

CITY OF LOS ALAMITOS

3191 Katella Avenue
Los Alamitos, CA 90720

AGENDA BUDGET STANDING COMMITTEE SPECIAL MEETING

Wednesday, September 6, 2017 – 9:00 a.m.

NOTICE TO THE PUBLIC

This Agenda contains a brief general description of each item to be considered. Except as provided by law, action or discussion shall not be taken on any item not appearing on the agenda. Supporting documents, including staff reports, are available for review at City Hall in the City Clerk's Office or on the City's website at www.cityoflosalamitos.org once the agenda has been publicly posted.

Any written materials relating to an item on this agenda submitted after distribution of the agenda packet are available for public inspection in the City Clerk's Office, 3191 Katella Ave., Los Alamitos CA 90720, during normal business hours. In addition, such writings or documents will be made available for public review at the respective public meeting.

It is the intention of the City of Los Alamitos to comply with the Americans with Disabilities Act (ADA) in all respects. If, as an attendee, or a participant at this meeting, you will need special assistance beyond what is normally provided, please contact the City Clerk's Office at (562) 431-3538, extension 220, 48 hours prior to the meeting so that reasonable arrangements may be made. Assisted listening devices may be obtained from the City Clerk at the meeting for individuals with hearing impairments.

Persons wishing to address the Committee on any item on the agenda will be called upon at the time the agenda item is called or during the Committee's consideration of the item and may address the Committee for up to three minutes.

1. CALL TO ORDER

2. ROLL CALL

Council Member Murphy
Council Member Wilson

3. CONSENT CALENDAR

A. Approval of Minutes

Approve the Minutes of the Special Meeting on May 24, 2017

4. DISCUSSION ITEMS

A. Fiscal Year 2016-17 Results and Fund Balance Reservations

B. Pensions

5. ADJOURNMENT

I hereby certify under penalty of perjury under the laws of the State of California, that the foregoing Agenda was posted at the following locations: Los Alamitos City Hall, 3191 Katella Ave.; Los Alamitos Community Center, 10911 Oak Street; and, Los Alamitos Museum, 11062 Los Alamitos Blvd.; not less than 24 hours prior to the meeting.

Jason Al-Imam

Jason Al-Imam, Administrative Services Director

9/1/17

Date

MINUTES OF THE BUDGET STANDING COMMITTEE OF THE CITY OF LOS ALAMITOS

SPECIAL MEETING

WEDNESDAY, May 24, 2017 – 2:00 p.m.

1. CALL TO ORDER

The Budget Standing Committee met in Special Session at 2:00 p.m., Monday, May 24, 2017, at City Hall, 3191 Katella Avenue, Council Members Murphy and Wilson presiding.

2. ROLL CALL

Present: Committee Members: Council Member Murphy
Council Member Wilson

Absent: Committee Members: None

Present: Staff: Bret M. Plumlee, City Manager
Jason Al-Imam, Admin. Services Director
Steven Mendoza, Development Svcs. Director

3. CONSENT CALENDAR

All Consent Calendar items may be acted upon by one motion unless a Committee Member requests separate action on a specific item.

Motion/Second: Wilson/Murphy

Unanimously Carried: The Budget Standing Committee approved the following Consent Calendar item:

A. Approval of Minutes

Approved the Minutes of the Special Meeting on May 15, 2017

4. DISCUSSION ITEMS

Council Member Murphy opened the item for public comment. There being no one present wishing to speak, Council Member Murphy closed the item for public comment.

A. Business and Residential Improvement Program

Development Services Director Steven Mendoza discussed the City's 2013 Business and Residential Improvement Program, which incentivized construction by reimbursing permit fees. This program reimbursed building, planning, and

driveway permit fees equal to the dollars spent locally on construction related materials. The Budget Standing Committee recommended consideration of resurrecting this program for 2017-18 with a funding level of \$75,000, which will be brought forward to the City Council for consideration in July 2017.

B. Fiscal Year 2017-18 Proposed Budget

Administrative Services Director Jason Al-Imam provided an update on the Proposed Fiscal Year 2017-18 General Fund Operating Budget, which projects a balanced budget with revenues exceeding expenditures by \$4,466.

C. Transient Occupancy Tax

Administrative Services Director Jason Al-Imam provided an overview of the City's Transient Occupancy Tax (TOT) revenue, which is approximately \$160,000 annually. The City's TOT rate is 8% compared to a TOT rate in the surrounding cities that ranges from 8% to 14.5% in the cities of Stanton (8%), La Palma (8%), Westminster (8%), Cypress (10%), Seal Beach (12%) and Garden Grove (14.5%).

If the City increased the TOT rate to 10%, it would increase annual TOT revenue by 25% (or approximately \$40,000 annually). However, the cost of an election would be approximately \$40,000 for registrar's services and \$25,000 to \$50,000 for consulting services. The payback period to recoup the costs associated with a potential ballot measure based on the City's current number of hotel operators would be approximately two years. However, a potential ballot measure to increase the TOT rate could potentially impact the development that has been proposed by Marriott for a 108-room Fairfield Inn. Therefore, staff recommended that the City consider a potential TOT ballot initiative to increase the TOT rate in calendar year 2019, which would avoid an impact on the proposed development by the Marriott. The Budget Standing Committee agreed with staff's recommendation to not pursue a potential ballot initiative to increase the TOT rate anytime within the next eighteen months.

5. ADJOURNMENT

The Budget Standing Committee adjourned at approximately 3:30 p.m.

Richard D. Murphy, Council Member

Attest:

Jason Al-Imam, Director
Administrative Services Department

Budget Standing Committee

Agenda Report Discussion Items

September 6, 2017
Item No: 4A

To: Budget Standing Committee Members
Via: Bret M. Plumlee, City Manager
From: Jason Al-Imam, Administrative Services Director
Subject: Fiscal Year 2016-17 Results and Fund Balance Reservations

Summary: This report provides the Budget Standing Committee with an update on Fiscal Year 2016-17 revenues and expenditures and recommends adjustments to fund balance reserves.

Recommendations:

That the Budget Standing Committee recommend that the City Council:

- 1) Receive and file this year-end report for Fiscal Year 2016-17;
- 2) Approve carryover of appropriations to Fiscal Year 2017-18 for various projects as outlined in this report;
- 3) Approve budget amendments to the Fiscal Year 2016-17 Operating Budget as outlined in this report;
- 4) Approve the changes to the Fund Balance Policies for the General Fund and Internal Service Funds as outlined in this report; and,
- 5) Approve transfers from the General Fund as outlined in this report.

Background

In June 2017 staff provided City Council with an update on the Fiscal Year 2016-17 projected revenues and expenditures, which projected ending fund balance to be \$7.375 million at June 30, 2017. This report provides the City Council with an update on Fiscal Year 2016-17 revenues and expenditures and recommends adjustments to General Fund reserves.

Discussion

Fiscal Year 2016-17 General Fund Revenues & Expenditures

In June 2017 a General Fund operating surplus of approximately \$194,000 was projected. However, now that the books have been closed, an operating surplus of approximately \$489,000 has been realized which brings General Fund balance reserves to approximately \$7.869 million.

	Amended Budget	Projected	Actual (Unaudited)
Beginning Fund Balance (A)	7,381,513	7,381,513	7,381,513
Add: Prior Year Carry-Forward (B)	27,203	27,203	27,203
Add: Revenue and Transfers In (C)	13,060,414	13,125,830	13,347,668
Less: Operating Expenditures/Transfers Out (D)	(13,087,348)	(12,959,072)	(12,885,512)
Operating Surplus (E) = (B + C + D)	269	193,961	489,359
Less: Capital Expenditures (F)	(200,000)	(200,000)	(1,491)
Ending Fund Balance (A) + (E) + (F)	\$ 7,181,782	\$ 7,375,474	\$ 7,869,381

General Fund revenues were projected to be \$13,125,830. However, actual revenues were approximately \$222,000 higher than projected primarily due to permit revenue (\$128,150), property tax revenue (\$61,272) and charges for services (\$34,605).

	(A) Amended Budget	Projected	(B) Actual (Unaudited)	(B) - (A) Budget Variance
Revenues and Transfers In				
Property Taxes	\$ 3,489,696	\$ 3,541,450	\$ 3,602,722	\$ 113,026
Sales & Use Taxes	3,233,579	3,311,423	3,307,937	74,358
Utility Users Taxes	2,129,441	2,024,000	2,036,826	(92,615)
Transient Occupancy Tax	155,000	158,000	159,236	4,236
Franchise Fees	679,462	653,385	638,794	(40,668)
Licenses & Permits	780,323	856,499	984,649	204,326
Fines & Forfeitures	720,300	773,446	801,595	81,295
Investment Earnings	52,500	70,000	48,782	(3,718)
Revenue From Other Agencies	161,988	98,600	95,072	(66,916)
Charges for Services	1,082,263	1,083,313	1,117,918	35,655
Miscellaneous Revenues	161,862	141,714	149,098	(12,764)
Interfund Transfers	414,000	414,000	405,039	(8,961)
Total Revenues and Transfers In	\$ 13,060,414	\$ 13,125,830	\$ 13,347,668	\$ 287,254

The increase in property tax revenue is largely associated with property transfer tax revenue and supplemental property taxes due to higher than expected turnover in properties. Property transfer tax revenue varies from year to year. \$70,000 was budgeted in Fiscal Year 2016-17 whereas \$123,294 was received in 2016-17. Secured property tax revenue was consistent with projected amounts, which reflects a year-over-year increase in assessed values of approximately 4%.

Actual (unaudited) sales & use tax revenue was consistent with projected amounts, which were higher than budgeted amounts primarily due to several large one-time adjustments. For example, the City received approximately \$52,700 from the countywide pool that resulted from the re-allocation of use tax associated with sales tax generated from 2006 through 2015 that was erroneously reported to the City of Buena Park.

Actual (unaudited) utility users tax (UUT) revenue was consistent with projected amounts, which was lower than budgeted amounts primarily due to decreases in electric UUT revenue. Electric UUT revenue was approximately \$131,000 lower than the amount that was budgeted due to customer credits that were issued by Southern California Edison for an Emission Intensive Trade Exposed (EITE) credit associated with the State Cap and Trade Program, which retroactively covered 2013 thru 2016.

The increase in permit revenue compared to projected amounts is partly due to public works permits revenue which was approximately \$122,000 in 2016-17 compared to \$57,300 in the prior year. Public works permit revenue was higher due to construction activity performed by the Orange County Sanitation District. Permit revenue was also higher than normal due to land use applications filed for various multi-family developments throughout the City, a proposed fifty-unit residential development on Sausalito and fees related to the Village at 605 Shopping Center.

Department	(A)		(B)	(A) - (B)
	Amended Budget	Projected	Expended (Unaudited)	Budget Variance
City Council	\$ 77,429	\$ 73,096	\$ 77,341	\$ 88
City Manager/City Clerk	614,033	613,647	613,950	83
City Attorney	121,000	121,000	117,201	3,799
Administrative Services	752,060	752,019	745,155	6,905
Police	5,934,851	5,865,360	5,773,289	161,562
Development Services	2,544,486	2,543,812	2,632,077	(87,591)
Recreation and Community Services	1,758,443	1,709,841	1,646,215	112,228
Non-Departmental	449,708	444,959	444,946	4,762
Interfund Operating Transfers	835,338	835,338	835,338	-
Total Operating Expenditures and Transfers	\$ 13,087,348	\$ 12,959,072	\$ 12,885,512	\$ 201,836
Capital Expenditures				
Los Alamitos Blvd. Project	\$ 200,000	\$ 200,000	\$ 1,491	\$ 198,509
Total Capital Expenditures	\$ 200,000	\$ 200,000	\$ 1,491	\$ 198,509

General Fund operating expenditures were projected to be \$12,959,072. However, actual revenues were approximately \$74,000 lower than projected primarily due to vacancy savings associated with the hiring freeze, which was partially offset with higher than expected Development related contractual services associated with the aforementioned projects and offsetting permit revenue.

Fiscal Year 2016-17 Budget Amendments

It is recommended that General Fund appropriations be increased by \$90,000 to cover the budget variance in Development Services associated with contractual services which was offset with permit revenue.

Capital Project Carryovers

The City's Municipal Code provides that all appropriations shall lapse at the end of the fiscal year to the extent that they have not been expended or encumbered. Therefore, it is recommended that remaining unspent appropriations for the following ongoing capital projects be carried-over into Fiscal Year 2017-18.

Description	Funding Source	Account	Carryover to FY 2017-18
ADA Access Ramps	CDBG	19-570-5501.1307	135,000.00
ADA Access Ramps	Measure M2	26-570-5501.1307	15,000.00
Alley Speed Limit Projects	Gas Tax	20-570-5501.1206	7,500.00
Briggeman Street Widening	Traffic Improvement Funds	44-570-5501.1719	136,779.00
BSCC Local Assistance	BSCC Grant	10-570-5501.1703	63,418.10
City Hall Generator	Building Improvement Fund	25-570-5503.1431	90,351.00
Kinmount/Farnham Repairs	Gas Tax	20-570-5501.1609	24,049.50
Los Alamitos Blvd. Median Project	General Fund Reserves	10-570-5501.3101	198,509.33
Los Alamitos Blvd. Median Project	Gas Tax	20-570-5501.3101	96,141.00
Los Alamitos Blvd. Median Project	2015 COPs (Bond Funds)	42-570-5501.3101	217,178.51
Los Alamitos Blvd. Median Project	Traffic Improvement Funds	44-570-5501.3101	69,900.00
Los Alamitos Blvd. Median Project	Facilities, Streets & Parks Fund	52-570-5501.3101	367,000.00
Median Drought Tolerant Plants	Gas Tax	20-570-5501.1617	15,000.00
Median Islands	Gas Tax	20-570-5501.1501	12,002.00
Median Islands	Measure M2	26-570-5501.1501	6,001.00
Median Islands	Traffic Improvement Funds	44-570-5501.1501	6,001.00
Police Vehicles	2016 Wells Fargo Lease	50-546-5440	80,324.20

General Fund Balance Policy

The Government Finance Officers Association (GFOA) recommends that governments adopt a formal fund balance policy that defines the appropriate level of fund balance target levels. On September 19, 2016, the City Council approved a Fund Balance Policy for the General Fund, which requires an annual review of the policy after adoption of the budget. It is recommended that the Fund Balance Policy for the General Fund for Fiscal Year 2017-18 be adopted by the City Council, which incorporates the following recommended changes:

- An adjustment to the amount set-aside for emergencies at 25% of General Fund budgeted expenditures for Fiscal Year 2017-18.
- A transfer of \$100,000 to the Facilities, Streets and Parks Capital Fund, which could be used to fund a variety of capital repairs (such as the Community Center roof) and/or additional costs associated with the Civic Center relocation and feasibility project.

- A transfer of \$100,000 to the Vehicles & Equipment Fund. The Fund is projected to have approximately \$222,000 in fund balance reserves. However, over \$641,000 of vehicles and equipment are scheduled to be replaced over the next two fiscal years.
- A transfer of \$100,000 to the Technology Replacement Fund. Staff desires to automate the accounts payable and payroll function with a paperless process that would strengthen internal controls and streamline the process. Staff also desires to update its General Ledger accounting software with an updated accounting system that would also create efficiencies with respect to the budget and reporting functions.

If the aforementioned recommendations are approved, budgetary fund balance reserves for the General Fund would consist of the following:

Budgetary Fund Balance			
	6/30/16	Increase/ (Decrease)	6/30/17
Nonspendable:			
Employee Loans	\$ 5,112	\$ 835	\$ 5,947
Assigned for:			
Emergencies	3,247,282	38,702	3,285,984
PERS	3,400,000	-	3,400,000
Los Alamitos Boulevard Revitalization	200,000	95,979	295,979
Encumbrances	27,203	22,697	49,900
Other Post-Employment Benefits	500,000	-	500,000
	<u>7,374,485</u>	<u>157,378</u>	<u>7,531,863</u>
Unassigned	29,119	2,452	31,571
Less Proposed Transfers to:			
Facilities, Streets & Parks Capital Fund	-	100,000	100,000
Vehicles & Equipment Fund	-	100,000	100,000
Technology Replacement Fund	-	100,000	100,000
	<u>29,119</u>	<u>302,452</u>	<u>331,571</u>
Total Budgetary Fund Balance	\$ 7,408,716	\$ 460,665	\$ 7,869,381

Fund Balance Policy for Internal Service Funds

On September 19, 2016, the City Council approved a Fund Balance Policy for the Internal Service Funds. It is recommended that the Fund Balance Policy for the Internal Service Funds for Fiscal Year 2017-18 be adopted by the City Council, which incorporates the following recommended changes:

- The annual capital replacement for Police capital expenditures shall be \$35,000 per year beginning in Fiscal Year 2018-19.
- The annual capital replacement for the Facilities, Streets and Parks Capital Expenditures Fund shall be \$40,000 per year beginning in Fiscal Year 2018-19.

Fiscal Impact

There is no direct fiscal impact of implementing the fund balance policy for the General Fund. The reserves will remain in place until changes to the reserve levels are approved by City Council or until Council approves appropriations to spend any portion of the reserves.

Submitted By: Jason Al-Imam, Administrative Services Director
Approved By: Bret M. Plumlee, City Manager



CITY OF LOS ALAMITOS



Pension Liabilities

Funded Status

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- In July 2017, the City received new actuarial reports (6/30/16 Valuation Date) from CalPERS which reflect the new discount rate.
- As reflected below, the City's unfunded net pension liability was \$18.1 million as of 6/30/16, which is based on a 7.375% discount rate.

Accrued Liability	\$64.2 Million
Pension Assets	<u>\$46.1 Million</u>
Unfunded Liability	\$18.1 Million

- The unfunded liability is based on service that has already been provided.
- Approximately two-thirds of the liability is attributable to retirees.

Annual Pension Costs

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- On an annual basis, the City and employees make contributions to CalPERS to pay for future retirement benefits
 - As of June 30, 2016, approximately \$46.1 million in cash was held in the City's CalPERS account for miscellaneous and safety employees.
- Approximately \$1.57 Million will be paid to CalPERS in FY 17/18, which includes two components:
 - **Normal Cost** (Fiscal Year 2017-18 - approximately \$803,000)
 - New benefits earned by active employees
 - **Unfunded Liability** (Fiscal Year 2017-18 – approximately \$773,100)
 - Unfunded amount for past service attributable to active employees and inactive employees (retirees, transfers, etc.)

Discount Rate

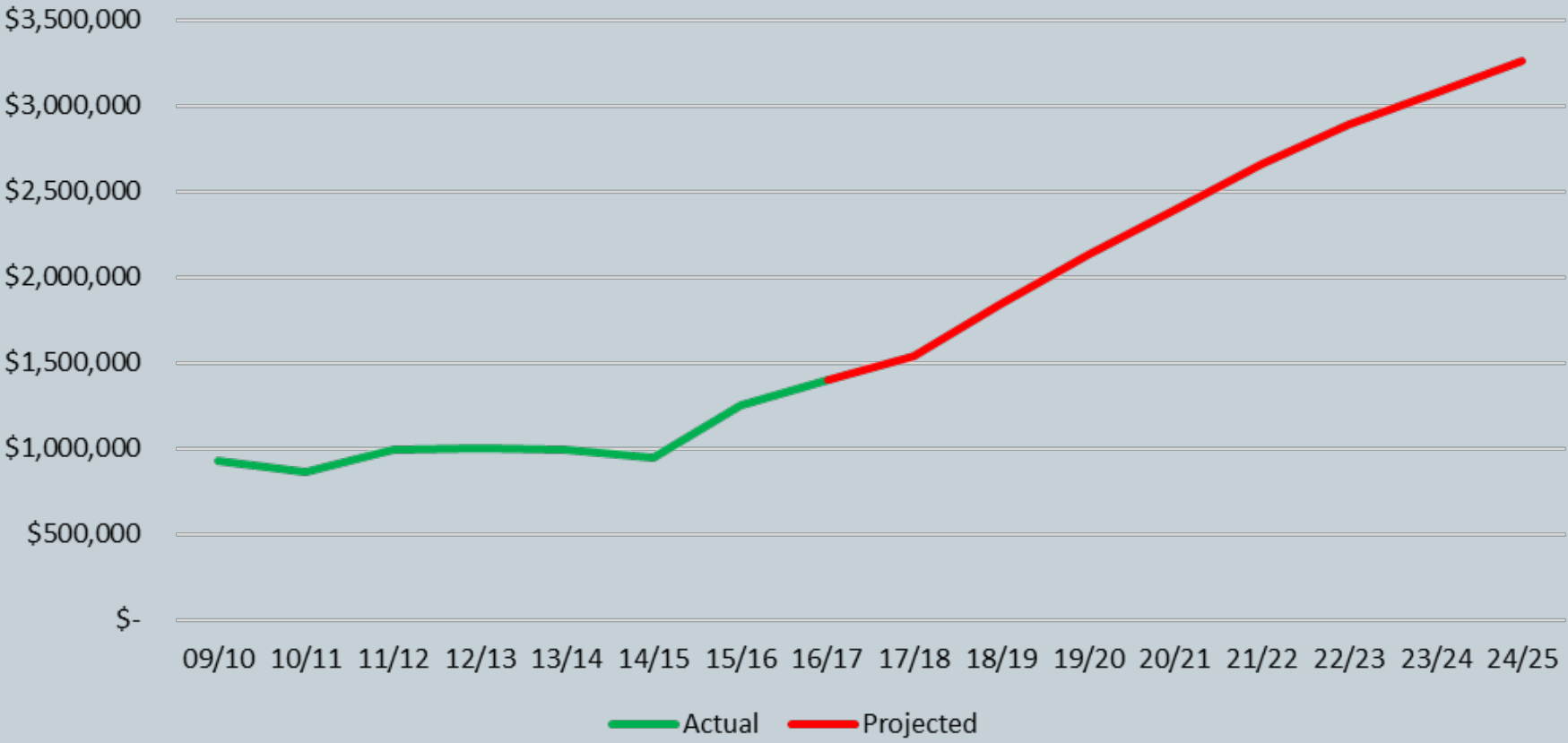
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- The unfunded liability is contingent on future investment returns achieving the assumed rate of return, which was 7.375% in 2015/16.
- The following table illustrates how changes in the long-term rate of return impacts the unfunded net pension liability:

Long-Term Rate of Return	Unfunded Liability
7.375% (current discount rate)	\$18.1 Million
7.000% (expected discount rate in 2017/18)	\$21.1 Million
6.000%	\$30.4 Million

Projected Pension Costs

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How Did We Get Here?

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- **Enhanced Benefits**
- **CalPERS Contribution Policy**
- **Investment Returns**
- **Demographics**

Background

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- In 1967 the City contracted with CalPERS to offer pension benefits to full-time employees where benefits are based on a “defined” benefit formula.
- The City’s retirement formula in 1967 was 2% at age 50 for safety and 2% at age 55 for miscellaneous.

Enhanced Benefits

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- In 1999 Governor Davis signed SB400, which authorized enhanced benefits for future & prior service.
- The lifetime pension benefit for active City employees increased by 35% for miscellaneous and 50% for safety.
 - The formula for miscellaneous was changed in 2003 to 2.7% at 55.
 - The formula for safety was changed in 2006 to 3% at age 50.
- CalPERS predicted the benefits would require no increase in contributions by projecting an average annual return of 8.25% over the next decade.

The Benefit Formula

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- **Defined pension benefits are calculated based on years of service, age at retirement, and final compensation.**
 - For example, if a Legacy¹ Police Officer retired at the age of 50 with 15 years of service and at an annual salary of \$93,900, the annual lifetime pension benefit would be \$42,255 in the first year of retirement.
$$(15 \text{ years} \times 3\% \text{ benefit formula} \times \$93,900 = \$42,255)$$
- **The average annual retiree pension as of 6/30/15 was \$21,235 for miscellaneous and \$30,443 for safety.**

¹Legacy employees includes City of Los Alamitos employees hired on or before December 31, 2012 and new employees that have been CalPERS members prior to December 31, 2012.

PEPRA

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- The California Public Employees' Pension Reform Act of 2013 (PEPRA) reduced pension benefits for new CalPERS members hired after 12/31/12.
- The retirement formula for PEPRA employees is 2.7% at age 57 for safety and 2% at age 62 for miscellaneous employees.
- The “normal cost” (which relates to the current year's service period) for a PEPRA employee is approximately 41.6% lower than the cost of a legacy employee. However, **PEPRA has had a negligible impact on the unfunded liability associated with retirees and Legacy employees.**

CalPERS Contribution Policy

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- Historically, the CalPERS Contribution Policy has been designed to smooth rates with rolling amortizations periods.
 - Paying-down the unfunded liability was not the primary objective.
- The old Contribution Policy mitigated contribution volatility but resulted in large unfunded liabilities.
- In 2013 CalPERS took action that has resulted in shorter fixed amortization periods, which will pay down pension liabilities over a closed period, which is why we have seen a ramp-up in pension costs over the past several years.

Investment Returns

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**Investment
Earnings
62¢**

**CalPERS
Employers
25¢**

**CalPERS
Members
13¢**

Investment Returns

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- CalPERS reported a preliminary 11.2 percent net return on investments for the 12-month period that ended June 30, 2017. The strongest returns came from the Public Equity Program, which generated a 19.7 percent return. Private Equity's preliminary net returns were 13.9 percent, followed by Real Estate, with preliminary net returns of 7.6 percent. This brings Total Fund performance to 8.8 percent for the five-year period, 4.4 percent for the 10-year time period, and 6.6 percent for the 20-year time period.

Demographics

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- As reflected below, the City has fewer active employees now than we had 20 years ago. This is due to outsourcing and the elimination of positions. The City also has nearly twice as many retirees. However, a large portion of the net pension liability is associated with retirees, which means the annual pension cost is extraordinarily high due to the ratio of actives to retirees.

	1997	2015
Active Employees	61	49
Retirees	60	118

10-Year General Fund Forecast

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	Year 1	Year 5	Year 10
	<u>2017-18</u>	<u>2021-22</u>	<u>2026-27</u>
Revenues:			
Property Taxes	3,624,989	4,200,929	4,989,644
Sales & Use Taxes	3,293,423	3,557,206	3,917,719
Utility Users Taxes	2,047,260	2,037,800	2,028,860
Other Taxes	1,405,014	1,436,472	1,479,463
Other Revenues	2,377,717	2,438,355	2,578,833
Interfund Transfers	400,000	400,000	400,000
Total Revenues	13,148,403	14,070,762	15,394,519
Expenditures			
Salaries and Benefits	7,257,900	8,062,084	8,776,922
Pension Costs	1,576,100	2,655,000	3,557,000
Other Operating Costs	4,709,937	4,917,463	5,300,300
Total Expenditures	13,543,937	15,634,546	17,634,223
Potential Revenues & Cost Savings			
Vacancy Savings	400,000	449,564	486,699
Hotel Revenue	0	306,907	330,626
Additional User Fees and Charges	0	297,538	328,506
	400,000	1,054,009	1,145,831
Annual Projected Budget Surplus/(Deficit)	4,466	(509,776)	(1,093,873)

Pension Obligation Bonds

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- The City could issue Pension Obligation Bonds to refinance a portion of the City's unfunded net pension liability. This would enable the City to refinance its net pension liability at significantly lower interest rates and over a 30-year level term.
- The “all-in true interest cost” on a 30-year Pension Obligation Bond, based on current market conditions, is approximately 4.625%, which creates arbitrage savings as long as the long-term rate of return earned by CalPERS exceeds the interest paid on the bonds.

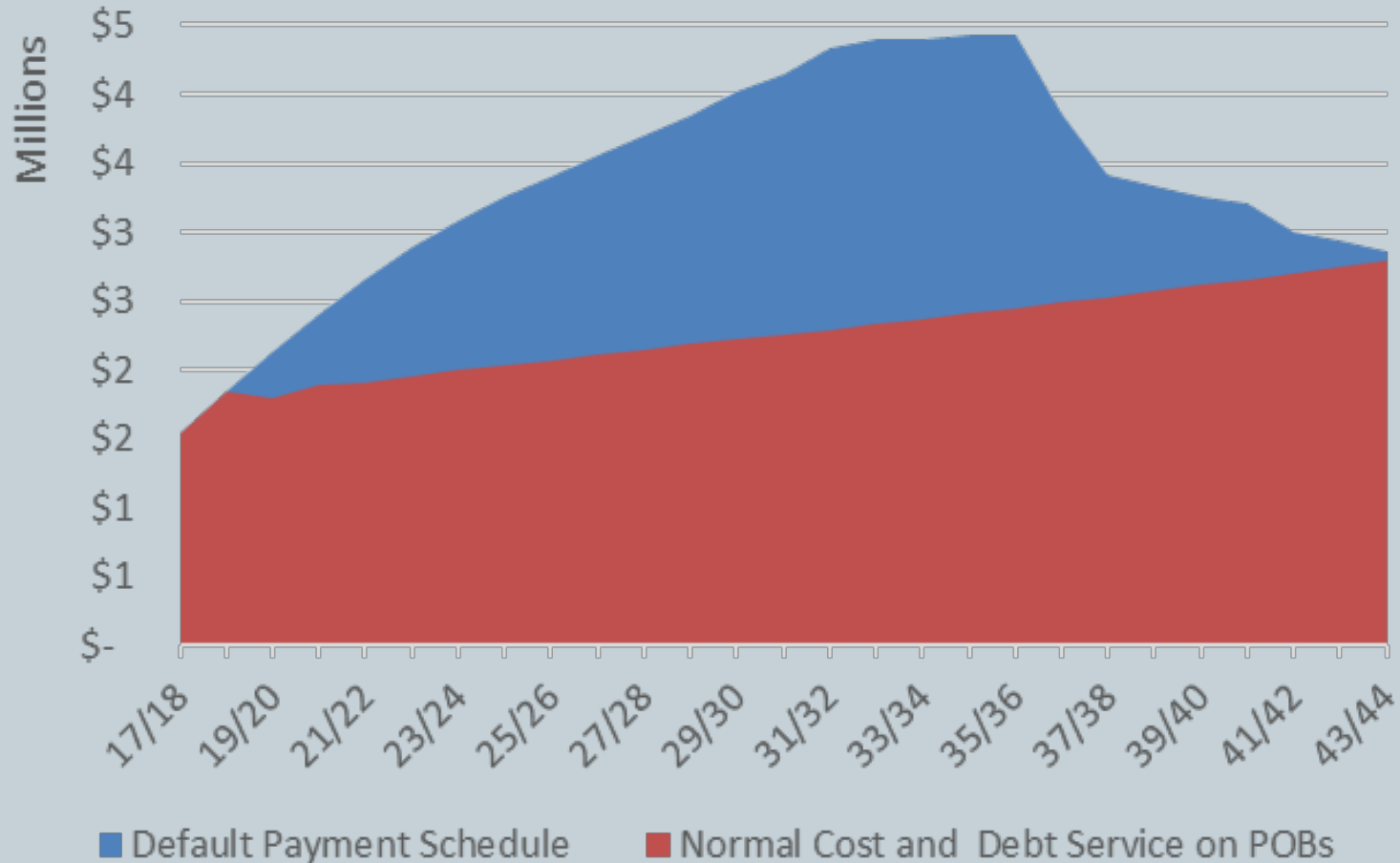
Pension Obligation Bonds

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- If CalPERS earns less than its expected rate of return, it would create a new unfunded pension liability.
- It is recommended that approximately \$2.2 million in pension reserves be set aside in an irrevocable trust to mitigate the risk associated with investment return volatility.
- If the City issues Pension Obligation Bonds, it is projected to provide for a balanced operating budget over the next ten years.

Arbitrage Savings

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Next Steps

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- Staff plans to seek City Council approval of a Financial Advisor and Special Bond Counsel to assist with the Pension Obligation Bond financing.
- Compensation to the Financial Advisor and other members of the financing team is contingent upon successful closing of the financing and will be paid from bond proceeds.
- A goal of the financing, besides savings, will be to maintain flexibility for other potential financings (such as the Civic Center facilities project) and to provide information to the market about the City.