

**City of Los Altos
Financial Commission
Recommendations to City Council
CONFIDENTIAL DRAFT**

(April 9, 2017 –revised 4/17)

RECOMMENDATION

The Los Altos City Council should immediately begin assessment and timely remodel/refurbish of key City buildings and pavement infrastructure. While the 2017 Strategic Priorities of City Council promises a *“facilities remodel/refurbish over the next four years”*, any delay is imprudent and wasteful of existing and future capital improvement funds.

The Financial Commission has reviewed the current unrestricted cash position of \$28.2 million as well as a projected surplus cash of \$33.6 million to be generated over the next 10 years and is confident that there will be more than adequate funds to immediately commit to a facilities improvement program.

The Commission believes that while the conservative maintenance spending of the last decade has generated an excess of cash (and debt free balance sheet) it also has resulted in a serious deterioration of facilities and buildup of deferred maintenance expense that is imprudent and now costly to rectify. Any delay in investing in remodeling/refurbishing is needlessly costly.

This is not a recommendation to “spend the excess”, but to prudently and expeditiously plan and execute a remodeling/refurbishing of infrastructure facilities.

INTRODUCTION/BACKGROUND

The Financial Commission was established with a duty to *“identify issues that the Commission believes should be addressed by the City Council”*. Currently, all seven well-qualified, active Commission members are deeply concerned about the City’s financial condition.

In January 2017, the Financial Commission, concerned over the large and growing deferred maintenance backlog while holding \$28.2 million of reserves, formed an Ad Hoc Committee to study the sources and uses of funds for Facilities repair/replacement.

The Commission would be very concerned if the city was overspending, not adhering to accepted accounting standards, borrowing excessively or inadequately reserving for future pension obligations. Conversely, the Commission is very concerned that the conservative fiscal spending of the last decade has created pent-up, “deferred maintenance” backlog of \$4,029,000 (excluding Hillview). Many

facilities are in disrepair, although not spending has resulted in a “healthy cash” position of \$28.2 million going to \$61.8 million.

The Commission is deeply concerned about the lack of action by City Council to rebuild/ repair the critical buildings and maintain the roads while it looks at \$61.8 million in excess funds plus about \$10 million in debt capacity over the next 10 years. The Implementation Plan approved by City Council on March 14, 2017 promises a “*10 year plan to remodel/refurbish community facilities*”. To fulfill that goal, only a *plan* to action needs to be generated within the 10 years!! This only begs extra, needless and wasteful delays in actual construction. There should be an immediate plan and actions taken to complete within 5-7 years. The Commission concern is twofold:

1. The current action plan of using “10,000 Band-Aids” on emergency repairs instead of immediate planned action will be more costly and not fix the key buildings.

2. The eventual construction/rebuilding will be more costly in the future. This path wastes the city resources and is imprudent.

DOCUMENTS ANALYZED BY THE AD HOC COMMITTEE FOR THIS FINANCIAL COMMISSION RECOMMENDATION:

Members of the Ad Hoc Committee analyzed and reviewed the following documents:

- 1.) The *Ten-Year Financial Forecast* as presented to City Council on September 27, 2016 showing \$33.6 million projected to be added to unrestricted funds for CIP over 10 years, on a “cautious” basis. The AdHoc Committee tested the assumptions on this projection although the Financial Commission had reviewed the assumptions before it was presented.

- 2.) *Property Tax 10-Year Budget vs. Actual History* compiled by staff shows actual year over year growth even through the 2008-2011 general economic decline. Los Altos did not see a decline in tax revenues that some other local cities experienced. This fact supported the confidence in the financial forecast above.

- 3.) The *Debt Capacity Analysis* as presented to City Council April 24, 2012 showed a conservative debt capacity at the time of \$6.5 million. Using current interest rates and debt service ratios, the current conservative debt capacity for the City is about \$10 million.

- 4) The *Facility Condition Assessment dated September 16, 2016*. This **1,342 page** Assessment was commissioned by City Council and presented on September 27, 2016. This Assessment, covers all aspects of the building plant and equipment, but does not assess the seismic condition or current usability of the buildings (City Hall was built to 1959 seismic standards). The Assessment is a basis for the “deferred maintenance” estimates to bring the facility up to minimally acceptable standards.

The Assessment estimates the useful life of all 40 City buildings and labels City Hall as “*Nearing the end of its useful or serviceable life*”.

The Assessment also estimates the cost of delaying a remodel/refurbish with minimal maintenance and projects a \$1,700,000 expense to minimally maintain just City Hall over the next three years. This could easily be called “*The path of 10,000 emergency band-aids*”, wasting \$1,700,000, and then refurbishing the building. This would be an imprudent waste of money and limit the utility of the building to the current configuration. Other buildings are on the same wasteful path.

5.) The *Ten-Year Capital Improvement Program Plan* as presented to City Council on November 15, 2016. This shows a current Deferred Maintenance cost of \$4,029,000 and a 10-year Scheduled Maintenance Cost of \$7,226,000 (excluding Hillview Community Center).

The Ad Hoc Committee had an in-depth discussion of this plan with co-author Susanna Chan, Public Works Director. She explained the department’s goals of bringing pavement surfaces up to a consistent level over the next 5 years reducing the annual maintenance costs at that point. The financial logic is the same on Pavement Maintenance as on Facilities – spending more initially to bring the pavement up to a measurable goal will save money in the long run on needless, costly maintenance. With the current unrestricted funds and projected generated funds over 10 years City Council would be financially short sighted to delay bringing the 112 miles of City streets up to a reasonable standard.

6.) The *Fiscal Year 2016-17 CIP Summary as of December 2016* as presented to City Council on February 28, 2017. This shows a balance of \$14.7 million of remaining budgeted expenses on 64 active projects and \$28.2 million in CIP reserves.

CONCLUSION

The Financial Commission is recommending immediate action as opposed to a commitment for a plan! Even if the City began an assessment with architectural designs it would be difficult to immediately begin work. Contractors are committed for next year or two and municipal construction is less desirable for them because of regulations and worker requirements. Any delay is costly in needless additional maintenance and risks higher construction costs.

In summary, the City of Los Altos Financial Commission recommends:

- 1.) Immediately accelerate CIP projects;
- 2.) Immediately begin architectural planning on City Facilities with large deferred maintenance;
- 3.) Institute an accrual for future repair/replacement of assets.

The Financial Commission is confident that:

- 1.) The City will have ample funds to complete planned and future necessary CIP projects.
- 2.) Further delays in action will only increase costs.
- 3.) Deferring maintenance in the future is “bad financial practice” and leads to improper management of funds and assets.

4/9/17