

City of Piedmont
COUNCIL AGENDA REPORT

DATE: October 17, 2022

TO: Mayor and Council

FROM: Sara Lillevand, City Administrator

SUBJECT: Consideration of FY 2021-22 Year End Fund Transfers

RECOMMENDATION

By motion, approve fiscal year 2021-2022 year end transfers from the General Fund of \$1,700,000 to the Facilities Capital Fund and \$1,000,000 to the Equipment Replacement Fund.

BACKGROUND

In FY 2021-22, favorable revenue trends more than outweighed higher than budgeted expenses resulting in General Fund net income approximately \$5.7 million higher than budget.

GENERAL FUND (in thousands)	FY 2021-22 (Unaudited)		
	Projected	Budget	Variance
Beginning Balance	\$ 6,509	\$ 5,940	\$ 569
Revenues	35,574	29,686	5,888
Operating Transfers In	893	855	38
Total Revenue	36,467	30,541	5,926
Expenditures:			
Operating	28,421	28,180	(242)
Non-Department	3,193	3,195	3
Operating Transfers Out	-	-	-
Total Expenditures and Transfers Out	31,614	31,375	(239)
Operating Net Revenue	4,853	(834)	5,687
Capital Transfers Out	1,261	1,261	-
Net Revenue	3,592	(2,095)	5,687
Ending Balance	\$ 10,101	\$ 3,845	\$ 6,257
Available for Transfer	2,700	-	2,700
Ending Balance - Adjusted	\$ 7,401	\$ 3,845	\$ 3,557
% of Operating Exp	23%	12%	

The following major categories accounted for the increase in revenue as compared to the approved FY 2021-22 budget:

GENERAL FUND Revenues (in thousands)	FY 2021-22 (Unaudited)		
	Projected	Budget	Variance
Transfer Tax	\$ 5,981	\$ 2,800	\$ 3,181
Recreation	3,127	2,275	852
Permits & Planning Fees	1,823	1,312	511
Mutual Aid - Wildfire Assistance	510	-	510
Property Tax	16,224	15,927	297
ARPA funds	284	-	284
Utility Users Tax	1,260	1,105	155
Ambulance Charges	300	180	120
Business License	301	225	76
Other	5,764	5,863	(98)
Total Revenue	\$ 35,574	\$ 29,686	\$ 5,888

Real property transfer tax, as well as building permits and planning fees, are subject to fluctuation based on economic conditions and were budgeted very conservatively due to the lingering COVID-19 pandemic. Surprisingly, the real estate and construction markets continued to perform at record levels throughout the pandemic, resulting in a combined favorable revenue variance to budget of \$3.7 million.

Recreation revenue rebounded from last year as our facilities were open for business the entire year and recreational programming returned to normal levels. Total recreation related revenue was \$3.1 million, an increase of \$852,000 over budget and \$1.4 million higher than last fiscal year. Due to increased programming, Recreation related expenses increased \$609,000 over budget. The bulk of expenses in this area are variable and are controlled based on the level of revenue, most notably part time employment costs and class and camp third party contractor expense. This resulted in a \$243,000 increase in net recreation revenue, and a cost recovery of 98%.

The City received \$510,000 in mutual aid revenue for assisting in battling the state's numerous wildfires. This category is not budgeted due to its unpredictable nature.

Favorable variances were also recorded in the property tax, utility users tax, ambulance charges, and business licenses categories.

Given the volatile nature of these revenue sources, it is prudent to treat any net revenue as one-time savings and appropriate the funds to address the City's outstanding needs, such as facilities maintenance, equipment replacement, future pension obligations, and the condition of the City's infrastructure.

All operating department expenditures were lower than budget, except for Public Works and Recreation. Public Works department exceeded budget by \$286,000. The major variances were:

- City Engineer - Higher by \$152,000 due to increased inspection workload (PGE, Sonic, Crown Castle, EBMUD) and traffic related work.
- Park Stabilization & Maintenance - \$117,000 over as increased services were needed due to drought (tree removals, drainage issues) and clean up after two large storms.
- Janitorial & Maintenance services – Up \$53,000 as extra services added due to COVID.
- Offset by lower than budgeted utility costs (\$32,000)

Below is a recap of expenditures by department compared to budget:

GENERAL FUND Expenditures (in thousands)	FY 2021-22 (Unaudited)		
	Projected	Budget	Variance
Administration	\$ 3,509	\$ 3,794	\$ 286
Public Works	4,215	3,929	(286)
Planning & Building	2,388	2,645	257
Recreation	3,296	2,687	(609)
Police	7,315	7,413	98
Fire	7,699	7,712	13
Non-Departmental	3,193	3,195	3
Total Expenditures	\$ 31,614	\$ 31,375	\$ (239)

The unassigned balance of the General Fund on June 30, 2022 is estimated to be \$10.1 million.

For FY 2021-22, staff recommends the following transfers from the General Fund to:

Facilities Capital Fund	\$ 1.7 million
Equipment Replacement Fund	<u>\$ 1.0 million</u>
Total	\$ 2.7 million

These transfers would result in a General Fund ending balance of \$7.4 million, or 23% of Operating Expenditures which falls above the target level of 18% of operating expenses and below the 25% maximum allowed by the City Charter. Staff recommends a balance above 18% due to continued economic uncertainty caused by rising inflation and interest rates.

Facilities Capital Fund (\$1.7 million)

The maintenance and improvement of city facilities has necessarily been a high priority for the City Council. It is well known that the City has significant challenges with its existing facilities. Our infrastructure is old and in need of extensive renovations as well as ongoing maintenance.

The City Council established the Facilities Maintenance Fund in 2013 to provide a long-term plan for addressing City-owned facilities. In 2014, responsibility for facilities was transferred from the Recreation Department to the Public Works Department. Since that time staff has been working to develop a thorough and well-documented plan that addresses deferred maintenance, on-going maintenance, and repair, and, importantly, the desire to build reserves to address long-term, life-cycle maintenance and replacement costs. The plan will continue to evolve and improve as 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 allow us to better identify and quantify long term capital needs as opposed to ongoing maintenance costs, beginning in FY 2022-23, Facilities Capital Projects is separated from Facilities Maintenance in two separate funds:

- Facilities Maintenance Fund (# 111) – Repairs and maintenance, and scheduled maintenance, and sidewalk replacement/repair will be funded annually by transfers from the General Fund as needed. Maintenance of Schoolmates facilities will be funded by the Schoolmates fund.
- Facilities Capital Projects (# 112) – Capital projects for all city facilities including parks. Funding will be determined each year based on budget surplus, if any.

The Facilities Capital Fund is intended for major capital improvements to City facilities. Current City facility projects underway include the Piedmont Community Pool replacement and Police Dispatch renovation. The Community Pool project will be funded primarily from Measure UU and the Police Dispatch project as prioritized use of American Rescue Plan Act (ARPA) funds.

The next Capital Facilities Project to be tackled is a comprehensive master planning effort for the entire Police/Veterans/Fire/City Hall area. Beyond the significant Public Safety/City Hall needs, the Recreation Department building has critical deficiencies which need to be addressed. Major improvements to Linda Beach and Coaches Field have also been evaluated and embraced but have no current funding. 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 for any of these projects. A master planning effort to understand opportunities, challenges and funding strategies for City facilities will be a high priority for staff in FY 2022-23

Given the substantial needs, staff recommends a transfer of \$1.7 million from the General Fund to the Facilities Maintenance Fund in FY 2021-22. This amount will be transferred into the Facilities Capital Fund, which was established in FY 2022-23.

Equipment Replacement Fund (\$1.0 million)

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.

As noted in the City Administrators Budget Message for FY 2022-23:

Staff is projecting a budget surplus in FY 2021-22 and proposes to increase the budgeted transfer to the Equipment Replacement Fund from \$361,000 to \$1,361,000. Future equipment needs are higher than anticipated as the replacement of all radios for both Fire and Police has been accelerated due to the pending discontinuation of support for existing equipment (\$560,000), the delay of the upgrade of KCOM equipment (\$400,000), as well as inflationary pressure on all future purchases. After this transfer, the General Fund balance will be approximately \$7.4 million, or 23% of expenditures, which is consistent with the past several years.

Given this, staff recommends a transfer of \$1.0 million from the General Fund to the Equipment Replacement Fund in FY 2021-22.

This proposal for transfer of General Fund net revenue is consistent with past practice. This proposal was unanimously supported by the Budget Advisory and Financial Planning Committee at their September 15th meeting.

By: Michael Szczech, Finance Director