



## Item No. 13 Town of Atherton

### **CITY COUNCIL STAFF REPORT – REGULAR AGENDA**

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

**FROM: ROBERT BARRON III, FINANCE DIRECTOR**

**DATE: APRIL 15, 2020**

**SUBJECT: REVIEW AND DISCUSSION OF POTENTIAL REVENUE AND  
EXPENDITURE IMPACTS DUE TO COVID-19 FOR FISCAL YEAR  
2019/20 AND 2020/21**

#### **RECOMMENDATION**

Review and discuss the potential revenue and expenditure impacts due to COVID-19 for FY 2019/20 and 2020/21.

#### **BACKGROUND**

Staff presented the Mid-Year Budget Review for FY 2019/20 General Fund at the February 5, 2020 Study Session. At that time, staff noted that the FY 2019/20 Budget projected a healthy outlook on finances. With the impact of COVID-19, staff is providing a review of the FY 2019/20 Budget expectations and a brief look at FY 2020/21 projections. The City Council's May 6 Study Session will be the Town's consolidated look at the FY 2020/21 Budget.

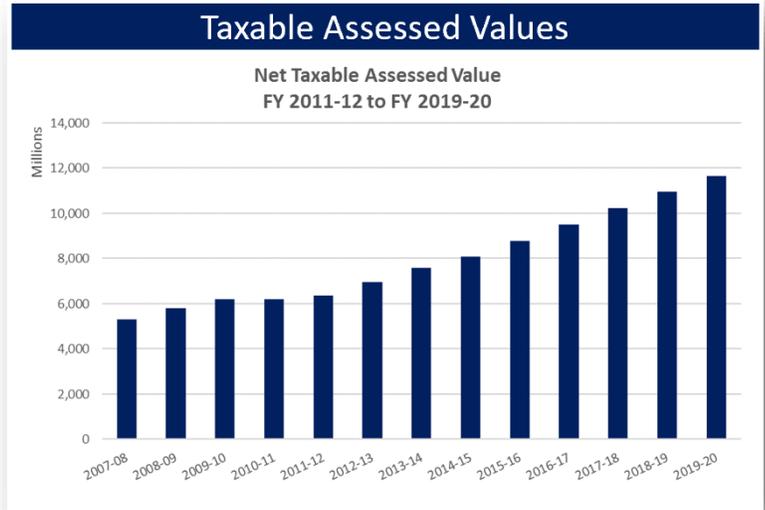
The Town's primary source of revenue is property taxes representing 71% of the Town's General Fund Revenues. Current fiscal year property taxes are still on target to be met. San Mateo County is a "teetered County", meaning that all assessed property taxes for secured and unsecured revenue categories are fully funded and remitted to the Town and *collection* is the County's responsibility – not the Town's. Current FY 2020/21 property tax revenues and forecast are still valid as the property taxes are based on what occurred in 2019 with respect to assessed value.

The City Manager's Report includes a roll up summary of projections that vary slightly from this Report. The City Manager also includes a series of projections going forward that present a hypothetical and conservative approach to the impacts of COVID-19 and a recovery period.

**ANALYSIS**

Property Taxes, which comprise 71% of Town revenues are anticipated not to be significantly impacted in the next two fiscal years.

With respect to COVID-19, we do not yet know what the full impact of any mortgage freezes, reductions in taxes, foreclosures, or in some cases delayed collection of taxes will be. It is anticipated that COVID-19 is a limited term impact with a fairly robust and quick recovery period. Staff actively monitors and engages with various regional stakeholders for more information.



Property Tax Revenues

The California Consumer Price Index (CCPI) of 2% was approved by the State for FY 2020/21. In addition, HdL currently estimates a projected increase of 3.3% for Atherton for FY 2020/21. This equates to \$12,053,024,523 in net taxable value. This is an increase of \$385 million from FY 2019/20 values. These estimated changes are transfer of ownership assessed value change and CPI on non-prop 8 parcels, and Prop 8 adjustments on single family residential prices.

During mid-year, HdL suggested that the Town use a projection of 3.6 to 4.5 percent increase in property tax revenues next fiscal year – inclusive of the 2% CCPI. Based on the recently updated forecasts, staff is projecting a 3.9% increase in secured property taxes. This does not take into account any, as of yet unknown impacts, due to COVID-19.

Source	FY 2019/2020 Adjusted/Est. Budget	FY 2020/21 Projected Budget	Projected Change in Revenue	% Change
Secured Property Tax	\$9,236,129	\$9,611,026	\$374,897	3.9%
Unsecured Property Taxes	\$453,074	\$479,795	\$26,721	5.6%
SB813 Redemption (Suppl)	\$301,028	\$285,000	(\$16,028)	-36.8%
Property Tax in Lieu of VLF	\$996,438	\$1,251,929	\$255,491	20.4%
Property Transfer Tax	\$487,839	\$421,000	(\$66,839)	-13.7%
<b>TOTAL</b>	<b>\$11,474,508</b>	<b>\$12,048,750</b>	<b>\$572,242</b>	<b>4.3%</b>

There may be some minor reductions in supplemental revenues, transfer of ownership, or new construction that impact revenues through August. A supplemental tax is the result of a reassessment of real property, effective when there is a change of ownership or new construction is completed. The added assessed value is placed on a separate roll on the date of the event. This

slight decrease in supplemental and property transfer tax is due to potential slowdown in the sales transactions.

At the present time, staff currently projects property tax revenue for FY 2020/21 at \$12,048,750. This revenue expectation represents a 4.3% increase over FY 2019/20's Adjusted Budget of \$11,474,508. However, if there are any drops in the assessed valuation of property in the Town due to COVID-19, HdL projects that this decrease will have a gradual impact that would not impact the Town until FY 2021/22.

*Recession Impact*

There is currently no clear-cut determination if the current climate is the beginning of a recession or if this poses significant long-term job losses. During the Great Recession of 2008, Atherton suffered a drop in assessed valuation, but not until two fiscal years after the event.

Tax Year	Assessed Property Value	Growth Year over Year
2008/09	\$5,810,656,898	
2009/10	\$6,186,390,417	6.47%
2010/11	\$6,182,335,087	-.07%
2011/12	\$6,373,832,577	3.10%
2012/13	\$6,949,217,818	9.03%
2013/14	\$7,575,935,532	9.02%

There is currently no model that simulates a global pandemic and its impact on the economy. However, there is thought that the effects of COVID-19 will be short term and the economy will bounce back within the year, as soon as the shelter-in-place orders are lifted. If there is a similar event to the Great Recession, the Town could see a reduction in median sale prices. This would in turn impact net taxable values leading to a decrease in tax revenues and supplemental allocations. The table below shows a history of median home prices in Atherton.



**THE TOWN OF ATHERTON**  
**SALES VALUE HISTORY**

Detached Single Family Residential Full Value Sales (01/01/2005 - 08/31/2019)

Year	Full Value Sales	Average Price	Median Price	Median % Change
2005	133	\$3,699,589	\$3,080,000	
2006	116	\$4,354,036	\$3,381,500	9.79%
2007	111	\$4,836,495	\$3,725,000	10.16%
2008	89	\$5,067,929	\$4,000,000	7.38%
2009	81	\$4,009,824	\$3,060,000	-23.50%
2010	109	\$3,644,124	\$3,000,000	-1.96%
2011	107	\$4,166,084	\$3,500,000	16.67%
2012	126	\$4,874,520	\$3,757,500	7.36%
2013	130	\$5,278,047	\$3,900,500	3.81%
2014	136	\$6,265,232	\$4,435,000	13.70%
2015	103	\$6,869,636	\$5,900,000	33.03%
2016	86	\$8,044,593	\$5,762,500	-2.33%
2017	101	\$6,303,371	\$5,100,000	-11.50%
2018	91	\$8,802,269	\$7,250,000	42.16%
2019	57	\$9,063,333	\$7,100,000	-2.07%

Property Tax in Lieu of VLF

Vehicle License Fees are funded annually from the countywide ERAF. If ERAF funds are insufficient to fund VLF, then VLF is funded from property taxes of *non*-basic aid school districts. Monies taken from non-basic aid school districts are then backfilled by the State. In FY 2019/20, there was a \$42 million County shortfall. Atherton’s portion was \$230,865. Insufficient VLF funds results when additional school districts in the County have insufficient funding and have converted back to basic aid districts. HdL projects property tax in Lieu of VLF for FY 2020/21 at \$1,251,929.

If the impacts of COVID-19 continue, there may be additional relief to households facing hardships – such as the postponement of the payment of taxes, reduction in taxes and loan assistance. At the present time, there is no delay in payment of Fiscal Year 2019/20 property taxes.

Staff is in regular contact with the San Mateo County Controller’s office regarding our future tax revenues. The San Mateo County Controller’s Office meets regularly with the Tax Collector regarding the future outlook of assessed values to see if there is any information on potential reduction in assessed values.

ERAF

ERAF revenues are treated as “one time” revenues for specific projects or priorities such as capital projects and contributions toward long-term liabilities. ERAF is not considered operational revenue. ERAF funds are always at risk as the State continually looks to target ERAF for its own budget purposes. This past month the State Legislative Analyst Office issued a report focused on Excess ERAF and it asserts that the five (5) Bay Area Excess ERAF counties are overstating Excess ERAF. This was prior to COVID-19.

Illustrated below are the past uses of ERAF funds. From FY 2013/14 to FY 2015/16, the Town allocated a total of \$3,211,958 of ERAF funds toward identified Council priorities. Beginning in FY 2016/17 the Town allocated ERAF to the Town Center Project. Staff budgets ERAF conservatively.

<b>Fiscal Year</b>	<b>Budget Amount</b>	<b>Actual Amount</b>	<b>Use of Funds</b>
<b>FY 2013/14</b>	\$700,000	\$1,020,000	OPEB Liabilities
<b>FY 2014/15</b>	\$700,000	\$1,125,000	\$680,684 – OPEB Liabilities \$444,316 – Workers’ Comp
<b>FY 2015/16</b>	\$1,200,000	\$1,066,958	\$112,998- WC Equity \$548,950- CalPERS UAL \$405,010- Additional CIP
<b>FY 2016/17</b>	\$1,033,000	\$1,103,185	Civic Center
<b>FY 2017/18</b>	\$1,066,958	\$1,280,172	Civic Center Flow through
<b>FY 2018/19</b>	\$1,025,000	\$1,691,772	Civic Center Flow through
<b>FY 2019/20</b>	\$1,300,000	\$1,784,092	Civic Center Flow through

ERAF revenue fluctuated from a low of \$1,020,000 in FY 2013/14 to a high of \$1,784,091 in FY 2019/20. In the upcoming FY 2020/21 Budget, staff budgeted \$1,450,000 for ERAF revenue and

budgeted \$1,500,000 in FY 2021/22. These revenues are earmarked for the Town Center project although actual allocation is year to year as part of the budget process.

A loss of ERAF revenue coinciding with a possible reduction in future property tax revenue could result in reduction in the Town’s annual surplus dedicated to the Town Center project. Based on the ERAF revenues received this current year, ERAF revenue potential could be \$1.8 million. The County Controller’s Office went through the LAO Excess ERAF review and reviewed it with County Counsel. The County Controllers of the five (5) Bay Area counties disagree with the LAO and plan to issue more information in the coming weeks of their findings.

San Mateo County, in anticipation of a possible State raid of these revenues, could set aside a portion of agency ERAF revenue in reserve as they continue to work legislatively on this issue. This is in anticipation of having to remit funds back to the State. This could be anywhere from 10 to 20 percent. Staff recommends that we reduce the budgeted ERAF amount to \$1.1 million. There are some indications that ERAF revenue could move back to FY 2016/17 levels. This would be an overall reduction of \$750,000 in this “below the line” funding from FY 20/21 through FY 21/22. The City Manager’s Report addresses this potential reduction more aggressively.

	FY 2015/16 Actual	FY 2016/17 Actual	FY 2017/18 Actual	FY 2018/19 Actual	FY 2019/20 Budget	FY 2019/20 Estimate	FY 2020/21 Projection
<b>Property Taxes</b>	\$8,907,767	\$9,595,693	\$10,319,908	\$11,016,883	\$11,816,864	\$11,474,508	\$12,048,750
<b>Excess ERAF</b>	\$1,066,958	\$1,103,185	\$1,280,172	\$1,691,772	\$1,300,000	\$1,784,091	\$1,100,000
<b>Total Property Taxes</b>	<b>\$9,974,725</b>	<b>\$10,698,878</b>	<b>\$11,600,080</b>	<b>\$12,708,655</b>	<b>\$13,116,864</b>	<b>\$13,258,599</b>	<b>\$13,148,750</b>

*Sales & Use Tax*

The Town is not reliant upon Sales & Use Tax revenue. There is a projected decrease in Sales & Use Tax of \$31,439 for a total of \$285,000. This is attributed to the effects of reductions in operations of schools and the possible sale of personal property within the community. The State advances Sales Tax funds based on prior year transactions and then trues up the following year.

Source	FY 2019/2020 Estimate Budget	COVID-19 Impact	FY 2020/21 Projected Budget	Projected Change to FY 19/20 Est. Budget
Sales & Use Tax	\$230,146	\$198,000	\$210,000	(\$20,146)
Prop 172 Sales Tax Police	\$86,293	\$68,000	\$75,000	(\$11,293)
<b>TOTAL</b>	<b>\$316,439</b>	<b>\$266,000</b>	<b>\$285,000</b>	<b>(\$31,439)</b>

*Building & Planning*

Building Department revenues are projected to see a decrease of approximately 10 to 15 percent (%) in the upcoming fiscal year. This is projected based on the current prohibition on residential construction during COVID-19 and not knowing the extent of its duration. The current FY revenue budget is \$1.69 Million. This revenue is also anticipated to be reduced. The Building

Department is currently only issuing permits for health and safety work. Once the Shelter-in-Place Order is lifted there is the expectation that issuance of new permits could ramp up. Also, with the shutting down of current construction sites, there will be the need for re-inspections of the sites as construction resumes.

Prior to the shutdown there was a projected increase in residential improvements and the razing of existing homes and construction of new homes. There were also permits issued for cosmetic improvements such as electrical, plumbing, pools, new additional dwelling units. Staff will continue to monitor Building Department revenues during the next fiscal year and feels that once COVID-19 clears, there will be contractors eager to continue their projects as well as begin new construction projects. Adjustments to revenue projects can be done at mid-year.

It is important to note that delay or drop in property tax revenue and a delay or drop in construction related revenues will also have an impact operationally as the cost of service is directly related to the revenue received.

Public Works and Planning Departments budgets are not designed in the similar way as the Building Department. Departmental revenue does not exclusively fund their operations. If there is a reduced need for planning review due to no new construction activity, the expense of the operations can be correspondingly reduced, but there are general costs related to Town processes or counter services that would not be reduced.

Public Works issues the Encroachment permits for construction activity and currently is not issuing any permits other than for emergency health and welfare. There is a COVID-19 impact in short term revenue similar to the Building department revenues. The department is also responsible for the maintenance and operation of all public infrastructure. The Building, Planning and Public Works Departments comprise a majority fee revenue for the Town and projects a decrease of \$455,412 for a total of \$2,217,136.

Sources	FY 2019/2020 Est. Budget	COVID-19 Impact	FY 2020/21 Projected Budget	Projected Change to FY 19/20 Est. Budget
Building Revenue	\$1,697,509	\$1,273,132	\$1,358,000	(\$339,509)
Planning	\$232,300	\$220,300	\$220,300	(\$12,000)
Public Works	\$535,700	\$401,775	\$460,700	(\$75,000)
Police Fees	\$207,039	\$175,983	\$178,136	(\$28,903)
<b>TOTAL</b>	<b>\$2,672,548</b>	<b>\$2,071,190</b>	<b>\$2,217,136</b>	<b>(\$455,412)</b>

*Park Programs*

Due to COVID-19, Park revenue is experiencing a loss of revenue as events and gatherings have been canceled. Some events were postponed to a future date. Due to the nature of the emergency, some events will not occur and renters received full refunds of their deposits and rental fees. Staff anticipates that once the stay order is lifted, park rental events will gradually return. Staff projects an impact of revenues to be at approximately 70 percent (%) of the FY 2019/20 estimated budget of \$238,200 reducing to \$166,740 for Park program revenue for FY 2020/21. Catering by Dana receives 50% of the rental fees.

*Franchise Revenues*

Franchise revenues are projected at \$918,468 or 1.5 percent (%) and are based on current FY 2019/20 year-end projections of \$904,161.

*Miscellaneous Revenues*

All other Miscellaneous revenues were evaluated on current trends, one-time revenues, and eliminated revenues. Listed out below are some itemized sources of Miscellaneous Revenues that had impacts.

Sources	FY 2019/2020 Est. Budget	COVID-19 Impact	FY 2020/21 Projected Budget	Projected Change to FY 19/20 Est Budget
Admin Citations	\$55,000	\$52,850	\$55,000	\$0
Interest Income	\$180,000	\$110,000	\$135,000	(\$45,000)
Knox Play School	\$87,897	\$65,923	\$87,897	\$0
Cell Site Leases	\$60,876	\$60,876	\$63,920	\$3,044
C&D Forfeiture	\$65,000	\$65,000	\$65,000	\$0
Other Miscellaneous	\$92,308	\$91,458	\$65,207	(\$27,101)
<b>Total Miscellaneous</b>	<b>\$541,081</b>	<b>\$446,107</b>	<b>\$472,024</b>	<b>(\$69,057)</b>

Projected General Fund FY 2020/21 revenues are below. These will be discussed in detail at the May 6 Study Session.

Source	FY 2019/2020 Estimate Budget	COVID-19 Impact	FY 2020/21 Projected Budget
<b>Property Taxes</b>	\$11,474,508	\$11,474,508	\$12,048,750
<b>ERAF</b>	\$1,784,091	\$1,784,091	\$1,100,000
<b>Sales Tax</b>	\$316,439	\$266,000	\$285,000
<b>Franchise Fees</b>	\$904,161	\$904,161	\$918,468
<b>Charges for Services</b>	\$2,672,548	\$2,083,191	\$2,217,136
<b>Licenses and Intergovernmental</b>	\$292,344	\$302,344	\$280,161
<b>Use of Money/Property (Total Misc)</b>	\$541,081	\$446,107	\$472,024
<b>Park Program Revenue</b>	\$238,200	\$158,025	\$166,740
<b>Total General Fund Revenues</b>	<b>\$18,233,372</b>	<b>\$17,418,427</b>	<b>\$17,488,279</b>

*Revenue Summary Expectations*

During the mid-year budget review staff estimated revenues of \$18.23 million. The recent COVID-19 impact looks at a potential reduction of \$814,945 for FY 2019/20.

It is anticipated that FY 2020/21 revenues will also see a reduction of \$745,093 as compared to current fiscal year revenues. Most of the impacts are ERAF revenue reductions from the State, reductions in service charges, and in particular, building permits and encroachment permits.

A slow-down in construction may have a ripple effect on property tax values down the line but operationally it can likely be weathered. More evaluation is necessary; but in the long term, assuming property values remain relatively stable, the Town will be able to maintain a healthy gap between revenues and expenditures. Our reserves are a function of our operational expenditures so they will go up or down based on those costs. We may not have as much discretionary spending to play with but overall, the outlook is sustainable at this time.

*Budget Expenditures*

If COVID-19 persists, there could be operational changes at all levels of public and private sector operations for an extended period of time. Building department expenditures are driven by issuance of permits and therefore the expense of the Department is correlated with revenues. Public Works and Planning budgets are not designed that way, but those revenues are not independently funding those operations. Planning operations can be scaled down based on need thereby reducing cost. Public Works is field and basic CIP work. The Public Works Operational Budget is \$2.4 million against a permit revenue of roughly \$500,000. While that work may be slowed to extend cost horizons, the work will continue.

Overall Preliminary General Fund expenditures for FY 2020/21 are estimated at \$15.07 million. Expenditures continue to be evaluated based on operational needs to provide consistent services to the community. Staff is currently working with department operational expenditures budgets and identifying known expenditure adjustments as we complete the FY 2020/21 budget process. More analysis and detail will be included with the May 6 Staff Report for the Study Session.

Operational Expenditures	FY 2019/20 Adjusted Budget	COVID-19 IMPACT	FY 2020/21 Projected Budget
<b>Council</b>	55,834		57,509
<b>Administration</b>	836,994		862,104
<b>Attorney</b>	364,600		210,120
<b>Finance</b>	779,314		802,693
<b>Planning</b>	337,781		347,914
<b>Building</b>	1,322,150	(15%)	1,123,828
<b>Inter-department</b>	787,867		811,503
<b>Police</b>	7,971,446		8,410,968
<b>DPW</b>	2,402,359		2,449,022
<b>Total Amount</b>	<b>\$14,858,354</b>	<b>\$14,593,915</b>	<b>\$15,075,661</b>

*Total Budget Summary Potential Impact*

During mid-year budget review, Town revenues, inclusive of ERAF, were \$18,233,372. This provided a net positive change in fund balance of \$3,375,027 at year-end and an anticipated ending fund balance of \$25,838,096 (inclusive of the mandatory reserves).

<b>Revenue</b>	<b>FY 2019/20 Adjusted Budget</b>	<b>COVID-19 Impact</b>	<b>FY 2020/21 Projected Budget</b>
General Fund	\$16,449,281	\$15,634,336	\$16,388,279
ERAF Revenues	\$1,784,091	\$1,784,091	\$1,100,000
<b>Total General Fund Revenue Sources</b>	<b>\$18,233,372</b>	<b>\$17,418,427</b>	<b>\$17,488,279</b>
<b>Expenditures</b>			
General Fund Expenditures	\$14,858,345	\$14,593,915	\$15,075,661
<b>Total General Fund Expenditures</b>	<b>\$14,858,345</b>	<b>\$14,593,915</b>	<b>\$15,075,661</b>
<b>Net Change In Fund Balance</b>	<b>\$3,375,027</b>	<b>\$2,824,512</b>	<b>\$2,412,6188</b>

The FY 2019/20 beginning total fund balance is \$22,573,067 (inclusive of the mandatory reserves). At the conclusion of this fiscal year, after the transfer outs and the above-reflected departmental adjustments, the end of year fund balance projection is \$25,838,096 (this includes all mandatory reserves).

	<b>FY 2019/20 Adjusted Budget</b>	<b>COVID-19 Impact</b>
<b>FY 2019/20 Beginning Fund Balance</b>	<b>\$22,573,067</b>	<b>\$22,573,067</b>
<b>FY 2019/20 Projected Revenues</b>	\$18,233,372	\$17,418,427
<b>Total Available Funds</b>	<b>\$40,806,439</b>	<b>\$39,991,494</b>
<b>Transfer out FY 2019/20 Workers' Comp</b>	(\$110,000)	(\$110,000)
<b>Net Mid-Year Adjustments</b>	(\$242,310)	
<b>FY 2019/20 Expenditures (Original Budget)</b>	(\$14,616,035)	
<b>General Fund Expenditures COVID-19 /FY20/21</b>		<b>(\$14,593,915)</b>
<b>FY 2019/20 Projected Year End Balance</b>	<b>\$25,838,096</b>	<b>\$25,287,579</b>

With COVID-19, the end of year fund balance projection is \$25,287,579. The projected year end fund balance was reduced by \$550,517, compared to the mid-year 2019/20 projected year-end balance.

The beginning FY 2019/20 General Fund Balance was \$22,573,067. The FY 2019/20 projected COVID-19 impact year-end fund balance is \$25,287,579. This includes the ERAF revenues, as allocated. With the inclusion of the preliminary projected expenditures for FY 2020/21, there is a total General Fund projected year end fund balance of \$27,700,167.

<b>FY 2019/20 Ending Fund Balance COVID-19</b>	<b>\$25,287,579</b>
FY 2020/21 Projected Revenues (Inclusive of ERAF)	\$17,488,279
<b>Total Available Funds</b>	<b>\$42,775,858</b>
FY 2020/21 Expenditures (Preliminary Projected Budget)	(\$15,075,661)

<b>FY 2020/21 Projected Year End Balance</b>	<b>\$27,700,197</b>

**POLICY FOCUS**

This Revenue and Expenditure Report provides and updates on the potential impacts of the COVID-19 and the known unanticipated changes to the operations of the Town. It provides an opportunity to make adjustments and any priorities that the Council wishes to address in the upcoming Fiscal Year 2020/21 budget process.

**FISCAL IMPACT**

The overall fiscal impact to the General Fund as a result of the COVID-19 Health Emergency could produce a reduction in General Fund balance of \$550,517 for 2019/20 Fiscal year end. There is a potential of reduction in revenue in the amount of \$745,123 from adjusted FY 2019/20 budget and the projected FY 2020/21 revenue budget.

**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 provides (water, power, and sewer), and regional elected officials.

**ATTACHMENT**

None