



AGENDA
Town of Atherton
CITY COUNCIL/ATHERTON CHANNEL
DRAINAGE DISTRICT
Monday, September 27, 2004
6:00 p.m.
TOWN COUNCIL CHAMBERS
94 Ashfield Road
Atherton, California

SPECIAL MEETING

- 6:00 P.M. 1. **PLEDGE OF ALLEGIANCE**
- 6:02 P.M. 2. **ROLL CALL** Janz, Marsala, Carlson, McKeithen, Conwell
- 6:03 P.M. 3. **PUBLIC COMMENTS**

REGULAR AGENDA

- 6:10 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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☛ Please contact the City Clerk's Office at 650.752.0529 with any questions

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Item No. 4



Town of Atherton

CITY COUNCIL STAFF REPORT

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: JOHN P. JOHNS, FINANCE DIRECTOR

DATE: FOR THE MEETING OF SEPTEMBER 27th 2004

**SUBJECT: ANALYSIS OF REVENUE ENHANCEMENT AND COST SAVINGS
OPTIONS**

RECOMMENDATIONS:

Staff recommends the City Council:

- *Accept staff's supplemental report on cost savings and revenue enhancement opportunities.*
- *Initiate actions to modify labor agreements with the town's miscellaneous, management and safety bargaining units to place a cap in the amount of 320 hours on the number of vacation hours that can be carried over in subsequent years.*
- *Direct staff to prepare an amendment to the road impact fee ordinance establishing a surcharge on excavation permits.*

INTRODUCTION:

At the special City Council meeting of September 9th, 2004, the City Council directed staff to perform additional research on several issues related to cost savings and revenue enhancement opportunities contained within staff's August 24th and September 9th reports.

Pursuant to Council's direction staff has performed the following research tasks:

- Surveyed other governmental agencies on their policies related to the accumulation of vacation balances and consulted with the City Attorney on the actions required of the Town should it desire to modify its leave accrual policy for one or more bargaining units.
- Performed research on the various methodologies available to analyze the impact of construction related traffic on Atherton's streets with the objective of identifying a methodology that might yield a more accurate indicator of damage caused by construction related traffic than the method currently employed.
- Analyzed data from the State Controller's office to ascertain the composition of revenues classified as "other intergovernmental" for those agencies receiving in excess of \$1 million in such revenues as indicated in staff's comparative analysis of revenues and expenditures for 14 municipalities.
- Contacted the Menlo Circus Club and State Board of Equalization to determine the nature and volume of commercial activity that occurs at the Circus Club that is subject to taxation and to verify that Atherton receives its share of sales tax revenues from such commercial activities.
- Obtained a FY 2001-02 compilation of utility user tax revenue from the office of the State Controller's office for all municipalities in California that have implemented such a tax and reviewed the League of California Cities Proposition 218 implementation guide to obtain an understanding of the legal requirements for implementing a utility users tax. (Staff also researched IRS Publication 17 to ascertain whether utility users taxes are deductible for federal income tax purposes.)
- Reviewed various sources of information to determine at what point in the histories of Saratoga and Los Altos Hills a decision was made to enter into a contract with the Santa Clara County Sheriff to provide patrol services.
- Conducted research to determine whether Piedmont was a charter city and the rate established for its real property transfer tax.

Transmitted herein are the results of the research activities listed above.

Accumulated compensated absences

The following table provides a compilation of leave accrual policies for selected municipalities in the San Francisco Bay area. This table provides an indication of the maximum number of hours employees are eligible to receive as a vacation allowance each year as well as the number of hours employees within the cities' miscellaneous and management bargaining units are allowed to carry over in subsequent years.

<i>City</i>	<i>Annual Vacation Allowance</i>	<i>Maximum Hours Allowed to Carryover</i>
Atherton	160	800
Brisbane	160	320
Burlingame	184	368
Belmont	172	344
Hillsborough	224	448
Los Altos	160	320
Los Gatos	200	320
San Carlos	200	400
San Bruno	184	280
Saratoga	256	160

Based upon a review of the memoranda of understanding for the cities identified in the preceding table, the prevailing practice among survey cities is to allow employees to carry over twice their annual leave allotment. (If Atherton were to adopt this practice, the maximum vacation accrual would amount to 320 hours.)

Additionally, the memoranda of understanding reviewed by staff contain standard language that employees will not begin to accrue any more vacation until such time as the excess balances have been eliminated.

Based upon discussions with the City Attorney, the Town would be required to meet and confer with Teamsters Local 856 in order to affect a change in the leave accrual policies applicable to the safety and miscellaneous employees. However, changing the leave accrual policies could be done by resolution for the Town’s management employees.

Road Impact Fees

Staff has reviewed various publications available from authoritative sources such as the Journal of Transportation engineering to identify quantitative methods that might yield a more precise indication of the extent to which construction related traffic contributes to the deterioration of the city’s surface streets. (As indicated in our September 9th staff report, the methodology used by the previous consultant entailed comparing the pavement condition of streets that had recently undergone residential construction with those that had not recently had residential construction activity.)

Staff also analyzed the composition of building permits issued by the Building Department during the past six years to assess whether:

- The nature of building activity has changed significantly since the adoption of the original road impact fee; and,

- Any changes in the nature of building activity during the past several years has had an effect upon the extent to which residential construction has contributed to the deterioration of the Town's roads.

Based upon this research, staff has determined that:

- Since calendar year 2000 (the year in which the consultant study was performed) the number of buildings with basements and the resultant excavation and off-haul activity has increased five-fold. (In calendar years 1998 and 1999 ten excavation permits were issued. In calendar years 2000 through 2004 a total of 99 excavation permits were issued.)
- Based upon an examination of excavation permits issued during the past four years, the volume of earth removed as a result of such excavation activity has averaged 1,150 cubic yards per construction site being excavated.
- Atherton's residential streets consist of a flexible surface and a relatively thin underlying base. As a result, Atherton's streets are particularly susceptible to damage from vehicular traffic carrying heavy loads.
- According to various studies published in the Journal of Transportation Engineering and other authoritative sources, the damage caused by vehicles traveling a given road is exponentially related to the weight of the vehicle traveling on the roadway. In fact, based upon algorithm referred to as equivalent standard axel loading (ESAL) a truck with a 38,000 pound load (approximately 15 cubic yards of soil) is estimated to cause as much damage to a street as 13,000 passenger sedans traveling an equivalent distance.
- Given the increase in excavation activity since the time that the previous road impact fee study was conducted, staff estimates that approximately 48 percent of the deterioration in the Town's surface streets is a result of construction activity, 21 percent of which is directly attributable to the excavation and off-haul of earth from a construction site.
- During the past three years, the Town has expended an average of \$2 million annually to repair and rehabilitate its roads. The additional 21 percent impact identified as a result of the off-haul of earth from construction sites being excavated amounts to an annual cost of \$420,000 per year.

As a result of these findings, staff recommends that the City Council direct staff to prepare an amendment to the existing road impact fee ordinance that would:

- Establish a surcharge on excavation permits taking into account the effect of excavation activity on the Town's surface streets; and,
- Incorporate a methodology for quantifying and allocating the cost of deterioration on the Town's surface streets that result from excavation based upon the volume of earth excavated and off-hauled.

Assuming an average of 1,150 cubic yards of earth being off-hauled from the 25 site excavations occurring annually, the \$420,000 incremental cost of wear and tear on the Atherton's surface streets

resulting from site excavations equates to an average cost of approximately \$14 per cubic yard of earth being removed.

Utility Users Tax

According to the State Controllers office, 153 California cities collected a total of \$1.4 billion in utility users taxes in fiscal year 2001-02. The utility users tax rates ranged from 3 percent to 13.5 percent of utility consumption. Additionally, utility use tax collections for individual cities ranged from a high of \$488 million for the City of Los Angeles to a low of \$6,185 for the City of Hidden Hills.

According to the City Attorney, approval of a utility users tax would be subject to the requirements of Proposition 218. Accordingly, staff has reviewed the League of California Cities Guide to Implementing Proposition 218. According to this guide, it would appear as though a utility users tax would be classified as a general tax, rather than a special purpose tax. As such passage of a utility users tax would require a simple majority rather than a super-majority.

Staff has also reviewed IRS Publication 17, used to prepare calendar year 2003 individual tax returns. According to Publication 17, table 24-1, state and local sales and use taxes are *not* deductible from one's calculation of taxable income. Hence, if one were to conclude that utility users taxes fall within the definition of a sales and use tax, a utility users tax would not be deductible for the purpose of determining an individual's taxable income.

Analysis of revenues from other governmental agencies

As indicated in our September 9th, 2004 staff report six of 13 cities surveyed collected in excess of \$1 million from other governmental agencies in FY 2001-02. (This total excludes motor vehicle license fees.) The following table provides breakdown of such revenues according to classifications established by the State Controller's office.

ANALYSIS OF OTHER INTERGOVERNMENTAL REVENUES FOR SELECTED MUNICIPALITIES							
REVENUE ITEM	CITY						
	<i>Atherton</i>	<i>Belmont</i>	<i>Burlingame</i>	<i>Millbrae</i>	<i>Los Altos</i>	<i>Saratoga</i>	<i>Pacific Grove</i>
Homeowner's Property Relief	220,186	25,209	71,267	29,666	60,169	38,084	25,669
State Gasoline Tax	139,473	699,315	629,428	285,033	543,196	394,123	246,996

Other State Grants	237,995	444,992	654,974	3,376,670	655,442	1,082,076	326,449
County Grants		146,198		2,291,166	72,567	269,403	
Federal Grants Other Taxes In-lieu		245,417	666,298	208,233	62,269		611,718
Total	597,654	1,561,131	2,021,967	6,190,768	1,393,643	1,783,686	1,210,832

Based upon discussions with several of the municipalities identified above, the majority of funds received by the cities surveyed were related to state and federal funded transportation infrastructure improvements.

Sales and Use Taxes

Based upon discussions with the California State Board of Equalization and the bookkeeping staff of the Menlo Circus Club, we were able to verify that Atherton is receiving its full share of sales tax revenue generated by the Circus Club. Such revenues are derived primarily from food and beverage sales consumed on the premises.

Staff is continuing to review methods by which sales tax revenue from merchandise or livestock sold at events held on the site by various charitable and commercial organizations can be captured.

Contract Law Enforcement Services

According to the Los Altos Hills Town Manager, the Santa Clara County Sheriff has provided patrol services to Los Altos Hills since the Town's incorporation in 1956.

According to the Santa Clara County Office of the County Executive, the City of Saratoga has operated on successive five-year agreements to provide for law enforcement services. The current agreement between Santa Clara County and the City of Saratoga was executed in 1997 and was extended until for an additional three years in the year 2002.

Real Property Transfer Tax

Based upon an examination of the City of Piedmont's website, we were able to determine that the City of Piedmont is in fact a charter city. Additionally, according to the Alameda County Clerk-Recorders office, the City of Piedmont collects \$13.00 per thousand dollars of real property transferring ownership.

SUMMARY

The information presented herein and attached herewith has been prepared in response to Council's request for additional information related to cost savings and revenue enhancement opportunities.

Prepared by:

Approved by:

John P. Johns
Finance Director

James H. Robinson
City Manager