EXPENDITURE DECISION POINTS

E-1: Address General Fund CIP's / E-5: Eliminate Cemetery Expansion Plans

Note: Items E-1 and E-5 have been combined and replaced as Decision Point E-1

Overview

The majority of the City's capital improvement projects result in an ongoing operating impact on the City's General Fund. The Task Force has discussed the importance of weighing these costs when determining whether a project should move forward. In addition, specific General Fund reserves have been set aside to fund capital projects – the Task Force is scrutinizing these uses for relevancy/feasibility in the current financial climate.

On July 15, 2017, the City Council discussed future capital projects requiring General Fund contributions. This item was continued to August 15th to allow Staff to provide the City Council with additional information.

Items for Consideration

These decision points are related to actions the City Council will likely consider in the near future.

Pending City Council action removing the cemetery expansion project, it is recommended that, should the Task Force wish to address this topic in its final recommendations to the City Council, it should create a policy statement, such as the following:

"The CIP planning process should include a specific discussion of General Fund obligations, for both capital funding needs and operational funding needs."

E-2: Decrease Park Maintenance Costs (MCE Contract)

Overview

The budget for the MCE contract for FY 2017-18 is $5.6 million. The following is list of the major cost components of the work performed by MCE, with potential savings and impacts of cost cutting. If all cost cutting actions are implemented, the City would save approximately **$ 656,400** annually.

1. Turf

Cost Cutting Actions

- Reduce mowing schedule by 50%
    - Parks – 2x a week to 1x a week
    - Neighborhood parks – 1x a week to 1x every other week

Impact

The City currently uses recycled water in the major of the parks, which causes grass to grow at a high rate. Reducing the mow schedule would result in 40% cost savings (longer grass results in longer mow times). Longer grass could impact user groups.

FY 2017-18 Budget

Task	Budget	Estimated Savings
Mow Schedule	**$316,000**	**$126,400**

2. Trees

Cost Cutting Actions

- Reduce tree staking and pruning
- Eliminate tree replacement (note – the City Council recently re-funded tree replacement)
    - Tree pruning and removal will be focused on public safety to accommodate sidewalk encroachment and vertical pedestrian clearances. Removal will be limited to dangerous trees.

Impact

The cost cutting actions would result in a reduction of approximately 50% in tree maintenance. Any reduction in tree pruning service level will result in deferred costs, as the tree will continue to grow and lack of pruning in any given year will result in one-time maintenance that takes longer and is more expensive. Additionally, if trees are not pruned, this can become a liability to the City, especially in winter months, as the unpruned trees become saturated and the risk of tree-related damage increases. Please note: that the MCE budget in FY 2016-17 was the first year that tree pruning/upkeep was restored to pre-recession levels. The City has approximately 8,550 trees.

FY 2017-18 Budget

Task	Budget	Estimated Savings
Tree Upkeep	**$301,000**	**$164,000**

3. Shrubs/Bedding/Leaves

Cost Cutting Action

- Reduce pruning from 2x a year to 1x a year
  - Focus on sidewalks and high traffic areas
- Reduce leaf clean up
  - Focus on high traffic areas

Impact

As with reduced tree upkeep, the reduction in shrub/bedding pruning will result in a deferred cost as the pruning will eventually need to occur. A reduction in leaf clean-up may cause additional costs in maintaining the City's storm water system as a building in leaves and debris can be costly to clean and cause street flooding. The City has 220 acres of City parks and 74 landscape acres.

FY 2017-18 Budget

Task	Budget	Estimated Savings
Shrubs/Bedding	**$998,000**	**$300,000**
Leaf	**$165,012**	**$66,000**

4. Park Restrooms Maintenance

The City currently spends approximately $300,000 annually on park restroom maintenance. A neighborhood park costs the City between $10,000 - $15,000 annually, with heavier-trafficked parks such as Fallon and Emerald Glen costing $45,000 each annually. MCE has not provided an estimate of potential cost-cutting measures and impacts of those, although Staff believes a reduction in service or availability could produce significant savings, should it become necessary.

<u>**Items for Discussion**</u>

Should the City explore any reduction to the services described above?

E-3: Alternate Retirement Option

Overview

This paper is meant to address issues brought up by the Task Force regarding alternate retirement options, available to CALPERs or 1937 Act Retirement systems. The 1937 State County Employees Retirement Law (CERL), allowed Counties to establish retirement systems for County Employees. The following is not a legal opinion nor has any legal counsel been sought. The majority of research is from information available from CALPERs.

Do all California City Government agency participate in a Defined Benefit Plan, such as Calpers?

No, but of the 459 California municipalities identified in a recent study only 10 had no defined benefit plan with only two of those cities having populations over 24,000 (Danville and Lafayette).

City	Population	City	Population
Danville	43,146	Mendota	11,225
Holtville	6,154	Orinda	18,089
Huron	6,843	Rio Dell	3,347
Lafayette	24,659	San Juan Bautista	1,905
McFarland	13,745	Trinidad	361

- Of the non-PERS agencies that could be identified, the average maximum Employer contribution is between 10% - 15%.
- Orinda was the only municipality that could be identified as once having a defined benefit plan for all employees. The defined benefit plan for non-safety employees was phased out in the late 90's. Orinda current contracts with Contra Costa Sheriff for Police Services.

Can a CalPERs contracted municipality have a split retirement system that includes both a Defined Benefit Plan and a Defined Contribution Plan?

No. CalPERs contracted municipalities cannot have a split plan, as this would violate current Public Employee Retirement Law (PERL). Currently the only way to establish a Defined Contribution plan would be to place a hard freeze (stopping future service accruals for all (current and future) employees) on the Defined Benefit plan.

Can a City implement a hard freeze?

Yes, but there would be significant hurdles. Municipalities have in fact approved a hard freeze for their organizations, but in cases that could be researched, one of two situations occurred: 1) the organizations no longer had employees eligible to receive pensions; or 2) had themselves been dissolved (i.e. small special districts absorbed into other municipalities). Another option would be for current employees of an organization to agree to a hard freeze in exchange for an alternative benefit.

While a City could attempt to unilaterally institute a hard freeze, without employee consent, outside of bankruptcy, it would in all likelihood be seen as a violation of the "California Rule" which comprises a series of court decisions ruling that the pension promised on the date of hire becomes a vested right, protected by contract law, that can only be cut if offset by a new benefit of comparable value.

In the case of Orinda, a soft freeze was implemented where current employees were allowed to keep the Defined Benefit plan and new employees were placed into a Defined Contribution plan. This is now against the law.

What would be the cost for Dublin to get out of CALPERs?

A lot. Assuming all other hurdles were dealt with the cost for the City of Dublin to leave CalPERs would be between $44,711,069 and $63,641,481 as of the most current valuation. In addition this amount would be required to be paid immediately upon termination from CALPERs (no multiple year payments plans are available).

Why is the Termination Liability so much higher than the City's current unfunded liability?

CALPERs policy is to use a discount rate for "risk-free securities" which is a blended rate of various Treasury bond maturities, but which is closely aligned with the yield of the 20-year Treasury Bond, which was approximately 2.75% as of the release of the current actuarial report.

Does the City have any options in terms of CALPERs?

Yes and No. Options to change benefits within CALPERs are available. Prior to 2013 the most common action was to lower the benefit level for future employees. With the passage of PEPRA (Public Employees' Pension Reform Act), the State took that step for all municipalities for anyone hired into the system after January 2013. The largest impact of PEPRA in terms of employer savings was shifting all new employees to a new, likely lower, State retirement formula. For the City of Dublin that works out as follows:

Retirement Age	**55**	**62**
Classic PERS Factor	2.7%	2.7%
PEPRA Factor	1.3%	2.0%

EXAMPLE:

	Benefit	**Compensation**	**Years of Svc**	**Benefit Factor**
Classic	2.7@55	$100,000	30	.027 x $100,000 x30 =**$81,000**
PEPRA	1.3@55	$100,000	30	.013 x $100,000 x30 =**$39,000**

What actions has the City of Dublin taken?

The City of Dublin provides two retirement benefit plans, the City's pension plan and retiree health care. Both plans have unfunded liabilities and are long-term liabilities for the City. The following is a list of actions taken by the City and City Staff to address them:

Retiree Health (OPEB):

- Fully funded annual retirement contribution (ARC). In FY 2015-16 Dublin had the highest OPEB funding percentage in all of Alameda County (Note: Most cities institute a pay-as-you-go approach to OPEB funding (i.e not setting funds aside). Dublin fully funds the OPEB ARC to help ensure future benefits are funded.

- Beginning January 1, 2016 all new employee receive the minimum OPEB benefit of $125/month compared to $1,680/month. Projected savings is $4.4 million over 15 years.
- Pre-funded additional $1,000,000 in FY 2015-16, saving $120,000 per year.

CALPERs Pension:

- Shifted 7% of the City's annual pension costs to the employees – saving approximately $700k annually.
- Implemented PEPRA (State Law), reducing pension benefits for new PERS members. It is estimated that within 20 years of implementation, all active employees will be PEPRA members.

Status	Classic	PEPRA
Active	80	11
Transferred	47	0
Separated	34	1
Retired	71	0
Total	**232**	**12**

- Budgeted for lump sum payments against unfunded liabilities (in addition to fully funding the annual required contribution):
    - FY 2015-16 - $250,000, FY 2016-17 - $750,000, FY 2017-18 - $1,000,000.
- Created Post-Employment Benefits Trust Program with Public Agency Retirement Services (PARS) to Pre-Fund Pension Obligations. This allows for greater interest earnings and acts as protection against potential future budget hits. Any assets invested with this new trust count against the City's unfunded liability.

City of San Diego

In 2012 the City of San Diego placed Measure B on the ballot which would create a dual pension system, in which all new hires would be placed into a new "401 (k) – style" plan, while current members would remain in the "classic pension" system. Coming out of the great recession left many cities hanging on a thread trying to balance budgets while seeing pension obligation continue to increase, it was this that prompted the City of San Diego to act. The measure ultimately passed, was implemented while the City has simultaneously been defending the Measure in court.

Epilogue

During the time City Staff was writing this paper a court decision was handed down by the State Appellate Court which found in favor of the City of San Diego and their hybrid retirement system, this was seen by many as an opening for other municipalities to create similar systems. The case will be appealed to the State Supreme Court, which many believe will serve as the first test case for cities to follow to create plans similar to San Diego. How the case will play out at that level is unknown, but what is known is under the current law San Diego, itself is an outlier, as mentioned above. San Diego is a charter city, with a retirement system that was created independently of the State's 1937 Act to allow counties to create a retirement system similar to "CalPERs" and therefore have different laws pertaining what that system can or cannot do. Current law as applied to CALPERs cities states that cities/counties could not independently create a hybrid system, this could only be done by the State Legislator or possibly by a Statewide ballot. The State did look into creating the ability for agencies to create a hybrid system, but this was ultimately not included in the law that would become known as CALPEPRA. Individual citizens in the past 2016 election attempted to get statewide ballot measures placed, but ultimately were not able to.

San Diego was not alone in their attempt to create a hybrid plan, many cities have looked into the possibility. Around the same time Ventura County attempted to take a similar measure, but was blocked by a court decision.

Items for Consideration

This option is not feasible under current law. Staff is providing this as an informational item.

E-4: Across the Board Reductions (1-5%)

Overview

The Task Force is exploring the impact of potential tiered cuts to all operating departments. Please note that any across the board reduction would include a reduction to the maintenance (MCE) budget and, therefore (E-4) Across the Board Reduction and (E-2) Decrease Park Maintenance Costs cannot be considered as separate savings.

The FY 2017-18 General Fund operating budget is $74,786,921. Assuming all things being equal, if every department were to make a 1% - 5% reduction to their budget, the resulting savings would be:

Operating Budget (Total)	1%	2%	3%	4%	5%
$74,786,920	747,869	1,495,738	2,243,608	2,991,477	3,3739,346

Due to Dublin's unique set-up, many of the services and associated costs are contracted out including Public Safety, the City's biggest expense. Therefore an across the board reduction to all departments is not possible and in some cases not practical. Reduction calculations should exclude Public Safety.

Operating Budget (w/o Public Safety)	1%	2%	3%	4%	5%
$41,101,137	411,011	822,022	1,233,034	1,644,045	2,055,057

The City has three revenue generating Departments: Community Development, Parks and Community Services and Public Works. While each of these departments has the availability to cut costs, because they do generate revenue they, as a general rule, would not want to cut a cost that is revenue offset. To capture this, all costs that have revenue off-sets should be removed from the calculation.

Operating Budget (w/o Public Safety or revenue offsets)	1%	2%	3%	4%	5%
$25,713,915	257,139	514,278	771,417	1,028,556	1,285,695

The remaining cost cuts would be borne by supporting departments. Preliminarily, should departments need to cut 1% or 2% from their budgets, this could be absorbed without reducing staff. Higher than 3% departmental reductions would require a reduction in Staff.

Items for Consideration

How could a tiered cost-cutting approach be used in actuality?