

June 2, 2014

Madame Mayor and City Council,

As part of our annual efforts, the Budget Advisory and Financial Planning Committee (the “Committee”) has completed a review of the most recent 7-year projections as provided by the City Finance Director. Overall, we felt the assumptions used, and the results presented, to be reasonable and prudent, subject to a few comments noted below. We did note a few items in the projections that we felt should be corrected, but none were meaningful to our conclusions.

As in prior years, the projections continue to show that the long-term financial health of the City is dependent on the continuation of the Municipal Services Parcel Tax. Additionally recent experience has proven the volatility of the real property transfer tax – fortunately the volatility has been to the upside. We continue to believe that when the transfer tax is materially above the \$2.8 million estimate, the excess funds should be placed in either the Facilities Replacement Fund or the OPEB to make up for those years in the future when the transfer tax will be lower than projected.

The projections show an adequate (albeit slightly declining) General Fund balance over the first 6 years and a restoration of the General Fund balance in year 7 as the full repayment of the new Side Fund loan results in a substantial surplus in that year. Although the year 7 surplus looks large, it is important to note that (1) certain costs of current services (specifically pension and retiree healthcare costs) are being deferred and would absorb a substantial part of that surplus, and (2) things can change significantly over a 7-year period.

The Committee feels the objective of long term financial planning for the City is to take steps to ensure that current services are being paid for in the current year to the extent possible, and that non-annual costs are taken into account. The City has made great strides in funding facilities maintenance and equipment replacement reserves over the past few years, and the projections continue that trend. Our understanding is that the City is undergoing a more extensive facility review and will be better able to define future needs next year, but the Committee feels that the level of cash transfers for those two areas are generally sufficient over the near term. However, there are several large scale capital projects that are likely in the future for which no money is currently being reserved and those include any significant capital required for the aquatics facilities and for large scale park renovation.

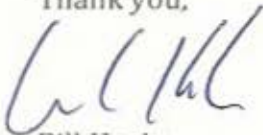
Additionally, it should be noted that although some money is being put aside into the OPEB every year, the amount is far less than the accruing liability for current services – by as much as \$600,000 per year. This shortfall acts like an implicit loan, and the City will have to make up the shortfall in the future (once the Side Fund loan is repaid).

Finally, there are several assumptions around pension benefits that require caution.

1. CalPERS has provided longer term estimates for employer pension contributions that rise to over 60% of salary for safety employees. The Committee has several times warned of large increases coming (and these may not be the last). The City currently has a sharing arrangement with employees whereby they pick up approximately 50% of the pension cost above certain thresholds (which are currently being exceeded).
2. On the other hand, the projections assume no change to the mix of Tier I vs. Tier II and III employees. That assumption seems conservative, as it is likely that Piedmont will experience material employee turnover in the coming years, which will likely result in lower real employer pension costs.
3. The projections do not include any savings from a change in benefit practices such as a “cafeteria plan.”

The Committee appreciates the opportunity to present this recommendation. Please let us know if you have any questions or would like any additional analysis.

Thank you,



Bill Hosler

Chair of the Budget Advisory and Financial Planning Committee

June 2, 2014

Madame Mayor and City Council,

As you are aware, the City Council originally formed the Budget Advisory and Financial Planning Committee (the "Committee") for a three year period at which point it would be discontinued. Recently, the City Council has asked the Committee to examine whether it makes sense to continue the Committee and, if so, to make a recommendation for its continuance.

In response to the request, we have considered several factors relating to the Committee including:

- the specific work this committee has performed over the past three years and whether or not tangible benefits have been achieved,
- the amount of knowledge that has accumulated in the Committee,
- the time spent on annually recurring items as compared to the time spent on special projects or non-annually recurring items, and
- the overlap between the function of this Committee as compared to the historic activity of the Municipal Tax Review Committee in prior years.

Based on the above and given our review, we would propose that the Council consider making the Committee a permanent committee in Piedmont to serve at the direction of the Council with defined responsibilities.

In particular, we would recommend the following parameters:

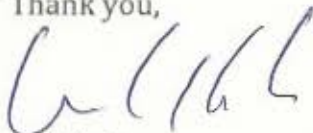
1. The Committee should be comprised of 5 sitting members with two additional persons appointed as alternates in order to facilitate achieving a quorum.
2. Committee members should serve for 4 year terms and there should not be term limits.
3. The terms should be staggered, such that no more than 2 members have expiring terms in any one year.
4. Alternatives should be given primary consideration for replacing any Committee member leaving after their term has expired
5. The Committee Chair should be determined by the Committee annually.

Further, the Committee recommends the following for its scope and responsibility:

1. Annually review and comment on 5 year projections.
2. Perform a financial review on any new program commitments in excess of \$250k in any fiscal year or any unusual commitments as determined by the Council.
3. Periodically review the City's separate funds for Sewer, Equipment, Facility Replacement, etc., to comment on the funds' adequacy for the long term financial health of the City.
4. Periodically review and advise on the pension and retiree healthcare funding/financial health.
5. Prior to 18 months before the expiration of the Municipal Services Parcel Tax, undertake a study and recommend to the Council the level of Municipal Services Parcel Tax necessary to meet the financial needs of the City. For the year of the study, the Council could elect to expand the Committee and add up to 3 new temporary "voting" members (which could include any alternate member), whose service would only be for the purpose of reviewing the Municipal Services Parcel Tax and would only last 1 year.
6. Propose any new financial topics of study to the City Council and respond to any requests from the Council.
7. It is to be recognized that the Committee serves at the request of the Council to provide financial analysis and advice, but that the Committee is not intended to have "governing powers."

The Committee appreciates the opportunity to present this recommendation. Please let us know if you have any questions or would like any additional analysis.

Thank you,



Bill Hosler

Chair of the Budget Advisory and Financial Planning Committee