



Item No. 29 Town of Atherton

CITY COUNCIL STAFF REPORT – REGULAR AGENDA

TO: HONORABLE MAYOR AND CITY COUNCIL

**FROM: GEORGE RODERICKS, CITY MANAGER
ROBERT BARRON III, FINANCE DIRECTOR**

DATE: JUNE 18, 2014

SUBJECT: RECOMMENDED OPERATING BUDGET FY 14-15

RECOMMENDATION

Adopt the Recommended Operating Budget for FY 2014/15.

BACKGROUND | ANALYSIS

Staff is pleased to present the City Council with a balanced Annual Operating Budget for FY 2014/15.

The Town's Budget and Budget document serve as the chief policy documents for the Town. The Budget is an operating guide and fiscal plan that aids in the control of financial resources while simultaneously supporting the delivery of core services based on established priorities.

The FY 2014/15 budget process began in March with study sessions and regular Council meetings that included exploring revenue enhancement alternatives to maximize revenue to the General Fund; discussion of a tiered budget reserve policy framework that considers long-term liabilities, capital projects, and minimum mandatory reserves; and a review of the various on-going master plans in anticipation of capital project needs in the coming years. Staff formulates a recommended budget based on policy and priority direction from the City Council that addresses the needs of the community.

The Audit/Finance Committee met in early May to review budget assumptions, revenue projections, overall department expenditure projections, and a five-year financial forecast. The City Council held its Operational Budget review on May 21. The May 21 presentation focused on the broad overview of the Town operations, assumptions, recommendations, and major fiscal changes by department. The Town's continued financial stability is always at the forefront of discussion and evaluation. Overall, the Town continues to be fiscally prudent and budgets revenues and expenditures conservatively. Throughout the year staff will evaluate operational needs to provide consistent services within the community. This is evident as the FY 2014/15

budget includes the Council's identified areas of increased maintenance and operations enhancement in the Park and Town rights-of-way. In June, the City Council reviewed the 5-Year Capital Improvement Program and discussed the allocation of and imposition of the Special Parcel Tax.

OVERVIEW

In FY 2014/15 the Town will receive General Fund revenues of \$11,619,741 balanced against operating expenditures of \$11,463,891. This leaves a projected year-end positive balance of \$8.7 million (without the inclusion of excess ERAF and transfers to and from other funds). There is a single-year operational revenue surplus of \$155,850.

During budget discussions it was concluded that revenues from the Educational Revenue Augmentation Fund (ERAF) be treated as "one time" revenues that are not included in the Town's operational budget. Revenues from ERAF will be considered at the conclusion of the budget year and directed by Council as "one time" revenue for specific singular projects or priorities such as capital projects and contributions toward long-term liabilities. *Revenue received in FY 2013/14 from ERAF (\$1,020,000) will be returned for Council allocation in July. It will be recommended that these revenues be directed toward the Town's Other Post-Employment Benefit (OPEB) liabilities.*

The FY 2014/15 budget discussions also included a discussion of the split for the Special Parcel Tax. In FY 2013/14, revenues from the Special Parcel Tax were split 60% to public safety operational costs and 40% toward qualifying capital project costs. Pursuant to the language of the Special Parcel Tax, the Council discussed the need for the parcel tax by comparing projected revenues to expenditures against need. The Council determined that revenues from the Special Parcel Tax be directed 20% toward public safety operational costs to fund two (2) additional sworn officer positions. The remainder of the Special Parcel Tax (80%) will be allocated toward qualifying capital projects (drainage and street). The Council concluded that 100% of the parcel tax should be collected in the 2014/15 fiscal year due to the capital project needs to be identified more clearly in the pending master plans. Each year the City Council will go through a similar analysis to determine the rate to be set for the next year's parcel tax.

As mentioned above, the Town's operational budget is balanced with a single-year net operating surplus. However, in addition to operational expenditures, the Town has a robust Capital Improvement Program. Funding for the Capital Improvement Program comes from a variety of external fund sources, including the Town's General Fund. Other funds include the Library Fund, Special Revenue Funds, Parcel Tax Fund, and others. These funds have existing fund balances as the Town practices a "save - then spend" policy and does not borrow for large capital projects. Instead, the Town collects revenue over time within each fund and allocates funds to priority projects when sufficient funds are available.

The total expenditures for the year, including expenditures within the Capital Improvement Program totals an estimated \$19.2 million. There are sufficient capital project fund balances to cover all projected FY 2014/15 expenditures.

The FY 2014/15 Budget projects a healthy outlook on agency finances and continues to implement current Council priorities of long term liabilities, capital project needs, and enhanced operation needs.

GENERAL FUND

REVENUES – It is anticipated that the General Fund will generate an estimated \$11.6 million in revenues. This amount is \$805,266 (7%) more than the FY 2013/14 approved budget. The FY 2014/15 budget removes the projection for ERAF revenue from the Town’s operational revenue list.

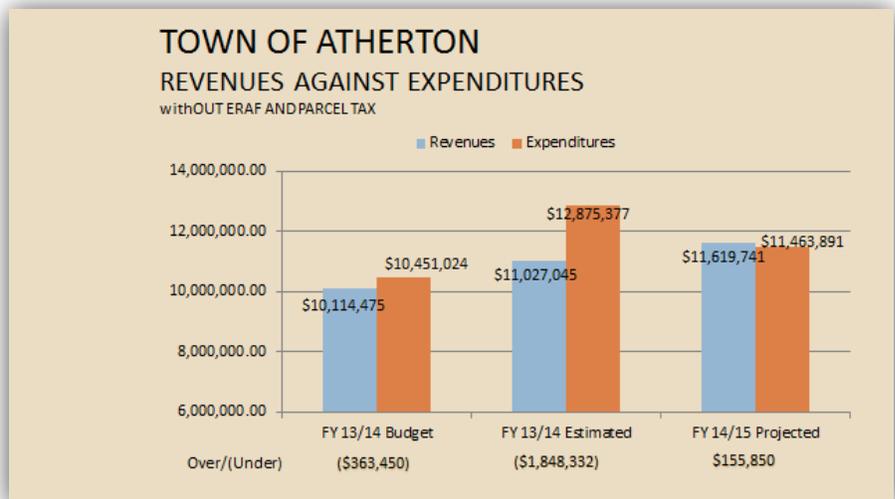
Staff continues to be fiscally prudent and budgets conservatively. Property Tax revenues are assumed to increase by 4%. Building Department Revenues are projected to increase by 2%. Franchise revenues are projected stable and all other charges for services were held to 2% projected increase.

EXPENDITURES – Overall General Fund expenditures are estimated at \$11.5 million. Expenditures are evaluated based on operational needs to provide consistent services throughout the community. In addition to a continuation of the enhanced service levels added at mid-year (increased code enforcement, emergency preparedness, maintenance at the Park, and maintenance of rights-of-way), the FY 2014/15 Budget includes the addition of 2 sworn officer positions for a full year.

Staff incorporated known expenditure adjustments (such as contractual costs based on revenues, projected dues from member agencies, etc.) or changes based on rate adjustments (such as CalPERS or health benefit costs). For CalPERS, the employer rate for the Miscellaneous Plan increased by 0.74% and the rate for the Public Safety Plan increased by 1.676%. Employees are responsible for the employee share of the pension obligation. Due to the Town’s one-time contributions toward the OPEB Trust, staff incorporated a reduction in the Annual Required Contribution by \$132,000.

For FY 2014/15, the Town’s General Fund projects \$11.6M in General Fund revenues against \$11.5M in expenditures.

This represents a single-year revenue surplus of \$155,850, without the inclusion of ERAF or the 20% allocation from the Special Parcel Tax.

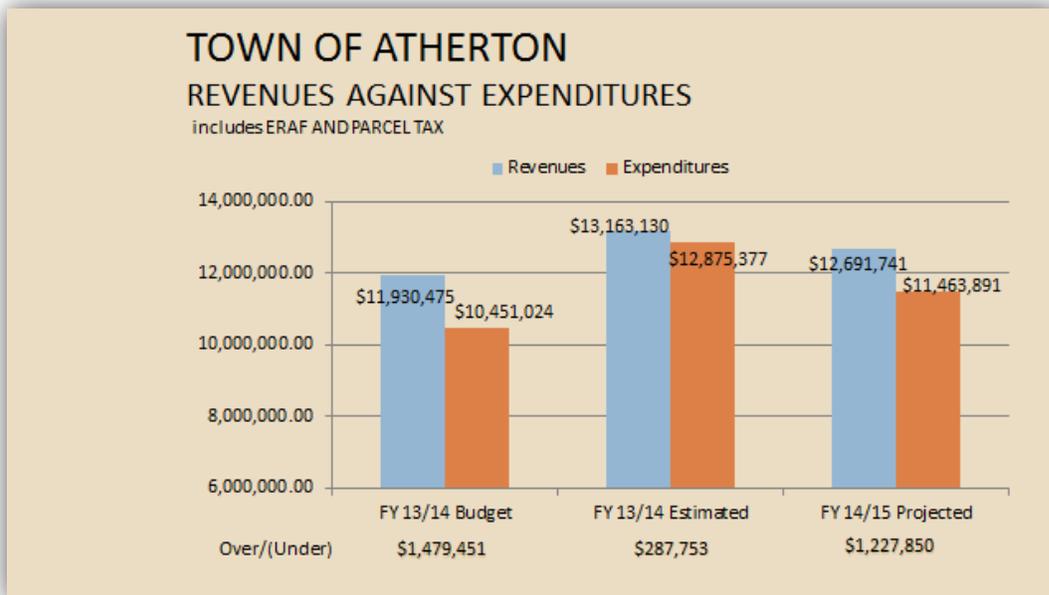


“BELOW THE LINE”

Two additional funding sources are allocated “below the line” in the Town’s operational budget. The 20% revenue from the Special Parcel Tax (\$372,000) is a “transfer in” to the Town’s General Fund from the Special Parcel Tax Fund for its designated purpose. In FY 2014/15, the 20% revenue from the Special Parcel Tax augments the Town’s police operations by funding two additional sworn officer positions beyond the Town’s normal complement of staff.

ERAF has traditionally been tracked as revenue directly into the Town’s General Fund and accounted for “above the line” as a dependable revenue source. Because ERAF is an unpredictable revenue source as the State continually attempts to reallocate ERAF to its own purposes, staff recommended not including ERAF in the Town’s operational budget. In other words, we cannot count on ERAF as a stable revenue source; therefore, we should not be using it to fund essential services.

ERAF, still conservatively budgeted at \$700,000, is budgeted “below the line.” Once received, these two revenue sources increase the revenue total to the General Fund by \$1,072,000. With revenue from ERAF and the Special Parcel Tax the Net Revenue Surplus is \$1,227,850. This increases the ending fund balance from \$8.7 million to \$9.8 million. The chart below illustrates the inclusion of ERAF and Parcel Tax revenues.



SPECIAL PARCEL TAX FUND

REVENUES – In November 2013, the community approved Measure X. Measure X provides for the continuation of the Town’s Special Parcel Tax at its current levels from 2014/15 through 2017/18. Revenue from the Special Parcel Tax totals approximately \$1,860,000. Authorized priority uses for the Parcel Tax include:

- 1) Police emergency response services and neighborhood patrols;
- 2) Street repair and maintenance; and
- 3) Drainage facility repair and maintenance.

Having earlier discussed the proposed allocation (60/40 versus the recommended 20/80), in early June, the City Council discussed the proposed rate for the 2014/15 Special Parcel Tax. Staff provided an analysis of projected needs and presented two scenarios for the Council’s consideration. Scenario 1 reduced the Parcel Tax by 25% (\$465,000) in FY 14/15 and Scenario 2 left the Special Parcel tax at its full rate. The allocations were based on the 20/80 split for police/capital projects and the inclusion of an identical 5-Year Capital Improvement Program.

The City Council expressed support toward imposing the full parcel tax rate to ensure sufficient funding for future capital project needs. A separate item is on June 18 Agenda to set the rate of the FY 2014/15 Special Parcel Tax. The FY 2014/15 Budget includes funding at the full rate.

EXPENDITURES – Revenue from the FY 2014/15 Special Parcel Tax will contribute \$372,000 to the operational costs for Police Services in the 2014/15 Budget. The remainder, \$1,448,000, will be allocated toward Capital Projects. In addition to current year revenues, funding from the Special Parcel Tax (save – then spend) will contribute \$2,988,000 toward qualifying capital projects in FY 14/15. Qualifying projects include street sealing, street patching, Marsh Retaining Wall, drainage improvements, bike and pedestrian improvement program, accessibility improvements, and the El Camino Real Operational Study. The Parcel Tax is a major contributor toward the Town’s capital infrastructure projects. It remains a vital funding source for Police Services and Capital Project funding.

LIBRARY FUND

REVENUES – The Town is a member of the San Mateo County Library JPA system. The Library is funded through property taxes that are collected and allocated to library services. Under the JPA, jurisdictions are permitted to retain excess funds generated from the local property taxes as long as the basic library services are met. The Atherton Library Fund is an accumulation of excess revenue generated over the years. The excess revenue, called “Donor Funds,” can be used to augment library services and/or fund future library needs – to include capital infrastructure. As the Town is preparing for a new Civic Center, these Library funds are the primary funding source for the planning, design and construction of the new Atherton Library.

Until 2012, the Town held donor funds in trust for local library services. Subsequently, the Library JPA changed the methodology and in 2012 began holding funds within a County trust account for Atherton library services. The anticipated FY 2013/14 ending balance for the Library fund is \$8,018,003. This includes funds held in trust by the County. The projected Library Fund Revenue (donor funds) for FY 2014/15 is \$1,185,000. The estimated available funding for FY 2014/15 is \$9,203,003.

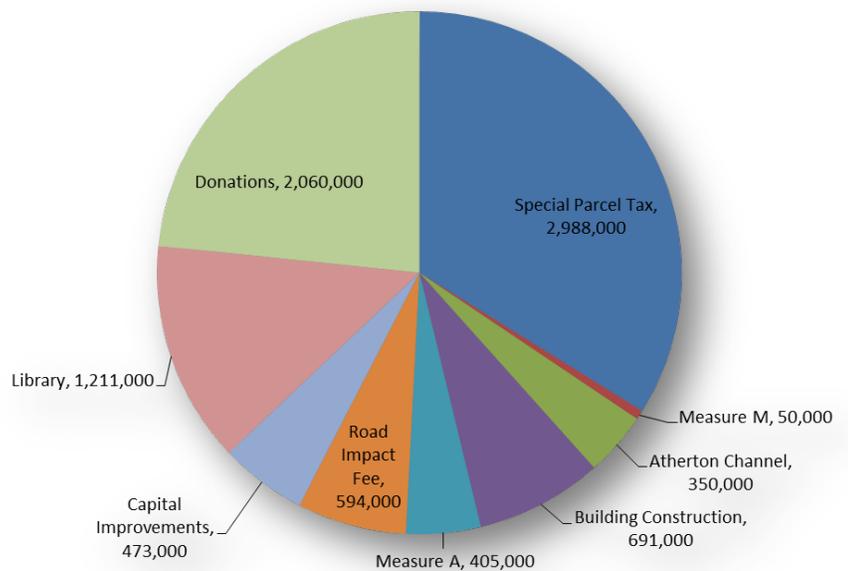
EXPENDITURES – Expenditures for FY 2014/15 from the donor funds is \$1,378,100. The majority of this amount includes \$1,250,000 for the Library share of the environmental review, planning and design for the Civic Center. The remaining expenditure amount is for the basic level operations, utilities and maintenance costs of the Library

CAPITAL IMPROVEMENT FUND

There are currently eight (8) capital improvement funds the Town uses for capital improvement/infrastructure needs. The revenue amounts in these funds come from special taxes, transportation tax measures, and property taxes. These are the funds that make up a majority of the Town’s Capital Improvement Program. The major funds include the Parcel Tax, Measure A, Measure M, and the Road Impact Fee (which the Town no longer collects). Since most major capital projects have significant costs, the Town “saves – then spends” for capital projects over multiple years.

In addition to basic capital improvement funds, the Town has a static fund, the Facilities Construction/Building Fund, with a balance of \$2,188,472. These funds are a part of the new Civic Center project.

REVENUES – The FY 2014/15 Capital Improvement Fund includes funding sources of \$8.8 million for capital projects. Of this amount \$2.9 million is from the Special Parcel Tax. This includes an allocation of 80% (\$1,488,000) of the \$1,860,000 yearly Parcel Tax for Capital Projects. The Library Fund contributes \$1,211,000, followed by anticipated private donations of \$2,060,000 for the preliminary phases of environmental assessment and design for the Civic Center. The Facilities/Building Construction fund will contribute \$691,000. The remaining funding comes from Measure M, Measure A, Road Impact fee and the Atherton Channel Fund.



EXPENDITURES – The Capital Improvement expenditures in FY 2014/15 total \$8,822,000. Town funding is included for drainage projects, transportation and streets projects, facilities projects, and parks projects. The following are major project expenditures:

- Street Sealing - \$250,000
- Street Patching - \$150,000
- Marsh Retaining Wall - \$2,622,000
- Drainage Improvements - \$250,000
- Bike and Pedestrian Facilities Improvement Program - \$500,000
- Atherton/Middlefield/Fair Oaks Resurfacing - \$500,000
- Atherton Library - \$1,211,000
- Civic Center - \$2,751,000

Other expenditures include traffic safety and control devices programs, accessibility and park improvements. All capital improvement projects are explained in detail within the budget.

OTHER RESTRICTED FUNDS

The Town also has a variety of “restricted funds” for specific purposes beyond basic capital improvement. Some of these are internal funds with revenue based on departmental allocations.

TENNIS FUND – This fund is strictly for the maintenance and operations of the Town Tennis Program. Projected revenues total \$8,250 with a majority of this revenue attributable to the purchase of Tennis Keys (\$6,500). The total projected expenditures of \$10,000 is mainly for contract maintenance services and construction materials for tennis court upkeep. There are six (6) tennis courts available that could benefit private and commercial uses. In FY 2014/15, staff is issuing an RFP for Tennis Facility Management Services to take over the Town’s current tennis programs. Staff believes that this service could create a program that suits the needs of the community. The current fund balance is \$16,625 of which the funded deficit will be drawn.

EQUIPMENT REPLACEMENT FUND – The Equipment Replacement Fund is an internal depreciation fund for the replacement of large assets. Revenue to the fund comes from the allocation of costs to departmental budgets for equipment replacement and purchase. This fund includes the replacement of equipment, computer software, future vehicle replacement, trailer and emergency equipment. The FY 2014/15 revenues total \$183,143 and the expenditures total \$178,343 for software and emergency system upgrades, speed advisory trailer and emergency equipment.

WORKERS’ COMPENSATION FUND – The Workers’ Compensation Fund accounts for the cost and expense of managing the workers’ compensation program through the Town’s risk pool insurer Cities Group. Also within this fund are costs related to risk management and prevention – safety training, educational materials and accident prevention programs. The Workers’ Compensation Fund tracks expenditures for Workers’ Compensation expenses across the various departments. Each department is charged an allocation of the expense based on personnel within

each department. Departmental costs are different not only due to the number of employees within the department but also the type of employee – public works, administrative, public safety, etc. Revenues to the fund are \$270,705 and expenditures for FY 2014/15 total \$223,761. The Town has an underfunded Workers' Compensation reserve based on its experience modifier and is required to increase its annual contribution.

GENERAL LIABILITY FUND – The General Liability Fund hosts the insurance costs for liability claims and property losses. The Town is part of the insurance pool of ABAG (Association of Bay Area Governments). The activities within this fund provide for expenses related to general liability insurance, employment practice insurance and self-insured retention claims. The total FY 2014/15 expenditures for this fund are \$348,021.

EMPLOYEE BENEFITS FUND – The Employee Benefits Fund tracks expenditures across the various departments for employment benefits, unemployment benefits, retirement benefits, and healthcare benefits. Revenue to the fund comes through charges throughout each departmental budget based on personnel within each department. Revenues to the Fund for FY 2014/15 total \$534,442. Expenditures for FY 2014/2015 total \$469,405.

MAJOR FISCAL CHANGES

While there are minor changes at the object level based on staff's projections for revenues and expenditures, below are a list of "major" fiscal changes where they occur. A typical major fiscal change is a swing of 5% or more. The only departments with major fiscal changes are: **City Council, Finance, Public Works and Police**. Below are some of the areas of change in the Budget by Department.

City Council – Overall 35.5% Increase (+\$29,698)

The City Council's budget reflects a \$29,698 increase. This is a result of some planned maintenance and cosmetic improvements within the Council Chambers (carpet, restroom improvements, and new dais chairs). In addition, the budget includes the cost of some technology improvements. The cost for carpet repair is a placeholder and will only be done based on need. The bulk of the increase is related to the already approved Video Services Plan.

Administration – Overall 1.8% Increase (+\$11,592)

Administration's budget has a net change of \$11,592. There is a decrease in the Labor Relations Services budget and an increase in other contract services. In addition, staff added a line item for Community Activities and Events of \$25,000. This line item is to allow the Town to sponsor and participate in building community engagement programs. Staff anticipates bringing the line item detail to the Council as needed on an event specific basis. For example, the Town could host a community volunteer workshop, develop a "volunteer's on patrol" program, join with the Town's Historic Foundation and sponsor a Town History Walk, participate in a Home and Garden Tour, and more. Participation in these and other ideas would all come to the Council for consideration, but the line item provides a basic funding source to do so on a small scale.

Finance – Overall 5.2% Increase (+\$32,034)

Changes in the Finance Department amount to \$32,034. Most of these costs are directly related to the provision of technical services such as audit and financial services, software licensing and training, processing fees, etc.

Planning Department Overall 0.6% Increase (+\$1,655)

The Planning Department budget reflects a proposed small change in the cost of contract planning services and a decrease in the cost of the Housing Element implementation.

Building Department – Overall 2.4% Increase (+\$31,617)

Adjustments in the Building Department budget reflect increases related to software maintenance, the reduction of prior year service adjustments, and digital archiving. The bulk of the adjustment is related to equipment replacement amortization.

Public Works – Overall Increase 8.1% (+123,583)

The Public Works budget reflects an adjustment of \$123,583 – this is the second largest departmental increase and is largely due to the continuation of approved enhanced services for a full year; inclusion of contract Park Event Services for a full year, and increases in professional engineering services in anticipation of increased capital project needs.

Police Department – Overall 6.2% Increase (+\$351,182)

The Police Department has the largest Major Fiscal Change reflecting the addition of two (2) officers for a full year of deployment bringing authorized sworn staff from 19 to 21. Other significant changes are decreases in temporary help, reductions in overtime, a reduction in the OPEB contribution, a decrease in vehicle maintenance requirements, a decrease in recruitment costs, and a decrease in contract services. The changes also reflect an increase in the cost of workers' compensation to account for building a reserve based on the Town's experience modification rate as well an allocation of \$10,000 for emergency preparedness.

FUND BALANCE AND RESERVE POLICIES

The Town's Reserve Policy requires a set aside of 15% of the annual General Fund operating expenditures for emergency contingencies. Beyond this 15%, the Council has established a total General Fund unassigned fund balance requirement of 20%. In total, this represents a 35% reserve requirement. In addition to these stated reserves, the Town also has a Building Department Contingency for operation of the Building Department. The FY 2014/15 Budget meets these reserve requirements.

In FY 2013-14 the City Council directed that staff work with the Audit/Finance Committee to develop a Budget Reserve Policy for Council consideration that addressed long-term liabilities,

capital projects, and a minimum mandatory reserve. The Audit/Finance Committee created a multi-step framework that set aside the minimum 35% required reserve and stepped through decision points for capital projects, long-term liabilities, and adjustments to the parcel tax. In general the Council supported the logic of the multi-step framework policy, but suggested that the policy be used *only* as a framework for discussion during the budget process – not a policy that would lock in budgetary decisions. As part of the Town’s ongoing financial stability core value and operations process, staff will continue to work with the council on use of unallocated reserve options.

At the conclusion of FY 2014/15, the Unassigned General Fund Balance is projected to be \$5,400,423. This includes the add-in of the \$372,000 Special Parcel Tax and \$700,000 ERAF. At the end of each Fiscal Year Budget, staff and City Council will review priorities and allocate funding of unassigned fund balance as needed towards long-term liabilities, capital project needs, as well as look to increase reserve requirements.

General Fund Reserve Calculation		
Total General Fund Operational Budget		\$11,463,891
Beginning Balance General Fund Balance		\$9,878,061
Building Reserve		\$465,277
Minimum Mandatory Emergency Reserve	15%	\$1,719,583
Minimum Mandatory Operating Reserve	20%	\$2,292,778
Unassigned General Fund Balance		\$5,400,423

CONCLUSION

In summary, the Town continues to be self-reliant and conservative both in revenue projection and expenditures. It is our pleasure to present the attached balance Annual Operating Budget for FY 2014/15.

This next year is full of priorities and projects that will challenge the Town at all levels. Ambitious capital projects, increased service levels, enhanced citizen involvement, broad outreach to help determine priorities and implementation of the various master plans. The horizon is filled positive outlook. We are excited to be a part of it all. In a word, it is ambitious – and we believe, it is attainable.

I would like to commend staff’s hard work developing this document. Special recognition is always due to the Finance Department led by Finance Director Robert Barron. Each year, staff develops a budget that balances community priorities, identified revenue sources, and fiscal conservativeness to ensure that the Town’s fiscal independence continues. Key staff members consistently provide the input necessary to develop a successful budget. These staff members include Assistant to the City Manager/City Clerk Theresa DellaSanta, Police Chief Ed Flint, Public Works Superintendent Steve Tyler, Deputy Planner Lisa Costa Sanders, Community Services Director Mike Kashiwagi and City Engineer Gordon Siebert.

Atherton is fortunate to have such professional and dedicated staff all of whom recognize the uniqueness of the community and feel as strong about preserving Atherton as someone who has lived here all their life.

GJR