



CITY OF ALBANY CITY COUNCIL AGENDA STAFF REPORT

Agenda Date: June 20, 2023
Reviewed by: NA

SUBJECT: Revenue Measures Overview

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SUMMARY

This report provides an overview of a variety of upcoming revenue considerations to fund core services in coordination with a presentation by NBS Government Solutions with an overview of municipal revenue options in California. Based on direction provided by the Council, staff will conduct additional research and analysis to present to the Council.

STAFF RECOMMENDATION

That the Council receive a presentation from NBS Government Solutions regarding an overview of municipal revenue options and provide feedback to staff on any next steps.

BACKGROUND

This report and associated presentation are provided in follow up to recent budget discussions and the expressed City Council Strategic Plan goal to increase revenue to sustain city services. Funding opportunities available to local government range from potential ballot measures, fees, bonds and other approaches. The next General Municipal Election is scheduled for November 2024. As such, it is advised that any potential ballot measures be identified to provide ample time for research and development of options for Council consideration.

DISCUSSION

Revenue Measures

As presented to the City Council during the biennial budget adoption process, the City is currently budgeting a \$1.3 million dollar deficit for FY2023-24, and anticipating the potential to realize a deficit in FY2025-26. While staff continue to focus on reducing expenditures as much as possible, additional revenue will be necessary to continue to provide services at the current level. During the budget process Council expressed interest in seeking new revenue streams to support the current level of service.

The City Council Strategic Plan includes a goal to ensure appropriate and effective means of revenue generation to sustain City services. Given that the City's operating budget (general fund) remains in a deficit, it is recommended that additional sources of revenue be identified to support the City's general fund to ensure existing city services can be maintained, or even enhanced. The stability of the general fund will also be particularly critical moving forward given the upcoming increases in long term pension obligations. Due to rising pension costs, CalPERS anticipates yearly pension obligations through the 2030's.

Sewer Fees

Sewer operations and capital improvements are funded through sewer fees levied on annual property tax rolls. In July 2017 (FY18), Council approved a five-year plan for annual rate adjustments, based on increases in CPI (Resolution No. 2017-69). As detailed in the biennial budget booklet, this authorization ran through July 2022 (FY23) and no further adjustments are authorized until a new fee study can be completed.

Staff constantly monitor the Sewer enterprise, ensuring the City's compliance requirements as per the EPA Consent Decree, projected expenditures, and existing fund balances so adequate service is provided. Over the last few years, funding has been sufficient to cover both operational and capital expenditures authorized in the Capital Improvement Plan (CIP), however, this spending has exceeded yearly revenue and drawn down fund balances. Staff plan on conducting a fee study in the next year as additional capital expenditures may not have sufficient funding with the current fee structure.

Storm Drain Fees and/or Taxes

The City's storm drain infrastructure is funded through two local measures. In 1992, Ord. 92-011 established levying of a storm water (NPDES) fee in order for the City to comply with urban runoff regulatory requirements. This fee has typically funded operating activities such as street sweeping, trash capture, storm drain repair, and other expenses related to compliance with the Alameda County Clean Water Program and the associated Municipal Regional Permit (MRP). This fee has not been increased since fiscal year 1999-2000, though program requirements have changed and increased.

The operating budget for the City's Storm Drain Maintenance Program currently exceeds annual revenues significantly. Given that the NPDES charge is a fee, any increase would follow different proceedings than a ballot measure for a parcel tax. Staff is coordinating with the fee administrator to determine options for updating this fee to bring to the Council for consideration.

Capital rehabilitation of and upgrades to the City's storm drain infrastructure are funded through local Measure F (Albany Street Paving and Storm Drain Improvement Tax), which was passed in 2006 specifically to address funding shortfalls for capital improvements along with crossover with street infrastructure rehabilitation. For Measure F, the founding legislation includes a provision for an annual CPI increase but increases beyond CPI would require voter approval. As noted, this funding source is shared between storm drain and street rehabilitation,

and may warrant review in the future as fund balances are depleted due to fulfillment of existing capital improvement commitments.

Sidewalk Parcel Tax Extension and Update

According to state law, repair and maintenance of curb and sidewalk bordering private property is the responsibility of the adjacent property owner. In 2016, Albany voters passed Measure P1, which enacted a 10-year parcel tax to support City-administered repairs to Albany sidewalks. Projects are informed by the 2021 citywide survey of sidewalk defects, scoped according to set criteria, and reviewed by the City's Transportation Commission. The City has completed Phases 1-6 and expects to construct Phases 7-8 in Fall 2023 and Winter/Spring 2024 respectively. Phase 8 will fulfill the program goal of completing the scope of locations identified as "critical repairs" throughout the City. The survey indicates many more locations where targeted repair and reconstruction of City sidewalks would benefit City accessibility and active transportation priorities, to be determined as Phase 8 is completed.

This parcel tax is scheduled to expire in December 2026. There is potential to place renewal or restructuring of this tax on the 2024 ballot to continue support to this area of the City's infrastructure. In addition, there could be consideration to adjust the scope of this tax to fund related improvements or maintenance needs.

Business License Taxes

Albany Business License taxes are governed by Chapter 5 of the Albany Municipal Code (AMC). The current rate structure was adopted by City Council in the late 1980's, prior to Proposition 218 requiring changes in taxes and rates to go before the voters. The AMC allows for rates to be adjusted by the change in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in the S.F. Bay Area each year.

The transition to a tax based on gross receipts is advised within the City's Economic Development Strategic Plan, adopted by the City Council in September 2017. Updating the business license tax code could both modernize application of AMC taxes and provide for ease of administration. There are several advantages to updating the tax code:

- More evenly spread the tax burden across businesses of all size. The way the current tax is structured, a larger tax burden is placed on small businesses and all businesses are disincentivized to hire multiple employees.
- Provide the ability to structure tax rates based on level of gross receipts. For example, a smaller base rate could be charged to all businesses, with a percentage tax on gross receipts above a certain dollar threshold.
- Currently, there is no way for businesses to seek relief from tax, penalties, or interest. An update to the code could include a provision for a waiver of any debt to the City in certain cases as outlined by a policy authorized by Council.

An update to the business license tax was brought to Council ahead of the November 2022 election but Council decided not to place the proposal on the ballot. At the time, there was concern about the assumptions used to calculate the proposed tax rates. With the outsourcing of business license renewals to Avenu for the upcoming renewal period (2024), staff will be able to collect gross receipts information from Albany businesses renewing their licenses to provide projections with more complete data.

Bonding Measures

Bonding allows an entity to finance larger, long-term projects and obligations with dedicated funding. This preserves current cash reserves and provides for more flexibility within operating budgets. Bonding by local governments is governed by State and Federal laws, providing several restrictions on the type and use of bonds. Bonding requires significant study and preparation that would be completed by staff and consultants in preparation of preparing a ballot measure, preparing a financing proposal, and bringing the bond to sale, through private placement or public sale.

Bonding requires significant recordkeeping and ongoing reporting. Proceeds must be used in accordance with the Purpose of Issue identified in the bond document. If funds remain after the associated project or program has been completed, they must be returned to the taxpayers.

Pension Obligation Bonds

During the biennial budget process, it became clear that, while operating expenses are increasing, the most significant drain on the general fund is the annual CalPERS unfunded pension liability payments. Pension Obligations Bonds (POBs) are taxable bonds issued to pay down or pay off a City's unfunded liability. The bonds do not need to fully offset the liability. In fact, the liability changes year to year based on factors in the actuarial valuations such as market performance, retirement rates, and life expectancy changes.

If requested, additional research would need to be done on the amount of borrowing, approximate timeframe for preparation of ballot language and draft bond document, and a review of current and projected interest rates.

City-wide General Obligation Bonds/Sewer Infrastructure Bonds

General obligation bonds are used to finance general government assets and infrastructure that are expected to last more than 10 years. Bonding is often used for building repair and construction, park and playground installations, and large assets and equipment such as fire engines and construction equipment, as well as infrastructure like streets. Sewer bonds are supported by fees and therefore follow a separate procedure to obtain, however the same restrictions on use and reporting apply.

While Albany utilizes a number of state, regional, and local funding sources to support improvements for the City's streets and roads, these funding sources do not fund 100% of the City's needs over time, and funding levels could change at any time based on economic

conditions (gas and sales taxes), or legislative action. If the City is unable to save for these items, bonding may be required to sustain proper City services.

The City is also currently evaluating street lighting conditions throughout Albany, with an eye to standardization and improved maintenance of the existing system. This evaluation is also expected to point to potential next steps for improving and enhancing the City's infrastructure, with completion of the evaluation estimated for December 2023. There is no current funding source devoted specifically to street lighting in Albany, though basic maintenance and repair is included in the Public Works Public Right-of-Way maintenance program operating budget. Larger-scale program development and system enhancements would need additional funding, whether from bonding, adjustments to current revenue measures, or both.

SUSTAINABILITY CONSIDERATIONS

Not applicable.

CITY COUNCIL STRATEGIC PLAN INITIATIVES

- GOAL 5: Increase Revenue to Sustain City Services; OBJECTIVES: Identify funding mechanisms to further stabilize the City's General Fund through exploration of various revenue generating streams; Identify funding and strategies to manage unfunded pension liabilities; Develop options to restructure the Business License Tax

FINANCIAL CONSIDERATIONS

Revenue measures will help provide for continued stability of the City's overall operating budget.

NEXT STEPS

This report is provided to initiate general discussion on possible measures for the November 2024 ballot or other funding approaches. Pending Council direction, staff will conduct additional research and analysis as needed and return to the Council with more detailed information and recommendations.