



Item No. 5 Town of Atherton

CITY COUNCIL STAFF REPORT – STUDY SESSION

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

FROM: ROBERT BARRON III, FINANCE DIRECTOR

DATE: FEBRUARY 5, 2020

**SUBJECT: RECEIVE AND FILE THE MID-YEAR BUDGET REPORT FOR FY
2019/20**

RECOMMENDATION

Receive and file the Mid-Year Budget Review for the General Fund for FY 2019/20.

BACKGROUND

The FY 2019/20 Budget continues to project a healthy outlook on finances and includes one of the most important milestones for the Town in its almost one-hundred-year history – construction of the new Town Center. The Town’s General Fund Operating Budget relies on continued fiscal prudence, while also considering the need to adjust resources in order to meet any rising demands for Town services, capital improvements, and priorities.

Part of the Town’s prudent fiscal management over the years included measures to direct surplus revenues toward long term liabilities and one-time capital project needs. Most recently, the Town’s Excess ERAF funds were used as a source of funds for Town Center Project. It is noted that each year’s allocation of ERAF funding is still a separate and distinct action by the Council.

FY 2019/20 budget discussions continued to allocate the General Fund revenues over expenditures during the next couple fiscal years, together with unallocated reserves toward the Town Center Project. FY 2019/20 also included an allocation toward Worker’s Compensation negative equity at \$110,000 from the General Fund.

CIP projects continue to be selected from the Town’s various master plans and residual funding remaining from the Town Parcel Tax is being used on priority street and drainage projects. While the Town focuses on the Town Center Project, the Town has entered a “save mode” for other significant capital projects. The General Fund is the only funding source for a CIP project that does not have a specific outside funding source, such as Gas Tax, Measure A, Measure M or grants. As a result, some CIP projects have been delayed as staff seeks additional funding options and grants. The Town will continue its annual street maintenance and identified drainage

maintenance projects. The FY 2019/20 CIP allocated \$1,509,250 toward various projects, excluding the Town Center Project. These were based on priority and available funding.

The principal focus of the CIP the next two years is the Town Center Project. Funding for this project is through Atherton Now donations, Capital Improvement Fund, Library Fund, and the General Fund reserves, and future revenue over expenditures. For cash flow purposes, the Town anticipates a bond issuance through Certificates of Participation. An additional major project in the CIP, the Water Capture Facility, is moving forward through its environmental review phase. This project is a community/agency partnership with Caltrans, Menlo College and Menlo School. This project helps mitigate drainage issues, storm water capacity for the Town, and reduction of pollutants in the Bay. The Town is completing its Green Infrastructure Plan mandate and anticipates implementing some minor projects associated with this Plan.

FINDINGS | ANALYSIS

This Mid-Year Report is a high-level view of revenues and expenditures at the half-way point of the fiscal year. It updates the City Council on the Town’s financial position for the current fiscal year and makes a recommendation for any adjustments needed based on changed needs or priorities. It does not involve a discussion of line-item expenditures and revenues.

The Mid-Year Report is focused on the Town’s General Fund as the main operating fund for the Town. Staff reviewed and made internal adjustments as necessary to account for changing needs and priorities within each department, considering anticipated expenditures for the remainder of the year within each respective line-item. *Any adjustments beyond the department level budget or transfers between departments or funds must be approved by the City Council.*

There are several areas that necessitate adjustments and require Council level approval and adjustment. These total \$204,310 across the departments of City Attorney, Inter-departmental, and Public Works. These will be discussed in detail later in this Staff Report.

Revenues are expected to exceed projections for the fiscal year by \$398,649 (inclusive of ERAF). Budget amendments are not necessary to reflect increases in revenues.

REVENUES

Property Tax Revenues

The FY 2019/20 Budget projected property tax revenue at \$11,816,864. This revenue expectation represented a 4.5% increase over FY 2018/19’s Adjusted Budget of \$11,308,004. However, anticipated revenues will now fall short of that projection by \$342,356 for a total property tax revenue of \$11,474,508 or a 2.9% decrease to budget. This represents a 1.47% increase over the prior year adjusted budget.

Source	FY 2019/2020 Budget	Projected Change	Anticipated Revenue	% Change
Secured Property Tax	\$9,351,129	-\$115,000	\$9,236,129	-1.24%

Unsecured Property Taxes	\$449,574	\$3,500	\$453,074	.7%
SB813 Redemption	\$301,028	\$0	\$301,028	0%
Property Tax in Lieu of VLF	\$1,227,294	-\$230,856	\$996,438	-23%
Property Transfer Tax	\$487,839	\$0	\$487,839	0%
TOTAL	\$11,816,864	-\$342,356	\$11,474,508	-2.98%

Property taxes comprise approximately 71% of the total General Fund revenue stream. The assessed property value change from FY 2018/19 to FY 2019/20 is \$723,370,052 and equates to net taxable increase of 6.61%. From FY 2011/12 to FY 2019/20, Atherton has seen a growth of assessed property value by approximately 83 percent. The Town is the 10th highest in the County for property tax net value change of year-to-year growth for FY 19/20. *HdL Companies suggests that the Town use a projection of minimum 3.6 to 4.5 percent increase in property tax revenues next fiscal year.*

Property Tax in Lieu of VLF

The Majority of the total property tax shortfall is attributed to reduction in Property Tax in Lieu VLF. There is a shortfall in FY 2019-20 in lieu VLF Countywide in the amount of \$42 million.

Since 2004, Vehicle License Fees are funded annually from the countywide ERAF. If ERAF funds are insufficient to fund VLF, then VLF is funded from property taxes of *non-basic aid school districts*. Monies taken from non-basic aid school districts are then backfilled by the State. VLF funds cannot come from *basic aid school districts*. Insufficient VLF funds is a result of when additional school districts in the County have insufficient funding and have converted to basic aid districts. In FY 2019-20 there were only six non-basic aid school districts in the County, compared to eight in the prior year. Of the \$42 million County shortfall, Atherton portion is \$230,856.

Currently, there is no statutory mechanism (equivalent to Proposition 1A) to fully reimburse cities and counties for shortages. In FY 2011 through 2014 there were VLF shortfalls, during those years San Mateo County sought special appropriations from the State which were included in State budgets and those appropriations were approved. *The County will be doing the same this year with legislative advocates to request that the FY 2019-20 VLF shortfall amounts be appropriated in the State’s FY 2020-21 budget. Staff will continue to follow up with the County regarding the appropriation and potential future VLF shortfalls.*

ERAF Revenues

Several years ago, the Town developed a policy to treat ERAF as “one time” revenue for specific projects or priorities such as capital projects and contributions toward long-term liabilities and remove it as an operational revenue.

Illustrated below are the past uses of ERAF funds. From FY 2013/14 to FY 2015/16, the Town allocated a total of \$3,211,958 of ERAF funds toward identified Council priorities.

Fiscal Year	Budget Amount	Actual Amount	Use of Funds
FY 2013/14	\$700,000	\$1,020,000	OPEB Liabilities
FY 2014/15	\$700,000	\$1,125,000	\$680,684 – OPEB Liabilities \$444,316 – Workers’ Comp
FY 2015/16	\$1,200,000	\$1,066,958	\$112,998- WC Equity \$548,950- CalPERS UAL \$405,010- Additional CIP
FY 2016/17	\$1,033,000	\$1,103,185	Civic Center
FY 2017/18	\$1,066,958	\$1,280,172	Civic Center Flow through
FY 2018/19	\$1,025,000	\$1,691,772	Civic Center Flow through

The use of ERAF funds enabled the Town to contribute \$5,000,000 into the OPEB Trust, reducing its long-term liability for retired employees. Based on future Council priorities, ERAF can be used to reduce unfunded pension liabilities. ERAF revenues received from FY 2016/17 to FY 2018/19 were directed to the Town Center Project – a total thus far of \$4,075,129.

Upon issuance of Certificates of Participation, ERAF funds could be used as a source of revenue for debt service payments. ERAF represents potential “at risk” funds as the State continues to change its funding formulas under SB90 (School Funding). As result, staff continues to budget ERAF conservatively. *The Town’s ERAF revenue for FY 2019-20 is \$1,784,091. This is an increase of \$484,091 over budget of \$1,300,000. ERAF revenue has fluctuated over the years from as low as \$1,020,000 to now as high as \$1,784,091. Since FY 2013/14 ERAF revenues increased 75%.*

Excess ERAF funds from FY 2016/17 through FY 2021/22 are slated for the Town Center Project. However, as noted earlier, such allocation is a year-to-year decision by the City Council.

Sales Tax

There is a projected increase in Sales & Use Tax of \$16,000 for a total of \$316,439.

Source	FY 2019/2020 Budget	Projected Change	Anticipated Revenue
Sales & Use Tax	\$214,146	\$16,000	\$230,146
Prop 172 Sales Tax Police	\$86,293	\$0	\$86,293
TOTAL	\$300,439	\$16,000	\$316,439

Other General Fund Revenues

Other significant General Fund Revenues include:

- Franchise Fees
- Business Licenses
- Planning Revenues
- Police Revenue

- Park Revenue & Miscellaneous Revenue

The increase in Franchise Fee revenue is due to the receipt of 1st quarter 2019 cable revenue not received until FY 2019/20. This revenue is budgeted accordingly in FY budgets based on four quarter revenue receipts. There is a slight increase in projected business license receipts for the fiscal year. Planning revenue is projecting a slight increase due to fee increase in the fiscal year. Police Revenue is projecting an increase of \$24,000 attributable to alarm permit fees and increase of POST reimbursement for State approved police training. Park Program revenue is projecting an increase of rental revenue of \$27,500 for park bookings for the remainder of fiscal year. There is an increase of Miscellaneous revenue of \$133,926 at Mid-Year, this is due to increase of Construction and Demolition deposit forfeiture, construction time limit penalties and projected increase in interest income to the Town. Building revenue and all other Town revenues remain static.

Source	FY 2019/2020 Budget	Projected Change	Anticipated Revenue	% Change
Property Taxes	\$11,816,864	(\$342,356)	\$11,474,508	-2.9%
Sales Taxes	\$300,439	16,000	\$316,439	5.3%
Franchise Fees	\$871,161	\$33,000	\$904,161	3.7%
Intergovernmental	\$40,311	\$0	\$40,311	0%
Business Licenses	\$252,033	\$10,000	\$262,033	3.9%
Planning Revenue	\$220,300	\$12,000	\$232,300	5.4%
Building Revenue	\$1,697,509	\$0	\$1,697,509	0%
Police Revenue	\$182,551	\$24,488	\$207,039	13.4%
DPW Revenue	\$625,482	\$0	\$625,482	0%
Park Program Revenue	\$210,700	\$27,500	\$238,200	13.1%
Miscellaneous Revenue	\$317,373	\$133,926	\$451,299	42%
TOTAL	\$16,534,723	(\$85,442)	\$16,449,281	4.6%

The basic revenue decrease of \$85,442 plus the ERAF increase of \$484,091 results in a total projected General Fund revenue increase for FY 2019/20 of \$398,649.

EXPENDITURES

Expenditures – Departmental Adjustments

Staff reviewed and analyzed operational projections for each department for the remainder of the fiscal year. Any changes within department budgets were netted out among line item expenses where feasible to not require budget adjustments. Internal adjustments were made to account for changing needs and priorities taking into account anticipated expenditures for the remainder of the year within each respective line-item. This also included the review and adjustment of Police Department salary expenditure for additional overtime due to department vacancies and staffing of police patrol shifts.

There were some increases across some departments to necessitate additional appropriations.

Budget adjustments are due to one-time expense increases or new contracts. Overall, operating expenditures are within budgeted expectations, while we maintain Council and operational priorities.

There are three adjustments needed to the operating budget. Staff will bring back a budget amendment resolution for necessary adjustments at its February 19 meeting.

City Attorney – Budget Amendment of \$160,600

- 1) An increase of \$135,000 is needed for the City Attorney department for legal assistance with town outside litigation support during the year. There was also a need for an increase adjustment for new City Attorney contract expense in the amount of \$25,600. Staff anticipates that the budget expenditure for future years for future outside litigation support is non-recurring and will be nominal.

Inter-departmental- Budget Amendment of \$26,040

- 2) There is an increase of \$26,040 in the rental expense within the department. The FY 2019/20 budget includes rental expense for the temporary trailers for Administration and Community development departments offices relocation to the Holbrook Palmer Park during the Town Center construction project. There is an increase in the contract for holding tank services of \$10,936. Also, an adjustment is needed in the amount of \$15,102 for the installation and rental expense for the modular Police Department restrooms during the fiscal year. These additional expenditures are nominal and are temporary until the Town Center project is completed.

Public Works – Budget Amendment of \$17,670

- 3) There is an increase in contract park event services expense for Park Program department. Due to the projected increase of rental fee revenues from \$176,700 to \$196,700, the line item for Contract Park Event Services needs to be adjusted. The increase in revenue necessitates an adjustment of \$17,670 to this expense for Catering by Dana, as the park event service contractor receives 50% of the rental fees. Reminder that the park event services expense is predicated on the rental fee revenue.

Other Department Expenditures – City Council, Finance, Building, Planning, Police

There are no other adjustments required within the FY 2019/20 Budget.

Expenditure Summary

With the departmental adjustments for City Attorney, Inter-Department, and Public Works noted above, the FY 2019/20 Adjusted Budget by Department looks as follows:

Department	FY 2019/2020 Adjusted Budget	NET Mid-Year Adjustments	FY 2019/2020 Adjusted Budget
City Council	\$55,834		\$55,834
Administration	\$836,994		\$836,994
City Attorney	\$204,000	\$160,600	\$364,600
Finance	\$779,314		\$779,314
Planning	\$299,781		\$299,781
Building	\$1,322,150		\$1,322,150
Inter-department	\$761,827	\$26,040	\$787,867
Police	\$7,971,446		\$7,971,446
Public Works	\$2,384,689	\$17,670	\$2,402,359
Total	\$14,616,035	\$204,310	\$14,820,345

Total Budget Summary

Revenues, inclusive of ERAF, are \$18,233,372. This provides a net positive change in fund balance of \$3,413,027 at year-end and an anticipated ending fund balance of \$25,876,094 (inclusive of the mandatory reserves).

Revenue	Amount
General Fund	\$16,449,281
ERAF Revenues	\$1,784,091
Total General Fund Revenue Sources	\$18,233,372
Expenditures	
General Fund Expenditures	\$14,820,345
Total General Fund Expenditures	\$14,820,345
<i>Net Change In Fund Balance</i>	<i>\$3,413,027</i>

The FY 2019/20 beginning total fund balance is \$22,573,067 (inclusive of the mandatory reserves). At the conclusion of this fiscal year, after the transfer outs and the above-reflected departmental adjustments, the end of year fund balance projection is \$25,876,094 (this includes all mandatory reserves).

FY 2019/20 Beginning Fund Balance	\$22,573,067
FY 2019/20 Projected Revenues	\$18,233,372
Total Available Funds	\$40,806,439
Transfer out FY 2019/20 Workers' Comp	(\$110,000)
Net Mid-Year Adjustments	(\$204,310)
FY 2019/20 Expenditures (Original Budget)	(\$14,616,035)
FY 2019/20 Projected Year End Balance	\$25,876,094

15% Emergency Reserve Requirement	(\$2,223,052)
20% Contingency Reserve Requirement	(\$2,964,069)
Capital Facilities Replacement Reserve	(\$505,000)
FY 2019-20 Projected Unallocated Fund Balance	\$20,183,973

The majority of the Unallocated Fund Balance and the Capital Facilities Replacement Reserve will be used toward the Town Center Project. Updates to the Town’s Cash Flow Analysis for the Project in relation to the Certificates of Presentation will be presented in March.

Upcoming CIP Projects

In FY 2019/20, the CIP anticipates \$1,509,250 in capital projects. Besides the Town Center project, one major CIP project in the FY is the Water Capture Facility. This project is proceeding to the environmental phase and possible construction phase in the future. Since this is a partnership grant with Caltrans, the Town must meet certain project milestones in order to maintain funding allocations. With no additional special tax revenue for the Town major projects in the CIP, the Town follows the “save then spend” approach for capital projects over multiple years. The General Fund is the only funding source for a CIP project that does not have a specific outside funding source.

Street maintenance is a continued priority as the Town has yearly street maintenance program. The expenditures proposed in FY 2019/20 reflect two-inch grinding, dig-outs, and cape and slurry seal projects totaling \$725,000. Funding sources are portions of the remaining Parcel Tax, Measure A, Gas Tax, and Measure M. Remaining project in the current FY for the CIP includes \$350,000 for the Parker Euclid Ditch design.

Below are the budgeted cost estimates of anticipated or already undertaken projects in FY 2019/20:

Capital Project	Status	Estimate/Costs
Road Maintenance- Street Patching	Pending Award	\$150,000
Road Maintenance- Slurry Seal	Pending Award	\$175,000
Drainage Improvements – Parker Euclid Ditch Design	Pending Design to Council	\$350,000
Park Capital Improvements	Pending Review Staff Level	\$149,250
Traffic Control Devices	Ongoing	\$15,000
NMTP	Ongoing	\$10,000
Traffic Safety Improvement	Ongoing	\$50,000
Upper Channel monitoring	Ongoing	\$10,000
Accessibility Improvements	Pending Review Staff Level	\$50,000
Road Maintenance- Street Overlay	Pending Award	\$400,000
Town Center Project	Award	\$47,077,000

Staff will continue to identify projects and costs within the 5-year program. However, with the construction of the Town Center underway, capital projects other than street and drainage

maintenance improvements, will be put into the “save then spend” mode. We will continue to explore applications of grants to couple with other specific funding sources such as Gas Tax, Measure A funds and General Fund.

POLICY CONSIDERATIONS

The Mid-Year Budget Report is an opportunity to make adjustments and operations corrections based on unanticipated changes and the goals and priorities of the City Council. If there are projects or priorities that the Council wishes to address at mid-year, this is the opportunity to do so. The Mid-Year Budget Report encompasses all changes to the budget thus far in the Fiscal Year. Staff will bring back a Budget Amendment Resolution to the February 19 Council meeting to reflect the noted adjustments.

FISCAL IMPACT

Discussed above, the overall fiscal impact to the General Fund as a result of the mid-year expenditure adjustments is a General Fund expenditure increase of \$204,310 (1.5%) against a General Fund (plus ERAF) revenue increase of \$398,649 (2.2%).

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.

ATTACHMENT - None