Town of Paradise
Council Agenda Summary
Date: May 9, 2017

Agenda Item: 6

Originated by: Gina S. Will, Administrative Services Director/Town Treasurer

Approved by: Lauren Gill, Town Manager

Subject: 2017/18 Operating and Capital Budget Status Update

Council Action Requested:

Consider the reported progress on the 2017/18 budget and provide any necessary staff direction.

Background:

The mid-year budget report started the 2017/18 budget cycle. On March 21, 2017, Town Council identified goals and priorities for the upcoming fiscal year. The goals focus on maintaining quality services and ways to diversity revenues for future sustainability.

Staff provided Town Council an update on the progress on April 11, 2017, and has now met with the Measure C Citizen Oversight Committee twice on the preliminary Measure C budget.

Departments are currently researching and compiling their critical operating needs, and they have been directed to submit their budgets by May 12, 2017.

Discussion:

Preliminary budget projections for 2017/18 show that General Fund revenues exclusive of Measure C will grow about 2.6% or $291,178 for total resources of about $11.39 million.

Unfortunately costs like CalPERS Pension contributions and Workers Compensation (which the Town has little control over) are growing at higher rates which will strain the General Fund 2017/18 budget.

Pension Contributions:

CalPERS has structured the payoff of unfunded liability in all of the pension plans over a period of about 22 years. As a result, the Town is paying more toward the unfunded liability then for "normal" annual contributions. Further, to reduce the probability of growing the unfunded liability, CalPERS is reducing the discount rate from 7.5% to 7% which will further increase future contribution requirements. The discount rate is the assumption CalPERS actuaries use as the expected long term investment yield. Starting in 2018/19, the discount rate will drop 0.125% for three years.

The Town has been aggressive in attempting to manage this looming obligation. At many times, it was ahead of the curve in establishing policies and benefit reductions before the California Public Employees' Pension Reform Act (PEPRA) of January 2013.

1. In April of 2007, the Town issued a Pension Obligation Bond to finance the then unfunded liability of the Town's Pension plans. What the Town's administration at the time did not predicted, was the depth and severity of the recession of 2007 through 2009. About a third of the bond value was lost by CalPERS, and unfunded liability ballooned as investments couldn't achieve actuarial requirements to maintain funding levels.

2. In January 2011, the Town implemented a 2nd tier of pension benefits for all new hires. This second tier provides less of a benefit in retirement and is therefore less costly for the Town to fund. In January 2013, PEPRA created a third tier of benefits for new hires, again reducing benefits for new hires. Today, 59% of the Town's active employees are in these 2nd and 3rd tier of benefits.

3. In November 2012, the Town outsourced fire personnel to CAL FIRE effectively, reducing its active and future retired public safety employees by half.

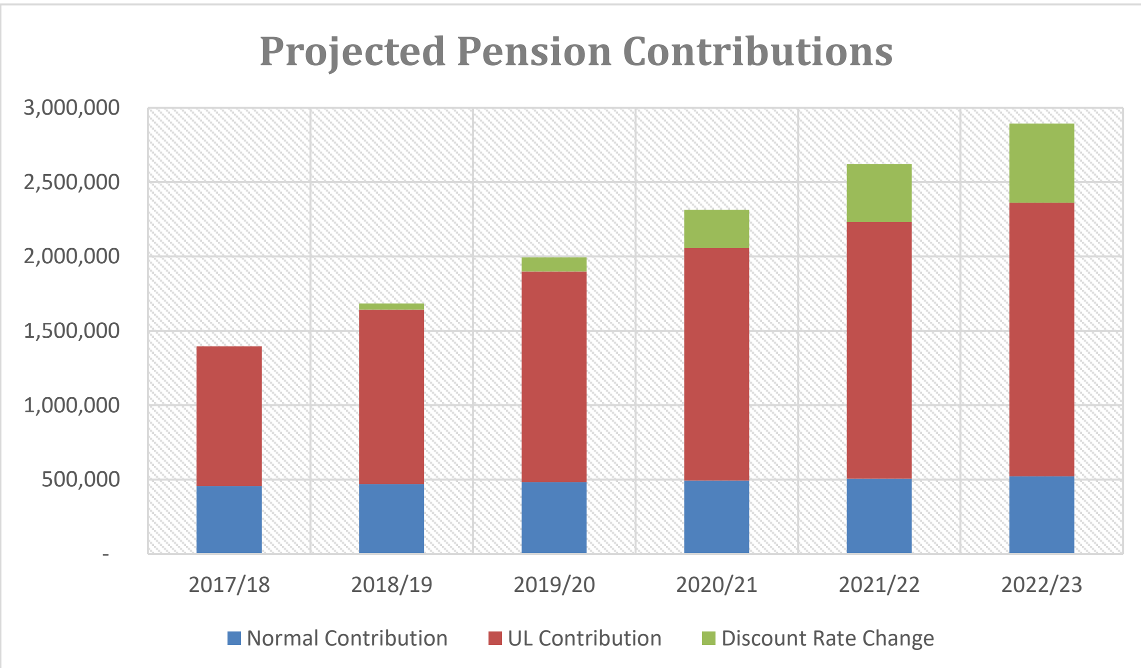
All of these measures have been helpful and effective for maintaining normal contribution rates and for keeping the unfunded liability (UL) from exponentially growing. The following distribution of active and retired employees helps illustrate why the Town is paying more toward the unfunded liability then toward active "normal" contributions.

	Misc. Tier 1	Misc. Tier 2	Misc. Tier 3	Safety Tier 1	Safety Tier 2	Safety Tier 3	Totals
Active	21	2	22	6	6	9	66
Retired	66			77			143
Totals	87	2	22	83	6	9	209

Following is the Pension contribution the Town will make this fiscal year (2016/17) as compared to the contribution for next year (2017/18). This is a 14.6% increase, and the general fund will bear 86% of this cost.

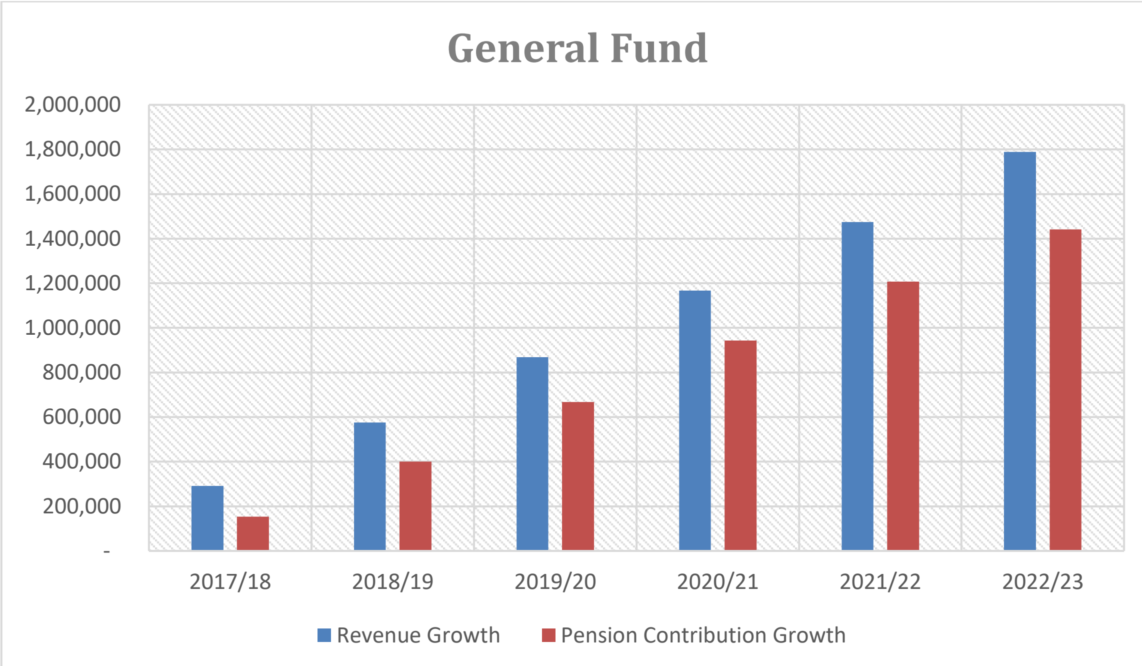
	2016/17	2017/18	Increase
Normal Contribution	443,304	457,233	13,929
UL Contribution	774,890	939,297	164,407
Total	1,218,194	1,396,530	178,336

Staff used a calculation tool provided by the League of California Cities to project the impact to contributions of the lowered discount rate starting in 2018/19. Following are the projected contributions:



The Town has done virtually everything in its power to manage this obligation. The "normal" contribution for active employees isn't what creates the financial pressure. So, even if the Town were to move to a different system for Pension benefits for its employees, it would still maintain similar active contributions. The strain is created by now paying even more toward the funding deficits created during the recession for past and current employees. The commitment made to those employees for their promised level of benefit in retirement must be funded regardless of the current retirement system. Staff will continue to explore alternative benefit options for future employees, including a possible defined contribution plan, but the Town must pay the current unfunded liability.

Finally, understanding that the General Fund will grow about 2.5% each year and that about 86% of these increased contributions will be borne by the General Fund, staff compared the increases. It shows that the General Fund is expected to be able to absorb these additional costs in the future. However, it will use the majority of the growth to do so. This will keep the General Fund at a very high fixed cost level making it difficult to fund equipment replacement and deferred maintenance after Measure C expires.



Town Council should consider funding an additional small amount toward this obligation when possible. This would pay the obligation off sooner and minimize future contribution requirements. One way to achieve this is though general fund net income. After the 10% cash flow reserve goal is achieved, Council could create a policy whereby any additional revenues exceeding expenses in a budget year are paid toward this obligation. Of course there are competing priorities for any remaining funds given the constrained nature of the General Fund.

Worker's Compensation:

To further exacerbate the 2017/18 budget. Worker's compensation expenses will grow 33.8% or $101,722. 66% of this will be funded by the General Fund. Workers compensation premiums are weighted ¾ on the last five years of actual claims and ¼ on payroll. Thus, one of the unintended consequences of financial cutbacks is higher workers compensation premiums. It is evident to staff that a correlation exists between reduced staffing levels and higher turnover and increased overtime. Further, staff correlates that higher turnover and increased overtime can be tied to more injury prone employees.

Measure C

Given the last direction of Town Council to maintain reserves within Measure C to fund future contingencies and to fund some critical ongoing expenses after Measure C expires, the following preliminary 2017/18 budget has been presented and discussed with the Measure C citizen oversight committee:

Revenue		$1,264,000
2nd Police Investigator	$157,714	
Police Cadet (2)	46,000	
3 Police Cars	100,000	
Replace Roof	75,000	
Police Body Camera Payments	5,917	
K9 Program	13,500	
Enhanced Police Training	15,000	
Maintain CAL FIRE Contract	250,000	
Fire Engine 81 & 82	167,435	
Increased Hours for Animal Control Officer	31,000	
Animal Control Operations Support	29,200	
Maxwell Drive SR2S	80,000	
Bille Overlay (Fern to Oliver)	120,000	
10% Contingency Reserve	188,000	(1,278,766)
Net Total		($14,766)

This proposed budget assigns all expected Measure C resources for the 2017/18 fiscal year for these purposes. The resulting and evolving Measure C financial plan is then as follows:

Projected Revenues			$7,591,904
Ongoing Commitments for:	Police	$2,346,091	
	Fire	2,257,563	
	Animal Control	335,231	
	Streets	901,388	
	10% Fixed Reserve	752,000	
	Contingency Reserve	418,631	(7,010,904)
Net Total			$581,000
Options:	Almond Street Multi-Modal	$388,000	
	Ponderosa SR2S	193,000	(581,000)
Net Remaining			$0

Therefore, going into the 3rd year of Measure C, the Town is tentatively leaving about $1,170,000 for future contingencies or uses after Measure C expiration or about a 15% reserve. Said another way, this is almost 1 year of Measure C receipts.

Fiscal Impact Analysis:

Town Council will be presented with another balanced General Fund budget at the end of the 2017/18 budget process. All other major funds are self-sustaining and staff is working through a long range plan for Animal Control Services stability. Measure C is the key to the Town funding equipment replacement and sustaining high quality services next fiscal year.