



# City of Palo Alto

## Finance Committee Staff Report

(ID # 7390)

**Report Type: Action Items**

**Meeting Date: 12/6/2016**

**Summary Title: FY 2018 Budget Development Status and Guidelines**

**Title: Fiscal Year 2018 General Fund Financial Status and Budget Development Guidelines**

**From: City Manager**

**Lead Department: Administrative Services**

### RECOMMENDATION

Staff Recommends the Finance Committee review and comment on the budget balancing policies and strategies recommended by staff to the City Manager to guide the FY 2018 budget process.

### BACKGROUND

By Charter, the City Manager is charged with the responsibility for developing a recommended annual budget (and managing it during the course of the year). This item is before the Finance Committee at this time at the request of the City Manager, made during the end of the FY 2017 Budget Review process with the Finance Committee. This discussion is scheduled in keeping with the City's commitment to transparency and the necessity to familiarize the Finance Committee, Council, and community with some of the challenges and decisions the City will face in the FY 2018 Budget review and approval process.

During the development of the FY 2017 budget, staff provided the Long Range Financial Forecast (LRFF) to the Finance Committee in December 2015 and to the City Council in April 2016. As shown below, the LRFF projected a \$0.6 million deficit for FY 2017, a \$0.2 million deficit in FY 2018, and a \$0.1 million deficit in 2020.

	Adopted										
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
<b>Total Revenue</b>	\$185,672	\$193,953	\$202,919	\$211,814	\$218,393	\$225,361	\$232,916	\$241,044	\$249,421	\$256,757	\$265,564
		4.5%	4.6%	9.2%	7.6%	6.4%	6.7%	7.0%	7.1%	6.5%	6.5%
<b>Total Expenditures</b>	\$185,672	\$194,594	\$203,116	\$211,035	\$218,469	\$225,124	\$231,522	\$237,091	\$242,852	\$249,079	\$253,506
		4.8%	4.4%	3.9%	3.5%	3.0%	2.8%	2.4%	2.4%	2.6%	1.8%
<b>Net One-Time Surplus/(Shortfall)</b>	\$0	(\$641)	(\$198)	\$779	(\$76)	\$238	\$1,395	\$3,953	\$6,569	\$7,678	\$12,058
<b>Cumulative Net Operating Margin (One-Time)</b>											\$31,755
<b>Net Operating Margin</b>		\$0	(\$198)	\$779	(\$854)	\$313	\$1,157	\$2,558	\$2,616	\$1,109	\$4,381
<b>Cumulative Net Operating Margin</b>											\$11,861

The table above includes a calculation for the net operating margin which reflects the year over year change of surpluses and shortfalls. With the net operating margin, it is assumed that each shortfall is addressed completely with ongoing solutions in the year it appears, and that each surplus is completely expended with ongoing expenditures or transferred to the Capital Infrastructure Fund.

Subsequent to the release of the LRFF and during the FY 2017 budget process, it became apparent that the General Fund (GF) was facing a structural financial deficit in FY 2018 that would require solutions in the FY 2018 budget process. Staff expects tax revenues to grow into FY 2018 and for the economy to remain strong. In a November 2016 meeting with Steve Levy, the head of the Center for the Continuing Study of the California Economy, Mr. Levy stated that we could expect a robust economy to continue for at least the next 18 months and that staff's tax revenue projections for that period were reasonable. Despite this positive news, the City's General Fund is facing significant financial challenges in FY 2018.

## DISCUSSION

At this time, it is expected that the GF will face a deficit ranging from \$4 million to \$6 million in FY 2018.

The GF could also realize a deficit of up to \$2 million in FY 2019 and either a surplus of up to \$0.5 million or a deficit of up to \$1 million in FY 2020. It is possible, however, that if the FY 2018 deficit is erased through systemic changes, the City may expect minor surpluses or a slight shortfall. The results shown in the table below assume the General Fund Budget Stabilization Reserve will be maintained at Council's approved target of 18.5%.

	FY 2018	FY 2019	FY 2020
<b>Net One-time Surplus/(Shortfall)</b>	(\$4 million to \$6 million)	(\$2 million to \$0)	(\$1 million to +\$500,000)

This short range forecast reflects a need to evaluate programs and to be prudent with additional resource investments. For example, these figures do not include any base budget request increases in order to maintain current service levels. Examples include additional costs due to contractual increases or inflation costs for the acquisition of materials such as library books.

Prioritizing spending will be important. This begins with containing escalating costs in current activities as well as an early review of requests adding expense to the base budget. A containment strategy is necessary to maintain a manageable financial position and to address future financial challenges such as rising pension, infrastructure and medical costs; unforeseen program needs; and the inevitable economic downturn. Palo Alto serves a diverse community with a broad range of unique services that adds to the significant complexity of managing a balanced budget and healthy long range financial outlook. The demands and conflicts emerging from our vibrant economy have heightened the intensity of the "Palo Alto Process," with new analyses and data generation demands, and deep dives into complex problem solving within an

engaged public process across a wide range of issues. These forecast figures present staff with the challenge of prioritizing the growing needs of the City with the long-term sustainability of these needs.

The sections below provide important background for the challenges ahead.

### ***Economic Environment***

At this time, the local, regional and State economies are faring well. According to recent reports from the Center for Continuing Study of the California Economy's (CCSCE), jobs grew by 7.3% in the San Francisco metro area and by 7.4% in the San Jose metro area between September 2015 and September 2016. Unemployment in the State dropped from 6.0% to 5.5% during the same period<sup>i</sup>. Palo Alto's unemployment rate in August 2016 was an exceptionally low 2.7%<sup>ii</sup>. While all state geographic areas have seen material job growth since the Great Recession, the Bay Area has experienced the highest rate of job increases.

Per CCSCE, in 2015 "The Bay Area led California and the nation with a real (inflation adjusted) Gross Domestic Product (GDP) gain of 5.8% in 2015." The state's gain was 4.1%, while the nation's was 2.4%<sup>iii</sup>. A key support for GDP, consumer spending, was underpinned by higher income. The state's Department of Finance reported that "California's personal income in the second quarter of 2016 grew by 3.6 percent compared to a year ago, following 4.7 percent growth in the first quarter."<sup>iv</sup>

With unemployment running low and the Silicon Valley economy performing well, Palo Alto's station at the epicenter of growth presents both opportunities and challenges.

### ***General Fund Tax Revenue***

The economic information above is the foundation for the solid performance turned in by Palo Alto tax revenues over the past two years. Steady receipts are expected to continue in FY 2017, FY 2018, and beyond. For all tax revenues, staff projects for FY 2017 a \$1.9 million or 1.7% increase over the FY 2017 Adopted Budget and a \$5.9 million or 5.2% revenue increase in FY 2018 over those now projected for FY 2017. Tax revenues constitute over 55% of General Fund resources. Short of a recession, staff expects tax revenues to continue to climb in FYs 2019 and FY 2020. Increases in these years adhere to recent trends and reflect historical compound annual growth rates adjusted for anticipated events. The conclusions drawn in this report reflect growth in revenues expected for FY 2019 and FY 2020.

### **SALES TAX**

Despite inroads from online retail sales, this source has remained steady. Updated activity and revenue figures for FY 2017 show probable receipts of \$30.3 million or \$1.2 million above the Adopted Budget. Sales taxes are expected to rise to \$31.8 million in FY 2018, a 5.0% growth rate that is consistent with the compound annual growth rate of 4.6% over the past ten years. Segments contributing to this growth include electronic equipment, restaurants, and auto sales and leases. Department store sales, however, are experiencing declines. Staff has incorporated

lower Stanford Hospital construction use taxes in its tax estimates. For FYs 2019 and 2020 the average growth rate during this time is estimated at around 3 percent.

#### PROPERTY TAX

Palo Alto property tax revenues have continued to climb. They have risen from \$34.1 million in FY 2015 to \$36.6 million in FY 2016 and are now projected to grow to \$39.1 million in FY 2017 and to \$41.5 million in FY 2018. The increase from FY 2017 to 2018 equals 6.3% or \$2.5 million. The 6.3% growth rate is in sync with the growth rate over the past 15 years and is used to project revenues for FYs 2019 and 2020. Staff estimates for FY 2017 include excess ERAF funds, albeit at a lower level than the past two years.

It is too early to detect a trend, but information is emerging that the robust rise in residential prices may be moderating somewhat. Multiple bids for homes and offers above the asking price are decreasing for high end homes.

City staff meets with the County quarterly to obtain the latest data and estimates of “in-the-fiscal-year” tax revenue. Over the past half-dozen years, County data and projections have proven reliable. Staff uses the County information and local assessment data to produce its forecast of property tax revenues.

#### TRANSIENT OCCUPANCY TAX (TOT)

TOT receipts are brisk, especially with the recent addition of the Hilton hotels, the Clement on El Camino Real, and the upgrade of the Quality Inn into the Nest. Revenues moved upward from \$16.7 million in FY 2015 to \$22.4 million in FY 2016. TOT for Fiscal Year 2017 is expected to reach \$23.9 million, \$0.7 million above the Adopted Budget. Projections for FY 2018 stand at \$24.8 million, 3.7 percent or \$0.9 million above the estimate for FY 2017. Average occupancy rates through the first three months of this FY are running at 84 percent compared to 79 percent in the same prior year period. During these periods, room rates have increased from \$249 to \$258 per day. Staff has assumed a growth rate of around 4 percent per year for FYs 2019 and 2020.

#### UTILITY USER'S TAX (UUT)

The UUT is levied on electric, gas, and water consumption, as well as on telephone usage. In total, Fiscal Year 2017 revenues are estimated at \$13.0 million and in Fiscal Year 2018 at \$13.9 million.

UUT telephone revenues rose from \$3.3 million in FY 2015 to \$4.6 million in FY 2016. This occurred despite the voter approved 0.25% decrease to a 4.75% rate. Without data from providers to understand this steep increase, staff is projecting, somewhat conservatively, \$4.0 million in FY 2017 and \$4.2 million in FY 2018. Growth rates for FYs 2019 and 2020 are around 3.5 percent per year.

UUT revenue from Utility sales came in at \$7.9 million in FY 2016 and is anticipated to reach nearly \$9.0 million in FY 2017. Rate increases of 11% for electric, 8% for gas, and 6% for water are the chief drivers of the revenue growth. This source is expected to rise to \$9.7 million in FY

2018. Revenue projections from this source are based on the Utility department's five year forecast.

#### DOCUMENTARY TRANSFER TAX

In FY 2015, documentary transfer taxes reached an all-time high of \$10.1 million. This milestone was a consequence of several large commercial transactions on Page Mill Road and in the Stanford Research Park. Since that time, transfer taxes have returned to more "normal" levels such as the \$6.3 million earned in FY 2016. Given that revenue from July through October this FY is running nearly 11 percent below the same period in FY 2016, staff will likely modify the Adopted Budget at midyear from \$6.8 million down to \$6.1 million. For FY 2018 a slight uptick to \$6.3 million is estimated.

As in past years, this revenue source is challenging to forecast since it is highly dependent on sales volume and the mix of commercial and residential sales. For example, even though transactions through October (166) are running higher than those through October of last year (148), the value of each transaction has dropped. This likely confirms that the red hot Palo Alto housing market is cooling off somewhat and that "lower end" properties are being purchased. In addition, data from this FY and the latter half of last FY indicates that there have been few to no commercial sales.

#### SUMMARY

The strong performance in sales, transient occupancy, and the telephone user taxes bode well for FY 2018 and there are no indications of an economic slowdown at this time. Overall, tax revenues are expected to grow between 4 to 5 percent per year during the period of FY 2017 through FY 2020, a rate of growth tracking with those experienced in prior years. Very preliminary data on residential transaction values could be indicative of slower growth to come in property taxes. This, along with a prolonged economic recovery merits close monitoring and a prudent spending plan.

#### ***Expense Assumptions***

During development of the FY 2017 Adopted Budget, it became clear that expense additions to the budget would have ongoing financial implications and lead to a structural financial deficit in FY 2018. These additions included, for example:

- Shifting the Project Safety Net Program into the General Fund (approximately \$2 million annually)
- Growing salary and benefit costs consistent with market conditions and new labor agreements approved in April 2016
- A reduction in contract payments received from Stanford University for Fire services (approximately \$2 million annually)
- A reallocation of electricity costs associated with City streetlights and traffic signals (approximately \$2.3 million annually)
- A significant increase in tree trimming contractual costs (approximately \$1.1 million)

- A realignment of staffing in Development Services between development and non-development related activities.

The Finance Committee, Council and staff agreed to solve these ongoing costs with one-time solutions in FY 2017. One-time balancing actions approved in FY 2017 included the deferral of three capital projects (\$4.3 million in savings) and the draw on internal services funds such as the Workers' Compensation Fund and General Liabilities fund (\$3.1 million in savings). The first step toward accomplishing this goal was to return to the Finance Committee to discuss ongoing solutions.

The FY 2018 projected deficit is predicated on a number of assumptions consistent with prior City Council direction from the FY 2017 Adopted Budget and various actions taken by Council since the budget was adopted. In developing the FY 2018 expense forecast, one-time, FY 2017 expenditures have been eliminated and major cost elements such as salary and benefits have been increased. Major expense assumptions include:

- Updated salary and benefits: Salaries have been updated to reflect current staffing levels which include both step increases consistent with applicable MOUs and merit increases for management and professional employees.

In addition, for those labor units with active contracts, approved salary and benefits increases have been included. Where labor negotiations are continuing, projected salary and benefits reflect the current status of negotiations. When current contracts expire, a two percent increase has been applied.

- Pension: In August 2016, CalPERS published its valuation reports as of June 30, 2015 including updated pension employer rates for the Miscellaneous Plan (30.2%) and Safety (49.7%). Both Miscellaneous Plan and Safety plans saw year over year increases from FY 2017 rates of 28.9 % and 45.4%, respectively. FYs 2019 and 2020 are based on the most current CalPERS valuation, however, recent salary increases, especially for public safety units, have not been factored into the CalPERS valuation used in developing this report.

It should be noted that recent negotiations with various labor groups resulted in contracts which increase the employee share of pension contribution ("CalPERS Member Contribution") to include a portion of the employer share over the term of the agreements (some up to 3% of the employer share). Currently, Palo Alto Police Officers' Association (PAPOA), International Association of Firefighters' Union Local 1319 (IAFF), Service Employees' International Union Local 521 (SEIU) and Palo Alto Police Management Association (PAPMA) all include this change.

- Allocated Charges: Revised allocated charges for services provided to the General Fund departments such as utilities services for gas and water and the corresponding rate increases.
- Annualized major budget changes approved either in the FY 2017 Adopted Budget or by City Council since June 2016:

- Revised golf course estimated revenues and expenses to align with the estimated reopening in the fall of 2017. These adjustments include final payments on the initial golf course debt as well as forecasting the new debt payments anticipated to begin in FY 2019. Subsidies by the General Fund are assumed for FYs 2018 and 2019.
- Eliminated one-time expenses added to the FY 2017 Adopted Budget such as the Sustainability and Transportation and Planning reserves; startup costs for the new Residential Preferential Parking program; and Urban Forests program costs.
- Revise the annual cost for Trackwatch guards per the revised contract terms approved in November 2016.
- The City and Stanford University continue to discuss the provision of fire services to Stanford since the receipt of a Notice of Termination letter from Stanford with the intent to terminate the contract with the City. This forecast assumes the continuation of the contract for the current contract value.

Over the course of the last year, a number of variables have changed from those used in the development of the FY 2017-2026 Long Range Financial Forecast as discussed earlier in this report. However, despite these variations, overall, the revised salary and benefits figures are approximately within 1% of the levels reported in the FY 2017-2026 Long Range Financial Forecast

### ***General Fund Budget Stabilization Reserve Status***

The General Fund Budget Stabilization Reserve (BSR) ended FY 2016 at \$51.6 million, approximately \$7.7 million above levels expected in the FY 2017 Adopted Budget. Since adoption of the FY 2017 budget, however, budget adjustments or draws on the BSR approved by Council have equaled \$2.1 million. Of this amount, approximately \$1.1 million are ongoing expenses that were folded into the FY 2018 forecast figures. As of November 30, 2016, the estimated BSR level is at \$42.3 million or 21.8% of the FY 2017 Adopted Budget expense in the General Fund. This reflects \$6.4 million above the 18.5% Council directed target.

### ***Potential Additional Implications***

The projections outlined in this report reflect the best information available at this time. There are a number of looming impacts to the FY 2018 budget and beyond. Some of these are known, but the amount and timing of them is somewhat uncertain. For a comprehensive list of fiscal challenges not assumed in this truncated forecast see Attachment A.

- Labor negotiations: The current MOUs with the majority of labor units including Palo Alto Police Officers Association (PAPOA), International Fire Fighters Association (IAFF), Services Employees International Union (SEIU), and Police Management Association end by December 2018.

- Pension costs: Due to various CalPERS assumptions, namely the current assumed rate of return of 7.5 percent and the recent poor performance of CalPERS investment returns, significant increases in annual contributions are expected in the near future.
- Unfunded pension/medical liabilities: The most recent CalPERS valuation report indicates the continued magnitude of the unfunded pension and medical liabilities. These liabilities are compounded by the lack of the expected 7.5% annual investment return. Staff is exploring options to address the liability such as implementation of a Section 115 Trust Fund which will be brought forth to the Council shortly. Council approved \$2.1 million in General Fund proceeds to be set aside to establish the trust.
- Master Plan / Comprehensive Plan: A number of master plan activities are or soon to be underway. Examples are: the Parks & Recreation Master Plan, Cubberley Community Center Master Plan, and Comprehensive General Plan. These plans may have additional or new costs. In many cases, the implementation costs of these plans could be significant and are generally not funded.
- Capital Infrastructure Plan: In June 2014, the Infrastructure Plan was approved by the City Council and contained \$125.8 million in projects. The Plan's construction and design costs, however, were based on data from 2012. Costs such as those for the Public Safety Building have escalated significantly since the original estimates as they likely will for other infrastructure and capital projects. In addition to rising capital costs, ongoing operating impacts for new facilities have not been reflected.

Financing, an important component of the Infrastructure Plan, is likely to cost more as a consequence of plans by the Federal Reserve to raise interest rates. A 0.25 percent increase is expected in December 2016 and rates are likely to rise again in CY 2017.

- Transportation Demand Management: Costs are unknown at this point, but with ongoing traffic issues locally and in surrounding areas expenses are expected to increase. Passage of Santa Clara County VTA's Measure B is helpful, but this could result in additional costs related to or in addition to VTA projects.
- Acquisition of new properties: Though no firm purchases have been made to date, the potential for purchasing new properties such as the Post Office are under consideration.
- City Owned Assets operated by Non-profits: The financial needs of non-profits are ongoing. This forecast does not include any additional funding for the Avenidas Senior Center, the Palo Alto History Museum, the Ventura Child Care Center, or the Junior Museum and Zoo.

This Forecast assumes a steady growth in the local economy, but events such as a trade war or a recession could undermine this outcome. Past recessions such as the Dot.Com bust and the Great Recession had severe impacts on economically sensitive revenue sources such as sales, transient occupancy and documentary transfer taxes. During the Dot.Com recession sales taxes fell by \$7.7 million or a cumulative 32 percent over two years. Likewise, hotel tax revenues dropped by 4.0 million or by nearly 50 percent over two years. Oddly, the Great Recession had



a lesser, but still weighty result. Over a two year period sales taxes fell by \$4.5 million or by nearly 22 percent; hotel revenue dropped by \$1.1 million or by 14 percent; and the transfer tax revenue fell by \$2.3 million or 43 percent. As an example, a 20 percent drop in sales and transient occupancy taxes in projections for FY 2019 results in a \$9.4 million decreases in resources.

### ***Ongoing Balancing Solutions***

During the FY 2017 Budget Hearings, at the behest of the City Manager, the Finance Committee and City Council directed staff to return to the Finance Committee in CY 2016 to discuss the FY 2018 financial outlook and budget process. With an anticipated deficit of \$4 million to \$6 million, it is imperative that policy and program priorities are considered in the context of funding availability and implications for the City's future financial viability.

Staff has developed a set of guidelines and strategies. These are designed to establish a high level framework for the FY 2018 budget process and future investments in the organization. Per the City's Charter, it remains the City Manager's responsibility to develop and propose a budget for Council's review. Therefore, the attached document outlines guidelines to assist the City Manager in this annual process. They memorialize a number of priorities and frameworks already employed by the City Manager's Office and the Office of Management and Budget in the annual budget process and are intended to ensure prudent fiscal planning.

### **FY 2018 Budget Balancing Strategy Guidelines**

1. Develop a budget that balances the City's delivery of the most essential services to the community with the resources available.
2. Balance ongoing expenditure needs with ongoing revenues to ensure no negative impact on future budgets and to maintain the City's high standards of fiscal integrity and financial management. Maintain adequate reserves to cover any budgetary shortfalls in the following year as a stopgap measure if necessary.
3. Focus on business process redesign in order to improve employee productivity and the quality, flexibility, and cost-effectiveness of service delivery (e.g., streamlining, simplifying, reorganizing functions, and reallocating resources).
4. Explore alternative service delivery models (e.g., partnerships with the non-profit, public, or private sector for out- or in-sourcing services) to ensure no or minimal service overlap, reduce and/or share costs, and use our resources more efficiently and effectively.
5. Analyze non-personal/equipment/other costs, including contractual services, for cost savings opportunities. Contracts should be evaluated for their necessity to support City operations and to identify negotiation options to lower costs.

6. Explore redirecting and/or expanding existing revenue sources and/or adding new revenue sources.
7. Establish a fee structure to assure that operating costs are fully covered by fee revenue or have a Council approved policy with any exceptions. In addition, explore opportunities to establish new fees for services, where appropriate.
8. Identify City policy changes that would enable/facilitate service delivery changes or other budget balancing strategies.
9. If additional resources become available use existing reserve policies to allocate funds.
10. Prioritize resource additions and seek to propose offsetting reductions to ensure a net zero change to a budget.

## **TIMELINE**

Over the course of the next six or so months, the staff will work to refine these forecast estimates and develop a City Manager's Proposed Budget for both Operating and Capital to be presented to the Council in late April. FY 2018 Budget Hearings with the Finance Committee are tentatively scheduled for the first three weeks in May with final Council consideration and adoption of the FY 2018 Adopted Operating and Capital budgets in June. If there are service level reduction proposals or a change in service delivery, staff will have stakeholder meetings to discuss impacts and solicit input.

## **RESOURCE IMPACT**

No new implications are anticipated this Fiscal Year as a result of the actions recommended in this report. Financial implications from this report and input from the Finance Committee will be considered in the City Manager's development of the Proposed FY 2018 budget.

### **Attachments:**

- Attachment A: Additional Potential Financial Impacts on the General Fund (PDF)

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<sup>i</sup> CCSCE September 2016 Jobs Report

<sup>ii</sup> State of California Economic Development Department data cited in "Palo Alto Patch" article of August 25, 2016

<sup>iii</sup> CCSCE September 2016 "The Bay Area Led Broad Regional GDP Growth Surge in 2015"

<sup>iv</sup> California Department of Finance's October 16 "Finance Bulletin"

**Additional Potential Financial Impacts on the General Fund  
(as of November 2016)**

There are a number of looming impacts to the FY 2018 and beyond financial forecast are not included in current projections. Some of these are known, but the amount and timing of them is somewhat uncertain.

**NEAR TERM**

- *Labor agreements* end by December 2018, new agreements will need to be negotiated for FY 2019 and beyond. Both contractual costs for negotiations as well as changes in labor costs may result.
- *Employee attraction & retention* at all levels in the organization including an anticipated need for executive level recruitment (approximately \$40k per recruitment) due to continued retirements of senior level staff.
- *New or the expansion of existing projects and programs* on the horizon which are not sufficiently resourced. Examples include: performance measurement and management; sustainability goals and initiatives; transportation initiatives such as the Transportation Demand Management (TDM) and any matching City contribution; acquisition of a new Enterprise Resource Planning system (ERP); and elections costs (\$150,000 to \$400,000 per election).
- *Litigation* activities drives increased outside counsel costs and could result in significant judgements and/or settlements.
- *Capital Infrastructure Plan* continues to see a significant escalation in project costs
  - Construction and design costs were based on data from 2012, therefore, costs such as those for the Public Safety Building have escalated significantly since the original estimates;
  - Ongoing operating impacts for new facilities such as the Junior Museum and Zoo have not been accounted for; and
  - Financing of the Infrastructure Plan is likely to cost more as a consequence of plans by the Federal Reserve to raise interest rates.
- *New capital projects* not currently included in the FY 2017-2021 Adopted Capital Improvement Program:
  - Trackwatch Camera System (IDS) approx. \$2m to \$3m
  - Animal Care Services facility
  - Junior Museum and Zoo
  - Lucie Stern Phase II
  - Roth Building
  - Remodel of existing City facilities due to the relocation of staff to new buildings such as new public safety building
- *Acquisition of new property* such as the Post Office that are currently under consideration, though no firm purchases have been made to date.
- *Master / Comprehensive Plan* activities are or shall be underway. These plans may have additional or new costs. In many cases, the implementation costs of these plans could be significant and are generally not funded.
  - Parks and Recreation

**Additional Potential Financial Impacts on the General Fund  
(as of November 2016)**

- Comprehensive General Plan (currently adding a 6<sup>th</sup> scenario costing an additional \$530,000)
- Cubberley Master Plan
- *Economic downturn locally or nationally*

**LONG TERM**

- *Rising annual pension and healthcare costs* are anticipated due to various CalPERS assumptions, the current rate of return of 7.5 percent and the recent poor performance of CalPERS investment returns, significant increases in annual contributions are expected in the near future.
- *Unfunded pension and retiree medical liabilities* are outlined in the most recent CalPERS valuation report and these liabilities are expected to compound by the lack of the expected 7.5 percent annual investment return. Both the miscellaneous and safety plans are below 70 percent funded.
- *New capital projects* not currently included in the FY 2017-2021 Adopted Capital Improvement Program:
  - 7.7 acres of land owned by the City in the foothills
  - ITT Site
  - Byxbee Park Improvements
- *Cadillac Healthcare Federal Excise Tax* with and expected impact in CY 2020