

IT'S BUDGET 101 REDUX

Way, way back in 2007 an article was published in *Vistas*, Budget 101, explaining how the City's finances work. So much has changed since then. In 2007 the iPhone had just been introduced. No Teslas were on the road yet. Social media was in its infancy. It's certainly a different world now.

However, as the old saying goes, "The more things change, the more they stay the same," and in the case of the City's budget, that couldn't be more true. The iPhone may have changed the world, but it hasn't changed municipal finance much. So, now a dozen years down the road, for those of you who were not here in 2007, or who need a reminder, we think it's time to update Budget 101.



SHOW ME THE MONEY

The main purpose of this summer issue of *Vistas* is to explain in simple terms the fascinating yet arcane world of municipal finance. How can it be that some special projects and programs are funded but others, seemingly more deserving, go wanting? The nut of the problem is this: the City Council doesn't have the ability to spend its revenue wherever and however it chooses. In fact, Lafayette's City Council has discretionary control over just 50% of the total budget.

You read that right, just 50% of the total budget. This is because in California municipalities operate using "fund accounting," a technical term meaning that City revenues go into and come out of individual funds, or what we like to call "buckets." Some funds have strings attached and can only be spent on specific programs.

To fully understand where Lafayette's money goes, we must first understand where it comes from and what buckets are available for California's cities. Inside, you'll find more detail on public finance than maybe you'd ever want to know.

FUNDS, BUCKETS? WHAT'S IT ALL MEAN?

Here is the lowdown on the various types of funds that make up the City's budget. Think about those buckets as you look these funds over:

■ **Special Revenue Funds**

These funds include money that has specific legal restrictions on their use. For example, Lafayette receives gas taxes, but these funds can only be spent on streets and road-related programs, such as paving projects.

Development fees are another kind of special revenue. These fees are paid on new residences, offices and commercial buildings and also for add-ons to existing buildings and homes. Most of these fees are restricted as well. An example is the Parkland Dedication fee which can only be used for parks and recreation projects.

State and federal grants are also considered to be special revenues because they are most often restricted for a special purpose. The recent BART Southern Parking Lot Gateway Project is made up of special grants that must be spent on transportation, pedestrian and bicycle improvement projects.

■ **Enterprise Funds**

These funds track money for activities that are supported by user fees. Lafayette's recreation classes, for example, are entirely self-supporting and not subsidized by other funding sources.

Parking Funds are another enterprise fund. Money generated by parking meters and citations is used only to pay for city-wide enforcement costs and acquiring additional parking for the Downtown.

■ **The General Fund**

This is the bucket the City Council has complete discretion over. We take a deep dive into the General Fund on Page 2.



Check out our 2007 "Buckets Video" on how finance works at the City of Lafayette. Not much has changed in municipal finance since then except that we were all a lot younger when this video was made, but the way the City's finances are managed is pretty much the same. Enjoy this timeless video: bit.ly/LafayetteBuckets2007

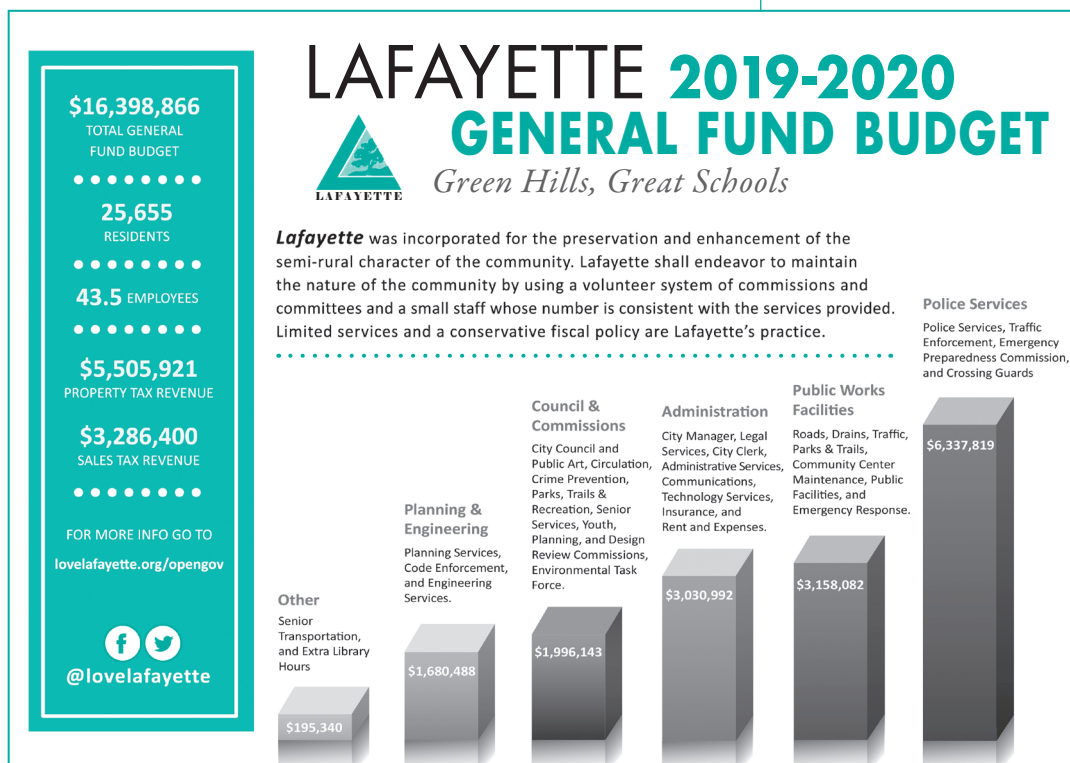
WHAT EXACTLY IS THE GENERAL FUND?

The General Fund typically serves as the chief operating fund of a government organization. It is used for all financial transactions not otherwise accounted for in some other fund. This year, Lafayette's General Fund revenues are expected to total about \$16 million. Of this amount, over half (56%) is spent on police services and public works, including road repair and maintenance. The remainder is allocated to planning, legal costs, rent for city offices, administration, and other smaller programs. Let's focus on the revenue that makes up the General Fund:

- Property Taxes** are the largest source for the General Fund, and the City expects to receive about \$5.5 million this year. Not an insignificant amount, but it represents only about 6.6% of the total property taxes paid by Lafayette property owners. The other 93.4% of your property taxes goes to State and local agencies such as BART, CalTrans, schools, and the County. Although Lafayette's property values are high, the share of property taxes received by the City only averages about \$610 per year from each property owner.
- Sales and Use Taxes**, known mostly as "sales taxes," are something with which we're all familiar. In Lafayette, the sales tax rate for merchants is 8.25%. But, of that amount, the City receives only 1%. This means that when you spend \$10.00 in Lafayette, the City receives just ten cents in sales tax. Although the amount for each transaction is small, it does add up, and this year the City expects to receive \$3.3 million in sales tax. This accounts for about 20% of the City's General Fund revenue. That's why it is important that you shop locally. You're going to pay the tax anyway, why not keep it in Lafayette?
- Vehicle License Fees** (VLF) are taxes you pay to the State based on your vehicle registration. The formula describing how VLF flows back to cities has gotten complicated, but

is generally based on population and amounts to roughly 4% of the total fee paid by car owners. This year, Lafayette's VLF will total about \$3.2 million, making it the third largest source of General Fund revenue for the City of Lafayette.

- Fees for Service** are primarily planning fees and those levied as part of the permit process that occurs when residents or developers build on or make changes to their property. Although they are not run as enterprises, these fees are designed to recover the expenses of the Planning department as well as the Design Review and Planning Commissions. In fact, by law, the fees cannot be higher than the actual cost to deliver the services.
- Franchise Fees** are paid by utilities that need access to the City's right-of-way in order to deliver services. The City currently has franchise agreements with the cable, waste management, and power companies. The City will collect \$1.4 million in franchise fees this fiscal year.
- Transient Occupancy Taxes** (TOT) are otherwise known as hotel taxes. The City's TOT rate is 9.5%, and Lafayette will receive over \$775,000 this year from TOT. The City Council is also considering adopting an ordinance that will make short term rentals through companies like Airbnb and VRBO subject to TOT.
- Other Revenue** sources include investment earnings, vehicle code fines, rental of city property, and reimbursements.
- Reserves** are Lafayette's Rainy Day Bucket. Most financial experts suggest that, in case of an emergency, you need savings equal to three to six months' worth of expenses. Lafayette's longstanding policy has been to keep at least 60% of annual expenses in its reserve account. Not only does this reserve act as a source of funds for an emergency, such as a wildfire or earthquake, it also serves to bolster the City's creditworthiness, which saves money when we issue bonds.



The City's current reserves are \$9.85 million and while that is certainly a healthy bulwark against disaster, there are good reasons for it. Cities can easily spend up to a million dollars a day during the worst of the emergencies, and even more as part of clean up costs. And the likelihood of a recession increases with each passing year because this sustained period of economic expansion cannot persist indefinitely. Any recession that reduces sales and/or property tax revenues could result in deficits for the City. The reserve could potentially allow us to weather an economic storm without significantly cutting services.



THE CITY'S UNDERFUNDED PROJECTS

Although Lafayette continues to flourish in ways big and small, there are several areas that are currently underfunded. One area of concern to all Lafayette residents is how we can continue to maintain the quality of our streets. Hard to believe, but back in 1995, our streets were in terrible shape. Over the last 25 years, Public Works diligently saw to it that the condition of our public

roads improved. The Council dedicated most of every extra dollar over the reserve amount to ensure that each public street in Lafayette was brought up to an average standard of 76 (out of 100 on the Pavement Condition Index). However, going forward, it will take \$1.8 million for each of the next five years to maintain that level. While we have identified sources for most of that money, the City needs to somehow plug a shortfall of \$150,000 to keep our streets in good repair.

Also, in order to comply with State and Federally mandated clean water

programs, the City spends over \$570,000 per year on Stormwater Pollution Mitigation while revenue from assessments total only about \$425,000. The City has no ability to increase Stormwater Pollution Fees although the requirements from the Water Board continue to become more stringent each year. Finally, a similar situation exists in the Core Area maintenance district. The cost of landscaping and maintenance in the Downtown has increased year after year and assessments have remained flat. The result is that \$265,000, or over 50%, now comes out of the City's General Fund, to ensure that our Downtown continues to be well maintained and inviting.

CAN WE GET A BIGGER BUCKET?

The municipal budgeting process can be confusing, and since most of us write large property tax checks twice a year we might find it difficult to believe that there isn't enough money for everything we want. So, what can be done? The City, of course, is constantly looking for opportunities to tighten its belt. Realistically speaking though, administrative costs are already relatively low: there are only 43 full-time regular employees and we contract for police and public works services so we can flex the staff as needed. Also, unlike almost every other city in California, the employees do not participate in the PERS pension plan. Instead, the City has a defined-contribution plan which means that Lafayette has no unfunded liabilities and the City is in complete control of employee retirement costs. What about options for increasing revenue – especially the share of property taxes the residents already pay? Well, that is a tale in and of itself...

LAFAYETTE'S LOW PROPERTY TAX HISTORY

Lafayette was incorporated in 1968 as a “no property tax city.” This meant that, while other government agencies were levying property taxes at various rates, the City of Lafayette did not. The City's municipal operations were very limited and funded mainly by sales taxes. In 1978, the passage of Proposition 13 ordered that, despite the different and often high rates charged by many government agencies, all California property owners would from that point forward pay property taxes at the same rate: 1% of assessed value in annual property taxes. In 1988, due in large part to the persistence of then-Lafayette City Council Member Richard Holmes, the State Legislature recognized that because certain California cities did not levy a property tax they were not allocated a “fair” share of the property taxes paid by residents. Lafayette benefited from new legislation, and from the period 1988 to 1996 received an increasing proportion of the property taxes paid by its landowners. The City's share has now stabilized, with Lafayette receiving about 6.6% with the remainder divided between the State, County, schools, and other special districts. That's a long explanation to explain the short answer: No, there is no way to increase this amount. Other cities in the county receive anywhere from 28% to 1.5%.

FOLLOW THE MONEY

As you can see, although small, the City of Lafayette's budget is complicated. And we want to be transparent about the process so that you can see exactly where your money is going. We have the City's fiscal information online.

Just visit our Financial Transparency page at www.lovellafayette.org/opengov.

It changes often, so make sure you visit regularly to see exactly how your money is being spent.



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VOX POPULI - Street Interviews:

With Lafayette's budget in mind, we took a walk down Mt. Diablo Blvd. one day in July to ask folks what they thought should be the City's spending and budget priorities. Here's what they told us.



Marilynn Uyeda: Security for all the retail stores here. Availability for our store to be open longer hours. Entertainment to bring more people into the community so that they are aware of us. Parking always seems to be an issue here with some of our customers. Bringing in nice restaurants. Our customers like to dine before and after they come shop with us and we like to dine after work!



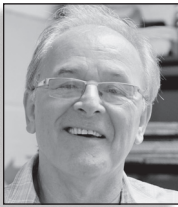
Lori Doyle: Probably mostly on road work, just maintaining the roads. We definitely need more restaurants. That would be great.



Robin Graham: We need more open spaces, like community parks. There's almost 15,000 kids in this town and we need more local activities for them to do. That's pretty much it.



Liliana Shaw: Fixing trees, incorporating a little more green into the City. Although it's already kind of there, maybe a little bit more would be nice. Retail development too. We have a lot of small, local businesses here and it would be nice to expand on that.



Ian McKinlay: Traffic is the main thing everyone is concerned about, but it's a lovely place to live. I came from Denver where they had problems downtown, but I can't think of anything here to complain about. I'll be truthful with you, there's nothing that I would say 'I wished they'd get on and do this.'



Tom Phillips: You're doing everything here, it looks great! I mean driving all around Lafayette, the crosswalks are nice, construction moves pretty fast here. I don't know. Really, I don't think I've seen anything here that needs attention. I'm in construction and I think it looks really good. Things have changed here, but I think that's good. It's all good.

CITY DIRECTORY

For Council Members call: 925-284-1968

Council Members

Mike Anderson	Mayor
Susan Candell	Vice Mayor
Steven Bliss	Council Member
Cameron Burks	Council Member
Teresa Gerringer	Council Member

Email all Council Members at:
cityhall@lovelafayette.org

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Interim City Manager Fax: 925-284-3169

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Jennifer Wakeman, Assist. Admin. Srv. Dir.	925-299-3213
Joanne Robbins, City Clerk	925-299-3210
Mike Moran, City Engineer	925-299-3203
Greg Wolff, Acting Planning & Building Dir.	925-299-3206
Donna Feehan, Public Works Mgr.	925-299-3214
Jeff Heyman, Communications	925-299-3241

If you observe illegal dumping in creeks & storm drains or accidental spills on roads, call Contra Costa Hazardous Materials Division 925-646-2286.

Lamorinda School Bus Program

Whitney Simon, Program Mgr. 925-299-3216

Parks, Trails, Recreation 925-284-2232

Jonathan Katayanagi, Director

Senior Services 925-284-5050

Police Services

Emergency: 24 Hours	911
Police Dispatch: 24 Hours	925-284-5010
Police Business Office:	925-283-3680

Anonymous tipline, traffic enforcement, suggestions & LEARN (Laf. Emergency Action Response Network), 925-299-3230

Fax 925-284-3169

Address 3675 Mt. Diablo Blvd. #210
Lafayette, CA 94549

Website www.lovelafayette.org

Share your opinions about the City at **Lafayette Listens**. Make sure to subscribe to the City's publications – the *Almost Daily Briefing* and the *Weekly Roundup* – and follow us on social media. Find out how to connect with the City at www.lovelafayette.org/connect. You'll find the latest news and events and great photos and videos of things happening around town.

