

City of Piedmont  
COUNCIL AGENDA REPORT

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DATE: June 3, 2024

TO: Mayor and Council

FROM: Rosanna Bayon Moore, City Administrator

SUBJECT: Public Hearing on the Proposed 2024-25 Budget, Including the Potential Addition of Full Time Personnel, Proposed Levy for the Municipal Services Special Tax, and Proposed Levy for the Special Municipal Sewer Tax

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RECOMMENDATION

Conduct the first public hearing on the proposed 2024-25 Budget, including the potential addition of full time personnel, proposed levy of the Municipal Services Special Tax, and 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 proposed 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 17, 2023. Next year, the City anticipates public dialogue and future consideration of the merits of adopting a two year budget. This budget cycle, the City prepared a forecast of second year of revenues and expenditures to introduce the concept to staff.

DISCUSSION

The Proposed 2024-25 Budget projects an Operating Net Income of \$1.7 million in the General Fund. After Capital Transfers of \$2.0 million (primarily ARPA funds) to the Facilities Capital Fund and \$1.4 million to the Facilities Maintenance and Capital Improvements Fund, the General Fund will experience a Net Loss estimated at \$1.7 million, which results in a projected ending General Fund Balance of \$6.8 million, or 17% of operating expenditures.

A number of key factors provide important context for the next fiscal year and the foreseeable future:

The 6<sup>th</sup> Cycle Piedmont Housing Element for 2023 to 2031 continues to represent a significant investment of City time and resources. To date, hundreds of community members have participated by attending public meetings, community workshops, completing surveys, submitting comment letters, and using online planning tools. This investment in a thoughtful, inclusive, and open planning process has produced Piedmont's housing plan, which the City is now implementing. Thoughtful planning has positioned the City to transform growth into a benefit for the community

as a whole. Significant efforts were initiated beginning in FY 2021-22 and this process will continue through FY 2024-25.

Development of the City's newest facility is in progress. In November 2020, voters approved the sale of up to \$19.5 million of bonds to be used in the construction of a new community pool and related facilities. In December 2021, after obtaining a Standard & Poor's "AAA" rating, the City successfully sold \$19.5 million in General Obligation bonds at very favorable interest rates, netting the City \$24.4 million in available project funds. Due to rapid inflation in construction costs, the total all-in project budget, including the pools, building, offsite right of way improvements, full facility electrification, and two bid additives (Scoreboard/Timing System and Upgraded Lighting) is estimated to be \$28.9 million. An increase of \$1.0 million, bringing the total overall budget to \$29.9 million, was approved by the City Council in December 2023. The increase was due to unforeseen costs to remove two buried fuel tanks along with the contaminated soil, as well as construction delays due to weather and PG&E. The pool is now targeted to open in the early 2025. Expenditures beyond the initial \$24.4 million raised in the bond offering will be primarily funded by major private donors, the Piedmont Recreational Facilities Organization (PRFO) fundraising campaign, support from the Kroeger estate and the California Energy Design Assistance Program, an AVA Community Energy loan associated with the electrification of the pool, and internal capital funds.

Interest in the future of our aged facilities is also on the horizon. The City has reached a point of critical mass with the deficiencies identified in Piedmont's essential services buildings that house public safety. In FY 2023-24, an ad hoc subcommittee of the City Council revisited prior work performed to date and led discussion of the topic with the entire governing body. Unanimous consensus included direction to prioritize a master planning framework and develop an actionable series of next steps. Staff is including \$600,000 in the FY 2024-25 Capital Budget to develop a phased plan for the Civic Center area that prioritizes future address of the City's Public Safety Facilities.

### **City Council Budget Study Sessions**

A series of four City Council Study Sessions devoted to establishing City goals and priority projects, as well as examining revenue projections and noteworthy budget variables, took place in March and April of this year.

The first two convenings were focused on governance and goal setting. Through a consensus building process, the City Council established five overarching goals to guide priorities, policies and operations:

1. Financial Stability – Prioritize financial health and stability with efficient staffing, responsible budgeting and long range forecasting.
2. Community Wellness & Inclusion – Focus on public safety, civic engagement and program offerings as pathways to community vitality.
3. City Infrastructure – Maintain and improve reliable municipal infrastructure and facilities for public use and enjoyment.

4. Effective Government – Support policies and structures that provide for the delivery of high quality city services.
5. Environmental Stewardship – Encourage the reduction of the community’s carbon footprint and ways to positively influence consumer choice.

The City Council also identified four key efforts for FY 2024-25 that are to be prioritized. These include completion of the Community Pool project, the Dispatch Center Relocation project, the Sidney and Irene Dearing Memorial project and substantial progress toward addressing a future Public Safety Building within the Civic Center area.

Two subsequent sessions explored revenue projections and expenditures required to preserve existing service levels, as well as recommendations to manage risk, increase efficiency, and improve delivery of public services. Major capital projects were discussed in detail.

Since that time, staff have worked in earnest to identify pathways to achieving a balanced budget that accomplishes high priority objectives.

The proposed Budget includes the following items:

#### Planning & Building Permit Processing

- Maintain part time staff but at a lower level than last year until the staffing and fee analysis study is completed and actional recommendations are available.
  - The budget for part time staff was reduced from \$538,000 in FY 23-24 to \$417,000 in the Proposed FY 2024-25 budget.

#### Facilities Project Manager – Part Time

- The part time Facilities Manager will oversee the management, renovation, and maintenance of the City’s physical assets, including all buildings and associated infrastructure, including HVAC, alarm systems, and ADA improvements.
  - Salary and taxes of \$108,000 are included in the proposed budget.

#### Compliance with 6<sup>th</sup> Cycle Housing Element Requirements

- Professional Consulting Services line items address completion of the Housing Element, preparation of the Environmental Impact Report (EIR), associated General Plan amendments, the Moraga Canyon Specific Plan and other related deliverables.
  - Total expenditures will span two fiscal years totaling \$2.2 million. The amount of \$1,400,000 was included in the FY 2023-24 Budget and \$829,000 is included in the Proposed FY 2024-25 Budget.
  - Approximately \$605,000 of the \$829,000 will be funded via a carryforward from the FY 2023-24 Budget as costs were incurred at a slower pace than expected.

### Dispatch Center Staffing

The current staffing model provides two Dispatchers for 10 hours during a 24-hour period, 4 days per week. Practically speaking, this form is achieved only 40% of the time due to vacations, sick time, and other absences.

National Fire Protection Association (NFPA) standards require a minimum staffing level of two Dispatchers. While past performance demonstrates the adequacy of current staffing for meeting today's call volume, additional staffing would more closely model best practices and ensure that radio calls are answered promptly. The addition of two full time employees will provide two Dispatchers for 16 hours during a 24-hour period, 6 days per week, and 10 of 24 hours one day per week.

- One additional Dispatcher position was included in the Approved FY 2023-24 Budget and was hired in January 2024.
- A second Dispatcher position was approved in December 2023, contingent upon the passing of Measure F (increased City Services Tax). Measure F passed in March 2024.
  - The position of Dispatch Supervisor is included in the Proposed FY 2024-25 Budget with total compensation of \$175,000.
- Approximately \$280,000 in grant funds from the State of California Citizens' Option for Safety (COPS) program will be utilized in the initial two years of the staff expansion.

### Systems Related Costs

The following project costs are included in the Proposed FY 2024-25 Budget:

- Records Management Project - \$203,000.
  - Records retention policy update
  - Digitization of records currently in paper format, including historical property records, which will free up space in lower level of City Hall.
  - Full utilization of City's Content Management Systems.
  - Destruction of obsolete records and reduction of offsite storage costs.
- Enterprise Asset Management System – One-time implementation costs of \$156,000 and annual software fees of \$40,000 (ongoing).
  - Tool for managing and tracking daily tasks and workflows, including labor and equipment costs.
  - Allows staff to assign or request work orders.
  - Automates numerous tasks currently being performed manually.
  - Includes a public portal for work requests, reporting issues, and complaints.
- Business License Software - One time implementation costs of \$50,000 and annual software fees of \$25,000 (ongoing).
  - Currently a labor intensive, manual, paper driven process.
  - Internal and external portal facing solution.
  - Automates workflow between staff and licensees.

### One Time & Cyclical Expenses

- Labor Negotiations
  - All employee agreements expire on June 30, 2025.

- \$230,000 is included in the Proposed Budget for the services of a labor negotiator and a compensation study for all full time positions.
- Recruiting and Succession
  - Two executive retirements are anticipated in FY 2024-25.
  - \$160,000 is included in proposed expenditures consisting of \$106,000 succession costs and \$54,000 recruiting expense.

#### Capital Projects

- Facilities Capital Fund supported projects presented in the FY 2024-25 Budget include but are not limited to:
  - Community Pool Completion
  - Dispatch Center Relocation
  - Phased Planning for Civic Center / Essential Services Buildings
  - Dearing Memorial Project
  - Linda Beach Playground
  - Sharon Avenue Storm Drain Improvements

## GENERAL FUND REVENUES

The City is projecting General Fund revenues, not including grant pass throughs, in FY 2024-25 of \$37,577,143 compared to the current FY 2023-24 projection of \$37,563,836. Revenue by category is as follows:

Category	2024-25		2023-24		\$ Change %	
	Proposed Budget	% of Budget	Projected	% of Total		
Property Related Taxes	\$ 24,617,200	61%	\$ 24,572,000	65%	\$ 45,200	0%
Recreation Related	3,969,000	10%	3,755,161	10%	213,839	6%
City Service Taxes	2,804,500	7%	2,736,500	7%	68,000	2%
Other Agencies	2,951,305	7%	859,744	2%	2,091,561	243%
UUT & Franchise Fees	2,078,000	5%	1,960,000	5%	118,000	6%
Building Permits & Planning Fees	1,874,500	5%	1,845,500	5%	29,000	2%
Business and Sales Taxes	985,000	2%	965,000	3%	20,000	2%
Other	970,943	2%	1,221,931	3%	(250,988)	-21%
Total	\$ 40,250,448	100%	\$ 37,915,836	100%	\$ 2,334,612	6%
Pass Thru (ARPA,etc)	(2,673,305)		(352,000)		(2,321,305)	
Adjusted Total	\$ 37,577,143		\$ 37,563,836		\$ 13,307	0%

The major sources of revenue in each category are:

### Property Related Taxes

Category	2024-25		2023-24		\$ Change	
	Proposed Budget	% of Budget	Projected	% of Total		
<b>Property Tax</b>	\$ 18,994,000	77%	\$ 18,315,000	75%	\$ 679,000	4%
<b>MVLF / Homeowners Relief</b>	1,823,200	7%	1,757,000	7%	66,200	4%
<b>Sub-Total</b>	20,817,200	85%	20,072,000	82%	745,200	4%
<b>Transfer Tax</b>	3,800,000	15%	4,500,000	18%	(700,000)	-16%
<b>Total</b>	\$ 24,617,200	100%	\$ 24,572,000	100%	\$ 45,200	0%

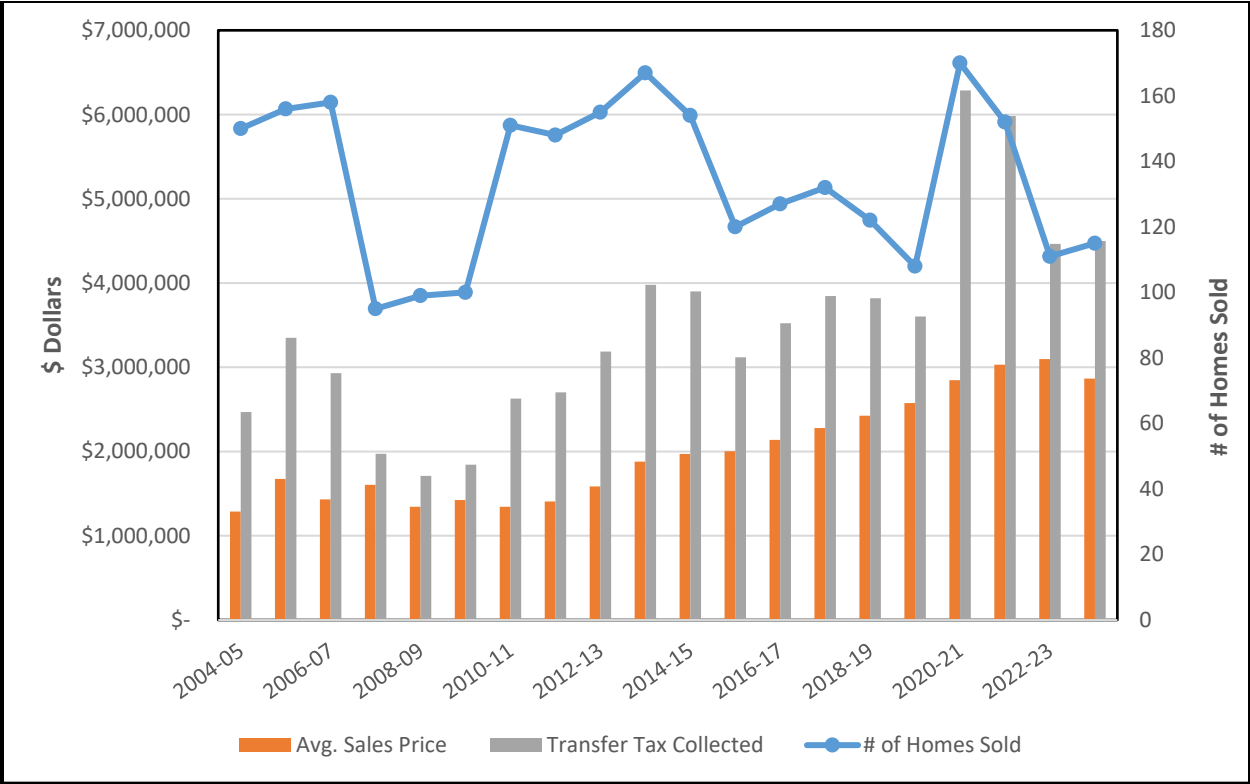
Property-related taxes are the City's primary revenue source and account for \$24,617,200 or 61% of General Fund revenues. This amount is an increase of \$45,200 over the 2023-24 projected actual.

The FY 2024-25 Proposed Budget consists of:

- Property Tax revenues, which consist of taxes on secured and unsecured property, are budgeted at \$18,994,000, an increase of \$679,000 or 4% as compared to the FY 2023-24 projection.
  - The 4% increase is based on estimates received from Alameda County. This increase is less than the past three years, which had annual increases of 4.5%, 8.0%, and 5.1%.
  - The softening of the increase is due to a decline in the number of homes being sold and their average sales price. In addition, assessed valuation adjustments under Proposition 8 and 19 have also increased.
- Property Tax in Lieu of Motor Vehicle License Fee (MVLF) / Homeowners Tax Relief is budgeted at \$1,823,200, a 4% increase over the prior year.
  - In 2004, the State Legislature permanently reduced the MVLF 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.
- Real Property Transfer Tax revenue is budgeted at \$3,800,000, a decline of \$700,000 or 16%, from the prior year. Staff is budgeting this cautiously as high interest rates and high inflation have weakened the real estate market, causing Transfer Tax receipts to decline approximately 30% from their peak in FY 2020-21.

Below is a table which summarizes the volatility of the housing market over the last several years (FY 2023-24 is estimated):

**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 \$3,952,000 in 2024-25, an increase of \$210,000 from the prior year. The major components are:

- Recreation Programs – Revenue is budgeted at \$2,853,500, an increase of \$177,200, or 7%, over the FY 2023-24 projection. The increase is due to an additional week of summer camps and expanded PRD in-house camp offerings this summer.
- Pre-School Program - Revenue is budgeted at \$525,000, an increase of approximately \$30,000, a 6% increase over the FY 2023-24 projection due to an increase in the number of preschool summer camps being offered.
- Facility Rentals – Staff has budgeted \$573,000 for FY 2024-25 which is 1% higher than the prior year’s projection.



### **City Service Taxes**

Category	2024-25		2023-24		\$ Change	
	Proposed Budget	% of Budget	Projected	% of Total		
Parcel Tax	\$ 2,690,000	96%	\$ 2,622,000	96%	\$ 68,000	3%
Paramedic Tax	69,500	2%	69,500	3%	-	0%
Water Users Tax	45,000	2%	45,000	2%	-	0%
<b>Total</b>	<b>\$ 2,804,500</b>	<b>100%</b>	<b>\$ 2,736,500</b>	<b>100%</b>	<b>\$ 68,000</b>	<b>2%</b>

- Parcel Tax revenue, based on the ballot measure approved by 83% of voters in March 2020, is estimated at \$2,690,000, an increase of \$68,000 or 2.6% over the 2023-24 projection. The annual tax increase is limited to the lower of CPI, which was 2.3%, or 4%.
  - In March 2024, 76% of Piedmont voters approved a 20% increase to the tax and extended the term for 12 years, effective July 1, 2025.
- The Paramedic and Water Users Taxes remain unchanged. They are levied at \$18.46 and \$12.00 per parcel, respectively.

### **Revenues from Other Agencies**

Revenues from Other Agencies are budgeted at \$2,951,305, an increase of \$2,091,561 from the FY 2023-24 projection. The bulk of the increase is due to the American Rescue Plan Act (ARPA) funds which are recognized as revenue when expended (\$1.7 million) and an Alameda County Transportation Commission (ACTC) grant of \$500,000. The ARPA funds are being used for the Dispatch Center Relocation project and the CTC funds for the 2024 Pavement project.

### **Utility User Taxes & Franchise Fees**

Utility User Taxes are taxes collected from residents for the use of electricity, gas, 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 \$1,460,000 which is 7% higher than the current year's projection. The increase is due to expected rate hikes by PG&E.
- Franchise Fees are budgeted at \$618,000, a 3% increase over the current year projection of \$600,000.

**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 2024-25 is \$1,874,500 compared to a projection of \$1,845,500 for the current fiscal year primarily due to proposed fee increases. The proposal is to increase fees consistent with the rise in the Consumer Price Index.

**Business and Sales Taxes**

Business taxes consist of Business License and Real Estate Rental taxes. Business Licenses were relatively stable until an 18% jump in FY 2021-22 followed by a 30% increase in FY 2022-23. FY 2023-24 is tracking to the same level, and a modest increase (3%) is budgeted for FY 2024-25. Rental taxes were increasing approximately 6% per year until leveling off in FY 2020-21. Sales taxes have hovered between \$220,000 and \$250,000 for the past three years.

Staff is estimating \$985,000 in revenues, an increase of \$20,000 or 2%, from the current year for this category.

**Other Revenue**

The major components of Other Revenue consist of these miscellaneous items: Ambulance Service Charges, Lease Revenue, Reimbursable Services, Interest and Unrealized Investment Results, and other miscellaneous receipts.

Staff is budgeting \$970,943 for FY 2024-25 compared to a projection of \$1,221,931 in the current fiscal year, a decrease of \$250,988. The primary reason for the variance is lower interest income as interest rates are expected to decline. Additionally, FY 2023-24 included approximately \$108,000 received for insurance claims.

## **GENERAL FUND EXPENDITURES**

The City is budgeting \$39,770,718 in General Fund expenditures, an increase of 11% from last year's 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:

Category	2024-25		2023-24			
	Proposed	% of		% of		
	Budget	Budget	Projected	Total	\$ Change	%
Personnel Costs	\$ 24,597,820	62%	\$ 23,215,442	65%	\$ 1,382,378	6%
Maintenance & Operations	10,322,427	26%	8,826,713	25%	1,495,714	17%
Non-Departmental	4,450,471	11%	3,923,109	11%	527,362	13%
Aquatics Subsidy	400,000	1%	0	0%	400,000	NA
Total	\$ 39,770,718	100%	\$ 35,965,264	100%	\$ 3,805,454	11%

### **General Fund Budget by Expenditure Category**

#### **Personnel Costs**

Personnel related costs, which include salaries & wages, benefits, and retirement costs, are the largest overall expenditure in the General Fund at \$24,597,820, which is \$1,382,378 (6%) higher than the prior year projection. Such costs make up 62% of the total 2024-25 General Fund budget.

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

### Personnel Budget by Department

Category	2024-25		2023-24			
	Proposed	% of	% of			
	Budget	Budget	Projected	Total	\$ Change	%
Administration	\$ 1,974,807	8%	\$ 1,780,050	8%	\$ 194,757	11%
Communications	376,711	2%	355,102	2%	21,609	6%
Public Works	2,489,967	10%	2,239,730	10%	250,237	11%
Planning & Building	1,913,950	8%	1,939,120	8%	(25,170)	-1%
Recreation	2,247,780	9%	2,106,503	9%	141,277	7%
Police	7,702,445	31%	7,001,400	30%	701,045	10%
Fire	7,892,160	32%	7,793,537	34%	98,623	1%
Total	\$ 24,597,820	100%	\$ 23,215,442	100%	\$ 1,382,378	6%

### Personnel Budget by Type

Category	2024-25		2023-24		\$ Change %	
	Proposed Budget	% of Budget	Projected	% of Total		
Salaries	\$ 16,702,467	68%	\$ 16,371,788	71%	\$ 330,679	2%
Health Insurance	2,150,899	9%	1,842,022	8%	308,877	17%
Retirement	4,765,838	19%	4,118,052	18%	647,786	16%
Other Benefits	978,616	4%	883,580	4%	95,036	11%
Total	\$ 24,597,820	100%	\$ 23,215,442	100%	\$ 1,382,378	6%

In FY 2021-22 the City entered into four-year labor agreements with all City employees including its four bargaining units, as well as all unrepresented employees. With the goal of containing costs and setting total employee compensation to within -3 % of the median of Piedmont's comparator cities, the City agreed to the following major terms:

- Salary increases in each of the next four years as follows: 3%, 3%, 3.25% 3.25%.
- Continue medical benefit cost sharing but reset base to FY 2020-21 level.
- Freeze employee cost sharing percentage for CalPERS at FY 2020-21 levels.

FY 2024-25 is the final year of these four-year agreements.

Salaries expense for FY 2024-25 is budgeted at \$16,702,467 which is a 2% increase compared to the FY 2023-24 projection. The increase is due to the following:

- 3.25% across the board wage increase per labor agreements.
- The addition of the Dispatch Supervisor in the Police Department.
- One temporary part-time position in Administration to lead specific records management projects, including digitization of property files.
- Succession costs of \$106,000 included for transition activities associated with two key planned retirements.
- Assumption of full staffing.

These increases are partially offset by:

- Lower overtime costs as both the Police and Fire Departments are at full staff.
- Decline in part-time costs in the Planning and Building Department.

In addition, as compared to the prior year projections, the most significant changes in personnel costs are as follows:

- Health Insurance – The proposed budget reflects an increase of \$308,877 over last year. The increase is primarily due to an assumed 5.0% increase in premium rates and the assumption of full staffing.
- Retirement - Employee retirement costs are projected to increase \$647,786 over last year.
  - In FY 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.
  - In FY 2020-21, CalPERS experienced a very favorable investment return of 21.3%. The large gain triggered the CalPERS Risk Mitigation Policy which lowered the discount rate to 6.8%. Then in FY 2021-22, the CalPERS portfolio lost 6.1%. These events resulted in a lower Unfunded Accrued Liability (UAL) payment ONLY in FY 2023-24, but Normal Cost increasing dramatically in FY 2023-24 and then stabilizing going forward.
  - In FY 2024-25, staff is projecting that the Normal Cost, net of employee cost share, will increase by 3%, from \$1,621,905 (9.9% of salaries) in FY 2023-24 to \$1,718,015 (10.3% of salaries) in FY 2024-25. The Unfunded Liability Payment will jump 22% to \$3,047,823, an increase of \$551,676.

Category	2024-25		2023-24		\$ Change %	
	Proposed Budget	% of Budget	Projected	% of Total		
Normal Cost	\$ 2,103,743	44%	\$ 2,035,178	49%	\$ 68,565	3%
Cost Share	(385,728)	-8%	(413,273)	-10%	27,545	-7%
Net Normal Cost	1,718,015	36%	1,621,905	39%	96,110	6%
Unfunded Accrued Liability (UAL)	3,047,823	64%	2,496,147	61%	551,676	22%
Total	<b>\$ 4,765,838</b>	<b>100%</b>	<b>\$ 4,118,052</b>	<b>100%</b>	<b>\$ 647,786</b>	<b>16%</b>

- The Normal Cost is projected to increase slightly below the same rate as payroll expense going forward. As Tier 1 employees retire, the overall rate being paid declines.
- The Cost Share offset will continue to decline as CalPERS Tier One employees retire.
- Unfunded liability payments are projected to increase at an average rate of 9% for the next 7 years, then begin to flatten out.

### **Maintenance and Operations**

Maintenance and Operations costs are budgeted at \$10,322,427, amounting to 26% of the FY 2024-25 General Fund budget and an increase of \$1,495,714 compared to the FY 2023-24 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 following summarizes maintenance and operations costs by department:

### Maintenance and Operations Budget by Department

Category	2024-25		2023-24		\$ Change %	
	Proposed Budget	% of Budget	Projected	% of Total		
Administration	\$ 2,813,275	27%	\$ 2,015,200	23%	\$ 798,075	40%
Communications	173,060	2%	116,800	1%	56,260	48%
Public Works	2,473,980	24%	2,201,646	25%	272,334	12%
Planning & Building	1,019,155	10%	894,750	10%	124,405	14%
Recreation	1,888,900	18%	1,843,637	21%	45,263	2%
Police	1,119,262	11%	1,061,680	12%	57,582	5%
Fire	834,795	8%	693,000	8%	141,795	20%
<b>Total</b>	<b>\$ 10,322,427</b>	<b>100%</b>	<b>\$ 8,826,713</b>	<b>100%</b>	<b>\$ 1,495,714</b>	<b>17%</b>

The most significant increases in Maintenance and Operations costs in the FY 2024-25 Proposed Budget as compared to the FY 2023-24 projection are as follows:

- Administration – Expenses are projected to be \$798,075 (40%) higher year over year. The increase is primarily due to:
  - IT related expenses – Increase in Client First consulting, software and Computer Courage staffing - \$315,000.
  - Labor Negotiations, including all city compensation study - \$230,000.
  - Records Management Project - \$203,000.
  - Recruiting Expense - \$54,000.
  - Election expenses - \$37,000.
- Public Works – Staff is budgeting an increase of \$272,334. This increase consists of the following:
  - Enterprise Asset Management system annual software fees - \$42,500
  - Increased utility costs - \$47,500
  - Maintenance and operating expenses increase due to inflationary pressures - \$175,000
- Fire – Staff is projecting an increase of \$141,795 over last year primarily due to costs associated with the Local Hazard Mitigation Plan. The City was awarded a grant of approximately \$150,000 to fund this project.
- Planning and Building – Staff is budgeting an increase of \$124,405. This increase is primarily due to:
  - Carryforward of unspent funds for Supplemental Planning Services, which consists of Housing Element related programs and Objective Design Standards - \$455,000.

- This is offset by lower specific plan and environmental consulting expenses - (\$350,000).

### **Non-Departmental**

Non-Departmental costs are budgeted at \$4,450,471, comprising 11% of the 2024-25 General Fund budget. The following costs are included:

Category	2024-25		2023-24		\$ Change	
	Proposed Budget	% of Budget	Projected	% of Total		
Insurance	\$ 3,030,000	68%	\$ 2,510,000	64%	\$ 520,000	21%
Retiree Medical Premiums	1,070,000	24%	975,000	25%	95,000	10%
Library	350,471	8%	350,471	9%	0	0%
Miscellaneous	0	0%	87,638	2%	(87,638)	NA
<b>Total</b>	<b>\$ 4,450,471</b>	<b>100%</b>	<b>\$ 3,923,109</b>	<b>100%</b>	<b>\$ 527,362</b>	<b>13%</b>

- Insurance costs, which include General Liability and Workers Compensation, comprise \$3,030,000 and present a \$520,000 increase from the estimated 2023-24 expense. The increase is primarily due to:
  - Higher General Liability premiums caused by increased payroll, overall actuarial adjustments to the risk pool and increased property values. In FY 2022-23, the City increased its General Liability self-insured retention from \$10,000 to \$25,000 per claim, which reduced the premium increase from 20% to 15% year over year. Workers Compensation costs are projected to increase 6% as higher premiums are expected to be offset by lower claims.
- Retiree Medical Premiums - Premiums are budgeted at \$1,070,000 compared to \$975,000 last year. The increase is due to one retirement in 2023-24, a 5% budgeted increase in premium costs, and an estimated three retirements in FY 2024-25.
- Library Services – \$350,471 is budgeted as a contribution to the City of Oakland, unchanged from prior years.

### **GENERAL FUND BALANCE**

The FY 2024-25 Proposed Budget projects Operating Net Income of approximately \$1,681,000. Proposed Capital transfers for essential capital needs are:

- \$2,016,000 - Capital Improvements (ARPA & Prop 68 Funds)
- \$ 850,000 - Facilities Maintenance, including sidewalk replacement/repair
- \$ 500,000 – 2025 Street Paving Project (ACTC Funds)



After these transfers, the General Fund ending balance will be approximately \$6.8 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.

## **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 2024-25 budget and actual results from the prior five years:

	FISCAL YEAR ENDED					Proposed	Projected	
	June-19	June-20	June-21	June-22	June-23	BUD 2025	FY 23-24	
<b><u>RECREATION (GF)</u></b>								
Revenue	\$ 2,832,816	\$ 1,261,674	\$ 1,761,020	\$ 3,149,170	\$ 3,666,420	\$ 3,951,643	\$ 3,741,807	\$ 209,836
Salaries	1,340,569	1,315,680	1,182,494	1,460,424	1,500,586	1,712,871	1,622,136	90,735
Benefits & Taxes	356,360	321,674	309,749	415,922	444,553	534,909	484,367	50,542
Operating Exp	1,215,631	1,028,856	912,727	1,419,944	1,781,636	1,888,900	1,843,637	45,263
Total Expenses	2,912,560	2,666,210	2,404,969	3,296,290	3,726,775	4,136,680	3,950,140	186,540
% of Revenue	103%	211%	137%	105%	102%	105%	106%	89%
Net Income/(Loss)	\$ (79,743)	\$ (1,404,536)	\$ (643,950)	\$ (147,120)	\$ (60,356)	\$ (185,037)	\$ (208,333)	\$ 23,296
Cost Recovery %	97%	47%	73%	96%	98%	96%	95%	
<b><u>SCHOOLMATES</u></b>								
Revenue	\$ 762,930	\$ 632,868	\$ 586,126	\$ 1,101,085	\$ 1,558,831	\$ 1,481,000	\$ 1,425,567	\$ 55,433
Salaries	448,901	459,301	495,839	468,108	554,394	1,007,155	894,700	112,455
Benefits & Taxes	131,893	139,243	123,680	147,117	202,017	287,043	165,300	121,743
Operating Exp	122,180	111,409	86,836	91,808	180,634	204,500	120,000	84,500
Total Expenses	702,973	709,953	706,355	707,033	937,044	1,498,698	1,180,000	318,698
% of Revenue	92%	112%	121%	64%	60%			
Net Income/(Loss)	\$ 59,957	\$ (77,085)	\$ (120,229)	\$ 394,052	\$ 621,786	\$ (17,698)	\$ 245,567	\$ (263,265)
Cost Recovery %	109%	89%	83%	156%	166%	99%	121%	
<b><u>AQUATICS</u></b>								
Revenue	\$ 495,806	\$ 338,829	\$ (1,034)	\$ -	\$ -	\$ 316,000	\$ -	\$ 316,000
Salaries	387,586	375,765	74,792	5,205	1,989	380,220	-	380,220
Benefits & Taxes	52,117	52,802	16,174	(2,618)	161	111,009	-	111,009
Operating Exp	254,239	190,320	45,293	14,330	19,476	266,000	-	266,000
Total Expenses	693,942	618,888	136,258	16,918	21,627	757,229	-	757,229
% of Revenue	NA	NA	-13183%	#DIV/0!	#DIV/0!			
Net Income/(Loss)	\$ (198,136)	\$ (280,059)	\$ (137,292)	\$ (16,918)	\$ (21,627)	\$ (441,229)	\$ -	\$ (441,229)
Cost Recovery %	71%	55%	-1%	0%	0%	42%	#DIV/0!	

Staff has historically targeted the Recreation Department to be cost neutral. Staff is projecting 95% total department cost recovery in FY 2023-2024 and proposing 96% for FY 2024-2025. This is after historic pandemic lows of 47% and 73% in FY 2019-20 and FY 2020-21 respectively, which then recovered to 96% and 98% in FY 2021-2022 and FY 2022-23, respectively.

### Recreation Department Staffing Adjustments:

- Reclassify the Aquatics Supervisor position to the Recreation Supervisor classification and add incentives for Aquatics related certifications. This increases flexibility amongst the group, allowing any of the Supervisors to support Aquatics.

In 2023-24, staff is projecting Schoolmates cost recovery to be 121% and proposing a budget of 99% for FY 2024-2025. This cost recovery figure for FY 2023-2024 is well above the target due to the delay of Schoolmates related maintenance and capital projects and attaining full staffing.

The following staffing changes were approved in FY 2023-24 and will be fully implemented in FY 2024-25:

- Schoolmates Site Leads (2) and Assistant Site Leads (4) will remain part-time positions but will work more than 1,000 hours in a fiscal. As a result, the staff will be enrolled in CalPERS, will be eligible to enroll in the City's medical insurance plan and be offered the PEMHCA minimum payment for medical benefits as required by law. Site Coordinators (2) will remain part-time, will be enrolled in CalPERS, and will receive full medical benefits. The goal of the additional part-time positions is to establish four core staff positions at each Schoolmates site and two core staff at each Mini-mates program to provide program stability, give staff the opportunity to work more hours and facilitate access to medical benefits for employee retention.

Aquatics Fund –The Proposed Budget assumes an early 2025 opening. The budget is consistent with the operational analysis prepared by the Isaac Sports Group and presented to the City Council in December 2022. Included in the Proposed Budget are the following expenses:

- Aquatics Supervisor - hired 8 months prior to opening.
- Aquatics Coordinator - hired 4 months prior to opening.
- Maintenance Technician (Part-Time) - hired 2 months prior to opening.
- Lifeguards – Training.
- Operating expenses - \$266,0050, of which \$40,000 is for site furnishings.

The residual balance in the Aquatics Fund plus a General Fund subsidy of \$400,000 is proposed to cover these startup costs.

## **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.

### **Street Infrastructure Maintenance & Replacement**

The City's FY 2024-25 budget for street infrastructure maintenance and replacement, including sidewalk repair, is \$3.7 million. Funding sources include Gas Tax, SB1, Measure BB, and Measure F. These sources are funded by Sales and Gasoline taxes. The budget is based on estimates received from the County.

In addition, the City has received a grant from Alameda County Transportation Commission for \$500,000. The majority of available funding is dedicated to street resurfacing, 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.

The PCI (Pavement Condition Index) for the streets within the City of Piedmont is currently 61. This is down from the 63 reported last year and 67 reported in 2019. This keeps the City's overall average within the "Good" range.

PCI Range	Description	2024	2023	2022	2019
	<b>OVERALL</b>	<b>61%</b>	<b>63%</b>	<b>65%</b>	<b>67%</b>
>70	Very Good	47%	50%	58%	49%
50-69	Good	22%	23%	17%	28%
24-49	Poor	22%	20%	20%	20%
0-24	Very Poor	9%	7%	5%	3%

An estimated \$700,000 in additional annual spending above recent levels would be required to improve the PCI to 71 and reach the "Very Good" category.

Summary Street Report									
	Measure BB	Gas Tax	SB 1	Measure F	Measure B	Traffic Congestion	Total Sources	General Fund	Grand Total
<b>ACTUAL 2021-22</b>									
<b>Total Revenues</b>	<b>672,532</b>	<b>271,455</b>	<b>219,860</b>	<b>42,720</b>	<b>425,796</b>	<b>-</b>	<b>1,632,365</b>		
Streets	(722,312)		(204,879)	-	(520,618)	(38,429)	(1,486,238)		(1,486,238)
Sidewalks		(277,480)					(277,480)	(937,368)	(1,214,848)
Total Expenditures	(722,312)	(277,480)	(204,879)	-	(520,618)	(38,429)	(1,763,718)	(937,368)	(2,701,086)
<b>Ending Balance</b>	<b>\$ 422,906</b>	<b>\$ 1,113</b>	<b>\$ 463,343</b>	<b>\$ 116,085</b>	<b>\$ 212,550</b>	<b>\$ 0</b>	<b>\$ 1,215,999</b>		
<b>ACTUAL 2022-23</b>									
<b>Total Revenues</b>	<b>1,334,264</b>	<b>291,104</b>	<b>265,516</b>	<b>40,000</b>	<b>3,238</b>	<b>-</b>	<b>1,934,122</b>		
Streets - Spent YTD	(1,017,988)		(670,941)	(104,963)	(215,788)	-	(2,009,680)		(2,009,680)
Streets - To be Spent							-		-
Sidewalks							-	(601,662)	(601,662)
Total Expenditures	(1,017,988)	-	(670,941)	(104,963)	(215,788)	-	(2,009,680)	(601,662)	(2,611,342)
<b>Ending Balance</b>	<b>\$ 739,182</b>	<b>\$ 292,217</b>	<b>\$ 57,919</b>	<b>\$ 51,122</b>	<b>\$ (0)</b>	<b>\$ 0</b>	<b>\$ 1,140,440</b>		
<b>PROJECTED 2023-24</b>									
<b>Total Revenues</b>	<b>1,164,000</b>	<b>316,791</b>	<b>272,559</b>	<b>41,000</b>	<b>-</b>	<b>-</b>	<b>1,794,350</b>		
Streets - Available	(1,800,000)	(600,000)	(280,000)	(90,000)		-	(2,770,000)		(2,770,000)
Sidewalks							-	(700,000)	(700,000)
<b>Total Expenditures</b>	<b>(1,800,000)</b>	<b>(600,000)</b>	<b>(280,000)</b>	<b>(90,000)</b>	<b>-</b>	<b>-</b>	<b>(2,770,000)</b>	<b>(700,000)</b>	<b>(3,470,000)</b>
<b>Ending Balance</b>	<b>\$ 103,182</b>	<b>\$ 9,008</b>	<b>\$ 50,478</b>	<b>\$ 2,122</b>	<b>\$ (0)</b>	<b>\$ 0</b>	<b>\$ 164,790</b>		
<b>PROPOSED 2024-25</b>									
<b>Total Revenues</b>	<b>1,150,000</b>	<b>316,500</b>	<b>291,000</b>	<b>41,000</b>	<b>-</b>	<b>-</b>	<b>1,798,500</b>		
Streets - Available	(1,825,000)	(300,000)	(290,000)	(40,000)		-	(2,455,000)	(500,000)	(2,955,000)
Sidewalks							-	(700,000)	(700,000)
<b>Total Expenditures</b>	<b>(1,825,000)</b>	<b>(300,000)</b>	<b>(290,000)</b>	<b>(40,000)</b>	<b>-</b>	<b>-</b>	<b>(2,455,000)</b>	<b>(1,200,000)</b>	<b>(3,655,000)</b>
<b>Ending Balance</b>	<b>\$ (571,818)</b>	<b>\$ 25,508</b>	<b>\$ 51,478</b>	<b>\$ 3,122</b>	<b>\$ (0)</b>	<b>\$ 0</b>	<b>\$ (491,710)</b>		

Piedmont's sidewalks are increasingly in disrepair. It is especially important to repair sidewalks as soon as possible to reduce the liability associated with accidents caused by unsafe sidewalks. Staff has proposed a budget of \$700,00 for sidewalk repair and replacement, which will be funded from the Facilities Maintenance Fund.

The City currently does not have the tools to adequately track the required maintenance of sidewalks. Staff have included in the Proposed Budget the implementation of an Enterprise Asset Management system to satisfy this and other maintenance related 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, ongoing 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 staff closely monitors City needs.

In 2019-20, staff removed janitorial type expenses from this fund and are now accounting for them in the General Fund. Further, to better identify and quantify long term capital needs as opposed to ongoing maintenance costs, beginning in FY 2022-23 staff split this fund into two separate funds:

- Facilities Maintenance Fund (111) – Repairs and maintenance, scheduled maintenance, and sidewalk replacement/repair is funded annually by transfers from the General and Schoolmates Funds based on need.
- Facilities Capital Projects (112) – Capital projects for all City facilities including parks. Funding is determined each year based on budget surplus, if any.

The following schedule summarizes the current Facilities Maintenance Fund plan. It is a roll up of scheduled maintenance and estimated repairs and maintenance for each City facility, as well as sidewalk replacement/repair.

	FISCAL YEAR					
	2022-23	2023-24	2024-25	2025-26	2026-27	FY 2027
	Actual	Projected	Budget	Forecast	Forecast	Forecast
<b>FACILITIES MAINTENANCE</b>						
Beginning Balance	\$ 347,583	\$ 571,407	\$ 429,407	\$ 118,907	\$ 128,007	\$ 155,769
General Fund Subsidy	\$ 1,300,000	\$ 850,000	\$ 850,000	\$ 1,500,000	\$ 1,550,000	\$ 1,250,000
Schoolmates Subsidy	70,075	38,000	32,000	95,600	64,104	81,628
Contributions \ Other Funding	50,615	-	-	-	-	-
Interest	17,483	8,000	15,000	24,000	25,000	21,000
<b>Total Revenue</b>	<b>\$ 1,438,174</b>	<b>\$ 896,000</b>	<b>\$ 897,000</b>	<b>\$ 1,619,600</b>	<b>\$ 1,639,104</b>	<b>\$ 1,352,628</b>
Expenditures:						
Sidewalks	\$ (601,662)	\$ (700,000)	\$ (700,000)	\$ (650,000)	\$ (650,000)	\$ (600,000)
Annual Maintenance	(223,978)	(201,000)	(215,000)	(225,750)	(234,780)	(244,171)
Scheduled Maintenance	(388,710)	(137,000)	(292,500)	(734,750)	(726,563)	(506,941)
<b>Total Expenditures</b>	<b>\$ (1,214,350)</b>	<b>\$ (1,038,000)</b>	<b>\$ (1,207,500)</b>	<b>\$ (1,610,500)</b>	<b>\$ (1,611,343)</b>	<b>\$ (1,351,112)</b>
<b>Ending Balance</b>	<b>\$ 571,407</b>	<b>\$ 429,407</b>	<b>\$ 118,907</b>	<b>\$ 128,007</b>	<b>\$ 155,769</b>	<b>\$ 157,285</b>

The schedule summarizes the current Facilities Capital Fund plan. It is a roll up of capital projects for all City facilities, including parks. Supporting schedules which detail each project are included in the Facilities Program documents.

	FISCAL YEAR					
	2022-23	2023-24	2024-25	2025-26	2026-27	FY 2027
	Actual	Projected	Budget	Forecast	Forecast	& Beyond
<b>FACILITIES CAPITAL FUND</b>						
Beginning Balance	\$ 10,059,535	\$ 10,797,968	\$10,077,736	\$ 4,212,036	\$ 2,328,036	\$ 743,036
General Fund Subsidy	\$ 1,500,000	\$ -	\$ -	\$ -	\$ -	\$ -
Schoolmates Subsidy	-	-	-	-	-	-
ARPA Funding	232,533	250,000	1,896,800	-	-	-
Contributions \ Other Funding	36,298	-	219,000	-	-	-
Interest	245,472	450,000	300,000	63,000	35,000	-
Total Revenue	\$ 2,014,303	\$ 700,000	\$ 2,415,800	\$ 63,000	\$ 35,000	\$ -
Expenditures:						
Facilities	\$ (619,712)	\$ (250,000)	\$ (4,475,000)	\$ (1,020,000)	\$ (1,100,000)	\$ (52,760,000)
Parks	(411,965)	(601,992)	(1,415,000)	(669,000)	(215,000)	(26,105,000)
Tennis Courts	(80,238)	(100,000)	(100,000)	-	-	(810,000)
Sustainability	-	(43,240)	(131,500)	(158,000)	(30,000)	(752,000)
Storm Drains	(4,473)	(100,000)	(430,000)	(100,000)	(100,000)	-
Green Infrastructure	-	(250,000)	(200,000)	-	(175,000)	(775,000)
Community Pool	(72,562)	(75,000)	(1,500,000)	-	-	-
Miscellaneous	(86,920)	-	(30,000)	-	-	-
Total Expenditures	\$ (1,275,870)	\$ (1,420,232)	\$ (8,281,500)	\$ (1,947,000)	\$ (1,620,000)	\$ (81,202,000)
Ending Balance	\$ 10,797,968	\$ 10,077,736	\$ 4,212,036	\$ 2,328,036	\$ 743,036	\$ (80,458,964)

The Facilities Capital Fund is estimated to have a balance of approximately \$10.1 million as of June 30, 2024. Funding will be primarily from the General and Schoolmates Funds, when available. American Rescue Plan Act (ARPA) funds are being allocated for use on the Police Dispatch Center Relocation project in accordance with City Council direction. Construction begins in FY 2023-24.

Annual funding is determined based on available funds in the General Fund after consideration of the needs of the equipment replacement fund, facilities maintenance fund, and a General Fund reserve set aside in the range of +/-18%.

The Facilities Capital Fund includes major capital improvements currently being evaluated by the City in the column “FY 2027 & Beyond”. High-level assessments of the Police Department and Fire Department indicate considerable deficiencies in Essential Services Buildings.

Beyond the Essential Services Buildings, City staff anticipates future renovation of the City Hall basement and Recreation Center for accessibility and to address safety issues. Major improvements to Linda Beach, Coaches Field and Hillside Park are also being evaluated. The total cost of all these projects may be upward of \$65 million. Based on ten-year projections for the General Fund, the City does not have adequate funding to complete these projects, nor the recreation related conceptual plans developed in recent years.

### **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 following is the proposed Equipment Replacement expenditures for FY 2024-25 of \$1,146,175:

<b>Description</b>	<b>\$ Amount</b>
<b><u>Administration</u></b>	
Copy Machine	\$ 15,000
<b><u>Communications</u></b>	
Broadcast & Streaming Equip.	100,000
Video Equipment	70,000
<b><u>Public Works:</u></b>	
Storm Drain Camera	40,000
<b><u>Recreation</u></b>	
Utility Electric Cart	30,000
Copy Machine	15,000
<b><u>Police:</u></b>	
Vehicle - Patrol Unit	96,000
<b><u>Fire:</u></b>	
Ambulance	379,335
<b><u>IT:</u></b>	
Applications & Systems	236,000
Hardware	110,000
Desktops\Laptops\etc.	54,840
<b>Total Proposed Expenditures</b>	<b>\$ 1,146,175</b>

The Equipment Replacement Fund is estimated to have a balance of approximately \$2.4 million as of June 30, 2024. Funding of \$800,000 is needed for FY 2024-2025. Staff recommends transferring these funds in FY 2023-24 due to the projected surplus this year.

The fund balance at the end of FY 2024-25 is projected at approximately \$2.2 million, with an unrestricted fund balance of \$1.6 million and a restricted balance of \$600,000. The restriction is the City Council approved system rehabilitation loan to the Sewer Fund.

## **Sewer Fund**

The Sewer Fund is used to account for costs related to the inspection, maintenance, repair, and replacement of the sanitary sewer system in the City. In July 2014, the City and other East Bay jurisdictions entered into a Consent Decree Order (CDO) 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 CDO 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 2022-23 with construction anticipated to begin in FY 24-25. All phases of rehabilitation are projected to be completed over the next decade, ahead of the schedule established under the CDO.

### **Sewer Fund Recap**

SEWER FUND	Projected 2023-24	Proposed Budget 2024-25	Projected			
			2025-26	2026-27	2027-28	2028-29
<b>Beginning Balance</b>	<b>\$4,081,447</b>	<b>\$ 4,118,449</b>	<b>\$ 2,942,231</b>	<b>\$ 3,238,843</b>	<b>\$ 6,945,999</b>	<b>\$ 6,952,429</b>
Sewer Service Charges \ Interest	3,222,000	3,270,000	3,345,100	3,444,024	3,637,595	3,741,674
Loan Proceeds	0	0	2,585,998	3,231,000	0	969,963
<b>Total Revenue</b>	<b>3,222,000</b>	<b>3,270,000</b>	<b>5,931,098</b>	<b>6,675,024</b>	<b>3,637,595</b>	<b>4,711,636</b>
Operating Costs	1,280,000	1,343,000	1,392,150	1,443,408	1,496,828	1,552,469
<u>Capital Costs:</u>						
General Sewer Replacement	540,000	250,000	262,500	275,625	289,406	303,877
Capital Equipment	400,000	80,000	0	0	0	0
Phase VI	300,000	2,250,000	3,231,000	0	0	0
Phase VII	0	0	0	500,000	1,000,000	2,379,850
Debt Service	664,998	523,218	748,836	748,836	844,931	1,103,142
<b>Total Expenditures</b>	<b>3,184,998</b>	<b>4,446,218</b>	<b>5,634,486</b>	<b>2,967,869</b>	<b>3,631,165</b>	<b>5,339,338</b>
<b>Ending Balance</b>	<b>\$ 4,118,449</b>	<b>\$ 2,942,231</b>	<b>\$ 3,238,843</b>	<b>\$ 6,945,999</b>	<b>\$ 6,952,429</b>	<b>\$ 6,324,727</b>

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 captured actual costs related to personnel, supplies and services.



Based on the data collected, the proposed transfer for FY 2024-25 is projected at \$900,000, an increase of \$10,000 over the last fiscal year.

### **Pension Rate Stabilization Fund**

In 2017-18, the City established a Pension Rate Stabilization Fund. The City partnered with the Public Agency Retirement Services (PARS) to establish a Section 115 Trust. The trust allows for the smoothing 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 State law from making purchases of higher yield equities.

In May 2018, the City transferred \$2.0 million from the General Fund into the Pension Rate Stabilization Fund with an additional transfer of \$750,000 in November 2018. In February 2021, the City engaged actuarial firm Bartel & Associates to refresh the City's ten-year pension expense projections. The projections increased approximately \$3.0 million as compared to the long-range plan. The increase was due to CalPERS lower than expected investment results in FY 2019-20 and the effect of the changes in its amortization policy. Amortization periods for the Unfunded Accrued Liability have been shortened from 30 years to 20 years, which lowers overall liability, but increases annual payments. Due to this change, an additional \$1.0 million was transferred to PARS in October 2021.

The City's long-term plan now indicates that the City may need to draw down on the PARS fund as early as FY 2025-26 to pay annual pension payments and maintain a reasonable General Fund reserve of +/-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 (December) as published by the United States Department of Labor, Bureau of Labor Statistics. The change in the index for the annual period ending December 2023 was 2.6%. Accordingly, the proposed rate increase for FY 2024-25 is 2.6%. After applying this rate adjustment, the proposed rate was rounded down to the nearest whole dollar for ease of assessment.

### **Municipal Services Special Tax Rate Schedule**

	<b>Adopted Rate 2023-24</b>	<b>Proposed Rate 2024-25</b>
<b>Single Family Residences</b>		
0 to 4,999	\$ 595	\$ 610
5,000 to 9,999	\$ 669	\$ 686
10,000 to 14,999	\$ 772	\$ 792
15,000 to 20,000	\$ 882	\$ 904
Over 20,000	\$ 1,005	\$ 1,031
<b>Commercial Properties</b>		
0 to 10,000	\$ 1,005	\$ 1,031
Over 10,000	\$ 1,508	\$ 1,547
<b>Multi-Family Residential: per unit</b>	\$ 413	\$ 423
<b>Dual Jurisdiction Parcels: per unit</b>	\$ 610	\$ 625
<b>Estimated Revenue</b>	<b>\$ 2,623,000</b>	<b>\$ 2,690,000</b>

## **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 City Council is authorized per 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 proposed rate adjustment for FY 2024-25 is 2.6%. 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**

	<b>Adopted Rate 2023-24</b>	<b>Proposed Rate 2024-25</b>
<b>Single Family Residences</b>		
0 to 4,999	\$ 682	\$ 699
5,000 to 9,999	\$ 777	\$ 797
10,000 to 14,999	\$ 896	\$ 919
15,000 to 20,000	\$ 1,045	\$ 1,072
Over 20,000	\$ 1,231	\$ 1,263
<b>Commercial Properties</b>		
0 to 10,000	\$ 1,231	\$ 1,263
Over 10,000	\$ 1,698	\$ 1,742
<b>Multi-Family Residential: per unit</b>	\$ 568	\$ 582
<b>Dual Jurisdiction Parcels: per unit</b>	\$ 682	\$ 699
<b>Estimated Revenue</b>	<b>\$ 3,062,000</b>	<b>\$ 3,140,000</b>

By: Michael Szczech, Finance Director

May 30, 2024

Ms. Mayor and City Council,

As part of our annual efforts, the Budget Advisory and Financial Planning Committee (the “Committee”) has completed its review of financial projections in the City budget and whether they provide a sustainable long-term financial future for the City. The Committee reviewed the most recent revised fiscal year 2024-25 budget and projections, as prepared by Finance Director Michael Szczech and his staff under the guidance of City Administrator Rosanna Bayon Moore, and as presented to the Committee on May 14, 2024.

From the May 14 presentation, we believe that the City’s understanding of its financial position, as in previous years, is very thorough and well communicated. The Finance Director presented the projected financial results for the current fiscal year as well as projections for the upcoming budget year. The presentation included all material revenue sources and expense categories, and discussed potential revenue risks, projected pension costs in detail, Other Post-Employment Benefits (OPEB) funding, equipment replacement, facilities maintenance, and facilities capital projects. Overall, we believe the assumptions used, and the results presented, to be well-founded and consistent with past practices.

### **FY 23-24 Results and FY 24-25 Budget**

The City continues to maintain a strong financial condition and weathered the financial impacts of the Covid-19 impact admirably. Property tax-related revenue (including the Municipal Services Special Tax (“Parcel Tax”) and Real Property Transfer Tax (“Transfer Tax”) revenue), which generally makes up approximately two-thirds of the City’s revenue, has been bolstered by the strong real estate market during and following the pandemic, even when accounting for the downward trend following the FY 20-21 peak and the current economic climate. In addition, other material revenue categories have rebounded and now equal or exceed their pre-pandemic levels. The combination of higher-than-expected Transfer Tax revenues and lower expenditures due to deferred projects helped the City achieve a projected budget surplus of approximately \$2.9 million for FY 23-24.

The Committee supports the proposed uses of the FY 23-24 surplus, which include transfers of \$800,000 to the Equipment Replacement Fund and retaining approximately \$2 million of the surplus in the General Fund to cover higher operating expenses, new initiatives and facilities capital projects budgeted for FY 24-25. This is consistent with both recent City practice and the Committee’s recommendations in prior years.

The proposed budget for FY 24-25 reflects the City's continued commitment to conservative budgeting and financial discipline. This approach ensures that the City can continue to provide high quality public services, replace aging equipment, and address infrastructure repairs, while retaining a strong General Fund. Further, the City continues to fund reserves to handle potential increases in pension and retiree health care liabilities and can accommodate those costs without impacting services.

### **Long-term Planning**

As discussed in our prior reports, the Committee believes the objective of long-term financial planning for the City is to enable it to take steps to ensure that current services are being paid for in the current year, to the extent possible, and that funds for known future requirements (including infrastructure needs) are set aside on a current basis. In short, current citizens should pay for the current costs of running the City and not defer those costs to future citizens.

In reviewing the City's long-term projections, the Committee notes the following:

- The financial projections continue to seek to maintain, over the long term, an 18% General Fund balance, which the Committee thinks is a prudent goal.
- The City has taken a conservative approach in budgeting for Transfer Tax revenues given their historic volatility. Projected Transfer Tax revenue is set at \$3.8 million for FY 24-25 and beyond, a modest increase from the \$3.4 million budgeted in FY 23-24 and a decrease from the actual \$4.5 million in receipts projected for FY 23-24. While this conservative approach is consistent with prior years, the Committee believes that recent history has shown this to be too conservative and recommends that the amount be increased, for both FY 24-25 and the long-term projections, to \$4.2 million, a figure the Committee believes is reasonable based on the data for the last ten years. The Committee recommends that this increase, and also any actual Transfer Tax revenue collected in excess of the budgeted amount, be used to fund the Facilities Capital Fund and not be used to fund increased operating expenses given the year-to-year volatility of Transfer Tax revenue.
- Pension expenses are projected to increase substantially over the next decade, as has been anticipated for some time. While these increased expenses are fully met in the long-range projections (due to the City's active management and prior funding of the of the Public Agency Retirement Services Fund), the extreme volatility of the financial markets still presents risks to the extent that investment returns fail to achieve expected returns in the long run. The long-term projections assume the use of funds from the Pension Rate Stabilization Fund starting in FY 25-26 to mitigate the increase in pension expenses.

- As in prior years, the projections continue to show that the long-term financial health of the City is dependent on property-related taxes, including the collection of the Parcel Tax. The projections assume that the Parcel Tax continues with a standard CPI adjustment each year, and the Committee supports this approach.
- The Committee notes that the budget includes an operating subsidy for the pool of \$400,000 for FY 24-25 and \$200,000 per year thereafter in the long-term projections. While the intent of the City is to operate the pool on a revenue-neutral basis, actual operating performance is not yet known, and therefore the City has taken this conservative budgeting approach, which the Committee supports.

Over the past decade, the City has done an excellent job planning for and controlling future costs of retirement commitments and equipment replacement. Below, the Committee highlights future needs that it believes require further attention now, followed by revenue considerations to address those needs.

### **Infrastructure Needs**

As the Council is aware, quantifying and planning for the future costs associated with the City's facilities, streets, and sidewalks – broadly, its infrastructure – have been and continue to be a focus of this Committee. The City staff have done an admirable job over the past several years in identifying these costs, especially for Facilities Maintenance and Equipment Replacement. Work remains to be done, however, in quantifying costs and allocating funding for major Facilities Capital projects, most notably for the City buildings in the City Center, including public safety.

The Facilities Maintenance Fund is now separated into two funds: one focused on regular repairs and maintenance (Facilities Maintenance Fund), and the other for major capital projects and improvements (Facilities Capital Fund). Due primarily to the overall trend in increased Transfer Tax revenue in the current and recent years, and the growth in assessed property values, the City is now able to fund its facilities maintenance costs over the term of the projections. This contrasts with the practice in earlier years, in which contributions to the Facilities Maintenance Fund were generally not budgeted, and transfers would only be made to that Fund if and when budget surpluses were achieved. Despite the notable progress being made, the following infrastructure needs remain:

- **Aging Buildings.** The Facilities Capital Fund projections include estimates for major capital projects to address the necessary replacement or renovation of aging buildings and parks to meet current standards and to improve operating capacity and efficiency. Staff has done a commendable job in identifying necessary renovations in the buildings and parks, but many

numbers are rough estimates at this point. Much more work remains to be done to more comprehensively detail and quantify our capital needs and to provide sufficient information for the Council to weigh strategic priorities. Nonetheless, based on existing information, the cost of such infrastructure needs (preliminarily estimated to be in excess of \$83 million) is well beyond the City's current funding capacity. The Committee continues to believe that further quantification, prioritization, and planning for these capital projects is of high importance given the high cost for some of these projects, as well as the long lead time to identify funding and to implement these initiatives. We understand and approve that the budget allocates funds to assess the potential costs for capital projects related to the buildings in the Civic Center.

- **Stormwater Management/Storm Drain Infrastructure Needs.** The Regional Water Quality Control Board regulates local jurisdictions' stormwater management and has imposed new requirements on cities, including Piedmont, to control stormwater runoff. Currently, cities are being required to inventory their storm drain infrastructure and project the cost of improvements to meet new standards. At present, no State funding sources are available to cover the potential costs, which are likely to be significant. The City's assessment is ongoing. Priority projects estimated at \$1.7 million have been identified and are included in the Facilities Capital Fund program. The first project is slated to be completed in FY 24-25 for the amount of \$330,000 and will address areas of known need where there has been flooding and/or failure of the storm drain infrastructure.
- **Road Conditions.** While the City has made efforts to step up its repaving activity and improve its roadways in recent years, the condition of Piedmont's roads has not improved since 2017. Piedmont's overall Pavement Conditions Index (PCI) was 64 in 2017 (where a score of 50 – 69 is in the "Good" category), 67 in 2019, 65 in 2022, 63 in 2023, and is now estimated to be 61. An estimated \$700,000 in additional annual spending above recent levels would be required to improve the PCI to 71 and reach the "Very Good" category. The long-range projections do not include any additional annual amounts for paving beyond the dedicated street improvement funding sources (Measures BB & F, gas tax revenue and SB1) that the City has historically utilized to maintain its streets.

Regarding the adequacy of the Facilities Capital Fund, the Committee notes that achieving the target 18% General Fund balance in the long-term projections can only be achieved by eliminating transfers to the Facilities Capital Fund after FY 23-24, and the long-term projections therefore reflect a Facilities Capital Fund that will be depleted after FY 26-27. While certain major capital projects may be funded through debt financing, this will not be feasible for all capital projects and the Facilities Capital Fund, as presented, is therefore inadequately capitalized for the duration of the 10-year projections. This projected underfunding is not realistic

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Piedmont Budget Advisory and Financial Planning Committee

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since there will undoubtedly be necessary replacement expenditures after FY 25-26. The Committee does recognize, however, that this funding shortfall may be alleviated to some degree if revenues, such as Transfer Tax revenue, come in higher than projected or if the City develops incremental or new tax sources.

### **Staffing Needs**

The City's staffing levels, along with the City's population, have held largely steady over the past two decades and the FY 24-25 budget and long term projections assume only additions for dispatch staff and part-time positions. However, the provision of services is becoming increasingly complex due to a combination of factors including changing technologies and increasing requirements for local jurisdictions to address state and regional requirements and challenges. The City currently has staffing studies underway that may identify the need for additions to staffing levels and funding will need to be identified for these additions.

### **Revenue Considerations**

It is clear from our discussions and the May 14 presentation that the City has limited ability to absorb future cost increases due to inflation, new State mandates or the need to increase staff to provide the services that the residents of the City expect. The recent approval of Measure F in February 2024, which renewed the Parcel Tax for 12 years with an initial 20% increase, provides necessary stability and some additional funds to the City's revenue stream starting in FY 25-26.

Even with the renewal of the Parcel Tax, the Committee believes that the City will likely need additional revenue in the future to fund known capital projects, increasing public expectations for higher services and unplanned cost increases. Prior Committee reports, including its October 3, 2023 report on the Parcel Tax, identified the need for and examined potential additional revenue sources, including an increase in the Transfer Tax, that may be useful when that need arises. The Committee believes that increasing the Transfer Tax continues to be the most broad-based and sustainable source for material additional revenue.

The Committee appreciates the opportunity to serve the City and is especially appreciative of the work of the Finance Director in providing such a complete and thorough long-term financial plan, as well as the work of the Public Works Director in identifying and quantifying the City's facilities needs reflected in the long-term projections. The Committee believes the City is well positioned to address this next fiscal year but cautions that the City is likely to face challenges as it becomes necessary to address the City's increasing service needs and capital projects, especially for its ever-aging facilities.



Piedmont Budget Advisory and Financial Planning Committee

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Please let us know if you have any questions or would like any additional analysis.

Thank you,



Budget Advisory and Financial Planning Committee

Frank Ryan, Chair  
Murat Bozkurt  
Andrew Flynn  
David Kimball  
Robert McBain  
Paul Raskin  
Vanessa Washington  
Alice Cho (alternate)