

City of Piedmont  
COUNCIL AGENDA REPORT

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DATE: November 19, 2018  
TO: Mayor and Council  
FROM: Paul Benoit, City Administrator  
SUBJECT: Consideration of FY 2017-18 Year End Fund Transfers

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RECOMMENDATION

Approve FY 2017-18 year end General Fund transfers of \$2.5 million to the Facilities Maintenance Fund and \$750,000 to the Pension Rate Stabilization Fund.

BACKGROUND

In FY 2017-18, conservative budgeting combined with favorable revenue trends resulted in net income of approximately \$3.5 million in the General Fund. Specific revenue categories that exceeded budget and accounted for the majority of net revenue include real property transfer tax (+ \$1,045 K); secured property tax (+ \$484 K); supplemental property tax (+294 K); mutual aid revenue for wildfire assistance (+\$480 K); and recreation revenue (+ \$232 K).

Real Property Transfer Tax is subject to fluctuation based on economic conditions; supplemental property taxes are realized with a change in assessed valuation of a property sold during the year; and mutual aid revenue depends on the severity of the season's wildfires. Given the volatile nature of these revenue sources, it is prudent to treat any net proceeds as one-time savings and appropriate the funds to address the City's outstanding needs, such as facilities maintenance, future pension obligations, and the condition of the City's infrastructure.

For FY 2017-18, I recommend a transfer of \$3.25 million from the General Fund to the Facilities Maintenance Fund and the Pension Rate Stabilization Fund in the proportion described below.

- **Facilities Maintenance Fund (\$2.5 million)** – The maintenance and improvement of city facilities has necessarily been a high priority for the City Council. To this effect, staff completed an assessment of the basic systems and condition of City owned facilities, and submitted a detailed report to City Council in March 2018. Below is an estimated funding schedule necessary to execute the suggested plan. Expenditures after FY 2022-23 are assumed to increase 3% annually.

	<b>ESTIMATED</b>				
	<b>FACILITIES MAINTENANCE FUND ACTIVITY</b>				
<b>Fiscal Year</b>	<b>Begin Balance</b>	<b>Planned Funding</b>	<b>Additional Funding</b>	<b>Expenditures</b>	<b>End Balance</b>
<b>17/18</b>	\$ 3,782,199	\$ 831,000	\$ 2,500,000	\$ (1,460,491)	\$ 5,652,708
<b>18/19</b>	5,652,708	850,000		(2,349,000)	4,153,708
<b>19/20</b>	4,153,708	850,000		(1,718,840)	3,284,868
<b>20/21</b>	3,284,868	1,200,000	(a) 800,000	(2,616,805)	2,668,063
<b>21/22</b>	2,668,063	1,200,000		(1,559,727)	2,308,336
<b>22/23</b>	2,308,336	1,300,000		(1,223,525)	2,384,811
<b>23/24</b>	2,384,811	1,300,000		(1,260,231)	2,424,581
<b>24/25</b>	2,424,581	1,300,000		(1,298,038)	2,426,543
<b>25/26</b>	2,426,543	1,300,000		(1,336,979)	2,389,564
<b>26/27</b>	2,389,564	1,300,000		(1,377,088)	2,312,476
<b>27/28</b>	2,312,476	1,300,000		(1,418,401)	2,194,075
<b>28/29</b>	2,194,075	1,300,000		(1,460,953)	2,033,123
<b>29/30</b>	2,033,123	1,300,000		(1,504,781)	1,828,341
<b>30/31</b>	1,828,341	1,300,000		(1,549,925)	1,578,417
<b>31/32</b>	1,578,417	1,300,000		(1,596,423)	1,281,994
<b>32/33</b>	1,281,994	1,300,000		(1,644,315)	937,679
<b>Total</b>	<b>\$ 3,782,199</b>	<b>\$ 19,231,000</b>	<b>\$ 3,300,000</b>	<b>\$ (25,375,520)</b>	<b>\$ 937,679</b>

(a) Assumes the \$800,000 bequest from the estate of Anne Kroeger received in FY 2015-16 will be used for Recreation Center upgrades.

The expenditures detailed above consider all City facilities and include:

- **Annual Operations:** Annual recurring expenses required to maintain City facilities, including regular services such as janitorial, alarm, pest control, heating systems, fire safety, and annual inspections.
- **Annual Maintenance & Repairs:** This category covers the cost of maintaining, repairing, or replacing various miscellaneous items in all of the City's facilities that are malfunctioning, broken, or otherwise have reached their serviceable life.
- **Consultant Services:** Professional consulting services involving investigation, analysis, and recommendations which form the basis of the project's next steps. Also included in this category are expenses related to outside project management services on an as-needed basis since the breath of the projects exceeds Staff capacity.
- **Deferred Maintenance Projects:** Planned and prioritized major construction projects of a specific nature undertaken to replace, achieve compliance, and/or modernize existing facilities that have been previously deferred.

The Facilities Maintenance plan presented to the City Council in March 2018 can be found at:

<http://www.ci.piedmont.ca.us/html/govern/staffreports/2018-03-19/facilitiesmaintupdate.pdf>

Given the substantial needs, staff is recommending a transfer of \$2.5 million, over and above the \$0.83 million transfer which was included in the adopted budget.

- **Pension Rate Stabilization Fund (\$750,000)** – In December of 2016, CalPERS announced it is lowering the discount rate, also known as the assumed rate of return, from 7.5% to 7.0% over a three year period beginning with FY 2017-18. This change will cause our annual contributions (normal cost) and our unfunded actuarial liability (UAL) to increase significantly. The City engaged Bartel and Associates, an actuarial consultant, to quantify the effect of this change.

The annual cost of our pension contributions (normal cost plus required payments for the UAL) is projected to increase from 7.5% of revenue in FY 2017-18 to 14.5% of revenue in FY 2029-30. In other words, pension costs are expected to increase 139% while revenue increases only 33% (assumes an annual increase of 3%) over this period. Although our revenue growth rate for the past 10 years has been 4%, staff are using conservative estimates due to our heavy reliance on real estate related taxes, which can be volatile. Staff projects this increase will put stress on the General Fund between FY 2022 and FY 2030 as projected expenditures will exceed revenue. To address this issue, in April 2018 the City Council approved the establishment of a Section 115 Trust to be administered by the Public Agencies Retirement Services (PARS). At that time our long term projections indicated the need for an initial investment of \$2.0 million, which was completed in May 2018, and a subsequent investment of \$750,000 would be necessary to offset the impact of the shortfall in the General Fund between FY 2022 and 2030.

This proposal for transfer of General Fund net revenue is consistent with past practice. In FY 2016-17, the City ended the year with net income of \$3.4 million in the General Fund. The City Council took a similar action in March 2018 to distribute net income in excess of \$100,000 as follows:

- Pension Stabilization Fund - \$2.0 million
- Facilities Maintenance Fund - \$1.15 million

On November 7, 2018 the proposed transfers were presented to and reviewed by the Budget Advisory and Financial Planning Committee, which unanimously concurred with this recommendation.

By: Michael Szczech, Finance Director