

City of Piedmont
COUNCIL AGENDA REPORT

DATE: June 7, 2021

TO: Mayor and Council

FROM: Sara Lillevand, City Administrator

SUBJECT: Public Hearing on the Proposed 2021-22 Budget, Proposed Levy for the Municipal Services Special Tax, and Proposed Levy for the Special Municipal Sewer Tax

RECOMMENDATION

Conduct the first public hearing on the proposed 2021-22 Budget, proposed levy of the Municipal Services Special Tax, and the proposed levy of the Special Municipal Sewer Tax.

BACKGROUND

The City Charter requires that a public hearing be held prior to adoption of the budget, the levy of the Municipal Services Special Tax, and the proposed levy for the Special Municipal Sewer Tax. This is the first of two scheduled public hearings, with the second hearing to be held on June 21, 2021. Following the June 21, 2021 public hearing, staff recommends that the City Council consider adoption of the budget and levying the taxes.

DISCUSSION

GENERAL FUND REVENUES

The City is projecting General Fund revenues in 2021-22 of \$29,685,500 compared to the current 2020-21 projection of \$30,687,086. Revenue by category is shown in the table on the following page.

Category	2021-22		2020-21		\$ Change	%
	Proposed Budget	% of Budget	Projected	% of Total		
Property Related Taxes	\$ 22,706,000	76%	\$ 23,755,000	77%	\$ (1,049,000)	-4%
Recreation Related	\$ 2,274,500	8%	\$ 1,656,011	5%	\$ 618,489	37%
UUT & Franchise Fees	1,660,000	6%	1,710,000	6%	(50,000)	-3%
Building Permits & Planning Fees	1,312,000	4%	1,303,000	4%	9,000	1%
Buisness and Sales Taxes	780,000	3%	745,000	2%	35,000	5%
Other	953,000	3%	1,518,075	5%	(565,075)	-37%
Total	<u>\$ 29,685,500</u>	<u>100%</u>	<u>\$ 30,687,086</u>	<u>100%</u>	<u>\$ (1,001,586)</u>	<u>-3%</u>

The major sources of revenue in each category are as follows:

Property Related Taxes

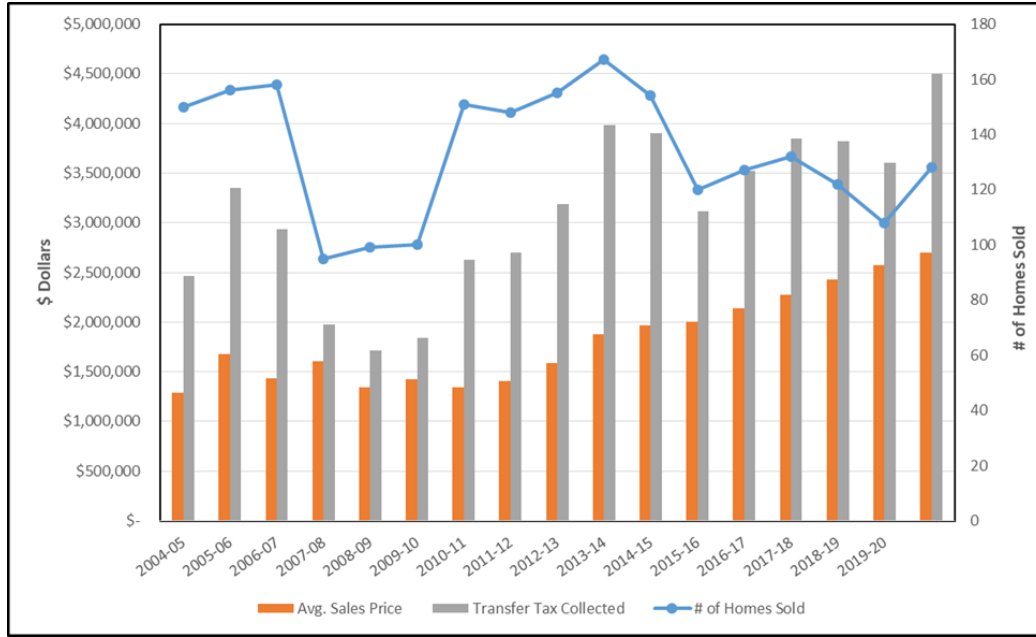
Property-related taxes are the City's primary revenue source and account for \$22,706,000 or 76% of General Fund revenues. This amount is a decrease of \$1,049,000 over the 2020-21 projected actual. The 2021-22 Proposed Budget consists of:

- Property Tax revenues, which consists of tax on secured and unsecured property, is budgeted at \$15,927,000, an increase of \$582,000 or 3.8% as compared to the 2020-21 projection. As noted earlier, the increase is lower than recent years since assessed valuations, not subject to step-up via a change of ownership, are limited to a 1.036% increase, down from the standard 2.0%.
- Real Property Transfer Tax revenue is budgeted at \$2,800,000. We are budgeting this very cautiously due to its volatility and the high rate of home sales experienced in FY 2020-21, which may indicate a peak and negatively affect future sales.
- Parcel Tax revenue, based on the measure approved by 83% of voters in March 2020, is estimated at \$2,422,000, an increase of \$12,000 or 0.5% over the 2020-21 projection. The tax was approved for four years and future annual increases are limited to the lower of CPI or 4%.
- Property Tax in lieu of Motor Vehicle License Fee (MVLFF) is budgeted at \$1,477,000, a 4.0% increase over the prior year.

In 2004, the State Legislature permanently reduced the MVLFF rate from two percent to 0.65 percent and compensated cities and counties for their revenue loss with a like amount of property taxes, dollar-for-dollar. Typically, the annual change in this tax corresponds with the change in property tax.

On the following page is a table which summarizes the volatility of the housing market over the last several years.

Annual Statistics Related to Real Property Transfer Tax Revenue



Recreation Related Revenue

Recreation Related Revenue consists of revenues generated from recreation programs and facility rentals and is budgeted at \$2,274,500 in 2021-22, an increase of \$618,000 from the prior year. The major components are:

- Recreation Programs - Revenue is budgeted at \$1,366,500, an increase of \$154,000 over 2020-21 projection, but still approximately \$400,000 less than FY 2018-19 actual results. Recreation program revenue have been severely impacted by cancelled programs and reduced capacity in varying degrees since March 2020 due to COVID-19. Our recreation staff has done an outstanding job in adapting to the ever-changing rules and guidelines issued by County and State Health officials. The FY 2021-22 budget assumes limited recreation programs will continue throughout the year.
- Pre-School Program Revenue is budgeted at \$618,000, an increase of approximately \$200,000 over 2020-21 projection. The primary reason for the rise is the increase from 4 day to 5 day programming and the offering of programs during the holiday breaks.
- Facility Rentals – Our facilities have been closed since March 2020. We expect the facilities to open within the next few months in some form. We have budgeted \$290,000 for FY 2021-22, which assumes the facilities will operate at 50% capacity for the year.

Utility User Taxes & Franchise Fees

Utility User Taxes are taxes collected from residents for the use of electric, gas, water and telephone. Franchise Fees are contractual obligations collected from PG & E, Republic Services, and Comcast for the right to operate in the City.

- Utility User Taxes are budgeted at \$1,105,000 which is slightly less (4%) than the current year projection. We expect this revenue stream to be challenged as the number of residents working from home declines along with utility usage.
- Franchise Fees are budgeted at \$555,000 which is relatively flat to FY 2020-21.

Building Permits and Planning Fees

This category consists of the following construction related activities: Building Permits, Planning Fees, Plan Check Fees, General Plan Maintenance Fee, and Records Management Fees.

Proposed Revenue for FY 2021-22 is proposed at \$1,312,000 compared to a projection of \$1,303,000 for the current fiscal year.

- We are budgeting for slight declines in revenue in all areas of this category, except the General Plan Maintenance Fee. Construction activities were brisk in FY 2020-21 and we anticipate a return to more “normal” levels.
- We are proposing to raise the General Plan Maintenance Fee from \$0.007 to \$0.012 of the cost of construction projects. This will generate approximately \$125,000 in additional fees and is needed to cover the costs of the new Housing Element work and other General Plan and Zoning Code updates in the coming years.

Business and Sales Taxes

Business taxes consist of Business License and Real Estate Rental taxes. Business Licenses have been relatively stable over the past several years while Rental taxes have been increasing approximately 6% per year.

We are budgeting \$780,000, an increase of \$35,000 or 5%, from the current year for this category.

Other Revenue

Other Revenue consists of the following miscellaneous items: Other Agency Revenue, Ambulance Service Charges, Mutual Aid Assistance, and Interest Income.

We are budgeting \$953,000 for FY 2021-22 compared to a projection of \$1,518,075 in the current fiscal year, a decrease of \$565,075. The primary reason for the variance is the \$518,000 in mutual aid revenue for our assistance in battling California wildfires we earned in FY 2020-21. Due to the unpredictable nature of this revenue stream, we do not budget for this item.

GENERAL FUND EXPENDITURES

The City is budgeting \$30,390,242 in General Fund expenditures, an increase of 10% from last years projected expenditures. In developing the Proposed Budget, the City continues efforts to control and contain operating costs in all departments. The following is a summary by cost categories.

General Fund Budget by Expenditure Category

Category	2021-22		2020-21		\$ Change	%
	Proposed Budget	% of Budget	Projected	% of Total		
Personnel Costs	\$ 19,867,577	65%	\$ 18,674,506	68%	\$ 1,193,071	6%
Maintenance & Operations	7,427,194	24%	6,013,637	22%	1,413,557	24%
Non-Departmental	3,095,471	10%	2,840,471	10%	255,000	9%
Total	\$ 30,390,242	100%	\$ 27,528,614	100%	\$ 2,861,628	10%

Personnel Costs

Personnel related costs, which includes salaries & wages, benefits, and retirement costs, is the largest overall expenditure in the General Fund at \$19,867,577, which is \$1,193,071 (6%) higher than the prior year projection. Such costs make up 65% of the total 2021-22 General Fund budget.

The tables below summarize projected personnel costs by department and by type:

Personnel Budget by Department

Category	2021-22		2020-21		\$ Change	%
	Proposed Budget	% of Budget	Projected	% of Total		
Administration	\$ 1,972,779	10%	\$ 1,685,222	9%	\$ 287,557	17%
Public Works	2,023,907	10%	1,894,055	10%	129,852	7%
Planning & Building	1,230,814	6%	1,147,608	6%	83,206	7%
Recreation	1,717,616	9%	1,480,979	8%	236,637	16%
Police	6,284,367	32%	5,901,746	32%	382,621	6%
Fire	6,638,094	33%	6,564,896	35%	73,198	1%
Total	\$ 19,867,577	100%	\$ 18,674,506	100%	\$ 1,193,071	6%

Personnel Budget by Type

Category	2021-22		2020-21		\$ Change	%
	Proposed Budget	% of Budget	Projected	% of Total		
Salaries	\$ 13,534,711	68%	\$ 13,435,463	72%	\$ 99,248	1%
Health Insurance	1,912,159	10%	1,506,374	8%	405,785	27%
Retirement	3,628,586	18%	3,029,100	16%	599,486	20%
Other Benefits	792,121	4%	703,569	4%	88,552	13%
Total	\$ 19,867,577	100%	\$ 18,674,506	100%	\$ 1,193,071	6%

In FY 2020-21 the City negotiated a one-year contract extension with the Fire and Police unions, agreeing to a 3% salary increase and all cost sharing agreements remained intact. The City is currently negotiating labor contracts with all of its labor groups for Fiscal Year 2021-22 and beyond.

Salaries expense for FY 2021-22 is budgeted at \$13,534,711 which is a 1% increase compared to the FY 2020-21 projection. Salary expense includes an assumed 3% overall wage increase, one proposed new position (Communications Manager), and the assumption of full staffing.

In addition, as compared to the prior year projection (2020-21), the most significant changes in personnel costs are as follows:

- Health Insurance – The proposed budget reflects an increase of \$405,785 over last year. The increase is primarily due to an assumed 5.5% increase in premium rates, the assumption of full staffing, and the offering of limited benefits to some regular part time Pre-School and Schoolmates staff.
- Retirement - Employee retirement costs are increasing almost \$600,000 over last year. After a 4-year phased approach to benefit cost sharing, all City employees have assumed the full cost of their “Employee Contribution” in 2017-18. In addition, employees will continue to contribute a portion of the Employer’s Contribution. In 2018-19 CalPERS began phasing in the lowering of its discount rate from 7.5% to 7.0%. The full impact of this phase-in will be completed in FY 2024-25. As a result, pension expense is expected to rise significantly during this period. In FY 2021-22, we are projecting that our employer contribution and unfunded liability payments will increase by 18%, from \$3,029,100 (22.5% of salaries) in 2020-21 to \$3,628,600 (26.8% of salaries) in 2021-22.

Maintenance and Operations

Maintenance and operations costs are budgeted at \$7,427,194, amounting to 24% of the 2021-22 General Fund budget, and is an increase of \$1,413,557 as compared to the 2020-21 projection.

This category includes the following major expenses:

- Employee related – Conferences, travel, training, and memberships.
- Supplies – Department supplies
- Equipment – Vehicle maintenance and repair, fuel, and rentals.
- Contract Services – Third party recreational activity providers, legal, consulting, crossing guards.
- IT related – Computer Courage contract, Software licenses and Strategic Planning.
- Other – Public works services (including street patching, landscaping, and tree pruning)
- Utilities

The information on the following pages summarizes maintenance and operations costs by department.

Operations and Maintenance Budget by Department

Category	2021-22		2020-21		\$ Change	%
	Proposed Budget	% of Budget	Projected	% of Total		
Administration	\$ 1,821,520	25%	\$ 1,808,000	30%	\$ 13,520	1%
Public Works	1,905,167	26%	1,958,700	33%	(53,533)	-3%
Planning & Building	1,134,000	15%	262,000	4%	872,000	333%
Recreation	969,200	13%	705,867	12%	263,333	37%
Police	1,013,307	14%	772,270	13%	241,037	31%
Fire	584,000	8%	506,800	8%	77,200	15%
Total	\$ 7,427,194	100%	\$ 6,013,637	100%	\$ 1,413,557	24%

The most significant increases in Maintenance and Operations costs in the 2021-22 Proposed Budget as compared to the 2020-21 projection are as follows:

- Planning and Building – We are budgeting an increase of \$872,000, which is primarily due to an expansion of our Supplemental Planning Services and records management needs:
 - Update of the General Plan Housing Element (\$500,000)
 - Environmental review required by the California Environmental Quality Act. (CEQA) (300,000)
 - Convert the residential property-based records from paper based to digital. (54,000)
- Recreation – Recreation expenses are projected to be \$263,333 (37%) higher year over year. The majority of recreation expenses are variable and will fluctuate with changes in revenue. We are budgeting recreation revenue to also increase 37%.
- Police – We are budgeting an increase of \$241,037 increase over last year primarily due to:
 - ALPR program is being restructured from an equipment purchasing program, which was funded from the Equipment Replacement fund, to a contract service funded by the General Fund. Included in this year’s budget is \$95,000, which includes the cost of the cameras and all maintenance and connectivity. We will realize an **annual savings** of approximately \$30,000 by switching to this service.
 - \$50,000 for a consulting project to analyze the nature of police calls, the department’s response, and whether our current staffing model meets the needs of the community.
 - Establish an internet back-up for all City networks. (\$45,000).

- Fire – We are projecting an increase of approximately \$77,000 over last year primarily due to the cost of potentially switching to a third party dispatch service.

Non Departmental

Category	2021-22		2020-21		\$ Change	%
	Proposed Budget	% of Budget	Projected	% of Total		
Insurance	\$ 1,845,000	60%	\$ 1,670,000	59%	\$ 175,000	10%
Retiree Medical Premiums	825,000	27%	670,000	24%	155,000	23%
Library	350,471	11%	350,471	12%	0	0%
Unemployment Ins.	75,000	2%	150,000	5%	(75,000)	-50%
Total	\$ 3,095,471	100%	\$ 2,840,471	100%	\$ 255,000	9%

Non-Departmental costs are budgeted at \$3,095,471, comprising 10% of the 2021-22 General Fund budget. The following costs are included:

- Insurance costs, which include General Liability and Workers Compensation, comprise \$1,845,000 and is a \$175,000 increase from the estimated 2020-21 projected expense. The increase is primarily due to higher General Liability premiums caused by increased payroll and overall actuarial adjustments to the risk pool. Premium is increasing 15% year over year.
- Retiree Medical Premiums - Premiums are budgeted at \$825,000 compared to \$670,000 last year. The increase is due to five retirements in 2020-21, a 5.5% budgeted increase in premium costs, and an estimated 5 retirements in FY 2021-22.
- Library services – \$350,471 is budgeted as a contribution to the City of Oakland, unchanged from prior years.
- Unemployment – The City is self-insured for unemployment costs. We will incur approximately \$150,000 in expense in FY 2020-21 due to the furlough of part-time recreation and layoff of Aquatics personnel. We expect this cost to decline in FY 2021-22 as unemployment periods expire. Please note 50% of this cost is subsidized by the Federal Government.

GENERAL FUND BALANCE

The 2021-22 Proposed Budget projects an Operating Net Income of approximately \$152,000. Capital transfers are proposed for essential capital needs as follows:

- \$361,000 - Equipment Replacement Fund
- \$600,000 – Capital Improvements (Sidewalk Repair)

After these transfers, the General Fund ending balance will be approximately \$5.1 million, or 17% of Operating Expenses. No further transfers are recommended at this time as the City's goal is to maintain a General Fund reserve of 18% of Operating Expenses.

OTHER FUNDS

In addition to the General Fund, the City maintains a number of major funds to provide for the long-term capital needs of the organization.

Recreation Department \ Schoolmates \ Aquatics

While the Recreation Department is a component of the General Fund, two programs under its purview, Schoolmates and Aquatics, are accounted for in separate funds. Below is a recap of the proposed 2021-22 budget and the prior two years.

	ANNUAL << FISCAL YEAR ENDED >>			Projected	FY21-22	Variance
	June-18	June-19	June-20	June-21	Budget	
RECREATION - GENERAL FUND						
Revenue	\$ 3,083,093	\$ 2,831,156	\$ 1,260,871	\$ 1,656,011	\$ 2,274,500	\$ 618,489
Salaries	1,219,846	1,340,569	1,315,680	1,166,463	1,310,255	143,792
Benefits & Taxes	333,185	356,360	261,674	314,516	407,361	92,845
Operating Exp	1,297,785	1,215,631	1,028,856	705,867	969,200	263,333
Total Expenses	2,850,816	2,912,559	2,606,210	2,186,846	2,686,816	499,970
Revenue less Expenses	\$ 232,277	\$ (81,404)	\$ (1,345,339)	\$ (530,835)	\$ (412,316)	\$ 118,519
Cost Recovery %	108%	97%	48%	76%	85%	
SCHOOLMATES (415)						
Revenue	\$ 703,107	\$ 762,930	\$ 631,614	\$ 643,633	\$ 754,740	\$ 111,107
Salaries	469,281	448,901	459,301	469,204	495,165	25,961
Benefits & Taxes	178,764	131,893	104,243	97,442	112,781	15,339
Operating Exp	86,209	122,180	111,409	69,116	95,000	25,884
Total Expenses	734,254	702,973	674,953	635,762	702,946	67,184
Revenue less Expenses	\$ (31,147)	\$ 59,957	\$ (43,339)	\$ 7,871	\$ 51,794	\$ 43,923
Cost Recovery %	96%	109%	94%	101%	107%	
AQUATICS						
Revenue	\$ 549,492	\$ 495,806	\$ 338,829	\$ (1,034)	\$ -	\$ 1,034
Salaries	370,611	387,586	375,765	82,006	-	(82,006)
Benefits & Taxes	49,603	52,117	52,602	17,019	-	(17,019)
Operating Exp	196,714	254,239	190,320	34,461	40,000	5,539
Total Expenses	616,928	693,942	618,688	133,486	40,000	(93,486)
Revenue less Expenses	\$ (67,436)	\$ (198,136)	\$ (279,859)	\$ (134,520)	\$ (40,000)	\$ 94,520
Cost Recovery %	89%	71%	55%	-1%	0%	
TOTAL						
Revenue	\$ 4,335,693	\$ 4,089,893	\$ 2,231,314	\$ 2,298,610	\$ 3,029,240	\$ 730,630
Salaries	2,059,739	2,177,055	2,150,747	1,717,673	1,805,420	87,747
Benefits & Taxes	561,552	540,370	418,519	428,977	520,142	91,165
Operating Exp	1,580,708	1,592,050	1,330,585	809,444	1,104,200	294,756
Total Expenses	4,201,999	4,309,475	3,899,851	2,956,094	3,429,762	473,668
Revenue less Expenses	\$ 133,694	\$ (219,582)	\$ (1,668,537)	\$ (657,484)	\$ (400,522)	\$ 256,962
Cost Recovery %	103%	95%	57%	78%	88%	

We have historically targeted the Recreation Department to be cost neutral. In 2021-22, we are projecting approximately 88% total department cost recovery (85% General Recreation; 107% Schoolmates; and -0-% Aquatics). Cost recovery is less than in pre-COVID-19 years, but better than last year. The primary reason for this increase is the reopening of our rental facilities and the closure of the Community Pool, which was operating at a loss.

Recreation Department Staffing Adjustments: The Recreation Department is reclassifying the Schoolmates Program Coordinator position to a Recreation Supervisor to reflect the additional responsibility of overseeing the PRD Preschool program. The Department will also schedule the part-time Schoolmates Site Lead and Preschool Director positions to work more than 1,000 hours in a fiscal year. As a result, the staff will be enrolled in CalPERS, eligible to enroll in the City’s medical insurance plan and be offered the PEMHCA minimum payment for medical benefits as required by law.

In 2020-21, we are projecting Schoolmates cost recovery to be 107%. We are assuming Schoolmates will operate at full capacity.

For Aquatics, we have made the assumption that the pool will be closed the entire fiscal year. We have included \$40,000 of expense to cover utilities and shutdown costs.

Street Infrastructure Maintenance & Replacement

The City’s FY2021-22 budget for street infrastructure maintenance and replacement, including sidewalk repair, is \$1.7 million. Funding sources include Gas Tax, SB1, Measure B, Measure BB, and Measure F. These sources are funded by Sales and Gasoline taxes. The budget is based on estimates received from the County. The majority of available funding is dedicated to street resurfacing and sidewalk repair work, with the balance dedicated to important sub-categories such as the implementation of projects prioritized by the approved Pedestrian & Bicycle Master Plan, and those related to the Complete Streets program.

As reported to the City Council in July of 2020, the 2019 average PCI (Pavement Condition Index) for the streets within the City of Piedmont is 67. This keeps the City’s overall average within the “Good” range. As a comparison, the average PCI in 2017 was 64. This represents an improvement in the average PCI in the City over the last few years.

PCI Range	Description	Rating	
		2019	2017
>70	Very Good	49%	53%
50-69	Good	28%	20%
24-49	Poor	20%	16%
0-24	Very Poor	3%	11%
	Overall	67%	64%

In order to maintain a PCI of 67 over the next 5 years, approximately \$1.3 million in funding for maintenance and repairs would be needed annually. In order to increase the PCI to 72 over the next 5 years, approximately \$2 million in funding for maintenance and repairs would be needed annually. Based on current funding, we can expect our PCI to increase somewhat over the next few years.

In addition to County and State revenue sources, we are requesting a General Fund appropriation of \$600,000 for sidewalk repair. Our sidewalks have become increasingly in disrepair. It is very important to repair sidewalks as soon as possible to reduce the liability associated with accidents caused by unsafe sidewalks. The City currently does not have the tools to adequately track the required maintenance of sidewalks. We have included in our IT plan, over the next two years, funds for the purchase and implementation of a software program to satisfy this and other needs.

Facilities Maintenance Fund

The City Council established the Facilities Maintenance Fund in 2013 to provide a long-term plan for addressing City-owned facilities. In 2014, responsibility for facilities was transferred from the Recreation Department to the Public Works Department. Since that time staff has been working to develop a thorough and well-documented plan that addresses deferred maintenance, on-going maintenance and repair, and, importantly, the desire to build reserves to address long-term, life-cycle maintenance and replacement costs. The plan will continue to evolve and improve as we closely monitor our needs.

Beginning with 2019-20, we removed annual on-going maintenance costs, including janitorial and pest control, from this fund and are now accounting for them in the General Fund. These costs are budgeted at \$300,000 per year for all facilities and parks. General Fund transfers into the Facilities Maintenance Fund are reduced by a corresponding amount. Prior year amounts have been restated for comparable purposes. The removal of these costs allow us to focus this fund on only non-routine repairs, scheduled component replacement, and capital improvements for our facilities.

The following is a schedule summarizing the current facilities plan. It is a roll up of specific projects and scheduled maintenance for each of our facilities. Supporting schedules for each of these components are part of our Facility Maintenance budget. The schedule recaps the facility maintenance plan for the next 5 years (in thousands):

Fiscal Year	Begin Balance	Planned Funding	Interest	Annual Repairs & Maint.	City Hall & Fire		Vets Hall & Police		Rec. Building		Community Hall		Parks & Tennis		Other		Total Expend.	Balance	Reserve	Available Balance
					Sched. Maint.	Projects	Sched. Maint.	Projects	Sched. Maint.	Projects	Sched. Maint.	Projects	Sched. Maint.	Projects	Sched. Maint.	Projects				
20/21	6,529	1,800	15	(225)	(185)	(75)	(20)	(15)	(70)	-	-	(70)	(58)	(100)	(135)	(193)	\$ (1,145)	7,199	(955)	6,244
21/22	7,199	0	22	(250)	(55)	(165)	(10)	(290)	(62)	(145)	(28)	(235)	(138)	(440)	(129)	(25)	\$ (1,971)	5,250	(955)	4,295
22/23	5,250	0	16	(258)	(250)	(218)	(258)	(170)	(25)	(200)	(45)	(30)	(50)	-	(18)	-	\$ (1,521)	3,745	(955)	2,790
23/24	3,745	200	11	(265)	(70)	(9)	(285)	(195)	(200)	(90)	(90)	(480)	(81)	-	(34)	-	\$ (1,799)	2,157	(955)	1,202
24/25	2,157	1,000	6	(273)	(145)	-	(65)	-	(65)	-	(150)	-	(240)	-	(58)	-	\$ (996)	2,168	(955)	1,213
25/26	2,168	200	7	(281)	(5)	-	(75)	-	(25)	-	(30)	-	(143)	-	(103)	-	\$ (662)	1,712	(955)	757
26/27	1,712	200	5	(290)	(17)	-	-	-	(25)	-	(108)	-	(40)	-	(45)	-	\$ (524)	1,393	(955)	438
27/28	1,393	200	4	(299)	(93)	-	-	-	(80)	-	(35)	-	(52)	-	(80)	-	\$ (639)	959	(955)	4
28/29	959	200	3	(307)	(80)	-	(25)	-	(8)	-	(50)	-	(220)	-	(38)	-	\$ (728)	434	(955)	(521)
29/30	434	200	-	(317)	(8)	-	(200)	-	(25)	-	-	-	(161)	-	(30)	-	\$ (740)	(106)	(955)	(1,061)

Below is a schedule summarizing the Facility Maintenance Fund Activity for the next ten years:

<u>FACILITIES MAINTENANCE FUND</u>							
(in thousands)							
Fiscal Year	Begin Balance	Planned Funding	Interest	Total Expend.	Balance	Reserve	Available Balance
20/21	6,529	1,800	15	\$ (1,145)	7,199	(955)	\$ 6,244
21/22	7,199	0	22	\$ (1,971)	5,250	(955)	\$ 4,295
22/23	5,250	0	16	\$ (1,521)	3,745	(955)	\$ 2,790
23/24	3,745	200	11	\$ (1,799)	2,157	(955)	\$ 1,202
24/25	2,157	1,000	6	\$ (996)	2,168	(955)	\$ 1,213
25/26	2,168	200	7	\$ (662)	1,712	(955)	\$ 757
26/27	1,712	200	5	\$ (524)	1,393	(955)	\$ 438
27/28	1,393	200	4	\$ (639)	959	(955)	\$ 4
28/29	959	200	3	\$ (728)	434	(955)	\$ (521)
29/30	434	200	0	\$ (740)	(106)	(955)	\$ (1,061)

The Facilities Maintenance Fund is estimated to have a Fund balance of approximately \$6.2 million as of June 30, 2021. The reserve of \$955,000 is for projects which were approved in prior year budgets but have not yet been scheduled. The \$1,000,000 in funding in 2024-25 includes an \$800,000 charitable donation from the Estate of Anne Kroger which was received in 2017 and must be used to benefit children.

The fund balance at the end of 2021-22 is estimated at \$4.3 million, with an unrestricted fund balance of \$4.1. The restriction is the City Council approved loan to the Sewer Fund for system rehabilitation.

Annual funding is determined based on available funds in the General Fund after consideration of the needs of the equipment replacement fund and maintaining a General Fund reserve in the range of 18% +/- . Due to escalating pension, retiree medical and insurance expenses, we are not proposing any General Fund transfers for FY 2021-22 and FY 2022-23. We are planning to resume funding in FY 2023-24.

The facilities maintenance fund does **not** include major capital improvements currently being evaluated by the City. These include recreation facilities with previously developed conceptual master plans with cost estimates exceeding \$20 million as well as our public safety buildings. High-level assessments of the Police Department and Fire Department reveal significant deficiencies in these Essential Services Buildings which must be addressed. We are currently working on a more detailed analysis of options and costs but regardless of the approach to these deficiencies, the cost will likely exceed \$30 million. Beyond the Essential Services Buildings, City staff believes the renovation of the City Hall basement and Recreation Center are critical as the accessibility and fire/life safety issues of these facilities need to be addressed.

Capital Improvement Projects Fund

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

Appropriation of resources to this Fund are typically considered following a receipt of a report on projects recommended by the Capital Improvement Projects Review Committee. The Committee, on an annual basis, typically initiates a process to solicit community input, conduct site visits, analyze the merits of potential projects, and make recommendations to the City Council as to which projects should be funded. The Capital Improvement Projects Review Committee has suspended its activity due to COVID-19. Staff is working to create a timeline and framework to re-engage this important committee during FY 21-22.

Equipment Replacement Fund

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

The Equipment Replacement Fund is estimated to have a Fund Balance of approximately \$3,062,000 as of June 30, 2021. The fund balance at the end of 2021-22 is projected at \$1,786,000, with an unrestricted fund balance of \$1,186,000 and a restricted balance of \$600,000. The restriction is the City Council approved system rehabilitation loan to the Sewer Fund. The proposed General Fund transfer in 2021-22 is \$360,853.

On the following page is the detail of proposed Equipment Replacement expenditures for 2021-22 of \$1,698,800.

Equipment Replacement Fund Expenditures

Description	\$ Amount
<u>Administration:</u>	
Broadcast & Streaming Equip.	315,000
Video Equipment Upgrade	50,000
<u>Public Works:</u>	
Street Sweeper	350,000
<u>Recreation</u>	
Copy Machine	12,000
<u>Police:</u>	
Vehicles - Chief & Captain	75,000
Vehicle - Animal Control	85,000
Parol Vehicle	60,000
Vehicle - Parking Enforcement	35,000
<u>Fire:</u>	
Vehicle - Utility Pickup	75,000
P25 Compatable Radios	20,000
<u>IT:</u>	
Applications & Systems	330,000
Infrastructure & Operations	250,000
Hardware	41,800
Total Proposed Expenditures	\$ 1,698,800

Sewer Fund

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

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

With the approval of a low-interest loan by the State Water Resources Control Board (SWRCB), construction of Phase V of the sewer rehabilitation project began in 2017-18 and was completed in the first quarter of FY 2018-19. Thereafter, Phase VI design work began in FY 2018-19 with construction anticipated to begin in FY 22-23. All phases of rehabilitation are projected to be completed over the next decade, ahead of the schedule established under the CD.

A significant benchmark affirming Piedmont’s strategy for compliance to the EPA Consent Decree was reinforced in April of 2018. After the first EPA performance review of all participants, it was determined that Piedmont was in compliance and would not be assessed any stipulated penalties.

Sewer Fund Recap

SEWER FUND	Projected 2020-21	Proposed Budget 2021-22	Projected			
			2022-23	2023-24	2024-25	2025-26
Beginning Balance	\$3,044,134	\$ 2,893,936	\$ 3,014,596	\$ 942,781	\$ 4,240,976	\$ 4,264,208
Sewer Service Charges \ Interest	2,776,150	2,812,000	2,886,913	2,963,825	3,042,789	3,123,859
Loan Proceeds	0	0	1,008,120	3,024,360	0	1,071,836
Total Revenue	2,776,150	2,812,000	3,895,033	5,988,185	3,042,789	4,195,695
Operating Costs	1,658,000	1,717,421	1,786,542	1,858,919	1,934,665	2,013,898
Capital Costs:						
General Sewer Replacement	159,008	14,579	15,308	16,074	16,877	17,721
Capital Equipment	300,000	0	0	0	0	0
Phase VI	0	150,000	3,500,000	0	0	0
Phase VII	0	0	0	150,000	300,000	3,837,342
Debt Service	809,340	809,340	664,998	664,998	768,014	606,501
Total Expenditures	2,926,348	2,691,340	5,966,848	2,689,991	3,019,556	6,475,463
Ending Balance	\$ 2,893,936	\$ 3,014,596	\$ 942,781	\$ 4,240,976	\$ 4,264,208	\$ 1,984,440

In addition to the construction of rehabilitation projects, the Sewer Fund reimburses the General Fund for sewer related expenses charged to the General Fund. Public Works and Finance have refined expense estimates and capture actual costs related to personnel, supplies and services. Based on the data collected, the proposed transfer for 2021-22 is projected at \$815,000, an increase of \$15,000 over last fiscal year.

Pension Rate Stabilization Fund

In 2017-18, we established a Pension Rate Stabilization Fund. We partnered with the Public Agency Retirement Services (PARS) to establish a Section 115 Trust. The trust will allow us to smooth the effect of rising pension costs which are expected to more than double over the next ten years. Through the deposit of funds into the Section 115 Trust Program, the City could expect to earn a rate of return greater than what would be attained through the City’s investment

with the State of California Local Agency Investment Fund (LAIF). The higher return is made possible because the Section 115 Trust Program is not prohibited by the State law from making purchases of higher yield equities.

In May 2018, we transferred \$2.0 million from the General Fund into the Pension Rate Stabilization Fund. An additional \$750,000 was transferred into the trust in November 2018. In February 2021 we engaged Bartel & Associates, our actuarial firm, to refresh our 10-year pension expense projections. The projections increased approximately \$3.0 million as compared to our long-range plan. The increase is due to CalPERS lower than expected investment results in FY 2019-20 and the effect of the changes in their amortization policy. Amortization periods for the Unfunded Accrued Liability have been shortened from 30 years to 20 years, which lowers our overall liability, but increases annual payments. Our long-term plan now indicates the need to provide additional funding of \$750,000 to the PARS plan. We may need to draw down on the PARS fund as early as FY 2022-23 in order to pay our annual pension payments and maintain a reasonable General Fund reserve (18%).

MUNICIPAL SERVICES SPECIAL TAX

On March 3, 2020, Piedmont voters approved Measure T (Municipal Services Special Tax), authorizing the City Council to levy a parcel tax for a four-year period beginning with FY 2021-22. The rate for Fiscal Year 2021-2022 was set by the voters when they passed the tax. Commencing with FY 2022-23, the rate for Measure T may be adjusted by the lower of 4.0% or the annual percentage change in the Consumer Price Index for all Urban Consumers for San Francisco-Oakland-San Jose, California as published by the United States Department of Labor, Bureau of Labor Statistics.

Municipal Services Special Tax Rate Schedule

	Adopted Rate 2020-21 (Measure F)	Proposed Rate 2021-22 (Measure T)
Single Family Residences		
0 to 4,999	\$548	\$551
5,000 to 9,999	\$617	\$620
10,000 to 14,999	\$711	\$715
15,000 to 20,000	\$812	\$817
Over 20,000	\$925	\$930
Commercial Properties		
0 to 10,000	\$925	\$930
Over 10,000	\$1,387	\$1,395
Multi-Family Residential: per unit	\$381	\$383
Dual Jurisdiction Parcels: per unit	\$562	\$565
Estimated Revenue	\$2,410,000	\$2,422,000

SPECIAL MUNICIPAL SEWER TAX

The proposed Sewer Fund budget assumes that revenues increase based on changes in the CPI that are needed to maintain sewer services and rehabilitation of the sewer system. The proposed rate increase of 2.0% for FY 2021-22 is recommended.

The City Council is authorized (Municipal Code Chapter 20, Section 20E.3) to adjust the rate based upon changes in the Consumer Price Index (CPI) for All Urban Consumers for the San Francisco-Oakland-San Jose, California (December) as published by the United States Department of labor, Bureau of Labor Statistics. Based upon the change in this index, the rate adjustment for FY 2021-22 is 2.0%. After applying this rate adjustment, the proposed rate was rounded down to the nearest whole dollar for ease of assessment.

Special Municipal Sewer Tax Rate Schedule

	Adopted Rate 2020-21	Proposed Rate 2021-22
Single Family Residences		
0 to 4,999	\$613	\$625
5,000 to 9,999	\$699	\$712
10,000 to 14,999	\$805	\$821
15,000 to 20,000	\$939	\$957
Over 20,000	\$1,105	\$1,127
Commercial Properties		
0 to 10,000	\$1,105	\$1,127
Over 10,000	\$1,524	\$1,554
Multi-Family Residential: per unit	\$511	\$521
Dual Jurisdiction Parcels: per unit	\$613	\$625
Estimated Revenue	\$2,753,000	\$2,802,000

By: Michael Szczech, Finance Director