



## Item No. 19 Town of Atherton

### **CITY COUNCIL STAFF REPORT – REGULAR AGENDA**

**TO: HONORABLE MAYOR AND CITY COUNCIL  
GEORGE RODERICKS, CITY MANAGER**

**FROM: ROBERT BARRON III, FINANCE DIRECTOR**

**DATE: JUNE 17, 2015**

**SUBJECT: RECOMMENDED OPERATING BUDGET FY 2015/16**

#### **RECOMMENDATION**

Adopt the Recommended Operating Budget for FY 2015/16.

#### **BACKGROUND**

The Town's General Fund Operating Budget relies on continued fiscal prudence, recognizing the stabilizing development economy, while also taking into account the need to adjust resources in order to meet any rising demands for Town services and capital improvements. Through its conservative fiscal policies, the Town continues to maintain a high-level of service to its residents. While we look forward at ways to diversify our revenue base, it is important to recognize the impact that the loss or elimination of any singular significant revenue source will have on service delivery.

We continue to keep our expenditures in line with our revenues and carefully review our choices for programs and priorities closely monitoring and controlling any discretionary spending. This includes a proper planning process to identify and include the operating and maintenance cost impacts of capital projects. It is imperative that the City Council continues to follow the tenets of our fiscal strategy to budget within our financial means in order to safeguard the fiscal sustainability of this Town.

The FY 2015/16 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.

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## **GENERAL FUND**

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#### **REVENUES**

The Town's total General Fund revenue for FY 2015/16 is projected to be \$12,618,291. Grants and contributions are only budgeted if they have been authorized and approved by the granting

agency. The General Fund currently includes grants for public safety reimbursements in the total amount of \$25,700.

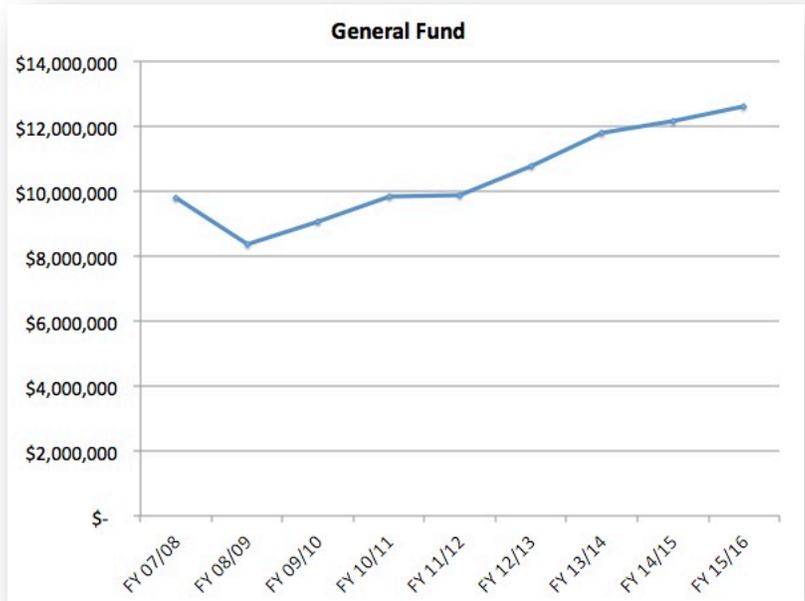
Major revenue categories are as follows:

|                              | Actual              | Orig. Budget        | Adjusted/Est.       | Recommended         |
|------------------------------|---------------------|---------------------|---------------------|---------------------|
| Category                     | FY 2013/14          | FY 2014/15          | FY 2014/15          | FY 2015/16          |
| <i>Secured Property Tax</i>  | \$5,888,607         | \$6,132,731         | \$6,332,958         | \$6,624,274         |
| <i>Other</i>                 | \$1,803,838         | \$1,641,170         | \$1,770,160         | \$1,851,588         |
| <b>Subtotal Property Tax</b> | <b>\$7,692,445</b>  | <b>\$7,773,091</b>  | <b>\$8,103,118</b>  | <b>\$8,475,862</b>  |
| <b>Sales Taxes</b>           | <b>\$234,575</b>    | <b>\$232,611</b>    | <b>\$289,384</b>    | <b>\$295,172</b>    |
| <b>Franchise Fees</b>        | <b>\$831,573</b>    | <b>\$814,044</b>    | <b>\$821,369</b>    | <b>\$834,935</b>    |
| <b>Intergovernmental</b>     | <b>\$41,122</b>     | <b>\$40,047</b>     | <b>\$41,547</b>     | <b>\$42,378</b>     |
| <b>Business License Tax</b>  | <b>\$221,093</b>    | <b>\$215,210</b>    | <b>\$215,210</b>    | <b>\$219,514</b>    |
| <b>Planning Fees</b>         | <b>\$259,792</b>    | <b>\$225,280</b>    | <b>\$240,300</b>    | <b>\$245,100</b>    |
| <b>Building Fees</b>         | <b>\$1,648,027</b>  | <b>\$1,559,581</b>  | <b>\$1,612,456</b>  | <b>\$1,660,830</b>  |
| <b>Policing Fees</b>         | <b>\$99,776</b>     | <b>\$85,377</b>     | <b>\$97,890</b>     | <b>\$99,171</b>     |
| <b>Public Works Fees</b>     | <b>\$320,942</b>    | <b>\$253,881</b>    | <b>\$262,755</b>    | <b>\$268,755</b>    |
| <b>Park Program Fees</b>     |                     |                     |                     |                     |
| <i>Social Fees</i>           | \$57,143            | \$41,000            | \$41,000            | \$47,000            |
| <i>Meeting Fees</i>          | \$18,438            | \$25,000            | \$36,650            | \$30,000            |
| <i>Class Fees</i>            | \$16,080            | \$15,131            | \$20,555            | \$20,966            |
| <i>Weddings</i>              | \$0                 | \$25,000            | \$25,000            | \$23,000            |
| <i>Day Use Fees</i>          | \$4,075             | \$3,500             | \$12,875            | \$13,133            |
| <i>Admin Fees</i>            | \$4,575             | \$0                 | \$0                 | \$18,200            |
| <b>Subtotal</b>              | <b>\$100,310</b>    | <b>\$109,631</b>    | <b>\$136,080</b>    | <b>\$152,299</b>    |
| <b>Misc Revenues</b>         |                     |                     |                     |                     |
| <i>Admin Citations</i>       | \$12,363            | \$13,000            | \$13,000            | \$16,000            |
| <i>Cell Lease(s)</i>         | \$45,955            | \$48,055            | \$48,055            | \$50,458            |
| <i>Interest Income</i>       | \$142,346           | \$140,394           | \$140,394           | \$115,000           |
| <i>Knox Playschool</i>       | \$78,118            | \$79,810            | \$79,810            | \$78,118            |
| <i>Other</i>                 | \$65,679            | \$29,729            | \$69,750            | \$64,700            |
| <b>Subtotal</b>              | <b>\$344,461</b>    | <b>\$310,988</b>    | <b>\$351,009</b>    | <b>\$324,276</b>    |
| <b>Total</b>                 | <b>\$11,794,116</b> | <b>\$11,619,741</b> | <b>\$12,171,119</b> | <b>\$12,618,291</b> |
| <i>Parcel Tax</i>            | \$1,116,000         | \$372,000           | \$372,000           | \$372,000           |
| <b>Total General Fund</b>    | <b>\$12,910,116</b> | <b>\$11,991,741</b> | <b>\$12,543,119</b> | <b>\$12,990,291</b> |
| <i>Excess ERAF</i>           | \$1,020,085         | \$700,000           | \$1,125,257         | \$1,200,000         |
| <b>Total Revenues</b>        | <b>\$13,930,201</b> | <b>\$12,691,741</b> | <b>\$13,668,376</b> | <b>\$14,190,291</b> |

Revenue from the Educational Revenue Augmentation Fund (ERAF) is a General Fund revenue source based on property tax. Marin, Napa and San Mateo are the only counties in the State that receive excess ERAF revenues due to higher property values and the State's ability within these counties to fund local schools at state-mandated levels. However, because excess ERAF is a revenue source that the State is constantly seeking to obtain through its budget process it is

always at risk. In 2013, staff recommended that the Town remove excess ERAF from its basic operating analysis such that we are not dependent upon it for general operating requirements. This echoes the Town’s philosophy of fiscal independence and allows excess ERAF to be used for one-time capital costs or for reducing long-term liabilities.

The Parcel Tax is separate revenue source that is transferred into the Town’s General Fund to pay for public safety services. Prior to FY 2014/15, the Parcel Tax allocation to the General Fund was 60% of the total revenue of \$1,860,000. In FY 2014/15, the Town reallocated the majority of the Parcel Tax to Capital Projects and reduced the allocation to 20% or \$372,000. At the right is a table reflecting the Town’s General Fund Revenues excluding ERAF and the Parcel Tax over the last 9 years, including the projected FY 2015/16. The 2015/16 budget allocates the Parcel Tax to the General Fund at 20% of the total revenue (\$372,000). The remaining 80% or \$1,488,000 is transferred to capital projects.



### Use of ERAF

Since 2013, the Town has been allocating ERAF revenue to one-time capital expenditures and/or long-term liabilities. A portion of the FY 2014/15 ERAF (\$680,684) will be used to bring the Other Post Employment Benefit (OPEB) Trust to its \$5 million target. The remaining \$444,316 of FY 2014/15 ERAF funds and an additional \$186,927 from the unallocated General Fund Reserve will be allocated to eliminate the Town’s Workers’ Compensation negative equity reserve requirement. This contribution of \$631,243 would reduce the Town’s projected annual operating cost by approximately \$179,000.

### Revenue Assumptions

Property tax revenues are projected to increase by 4.6%. All other revenue sources are projected flat or conservatively between 1%-2.5%. One-time revenues are eliminated from projections. One time revenues are not included in the budget. Excess ERAF and revenue from the Special Parcel Tax are included as “Transfers in” below the operations budget line.

## EXPENDITURES

Overall General Fund expenditures are projected at \$11,798,069. Operational expenditures were reviewed in detail and known expenditure requirements were incorporated. These include known contract costs, projected dues/fees for member agencies, conference and meeting attendance, as well as changes in rates for CalPERS, health benefits, and workers' compensation rates.

### CalPERS Pension Obligation

Starting in FY 2015/16, CalPERS requires agencies to pay for their Unfunded Accrued Liabilities (UAL) – similar to the payoff of Employer Side Funds in the 90's. The amounts the Town will be invoiced are listed below for the two agency plans. These costs have been allocated across the various departments based on the numbers and types of employee within each department. The primary allocation rests within the Police Department and reflects a significant budget adjustment. These costs are in addition to the base employer rates. Employees are responsible for the employee contributions.

| <b>Plans</b>         | <b>Employer Rate</b> | <b>Employee Rate</b> | <b>Unfunded Accrued Liability</b> |
|----------------------|----------------------|----------------------|-----------------------------------|
| <b>Miscellaneous</b> | 8.844%               | 7%                   | \$120,606                         |
| <b>Public Safety</b> | 20.23%               | 9%                   | \$337,907                         |
| <b>Total</b>         |                      |                      | <b>\$458,513</b>                  |

### Workers' Compensation

As was discussed earlier in this report, staff and the Town's Finance Committee recommend using ERAF and a portion of the Town's unallocated General Fund to eliminate the negative equity amount of \$631,243. The allocation of \$444,316 will come from ERAF through the unallocated General Fund Balance and an additional allocation of \$186,927 from the unallocated General Fund reserve.

With this recommendation, the rates charged to each department for Workers' Compensation are 4% and 8% respectively for Miscellaneous and Public Safety employees. The total FY 2015/16 Worker's Compensation charge for all departments for the FY 2015/16 is \$266,742.

### Unrepresented Employee Cost of Living Adjustments

The City Council provided direction to the City Manager during salary and benefit negotiations. That direction is incorporated into the budget information presented this evening. Adjustments include:

- 2% Cost of Living Adjustment - \$34,984 (distributed as appropriate by department)
- \$50 per month cell phone stipend for 7 employees - \$4,200

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## OVERVIEW

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### Overall Budgetary Change - 1.8%

Overall, the Town's combined operational expenditures increased by \$212,782 from the FY 2014/15 adjusted budget (1.8%). Departmental budgets are summarized individually below. Only significant changes are discussed.

In FY 2015/16 the Town will receive General Fund revenues of \$12,618,291 balanced against operating expenditures of \$11,798,069. This leaves a projected year-end positive balance of \$8 Million (without the inclusion of excess ERAF and transfers to and from other funds). There is a single-year operational revenue surplus of \$820,222. During this fiscal year 2015/16 budget, the council took action to pay down long term liabilities (OPEB) \$680,684 and Workers' Compensation negative equity reserve \$631,243. The Town also has ambitious capital projects on the horizon and funding is a priority. This budget year includes an allocation of \$614,000 for CIP projects in the fiscal year. Also the Council allocated \$2,309,041 to the Capital Improvement Fund (401) for future unidentified capital projects.

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## MAJOR FISCAL CHANGES

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General operations focused on anticipated needs and cost assumptions. Attached are summaries by department and roll-ups of operational expenditures. Operational expenditures are items such as professional services (MCE, Interwest, Planning, Legal, etc.), advertising, utilities, equipment repair, copier leases, phone service, training, technology, computers, postage, etc. – everything net of salaries and benefits.

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### CITY COUNCIL OPERATIONS DECREASE OF \$55,940

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The City Council budget includes expenditures related to City Council meetings, conference attendance, various Council/Town memberships, HSR Public Relations, Elections, utilities for the Council Chambers and incidentals for Council meetings. There are no salaries or benefits in the City Council budget. The most significant change is in capital outlay – in 2014/15 the City Council Chambers was updated with new technology, chairs and restroom improvements.

The City Council budget includes a number of miscellaneous memberships for the Town itself. Some of the memberships are mandatory memberships in an effort to comply with State law (LAFCO) or provide for affordable housing opportunities locally so that we are consistent with our Housing Element (HIP Housing). Other memberships are voluntary contributions on behalf of the Town for regional participation, projects, or legislative representation (HEART, San Mateo Jobs for Youth, etc.).

When the memberships are included in the Town's operating budget and an invoice or request comes to the City Manager for processing, they are paid automatically. Sometimes the request is higher than the budgeted amount. In these instances, only the budgeted amount is provided. If a request is not budgeted, the City Manager will push the request up to the City Council for consideration. The City Council budget includes approximately \$13,000 in memberships and dues (mandatory and contributory). *As an attachment to this budget is a memberships and dues list that includes the amount requested and whether they are mandatory, the methodology for calculating, historic contribution, statement of benefit of purpose, staff recommendation, and whether the group should update the Council on annually.* **The City Council should review the list and identify any suggested changes for the budget.**

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**ADMINISTRATION DEPARTMENT  
INCREASE OF \$40,246**

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The Administration Department budget includes the City Manager's Office and City Clerk's Office. This represents three full-time salaries and benefits (City Manager, City Clerk/ATCM, and Office Specialist), contract support for human resources (legal), legal noticing and posting, conference attendance and support, memberships, municipal code publishing, office supplies, support for community activities, and the administrative share of general utilities and costs.

The departmental budget increased by \$40,246 as compared to the adjusted FY 2014/15 budget with the major increase due to the CalPERS UAL payment of \$20,536 for FY 2015/16. Other minor adjustments are distributed across salaries and benefits (2% COLA). Projections for operational costs increased by \$737.

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**FINANCE DEPARTMENT  
INCREASE OF \$3,943**

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The Finance Department budget includes the salaries and benefits of three full-time employees (Finance Director, Accountant and Accounting Technician). The budget includes contract services for the Town's Audit and Investment Services, financial software licensing and support, conference attendance and support, memberships, office supplies, and the finance share of general utilities and costs.

The departmental budget increased by \$3,942 as compared to the adjusted FY 2014/15 budget with the major increase due to the CalPERS UAL payment of \$12,302 for FY 2015/16. This amount is offset by other departmental reductions, specifically within the Audit and Financial Services with a reduction of approximately \$22,000. Overall projections for operational costs decreased by \$19,755.

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**PLANNING DEPARTMENT  
DECREASE OF \$66,292**

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The Planning Department budget includes the contract services for planning staff and distributed overhead costs. The departmental budget decreased by \$66,292 as compared to the adjusted FY

2014/15 budget. The major adjustments include the elimination of the Housing Element Project and a reduction allocated arborist costs.

The budget includes in-house contract service time for an update to the Town's General Plan. The update will incorporate updates to various policy directives (such as clarification of noise and land use issues) as well as incorporation of new Master Plan documents.

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**BUILDING DEPARTMENT  
DECREASE OF \$132,276**

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The Building Department budget consists mostly of the contract services for the building department (Interwest), portions of three full-time salaries and benefits (Arborist, Associate Engineer and Office Specialist), general office supplies and materials, software costs, and a share of the building department share of utilities.

As discussed in prior budget sessions, the majority of the adjustments in the departmental budget are due to the elimination of the contract Code Enforcement Officer and re-allocations of the Arborist costs.

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**PUBLIC WORKS DEPARTMENT  
INCREASE OF \$91,815**

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The Public Works Department budget consists of 5 distinct areas of focus: Engineering, Streets, Park Maintenance, Park Programs, and Building Maintenance. The salaries and benefits of four full-time employees – the Public Works Superintendent, Associate Engineer, Office Specialist, and Arborist – are included in the budget. The budget includes contract services for the Town Maintenance Services (MCE), Custodial Services, Tree Trimming, Street Sweeping, Signal Maintenance, Street Light Maintenance, Contract Engineering, and Park Event Services. The budget also includes computers and equipment, training and workshops, software licensing and support, general office support, memberships, office supplies, and shares of general utilities and costs.

As discussed prior, the majority of the increase in the departmental budget is attributable to the change in the arborist position and the CalPERS UAL payment of \$41,946 for FY 2015/16 and an increase of \$20,000 for GIS consultant maintenance and upgrades (data collection support, development and use of "ARCGIS ONLINE", data creation and annual maintenance of online subscription).

Staff anticipates an increase in rental activity in the Park as the contract with Catering by Dana comes into full swing. The revenue budget for Park activities reflects \$120,000 in event revenues. This coincides with an expense of \$60,000 for contract event services. In addition, the April budget projected an increase on contract maintenance services (MCE) of \$28,527; however, this May revise, after concluding preliminary negotiations, reflects a decrease of \$48,935.

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**POLICE DEPARTMENT  
INCREASE OF \$339,702**

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The Police Department budget consists of four distinct divisions: Admin/Training, Patrol/Traffic, Investigations, and Communications/Records. Within these areas are specific areas of focus including: detectives, community service officers (and code enforcement), school resource officer, K-9s, dispatch, and administration.

The departmental budget includes a full year of the CSO/Code Enforcement Officer, fully burdened at \$94,937, and a 5<sup>th</sup> Dispatcher position, fully burdened at \$116,000. The CalPERS UAL cost for the department is \$355,726. These 3 adjustments total \$566,663; however, these are offset by a reduction in the workers' compensation distributed rate, a reduction in overtime as a result of full-staffing, a reduction in operations costs, reduction in Employer Pension Obligation, and the final year of the MOU to transfer of employee pension costs back to the employee.

**CAPITAL PROJECT CONTRIBUTIONS**

As mentioned prior, the Town's General Fund fulfills any funding needs for capital projects that do not have a specific identified funding source. During the May 6 CIP budget meeting it was discussed that the Capital Improvement Fund 401 would need a transfer in of \$614,000 for capital projects to include the Town's project administration and remaining environmental work for the Civic Center project, current town facilities repairs, accessibility improvements, and park master plan project implementation.

|   |                  |
|---|------------------|
| <b>Civic Center</b>                           | <b>\$354,000</b> |
| <b>Town Center current facilities repairs</b> | <b>\$25,000</b>  |
| <b>Accessibility Improvements</b>             | <b>\$10,000</b>  |
| <b>Park Master Plan Improvements</b>          | <b>\$225,000</b> |
| <b>Total FY 2015/16 Expenditures</b>          | <b>\$614,000</b> |

The total \$614,000 is a transfer out of the unallocated General Fund balance into the Capital Improvement Project Fund. These projects are further enumerated within the Capital Improvement Projects Budget.

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**SPECIAL PARCEL TAX FUND**

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**REVENUES**

Voters approved Measure X in 2013. Measure X provided 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.

In prior years the allocation of the Parcel Tax was a 60/40 split between the General Fund and Capital Projects Fund respectively. The City Council sets the rate for the tax each year based on priority uses and needs. This will be discussed later this evening and formally acted upon at the June 17 Regular City Council Meeting.

In FY 2014/15, the Council imposed the full parcel tax rate of \$1,860,000 and allocated the tax at a 20/80 split with the General Fund receiving an allocation of \$372,000 and the Capital Projects Fund receiving \$1,488,000. The City Council expressed support toward imposing the full parcel tax rate to ensure sufficient funding for future capital project needs and police service needs.

Given the magnitude of present and future capital project needs, the FY 2015/16 budget projects the Special Parcel Tax at its full rate. At the June 3, 2015 study session the Council determined to allocate the tax at its maximum full rate and the split to coincide at 20% for public safety and 80% to capital projects.

## **EXPENDITURES**

The Special Parcel Tax is a major contributor toward the Town's capital infrastructure projects. Revenue from the FY 2015/16 Special Parcel Tax will contribute \$1,448,000 for capital projects. At the conclusion of FY 2014/15, the Special Parcel Tax has a projected fund balance of \$186,078. Using the existing fund balance, the FY 2015/16 Capital Projects Budget allocates \$1,650,000 in Special Parcel Tax funds directly to capital projects in FY 2015/16.

The FY 2015/16 projects include (note, these projects may also have other funding sources to make up their total project cost):

- Marsh Road Retaining Wall - \$675,000
- Drainage Improvements - \$150,000
- Series Street Light Replacement - \$275,000
- Bike & Pedestrian Improvement Program - \$100,000
- El Camino Real Assessment - \$200,000
- Almendral Hybrid Beacon (HAWK) - \$250,000

At the conclusion of FY 2015/16, the Special Parcel Tax Fund balance will be \$24,078 to save for future year projects. The 5-Year Capital Improvement Budget allocates the nearly the entire Parcel Tax Revenue in each year for a total 5-Year expenditure of \$7,540,000.

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## **LIBRARY FUND**

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### **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.

The anticipated FY 2014/15 ending balance for the Library fund is \$8,399,276. Funds are held in trust in part by the Town and the County of San Mateo. Of that amount, the Town holds \$5,990,372 and the County holds \$2,408,904. The County holds all future donor funds. The projected Library Fund Revenue (donor funds) for FY 2015/16 is \$1,265,345. The estimated available funding for FY 2015/16 is \$9,664,621.

### **EXPENDITURES**

For FY 2015/16, \$985,850 is allocated from the Town’s Donor Fund Trust Account for the Library’s share of the environmental review and design of the Civic Center (\$765,000). The remaining amount is for basic level operations, utilities and maintenance costs. Additional funds have been added to the maintenance budget to accommodate some additional landscaping and outdoor facility needs.

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## **OTHER RESTRICTED FUNDS**

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The Town also has a variety of internal service funds that are “restricted funds” for specific purposes beyond basic capital improvement. Revenue to internal service funds are in the form of department charges based on allocations.

### **TENNIS FUND**

Projected revenues total \$46,700 with a majority of this revenue attributable to the facility management services contract with Player Capital. The Town entered into an agreement with Player Capital in October 2014. The agreement calls for an annual contribution to the Town of \$40,000. This agreement is believed to suit the needs of the community and provides additional revenue to the Park. The purchase of Tennis keys provides annual revenue of approximately \$6,500.

For FY 2015/16, the Town anticipates expenditures of \$34,500. This includes \$26,000 for repair of the tennis courts and \$6,000 for contract maintenance services for MCE. The beginning fund

balance is estimated at \$71,675 (inclusive of the \$27,500 contribution from M-ALL and current year revenue of \$30,000 from Player Capital). The FY 2015/16 ending fund balance is projected at \$84,891.

### **EQUIPMENT REPLACEMENT FUND**

The Equipment Replacement Fund is an internal depreciation fund for the replacement of large assets. The Fund is essentially the Town's savings account to replace large equipment assets over time – such as computer equipment, software assets, vehicles, trailers, emergency equipment, etc. There are sufficient funds in the account to accommodate emergency needs as well as planned needs. Revenue to the fund comes from the allocation of costs to departmental budgets for equipment replacement and purchase.

The FY 2015/16 revenues total \$122,043 and the expenditures total \$84,693 for software and emergency system upgrades, portable radios, speed advisory signs, emergency equipment, CRW Trakit maintenance enhancements, Springbrook Financial Software upgrade. The beginning fund balance is estimated at \$735,166. The FY 2015/16 ending fund balance is projected at \$772,516.

### **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 policy is to fully fund all recognized liability. Each member of the JPA contributes a workers' compensation assessment to the JPA. These assessments or contribution rates are calculated annually based on agency claims history and any increases in loss recovery due to excessive claims losses.

As of December 31, 2014, the Town's Workers' Compensation Claim Reserve is negative (\$551,243). The reserve equity is for contributions not committed to known liability. This means the Town paid out more claims than available assessments contributions it made to the JPA. The negative equity claim reserve has resulted from a series of claims and disability retirements.

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. The miscellaneous employee workers' compensation rate is set at 4% and public safety is set at 8% for FY 2015/16.

As discussed prior, staff is recommending a contribution of \$631,243 to eliminate the negative equity reserve. With this recommendation, the FY 2015/16 Worker's Compensation assessment is reduced to \$115,000. This results in a reduction of the departmental allocations. Revenues to the fund are \$268,942 and expenditures for FY 2015/16 total \$120,848. Since the Town has an underfunded reserve, the revenue to the Fund will allow a build-up of net assets in the event claims losses change over time.

## **GENERAL LIABILITY FUND**

The General Liability Fund accounts for the insurance cost of liability claims and property losses. The Town is part of an insurance pool administered through the Association of Bay Area Governments (ABAG). The activities within this Fund provide for expenses related to general liability insurance, employment practice insurance and self-insured retention claims. The total FY 2015/16 expenditures for this fund are \$345,815. This includes self-insurance retention of \$100,000. The \$100,000 self-insured retention allows the payout of 4 claims at \$25,000 per claim and is a requirement of the JPA.

## **EMPLOYEE BENEFITS FUND**

The Employee Benefits Fund tracks expenditures across various departments for employment, unemployment, retirement, and healthcare benefits. Revenue to the fund comes through charges allocated back to each departmental budget based on number and type of personnel within each department.

Revenues to the Fund for FY 2015/16 total \$1,305,961. Expenditures for FY 2015/2016 total \$1,185,111. A majority of this expenditure is the \$680,684 for OPEB contribution to increase the OPEB Trust to \$5 million. The OPEB contribution is a transfer-in to the Fund from the unallocated General Fund Excess ERAF.

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# **CAPITAL IMPROVEMENT FUND**

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There are currently nine (9) capital improvement fund sources that the Town uses for capital improvement/infrastructure needs:

- Atherton General Fund
- Measure M – County Congestion Management Fee on vehicle registration
- Measure A – County ½-cent Transportation Sales Tax
- Gas Tax
- Facilities Building Fund
- Atherton Channel Fund
- Measure S – Special Parcel Tax
- Library Fund
- Donations

At the May 6 Study Session, staff reviewed the 5-Year CIP. The purpose of the CIP is to identify anticipated capital improvement needs and funding sources. The CIP does not appropriate funds past the budget year; rather, it functions as a budgeting and planning tool.

The CIP is revised annually to reflect changes in Council direction, priority needs and availability of funding. In some instances revenues for capital projects are “saved” and then

“spent” year-to-year depending on eligible capital project priorities. This is due to most major capital projects having significant costs and the Town’s ability to allocate revenue falls short in any specific year.

**REVENUES**

The FY 2015/16 Capital Improvement Fund includes funding sources of \$5.7 million for capital projects.

| <b>Funding Source</b>               | <b>FY 2015/16 Allocation</b> |
|-------------------------------------|------------------------------|
| Special Parcel Tax                  | \$1,650,000                  |
| Library Fund                        | \$631,000                    |
| Facilities Fund                     | \$194,000                    |
| Gas Tax                             | \$350,000                    |
| Measure M                           | \$100,000                    |
| Atherton Channel Fund               | \$85,000                     |
| Measure A                           | \$835,000                    |
| CIP Fund (General Fund Transfer In) | \$614,000                    |
| Private Donations                   | \$1,248,000                  |
| <b>Total</b>                        | <b>\$5,707,000</b>           |

**EXPENDITURES**

Expenditures in FY 2015/16 match available funding needs at \$5,707,000. Town funding is included for drainage projects, streets and transportation projects, facilities projects, parks projects and civic center design. The following are *major* project expenditures:

| <b>Project</b>                        | <b>FY 2015/16 Funding</b> |
|---------------------------------------|---------------------------|
| Series Street Light Replacement       | \$625,000                 |
| El Camino / Almendral HAWK            | \$250,000                 |
| El Camino Complete Streets Study      | \$200,000                 |
| Streets/Roads Maintenance             | \$700,000                 |
| Belbrook Way Culvert                  | \$170,000                 |
| Park Improvement Program Projects     | \$225,000                 |
| Marsh Road Retaining Wall             | \$750,000                 |
| Drainage Improvement Projects         | \$150,000                 |
| Bike/Ped Master Plan Program Projects | \$100,000                 |
| Atherton Library                      | \$631,000                 |
| Atherton Civic Center                 | \$1,796,000               |
| <b>Total</b>                          | <b>\$5,597,000</b>        |

Other expenditures include traffic safety and control devices programs, accessibility improvements. All capital improvement projects are explained in detail within the 5-Year CIP.

As noted above, the Town has various funding sources for Capital Projects. At the conclusion of FY 2015/16, some of the funds will have remaining balances available for future capital projects. Staff has removed the Library Fund, Donations, and Facilities funds as these may only be used for the Civic Center Project. In addition, staff has added an estimated annual revenue expectation so that the Council is aware of what future revenue stream the fund provides.

| <b>Funding Source</b> | <b>FY 2015/16<br/>Remaining Balance</b> | <b>Estimated<br/>Annual Revenue</b> |
|-----------------------|---|-------------------------------------|
| Special Parcel Tax    | \$24,078                                | \$1,488,000                         |
| Gas Tax               | \$25,681                                | \$225,000                           |
| Measure M             | \$35,881                                | \$75,000                            |
| Atherton Channel Fund | \$3,706                                 | \$96,300                            |
| Measure A             | \$21,183                                | \$305,000                           |
| CIP Fund              | \$86,827                                | \$0                                 |
| <b>Total</b>          | <b>\$197,356</b>                        | <b>\$2,189,300</b>                  |

Absent the Civic Center Project, the 5-Year CIP will match the available funding on a “save/spend” basis to conduct basic study, design, engineering and construction of the Town’s capital infrastructure. Capital projects can only be undertaken as funding becomes available. Grants are always sought for current and future capital projects as part of the process.

Projects in the bicycle/pedestrian, drainage, and Park master plans will only be undertaken when funding comes on line. The Parcel Tax is the Town’s primary source for funding capital projects. Without the Parcel Tax, the Town’s capital infrastructure program would face a critical loss.

The 5-Year CIP reflects expenditures of \$47.6 million over the course of 5 years. The bulk of those expenditures are for the Civic Center Project totalling \$34.7 million. The remainder are Town-wide capital projects totalling approximately \$13 million over 5 years - \$7.5 million of that total is attributable to the Special Parcel Tax.

**OVERALL SUMMARY**

For FY 2015/16 the Town’s General Fund Revenues are projected at \$12,618,291 (excluding the Special Parcel Tax revenue of \$372,000) against expenditures of \$11,798,069. When the Special Parcel Tax is included, the budget is balanced with a positive balance of \$1,192,222.

Excess ERAF (estimated for FY 2015/16 at \$1,200,000) is reserved for one-time capital projects and/or the elimination of long-term liabilities. ERAF for FY 2015/16 has not yet been designated and is shown below incorporated into the Town’s unallocated General Fund balance.

**Reserve Calculations**

The FY 2015/16 projected year-end fund balance is \$3,800,000. This is after all required reserves and fund transfers, to include a \$2,309,041 transfer to the CIP for Future Capital

Improvement Needs. After adding in the anticipated FY 2015/16 Excess ERAF at \$1,200,000, the remaining estimated unallocated General Fund balance projected at year-end is \$5,000,000.

|   |                     |
|---|---------------------|
| <b>Beginning Balance June 30, 2015</b>                      | <b>\$11,477,070</b> |
| General Fund Revenues                                       | \$12,618,291        |
| Parcel Tax Revenue to General Fund                          | \$372,000           |
| <b>Total Available Fund Balance</b>                         | <b>\$24,467,361</b> |
| FY 2015/16 Projected Expenditures                           | (\$11,798,069)      |
| 15% Emergency Reserve Requirement                           | (\$1,769,710)       |
| 20% Contingency Reserve Requirement                         | (\$2,359,614)       |
| Capital Facilities Replacement Reserve                      | (\$505,000)         |
| <b>Remaining Fund Balance</b>                               | <b>\$8,034,968</b>  |
| Workers' Compensation Contribution                          | (\$631,243)         |
| OPEB Contribution   | (\$680,684)         |
| CIP Transfer  | (\$614,000)         |
| Transfer for Future Unidentified CIP projects               | (2,309,041)         |
| <b>Remaining Fund Balance</b>                               | <b>\$3,800,000</b>  |
| Projected FY 2015/16 ERAF                                   | \$1,200,000         |
| <b>Ending Unallocated Balance June 30, 2016 (Estimated)</b> | <b>\$5,000,000</b>  |

As shown above, the Town will meet its 35% reserve requirements at year-end for FY 2015/16 and we also project, inclusive of ERAF, an additional unallocated reserve of 42% of FY 2015/16 expenditures.

**Capital Facilities Replacement Reserve replaces Building Reserve**

The building reserve was established to account for any rollover permits when the Town transitioned from in-house staff to contract staff. There is no requirement to maintain the reserve and it is no longer needed as a funding source. The funds may be rolled into the Town's unallocated General Fund Reserve. The City Council directed that the \$505,000 in Building Reserve be renamed *Capital Facilities Replacement Reserve*; that this reserve be listed with the Town's other reserves; and, once annual allocation is determined, that it become a part of the Town's reserve policy. The transfer amount to the Capital Replacement Reserve on an annual basis will be determined when the Town knows the full infrastructure cost of the new buildings upon which to base a value of depreciation.

**Allocation of Unallocated General Fund Reserve**

As discussed above, the Town's Special Parcel Tax provides critical funding to the Town's CIP. Without the Special Parcel Tax, the Town's ability to keep up with its capital infrastructure needs is significantly hampered. Over the next 5 years of programmed capital improvements (excluding the Civic Center Project), \$7.5 million comes from the Special Parcel Tax. Elimination or reduction of the Special Parcel Tax will necessarily force the Town to use its unallocated General Fund Reserve for its basic 5-Year CIP. Staff recommended and the City Council supported an allocation of the unallocated General Fund Reserve to the Town's Capital

Improvement Fund to assist in accumulating funds for future capital projects. The Special Parcel Tax will expire in 2017/18. As the Town considers whether to ask the voters to renew the Special Parcel Tax, and if so, at what amount, it would be prudent to have funds available for specific future capital projects. The FY 2015/16 transfers \$2,309,041 from the General Fund Unallocated reserve balance to the Capital Improvement Program Fund 401 for future *unidentified* capital projects.

### **POLICY FOCUS**

In conclusion, this budget presents a plan for accomplishing the goals and objectives of the City Council within existing resources and in accordance with the Town's budget philosophy and mission. While the economy continues to show signs of growth, the increasing cost of providing basic services with the increased demand for services and programs continues to present challenges for local municipal budgets. Atherton is no exception. The Town will always be looking to consider new operating revenue sources in future years to continue to meet the high standard of services and programs that the community has come to expect and deserve. Town staff will continue to work efficiently and creatively to maximize available revenues by seeking outside grants, forging community and regional partnerships, and drawing upon the imagination and commitment of our community and staff. .

The City Council, as the Town's governing body, establishes policies for the Town. As part of its leadership the City Council adopts an annual budget. The attached document contains the funding recommendations for FY 2015/16 for all programs and services, to include the capital improvements. The Town's Annual Budget serves as the Town's annual policy document.

### **FISCAL IMPACT**

This is the proposed budget for FY 2015/16 and this budget document with Council adoption sets the appropriations for the fiscal year.

### **PUBLIC NOTICE**

Public notification was achieved by posting the agenda, with this agenda item being listed, at least 72 hours prior to the meeting in print and electronically. Information about the project is also disseminated via the Town's electronic News Flash and Atherton Online. There are approximately 1,200 subscribers to the Town's electronic News Flash publications. Subscribers include residents as well as stakeholders – to include, but be not limited to, media outlets, school districts, Menlo Park Fire District, service providers (water, power, and sewer), and regional elected officials.

The Town maintains a Fiscal Transparency web portal and includes all budget information on its website. Links to these various areas are below:

Fiscal Transparency Web Page:

<http://www.ci.atherton.ca.us/index.aspx?NID=269>

Archive of Town Budgets:

<http://www.ci.atherton.ca.us/index.aspx?nid=273>

Financial Data Portal (OpenGov):

<http://www.ci.atherton.ca.us/index.aspx?nid=361>

Financial Audit

Archive: <http://www.ci.atherton.ca.us/Archive.aspx?AMID=39&Type=&ADID=>

Actuarial Valuations Archive:

<http://www.ci.atherton.ca.us/Archive.aspx?AMID=61&Type=&ADID=>

Labor Contracts, Agreements, and Salary/Benefit Information:

<http://www.ci.atherton.ca.us/index.aspx?nid=192>

## **ATTACHMENTS**

List of Membership Organizations in City Council Department Budget  
FY 2015/16 Operating Budget Document of the Town

**CITY COUNCIL  
MEMBERSHIP AND DUES**

| <b>Organization</b>         | <b>Request</b> | <b>Mandatory</b>   | <b>Methodology</b>   | <b>Historic \$</b> | <b>Benefit</b>  | <b>Action</b> |
|-----------------------------|----------------|--|--|--------------------|---|---------------|
| LAFCO                       | \$1,348        | Yes, G.C. 56381  | Net Operations Budget 1/3 to County, Cities, Districts. Calculated as % of Town Revenue over total Revenue of Cities in County | \$1,348            | Reviews proposals for the formation of local agencies, special districts, and reviews changes in agency sphere's of influence   | Fund          |
| C CAG                       | \$2,460        | Yes (Regional Council of Gov'ts)   | % of operating budget and by town population   | \$2,386            | C/CAG deals with issues that affect transportation, air quality, storm water runoff, hazardous waste, solid waste and recycling, land use near airports, and abandoned vehicle abatement for governments. | Fund          |
| League of California Cities | \$3,935        | No; but beneficial as lobbyist group and legislative resource  | Population of 5,001 to 7,500 league dues \$3,935   | \$3,935            | Association of California cities, counties, and towns working together to enhance & combine resources so they may influence policy decisions  | Fund          |
| HEART                       | \$2,275        | No; but, all cities in the County Contribute to address regional housing issues.                                   | Basic annual dues  | \$2,275            | Public Private partnership to create more affordable housing opportunities in the County  | Fund          |
| HIP Housing                 | \$2,500        | No; but, HIP Housing is identified within the Town's General Plan as a means of assisting with affordable housing. | Population based.  | \$2,275            | Invest improving housing for people with needs either from income or circumstance<br>HIP Housing provides Home Sharing, Self-Sufficiency and Property development   | Fund          |

**CITY COUNCIL  
MEMBERSHIP AND DUES**

| <b>Organization</b>                 | <b>Request</b>  | <b>Mandatory</b>   | <b>Methodology</b> | <b>Historic \$</b> | <b>Benefit</b>   | <b>Action</b>                                       |
|-------------------------------------|-----------------|--|--------------------|--------------------|--|---|
| Joint Venture Silicon Valley (JVSV) | \$1,000         | No; but could mention the contribution as a policy within the Town's sustainability element. | Population based.  | \$250              | Economic development alliance provides analysis and action on issues affecting our region's economy and quality of life spotlight issues and work toward innovative solutions. | Fund @ \$250 – Suggest Annual Presentation/ Request |
| Sustainable Silicon Valley          | \$500           | No; but could mention the contribution as a policy within the Town's sustainability element  | Population based.  | \$250-<br>\$500    | Multi-stakeholder collaborative initiative to produce significant environmental improvement and resource conservation in Silicon Valley  | Fund @ \$500 – Suggest Annual Presentation/ Request |
| San Mateo County Jobs for Youth     | \$570           | No.  | Population based.  | \$570              | Jobs for Youth program designed to help young people develop their job skills  | Fund – Suggest Annual Presentation/ Request         |
| <b>Totals</b>                       | <b>\$14,588</b> |  |                    | <b>\$13,439</b>    |  | <b>\$13,838</b>                                     |