October 3, 2019

City Council of Piedmont, California
Mayor Robert McBain, Vice Mayor Teddy Gray King, Council Member Jen Cavenaugh, Council Member Betsy Smegal Andersen, Council Member Tim Rood

Re: 2019 Report of the Piedmont Budget Advisory and Financial Planning Committee – Municipal Services Tax

Dear Mayor McBain and Honorable City Council:

We are pleased to present our report concerning the renewal of the Municipal Services Tax. Our Committee completed substantial investigations and analyses concerning the City's financial position. Our objective was to review and analyze areas we found most pertinent and make recommendations, not only as the renewal of the tax and possible duration, but also in areas where we thought the City could benefit long term.

To improve the readability, this report contains an executive summary with our recommendations as well as 6 parts with associated appendices, concerning Financial Projections and Analysis, Comparative Analysis, Facilities Maintenance and Replacement Planning, Street and Sidewalk Resurfacing and Repair, Capital Expenditure Bonds and the Effect on Taxes, and Additional Revenue Sources – Real Property Transfer Tax.

In preparing this memorandum, the Committee met several times with Mayor Robert McBain, Finance Director Michael Szczech, Director of Public Works Chester Nakahara, City Administrator Sara Lillevand, and other City staff, and we would like to thank them for their efforts.

Thank you for the opportunity, and as always, we stand ready to help the City Council in any financial matters.

Respectfully Submitted,

Piedmont Budget Advisory and Financial Planning Committee
Bill Hosler, Chair
Cathie Geddeis, Chris Kwei, Deborah Leland, Christina Paul, Maya Rath, Michael Reese, and Frank Ryan

Report of the Budget Advisory and Financial Planning Committee

Piedmont, California

October 4, 2019

Committee Members:

Bill Hosler, Chair

Cathie Geddeis

Chris Kwei

Deborah Leland

Christina Paul

Maya Rath

Michael Reese

Frank Ryan

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Executive Summary

The Budget Advisory and Financial Planning Committee (BAFPC or Committee) is pleased to present this report concerning the Municipal Special Services Tax (Parcel Tax). As requested by the City Council and per its charter, the Committee has analyzed the financial condition of the City and its longer-term projections with the goal of recommending a level and duration of the Parcel Tax.

Background

The Committee has been charged with providing comments on the City's financial projections contained in its annual budget proposal, the proposed funding and expenditures from several long-term funds, and periodically reviewing and commenting on the long-term sufficiency of several city funds. The Committee has also been directed by the City Council to examine the need for the Municipal Services Special Tax (Parcel Tax) and recommend whether the tax should be continued, and if so, at what rate. The latter charge is to be accomplished not later than 18 months prior to the expiration of the Parcel Tax as set forth in the Piedmont City Code. The current Parcel Tax expires on June 30, 2021 and the earliest that the City Council can put the renewal of the Parcel Tax to a vote is on the March 2020 primary election ballot.

It is a cornerstone belief of the Committee that the City should operate in such a way as to spend or set aside every year the amount of funding necessary to pay for the annual costs, including depreciation, of running the City.

The BAFPC last analyzed the need for the continuation of the Parcel Tax in 2015. That Committee recommended increasing the tax by up to 50%, and the City Council ultimately decided on an increase of 30%. This proposal was approved by the citizens of Piedmont in 2016. Since that Committee recommendation, the City has developed more detailed long-term plans that show a path forward – with the additional parcel tax - to address the long-term liabilities of the retiree pension and healthcare liabilities. This path forward relies on the existing parcel tax, and moreover, specifically does not fully address long-term needs to repair and replace City facilities, including maintaining roads at current levels. In the last 20 years, the City has underfunded facilities maintenance, streets and sidewalks, and although steps have been taken to begin to address this, the City likely does not have the long-term revenues to fully maintain facilities and streets, much less upgrade them to prior levels. The Committee believes it is inadequate financial stewardship to continue to plan for underfunding the year-to- year depreciation that occurs in the City's infrastructure and to not plan for their substantial repair/replacement.

Conclusions

In summary, the Committee concludes the following:

- The City (Council, staff, and employees) has continued to do a commendable job of implementing prior recommendations to control costs and improve the long-term financial health of the City;

- City finances have improved significantly as a result of these actions. In addition, the City has benefited greatly from the extended economic recovery as reflected in high property values and the resulting record levels of Transfer Tax revenues.

- Under the new Finance Director, the City has developed a very detailed long-term financial plan to deal with the City's most pressing long-term liabilities (pension and healthcare);

- The City's long-term financial plan provides a reasonable path forward to deal with operating costs, including retiree obligations accrued and to be incurred in the future. However, even with the favorable economic trends noted above, the Committee concludes that the City currently lacks sufficient resources to maintain City infrastructure including facilities, streets and sidewalks, and meet deferred maintenance needs, without additional revenues;

- Although not as time critical as operating cost issues, maintaining City infrastructure is necessary to allow the City to continue to provide the services Piedmont citizens expect, and the City Council should seriously consider all potential revenue sources to address the underfunding of infrastructure maintenance and replacement;

- The economic recovery has surpassed prior records and a downturn will come, negatively impacting City revenues and increasing City costs. The City has built basic reserves and is in fair financial shape on the operating side, but care must be taken to continue to moderate expense growth and future promises, especially heading into an eventual downturn; and

- The City must balance its basic operational needs with the aspirational desires of the public for improved public facilities, including its public safety, parks, public pool and recreation facilities. All these potential projects could potentially generate some revenues to offset operating costs, but at the outset would require significant public investments, adding to the burden on Piedmont taxpayers.

With these conclusions in mind, the Committee has put forth a set of comprehensive recommendations below, including the continuation of the Parcel Tax at least at the current level, and for a term of at least four years if not longer.

Recommendations

The Committee's recommendations are as follows:

1. Continue the City's Parcel Tax to fund the City's operating expenses and maintain the quality services for which its residents expect. The continued need for the Parcel Tax is demonstrated with a review of the City's recently provided ten-year General Fund financial projections, as well as an analysis of the City's facilities maintenance needs. The Committee found sufficient infrastructure maintenance and operational needs to justify at least continuation of the Parcel Tax at its current rate, but believes additional funding will be needed that either could be met by increasing the current Parcel Tax rate or supplementing with an increase in other revenue sources, such as the Transfer Tax (see Part 6).

   In considering potential revenue sources to address infrastructure maintenance needs, the Committee focused on the Transfer Tax for two reasons. First, whereas Property Tax rates in Piedmont are comparable to or higher than neighboring cities, the Transfer Tax is lower than that of Oakland and Berkeley, presenting an opportunity to increase City revenue. Second, while the Transfer Tax is highly volatile and thus not a dependable source to fund operating costs, that volatility is manageable when the revenue is contributing to a long-term funding need such as infrastructure maintenance. Should funding exceed needs in future years, the Committee expects the City Council to respond, as it has done in the past, by temporarily reducing or suspending the Parcel Tax, as is within the Council's annual discretion.

2. Given the importance of predictable funding to pay for existing and future operational and maintenance needs, and to allow the City to do longer-term planning, the current four-year term for the Parcel Tax is insufficient. Therefore, the Committee believes it prudent for the City Council, especially should it decide to maintain the rate at the current level, to consider renewing the Parcel Tax for an eight-year term.

3. The City should continue to develop and monitor the new long-term financial model for consistency with actual results and changes in the environment. The Committee considers this model to be the bedrock of the City's long-term financial planning. As part of this, the City should annually review and model:
    a. retiree healthcare projections, OPEB funding, and the funding status of the City's Police and Fire Pension Fund to determine if the long-term funding is sufficient;
    b. the long-term projections of CalPERS retirement plans as compared to the City's union negotiations, benefit practices, and funding to ensure long-term viability of its current retirement plans;
    c. housing inventory, including the purchase prices and number of existing homes, as is current practice, but also the conversion of existing owner-occupied homes into rental properties, to understand trends which may affect future tax revenues.

4. The City should continue to refine, formalize, and complete additional studies as necessary to determine the long-term needs of its Facilities Maintenance Fund, including future replacement costs and street maintenance costs. It is critical to know and understand what expenditures will be required over the horizon so that:
    a. much-needed funding, which is provided in good economic times like these, is reserved for critical needs,
    b. capital expenditures can be properly prioritized. It is impossible for the City to properly prioritize capital expenditures without a full knowledge of what is required; and
    c. the City can properly analyze just how much additional revenue is needed to comprehensively provide for long-term facilities and street maintenance.

5. The City and the Piedmont Unified School District should form a joint committee to look at long-term capital needs and funding as well as to coordinate taxation on City residents, many of whom may not be aware that the school district and the City are distinct entities, each with their own taxing authority, subject to voter approval.

The remaining sections of this report provide further details and information on the Committee's recommendations, including commentary and analyses of the City's financial projections, how Piedmont property taxes compare to other similar municipalities, bond funding scenarios, infrastructure maintenance (including civic buildings, parks, streets and sidewalks), and potential other revenue sources for the City. Not addressed is pension and post-employment healthcare, which was the focus of previous Committee reports; the Committee concludes that the City is appropriately addressing this important issue.

Given the complexity of how the City generates revenue, the Committee also provides an explanation of basic taxation, the impacts of different taxation strategies on home-buying and selling behaviors (which in turn impacts City revenues through the transfer tax and property tax assessments), as well as how Piedmont Unified School District bonding plans may impact the City as it seeks voter approval for additional taxes.

PART 1
FINANCIAL PROJECTIONS AND ANALYSIS

The Committee has reviewed the 10-year General Fund projections (Appendix B) recently provided by City staff as part of the recent budget discussion. It is important to note that the projections assume the continuation of the Parcel Tax. The projections show revenue growing at a compound annual rate of 2.70% and expenditures growing at an annual compound growth rate of 2.45%. Table 1 below shows revenue and expenditure growth assumptions over various periods.

Table 1: General Fund Revenue and Expenditure Growth

Category	Last 30 Years	Last 10 Years	Projected Next 10 Years
Annual Revenue Growth	5.65%	4.50%	2.70%
Annual Expenditure Growth	5.35%	4.22%	2.45%

Note: Annual Expenditure Growth in the above table includes all General Fund expenditures and transfers out of the General Fund to other areas.

The historical data and the projections for the next ten years show a close link between revenue growth and expenditure growth, which is to be expected. The projected revenue growth numbers are potentially understated as the City has taken a conservative position by forecasting the Real Property Transfer Tax to remain consistent over the next ten years at $2.8 million, which is a decrease of $1 million from the actual experience in fiscal year 2018-2019. The projected expense growth percentage is somewhat low due to transfers for street and sidewalk repair in the base year of fiscal 2018-2019. There is also a change in one component of expenditures as fiscal year 2019-2020 is the last year for payments on the side fund debt related to the 2014 Pension Obligation Fund. The City has assumed that this decrease in payments will be offset by anticipated higher costs in the future, especially for pension obligations and infrastructure needs.

Property Taxes

The table below shows the various components of Piedmont general fund revenues for the current budget year 2019-2020 as well as average growth rates and standard deviations over the last 15 years. The chart leads to several observations:

1. Property related revenues (Property Tax, Transfer Tax and the Parcel Tax) are expected to provide 69.0% of general fund revenues in fiscal year 2019-2020 – this level has been consistent over the last 15 years.

2. The largest component of revenue, Property Tax, has shown substantial growth, reflecting the substantial appreciation in housing prices over the past ten years and strong housing sales. In addition, Property Tax generally has very low volatility as shown by the standard deviation of annual growth in the table below.

3. Transfer Tax growth rates are by the far the most volatile of the major revenue categories. While

Table 2 below shows very little average growth for transfer tax due to the City's conservative planning assumption, there has been significant volatility over the 15-year period, as discussed below.

Table 2 - Revenue Growth and Volatility From 2003-04 to 2019-20

	FY19-20 Budget Amount ($ 000)	% of Budget	Average Growth Rate	Standard Deviation	Low	High
Property Tax	14,504	50.90%	5.30%	3.50%	0.20%	13.60%
Transfer Tax	2,800	9.80%	1.70%	20.40%	-32.60%	42.60%
Parcel Tax	2,354	8.30%	6.10%	*N/A*	*N/A*	*N/A*
Other Licenses and Franchises	2,402	8.40%	2.10%	4.20%	-2.80%	11.20%
License and Permits	470	1.60%	1.50%	12.20%	-20.30%	20.70%
Revenue From Use of Money or Property	750	2.60%	3.90%	18.20%	-15.20%	31.50%
Revenue From Other Agencies	1,568	5.50%	6.10%	13.40%	-6.20%	49.80%
Charges for Current Services	3,486	12.20%	4.60%	5.80%	-8.70%	16.60%
Other Revenue	166	0.60%	8.30%	*N/A*	*N/A*	*N/a*
Total General Fund Revenues	28,500	100.00%	4.30%			

Note: Average Growth Rate, Standard Deviation and Low and High percentages are based on the period from fiscal year 2003-2004 through fiscal year 2018-2019

The Property Tax revenue shown in Appendix B assumes a 4.5% growth per year over the next 10 years. Over the past 15 years, Piedmont has not seen a decrease in property tax revenues, although these revenues were flat during the three-year recession period ending with fiscal year 2010-2011. Given the significant appreciation in housing prices over the past 10 years, there will inevitably be a period of negative or slow growth in housing prices at some point.

Absent a period of significant decline in housing prices, the City can reasonably expect yearly appreciation in the assessed value of the City's housing stock to be, at a minimum, close to 2% given the number of houses in Piedmont that are undervalued for tax assessment purposes under Proposition 13 and the impact of remodeling or additions that increase the assessed value of the property. However, increases beyond this amount assume there is a continued stream of house sales that increase the assessed value of a property, especially the sale of houses that have been owned for 10 or more years and whose assessed value is substantially below market value. To put this risk in dollar terms, there is a loss of $15 million in property tax revenue over the next ten years if assessed values grow only at 3% during the period.

Every recent Municipal Parcel Tax Review report has discussed the size and volatility of the Piedmont Real Property Transfer Tax. While the above table shows the Transfer Tax as being 10% of revenues with limited growth, there is a different story when looking at the individual years. The table below shows Transfer Tax amounts and annual changes beginning in the fiscal year 2004. Whereas Property Tax annual growth rates ranged between 0 -10% in all but 1 year during this period, and never decreased year over year for the past 15 years, Transfer Tax growth rates ranged between a negative 10% and a positive 10% in only 5 out of the last 15 years and in several years had significant declines over 15%. Given the difficulty this makes for forward planning, the City has conservatively and consistently forecasted transfer tax receipts to be flat at $2.8 million over the upcoming ten-year period.

Table 3 below shows that the Transfer Tax has exceeded the forecasted amount of $2.8 million for the past seven years. This number may be unduly conservative going forward if housing sales continue at the current rate and price levels and at some point, the City may want to assume a somewhat higher dollar value for planning purposes if real estate sales and market values remain high. However, it is inevitable that the recent period of high growth in housing prices and steady stream of house sales in Piedmont will be followed at some point by a period of flat or declining prices and fewer house sales. While prices have continued to increase, we have already seen some decline in the number of transactions, with home sales averaging 125 in the last four years compared to 155 in the prior five years.

Table 3 - Transfer Tax Revenue Growth

Fiscal Year Ending June 30th	Amount ($ 000)	Annual Growth	4 Year Trailing Average ($ 000)
2004	2,954	18.40%	2,398
2005	2,468	-16.40%	2,551
2006	3,350	35.70%	2,816
2007	2,930	-12.50%	2,925
2008	1,974	-32.60%	2,680
2009	1,712	-13.30%	2,491
2010	1,844	7.70%	2,115
2011	2,629	42.60%	2,040
2012	2,701	2.70%	2,221
2013	3,186	18.00%	2,590
2014	4,001	25.60%	3,129
2015	3,901	-2.50%	3,447
2016	3,118	-20.10%	3,552
2017	3,522	13.00%	3,636
2018	3,845	9.20%	3,597
2019	3,820	-0.70%	3,576

While it is prudent at this point to continue to project the $2.8 million yearly amount, the Committee also believes that an increase in Piedmont's transfer tax rate could be an area of significant revenue gain, with the least impact on the majority of the Piedmont residents. This is discussed in further detail in Part 6.

Expenditures

The City's expenses are heavily skewed toward personnel costs, with salaries, benefits and payroll taxes, and the CalPERS Retirement Plan costs expected to comprise 61.2% of total expenditures in fiscal year 2019-2020. This percentage is expected to grow given the forecasted increases in the CalPERS retirement costs, reaching 65.1% in fiscal year 2028-2029.

The City's forecasts assume an average yearly 4.2% increase in total personnel costs, with salaries growing at 2.9% per year on average, benefits and payroll taxes growing at 5.1% and the CalPERS retirement plan costs growing at 8.9% before factoring in the effect of the Pension Stabilization Fund. The Pension Stabilization Fund will reduce the City's pension costs by $2.2 million through fiscal year 2028-2029. The salary and other compensation expense forecasts reflect the current labor agreements for their remaining term. Upon the expiration of the agreements, compensation costs are assumed to increase 3% per year.

The City has taken significant steps to limit personnel costs over the past seven years by employees assuming a greater share of the cost of medical and retirement benefits and restructuring post-retirement health insurance benefits for future employees. The City's salary structure is also close to median for comparable cities in the region.

Employment conditions have changed since the last round of contract negotiations. Given the current tight labor market and the very high cost of living in the Bay Area, there is a risk that personnel costs will increase higher than forecasted over the next 10 years due to competitive pressures as the comparable cities negotiate new labor agreements.

Projections

Although the City is projecting a negative net income of $305,000 in the first year, fiscal 2019-2020, the City's projections as shown in Appendix B provide over $1.9 million of positive net income after capital transfers over the ten-year period, resulting in an ending General Fund balance of $6.8 million. This represents 17% of all expenditures and capital transfers. Ideally, the City should grow the General Fund to 20% or more of expenditures and capital transfers to provide reasonable protection against years of declining transfer taxes or significant unexpected expenditures.

PART 2
COMPARATIVE ANALYSIS

Property Tax Comparative Analysis

The Committee performed a property tax comparison analysis between Piedmont and other comparable cities, as well as neighboring cities. Our analysis compared property taxes of cities deemed similar to Piedmont based on size, population, home value, household income, as well as needs and requirements for safety and non-safety services. The table below also includes Oakland and Berkeley which are not similar to Piedmont but share Alameda County taxes, and are Piedmont's closest neighbors.

This analysis, summarized in Table 4 below, gave us an idea of what the total tax burden is to the citizens of Piedmont compared to these other cities. A typical California property tax bill consists of many taxes and charges including:

- the 1 percent rate,
- voter–approved debt rates (used primarily to repay general obligation bonds issued for local infrastructure projects, including the construction and rehabilitation of school facilities as shown in the table below in the "Tax Rate" columns),
- parcel taxes, (used to fund a variety of local government ongoing services tailored to the needs and desires of the community as shown as "City/School Services" and "County/Regional"),
- the Mello–Roos Community Facilities Act taxes, (used to pay for the public services and facilities associated with residential and commercial development), and
- other assessments which ultimately contribute to a higher quality of life and protect property values.

As noted elsewhere in this report, Piedmont is very dependent on property tax-related revenues due in part to its relative lack of commercial activities, and other cities may have higher non-property tax options such as sales taxes, investments, rental fees or other sources of revenues to finance a greater share of the cost of local government enabling them to have lower property taxes.

Although the rating of services provided by property taxes is not included in this analysis, we believe Piedmont to be amongst the highest (if not the highest) in terms of quality of services provided by the city and the school system. The calculations below do not account for levies that may fluctuate based on the size of a parcel (such as the Piedmont Parcel Tax), square footage, number of rooms, or other characteristics that may be part of the tax structure.

Based on an assessed home value of $1.6 million, property taxes in Piedmont would be an estimated $23,956. The amount of taxes dedicated to City services is about 0.1033%; the average for like cities is 0.1023%. The majority of comparable cities (as well as Piedmont) include taxes for sewer and paramedic/emergency services. Half of the cities have a special assessment for library services ranging from $66 in Tiburon to $349 in Berkeley.

School-related property taxes are approximately 0.3185%, which includes 0.1525% in school bond ad valorem taxes and $2,656 in parcel taxes. The average for the comparable group is 0.1478%.

Table 4 - City Tax Comparison

JURISDICTION		AD VALOREM TAXES					SPECIAL ASSESSMENTS/FIXED CHARGES			TOTAL		% of ASSESSED VALUE		
City	County	City	Schools K-12	County/ Regional (including Junior College)	Total % including General 1%	Tax Amount based on $1.6 million assessed value	City	School	County and Regional	Total Tax Amount	Total Tax Rate	City	School	County, Regional and General 1%
Piedmont	Alameda	0	0.1525	0.0508	1.2033	19252.8	1653	2656	394	23955.8	1.4972	0.1033	0.3185	1.0754
Oakland	Alameda	0.1982	0.1176	0.0508	1.3666	21865.6	345	435	417	23062.6	1.4414	0.2198	0.1448	1.0769
Berkeley	Alameda	0.0507	0.1264	0.0508	1.2279	19646.4	1359	1033	504	22542.4	1.4089	0.1356	0.1910	1.0823
Atherton	San Mateo		0.0749	0.0193	1.0942	17507.2	0	1086	1734	20327.2	1.2705	0.0000	0.1428	1.1277
Hillsborough	San Mateo		0.1113	0.0175	1.1288	18060.8	3665	651	336	22712.8	1.4196	0.2291	0.1520	1.0385
Larkspur	Marin		0.0916	0.0529	1.1445	18312	1178	750	452	20692	1.2933	0.0736	0.1385	1.0812
Mill Valley	Marin		0.0724	0.0529	1.1253	18004.8	1511	1403	182	21100.8	1.3188	0.0944	0.1601	1.0643
Sausalito	Marin		0.0424	0.0529	1.0953	17524.8	1538	294	143	19499.8	1.2187	0.0961	0.0608	1.0618
Tiburon	Marin		0.0569	0.0529	1.1098	17756.8	1036	866	389	20047.8	1.2530	0.0648	0.1110	1.0772
Moraga	Contra Costa	0	0.0771	0.0201	1.0972	17555.2	567	517	161	18800.2	1.1750	0.0354	0.1094	1.0302
Orinda	Contra Costa	0.0335	0.0469	0.0201	1.1005	17608	636	810	189	19243	1.2027	0.0733	0.0975	1.0319
Los Altos Hills	Santa Clara		0.0964	0.086	1.1824	18918.4	0	820	83	19821.4	1.2388	0.0000	0.1477	1.0912
San Marino	Los Angeles		0.067098	0.011174	1.078272	17252.352		1201		18453.352	1.1533	0.0000	0.1422	1.0112
Average*		**0.05648**	**0.088182**	**0.04009091**	**1.15394545**	**18463.1273**	**1226.2**	**954.636**	**445.545**	**21089.4909**	**1.318093**	**0.102309**	**0.147847**	**1.067938**
* Excludes Los Altos Hills and San Marino as municipal tax information was not available														

Although Piedmont has the highest overall tax rate for this comparable group (based on an assessed value of $1.6 million), Piedmont's property tax rates for city services and other county/regional taxes are in line with the average rates. The school tax burden of 0.32% significantly exceeds the 0.15% average for the group and fully accounts for the amount by which Piedmont's total tax rate exceeds the average. At the higher assessed value of $2.2 million (Piedmont's recent average sales price), where the fixed taxes become a smaller portion of the total tax, Oakland's overall tax rate exceeds that of Piedmont.

Parcel Tax Election Information

The Committee analyzed the past parcel tax election results for the years 2015 to 2018; summary information is presented in Table 5 below.

Table 5 - Parcel Tax Measure Elections 2015-2018

	CITY	SCHOOL	TOTAL
NUMBER	40	92	132
PASS (see note)	24	73	97
FAIL	16	19	35
% Pass	**60.0%**	**79.3%**	**73.5%**

Note: Of the 24 successful City measures, eight were for less than eight years, 12 were for eight or more fixed terms, and four were perpetual

The Committee also obtained the ballot questions and purpose (for city parcel taxes only) to analyze whether the pass/fail rate was in some part related to the purpose of the tax. Per Table 6 below, the rate is not significantly different. It should be noted that only 2 of the 16 parcel taxes that failed were related to Bay Area cities.

Table 6 - City Parcel Tax Purpose

	PASSED	FAILED	TOTAL
Education	1	0	1
Land Use and Roads	1	2	3
Safety	12	11	23
Libraries	4	2	6
Parks	1	0	1
General Services	3	0	3
Multiple Purposes	2	1	3
TOTAL	**24**	**16**	**40**

Expenditures – Comparative Analysis

The Committee conducted a comparison with expenditures for nine communities with similar sizes and demographics, displayed in Table 7 below.

Piedmont has the fourth highest per capita expenditure among its peers group ($3,138), behind Hillsborough ($3,726), Mill Valley ($3,334) and Sausalito ($3,141). The average per capita expenditure of the nine cities in the comparison peer group is $2,059.

Statewide, Piedmont ranks 60th highest among all California cities/towns in terms of expenditures per capita. Hillsborough ranked 39th highest in the state. Mill Valley and Sausalito ranked 57th and 58th respectively. All other cities compared ranked 126 to 328th out of 483 cities in CA.

Note that although Piedmont is above the average per capita spending among its peers, many cities do not provide fire services, and no other city provides paramedic services, with few providing anything like Piedmont's recreation services (which are almost entirely funded by fees).

For per capita spending on public safety, including police, fire, and paramedics, Piedmont followed Hillsborough as second highest spending per capita. Piedmont's public safety expenditures of $1,252 per capita was only exceeded by Hillsborough's $1,330, with the average of all communities being $814. However, Hillsborough had the second lowest crime rate with 13 crimes per square mile, but Piedmont had the second highest crime rate with 121 crimes per square mile – well above the comparison average of 48.

These high relative costs are likely due to Piedmont's proximity to Oakland (no other comparison city neighbors a high-crime urban city) and the fact that Piedmont has its own fire department (only four other comparison cities have their own fire department; others contract with either the county or sheriff's departments) and paramedic services, as noted above. Piedmont's current public safety staffing provides response times within about five minutes.

For these comparisons, the Committee used public databases provided by the State which is provided in summary form below as well as direct contact with some city managers. The Committee found this data of limited usefulness for direct comparison as (1) there was little detail behind the data, (2) the data included all expenditures including debt service, sewer, and capital, and (3) the cities all provide different services and account for them in different ways.

Table 7 - Comparison City Expenditures

ACTUALS FOR FY 17-18

	Piedmont	Peer City Average	Hillsborough	Larkspur	Los Altos Hills	Mill Valley	Moraga	Orinda	San Marino	Sausalito	Tiburon
Population	11,420	12,706	11,769	12,578	8,785	14,675	16,939	19,475	13,352	7,416	9,362
Square Miles	1.7	6.1	6.2	3.1	8.6	4.7	9.5	12.6	3.8	1.9	4.5
Population per square mile	6,718	2,371	1,827	4,052	1,022	3,117	1,776	1,473	3,514	3,903	657
Number of Homes	3,924	5,060	3,912	6,376	3,001	6,534	5,754	6,553	4,477	4,702	4,230
Dwellings per square mile	2,308	1,127	631	2,057	349	1,390	603	520	1,178	2,475	940
Population per dwelling	2.8	2.5	2.9	2.1	2.8	2.3	2.9	2.7	3.0	1.6	2.4
Median Home Value (per Zillow)	$ 2,256,800	$ 2,286,178	$ 4,288,900	$ 1,658,300	$ 4,384,500	$ 1,471,500	$ 1,242,400	$ 1,491,400	$ 2,302,800	$ 1,256,800	$ 2,479,000
Median Household Income	$ 202,631	$ 162,672	$ 238,750	$ 95,952	$ 248,218	$ 141,698	$ 139,018	$ 186,075	$ 152,527	$ 110,385	$ 151,429
Median age	47	48	47	50	51	47	42	48	47	54	50
FY 17-18 Expenditures	$ 35,840,000	$ 25,417,778	$ 43,850,000	$ 18,540,000	$ 11,070,000	$ 48,920,000	$ 15,380,000	$ 30,350,000	$ 26,830,000	$ 23,290,000	$ 10,530,000
Expenditures per capita	$ 3,138	$ 2,059	$ 3,726	$ 1,474	$ 1,260	$ 3,334	$ 908	$ 1,558	$ 2,009	$ 3,141	$ 1,125
Salaries	$ 13,625,594	$ 7,331,151	$ 10,429,082	$ 6,542,056	$ 2,272,221	$ 16,911,104	$ 3,847,542	$ 3,629,600	$ 11,011,756	$ 7,298,707	$ 4,038,291
Benefits	$ 3,247,403	$ 1,786,051	$ 3,207,610	$ 1,439,094	$ 470,183	$ 3,957,947	$ 613,550	$ 1,015,191	$ 2,344,237	$ 2,115,151	$ 911,493
Total	$ 16,872,997	$ 9,117,202	$ 13,636,692	$ 7,981,150	$ 2,742,404	$ 20,869,051	$ 4,461,092	$ 4,644,791	$ 13,355,993	$ 9,413,858	$ 4,949,784
Benefits % of Salary	24%	24%	31%	22%	21%	23%	16%	28%	21%	29%	23%
Total Comp % of expenditures	47%	36%	31%	43%	25%	43%	29%	15%	50%	40%	47%
Number of FTEs	93	76	88	49	23	156	37	53	138	70	74
Public Safety:											
Police	$ 6,756,000	$ 4,430,220	$ 8,468,000	$ 3,466,000	$ 1,504,978	$ 5,749,000	$ 2,434,000	$ 4,121,000	$ 5,992,000	$ 4,972,000	$ 3,165,000
Fire\Paramedic	$ 6,635,000	$ 5,591,850	$ 7,184,400	$ 4,306,000		$ 5,112,000			$ 5,765,000		
Other (Street Lighting, animal regulation, weed abatement, disaster preparedness)	$ 910,300	$ 83,200		$ 136,000	$ 55,000	$ 69,000		$ 114,000	$ 42,000		
Total	$ 14,301,300	$ 10,105,270	$ 15,652,400	$ 7,908,000	$ 1,559,978	$ 10,930,000	$ 2,434,000	$ 4,235,000	$ 11,799,000	$ 4,972,000	$ 3,165,000
Public Safety (Per Capita):											
Police	$ 592	$ 375	$ 720	$ 276	$ 171	$ 392	$ 144	$ 212	$ 449	$ 670	$ 338
Fire\Paramedic	$ 581	$ 433	$ 610	$ 342		$ 348			$ 432		
Other	$ 80	$ 6		$ 11	$ 6	$ 5		$ 6	$ 3		
Total	$ 1,252	$ 814	$ 1,330	$ 629	$ 178	$ 745	$ 144	$ 217	$ 884	$ 670	$ 338
Volent crimes	16	10	8	16	2	9	8	12	14	14	3
Property crimes	190	177	74	324	61	217	152	180	257	234	90
TOTAL	206	186	82	340	63	226	160	192	271	248	93
Crimes per Square Mile	121	48	13	110	7	48	17	15	71	131	21
General Fund Expenditures	$ 28,744,000	$ 19,814,222	$ 28,817,000	$ 17,203,000	$ 10,985,000	$ 31,279,000	$ 10,242,000	$ 15,085,000	$ 23,224,000	$ 29,131,000	$ 12,362,000
per capita	$ 2,517	$ 1,729	$ 2,449	$ 1,368	$ 1,250	$ 2,131	$ 605	$ 775	$ 1,739	$ 3,928	$ 1,320

Although the General Fund data provides a slightly better comparison, it is still comparing apples to oranges as different cities provide different services. Also note that the full-time employee ("FTEs" as used in municipal settings, to be distinguished from full-time <u>equivalents</u>) numbers are also non-comparable, as for example, Piedmont at 93 includes only actual full-time employees and none of the part time Recreational Department employees which account for a substantial amount of salaries in the General Fund.

As the Committee felt that this data was of limited usefulness for direct comparison as it is too generalized, it performed a deeper dive into Hillsborough since it provides substantial services somewhat closer to Piedmont and has a similar population, number of homes, and median income as Piedmont.

Table 8 on the following page is a summary comparison of city expenditures by department in the coming budget year 2019-20 for both Piedmont and Hillsborough.

Table 8 - Budget Year 2019-20 Departmental Expenditures

	Piedmont	Hillsborough
Public Safety		
Police	6,563,888	10,508,737
Fire	6,684,800	7,944,906
Streets/Public Works	3,529,073	2,573,202
Library and Recreation	4,897,700	1,139,801
Building and Planning	1,351,300	2,185,672
Administration and Finance	3,352,960	1,481,961
Non-Departmental	2,616,671	
	28,996,392	25,834,279

As shown, the Cities have similarly named departments, but there are some differences in what services they provide. Hillsborough appears to spend substantially more on Police and Fire as well as Building and Planning, but less on Public Works, Recreation, and Administration. Hillsborough also spends outside of this budget over $19 million on sewer and water, whereas Piedmont subscribes to EBMUD.

Comparing the differences in the departments and services was difficult as Hillsborough provides substantially less departmental budget detail than does Piedmont, and Hillsborough re-allocated certain administrative and other costs across departments making a direct comparison more difficult. However, the Committee determined that since so much of every city's budget is made up of personnel costs, a better comparison could be made by focusing on those costs between cities – the number of people and the cost per person.

To start, the Committee compared the actual number of full-time employees (Table 9). This is the authorized staffing level for each City and excludes part time staff (which Piedmont has in significant number in Recreation). So already there are differences in that Piedmont has significant part-time employment whose salaries show up in costs, but whose numbers do not show up in FTE.

Table 9 - Full-Time Employees

	Piedmont	Hillsborough
Public Safety		
Police	29	37
Fire	25.4	0
Public Works	11.5	33
Recreation Department	11.6	0
Building and Planning	8.5	8
Adminstration	8	11
Total	94	89

The number of FTEs sheds more light on the relative expenditures of each City's department, but also brings up some questions. The Committee also looked at a gross salary benefit comparison while trying to adjust for the significant amount of part time salaries in the Piedmont Recreation Department (Table 10). The table below looks at total salaries for both Cities and removes the part time salary component for Piedmont Recreation Department, and then divides that by total FTE. As shown, on a salary and benefit basis, Piedmont overall compares favorably to Hillsborough. Note however, that this comparison is looking at gross salary data and is not adjusting for position level, experience, etc. It is simply a rough check on overall personnel costs.

Table 10 - City Total Salary/Benefits Comparison

	Piedmont	Hillsborough
Total Salaries	13,943,000	9,685,200
Part Time Salaries	1,496,000	
Net Full Time Salaries	12,447,000	
Total Benefits	5,451,700	6,603,256
Full Time Employees	94	89
Full Time Salary per Employee	132,415	108,822
Benefits per Employee	57,997	74,194
Total Per Employee	190,412	183,016

As the Committee looked deeper into each department, a more specific comparison could be made on combined salary and benefit costs (Hillsborough does not break out salary and benefits for each department). As shown in Table 11 below, Hillsborough has significantly more staffing in police than Piedmont. From the summary table of cities, Hillsborough has substantially less crime which may in part be explained by the higher staffing, but also Hillsborough has 3.6X more land to cover. To gain an even better understanding of costs, the Committee looked deeper into police salary and benefits as shown below.

Table 11 - Police

	Piedmont	Hillsborough
Salaries	3,960,000	?
Benefits	1,538,800	?
Personnel Total	5,498,800	8,716,244
Employees	29	37
Cost/Employee	189,614	235,574

Based on the above, it would appear that Piedmont spends less per person than Hillsborough. Although full salary data is available for every employee, the Committee has chosen not to provide it here. However, based on certain spot checks, Piedmont does seem to spend slightly less per employee in equivalent police positions. Part of this is lower salaries, but part is due to the benefit cost sharing that Piedmont has in place with its employees.

For fire, Piedmont has its own fire department which includes paramedics (one of the only cities to do so). Hillsborough pays into the Central District Fire Department which includes Millbrae and Burlingame and does not provide paramedic services. In this case it appears Piedmont is paying less and likely getting superior service.

In Public Works (referred to as Streets in Hillsborough as sewer is covered in a different area outside the above budget), it appears Hillsborough spends less even though it has a higher number of employees. However, in the more detailed budget numbers, Hillsborough only counts 11 of the 33 employees as dedicated to streets, etc., as opposed to their sewer and water systems, which puts it close to Piedmont in FTE. Those same numbers show those 11 employees costing just under $2.1 million in salary and benefits versus $1.9 million for Piedmont salaries and benefits. Again, a spot check of certain positions showed Piedmont salaries at or below those of Hillsborough.

Hillsborough provides predominately library services in its Library and Recreation Department, accounting for $948 thousand of the $1.3 million shown. The Hillsborough budget shows only $131 thousand for "recreational services." On the other hand, Piedmont's contribution to the City of Oakland of $350 thousand for library is actually in the Non-Departmental category. Piedmont spends substantially on recreation. However, it is important to note that Piedmont's extensive recreation activities are almost entirely paid for by fees having very little net impact on the General Fund budget.

In Building and Planning, Piedmont has about the same staffing but has substantially lower costs. A significant portion of this difference is in salary and benefit costs with Hillsborough at $1.6 million versus Piedmont at $1.1 million despite the similar staffing overall. It appears that Hillsborough has more senior employee positions and contracts out significant work, but again, the Hillsborough budget was not detailed enough to dig deeper.

Finally, in looking at Administration and Finance, it appears Piedmont spends substantially more than Hillsborough. Here again, the information is misleading due to accounting conventions. As stated above, Hillsborough allocates substantial administrative costs to each department as "service transfers" (including the sewer and water departments which aren't discussed here) making comparisons very difficult. But again, looking at FTEs, Piedmont actually has fewer FTEs than Hillsborough and in spot checking salaries and benefits, Piedmont seems to have costs at or below Hillsborough. The major difference in department total is the allocation of costs from Administration to other departments.

In the last area, Non-Departmental, Piedmont creates a cost center that holds the library costs (discussed above), total workers compensation insurance, liability insurance, and current retiree medical payments. Although short on detail, it appears Hillsborough allocates these costs to each operating department and direct comparison is therefore not possible.

In summary, in looking at a deeper level at Hillsborough which has many similar services, demographics, and quality of life as Piedmont, and after stripping away as many differences as possible, Piedmont appears to have similar staffing, pay structure, and overall cost structure for similar services as Hillsborough. This analysis gave the Committee comfort as to the overall cost structure of Piedmont as being in line with the high quality of service provided. However, because it was difficult to compare certain items such as workers compensation insurance and liability insurance, it may be worthwhile for staff to compare Piedmont's costs for these services to those paid by other cities.

PART 3
FACILITIES MAINTENANCE AND REPLACEMENT PLANNING

The Committee in 2015 made three recommendations with respect to facilities maintenance and replacement planning:

- The City should create a comprehensive long-term facilities maintenance and replacement plan, tracking all major systems and components for their estimated useful life and replacement costs, similar to its Equipment Replacement Fund. Studies should be conducted as needed to enhance and supplement the work done by staff in identifying and prioritizing deferred maintenance items.
- The City should track and differentiate between ongoing operations and repairs versus replacements, under a long-term plan on a building by building basis.
- The City should budget to fund the Facilities Maintenance Fund at a sustainable level given the information from the long-term facilities maintenance plan with a focus on more than just annual maintenance and repairs.

The City has made significant strides in each of these areas. Specifically, the City now has a Facilities Maintenance Plan that includes three components for each civic building:

- Deferred Maintenance/Capital Projects: Identified capital needs, classified by priority and scheduled over the next five years, including estimated consulting and design costs;
- 15-year Scheduled Maintenance: An itemization of the major components of each facility (civic buildings and parks), along with a rough estimated cost of and schedule for the maintenance/replacement of each component over the next 15 years; and
- Annual repairs and maintenance budgeted for each facility (including parks and walkways/stairs), based on tracked costs over the past several years. Note that this is separate from janitorial and routine maintenance/service contracts, which the City now tracks separately and funds out of the general operating budget rather than from the Facilities Maintenance Fund.

FMF Investment and Budgeting

<u>Recent Facility Maintenance Funding</u>: In 2015, the Committee recommended that the City allocate resources to complete deferred maintenance work while simultaneously planning for future replacement needs. The 2015 report noted that significant increases in facilities maintenance spending were required to address the deferred maintenance backlog and allocate funds for future expenses. Based on the 2015 analysis, the City could spend up to $2.6 million annually for the next several years to begin to address the inherent backlog and save for future needs. However, due to budget constraints, that level of investment was noted to be in stark contrast to the budgeted amount of $989 thousand toward facilities, two-thirds of which was for ongoing operations or design and assessments, leaving only $319 thousand budgeted for actual maintenance and facility investment.

With a heightened focus on the need for investment in civic facilities, combined with budget surpluses from higher than expected Property Tax and Transfer Tax revenues associated with the strong economy over the past several years, actual facility maintenance funding has increased significantly, addressing some deferred maintenance and also building a reserve balance in the FMF, as shown in the table below.

Table 12 - Facilities Maintenance Fund
FY 2014/15 - FY 2018/18 Actuals

Fiscal Year	Begin Balance	Budgeted Funding	Add'l Funding	Interest	Janitorial & Routine Maint.**	Annual Repairs & Sched. Maint.	Capital Projects / Deferred Maint.	Total FMF Expenditures	End Balance
2014/15	$ 2,114,246	$ -	$ 1,051,875	$ 282	$ (79,245)	$ (201,516)	$ (761,753)	$ (1,042,514)	$ 2,123,889
2015/16	2,123,889	500,000	2,799,842	733	(127,119)	(373,483)	(547,922)	(1,048,524)	4,375,940
2016/17	4,375,940	527,325	1,557,535	1,500	(147,012)	(443,491)	(2,089,599)	(2,680,102)	3,782,198
2017/18	3,782,198	800,900	2,530,100	2,130	(241,332)	(727,579)	(491,962)	(1,460,873)	5,654,456
2018/19	5,654,456	850,000	240,000	75,000	(264,688)	(549,788)	(698,283)	(1,512,759)	5,306,697

* Projected

** Starting in 2019-20, these expenditures are being charged to the General Fund

Note that the 2016/17 capital projects included approximately $1.75 million for the Hampton Park renovation, along with privately raised funds. Additionally, the FMF projections exclude interest earnings. This is an intentionally conservative approach, to offset the fact that scheduled maintenance estimates do not include funds for any design/consulting/planning that may be necessary, and may not fully reflect construction cost escalation.

As shown in Table 12, the City has increased its investment in facilities through a combination of modest increases in budgeted funding, plus significant "additional funding" which is a combination of end of year capital transfers into the FMF resulting from budget surpluses, and private contributions for capital projects funded from the FMF such as the Hampton Park renovation in FY16-17. The average annual investment for facilities in the past four fiscal years (budgeted and additional funding for FY15-16 through FY18-19, not including interest) was $2.45 million. Average annual facilities maintenance expenditures (excluding janitorial and routine maintenance) over the same period was $1.45 million.

<u>FY19-20 Budget and 10-year Projections</u>:

The FY19-20 budget includes a $550 thousand capital transfer out of the General Fund to the Facilities Maintenance Fund. While this appears to be a reduction from the $850 thousand budgeted for FY18-19, the FY19-20 amount excludes janitorial services and routine maintenance of approximately $300 thousand, which is now funded through the general operating budget rather than the FMF. Planned expenditures for FY19-20 slightly exceed $2.0 million, including approximately $1.2 million in capital projects/deferred maintenance, $520 thousand in scheduled maintenance, $290 thousand in annual repairs/maintenance, and $200 thousand in consulting services.

The 10-year budget projections continue the $550 thousand annual contribution for a second year, but then are unable to support this same level of annual transfer out, and the annual contributions to the FMF gradually reduce to $400 thousand, then to $250 thousand in year 10.

Appendix C first projects the FMF balance using the funding levels of the 10-year budget projections and assuming all three categories of expenditures – capital projects/deferred maintenance (which includes consulting/design services), scheduled maintenance, and annual repairs – are fully incurred. This level of investment and spending results in a negative balance in the FMF by year 6, with a cumulative funding deficit over the 10-year budget horizon of approximately $1.9 million. Extending the funding analysis out to the end of the scheduled maintenance projections, there would be a $4.9 million funding deficit at the end of FY 32/33. To fully fund the FMF and maintain a positive balance, annual funding would need to be increased from $550,000 to $750,000, and maintained at that level, as shown in the second table in Appendix C.

In addition to the deficits above, it is important to note that the Facilities Maintenance Plan is focused on the investment in civic facilities required to maintain the current level of services in the City. The FMP includes no costs associated with the maintenance of pool facilities, which are the subject of a separate master-planning effort. Furthermore, there are planning studies and discussions underway regarding the potential renovation and/or reuse of the Recreation Department building, Veteran's Hall, City Hall basement, Coaches Field/Blair Park, and Linda Beach Field and Park, all of which would potentially add or improve service spaces; the FMP does not include costs associated with any of those planning scenarios. To the extent that the City embarks upon capital projects to expand upon existing service spaces, additional funding sources – over and above the amounts just needed to maintain existing facilities – would need to be identified for those projects.

A final note is that the scheduled maintenance plan originally ran 15 years, FY18-19 through FY32-33, but is now actually a 14-year plan. Ideally, the scheduled maintenance plan would be refined to follow the format of the Equipment Replacement Plan, showing an age, useful life and scheduled replacement year, for better tracking on an ongoing basis. It is not uncommon for components to outlive a standard "scheduled" useful life, in which case the useful life can be adjusted and the replacement year can continue to be pushed out.

PART 4
STREET RESURFACING AND REPAIR

Piedmont has approximately 40 miles of streets. While most are subject to light to medium usage, some streets (for example, most of Grand Avenue) are subject to much higher usage, and thus require more attention. When problems arise, the City may slurry coat areas that need patching, which adds three to five years of additional life, or do a complete grind and repaving.

The overall street network within the City is comprised of 5.96 miles of Arterial streets, 6.41 miles of Collector streets and 26.38 miles of Residential streets. According to a July 17, 2017 report by the City Administrator, the total curb to curb replacement value of the City streets is approximately $59 million. The report also estimated that deferred maintenance on the streets was $14 million.

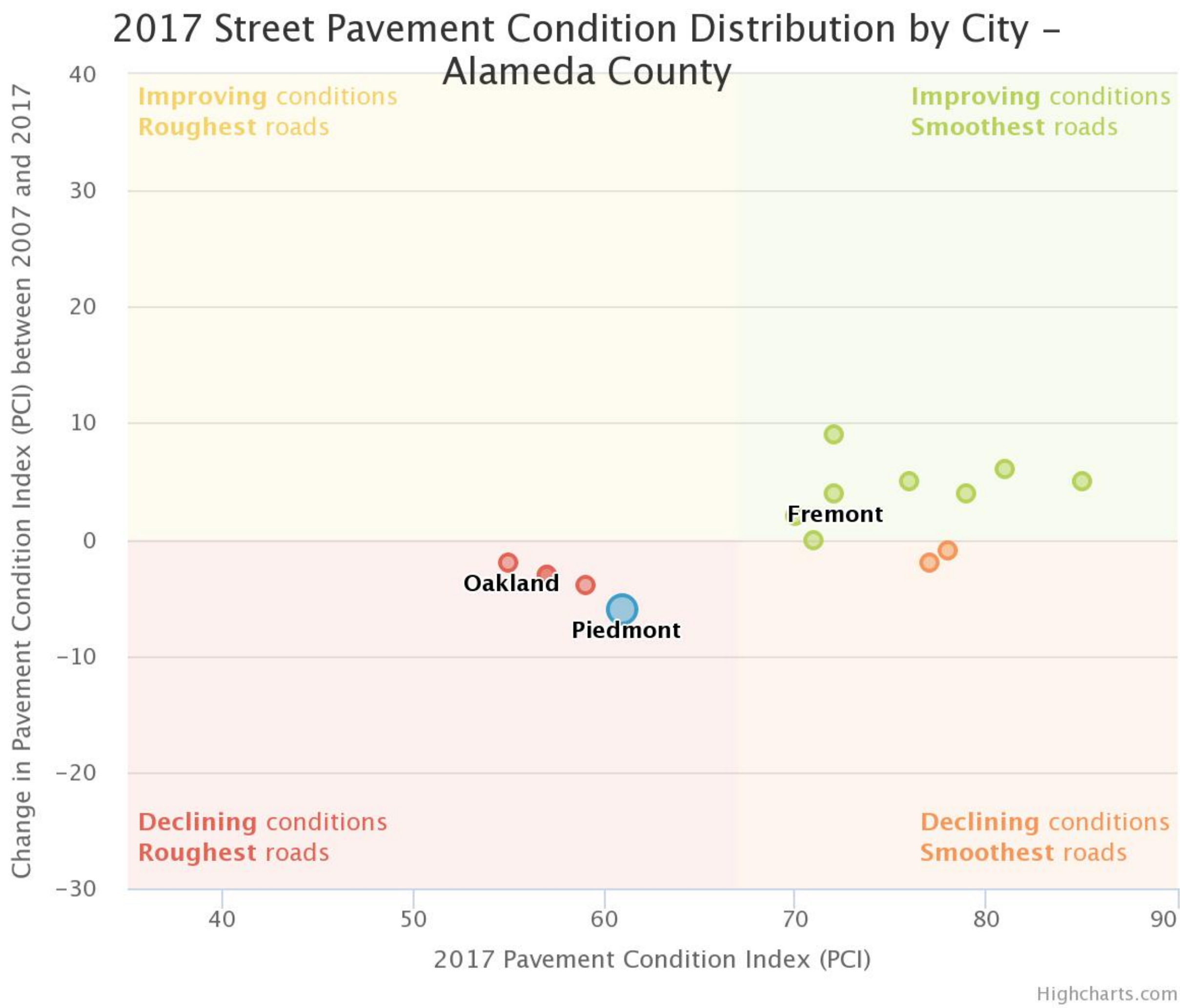
The Metropolitan Transportation Commission (MTC) is the transportation planning, coordinating, and financing agency that serves the nine Bay Area counties. The City uses the MTC's Pavement Management Program (PMP) known as StreetSaver to rate the conditions of the City's pavements and roads. This program uses street inspection information to provide pavement conditions ratings known as the Pavement Condition Index (PCI) and recommends ways to spend available street maintenance funds. PCI scores of 70 to 79 are considered "Good" while streets in the "Fair" range of 60 to 69 are becoming worn to the point where rehabilitation may be needed to prevent rapid deterioration.

In a 2018 MTC report, StreetSaver shows the City of Piedmont had a PCI of 61 (see table below) using a three-year moving average, which would be a Fair rating, at the end of 2017. This ranked fifth from the bottom out of 15 cities and regions tracked in Alameda County. Piedmont showed the largest drop in Alameda County over the 10-year period ending in 2017, going from a PCI of 67 to 61. Per the July 17, 2017 City Administrator report referenced above, the City's Arterial streets had an average PCI of 82, Collector streets had an average PCI of 72 and Residential streets had an average PCI of 56.

The City has several funding sources for street infrastructure and maintenance: Measure B, Measure BB, Measure F and the Gas Tax. These sources are expected to generate approximately $1.4 million in fiscal 2019-2020 and are projected to grow at 2% in the recent budget report over the next 10 years. Assuming $200 thousand is used for sidewalks and $45 thousand from Measure F is used for bicycle and pedestrian improvements, there is a remainder of $1.2 million available for street repair and improvements.

In its July 2017 report, the City evaluated several scenarios to determine the impact on City streets under various expenditure levels. Expenditures of $1.2 million were projected to be sufficient to maintain the PCI over the next 5 years while expenditures of $1.9 million were projected to increase the PCI by 5 points.

While the City's projected spend of approximately $1.2 million in fiscal year 2019-2020 would appear sufficient to maintain current road conditions given the above scenario analysis, recent experience has shown there is risk in this assumption. The recent bidding process for repaving Magnolia Avenue came in at a cost 26% higher than originally estimated, with only one company submitting a bid. There are probably several causes for this increase, including a strong economy, the relatively small size of the project and competing projects in other areas of the Bay. It does show however, that in the current environment, the City will need to spend significantly in excess of the projected status quo spend of $1.2 million to prevent further deterioration in street conditions. Given the slow growth projected for these revenue streams, any additional spend will require transfers from the General Fund.



Based on this experience, we estimate that the City will need to spend at least 25%, or $300 thousand, more per year to maintain the City streets at their current overall level in the bottom of the Fair range. To improve the PCI by 5 points over the next 5 years would require an additional $700 to $900 thousand per year on top of this amount.

Sidewalk Repair

Most of the City streets are lined with sidewalks and trees and, while the trees provide many benefits, the extensive tree roots create havoc with level sidewalks over time. The City is responsible for sidewalk repair in situations where the unlevel sidewalk is caused by the City trees between the sidewalk and the street and the Department of Public Works monitors the condition of sidewalks and prioritizes where work is needed. The City has an extensive backlog of the needed sidewalk repairs with a recent estimate showing that the City could spend up to $11 million on sidewalk and trail repair. In fiscal year 2018-2019, the City did increase its spending in this area to $550 thousand after averaging only $234 thousand for the prior 6 years.

The above discussion of the funds available for street repair from Measure B, Measure BB, Measure F and the Gas Tax assumed that $200 thousand would be used for sidewalk repair and any other desired expenditures would therefore need to come from transfers out of the General Fund. Given the current conditions of the sidewalks and looking at the amount required in fiscal year 2018-2019, we estimate the City would need an additional $300 to $400 thousand in addition to the assumed $200 thousand to properly maintain and improve the sidewalks.

Infrastructure Maintenance Summary

In conclusion, in the near term (the next 5 – 10 years), minimum additional funding of approximately $850,000 per year is needed <u>just to maintain the existing condition</u> of City buildings, parks, streets and sidewalks:

- $200,000 to $250,000 more per year investment for facilities;
- $300,000 per year to maintain the existing condition of streets; and
- $300,000 to $400,000 per year to maintain the existing condition of sidewalks

The amount needed to improve existing facilities, to continue to provide pool services, to reverse the decline in street conditions and to reduce the backlog of sidewalk repairs would be significantly more.

PART 5
CAPITAL EXPENDITURE BONDS AND THE EFFECT ON TAXES

Historically the Piedmont School District has issued general obligation bonds backed by ad valorem taxes to construct and improve school facilities. The City of Piedmont has not adopted this approach for its facilities but has relied primarily on General Fund contributions to the Facilities Maintenance Fund as well as private contributions. However, as discussed elsewhere in this report, the City has not undertaken any significant facility capital improvement project in several decades and, furthermore, has fallen behind on even routine repair and maintenance. Given the continued projected shortfall in facility maintenance and replacement funds discussed in the report and the increasing age of all City facilities, the Committee looked at the potential of issuing improvement bonds (in a financially similar fashion to the schools) and the impact it could have on taxes.

Whether issued by the schools or the City, the impact to taxpayers is the same – it all has to be paid as part of the property taxes, generally through the tax rate applied to assessed value generating ad valorem taxes. Including the most recent second tranche of H1 bonds in August, the schools currently have seven separate bond issues outstanding (one pays off in 2020, but the schools are planning to issue the last bond under Measure H1 in 2021). Each bond is highly structured with varying debt service requirements over time. Each bond structure was a function of several factors including certain rules dictated by the state as well as then-existing bonds, assessed value projections, etc.

Although the details that go into structuring will not be discussed here, Table 13 below provides the approximate ad valorem tax requirements for each existing bond outstanding based on its structure. A column has been added for an estimate of the remaining H1 bonds expected in 2021. One can see the annual variation in the tax requirements. The table also shows the impact annually on ad valorem tax rates from these bonds assuming a 4% increase in assessed values over time. Obviously, tax rates will vary as the assessed value growth varies and it is likely that the assessed value for 2020 will be higher than the 4% shown.

As the table shows, the total tax required for debt service actually drops in 2021 and then steadily rises until 2035 although the implied tax rate, once it drops in 2021, only barely rises and then only until about 2027. The difference is the impact of ever increasing assessed values (assumed at 4% annually in this table). Note that for any given bond, the required payment amounts rise almost in every year with the cash requirements near the end substantially larger than the amounts in the beginning. The bonds are structured to take into account rising assessed values. Thus, from 2021 to 2034, the tax rate almost stays the same, but in fact the actual tax payments increase from \$5.3 million to \$9.8 million. Therefore, even if you live in Piedmont in the same house that entire time, your assessed value will increase 2% per year and you will pay very little of the increase in required debt service as the rate barely changes. That increase will fall disproportionately on new people moving to town and paying market value (and hence significant increases in assessed values) on homes that will incur that tax. This transfer of homes is the only significant way to increase assessed values beyond 2% annually (ignoring major home improvements). If the transfer of homes didn't occur, tax rates would go up for existing homeowners. More on this in the discussion below on Assessed Value Growth.

As discussed elsewhere in this report, the tax rate effect on ad valorem taxes in Piedmont due to school bonds in the last seven years has generally been just over 0.15%. The table below shows that level dropping (again assuming a 4% assessed value growth) to 0.12% or lower in the near future, implying some "room" for additional capital bonds/debt service tax. Again, this is based on the constant tax rate

Table 13 - Piedmont Schools Outstanding (and Expected) Bonds

Period Ending Aug 1,	2006 Series D	2014 Refunding	2015 Refunding	2017 A Bonds	2017 Refunding Bonds	2017B Refunding Bonds	H1 2019 Series	Remaining H1 (est)	Total Tax for Debt Service	Assessed Value Assumption	Implied Tax Rate
										4.0%	
Issue Date=>	*5/4/11*	*11/26/14*	*3/24/15*					*33%*			
										-	
2020	640,000	2,441,100	1,134,450	1,172,150	651,575	-	1,520,000	-	7,559,275	4,728,125,344	0.160%
2021	790,000		1,200,650	941,150	651,575	-	1,810,000	-	5,393,375	4,917,250,358	0.110%
2022	915,000		1,266,400	941,150	651,575	-	980,306	506,667	5,261,098	5,113,940,372	0.103%
2023	1,040,000		1,352,150	1,011,150	651,575	-	989,600	603,333	5,647,808	5,318,497,987	0.106%
2024	1,175,000		1,426,650	1,047,650	651,575	873,038	1,017,850	326,769	6,518,531	5,531,237,906	0.118%
2025	1,260,000		1,535,450	1,082,150	651,575	873,038	1,044,350	329,867	6,776,429	5,752,487,423	0.118%
2026	1,355,000		1,648,250	1,119,650	651,575	873,038	1,074,100	339,283	7,060,896	5,982,586,920	0.118%
2027			1,748,050	1,159,800	651,575	2,373,038	1,101,850	348,117	7,382,429	6,221,890,396	0.119%
2028			1,858,650	1,202,650	1,366,575	1,813,038	1,132,600	358,033	7,731,546	6,470,766,012	0.119%
2029			1,974,600	1,242,650	1,515,825	1,773,038	1,166,100	367,283	8,039,496	6,729,596,653	0.119%
2030			2,100,600	1,284,900	1,510,825	1,733,038	1,197,100	377,533	8,203,996	6,998,780,519	0.117%
2031			2,101,200	1,329,150	1,753,825	1,693,038	1,230,600	388,700	8,496,513	7,278,731,740	0.117%
2032				1,380,150	4,395,388	1,653,038	1,261,350	399,033	9,088,958	7,569,881,009	0.120%
2033				1,427,400	4,673,200	1,623,038	1,294,350	410,200	9,428,188	7,872,676,250	0.120%
2034				1,475,900	4,960,800	1,593,038	1,331,350	420,450	9,781,538	8,187,583,300	0.119%
2035				1,525,400		2,573,038	1,371,700	431,450	5,901,588	8,515,086,631	0.069%
2036				1,580,650		2,702,738	1,405,250	443,783	6,132,421	8,855,690,097	0.069%
2037				1,636,150		2,836,738	1,447,150	457,233	6,377,271	9,209,917,701	0.069%
2038				1,691,650		2,979,738	1,487,100	468,417	6,626,904	9,578,314,409	0.069%
2039				1,751,900		3,131,288	1,525,100	482,383	6,890,671	9,961,446,985	0.069%
2040				1,811,400		3,285,938	1,566,150	495,700	7,159,188	10,359,904,864	0.069%
2041				1,878,200		3,449,532	1,610,100	508,367	7,446,198	10,774,301,059	0.069%
2042				1,945,200			1,651,800	522,050	4,119,050	11,205,273,101	0.037%
2043				2,012,200			1,696,250	536,700	4,245,150	11,653,484,025	0.036%
2044				2,079,000			1,743,300	550,600	4,372,900	12,119,623,386	0.036%
2045				2,155,400			1,787,800	565,417	4,508,617	12,604,408,322	0.036%
2046				2,230,800			1,839,750	581,100	4,651,650	13,108,584,655	0.035%
2047				-			3,018,850	595,933	3,614,783	13,632,928,041	0.027%
2048							3,111,200	613,250	3,724,450	14,178,245,163	0.026%
2049							3,203,300	1,006,283	4,209,583	14,745,374,969	0.029%
2050								1,037,067	1,037,067	15,335,189,968	0.007%
2051								1,067,767	1,067,767	15,948,597,567	0.007%
2052									-	16,586,541,469	0.000%
	7,730,000	4,774,950	20,422,150	42,651,558	25,834,693	37,832,419	46,616,306	15,538,769	201,400,846		

concept and not a constant tax amount concept. But for the vast majority of residents, they will stay in their home and their assessed value will only increase by 2% assuming new owners buy homes at increasing values in Piedmont. Thus, a flat tax rate is only a 2% annual growth in tax – again assuming that new residents moving in will pay the majority of the increase in actual tax through their higher assessed values. The ultimate tax rate charged will be highly dependent on assessed value – which, in turn, is highly dependent on property transfers to current market value over old assessed values. (Note that debt service needs to be paid whether new people buy homes or not).

City Improvement Bonds

A question arises as to how much money can be raised in a new bond issue. As discussed earlier, the School District faces a series of criteria, but the primary limitation is that debt service cannot exceed 0.06% (or $60/$100,000 of assessed value) based on a reasonable projection of assessed value for any given voted on improvement project – i.e. Measure H1, which will likely encompass three separate bonds, in total, must be under 0.06% of projected assessed value. Although the Committee has not explored the legal requirements of City improvement bond voting and issuance, the Committee does suggest an approach which provides some consistency in terms of overall tax rate over time. Should the City decide to pursue capital improvement bonds, the Committee strongly suggests that the City and the School District form a long-term planning group. This group can plan for the long-term capital needs of both and lay out a long-term capital funding plan that provides a measured approach to long-term ad valorem tax rates as applied to debt service for both city and school facilities.

In the absence of that group, the Committee has provided some rough analysis as to the potential bond capacity of the City and School District combined over the next 30 years. The analysis is based on (1) maintaining a constant ad valorem tax rate given an assumed assessed valuation growth, (2) calculating the "excess" tax available to service debt, and (3) determining the amount of debt based on that available debt service. It is very important to note that this analysis is very rough and will require substantial refinement with appropriate people knowledgeable in State law and bond structuring and, of course, will be dependent on interest rates at the time.

Table 14 below takes the existing debt service for all Piedmont debt from above, with the assumed 4% assessed value growth, and calculates how much extra money would be available every year if the tax rate applicable to Piedmont debt were held at 0.15%. The Committee picked 0.15% as it has been the approximate tax level for several years indicating the property owners have been somewhat comfortable with that rate.

Table 14 - Potential Excess Tax

	4.0%	*0.15%*		
Period Ending Aug. 1,	**A.V. Assumption ($ millions)**	**Assumed Tax at Rate**	**Tax for Existing Debt Serivce**	**Excess Tax**
2020	4,728	7,092,188	7,559,275	-
2021	4,917	7,375,876	5,393,375	1,982,501
2022	5,114	7,670,911	5,261,098	2,409,813
2023	5,318	7,977,747	5,647,808	2,329,939
2024	5,531	8,296,857	6,518,531	1,778,326
2025	5,752	8,628,731	6,776,429	1,852,302
2026	5,983	8,973,800	7,060,896	1,912,904
2027	6,222	9,332,836	7,382,429	1,950,407
2028	6,471	9,706,149	7,731,546	1,974,603
2029	6,730	10,094,395	8,039,496	2,054,899
2030	6,999	10,498,171	8,203,996	2,294,175
2031	7,279	10,918,098	8,496,513	2,421,585
2032	7,570	11,354,822	9,088,958	2,265,864
2033	7,873	11,809,014	9,428,188	2,380,826
2034	8,188	12,281,375	9,781,538	2,499,837
2035	8,515	12,772,630	5,901,588	6,871,042
2036	8,856	13,283,535	6,132,421	7,151,114
2037	9,210	13,814,877	6,377,271	7,437,606
2038	9,578	14,367,472	6,626,904	7,740,568
2039	9,961	14,942,170	6,890,671	8,051,499
2040	10,360	15,539,857	7,159,188	8,380,669
2041	10,774	16,161,452	7,446,198	8,715,254
2042	11,205	16,807,910	4,119,050	12,688,860
2043	11,653	17,480,226	4,245,150	13,235,076
2044	12,120	18,179,435	4,372,900	13,806,535
2045	12,604	18,906,612	4,508,617	14,397,995
2046	13,109	19,662,877	4,651,650	15,011,227
2047	13,633	20,449,392	3,614,783	16,834,609
2048	14,178	21,267,368	3,724,450	17,542,918
2049	14,745	22,118,062	4,209,583	17,908,479
2050	15,335	23,002,785	1,037,067	21,965,718
2051	15,949	23,922,896	1,067,767	22,855,129

As shown in the table, because of the 4% A.V. growth combined with the retirement existing bonds, there could be substantial tax available to service additional debt. It is no surprise that the majority of this cash flow is in later years after much or all of the existing debt has been retired. However, even in the early years, there is approximately $2 million annually in potential excess tax. Using simple mathematics by taking the present value of $2 million annually for even 20 years and assuming a 4% interest rate, that $2 million could support over $27 million debt proceeds.

It is worth noting two things:

First, the schools' master plan has the district coming back to the voters in five to ten years for another large bond authority to complete their recently approved master plan. Obviously, those bonds will substantially eat into the available cash flow above depending on when they are issued. Thus, the Committee strongly recommends that the City Council and the School Board form a working group described above that looks at long range capital needs and plans in coordination with each other.

Second, bond structuring is complicated and confusing. Most people are familiar with home mortgages that typically pay a fixed payment over 30 years that completely retires the mortgage amount (a level pay mortgage). Corporate bonds are typically issued as interest payments only when the entire principal amount is due at maturity. Municipal bonds (like the City would issue) are frequently serial bonds, meaning the entire amount is broken up into a series of smaller bonds that mature each year over the term. These bonds can be structured in a variety of ways with more principal paying off earlier or later. It is often the case that municipal bonds weight the principal more to the longer terms (see school bond cash flows above and how they are larger over time for any given bond). The longer the term on the principal the more overall interest is paid. And the more overall interest paid, the less cash flow is available to actually pay for the improvements. The Committee strongly encourages the City, when looking at issuing improvement bonds, to have them structured in a way to minimize interest for the given project, which usually means smaller bonds and shorter maturities. Every dollar spent on interest is one less dollar that can be spent on improvements to the City.

A Word About Assessed Value Growth

Table 14 (Page 29) shows the impact of varying assessed value growth on the required tax rate for existing Piedmont school bonds.

Table 15 - Impact of Assessed Value Growth on Tax Rate

	A.V. Growth=	*2.0%*	*3.0%*	*4.0%*	*5.0%*
Period Ending Aug 1,	**Total Tax for Debt Service**	**Implied Tax Rate**	**Implied Tax Rate**	**Implied Tax Rate**	**Implied Tax Rate**
2020	7,559,275	0.163%	0.160%	0.158%	0.158%
2021	5,393,375	0.114%	0.112%	0.110%	0.108%
2022	5,261,098	0.109%	0.106%	0.103%	0.100%
2023	5,647,808	0.115%	0.110%	0.106%	0.102%
2024	6,518,531	0.130%	0.124%	0.188%	0.112%
2025	6,776,429	0.132%	0.125%	0.118%	0.111%
2026	7,060,896	0.135%	0.126%	0.118%	0.110%
2027	7,382,429	0.139%	0.128%	0.119%	0.110%
2028	7,731,546	0.142%	0.130%	0.119%	0.110%
2029	8,039,496	0.145%	0.132%	0.119%	0.109%
2030	8,203,996	0.145%	0.130%	0.117%	0.106%
2031	8,496,513	0.147%	0.131%	0.117%	0.104%
2032	9,088,958	0.155%	0.136%	0.120%	0.106%
2033	9,428,188	0.157%	0.137%	0.120%	0.105%
2034	9,781,538	0.160%	0.138%	0.119%	0.103%
2035	5,901,588	0.095%	0.081%	0.069%	0.059%
2036	6,132,421	0.096%	0.082%	0.069%	0.059%
2037	6,377,271	0.098%	0.082%	0.069%	0.058%
2038	6,626,904	0.100%	0.083%	0.069%	0.058%
2039	6,890,671	0.102%	0.084%	0.069%	0.057%
2040	7,159,188	0.104%	0.085%	0.069%	0.057%
2041	7,446,198	0.106%	0.085%	0.069%	0.056%
2042	4,119,050	0.057%	0.046%	0.037%	0.029%
2043	4,245,150	0.058%	0.046%	0.036%	0.029%
2044	4,372,900	0.059%	0.046%	0.036%	0.028%
2045	4,508,617	0.059%	0.046%	0.036%	0.028%
2046	4,651,650	0.060%	0.046%	0.035%	0.027%
2047	3,614,783	0.046%	0.035%	0.027%	0.020%
2048	3,724,450	0.046%	0.035%	0.026%	0.020%
2049	4,209,583	0.051%	0.038%	0.029%	0.021%
2050	1,037,067	0.012%	0.009%	0.007%	0.005%
2051	1,067,767	0.012%	0.009%	0.007%	0.005%

The table shows that over a long period of time, actual tax rates per property are highly dependent on the overall growth in assessed value. For example, in 2032 the tax rate is almost 50% higher in the 2% growth scenario versus the 5% growth scenario. In 2046, the impact is a tax rate twice as high under 2% as under 5%. The Committee believes a 2% annual assessed value growth is unrealistically low, but over long periods of time, it is hard to imagine that assessed values grows substantially and permanently faster than inflation.

Elsewhere, this report provided some history and discussion of property transfers in Piedmont and the recent trend of fewer transfers as compared to prior years. Above we discussed how assessed values can only rise for existing property owners at 2% per year and yet we have experienced substantially higher growth than that overall. That additional growth comes from new buyers in Piedmont that buy homes at market value which is substantially above assessed value. For example, the average assessed value today is about $1.1 million and the most recent average market value of sold property was $2.2 million – a 100% increase. Our most recent total assessed value in Piedmont is approximately $4.5 billion. Under Proposition 13, that value for existing homeowners can only go up 2% per year, or $90 million. The numbers presented above assume assessed value growth of 4% which is $180 million, or $90 million above the statutory requirement. If only 125 homes trade every year (recent trend), that requires a minimum $720,000 increase in each of those homes from assessed value to market value. Based on the $2.2 million average property sold and the $1.1 million average current assessed value, the $720,000 seems reasonable. However, there are incentives in place to not trade homes where the assessed value is substantially below market such as passing the home and its assessed value on to your children. Those assessed values would not be reset for potentially another generation. Also, for homes with low assessed values it could make more sense to keep and rent the home out rather than selling the home – again the assessed value does not reset.

The Committee was not able to get credible data to show whether these actions, including passing homes down to children or renting them out, are happening more frequently, but it is something to be watchful for in the future, as noted in the Committee's recommendations. As shown above in the discussion on capital improvement bonds, or simply in looking at Piedmont's dependence on property tax revenues, the growth in overall assessed value is critically important to Piedmont's finances. Piedmont's finances, including that of the School District, are very dependent on the continued turnover of homes every year.

While outside the purview of this Committee, many of these issues raise potential long-term social consequences that should be of concern to the City Council. For instance, as home price growth exceed wage growth, there will be fewer buyers of Piedmont homes – and those that do buy are likely to be wealthier and less inclined to send their children to public schools. The question for the current and future City Councils is how these trends might change the Piedmont social fabric, its public-school system and its long-term finances.

PART 6
ADDITIONAL REVENUE SOURCES – REAL PROPERTY TRANSFER TAX

In the analysis of the 2019-20 City of Piedmont budget, the Committee considered additional supplemental revenue sources within and beyond the current primary property related taxes. Outside of additional or increased property taxes, or additional parcel taxes, there are few areas where the city and citizens can make a direct impact on revenue. Sales and Franchise taxes are extremely limited due to the lack of commercial space and businesses in Piedmont. The City does receive some revenue for the General Fund from other agencies and charges for services such as recreation department programs and facility rentals, but all of these combined only make up for approximately 31% of the proposed budget, with property-related taxes making up the remaining 69%.

When taking a closer look at the property-related taxes, which includes Property Tax, Real Property Transfer Tax (RPTT), and Parcel Tax revenue, we concluded that an increase in Piedmont's RPTT could be an area of significant revenue gain, with the least impact on the majority of the Piedmont residents.

Real Property Transfer Tax is a one-time tax levied on a property at the time of sale. Many Bay Area cities, including Piedmont, have imposed this tax on themselves through an amendment to their city charters. It has proven to be an important source of income in supporting city services through the General Fund. In the city of Piedmont, the tax was created through Ordinance No. 546 NS, and is currently at the rate of $13.00 per $1,000 on full value. This tax is separate and in addition to the Documentary Transfer Tax collected by Alameda County. According to local real estate agencies and title companies, the responsibility of transfer taxes is usually decided by local market customs. In Alameda County, the county transfer taxes are customarily paid by the seller, and the city transfer taxes are typically split equally between buyer and seller. Individual buyers and sellers are free to negotiate any arrangement they wish, but the majority of transactions are conducted in this manner. RPTT only is in effect when there is a financial transaction with a money exchange taking place. Transfers between trusts, gifts, governmental agencies, dissolution of marriage, and death, are amongst the list of transfers exempt from RPTT.

Table 16 below shows a comparison of city RPTT rates in Alameda County. Piedmont's RPTT rate is actually lower than both the neighboring cities of Berkeley and Oakland, in all but the miniscule share of properties that sell for below $300 thousand in Oakland. Both Berkeley and Oakland had voted to increase RPTT rates in the last couple years, as well as to form a tiered transfer tax system. A tiered RPTT system charges progressive rates based upon the full value of the property. Many critics have seen this as an unfair "mansion" tax, penalizing commercial property owners, and those with larger homes.

Table 16 - City Real Property Conveyance Tax

Several cities impose their own city real property transfer tax at full value. The rates are calculated as noted below with the full value rounded up to the nearest $500

Alameda	$12.00	per thousand on full value	Ordinance No. 2987 AMC
Albany	$11.50	per thousand on full value	Ordinance No. 02-60
Berkeley	$15.00	per thousand on full value ($1,500,000 and less)	Ordinance No. 6072-NS
	$25.00	per thousand on full value ($1,500,001 and above)	Ordinance No. 6072-NS
Emeryville	$12.00	per thousand on full value	Ordinance No. 14-011
Hayward	$8.50	per thousand on full value	Ordinance No. 92-26
Oakland	$10.00	per thousand on full value ($300,000 and less)	Ordinance No. 11628 CMS
	$15.00	per thousand on full value ($300,001 to $2,000,000)	Ordinance No. 11628 CMS
	$17.50	per thousand on full value ($2,000,001 TO	Ordinance No. 11628 CMS
	$25.00	per thousand on full value ($5,000,001 and above)	Ordinance No. 11628 CMS
Piedmont	$13.00	per thousand on full value	Ordinance No. 546 NS
San Leandro	$6.00	per thousand on full value	Ordinance No. 93-09

As evidenced in Table 17, there is a significant increase in revenue from an increase of the RPTT to either $17.50 per $1,000 (Oakland) or $25 per $1,000 (Berkeley). These amounts would have led to an overall increase to the 2017-2018 general fund revenue by $1.3 million and $3.5 million, respectively. Given Piedmont's proposed 2019-20 budget of $28.5 million, an increased RPTT in these amounts would increase the entire budget by 4.7% and 12.5%.

Table 17 - City of Piedmont Transfer Tax 2009-2018

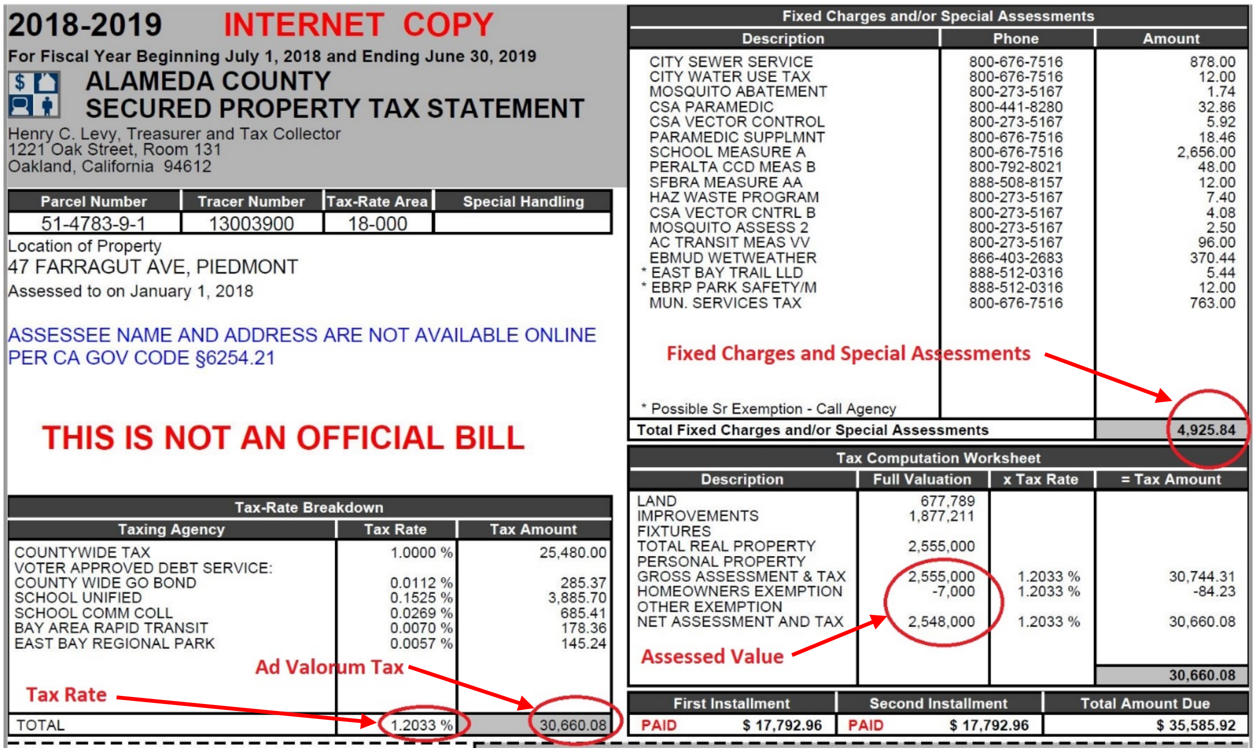
		Current rate	**Scenario 1**	**Scenario 2**
Fiscal Year	**Estimated Full Value**	**$13/$1000**	**$17.5/$1000**	**$25/$1000**
2017-2018	$295,784,462	$3,845,198	$5,176,228	$7,394,612
2016-2017	$270,929,077	$3,522,078	$4,741,259	$6,773,227
2015-2016	$239,846,077	$3,117,999	$4,197,306	$5,996,152
2014-2015	$300,096,308	$3,901,252	$5,251,685	$7,502,408
2013-2014	$307,770,154	$4,001,012	$5,385,978	$7,694,254
2012-2013	$245,077,000	$3,186,001	$4,288,848	$6,126,925
2011-2012	$207,763,462	$2,700,925	$3,635,861	$5,194,087
2010-2011	$202,224,692	$2,628,921	$3,538,932	$5,055,617
2009-2010	$141,819,308	$1,843,651	$2,481,838	$3,545,483
	Total RPTT	$28,747,037	$38,697,934	$55,282,763
	Increased Revenue ($)		**$9,950,897**	**$26,535,726**

In summary, the City of Piedmont further study the feasibility of increasing the RPTT rate in the future, to one more in line with neighboring cities. The direct benefit to crucial city services will be felt immediately, with impact to a minimal number of residents on a one-time basis. According to local real estate agencies, increased RPTT rates have not shown to have an adverse effect on real estate values or demand in the cities that have recently enacted such ordinances.

APPENDICES

APPENDIX A – A BRIEF PRIMER ON TAXES

The property owners in Piedmont pay property taxes primarily through the annual property tax bill. The property tax bill calculates taxes in two ways – "ad valorem" and "Fixed Charges and/or Special Assessments." The picture below shows the location on a tax bill of these taxes and their components.


2018-2019 INTERNET COPY

For Fiscal Year Beginning July 1, 2018 and Ending June 30, 2019

ALAMEDA COUNTY
SECURED PROPERTY TAX STATEMENT

Henry C. Levy, Treasurer and Tax Collector
1221 Oak Street, Room 131
Oakland, California 94612

Parcel Number	Tracer Number	Tax-Rate Area	Special Handling
51-4783-9-1	13003900	18-000	

Location of Property
47 FARRAGUT AVE, PIEDMONT
Assessed to on January 1, 2018

ASSESSEE NAME AND ADDRESS ARE NOT AVAILABLE ONLINE PER CA GOV CODE §6254.21

THIS IS NOT AN OFFICIAL BILL

Tax-Rate Breakdown

Taxing Agency	Tax Rate	Tax Amount
COUNTYWIDE TAX	1.0000 %	25,480.00
VOTER APPROVED DEBT SERVICE:		
COUNTY WIDE GO BOND	0.0112 %	285.37
SCHOOL UNIFIED	0.1525 %	3,885.70
SCHOOL COMM COLL	0.0269 %	685.41
BAY AREA RAPID TRANSIT	0.0070 %	178.36
EAST BAY REGIONAL PARK	0.0057 %	145.24
TOTAL	1.2033 %	30,660.08

Fixed Charges and/or Special Assessments

Description	Phone	Amount
CITY SEWER SERVICE	800-676-7516	878.00
CITY WATER USE TAX	800-676-7516	12.00
MOSQUITO ABATEMENT	800-273-5167	1.74
CSA PARAMEDIC	800-441-8280	32.86
CSA VECTOR CONTROL	800-273-5167	5.92
PARAMEDIC SUPPLMNT	800-676-7516	18.46
SCHOOL MEASURE A	800-676-7516	2,656.00
PERALTA CCD MEAS B	800-792-8021	48.00
SFBRA MEASURE AA	888-508-8157	12.00
HAZ WASTE PROGRAM	800-273-5167	7.40
CSA VECTOR CNTRL B	800-273-5167	4.08
MOSQUITO ASSESS 2	800-273-5167	2.50
AC TRANSIT MEAS VV	800-273-5167	96.00
EBMUD WETWEATHER	866-403-2683	370.44
* EAST BAY TRAIL LLD	888-512-0316	5.44
* EBRP PARK SAFETY/M	888-512-0316	12.00
MUN. SERVICES TAX	800-676-7516	763.00
* Possible Sr Exemption - Call Agency		
Total Fixed Charges and/or Special Assessments		4,925.84

Tax Computation Worksheet

Description	Full Valuation	x Tax Rate	= Tax Amount
LAND	677,789		
IMPROVEMENTS	1,877,211		
FIXTURES			
TOTAL REAL PROPERTY	2,555,000		
PERSONAL PROPERTY			
GROSS ASSESSMENT & TAX	2,555,000	1.2033 %	30,744.31
HOMEOWNERS EXEMPTION	-7,000	1.2033 %	-84.23
OTHER EXEMPTION			
NET ASSESSMENT AND TAX	2,548,000	1.2033 %	30,660.08
			30,660.08

First Installment	Second Installment	Total Amount Due
PAID $ 17,792.96	PAID $ 17,792.96	$ 35,585.92

Fixed Charges and Special Assessments

The Fixed Charges and Special Assessments shown in the upper right portion of the sample tax bill above is made up of many items. These charges are fixed per property – not subject to assessed value – but may be subject to other factors such as parcel size, etc. As a result, most properties pay approximately these same taxes. For purposes of this discussion, we will assume all properties pay the same Fixed Charges. The more significant Fixed Charges are the City Sewer Service, School Measure A, and the Municipal Services Tax which are all voted on by residents of Piedmont. The sewer tax is permanent, but the School tax is in place for eight years (a replacement tax and an expansion are on the ballot for November 2019). The Municipal Services Tax is in place for four years and is the subject of this report.

Ad Valorem Taxes

Ad Valorem taxes are determined in the same manner for every property based on a property's assessed value multiplied by a tax rate. Under California Proposition 13, assessed valued are set based typically on its most recent transaction value and can only grow at 2% per year (there are certain exceptions). Thus, as an example, a property bought 20 years ago for $500,000 that has experienced 5% annual market value appreciation would be worth over $1.3 million today, but its assessed value can only grow at 2% annually resulting in an assessed value of just over $740,000 today. Based on this example, the method creates significant distortions between assessed value and market values - in this case almost a $600,000 difference.

Although assessed values differ by property, the tax rate applied is the same for every property in the applicable city or county (or district). This tax rate under Proposition 13 is 1.00% statewide which is divided up into the general funds of the city, county, school and some state functions. Additionally, with the vote of the people, cities, counties or other regional districts can issue bonds for a variety of things such as construction and other improvements, grants, or pension obligations, and these bonds are repaid over time (the debt service) by increases in the tax rate above 1.00%. In the sample tax bill shown above, the tax rate is affected by 5 other "Voter Approved Debt Service Items":

- Countywide GO bond
- School Unified (various Piedmont School bonds)
- Peralta Community College
- Bay Area Rapid Transit
- East Bay Regional Parks

The table shows the amount each adds to the total tax rate which is then applied to the total assessed value to arrive at the total ad valorem tax payable. These tax rates are determined every year by the county based on total assessed value for the applicable district and the needed debt service required in the coming year per the terms of the individual bonds. If assessed values go up more than the debt service needed in a given year, the tax rate would go down. If the debt service required for the bonds in any given year increased faster than the assessed value, the tax rate would go up. Thus, the tax rate can be volatile from year to year. The table below show the effective tax rate for Piedmont properties over the last several years.

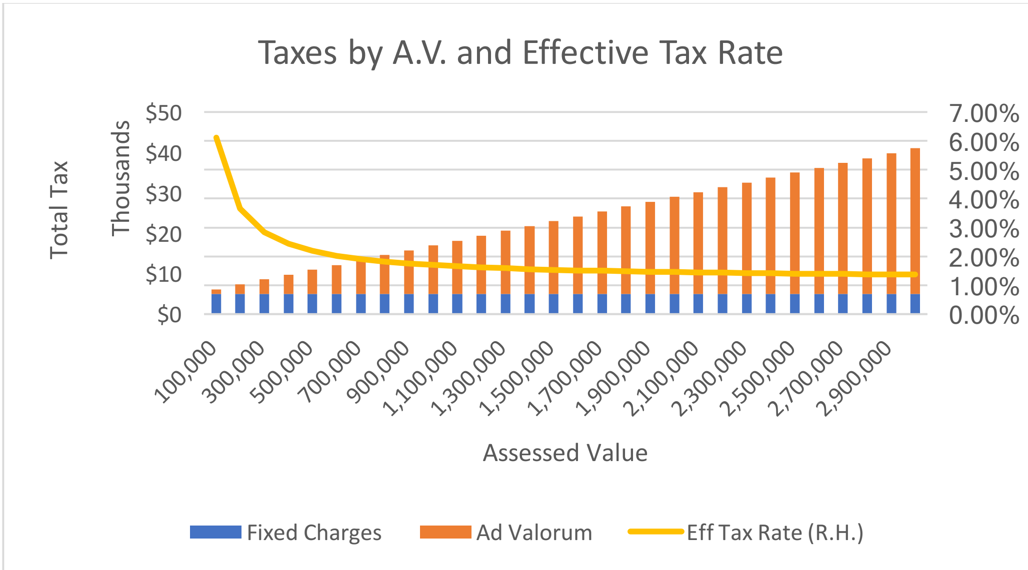
Table 18 - Piedmont Typical Tax Rates

Taxing Agency	FY '13	FY '14	FY '15	FY '16	FY '17	FY '18	FY '19
Countywide	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%	1.0000%
Piedmont Schools	0.1529	0.1590	0.1468	0.1440	0.1243	0.1939	0.1525
Peralta College	0.0434	0.0419	0.0412	0.0337	0.0256	0.0310	0.0269
BART	0.0043	0.0075	0.0045	0.0026	0.0080	0.0084	0.0070
East Bay Parks	0.0051	0.0078	0.0085	0.0067	0.0032	0.0021	0.0057
EDMUD SD#1	0.0068	0.0066	0.0047	0.0034	0.0028	0.0011	0
Alameda County	0	0	0	0	0	0	0.0112
Total Tax Rate	1.21%	1.22%	1.21%	1.19%	1.16%	1.24%	1.20%

The table shows the total tax rate has been fairly steady at just over 1.2% with exception of FY '17 and FY '18 when the Piedmont School bond debt service had more significant variance – first down and then up.

Effective Tax Rate

The fact that the Fixed Charges and Special Assessments are substantially similar for each property is in sharp contrast to the ad valorem taxes which are dependent on assessed values. As discussed, assessed values can be quite different between similar properties depending on its original costs and when it as purchased. Over time, there is no correlation between assessed values and market value. As a result, certain inequities arise under this system as two virtually identical houses that were purchased many years apart can pay the same Fixed Charges taxes but substantially different ad valorem and hence overall taxes. The graph below shows the impact of Fixed Charges and Ad Valorem taxes for various assessed values and calculates an effective tax rate. As shown, at assessed values below approximately $700,000, the total effective tax rate exceeds 2%, which may be excessive but note that the total taxes are a fraction of what they would be on a larger assessed value. The Fixed Charges have a much larger relative effect on total taxes at lower assessed values than at higher assessed values. It is not uncommon for people who have owned the same property for a long time (and hence have a low assessed value compared to market value) to see the Fixed Charges as excessive whereas newer Property owners may find the Fixed Charges quite reasonable.



When bonds are issued – such as the Piedmont School construction bonds - and debt service needs collected, the only mechanism used in allocating that debt service per property is that of applying the total required debt service charge against total assessed values. The County uses that ratio to calculate an identical tax rate for all properties. Therefore, property owners with lower relative assessed values pay less in bond debt service than property owners with higher assessed values regardless of their relative market values.

This Committee offers no opinion on the fairness of Proposition 13, but it does seem reasonable to have a balance in Piedmont between Fixed Charges such as the Municipal Services Tax applicable to all property owners regardless of assessed value and bonded indebtedness for capital improvements as reflected in the ad valorem tax rate.

APPENDIX B – Ten-Year Projected General Fund Detail

City of Piedmont											
10 Year Projection											
General Fund Detail											
(In Thousands)											
	P R O J E C T E D										
	FY 18-19	**FY 19-20**	**FY 20-21**	**FY 21-22**	**FY 22-23**	**FY 23-24**	**FY 24-25**	**FY 25-26**	**FY 26-27**	**FY 27-28**	**FY 28-29**
General Fund Beginning Balance	**$ 5,532**	**$ 4,890**	**$ 4,585**	**$ 5,170**	**$ 5,362**	**$ 5,576**	**$ 5,778**	**$ 5,991**	**$ 6,212**	**$ 6,426**	**$ 6,635**
Revenues											
Property Taxes	14,079	14,504	15,161	15,848	16,566	17,316	18,100	18,920	19,777	20,673	21,609
Real Property Transfer Tax	3,820	2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800	2,800
Parcel Tax	2,262	2,354	2,425	2,498	2,573	2,650	2,730	2,812	2,896	2,983	3,072
Other Taxes and Franchises	2,482	2,402	2,450	2,499	2,549	2,600	2,652	2,705	2,759	2,814	2,870
License and Permits	512	470	483	497	512	527	543	559	576	593	611
Revenue from Use of Money or Property	759	750	765	780	796	812	828	845	862	879	897
Revenue from Other Agencies	2,002	1,568	1,599	1,631	1,664	1,697	1,731	1,766	1,801	1,837	1,874
Charges for Current Services	3,235	3,486	3,591	3,699	3,810	3,924	4,042	4,163	4,288	4,417	4,550
Other Revenue	303	166	168	170	172	174	176	178	180	182	184
Total Revenue	**29,454**	**28,500**	**29,442**	**30,422**	**31,442**	**32,500**	**33,602**	**34,748**	**35,939**	**37,178**	**38,467**
Growth Rate	***1.5%***	***-3.2%***	***3.3%***	***3.3%***	***3.4%***	***3.4%***	***3.4%***	***3.4%***	***3.4%***	***3.4%***	***3.5%***
Operating Transfers in											
Reimbursement from sewer fund	796	849	874	900	927	955	984	1,014	1,044	1,075	1,107
Traffic safety ticket revenue	20	20	20	20	20	20	20	20	20	20	20
Revenues from private contribution fund	1	5	5	5	5	5	5	5	5	5	5
Measure D reimbursement	22	17	17	17	17	17	17	17	17	17	17
Total Transfers In	**839**	**891**	**916**	**942**	**969**	**997**	**1,026**	**1,056**	**1,086**	**1,117**	**1,149**
Growth Rate	***6.2%***	***6.2%***	***2.8%***	***2.8%***	***2.9%***	***2.9%***	***2.9%***	***2.9%***	***2.8%***	***2.9%***	***2.9%***
Grand Total Revenue	**30,293**	**29,391**	**30,358**	**31,364**	**32,411**	**33,497**	**34,628**	**35,804**	**37,025**	**38,295**	**39,616**
Growth Rate	***1.7%***	***-3.0%***	***3.3%***	***3.3%***	***3.3%***	***3.4%***	***3.4%***	***3.4%***	***3.4%***	***3.4%***	***3.4%***
Expenditures											
Salaries:											
Miscellaneous	4,389	4,605	4,809	4,967	5,090	5,243	5,390	5,561	5,778	5,940	6,106
Safety	6,380	6,516	6,613	6,784	6,988	7,198	7,393	7,601	7,749	7,997	8,253
Other	2,017	2,030	2,091	2,160	2,225	2,292	2,365	2,443	2,538	2,619	2,703
Total Salaries	12,787	13,151	13,513	13,912	14,303	14,732	15,148	15,605	16,065	16,556	17,062
Growth Rate	***4.3%***	***2.8%***	***2.7%***	***3.0%***	***2.8%***	***3.0%***	***2.8%***	***3.0%***	***2.9%***	***3.1%***	***3.1%***
Benefits and Payroll Taxes	2,169	2,543	2,637	2,729	2,841	2,953	3,068	3,185	3,286	3,423	3,566
Growth Rate	***1.9%***	***17.3%***	***3.7%***	***3.5%***	***4.1%***	***3.9%***	***3.9%***	***3.8%***	***3.2%***	***4.2%***	***4.2%***
CalPERS Retirement - Pension	2,173	2,496	2,900	3,316	3,675	3,950	4,256	4,565	4,863	5,025	5,119
Growth Rate	***15.7%***	***14.9%***	***16.2%***	***14.4%***	***10.8%***	***7.5%***	***7.8%***	***7.3%***	***6.5%***	***3.3%***	***1.9%***
Personnel services	303	312	321	331	341	351	362	373	384	395	407
Supplies and services	5,450	6,250	6,438	6,631	6,830	7,034	7,245	7,463	7,687	7,917	8,155
Total Other	5,753	6,562	6,759	6,962	7,170	7,386	7,607	7,835	8,070	8,313	8,562
Growth Rate	***4.4%***	***14.1%***	***3.0%***	***3.0%***	***3.0%***	***3.0%***	***3.0%***	***3.0%***	***3.0%***	***3.0%***	***3.0%***
Grand Total Expenditures	**22,881**	**24,752**	**25,808**	**26,919**	**27,990**	**29,021**	**30,080**	**31,191**	**32,285**	**33,316**	**34,309**
Growth Rate	***5.1%***	***8.2%***	***4.3%***	***4.3%***	***4.0%***	***3.7%***	***3.6%***	***3.7%***	***3.5%***	***3.2%***	***3.0%***
Non Departmental Expenditures											
Insurance (WC\Liab\Unemployment)	1,485	1,477	1,523	1,570	1,619	1,669	1,720	1,774	1,829	1,885	1,943
Library	350	350	350	350	350	350	350	350	350	350	350
Retiree Medical Premium Payments	520	700	779	861	933	978	1,053	1,122	1,160	1,241	1,299
OPEB Contributions	99	91	89	88	85	84	82	80	78	76	73
Pension Rate Stabilization	0	0	0	-307	-321	-117	-139	-281	-310	-595	-102
Total Non-Departmental Expenditures	**2,454**	**2,618**	**2,740**	**2,561**	**2,665**	**2,964**	**3,066**	**3,045**	**3,106**	**2,956**	**3,563**
Growth Rate	***-12.6%***	***6.7%***	***4.7%***	***-6.5%***	***4.1%***	***11.2%***	***3.4%***	***-0.7%***	***2.0%***	***-4.8%***	***20.5%***
Operating transfers-out											
Aquatics	250	250	275	300	325	350	350	350	350	350	350
2014 Pension Obligation Fund	1,430	1,126	0	0	0	0	0	0	0	0	0
Total Transfers Out	**1,680**	**1,376**	**275**	**300**	**325**	**350**	**350**	**350**	**350**	**350**	**350**
Growth Rate	***10.7%***	***-18.1%***	***-80.0%***	***9.1%***	***8.3%***	***7.7%***	***0.0%***	***0.0%***	***0.0%***	***0.0%***	***0.0%***
Total expenditures and transfers-out	**27,015**	**28,746**	**28,823**	**29,780**	**30,980**	**32,335**	**33,496**	**34,586**	**35,741**	**36,622**	**38,222**
Growth Rate	***3.5%***	***6.4%***	***0.3%***	***3.3%***	***4.0%***	***4.4%***	***3.6%***	***3.3%***	***3.3%***	***2.5%***	***4.4%***
Operating net income	**3,278**	**645**	**1,535**	**1,584**	**1,431**	**1,162**	**1,132**	**1,218**	**1,284**	**1,673**	**1,394**
Growth Rate	***-11.4%***	***-80.3%***	***137.7%***	***3.2%***	***-9.7%***	***-18.8%***	***-2.6%***	***7.6%***	***5.4%***	***30.3%***	***-16.7%***
Capital transfer-out											
Facility maintenance fund	1,950	550	550	500	450	400	400	400	400	400	250
Equipment replacement fund	400	400	400	892	767	560	520	596	670	1,063	945
Street Paving\Sidewalk\Other	1,570										
Total capital transfers	**3,920**	**950**	**950**	**1,392**	**1,217**	**960**	**920**	**996**	**1,070**	**1,463**	**1,195**
Net income after capital transfers	**-642**	**-305**	**585**	**192**	**214**	**202**	**213**	**222**	**213**	**210**	**199**
General Fund Ending Balance	**$ 4,890**	**$ 4,585**	**$ 5,170**	**$ 5,362**	**$ 5,576**	**$ 5,778**	**$ 5,991**	**$ 6,212**	**$ 6,426**	**$ 6,635**	**$ 6,834**
Growth of general fund balance	-11.6%	-6.2%	12.7%	3.7%	4.0%	3.6%	3.7%	3.7%	3.4%	3.3%	3.0%
% operating expenditures	**19.3%**	**16.8%**	**18.1%**	**18.2%**	**18.2%**	**18.1%**	**18.1%**	**18.1%**	**18.2%**	**18.3%**	**18.0%**
% expenditures & debt service	**18.1%**	**16.0%**	**17.9%**	**18.0%**	**18.0%**	**17.9%**	**17.9%**	**18.0%**	**18.0%**	**18.1%**	**17.9%**

APPENDIX C – FACILITIES MAINTENANACE FUND (Budget vs Projected)

FACILITIES MAINTENANCE FUND
Budgeted Funding Per 10-year Budget Projections

Fiscal Year	Begin Balance	Funding	Annual Repairs & Maint.	City Hall & Fire		Vets Hall & Police		Recreation Building		Community Hall		Parks & Tennis		Other		Total Expend.	Balance
				Sched. Maint.	Projects	Sched. Maint.	Projects	Sched. Maint	Projects	Sched. Maint.	Projects	Sched. Maint.	Projects	Sched. Maint.	Projects		
19/20	$ 5,306,697	$ 550,000	$ (286,000)	$ (212,000)	$ (480,000)	$ (80,000)	$ (80,000)	$ (180,000)	$ -	$ (20,000)	$ -	$ (97,500)	$ (436,730)	$ (2,500)	$ (215,000)	$ (2,089,730)	$ 3,766,967
20/21	3,766,967	550,000	(300,300)	(385,000)	(115,000)	(20,000)	(15,000)	(120,000)	-	(10,000)	(70,000)	(109,500)	-	(135,000)	-	(1,279,800)	3,037,167
21/22	3,037,167	500,000	(315,315)	(15,000)	(45,000)	(110,000)	(106,000)	(62,000)	(145,000)	(52,500)	(455,000)	(137,500)	-	(126,000)	-	(1,569,315)	1,967,852
22/23	1,967,852	450,000	(331,081)	(25,000)	(65,000)	(158,000)	(170,000)	(25,000)	(200,000)	(45,000)	(10,000)	(50,000)	-	(17,500)	-	(1,096,581)	1,321,271
23/24	1,321,271	400,000	(341,013)	-	-	(285,000)	(195,000)	(200,000)	(90,000)	(90,000)	(255,000)	(81,000)	-	(34,000)	-	(1,571,013)	150,258
24/25	150,258	400,000	(351,244)	(140,000)		(65,000)		(65,000)		(150,000)		(240,000)		(57,500)		(1,068,744)	(518,485)
25/26	(518,485)	400,000	(361,781)	-		(75,000)		(25,000)		(30,000)		(142,500)		(103,000)		(737,281)	(855,766)
26/27	(855,766)	400,000	(372,634)	(12,000)		-		(25,000)		(107,500)		(25,000)		(45,000)		(587,134)	(1,042,901)
27/28	(1,042,901)	400,000	(383,813)	(88,000)		-		(80,000)		(35,000)		(52,000)		(80,000)		(718,813)	(1,361,714)
28/29	(1,361,714)	250,000	(395,328)	(75,000)		(25,000)		(7,500)		(50,000)		(220,000)		(38,000)		(810,828)	(1,922,542)
29/30	(1,922,542)	250,000	(407,188)	(2,500)		(200,000)		(25,000)		-		(161,000)		(30,000)		(825,688)	(2,498,229)
30/31	(2,498,229)	250,000	(419,403)	(675,000)		(150,000)		(35,000)		(25,000)		-		-		(1,304,403)	(3,552,632)
31/32	(3,552,632)	250,000	(431,985)	(60,000)		-		-		(107,500)		-		(5,000)		(604,485)	(3,907,118)
32/33	(3,907,118)	250,000	(444,945)	-		-		-		(320,000)		(60,000)		(415,000)		(1,239,945)	(4,897,062)

FACILITIES MAINTENANCE FUND
Projected Funding Needed to Maintain Positive Fund Balance

Fiscal Year	Begin Balance	Funding	Annual Repairs & Maint.	City Hall & Fire		Vets Hall & Police		Recreation Building		Community Hall		Parks & Tennis		Other		Total Expend.	Balance
				Sched. Maint.	Projects	Sched. Maint.	Projects	Sched. Maint	Projects	Sched. Maint.	Projects	Sched. Maint.	Projects	Sched. Maint.	Projects		
19/20	$ 5,306,697	$ 750,000	$ (286,000)	$ (212,000)	$ (480,000)	$ (80,000)	$ (80,000)	$ (180,000)	$ -	$ (20,000)	$ -	$ (97,500)	$ (436,730)	$ (2,500)	$ (215,000)	$ (2,089,730)	$ 3,966,967
20/21	3,966,967	750,000	(300,300)	(385,000)	(115,000)	(20,000)	(15,000)	(120,000)	-	(10,000)	(70,000)	(109,500)	-	(135,000)	-	(1,279,800)	3,437,167
21/22	3,437,167	750,000	(315,315)	(15,000)	(45,000)	(110,000)	(106,000)	(62,000)	(145,000)	(52,500)	(455,000)	(137,500)	-	(126,000)	-	(1,569,315)	2,617,852
22/23	2,617,852	750,000	(331,081)	(25,000)	(65,000)	(158,000)	(170,000)	(25,000)	(200,000)	(45,000)	(10,000)	(50,000)	-	(17,500)	-	(1,096,581)	2,271,271
23/24	2,271,271	750,000	(341,013)	-	-	(285,000)	(195,000)	(200,000)	(90,000)	(90,000)	(255,000)	(81,000)	-	(34,000)	-	(1,571,013)	1,450,258
24/25	1,450,258	750,000	(351,244)	(140,000)		(65,000)		(65,000)		(150,000)		(240,000)		(57,500)		(1,068,744)	1,131,515
25/26	1,131,515	750,000	(361,781)	-		(75,000)		(25,000)		(30,000)		(142,500)		(103,000)		(737,281)	1,144,234
26/27	1,144,234	750,000	(372,634)	(12,000)		-		(25,000)		(107,500)		(25,000)		(45,000)		(587,134)	1,307,099
27/28	1,307,099	750,000	(383,813)	(88,000)		-		(80,000)		(35,000)		(52,000)		(80,000)		(718,813)	1,338,286
28/29	1,338,286	750,000	(395,328)	(75,000)		(25,000)		(7,500)		(50,000)		(220,000)		(38,000)		(810,828)	1,277,458
29/30	1,277,458	750,000	(407,188)	(2,500)		(200,000)		(25,000)		-		(161,000)		(30,000)		(825,688)	1,201,771
30/31	1,201,771	750,000	(419,403)	(675,000)		(150,000)		(35,000)		(25,000)		-		-		(1,304,403)	647,368
31/32	647,368	750,000	(431,985)	(60,000)		-		-		(107,500)		-		(5,000)		(604,485)	792,882
32/33	792,882	750,000	(444,945)	-		-		-		(320,000)		(60,000)		(415,000)		(1,239,945)	302,937