



Item No. 2 Town of Atherton

CITY COUNCIL STAFF REPORT – STUDY SESSION

TO: HONORABLE MAYOR AND CITY COUNCIL

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

DATE: APRIL 5, 2017

SUBJECT: FY 2017/18 GENERAL FUND/OPERATIONS BUDGET

RECOMMENDATION

Review and Discuss.

BACKGROUND

Budget Meeting #1 is a review of the Town's General Fund Operational Budget. Expenditures include the administration, finance, planning, building, public works, and public safety departments. The Town's General Fund Operating Budget relies on continued fiscal prudence, taking into account the need to adjust resources in order to meet any rising demands for Town services, capital improvements and priorities. The Operations Budget Report focuses on the Town's fiscal outlook of revenues and expenditures over time. The FY 2017/18 Budget projects a healthy outlook as the Town continues to implement current Council priorities to reduce long-term liabilities, address capital project needs, and ensure operational needs are met.

At the conclusion of FY 2015/16, the Town's General Fund balance reflected an overall net decrease (\$414,416). This was *after* a transfer out of \$4,423,968 to address long-term liabilities, Workers' Compensation Equity, and CIP project savings. Without the transfer out, the General Fund would have had a *positive* change of \$3.9M.

For the FY 2016/17 budget, the Town's General Fund would is projected to have a net *positive* change of \$1,285,323 without the parcel tax and Excess ERAF – at year-end. During the FY 2016/17 budget, based on the policy direction of the Council, there were transfers out of \$5,085,086.

<i>Transfers Out from General Fund</i>	FY 2016/17 Budget Amount
<i>CalPERS UAL Payment within GF (Use of FY 15/16 ERAF)</i>	\$548,950
<i>Workers' Compensation Negative Equity (Use of FY 15/16 ERAF)</i>	\$112,998
<i>CIP Future Unidentified Capital Projects</i>	\$4,423,138
	\$5,085,086

With the inclusion of the parcel tax of \$372,000 and excess ERAF of \$1,033,000, the resultant projected net change of fund balance for the FY 2016/17 was (\$3,680,086) – largely due to the \$4.4M transfer to the CIP Fund for future projects.

During Mid-Year, staff projected an increase in revenues of \$542,175 for a new total revenue projection of \$13,977,137 and expenditures increased by \$257,080 to \$12,406,719. With the revenue and expenditure adjustments and the inclusion of transfers out, the Town projected a net change in fund balance for FY 2016/17 of (\$1,490,533). It is important to note that the General Fund is not operating at a deficit. The net change in fund balance at Mid-Year was \$3,045,603; operational revenues exceeded operational expenditures by \$1,570,418 plus the \$372,000 Parcel Tax and \$1,103,185 ERAF.

The projected year-end fund balance for FY 2016/17 is \$11,709,006. The Town will meet its reserve requirements for FY 2016/17 and will have additional unallocated funds beyond the required reserves of \$6,861,653 (in total, it represents 94% of the Town’s operational budget).

The Town’s financial stability rests with the Town’s guiding value of fiscal stewardship. It is a core value that is used to address priorities such as long-term liabilities, capital project needs, and maintaining healthy reserves. Staff seeks to ensure that the Town’s fiscal position remains positive while still continuing current programs, policies, and services.

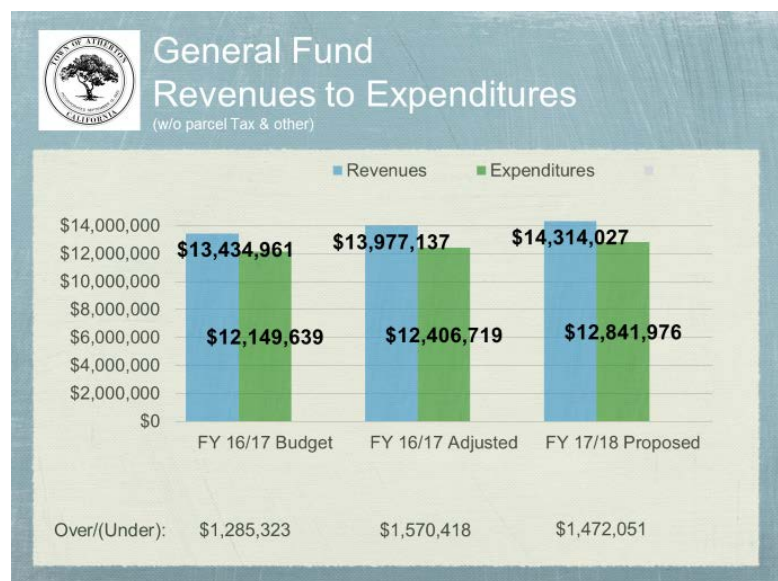
This Report provides an overview of the General Fund budget and a discussion of its operational departments.

ANALYSIS

R E V E N U E S

For FY 2017/18, staff projects the Town’s Total General Fund revenues at \$14,314,027 against \$12,841,639 in expenditures. This projects a single year surplus of \$1,472,051 before the addition below the line of the Parcel Tax as a General Fund Revenue source and ERAF to General Fund expenditure priorities. There is a projected year-end positive fund balance in the General Fund of \$14.1 million.

Over the past several years the Parcel Tax and ERAF are brought in below the line in the operations budget. The Parcel Tax and ERAF are considered



FY 2017/18 General Fund Operations Budget

April 5, 2017

Page 3 of 19

major revenue sources for the Town. As in previous budget discussions, we have a Parcel Tax and ERAF Policy that calls for review of use of these revenue resources to allocate them to specified projects or priorities.

The Town developed a policy that 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. 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 the FY 2016/17 budget we allocated the \$1,066,958 FY 2015/16 ERAF toward the CalPERS UAL Payment within the General Fund (\$548,950), Workers’ Compensation Equity Reserve (\$112,998) and allocation to CIP for future unidentified capital projects (\$405,010). The Town received \$1,103,185 in the current fiscal year. *Staff recommendation to City Council for the use of the \$1,103,185, is to apply the funds as follows:*

ERAF Revenue	Actual Amount	Use of Funds
FY 2016/17	\$1,103,185	Determine in FY 2017/18 budget
Allocate FY 2017/18	(\$92,188)	OPEB Trust Contribution
Allocate FY 2017/18	(\$357,140)	WC minimum Equity Reserve replenishment
Allocate FY 2017/18	(\$653,857)	<i>Remaining portion to Civic Center funding gap</i>

The Council has had discussions regarding the use of excess ERAF funds, as a funding gap for the Civic Center Project. The Council heard a presentation tonight from Urban Futures regarding Certificates of Participation as a funding option. There is anticipation that Excess ERAF funds from FY 2016/17, FY 2017/18 and FY 2018/19 would be used to fill portions of the funding gap for the Civic Center project. With this being the case, staff still recommends that we make an allocation towards OPEB and Workers’ Compensation negative equity from the General Fund. If funds are not allocated to these identified priorities from ERAF, funds would be allocated from the unallocated General Fund Balance.

The Audit and Finance Committee reviewed and discussed the Town’s recent OPEB actuarial valuation and recommends the Town make a contribution of \$92,188 towards the Town OPEB Trust.

Another policy for Council review is the Parcel Tax Policy. The Parcel Tax is another significant revenue source to the General Fund and Capital Improvement Projects Fund (CIP). The Parcel Tax is a vital revenue source for maintaining current staffing levels in public safety and commitments to capital projects. It is a flat tax that is levied on each parcel and provides funding for police and emergency services, and for repair and maintenance of streets and storm drains. The total amount of parcel tax revenue the Town receives a year is \$1,860,000 and the allocation may vary as Council determines the amount of funding to police services and CIP. The current Special Parcel Tax allocation is 20% toward public safety and 80% toward streets and drainage. This funding

FY 2017/18 General Fund Operations Budget

April 5, 2017

Page 4 of 19

allocation began in FY 2014/15 and continues through FY 2016/17. The General Fund receives \$372,000 in support of public safety services and the remaining \$1,488,000 is allocated to qualifying projects in the Town's CIP. At the end of every fiscal year the City Council adopts a Resolution to assess the Special Tax for municipal services.

The Special Parcel Tax is up for renewal in November 2017. The Special Parcel Tax remains a vital component of the Town's CIP and, if approved in November 2017, provides nearly \$6 million in funding potential for the Town's 5-Year CIP program ending in FY 2020/21.

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 (June 7 Study Session). The allocation in the current fiscal year is \$372,000 (20%) towards police services and \$1,488,000 (80%) towards capital projects. *Staff recommends continuing this same allocation for the FY 2017/18 budget. However, the Council could determine a different allocation amount.*

In FY 2017/18, property taxes represent 69% of the Town General Fund Revenues. The total projected revenue from property taxes is \$9,998,299. Total property tax revenues are projected to increase approximately 3.4% or \$339,571 over the FY 2016/17. From FY 2011/12 to FY 2016/17, Atherton has seen a growth in assessed value of approximately 49%. Staff projects base property tax revenue to increase about 4.2% in FY 2017/18. Staff continues to monitor property tax assessments every year. Recent discussions with HDL Companies (consultant) anticipates revenue to increase approximately 4.2% to 5%, with anticipation of some leveling out of tax revenue in future years. Below is projection of property tax revenues at 3.4%.

	FY 2013/14 Actual	FY 2014/15 Actual	FY 2015/16 Actual	FY 2016/17 Budget	FY 2016/17 Estimate	FY 2017/18 Budget
Property Taxes	\$7,692,445	\$8,211,148	\$8,907,767	\$9,264,626	\$9,658,728	\$9,998,299
Excess ERAF	\$1,020,085	\$1,125,257	\$1,066,958	\$1,033,000	\$1,103,185	\$1,066,958
Total Property Taxes	\$8,712,530	\$9,336,405	\$9,974,725	\$10,924,626	\$10,761,913	\$11,065,257

In prior years, the Property Tax category for the Town also included Excess ERAF as it was considered a reliable revenue source under property taxes. Excess ERAF **still remains** a vital component of the General Fund as it supports the reduction of long-term liabilities and the funding of one-time capital project needs; however, staff has removed it as a "dependent" revenue source for operations. The projected Excess ERAF funds for FY 2017/18 is \$1,066,958.

General Fund other revenues for FY 2017/18 include conservative revenue assumptions. Most Property Tax revenues with exception of unsecured property tax revenues (reduction of 2.6%), as seen above are assumed to increase by 4.2%. The projection is based on financial data analysis provided by the County Assessor's Office and HDL Companies as part of the Town's Property Tax Revenue Report. Most other General Fund revenues have seen steady increases over the years.

Building Department revenues are projected to increase by approximately 1% in the fiscal year. The Town continues to see growth in assessed value attributed to residential improvements and the razing of existing homes and construction of new homes. Staff continues to monitor building department revenues in the next fiscal year but recommends a conservative budget increase of 1% for this revenue source. Franchise revenues are projected stable at 1% as well based on current FY 2016/17 year-end projections. All other charges for services were held to 1% to 2% projected increases, while other revenues were evaluated on current trends and also eliminated one-time revenues. The Park Program revenues are projected at \$239,000 – there have been increases over the years as the Town continues to partner with Catering By Dana as the event services contractor.

Projected General Fund FY 2017/18 revenues are as follows:

Source	Revenue
Property Taxes	\$9,998,299
ERAF	\$1,066,958
Sales Tax	\$257,328
Franchise Fees	\$881,177
Charges for Services (Building, Planning, DPW)	\$2,329,239
Licenses and Intergovernmental	\$277,281
Use of Money/Property	\$321,783
Fines & Forfeitures	\$81,192
Park Program Revenue	\$239,823
Parcel Tax	\$372,000
Total General Fund Revenues	\$15,752,985

- Note – table includes ERAF

E X P E N D I T U R E S

Overall General Fund expenditures are estimated at \$12.8 million. Expenditures continue to be evaluated based on operational needs to provide consistent services to the community. Staff reviewed operational expenditures and known expenditure adjustments were incorporated wherever possible based on upcoming contract costs, projected dues/fees for member agencies, as well as changes in rate adjustments for CalPERS, health costs, and Workers’ Compensation rates.

The Town continues to make strides in reducing operational costs where feasible. Over the past several years the Town eliminated the employer payment for the employee retirement costs by transferring that responsibility back to the employee. These costs were 7% for Miscellaneous Employees and 9% for Public Safety employees. In October 2016, the Town entered into a new MOU with the Atherton Police Officers Association. Key changes include

- October 1, 2016 – 3% + 1% Benefit Adjustment for Employer PERS (Sworn Only)

FY 2017/18 General Fund Operations Budget

April 5, 2017

Page 6 of 19

- July 1, 2017 – 2.75% + 1% Benefit Adjustment for Employer PERS (Sworn Only)
- July 1, 2018 – 2.75% + 1% Benefit Adjustment for Employer PERS (Sworn and Non-Sworn)

The 1% benefit adjustment to sworn personnel reduced the Town’s **employer** portion of CalPERS contribution by approximately \$17,250 in the current year. In FY 2017/18 there is another adjustment expected to reduce the **employer** portion by approximately \$48,162

For CalPERS, the employer rates have changed as CalPERS implemented its new rate smoothing policies. The Public Safety Officer Employer Contribution rate for FY 2017/18 is 21.418% (an increase of 0.188%). The Local Miscellaneous Employer Contribution rate for FY 2017/18 is 9.096% (an increase of 0.041%). This results in a corresponding expenditure increase in the Normal Cost of Employer Rate Contribution through payroll. Over the past two years the Town has been paying the required unfunded accrued liability dollar amount portion to CalPERS. Listed below are the Unfunded Accrued Liabilities (UAL) dollar amounts the Town has paid for FY 2015/16 and 2016/17. The anticipated FY 2017/18 UAL payment is \$682,064 and is an increase of \$133,114. These expenses are incorporated into department budgets.

CalPERS Employer Payment of Unfunded Liability	Unfunded Liability Payment FY 2015/16	Unfunded Liability Payment FY 2016/17	Unfunded Liability Payment FY 2017/18
Miscellaneous Employees	\$116,323	\$146,085	\$183,648
Public Safety Employees	\$325,906	\$402,865	\$498,416
Total Contribution	\$442,229	\$548,950	\$682,064

The Workers’ Compensation charge to the Police Department was increased to recover the Town’s self-insured negative equity reserve and recent increase in claims. These costs are allocated out to the respective departments based on claims history and rate allocations. The rates increased from 9% to 10% of salary costs for public safety employees. The miscellaneous employees’ rate remained the same at 4% of salary costs. Total Workers’ Compensation charges expense increased \$39,835 to a total of \$332,082 to recapture losses in self-insured claims. *As mentioned earlier, staff is recommending the Town use ERAF funds or General Fund allocation of \$357,140 to pay off the minimum negative equity reserve for the current fiscal year.*

The Town currently has a negative Workers’ Comp reserve equity of (\$259,410). The Town should maintain a reserve equity of at least \$97,730 with the Cities Group JPA (per recent claims actuarials). For the replenishment of the equity reserve, the Town would need an allocation of \$357,140 to the JPA. If the equity is not refreshed as a one-time contribution, annual operational rates will increase and the JPA will create a “special assessment” each year as part of the base rates.

As the Council is aware, as a public agency, the Town is “self-insured” as part of a risk pool. The Town also maintains an active risk management program; nevertheless, recent workers’ compensation claims will have a direct impact on the Town’s costs. There are approximately 10

opens claims from past several years that incurred a reserve claims cost of approximately \$337,804 in the current year. Some are major and some are minor. Since the Town is “self-insured,” claims are an existing liability as the Town’s equity reserve is used. *Staff’s past recommendation was to establish a minimum equity reserve and that that amount is replenished each year. Staff continues to echo this sentiment and requests that the Town make the \$357,140 to reestablish the minimum equity reserve.* This allows the reserve to be used as needed and eliminates the possibility that an assessment expense is incurred over multiple years impacting operational costs.

Staff recommends that it is sensible to monitor and increase workers’ compensation reserves within the workers’ compensation fund to allow the Town to build up and maintain a reserve to weather workers’ compensation claims. Based on claims history, staff has increased the amount charged against the Police Department to 10% to establish a healthy reserve in the Workers’ Compensation Fund, which currently has approximately \$332,000 in fund balance.

During the review of department operations, each department looked at service and maintenance levels required for the next fiscal year. **Overall, the Town’s total combined operational expenditures increased by \$289,831 compared to the FY 2016/17 adjusted budget – an increase of 2.4%.** The departments with singular significant major fiscal changes are the Planning, Building, Public Works, Inter-Departmental, and the Police Department. These are offset by Administration and City Council departmental reductions.

Included below is a department by department summary breakdown. Staff will provide a PowerPoint presentation to present departmental expenditures trends over the past couple of years along with the projection for FY 2017/18. As in the past, when creating the operations budgets by department for general operations, focus was on anticipated needs and cost assumptions on meeting operational demands. Attached are summaries by department and roll-ups of operational expenditures. Operational expenditures within departments are for items such as professional services (MCE, Interwest, Planning, Legal, etc.), advertising, utilities, equipment repair, copier leases, phone service, training, technology, computers, postage, etc. – *everything net of salaries and benefits.*

**CITY COUNCIL OPERATIONS
DECREASE OF \$14,563**

The City Council budget includes expenditures related to City Council meetings, conference attendance such League of California Cities, Council/Town memberships (LAFCO, C/CAG, HEART, HIP Housing, League of Cities, etc.), HSR Public Relations, Elections, utilities for the Council Chambers and incidentals. There are no salaries or benefits in the City Council budget.

The City Council budget had an overall 25.4% decrease (\$14,563) as compared to the FY 2016/17 adjusted budget. There was a reduction in advertising and publishing expense in the amount of \$1,000. There is a decrease of \$13,159 in Election Cost expense for the Town’s 2017 November election with a budget of \$15,000. Office supplies decreased by \$300 while mileage reimbursement increased for meeting attendance to conferences.

**ADMINISTRATION DEPARTMENT
DECREASE OF \$53,983**

The Administration Department budget includes the City Manager's Office and City Clerk's Office. This represents three full-time salaries and benefits (City Manager, City Clerk/Deputy City Manager, and Deputy City Clerk), contract support for human resources (legal), legal noticing and posting, conference attendance and support, memberships, municipal code publishing, office supplies, and the administrative share of general utilities and costs.

The total Administration Department budget decreased by (\$53,983) compared to the adjusted FY 2016/17 budget. One major decrease is due to the contract human resources decrease for employment law support in the amount of \$70,000. The decrease is due to some retiree health plan changes to lower cost health plans. The CalPERS UAL payment increased \$6,273 from the FY 2016/17 expense \$24,997. The total UAL for Miscellaneous Employees is \$183,648 and it is allocated across the various departments. The CalPERS employer contribution increased to 9.096% and increased employer expense by \$2,477 to \$39,923. There is a projected salary and benefits adjustment increase of \$19,117 due to the salary and benefit increase of 3% during FY 2016/17. There is a decrease of \$1,800 in external printing services for the printing of the Athertonian newsletter. There was a decrease of \$2,000 in training and workshops as well as a decrease in Special Events & Awards by \$300 for employee recognition awards as the Town is current on employee milestone awards.

There is a no-cost title change to the City Clerk/ATCM to City Clerk/Deputy City Manager to better reflect job duties and responsibilities.

CITY ATTORNEY'S OFFICE

The City Attorney's Office budget consists of the legal retainer for the City Attorney and other associated legal services.

The City Attorney's Budget does not reflect an increase. The department budget is \$204,000 and includes the City Attorney retainer of \$154,000 and also includes an expenditure budget of \$50,000 in the event that any additional outside attorney services are needed.

**FINANCE DEPARTMENT
INCREASE OF \$7,791**

The Finance Department budget includes the salaries and benefits of three full-time employees (Finance Director, Accountant and Accounting Technician). The budget includes contract services for the Town's Audit and Investment Services, financial software licensing and support, conference attendance and support, memberships, office supplies, and business license processing costs.

The Finance Budget increased by \$7,791 as compared to the adjusted FY 2016/17 budget. Salaries and benefits decreased by \$7,577, of which \$12,512 is due to a reduction in active health insurance

expense and a \$1,513 reduction in CalPERS employer retiree contribution. There was an increase to the FY 2017/18 CalPERS UAL payment unfunded liability expense of \$3,758. Health insurance for retiree pay as you go increased \$853. There is a projected salary and benefits adjustment increase of \$2,276 due to the salary and benefit increase of 3% during FY 2016/17. The total operation expenses for the department increased by \$15,368. A majority of the increase is in Other Contract Services expenditure budget that increased by \$13,100 to \$45,100. This increase is a result of upcoming GASB 75 OPEB requirements which will require an OPEB analysis. While this amount is budgeted, the Town may be able to use GovInvest to complete the required analysis at a lesser cost. There is also an adjustment to the GovInvest license and onboarding of OPEB module to the Town's calculation portal. The audit and finance expenditure budget increased \$1,363 to \$51,296 for audit service contract for FY 2016/17 audit and FY 2017/18 interim audit. There was an increase of \$905 in technical services expense for Springbrook Financial Software annual maintenance fee.

**PLANNING
INCREASE OF \$12,579**

The Planning Department budget consists of contract planning services and associated services and costs. The Department also includes an allocation of arborist service costs related to planning activities.

The overall increase is due to the Contract Planner expense increase of \$12,579. This includes the \$50,000 additional authorization from current year for Sustainability programs management and an increase of approximately 6% in contractor planner expense to \$214,150. Most of this cost is due to the anticipated work on the General Plan Update and work with the Tree Committee to update the Tree Preservation Ordinance. There is the continued allocation for a portion of Town Arborist to the Planning Department (\$10,000).

**BUILDING DEPARTMENT
INCREASE OF \$17,587**

The Building Department budget consists mostly of the contract services for the building department (Interwest), portions of three full-time salaries and benefits are also allocated to the department (Arborist, Associate Engineer and Office Specialist), general office supplies and materials, software costs, and a share of the building department share of utilities.

The Building Department had an overall increase of \$17,587. Salary and benefits had a net increase of \$17,166. This is mainly due to the Building department portion of CalPERS unfunded liability increase of \$8,554 for FY 2017/18. There is a projected salary and benefits adjustment increase of \$8,612 due to the salary and benefit increase of 3% during FY 2016/17. There was increase of \$1,000 in Technical Services expense for the increase cost for the CRW maintenance fee. Due to the projected building permit revenues relative increase for FY 2017/18, the Contract Life Building Safety expense increased \$9,521 to \$985,988. Subscription expense decreased by \$2,100 as new reference code books were ordered in the current fiscal year. There was a reduction in Microfilms-

Digital Archiving expense of \$7,500, as the digital archiving of plans continues to be undertaken and funded through the building technology surcharge fee.

**INTERDEPARTMENTAL
INCREASE OF \$13,457**

The Interdepartmental budget provides for the accounting of costs that are incurred and support all Town departments. Costs include liability insurance, IT support, County Tax administration costs, IT infrastructure costs and other charges that are Town-wide in nature.

The Interdepartmental Budget had an overall increase of \$17,587. There was a reduction of \$4,040 in IT support expense for Interwest IT services. The initial contract had a one-time transitional cost fee and the contract expense for FY 2017/18 will have a 12-month expense. There is a projected decrease of \$10,870 in Town Liability insurance to \$225,616. This amount also includes a \$100,000 self-insured retention claim expense. The Town's claim expense Self-Insured Retention is \$25,000 per claim. Premium employment practice liability insurance budget had a slight increase of \$4,694 to \$35,996. There is a projected increase for County Tax administration cost by \$3,409 to \$76,409. This is for the San Mateo County property tax administrative costs for collection and processing of Town taxes. There was an increase of \$11,500 for miscellaneous computers parts and supplies expense. This is due to need for redundancy of Town-wide servers in the coming year. There is an increase in Computer Equipment Software expense of \$8,764 for network software, storage back up, wireless projects, and annual website hosts renewal (refresh of the website in 2017).

**PUBLIC WORKS DEPARTMENT
INCREASE OF \$74,860**

The Public Works Department budget consists of 5 distinct areas of focus: Engineering, Streets, Park Maintenance, Park Programs, and Building Maintenance. The salaries and benefits of all or portions of four full-time employees (Superintendent, Associate Engineer, Office Specialist, and Arborist) are included in the budget. The budget includes contract services for the Town Maintenance Services (MCE), Custodial Services, Tree Trimming, Street Sweeping, Signal Maintenance, Street Light Maintenance, Contract Engineering, and Park Event Services. The budget also includes computers and equipment, training and workshops, software licensing and support, general office support, memberships, office supplies, and shares of general utilities and costs.

The Public Works budget reflects an increase of \$74,860. Total Salaries and Benefits increased \$26,839 in the department mainly due to the increase of the department's portion of the CalPERS UAL payment in the amount of \$12,814 for FY 2017/18. There is a projected salary and benefits adjustment increase of \$12,215. The operations budget reflects an increase of \$48,022. There is a decrease of \$7,978 for Contract Park Event Services for Catering by Dana. This is correspondent to the Park Program revenue projected for FY 2017/18. There is a reduction in equipment repair and maintenance of \$2,500 to a budget of \$8,900 for routine building repairs. The budget reflects an increase in Contract Custodial services to \$7,700 in anticipation of a services bid refresh. The

street sweeping budget expense increased \$3,000 to \$18,000. Utility expense for electricity and gas increased by a combined \$3,000. There was an increase in rent facilities expense by \$1,500 for Pod storage container for the department. There was a \$1,000 increase in conferences to \$3,000 for attendance to the APWA and ASE conferences. Miscellaneous Computer software expense had a reduction of \$1,700 due to decrease in GIS license update expense and reduced plotter expense. Building improvements expense increased by \$46,000 to a budget of \$56,000 (the bulk of the departmental increase). This is for the remodel of the men's and women's restrooms at the pavilion in the Holbrook Palmer Park.

The Contract DPW maintenance service continues to be monitored and enhanced maintenance service and priorities are currently in review with MCE. The total current contract budget is \$555,133

This budget does not include the recently discussed park pathway conversions from paved path to decomposed granite. The section of path along Watkins could be added at \$80,000 and then each year thereafter add \$40,000 to do discrete sections until the entirety of the Park is complete. This can be added at this time if the Council so chooses to direct.

**POLICE DEPARTMENT
INCREASE OF \$377,528**

The Police Department budget consists of four distinct divisions: Admin/Training, Patrol/Traffic, Investigations, and Communications/Records. Within these areas are specific areas of focus including: detectives, community service officers (and code enforcement), school resource officer, K-9s, dispatch, and administration. The deployment of the department consists of 4 Patrol Teams of 12 hours shifts (2 day shift 7am – 7pm and 2 night shift 7pm – 7am). Minimum staffing consists of 1 supervisor, 2 officers, and 1 dispatcher.

K-9 Program

The primary function of K-9s is locating and apprehending felony suspects and evidence. The K-9 program has served Atherton community for more than 30 years. The Town currently has one K-9 unit (recent retirement of Karli). K-9 units offer an added dimension to apprehending violators and suppressing crime, as they are used during building searches, locating children and elderly or tracking of suspects such as perimeter (yard-to-yard) searches. A major benefit of the K-9 unit is its ability to locate suspects allowing for officer protection and safety, limiting exposure to danger. At current staffing levels, adding the additional K-9 is difficult; however, once staffing levels are up to an appropriate level, we will explore the possibility of adding back the additional K-9.

For the last 15 years, the K-9 dogs have been purchased by generous residents who wanted to assist the Town and Department to acquire highly trained and skilled police service canines. The Atherton Police Department continues to be grateful for the support and strives to ensure that our K-9 program serves the entire community. There is a donor in the wings waiting to make that contribution.

At times, our K-9 teams are requested to respond and assist our neighboring police agencies with K-9 related matters. K-9 units from neighboring jurisdictions (Palo Alto, Menlo Park, Redwood City, San Mateo County, etc.) frequently assist one another and cross train with each other. This provides the continuity of performance that is essential to effective service. In addition to their field duties, K-9 Teams are routinely requested for demonstrations at school events and various types of community gatherings effectively building police/community relationships.

Investigations/Detective

The primary purpose of the detective is to work closely with the patrol teams on crime scene investigations, forensic evidence collection and investigative follow-up needed to successfully prosecute a case.

The staffing within the department consists of one detective sergeant and one detective officer that investigate crimes that require follow up, witnesses, victims, arrest of suspects, search warrants, property recovery, photo line-ups. Frequently suspect(s) of a criminal case live in another jurisdiction, meaning that much of the follow-up involves suspect interviews or surveillance that must be conducted in another jurisdiction. With only two patrol officers and a patrol supervisor working each shift, the detective is a much needed investigative resource that makes it possible to conduct timely follow-up, often in other jurisdictions, without impacting patrol services.

School Resource Officer (SRO)

The School Resource Officer (SRO) handles a wide variety of police calls for service from each of Atherton's nine (9) schools. The Town has had 1,180 incidents to date regarding school related issues such as: truancy, thefts, gang fights, alcohol and drug education/enforcement, youth counseling, child protective service referrals, active shooter training, mental health cases and school traffic and pedestrian safety.

Aside from residential burglary alarms, Atherton schools generate the highest number of calls for service. Having the SRO available to handle calls for service at our schools, the dayshift patrol officers can then work traffic details and back street burglary prevention, thus allowing the patrol unit to be more efficient and effective. The SRO position also allows for coverage of traffic and patrol detail when needed within the department.

The SRO regularly assists with active shooter preparedness presentations, consultation for lockdown drills, and stranger awareness classes for students and provides a needed benefit if such emergencies do ever arise. We continue to explore the possibility of joint funding of this position and will make the request anew during this budget season.

Traffic Motorcycles

The Police Traffic Unit consists of three motor officers that primarily ride BMW police motorcycles. The Department has a fourth motorcycle used for training or reserve when one of the BMW's is out of service due to mechanical issues. The Town currently has two full time motor officers and one reserve motor officer.

The Motor Unit focuses the majority of its time and energy on traffic enforcement citations and warnings. They spend time on collision reports and investigations and also handle a significant number of traffic complaints from citizens. They patrol areas that generate daily traffic congestion issues, such as the increased traffic congestion during school drop off/pickup times and commute times on major thoroughfares like El Camino. Some traffic complaints require more attention than others, and from time to time, a complaint may expose a legitimate area of traffic safety concern that require regular police visibility and traffic enforcement. The traffic division participates with allied agencies-STEP/AVOID and the Tri-City investigation team and also perform reporting duties to CHP.

The officers assigned to motorcycles also work patrol and comprise a portion of our regular patrol teams. They enhance and supplement patrol operations by working traffic and handling calls for service thus greatly enhancing police response and service to the Town.

Communications/Records Personnel

Dispatch currently consists of five full-time dispatchers and several hourly per diem dispatchers. They process emergency and non-emergency calls and collaborate with other agencies for fire and medical emergencies. Dispatchers also assess and respond to emergency and non-emergency situations on radio channel and monitor residential alarms. Another important duty of dispatch and communications personnel is the front counter service that includes the handling of ticket sign off requests, vehicle tow releases, garage sale permits, premise updates. They also review and process police reports, prepare paperwork for the District Attorney and Court, arrest packets and monthly statistics.

In FY 2015/16 the Town added a 5th dispatcher. Adding the 5th dispatcher significantly increased dependable dispatcher shift coverage for planned and unplanned shift vacancies, and greatly reduce the reliance on our per diem dispatchers, and anticipates to decrease the amount of backfill overtime. Currently the 5th dispatcher works as a floater covering shift vacancies from planned and unplanned absences and serves as back-up during weekday dayshifts, which has the highest volume of calls for service. The dispatcher on this shift not only dispatches patrol officers, but also handles business at the front counter, answer emergency and non-emergency phone lines, and performs a variety of record keeping functions. The 5th dispatcher is responsible to provide lunch breaks to the weekday dayshift dispatcher, shift scheduling, and serve as the CLETS and RIMS coordinator. These specific extra duties and responsibilities qualify the 5th dispatcher for an additional 5% special assignment pay per Article IV, Section 29 of the current Memorandum of Understanding (MOU) between the Town and the Atherton Police Officers Association.

The Police Department budget includes an operations budget for computers and equipment, training and workshops, software licensing and support, general office support, memberships, office supplies, and shares of general utilities and costs.

The Police Department total budget reflects an increase of \$377,528 over the FY 2016/17 adjusted budget. The Department budget is \$7,158,811 and comprises 55% of the total General Fund operational budget. The department staffing includes 21 sworn officers and includes a Police Chief

and Commander. *Currently the department is not fully staffed.* Staffing is down three (3) full-time positions. Specifically, there are two vacant police sergeant positions (1 vacant and 1 medical leave) and one police officer. The Police Department is actively recruiting and has recently added 3 new police officers within the fiscal year. Recruitment is typically a continuous effort. The process for recruitment and hiring of a police officer is a grueling process that takes anywhere from approximately 4 to 6 months. As the department actively recruits to fill vacant positions, in the interim it has incurred overtime for staffing level coverages that were discussed above. The salaries and benefits account for an additional \$199,028.

Within the salaries and wages budget there is an increase of regular salaries for officers and dispatchers of \$216,592. *In October 2016, the Town entered into a new MOU with the Atherton Police Officers Association.* Key changes include a 3% wage adjustment and 1% benefit adjustment for Employer PERS contribution for sworn personnel only. As of July 1, 2017 the sworn personnel receive an additional 2.75% wage increase and an additional 1% adjustment for Employer PERS contribution. Dispatchers received a 5% equity adjustment in addition to the COLA only of 3% and 2.75%.

For FY 2017/18 the department overtime budget is projected at \$350,000 due to the projected staffing levels into the new fiscal year. As staffing levels adjust, overtime will be monitored.

There is a decrease in CalPERS employer contribution expense of \$39,931 to a budget of \$540,224. This is a result of the 2% benefit adjustment for sworn personnel starting July 2017. The Workers' Compensation expense as discussed earlier in the report increased \$38,241 as the department charge went from 9% to 10% to build up a reserve for claims. The Police Department budget reflects a payment of the CalPERS UAL of \$525,550, an increase of \$100,911. The CalPERS employer contribution expense increased \$8,700 due to the CalPERS rate increase from 21.23% to 21.418%. This increase is netted out by the decrease of \$39,931 in the *CalPERS employer contribution* adjustment for sworn personnel only. *The employee now pays their entire portion of the employee contribution* an additional savings of approximately \$28,000 during this year.

Overall, the basic Operations expenditure budget for the Police Department increased by \$85,011 from \$838,797 to \$923,808. There was an increase of \$8,410 in technical services for additional license for second dispatch station for MKMS server for alarm notifications. There was an increase in equipment maintenance vehicles expense for \$10,000 as the Town is relocating its vehicle maintenance service from Towne Ford to Redwood City Maintenance Yard. There was an increase for equipment maintenance expense in the amount of \$4,000 for increase maintenance for data 911 software. There was slight increase in utilities - gas, water and telephone - for a combined \$6,000. The recruitment cost expense item increased \$4,000 to \$12,000 for associated costs related to recruitment to include exams and background investigations. Equipment replacement fund expense increased by \$73,180 due to the recommended purchase of 1 outfitted unmarked patrol car, and purchase of 1 new outfitted SUV, and investigative equipment for the PD fleet for a total of \$160,000 as the Department begins phasing out high mileage vehicles. The Department just put into service with the fleet, the brand new SUV purchased in the current fiscal year. The Equipment replacement fund has a fund balance of \$661,946. Other Contract Services expense had a reduction of \$38,282, a majority due to reduced dry cleaning uniform budget by \$10,000, elimination of Zetron maintenance of \$14,000 due to the Department new dispatch center console equipment

received through a State grant. The maintenance of the dispatch console equipment is through a State grant program.

As noted above, staff recommends the purchase (from the equipment replacement fund) of the following equipment – in addition to the two new vehicles.

Request	Amount	Description
1. Tasers -30	\$41,000	Replace Tasers (replacing all departmental Tasers out of warranty – 4 years old or more)
2. Camera-HP Park	\$7,500	Installation of a camera at HP park at the pedestrian bridge.
3. Backup transmission antennae	\$5,000	Relocate our backup transmitter from APD to MPPD
4. Expanded reception areas for radio system	\$41,000	Improvement of PD radio signal reception throughout the Town
Total Amount	\$94,500	

Radio expansion coverage

The Town maintains a radio system used for law enforcement communications. This system has a transmitter located at 83 Ashfield Rd. The system uses repeater technology which allows users to hear transmissions over great distances. For the repeater system to work properly, receiving antenna stations are located throughout the coverage area. These antennas allow the lower power portable radio transmissions to be received clearly. The transmissions are sent over hardwired telecommunications links to the radio transmission site where they are rebroadcast, allowing others to receive the transmission clearly. A voter is a piece of radio equipment which evaluates the relative signal level of transmissions received simultaneously by multiple receiving antennas. The voter elects the strongest signal and sends that transmission through. This existing infrastructure provides reasonable coverage, but does have gaps which can be addressed through the expansion of the receiving antenna network. This supplemental budget request would relocate/add receiving antennas to the following:

- Atherton PD
- MP Fire Station 1
- Cal Water Bear Gulch Reservoir
- Haven Av, Menlo Park (relocated from FS 5)
- Menlo Park Fire Station 4 (new)
- Menlo Park Fire Station 2 (new)

If needed, additional detail can be provided at the Study Session. Improvements would be forward compatible to the new radio systems contemplated with the Civic Center.

OVERALL SUMMARY

Staff recommends the transfer out of \$92,188 toward the Town OPEB Trust and allocation of \$357,140 towards Workers' Compensation equity reserve. In previous fiscal years the Council established an Unallocated Fund Balance target of \$5,000,000 beyond required reserves. The FY 2017/18 budget maintains that target. As the Town moves closer to a funding decision for the Town Center, there is confidence in the Town's fiscal health.

For FY 2017/18 the Town's General Fund Revenues are projected at \$14,314,027 against \$12,841,976 in expenditures. This will result in a single year-end positive balance of \$1,472,051 and a total positive ending Fund Balance of \$14,170,756. This is before any transfers in from the Parcel Tax and ERAF.

When we include the below the line items of \$1,066,958 for ERAF and \$372,000 for Parcel, the single-year projected surplus is \$2,911,009.

Reserve Calculations

Any remaining fund balance not reserved or committed is designated as Unallocated Fund Balance. The projected unallocated available fund balance for FY 2017/18 is \$9,171,065. 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 mentioned previously, prior Council direction during budget discussions was to maintain an Unallocated Fund balance of \$5,000,000. With this being said, the operations budget unallocated fund balance is above the \$5 million threshold.

The beginning FY 2016/17 General Fund Balance was \$13,199,539. *The FY 2016/17 projected year-end fund balance is \$11,709,006.* This includes the Parcel Tax and ERAF revenues as allocated. With the inclusion of the transfers out above, there is a total General Fund projected year end fund balance of \$14,170,756.

FY 2017/18 Beginning Fund Balance	\$11,709,006
FY 2017/18 Projected Revenues (inclusive of ERAF & Parcel Tax)	\$15,752,985
Total Available Funds	\$27,461,991
Transfer out FY 2017/18 Pension Liability	(\$92,118)
Transfer out FY 2017/18 Workers Compensation Equity Reserve	(\$357,140)
FY 2017/18 Expenditures (Original Budget)	(\$12,841,976)
Projected FY 2017/18 Ending Fund Balance	\$14,170,757

As shown below, the Town will meet its reserve requirements at FY 2016/17 and projects an unallocated reserve that is 71% of adjusted expenditures.

FY 2017/18 Expenditures	\$12,841,976
Projected FY 2017/18 Ending Fund Balance	\$14,170,757
15% Emergency Reserve	\$1,926,296
20% Budget Stabilization Reserve	\$2,568,395
Building Component Town Center (formerly Facilities Reserve)	\$505,000
TOTAL RESERVE REQUIREMENT	\$4,999,692
<i>Less Above Reserve Requirement = Unallocated Reserves</i>	<i>\$9,171,065</i>

In addition to maintaining an operations budget that provides the appropriate level of service to the community, the Town is embarking on a project milestone for replacement of currently aged administration, police and community department facilities. As Council is aware, the 100% design development costs were received in February and illustrate the costs of the new Town Center. The Council held Study Sessions regarding the funding of this project should the required donations not materialize to build the new civic center.

The City Council during its January 18 Study Session reviewed the Project and asked staff for options should Atherton Now not reach its funding target of \$25 million. Discussions included the constraints of Measure L and the funding needs of the Project. Staff was directed to investigate, in more detail, the requirements for Certificates of Participation and create a funding plan for the Civic Center using all available General Funds.

Earlier in our Study Session, a representative from Urban Futures discussed COPs and how they work as a possible funding source for any remaining funding gap for the project. The Council reviewed and approved the below Funding Plan for the Project. The remaining funding requirement shown below will be met by a combination (in order of priority) other funds: 1) additional donation receipts; 2) annual budget revenues over expenditures; and 3) short-term Certificates of Participation.

When the projected unallocated General Fund Balance of \$9,171,065 is factored into the Funding Plan and assuming all other funding sources remain consistent, required funding is met. However, the Council may discuss whether it would be prudent to allocate the entirety of unallocated General Funds to the project.

Civic Center Project Funding Plan	
Item/Fund	Amount
Design Cost Estimate (100% Design Development)	\$3,305,255
Construction Cost Estimate (100% Design Development)	\$22,253,000
Total Design & Construction Cost	\$25,558,255
Atherton Now Donation	(\$7,000,000)
Remaining Requirement	\$18,558,255

Civic Center Project Funding Plan	
Item/Fund	Amount
Application of Revenue from Building Fees	(\$2,935,000)
Remaining Requirement	\$15,623,255
Available Funding	
Projected 2017/18 Unallocated General Funds Available	(\$8,104,107)
Unallocated Capital Improvement Funds	(\$4,423,138)
Allocation of FY 2017/18 ERAF	(\$1,066,958)
Remaining Requirement	\$2,029,052
Allocation of FY 2018/19 ERAF	(\$1,000,000)
Remaining Requirement	\$1,029,052
Remaining Requirement to be met by a combination of Additional Donation Receipts, Annual Budget Revenues over Expenditures, and Short-term Certificates of Participation – without the addition of new tax burdens	

POLICY FOCUS

This item discusses revenue and expenditure projections, the use of excess ERAF, reserve policies, and recommendations for adjustment to the use of the Parcel Tax. These are policy areas for Council discussion and direction as we prepare the FY 2017/18 budget.

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

FY 2017/18 General Fund Revenue and Expenditure details by department