



## Agenda Report

**DATE:** FEBRUARY 21, 2017

**TO:** CITY COUNCIL

**FROM:** ADMINISTRATIVE SERVICES DEPARTMENT – FINANCE DIVISION

**SUBJECT:** ALLOCATION OF UNASSIGNED GENERAL FUND (ONE-TIME) FUNDS

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### STATEMENT OF ISSUE:

As of June 30, 2016, the City had an unassigned General Fund balance of \$16.8 million. The Finance Committee has made recommendations regarding allocation of these funds to the Council for consideration and possible action. Subsequent to the Finance Committee meeting, staff has received updated information regarding net pension liability and increases in contribution rates. Staff recommends this information be factored into any decision made by the Council.

### RECOMMENDED ACTION:

Staff recommends the Council consider two separate options for allocation of the unassigned General Fund balance:

1. Make an allocation of \$2 million to complete the Corporation Yard relocation project and leave the remaining balance unallocated until a report on the pension liability and potential increases in contributions has been received.
2. Consider the recommendations of the Finance Committee and make an allocation to projects identified herein, or to other projects identified by the Council, but leave a minimum of \$8 million unassigned pending a report on the pension considerations.

The recommendations of the Finance Committee are included in this report, but were provided before knowledge of likely sizable increases in pension obligations was identified. As a result, the Committee members may suggest revisions to their earlier recommendations.

### DISCUSSION:

At the conclusion of each fiscal year, the Finance Division prepares the Comprehensive Annual Financial Report (CAFR) detailing the results of financial operations and the net position of the City. As part of the CAFR, the General Fund balance is detailed. For the year ended FY 2016, the total General Fund balance was \$51.5 million. Of this total, \$16.8 million is unassigned (available “one-time” funds). (See **Attachment 1** detailing the General Fund balance.)

The current unassigned General Fund balance of \$16.8 million includes some funds which were not fully allocated from the previous surplus in addition to the results of FY 2016 operations. (See **Attachment 2** for a computation of the current surplus.)

**Planned 6 month Adjustment to the FY 2017-18 Budget**

Staff are working on adjustments to the 2017-18 budget and will bring those to the Council in May 2017. In addition to any operational adjustments needed, storm damage cost estimates and options will be included in that budget discussion.

**Finance Committee Recommendations for Consideration**

The Finance Committee is charged with, among other things, reviewing reserve levels and recommending use of one-time funds. (See Finance Committee definitions – **Attachment 3**.) The Committee met on December 12, 2016 and considered staff’s recommended uses of one-time funds (**Attachment 4**). Additional detail on the projects recommended by the Finance Committee is included in **Attachment 5**.

<i>Corporation Yard</i> – (funding to complete relocation project)	\$ 2.0 million
<i>Heather Farm Pool</i> – (funding allocation to this project)	\$ 5.0 million
<i>Asset Maintenance</i> – (to address additional CIP projects)	\$ 2.0 million
<i>PERS Liability</i> – (additional funding to address pension liability)	\$ 1.0 million
<i>Quality of Life projects</i> – (funding for various community projects)	\$ 2.0 million
<i>Building Security projects</i> – (to address identified security needs)	<u>\$ 1.0 million</u>
Total Finance Committee Recommended Allocation	\$13.0 million

Note: The Finance Committee also recommended that the Council leave \$2 million unassigned as an additional hedge against any financial downturn.

NOTE: At the time these recommendations were made, the management team and the Finance Committee were not aware of the significant increase in net pension liability that will likely increase the City’s pension contribution costs beginning in FY 2018-19. Information regarding this is summarized in the section below.

Staff is recommending that, despite the pension liability concerns, a \$2 million allocation to complete the Corporation Yard relocation project be approved. Completion of the relocation project would enable the City to use the existing Corporation Yard location for economic diversification through completion of a hotel project, providing long-term financial benefits. Further, there is a likelihood that all or a portion of these costs will be recaptured through sale proceeds.

**Pension Liability Concerns**

Staff has become aware of significant increases in pension contributions which are anticipated beginning in FY 2018-19. While some level of increase has always been predicted in financial models, the level of increase is much larger than previous estimates. Preliminary modeling

provided by our consultant, John Bartell and Associates, suggests that pension obligations could be more than \$5 million higher annually than previous estimates. When included in the long-term financial forecast, these increases create a likelihood of operational deficits. Staff intends to fully brief the Council on this matter, starting with the Finance Committee on March 7, 2017 and then the full Council on April 18, 2017. These presentations will provide information to help the Council understand the nature, cause and size of the increases and options for addressing the fiscal concerns they present.

**Use of Unassigned General Fund Policy**

Pursuant to City policy governing the use of General Fund surpluses, these funds can be allocated by the Council to address one-time needs. The funds cannot be allocated to projects or expenditures that require ongoing funding. (See One-Time Use Policy – **Attachment 6.**)

**FINANCIAL IMPACTS:**

The allocation of unassigned General Fund dollars provides that those funds will not be available for other Council priorities. The availability of funds for projects in the future would be reliant on surpluses in future years or other financing decisions.

**ALTERNATIVE ACTION:**

The Council could elect to modify the recommended allocations in terms of amounts and/or projects, or the Council could elect to take no action at this time.

**DOCUMENTS:**

- Attachment 1: General Fund Balance detail – as of June 30, 2016
- Attachment 2: Unassigned General Fund Balance computation – as of June 30, 2016
- Attachment 3: Finance Committee – definitions and duties
- Attachment 4: Staff Recommended Uses of One-Time Funds
- Attachment 5: Finance Committee recommended use of one-time funds – additional detail
- Attachment 6: One-Time Use Policy

**CITY COUNCIL ACTION RECOMMENDED:**

Staff recommends the Council consider two separate options for allocation of the unassigned General Fund balance:

1. Make an allocation of \$2 million to complete the Corporation Yard relocation project and leave the remaining balance unallocated until a report on the pension liability and potential increases in contributions has been received.
2. Consider the recommendations of the Finance Committee and make an allocation to projects identified herein, or to other projects identified by the Council, but leave a minimum of \$8 million unassigned pending a report on the pension considerations.

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## Finance Committee – Recommended Allocation of Unassigned General Fund (One-Time Funds)

### Fund Category Description

#### Corporation Yard – Project Completion - \$2.0 million

The Finance Committee is recommending the allocation of \$2 million to complete the relocation of the Corporation Yard from the 470-490 Lawrence Way location to the 511 Lawrence Way site. This project is necessary to allow for the sale and ultimate construction of a hotel or other commercial venture on the 470-490 Lawrence Way site. All or part of these funds may be recaptured and returned to the General Fund with sale of the property.

The relocation of the Corporation Yard from the 470-490 Lawrence Way site has an estimated cost of \$5.6 million. To date, \$3.1 million has been allocated by the Council and \$500,000 has been identified from the Solid Waste Authority Diversion Incentive Funds. The \$2 million recommended by the Finance Committee would be sufficient to complete the relocation.

Construction Contingency (20%)	\$700,000
Real Estate Agent	\$200,000
Environmental Compliance (DTSC)	\$200,000
Hazardous Material Removal/Abatement	\$300,000
<b>Total Estimated Expenses</b>	<b>\$5,580,000</b>
Funds Approved at September 2015 Council Meeting	\$500,000
Funds Approved at February 2016 Council Meeting	\$600,000
Funds Approved at August 2016 Council Meeting	\$1,980,000
Diversion Incentive Funds (Solid Waste)	\$500,000
<b>Total Available Funds</b>	<b>\$3,580,000</b>
<b>Additional Funds Needed to Cover Costs</b>	<b>\$2,000,000</b>

**Finance Committee – Recommended Allocation of Unassigned General Fund (One-Time Funds)****Heather Farm Pool - \$5.0 million**

The City Council met on July 5, 2016 and November 15, 2016 to discuss the replacement of the Clark Swim Center aquatic facility located at Heather Farm Park. Estimates to construct a new aquatic facility range from \$ 14 million - \$21 million, and at both of these meetings the Council affirmed its desire to contribute \$5 million towards replacement of the pool. The Finance Committee is recommending that these funds be set aside for this project. A commitment of additional one-time funds may allow the project to move beyond the design phase and by challenging the community to step up, the City can more quickly transition toward construction of this important community asset.

**Asset Management Program - \$2.0 million**

The Finance Committee is recommending the allocation of \$2 million to the asset management program. This would allow the completion of additional projects on the Capital Improvement Project list. The list of projects was approved by the Council on December 1, 2015. Asset management projects include building maintenance, transportation, storm drain and other infrastructure maintenance projects.

If this allocation is approved, the Public Works Department will identify and recommend projects from the 10 Year CIP that can be completed with the additional funds. These projects will be brought forward at a future Council meeting for direct allocation of funds to the selected projects.

**PERS Liability Funding - \$1.0 million**

The Finance Committee is recommending the allocation of \$1 million to help address the estimated \$83 million liability for unfunded pension costs. This would augment the existing PERS reserve that will be restored to its previous balance of \$4.7 million by the end of FY 2019.

While the City has made all of its required contributions for employee pension plans, the liability increased from \$73.4 million at the end of FY 2015 to \$83 million at the end of FY 2016. This is due to factors beyond the City's control – most significantly, the return on investments within the PERS system was below targeted levels.

In December 2016, the PERS Board met and determined that the expected investment return of 7.5% was too high. They voted to reduce the expected return to 7.0% over the next three years. Lowering the discount rate means plans will see increases in both the normal costs and the accrued pension liabilities. These increases will result in higher required employer contributions.

Staff is working on options to provide to the Council on how best to address the pension liability and increases in annual contributions required. These options will be presented to the Finance Committee for recommendation to the full Council. It is expected that this will be available for Council review and direction by late spring 2017. If the Council approves this allocation, the funds will be maintained in the PERS Liability reserve until a final decision is made regarding the best method to address the liability.

**Finance Committee – Recommended Allocation of Unassigned General Fund (One-Time Funds)****Quality of Life Projects - \$2.0 million**

Staff provided the Finance Committee with a list of projects to consider including homeless outreach, Proposition 64 response and affordable housing. Additionally, the Diablo Regional Arts Association and Walnut Creek Downtown have proposed potential uses of funds to augment downtown facilities. Specifically, the Diablo Regional Arts Association is leading the private support for expansion of the Lesher plaza to increase the programming area, improve drop-off and ADA accessibility, create seating areas, and enhance access to the Bedford Gallery. Walnut Creek Downtown is interested in a smaller plaza/parklet concept on Main Street, which could also serve as a gathering spot within the downtown.

Rather than recommend specific allocation to projects, the Finance Committee recommended that \$2 million be set aside to address various quality of life projects. The individual projects would be subject to future Council action.

**Building Security Projects - \$1.0 million**

The Finance Committee is recommending that \$1.0 million be set aside to address building security projects that result from the evaluation of relocating services within City Hall and from the second phase security review of the Corporation Yard, Lesher Center, Boundary Oak and Tice Valley Gym.

In the 2014-16 budget, the Council approved a project to evaluate the security of City facilities and provided \$145,000 to complete the assessment and begin work on projects. In September 2016, the Council evaluated the results of the first phase of the security review which covered City Hall, Heather Farm, Shadelands, Civic Park and the downtown library and adjacent parking garage. On October 4, 2016, the Council authorized \$300,000 additional funds to complete projects identified during the phase one review and to complete a phase two review of remaining City facilities. At the October 4, 2016 meeting, the Council also authorized a review of relocating City services from the second and third floors of City Hall to the first floor to address some of the key deficiencies identified in the review.

The \$1.0 million recommended by the Finance Committee will address any new projects identified during the phase two review and cover costs of relocating services, if approved by the Council.

Any funds not used for costs directly related to this project would be returned to the General Fund.