



AGENDA
ATHERTON CITY COUNCIL

August 24, 2004

6:00 P.M.

NOTE TIME

Meeting Room

Town Administrative Offices

91 Ashfield Road
Atherton, California

Special Meeting

6:00 P.M. ROLL CALL Janz, Marsala, Carlson, McKeithen, Conwell

6:02 P.M. PUBLIC COMMENTS

6:05 P.M. CLOSED SESSION

A. CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION

Significant exposure to litigation pursuant to subdivision (b) of Government Code Section 54956.9:

One potential case

Initiation of litigation pursuant to subdivision (c) of Government Code Section 54956.9:

One potential case

B. CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION

pursuant to subdivision (a) of Government Code Section 54956.9:

**Teamsters Local 856 v. City of Atherton
San Mateo County Superior Court, Case No. 429950**

RECONVENE TO OPEN SESSION

Report of action taken.

ADJOURN

Agendas and staff reports may be accessed on the Town website at: www.ci.atherton.ca.us

☛ Please contact the City Clerk's Office at 650.752.0529 with any questions

Pursuant to the Americans with Disabilities Act, if you need special assistance in this meeting, please contact the Park Program Manager at (650) 752-0534. Notification of 48 hours prior to the meeting will enable the Town to make reasonable arrangements to ensure accessibility to this meeting. (29 CRF 35.104 ADA Title II)



AGENDA
Town of Atherton
CITY COUNCIL/ATHERTON CHANNEL
DRAINAGE DISTRICT

August 24, 2004

6:30 p.m.

TOWN COUNCIL CHAMBERS

94 Ashfield Road
Atherton, California

SPECIAL MEETING

- 6:30 P.M. 1. **PLEDGE OF ALLEGIANCE**
- 6:31 P.M. 2. **ROLL CALL** Janz, Marsala, Carlson, McKeithen,
Conwell
- 6:32 P.M. 3. **PUBLIC COMMENTS**

REGULAR AGENDA

- 6:35 P.M. 4. **DISCUSSION OF ALTERNATIVES RELATIVE TO
SPECIAL MUNICIPAL TAX FOR SUPPORT OF
OPERATING AND CAPITAL EXPENDITURES AND
EVALUATION OF REVENUE ENHANCEMENTS AND
COST-SAVING OPTIONS**
5. **ADJOURNMENT**

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Town of Atherton

CITY COUNCIL STAFF REPORT

TO: HONORABLE MAYOR AND CITY COUNCIL
FROM: JOHN P. JOHNS, FINANCE DIRECTOR
DATE: FOR THE MEETING OF AUGUST 24TH, 2004
SUBJECT: ANALYSIS OF REVENUE ENHANCEMENT AND COST SAVINGS OPTIONS

RECOMMENDATION:

Accept staff's report on cost savings and revenue enhancement opportunities identified within the body of this report.

INTRODUCTION:

During the regularly scheduled City Council meeting of July 21st, 2004, the City Council adopted Ordinance Number 550 calling for a special municipal election to renew the Parcel Tax. The amended ordinance calls for an election to renew the parcel tax at the maximum levy of \$750 per one-half to two acre developed parcel (the classification that pertains to approximately 2,000 of the 2,200 real estate parcels in town).

Additionally, the Council directed staff to assess what further opportunities might be available to reduce or eliminate the imbalance between revenues and expenditures that has been identified in staff's intermediate range financial plan.

The Council also directed staff to identify alternatives to the process of renewing the parcel tax once every four years in the interest of providing a funding source that is more stable and that can better accommodate the Town's financing requirements in the future.

Pursuant to the Council's direction, the report transmitted herein consists of the following elements:

- An update to the intermediate range financial plan for Fiscal Years 2005 through 2009 given additional information that has been forthcoming since preparation of the FY 2004-05 budget (most notably the year-end close of the Town's financial records);
- An analysis of revenue enhancement and cost reduction opportunities available the Town to close the gap General Fund revenues expenditures and expenses during the next several years; and,
- A description of revenue measures that would likely either individually or in some combination thereof generate revenues sufficient to meet the Town's ongoing funding requirements for operations and capital improvements.

Summary of Findings:

- The General Fund balance for the year ended June 30th, 2009 (the final year of the current intermediate range financial plan) is currently projected to be \$3.7 million, or \$1.2 million less than the projected reserve requirements. Additionally the operating loss for FY 2009 is projected to be \$865,000.
- Implementing certain cost reduction and revenue enhancement opportunities described within the body of this report, would generate annual cost savings and increased revenues amounting to \$460,000 and \$268,000 respectively during each of the next several years. Additionally, implementation of these cost savings and revenue enhancement opportunities would result in a June 30th, 2009 fund balance of \$5.7 million, \$843,000 more than the projected required reserve requirement as of June 30th, 2009.
- The amount needed to be derived from one or a combination of supplemental funding sources in FY 2009 and beyond would amount to between \$2 million and \$2.7 million annually, depending upon the extent to which the cost savings and revenue enhancement opportunities described within the body of this report are acted upon
- It is likely that one or some combination the following sources of revenue could generate the \$2 million to \$2.7 million required to fund Atherton's operations and capital improvements beyond FY 2008-09:

- Establishing a special benefit assessment for public safety and/or public works.
- Converting the Town's business license tax ordinance to a gross receipts, rather than flat fee basis;
- Eliminating the four-year sunset provision on a future parcel tax and adopting a provision to increase the parcel tax for inflation;
- Adopting a utility users tax;

However, developing any of these sources of revenue would require voter approval.

Financial Plan Update

To obtain a more precise indication of our revenues, expenditures and fund balance during the next several years, the Finance Department has prepared an update to the intermediate-range year financial plan. This iteration of the financial plan takes into account the results of the year-end audit and other information that has come to the attention of the Finance Department subsequent to the preparation of the FY 2004-05 budget.

This update to the intermediate-range financial plan includes the following changes in assumptions and estimates:

- An increase in FY 2003-04 year-end fund balance of \$192,000 as a result of strong performance in business license taxes, and real property transfer taxes and higher than expected budgetary savings in certain departments, most notably Public Works.
- An increase in expected revenues for property taxes and business license taxes by \$45,000 and \$80,000 respectively due to higher than expected growth in FY 2004-05 assessed values and due to a higher degree of success in implementing the changes in the business licensing procedures than had been anticipated.
- Accumulated compensated absence expenses will increase by \$40,000 annually from FY 2005 through 2009. Additionally, the Town's reserve requirements for compensated absences will grow from \$561,000 for the year ended June 30th, 2004 to \$682,000 for the year ended June 30th, 2009.
- Projections for interest income have been revised to take into account changes in interest rates and available cash balances from FY 2005 through 2009.

- The Town of Atherton will continue to receive supplemental law enforcement funding from the State of California in the amount of \$100,000 per annum.

It should be noted that this version of the intermediate range financial plan continues to assume that \$1 million of the parcel tax proceeds will be allocated to the Town's capital improvement program. However, it is within the discretion of the City council to reallocate more of the parcel tax proceeds to the General Fund if the Council deemed such an action appropriate.

Attachment 1 to this report provides an update to the intermediate range financial plan.

Opportunities available to bring FY 2005 through 2009 revenues and expenditures into balance

Staff has identified the following opportunities to reduce the imbalance between revenues and expenses, during the intermediate-range financial planning horizon

Reductions in force

At present the town has four vacancies, two officers in the Police Department, the City Clerk and the Assistant Finance Director. The long-range financial plan assumes that all four of these positions will be replaced within the next 12 to 24 months. Eliminating funding for three of these four positions (two in Police and one in administration) would generate annual cost savings of \$280,000.

Based upon discussions with the affected departments, such reductions in staffing would likely be accommodated through:

- Converting the city clerk and finance assistant positions from full-time to half-time positions; and
- Reducing the level of staffing dedicated to either traffic, investigations or school resource officer activities within the Police Department;

The intermediate range financial plan further assumes that the general fund cost of staffing the Police Department will increase by \$100,000 in FY 2007 as a result of the return of one full-time police officer assigned to the San Mateo County Narcotics Task Force. (While assigned to the narcotics task force, the cost of this position is being paid for by a consortium of San Mateo County cities.) If the Town decides to eliminate through attrition or some other means one additional public safety position unless an alternative source of funding becomes available, an additional \$100,000 in annual savings would be realized. (As an example, as much as \$90,000 annually may become available as early as October 2004 by deploying one officer to the San Mateo County REACT task force.)

Increase solid waste franchise fees from 5% to 10% of Gross Receipts

According to the franchise agreement with Browning Ferris Industries, the contractor is obligated to pay the Town a Franchise fee equivalent to 5% of gross receipts. This franchise fee identified as a cost that is subject to inclusion in BFI's costs for rate calculation purposes. Hence, any increase in the franchise fee would ultimately be borne by the ratepayers.

Assuming that the franchise fee were increased from 5% to 10%, the cost born by each household would amount to approximately \$40 annually. The amount of revenue to the general fund would be \$80,000 annually.

Utilize available cash balances to reduce the unfunded liability in the Town's public safety pension plan.

Based upon the most recent actuarial estimates, the Town has an unfunded pension liability for its public safety employees of \$1.9 million. According to PERS, this unfunded liability is being amortized over a term of 20 years. Additionally, PERS calculates its rate of return on its pension assets of 7.75 percent annually.

By comparison the rate of return on funds invested with the State of California and with the County Treasurer is approximately 3 percent per year. Consequently utilizing \$1 million of the Town's available cash reserves to paying down its unfunded liability would generate a savings of approximately \$40,000 annually in the cost of funding public safety pension benefits net of the interest earnings forgone as a result of this \$1 million one-time payment.

Increase operating transfers from the Road Impact Fee and Library funds.

In FY 2003-04 the Town appropriated an operating transfer from the Gas Tax and the Road Impact Fee funds in the amount of \$352,000. The amount of this operating transfer was equivalent to 50 percent of the Public Works Department's budget for street maintenance. The operating transfer of \$352,000 constituted a \$152,000 increase over the amount of the operating transfer in the previous fiscal year. Additionally, the intermediate range financial plan assumed that the increase would be effective for only one year. By making the operating transfer effective for the duration of the intermediate-range financial plan, an additional \$152,000 would be available to finance current operations.

The intermediate range financial plan made no provision for assessing the Library Fund an annual fee to cover the costs of facility depreciation as well as for the opportunity cost of utilizing 2 Dinklespiel Lane for the exclusive use of the Library. Establishing a payment in-lieu of rent by way of an operating transfer from the Library Fund to the General Fund would generate an additional \$36,000 annually. (Staff needs to further evaluate the feasibility of this alternative.)

Implement a cap on accumulated compensated absences

In FY 2003-04 the amount of accumulated compensated absences amounted to \$561,000. Additionally, this liability is expected to continue to grow by an average of \$40,000 per year for each of the next four years. This is due to the fact that some employees have chosen to bank their vacation hours rather than use them and that the value of accumulated compensated absences grow as the employee's compensation grows.

Based upon an analysis prepared by the Finance Department, the cost of carrying compensated absences could be reduced by \$380,000 over the next several years if the Town were to:

- Establish a cap in the amount of 320 hours per employee for accumulated leave balances; and
- Requiring employees with balances in excess of the 320 hour cap to work off such balances within a specified time frame.

Implementation of these provisions would generate cost savings of \$40,000 annually. Additionally, the accumulated compensated absence reserve requirements from a projected \$682,000 to \$300,000. However, to achieve such savings, a meet and confer process with the affected bargaining units would have to take place.

The following table provides a summary of these cost savings and revenue enhancement opportunities:

Item	Cost Savings	Increased Revenues
Reductions in force	\$ 380,000	
Increase solid waste franchise fees		80,000
Pay down unfunded pension benefit obligation	40,000	
Increase operating transfers to the General Fund		188,000
Place a cap on accumulated leave balances	40,000	
Total	\$ 460,000	\$ 268,000

Attachment 2 to illustrates the effect of these budgetary savings by restating the intermediate range to reflect full realization of these revenue enhancement and cost savings opportunities.

Additional Financing Options

Based upon the most recent iteration of the intermediate-range financial plan, between \$2 million and \$2.7 million will be required from a supplemental funding source to maintain current service levels and to maintain the current level of investment in the Town's capital improvement program beyond Fiscal Year 2008-09.

The amount required from such a supplemental financing source will depend upon the extent to which the revenue enhancement and cost savings opportunities identified herein are acted upon within the current planning horizon.

To date, staff has identified the following options that are available for Council's consideration.

Implement a special benefit assessment for public safety

In conducting a survey of financing sources and uses of 14 California municipalities, staff identified two California communities that have implemented a special benefit assessment for public safety, The Town of Hillsborough and the City of San Marino. Both municipalities implemented these taxes by virtue of a 2/3rd's vote in 1998. Additionally, both communities derive approximately \$2 million from this revenue source.

Eliminate the maximum amount of \$250 for business and adopt a graduated tax schedule based upon category of enterprise.

At present the Town's business license ordinance requires businesses in town to pay the lesser of a flat fee ranging from \$50 to \$250 per business, depending upon the nature of the business or 5 percent of gross receipts. By converting the business license ordinance to a gross receipts basis and by implementing a graduated schedule depending upon the nature of the enterprise, a modification in the Town's business license ordinance could generate an additional \$500,000 to \$2 million annually, depending upon the percentages established.

Implement a utility users tax

The City of Fremont has placed a utility users tax on the ballot for the November General election. According to a report prepared by the Fremont Finance Department, such a users tax would generate approximately \$22 million annually assuming that a levy in the amount of 6 percent of gross receipts were assessed on the consumption of telecommunications, energy, water and waste-water utilities. A copy of the City of Fremont's analysis of a potential utility users tax is included as Attachment 3 to this report.

As indicated in the City of Fremont's report, a utility users tax can be implemented with the approval of a simple majority of the electorate provided that it is used for general governmental functions rather than as a dedicated funding source.

Assuming an average utility consumption of \$800 per month per household for each of the 2,200 households in Atherton and further assuming a tax rate of 6 percent per year, a utility users tax would generate approximately \$1,267,000 annually.

Modify the Parcel Tax

Providing for a continuing and enhanced source of revenue could also be accomplished by eliminating the current four-year sunset provision of the parcel tax and by providing an allowance for inflationary adjustments to the maximum levy. Assuming that a provision to provide for inflationary adjustments to the maximum parcel tax levy, a future version of the Parcel Tax could generate an estimated \$2.1 million in supplemental funding as compared to the \$1.85 million in supplemental funding that the Parcel tax currently provides.

Suggested Revenue Alternative Evaluation Criteria

In evaluating the alternatives available, staff suggests that the options described above be evaluated according to the following criteria:

Sufficiency – the extent to which the revenue source will be able to meet the Town’s ongoing funding requirements.

Reliability – the extent to which the revenue source can be counted upon to produce the revenue stream. This includes the volatility of the susceptibility of the revenue source to fluctuations in economic conditions as well as the likelihood the revenue source would withstand any legal challenge.

Acceptability – the likelihood that the tax will be accepted by the community as well as the threshold required for approval (i.e. a simple majority of a supermajority).

Equity – the extent to which the tax constitutes an equitable distribution of the tax burden.

Conclusion

Staff has identified several opportunities to bring revenues and expenditures into balance during the next several years. Assuming that the Council were to act on the opportunities identified within the body of this report, the operating deficit for the year ended June 30th, 2009 would be reduced from a projected \$865,000 to \$153,000. With the exception of implementing a cap on accrued compensated balances, these cost savings opportunities can be implemented by Council action. (Implementing a cap on accrued compensated absences would require the town to meet and confer with the affected employee bargaining units.)

Upon expiration of the proposed parcel tax in 2009, between \$2 million and \$2.7 million will be required to fund current operations and to maintain the current level of capital investment. Staff has also identified several sources of funding that could be used to supplement or replace the proposed parcel tax in FY 2009-10 and beyond. However, these revenue sources would require voter approval

Finally, staff has identified certain criteria that may be useful in evaluating the relative merits of the supplemental funding options available to the Town.

Prepared by:

Approved by:

John P. Johns
Finance Director

James H. Robinson
City Manager

Attachment 1
General Fund Revenue and Expenditure Analysis
Fiscal Years 2005 through 2009 (Revised as of 8/18/2004)

Revenue Category	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Property Tax	\$ 3,256,096	\$ 3,119,951	\$ 3,244,749	\$ 3,374,539	\$ 3,509,521	\$ 3,649,902
Sales Taxes	153,870	169,906	175,004	180,254	185,661	191,231
Other Taxes	903,527	893,010	976,210	1,015,258	1,055,869	1,098,103
Licenses and Permits	1,864,413	1,736,949	1,754,319	1,771,862	1,789,580	1,807,476
Fines and Forefeitures	68,230	50,000	51,000	52,020	53,060	54,122
Aid from other Agencies	176,093	144,500	124,500	124,500	124,500	124,500
Service Charges	363,751	401,900	421,995	443,095	465,249	488,512
Use of Money and Property	110,000	354,622	493,694	453,571	399,133	329,576
Other Revenues	0	3,000	3,000	3,000	3,000	3,000
Total Revenues	\$ 6,895,980	\$ 6,873,839	\$ 7,244,471	\$ 7,418,099	\$ 7,585,575	\$ 7,746,422
<i>Revenue Growth</i>	<i>7.7%</i>	<i>-0.3%</i>	<i>5.4%</i>	<i>2.4%</i>	<i>2.3%</i>	<i>2.1%</i>
Expenditure Category						
Contingency - Non Departmental	93,000	140,000	140,000	140,000	140,000	140,000
Council	15,197	20,204	21,012	21,747	22,617	23,296
Manager	514,163	509,226	529,595	550,779	572,810	589,994
Attorney	190,664	176,228	185,040	194,292	204,006	210,738
Finance	375,378	456,797	475,069	494,071	513,834	529,249
Building	875,544	975,249	1,014,259	1,054,829	1,097,023	1,129,933
Police	3,594,069	4,057,909	4,420,225	4,597,034	4,880,916	5,027,343
Public Works	1,625,901	1,805,972	1,894,211	1,969,980	2,048,779	2,110,242
Total Expenditures	\$ 7,283,916	\$ 8,141,585	\$ 8,679,410	\$ 9,022,732	\$ 9,479,984	\$ 9,760,796
<i>Expenditure Growth</i>	<i>5.3%</i>	<i>11.8%</i>	<i>6.6%</i>	<i>4.0%</i>	<i>5.1%</i>	<i>3.0%</i>
Surplus (Deficiency) of Revenues over Expenditures	(387,936)	(1,267,746)	(1,434,939)	(1,604,633)	(1,894,410)	(2,014,374)
Add (subtract) Operating Transfers In (out)						
Parcel Tax	799,000	799,000	799,000	799,000	799,000	799,000
Library Fund Operating Transfer		-	-	-	-	-
Police on the Street		-				
Gas Tax/Road Impact Fees	200,000	352,161	200,000	200,000	200,000	200,000
CIP Support	150,000	150,000	150,000	150,000	150,000	150,000
Subtotal Operating Transfers	1,149,000	1,301,161	1,149,000	1,149,000	1,149,000	1,149,000
Beginning Fund Balance	5,284,633	6,045,697	6,079,112	5,793,173	5,337,539	4,592,129
Ending Fund Balance	\$ 6,045,697	\$ 6,079,112	\$ 5,793,173	\$ 5,337,539	\$ 4,592,129	\$ 3,726,755
Less Reserve Requirements:						
Insurance	500,000	500,000	500,000	500,000	500,000	500,000
Cash Flows and Contingencies	3,200,000	3,200,000	3,200,000	3,200,000	3,200,000	3,200,000
Building Inspections	600,000	600,000	600,000	600,000	600,000	600,000
Comensated Absences	561,000	583,440	606,778	631,049	656,291	682,542
Equals Unreserved Fund Balance	\$ 1,184,697	\$ 1,195,672	\$ 886,395	\$ 406,490	\$ (364,161)	\$ (1,255,787)
Increase (Decrease) in Fund Balance	\$ 761,064	\$ 33,415	\$ (285,939)	\$ (455,633)	\$ (745,410)	\$ (865,374)

Attachment 2
General Fund Revenue and Expenditure Analysis
Fiscal Years 2005 through 2009 (Reflects implementation of cost savings and revenue enhancements)

Revenue Category	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
Property Tax	\$ 3,256,096	\$ 3,119,951	\$ 3,244,749	\$ 3,374,539	\$ 3,509,521	\$ 3,649,902
Sales Taxes	153,870	169,906	175,004	180,254	185,661	191,231
Other Taxes	903,527	893,010	976,210	1,015,258	1,055,869	1,098,103
Licenses and Permits	1,864,413	1,736,949	1,754,319	1,771,862	1,789,580	1,807,476
Fines and Forefeitures	68,230	50,000	51,000	52,020	53,060	54,122
Aid from other Agencies	176,093	144,500	124,500	124,500	124,500	124,500
Service Charges	363,751	401,900	421,995	443,095	465,249	488,512
Use of Money and Property	110,000	354,622	493,694	453,571	399,133	329,576
Other Revenues	0	3,000	3,000	3,000	3,000	3,000
Total Revenues	\$ 6,895,980	\$ 6,873,839	\$ 7,244,471	\$ 7,418,099	\$ 7,585,575	\$ 7,746,422
<i>Revenue Growth</i>	<i>7.7%</i>	<i>-0.3%</i>	<i>5.4%</i>	<i>2.4%</i>	<i>2.3%</i>	<i>2.1%</i>
Expenditure Category						
Contingency/Restructuring	93,000	100,000	1,060,000	60,000	60,000	60,000
Council	15,197	20,204	21,012	21,747	22,617	23,296
Manager	514,163	509,226	483,226	502,555	522,657	538,337
Attorney	190,664	176,228	185,040	194,292	204,006	210,738
Finance	375,378	456,797	415,197	431,805	449,077	462,549
Building	875,544	975,249	1,014,259	1,054,829	1,097,023	1,129,933
Police	3,594,069	4,057,909	4,220,225	4,389,034	4,564,596	4,701,534
Public Works	1,625,901	1,805,972	1,894,211	1,969,980	2,048,779	2,110,242
Total Expenditures	\$ 7,283,916	\$ 8,101,585	\$ 9,293,169	\$ 8,624,242	\$ 8,968,754	\$ 9,236,629
<i>Expenditure Growth</i>	<i>5.3%</i>	<i>11.2%</i>	<i>14.7%</i>	<i>-7.2%</i>	<i>4.0%</i>	<i>3.0%</i>
Surplus Deficit of Revenues over Expenditures	(387,936)	(1,227,746)	(2,048,699)	(1,206,143)	(1,383,180)	(1,490,207)
Add (subtract) Operating Transfers In (out)						
Parcel Tax	799,000	799,000	799,000	799,000	799,000	799,000
Library Fund Operating Transfer		48,000	48,000	48,000	48,000	48,000
Police on the Street	-	-	-	-	-	-
Gas Tax/Road Impact Fees	200,000	352,161	352,161	352,161	352,161	352,161
CIP Support	150,000	150,000	150,000	150,000	150,000	150,000
Subtotal Operating Transfers	1,149,000	1,349,161	1,349,161	1,349,161	1,349,161	1,349,161
Beginning Fund Balance	5,284,633	6,045,697	6,167,112	5,467,574	5,610,592	5,576,574
Ending Fund Balance	\$ 6,045,697	\$ 6,167,112	\$ 5,467,574	\$ 5,610,592	\$ 5,576,574	\$ 5,435,528
Less Reserve Requirements:						
Insurance	500,000	500,000	500,000	500,000	500,000	500,000
Cash Flows and Contingencies	3,200,000	3,200,000	3,200,000	3,200,000	3,200,000	3,200,000
Building Inspections	600,000	600,000	600,000	600,000	600,000	600,000
Comensated Absences	561,000	583,440	606,778	214,920	223,517	232,457
Equals Unreserved Fund Balance	\$ 1,184,697	\$ 1,283,672	\$ 560,797	\$ 1,095,672	\$ 1,053,057	\$ 903,071
Increase (Decrease) in Fund Balance	\$ 761,064	\$ 121,415	\$ (699,538)	\$ 143,018	\$ (34,019)	\$ (141,046)