



## Item No. 2 Town of Atherton

### **CITY COUNCIL STAFF REPORT – STUDY SESSION AGENDA**

**TO: HONORABLE MAYOR AND CITY COUNCIL**

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

**DATE: JANUARY 18, 2017**

**SUBJECT: CIVIC CENTER PROJECT – REVIEW, DISCUSS AND PROVIDE STAFF  
WITH FEEDBACK REGARDING FUNDING STATUS AND OPTIONS**

### **RECOMMENDATION**

Review, Discuss and provide staff with feedback regarding funding status and options for the Civic Center Project.

### **BACKGROUND**

When Measure L was approved in November 2012 it stated as follows:

*“Should the Town of Atherton use funds primarily from private donations to construct a new Town Center? Other funding sources might include funds derived from Building fees or future grant money, but would not use general fund or parcel tax money.”*

The summary and impartial analysis of the measure stated that a “YES” vote restricts the types of funds that could be used for the new Town Center improvements, to generally requiring that other non-tax sources, such as Building fees and grants, be used. Other funding sources cannot include general fund tax money or parcel tax funds without further voter approval.

Measure L is clear with respect to restrictions on the use of general fund or parcel tax funds. Building fees may be used in proportion to the development requirement within the project. The specific use of special parcel tax funds is further restricted within its own approving measure (Measure X, 2013) restricting those funds to the funding of “...public safety and crime prevention services and capital improvements for street, drainage and flood control projects...”

Should non-tax sources fall short of the funding requirements, in order for the Town to use available General Funds or use other tax revenue sources, such as Enhanced Infrastructure Financing Districts (EIFD), Bond Measures, or Certificates of Participation, for the project, Measure L must be returned to the voters and the restriction on the use of General Funds must be removed. The soonest this can occur is June 2017 as a Special Ballot Measure. In order to use the

current or an enhanced Parcel Tax, Measure L must be returned to the voters to remove the restriction on the Parcel Tax (June 2017) and the Special Parcel Tax Measure must also be returned to the voters (November 2017) to modify the expenditure restrictions within the Measure.

## **FINDINGS/ANALYSIS**

### **Atherton Now – Donation Status**

The latest funding report from Atherton Now is November 2016. This was provided to the Council in December 2016. The Report advised that they are pursuing a campaign goal of \$10 million by the end of the 2016 and received a \$1 million challenge grant. As of December 1, 2016, Atherton Now reported Total Cash and Pledges of \$6,074,727. Atherton Now has remitted \$958,165 to the Town in support of the Design Phase of the Project. A payment of \$780,526 is anticipated in February 2017. Of the \$6,074,727 total funds, \$2,844,262 remains in pledge form.

For the purposes of this Report, it is estimated that Atherton Now will continue to fund raise over the coming months and will reach approximately **\$7,000,000 in total available funds**. There is concern that if the Town were to attempt to revise Measure L; some donors may pull their remaining funds/pledges from Atherton Now and the donation amount available will be reduced. However, given that Atherton Now has publicly reduced its original campaign goal of \$25 million down to \$10 million, an amount less than required to fund the project, it is hoped that this has been communicated to donors and any restrictions on funding have been removed.

### **Design Costs**

The initial design cost for the Civic Center Project was \$3,220,080. The Community Development Department (CDD) – Building & Planning – component of this cost was \$257,606 (8%) and the Atherton Now portion was \$2,125,253 (66%). The Library portion of the project (based on square footage) is approximately 26% picking up the remainder at \$837,221. As reported earlier, the CDD component increased based on allocated square footage from 8% to 13.6% (\$437,931) resulting in a corresponding reduction in the Atherton Now portion to 60.4% or \$1,944,928. Staff anticipates that design costs may rise to approximately \$3,500,000 based on design revisions and process changes (estimate is for the purposes of this Report only – the actual amount may be different). This estimate results in design cost allocations of \$476,000 to CDD and \$2,114,000 to Atherton Now.

Assuming Atherton Now reaches the estimated \$7,000,000 in contributions, there will be \$4,886,000 remaining for construction.

### **Project Cost Estimates**

The Library component of the project is fully funded with separate Library Funds and is not included in this Report for ease of discussion. Further, the remaining project has been segregated into base bid components and add-alternates. Add-alternates are also not included in this Report for the purposes of discussion. Alternates for the remaining project include:

- Energy Monitoring Systems

- Micro-Grid System
- Photovoltaic Systems
- Mechanical Chilled Water Thermal

These add-alternates have cost estimates, but construction would only proceed with dedicated funding. Design of the above must be incorporated into the design costs for the project.

The 50% Design Development Cost Estimate provides a construction estimate of \$17,259,000 and a site work estimate of \$4,588,000 for a **total construction estimate of \$21,847,000**. This amount excludes some furniture and fixtures, but includes a contingency for design development of 7-8% and a cost escalation factor of 5%. Basic assumptions are a start date of August 2017, prevailing wage, 20-month construction, and no phasing requirements. It does not include any cost escalation if the project starts later than August 2017, includes no substantial changes to the corporation yard, does not include loose furniture and fixtures, and does not include any scope changes. As the Council is aware, there may be changes to the preceding.

#### Available Other Funds

The following discussion assumes that Measure L is overturned in June 2017 to allow the Town to use General Funds toward the project as well as the remaining donation funds.

**With a total construction estimate of \$21,847,000, subtracting the remaining Atherton Now funds of \$4,886,000 leaves a funding gap of \$16,961,000.**

#### *Building Fee Funds*

A portion of this gap is funded via the Building Facilities Fund. This fund had an initial amount of \$2,100,000. This amount will be reduced by the design cost allocation of \$476,000 leaving approximately \$1,624,000. As discussed prior, the initial amount was short by approximately \$1,200,000 based on allocated space in the new building. A portion of the difference can be made up by transfer from the Building Reserve Fund (established by the Council in 2014 from excess Building Fees) of \$505,000 and approximately \$330,000 in available Construction Time Limit Penalty fees. **This leaves available building funds for construction of \$2,459,000**, still short, but allocating other funds without raising building fees would redirect funds from the Town's basic operating general fund revenues.

**Reducing the funding gap of \$16,961,000 by \$2,459,000 leaves \$14,502,000.**

#### *Unallocated Surplus Funds*

Since FY 2011/12, the Town has been fortunate to have benefited from rising property values, an increase in ERAF contributions, cost-controlled budgeting, and prudent fiscal management. We have set funds aside within the Town's General Fund Unallocated Funds and Capital Improvement Fund. There is \$4,663,980 within the Town's General Fund as Unallocated Surplus and \$4,423,138 saved within the Town's CIP Fund – presently not allocated to any specific project.

**Reducing the funding gap of \$14,502,000 by \$9,087,118 leaves \$5,414,882.**

*ERAF Funds*

The Town receives an annual ERAF allocation from the State via the County of San Mateo. The Town could allocate anticipated ERAF to the Project. Taking this action would affect the ability of the Town to use the next two years of ERAF toward reduction of specific pension or OPEB liabilities. In FY 2016/17, the Town's unallocated ERAF is \$1,103,185. The Town can expect ERAF in FY 2017/18 of approximately \$1,000,000.

**Reducing the funding gap of \$5,414,882 by \$2,103,185 leaves \$3,311,697.**

Does This Affect Our Allocated Reserves?

No. Using the Town's unallocated General Fund surpluses does not affect the Town's mandatory allocated reserves. We retain \$3,713,724 in reserves that will remain untouched.

Does This Affect Our Parcel Tax Revenue?

No. The Town receives \$1,860,000 per year in Parcel Tax Funds. The revenue measure is scheduled to be renewed in November 2017. If the revenue measure is not modified and is passed as it is currently established, the Town will continue to receive \$1,860,000 and may allocate it each year per Council policy. Current allocation is 80% to the Town's CIP - \$1,488,000 and 20% to Public Safety - \$372,000.

If the Town uses unallocated CIP funds for the Project and the Special Parcel Tax fails to pass in November 2017, there will be significant impact to CIP projects since the Special Parcel Tax is a primary component of the Town's Capital Improvement Program.

Are There CIP Projects in the 5-Year CIP That Are "At Risk"?

Assuming the Special Parcel Tax continues, if the Town allocates the unallocated surplus to the Civic Center Project, does the action put any of the projects in the 5-Year CIP at risk? Yes. The following is a list of the Town's current CIP Projects funding in the current FY and out years.

Projects in italics are "at risk."

- Series Street Light Project – Funded at \$753,000 with Parcel Tax, and Measure A. This project would remain FULLY FUNDED.
- Traffic Control Devices – Funded at \$75,000 with Measure A. This project would remain FULLY FUNDED.
- Traffic Safety Improvement Program – Funded at \$250,000 with Measure A. This project would remain FULLY FUNDED.
- ECR HAWK – Funded at \$127,339 with Parcel Tax. This project would remain FULLY FUNDED.

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- ECR Complete Streets – Funded at \$200,000 with Parcel Tax. This project would remain FULLY FUNDED.
- Bike/Ped Master Plan Projects – Funded at \$2,834,000 with Parcel Tax and Capital Improvement Fund in FY 2016/17. This includes the \$1.5 million Middlefield Project. This project would remain FULLY FUNDED. However, it is anticipated that the project will not be fully implemented.
- Quad Gates Study – Funded at \$100,000 with Parcel Tax. This project would remain FULLY FUNDED. However, it is anticipated that this project funding will not be required.
- Road Maintenance Program – Funded at \$4,775,000 with Parcel Tax, Measure A, Gas Tax, and Measure M. This project would remain FULLY FUNDED.
- Bridge Maintenance Program – Funded at \$250,000 with Parcel Tax, Gas Tax, and Measure M. This project would remain FULLY FUNDED.
- NTMP – Funded at \$125,000 with Measure A. This project would remain FULLY FUNDED.
- Drainage Improvement Program – Funded at \$3,000,000 with Parcel Tax and Atherton Channel Funds. This project would remain FULLY FUNDED.
- Upper Channel Monitoring – Funded at \$40,000 with Atherton Channel Funds. This project would remain FULLY FUNDED.
- Belbrook Way Culvert Repair – Funded at \$350,000 with Measure A. This project would remain FULLY FUNDED.
- Marsh Road Project – Funded at \$300,000 with Parcel Tax. This project would remain FULLY FUNDED.
- ADA Program – Funded at \$160,000 with Parcel Tax and Capital Improvement Fund. There is \$40,000 AT RISK (\$10k per year in out years).
- Atherton Library – Funded at \$8,335,200 with Library Funds. This project would remain FULLY FUNDED.
- Civic Center Project – Funded at \$23,674,278 with donations, Capital Improvement Funds, and Building Capital Funds. Currently under discussion.
- Town Center Repairs – Funded at \$52,500 with Capital Improvement Fund. These funds are AT RISK, but with the new Civic Center may not be needed.
- Park Improvement Program – Funded at \$740,000 with Capital Improvement Funds. There is \$505,000 AT RISK in out years. The specific projects are portions of the Pedestrian Circulation, Pavilion Parking Lot Turn Around, Vehicular Circulation, and Relocation of the Pre-School. Relocation of the pre-school is the largest amount at \$350,000.

What about the Town’s Master Plans and Long-Range Projects?

The Town’s CIP addresses the short-term priority projects. The Town’s financial posture with respect to long-range priority projects is “save then spend” allocating ERAF, excess revenues over expenditures, and grants toward these larger projects.

What about Excess Revenues over Expenditures Year over Year?

It is anticipated that the Town’s current revenue picture will be maintained; however, it is also anticipated that there will be increases to employment costs and overall operating expenditures. These excess revenue funds will be used to maintain the Town’s positive financial picture. However, in FY 2016/17, there is an anticipated \$1,285,323 in General Fund Revenues over General Fund Operating Expenditures. The City Council allocates these funds out to the various buckets of CIP, unallocated surplus, etc. This is *before* the addition of and transfers into the General Fund of ERAF and the 20% Parcel Tax. It is anticipated that this revenue over expenditure trend will continue but the amount may fluctuate year to year. These funds may be committed to the Civic Center Project funding gap or to some debt service financing alternative. They are not included in the above calculations but they would reduce the funding gap.

What are some of the options for funding the project and what do they look like?

There are various funding options available for consideration by the Council to address the funding of the project whether it is funding the project in its entirety or funding all or a portion of the project. To use any of these options, Measure L must be overturned. The options include:

*Enhanced Infrastructure Financing Districts (EIFDs)*

An EIFD may be created within the Town and it may be used to finance the construction or rehabilitation of public infrastructure. The EIFD funds these improvements with the property tax increment of the taxing agencies within the boundaries of the EIFD with their consent (cities, counties, special districts, etc. – not schools). To create an EIFD, the legislative body forms a Public Financing Authority (PFA) made up of 3 members of the City Council. If there is more than one taxing entity in the EIFD (depending on the underlying parcels within the EIFD itself), the majority of the PFA must be members of the legislative bodies of the taxing entities with at least two public members.

EIFD were created as a replacement for redevelopment agencies and function in similar ways. Once the PFA is formed, it may issue bonds payable from funds within the district with 55% voter approval of either the voters or landowners within the District. Each landowner has one vote for each acre or portion of acre of land owned. Revenue from property tax increment is used for debt service on the bonds issued. When using “tax increment financing,” tax revenue within a district area is split into two components: base revenue – the amount available before the district is established; and incremental revenue – the new revenues in excess of the base revenue generated *after* the development project. Exclusive use of the incremental revenue is given to the entity establishing the district (the Town) to generate a revenue stream to underwrite the proposed project (bonds).

The Town does not own enough taxable property to fund the project using its own tax increment. If the Town were to form a town-wide EIFD, all of the taxing entities (except schools) in the EIFD area would need to agree to freeze their property tax increment at a specified amount and commit increases to the Town in order to finance the bonds issued to build the Civic Center Project. EIFDs (like Redevelopment Project Areas) function best when there is a singular parcel or land area in question, owned by the underlying agency that will be redeveloped for a higher and better use and the district is solely that area.

While an EIFD may be used as a vehicle, staff does not recommend its use in this case. If an EIFD is a selected option, staff recommends engaging a financial consultant to assist the Town with the process.

### *Certificates of Participation (COP)*

COPs are financing techniques that provide long-term financing through a lease or installment sale agreement. Typically, local governments use COPs when issuing and leasing property to themselves. Under California law, COPs do not constitute indebtedness and do not require voter approval. COPs allow the public to purchase participation in a cash flow stream related to the developed project. That cash flow stream can be guaranteed by future revenues to the Town via installment payments on the debt.

In a typical COP financing structure, an issuer – the Town – enters into a financing lease or installment sale agreement and instructs the bank serving as a trustee, in exchange for money, to execute and deliver certificates of participation in the lease to finance the project. The issuer uses the COP proceeds to fund the project. The issuer – the Town – is designated as the lessee. The Town would establish a second entity, such as a Joint Powers Authority or Non-Profit Corporation, designated as the lessor. The lessee would then lease the project being financed to the lessor. The lessor then leases the project back to the lessee in exchange for installment payments (debt).

COP financing structures are generally used for long-term financing of major public projects such as Administration Buildings, Water and Sewer Systems, Public Safety Facilities, Schools, Courthouses, etc.

Staff believes that COP financing may be a viable alternative to finance some of the funding gap or the gap+. The amount financed would be dependent on the length of financing and debt service that the Town could afford under its present and future operational revenue. This option would also allow the community to “invest” with a return on that investment in the Project. An example of financed amounts and the required debt service are shown below with a 5-year COP and interest at 5%.

<b>COP Amount</b>	<b>COP Amount with Interest</b>	<b>Annual Debt Service for 5 Years</b>
<b>\$2,000,000</b>	\$2,285,175	\$457,034
<b>\$3,000,000</b>	\$3,427,762	\$685,552
<b>\$4,000,000</b>	\$4,570,350	\$914,070
<b>\$5,000,000</b>	\$5,712,938	\$1,142,586
<b>\$6,000,000</b>	\$6,855,525	\$1,371,104

Staff recommends a financial consultant to assist the Town with the financing measure.

*Special Bond Measures*

Another option for consideration would be the issuance of general obligation (GO) bonds. GO bonds are issued as debt by a local public entity. The bonds pledge the “full faith and credit” of agency as security for payment of principle and interest to bond holders. GO bonds require a two-thirds vote for issuance for specific projects.

GO bonds are the most secure type of municipal securities available and therefore usually attain the lowest interest costs of other comparable long-term securities. The issuer – the Town – is authorized by the voters to levy an ad valorem tax on all taxable property within the jurisdiction at any rate necessary to collect enough money each year to pay for principal and interest coming due on the outstanding bonds.

GO bonds are generally used for long-term financing of major public projects such as Administration Buildings, Water and Sewer Systems, Public Safety Facilities, Schools, Courthouses, Libraries, Public Works improvements, etc.

Staff believes that GO bonds may be a viable alternative to finance all of the funding gap or the gap+; however, this option would represent a new tax and would trigger a 2/3-vote required measure in November 2017. An example of bond amounts and the required debt service are shown below with interest at 5% and a 5-year bond.

<b>Bond Amount</b>	<b>Amount with Interest</b>	<b>Annual Debt Service</b>	<b># of Parcels</b>	<b>Optional 1-time Payment/Parcel</b>	<b>Payment Over 5-Years</b>
<b>\$2,000,000</b>	\$2,519,040	\$503,808	2,500	\$1,008	\$202
<b>\$3,000,000</b>	\$3,775,800	\$755,160	2,500	\$1,510	\$302
<b>\$4,000,000</b>	\$5,038,080	\$1,007,616	2,500	\$2,015	\$403
<b>\$5,000,000</b>	\$6,294,840	\$1,258,968	2,500	\$2,518	\$504
<b>\$6,000,000</b>	\$7,551,600	\$1,510,320	2,500	\$3,021	\$604

Staff recommends a financial consultant to assist the Town with the financing measure.

*Parcel Tax Increase*

A final option for consideration by the Council is the possibility of adding an specified amount to the existing Special Parcel Tax for the November 2017 ballot measure. The Council could add a short-term (2 year or 3 year) provision to the Parcel Tax Measure in November to fill some or all of the funding gap. A two-year, \$500 per parcel addition to the Parcel Tax (i.e. sunset after 2-years) would raise approximately \$2.5 million.

Staff believes that augmenting the Parcel Tax may be a viable alternative to finance all of the funding gap or the gap+; however, this option would represent a new tax and would trigger a 2/3-vote required measure in November 2017.

### Other Options

The Council also has a number of other options that could be considered. These include:

#### *Reducing Project Scope*

The Council could set a project budget based on available funding and direct staff to reduce the project in scope to match the identified budget. Staff has recently been through this exercise already with the CCAC and project architect and eliminated nearly 3,000 square feet from the facility. While there may be additional reductions possible, staff does not anticipate that these reductions would materially affect the cost; and, these reductions would trigger additional architectural design costs.

#### *Postpone Project Until Funds Can Be Saved*

The Council could direct staff to postpone the project and save additional revenues until the funding gap is met. Postponing the project will create additional costs through construction cost escalation. However, doing so will also allow Atherton Now to continue to fund raise for the project. Staff would still suggest that Measure L be considered for the ballot in June 2017. It is likely that the Library could begin construction as a separate project under this alternative; however, the site work and other improvements would have to be de-coupled and modified to allow this to occur.

Staff is not able to identify the exact cost impact of this alternative.

#### *Scrap the Project*

Finally, staff would be remiss if we did not mention a final alternative of scrapping the project in its entirety. While the new Town Center Project would be eliminated, the Town would need to renovate or rehabilitate the existing structures in the near term. The Town could use existing surplus funds (approximately \$9 million) to renovate the existing historic Town Hall in connection with the new Library (funded separately) to use as a continued Council Chambers, demolish the Building Department and Police Department temporary buildings, dedicate and renovate the existing City Hall as the Police Department, and build a non-frill pre-fabricated permanent structure to serve as administration and community development. There would be limited site work with this option.

Staff does not know what the cost would be for this option or what the final product would look like; however, it is clear that the only facility that could be maintained as currently designed would be the Library since it has a separate funding source. All others would be rehabilitated existing structures or new prefab facilities. The existing site would be retained to a significant degree.

### **POLICY CONSIDERATIONS**

Staff is seeking policy feedback on the funding options to pursue further and whether to proceed with steps to consider changes to Measure L and general discussion of funding alternatives.

Specific direction to staff regarding Measure L will be considered as an action item under the Regular Agenda.

**FISCAL IMPACT**

None at this time.

**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 item 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.

**ATTACHMENTS**

None.