

To: Community Priorities Advisory Committee
From: Jay Panzica, Chief Financial Officer
Date: August 7, 2017
Subject: Responses to Questions Submitted Subsequent to 7/26/17 Meeting

ITEMS FOR CPAC DISCUSSION

- 1. Slide No. 27 subtotals General Fund Discretionary spending at \$87.5M, and then deducts Police and Fire (\$57.4M), resulting in total discretionary spending of \$30.1M. During his presentation, and in reference to this slide, Jay said something about holding Police and Fire harmless, which would suggest that any spending reductions must occur in other departments. Was that the intent, or are Police and Fire, in addition to Parks & Recreation, Public Works and Development Services, to be considered in our analysis?**

ANSWER: The discussion involving Police and Fire was prefaced with the statement that as an example, IF Police and Fire were to be held harmless, then there would only be \$30M remaining. That is why the line item on the PowerPoint slide that showed this topic was labeled "TBD". It was not to presume in any way that the committee would recommend holding public safety exempt from any budgetary modifications. This goes for all departments.

- 2. Has any department within the City of Roseville compared expenditures associated in the five departments that we are considering (Police, Fire, Parks & Recreation, Public Works and Development Services) to expenditures for those services in other California cities that are similar as to either population or assessed value of property? If so, please forward the results of that analysis.**

ANSWER: The city has conducted operational studies and comparisons of peer cities all the departments being discussed with the EXCEPTION OF Development Services, which was formed as a department subsequent to the audits. These studies were distributed to the CPAC earlier.

- 3. The final slide in Rob's presentation indicates the role of the committee is to "identify service reductions that should be considered over next 5 years . . . align expenses with revenues based on priorities." A number of Jay's comments involved revenues and reductions in revenues, which naturally led to a discussion of revenue sources and opportunities for expansion. It would appear that an analysis of revenues and potential opportunities to expand revenues is outside the scope of our assignment. Please clarify.**

ANSWER: Any discussion on balancing a budget will naturally include revenue increases in addition to expense reductions. At this early stage of the process, the initial fiscal discussion focused on what occurred during the recession that resulted in the current financial status, not necessarily how to resolve it.

In terms of a revenue discussion, there are many new and/or increased revenue sources that are available to a city. It should be noted however, that the City is initially looking for input from the CPAC to help balance the budget for fiscal year 2018-19. Due to the need for voter approval of any tax changes, no changes can be implemented in time for next year's budget since the next election won't be until November 2018. The Council is open to recommendations for revenue increases, however the implementation timeline precludes most increases from the list of short term recommendations.

4. What is the city's policy on saving for deferred maintenance?

ANSWER: This category of expenses is referred to as "CIP Rehab" and will be discussed more thoroughly in Question 6 below. CIP Rehab (deferred maintenance) is one of the major categories that was underfunded during the recession. During those years, significantly reduced funds were available and were allocated only to very high priority maintenance needs. During this past fiscal year, an extensive study was completed to fully identify the maintenance needs of the city. The results are identified in question 6 below. The creation of a policy regarding CIP Rehab is one of the potential outcomes of the CPAC process.

5. What is the city's policy on reserves?

ANSWER: The City has a policy to maintain a General Fund emergency reserve fund equal to a minimum of 10% of the annual operating budget. This reserve is held in a separate fund called the General Fund Emergency Reserve Fund.

Municipal government best practices suggests that the emergency reserve should be equivalent to three months, or 25%, of operating expenditures. This would strengthen the City's ability to weather economic downturns and increase the ability of the City to obtain a better credit rating. Finance staff has identified this as a long term goal. Although it is not feasible in the short term, redistributing excess funds each year from the prior years' operating results is a potential policy consideration of the CPAC.

6. Will we see what areas in the city's GF budget are in the red—perhaps those that spent more than budgeted or forecasted?

ANSWER: There are two components to the General Fund expenditures that are in the red, or will potentially be in the red. As mentioned during our original fiscal discussion, there are normal cost increases due to inflation, ACA, minimum wage, etc. that will affect both the city and its vendors. These are typically addressed in the normal budgeting process and are expected to amount to \$2-4 million per year for the next several years. Staff and Council have traditionally handled these shortfalls during budget discussions and workshops.

In addition to these "normal" revenue shortfalls, there are some expense categories that are much more significant. These expenses were not fully funded during the recession and have created funding issues that must now be addressed. These fall in three categories:

- 1. Capital Improvement Plan and Rehabilitation of Assets*
- 2. Streets and Roadways*
- 3. Retiree Health*

Capital Improvement and Rehabilitation of Assets

To fully understand the impact of the lowered funding levels, an exhaustive study of all City assets was completed during the past year. The goal was to identify all assets, determine their useful life span, and calculate the cost and time frame of their eventual replacement. The 10 year capital plan was updated and identified approximately \$56 million of funding needs or about \$5.6 million per year. For the past several years the General Fund has been funding about \$1 million per year when the actual funding level should have been closer to \$5 million. For the FY 2017-18 budget, the funding level was increased from \$1.0M to \$1.6 million, however the average shortfall for the next 10 years is about \$4.6M.

FY 2017-18 Budget
Capital Improvement Plan and Rehabilitation of Assets

Category	Required Annual Funding Level	Actual Annual Funding Level	Annual Shortfall
IT Equipment and Infrastructure	\$2.1M	\$0.5M	\$1.6M
Building Maintenance and Rehab	\$1.5M	\$0.5M	\$1.0M
Equipment Replacement	\$0.5M	\$0.5M	\$0.4M
Parks, Recreation and Libraries Rehab	\$1.5M	\$0.5 M	\$1.0M
Subtotal	\$5.6M	\$1.6M	\$4.0M

The FY 2017-18 budget will fund \$1.6 million dollars of General Fund money towards this program and defer \$4.0 million to future years.

Streets and Roadways

Funding challenges for roadway infrastructure have caused the City to fall behind in its maintenance schedule for streets. Currently, roadway maintenance is about \$50 million underfunded. The City has identified an average, annual ongoing need of \$9-10 million per year. The City annually funds \$4-5 million per year from Gas Tax, Local Transportation, Utility Impact Reimbursement, and Federal Regional Surface Transportation program funds, leaving a shortfall of \$5 million per year, or \$50 million for the next 10 years.

Retiree Health (OPEB: Other Post Employee Benefits)

Costs for those employees who will receive retiree health benefits are continuing to grow as healthcare premiums and Medicare costs increase. As discussed later, the City eliminated this benefit for employees hired after 2012.

In order to address the OPEB liability, the City has taken two significant actions.

- 1). An OPEB trust fund was created in February 2011, with an initial contribution of \$34 million. Since that time, the City has been making regular, annual contributions. The latest actuarial report (6/30/15) shows a General Fund liability of \$206 million, of which \$102 million is unfunded. The city wide unfunded liability is \$152 million. The FY 2017-18 budget will fund

\$7.6 million towards this liability. The payment amount needed to fully fund the annual payment is closer to \$12 million, leaving an annual shortfall of \$4.4 million. The Council has now put in to place a policy to increase annual contributions to the trust each year by \$750,000 until the full annual payment is achieved.

- 2.) This defined benefit was eliminated for those employees hired after 2012 and has been replaced with a requirement for employees to fund their own retirement savings account.

Summary of "Items in the Red"

<u>Category</u>	<u>10Yr Average Annual Shortfall</u>
Capital Improvement Plan and Rehabilitation of Assets	\$4-5 million
Streets and Roadways	\$5.0 million
Retiree Health	\$4.4 million

OTHER BACKGROUND INFORMATION

7. Slide No. 42 describes a sales tax revenue shortfall of \$41M between 2007 and 2013. Was this shortfall offset by spending cuts, by deferrals, or some combination of the two? To the extent the shortfall was offset by deferrals of disbursements, please identify the items and amounts deferred, and the period within which those items must be addressed.

ANSWER: All shortfalls that occurred during the recession were funded by a variety of means. These include spending reductions, deferrals and the use of one time monies. The actual amount used in each of the categories was not documented.

8. Slide No. 48 describes a property tax revenue shortfall of \$18M between 2010 and 2015. Was this shortfall offset by spending cuts, by deferrals, or some combination of the two? To the extent the shortfall was offset by deferrals of disbursements, please identify the items and amounts deferred, and the period within which those items must be addressed.

ANSWER: Same as above.

9. Slide No. 51 was revised between the date it was emailed to the committee (07/19/17) and the meeting (07/26/17). An additional line was added, which states "Spent more money than came in during the year" in response to the question "How was the shortfall funded". In what years did expenditures exceed revenues? Please provide the amount of the shortfall in each of those years.

ANSWER: Basically the same answer as above. As per regulations, expenditures are not allowed to exceed revenues. If this situation were to happen, as was our case, one-time money is moved into the revenue category to cover the expenses. Council is now following a "Live within our means" philosophy and has changed its policy to prevent this happening in the future.

10. Slide No. 53 indicates the General Liability Fund Balance decreased from about \$7.6M to \$0 between 2007 and 2015 and that the Workers' Compensation Fund Balance decreased from about \$13M to about \$5M from 2009 to 2015. Given the current level of City operations, what should these fund balances have been as of 06/30/17? To the extent a shortfall exists, how will the shortfall be funded, and over what period of time will it be funded?

ANSWER: In the past 3 years Council has taken action to fund these two categories and they are now fully funded.

- 11. Both Rob and Jay discussed funding certain long-term obligations (PERS, OPEB and CIP Rehabilitation) at 30% levels. What are the PERS, OPEB and CIP Rehabilitation obligations as of 06/30/17? What would those obligations be had they not been funded at reduced levels? What funding increases are planned in order to eliminate the shortfalls?**

ANSWER: This question can be broken into two categories: 1. PERS and 2. OPEB and CIP rehab.

In regards to PERS, the City fully funded the annual payment requested by PERS; it did not fund it at a reduced level. However since there is an outstanding unfunded portion, the actual funding level requested by PERS does not fully fund the total obligation. The funding level has varied from 0% unfunded to its current level of about 35%. As a result, PERS has developed a “smoothing” payment plan that is in place for all cities that will fully fund the obligation and minimize the impact to cities in the short term. This plan amortizes the expense over a period of about 25 years, and will be adjusted each year based on the market returns of PERS over that period of time. Cities that participate in PERS are informed of their obligation to PERS and do not participate in the calculation, thus they have no input to the PERS payment (other than having the option of paying additional amounts). The City is looking for input from the CPAC committee regarding services to fund or not fund, and since PERS payments are not discretionary, they are outside the purview of the committee.

In regards to OPEB and CIP Rehab, the answer is quite different than with CalPERS.

OPEB:

Please see question 6 above.

CIP Rehab:

Please see question 6 above.

- 12. The information provided to date includes revenues and expenses (effectively an income statement) but does not includes assets and liabilities (a balance sheet). Please provide a balance sheet, at least for the General Fund, as of 06/30/17.**

ANSWER: The FY 2016 audited balance sheets is attached. Our auditors will release 2017 in the October/November time frame.