

Facilities Fund

Purpose of the Facilities Fund

The Facilities Division of the Department of Public Service (DPS) is responsible for maintaining facility equipment, assuring efficient custodial and operational services, and coordinating capital improvements for City-owned buildings and grounds.

The Facilities Fund manages over \$53 million of land, land improvements, buildings, furniture, machinery, and equipment. Locations include 46 developed and undeveloped parcels. The Facilities Fund provides a means for collectively managing capital acquisitions, organizing maintenance activities, purchasing custodial supplies and services, and providing for competitive utility purchases. This centralization helps to measure and recover the costs for services that are provided to the various user departments. Funded by user fees, internal city user departments pay a quarterly Facilities service charge, based on space they occupy, to recover the cost of operations.

Purpose of the Facilities Fund Retained Earnings

Funds have been allocated, set-aside, and utilized when appropriate for the replacement and/or rehabilitation of City facilities & grounds including Fire Stations (5), Parks (Avondale, Bloomer, Borden, EEC, Spencer, and the Museum), City Hall, OCSO Substation, and Other Locations (Cemetery, Precinct #5, 276 Auburn) since the fund's inception in 1997. As of the FY 2008 Audit, \$8.5 million was set aside in the Facilities balance; this figure is projected to decrease to \$8.1 million at the end of FY 2009.

Funding will continue to be needed over the next several years as components of City facilities will need to be replaced including HVAC/mechanical, roofs, parking lots, entranceways, and lighting. In particular, various Fire Stations are getting older and are in need of more extensive capital maintenance to stay safe and operational. The recently completed Spectrum Facilities Master Plan (Spring 2008) identified over \$2.1 million in deferred maintenance backlog that should be performed immediately. Of this amount, approximately \$1 million of deferred maintenance at the Fire stations and \$700k at the Parks was identified.

By maintaining this funding, the Facilities Fund will be better able to proactively address building safety and efficiency. By not performing major system replacements on a timely basis, maintenance and operating costs will continue to rise at an increasing rate. Safety issues may arise or not be addressed. As well, with the diminished Facilities staff, the Facilities Division is trying to correct repair issues on a more proactive basis as opposed to being reactive, which is ultimately more costly. By not maintaining this funding as a source to replace and/or repair Facilities as they wear out, the City may have to resort to issuing debt (borrowing) to rehabilitate failing structures.

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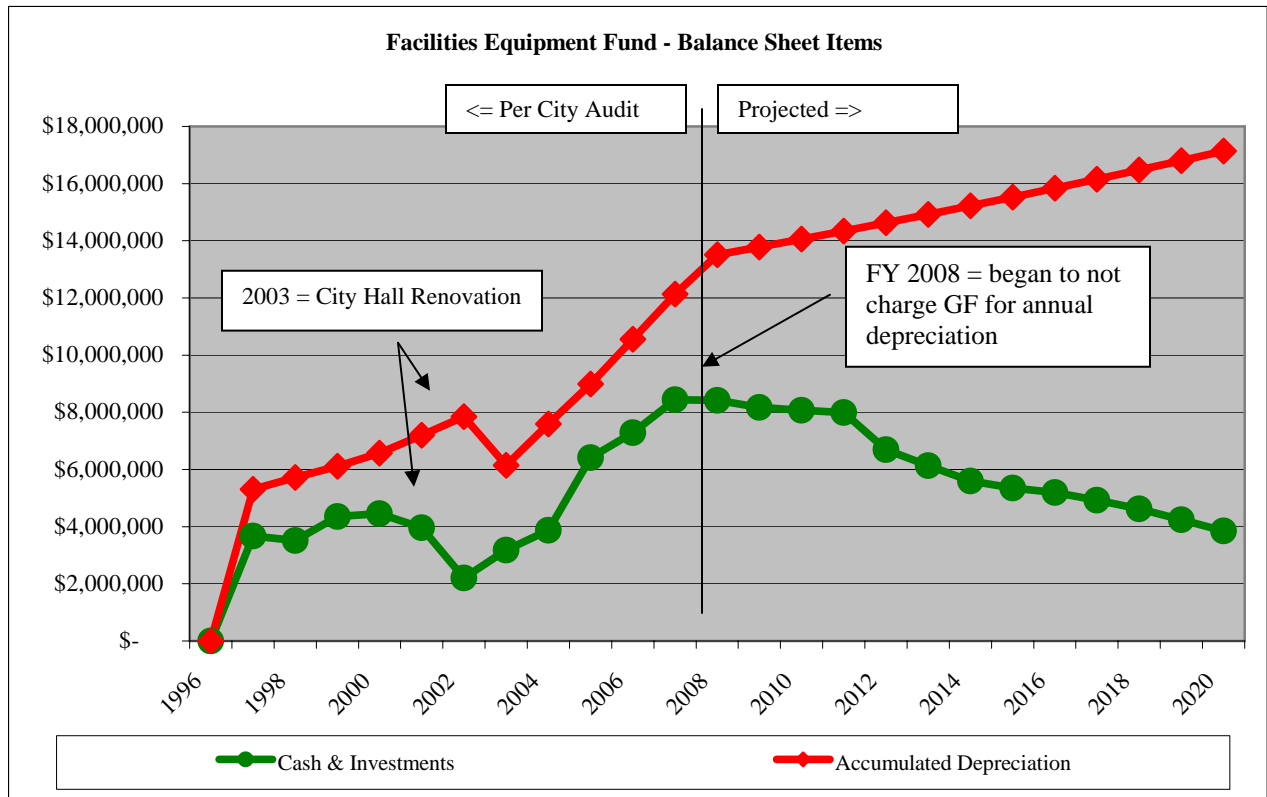
Appropriate Target Balance Levels

“Best practice” guidelines recommend that a fund/cash balance level for an internal service fund be equal to the level of accumulated depreciation in the fund in order to provide for and meet future needs. Here’s how the Fund looks as of 12/31/08:

\$8,500,000 Cash & Investments balance
\$13,500,000 Accumulated Depreciation / Target Level
 (\$5,000,000) Above / (Below) Target

In FY 2008, the City began a policy to temporarily not fully allocate/charge/collect for depreciation; a measure which currently saves user departments over \$1m per year. For FY 2010, \$1,240,010 of depreciation expense is projected and \$199,510 is proposed to be allocated/charged. (= \$195,220=Fire; \$4,290=DPS). By not charging the full cost of depreciation, cash balance levels are not increasing in relation to the amount of accumulated depreciation.

Projected Target Balance Levels



This projection assumes a status quo scenario where the full amount of depreciation is not charged and other “normal” operating expenses increase. No proposed subsidy assumption has been incorporated into this graph; if it had been included, cash balances would decrease by an additional \$400k in both 2010 & 2011, or \$800k overall.

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One can see the trend beginning in FY 2008 that accumulated depreciation begins to routinely outpace Cash & Investments. Accumulated depreciation is projected to flatten into the future as assets begin to be fully depreciated (no longer accruing depreciation expense). In addition, the fund's cash balance is decreasing because of ever increasing Repairs & Maintenance costs as facility assets become close to the end of their useful lives.

Administrative Recommendation

Administration does not recommend the temporary subsidization of Facilities charges to the General Fund. Due to the following reasons:

- The Fund is currently missing its "best practice" target fund balance by \$5 million dollars any further rate reductions will only increase this targeted gap.
- Currently Facilities is not charging the full amount of depreciation (this policy saves City departments over \$1 million in Proposed FY 2010), which is already creating a future funding problem.
- The use of temporary subsidized will in effect be using fund balance to fund operations a situation we have been trying to avoid.
- Certain amounts in the fund balance were contributed by the Fire Fund, which has a dedicated millage. By law, this funding can only be utilized for Fire related expenditures.