



***City Of Milpitas
Budget Study Session
April 30, 2013***

Accomplishments

- **Narrowed the General Fund budget deficit from \$12 million to \$2.4 million – combination of revenue increases and stringent cost reduction**
- **Managed the dissolution of RDA and took initial steps to replace lost funding for CIP by allocating RDA property tax redistributions to a CIP Fund**
- **Business retention/ Service delivery**
 - **SanDisk and KLA- Tencor chose to expand their campuses within Milpitas**
 - **New businesses relocated to Milpitas – ELO Touch and Conceptus**
 - **2 new hotels for 500 rooms pending**
- **Transit Area Plan**
 - **Implement Transit Area Impact Fee to finance the infrastructure needed in the area**
 - **Establish Community Facilities District assessment to mitigate the fiscal impact of high density development on public services**

FY 13-14 Budget Objectives

- **Preservation of Core Services**
- **Maximize overall organizational efficiency and cost savings**
- **Use \$2.4 million of the FY 13-14 RDA property tax redistributions to close budget gap**
- **Balance General Fund budget without using any reserves**
- **Revise fiscal policy to provide City Council with flexibility to direct distributions from RDA Property Tax distributions and 2% TOT Fund for capital improvement purposes**
- **Develop a Strategic Plan to update City's missions, values and goals to guide departments' work plans**

Long Term Challenges

- **Unfunded PERS liabilities (as of 6/30/11)**
 - Public Safety - \$69 million
 - Non-Safety - \$44.4 million
- **Unfunded Retiree Medical benefits (as of 3/1/13)**
 - \$35.5 million
- **CIP projects in the next 4 years without identified funding sources**
 - Non utility projects - \$39.9 million
 - Utility projects - \$12.2 million
- **Maintain adequate funding to retain and attract competitive workforce**
- **Benefits as a percentage of base salary remains high**

Employee Cost

Understanding the Problem

Union/Group	Base Salary (in thousands)	Benefits (in thousands)	% of Benefits to Base Salary
Fire	6,443	4,985	77.4%
MEA	2,399	1,999	83.3%
MPOA	10,190	9,473	93.0%
ProTech	5,451	2,634	48.3%
Mid-Mgmt	3,426	1,517	44.3%
Unrep-Misc	1,683	701	41.6%
Unrep-Safety	1,705	1,029	60.3%
Total	31,297	22,338	71.4%

**PERS Cost = \$8 million / Medical Cost = \$6.1 million
represent 25% and 19% of base salary respectively**

FY 13-14 All Funds Proposed Budget

	(In millions)
Employee Salaries	\$ 34.4
Employee Benefits	24.3
Contractual Services & Supplies	36.9
Capital Improvements	18.9
Debt Service	<u>0.7</u>
Total Proposed Budget	\$ 115.2

FY 13-14 General Fund Proposed Budget

(In millions)

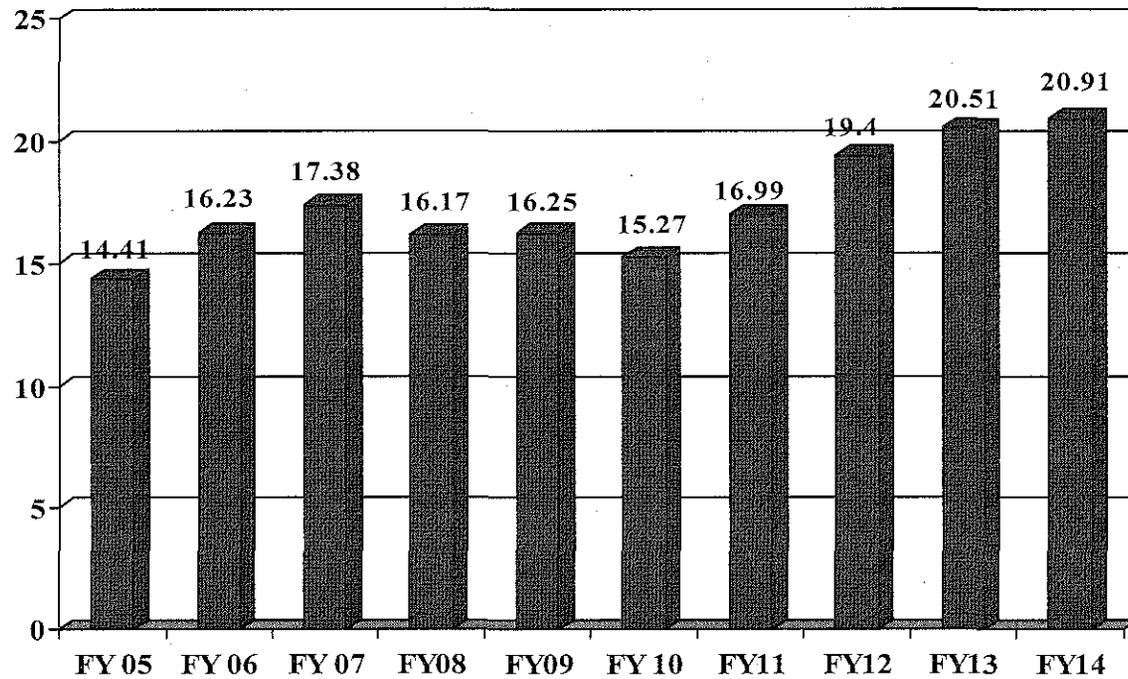
Estimated Revenues & Other Fin. Sources	\$ 60.3
Op. Transfers for O/H & Adm. Reimb.	<u>3.6</u>
Total	\$ 63.9
Employees' Salaries	\$ 31.2
Employees' Benefits	22.1
Contractual Services & Supplies	<u>13.0</u>
Total Proposed Budget – General Fund	\$ 66.3
General Fund Budget Shortfall	\$ 2.4

FY 13-14 General Fund Projected Revenue

- **FY 13-14 General Revenue projected to be \$60.3 million**
- **Not including the RDA property tax redistributions, FY 13-14 General Fund revenue is a 1.8% increase from FY 12-13 revised revenue**
- **RDA property tax redistributions – residual distribution of RDA property tax after satisfying approved recognized obligations. The revenue is administered by the County of Santa Clara in a Redevelopment Property Tax Trust Fund**
 - **FY 11-12 distributions \$1.3 million + one time RDA loan payment \$3.6 million**
 - **FY 12-13 distributions \$2.4 million + one time distribution form RDA Housing fund cash**
 - **FY 13-14 - projected distributions \$2.4 million**

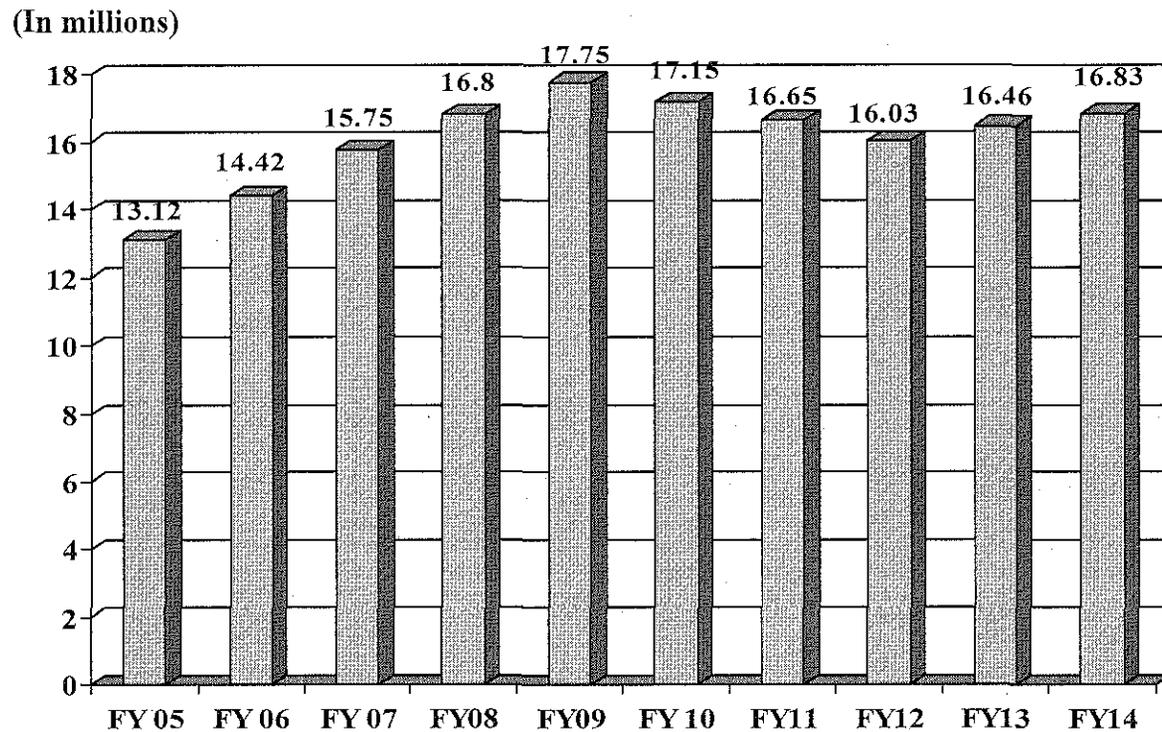
Sales Tax Cash Receipts By Fiscal Year (Not Adjusted for Inflation) FY 13-14 Projected Sales Tax \$20.9 million

(In millions)



---Estimated---

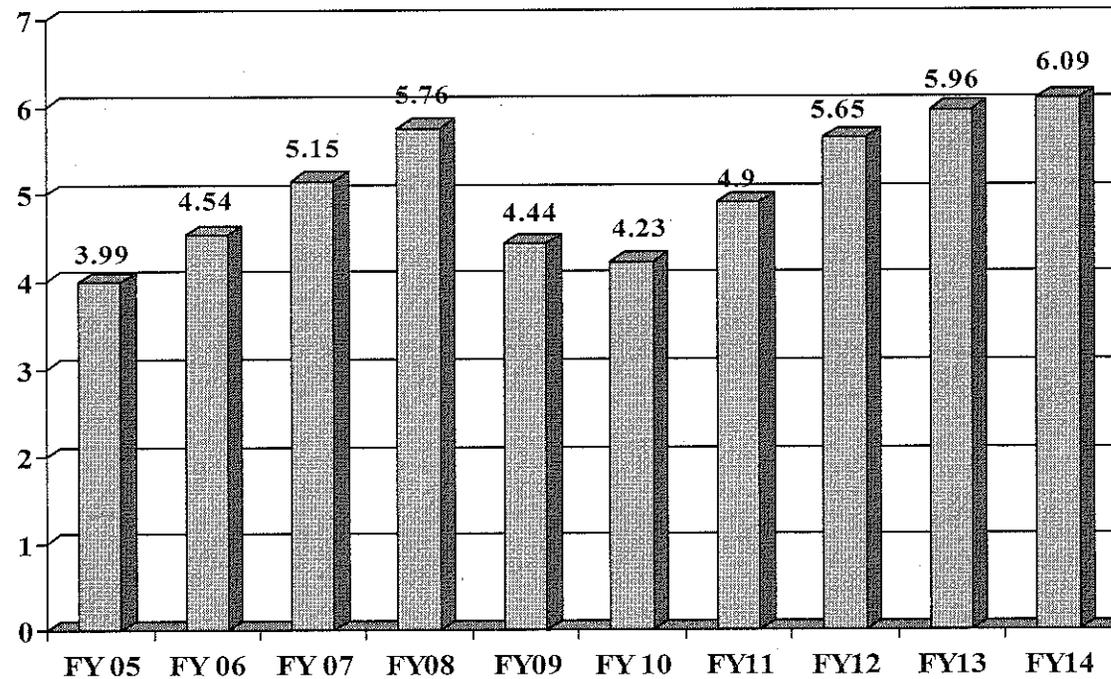
Property Tax Revenue By Fiscal Year (Not Adjusted for Inflation) FY 13-14 Projected Property Tax \$16.8 million



---Estimated---

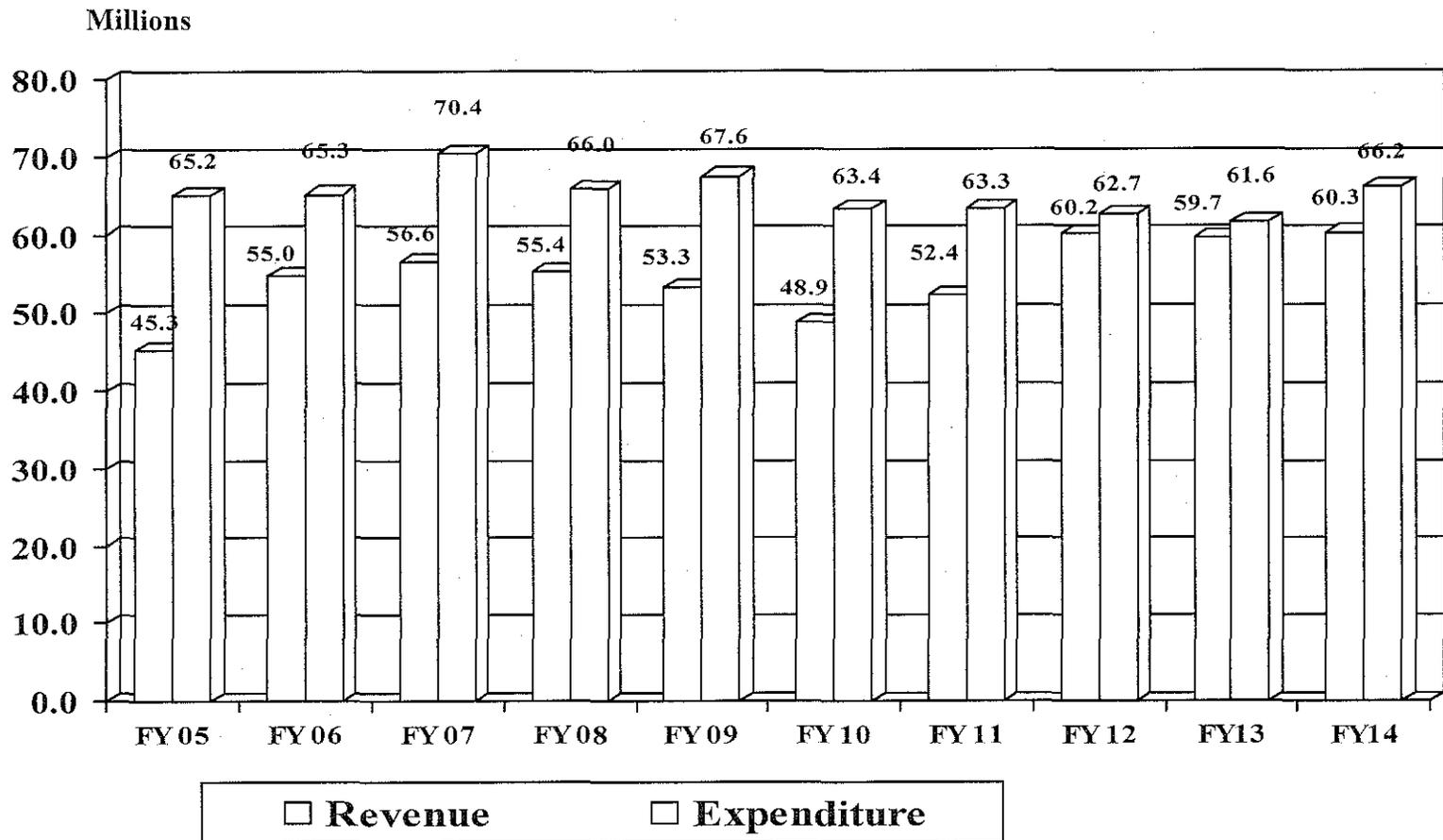
Transient Occupancy Tax By Fiscal Year (Not Adjusted for Inflation) FY 13-14 Projected TOT \$6.1 million

(In millions)



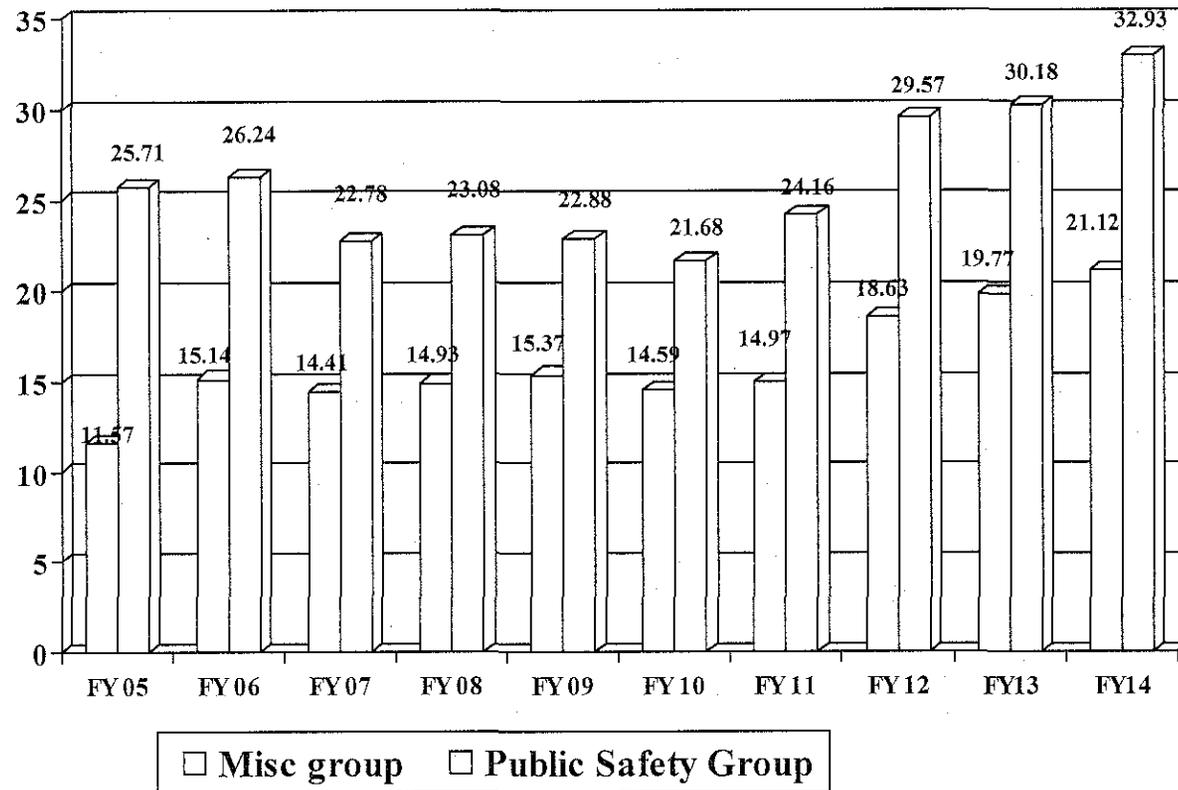
---Estimated---

General Fund Expenditures always Exceeded Revenues before Op. Transfers from other Funds



Employer PERS Contribution rates are expected to increase and remain high

Percent



Reasons for PERS Rate Increase
Unrealistic Investment Return Assumption
Example using \$1,000 initial investment

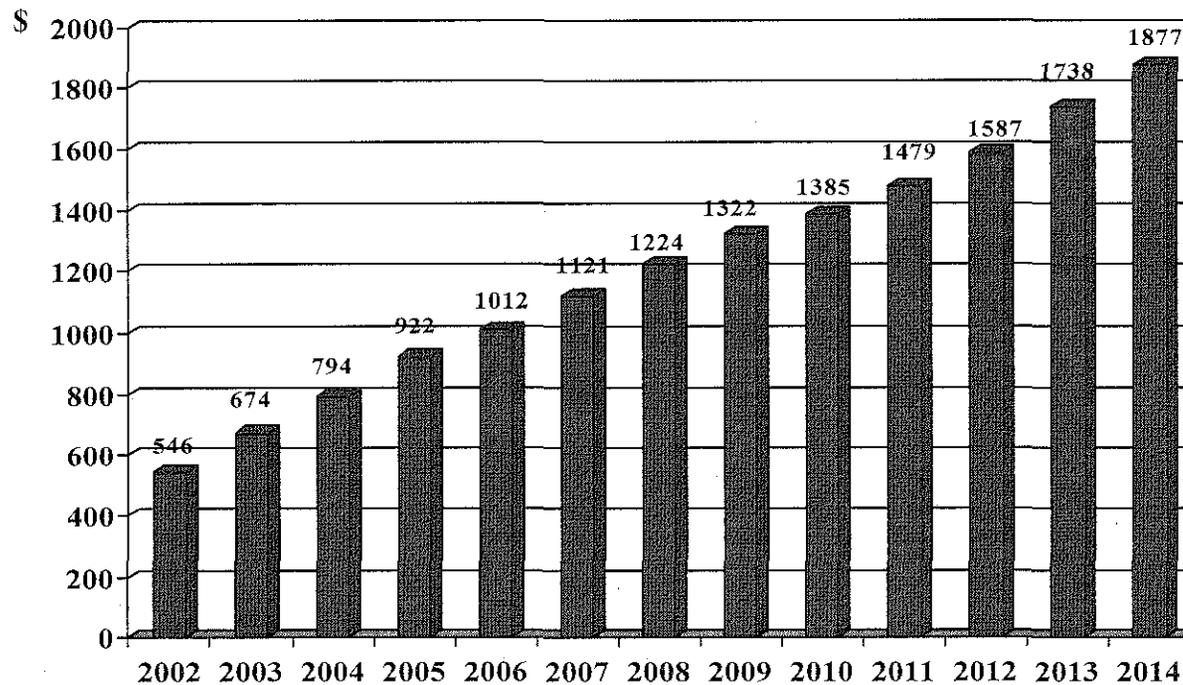
Fiscal Year	Assumes 7.75%Return	Actual return	Ending Value
2002	\$ 1,078	-6.1%	\$ 939
2003	1,161	3.7%	974
2004	1,251	16.6%	1,135
2005	1,348	12.3%	1,275
2006	1,452	11.8%	1,425
2007	1,565	19.1%	1,698
2008	1,686	-5.1%	1,611
2009	1,817	-24%	1,224
2010	1,958	13.3%	1,387
2011	2,109	20%	1,665
2012	2,215	1%	1,681

Reasons for PERS Rate Increase (Continued)

- **Contribution shortfall for past obligations**
 - PERS assumed payroll will increase 3% each year
 - City's Payroll decreased due to attritions, layoffs and reorganization
- **Mortality Rate – people live longer**
- **Circa year 2000, enhanced formula applied retroactively to active employees**
 - From 2% at 50 to 3% at 55 for safety
 - From 2% at 55 to 2.7% at 55 for non-safety
- **In addition, CalPERS proposal to modify the smoothing methodology and smoothing period will keep the employer's contribution rates high**

Medical Insurance Premium Averages 11% Increase Per Year Since 2002

Monthly premium



Estimate 8%
increase

Retiree Medical Benefits Unfunded Liability

- **Medical insurance increase higher than inflation and higher than investment return**
- **Investment return is also a major factor**
- **Increased number of retirees higher than expected enrolled in plan**
 - 2005 - 125 retirees
 - 2007 - 156 retirees
 - 2009 – 178 retirees
 - 2011 – 206 retirees
 - 2013 – 271 retirees *v. 330 ees active*
- **Only began funding in FY 2006-07 – on the right track**

Fiscal Year 2013-14

Changes in Funded Positions

Fund:

- ◆ **2 Building Inspector**
- ◆ **1 Public Works Inspector**
- ◆ **0 Building Permit Technician**
- ◆ **1 Associate Civil Engineer**
- ◆ **1 Senior Planner**
- ◆ **1 Equipment Maintenance Worker II**
- ◆ **1 Office Specialist in Fire Prevention**

Defund vacant positions:

- ◆ **1 Office Specialist in Planning**
- ◆ **1 Office Assistant in Recreation**

CIP Projects without indentified funding
FY 2014-15 through FY 2018-19
(in millions)

City Facilities – various projects	\$ 3.25
Sports Center Master Plan Update	0.15
Parks Improvement – various projects	8.18
Pedestrian and Bicycle Overcrossing	18.00
Water System replacement	2.60
Storm Drains improvement – various projects	9.60
Street improvement – various projects	<u>10.35</u>
Total	\$ 52.13

There are other long-term projects that are without funding sources that are not shown because they do not fall within the Five Year Plan

Allocation to Gen Government CIP Fund To Mitigate the loss of RDA funding

		In millions
FY 11-12	RDA Tax redistributions	\$ 1.3
	One-time RDA loan repayment	3.6
FY 12-13	RDA Tax redistributions	2.4
	RDA Housing Fund Cash	<u>1.0</u>
	Total	\$ 8.3
2% TOT Fund	Available Balance	\$ 6.7

Proposed Fiscal Policies Revision

- **City Council may direct any loan repayments from former RDA and RDA property tax residual distributions for CIP**
- **City Council may direct any portion of the unassigned fund balance of the 2% TOT fund for CIP**
- **Increase annual set-aside amount for equipment replacement from \$250,000 to \$300,000**
- **Delete sections of the policy related to RDA fund balance and Gas tax reserve requirement – no longer applicable**
- **Delete section of the policy related to Storm Drain replacement reserve requirement – currently the City has no available means for storm drain improvements**
- **Minor changes related to fund balance terminology**

Strategic Plan Briefing and Overview



*presented by Tom
Williams on 4/30/13*

Overview

- The City is coming out of the economic downturn.
- Weathered the most challenging aspects of the recession by reducing our cost, reorganizing and moving closer to living within our means.
- The City is now in a position to redefine itself & undertake a strategic planning process to chart a new path forward.
- We need to define our path and move down it together.

Phases of the Strategic Plan Process

- Have retained the services of Shawn Spano, PhD.
- Phase I: Getting Started
- Phase II: Vision, Mission and Values
- Phase III: Goals/Objectives and Strategies
- Phase IV: Work Plans, Implementation and Ongoing Assessment

Phase I – Getting Started

- 1) Launch Presentations
 - 2) Engagement with City Council
 - 3) Engagement with Executive Management Staff
- Desired Outcomes of Phase 1

Phase II - Vision, Mission and Values

- 1) Engagement with Community
 - 2) Engagement with Employees
 - 3) Updates with Executive Management
 - 4) Updates with City Council
- Desired outcomes of Phase II

Phase III –Goals, Objectives & Strategies

- Goals & Objectives derived from vision, mission & values
- Each goal/objectives will have multiple strategies that outline how they will be achieved and metrics used to measure success
- Continue to engage employees, management staff and City Council

Phase IV – Development of Work Plans

- Implementation will occur in a series of short, mid, and long term strategies.
- Provide on-going assessment.