	53,319,542	55,192,725	57,073,143
Transfer In	8,713,144	6,043,932	5,880,252	6,259,573	6,625,309	7,002,081	7,356,786	7,655,109	7,952,742	8,254,846
Total Revenues	\$ 50,971,422	\$ 49,625,518	\$ 50,614,610	\$ 52,726,664	\$ 54,765,345	\$ 56,875,312	\$ 58,809,021	\$ 60,974,651	\$ 63,145,467	\$ 65,327,989
Operations	\$ 42,983,679	\$ 44,878,596	\$ 46,938,497	\$ 48,697,310	\$ 50,457,787	\$ 51,658,152	\$ 53,139,278	\$ 54,554,518	\$ 56,122,514	\$ 57,597,560
Successor Agency Payment Plan	1,215,818	1,294,412	1,376,499	1,460,783	1,548,919	1,638,690	1,731,800	1,826,938	1,679,948	824,328
Operational Transfers Out	1,892,503	2,345,693	2,477,484	2,562,609	2,636,101	2,711,048	2,787,493	2,865,482	2,945,061	3,026,277
Strategic Initiatives	891,182	438,666	-	-	-	-	-	-	-	-
OPEB	2,590,213	2,959,463	3,117,846	3,212,205	3,309,261	3,405,637	3,508,761	3,619,291	3,734,542	3,851,823
Total Expenses	\$ 49,573,395	\$ 51,916,830	\$ 53,910,326	\$ 55,932,907	\$ 57,952,068	\$ 59,413,527	\$ 61,167,332	\$ 62,866,229	\$ 64,482,065	\$ 65,299,988
Net Operations before Budget Stabilization Transfers	1,398,027	(2,291,312)	(3,295,716)	(3,206,243)	(3,186,723)	(2,538,215)	(2,358,311)	(1,891,578)	(1,336,598)	28,001
Budget Stabilization Fund Transfer In/(Out)	(1,075,598)	1,617,846	2,853,050	2,569,771	2,649,583	1,758,425	2,946,200	2,547,705	2,040,446	-
Operating Surplus	322,429	(673,466)	(442,666)	(636,472)	(537,140)	(779,790)	587,889	656,127	703,848	28,001
Capital Projects/Non Operating Transfers	1,747,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000	75,000
Ending Fund Balance	\$ 21,562,305	\$ 20,813,839	\$ 20,296,173	\$ 19,584,701	\$ 18,972,561	\$ 18,117,771	\$ 18,630,660	\$ 19,211,787	\$ 19,840,635	\$ 19,793,636
Assigned/Committed Fund Balance	\$ 7,322,386	\$ 5,758,713	\$ 4,536,025	\$ 3,243,064	\$ 2,051,616	\$ 785,320	\$ 800,000	\$ 900,000	\$ 1,000,000	\$ 100,000
Unassigned Fund Balance	\$ 14,239,919	\$ 15,055,126	\$ 15,760,148	\$ 16,341,637	\$ 16,920,945	\$ 17,332,451	\$ 17,830,660	\$ 18,311,787	\$ 18,840,635	\$ 19,693,636
Unassigned Fund Balance %	30%	30%	30%	30%	30%	30%	30%	30%	30%	31%
30% Reserve Requirement	\$ 14,239,919	\$ 15,055,126	\$ 15,760,148	\$ 16,341,637	\$ 16,920,945	\$ 17,332,451	\$ 17,830,660	\$ 18,311,787	\$ 18,840,635	\$ 19,342,698
Reserve Surplus (Shortfall)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 350,938

EXHIBIT A4: Key Assumptions in Fiscal Model

KEY ASSUMPTIONS	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
REVENUES										
Property Taxes										
Annual Property Tax Assessor CPI Adjustment	N/A	1.82%	1.82%	1.82%	1.82%	1.82%	1.82%	1.82%	1.82%	1.82%
Property Tax Increase Due to New Development	N/A	2.52%	2.30%	2.05%	1.98%	1.91%	1.85%	1.65%	1.63%	1.61%
Property Tax Increase Due to Turnover	N/A	0.44%	0.44%	0.43%	0.43%	0.43%	0.42%	0.42%	0.42%	0.42%
Total Property Tax Increase	8.10%	4.78%	4.55%	4.30%	4.23%	4.15%	4.10%	3.89%	3.87%	3.85%
City Taxable Assessed Valuation (in thousands)	\$ 7,971,444	\$ 8,352,456	\$ 8,732,710	\$ 9,108,343	\$ 9,493,500	\$ 9,887,642	\$ 10,292,669	\$ 10,693,456	\$ 11,107,337	\$ 11,491,923
Sales Tax Increases	0.56%	3.87%	4.47%	4.10%	4.07%	3.65%	3.63%	3.50%	3.48%	3.46%
General Inflation (Revenues)	2.60%	2.70%	2.80%	2.90%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Investment Rate of Return	0.97%	1.30%	1.60%	2.00%	2.37%	2.70%	3.03%	3.37%	3.67%	3.90%
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	\$ 527,875	\$ 541,072	\$ 554,599	\$ 568,464	\$ 582,675	\$ 597,242	\$ 612,173	\$ 627,477	\$ 643,164	\$ 659,244
Development										
Single-Family Building Permits ⁽¹⁾	350	325	300	300	275	275	250	250	250	250
Multi-Family Building Permits ⁽¹⁾	-	-	-	-	30	30	30	30	30	30
Commercial Development (Square Feet)	60,000	60,000	40,000	30,000	30,000	10,000	10,000	10,000	10,000	10,000
Office Development (Square Feet)	-	-	10,000	-	-	-	-	-	-	-
Industrial Development (Square Feet)	110,000	40,000	25,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Development Revenue	\$ 5,736,246	\$ 5,548,434	\$ 5,362,919	\$ 5,417,799	\$ 5,454,388	\$ 5,530,171	\$ 5,395,415	\$ 5,518,253	\$ 5,645,984	\$ 5,965,044
⁽¹⁾ As of June 30, 2016, 8,284 single-family and multi-family building permits remain until City build out.										
EXPENSES										
Personnel										
Health Care Rates	7.00%	6.50%	6.00%	5.50%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Workers' Compensation	4.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
OPEB Costs	\$ 2,590,213	\$ 2,959,463	\$ 3,117,846	\$ 3,212,205	\$ 3,309,261	\$ 3,405,637	\$ 3,508,761	\$ 3,619,291	\$ 3,734,542	\$ 3,851,823
OPEB Annual Increase	58.56%	14.26%	5.35%	3.03%	3.02%	2.91%	3.03%	3.15%	3.18%	3.14%
Pension Costs	\$ 3,741,333	\$ 3,997,947	\$ 4,278,923	\$ 4,602,852	\$ 4,766,120	\$ 4,894,984	\$ 4,979,077	\$ 5,064,199	\$ 5,150,353	\$ 5,237,536
Pension Annual Increase	6.86%	7.03%	7.57%	3.55%	2.70%	1.72%	1.71%	1.70%	1.70%	1.69%
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	47.00%	50.50%	54.00%	57.50%	61.00%	64.50%	68.00%	71.50%	75.00%	78.50%
Other Expenses										
Supplies and Services	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
Internal Services	3.00%	5.99%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%

Note: These assumptions form the basis for the Fiscal Model.

EXHIBIT A5: Significant Changes in Total Expenses from FY 2014/15 - 2023/24 to 2016/17 - 2025/26 General Fund Fiscal Model

Significant Changes in Expenses	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
2014/15 - 2023/24 Fiscal Model	\$ 46,955,849	\$ 48,845,089	\$ 50,352,141	\$ 51,783,513	\$ 53,035,244	\$ 54,300,547	\$ 55,761,718	\$ 56,866,249
Interim Fire District Support ⁽¹⁾	475,515	-	-	-	-	-	-	-
Strategic Plan Initiatives ⁽²⁾	415,667	438,666	-	-	-	-	-	-
Successor Agency Payment Plan ⁽³⁾	1,215,818	1,294,412	1,376,499	1,460,783	1,548,919	1,638,690	1,731,800	1,826,938
Library Operations/Replacement ⁽⁴⁾	-	-	251,000	254,870	258,856	262,962	267,191	271,546
OPEB Contribution ⁽⁵⁾	104,199	175,462	79,778	150,524	230,038	264,830	305,138	351,595
Technology Replacement Funding ⁽⁶⁾	-	350,000	360,500	371,315	382,454	393,928	405,746	417,918
Service Level Increases ⁽⁷⁾	-	255,287	784,282	1,321,900	1,904,227	2,031,729	2,288,888	2,585,568
Other Net Differences	406,347	557,914	706,126	590,002	592,330	520,841	406,852	546,414
2016/17 - 2025/26 Fiscal Model	\$ 49,573,395	\$ 51,916,830	\$ 53,910,326	\$ 55,932,907	\$ 57,952,068	\$ 59,413,527	\$ 61,167,332	\$ 62,866,229

⁽¹⁾ Payments required by a Memorandum of Understanding between Contra Costa County, City of Oakley and City of Brentwood and the Contra Costa County Fire Protection District

⁽²⁾ Costs for 2016/17-2017/18 Strategic Plan initiatives

⁽³⁾ Payments required by Successor Agency Payment Plan for the denial of transfers to the City from the former Brentwood Redevelopment Agency

⁽⁴⁾ Estimated replacement and operation cost increases for the new library

⁽⁵⁾ Increase in OPEB funding required by most recent actuarial study

⁽⁶⁾ Estimated cost of additional technology replacement Citywide, including new dispatch center technology

⁽⁷⁾ Estimated cost of increases in service levels due to growth in development and population

EXHIBIT A6-1: Annual Contributions to Property Tax Revenue Changes

Fiscal Year	CPI/Prop. 8 Adjustments	New Development	Turnover	Total
Actual				
2013/14	N/A	N/A	N/A	8.45%
2014/15	N/A	N/A	N/A	18.64%
2015/16	N/A	N/A	N/A	12.28%
2016/17	N/A	N/A	N/A	8.10%
Projected				
2017/18	1.82%	2.52%	0.44%	4.78%
2018/19	1.82%	2.30%	0.44%	4.55%
2019/20	1.82%	2.05%	0.43%	4.30%
2020/21	1.82%	1.98%	0.43%	4.23%
2021/22	1.82%	1.91%	0.43%	4.15%
2022/23	1.82%	1.85%	0.42%	4.10%
2023/24	1.82%	1.65%	0.42%	3.89%
2023/25	1.82%	1.63%	0.42%	3.87%
2023/26	1.82%	1.61%	0.42%	3.85%

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 A6-1, above, illustrates projected contributions to the General Fund’s property tax revenues as forecast by the Fiscal Model. Note that the figures for FY 2013/14 through 2016/17 are actual amounts.

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 AV exceeds the market value. However, there is a potential to recapture some of this lost revenue. 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% to keep up with the fair market value. No future recapture gains are forecasted in the Fiscal Model as the majority of the Proposition 8 recapture increases have occurred in recent fiscal years.

The City’s per capita base General Fund property tax revenue (the average amount received by the City per resident) is \$153.82 for FY 2015/16. 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 A6-2, below, 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. The figures in the Exhibit represent only 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). As property taxes are 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.

EXHIBIT A6-2: Multi-City Comparison of Property Tax Revenue

City	1/1/2015 Population	2015/16 Est. General Fund Property Tax	2015/16 Est. Revenue Per Capita	2014/15 Est. Revenue Per Capita
Pleasanton	73,776	\$ 50,955,170	\$ 690.67	\$ 657.46
Dublin	56,014	29,789,973	531.83	491.99
Benicia	27,360	13,257,955	484.57	490.74
Oakland	419,539	156,651,446	373.39	218.15
Livermore	86,368	27,515,075	318.58	303.23
Fremont	227,582	62,707,191	275.54	220.22
Martinez	36,931	7,616,030	206.22	193.16
Walnut Creek	68,652	13,732,652	200.03	191.27
Danville	42,491	8,479,638	199.56	185.96
San Ramon	77,470	13,756,758	177.58	152.01
Vacaville	95,582	15,279,016	159.85	122.97
Brentwood	57,072	8,778,769	153.82	143.38
Union City	72,412	10,564,248	145.89	135.36
Vallejo	116,764	15,981,039	136.87	122.47
Tracy	88,028	12,035,904	136.73	134.03
Fairfield	111,471	12,494,297	112.09	103.54
Concord	128,063	12,880,824	100.58	97.10
Stockton	312,990	29,598,263	94.57	94.59
Antioch	111,973	9,706,379	86.68	81.31
Pleasant Hill	33,918	2,710,381	79.91	73.37
Oakley	39,609	2,113,140	53.35	51.97
Average Comparison City	108,765	\$ 24,600,197	\$ 224.68	\$ 203.06

EXHIBIT A7: Multi-City Comparison of Sales Tax Revenue

City	1/1/2015 Population	2015 Calendar Year Gross Sales Tax	2015 Revenue Per Capita	2014 Revenue Per Capita
Dublin	56,014	\$ 19,337,445	\$ 345.23	\$ 352.61
Walnut Creek	68,652	23,505,450	342.39	323.16
Pleasanton	73,776	23,863,717	323.46	297.79
Livermore	86,368	27,815,256	322.06	308.36
Concord	128,063	32,880,485	256.75	236.03
Pleasant Hill	33,918	8,399,207	247.63	228.85
Vacaville	95,582	19,768,892	206.83	202.71
Tracy	88,028	17,387,955	197.53	186.16
Benicia	27,360	5,379,634	196.62	238.26
Fairfield	111,471	21,697,082	194.64	189.21
Fremont	227,582	43,922,347	193.00	176.63
Martinez	36,931	5,212,326	141.14	146.00
Stockton	312,990	43,530,616	139.08	137.36
Brentwood	57,072	7,541,900	132.15	124.27
Danville	42,491	5,536,474	130.30	122.80
Union City	72,412	9,172,376	126.67	127.80
San Ramon	77,470	9,657,652	124.66	121.31
Oakland	419,539	51,810,323	123.49	121.62
Vallejo	116,764	13,546,346	116.01	110.81
Antioch	111,973	12,044,593	107.57	110.80
Oakley	39,609	1,666,945	42.09	40.39
Average Comparison City	108,765	\$ 19,222,715	\$ 190.92	\$ 185.85

Sales tax, the General Fund’s second largest single revenue source, performed remarkably well throughout the economic recovery with an average annual growth rate of 6% over the past five years. By comparison, Contra Costa County sales averaged a 5% annual growth rate over the past five years. Longer term, the City expects sales tax to post average annual gains of 3.8% through the duration of the Fiscal Model.

Exhibit A7, above, provides per capita information and comparisons of the City’s sales tax revenue in relation to other local agencies. The same 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, there remains significant opportunity for economic development to generate sales tax revenue comparable to other communities.

EXHIBIT A8: Budget Stabilization Fund Usage

Fiscal Year	Beginning Pension/OPEB Fund Balance	Transfer to (from) General Fund	Ending Pension/OPEB Fund Balance
2015/16	\$ 20,121,641	\$ 1,163,524	\$ 18,958,117
2016/17	18,958,117	(1,075,598)	20,033,715
2017/18	20,033,715	1,617,846	18,415,869
2018/19	18,415,869	2,853,050	15,562,819
2019/20	15,562,819	2,569,771	12,993,048
2020/21	12,993,048	2,649,583	10,343,465
2021/22	10,343,465	1,758,425	8,585,040
2022/23	8,585,040	2,946,200	5,638,840
2023/24	5,638,840	2,547,705	3,091,135
2024/25	3,091,135	2,040,446	1,050,689
2025/26	1,050,689	-	1,050,689

Note: The City's Unfunded PERS Pension Liability is \$28.4 million as of June 30, 2014, of this amount \$19.4 million is the responsibility of the General Fund.
 The City's Unfunded OPEB Liability is \$41.8 million as of June 30, 2015, of this amount \$28.7 million is the responsibility of the General Fund.

PERSONNEL COST ANALYSIS

With two-thirds of the General Fund's budget going towards personnel costs, focusing attention towards those cost components provide 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.

Cost of Living Adjustments

The Fiscal Model includes factors for future salary increases estimated for the remaining fiscal years of the model. These factors are assumptions based on costs for future service level increases and are not contractually obligated but utilized only for forecasting purposes – the Fiscal Model does not establish any employee obligations beyond what has been approved in the existing labor contracts. Salary increases also lead to an increase in pension costs, as described below.

Pensions

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 PEPR 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. PEPR created a "2% @ 62" retirement plan for Non-sworn members and a "2.7% @ 57" plan for Sworn members. In addition, PEPR 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, PERS is actively addressing those shortfalls through rate increases as discussed on the next page. In this way, the Fiscal Model captures the expenditure impacts of closing the existing unfunded pension liability.

The Fiscal Model includes slightly higher total pension contributions for Sworn and Non-sworn employees in the early years of the model, with rates flattening out over the long-term. The initial rate increases in the early years 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. The flattening out of the rates in the latter years of the model can be attributed to assumptions in the model about employee turnover, increasing the number of employees participating in the less costly Tier 2 and 3 pension benefit levels, and the conclusion of the phase in of PERS approved rate increases.

The Sworn employee PERS contribution includes required annual lump sum payments for the City's portion of the plan's unfunded obligation. Beginning in FY 2015/16, the PERS unfunded liability was 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. 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 \$510,000 (approximately 3% of Sworn salaries) to the FY 2016/17 PERS contributions and add approximately \$958,000 (approximately 5% of Sworn salaries) in FY 2025/26. There are no annual lump sum payment requirements for Non-sworn staff, although PERS has plans to implement lump sum payment requirements in the near future. This change will not impact projected PERS costs.

This Fiscal Model includes no change in the PERS discount rate during the forecast period. The discount rate is the assumed rate of return on investments held by PERS and a decrease in the assumed rate would result in a potential increase in the City's required contributions. PERS investment returns have exceeded the current discount rate of 7.5% during the economic recovery; however, in FY 2015/16 PERS realized a preliminary rate return of just 0.6%. The expectation built into the model is that the discount rate will remain the same for the remaining years in the forecast. 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.

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

Non-sworn Pensions

As discussed above, the City 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 is expected to be 18.26% of salary in FY 2017/18. 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 A9-4, on page A16, 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.

Concern over increasing pension costs 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
- Pay the full 7% employee share of PERS

Under PEPR, the new third tier of employees (non-classic employees hired after January 1, 2013) 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%, PEPR employees contribute 6.25% of salary towards their pensions.

Despite the cost controls established through the second and third tiers, including estimated increases in salaries for service level increases, pension expenses are projected to increase by an additional \$818,000 over the next decade.

Exhibit A9-1, below, 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). Although the funding percentage declined in FY 2012/13, gains from a strong market were reflected in the June 30, 2014 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 A9-1: 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%
6/30/2014	97,307,305	77,811,965	19,495,340	79.97%

Sworn Pensions

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
- Pay the full 9% employee share of PERS

Under PEPRRA, the new third tier of employees (which includes non-classic employees hired after January 1, 2013) 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. Including increases in estimated salaries for service level increases, annual pension costs for Sworn employees are projected to increase by \$547,000 by the end of the model.

As illustrated in Exhibit A9-2, below, the funding status of the Sworn PERS plan increased from a low point of 60.18% in June 2009 to 83.26% by June 2014. The primary cause of the decrease in the funded ratio in the City’s PERS Sworn Plan in the late 2000’s was 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. 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 A9-2: 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 ⁽¹⁾	City	34,116,659	26,924,094	7,192,565	78.92%
6/30/2012 ⁽¹⁾	City	38,731,904	28,562,163	10,169,741	73.74%
6/30/2013 ⁽¹⁾	City	44,179,102	34,249,854	9,929,248	77.53%
6/30/2014 ⁽¹⁾	City	52,914,546	44,056,709	8,857,837	83.26%

(1) PERS began providing the City with specific information for the City’s share of assets and liabilities on June 30, 2011.

EXHIBIT A9-3: Projected PERS Rates

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
SWORN 3% at 50										
PERS Rates	30.63%	30.60%	30.60%	30.60%	30.60%	30.60%	30.60%	30.60%	30.60%	30.60%
Total Pension Rate	30.63%	30.60%	30.60%	30.60%	30.60%	30.60%	30.60%	30.60%	30.60%	30.60%
Less Employee Contributions	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%
City Paid PERS Rate	21.63%	21.60%	21.60%	21.60%	21.60%	21.60%	21.60%	21.60%	21.60%	21.60%
SWORN 3% at 55										
PERS Rates	25.66%	25.70%	25.70%	25.70%	25.70%	25.70%	25.70%	25.70%	25.70%	25.70%
Total Pension Rate	25.66%	25.70%	25.70%	25.70%	25.70%	25.70%	25.70%	25.70%	25.70%	25.70%
Less Employee Contributions	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%	-9.00%
City Paid PERS Rate	16.66%	16.70%	16.70%	16.70%	16.70%	16.70%	16.70%	16.70%	16.70%	16.70%
SWORN 2.7% at 57 (PEPRA)										
PERS Rates	23.58%	23.60%	23.60%	23.60%	23.60%	23.60%	23.60%	23.60%	23.60%	23.60%
Total Pension Rate	23.58%	23.60%	23.60%	23.60%	23.60%	23.60%	23.60%	23.60%	23.60%	23.60%
Less Employee Contributions	-11.50%	-11.50%	-11.50%	-11.50%	-11.50%	-11.50%	-11.50%	-11.50%	-11.50%	-11.50%
City Paid PERS Rate	12.08%	12.10%	12.10%	12.10%	12.10%	12.10%	12.10%	12.10%	12.10%	12.10%
Plus Lump Sum Contribution	\$ 507,672	\$ 635,592	\$ 770,731	\$ 913,406	\$ 974,665	\$ 1,043,500	\$ 1,072,509	\$ 1,102,325	\$ 1,132,970	\$ 1,164,466
Projected Non-sworn PERS Rates										
NON-SWORN 2.7% at 55										
PERS Normal Cost	20.83%	20.83%	20.83%	20.83%	20.83%	20.83%	20.83%	20.83%	20.83%	20.83%
Amortization of Non-Sworn Plan (projected rate increases)	6.66%	7.61%	8.61%	9.81%	10.21%	10.61%	10.61%	10.61%	10.61%	10.61%
Total Pension Rate	27.49%	28.43%	29.43%	30.63%	31.03%	31.43%	31.43%	31.43%	31.43%	31.43%
Less Employee Contributions	-8.00%	-8.00%	-8.00%	-8.00%	-8.00%	-8.00%	-8.00%	-8.00%	-8.00%	-8.00%
City Paid PERS Rate	19.49%	20.43%	21.43%	22.63%	23.03%	23.43%	23.43%	23.43%	23.43%	23.43%
NON-SWORN 2% at 60										
PERS Normal Cost	14.05%	14.05%	14.05%	14.05%	14.05%	14.05%	14.05%	14.05%	14.05%	14.05%
Amortization of Non-Sworn Plan (projected rate increases)	6.66%	7.61%	8.61%	9.81%	10.21%	10.61%	10.61%	10.61%	10.61%	10.61%
Total Pension Rate	20.71%	21.65%	22.65%	23.85%	24.25%	24.65%	24.65%	24.65%	24.65%	24.65%
Less Employee Contributions	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%	-7.00%
City Paid PERS Rate	13.71%	14.65%	15.65%	16.85%	17.25%	17.65%	17.65%	17.65%	17.65%	17.65%
NON-SWORN 2% at 62 (PEPRA)										
PERS Normal Cost	12.81%	12.81%	12.81%	12.81%	12.81%	12.81%	12.81%	12.81%	12.81%	12.81%
Amortization of Non-Sworn Plan (projected rate increases)	6.66%	7.61%	8.61%	9.81%	10.21%	10.61%	10.61%	10.61%	10.61%	10.61%
Total Pension Rate	19.47%	20.41%	21.41%	22.61%	23.01%	23.41%	23.41%	23.41%	23.41%	23.41%
Less Employee Contributions	-6.25%	-6.25%	-6.25%	-6.25%	-6.25%	-6.25%	-6.25%	-6.25%	-6.25%	-6.25%
City Paid PERS Rate	13.22%	14.16%	15.16%	16.36%	16.76%	17.16%	17.16%	17.16%	17.16%	17.16%
Non-Sworn Proj. Blended Rate (actual City rate for Non-Sworn)	18.26%	19.20%	20.20%	21.40%	21.80%	22.20%	22.20%	22.20%	22.20%	22.20%

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.

Other Post-Employment Benefits (OPEB)

For both Non-sworn and Sworn employees, OPEB costs in the Fiscal Model are based on the City's most recent bi-annual actuarial valuation, dated June 30, 2015, and incorporate a plan to increase contributions towards the goal of funding 85% of the ARC by FY 2017/18. This would complete the shift from pay-as-you-go financing to funding the obligation as the benefit is earned, as is the case 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 has 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. For employees retired by June 30, 2012 in the first tier, there was no change in benefit level. Retired employees in this tier will continue to receive benefits with a rising coverage cap indexed to increases in Kaiser medical rates. The second tier, existing employees hired prior to July 1, 2012, 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, which consists of employees hired on or after July 1, 2012, receive the Public Employees' Medical and Hospital Care Act (PEMHCA) minimum, currently \$125. As a result, as employees turnover, the City's OPEB obligations will level off and, over the long-term, decline.

FY 2015/16 annual OPEB funding from the General Fund was set at \$7,994 per Non-sworn employee and \$12,103 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 \$18,265 per Non-sworn employee and \$25,155 per Sworn employee annually over the next ten years. While the adoption of the tiered OPEB benefit levels resulted in a decline in long-term funding commitments, the budgetary constraints that OPEB will put on the General Fund over the next decade will present a considerable challenge.

The Fiscal Model addresses the OPEB unfunded liability by increasing contributions toward the goal of funding 85% of the ARC by FY 2017/18. Estimates of the June 30, 2016 liability have been included in the Exhibit A9-4, on the following page, but are subject to change upon receipt of the completed actuarial study.

EXHIBIT A9-4: Current and Historical Funding Status – OPEB

Fiscal Year Ending	Annual OPEB Cost	City Actual Contribution	Annual Funding Ratio	Actuarial Accrued Liability	Assets Held by Trustee	Funded Ratio of OPEB Liability
6/30/2009	\$ 3,006,000	\$ 545,043	18.13%	\$ 22,885,000	\$ -	0.00%
6/30/2010	3,208,000	570,457	17.78%	30,282,000	-	0.00%
6/30/2011	3,883,000	1,012,000	26.06%	29,028,000	322,920	1.11%
6/30/2012	4,150,000	1,600,000	38.55%	31,964,000	1,145,770	3.58%
6/30/2013	3,651,000	1,669,000	45.71%	34,494,000	1,936,159	5.61%
6/30/2014	3,806,000	2,076,000	54.55%	34,275,000	3,226,989	9.41%
6/30/2015	4,035,000	2,520,000	62.45%	46,307,000	4,452,505	9.62%
6/30/2016	4,188,000	3,210,000	76.65%	43,064,000	6,216,000	14.43%

Health Insurance - 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 2016 health insurance rates as a base and a health insurance inflation rate starting at 6.5% in FY 2017/18 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 \$1,326.00 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 \$1,891.60, and subject to 10% maximum annual increase.