CITY OF ROSEVILLE CALIFORNIA

MINUTES
March 13, 2019

CITY COUNCIL SPECIAL MEETING
BUDGET WORKSHOP
4:00 p.m.
Council Chambers
311 Vernon Street
Roseville, California
www.roseville.ca.us

1. CALL TO ORDER

Mayor John B. Allard II called the March 13, 2019 City Council Special Meeting Budget Workshop to order at 4:00 p.m.

2. ROLL CALL

Present: Bernasconi, Alvord, Roccucci, Houdesheldt, Allard

3. PLEDGE OF ALLEGIANCE

Vice Mayor Krista Bernasconi led the Pledge of Allegiance.

4. MEETING PROCEDURES

City Clerk Sonia Orozco announced the procedures for addressing Council.

5. PRESENTATIONS

5.1. FY2019-2020 Budget Workshop

Staff recommends the City Council take the following action:

1. Receive a report from staff that provides an update and overview on CALPERS and other unfunded liabilities.
2. Receive a report from staff that provides an update on the budget process and shares recommendations.
3. Provide feedback and direction to staff on potential budget priorities and funding strategies for the FY2019-20 budget.

Development of the FY2019-20 budget will include any increased revenues resulting from additional fees and increased tax revenues of 16 million dollars resulting from the passage of Measure B. At the workshop, staff will present detailed budgetary information along with proposed service level increases for City Council consideration. Staff will also request policy direction from the City Council to utilize one-time monies for one-time costs, funding strategies for unfunded obligations, and the implementation of the stabilization reserve fund, in an effort to lessen the depth of potential future reductions.

CONTACT: Dominick Casey 916-774-5362 dcasey@roseville.ca.us

City Manager Dominick Casey outlined the budget schedule as follows:
September 2018 - City Council Measure B goals workshop
January 16, 2019 - Year-end budget report and CAFR presentation
February 20, 2019 - Budget schedule, 1st quarter report
March 13, 2019 - 2nd quarter report; Utilities budget update
March 25-28, 2019 - City Manager budget review meetings
April 17, 2019 - Proposed CIP budget
May 1, 2019 - Financial policies; Overview of internal service funds
May 20, 2019 - Proposed budget released to Council
June 3-4, 2019 - Budget hearings
June 19, 2019 - Budget adoption

Purpose of the Workshop:

- Discuss context for budget recommendations
- Provide budget overview for FY 2018-19
- Discuss Measure B priority for FT 2018-19
    - $4 million of unbudgeted Measure B revenue
- Discuss goals and priorities for FY 2019-20 budget development

Chief Financial Officer Dennis Kauffman made presentation to Council on Unfunded Liabilities:

Pensions:

- City is legally obligated to pay pension benefits
- Law prohibits retroactive reductions
- Series of court rulings known as "California Rule" means the pension offered at hire becomes a vested right, protected by constitutional contract law
- Can only be cut if offset by a comparable new benefit, erasing any savings
- City is following pending court case

California Public Employees Retirement System:

- Nation's largest public pension fund
- Covers employees from:
    - State of California - 614,203 members
    - School Districts - 1,313 with 737,515 members
    - Public Agencies - 1,579 with 607,170 members
    - CalPERS serves 1.9+ million members
- Currently paying 700,000 retirees monthly
- Pensions are a shared responsibility between employer, employees and CalPERS

- Shared responsibility - every dollar paid to CalPERS retirees comes from three sources:
    - Investment earnings - 59¢
    - CalPERS employers - 28¢
    - CalPERS members - 13¢
- CalPERS Investments:
    - Today = $350 billion in assets
    - 8.6% - 2017-18 Portfolio Return
    - 8.1% - 5-year Annualized Return
    - 5.6% - 10-year Annualized Return
    - 6.1% - 20-year Annualized Return
    - 8.4% - Annualized Return since 1988

- Benefit Formulas:
    1. Formula chosen by the city for its employees
    2. Number of years an employee has worked
    3. Highest salary earned by the employee
- Roseville formula for "Classic Employees"
    - Public Safety Employees = 3.0% @ 50
    - Miscellaneous Employees = 2.7% @ 55
- Rate History from FY 01-02 to FY 19-20

	FY 2018-19	**FY2019-20**
Safety $	$12.7M	$13.7M
Safety Payroll %	43.3%	48.3%
Miscellaneous $	$22.4M	$25.3M
Miscellaneous %	26.7%	29.2%
Total	**$35.1M**	**$39.0M**
General Fund	**$21.1M**	**$23.7M**

Roseville Unfunded Liability - Miscellaneous:

	June 2016	**June 2017**
Market Value of Assets	$360M	$402M
Unfunded Liability	$221M	$226M
Funded Ratio	**62.0%**	**64.1%**

Roseville Unfunded Liability - Safety

	June 2016	**June 2017**
Market Value of Assets	$189M	$211M
Unfunded Liability	$102M	$106M
Funded Ratio	**64.8%**	**66.5%**

Roseville Unfunded Liability - Total:

	June 2016	June 2017
Market Value of Assets	$549M	$613M
Unfunded Liability	$323M	$332M
Funded Ratio	**62.9%**	**64.9%**

Rate Forecast: (Assumes 3% Payroll growth)

YEAR	MISC		PUBLIC SAFETY		TOTAL
FY18-19	27%	$22.4M	43%	$12.7M	$35.1M
FY19-20	29%	$25.3M	48%	$13.7M	$39.0M
FY20-21	32%	$27.8M	51%	$15.0M	$42.8M
FY21-22	33%	$30.1M	54%	$16.1M	$46.2M
FY22-23	35%	$32.0M	56%	$17.1M	$49.1M
FY23-24	35%	$33.5M	57%	$17.8M	$51.3M
FY24-25	36%	$34.9M	58%	$18.5M	$53.4M

Actions Taken by CalPERS:

1. New formulas were implemented for all new employees hired on or after January 1, 2013 PEPRA)
    - Public Safety Employees = 2.7 @ 57
    - Miscellaneous Employees = 2.0 @ 62
2. Introduced a smoothing plan to gradually increase employer contributions to fully fund the unfunded liability in 30 years
    - Reduces impact of sudden rate increase
3. Changed the amortization schedule that will pay off new losses from 30 years to 20 years

California Public Employees' Pension Reform Act of 2013: (PEPRA)

Benefit Group Name	Total Normal Cost FY2019-20	Number of Active Employees
Miscellaneous Classic	20.018%	671
Miscellaneous PEPRA	13.267%	344
Safety Fire Classic	33.179%	93
Safety Fire PEPRA	29.957%	7
Safety Police Classic	34.881%	98
Safety Police PEPRA	26.798%	22
	Total	**1235**

On the Horizon from CalPERS:

- CalPERS is looking at options to address the statewide underfunding situation
    - Change the investment portfolio philosophy in an effort to reduce risk
    - Varies from a rate of return between 6.5% and 7.25%
- Roseville participated in CalPERS board meeting to explain he impact of

these potential actions
- Roseville attending stakeholder meeting this month

What can Roseville do?
- Issue pension obligation bonds
    - GFOA
- Establish separate pension trust
- Pay UAL payment in July instead of monthly
- Make additional contributions to CalPERS
    - No specific application
    - Fresh start
    - Pay off layers of unfunded liability
- Like most cities, retirement costs are one of our largest expenses
- Pension payments are a legal obligation nd benefits cannot be reduced under current law
- Pension payments are a legal obligation and benefits cannot be reduced under current law
- Roseville and its employees have been proactive in contributing to the solution
    - Reductions offered by CalPERS have been implemented
    - Employees contribute full share of their cost per CalPERS rules
    - Implementation of new PEPRA classification is improving cost structure as Classic employees retire
    - Roseville is taking an active role in legislation to address changes in the cost structure
    - Additional contributions will reduce unfunded liability and budgeted contributions

What is OPEB?
- "Other Post Employment Benefits"
    - In the case of Roseville it is the contribution of funds to pay for health insurance after retirement
    - Roseville has been very proactive in addressing this long-term obligation
        - The benefit was eliminated in early 2014 for new employees
        - A trust fund was created at that time to pay for the obligation in future years
- OPEB
    - June 30, 2018 Actuarial Valuation
        - $84M of assets - an increase of $18M since last actuarial valuation
        - Positive trend: Funded ratio has risen from 0% to 37% over the past decade
        - Unfunded liability decreased $8M to $144M due to
            - Contributions to the trust
            - Insurance premium increases were less than expected
            - Other factors including mortality projections, inflation assumption
            - Tier III - reduced liability for new employees

- OPEB: Status of General Fund portion

- PAYGO cost (retiree premium payments)
    - $4.9M projected for FY19, increase of $250K from prior year
- Council Approved Funding Policy for Unfunded Liability
    - Requires increasing General fund contributions to the Unfunded Liability in addition to PAYGO
        - 6% of payroll in FY19 (~$3.6M) built into FY20 proposed budget
- City has reached the Actuarially Determined Contribution level

Unfunded Liabilities (Over 30 Years)
$332M Net CalPERS pension liability
$144M Net OPEB liability
$ 26M Accrued Vacation, sick leave, CTO
$502M Total Other long-term liabilities

Discussion and Public Comment: No public comment was received.

City Manager Dominick Casey continued the presentation and provided a Budget Overview for FY2018-19.

Components of presentation included:
- Overall City Budget = $500M
    - $139M - General Fund
    - $361M - Electric, Water, Wastewater & Solid Waste
- Just a small portion is discretionary - $95M Unrestricted/$44M Restricted = $139M General Fund

FY2018-19 General Fund Expenditures:

General Fund Expenditure by Service Area	**% of Total**
Police	29.5%
Fire	23.2%
Parks, Recreation & Libraries	16.6%
Other	11.4%
Development Services	6.9%
General Government	6.1%
Public Works	5.7%
Economic Development & Housing	0.6%
TOTAL	**100%**

Funding Priorities for Building the Budget:
- Budget Goals FY2019-20
    - Maintain fiscal responsibility
        - Implement council priorities
        - Live within our means
        - Provide core services
    - Fund priorities for Measure B revenue

Measure B allows us to:

- Maintain specialized Police and Fire services
- Keep a fire engine in service at risk of being cut
- Maintain Parks, Recreation & Libraries programs and facility hours without additional closures
- Begin construction of citywide parks
- Maintain street maintenance
- Keep adult literacy programs in place
- Maintain current park maintenance levels
- Continue special event support
- Continue sponsorships, memberships and accreditations

Measure B Priorities:

- Ongoing
  - Establish police beat 7 on west side with 4 police officers
    - $788,000 in FY2019-20, including vehicles/equipment
    - $613,000 ongoing
  - $500,000 to $1.5M - Phase in maintenance costs for new citywide parks
  - $150,000 - Restore 1 police officer to traffic unit
  - $200,000 - Phase in more library hours and materials
  - $100,000 - Maintain industry training and development programs
  - $500,000 - Stop erosion of park maintenance levels
  - $100,000 - Bring back goats paid by General Fund to open space
    - Partially restore road funding
    - Expand job creation initiatives
    - Business recruitment and communications
    - Fully fund costs of repair/replacement for buildings and equipment
    - Restore fire training and investigations

Measure B Priorities:

- One-time
  - Build an economic stabilization reserve fund
    - Starting with $4M of unbudgeted Measure B revenue in FY2018-19
  - Pay down CalPERS pension obligations
  - Pay down retiree health liability (OPEB)
  - Allows city to stabilize continuity of services in the future

Summary:

- Maintain fiscal responsibility
  - Implement council priorities
  - Live within our means
  - Provide core services
- Concerns
  - Limited room for growth without new sources of revenue
  - Limited capital available for new projects
- Budget Priorities
  - Maintain current service levels with Measure B
  - Focus on high priority new services
  - Build stabilization reserve fund

Discussion and Public Comment: No public comment was received.

General Fund Revenue Highlights:
- Sales Tax Year to Year comparison and sales tax projection was presented.
- Property Tax Year to Year comparison was presented.
- Other General Tax Revenues
  - $3.9M in FY2018-19 in FY2018-19 budget
- Property Transfer Tax
  - $800,000 in FY2018-19 budget
- Business license tax
  - $900,000 in FT2018-19 budget

Revenue Opportunities:
- First responder fee
- Nursing home/non-emergency assist fee
- Digital billboards
- Pet licensing
- Sponsorships
- Business license tax compliance
- Increase youth sports and senior fees
- Sell surplus properties
- Increase Transient Occupancy Tax

Discussion and Public Comment: No public comment was received.

General Fund Five-year Forecast:
- Factors included in Five-year Forecast
  - Continued shifts in consumer habits affecting sales tax
  - Healthy property tax
  - Labor costs (first two years)
  - Unfunded liabilities
    - PERS and OPEB contributions
    - CIP Rehab
  - Known State/Federal mandates
  - Revenue from Measure B
- Other Impacts Not Included in Forecast:
  - Possible revenue from sales tax on services
  - Wayfair decision's effect on sales tax revenue
  - Redevelopment replacement
  - New federal and state regulations
  - New revenue sources
  - Labor market adjustment in year 3 and beyond

Projected FY2019-20 GF Deficit:
- $2-3M - based on five-year forecast
- $3-4M - labor contracts
- $<u>1-2M</u> - other increases (targets, etc.)

  $6.9   - cuts avoided by Measure B

Presentation continued with an overview of the Five-year General Fund forecast before Measure B with increased costs and then including Measure B revenue. The presentation provide a example of a recession forecast.

Discussion and Public Comment: No public comment was received.

General Fund Emergency Reserve:
- Current fund balance: $14.2M
- 10% of General Fund operating expenses
- For significant short-term issues such as declared emergencies
- Provide financial security
- Helps City achieve higher bond rating
- Council Policy requires approval of at least four City Councilmembers to appropriate from the reserve

General Fund Stabilization Reserve:
- Current fund balance: $0
- Target of 15% of General Fund operating expenses (approximately $21M)
- For addressing significant revenue shortfalls that occur during an economic downturn
- Goal is t have 3 months (25% of annual operating expenses) in reserves (GFOA) best practice
- Provides financial stability
- Helps City achieve higher bond rating
- Council Policy requires approval of at least four City Councilmembers to appropriate from the reserve

Litigation Reserve Fund:
- Current fund balance: $257K
- Used to fund unanticipated outside attorney fees
- Minimum level is $250K; funded at 100%

Strategic Improvement Fund (SIF):
- Purpose of the SIF
    - Generates sales tax and property tax revenues
    - Provides a community benefit
- Revenue source
    - Community Benefit Fee
        - Impact fee built into development agreements
- Allowable Expenditures
    - Support Council-approved strategies related to land acquisition
    - Strategic capital improvement projects
    - Supports projects that would eventually generate revenue for the General Fund - Goal is to achieve a return on our investment

Public Facilities Fund:
- Sources of Revenue
    - Impact fees collected at the time a building permit is pulled based on a nexus study
- Allowable Expenditures
    - New development obligations to construct public facilities serving residents and employees in the city

Fire Facilities Fund:

- Source of Revenue
    - Fee applies to new growth areas and replaces the Fire Service Facilities Tax that expired in 2009
- Allowable Expenditures
    - Funding for capital fire facilities and related equipment

Downtown Benefit Fee:

- No budgeted revenue in FY19
- Negotiated fee $5,000 per unit for 1,661 units (SPA 3)
- Will provide $8.0M funding for downtown related projects
- $4.07M lien on future fee collections to repay:
    - Auto Replacement Fund: $0.06M
    - SIF: $3.47M

Funds at a Glance:

Estimated Ending Fund Balance

Funding Source	**FY2019**	**FY2020**	**FY2021**	**FY2022**	**FY2023**
Strategic Improvement Fund	$8.3M	$9.3M	$10.3M	$11.3M	$12.3M
Public Facilities Fund	$6.8M	$8.6M	$10.4M	$12.2M	$14.0M
Fire Facilities Fund	$2.5M	$3.8M	$5.1M	$6.4M	$7.7M
Downtown Benefit Fee	$0	$0	--------	---------	--------

Summary:

- Unfunded liabilities
    - Pensions
    - OPEB
- Budget Priorities
- General Fund
    - Revenue Highlights
    - Five-year Forecast
    - Reserves
    - Other capital funds

Motion by Pauline Roccucci, seconded by Scott Alvord, Authorize staff to proceed with evaluation of revenue opportunities; and fund the Stabilization Reserve with the first three months of Measure B revenue; and maintain current service levels and fund the priority services identified for Measure B; and return at year-end with a recommendation to allocate any positive General Fund budgetary results to the Stabilization Reserve and paying down the CalPERS liabilityMotion. The Motion Passed.

Roll call vote: Ayes: Allard II, Alvord, Bernasconi, Houdesheldt, Roccucci

6. PUBLIC COMMENTS

No public comment received.

7. COUNCIL / STAFF / REPORTS/ COMMENTS

Chili Cook-Off - Councilmember Bruce Houdesheldt spoke on competition and spoke to worthy cause.

8. ADJOURNMENT

Motion by Pauline Roccucci, seconded by Krista Bernasconi, to adjourn the meeting at 7:05 p.m. The Motion Passed.

Roll call vote: Ayes: Allard II, Alvord, Bernasconi, Houdesheldt, Roccucci