



Kensington Police Protection and Community Services District

**Report to Board of Directors
Financial Forecast and POA MOU Analysis**

May 11, 2015

 **Public Management Group™**
Renne Sloan Holtzman Sakai LLP



Table of Contents

- Community Profile
- Draft Memorandum of Understanding
- Comparability & Consumer Prices
- Financial Condition Assessment & Multi-Year Forecast

Community Profile



KPPCSD Overview

- Kensington is an unincorporated community located in Contra Costa County
- The Kensington Police Protection and Community Services District (KPPCSD) was originally formed as a Police Protection District in 1946



- In 1953, the District was changed to a Community Services District which enabled the District to provide **park and recreation** services, **solid waste** oversight, and **police protection** services
- The KPPCSD is governed by an elected Board of Directors that consists of 5 members who are each elected to 4-year terms. The Board appoints a General Manager / Chief of Police who carries out the Board's policy directives

Population Estimate: 5,201

Source: US Census Bureau, American Community Survey, 2013 5-Year Estimate



Community Profile

Income & Employment

- Relative to nearby communities, Kensington has strong underlying income and employment statistics
 - Kensington’s median household income, median family income, and per capita income exceed the Cities of Albany, Berkeley, El Cerrito, and Richmond by significant margins
 - Kensington’s March 2015 preliminary unemployment rate of 1.9% is also very low

	Median Household Income	Median Family Income	Per Capita Income	Unemployment Rate (March 2015)
Kensington	\$133,036	\$153,542	\$64,502	1.9%
Albany	\$79,926	\$94,206	\$39,967	3.1%
Berkeley	\$63,312	\$111,733	\$41,308	3.8%
El Cerrito	\$85,481	\$101,183	\$44,153	4.4%
Richmond	\$54,589	\$60,688	\$25,722	5.8%
Kensington Rank	1 of 5	1 of 5	1 of 5	1 of 5 (Low-to-High)

Source: US Census Bureau, American Community Survey, 5-Year Estimates; State of California, Employment Development Department, Monthly Labor Force Data, March 2015



Community Profile

Housing

- Kensington has a significant number of pre-Proposition 13 housing units (housing that was purchased prior to 1978)
 - Approximately **25%** of Kensington’s housing units (as shown in the table at right) were occupied by their current resident prior to 1979, compared with **12%** and **17%** in the Cities of Berkeley and El Cerrito respectively
- Indicates potential for increased assessed valuation (and property tax revenues) as pre-Proposition 13 homes change ownership

Kensington, CA	
Median Home Value	\$749,500
Total Housing Units	2,303
<i>Percent of Housing Occupied</i>	95%
Occupied Housing Units	2,192
Year Householder Moved into Unit (% of Total Occupied Housing Units)	
<i>Moved in 2010 or later</i>	231 (11%)
<i>Moved in 2000 to 2009</i>	714 (33%)
<i>Moved in 1990 to 1999</i>	374 (17%)
<i>Moved in 1980 to 1989</i>	327 (15%)
<i>Moved in 1970 to 1979</i>	220 (10%)
<i>Moved in 1969 or earlier</i>	326 (15%)

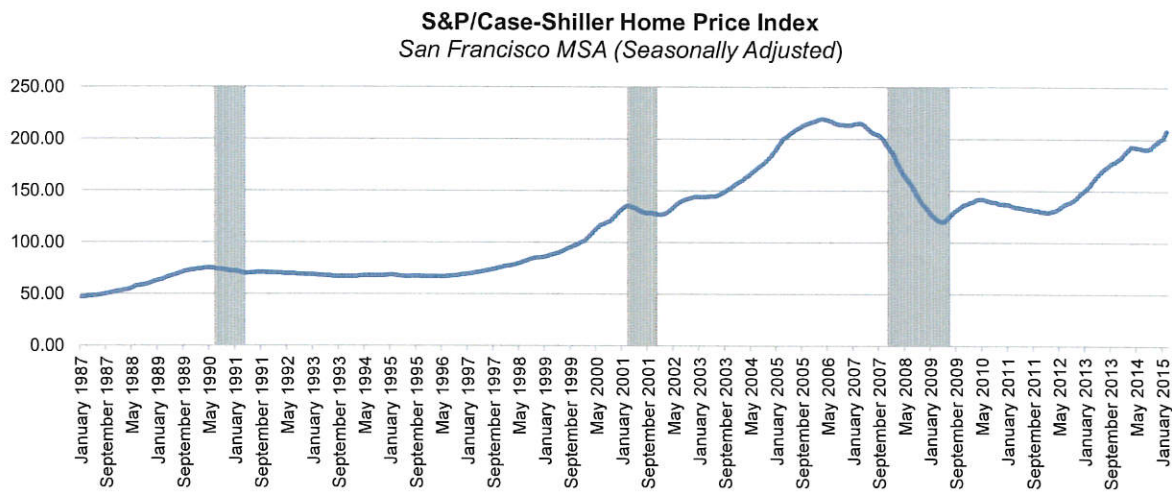
Source: US Census Bureau, American Community Survey, 5-Year Estimates



Community Profile

S&P/Case-Shiller Home Price Index

- While home sales continue to be strong, the Bay Area is not immune to property value declines
- In the graphic below the blue line reflects the Case-Shiller Home Price Index by month from January 1987 to February 2015 for the San Francisco Metropolitan Statistical Area (includes Contra Costa County). The gray shaded regions reflects the recessions over this time period as identified by the National Bureau of Economic Research



Source: S&P/Case-Shiller Home Price Index; National Bureau of Economic Research

Draft Memorandum of Understanding



Summary of Key MOU Provisions

- **Term:** January 1, 2015 to June 30, 2018
3.5 year duration (4 years if measured from expiration of prior contract)
- **Health Plans**
 - **Active Employees:** The District pays 100% of the Kaiser Bay Area premium for employee and eligible dependents. Employees are responsible for paying full “buy-up” premium differential if they select a plan with a higher premium. District also pays 100% of dental and vision premium for employee and dependents
 - **Retirees:** District pays 100% of the Kaiser Bay Area premium for retiree and eligible dependents. Employees are responsible for paying full “buy-up” premium differential if they select a plan with a higher premium. Upon attaining Medicare eligibility age, retirees must enroll in a Medicare supplement plan
 - **NEW LANGUAGE:** Employees hired after ratification of the agreement are subject to revised benefit based on years of service that is equal to 50% of the Employer contribution with 10 Years of Service (YOS) increasing by 5% per year until attaining 100% of the Employer contribution after 20 YOS. Prior service credit granted, but must be with current employer for minimum of 5 YOS



Summary of Key MOU Provisions

■ Pension/Retirement Plan

- Classic Members: Generally defined as an employee hired prior to January 1, 2013. Classic members eligible for the CalPERS 3% at age 50 formula. The District currently pays the 9% employee contribution on the members behalf commonly referred to as an Employer “pick-up”
- The draft MOU would phase out the Employer “pick-up” as follows:

	Current	Ratification	7/1/15	7/1/16	7/1/17
Employer	9.0%	6.0%	3.0%	0.0%	0.0%
Employee	0.0%	3.0%	6.0%	9.0%	12%*

* Lesser of 50% of Normal Cost or 12.0%. CalPERS Actuarial Valuation Report reflects FY2015-16 total normal cost of 27.51%

- New Members: Generally defined as an employee hired after January 1, 2013, with no prior CalPERS service credit. New members eligible for 2.7% at age 57 formula. PEPRAs requires new members to contribute 50% of normal cost with no cap, prohibits Employer “pick-ups,” extends the Final Average Salary period to 36 months, and limits pensionable earnings
- PEPRAs is expected to incrementally lower Employer costs in the future



Summary of Key MOU Provisions

- **Salaries:** The draft MOU provides the following general wage increases over the 3.5 year term of the contract:

Effective Date	General Wage Increase (%)
January 1, 2015 (Retroactive)	3.75%
July 1, 2015	3.75%
July 1, 2016	4.25%
July 1, 2017	4.25%
<i>Cumulative KPOA Wage Increase (Gain)</i>	16.98%
<i>Cumulative KPOA Pension Contribution (Loss)</i>	-12.00%
<i>Net Employee Wage Increase</i>	+4.98%
<i>Average Annual Net Employee Wage Increase (3.5 / 4.0 year)</i>	+1.42% / 1.25%

- **Other:** Vacation carryover increased from 100 to 200 hours. No changes to other economic provisions over the term of the draft MOU including, overtime provisions, educational incentive, longevity pay, standby pay, holiday pay, uniform allowances, etc.

Comparability & Consumer Prices



Comparability Context

- There are no “perfect twins” among employers. In evaluating police officer compensation for comparability under any circumstances, key questions include:
 - What are the most relevant groupings of employers?
 - Within any groupings reviewed, given that not all employers can pay above average/median, what is a reasonable relative position?
- While compensation comparisons can provide helpful points of reference for assessing market competitiveness, such evaluations are only fully meaningful in context of factors such as relative economics, localized labor markets, employer financial condition and tax structure, job responsibilities and duties, and recruitment and retention challenges
 - KPPCSD is a unique entity and its revenue structure is very different than that of a municipality – it does not have a sales tax, utility users tax, or transient occupancy tax. The District primarily relies upon property tax revenues and special assessments, grant revenues, and user fees to provide services. At the same time, KPPCSD provides a more limited set of services



Public Agency Employers

Cities of Albany, Berkeley, El Cerrito, and Richmond

- Given the limited resources available for this engagement, PMG was not able to perform a full total compensation and comparability analysis. While the analysis below provides one point of reference for comparing the KPOA's compensation package, it is not intended to be a complete analysis or endorsement of the selected comparable universe. Analysis below compares the monthly wages and benefits as of 6/30/2015 assuming implementation of the KPOA MOU

Public Management Group™
Renne Sloan Holtzman Sakai LLP

KPPCSD
Title: Police Officer
Analysis Date: 6/30/2015

Survey Agency	Comparable Classification	Top Step Base	POST Pay	Uniform Allowance	Longevity (20 YOS)	EPMC		Wages + EPMC	Insurance			Total Insurance	Total Comp	Rank
						(%)	(\$)		Health	Dental	Vision			
Albany	Police Officer	\$8,423	\$674	\$83	\$0	-1.0%	-\$92	\$9,088	\$1,858	\$139	\$0	\$1,997	\$11,085	4
Berkeley	Police Officer	\$9,628	\$385	\$117	\$481	0.0%	\$0	\$10,611	\$1,534	\$172	\$0	\$1,706	\$12,317	2
El Cerrito	Police Officer	\$8,075	\$290	\$83	\$727	0.0%	\$0	\$9,175	\$1,969	\$177	\$0	\$2,166	\$11,341	3
Richmond	Police Officer	\$9,293	\$746	\$67	\$651	-2.0%	-\$215	\$10,541	\$1,858	\$122	\$18	\$1,998	\$12,539	1
KPPCSD	Police Officer	\$6,890	\$517	\$67	\$167	6.0%	\$458	\$8,099	\$1,858	\$203	\$30	\$2,090	\$10,189	5
	Median (Excluding KPPCSD)	\$8,858						\$9,858					\$11,829	
	Variance from Median	-22.21%						-17.85%					-13.86%	
	Average (Excluding KPPCSD)	\$8,855						\$9,854					\$11,821	
	Variance From Average	-22.19%						-17.81%					-13.80%	

Notes:
 KPPCSD: Wages shown for Police Officer as of 6/30/15.
 Albany: APOA members are eligible for \$928/annual longevity benefit after 24 YOS (up to 34 YOS) that is not reflected above. This amount is deposited into a Retiree Health Savings Account.
 Berkeley: Contract expired July 5, 2014.



Prior Total Compensation Survey

- The KPPCSD engaged a consulting firm in 2013 to conduct a total compensation survey for the ranks of Police Officer and Police Sergeant. This survey examined a larger universe of public employers than presented on the previous slide and included additional elements of compensation
- The consultant reported the following key findings:
 - Police Officer:
 - **8.0%** below the median for monthly salary and **1.9%** below the median for total monthly compensation
 - Sergeant:
 - **10.7%** below the median for monthly salary and **3.6%** below the median for total monthly compensation

“The District has many options regarding what type of compensation plan it wants to implement. This decision will be based on what the District’s pay philosophy is, at which level the District desires to pay its employee compared to the market, whether the District is going to consider additional alternative compensation programs, and how great the competition is with other agencies in the immediate geographic vicinity over recruitment of a highly-qualified workforce.”

- *Total Compensation Study for the KPPCSD, Koff & Associates, Inc. June 2013*



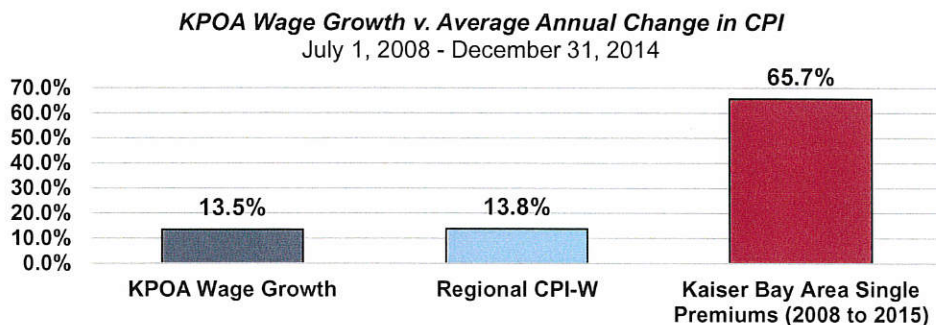
KPOA Wage Growth v. Consumer Prices

- Over the three (3) contract periods leading up to the draft KPOA MOU, bargaining unit members experienced cumulative wage growth of **13.5%** as shown in the table below

Contract Period	Increase Date	Wage Increase (%)
July 1, 2008 to June 30, 2010	July 1, 2008	6.0%
	July 1, 2009	4.0%
July 1, 2010 to June 30, 2013	July 1, 2010	0.0%
	July 1, 2011	0.0%
	July 1, 2012	0.0%
July 1, 2013 to June 30, 2014	July 1, 2013	3.0%

Cumulative Increase => 13.5%

- Over this same time period, KPOA wage growth has closely tracked the average annual change in the regional CPI-W of **13.8%**. At the same time, other personnel costs have continued to rise. From 2008 to 2015, single premiums for Kaiser Bay Area increased nearly 66%



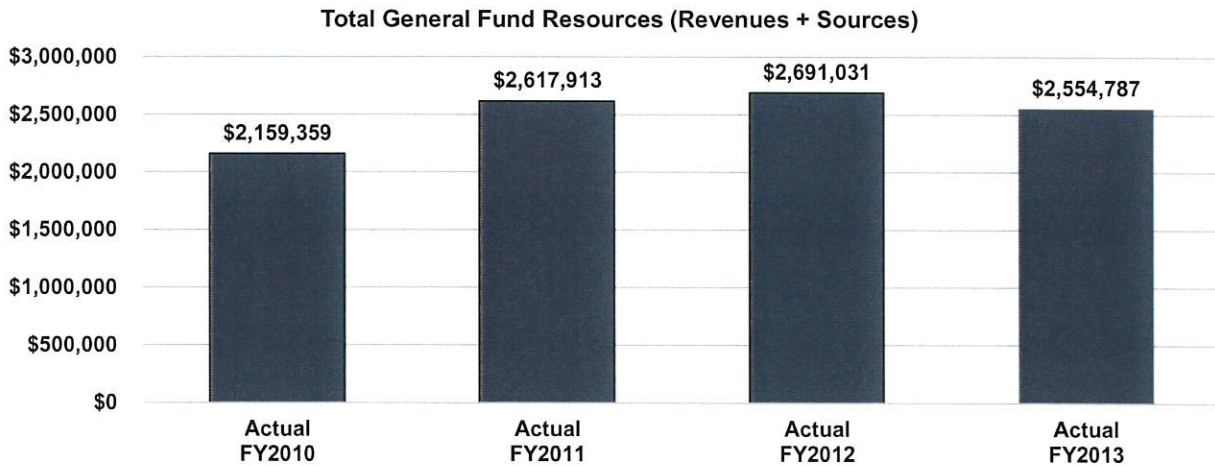
Source: US Bureau of Labor Statistics, Consumer Prices

Financial Condition & Multi-Year Forecast



Revenue Trends FY2010 – FY2013

- To better understand the District's finances and to help inform our forecast, PMG reviewed four (4) audited financial statements covering June 30, 2010 through June 30, 2013 (most recent)
- **Revenues:** Passage of the Measure G Supplemental Tax for police protection services provided a significant boost to the District's overall revenues (21% increase in revenue from FY10 to FY11 when implemented). Reduction in FY13 revenues is primarily due to loss of \$100,000 in grant funds

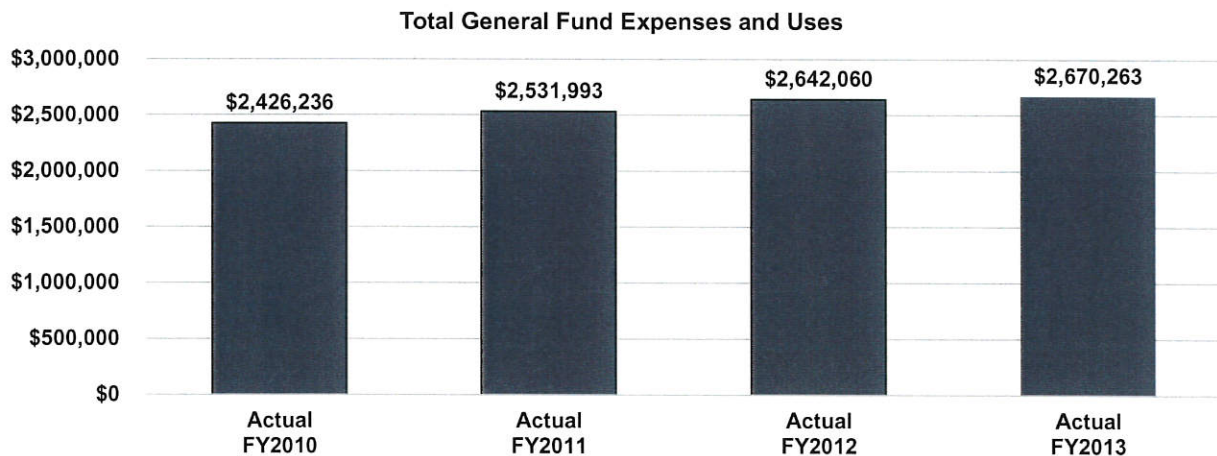


Source: KPPCSD Audited Financial Statements, FY10-FY13



Expenditure Trends FY2010 – FY2013

- **Expenses:** The District's expenses increased 3.2% from FY10 to FY13 on a compounded annual basis
 - Police salary and benefit expenses – the single largest expenditure for the District – increased at a noticeably slower rate. From FY10 to FY13, police personnel costs increased 2.1% from FY10 to FY13 on a compounded annual basis
 - Actual expenses significantly outpaced budgeted amounts in FY13 due to legal and waste/recycling cost increases ("District Expenses" line item)

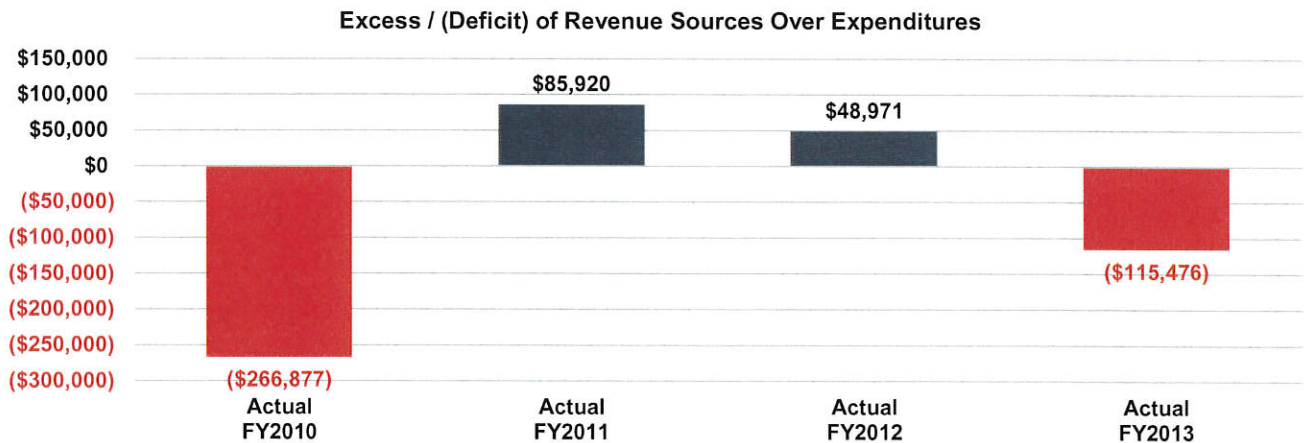


Source: KPPCSD Audited Financial Statements, FY10-FY13



Net Surplus / (Deficit) FY2010 – FY2013

- Over the last four fiscal years, the District's net operating position has fluctuated
- In two (2) out of the last four (4) years for which audited statements were available, the District used fund balance to cover expenses
 - The gap in FY13, as mentioned on the previous slide, was primarily the result of additional legal and waste/recycling costs
 - The gap in FY10 was largely attributable to additional retirement benefit costs due to implementation of GASB accounting changes



Source: KPPCSD Audited Financial Statements, FY10-FY13



Fund Balance Trends

FY2010 – FY2013

■ Fund Balance

- Total fund balance ranging from 57.0% to 62.8% of expenditures
- An accounting change in FY11 (GASB Statement 54) created a new reporting format for fund balance designations prospectively, such that fund balance comparisons across the audited statements are somewhat distorted
- For historical comparison, might be more accurate to compare unassigned + assigned to former unreserved

	FY10	FY11	FY12	FY13
Ending Fund Balance	\$1,503,005	\$1,588,925	\$1,637,896	\$1,522,420
<i>Reserved</i>	\$62,594	\$88,360	-	-
<i>Unreserved</i>	\$1,440,411	\$1,500,565	-	-
<i>Nonspendable</i>	-	-	\$115,140	\$88,686
<i>Restricted</i>	-	-	\$77,218	\$22,610
<i>Committed</i>	-	-	-	-
<i>Assigned</i>	-	-	\$300,000	\$300,000
<i>Unassigned</i>	-	-	\$1,145,538	\$1,111,124
Total Fund Balance as % of Expenses	61.9%	62.8%	62.0%	57.0%
Unassigned Fund Balance as % of Expenses	59.4%	59.3%	43.4%	41.6%

Source: KPPCSD Audited Financial Statements, FY10-FY13



Reserve Levels

Developing a Policy Framework

- The adequacy of fund balance should be assessed based on an agency's own specific circumstance – there is no universally accepted “right level”
 - **Revenue Source Stability:** How stable is the District's tax base in the face of adverse economic conditions? How broad are the District's revenue sources? Are any revenue sources at risk due to State or Federal actions?
 - **Expenditure Volatility:** What are the District's contractual obligations and how much will they mandate ongoing expenditure levels? Are there new programmatic areas that the District will undertake?
 - **Extreme Circumstances:** What is the risk of natural disaster or other one-time outlay (i.e., earthquake, fire, etc.)? How much (if any) of this risk can be insured against?
 - **Liquidity:** What are the District's cash flow needs (i.e., when are property tax revenues received relative to when expenses are incurred)? How have reserves fluctuated in the past and what is the general trend?
 - **Leverage:** What are the City's unfunded liabilities and ongoing capital needs? Pension? OPEB?



Liquidity & Personnel Costs

FY2010 – FY2013

- Liquidity:** Strong liquidity position with cash and short-term investments near or exceeding fund balance

	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>
Balance Sheet				
Cash and Investments	\$1,704,379	\$1,582,473	\$1,736,703	\$1,561,708
Current Liabilities	\$286,218	\$192,656	\$236,632	\$199,029
Ratio of Cash & Invest. to Current Liabilities	5.95	8.21	7.34	7.85

- Personnel costs:** Personnel costs (salaries and benefits) as a percentage of expenditures are high, ranging from 79.0% to 85.3%. This is not unusual for governments as the provision of services are labor-intensive. Nonetheless, the higher the ratio the less flexibility for a public agency to quickly adapt to changing circumstances

	<u>FY10</u>	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>
Other Factors				
Personnel Costs as % of Expenditures	85.3%	82.8%	77.4%	79.0%

Source: KPPCSD Audited Financial Statements, FY10-FY13



Long-Range Planning Overview

- PMG developed a multi-year forecast for KPPCSD that incorporates assumptions about future growth or decline to all of the District's revenue and expenditure line items
 - Largely followed the District's current budgeting and accounting practices to facilitate comparison
- Because the forecast applies average assumptions to a relatively small budget with few employees, the estimates shown are subject to volatility
- In general, less reliance should be given to outlying years in a forecast as more "unknown" factors are introduced

"Long-term financial planning is the process of aligning financial capacity with long-term service objectives. Financial planning uses forecasts to provide insight into future financial capacity so that strategies can be developed to achieve long-term sustainability in light of the government's service objectives and financial challenges. Many governments have a comprehensive long-term financial planning process because it stimulates discussion and engenders a long-range perspective for decision makers. It can be used as a tool to prevent financial challenges; it stimulates long-term and strategic thinking; it can give consensus on long-term financial direction; and it is useful for communications with internal and external stakeholders."

- *GFOA Best Practice, Long-Term Financial Planning, 2008*



Purpose of Long-Range Planning

- ***Strategic***

- Helps to facilitate the strategic decision making process
- Informs policy decisions
- Projects the impact of policy changes over time

- ***Financial***

- Identifies structural budget challenges
- Helps evaluate the long-term impacts of current decisions
- Helps to understand major revenue and expense drivers



Forecast Assumptions

- Revenues:** Property taxes, police tax, and Measure G revenues account for more than 90% of all District revenues. Forecast assumes moderate, but steady growth in primary revenue sources

	FY15 projected	Assumptions
Property Taxes	\$1.45 MM	2.50% to 2.75% increase per year (5-year average increase of 2.58%) to capture AV growth cap and potential for turnover
Police Tax	\$0.68 MM	0%; No growth in assessment
Measure G	\$0.50 MM	2.41% increase per year consistent with historical regional CPI growth

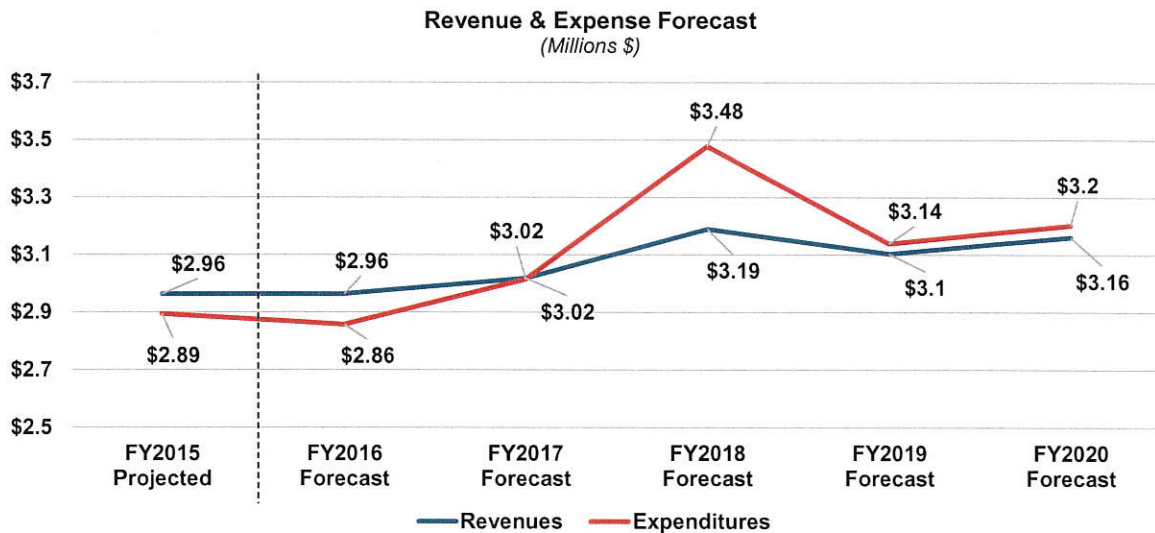
- Expenses:** Includes impact of economic provisions of the draft KPOA MOU. Incorporates inflation factor of 2.0% for most other expense items as a “stress-test” for District sustainability

	FY15 projected	Assumptions
Salaries	\$1.02 MM	3.75%, 1/1/15; 3.75%, 7/1/15; 4.25%, 7/1/16; 4.25%, 7/1/17; 2.0% in FY19 and FY20
Active Medical	\$0.18 MM	5.0% - 6.0% per year consistent with Segal Health Trend Survey for HMO plans
Retiree Medical	\$0.19 MM	5.0% to 6.0% per year pay-go increase 4.0% increase in trust contribution
PERS	\$0.39 MM	Incorporates forecasts provided by CalPERS in most recent AVR; Side-fund liability payoff in FY19; Phase-out EPMC per contract



Revenues v. Expenses Scenario 1

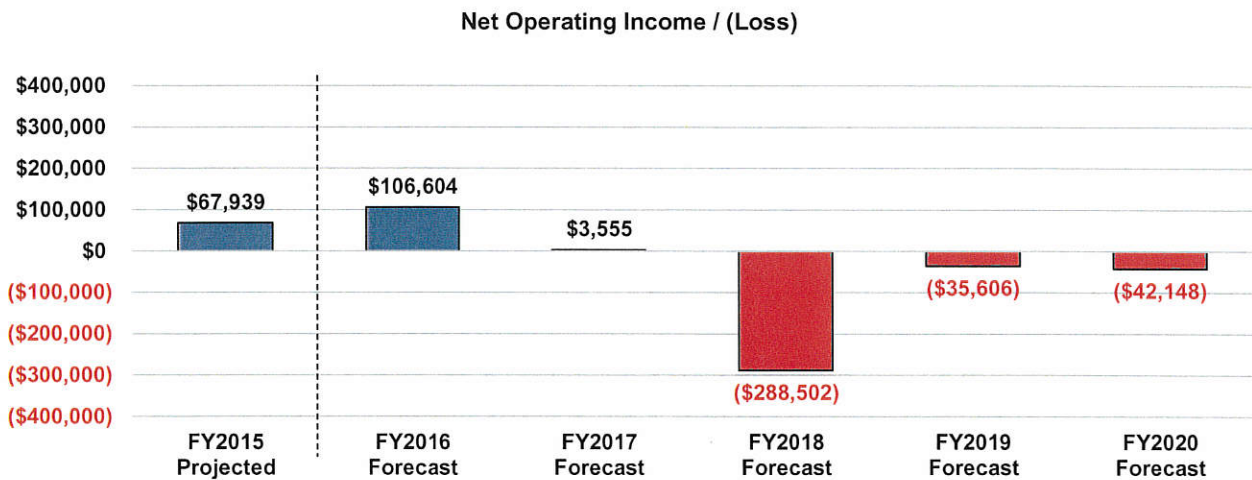
- Under mainstream expectations for growth in revenues and with the inclusion of the draft KPOA MOU, the KPPCSD is projected to have a balanced budget in FY16 and FY17, followed by a significant deficit in FY18
 - Much of the deficit in FY18 is the result of planned capital investment in the Community Center (net impact of approximately \$250,000 in FY18)





Net Operating Surplus / (Deficit) Scenario 1

- The graphic below reflects the net operating results (revenues less expenses) should the District implement the draft KPOA MOU and fund the Community Center renovation under a pay-go approach



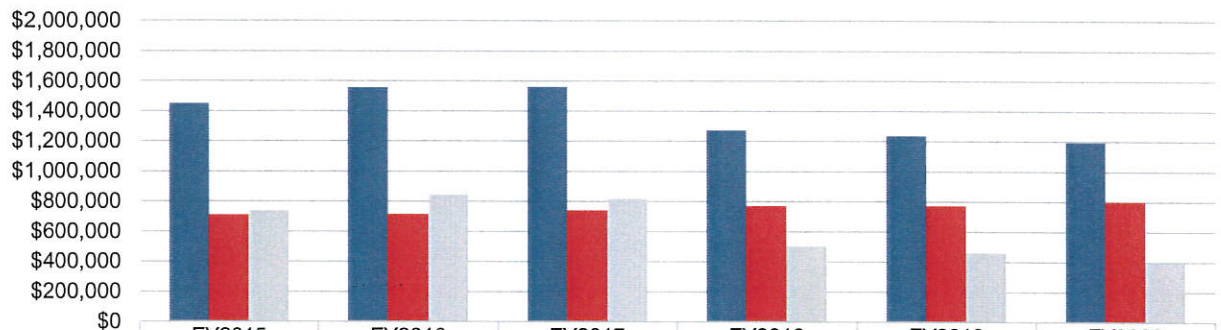


Fund Balance

Scenario 1

- KPPCSD is forecast to have a relatively stable fund balance in FY16 and FY17
- The District's planned investment in the Community Center will have an impact on the District's Fund Balance in FY18

Ending Year Fund Balance



	FY2015 Projected	FY2016 Forecast	FY2017 Forecast	FY2018 Forecast	FY2019 Forecast	FY2020 Forecast
Ending Year Fund Balance	\$1,451,703	\$1,558,307	\$1,561,862	\$1,273,360	\$1,237,754	\$1,195,606
Contingency Reserve (25%)	\$710,388	\$714,340	\$742,284	\$769,576	\$773,182	\$800,648
All other reserves	\$741,315	\$843,966	\$819,578	\$503,784	\$464,572	\$394,958

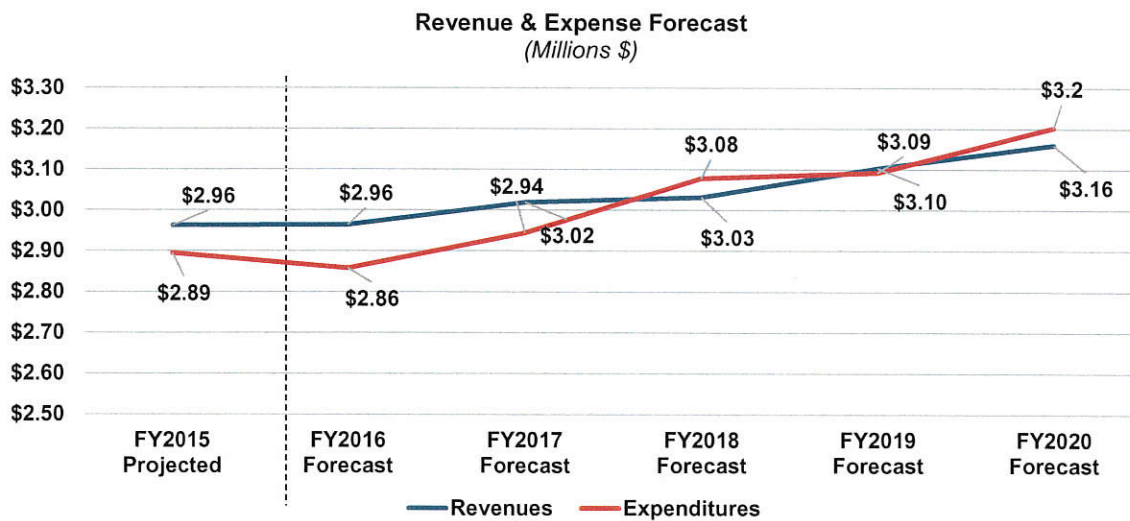
Ending Year Fund (% of Exp)	50.1%	54.5%	51.8%	35.8%	38.2%	35.9%
Contingency Reserve	24.5%	25.0%	24.6%	22.1%	24.6%	25.0%
All other reserves	25.6%	29.5%	27.2%	13.7%	13.6%	10.9%



Revenues v. Expenses

Scenario 2 – Without Capital

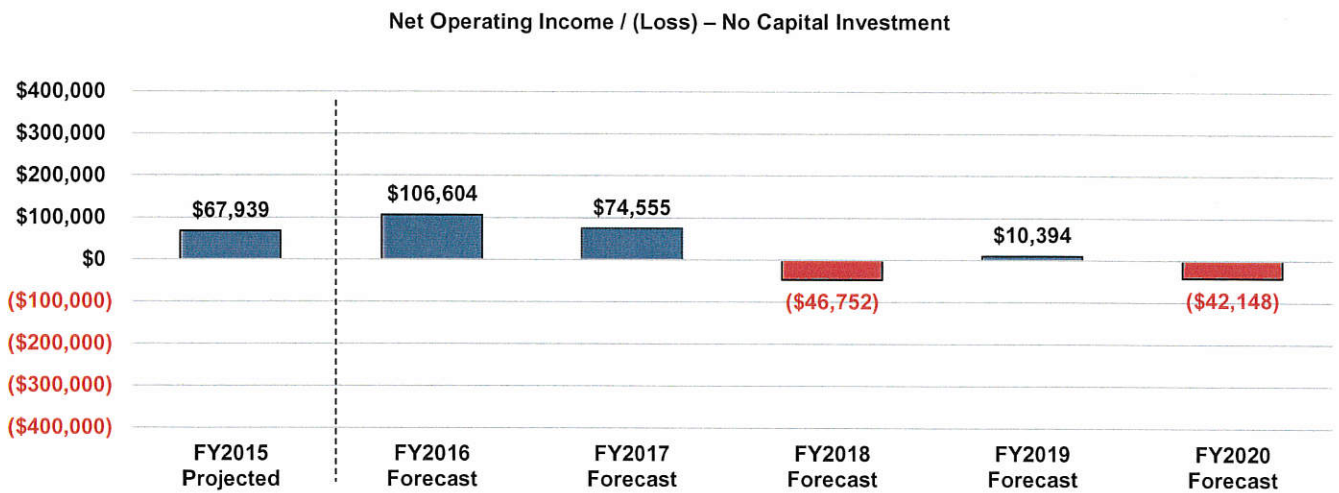
- To isolate the impact of the draft KPOA MOU on the District's finances, PMG removed capital funding projects from the projections (vehicle/equipment replacements and Community Center renovations). All other assumptions were kept constant
- Under this scenario, the District still experiences a deficit in FY 2018, albeit at a much more muted level





Net Operating Surplus / (Deficit) Scenario 2 – Without Capital

- The graphic below demonstrates the net operating results (revenues less expenses) should the District implement the draft KPOA MOU without the impact of future capital investment

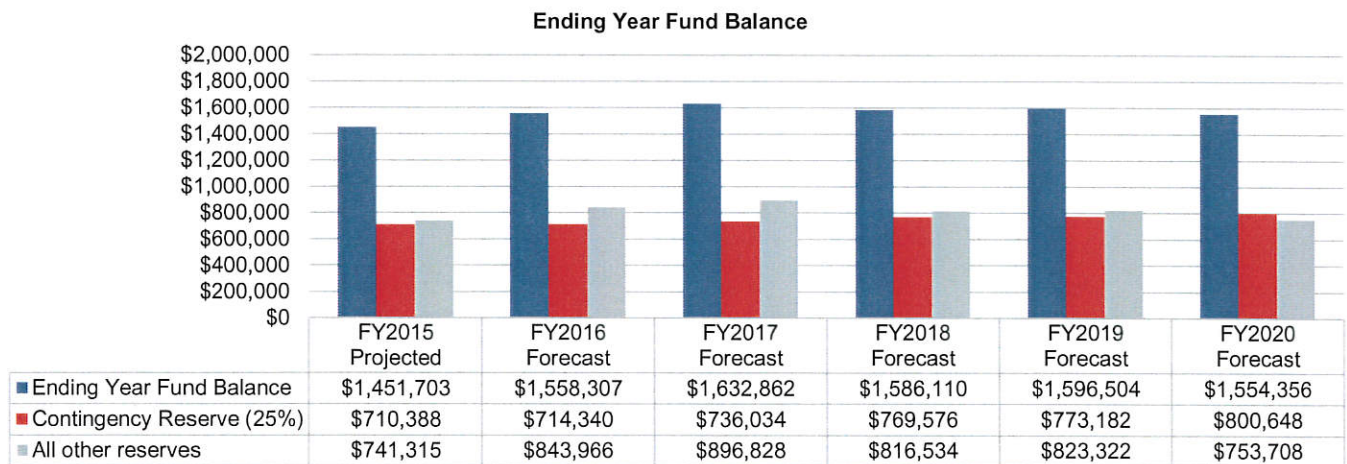




Fund Balance

Scenario 2 – Without Capital

- Excluding the District's planned renovation of the Community Center, the available fund balance remains relatively stable over the forecast period assuming key assumptions achieved



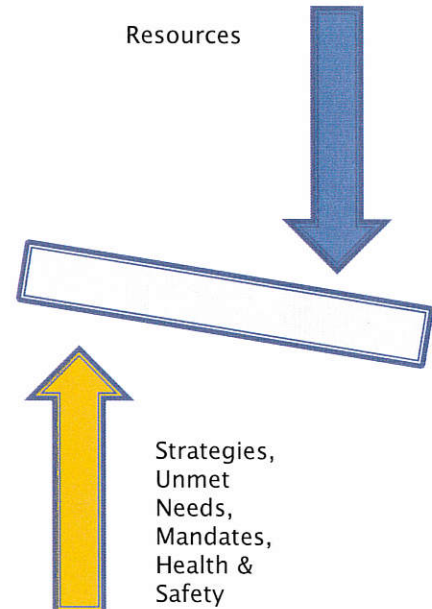
Ending Year Fund (% of Exp)	50.1%	54.5%	55.5%	51.5%	51.6%	48.5%
Contingency Reserve	24.5%	25.0%	25.0%	25.0%	25.0%	25.0%
All other reserves	25.6%	29.5%	30.5%	26.5%	26.6%	23.5%



Risks to the Forecast

- The Economy: The forecast does not reflect the impact of a recession on the District's financial position. Must consider the "business cycle"
- Revenues: Given the limited revenue sources available to the District, there is a "concentration of risk" in property tax revenue collections. Limited options for additional revenue enhancement
- Pension Costs: PERS costs have consistently risen beyond projections over the last several years due to market gains and losses, actuarial assumption changes, mortality (life expectancy) improvements. Future Board actions could result in additional costs, though none have been adopted at this point in time
- Personnel Costs: Balancing workforce costs with the need to remain competitive in the labor market will be a challenge for the District moving forward

The Balancing Act





Summary of Findings

- Over the last three contract periods, KPOA wage increases have generally kept pace with inflation. However, benefit cost pressures continue to be acute (active and retiree health and pension)
- Though limited analysis was conducted, in general KPOA total compensation is not at the top of the local labor market. Nonetheless, with a generous benefit package and few recruitment/retention issues, KPPCSD is a good career opportunity
- The District currently has healthy reserves, the use of which needs to be balanced against the “concentration of risk” in revenue sources, limited options for revenue enhancement and other uncertainties in the future
- The additional short-term costs associated with the draft KPOA MOU appear to be manageable given current revenue and expenditure projections over the next two fiscal years
 - Under PMG’s projections the District has a narrowly balanced budget in FY17, followed by a deficit in FY18 (under both scenarios). In the out years, even with more moderate wage growth assumptions (2.0%), the District faces an operating deficit
- Moderate changes to the underlying forecast (i.e., a recession) could pose significant challenges to the District in the future. The duration and severity of any economic downturn, however, is difficult to predict