



## ADMINISTRATIVE SERVICES DEPARTMENT

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### CITY COUNCIL STAFF REPORT

Meeting: November 19, 2024

#### Subject

Allocation plan for funds uncommitted from the Sales Tax Repayment reserve

#### Recommended Action

##### *Option A:*

- A. Adopt Option A

##### *Option B:*

- A. Adopt Option B
- B. Adopt Resolution No. 24-XXX approving budget modification No. 2425-366, increasing appropriations by \$11,688,705
- C. Adopt Resolution No. 24-XXX amending the Unrepresented Employees' Compensation Program
- D. Approve new three-year limited term Grants Analyst position for grants management
- E. Approve new Assistant Director of Administrative Services, Grants Analyst, Senior Business Systems Analyst and Supervising Code Enforcement classifications

##### *Option C:*

- A. Adopt Option C
- B. Adopt Resolution No. 24-XXX approving budget modification No. 2425-366, increasing appropriations by \$11,688,705
- C. Adopt Resolution No. 24-XXX amending the Unrepresented Employees' Compensation Program
- D. Approve new three-year limited term Grants Analyst position for grants management
- E. Approve new Assistant Director of Administrative Services, Grants Analyst, Senior Business Systems Analyst and Supervising Code Enforcement classifications

#### Reasons for Recommendation

City staff evaluated feedback received from the October 15 Council meeting, reviewed budget surveys collected during the last two fiscal years of budget reductions and received

department feedback to develop a preliminary plan to mitigate the impact of budget cuts implemented in the Fiscal Year 2023-24 and 2024-25 budgets.

The preliminary plan outlines guiding principles that were considered before presenting for Council consideration and areas of focus to ensure the recommended allocation options include variable funding for the community, staff, and capital investments for the City.

#### *Background*

On October 4, 2024, the City finalized a settlement agreement with the California Department of Tax and Fee Administration (CDTFA) resolving the CDTFA's proposed reallocation of disputed sales tax received by the City. On October 15, 2024, the Council approved staff recommendation to uncommit \$74.5 million in funds set aside for the potential repayment of disputed sales tax previously received by the City. The purpose of this proposed allocation plan is to provide Council options for the potential one-time allocation of the \$74.5 million that is now unassigned ([Attachment A](#)). As explained in detail in the allocation plans, the options presented by staff attempt to balance the City's need for long-term investment and the desire to restore certain reductions with the need for long-term fiscal prudence, given the reduction in future sales and use tax revenues that the City will experience.

The options include potential funding for infrastructure projects, restoring reduced services, and setting some funding aside. The need for additional classifications results in no new positions except the limited-term Grants Analyst. The request for one three-year limited term Grants Analyst position to assist with grant applications, tracking and reporting along with purchasing support may be funded via donation, but if not is anticipated to be cost recovery via grants obtained. The need for staffing changes is due to reductions made either being too deep to continue the work already allocated, or because of how duties and responsibilities have been redistributed due to contract and staffing reductions.

All options presented are summarized in the table below. Additional details are included in the Allocation Plan ([Attachment A](#)).

Allocation Plan	Capital Fund Reserve	Allocations for current use	General Fund Reserves
Option A	✗	✗	✓
Option B	✓	✓	✓
Option C	✓	✓	✗

#### *Next Steps*

Based on the direction that Council provides, staff will make all changes in the financial system and updates on the funds will be provided as part of the mid-year financial report.

Sustainability Impact

No Sustainability Impact.

Fiscal Impact

Should City Council approve an option that includes current allocations as listed in Attachment E, appropriations would increase by \$11,688,705. Funding for these increased expenses will come from unassigned fund balance that, with the recommended funding additions, is estimated to end Fiscal Year 2024-25 with \$154.3 million. Should Council approve an option with no current year allocations, estimated year-end fund balance will remain unchanged from the first quarter report and is estimated at \$166 million in the general fund.

City Work Program (CWP) Item:

No

CWP Item Description:

Not Applicable.

Council Goal:

Sustainability and Fiscal Strategy

California Environmental Quality Act:

Not Applicable.

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Prepared by: Jonathan Orozco, Finance Manager

Reviewed by: Kristina Alfaro, Director of Administrative Services

Christopher Jensen, City Attorney

Approved for Submission by: Tina Kapoor, Acting City Manager

Attachments:

A – One-time Funds Allocation Plan Fiscal Year 2024-25

B - Committed, Unassigned Fund Balance, and Use of One Time Funds Policy Options A and B (Redline)

C - Option A Committed, Unassigned Fund Balance, and Use of One Time Funds Policy (Clean)

D – Option B Committed, Unassigned Fund Balance, and Use of One Time Funds Policy (Clean)

E – Detailed allocation plan for current use

F – Budget Resolution

G – Assistant Director of Administrative Services Position Description

H – Grants Management Analyst Position Description

I – Code Enforcement Supervisor Position Description

J – Senior Business Systems Analyst Position Description

K – Unrepresented Employees' Compensation Program (Redline)

L – Draft Resolution Amending the Unrepresented Employees' Compensation Program

M – Unfunded CIP List

# **Attachment A**

## **One-time Funds Allocation Plan**

### **Fiscal Year 2024-25**

#### *Background*

Due to a favorable negotiated settlement, the Council has uncommitted \$74.5 million dollars in one-time funds. The options outlined in this plan are intended to provide the Council with recommendations for how these dollars can be allocated. In creating the three different potential options for allocating these dollars, staff developed Areas of Focus and Guiding Principles that have influenced the allocation plan options discussed in this report. Staff also reviewed prior budget surveys to assess areas that the community wanted to scale back on or retain, and lastly reviewed service level reductions and unmet needs to develop potential use of these dollars in the current fiscal year.

#### *Areas of Focus*

Staff reviewed reductions made to date and the following focus areas were identified to ensure the recommended allocation options included variable funding for the community, staff, and City infrastructure:

- I. Restoring Community Benefits – Prioritizes adding back any community benefits that had been reduced where practical, and where ongoing funding is minimal to not increase the structural deficit.
- II. Restoring Reduced Services – Prioritizes restoring reduced services where practical, and where ongoing funding is minimal to not increase the structural deficit.
- III. Investing in Employees – Prioritizes funding for training and development, reclassifications where necessary to align with new duties and responsibilities because of budget reductions and, new positions where practical and where ongoing funding is minimal to not increase the structural deficit.
- IV. Enhancements – This includes any new funding requests that are not a restored budget reduction.

#### *Guiding Principles*

- I. One-time funds should be allocated for one-time expenses that result in ongoing savings and/or efficiencies.<sup>1</sup>

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<sup>1</sup> Examples of this include funding for pavement and retiree health unfunded actuarial liability made when the City received one-time funds related to the sale of Pruneridge Ave. These decisions paid off during our most recent budget reductions when the city could significantly reduce spending on pavement with minimal impacts and was able to use the funding in the retirement health fund to cover two years of costs. Both of these significantly assisted in balancing the budget.

- II. One-time funds should be allocated for one-time expenses, even if that allocation doesn't result in ongoing savings and/or efficiencies.
- III. Funds should be held for future use when immediate needs are not present.
- IV. Limited use of funds on ongoing expenses to limit increasing the structural deficit.

#### *Allocation Plan Options*

Staff has developed three options for Council consideration for the allocation of or reserving the funds. The highlights of each plan are summarized in the table below:

Allocation Plan	Capital Fund Reserve	Allocations for current use	General Fund Reserves
Option A	✗	✗	✓
Option B	✓	✓	✓
Option C	✓	✓	✗

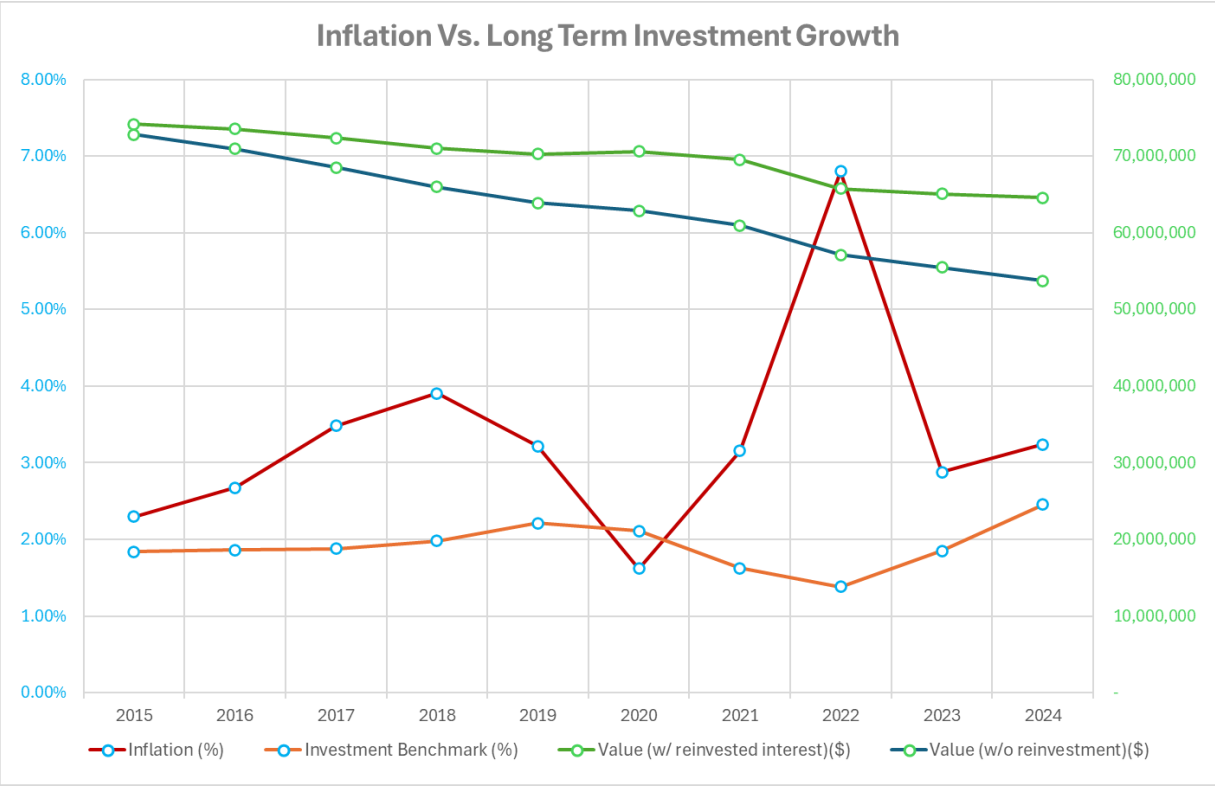
**OPTION A** – No allocation recommendations; funds are to be held in a new committed reserve. Under this option, the City Council would create a “Reserve for Future Use,” committing funds for future needs to be determined by the City Council. This reserve would be drawn down as the funds are expended and would not be replenished, as these are one-time funds resulting from the uncommitted sales tax repayment reserve.

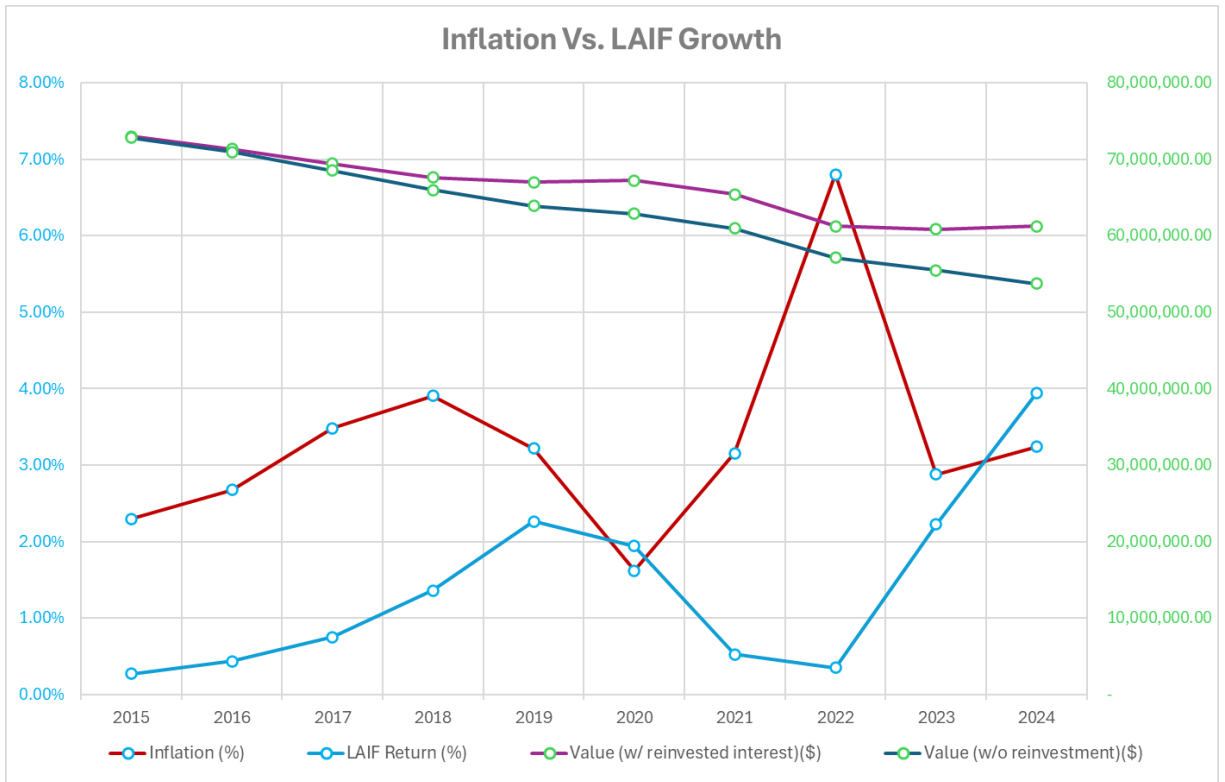
As outlined on page 167 of the Fiscal Year 2024-25 Final Budget, committed reserves “include amounts that can be spent only for specific purposes determined by formal action of the City’s highest decision-making authority, the City Council. Commitments may be changed or lifted only by the City taking the same formal action (resolution) that imposed the constraint originally.”

The City currently faces operational needs, such as aging infrastructure, that—if left unaddressed—could lead to additional operational costs not currently included in the forecast. However, holding these funds as a reserve for future needs carries certain financial limitations due to inflation. The following tables provide a 10-year historical comparison of inflation against annualized returns from the 1-5 Year Treasury and Agency Index benchmark (provided by Chandler Asset Management) and the Local Agency Investment Fund (LAIF). The inflation rate is based on data from the U.S. Bureau of Labor Statistics, Consumer Price Index for All Urban Consumers: All Items in San Francisco-Oakland-Hayward, CA.

Below are two charts comparing the effects of inflation on investing uncommitted funds against two benchmarks for investment vehicles currently utilized by the City. As shown in the first chart, which compares inflation to long-term investments, the purchasing power of the \$74.5 million reserve would decline by approximately \$10 million over 10 years if interest is reinvested. This decline is even steeper, over \$20 million, if the interest is instead used to support operations. The

second chart presents a similar comparison with LAIF returns, where the purchasing power of the \$74.5 million reserve decreases by around \$13 million if interest is reinvested over 10 years and by more than \$20 million if the interest supports operations.





This analysis demonstrates that inflation continues to outpace investment returns, making this holding strategy unsustainable over the long term. The California Government Code imposes restrictions on the types and durations of investments allowed, which limits potential returns and underscores the priority of safety and liquidity over yield. Given these constraints, this option may not provide the necessary growth to preserve the reserve's purchasing power for future needs.

**OPTION B** – Allocates funds for spending, allocates funds in a committed reserve in the General Fund, and any remaining funds are transferred to the Capital Reserve. This option provides a balanced approach to how these funds might be used. Allocating funds for aging infrastructure, departmental needs and leveraging one-time dollars to provide ongoing savings and or efficiencies. This option also sets aside funding to cover the structural deficits in the 10-year forecast.

#### *Allocations for Future Use:*

Area of Focus	Guiding Principal	Description	Allocation One-time	Allocation Ongoing
Enhancement	Hold funds for future use	Transfer to the Capital Reserve. Public works staff will return at a future date with a spending plan for	\$31,811,295	\$0



		these dollars. It is anticipated that based on the list of projects presented and subsequently adopted additional staffing may be necessary to support an increase in the CIP projects. See attachment M for unfunded CIP list.		
Enhancement	Hold funds for future use	Create a committed reserve in the General Fund for estimated deficits in the 10-year forecast. Funds are estimated for use beginning in FY 2028-29 through FY 2033-34. Should alternate revenue sources and or additional reduced spending be identified to produce a balanced budget in all years of the forecast, staff would return to Council to uncommit these funds.	\$31,000,000	\$0
<b>Total Allocations for Future Use</b>			<b>\$62,811,295</b>	<b>\$0</b>

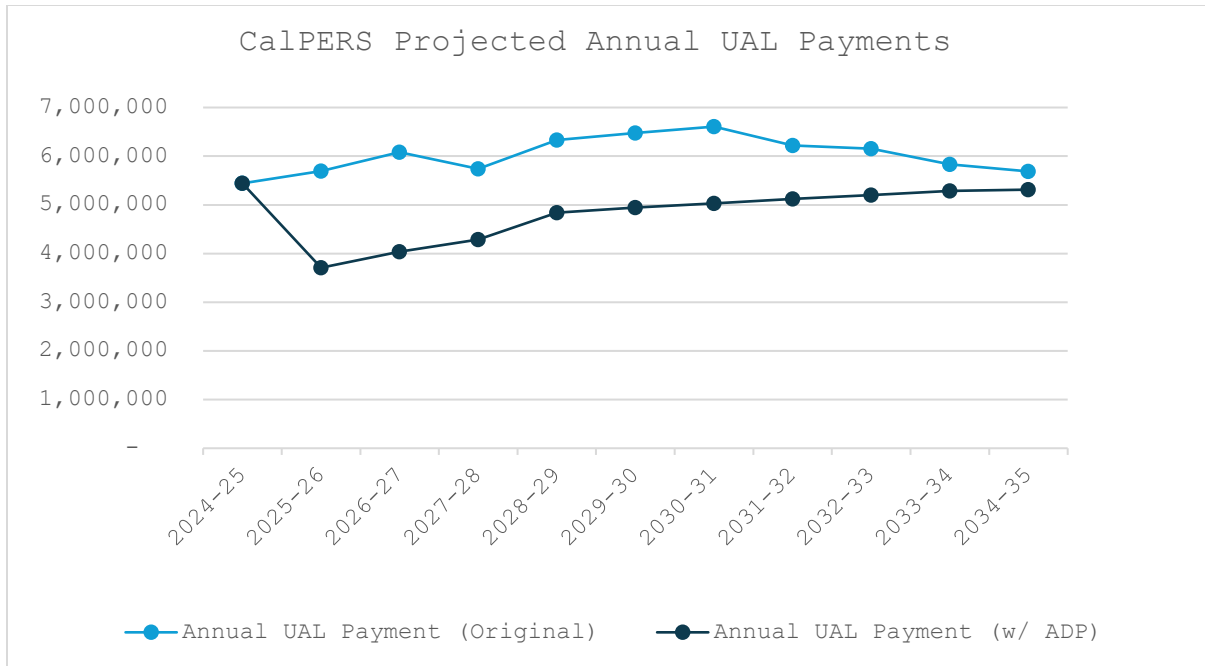
*Allocations for Current Use, see Attachment E for more detail:*

Area of Focus	Guiding Principal	Description	Allocation One-Time	Allocation Ongoing
Restoring of Community Benefits	N/A	All but one community benefit item was not reduced	\$0	\$0
Restoring Reduced Service	N/A	Staff is still determining the workability of increasing any reduced service and will return later with a proposal if needed.	\$0	\$0
Investing in Employees	One-time funds with ongoing	Invest \$10 million towards CalPERS	\$10,769,166	\$175,500

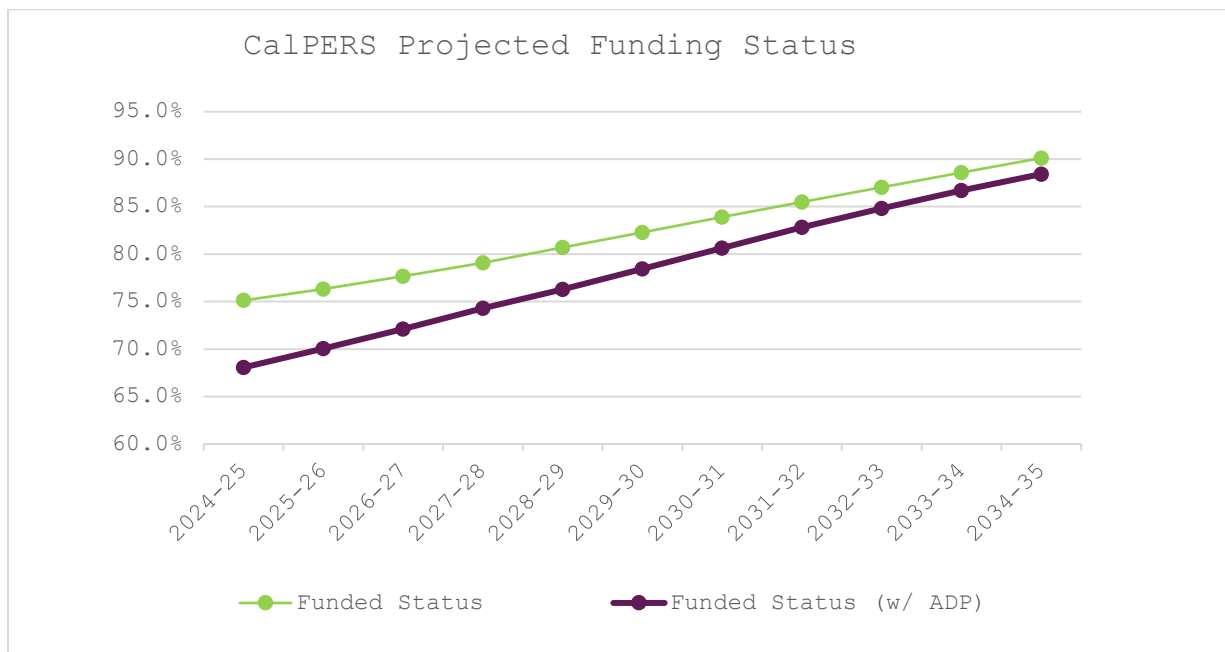
Area of Focus	Guiding Principal	Description	Allocation One-Time	Allocation Ongoing
	savings or efficiencies, and limit ongoing expenses	unfunded actuarial liability payment (following section for more detail.) Purchase of a new Enterprise Resource Planning Software (Finance/HR) and increases to training funding citywide to 50% of what was originally reduced (ongoing).		
Enhancements	One-time funds with ongoing savings or efficiencies	Staffing study	\$66,000	\$0
	One-time funds	Purchase of goods, studies, software and enhance physical safety controls at City Hall.	\$500,000	
	Limit ongoing expenses	New limited term Grants analyst and new classifications	\$0	\$178,039
<b>Total all allocations for immediate use</b>			<b>\$11,335,166</b>	<b>\$353,539</b>

*CalPERS One-Time Allocation to Unfunded Actuarial Liability (UAL)*

UAL is defined by CalPERS as “the amortized dollar amount needed to fund past service credit earned (or accrued) for members who are currently receiving benefits, active members, and for members entitled to deferred benefits, as of the valuation date.” To address this liability, the City is considering a one-time Additional Discretionary Payment (ADP) of \$10 million. If implemented, this ADP is projected to decrease the City’s cash outflows over the next 10 years by approximately \$13 million, resulting in net savings of \$3 million. The estimated impact on retirement payments is illustrated in the chart below.



In addition to cash flow savings, this one-time payment would immediately improve the funded status of the City’s retirement plan, raising it from 67% to 75% in the first year. Although the funded status improvement narrows over the 10-year forecast, the ADP maintains a higher funded status than without the payment, as shown in the table below.



*Note: Projections in the charts are provided by CalPERS’ Managing Employer Contributions Tool.*

**OPTION C** – Allocates funds for all current year budget requests and transfers all remaining funds to Capital Reserve for future use. This transfer would bring the Capital Reserve total to an estimated \$65.7 million. This option leaves no funds from the sales tax payment reserve in the unassigned category. All funds after funding requests are met would be moved to the Capital Reserve Fund.

This option transfers all funds to the Capital Reserve for future spending and allocates no funds to a reserve or unassigned account to fund potential structural deficits in the out years, leaving the city vulnerable to future budget reductions.

Description	Allocation One-Time	Allocation Ongoing
Fund all allocations in the Allocations for Current Use table above (green).	\$11,335,166	\$353,539
Transfer remaining balance to Capital Reserve to fund future Capital Improvement Plan (CIP) projects.	\$62,811,295	-
<b>Total Reserve Recommendations</b>	<b>\$74,146,461</b>	<b>\$353,539</b>
<b>GRAND TOTAL OPTION C</b>	<b>\$74,146,461</b>	<b>\$353,539</b>

In conclusion, three options are presented for Council consideration. With council direction, staff will bring updates on the funds based on council direction as part of the FY 2024-25 Mid-Year Financial Report.