

City of Piedmont
COUNCIL AGENDA REPORT

DATE: June 5, 2017
TO: Mayor and Council
FROM: Paul Benoit, City Administrator
SUBJECT: Public Hearing on the Proposed 2017-18 Budget, Proposed Levy for the Municipal Services Special Tax, and Proposed Levy for the Special Municipal Sewer Tax

RECOMMENDATION

Conduct a public hearing on the proposed 2017-18 Budget, proposed levy for the Municipal Services Special Tax, and the proposed levy for the Special Municipal Sewer Tax.

BACKGROUND

The City Charter requires that a public hearing be held prior to adoption of the budget, the levy of the Municipal Services Special Tax, and the proposed levy for the Special Municipal Sewer Tax. This is the first of two scheduled public hearings, with the second hearing to be held on June 19, 2017. Following the June 19 public hearing, the City Council will consider adoption of the budget and levying the taxes.

DISCUSSION

GENERAL FUND REVENUE

The City is anticipating General Fund revenues in 2017-18 of \$25,259,864, a total of \$1,200,800 more than the estimated 2016-17 budget. Property-related taxes are the City's primary revenue source and account for \$17,572,400 or 70% of General Fund revenues. This amount is an increase of \$1,307,300 over the projected amounts in the 2016-17 budget. The 2017-18 Proposed Budget projects these revenues as follows:

- Property Tax revenues at \$12,580,000. The main component is secured property taxes (real property), and represents an increase of \$854,900 over the current fiscal year.
- Real Property Transfer Tax revenue at \$2,800,000.
- Parcel Tax revenue, based on the measure approved by 71% of voters in June 2016, is estimated at \$2,192,400, an increase of \$452,400 over 2016-2017. The additional funds in 2017-18 are directed to repairing and upgrading the City's aging infrastructure and modernizing outdated IT systems.

The housing market continues to be strong and is a key factor in maintaining the stability of City revenues.

Revenue in the category of Other Taxes and Franchises includes Business License tax, Sales tax, Utility Users taxes, and Franchise fees. These revenues are budgeted at \$2,230,000, a decrease of \$50,000 over the 2016-17 budget due to a decrease in business tax receipts.

Revenues from Other Agencies is revenue received from state and regional agencies. These funds are unrestricted, except for limited revenue directed to public safety purposes, and are allocated for General Fund use. The budget projects revenues of \$1,418,000, the largest component of which is Motor Vehicle License fees projected at \$1,100,000.

Charges for Current Services, projected at \$2,936,330 in 2017-18, are revenues derived from fees generated by Recreation, Planning and Plan Check services, and Ambulance Service charges. Of this total, Planning and Plan Check fees are projected at \$475,000, Recreation revenue is projected at \$2,075,000 (no change from the 2016-17 budget), and Ambulance Service charges are projected at \$275,000 (an increase of \$50,000 from the 2016-17 budget, based on the City Council approved increase in the Ambulance User fee). While not part of the General Fund, it should be noted that revenues in the Schoolmates program, accounted for in the Schoolmates Fund, are projected at \$652,300, which is \$254,900 lower than the amount received in 2016-17 based on the implementation of extended day kindergarten by the Piedmont Unified School District.

GENERAL FUND EXPENDITURE

The City is budgeting \$23,836,144 in General Fund expenditures (Departmental, Capital Outlay, and Non-Departmental). In developing the Proposed Budget, the City continues efforts to control and contain operating costs in all departments. The following is a summary by cost categories:

General Fund Budget by Expenditure Category

Category	\$ Budget	% of Budget
Personnel Costs	\$16,810,360	71%
Maintenance & Operations	\$ 5,308,313	22%
Capital Outlay	\$ 19,000	0%
Non-Departmental	\$ 1,698,471	7%
Total Budget	\$23,836,144	100%

Two additional full-time positions are proposed in this budget. One is a new, non-sworn Records Clerk in the Police Department and the second is a Recreation Coordinator, filling and replacing the long vacant position of Recreation Supervisor in the Recreation Department. Personnel related costs are the largest overall expenditure in the General Fund at \$16,810,360. As the table above shows, salary and benefit costs make up 71% of the total 2017-18 General Fund budget. This personnel cost share of the budget is characteristic of municipal service agencies. The table below summarizes projected personnel costs by department, with the public safety departments accounting for 65% of the total budget.

Personnel Budget by Department

Department	Personnel Budget	% of Total
Administration	\$1,438,275	9%
Public Works	\$2,725,350	16%
Recreation	\$1,875,585	10%
Police	\$5,462,150	33%
Fire	\$5,309,000	32%
Total	\$16,810,360	100%

Comparing the current 2016-17 budget to the 2017-18 Proposed Budget, the most significant changes in personnel costs are as follows:

- **Personnel** - The addition of a Police Records Clerk increases Police Department personnel costs \$90,400. The Recreation Coordinator adds \$99,900 in personnel costs to the Recreation Department. In the case of the Police Department, new legislatively mandated data collection and reporting requirements, next Generation 911, and the data generated by Automated License Plate Reader technology have moved records retention and processing responsibilities beyond the capacity of existing personnel to manage. With respect to the Recreation Department, one of three Recreation Supervisors retired in 2014, shortly after Sara Lillevand was hired as the new Director. At Ms. Lillevand's request we held off filling the vacant position to allow sufficient time to study and fully understand the on-going and future needs of the Department. With the experience of the previous two years, it is now proposed that the Recreation Supervisor position be filled at the lower Recreation Coordinator level. Key responsibilities of the position will be focused on Facility Operations and Reservations, Game Day Operations, and working with the Piedmont Unified School District to schedule facilities in support of recreation programming for students and the general community.
- **Salaries** - A 2% employee wage adjustment for all full-time employees, effective July 1, is included as a place-holder pending conclusion of negotiations with bargaining units on employment and benefit terms beyond June 30, 2017. Total budgeted regular salaries amount to \$9,993,300, an increase of \$529,500 in 2017-18. Part-time salaries decrease by \$217,000. This decrease is driven largely by the fact that two Part-time positions, one in Public Works and one in Recreation, were reclassified to Full-time.
- **Retirement benefits** - Employee retirement benefit costs total \$2,408,700, an increase of \$161,650 compared to the 2016-17 budget. After a 4-year phased approach to benefit cost sharing, all City employees have now assumed the full cost of their "Employee Contribution". Assumption of these costs by employees result in savings to the City of \$280,450 in 2017-18. Employee cost-sharing of the "Employer Contribution" amounts to an additional savings to the City of \$591,400, for a total savings of \$871,850. Overall, the CalPERS Employer rates for the various City retirement plans (Miscellaneous and Safety, across three tiers) increased between 1 and 1.5 percentage points.
- **Medical benefits** - Employee health benefit costs amount to \$2,279,035 in 2017-18, no change from 2016-17. Premiums next change on January 1, 2018 and any increase above the established baseline will be shared equally between the City and employees.

To control the costs of retirement plans for City employees, the City Council took action in 2012 to establish lower benefit formulas for new employees. Shortly after the City Council took that

action, the state legislature enacted a law to standardize pension benefit levels for new employees across the state. These two changes will save the City an estimated \$440,000 in 2017-18. Additionally, employee cost sharing of both retirement and medical benefits amount to a savings to the City of \$990,000 in 2017-18. Absent the cost sharing agreements and the changes to retirement benefits for new hires, City retirement benefit costs would have been \$1,310,000 higher and medical benefits \$120,000 higher than the amounts budgeted for in the 2017-18 Proposed Budget.

Maintenance and operations costs are budgeted at \$5,308,313, amounting to 22% of the 2017-18 General Fund budget. The 2017-18 budget for Maintenance and Operations is \$500,739 more than the 2016-17 budget. Maintenance and Operations include costs for Personnel Expenses (conferences, meetings, and training), Department Supplies (office supplies, uniforms), Equipment Maintenance (vehicle maintenance, fuel), Contract Services (City Attorney, crossing guards), Other Expenses (emergency preparedness, Recreation classes, street patching) and other services, maintenance, and operations line items. The following summarizes maintenance and operations costs by department:

Operations and Maintenance Budget by Department

Department	\$ Budget	% of Maintenance & Operations
Administration	\$1,420,810	27%
Public Works	\$1,576,013	30%
Recreation	\$1,083,400	19%
Police	\$ 826,340	16%
Fire	\$ 401,750	8%
Total	\$5,308,313	100%

The most significant increases in Maintenance and Operations costs in the 2017-18 Proposed Budget from 2016-17 are as follows:

- Information Services, Administration (\$152,800): Includes the additional component of IT consultant staffing for network maintenance in accordance with the Information Technology Strategic Plan.
- Other Expense, Recreation (\$136,800): Includes higher independent contractor payments related to middle school enrichment and pre-school programs. It should be noted that these costs are largely offset by associated revenue.
- Personnel Expenses, Police (\$60,000): Includes higher costs for undertaking Marijuana Training for officers. The training expenditure is offset by grant revenue received in 2016-17.

Non-Departmental costs are budgeted at \$1,698,471, comprising 7% of the 2017-18 General Fund budget. This covers costs, unchanged from 2016-17, related to premiums for General Liability (\$384,000) and Workers Compensation (\$365,500), other self-insured claim costs for General Liability (\$60,000) and Workers Compensation (\$206,500), payment to the City of Oakland for library services (\$350,471), and a General Fund transfer to the OPEB Trust (\$312,000).

GENERAL FUND-FUND BALANCE

The 2017-18 Proposed Budget projects an Operating Net Income of \$1,022,796. Beyond operating costs, a \$1,200,000 transfer is proposed for essential capital needs (\$800,000 to the Facilities Maintenance Fund and \$400,000 to the Equipment Replacement Fund). The General Fund, following these transfers, will have a Net Income of (\$177,204) and an ending Fund Balance at \$4,091,227, 18% of Operating Expenses compared with 20% in 2016-17.

EQUIPMENT REPLACEMENT FUND

The Equipment Replacement Fund sets aside funds in anticipation of the orderly replacement of City vehicles, heavy equipment, general equipment, as well as IT infrastructure. A replacement schedule has been developed including the replacement year(s) and an estimated replacement cost.

The Equipment Replacement Fund is estimated to have a Fund Balance of \$3,622,523 as of June 30, 2017. The following is a detail of proposed Equipment Replacement expenditures for 2017-18 totaling \$988,800.

Equipment Replacement Expenditure Detail

Category	Date Acquired	Replacement Budget
Video Equipment Upgrade, KCOM		\$30,000
Flatbed Pickup Truck, Public Works, No. 24	2003	\$60,000
Flatbed Pickup Truck, Public Works, No. 22	2003	\$60,000
Pickup Truck, Public Works		\$55,000
Patrol Car, Police (2)		\$100,000
Traffic Motorcycle, Police	2010	\$35,000
Automated License Plate Reader		\$40,000
Ambulance, Fire	2007	\$220,000
PC Computer Upgrade	annual	\$70,000
iPads	2012	\$3,000
Applications and Departmental Systems	IT Plan	\$220,000
IT Infrastructure	IT Plan	\$80,800
Telecommunications (IT)	2011	\$15,000
		\$988,800

The fund balance at the end of 2017-18 is projected at \$3,024,223, with an unrestricted fund balance of \$2,424,223 and a restricted balance of \$600,000. The restriction is the City Council approved system rehabilitation loan to the Sewer Fund. The proposed General Fund transfer in 2017-18 amounts to \$400,000.

FACILITIES MAINTENANCE FUND

The City Council established the Facilities Maintenance Fund in 2013 to provide a long-term plan for addressing City-owned facilities. In 2014, responsibility for facilities was transferred from the Recreation Department to the Public Works Department. Since that time, staff has been working to develop a thorough and well-documented plan that addresses deferred maintenance, routine and on-going maintenance and repair, and, importantly, the desire to build reserves to address long-term, life-cycle maintenance and replacement costs. While advances have been made in refining the plan since 2013, it should be viewed as a work in progress and will continue to evolve and improve as facility investigations present new, more detailed data.

The Facilities Maintenance Fund is estimated to have a Fund Balance of \$1,879,528 as of June 30, 2017. The proposed General Fund transfer in 2017-2018 is \$800,000.

The fund balance at the end of 2017-18 is estimated at \$1,432,428, with an unrestricted fund balance of \$932,428 and a restricted balance of \$500,000. The restriction is the City Council-approved loan to the Sewer Fund for system rehabilitation and the Facility Maintenance Scheduled Reserve.

CAPITAL IMPROVEMENT PROJECTS FUND

The Capital Improvement Projects Fund is used to account for resources that are restricted and committed to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Historically, prior to creation of the Facilities Maintenance Fund, the Capital Improvement Projects fund was used to account for a very wide range of projects and activities.

Appropriation of resources to this Fund will be considered following a receipt of a report on projects recommended by the Capital Improvement Projects Review Committee. The Committee, on an annual basis, initiates a process to solicit community input, conduct site visits, analyze the merits of potential projects, and make recommendations to the City Council as to which projects should be funded.

The Capital Improvement Projects Review Committee worked with the community over the past several months to develop a list of proposals for new capital projects for Council consideration. The Committee presented their report to the City Council on May 13 and recommended the following six projects for consideration: Coaches Field – Turf and Lighting; Linda Beach Field and Tot Lot; Aquatics Center; Improvements to the Intersection of Wildwood, Winsor, Wakefield and Wallace Streets; St. James Drive Lanterns; and Crocker Park Path Improvements. In the next Fiscal Year staff will work with the Council to consider appropriations for advancement of projects from the Committee's list of recommendations.

Capital Improvement Projects Fund Overview

Project/Plan	Project Appropriations as of June 30, 2017	New Project Appropriation
Coaches Field Feasibility Plan	\$25,000	
Linda Beach Playfield Access/Landscape Plan	\$7,334	
Corporation Yard Vehicle Storage Structure Project	\$139,000	
Linda Beach Playfield Master Plan	\$35,000	
Total	\$206,334	\$0

The Capital Improvement Projects Fund has an estimated balance of \$157,124 as of June 30, 2017. After a proposed transfer of \$50,000 from the Gas Tax Fund and after anticipated expenditures of \$206,334, an ending balance of \$790 is projected for 17-18.

2014 TAXABLE PENSION OBLIGATION FUND

After voter approval in February 2014, the City Council authorized issuing \$7,305,000 in Taxable Pension Obligation Bonds in May 2014 to refinance the CalPERS Side Fund debt with an annual interest rate of 2.79%. The bonds mature on March 30, 2020.

In 2003, CalPERS required pension plans with less than 100 active members to be assigned to risk sharing pools with other agencies offering similar benefits. The City’s Miscellaneous and Safety plans had small numbers of active members and CalPERS assigned these plans to risk pools and established Side Fund debt equal to the unfunded accrued liability for the plans. CalPERS amortized the obligation over a fixed period and charged interest at 7.5%.

The debt refinancing saves the City approximately \$1,194,099 over the 7-year life of the bonds, with annual savings of approximately \$170,586. This Fund was established to account for the annual principle and interest payments. In the 2017-18 Proposed Budget, the total payment is \$1,387,924.

SEWER FUND

The Sewer Fund is used to account for the sanitary sewer and storm sewer system in the City. In July 2014, the City and other East Bay jurisdictions entered into a Consent Decree (CD) mandated by the U.S. Environmental Protection Agency which requires the City to complete a rehabilitation of the sewer system and to establish a comprehensive monitoring of system performance. With the CD finalized, and all of the mandated improvement measures identified, the City is positioned to establish definitive plans to achieve full compliance.

To this end, in October 2014, the City Council approved loans totaling \$800,000 to the Sewer Fund from the Equipment Replacement Fund and the Facilities Maintenance Fund. These loans made the need for increasing the Sewer Tax or Property Transfer Tax unnecessary and provided the resources needed to initiate the next phase of required sewer rehabilitation.

With the approval of a low-interest loan by the State Water Resources Control Board (SWRCB), construction of Phase V of the sewer rehabilitation project will begin in 2017-18. All phases of rehabilitation are projected to be completed over the next decade, ahead of the schedule established under the CD.

Sewer Fund Balances for 2016-17 and 2017-18

	2016-17 Budget (Projected)	2017-18 Budget (Proposed)
Sewer Beginning Fund Balance	\$801,035	\$883,509
Sewer Service Charges/Interest	\$2,332,100	\$2,394,371
Loan Proceeds	\$0	\$4,300,000
Total Revenue	\$2,332,100	\$6,694,371
Operating Costs	\$1,512,658	\$1,542,599
Capital Costs	\$179,005	\$4,398,117
Debt Service	\$557,963	\$557,963
Total Expenditures	\$2,249,626	\$6,498,679
Revenues over Expenditures	\$82,474	\$195,692
Sewer Ending Fund Balance	\$883,509	\$1,079,202

In addition to the construction of rehabilitation projects, the Sewer Fund reimburses the General Fund for sewer related expenses charged to the General Fund. Public Works and Finance have refined expense estimates and capture actual costs related to personnel, supplies and services. Based on the data collected, the proposed transfer for 2017-18 is projected at \$745,000.

MUNICIPAL SERVICES SPECIAL TAX

On June 7, 2016, Piedmont voters approved Measure F (Municipal Services Special Tax), authorizing the City Council to levy a parcel tax for a four-year period through 2020-21. Based on the 2017-18 Proposed Budget, the proposed rate is needed to maintain services and is recommended for approval.

Municipal Services Special Tax Rate Schedule

Parcel Size in Square Feet	Adopted Rate 2016-17 (Measure Y)	Proposed Rate 2017-18 (Measure F)
Single Family Residences		
0 to 4,999	\$397	\$501
5,000 to 9,999	\$447	\$563
10,000 to 14,999	\$517	\$650
15,000 to 20,000	\$589	\$742
Over 20,000	\$671	\$845
Commercial Properties		
0 to 10,000	\$671	\$845
Over 10,000	\$1,005	\$1,266
Multi-Family Residential: per unit	\$277	\$348
Dual Jurisdiction Parcels: per unit	\$408	\$514
Estimated Revenue	\$1,740,000	\$2,192,400

SPECIAL MUNICIPAL SEWER TAX

The proposed Sewer Fund budget assumes that revenues increase based on changes in the CPI that are needed to maintain sewer services and rehabilitation of the sewer system. The proposed rate increase of 3.53% for 2017-18 is recommended.

The City Council is authorized (Municipal Code Chapter 20, Section 20E.3) to adjust the rate based upon changes in the Consumer Price Index (CPI) for All Urban Consumers for the San Francisco-Oakland-San Jose, California (December) as published by the United States Department of Labor, Bureau of Labor Statistics. Based upon the change in this index, the rate adjustment for 2017-18 is 3.53%

Special Municipal Sewer Tax Rate Schedule

Parcel Size in Square Feet	Adopted Rate 2016-17	Proposed Rate 2017-18
Single Family Residences		
0 to 4,999	\$539	\$558
5,000 to 9,999	\$613	\$635
10,000 to 14,999	\$707	\$732
15,000 to 20,000	\$825	\$854
Over 20,000	\$970	\$1,004
Commercial Properties		
0 to 10,000	\$970	\$1,004
Over 10,000	\$1,336	\$1,383
Multi-Family Residential: per unit	\$449	\$465
Dual Jurisdiction Parcels: per unit	\$539	\$558
Estimated Revenue	\$2,399,000	\$2,483,000

By: Jim O'Leary, Interim Finance Director