DATE: February 25, 2019

SUBJECT
FY 2018-19 Mid-Year Budget Update and Proposed Process for Development of the FY 2019-20 Budget

RECOMMENDATION
Accept an update on the FY 2018-19 Budget and provide direction on the recommended approach for development of the FY 2019-20 Budget; establish, by motion, June 10, 2019, as the date on which the City Manager shall submit a proposed budget to the City Council; and approve, by motion, the dates for City Council action on the FY 2019-20 Budget as set forth in this staff report.

STRATEGIC INITIATIVE
Government Operations

BACKGROUND
The Mid-Year Budget Study Session provides an opportunity for the City Manager and staff to update the City Council on the major financial factors affecting the City’s current fiscal year budget, and make recommendations for developing next fiscal year’s budget.

The major components to this staff report include the following:

1. FY 2018-19 Mid-Year Budget Update
   This portion of the staff report includes highlights of FY 2018-19 budgetary performance based on actual results through January 31, 2019, including both the General Fund and Capital Improvement Program Fund. A separate staff report is included on tonight’s City Council consent
agenda for the FY 2018-19 Mid-Year Budget Amendments in both the General Fund and Capital Improvement Program Fund.

2. FY 2018-19 Financial Sustainability Plan Update

This portion of the staff report provides a brief update on the Financial Sustainability Plan and restoration of certain FY 2018-19 budget reductions, which was approved by the City Council on December 3, 2018. The items approved for restoration are included as Attachment 1.

3. Economic Update

An economic update on federal, state, and local trends provides context for the Preliminary Ten-Year General Fund Forecast.

4. Preliminary Ten-Year General Fund Forecast

This section discusses significant factors affecting the General Fund’s major revenue sources (property taxes, sales taxes, transient occupancy taxes, development-related revenue, and other significant revenue sources) and expenditures (in particular, increasing payments for pension and retiree health benefits). The Preliminary Ten-Year General Fund Forecast is included as Attachment 2.

5. Strategic Initiatives and Goals Update

This section identifies the City’s Strategic Initiatives. For the first time, staff is providing mid-year updates on the status of activities to advance these initiatives. Attachment 3 provides a comprehensive update on the status of all current-year activities to advance the Strategic Initiatives. Attachment 4 provides a one-page snapshot of the status of major activities to advance the Strategic Initiatives.

6. FY 2019-20 Budget Development

This portion of the staff report details principles and key milestones for developing the FY 2019-20 Recommended Budget, which includes holding a community engagement event in April 2019, and discussing revenue enhancement opportunities with the City Council Finance/Audit Subcommittee this spring.

At the February 9, 2019 City Council offsite meeting, the City Council established three top priorities for the upcoming year: housing, transportation, and children and youth, and these priorities will be addressed with the FY 2019-20 Recommended Budget.

As part of this report, staff seeks City Council approval on the process and policy direction for development of the FY 2019-20 budget.
ANALYSIS

The City Council has a history of taking intentional, proactive, and strategic steps to ensure fiscal sustainability, including adopting a structurally balanced annual budget, funding long-term needs, and maintaining a 15 percent General Fund reserve level.

The City has recently taken many steps towards strengthening the City’s financial position and increasing transparency and operating efficiencies citywide. Those steps include:

- Approving local pension reform two years ahead of Statewide changes
- Updating development fees to ensure full cost recovery
- Recommending a half-cent sales tax increase which was approved by 68 percent of voters in November 2018, and will generate an estimated $8 million annually
- Paying down pension liabilities by making additional direct payments to the California Public Employees Retirement System (CalPERS) beyond the annual amount owed, and setting up a Section 115 Pension Trust to pre-fund the City’s pension obligations over time
- Partnering with outside agencies to provide important community services in the most cost efficient way possible
- Increasing transparency regarding the City’s financial health through an expanded annual budget document and increased public communications
- Developing a Five-Year Capital Improvement Program

Building on these strengths, staff proposes the following additional steps to improve the City’s budgeting and financial management:

- Developing a Ten-Year Forecast to provide a longer-term roadmap to financial sustainability
- Organizing a community engagement event regarding the City’s finances
- Continuing to contain costs through efficiencies, shared services, and innovation
- Considering new revenue sources
- Recommending a Two-Year Budget cycle beginning in FY 2020-21 in order to create efficiencies in the budget development process
- Assessing the City’s financial health through the League of California Cities municipal finance diagnostic tool
- Implementing OpenGov, an online platform that will provide much more detailed and transparent budget information, performance metrics, and trends to community members
- Engaging the Government Finance Officers Association to perform a best practices review of the City’s financial processes and procedures prior to implementation of the City’s new financial management system
- Exploring the option of an accelerated payoff timeframe for pension obligations
- Streamlining the development of the Capital Improvement Program in an effort to provide a more realistic and financially viable roadmap of the City’s capital needs

All of the sections outlined below reflect efforts underway to maintain the fiscal health of the City, while at the same time supporting numerous initiatives to advance the City Council’s priorities.
**FY 2018-19 MID-YEAR BUDGET UPDATE – GENERAL FUND**

**Revenue Update**

FY 2018-19 General Fund revenues are budgeted at $142.7 million, but are now estimated at $153.2 million, resulting in a positive variance of $10.5 million. This variance is primarily attributed to one-time excess Educational Revenue Augmentation Fund (ERAF) payments received, as well as increased development fees, property tax increment in the downtown (former Redevelopment Agency area), and increased Transient Occupancy Tax (TOT) revenues. Property tax, which represents 43.8 percent of General Fund revenue, is exceeding budget by $7.9 million, or nearly 13.3 percent. This is largely due to the receipt of the excess ERAF funds and to increases in assessed valuation for commercial property, completion of several development projects, and strong demand compared to limited supply for residential property.

Sales tax, which represents 15.5 percent of General Fund revenue, is expected to decrease modestly by $143,000, or 0.6 percent, as compared to the adopted budget. As has been noted in the past, the growth in online retail sales has cut into sales tax revenue, and a greater proportion of economic activity is dedicated to purchasing services or “experiences,” which are not taxed, rather than goods, which are taxed. In addition, residents are spending more of their disposable income on non-taxable items than before, such as housing, medical care, and education.

Charges for Services and Licenses and Permits revenues are expected to exceed the adopted budget by $1.6 million, or 7.3 percent. A number of the development-associated fees are estimated to be higher than expected in the Licenses and Permits category and in the Charges for Services category. The increased revenues are estimated to be 9.0 percent and 6.6 percent, respectively.

Other taxes are expected to exceed the adopted budget by $1.6 million, or 13.3 percent, primarily due to TOT exceeding budget by $1.5 million. This increase is due to increased hotel occupancy rates and the collection of TOT on short-term rentals (which is dedicated towards affordable housing projects, programs, and administration).

**Expenditure Update**

General Fund expenditures are budgeted at $124.5 million, but are now estimated at $128.9 million before contributions and transfers out. Of the proposed $4.4 million increase in operating appropriations, $2.7 million is due to the restoration of certain budget reductions included in the FY 2018-19 Adopted Budget. The remaining increase is attributed to mid-year budget amendment requests to appropriate funds for grants, increase appropriations for professional services, increase overtime costs for fire inspections, and for the cost of implementing the City’s sales tax increase. The mid-year amendments are included on the consent calendar for City Council approval.
Staff will continue to refine fiscal year-end projections in the coming months. Based on the efforts to refine the budget both last fiscal year and this current fiscal year, staff does not anticipate significant year-end budget amendments.

**FY 2018-19 Year-End Estimated Operating Balance**

The FY 2018-19 year-end operating balance is estimated to be approximately $5.3 million. Staff recommends that 80 percent of this balance, or $4.2 million, be utilized to pay down pension liabilities (currently $242 million), including the transfer of funds to the City’s Section 115 pension and retiree health trust accounts, and the remaining 20 percent, or $1.1 million, be used as one-time funding towards the City Council’s priorities in the areas of housing, transportation, and children and youth. Staff will recommend specific use of these funds with the FY 2019-20 Recommended Budget.

**FY 2018-19 MID-YEAR BUDGET UPDATE – CAPITAL IMPROVEMENT PROGRAM (CIP)**

The FY 2018-19 Adopted Budget includes $35.7 million in new CIP funding for 63 projects. Combined with existing CIP project balances, the total starting CIP balance for FY 2018-19 is $140.5 million for 278 projects. Over the past six months, staff has made steady progress on a range of capital improvement projects. As of January 2019, FY 2018-19 CIP expenditures (including encumbrances) across all projects reached $34.9 million.

In an effort to implement best practices and to streamline the Five-Year CIP process and procedures, several initiatives will be implemented with the development of the FY 2019-20 budget, including: hiring a new CIP Manager who will be responsible for the CIP program and related processes; identifying additional capital project funding sources; developing a collaborative internal system for including potential capital projects in the Five-Year CIP; reviewing all projects currently in the Five-Year CIP with the intention of removing non-critical and dormant projects; and developing a City Council prioritization process.

A new Technology Fund will also be created with the goal of funding all purchases of department-specific technology requests and removing technology-related expenditures from the CIP Fund or operating budgets.

The graphs below provide a summary of FY 2018-19 program funding and expenditures by functional area.
FY 2018-19 CIP Funds by Functional Area

FY 2018-19 Expenditures by Functional Area (as of January 2019)
CIP Project Milestones

Updates on a few major projects in each category of the CIP are provided below. A comprehensive update on the entire CIP will be provided on April 22, 2019, when staff will seek City Council direction on updating the Five-Year CIP.

Facilities

A significant project for FY 2018-19 is the City Facility Security Project. Staff are currently making security enhancements at City facilities, with the initial focus on City Hall. The first phase, focused on employee areas, has been completed. Production on other security enhancements has begun and will continue into the second half of the fiscal year, with expected completion by the end of the fiscal year. The largest undertaking for this project includes making alterations to the City Hall lobby. Staff is working with consultants to develop new check-in procedures for visitors to City Hall, and a plan to incorporate turnstiles into the lobby’s entryway and elsewhere within the facility to regulate the flow of pedestrian traffic, while maintaining the existing aesthetics to the extent possible. For this portion of the project, staff expects to have a plan and design in place by the end of this fiscal year, with construction beginning early next fiscal year.

Parking

Last year, 385 downtown parking spaces were added to the public parking supply for nights and weekends. This includes the shared parking at 815 Hamilton and 601 Main Street, reopening of the Winslow parking lot, and the opening of the pass-through between the Jefferson Garage and 815 Hamilton. Redwood City Improvement Association’s consultant for the parking guidance system completed an assessment and is working on the design and specifications for a wayfinding system. Staff expects to release a request for proposals for the parking guidance system in June 2019.

Parks

A major ongoing project is construction of the Magical Bridge Playground. Despite the wet weather that Redwood City has experienced this winter, construction on the project continues, and removal of the old storm and sewer drainpipes has occurred. Artist agreements are being completed so that special playground features will be included as part of the construction phase, and new trees are being secured for future planting. The estimated completion timeframe for the project is late fall to early winter of 2019.

Hoover Field is the next synthetic field to be replaced as a part of the Synthetic Turf Replacement program. Nearly ten years old, the field is in need of renovation. The bid for construction has been completed and construction is anticipated to be completed in spring of 2019.

The Design Development (DD-Phase I) of the Veterans Memorial Senior Center-YMCA Project has been completed by ELS Architecture. Phase I includes the Veterans Memorial Senior Center building design, the promenade, and the east parking lot. The administrative draft environmental impact report (DEIR) is expected to be completed in February. The Planning Commission will consider the DEIR first, with City Council consideration in Summer 2019.

The City Council accepted the Downtown Parks Site Assessment and Feasibility Study and approved moving forward with creating a corridor of parks and open space at three sites: Roselli Garden/Library
Parking Lot A, a portion of the Main Street/City Hall Parking Lot, and the Bradford/Redwood Creek trail to link with the Bay Trail. Staff will create a request for qualifications for architectural services to also include major public outreach and design/visioning components, with expected completion in the first quarter of 2019. The Parks, Recreation, and Community Services (PRCS) Department is also partnering with the Redwood City Parks and Arts Foundation to create a speaker series specially for this project. The Foundation has graciously offered to host the speaker series as a learning opportunity for the public, stakeholders, and staff. Modeled after the Community Development Department’s speaker series prior to creating the Downtown Precise Plan, staff envisions a total of four sessions that will be held at the Fox Forum beginning this spring of 2019. Staff will be sharing information as it is made available.

The Design Development phase for the Pirate Ship Imagination Art Space, adjacent to the Redwood Shores Library, has been completed and is being added to the Bay Conservation Development Commission (BCDC) application. The application process is necessary as the location for the sculpture and interactive imagination area is adjacent to the Bay Trail. Staff expects that BCDC will approve the application and anticipates that construction and installation will be complete by the end of 2019.

**Sewer**

Over two miles of sanitary sewer pipeline is being replaced as part of the Collection System Replacement Program. Construction began in late August 2018 and is scheduled for completion in March 2019. Meanwhile, construction improvements to two sanitary sewer lift stations are scheduled to begin in March 2019.

Video inspection of sanitary sewers is ongoing, with Redwood Shores completed in mid-2018. The Seaport Centre and Pacific Shores areas are scheduled to begin this month. Annual flow monitoring of the sanitary sewer collection system began in late December 2018. This year, 40 locations are being monitored in an effort to obtain data for the comprehensive Sewer Master Plan update that is scheduled for completion by the end of 2019.

**Storm Water**

The Bayfront Canal and Atherton Channel project design is almost complete and staff are pursuing regulatory permits. After all necessary permits and funding are obtained, construction can begin with the Bayfront Canal, currently anticipated for the second half of 2019.

Staff submitted three grant applications to the California Governor’s Office of Emergency Services (Cal OES) and the Federal Emergency Management Agency (FEMA) to improve reliability and capacity of the City’s storm water pump stations. Staff also applied for a planning grant to study improvements to protect the city from coastal flooding. The grants are currently under review for possible award.

**Technology**

The replacement of the citywide finance and human resource management system is steadily progressing, which also includes replacement of the utility billing system and procurement of new systems for business licenses and budget/performance measurement. Staff has engaged in a robust engagement effort with staff citywide. Staff is currently working with selected vendors to develop final statements of work and projected timelines. Final implementation for all systems is anticipated to be approximately two years,
with a phased approach to implementing each system beginning in July 2019. The first system to go live in July 2019 will be HdL business license tax and transient occupancy tax processing and renewal software. In October 2019, OpenGov’s budgeting and performance measurement software will go live, which includes an online portal of transparent budget information, performance metrics, and trends. TruePoint’s utility billing software is anticipated to go live in early 2020. It is anticipated that the new finance system, Oracle Fusion, will go live in July 2020, with Oracle’s human resource software going live in January 2021.

IT staff continue to make headway on technology infrastructure and support projects, having finished three of four phases of the desktop computer replacement initiative. Staff is also working to replace subscription-based systems with internal no-maintenance cost solutions, and add faster solid state drives to the existing data storage infrastructure to accommodate increasing data storage needs. Staff also successfully replaced SIRE, the prior agenda management system, with OnBase. All of these initiatives increase staff efficiency and satisfaction with important systems used for daily work.

Transportation

Progress has been made on multiple projects on Middlefield Road. The Middlefield Road/Woodside Road pedestrian improvements are substantially complete and are being well used by the community. Work started on the utility undergrounding project at the start of 2019 and the construction of underground facilities to house utilities will last for roughly one year. Utility providers will then place utility lines underground and the streetscape project will commence; these phases will take another year.

Design is progressing on the Highway 101/84 Interchange Project. Staff is focused on finalizing the funding plan and getting funding commitments for construction in order to start work on required right-of-way acquisition.

Construction is substantially complete on Safe Routes to School improvements at five elementary schools. Construction is more than a quarter of the way complete on improvements around Kennedy Middle School, which includes bulb outs, medians, and a beacon system to increase safety for residents crossing Alameda de las Pulgas at Goodwin Avenue.

Staff submitted applications for the US-101 Pedestrian Undercrossing Project to four regulatory agencies prior to July 1, 2016, and received all necessary approvals as of September 2018. The plans and specifications for the project were completed shortly after, and the project bid closed on January 30, 2019. Staff is recommending award of the project in February 2019. Construction is expected to begin in the spring of 2019 and be completed in late fall 2019.

Water

Staff reached important milestones on a number of water infrastructure projects thus far. The design of the California Water Tank, Pump Station, and Transmission Main Project has been completed, and the complex construction of this critical project is expected to take place over two years. Additionally, the design for next fiscal year’s water main improvement project has also been completed.

Seismic retrofit work on the Peninsula Water Tank No. 2 in Redwood Shores will begin in the summer of 2019 with the recent award of $719,000 in Hazard Mitigation Grant funding from Cal OES and FEMA. Staff
also submitted three additional Hazard Mitigation Grant applications totaling approximately $8.5 million, which are currently under review.

**FY 2018-19 Financial Sustainability Plan Update**

The City Council took a forward-thinking and prudent approach to addressing the City’s fiscal challenges through adoption of the Financial Sustainability Plan (FSP), which included reducing operating costs and increasing revenue in order to balance the City’s budget over the next five years. Operating cost reductions of approximately $3.8 million were included in the FY 2018-19 Adopted Budget, and additional reductions of $2.2 million were planned for FY 2019-20. Additionally, as part of the FSP, the City Council placed two revenue measures on the November 2018 ballot: a half-cent general sales tax increase (Measure RR) and a cannabis excise tax (Measure DD). On November 6, Redwood City voters passed both measures, with 68 percent of voters supporting Measure RR, and 79 percent of voters supporting Measure DD.

The increased sales tax is anticipated to produce approximately $8 million in additional revenue annually. The successful passage of these measures provides much-needed revenue to offset projected cost increases, including growing pension contributions, and allows for the restoration of some of the budget and service reductions that were included in the FY 2018-19 Adopted Budget. Funding for Police staffing and Library hours was fully restored. In addition, the recommended reductions of $2.2 million in FY 2019-20 will not be implemented.

On December 3, 2018, the City Council approved the restoration of certain FY 2018-19 budget reductions, totaling $2.7 million. Attachment 1 provides a detailed description of the FY 2018-19 General Fund Budget reductions that were restored, organized by department. Restoration of specific positions will be included in the FY 2019-20 budget.

Although the City will need to continue to contain costs through efficiencies, shared services, and innovation, the additional anticipated revenue substantially improves the City’s ability to fund services as well as pay down liabilities through FY 2021-22. However, starting in FY 2022-23, a budget deficit is projected to occur and continue beyond FY 2028-29. More detailed information on the projected deficit is provided in the Preliminary Ten-Year General Fund Forecast section below.

**Economic Update**

The economic conditions discussed below help inform the Preliminary Ten-Year General Fund Forecast. Of note is the near-certainty of a recession during the Forecast period. It is unknown when this may occur, but many economists suggest it will occur at some point during FY 2020-21. Staff has received information from a variety of sources, including Dr. Jon Haveman with the National Economic Education Delegation, the California Legislative Analyst’s Office, and consultants working for the UCLA Economic Forecast.

*Federal*

The economy has been in an upward, or expansion, phase of the business cycle for more than nine years. Should it continue, by mid-2019, it will become the nation’s longest ever expansion cycle, based on figures that go back to the 1850’s. The consensus among economists is that a recession is coming; many are
suggesting the recession will begin in late 2020 or early 2021. It is unknown which event will be the tipping point, but economists are watching several factors.

The federal economy (real gross domestic product) grew at a pace of 3.1 percent (year over year basis) in the 4th quarter of 2018. The economy is operating at nearly full employment, with a national unemployment rate of 3.7 percent. Economists forecast that the unemployment rate will fall to 3.5 percent in 2019, and then gradually increase to 4 percent by the end of 2020. It is expected that the benefits from the fiscal stimulus of tax cuts and spending increases from 2018 will diminish by the end of 2019, causing real gross domestic product (GDP) to decrease to 2.1 percent in 2019 and to 1 percent in 2020.

Economists are cautiously optimistic that trade disputes with China are easing as agreements on trade issues are being negotiated. However, the Chinese economy is currently contracting which is leading to cuts in production of U.S. goods such as Apple’s iPhone. Slowing Chinese growth is a drag on world GDP growth. Lower growth rates for other countries exporting to China further slows U.S. exports to those countries as well.

The outcome of the trade war with China could also have a significant impact on the economy. Should the tariffs be increased, costs for businesses and consumers will increase, probably initiating a slowing of both consumer spending and capital investment. This in turn could cause a substantial weakening of the economy. As of early December 2018, the U.S. and China agreed to a 90-day trade truce to allow for continuing negotiations regarding technology transfer, intellectual property and agriculture. In the meantime, China has agreed to purchase a substantial amount of various products from the U.S. to reduce the trade imbalance between the two countries.

Tight labor markets are pushing wages and salaries higher, and this is affecting corporate profitability. Profitability will impact earnings; lower earnings result in lower stock prices, which reduces household wealth. With the evaporation of significant household wealth (called the wealth effect), consumer spending is interrupted by declines in asset values, i.e. reduced investment income. This process, which ultimately affects consumer spending, is a key indicator that economists watch closely, as consumer spending is a major driver for the U.S. economy.

The federal funds interest rate is holding steady for the time being as evidenced by the January 30 statement from the Federal Reserve that indicated it would be altering its plans to raise rates two or three times in 2019, to one of “patience” as it evaluates the economy. Consequently, as of now, it does not seem that interest rates will lead to the possibility of a weaker economy in 2019.

There is, however, one reliable indicator of a recession: an inverted curve when comparing short-term interest rates and long-term interest rates. This indicates that the cost of borrowing money in the short-term is more expensive than borrowing in the longer-term. As of December 2017, the spread, or the difference in the yield between a long-term investment (10-year Treasury note) and a short-term investment (3-month Treasury bill) was 1.08 percent; as of December 2018, this spread had decreased to 0.45 percent. When the yield curve becomes inverted, this is reflecting the fact that short-term borrowing is more expensive than long-term borrowing. This has a direct effect on business investment, and ultimately leads to a contraction in the economy due to a slowing in production and rising unemployment.
When this happens for more than two quarters, economists agree that the country is in a recession. Based on the current yield curve and when it is expected to become inverted, many economists agree that a recession is likely somewhere in late 2020 or early 2021.

In addition, the negative effects of the recent federal government shutdown are being realized. Standard and Poor’s (S&P) reported that the economy lost at least $6 billion as a result of the shutdown. S&P also reported that both direct costs (lost productivity from furloughed government workers) and indirect costs (lost economic activity to outside businesses because of the shutdown) amplified with each week the government remained closed.

Fitch Ratings warned that an extended shutdown might lead to a downgrade in the nation’s Triple-A credit rating if lawmakers were unable to pass a budget or manage the debt ceiling. That in turn would make borrowing more costly for companies and American households, because it is the benchmark for many other lines of credit.

Some economists believed that an extended shutdown would weaken consumer confidence and heighten the risk of pushing the U.S. economy into a recession. Approximately 800,000 federal government employees and 4 million federal contractors were furloughed. In fact, the shutdown directly affected nearly 3 percent of the labor force of the United States; in a typical recession, unemployment increases 2 to 4 percent. The reduction in spending by those households combined with the reduction of government services could have results similar to a typical recession.

All of these factors tend to worsen the volatility of the stock market, as investors try to predict not only the timing of the next recession, but the factors that will signal the coming of the recession. Ultimately, these factors and the looming recession will affect consumer behavior and the performance of some of the key revenue sources for local government agencies.

State

The State’s economic conditions remain positive, yet some sectors of the economy have weakened, causing the outlook for continued healthy revenue growth to soften. The State of California’s Legislative Analyst’s Office has created a State Fiscal Health Index (Index) to track the strength of the economic conditions relevant to the State’s fiscal health. As of December 2018, the State Fiscal Health Index remained near historic highs; however, it slightly declined from November 2018. This is the first month-over-month decline in the Index in two years. This decline is the continuation of a trend of slowing growth that started in June 2018. While it is too soon to draw any firm conclusions about the decline, the likelihood of continued revenue growth over the next year appears to be diminishing.

Local

The regional economy (San Francisco Bay Area) is very robust. According to the California Employment Development Department, as of December 2018, the unemployment rate in this area was 3.1 percent, while the unemployment rate in Redwood City was 1.9 percent. The 12-month change in wages and salaries for the San Francisco area was an increase of 4.5 percent, as compared to 3 percent for the nation. Between December 2017 and December 2018, the total number of jobs in the area increased by 2.1 percent, or 24,500 jobs. The Bay Area economy is ranked 19th in the world with a GDP of $748 billion as of July 2018.
According to the 2019 Silicon Valley Index, published by Joint Venture Silicon Valley, in the Silicon Valley region, the median household income was $118,357 in 2017 (latest available numbers.) California overall had a median income of $71,805, while the nationwide median household income was $60,336. The per capita income in Silicon Valley was $102,410, compared to $59,796 for California, and $51,640 nationwide.

Average annual spending on housing (rent and mortgage) in the San Francisco area is over 41 percent. According to the U.S. Census Bureau, as of 2017, the owner-occupied housing rate was 59.7 percent, compared to the national average of 64.4 percent. The Bay Area lost a net of 45,670 people during 2017; people leaving the area were concentrated in lower-paying sectors. While the San Francisco Bay Area economy remains strong, there is concern that the soaring costs of housing are threatening the area’s economic diversity as more and more people leave the State.

For these reasons, it is important for the City to take a forward-thinking, long-term approach to mitigating the City’s financial liabilities and proactively prepare for future recessionary impacts that loom on the horizon.

**Preliminary Ten-Year General Fund Forecast**

The Preliminary Ten-Year General Fund Forecast is included as Attachment 2. Notably, this is the first time that the City has undertaken a ten-year forecast; in prior years, the forecast was a five-year timeframe.

In July 2018, the City received the San Mateo County Civil Grand Jury Report entitled *Soaring City Pension Costs – Time for Hard Choices*, included as Attachment 5. Included in this report was the recommendation to implement a long-term, ten-year forecast. Staff agrees that a ten-year forecast is prudent and assists in providing a road map to guide the financial planning of the City as it addresses rising pension costs and unfunded liabilities.

In addition, staff is also recommending implementing a two-year budget cycle starting with the FY 2020-21 budget. It is expected that greater efficiencies can be achieved by reducing staff time related to the preparation of the annual budget, and having a two-year budget cycle will serve as a longer-term budgeting and planning tool, much like the new ten-year forecast.

Major factors contributing towards the forecast are detailed below. Staff is working closely with the City’s revenue consultants on the recessionary factors and is keeping abreast of any changes that may occur. This forecast will be refined by staff over the next few months as more information is known, and an update will be included with the FY 2019-20 Recommended Budget.

**Net Budget Position**

The Preliminary Ten-Year General Fund Forecast contemplates an economic downturn occurring within FY 2020-21, and when combined with rising mandated pension contributions, a budget deficit is projected to begin in FY 2022-23 and increase annually over the Forecast timeframe.
As shown in the graph below, without any adjustments to current operating costs or revenue sources, the annual budget deficit is projected to be almost $4.0 million in FY 2022-23, and grow to approximately $18.0 million in FY 2028-29.

Because of the projected deficit, the City will need to continue to explore all the strategies identified in the Financial Sustainability Plan, including operating cost reductions and revenue enhancements. The City Council Finance/Audit Subcommittee will be discussing opportunities to increase revenue in the spring of 2019, among other financial topics that are detailed in the FY 2019-20 Budget Development section below.

### Revenue Projections

Actual revenues in FY 2018-19 are outpacing the adopted budget revenues. Continued growth is expected, but at a much slower pace over the ten-year period. The City’s primary revenue sources are property tax (43.8 percent of revenue) and sales tax (15.5 percent of revenue). Projections for these and other revenue sources are described below.

**Taxes**

Property tax is expected to grow by nearly $1.7 million in FY 2019-20 when compared to the FY 2018-19 Adopted Budget. In subsequent years, the growth rate is expected to be approximately 3 to 4 percent as completed developments result in increased assessed valuations on improved properties. Although approval of additional development in the downtown area has slowed recently as caps established in the Downtown Precise Plan have been reached, development of this area has been robust in recent years.

Typically, it will take approximately 18 to 24 months for new construction or redevelopment to appear on the tax rolls. As a result, the City will continue to see increases in downtown property tax revenues for several years as these new developments are completed, assessed, and included on
the tax rolls. Other areas of the City remain attractive to developers, and there are a number of existing projects underway, as described further in the Development Fees section below.

The residential housing market in Redwood City also remains very desirable. Due to this favorable environment, the current median home sales price in the City is approximately $1.6 million. When a home is sold, property tax is calculated on the new assessed value that is based on the sale price. As home values increase and properties are sold, property tax revenues also increase.

The City also receives property tax revenue from the State’s Educational Revenue Augmentation Fund (ERAF). ERAF is a mechanism enacted in 1992 by the State Legislature to shift local tax revenues from cities, counties, and special districts to a State-controlled fund. The State uses this fund to reduce its obligation to the schools. The State is now reimbursing local agencies for those prior payments. Budgeted revenue estimates assume a conservative $4.0 million will be received in excess ERAF revenue annually, as the City has long been advised that these funds will not continue, as this revenue is very vulnerable to changing laws and to changing school funding formulas. Due to an unexpected accelerated distribution of these proceeds, and the reduction of the reserves held by the County, actual ERAF revenue will be nearly $10.8 million in FY 2018-19. ERAF projections for FY 2019-20 and beyond are less than the FY 2018-19 mid-year estimate.

Sales taxes account for approximately 15.5 percent of the City’s General Fund budget. The City is currently experiencing a slowing of sales tax revenue as a result of several factors. Residents are spending more of their disposable income on non-taxable items than before. According to the Bureau of Labor and Statistics, San Francisco Area Economic Summary from January 2019, items such as housing, medical care, insurance, and retirement account for just over 60 percent of average annual spending.

Additionally, burgeoning trends toward online purchasing impact the City’s sales tax revenue. Goods sold to Redwood City customers from out of state retailers generate use tax revenues, which are remitted to the county pool. In turn, county pool revenues are then distributed to all jurisdictions within the county. Goods sold at physical establishments located in Redwood City generate sales tax revenues, which are remitted directly to the City of Redwood City. Ultimately, increasing online sales will reduce local sales tax revenues.

Changing consumer preferences affect City sales tax revenues as well. New automobile leases (rather than purchases) cause the stream of sales tax revenues to be realized over the life of the lease (typically several years) rather than at the time of purchase. Finally, the preferences of younger consumers who are more frequently purchasing “experiences” (generally not taxable), rather than goods, has a negative effect on sales tax revenue.

In the last two fiscal years, sales tax revenues were very flat and were expected to decline slightly. However, in November 2018, Redwood City voters approved Measure RR, a one-half percent sales tax increase, effective on April 1, 2019. At the same time, the voters also approved a countywide transportation related one-half percent sales tax, which increases the total sales tax rate in the City from 8.75 percent to 9.75 percent.

As a result of the passage of Measure RR, the City is expecting an increase in FY 2018-19 sales tax revenues of approximately $1.5 million for the last quarter of the fiscal year. Beginning in FY 2019-20, annual sales tax revenue is expected to increase by approximately $8.0 million. Currently, the City’s sales tax consultant,
Muniservices, is projecting an economic slowdown during FY 2020-21 through FY 2021-22. In the later years, sales tax revenues are estimated to increase by 4 percent annually, and then flatten out to approximately 2 percent annually.

The U.S. Supreme Court’s ruling in *Wayfair v. South Dakota* allows states more authority to require out-of-state sellers to collect use tax. The California Department of Tax and Fee Administration has announced that it will require out-of-state retailers to collect and remit use tax beginning on April 1, 2019 if a retailer has California sales of more than $100,000, or 200 separate transactions. The effect of the U.S. Supreme Court’s decision on the City’s sales tax revenue is still being determined, but it is possible that this change will provide a slight increase to sales tax revenues received by the City.

Transient Occupancy Tax (TOT) revenues are expected to increase in FY 2018-19 due to the high level of business travel in Silicon Valley and rising hotel occupancy rates. Limited data is available for projections at this time, and for that reason, projections for FY 2019-20 and beyond will include a conservative 1 percent increase. A planned major hotel, estimated for completion in 2021, should generate additional TOT revenue. Even so, in anticipation of a recession, the TOT projections remain conservative.

Utility Users’ Tax (UUT) revenue is expected to increase by 1 percent in FY 2018-19. Through FY 2020-21, UUT growth will remain very modest. Beginning in FY 2021-22, it is anticipated that this revenue stream will flatten out and then slowly decrease. As interest in traditional cable services declines, and as an increasing number of households “cut the cord” of their cable provider, it is prudent to forecast conservatively for future UUT revenue. By City Council policy, UUT revenue has been dedicated to capital projects and is not reflected in the chart below depicting major General Fund revenue sources.
Development Fees

Development-related fees are used to recover the cost of staff and consultant time to process development applications. The City Council updated these fees in 2017. Budgeted revenue for development fees will increase moderately by approximately $1.0 million, which is a 10 percent increase over original estimates. This is primarily due to the permitting activity associated with the Stanford in Redwood City Campus, in addition to slightly higher construction valuations which affects fee revenue. Additionally, engineering staff revised their process for administering encroachment permits for utilities from one that was deposit-based to one that is fee-based, which has led to an increase in fee revenue.

While downtown development applications have slowed due to development cap limitations, overall development demand remains stable. Areas outside of downtown continue to see development interest, including projects such as Harbor View (at Seaport/Blomquist), Sobrato (at Broadway/Woodside), GreyStar V (south of Downtown), and Syufy (former Century Theater site on East Bayshore). City review of these projects could extend for the next 24 months. Due to the relative stability of development demand in the past four years, large development projects under review, and no clear signs of a significantly declining economy, staff estimates development fee revenues to be steady for FY 2019-20.

However, within the ten-year forecast period, the total number of development projects (small, medium, and large) may decline, which could negatively affect revenues, especially if the local and regional economy transitions to a recessionary phase, or if development project financing becomes more restrictive.

Cannabis

On January 1, 2018, the state began issuing licenses allowing businesses from which adults, 21 years of age or older, could purchase cannabis. The City Council approved a phased approach to implement local medical and adult use cannabis regulations. The City is currently in Phase 3, which allows cannabis delivery from non-storefront retail delivery facilities located within the City. The application period to submit all required information for a Cannabis Business Permit closed December 3, 2018. The City received 6 applications and collected approximately $182,000 in Cannabis Business Permit and related fee revenue.

The City Council placed a cannabis business tax, Measure DD, on the November 6, 2018 ballot. Measure DD was passed by voters with a 79 percent voter approval rate. Measure DD laid out the framework for taxing cannabis business activities in Redwood City. The Cannabis Business Tax ordinance became effective on January 1, 2019. The ordinance imposes a gross receipt tax on cannabis businesses that operate or provide services within the City of Redwood City. Each business is required to remit monthly the full amount of taxes owed based on the previous month’s activity.

Staff will have a better idea of the amount of potential revenue that will be generated as taxes are remitted to the City over the next year. The City implemented a stricter ordinance than recently enacted State regulations to protect the public health, safety, and general welfare of the community; as a result, the amount of revenue generated could be lower than expected, as retail delivery businesses could decide to locate in other municipalities with less strict regulations.
Expenditure Projections

Rising employee-related costs, due primarily to escalating payments to fully fund benefits for already-retired employees, are the most significant contributor to rising expenditures. The Preliminary Ten-Year Forecast does not include increases to ongoing staff. This section provides information about the City’s status and strategy for addressing pension costs and other employee-related costs.

Pension Liabilities

As shown below, pension benefits are funded by a combination of employer contributions, employee contributions, and investment earnings on those contributions.

When there is a gap between the assets available to fund benefits, and the assets needed to fund benefits, the City must make up the difference. Currently, about 16 percent of the City’s General Fund goes towards paying for pension benefits; this amount will grow to 20 percent over the next ten years, as required City pension contributions ramp up to fully fund benefits for already-retired, as well as current employees.

The City’s most recent actuarial report from the California Public Employees’ Retirement System (CalPERS) indicates that the City has an unfunded pension liability of $242.0 million as of June 30, 2017, up from $238.8 million a year prior, an increase of 1.3 percent, and a retiree health liability of $57.6 million. The City’s total unfunded pension and retiree health liability is $299.6 million.

The increase in the City’s unfunded pension liability is due to the lowering of the CalPERS assumed rate of investment return (otherwise known as the discount rate) to 7.0 percent in FY 2018-19. CalPERS is modifying its investment strategy to a more conservative approach to reduce the likelihood of investment volatility. This is needed to ensure there is cash on hand to pay benefits statewide and to reduce the chance the public agencies will have to fill large gaps when investment returns do not meet projections.

The City did not experience an even more significant increase in unfunded liability for two primary reasons: first, actual CalPERS investment returns performed better than expected at 11.2 percent, which is higher than the assumed rate of 7.0 percent; second, the City made additional annual contributions to CalPERS, beyond the required annual payment, in the amount of $1.5 million in 2017.
The City’s unfunded pension liability is primarily related to retired or inactive (employees not currently employed by or retired from the City) employees: 60% of the unfunded liability for the miscellaneous plan (non-safety employees) is associated with retired or inactive employees, and 73% of the unfunded liability for the safety plan (safety employees) is associated with retired or inactive employees.

The City is not unique in facing these pension challenges, and public agencies across the state, including school districts and state agencies, are facing increasing pension costs. The City began reforming pension benefits in 2011, and statewide pension reform occurred in 2013. Though these efforts provide long-term relief, they are not sufficient to fully fund promised benefits.

Unfortunately, no statewide pension reform measures appear to be imminent. As a result, it is up to local government agencies to absorb steeply increasing contributions and to implement other strategies that will help place their pension plans on sound financial footing.

On July 17, 2018, the San Mateo County Civil Grand Jury (Grand Jury) released a report entitled, *Soaring City Pension Costs – Time for Hard Choices*, included as Attachment 5, regarding the increasing pension costs of the cities in San Mateo County. The report attempted to address what actions cities in the County can take to meet current and future pension obligations. Redwood City is already undertaking most of these actions and was commended for these efforts.

The Grand Jury report notes that public pension costs are a large component of each city’s budget and steep pension cost increases represent a serious threat to public services for all cities. In FY 2016-17, which was the most recent year under review in the report, 20 cities within the County of San Mateo spent a total of $105 million on their pension plans, representing an average of approximately 13.6 percent of their General Fund expenditures.

In comparison, Redwood City spent 15.8 percent of General Fund expenditures on CalPERS costs in FY 2016-17, which is more than 2 percent above the average annual contribution. Additionally, Redwood City had funded 65.7 percent of pension obligations, which was the second lowest out of the twenty cities in the County of San Mateo. The weighted average funded status of the twenty cities was 70.5 percent.

The City Council has taken a proactive and strategic approach to addressing the City’s pension liabilities. The City implemented a second tier pension formula in 2011 even before the statewide Public Employee Pension Reform Act (PEPRA) was enacted in 2013. As these newer formulas only apply to recent hires, there has been little immediate impact on the City’s total pension costs. However, such changes will reduce future liabilities and costs over the long-term. The City has also negotiated cost-sharing agreements with each bargaining group to ensure current employees pay a greater proportion of pension costs. Employees contribute between 8.0 and 18.0 percent of their salary toward their pension benefits, depending on bargaining unit and pension tier. Although these cost-sharing agreements represent important commitments by City employees to help pay for their pension benefits and assist the City in paying the required annual payments to CalPERS, such arrangements do not provide any additional payment toward the City’s unfunded liabilities.

In September 2017, the City Council approved establishing a Section 115 pension trust account with Public Agency Retirement Services (PARS) to pre-fund the City’s pension obligations over time. An initial trust deposit of $10.5 million was made in January 2018, including $8.8 million from the General Fund and $1.7 million from other City funds, as some employees are budgeted in other funds, primarily the water and wastewater utilities.
The City has provided a great deal of public disclosure about its pension challenges and use of key strategies. The City has held numerous public hearings in the last two years related to rising pension costs and the City's strategies to address them. This topic was addressed at City Council meetings on May 22, 2017, June 12, 2017, February 26, 2018, and June 11, 2018. In addition, the City has also provided a significant amount of information to the public during tonight’s mid-year budget update, and will revisit the issue in June 2019 with the adoption of the FY 2019-20 budget. The City provided further disclosure during the process of placing the sales tax revenue measure on the November 2018 ballot. The City also maintains a “Fiscal Update” webpage, and has posted data and Frequently Asked Questions about the City’s pension challenge for the public to review at this site: www.redwoodcity.org/fiscalupdate.

The Preliminary Ten-Year General Fund Forecast includes General Fund contributions towards the City’s pension liability beyond the required annual payment, including additional direct annual payments to CalPERS of $500,000, and annual contributions of $1.1 million to the City's Section 115 pension trust account. Trust proceeds, including investment earnings, will be used in future years to help pay for increased annual pension costs. Increasing the funds invested in the trust, and maintaining those funds over a longer timeframe, will provide greater resources to pay the City’s pension costs in the future.

The Preliminary Ten-Year Forecast does not include an increase in the number of Full Time Equivalent (FTE) positions; however, benefit costs associated with existing staff, coupled with liabilities associated with retirees, are expected to increase significantly over the next ten fiscal years.

As shown in the chart below, the City’s annual pension costs are expected to rise significantly over the next decade to pay off the unfunded liability. In ten years, the City’s annual CalPERS payment is projected to be approximately $43.4 million, which is $19.1 million more than it is today, or a 78 percent increase. Notably, these estimates are at a 50 percent confidence level, meaning that there is a 50 percent chance they could be higher or lower.
As shown in the chart below, if the City were to fund only required annual pension payments, the City’s unfunded pension liability will be paid off (fully funded) in 19 years, or FY 2037-38, for the Miscellaneous Plan, and 22 years, or FY 2040-41, for the Safety Plan.

If the City were able to accelerate payments toward unfunded liabilities, the City would realize interest savings over time, much like making additional payments on a home mortgage. The City has engaged the actuary firm of Bartel Associates, LLC to assess options to pay off unfunded liabilities over a shorter timeframe.

As previously mentioned, the Preliminary Ten-Year Forecast includes a strategy to make annual additional payments to CalPERS of $500,000, and annual contributions of $1.1 million to the City’s Section 115 pension trust account, which can be used to fund the City’s annual payments in future years.

These additional annual payments of $1.6 million are expected to shorten the number of years required to pay off the total unfunded liability by one year: the unfunded liability for the Miscellaneous Plan would be paid off in 18 years instead of 19 years, and the unfunded liability for the Safety Plan would be paid off in 21 years instead of 22 years. This shorter timeline would save the City $27 million in interest payments.

The City Council could consider a more ambitious funding strategy as an aspirational goal. In contrast to the 19-year (Miscellaneous Plan) and 22-year (Safety Plan) current estimated payoff periods using the pay-go method, the City could elect to make even higher additional annual contributions directly to CalPERS over the next 15 years to accelerate the payoff period. Doing so would be a challenge, given the projected deficits, but may be advantageous. Staff will discuss options and tradeoffs with the City Council.
Finance/Audit Subcommittee this spring so that the City Council may consider the Committee’s recommendations during the FY 2019-20 budget hearing in June.

Other Post-employment Benefit (OPEB) Liabilities – Retiree Health

A second category of retirement-related benefits which impact the City’s finances is the City’s retiree health program. The City currently provides eligible retirees with reimbursement of their medical insurance premiums, subject to their collective bargaining agreement, which includes a maximum reimbursement amount.

In 2010, the City established a Section 115 OPEB trust account through the California Employer’s Retiree Benefits Trust (CERBT) program to fund retiree health benefits. As of December 31, 2018, there was a balance of $30.4 million in the trust account. As of the most recent actuarial report, June 30, 2017, the City’s unfunded liability for these benefits was $57.6 million. The City is currently in the process of having an updated actuarial report prepared.

The Preliminary Ten-Year Forecast includes anticipated additional General Fund contributions to the CERBT Section 115 OPEB trust account of $300,000 annually in order to build resources towards paying off the unfunded retiree health liability in future years.

Industrial Disability Retirements

Public safety employees who are injured on the job and are thus unable to perform essential job duties may apply for and receive an industrial disability retirement (IDR). The City currently reimburses safety employees who retire on an IDR the amount of $1,675 per month for health plan premiums, which includes medical coverage for the retiree and their family. The family medical benefit is not offered to safety employees who retire on a service retirement related to the years they have worked; those retirees receive health plan premium reimbursement for the retiree only. The City must pay 22 percent of payroll for sworn Police employees, and 12 percent of payroll for sworn Fire employees, to fund retiree health benefits.

Over the last three years, 73 percent of Police Department retirees have retired on an IDR, which is 200 percent higher than the CalPERS actuarial retiree health projections, and 50 percent of Fire Department retirees have retired on an IDR, which is 50 percent higher than CalPERS actuarial retiree health projections.

The high IDR rates greatly impact the City’s unfunded retiree health liability by increasing the City’s costs. This spring, the City and affected public safety bargaining units will begin working together on IDR Committees in an effort to develop alternative solutions to reduce the City’s retiree health liability as related to IDRs.

Workers’ Compensation

Over the last few years, the City has focused on effective workers’ compensation claim management and return-to-work programs, as well as enhancing health, safety, and wellness programs for City employees, with a specific focus on public safety personnel. These efforts have helped reduce the City’s liability. Based on the most recent actuarial analysis, the City’s loss and loss adjustment expenses are projected to increase by only $100,000 for FY 2019-20. This increase is $900,000 less than last fiscal year’s increase of $1.0 million.
The modest increase in FY 2019-20 reflects stabilization in loss trends and a decrease in projected exposures (payroll) as compared to the prior year, as well as steps taken by staff to address workers’ compensation claims immediately and increase safety awareness citywide.

**UPDATE ON GOALS IMPLEMENTING STRATEGIC INITIATIVES**

The City’s current seven Strategic Initiatives are: Community Building and Communication; Community for All Ages; Economic Development; Government Operations; Housing; Public Safety; and Transportation. These initiatives provide a framework for aligning department objectives with the City Council’s mission of *Building a Great Community Together*.

Attachment 3 provides a comprehensive update on the status of all current-year activities to advance the Strategic Initiatives, and Attachment 4 provides a one-page snapshot of the status of major activities to advance the Strategic Initiatives. Additional updates will be provided with the FY 2019-20 Recommended Budget.

**FY 2019-20 BUDGET DEVELOPMENT**

The consideration and adoption of the City Budget is one of the most important actions that the City Council takes. The budget determines the services the City provides to the community, the staffing of the organization, and sets the amount of funds spent in any given fiscal year.

Staff recommends that the previously-established principles for the City’s operating budget continue to guide development of the FY 2019-20 budget:

- Use ongoing revenue to fund ongoing expenses
- Use one-time revenues for one-time expenses and to pay down long-term liabilities
- Ensure adequate reserves

Based on City Council direction on February 9, staff will focus on three top priorities for FY 2019-20: housing, transportation, and children and youth.

Staff recommends the following timeline for the development of the FY 2019-20 Budget; with the exception of the Workshop, described further below, all other dates are public meetings of the full City Council and members of the public may participate:

- Community Engagement Workshop
  - April 2019
- Community Development Block Grant/ HOME Grant Study Session
  - April 22, 2019
- Capital Improvement Program Study Session
  - April 22, 2019
- Formal Budget Submittal to Council Study Session
  - June 10, 2019
- Budget Public Hearing and Adoption
  - June 24, 2019

During the process of considering a local sales tax last year, many residents asked questions about the City’s budget and financial status. As part of the budget development process, staff has proposed, with the City Council Finance/Audit Subcommittee approval, a community workshop on the City’s financial status. The event is intended to explore tradeoffs involved in financial decision-making and to generate
ideas for the short and long term, particularly in the area of revenue generation. The style of the workshop will be similar to past World Café community engagement formats, with break out groups and reporting out on potential strategies to enhance the City’s financial sustainability. A summary of this community feedback will become part of the budget presentation to the City Council in June. The workshop is planned to be held in April 2019.

In addition, the City Council Finance/Audit Subcommittee is committed to reviewing important financial initiatives over the course of the next year to help the City avoid the projected budget deficits beginning in FY 2022-23. Topics for discussion include the following:

- Exploring additional revenue opportunities that will be needed to help balance the budget
- Assessing the City’s financial health through the League of California Cities diagnostic tool
- Exploring the option of an accelerated payoff timeframe for pension obligations

Additionally, as part of staff’s continuous improvement activities related to financial management and disclosure, staff plans to begin the following activities in the year ahead:

- Continuing to contain costs through efficiencies, shared services, and innovation
- Recommending a Two-year Budget cycle beginning in FY 2020-21 in order to create efficiencies in the budget development process
- Implementing OpenGov, an online platform that will provide much more detailed budget information and trends to community members
- Engaging the Government Finance Officers Association to perform a best practices review of the City’s financial processes and procedures prior to implementation of the City’s new financial management system
- Streamlining the development of the Capital Improvement Program in an effort to provide a more realistic and financially viable roadmap of the City’s capital needs

**FISCAL IMPACT**

Staff time required to develop the FY 2019-20 budget is provided within current budget appropriations.

**ENVIRONMENTAL REVIEW**

This activity is not a project under California Environmental Quality Act (CEQA) as defined in CEQA Guidelines, section 15378, because it has no potential for resulting in either a direct or reasonably foreseeable indirect physical change in the environment.

**PUBLIC NOTICE**

Public Notification was achieved by posting the agenda, with the agenda items being listed, at least 72 hours prior to the meeting.
ALTERNATIVES

The City Council could request that staff develop an alternative funding strategy for the FY 2019-20 budget. The City Charter requires that the Council, by motion, establish a date upon which the “City Manager shall submit to the Council a proposed budget.” Accordingly, the dates provided in this report are recommended by the City Manager and may be changed at the City Council’s discretion.

ATTACHMENTS

Attachment 1: Financial Sustainability Plan Update
Attachment 2: Preliminary Ten-Year General Fund Forecast
Attachment 3: Mid-Year Update on All FY 2018-19 Strategic Initiatives and Goals
Attachment 4: Mid-Year Update on Major Strategic Initiatives and Goals

REPORT PREPARED BY:

Kimbra McCarthy, Assistant City Manager and Administrative Services Director
kmccarthy@redwoodcity.org
780-7072

APPROVED BY:

Kimbra McCarthy, Assistant City Manager and Administrative Services Director
Melissa Stevenson Diaz, City Manager