

City of Piedmont
COUNCIL AGENDA REPORT

DATE: June 5, 2023

TO: Mayor and Council

FROM: Rosanna Bayon Moore, City Administrator

SUBJECT: Public Hearing on the Proposed 2023-24 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

RECOMMENDATION

Conduct the first public hearing on the proposed 2023-24 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 20, 2023.

DISCUSSION

GENERAL FUND REVENUES

The City is projecting General Fund revenues in 2023-24 of \$37,928,132 compared to the current 2022-23 projection of \$35,651,366. Revenue by category is shown in the table on the following page.

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

Category	2023-24		2022-23		\$ Change	
	Proposed Budget	% of Budget	Projected	% of Total		
Property Related Taxes	\$ 25,883,000	68%	\$ 26,146,000	73%	\$ (263,000)	-1%
Recreation Related	3,491,500	9%	3,268,300	9%	223,200	7%
Other Agencies	2,822,232	7%	653,957	2%	2,168,275	332%
UUT & Franchise Fees	2,022,000	5%	1,938,000	5%	84,000	4%
Building Permits & Planning Fees	1,851,000	5%	1,792,425	5%	58,575	3%
Business and Sales Taxes	941,000	2%	915,000	3%	26,000	3%
Other	917,400	2%	937,684	3%	(20,284)	-2%
Total	\$ 37,928,132	100%	\$ 35,651,366	100%	\$ 2,276,766	6%

Property Related Taxes

Property-related taxes are the City's primary revenue source and account for \$25,883,000 or 68% of General Fund revenues. This amount is a decrease of \$263,000 over the 2022-23 projected actual.

The 2023-24 Proposed Budget consists of:

- Property Tax revenues, which consists of tax on secured and unsecured property, is budgeted at \$18,110,000, an increase of \$899,000 or 5.2% as compared to the 2022-23 projection. The increase is due to the following:
 - The average sales price of a home reached a record high of \$3.2 million, which increased the assessed valuation of those homes approximately 117%.
 - Properties not subject to an assessment step-up via a change of ownership increased the maximum of 2.0%.
- Parcel Tax revenue, based on the ballot measure approved by 83% of voters in March 2020, is estimated at \$2,622,000, an increase of \$100,000 or 4.0% over the 2022-23 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) \ Homeowners Tax Relief is budgeted at \$1,751,000, a 5.3% 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.

- Real Property Transfer Tax revenue is budgeted at \$3,400,000. Staff is budgeting this cautiously as the current trend of rising interest rates and high inflation has weakened the real estate market. Transfer tax receipts since January of 2023 are the lowest observed in the last ten years.

Below is a table which summarizes the volatility of the housing market over the last several years (FY 2022-23 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 \$3,491,500 in 2023-24, an increase of \$223,200 from the prior year. The major components are:

- Recreation Programs – Revenue is budgeted at \$2,390,500, an increase of \$97,200, or 4%, over FY 2022-23 projection. Recreation program revenue has returned to a normal state after being severely impacted by cancelled programs and reduced capacity in varying degrees during the COVID-19 pandemic. The FY 2023-24 budget assumes recreation programs will not be affected by COVID-19.

- Pre-School Program Revenue is budgeted at \$537,000, an increase of approximately \$67,000, a 14% increase over FY 2022-23 projection. FY 2022-23 is projected to be 20% below budget as participant withdrawals caused by class location changes due to the new pool construction weakened revenue. Next school year's programs are currently at full class size and staff expects this to continue throughout FY 2023-24.

Facility Rentals – Staff has budgeted \$564,000 for FY 2023-24 which is \$59,000 higher than the FY 2022-23 projection. Included in the proposed budget is \$36,000 in rentals for 801 Magnolia Avenue.

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 \$1,415,000 which is 5% higher than the current year projection. The increase is due to expected rate hikes by PG&E.
- Franchise Fees are budgeted at \$607,000 slightly higher than the current year projection of \$588,000.

Revenue from Other Agencies

Revenues from Other Agencies is budgeted at \$2,822,232, an increase of \$2,168,275 from the FY 2022-23 projection. The bulk of the increase is due to the American Rescue Plan Act (ARPA) funds which are recognized as revenue when used (\$1.8 million) and \$225,000 for LEAP and SB2 grants.

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 2023-24 is \$1,851,000 compared to a projection of \$1,792,425 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, and a supplemental increase in the General Plan Maintenance Fee to help offset increased costs due to the 6th Cycle Housing Element.

- This category continues to increase as the construction & remodel market has exceeded all expectations. FY 2021-22 was a record year, increasing 12% over the prior year. Staff had budgeted conservatively expecting a slowdown, but the strength has continued into FY 2022-23 and staff is projecting to exceed the annual budget by \$300,000 (22%).

Business and Sales Taxes

Business taxes consist of Business License and Real Estate Rental taxes. Business Licenses were relatively stable over the past several years until FY 2021-22 jumped 18%, and FY 2022-23 is tracking to the same level. Rental taxes were increasing approximately 6% per year until leveling off in FY 2020-21. Sales taxes have hovered around \$250,000 for the past three years.

Staff is estimating \$941,000 in revenues, an increase of \$26,000 or 3%, 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 \$917,400 for FY 2023-24 compared to a projection of \$937,684 in the current fiscal year, a decrease of \$20,284. The primary reason for the variance is FY 2022-23 included an insurance claim received for the Guilford Steps Project and monies received from Republic Services per contract for a performance audit which will not be repeated, offset by higher than expected interest receipts.

GENERAL FUND EXPENDITURES

The City is budgeting \$36,696,629 in General Fund expenditures, an increase of 11% 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	2023-24		2022-23		\$ Change	
	Proposed Budget	% of Budget	Projected	% of Total		
Personnel Costs	\$ 23,203,987	63%	\$ 21,673,262	66%	\$ 1,530,725	7%
Maintenance & Operations	9,395,171	26%	7,852,363	24%	1,542,808	20%
Non-Departmental	3,947,471	11%	3,555,471	11%	392,000	11%
Aquatics Subsidy	150,000	0%	0	0%	150,000	NA
Total	\$ 36,696,629	100%	\$ 33,081,096	100%	\$ 3,615,533	11%

Personnel Costs

Personnel related costs, which include salaries & wages, benefits, and retirement costs, are the largest overall expenditure in the General Fund at \$23,203,987, which is \$1,530,725 (7%) higher than the prior year projection. Such costs make up 63% of the total 2023-24 General Fund budget.

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

Personnel Budget by Department

Category	2023-24		2022-23		\$ Change	
	Proposed Budget	% of Budget	Projected	% of Total		
Administration	\$ 1,837,566	8%	\$ 1,870,910	9%	\$ (33,344)	-2%
Communications	432,515	2%	83,084	0%	349,431	421%
Public Works	2,350,940	10%	2,151,445	10%	199,495	9%
Planning & Building	1,860,137	8%	1,574,699	7%	285,438	18%
Recreation	2,142,867	9%	1,971,306	9%	171,561	9%
Police	7,014,583	30%	6,607,600	30%	406,983	6%
Fire	7,565,379	33%	7,414,218	34%	151,161	2%
Total	\$ 23,203,987	100%	\$ 21,673,262	100%	\$ 1,530,725	7%

Personnel Budget by Type

Category	2023-24		2022-23		\$ Change	
	Proposed Budget	% of Budget	Projected	% of Total		
Salaries	\$ 15,975,319	69%	\$ 15,099,081	70%	\$ 876,238	6%
Health Insurance	2,097,454	9%	1,813,898	8%	283,556	16%
Retirement	4,194,318	18%	3,954,892	18%	239,426	6%
Other Benefits	936,896	4%	805,391	4%	131,505	16%
Total	\$ 23,203,987	100%	\$ 21,673,262	100%	\$ 1,530,725	7%

In FY 2021-22 the City entered into four-year labor agreements with all City employees including its four unions, 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.

Salaries expense for FY 2023-24 is budgeted at \$15,975,319 which is a 6% increase compared to the FY 2022-23 projection. The increase is due to the following:

- 3.25% across the board wage increase per labor agreements.
- One temporary part-time position in Administration to lead specific records management projects, including digitization of resident's property files.
- One new part-time position in Public Works, Facilities Manager.
- Five part time employees in Planning and Building to assist in clearing the backlog of building permits. Assumes employees are needed for nine months.
- Assumption of full staffing.

In addition, as compared to the prior year projection (FY 2022-23), the most significant changes in personnel costs are as follows:

- Health Insurance – The proposed budget reflects an increase of \$283,556 over last year. The increase is primarily due to an assumed 6.0% increase in premium rates and the assumption of full staffing.
- Retirement - Employee retirement costs are projected to increase \$239,426 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 will result in a lower Unfunded Accrued Liability (UAL) payment only in FY 2023-24, but higher Normal Cost going forward.

In FY 2023-24, staff is projecting that the Normal Cost, net of employee cost share, will increase by 24%, from \$1,364,329 (9.0% of salaries) in FY 2022-23 to \$1,698,171 (10.6% of salaries) in FY 2023-24. The Unfunded Liability Payment will decline 4% to \$2,496,147.

Category	2023-24		2022-23		\$ Change	
	Proposed Budget	% of Budget	Projected	% of Total		
Normal Cost	\$ 2,124,067	51%	\$ 1,797,044	45%	\$ 327,023	18%
Cost Share	(425,896)	-10%	(432,715)	-11%	6,819	-2%
Net Normal Cost	1,698,171	40%	1,364,329	34%	333,842	24%
Unfunded Accrued Liability (UAL)	2,496,147	60%	2,590,563	66%	(94,416)	-4%
Total	\$ 4,194,318	100%	\$ 3,954,892	100%	\$ 239,426	6%

- Unfunded liability payments are projected to increase at an average rate of 9% for the next 8 years, then begin to flatten out.
- Normal Cost is projected to increase at the same rate as payroll expense after this year's jump, which was due to the risk mitigation strategy being triggered.
- The Cost Share offset will continue to decline as CalPERS Tier One employees retire.

Maintenance and Operations

Maintenance and Operations costs are budgeted at \$9,395,171, amounting to 26% of the FY 2023-24 General Fund budget and an increase of \$1,542,808 when compared to the FY 2022-23 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	2023-24		2022-23		\$ Change	
	Proposed Budget	% of Budget	Projected	% of Total		
Administration	\$ 2,066,200	22%	\$ 1,920,250	24%	\$ 145,950	8%
Communications	89,000	1%	48,500	1%	40,500	84%
Public Works	2,339,800	25%	2,309,700	29%	30,100	1%
Planning & Building	1,704,107	18%	615,515	8%	1,088,592	177%
Recreation	1,440,700	15%	1,416,509	18%	24,191	2%
Police	1,047,776	11%	949,689	12%	98,087	10%
Fire	707,588	8%	592,200	8%	115,388	19%
Total	\$ 9,395,171	100%	\$ 7,852,363	100%	\$ 1,542,808	20%

The most significant increases in Maintenance and Operations costs in the FY 2023-24 Proposed Budget as compared to the FY 2022-23 projection are as follows:

- Planning and Building – Staff is budgeting an increase of \$1,088,592. This increase consists of the following:
 - Approximately \$700,000 of unspent FY 2022-2023 funds primarily related to Housing Element related consulting costs in addition to records management projects
 - Moraga Canyon Specific Plan (\$400,000)
- Administration – Expenses are projected to be \$145,950 (8%) higher year over year. The increase is primarily due to:
 - IT related expenses – Increase in software costs (+\$70,000) primarily due to Cyber Security Services and Microsoft licensing; and Computer Courage staffing (+\$27,000).
 - Diversity, Equity, Inclusion (+\$25,000)
 - Election expenses (+\$20,000)
- Fire – Staff is projecting an increase of \$115,388 over last year primarily due to costs associated with vacant positions being filled (Academy tuition, increased training, turnouts, and supplies).
- Police – Staff is projecting an increase of \$98,087 over last year primarily due to internet costs associated with the public safety camera project, increased animal shelter costs, and costs associated with the new Officer Wellness Grant.

A request for two full time dispatchers is under consideration that aims to configure resources in a manner that accomplishes a minimum staffing level of two employees during a greater

percentage of the 24 hour staffing cycle. Staff's recommendation is to hire one full time Dispatcher using the State of California Citizens' Option for Public Safety Program funding source in FY 23-24 and a second full time Dispatcher in FY 24-25 using the same funding source.

Non Departmental

Category	2023-24		2022-23		\$ Change	
	Proposed Budget	% of Budget	Projected	% of Total		
Insurance	\$ 2,472,000	63%	\$ 2,305,000	65%	\$ 167,000	7%
Retiree Medical Premiums	1,025,000	26%	900,000	25%	125,000	14%
Library	350,471	9%	350,471	10%	0	0%
Miscellaneous	100,000	3%	0	0%	100,000	NA
Total	\$ 3,947,471	100%	\$ 3,555,471	100%	\$ 392,000	11%

- Insurance costs, which include General Liability and Workers Compensation, comprise \$2,472,000 and present a \$167,000 increase from the estimated 2022-23 expense. The increase is primarily due to higher General Liability premiums caused by overall actuarial adjustments to the risk pool and increased payroll. 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 remain the same as higher premiums are expected to be offset by lower claims.
- Retiree Medical Premiums - Premiums are budgeted at \$1,025,000 compared to \$900,000 last year. The increase is due to seven retirements in 2022-23, a 6% budgeted increase in premium costs, and an estimated four retirements in FY 2023-24.
- Library Services – \$350,471 is budgeted as a contribution to the City of Oakland, unchanged from prior years.

GENERAL FUND BALANCE

The 2023-24 Proposed Budget projects an Operating Net Income of approximately \$2,162,000. Capital transfers are proposed for essential capital needs as follows:

- \$2,184,000 - Capital Improvements (ARPA & Prop 68 Funds)
- \$1,500,000 - Facilities Maintenance, including sidewalk replacement\repair

After these transfers, the General Fund ending balance will be approximately \$6.1 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 several 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 2023-24 budget and actual results from the prior four years.

	FISCAL YEAR ENDED					Proposed	Projected	
	June-18	June-19	June-20	June-21	June-22	BUD 2024	FY 22-23	\$ VAR
<u>RECREATION (GF)</u>								
Revenue	\$ 3,083,138	\$ 2,832,816	\$ 1,261,674	\$ 1,761,020	\$ 3,149,170	\$ 3,475,500	\$ 3,300,984	\$ 174,516
Salaries	1,218,560	1,340,569	1,315,680	1,182,494	1,460,424	1,652,019	1,518,000	134,019
Benefits & Taxes	333,188	356,360	321,674	309,749	415,922	490,848	453,306	37,542
Operating Exp	1,302,146	1,215,631	1,028,856	912,727	1,419,944	1,440,700	1,416,509	24,191
Total Expenses	2,853,894	2,912,560	2,666,210	2,404,969	3,296,290	3,583,567	3,387,815	195,752
% of Revenue	93%	103%	211%	137%	105%	103%	103%	112%
Net Income/(Loss)	\$ 229,245	\$ (79,743)	\$ (1,404,536)	\$ (643,950)	\$ (147,120)	\$ (108,067)	\$ (86,831)	\$ (21,236)
Cost Recovery %	108%	97%	47%	73%	96%	97%	97%	
<u>SCHOOLMATES</u>								
Revenue	\$ 703,107	\$ 762,930	\$ 632,868	\$ 586,126	\$ 1,101,085	\$ 1,410,000	\$ 1,607,000	\$ (197,000)
Salaries	469,281	448,901	459,301	495,839	468,108	887,978	518,750	369,228
Benefits & Taxes	178,764	131,893	139,243	123,680	147,117	359,399	208,975	150,424
Operating Exp	86,209	122,180	111,409	86,836	91,808	356,000	116,000	240,000
Total Expenses	734,254	702,973	709,953	706,355	707,033	1,603,377	843,725	759,652
% of Revenue	104%	92%	112%	121%	64%			
Net Income/(Loss)	\$ (31,147)	\$ 59,957	\$ (77,085)	\$ (120,229)	\$ 394,052	\$ (193,377)	\$ 763,275	\$ (956,652)
Cost Recovery %	96%	109%	89%	83%	156%	88%	190%	
<u>AQUATICS</u>								
Revenue	\$ 549,492	\$ 495,806	\$ 338,829	\$ (1,034)	\$ -	\$ 15,000	\$ -	\$ 15,000
Salaries	370,611	387,586	375,765	74,792	5,205	104,930	-	104,930
Benefits & Taxes	49,603	52,117	52,802	16,174	(2,618)	48,491	-	48,491
Operating Exp	196,714	254,239	190,320	45,293	14,330	71,850	7,500	64,350
Total Expenses	616,928	693,942	618,888	136,258	16,918	225,271	7,500	217,771
% of Revenue	112%	140%	183%	NA	NA			
Net Income/(Loss)	\$ (67,436)	\$ (198,136)	\$ (280,059)	\$ (137,292)	\$ (16,918)	\$ (210,271)	\$ (7,500)	\$ (202,771)
Cost Recovery %	89%	71%	55%	-1%	0%	7%	0%	

Staff has historically targeted the Recreation Department to be cost neutral. Staff is projecting 97% total department cost recovery in FY 2022-2023 and proposing 97% for FY 2023-2024.

This is after historic pandemic lows of 47% and 73% in FY 2019-20 and FY 2020-21 respectively, which then recovered to 96% in FY 2021-2022.

Recreation Department Staffing Adjustments:

- Reclassify the Assistant Childcare Program Coordinator position to a Recreation Coordinator position to reflect the additional administrative responsibility of the position.

In 2022-23, staff is projecting Schoolmates cost recovery to be 190% and proposing a budget of 88% for FY 2023-2024. This cost recovery figure for FY 2023-2024 is well above the target due to the delay of Schoolmates related maintenance and capital projects. Maintenance and Capital projects are budgeted at \$177,000 for FY 2023-2024.

Staff is recommending the following staffing changes:

- 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 year. 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, staff the opportunity to work more hours and access to medical benefits to aide in staff retention.

Aquatics Fund – Staff is planning for a summer 2024 opening. The budget is consistent with the operational analysis prepared by the Isaac Sports Group and presented to City Council 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 - \$71,850, of which \$40,000 is for site furnishings.

The residual balance in the Aquatics fund plus a General Fund subsidy of \$150,000 is proposed to cover these startup costs.

Street Infrastructure Maintenance & Replacement

The City's FY 2023-24 budget for street infrastructure maintenance and replacement, including sidewalk repair, is \$1.6 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. 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 63. This is down from the 65 reported last year and 67 reported in 2019. This keeps the City's overall average within the "Good" range.

PCI Range	Description	2023	2022	2019
	OVERALL	63%	65%	67%
>70	Very Good	50%	58%	49%
50-69	Good	23%	17%	28%
24-49	Poor	20%	20%	20%
0-24	Very Poor	7%	5%	3%

In order to maintain a PCI of 67 over the next 5 years, approximately \$1.5 million in funding for maintenance and repairs would be needed annually. To increase the PCI to 72 over the next 5 years, approximately \$2.2 million in funding for maintenance and repairs would be needed annually.

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 has included in the IT plan over the next two years, funds for the purchase and implementation of a software program to satisfy this and other maintenance related needs.

Below is a recap of the proposed 2022-23 budget and the prior three years of activity within the street related funds.

Summary Street Report									
	Measure BB	Gas Tax	SB 1	Measure F	Measure B	Traffic Congestion	Total Sources	General Fund	Grand Total
ACTUAL 2020-21									
Total Revenues	477,253	255,941	211,734	46,073	511,170	-	1,502,171		
Streets	(5,011)	(8,330)	(48,250)	(6,719)	(205,722)	-	(274,032)		(274,032)
Sidewalks		(346,198)	-			-	(346,198)	(522,707)	(868,905)
Total Expenditures	(5,011)	(354,528)	(48,250)	(6,719)	(205,722)	-	(620,230)	(522,707)	(1,142,937)
Ending Balance	\$ 472,686	\$ 7,138	\$ 448,362	\$ 73,365	\$ 307,372	\$ 38,429	\$ 1,347,352		
ACTUAL 2021-22									
Total Revenues	672,532	271,455	219,860	42,720	425,796	-	1,632,365		
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)
Ending Balance	\$ 422,906	\$ 1,113	\$ 463,343	\$ 116,085	\$ 212,550	\$ 0	\$ 1,215,999		
PROJECTED 2022-23									
Total Revenues	1,199,278	291,091	257,488	40,000	-	-	1,787,857		
Streets - Spent YTD	(975,446)		(718,010)	(104,963)	(79,595)	-	(1,878,013)		(1,878,013)
Streets - To be Spent					(132,956)		(132,956)		(132,956)
Sidewalks		(50,000)					(50,000)	(700,000)	(750,000)
Total Expenditures	(975,446)	(50,000)	(718,010)	(104,963)	(212,551)	-	(2,060,969)	(700,000)	(2,760,969)
Ending Balance	\$ 646,738	\$ 242,204	\$ 2,822	\$ 51,122	\$ (0)	\$ 0	\$ 942,887		
PROPOSED 2023-24									
Total Revenues	1,164,000	324,579	281,325	41,000	-	-	1,810,904		
Streets - Available	(1,800,000)	(550,000)	(280,000)	(90,000)		-	(2,720,000)		(2,720,000)
Sidewalks							-	(700,000)	(700,000)
Total Expenditures	(1,800,000)	(550,000)	(280,000)	(90,000)	-	-	(2,720,000)	(700,000)	(3,420,000)
Ending Balance	\$ 10,738	\$ 16,783	\$ 4,147	\$ 2,122	\$ (0)	\$ 0	\$ 33,791		

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.

City of Piedmont					
Five Year Capital Improvement Program					
	FISCAL YEAR				
	2022-23	2023-24	2024-25	2025-26	2026-27
FACILITIES MAINTENANCE					
Beginning Balance	\$ 347,583	\$ 407,809	\$ 264,309	\$ 192,909	\$ 261,064
General Fund Subsidy	\$ 1,300,000	\$ 1,500,000	\$ 1,600,000	\$ 1,500,000	\$ 1,000,000
Schoolmates Subsidy	66,000	110,000	110,650	34,333	14,906
Contributions \ Other Funding	-	-	-	-	-
Interest	16,226	19,000	19,000	17,000	13,000
Total Revenue	\$ 1,382,226	\$ 1,629,000	\$ 1,729,650	\$ 1,551,333	\$ 1,027,906
Expenditures:					
Sidewalks	\$ (700,000)	\$ (700,000)	\$ (700,000)	\$ (700,000)	\$ (500,000)
Annual Maintenance	(231,000)	(231,000)	(242,550)	(254,678)	(264,865)
Scheduled Maintenance	(391,000)	(841,500)	(858,500)	(528,500)	(251,500)
Total Expenditures	\$ (1,322,000)	\$ (1,772,500)	\$ (1,801,050)	\$ (1,483,178)	\$ (1,016,365)
Ending Balance	\$ 407,809	\$ 264,309	\$ 192,909	\$ 261,064	\$ 272,606

The following 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 details each project are included in the Facility Maintenance plan documents.

City of Piedmont					
Five Year Capital Improvement Program					
	FISCAL YEAR				FY 2026 & Beyond
	2022-23	2023-24	2024-25	2025-26	
FACILITIES CAPITAL FUND					
Beginning Balance	\$ 9,975,000	\$ 9,145,286	\$ 4,895,550	\$ 2,518,050	\$ 1,361,050
General Fund Subsidy	\$ -	\$ -	\$ -	\$ -	\$ -
Schoolmates Subsidy	-	60,000	-	-	-
ARPA Funding	300,000	2,079,332	-	-	-
Contributions \ Other Funding	171,536	104,932	-	-	-
Interest	99,750	92,000	49,000	25,000	-
Total Revenue	\$ 571,286	\$ 2,336,264	\$ 49,000	\$ 25,000	\$ -
Expenditures:					
Facilities	\$ (613,000)	\$ (4,361,000)	\$ (855,000)	\$ (420,000)	\$ (52,585,425)
Parks	(458,000)	(900,000)	(395,000)	(109,000)	(16,450,000)
Park Pathways	(100,000)	(100,000)	(100,000)	(100,000)	-
Tennis Courts	(80,000)	(200,000)	(270,000)	-	(540,000)
Sustainability	(50,000)	(125,000)	(476,500)	(28,000)	(130,000)
Storm Drains	(40,000)	(100,000)	(330,000)	(525,000)	(850,000)
Green Infrastructure	-	(400,000)	-	-	(900,000)
Community Pool	(60,000)	(400,000)	-	-	-
Total Expenditures	\$ (1,401,000)	\$ (6,586,000)	\$ (2,426,500)	\$ (1,182,000)	\$ (71,455,425)
Ending Balance	\$ 9,145,286	\$ 4,895,550	\$ 2,518,050	\$ 1,361,050	\$ (70,094,375)

The Facilities Capital Fund is estimated to have a Fund balance of approximately \$9.1 million as of June 30, 2023. Funding will be primarily from the General and Schoolmates Funds, when available. American Rescue Plan Act (ARPA) funds are being allocated here for use on the Police Dispatch project in accordance with City Council direction with construction to begin later this calendar year.

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%. Currently, staff is projecting a budget surplus for FY 2022-23 of approximately \$1.9 million and is recommending \$1.0 million of the surplus be allocated to the Facilities Capital Fund.

The Facilities Capital Fund includes major capital improvements currently being evaluated by the City in the column "FY 2026 & 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 and Coaches Field are also being evaluated. The total cost of all

these projects may be upward of \$65 million and is reflected in the column “FY 2026 & Beyond”. 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 2023-24 of \$2,039,000:

Description	\$ Amount
<u>Communications</u>	
Broadcast & Streaming Equip.	\$ 400,000
Video Equipment	70,000
<u>Public Works:</u>	
Radios (EBRCSA)	25,000
Copy Machine	15,000
<u>Recreation</u>	
Utility Electric Cart	18,000
<u>Planning & Building</u>	
Electric Bicycles (2)	5,000
<u>Police:</u>	
Vehicle - Patrol (2)	187,000
Vehicle - Detectives	65,000
<u>Fire:</u>	
Ambulance	400,000
City Pool Vehicle	110,000
Radio's (Mobile)	10,000
Hazmat 5 Gas Detectors (3)	15,000
Thermal Imaging Cameras (2)	20,000
<u>IT:</u>	
Applications & Systems	350,000
Infrastructure & Security	297,000
Hardware	52,000
Total Proposed Expenditures	\$ 2,039,000

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 (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 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 23-24. 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 complying and would not be assessed any stipulated penalties.

Sewer Fund Recap

SEWER FUND	Projected 2022-23	Proposed Budget 2023-24	Projected			
			2024-25	2025-26	2026-27	2027-28
Beginning Balance	\$3,205,897	\$ 3,038,169	\$ 2,495,271	\$ 1,861,243	\$ 4,776,922	\$ 4,717,865
Sewer Service Charges \ Interest	2,952,000	3,072,100	3,164,061	3,258,779	3,356,336	3,456,818
Loan Proceeds	0	0	2,483,379	2,483,379	0	0
Total Revenue	2,952,000	3,072,100	5,647,440	5,742,158	3,356,336	3,456,818
Operating Costs	1,475,000	1,495,000	1,552,250	1,612,013	1,673,363	1,737,381
Capital Costs:						
General Sewer Replacement	400,000	500,000	525,000	551,250	578,813	607,753
Capital Equipment	35,388	455,000	0	0	0	0
Phase VI	400,000	500,000	3,681,000	0	0	0
Phase VII	0	0	0	0	500,000	1,000,000
Debt Service	809,340	664,998	523,218	663,217	663,217	759,312
Total Expenditures	3,119,728	3,614,998	6,281,468	2,826,480	3,415,393	4,104,446
Ending Balance	\$ 3,038,169	\$ 2,495,271	\$ 1,861,243	\$ 4,776,922	\$ 4,717,865	\$ 4,070,237

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 2023-24 is projected at \$890,000, an increase of \$15,000 over 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 the 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 2024-25 to pay 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 (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 2022 was 4.9%. Accordingly, the proposed rate increase for FY 2023-24 is 4.0%. 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

	Adopted Rate 2022-23	Proposed Rate 2023-24
Single Family Residences		
0 to 4,999	\$ 573	\$ 595
5,000 to 9,999	\$ 644	\$ 669
10,000 to 14,999	\$ 743	\$ 772
15,000 to 20,000	\$ 849	\$ 882
Over 20,000	\$ 967	\$ 1,005
Commercial Properties		
0 to 10,000	\$ 967	\$ 1,005
Over 10,000	\$ 1,450	\$ 1,508
Multi-Family Residential: per unit	\$ 398	\$ 413
Dual Jurisdiction Parcels: per unit	\$ 587	\$ 610
Estimated Revenue	\$ 2,522,000	\$ 2,623,000

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 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 proposed rate adjustment for FY 2023-24 is 4.9%. 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 2022-23	Proposed Rate 2023-24
Single Family Residences		
0 to 4,999	\$ 651	\$ 682
5,000 to 9,999	\$ 741	\$ 777
10,000 to 14,999	\$ 855	\$ 896
15,000 to 20,000	\$ 997	\$ 1,045
Over 20,000	\$ 1,174	\$ 1,231
Commercial Properties		
0 to 10,000	\$ 1,174	\$ 1,231
Over 10,000	\$ 1,619	\$ 1,698
Multi-Family Residential: per unit	\$ 542	\$ 568
Dual Jurisdiction Parcels: per unit	\$ 651	\$ 682
Estimated Revenue	\$ 2,919,000	\$ 3,062,000

By: Michael Szczech, Finance Director

May 31, 2023

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 for the long-term financial future of the City. The Committee reviewed the most recent proposed fiscal year 23-24 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 9, 2023.

From the presentation, we feel 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 capital projects. Overall, we believe the assumptions used, and the results presented, to be well-founded and consistent with past practices.

FY22-23 Results and FY23-24 Budget

As we return to a normalized environment following the disruptions of the Covid-19 pandemic, the City has weathered its financial impacts admirably and maintains a strong financial condition. Property tax-related revenue (including parcel tax and real estate transfer tax), which makes up over two-thirds of the City’s revenue, has been bolstered by the strong real estate market during the pandemic. In addition, almost all other revenue categories have rebounded and now equal or exceed their pre-pandemic levels. The higher-than-expected revenues helped the City achieve a projected budget surplus of approximately \$3.6 million for FY22-23.

The Committee supports the proposed uses of the FY22-23 surplus, which include transfers to the Facilities Capital and Equipment Replacement Funds and retaining approximately \$1.7 million of the surplus in the General Fund to cover one-time operating expenses budgeted for FY23-24. Those one-time operating expenses include (a) temporary, part-time staff in Planning and Building, Administration and Public Works, intended to advance City priorities including clearing the backlog of building permits and digitizing records, and (b) \$1.1 million in consulting costs related to the Housing Element, approximately \$700,000 of which was budgeted and unspent in FY22-23.

The proposed budget for FY23-24 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 you know, the Committee believes the objective of long-term financial planning for the City is to take steps to ensure that current services are being paid for in the current year, to the extent possible, and that 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 seek to maintain, over the long term, an 18% General Fund balance, which the Committee thinks is a prudent goal.
- The Committee supports the conservative approach used to establish the budget for Transfer Tax revenues given their historic volatility. Projected Transfer Tax revenue is set at \$3.4 million for FY 23-24 and beyond, a modest increase from \$3.2 million in FY22-23. This increased budget amount could still be attained with a recessionary pace of sales and/or drop in sales prices given the substantial gains in Piedmont home values over the past decade. The Committee recommends that to the extent actual Transfer Tax revenue exceeds the conservative estimate, such funds be used to fund the Facilities Capital Fund.
- Pension expenses are projected to increase substantially over the next decade, as has been anticipated. 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.
- As in prior years, the projections continue to show that the long-term financial health of the City is dependent on property-related taxes, especially the continuation of the Municipal Services Parcel Tax (MSPT). The projections assume that the MSPT continues with a standard CPI adjustment each year, and the Committee supports this approach. In addition, in the coming months and in accordance with its charge, the Committee will be

examining the need for the MSPT and recommending whether this tax should be continued, and if so, at what rate.

- The Committee notes that the long-term projections include \$150k to \$200k per year operating subsidy for the pool. 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.

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. This Committee has urged the City to continue to comprehensively quantify and understand these needs, and City staff has responded with an admirable job over the past several years. While work remains to be done, this budget and long-range plan continues to be a step in the right direction, both in terms of quantifying such costs, and allocating funding.

As noted last year, 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 increased transfer tax revenue in the current and prior 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 prior 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 of aggregating historical reports and assessments with the aim of updating the estimates and creating an overall master plan for implementation. However, recent increased staffing demands related to the pool project and the Housing Element have understandably adversely impacted the master plan work. Much more work remains to be done to more comprehensively detail and quantify our capital needs and to provide sufficient information

for the City Council to weigh strategic priorities. Nonetheless, based on existing information, the cost of such infrastructure needs (preliminarily estimated to be \$70 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 applaud the Council for establishing an ad hoc subcommittee to revisit the work performed to date with the aim of advancing the policy topic with the entire governing body. We encourage staff to continue work on this important effort as additional staff capacity becomes available upon substantial completion of the pool project and the Housing Element.

- **Stormwater Management/Storm Drain Infrastructure Needs.** The Regional Water Quality Control Board regulates local jurisdictions' stormwater management and is moving to impose new requirements on cities 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. While the full extent of need and cost is currently being investigated, the first three projects that have been identified and included in the Facilities Capital Fund expenditures total \$1.7 million, and 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 measurably 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, and 63 as measured in 2023, albeit prior to the completion of the most recent paving project. An estimated \$500,000 to \$700,000 in additional annual spending above recent levels would be required to improve the PCI to over 70 and into 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 the FY 23-24 budget year, and the long-term projections therefore reflect a Facilities Capital Fund that will be depleted after FY 25-26. While certain major capital projects may be funded through debt financing, like the pool, 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 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 taxes, 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. 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 regional challenges. For example, our region's severe housing shortage and homelessness crisis have led to a significant increase in requirements imposed by the State upon cities to create capacity and plan for increased housing production, demanding staff time and resulting in significant consulting costs. Similarly, the staff report presenting the FY23-24 budget refers to the need to increase public safety dispatch staffing (which has not changed since 1978), in large part due to the need to keep pace with changing technologies. It should be noted that the long-range plans do not include any changes in the City's headcount; rather, the dispatch staffing is presented as a potential addition for Council consideration.

While funding for the initial year of new dispatch positions is available through the Citizens' Option for Public Safety (COPS) Fund, the ongoing costs of these positions is not included beyond FY23-24 in the City's long-range projections. With an annual cost of approximately \$300,000, which represents less than 1% of the City's annual budget, it is possible that this additional cost could be funded in most years through some combination of lower expenses due to employee vacancies and/or higher than projected property-related tax revenue. However, one of this Committee's basic principles is to ensure that funding is identified for known future requirements, and thus the Committee recommends that as the Council considers increasing staffing, it also consider options to increase revenue, as discussed below.

Revenue Considerations

It has become clear from discussions regarding the potential increase in the dispatch staff for police and fire, as well as those around facilities capital projects, 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 Committee therefore encourages the Council to explore alternatives to develop additional sources of revenue or to increase the revenue generated from current taxes and fees. Specifically:

- The Committee recommends the Council examine, or direct this Committee to examine, modernization of the existing Utility User Tax (“UUT”), which is collected from residents for the use of electricity, gas, water, and telephone services. The City has not modified the structure of the UUT in decades and should now examine whether its UUT is consistent with neighboring communities and cities throughout the State. For example, modernizing the telephone portion of the UUT, which does not fully cover cellular phones or internet-based communication, to match current technology would ensure that all Piedmont taxpayers are treated alike regardless of the type of telecommunication technology they use. Such a review should examine both the services subject to the tax as well as the rate. Should a broader base of services be included, a reduced rate may be appropriate. Also, the current tax on water is set at a flat per-parcel rate; alternatives include a rate based on parcel size or water use. While the UUT generates a fraction of revenue compared to property-related taxes, it remains a meaningful revenue source for the City.
- The Committee recommends that the City take steps to ensure that current business taxes are being evenly collected across the City. Currently, both the Real Estate Rental Tax and the Business License Tax are collected on a self-reported basis. The only check on rental occupancy is via cross-reference for households that submit proof of residency to the Piedmont Unified School District via a lease agreement. However, a comparison of census data on renter-occupied housing units in Piedmont and rental tax receipts indicates that collection rates may represent 80% to 90% of total rental units. The collection rate for the Business License Tax is unknown. Efforts to improve collections and the even application of these taxes could include an education campaign, potentially coupled with an amnesty period to encourage all business owners (including residents who operate businesses out of their homes) and all property owners who rent property (including single family homes as well as ADUs) to begin paying the applicable taxes without penalty. Ideally this could be done immediately, so that any missed revenue can be captured and taken into account prior to or simultaneously with the Committee’s upcoming study to formulate a recommendation regarding the MSPT renewal.
- The Committee recommends increasing Piedmont’s Real Property Transfer Tax (Transfer Tax). The Committee also recommended an increase in the Transfer Tax in its June 2020 report, which thoroughly discussed revenue sources for facilities projects, and all the factors contributing to that recommendation continue to be true. While Transfer Tax revenue is highly volatile and must be conservatively budgeted, the surplus in good years can be captured to boost funding for infrastructure maintenance and the renovation of Piedmont’s aging buildings. Piedmont’s current Transfer Tax is assessed at the rate of \$13.00 per \$1,000 on full value of property sold

Piedmont Budget Advisory and Financial Planning Committee

and has not been increased since 1993. The Committee's June 2020 report noted that both Berkeley and Oakland had recently voted to increase their transfer tax rates, as well as to form a tiered transfer tax system. Since June 2020, Emeryville has joined Oakland and Berkeley in creating a tiered system with an upper rate of \$25.00 per \$1,000, while Albany and San Leandro have increased their tax rates by approximately 30% and 80%, respectively. Piedmont's Transfer Tax is now among the lowest of the Alameda County cities that assess a transfer tax, as shown in Attachment A.

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

Thank you,



Budget Advisory and Financial Planning Committee

Deborah Leland, Chair
Andrew Flynn
Cathie Geddeis
Robert McBain
Paul Raskin
Frank Ryan
Vanessa Washington
Alice Cho (alternate)

Attachment A

Alameda County Real Property Conveyance Tax Rate by City					
City	2023		2020		
	Rate per thousand on full value (as of 1/1/2023)	Ordinance	Rate per thousand on full value (as of 1/1/2020)	Ordinance	
Alameda	\$12.00	2987 AMC	\$12.00		
Albany	\$15.00	2020-09	\$11.50		Feb-60
Berkeley	\$15.00	6072-NS	\$15.00	(\$1,500,000 and less)	6072-NS
	\$25.00		\$25.00	(\$1,500,001 and above)	
Emeryville	\$12.00	Measure O	\$12.00		14-011
	\$15.00				
	\$25.00				
Hayward	\$8.50	92-26	\$8.50		92-26
Oakland	\$10.00	11628 CMS	\$10.00	(\$300,000 and less)	11628 CMS
	\$15.00		\$15.00	(\$300,001 to \$2,000,000)	
	\$17.50		\$17.50	(\$2,000,001 to \$5,000,000)	
	\$25.00		\$25.00	(\$5,000,001 and above)	
Piedmont	\$13.00	546 NS	\$13.00		546 NS
San Leandro	\$11.00	2020-08	\$6.00		93-09
Source: Alameda County Auditor-Controller / Clerk Recorder Bold indicates changes since Committee's prior review in June 2020					