



Item No. 1 Town of Atherton

CITY COUNCIL & FINANCE COMMITTEE – JOINT STUDY SESSION

TO: HONORABLE MAYOR AND CITY COUNCIL

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

DATE: APRIL 6, 2016

SUBJECT: FY 2016/17 BUDGET KICK-OFF AND OVERVIEW

RECOMMENDATION

Review and Discuss.

BACKGROUND

Tonight's meeting is the kick-off and overview meeting for the FY 2016/17 Budget. The discussion focuses on the recap of the current fiscal year, assumptions and forecasts as we prepare for the FY 2016/17 general budget and calendar.

During the budget process we will focus on Town fiscal dependencies and fiscal outlook of revenues and expenditures over time. As illustrated in previous fiscal discussions, the most significant funding source for the Town is our property tax revenue. The Town is dependent on this revenue. As we forecast the Town's 5-Year fiscal outlook, projecting property tax receipts accurately is a critical factor of ensuring financial stability. Other revenues highlighted are excess ERAF, Parcel Tax and other major revenues.

Another important projection is the expenditure component of the Town's operations as we strive to maintain priorities and levels of operational service throughout the community. Expenditure items that we will highlight include labor costs, operational costs, and potential expenditure increases within those categories – such as CalPERS rates and unfunded liabilities. Future budget discussions will delve into the Town's capital improvement projects and the long-term goals prioritized by the City Council, of which include maintaining and improving the infrastructure needs of the community.

The Town's financial stability is one of the core values as we look to address priorities such as long-term liabilities, capital project needs, and maintaining healthy reserves. The Town's budget serves as a policy document identifying the needs and priorities of the community, the resources needed to meet those needs and priorities, and the services that do so. As we review the Town's budget maintaining a positive budget position is important. The 5-Year forecast provides us with

an opportunity to ensure our revenues are sufficient for operational needs and that the Town does not enter a structural deficit.

This Staff Report will provide the City Council with:

- An overview of the FY 2015/16 Year-End Projected Fiscal Condition
- An overview of the Town's Major Revenue Sources and 5-Year Forecasts
- An overview of the Town's Major Expenditure Categories and 5-Year Forecasts
- An overview of the Budget Process and Policy Discussions

The Town's Budget process is not only an opportunity for the City Council to set policy priorities but also an opportunity to educate and engage the community. Tonight is the first in a series of public budget meetings designed to not only move through the Town's budget process, but educate participants.

Budget Calendar

- Meeting #1 – April 6, 2016 – Joint Meeting of the City Council and Finance Committee
 - o An overview of the FY 2015/16 Year-End Projected Fiscal Condition
 - o An overview of the Town's Major Revenue Sources and 5-Year Forecasts
 - o An overview of the Town's Major Expenditure Categories and 5-Year Forecasts
 - o An overview of the Budget Process and Policy Discussions
- Meeting #2 – May 4, 2016 – Joint Meeting of the City Council and Finance Committee
 - o Presentation of the Operations Budget
- Meeting #3 – May 18, 2016 – Regular Meeting of the City Council
 - o Presentation of the Capital Projects Budget
- Meeting #4 – June 1, 2016 – Study Session of the City Council
 - o Presentation of the Final Draft Budget & Special Revenues/Other Funds
 - o Discussion of the Parcel Tax
- Meeting # 5 – June 15, 2016 – Regular Meeting of the City Council
 - o Adoption of the Final FY 2016/17 Budget
 - o Adoption of the Parcel Tax Allocation

ANALYSIS

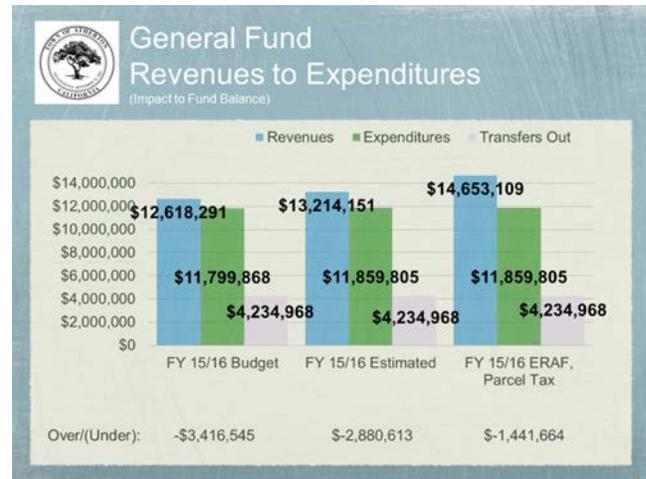
FY 2015/16 Year-End Projected Fiscal Condition

As was illustrated in the Mid-Year Budget, property tax growth increased 4.6% over the adopted budget. The Parcel tax is an important revenue source for police services and capital project funding. Beginning in FY 2014/15, the parcel tax allocation was adjusted to a 20/80 split between the General Fund and Capital Project fund, respectively and was maintained. *This allocation is revisited annually as we evaluate operational and infrastructure needs.* The City Council has set a policy to remove the dependency of excess ERAF in the General Fund operations budget and include it as one-time revenue status. While it is removed as dependency in the operational budget,

Excess ERAF is vital component as it does support the reduction of long-term liabilities and the funding of one-time capital project needs.

In the FY 2015/16 budget, ERAF was allocated toward OPEB and Worker's Compensation. The Council also allocated \$614,000 from the unallocated General Fund Reserves to the Capital Improvement Fund (Fund 401) for identified projects and transferred \$2,309,041 from the unallocated General Fund Reserve to Fund 401 for future unidentified capital projects.

At the conclusion of FY 2014/15, the Town's General Fund showed a net increase in the fund balance of \$3.1M. We anticipated that for FY 2015/16, the Town's General Fund would have a net increase of \$820,222 without the parcel tax and Excess ERAF – at year-end. During the FY 2015/16 budget, based on the policy direction of the Council, there were transfers out of \$4,234,968. With the inclusion of the parcel tax of \$372,000 and excess ERAF of \$1,200,000, the resultant net change of fund balance for the FY 2015/16 was (\$1,842,745).



The Town's net fiscal position has improved over the past couple of years. However, financial stability remains a priority as we seek to ensure that the Town's fiscal position remains positive while still continuing current programs, policies, and services.

At Mid-Year, staff provided the Council with a summary of the Town's fiscal condition and expectation for the rest of the fiscal year. The adopted FY 2015/16 Town's General Fund revenues were projected at \$12.6M and General Fund expenditures at \$11.7M. The FY 2015/16 budget included discussion about paying down long-term liabilities, increased capital project allocations, minimum mandatory reserves, continued enhancement of maintenance and operations throughout the Town and additional personnel town arborist, code enforcement.

During Mid-Year, staff projected an increase in revenues of \$595,860 and a total revenue projection of \$13,214,151. Expenditures increased to \$11,859,805 and included an increase in administrative department expenditures of \$6,000 for employee recognition program, an additional \$15,000 in the police department for cameras in the Park. There was an appropriation increase of \$38,437 in Public Works for maintenance improvements at the Park and increase in contract Park Event Services. With the revenue and expenditure adjustments and the inclusion of transfers out, the Town projected a net change in fund balance for FY 2015/16 of (\$1,441,668). *It is important to note that the General Fund is not in an operational deficit. The Net change in fund balance at mid-year was \$2,793,304. Operational revenues exceeded operational expenditures by \$1,354,346 plus the Parcel Tax at \$372,000 and ERAF at \$1,066,958.*

The projected year-end fund balance for FY 2015/16 is \$12,152,134. The Town projects to meet its reserve requirements at FY 2015/16 and also projects an unallocated reserve that is 63% of adjusted expenditures.

FY 2015/16 Expenditures (Adjusted)	\$11,859,805
Projected FY 2015/16 Ending Fund Balance	\$12,152,134
15% Emergency Reserve	\$1,778,971
20% Contingency Reserve (Stabilization)	\$2,371,962
Capital Facilities Replacement Reserve	\$505,000
TOTAL RESERVE REQUIREMENT	\$4,655,933
<i>Less Above Reserve Requirement=Unallocated Reserves</i>	<i>\$7,496,201</i>

Major Revenue Sources and 5-Year Forecasts

The Town’s major revenue sources include Property Tax, Building Fees, Parcel Tax, and excess ERAF.

Property taxes comprise of 67% of the current Town General Fund revenues. Over the past several years, the Town’s Assessed Valuation has increased. Since FY 2011/12 to FY 2015/16 the assessed value has increased 37.9%

Tax Year	Assessed Property Value	Growth Year over Year
2011/12	\$6,373,832,577	
2012/13	\$6,949,217,818	9.03%
2013/14	\$7,575,935,532	9.02%
2014/15	\$8,068,565,397	6.50%
2015/16	\$8,794,736,283	9.00%

The Town’s Assessed Value change from FY 2014/15 to FY 2015/16 is \$726,170,886. A majority of the value change is attributed to the residential category. This increase is related to properties that have been held over time and are now selling for greater values. Since there is no anticipated growth of new development in Atherton, in FY 2015/16 the changes in property values are based mainly on CPI growth and new construction on razed properties. Transfer of existing homes will also be a major factor in property tax growth. The median price for a home in Atherton in 2015 was \$4,420,000, a 10.8 percent increase over last year of \$3,989,000. HDL Companies provides the property tax analysis for the Town, and property tax revenue is not anticipated to continue its history of significant increase over time. According to HDL, property tax revenue is anticipated to level out at between 4 to 5% over the next couple of years. *The anticipated projection for the Town is 4.5% growth in property tax revenue in the first two years of five-year projection, and reduces to 4% for the remainder.*

Building fees are another major revenue source for the Town as they are a result of building and construction of homes within the Town limits. The total fees include the building permit fee for construction, which is calculated on a valuation base per square foot. There are other various flat fees for plumbing, mechanical and electrical permits, grading and drainage permits and plan check fees for building plans. In prior projections building fees were at 3% annually. *While the Town continues have steady construction, staff projects building fees conservatively at 2% annually.*

The *Parcel Tax* is another major funding source to the Town General Fund. This is a flat tax that is levied on each parcel. The parcel rates vary from \$225 to \$960, depending on the size of the parcel. The total amount of parcel tax revenue the Town receives a year is \$1,860,000. The residents approved Ordinance No. 581 as *an assessment of a special parcel tax to provide funding for police and emergency services, and for repair and maintenance of streets and storm drains*. This is a critical funding source for the Town; however, for General Fund Police Services expenditures, it is budgeted below the line as a “transfer in” to the General Fund at 20% of \$1,860,000 or \$372,000.

The Ordinance requires that the Council determine the total amount of expenditures necessary to provide adequate service levels. In prior years, the Council allocated 60% of Parcel Tax funds for police services and 40% to capital improvement program (CIP). This equated to an allocation of \$1,116,000 to police services and \$744,000 to the CIP. The FY 2014/15 budget was the first time the allocation was adjusted to a 20%/80% split between the General Fund and capital project funding respectively. This resulted in an allocation of \$372,000 to police services and \$1,488,000 to capital project funding. This allocation was maintained in the current FY 2015/16 budget. The Council will have the opportunity to revise this allocation as deemed appropriate at the June 1 Study Session for FY 2016/17. *This tax is a vital revenue source for maintaining current levels in public safety and current funding levels in much needed community capital projects. However, the amount total allocation may vary as Council determines the amount of funding to police services and CIP.*

ERAF is the Education Revenue Augmentation Fund. The State established this fund in the 1990’s and it was used to augment its General Fund revenues by shifting property tax revenues from local agencies to the State in order for the State meet minimum funding levels for schools. There is significant belief amongst local agencies that the State will continually look to target the use of ERAF for its own budget purposes. This tax is considered as a *funding source “below the line”* in the Town Budget. In priors years, ERAF was considered a reliable revenue source under property taxes. The State’s shifting of revenues for schools has indeed resulted in a projected decrease in ERAF revenues to the Town in FY 2015/16. *As Council is aware, we 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.* The policy for use of ERAF, requests that once we understand the amount of funds we receive in the current FY, we then make a recommendation to Council to consider an allocation of ERAF revenue in the upcoming fiscal year budget.

In FY 2013/14 the Town received \$1,020,000, in FY 2014/15 we received \$1,125,000, and in the current FY the Town received \$1,066,958. This is the first year we have seen a decline in ERAF revenue year over year as our budget for FY 15/16 was \$1,200,000.

ERAF Revenue	Actual Amount	Use of Funds
FY 2013/14	\$1,020,000	OPEB Liabilities
FY 2014/15	\$1,125,000	\$680,684-OPEB Liabilities \$444,316-Workers’ Comp. Negative Equity
FY 2015/16	\$1,066,958	Determine in FY 2016/17 budget

During the FY 2016/17 budget process, staff will bring forward a recommendation to allocate the \$1,066,958 of ERAF received toward reducing long term liabilities (such as a set aside for CalPERS unfunded liability), capital projects, or specific one-time projects.

Below is a table of current major revenue sources and their estimated 5-year projections.

Major Revenues	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Property Taxes	\$9,264,626	\$9,681,534	\$10,068,795	\$10,471,547	\$10,890,409
Building Fees	\$1,694,046	\$1,727,927	\$1,762,486	\$1,797,735	\$1,833,690
Parcel Tax*	\$372,000	\$372,000	\$372,000	\$372,000	\$372,000
Excess ERAF	\$1,033,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Total Revenues	\$12,363,672	\$12,781,461	\$13,203,281	\$13,641,282	\$14,096,099

*Parcel Tax allocation is 20% to General Fund

As part of the budget process staff reviews and projects other significant revenues to ensure there is adequate funding to meet operation service levels. With the exception of Sales & Use Tax, *these revenues are projected at 2% in the 5-year forecast.*

Other Significant Revenues	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Sales & Use Tax	\$300,541	\$306,551	\$312,682	\$318,936	\$325,315
Franchise Fees	\$852,829	\$869,886	\$887,284	\$905,029	\$923,130
Business License	\$227,253	\$231,798	\$236,434	\$241,163	\$245,986
Planning Revenue	\$262,242	\$267,487	\$272,837	\$278,293	\$283,859
DPW Revenue	\$272,786	\$278,242	\$283,807	\$289,483	\$295,273
Park Program Revenue	\$196,240	\$200,165	\$204,168	\$208,251	\$212,416
Other Revenue	\$478,320	\$487,887	\$497,645	\$507,597	\$517,749
Total Significant Revenues	\$2,590,211	\$2,642,016	\$2,694,857	\$2,748,752	\$2,803,728

Major Expenditure Categories and 5-Year Forecasts

Over the past several years, the Town has taken strides to reduce its operational costs where feasible. Some of the reductions were included in labor benefit costs where the Town has made significant strides. The Town eliminated the employer payment for the employee retirement cost portion by transferring that responsibility back to the employee. These costs were 7 percent for Miscellaneous Employees and 9 percent for Public Safety employees. The Town implemented a cafeteria health plan to place limits on the Town's contribution amounts and eliminated retiree healthcare. The Town has taken steps to reduce long-term liabilities by making payments of \$5M toward the Other Post Employment Benefit (OPEB) trust. These measures have had a direct impact on the Town's current and future year operational costs. Town labor costs are one of the major

expenditure categories. Within labor costs are health premiums, and retirement contributions. Below are forecasted costs and known assumptions:

- *Labor cost forecast - 3.0%*
- *FY 2016/17 CalPERS Miscellaneous Contribution Rate – 9.055%*
- *FY 2016/17 CalPERS Public Safety Contribution Rate - 21.23%*
- *OPEB Contribution – Possible Unknown contribution*
- *Operation expense - 4%*
- *CalPERS Net Pension Liabilities as of 06/30/15 – \$9,253,029*
- *Possible Capital Project Allocation for 5-Year CIP plan*

Salaries & Benefits	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Administration	\$612,307	\$630,676	\$649,596	\$669,084	\$689,157
Finance	\$481,544	\$495,990	\$510,870	\$526,196	\$541,982
Building	\$209,934	\$216,232	\$222,719	\$229,401	\$236,283
Inter-OPEB	Unknown Contribution				
Police	\$5,859,047	\$6,034,818	\$6,215,863	\$6,402,339	\$6,594,409
DPW	\$342,034	\$352,295	\$362,864	\$373,750	\$384,962
Total Salaries & Benefits	\$7,504,866	\$7,730,012	\$7,961,912	\$8,200,770	\$8,446,793

Major expenditure categories within the department operations budgets are *Professional Services* and *other technical services* that include the following estimates:

Building Department –

- Contract Life & Safety FY 2016/17 –\$961,725
- Digital Archiving FY 2016/17- \$7,500 remaining from \$67,500 expense budget in the current fiscal year.
- Technical Services- \$31,000 Trakit Software maintenance license fee for building inspections

Public Works –

- Contract DPW Maintenance Services FY 2016/17 - \$576,000
- Contract Public Works Director - \$187,200
- Contract Park Event Services FY 2016/17 - \$85,000

Planning Department –

- Contract Planning Department - \$190,000

City Attorney –

- Legal Retainer - \$154,000

Inter-department –

- *IT Services- RFP for services/FY 2016/17 budget estimated at \$58,000*

Police Department –

- *Other Contract Services – a few of the items include \$31,000 for the San Mateo*

- County Narcotics Task force; \$31,500 SMC OES Hazardous Materials Program;
- *Animal Control Services* – estimated at \$41,312
- *Other Supplies & Materials* – Ammunition; Skills Training FY 2016/17 - \$15,000
- *Machine & Equip.*-Taser Cartridges/Simulation Suit – FY 2016/17 estimated \$3,000; Replace defibrillators in police cars, Council Chambers and Park - \$15,000
- Estimated replacement of 3 Police vehicles; approximately \$84,000 and will be part of the Equipment Replacement fund.

Other Major Categories – Workers’ Compensation Insurance

FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
\$146,079	\$194,723	\$259,566	\$346,001	\$461,220

During the FY 2015-16 budget the City Council allocated \$680,684 towards the elimination of the Town negative equity reserve and this allowed the Town to maintain the \$111,000 in Worker’s Compensation assessment expense. The above forecast includes an increase of 33.3% year over year. This is currently the maximum the assessment can increase year over year with the JPA unless a special assessment is agreed upon. This increase in Worker’s Compensation is due to the claims the Town is currently experiencing. Since the Town is “self-insured,” claims are an existing liability as the Town’s equity reserve is used. *Staff will make a recommendation that we establish a minimum equity reserve and that that amount is replenished each year. This allows the reserve to be tapped each as needed and eliminates the possibility that an assessment expense is incurred over multiple years impacting operational costs.*

The Town’s current reserve share with the Cities Group JPA should be \$83,624, however currently it is a negative (\$29,374). The Town would need to contribute \$112,998, the difference to be made up for required equity reserve. As you may recall the \$680,684 allocation was to reduce the existing liability of Town claims and establish a required equity reserve of \$83,000. Expected expenses due to the 5-year average of claims is approximately \$209,783. This, coupled with the difference to make up the reserve requirement of \$112,998, equates to a gross assessment of \$322,782. Currently the projected assessment for the Town in FY 16-17 is \$146,079. If we continue to maintain our reserve requirement every year, this would reduce our operational costs for Workers’ Compensation. As illustrated above the current assessment would increase every year by 33.3%.

Below is the Projected Operations Budget by department for the General Operations with assumptions of 3 to 4% increase in costs. These are compounded increases based on basic assumptions. Actual requirements will be different as we go through the budget process. Operational expenditures are items such as professional services (MCE, Interwest, Planning, Legal, etc.), technical services, other supplies & materials, other contracts services, advertising, utilities, equipment repair, copier leases, phone service, training, technology, computers, postage, etc. – everything net of salaries and benefits. *The below do not represent actual budgeted expectations year over year but serve as a projection using assumptions.*

Operational Expenditures	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Council	59,650	62,036	64,518	67,098	69,782
Administration	120,671	125,498	130,518	135,739	141,168
Attorney	212,160	220,646	229,472	238,651	248,197
Finance	173,018	179,938	187,136	194,621	202,406
Planning	286,227	294,814	303,658	312,768	322,151
Building	1,080,995	1,124,235	1,169,204	1,215,972	1,264,611
Inter-department	573,687	596,634	620,500	645,320	645,320
Police	688,086	715,609	744,234	774,003	804,963
DPW	1,577,561	1,640,664	1,706,290	1,774,542	1,845,524
Total Amount	\$4,772,055	\$4,960,074	\$5,155,529	\$5,358,714	\$5,569,935

Unfunded Pension Liabilities

In the current fiscal year, CalPERS began its new amortization and smoothing policy. The new policy considers gains and losses on agency plans and amortizes them over a fixed 30-year period. Within this new policy CalPERS adopted modest changes to its current asset allocation to allow for a reduction in volatility in returns. Also, CalPERS adopted changes in demographic assumptions – in particular, that of mortality rate improvements. Employer contribution rates are expected to gradually increase each year, with rates peaking in FY 2019/20 and then ramp down. *The contribution rate for Miscellaneous Employees increases from 8.844% in FY 2015/16 to 9.055% in FY 2016/17, and Public Safety Employees contribution rate increases from 20.230% to 21.230% respectively.*

In FY 2015/16 CalPERS also began collecting the employer contributions toward amortization of unfunded liabilities as dollar amounts instead of through the contribution rate while each agency plan’s normal cost contribution continued to be collected as a percentage of payroll. Based on the most recent CalPERS actuarial valuations, the Town’s Unfunded Actuarial Liability (UAL) payments look as follows:

Plans	Unfunded Accrued Liability				
	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Miscellaneous	\$146,085	\$183,717	\$223,476	\$265,455	\$281,977
Public Safety	\$402,949	\$494,911	\$592,029	\$694,527	\$737,862
Total	\$549,754	\$678,628	\$815,505	\$959,982	\$1,019,839

The above UAL’s are invoiced to the Town at the beginning of each fiscal year. For FY 2015/16, the Town’s UAL payment to CalPERS was 458,513, however the Town netted a savings of \$16,284 as CalPERS allows agencies to pay the UAL monthly or as an annual lump sum prepayment. As illustrated above the FY 2016/17 UAL payment to CalPERS is \$549,754, an increase of \$91,241. Staff anticipates paying the UAL payment as a lump sum payment again at the beginning of the FY 2016/17.

The Town’s total unfunded liability as of June 30, 2014 CalPERS actuarial reports is \$9,240,107 (public safety and local miscellaneous). The above UAL’s are based on the CalPERS discount rate

of return of 7.50%. CalPERS Actuaries include forecasts for rate adjustments for local miscellaneous and public safety based on the rate smoothing and amortization policy that CalPERS implemented to fund agency plan liabilities. CalPERS provides a rate sensitivity analysis that highlights what happens in future years if the investment rate of return (7.5%) is not realized. Below is a look at the rate sensitivity analysis *based on FY 2016/17 employer contributions* and CalPERS assumptions and the long-term risk it imposes on contributions and total unfunded accrued liability.

Miscellaneous Employees Discount Rate Sensitivity

Sensitivity Analysis			
As of June 30, 2014	6.50% Discount Rate (-1%)	7.50% Discount Rate (assumed rate)	8.50% Discount Rate (+1%)
Plan's Total Normal Cost	19.7%	15.9%	13.0%
Accrued Liability	\$17,468,450	\$15,466,674	\$13,820,532
Unfunded Accrued Liability	\$4,464,612	\$2,462,836	\$816,694

Public Safety Discount Rate Sensitivity

Sensitivity Analysis			
As of June 30, 2014	6.50% Discount Rate (-1%)	7.50% Discount Rate (assumed rate)	8.50% Discount Rate (+1%)
Plan's Total Normal Cost	38.0%	30.2%	24.3%
Accrued Liability	\$40,275,584	\$35,213,417	\$31,120,806
Unfunded Accrued Liability	\$11,839,438	\$6,777,271	\$2,684,660

To improve the long-term pension benefit sustainability of the system through analysis of pension assets and liabilities, CalPERS held discussions on funding risks. Recently at its November 2015 Board of Administration meeting CalPERS adopted a Funding Risk Mitigation Policy that addresses these risks in a balanced manner. The policy will result in a gradual shifting of the asset allocation in a way that will lower investment risk. This shift means accepting lower future expected returns and a lower actuarial discount rate. Lower investment earnings will result in higher costs that would gradually occur over time as volatility decreases, but will vary by plan. These risk mitigation benefits in the long term will produce a sustainable fund, less volatile investment returns, and more stable contribution rates. In time, the policy is expected to lower the level of risk borne by employers and, ultimately, by members.

In the FY 2014/15 financial reports the Town recorded a net pension liability of \$9,253,029. Staff presented the CalPERS actuarial analysis to the Finance Committee to start discussions on addressing the UAL. One of the Council's core strategies of financial stability is to pay down these liabilities. Staff suggested the use of ERAF revenues or unallocated General Fund reserves to fund these long term liabilities. Staff suggested:

- ❖ an allocation of ERAF funds and make a defined contribution
- ❖ the potential use of unallocated General Fund Reserves to fund long-term liabilities

- ❖ Setting of a funding target for unfunded liabilities or should we pay as we go with CalPERS valuation reports

The Finance Committee believed that further discussion would be needed as the smoothing policy was initiated this fiscal year and the need to review the future capital project funding needs of the Town.

Capital Projects will be addressed in detail in our May 18 budget meeting. The Finance Committee will meet on Capital Projects prior to that meeting. As the Town has completed its various master plan programs, the Council will need to revisit identified expenditure priorities. These will flow into the Town’s 5-Year Capital Improvement Budget and will compress on the Town’s Reserves and Unallocated General Fund balance for funding of resources.

Funding sources for capital projects are the following:

General Fund	Library Funds
Parcel Tax	Channel Funds
Measure A & Measure M	Surface Transportation Funds
Gas Tax	Donations (Civic Center)
Road Impact Fee	

Reserve Balances

The net of revenue over expenditures should produce a balance, whether it is positive, negative or zero. These balances are called equity or “Fund Balances.” When agencies have net positive balance within their funds at the end the fiscal year, these balances get rolled up into the total Fund Balance of the fund. Within these fund balances most agencies set up reserve fund balances for emergencies, operating reserves, capital reserves, unallocated reserves or other contingencies.

The Town currently has a General Fund Committed Fund Balance *reserve for Emergency Disaster*. The Town Council has committed to set aside 15 percent of the actual annual General Fund operating expenditures specifically for emergency contingencies defined as a state of Federal and/or State of Emergency or declaration of a local emergency as defined in Atherton’s Municipal Code Section 2.44.010. The 15% is set aside from the total fund balance.

The Town also has a *General Fund unassigned Operating Reserve* that sets aside 20% of the actual annual General Fund operating expenditures for an operating reserve. There are no defined uses of the operating reserve. Its primary use is to assist with cash-flow needs given the timing of property tax receipts.

In the FY 2015/16 budget, the Town set up a Capital Facilities Replacement fund in the amount of \$505,000. This was set up as for future replacement of building facilities. Staff suggests an annual allocation to this fund to address the future need(s) of buildings and facilities. A suggested contribution is approximately \$500,000 per year. While designated for future building facilities, the allocation is unrestricted.

Any remaining fund balance not reserved or committed is designated as *Unallocated Fund Balance*. This Unallocated Fund Balance represents funds that have not yet been assigned. With Council direction, the unallocated reserve balance can be appropriated towards operational use, capital projects or to pay down liabilities. As previously discussed, in the FY 2015/16 budget, the Council allocated \$3,109,968 from the unallocated reserves towards Workers' Compensation negative equity, capital improvement fund, and CIP future unidentified Capital Projects. Budget amendments are generally done during the year to allocate unallocated general fund reserves as priorities and needs are adjusted.

Budget Process and Policy Discussions

The budget process is done in stages to allow the City Council to review the General Fund Operations Budget, the Capital Improvement Budget, Special Revenues and Internal Service Funds. The budget process provides staff the opportunity to examine programs, propose changes in current services, outline operational needs and recommend capital outlay items to the City Council. The process includes confirming that recurring revenues meet recurring expenses; and that the Town is able to deliver services over time and respond to changing needs of the community. In some instances the Town doesn't maintain enough revenue to meet the needs of a particular project priority in given fiscal year. If this is the case, the budget allocates funds in future years as a "save then spend" philosophy for larger projects. The budget process also provides an opportunity to review if policies are being met or the need for revisions or the creation of new policies.

Parcel Tax Policy

At the end of every fiscal year the City Council adopts a resolution to assess the Special Tax for municipal services. The Council approves the Parcel Tax levy by category. During the budget process the Council will determine the amount of parcel tax revenue and the percentage allocation to municipal services. Currently the total Parcel tax is \$1,860,000. The allocation in the current fiscal year is \$372,000 (20%) towards police services and \$1,488,000 (80%) towards capital projects. *As we go through the budget process, the Council can revisit these allocations as part of the special tax confirmation process (June 1 Study Session).*

ERAF Policy

As per Council policy, ERAF is treated as "one time" revenue for specific projects or priorities such as capital projects and contributions toward long-term liabilities. The policy for use of ERAF is post-receipt. Once funds are allocated or determined for a specific fiscal year, staff will make a recommendation to the Council for use of the funds. The Town received \$1,066,958 in the current fiscal year. *Staff will bring recommendations to Council to allocate this amount toward reducing long-term liabilities such as a set aside for CalPERS unfunded liability, capital projects, or specific one-time projects.*

Budget Goals

As we prepare the budget, the Council and staff will set goals that continue to maintain or enhance the level of service throughout the community, while ensuring that the Town maintains its fiscal stability. Focus should be on the ability to pay future costs and to provide needed or desired services. Flexibility should also be a goal as we want to ensure the Town is in a position to respond to changes in the economy or new service level demands.

Budget Calendar

April 6, 2016	First Budget Study Session #1
May 4, 2016	Operations Budget Meeting #2
May 18, 2016	Capital Projects Budget Meeting #3
June 1, 2016	Final Budget Study Session (Other Funds) #4
June 15, 2016	Budget Adoption #5

POLICY FOCUS

The policy focus for this item is discussion and overview of the budget process, philosophy and assumptions. Discussion includes budget revenue and expenditure assumptions, the use of excess ERAF, reserve policies, and a policy focus on the reduction of long-term liabilities. These are policy areas for Council discussion and direction.

FISCAL IMPACT

None.

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.

The Town maintains a Fiscal Transparency web portal and includes all budget information on its website. Links to these various areas are below:

Fiscal Transparency Web Page: <http://www.ci.atherton.ca.us/index.aspx?NID=269>

Archive of Town Budgets: <http://www.ci.atherton.ca.us/index.aspx?nid=273>

Financial Data Portal (OpenGov): <http://www.ci.atherton.ca.us/index.aspx?nid=361>

Financial Audit

Archive: <http://www.ci.atherton.ca.us/Archive.aspx?AMID=39&Type=&ADID=>

Actuarial Valuations Archive:

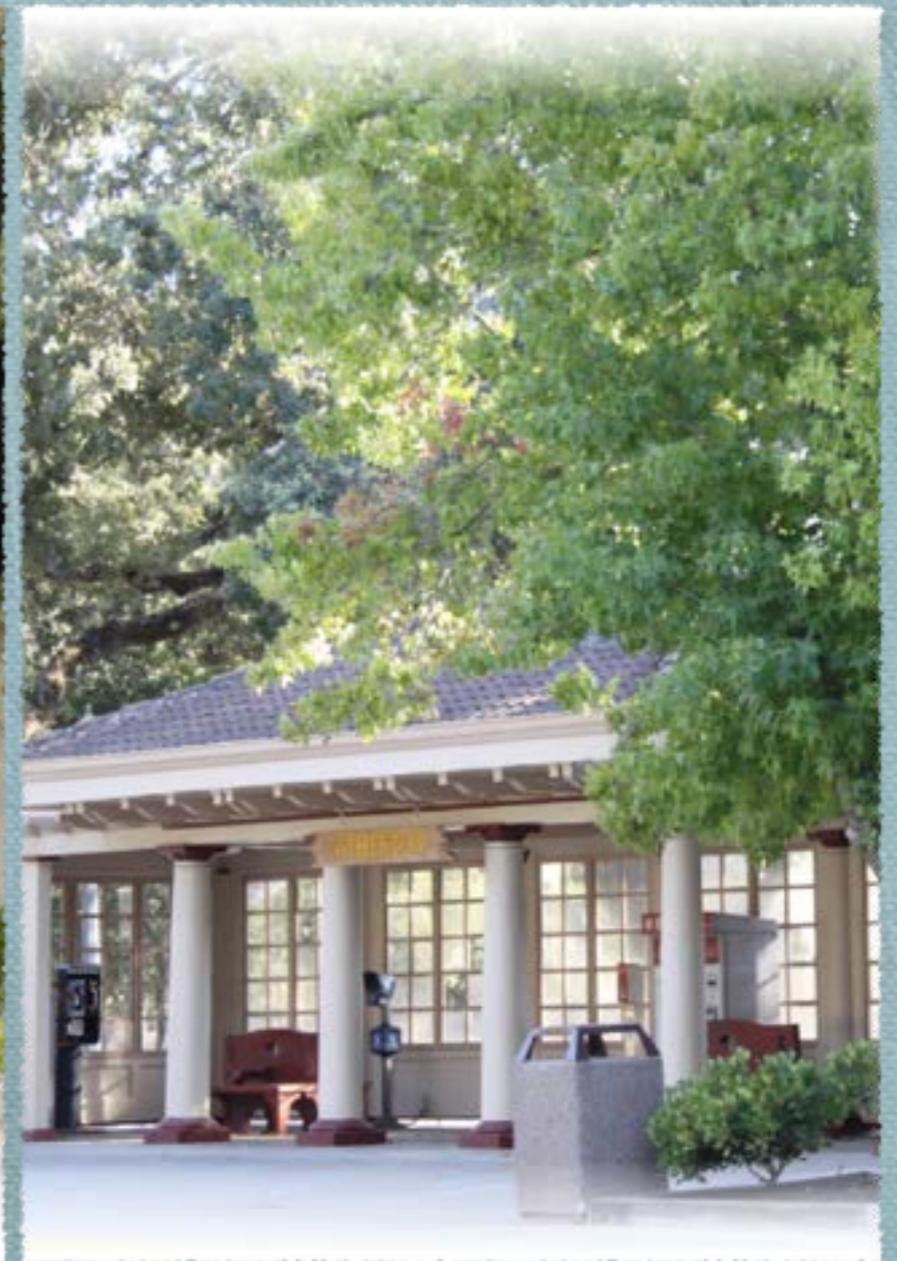
<http://www.ci.atherton.ca.us/Archive.aspx?AMID=61&Type=&ADID=>

Labor Contracts, Agreements, and Salary/Benefit Information:

<http://www.ci.atherton.ca.us/index.aspx?nid=192>

ATTACHMENTS

None.



Town of Atherton

2016/2017

Budget Study Session

Budget Kick-Off & Overview

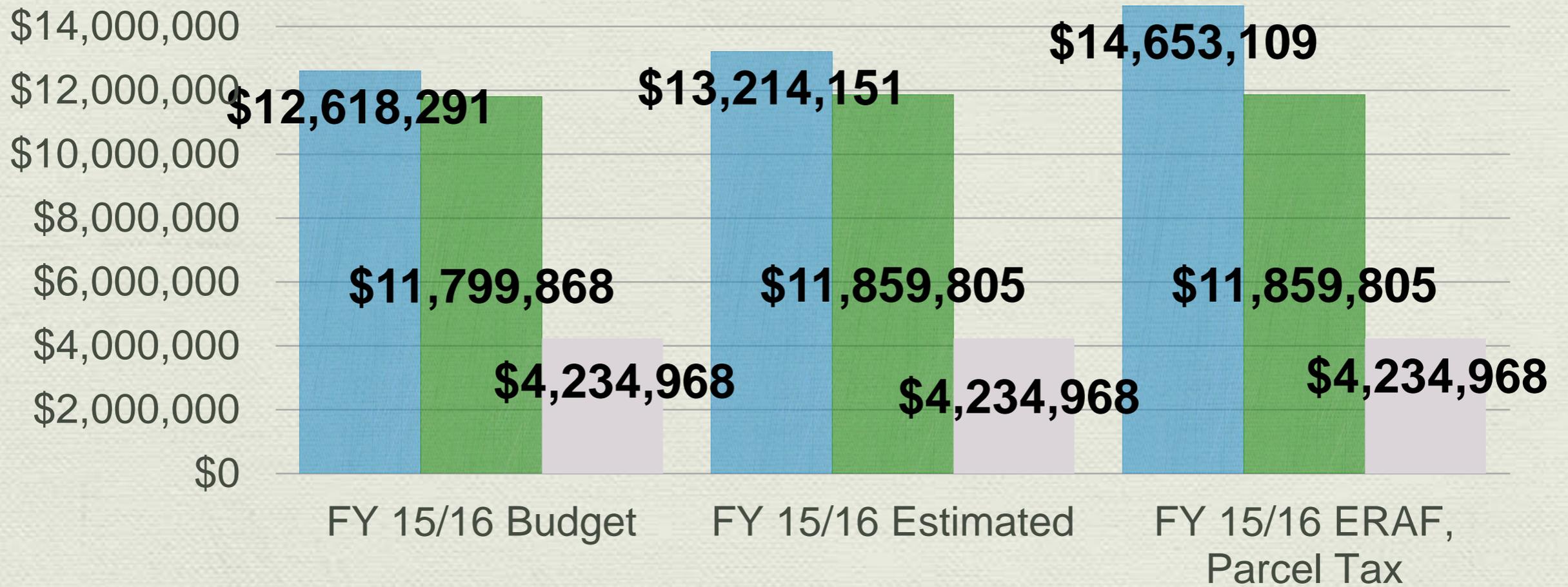
- FY 2016/17 Year-End Projected Fiscal Condition
- Major Revenue Sources & 5-Year Forecasts
- Major Expenditure Categories & 5-Year Forecasts
- Budget Process & Discussion
- Budget Calendar



General Fund Revenues to Expenditures

(Impact to Fund Balance)

■ Revenues ■ Expenditures ■ Transfers Out



Over/(Under): -\$3,416,545 \$-2,880,613 \$-1,441,664



Fund Balance and Reserves

FY 2015/16 Expenditures (Adjusted)	\$11,859,805
Projected FY 2015/16 Ending Fund Balance	\$12,152,134
15% Emergency Reserve	\$1,778,971
20% Contingency Reserve	\$2,371,962
Capital Facilities Replacement Reserve	\$505,000
TOTAL RESERVE REQUIREMENT	\$4,655,933
Less Above Reserve Requirement = Unallocated Reserves	\$7,496,201

GF Major Revenue Sources 5-Year Forecasts

- Property Tax (~65-70% of GF Revenue)
- Building Fees (~12% of GF Revenue)
- Parcel Tax (~5% to PD Operations)
- ERAF (~8% - below the line- of GF revenue)

GF Major Revenue Sources 5-Year Forecasts

Major Revenues	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Property Taxes	\$9,264,626	\$9,681,534	\$10,068,795	\$10,471,547	\$10,890,409
Building Fees	\$1,694,046	\$1,727,927	\$1,762,486	\$1,797,735	\$1,833,690
Parcel Tax	\$372,000	\$372,000	\$372,000	\$372,000	\$372,000
Excess ERAF	\$1,033,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Total Revenues	\$12,363,672	\$12,781,461	\$13,203,281	\$13,641,282	\$14,096,099

Property Taxes are projected at 4.0% to 4.5% (4.5% in 16/17)

Building Fees are projected at 2%

Parcel Tax is projected flat at full amount (20% to General Fund)

ERAF projected approx. \$1M as non-dependent revenue

GF Other Revenue Sources

5-Year Forecasts

Major Revenues	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Sales/Use Tax	\$300,541	\$306,551	\$312,682	\$318,936	\$325,315
Franchise Fees	\$852,829	\$869,886	\$887,284	\$905,029	\$923,130
Business License	\$227,253	\$231,798	\$236,434	\$241,163	\$245,986
Planning	\$262,242	\$267,487	\$272,837	\$278,293	\$283,859
DPW	\$272,786	\$278,242	\$283,807	\$289,483	\$295,273
Park	\$196,240	\$200,165	\$204,168	\$208,251	\$212,416
Other	\$478,320	\$487,887	\$497,645	\$507,597	\$517,749
Total	\$2,590,211	\$2,642,016	\$2,694,857	\$2,748,752	\$2,803,728

Above Revenues are projected conservatively at 2%

GF Major Expenditures 5-Year Forecasts

- Operations (~% of budget)
 - Admin – ~5.6%
 - Finance - ~4.6%
 - Building - ~10.5%
 - Inter/OPEB - ~4.9%
 - Police – ~54.3%
 - DPW - ~15.1%

Major Components of Operational Expenses

- Labor Costs (forecasting forward @ 3.0%)
- Pension Costs
 - 2016/17 Local Miscellaneous – 9.055%
 - 2016/17 Local Safety – 21.23%
- OPEB ARC – unknown additional contributions
- Operational Expenses (forecasting forward @ 4%)
- CalPERS UAL – Misc. \$146K; Public Safety \$403K

Major Components of Operational Costs

- Significant Professional Service Contracts
 - Building Contract - \$961k
 - MCE - \$576k
 - PW Director - \$187k
 - Park Event Services - \$85k
 - Planning Services - \$190k
 - Legal Services - \$154k

Operational Costs

Operations	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Council	\$59,650	\$62,036	\$64,518	\$67,098	\$69,782
Admin	\$120,671	\$125,498	\$130,518	\$135,739	\$141,168
Legal	\$212,160	\$220,646	\$229,472	\$238,651	\$248,197
Finance	\$173,018	\$179,938	\$187,136	\$194,621	\$202,406
Planning	\$286,227	\$294,814	\$303,658	\$312,768	\$322,151
Building	\$1,080,995	\$1,124,235	\$1,169,204	\$1,215,972	\$1,264,611
Inter/OPEB	\$573,687	\$596,634	\$620,500	\$645,320	\$645,320
Police	\$688,086	\$715,609	\$744,234	\$774,003	\$804,963
DPW	\$1,577,561	\$1,640,664	\$1,706,290	\$1,774,542	\$1,845,524
Total	\$4,772,055	\$4,960,074	\$5,155,529	\$5,358,714	\$5,569,935

Assumptions of 3% to 4% per year

Expenditure Items NOT INCLUDING salaries and benefits

Ex: prof. services, technical services, other contract services, advertising, utilities, other supplies & materials, repairs, phones, technology, postage, etc.

Town Policy Discussions

- Parcel Tax Policy: Determine the amount of parcel tax revenue and allocation towards municipal services; June 1 Study Session
- ERAF Policy: One-time revenue; Allocate \$1.06M toward long term liabilities, capital projects, or specific one time projects.
- Unallocated Fund Balance: Allocate a percentage or portion toward CIP or long term liabilities; maintain a set amount as unallocated

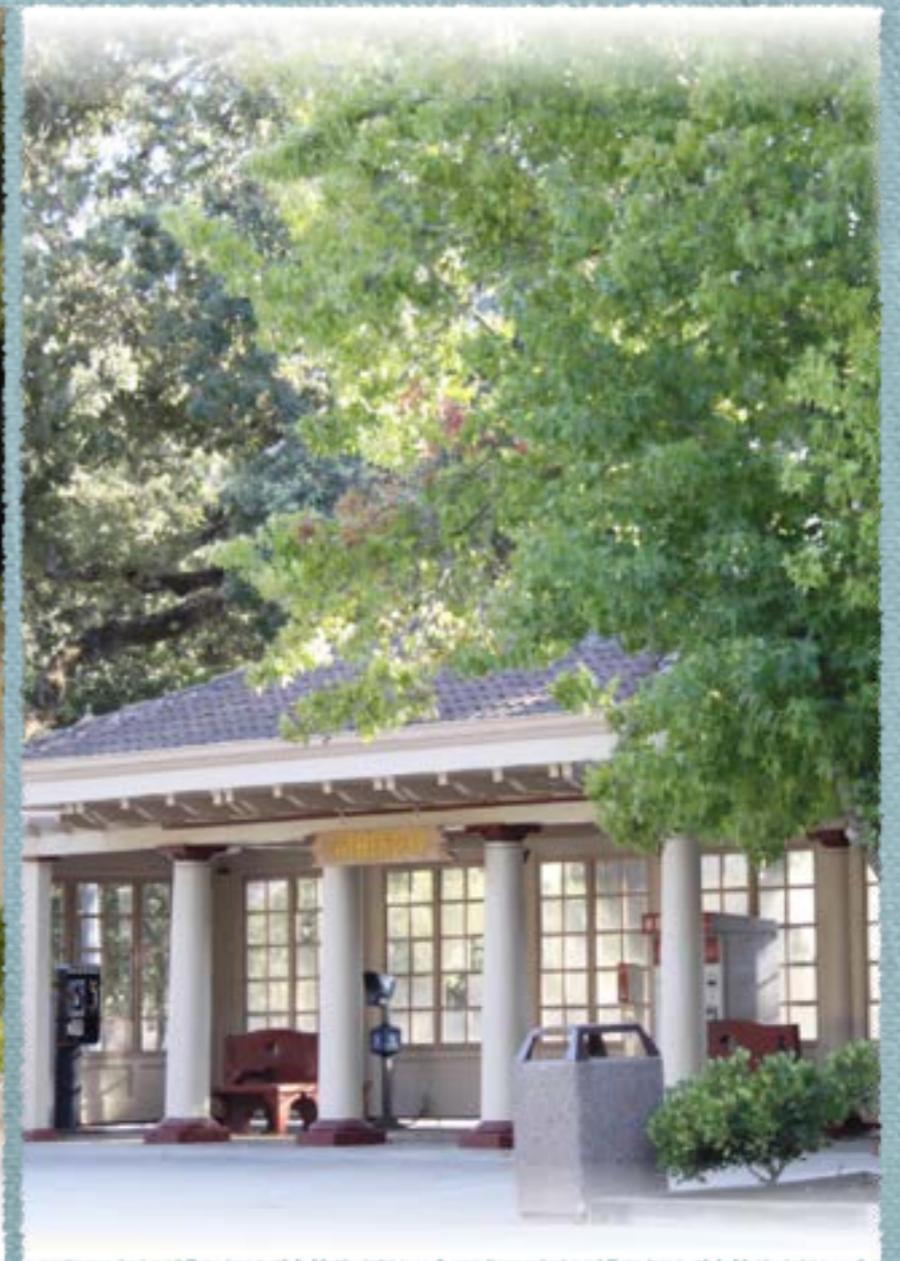
Summary & Forecast

General Fund	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21
Major Revenue	\$10,958,672	\$11,409,461	\$11,831,281	\$12,269,282	\$12,724,099
Other Revenue	\$2,590,211	\$2,642,016	\$2,694,857	\$2,748,752	\$2,803,728
Total Revenue	\$13,548,886	\$14,051,477	\$14,526,138	\$15,018,034	\$15,527,827
Salaries/Benefits	(\$7,504,866)	(\$7,730,012)	(\$7,961,912)	(\$8,200,770)	(\$8,446,793)
Op Ex	(\$4,772,055)	(\$4,960,074)	(\$5,155,529)	(\$5,358,714)	(\$5,569,935)
OPEB	(\$0)	(\$0)	(\$0)	(\$0)	(\$0)
CalPERS UAL	(\$549,754)	(\$678,628)	(\$815,505)	(\$959,982)	(\$1,019,839)
Over/(Under)	\$722,208	\$682,763	\$593,192	\$498,568	\$491,260
Parcel Tax (20%)	\$372,000	\$372,000	\$372,000	\$372,000	\$372,000
ERAF	\$1,033,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000
Net to Fund Balance	\$2,127,208	\$2,054,763	\$1,965,192	\$1,870,568	\$1,863,260

These do not represent actual budgeted expectations year over year. Annual requirements will be different as we go through the budget process.

Process/Discussion/Calendar

- Operations Budget – May 4
- Capital Improvement Budget – May 18
- Budget Study Session – June 1
- Budget Adoption – June 15



Town of Atherton

Questions?