



Minutes
Town of Atherton
CITY COUNCIL DISTRICT
May 20, 2013
1:00 P.M.
Town Council Chambers
94 Ashfield Road
Atherton, California
Special Meeting

Mayor Lewis called the meeting to order at 1:00 p.m.

PLEDGE OF ALLEGIANCE

ROLL CALL **Lewis, Carlson, Dobbie, Widmer, Wiest**

Council Member Widmer was excused.

PUBLIC COMMENTS – None.

REGULAR

1. **FISCAL YEAR 2013-14 BUDGET STUDY SESSION #2: REVIEW DRAFT ANNUAL OPERATING AND CAPITAL IMPROVEMENT PROGRAM BUDGET**

Report: City Manager George Rodericks/ Finance Director Robert Barron III

Before launching into the budget detail, staff presented an overview of the Town’s Vision and Mission; basic information on governmental funds; staffing levels; and policy makers and advisors. Through these slides, the Council commented that it was important to recognize that in addition to conducting the business of government with the utmost of transparency, accountability, and professionalism; integrity was also a key factor. In addition, the Council noted that as a community, we have significant opportunities to provide input regionally and it is important for the community, staff, and Council to be involved at that level.

After the broad overview, staff provided the Council with an overview of the Town’s Major Revenue sources. In FY 13/14 the draft budget reflects revenues from the following major sources:

Source	FY 12/13 Budget	FY 12/13 Estimated	FY 13/14 Proposed
Property Taxes	\$7,016,000	\$7,574,474	\$7,582,948
Franchise Fees	\$774,500	\$755,750	\$770,865
Sales Taxes	\$204,400	\$235,400	\$240,108
Business License Tax	\$160,000	\$160,000	\$163,200

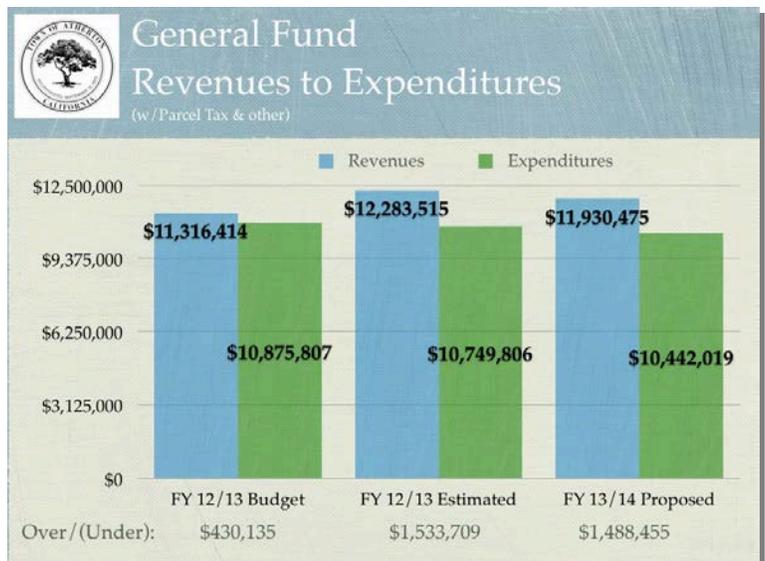
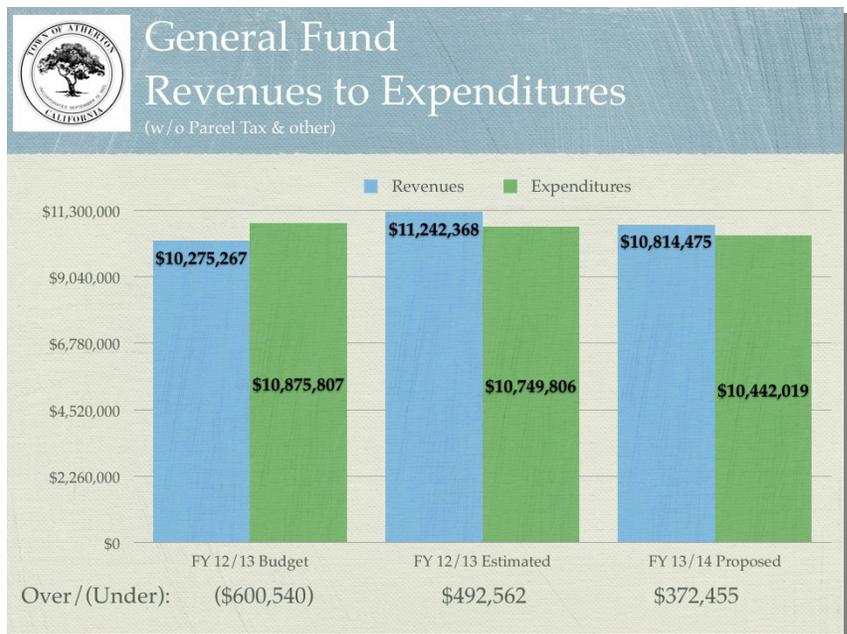
Planning Fees	\$153,800	\$175,335	\$178,862
Building Fees	\$1,354,800	\$1,167,900	\$1,226,295
Public Works Fees	\$221,235	\$233,635	\$238,308
Park Fees	\$76,000	\$69,400	\$70,788
Miscellaneous	\$196,807	\$746,016	\$216,174
Total General Fund	\$10,275,267	\$11,242,368	\$10,814,475

Revenues for FY 12/13 were bolstered by a one-time mitigation fee from Facebook and a one-time litigation settlement. These one-time funds are reflected in the Miscellaneous line item. In looking at the projected revenues, staff and the Council noted that within the Property Tax line item, there are revenues of \$700,000 (held flat budget to budget) for the Educational Revenue Augmentation Fund or ERAF.

Following the presentation of revenues, staff compared revenues to expenditures for the fiscal years. It is important to note the over/(under) on the slide showing that revenues to expenditures projected in FY 13/14 are over by \$372,455. The measures taken by the Town in years past has arrested the structural deficit it faced every year.

The threat remains, however, that the State could reduce or eliminate the approximate \$700,000 per year in ERAF revenue. Reduction or elimination of that revenue can easily put the Town in a structural deficit position again with respect to its basic revenues.

With that in mind, staff presented a similar slide showing revenues to expenditures for the fiscal years including revenues to the General Fund from the Parcel Tax. The Parcel Tax provides revenue of \$1.865 million per year. Of that amount, sixty (60%) percent is dedicated to direct law enforcement services. This revenue



reduces the General Fund obligation for police services by \$1.116 million.

With the addition of the parcel tax revenue, the over/(under) for each fiscal year is adjusted positively. In FY 13/14, the General Fund projects a net fund balance increase (revenues over expenditures) of \$1.488 million.

This relief to the General Fund through the Parcel Tax revenue provides the Town with the ability to address critical long-term liabilities, capital infrastructure, and a more stable reserve.

Following the presentation on revenues, staff moved on to departmental budgets. Most of the budgets reflected a decrease in expenditures. This was due to the decrease in the Town's obligation to the employee PERS pension obligation as well as a decrease in the Town's obligation to other post-employment benefits.

Department	FY 12/13 Budget	FY 12/13 Estimate	FY 13/14 Proposed
General Admin (Council, Attorney, Admin)	\$1,035,845	\$935,815	\$893,293
Planning & Building	\$1,478,317	\$1,518,830	\$1,384,758
Police	\$5,463,061	\$5,414,972	\$5,577,474
Finance	\$683,783	\$682,663	\$611,260
Public Works	\$1,448,933	\$1,430,633	\$1,387,406
Inter-Departmental	\$765,867	\$766,892	\$587,828
Total	\$10,875,806	\$10,749,805	\$10,442,019

Moving on to the departmental increases a bit later (Police), the Council discussed various goals and objectives for each department. High on the priority list was the direction that every department have a goal that they increase the use of technology tools in the delivery of services. The Council also discussed ways to increase revenue to the General Fund – such as raising the business license tax, changes to the parcel tax, analysis of the legal issues surrounding the road impact fee, and increased vigilance and enforcement of the construction time limit ordinance.

The Police Department budget for FY 13/14 reflects an increase of just over \$100,000. This increase is attributed to the addition of two (2) sworn officer positions to be used for recruitment. Agencies cannot recruit against vacancies that do not yet exist. As a result, as personnel experience extended leave due to medical issues or other authorized extended leaves of absence the Town must fill these extended vacancies through overtime. Sometimes, extended leaves of absence result in the personnel eventually leaving employment. At that time, the Town can begin recruitment for the vacancy. The time to fill a police officer vacancy depends on the personnel recruited; however, in general it can take between 6 to 9 months to get the officer on the road. Having the two (2) additional sworn vacancies to recruit against provides the Town with the flexibility to have on-going recruitments and officers ready and able to fill the role when needed. The vacancies are added to the budget effective January 1, 2014 and would not be used to increase the authorized sworn commitment without specific City Council approval.

After the departmental expenditures, the staff and the Council moved on to the 5-Year Capital Improvement Plan. The Capital Improvement Plan (CIP) does not actually “appropriate” funds, rather, it functions as a budgeting and planning tool to identify anticipated capital project needs and funding sources. The Plan is designed to identify the highest priority capital needs. Funding sources for the Capital Improvement Plan include: the General Fund, Parcel Tax, Measure A, Measure M, Surface Transportation Program, ABAG, Grants, Gas Tax, Road Impact Fee, Library Fund, and Channel Fund. A copy of the CIP can be found online in the packet via the link provided at the beginning of this publication.

Each year the Town allocates funds toward annual projects – most of which are maintenance projects. These include, but are not limited to:

- Traffic Safety Projects
- ADA Improvements
- Channel Monitoring
- Pavement Management Projects
- Street Sealing Projects
- Street Patching Projects
- Pavement Marking Programs
- Street Sign Program
- Street Light Program
- Bridge Inspection Program
- Drainage Improvement Program

These projects represent the year-to-year projects to support and maintain the Town’s infrastructure. Beyond these projects, the Town highlights specific Capital Improvement Projects of larger scale. Within the CIP, the following projects are noted:

- Marsh Road Retaining Wall Project
- Series Street Light Replacement
- Bicycle | Pedestrian Master Plan Components
- Park Master Plan Components
- Atherton Avenue STP Project
- Civic Center Master Plan
- Hybrid Beacon
- ADA Plan
- Park Trash Enclosure

The Parcel Tax provides annual revenue toward the Town's Capital Projects. Revenues are "saved" and "spent" year-to-year depending on eligible capital project needs. The Town is a "save-spend" agency in that traditionally the Town does not "borrow" funds to pay for capital needs. As noted earlier sixty percent (60%) of the parcel tax is directed to front-line law enforcement. That represents \$1.116 million. The remaining forty percent (40%) is directed to capital project needs – approximately \$743,000. In FY 13/14, the Town will spend \$1.125 million on capital project needs.

One of the projects emphasized as part of the CIP was the Hybrid Beacon on El Camino Real (ECR). The Town has been working with CalTRANS to address pedestrian crosswalk safety concerns along ECR. CalTRANS has worked with the Town to put crosswalk safety into its project cue for the coming years. However, that cue is resource dependent and the most recent information from CalTRANS indicates that the soonest a project would be realized is 2018. CalTRANS advised that if the Town wishes to speed the process along, the Town could consider funding improvements in their entirety. To that end, the Town has included the Hybrid Beacon in its CIP for consideration by the Council in FY 13/14.

The final discussion during the budget workshop revolved around the Town's reserves and long-term liabilities. The Town's Reserve Policy sets aside two (2) specific reserves:

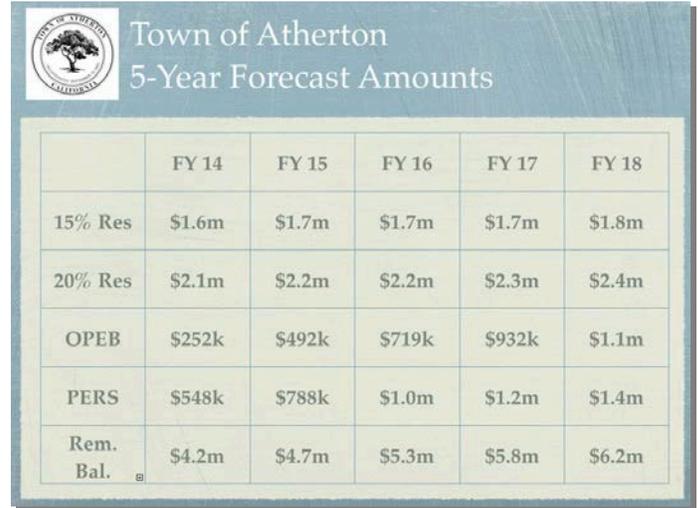
- 1) Emergency or Disaster Reserve – here, the Town sets aside 15 percent (15%) of the actual annual General Fund operating expenditures specifically for emergency contingencies defined as a state or federal state of emergency or declaration of a local emergency.
- 2) Operational Reserve – here, the Town sets aside 20 percent (20%) of the actual annual General Fund operating expenditures specifically as an operational reserve in an effort to mitigate loss of key revenues (property tax revenue, special tax revenue, ERAF, etc.) during any specific fiscal year.

The Town's revenues or expenditures and fund balances at the end of FY 13/14 meet the required reserve policies. Beyond these reserve requirements, the Town's General Fund maintains a healthy unallocated fund balance. The City Manager is authorized to make recommendations to the City Council for use of the unallocated fund balance.

At the Workshop, staff advised that by June 30, 2013 the Town will have paid off all CalPERS Side Fund accounts. By doing so, the Town has reduced the employer pension rate for both local safety and non-safety personnel. The employer pension rates are 27.877% and 11.104%, respectively. That said, CalPERS has undertaken steps to ensure that pension funds are fully funded over time. Beginning in 2015 and continuing until 2020, the employer pension rates will increase by 1.1 percentage points each year. CalPERS believes that this increase in employer contribution help mitigate the funding gap between current funding status and 100% funding. In addition, in November 2013, CalPERS will consider reductions in its discount rate (7.5%).

Beyond the annual employer pension obligations, the Town has retirees and legacy staff to which they have promised retiree health benefits. This obligation is called "Other Post-Employment Benefits (OPEB)." The Town's OPEB liability rests at approximately \$6.6 million with a 26-year funding horizon. The annual required contribution, or ARC, is \$582,525.

These issues were discussed at the Workshop and the Council was provided with a 5-Year Financial Forecast that included all required pension and OPEB contributions, projected increases in the CalPERS rates, and revenue/expenditure estimates.



The image shows a presentation slide titled "Town of Atherton 5-Year Forecast Amounts". It features a table with five columns representing fiscal years from FY 14 to FY 18 and five rows representing different financial categories. The data shows a general upward trend in most categories over the five-year period.

	FY 14	FY 15	FY 16	FY 17	FY 18
15% Res	\$1.6m	\$1.7m	\$1.7m	\$1.7m	\$1.8m
20% Res	\$2.1m	\$2.2m	\$2.2m	\$2.3m	\$2.4m
OPEB	\$252k	\$492k	\$719k	\$932k	\$1.1m
PERS	\$548k	\$788k	\$1.0m	\$1.2m	\$1.4m
Rem. Bal.	\$4.2m	\$4.7m	\$5.3m	\$5.8m	\$6.2m

The 5-Year Forecast included additional contributions beyond the annual required contributions toward the Town’s OPEB liability and pension funding. Even with these additional contributions, the Town’s unallocated general fund balance reflected a positive rate of increase. However, it was again noted that the Town’s budget includes several areas of uncertainty – namely, the nearly \$700,000 revenue received each year from ERAF.

The City Manager discussed options for the Council’s consideration. The City Manager advised that the Town should consider three things each year with respect to a positive general fund balance:

- 1) Consider establishing a greater operational reserve requirement by increasing the 20% operational reserve to 35%. In doing so, the Town would retain a total reserve of 50% of its operational expenses.
- 2) Consider allocating amounts beyond the annual required contributions to its OPEB liability and CalPERS funding.
- 3) Consider allocating an amount from the Town’s General Fund to the CIP to fund capital improvements that need additional resources.

The Council directed the City Manager to work with the Town’s Finance Committee to come up with a policy for Council consideration to accomplish those objectives. The Council noted that it was important to pay close attention to any Town liabilities connected to OPEB and pension obligations. It was noted that CalPERS’ projections for its rate of investment return may be unrealistic and the Town should consider establishing a mechanism to get ahead of that projection should CalPERS’ returns not be realized. Lastly, the Council noted that there were capital improvement projects and maintenance projects that have been deferred and in some cases neglected due to strict resource requirements. It would be important for the Town to identify those areas that could benefit from additional resources.

ADJOURN

Mayor Lewis adjourned the meeting at 3:06 p.m.

Respectfully submitted,

Theresa DellaSanta

City Clerk