



**CITY OF ALBANY
CITY COUNCIL AGENDA
STAFF REPORT**

Agenda Date: October 2, 2023

Reviewed by: NA

SUBJECT: Revenue Measures for Funding Core City Services

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SUMMARY

This report provides follow up information regarding the June 20, 2023 City Council discussion of revenue considerations for funding City services. Based on direction provided by the Council, staff have conducted additional research and analysis for presentation to the Council. This report outlines specific recommended and planned next steps as part of larger long-term efforts to reinforce the City's financial foundations.

STAFF RECOMMENDATION

That the Council receive a report from staff regarding further analysis of municipal revenue options to support core services and provide feedback to staff on next steps.

BACKGROUND

As detailed during the recent biennial budget process, the City's operating budget currently includes a structural deficit of approximately \$1.308MM for FY2023-24, with the potential to increase in future years, primarily due to long-term unfunded pension obligations. In recent years, this projected deficit has not been realized due to overall budget savings, including salary savings with vacant positions. Nevertheless, the structural deficit is an issue that continues to be of concern, and proactivity towards finding additional revenue sources has been advised by staff, the City's Financial Advisory Committee, and the City Council to date.

This report is provided in follow up to a [presentation on revenue measures given to the Council on June 20, 2023](#), by NBS Government Solutions (NBS) in partnership with staff. In response to the Council's expressed interest in seeking new revenue, NBS outlined different methods of municipal funding and discussed pros and cons of different avenues to pursue. The June 20 report is included as Attachment 1 to the current report. NBS continues to work closely with staff to administer and report on property taxes and fee collections.

Funding opportunities available to local government range from parcel taxes, fees, bonds, and other approaches. The next General Municipal Election is scheduled for November 5, 2024. As such, it is advised that any potential ballot measures be identified expediently to provide ample time for preparation and execution.

The discussion on June 20, 2023 included:

- Infrastructure funding, including stormwater considerations, sewer fee review, street lighting, street trees, and potential renewal of and/or adjustments to the Measure P1 Sidewalk Tax
- Restructuring of the local business license tax, including modernized tax structure and incorporation of equity considerations
- Bond opportunities and the necessity of further careful analysis to determine bonding capacity and short- and long-term priorities

There are many options and opportunities, and staff has worked to:

- 1) Analyze which near-term priority options both address the most emergent needs and are the most viable for implementation; and
- 2) Investigate options for future needs / interests and report back to the Council.

In-progress findings of both tasks are discussed below.

DISCUSSION

The following items were identified as specific areas of interest for potentially viable revenue measures or increases. It is important to consider all the potential options, assess the optimal timing, and prioritize needs and wants, in order to ensure that funding efforts can be thoughtfully executed.

The following provides further detail on each of the potential revenue options, including analysis regarding resources needed to prepare each item and recommended prioritization based on staff capacity to administer, as well as program funding needs.

Sewer Fees

As described in the previous report, sewer operations and capital improvements are funded through sewer fees (AMC §15-1). The previous five-year authorization for annual increases to the fee based on Consumer Price Index (CPI) has expired. The City must keep up with the rate of maintenance and construction required to keep the City's sanitary sewer system in good repair and in compliance with the current US EPA (Environmental Protection Agency) Consent Decree.

Staff plans to engage a consultant to perform a fee study and recommend updates to the fee to keep up with increasing costs for construction and maintenance. As per AMC §15-1.5-8, this process will require City Council approval for proposed amendments to the fees set out in the

Albany Master Fee Schedule and a public protest hearing. This process can take place independently from the November 2024 election. The study would need to be completed and any updates to the fee would need to be approved prior to Alameda County's August 1 deadline for inclusion on the following fiscal year's tax rolls. This process will require Public Works and Finance staff resources in addition to consultant support to perform the rate study and implement the results.

Stormwater Fee

As outlined in the previous report (see Att. 1, p.2), the City's storm drain infrastructure is currently funded through two local sources. The NPDES Stormwater fee, last updated in FY1999-2000, supports the operating budget for the Storm Drain Maintenance Program. Local Measure F Street & Storm Drain Parcel Tax, passed in 2006 and updated annually accordingly to the Consumer Price Index (CPI), supports the Annual Storm Drain Rehabilitation Program (CIP No. 35000).

The operating budget for the City's Storm Drain Maintenance Program currently exceeds annual NPDES Fee revenues by over \$400,000. That delta is expected to widen even further, as increased requirements associated with the newly updated Alameda County Municipal Regional Permit for stormwater management will require expansion of program activities. The fee currently does not include standard considerations for annual CPI increases, which has contributed to the inability of the fee revenue to keep up with program costs. Staff plan to engage a consultant to review the current fee structure and recommend feasible update options for the fee, which may involve going to the voters in November 2024, however, a fee basis may be advised which will require further technical analysis.

No updates to the Measure F tax are recommended at this time, though this funding source is shared between storm drain and street rehabilitation capital improvement programs and may warrant review in the future as costs for these programs increase.

Sidewalk Parcel Tax

The Council also previously discussed the future of the Measure P1 Sidewalk Tax, a 10-year parcel tax currently scheduled to expire in December 2026. This tax supports the [Annual Sidewalk Rehabilitation Program](#) (CIP No. 22000), which delivers City-administered repair projects throughout Albany's sidewalk network. Projects are informed by a citywide survey of sidewalk defects, scoped according to set criteria, and reviewed by the City's Transportation Commission.

The program has completed six Phases, with Phase 7 in construction at the time of this reporting, and Phase 8 expected for construction in early 2024. Phase 8 will fulfill the program goal of completing the scope of locations identified by the survey as "critical repairs" throughout the City. Survey data, which is expected to be updated approximately every five years, indicates many more locations where targeted repair and reconstruction of City

sidewalks would benefit City accessibility, active transportation, and other priorities. The future of this program is contingent on the renewal of program funding past the adopted 10-year time limit.

The Council briefly discussed, and staff analyzed, the potential for this existing parcel tax to be extended to cover a wider scope of activities, namely streetlighting and street trees. Though there is merit to potentially consolidating maintenance and repair responsibilities for this section of the public right-of-way in the longer term, both additional programs require completion of in-progress evaluation and planning efforts, development of related policy, and buildout of potential cost. At this time, proposing this type of alteration may put the Sidewalk Program at risk while asking voters to support other program expansions prematurely. Please see below for more detail on streetlighting and street tree programs, including current activities and planned next steps.

At this time, staff recommends moving forward with renewal of the existing Sidewalk Parcel Tax, to ensure that program activities are able to continue for the foreseeable future, and reassessing alterations to this tax at a later date.

In Development

The following items are considered to be important opportunities for funding needs but are not yet viable options for the 2024 election cycle. Activities will continue at a staff level to develop these items and with reporting to the Council.

1) Streetlighting

The Streetlighting Evaluation Project (CIP No. 25008) was established in the CIP as a first step in assessing lighting conditions throughout the City, developing target guidelines for City streetlighting goals and objectives based on industry standards, identifying potential near-term improvements, and proposing cost scenarios for both long-term capital improvements and programmatic maintenance requirements.

The project began with data collection and analysis performed by the City's consultant, including a Citywide inventory and a [community survey](#). The consultant also completed a [technical memo](#) regarding the City's lighting conditions, which will be incorporated into the final evaluation. A community [Streetlighting Workshop](#) was held on September 19th, 2023. Community members were provided information on different aspects of public lighting, surveyed for their input on existing lighting, and visited real sites throughout Albany to evaluate sample areas of the City's streetlights in person.

At this time, it is staff's recommendation that while developments are well underway for better stewardship of this important City infrastructure system, and financial support for program improvements will likely be needed, proposing a revenue measure for the 2024 election would be premature. Additional time is needed for staff and supporting consultants to complete the evaluation, develop new/updated maintenance practices, research grant and other available

funding opportunities, prioritize and scope short- and long-term improvement projects, and analyze the delta between available and required funding.

2) Street Trees

On September 5, 2023, the Council voted to award a consulting contract to HortScience | Bartlett Consulting (HBC) for development of the City's Street Tree Management Plan (STMP). The STMP will integrate data from the Spring 2023 citywide street tree inventory, which collected information on all existing street trees and vacant planting sites within Albany City limits. A Council study session is expected for October, and community engagement will be ongoing throughout the planning process, including development of a shared vision for the future of Albany's urban forest.

While some programmatic improvements are already in progress as part of City maintenance programs, the STMP is expected to further influence:

- Modernization of the City's Tree Ordinance
- Clarification of roles and responsibilities for the City and for residents
- Updates to best practices for street tree maintenance
- Additional Urban Forestry Program development

Street tree maintenance is currently budgeted within the Public Works Departmental Operating Budget. At this time, it is unknown what impact the STMP will have on the City's operating costs for maintenance and improvement of Albany's treescape. Considering the City's other funding priorities as indicated above, putting forward a new parcel tax for street trees for the 2024 election may also be premature at this time.

3) Business License Tax

The Council considered a modernization of the business license tax in advance of the November 2022 election but ultimately decided not to place this item on the ballot. Additional study is ongoing to obtain more data on businesses within the city as part of the upcoming business license tax process for license issuance in 2024. This data should help provide more detail to inform decision making going forward in terms of options to modernize this tax while also considering the unique needs of all business types within the city. It is anticipated that updated modeling with the newer data can be conducted in late 2024. As such, it is anticipated that an updated tax approach could be developed for the November 2024 election, however, the most workable timeline to update this tax is likely the 2026 election cycle.

Bonding Measures

Staff has begun conducting research into the bonding process, with assistance from the City Attorney's office. It has been advised that the City engage a Municipal Financial Advisor to steer efforts through any potential bonding process, as it is complex and must be done with complete assessment of the City's financial capabilities and commitments. Staff is currently

working to establish a partnership with a Municipal Financial Advisor to further assist with technical analysis, bond, and overall revenue options.

A main reason for issuing bonds for capital improvements is that constructed facilities provide benefits over many years, and repaying costs over a longer timeframe can be more appropriate to the nature of the benefits received by the community. Additionally, the large dollar costs of these projects can be difficult to pay for all at once. When bonds are issued, the City repays the bonds plus interest over the course of several years, likely through the General Fund, or a combination of General Fund and Special revenues which would be ongoing repayment costs against the City's budget.

It will be critical to prioritize among the City's essential needs for financing capital assets as the city will have limitations on overall bonding capacity and a responsibility to repay debt while also managing other outstanding funding obligations. Funding will be essential for upcoming major capital improvement work including rehabilitation of Solano Avenue between Masonic and Tulare Avenues and implementation of the Solano Complete Streets project. This project will at a minimum include improvements to pavement, curb/gutter/drainage, ADA curb ramps, trees, and related infrastructure, and potentially other features including streetlighting; this is expected to be a project of major significance and cost. The City has mandated deadlines to implement some of this work based on settled litigation against the City to reconstruct all curb ramps citywide for ADA compliance.

In addition, it is anticipated that there will be significant sewer rehabilitation projects upcoming as mandated by the US EPA Consent Decree (noted above). Whether these major capital projects require financing in order to execute will be investigated during the sewer fee study and update process. Bonds may also be needed for the purchase of new major equipment, building maintenance, or other major capital needs.

There has also been interest expressed in utilizing bond funding for the purchase of property. This is a complex item that will require additional expertise to navigate, including consideration of overall bond capacity, other bonding needs, and ability to repay the debt issuance.

In summary, staff are continuing to pull in additional expertise from the City Attorney's office, NBS, and support from a Municipal Financial Advisor to further analyze bond opportunities. It is anticipated that follow-up will be provided to the Council, and potentially in coordination with the City's Financial Advisory Committee regarding bond options, long-term implications, repayment considerations and prioritization of funding needs.

2) Pension Obligation Bond/Unfunded Pension Liability

The City participates in the pooled California Public Employees Retirement System (CalPERS) to offer pension benefits to employees. Agencies participating in this program have seen an incremental increase in the Unfunded Accrued Liability (UAL). The UAL is determined by analyzing investment performance and the long-term funding requirements needed to pay for the pensions of participants. The UAL is an obligation the City must pay to

make up for a shortfall in performance. An annual contribution towards the UAL is made in July of each year. Proposition 13 limits the amount of UAL that can be funded using the pension override tax, and the obligation has been projected to increase in future years.

One potential strategy the City could consider would be a Pension Obligation Bond (POB) to reduce stress on the general fund to meet UAL requirements. POBs are taxable bonds which can be utilized to pay down some or all of the existing UAL at a point in time. This type of debt comes with a funding source in the form of ad valorem taxes which would replace some need to use General Fund money for payments.

Analysis to decide whether the City should take on debt to pay down the existing UAL debt should be completed. Factors to consider include the current obligation, new retirement benefits and other dynamics that can create a new UAL, future investment performance not meeting projection, and the desired flexibility in the City's debt service schedule. The City will continue to consult with experts and leverage the support of a Municipal Financial Advisor to discern whether this option is feasible.

3) Debt Policy

Considering the complexity of the options for bonding and the relatively large scope of the City's needs, it is advised that the first step towards potential bond measures is to develop a City debt policy.

In general terms, a debt policy defines the City's debt issuance and management approach, along with identification of what purposes the City may wish to issue debt. The debt policy also sets limitations on debt issuance to help ensure overall financial stability and standing.

Development of a draft debt policy is underway at the staff level. The City's Financial Advisory Committee will be reviewing and providing recommendations to the Council on this item in the near future.

SUSTAINABILITY CONSIDERATIONS

Revenue measures may have co-benefits towards furthering sustainability priorities within the City including but not limited to the potential for increased fees to further support stormwater pollution prevention programs.

CITY COUNCIL STRATEGIC PLAN INITIATIVES

This item aims to further the City Council Strategic Plan.

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

Increased revenue is intended to help provide for the continued stability of the City's overall budget, and therefore to the continued delivery of core services. Additionally, the establishment of a City debt policy will continue to strengthen the City's financial foundation.

Professional services contracts for sewer and stormwater fee rate studies will either be supported by appropriations previously made as part of the operating budget or will be brought to the Council separately for additional appropriations as needed.

NEXT STEPS

- Perform rate studies for Sewer and Stormwater Fees
- Develop a City Debt Policy with the Financial Advisory Committee for review and approval by the Council as a first step towards potential bond opportunities
- Continue work to consider a 2024 ballot measure to update Measure P1
- Continue work to consider a ballot measure regarding a modernized business license tax for either 2024 or 2026
- Collect and synthesize data regarding revenue needs for increased services regarding street trees and streetlights
- Engage a Municipal Financial Advisor to provide further technical expertise regarding revenue needs and opportunities

Revenue Measures for Core City Services

October 2023



Agenda

- ▶ Introduction & Overview
- ▶ Infrastructure Funding
- ▶ Business License Tax
- ▶ Bond Measures
- ▶ Next Steps
- ▶ Questions

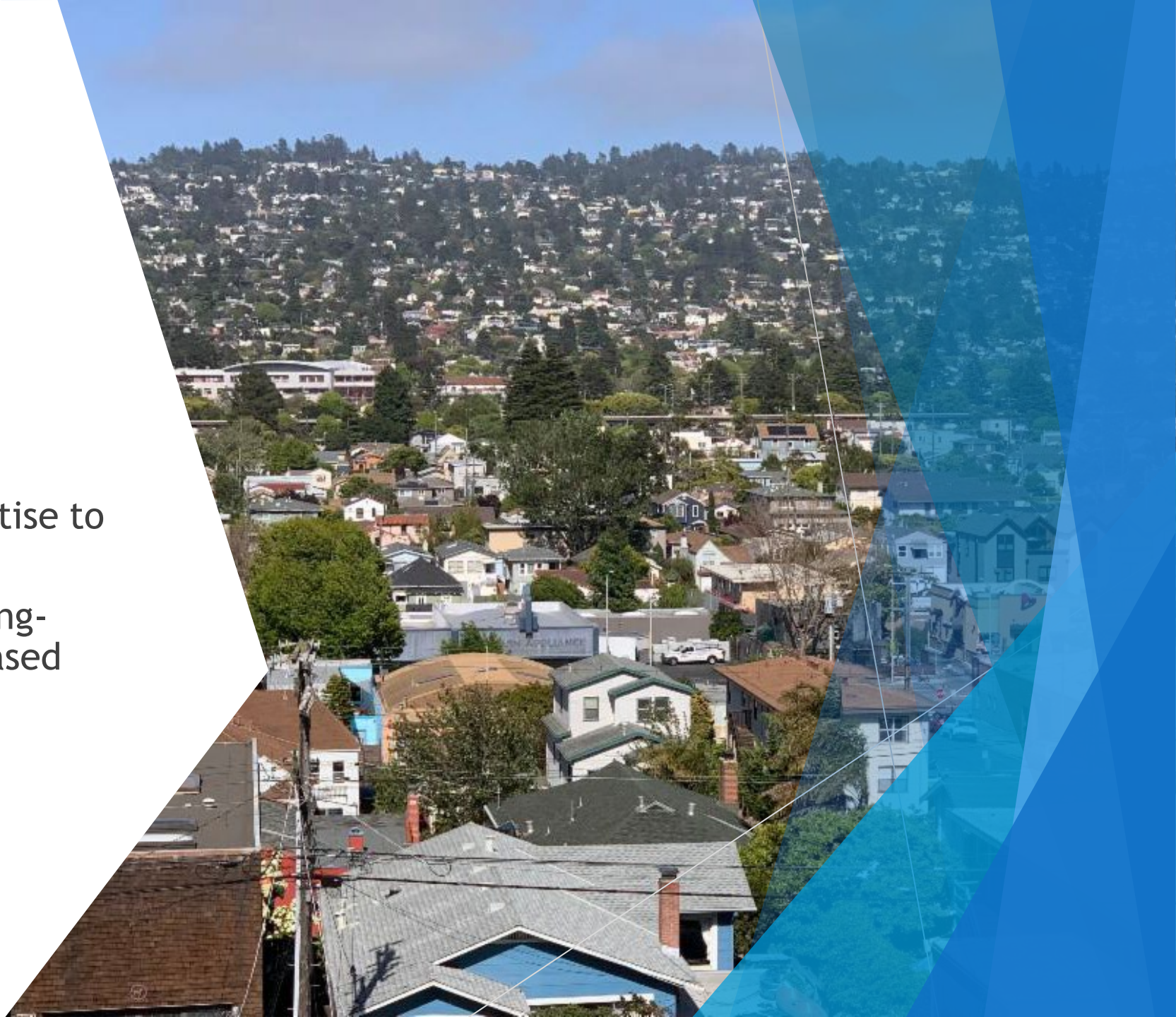
Introduction & Overview

- ▶ Current state of affairs
 - ▶ Budgeted deficit next two fiscal years
- ▶ UAL is largest single contributing factor to General Fund deficit
 - ▶ Projected to increasingly grow
- ▶ Reserve funding
 - ▶ Ongoing appropriations



Introduction & Overview

- ▶ Intentions:
 - ▶ Ensure continuity and consistency of services
 - ▶ Expand support & expertise to augment City resources
 - ▶ Explore and establish long-term methods for increased financial stability



Infrastructure Funding



- ▶ Balancing O&M and Capital Needs
- ▶ Match most stable funding to most consistent needs
- ▶ Funding must have longevity and ability to keep up with inflation

Sanitary Sewer System

- ▶ Current Funding:
 - ▶ Sewer operations, maintenance, and capital improvements all funded through Sewer Fees
- ▶ US EPA Consent Decree Regulations Apply - Deadlines & Stipulated Penalties
- ▶ Current Sewer Fee: Annual CPI Increase approved for 2017-2022 (Prop 218 Process) - **Expired**

Sewer Fees

- ▶ Next Steps:
 - ▶ Engage consultant to perform rate study
 - ▶ Include CPI & rate structure analysis
 - ▶ Recommend updates to the Council
 - ▶ Public Hearing
- ▶ Deadline: Aug 1, 2024
- ▶ Council Proceedings:
 - ▶ April/May 2024



Storm Drain System

▶ Current Funding

- ▶ NPDES Fee (O&M) - Operating costs far exceed revenues
- ▶ Meas F Street & Storm Drain Parcel Tax (Capital)

▶ Subject to conditions of Municipal Regional Stormwater Permit (updated 2022)

- ▶ *Program cost increase expected FY24-on*

▶ NPDES Fee

- ▶ Last Updated FY 1999-2000
- ▶ No provisions for annual CPI adjustment
- ▶ Requires scope expansion & CPI considerations

Storm Drain Fees

- ▶ Next Steps:
 - ▶ Engage consultant to perform NPDES Fee rate study and present options
 - ▶ Inform Council and discuss options
 - ▶ Potential ballot item depending on direction
- ▶ Council Proceedings:
Spring 2024

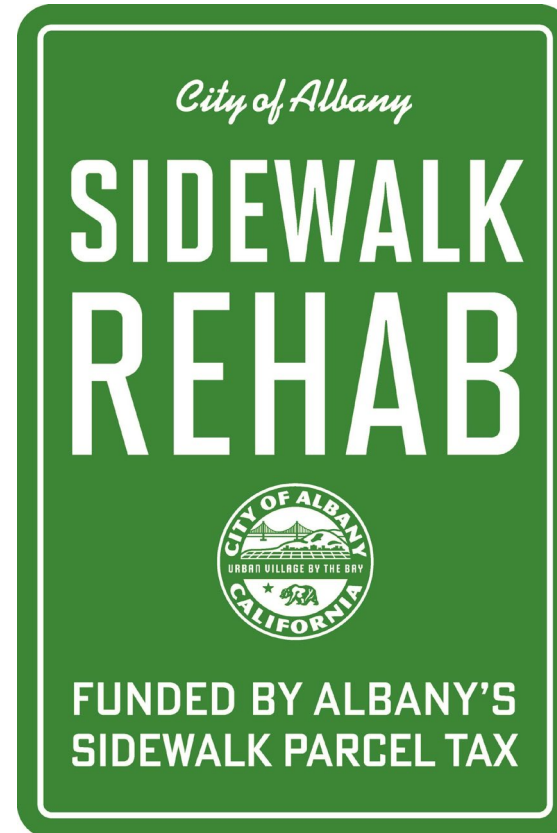


Sidewalk Program

- ▶ Current Funding
 - ▶ 2016 Measure P1 Sidewalk Parcel Tax
 - ▶ Parcel Tax collection expires **December 2026**
- ▶ Program Details
 - ▶ Critical Repairs: Phases 1-6 Complete, Phase 7 In Construction, Phase 8 Construction Winter/Spring 2024
 - ▶ Significant repairs remain and new survey will inform future planning
- ▶ City is subject to ADA Settlement Deadlines & Conditions
- ▶ Renewal is recommended to ensure service delivery

Sidewalk Parcel Tax Renewal

- ▶ Next Steps:
 - ▶ Prepare Sidewalk Parcel Tax Renewal Measure for 2024 Ballot
 - ▶ Engage Municipal Advisor to explore options for expansion
 - ▶ Update Public Right-of-Way Survey (5 year cycle)
- ▶ Council Proceedings:
Summer 2024



On the Horizon: Streetlighting & Street Trees

Streetlighting

- ▶ Evaluation in Progress (CIP 25008)
- ▶ Estimated Completion: Early 2024
- ▶ Subsequent Steps:
 - ▶ Assess Potential Projects (Short/Long-Term)
 - ▶ Identify New or Increased O&M Needs
 - ▶ Cost Analysis

Street Trees

- ▶ Street Tree Management Plan in Progress
- ▶ Estimated Completion: 2024
- ▶ Subsequent Steps:
 - ▶ Assess Potential Projects (Short/Long-Term)
 - ▶ Identify New or Increased O&M Needs
 - ▶ Cost Analysis

Business License Tax

- ▶ Ordinance from 1988
 - ▶ Tax is regressive as written
- ▶ Revisit analysis from 2022
 - ▶ Consider makeup of businesses in City
 - ▶ Find solution to move away from regressive model

Bond Measures

- ▶ Municipal Financial Advisor
 - ▶ Considerable analysis needed prior to bonding
 - ▶ Debt Limit 3.75% of Assessed Value
 - ▶ Limit on debt City can incur regardless of purpose of debt
 - ▶ Bond Measures reserved for essential operations or needs
- ▶ Pension Obligation Bond
 - ▶ Pay down existing UAL
 - ▶ Funding source: ad valorem taxes
 - ▶ Debt remains with new structure
 - ▶ Part of comprehensive strategy to address UAL

Summary: Next Steps



- ▶ **Sewer Fees:** Perform Rate Study
- ▶ **Stormwater Funding:** Perform Rate Study, Engage Advisor
- ▶ **Sidewalk Parcel Tax:** Prepare Measure for Renewal, Engage Advisor
- ▶ **Business License Tax:** Continuation of previous study with additional considerations to promote equity
- ▶ **Bond Measures:** Engage Municipal Advisor

An aerial photograph of a densely populated residential neighborhood, likely a hillside town, with numerous houses and trees. The image is overlaid with a large, semi-transparent blue geometric shape that tapers from the top to the bottom. The word "Questions" is centered within this blue shape in a white, sans-serif font.

Questions