



Item No. 7 Town of Atherton

CITY COUNCIL STAFF REPORT – STUDY SESSION ITEM

TO: THE HONORABLE MAYOR AND CITY COUNCIL

FROM: GEORGE RODERICKS, CITY MANAGER

DATE: SEPTEMBER 1, 2021

SUBJECT: REVIEW AND DISCUSS THE OUT YEAR FINANCIAL PLANNING SPREADSHEET AND PROVIDE STAFF WITH DIRECTION

RECOMMENDATION

That the City Council review and discuss the Out Year Financial Planning Spreadsheet and provide staff with direction.

BACKGROUND | ANALYSIS

Staff created the attached “Out Year Financial Planning Spreadsheet” to assist the Council in discussing the allocation of *Unallocated General Funds* over the next five (5) years to various identified Town priorities.

During the Study Session, staff will present the spreadsheet via a shared screen and will make any adjustments to the spreadsheet *live* based on Council feedback to see the immediate impact of financial allocations in the current and out years on the Town’s bottom line. This will help staff and the Council identify various priorities for the coming years’ budgets.

Funding Sources for Capital Projects

As the Council is aware, the General Fund is the primary operating fund of the Town. Aside from the Tennis Fund, the only other significant *outside* revenue fund is the Capital Improvement Fund.

The Capital Improvement Fund receives standalone annual revenues from County Measure A (~\$370,000), State Gas Tax (~\$185,000), County Measure M (~\$75,000), County Measure W (~\$145,000), and the Atherton Channel Fund (~\$97,000). These revenues are generally restricted to hard improvements to streets, bike/ped improvements, and drainage. In total, this is roughly \$780,000 a year toward streets and bike/ped; and about \$97,000 per year toward drainage. Because of the significant cost of capital improvements, the Town addresses most large projects on a save/spend cycle and others are grant-dependent.

On average, absent specific project grants, the Town's Capital Improvement Plan allocates approximately \$25,000 per year toward general "basic need" bicycle and pedestrian safety improvements, \$50,000 toward general "basic need" drainage projects, and \$700,000 per year toward road improvement and maintenance projects. All other projects, including large capital improvement projects in the Park are largely grant dependent as are larger projects for drainage and bike/ped.

Absent specific project grants, all project matching funds and project-specific set-asides come from the Town's Unallocated General Fund balance. The Unallocated General Fund balance is the next single most significant revenue source for the Town's Capital Improvement Projects.

The Out Year Financial Planning Spreadsheet is a model that will help the Council and staff identify Council priorities through Set-Aside buckets.

Breaking Down the Spreadsheet

Revenues – The top half of the spreadsheet provides a list of the Major Revenue categories in the Town's budget. The Other/Misc category is the catch-all for remaining revenue areas. The Out Years are adjusted generally based on the percentages along the left-hand column.

There is also a section of At-Risk or One-Time Revenues. This includes Excess ERAF, VLF in Lieu, and the America Rescue Plan Act (ARPA) funds. ARPA funds are one-time revenues and Excess ERAF and VLF In Lieu are revenues considered to be at-risk based on the State Budget process and other factors.

Expenditures – The next section is a list of Operational Expenditures (not detailed). These are basic Town operational costs for Administration, Legal, Finance, Building, Planning and Public Works. As the Council is aware, within the Town's Operational Budget, there are allocations for equipment replacement, vehicle purchases, employee benefits, and general Town maintenance (trees, drainage, Park, etc.).

Extracted from the Town's Operational Budget, for spreadsheet purposes only, is the COP Debt Service, the OPEB ARC, and the Town's UAL payment to CalPERS. Within the Annual Budget, these are all included as budgetary allocations in Operations but have been extracted here as they are targeted reduction areas identified by the Council.

Reserves and Unallocated Balances – Following the Expenditure Section is a calculation of Beginning and Ending Fund Balance and Reserves. The Town has two reserve requirements. The first is a Mandatory 15% Emergency Reserve representing 15% of the Town's Operational Expenditures for use in Council-approved Emergencies only. Next is an Operational 20% Reserve – same calculation, 20% of the Town's Operational Expenditures. This is a reserve for specific Operational needs upon specific Council direction. The City Manager does not have the authority to use either of these reserves without separate approval by the City Council.

From a practical day-to-day operational perspective, this means that staff must ensure that the available General Fund Balance *exceeds* these reserve requirements by an amount that is sufficiently large enough to handle a month or more of general operational costs. Else, if the Town’s financial situation were to exceed the amount for any given check (vendor or payroll) that check could not be issued without violating the Council policy. The Town’s average monthly expenditures for basic operations can vary between \$1.5 million to \$2.5 million, depending on times of year and operational need. This amount will increase by inflation. To accommodate this, there is a line for “*Recommended Minimum Unallocated Fund Balance*” – this amount is essentially another 10% of the Town’s Operational Expenditures.

Long-Term Liability – At the bottom of the spreadsheet is a section entitled Long-Term Liability. The Town has three identified (3) long-term liabilities – CalPERS Unfunded Actuarial Liability (UAL), OPEB UAL, and the COP. As the Town makes allocations year over year to these liabilities, they are reduced accordingly. The COP is targeted for retirement in FY 2024/25.

Set-Aside Buckets – The primary purpose of the spreadsheet is to allow the Council and staff to identify financial priorities and plan to set-aside funds during specified fiscal years for those priorities. The priorities identified are various Capital Improvement Master Plans (save/spend), Grant Matching requirements, and Long-Term Liabilities.

Staff can walk through the spreadsheet and allocated Unallocated General Funds from the Available Fund Balance and we can model the impact of those allocations on the out-years. We can also model the loss or reduction of at-risk revenues, such as ERAF or VLF.

POLICY FOCUS

The Council discussion should focus the balancing of fiscal priorities for the Town over the next 5 years.

FISCAL IMPACT

There is no significant cost impact with this item.

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.

COMMISSION/COMMITTEE FEEDBACK/REFERRAL

This item ___ has or X has not been before a Town Committee or Commission.

- ___ Audit/Finance Committee (meets every other month)
- ___ Bicycle/Pedestrian Committee (meets as needed)
- ___ Civic Center Advisory Committee (meets as needed)
- ___ Environmental Programs Committee (meets every other month)
- ___ Park and Recreation Committee (meets each month)
- ___ Planning Commission (meets each month)
- ___ Rail Committee (meets every other month)
- ___ Transportation Committee (meets every other month)

ATTACHMENTS

Out Year Financial Planning Spreadsheet

ATTACHMENT 1

Out Year Financial Planning Tool

		A	B	C	D	E	F	G	H	
		FY 2020/21 (Actual)	FY 2021/22 Budget	FY 2022/23 Proj.	FY 2023/24 Proj.	FY 2024/25 Proj.	FY 2025/26 Proj.	FY 2026/27 Proj.	Average	
General Fund Revenue Projections										
Major Revenues										
1	4%	Basic Property Tax	\$ 11,298,927	\$ 11,637,791	\$ 12,103,303	\$ 12,587,435	\$ 13,090,932	\$ 13,614,569	\$ 14,159,152	\$ 12,641,730
2	2%	Sales Taxes	\$ 213,844	\$ 267,000	\$ 272,340	\$ 277,787	\$ 283,343	\$ 289,009	\$ 294,790	\$ 271,159
3	2%	Franchise Fees	\$ 908,381	\$ 938,000	\$ 956,760	\$ 975,895	\$ 995,413	\$ 1,015,321	\$ 1,035,628	\$ 975,057
4	2%	Business License	\$ 264,162	\$ 260,000	\$ 265,200	\$ 270,504	\$ 275,914	\$ 281,432	\$ 287,061	\$ 272,039
5	3%	Planning	\$ 231,710	\$ 220,300	\$ 226,909	\$ 233,716	\$ 240,728	\$ 247,950	\$ 255,388	\$ 236,672
6	3%	Building	\$ 1,794,645	\$ 1,624,000	\$ 1,672,720	\$ 1,722,902	\$ 1,774,589	\$ 1,827,826	\$ 1,882,661	\$ 1,757,049
7	2%	Police	\$ 67,934	\$ 158,050	\$ 161,211	\$ 164,435	\$ 167,724	\$ 171,078	\$ 174,500	\$ 152,133
8	3%	Public Works	\$ 690,692	\$ 625,700	\$ 644,471	\$ 663,805	\$ 683,719	\$ 704,231	\$ 725,358	\$ 676,854
9	2%	Park	\$ 55,603	\$ 96,050	\$ 97,971	\$ 99,930	\$ 101,929	\$ 103,968	\$ 106,047	\$ 94,500
10	2%	Other/Misc	\$ 1,075,908	\$ 583,799	\$ 595,475	\$ 607,384	\$ 619,532	\$ 631,923	\$ 644,561	\$ 679,798
At Risk/One-Time Revenue										
-										
11	4%	Excess ERAF	\$ 1,863,658	\$ 1,100,000	\$ 1,144,000	\$ 1,189,760	\$ 1,237,350	\$ 1,286,844	\$ 1,338,318	\$ 1,308,562
12	4%	VLF In Lieu	\$ 750,767	\$ 949,107	\$ 987,071	\$ 1,026,554	\$ 1,067,616	\$ 1,110,321	\$ 1,154,734	\$ 1,006,596
13		Rule 20A Swap	\$ 642,521	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 642,521
14		America Rescue Plan	\$ -	\$ 1,707,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,707,000
15	Total General Fund Revenues		\$ 19,858,752	\$ 20,166,797	\$ 19,127,431	\$ 19,820,108	\$ 20,538,789	\$ 21,284,473	\$ 22,058,198	\$ 20,407,793
General Fund Expenditure Projections										
Major Expenditures										
16	5%	Operational Expenditures	\$ (13,063,556)	\$ (14,937,008)	\$ (15,500,409)	\$ (16,234,036)	\$ (17,007,377)	\$ (17,869,731)	\$ (18,793,068)	\$ (16,200,741)
17		CIP - GF Allocations	\$ (14,889,826)	\$ (6,137,592)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (3,003,917)
18		COP Debt Service	\$ (837,930)	\$ (861,000)	\$ (861,871)	\$ (861,871)	\$ -	\$ -	\$ -	\$ (488,953)
19		ARC - OPEB	\$ (146,681)	\$ (182,425)	\$ (191,546)	\$ (201,124)	\$ (211,180)	\$ (221,739)	\$ (232,826)	\$ (198,217)
20		UAL - CalPERS Pension	\$ (1,193,885)	\$ (1,400,819)	\$ (1,654,309)	\$ (1,778,400)	\$ (1,905,700)	\$ (1,989,000)	\$ (2,058,600)	\$ (1,711,530)
21	Total General Fund Expenditures		\$ (30,131,878)	\$ (23,518,844)	\$ (18,208,136)	\$ (19,075,430)	\$ (19,124,257)	\$ (20,080,470)	\$ (21,084,494)	\$ (21,603,358)
22	Net		\$ (10,273,126)	\$ (3,352,047)	\$ 919,295	\$ 744,678	\$ 1,414,532	\$ 1,204,004	\$ 973,704	\$ (1,195,566)
23	Beginning General Fund Balance		\$ 27,038,376	\$ 16,765,250	\$ 11,813,203	\$ 10,532,499	\$ 8,277,176	\$ 7,419,609	\$ 7,623,613	\$ 12,781,390
24	Net Beginning General Fund Balance		\$ 16,765,250	\$ 13,413,203	\$ 12,732,499	\$ 11,277,176	\$ 9,691,709	\$ 8,623,613	\$ 8,597,317	\$ 11,585,824
Annual Reserve Requirements										
25	15% Emergency		\$ (2,160,618)	\$ (2,240,551)	\$ (2,325,061)	\$ (2,435,105)	\$ (2,551,107)	\$ (2,680,460)	\$ (2,818,960)	\$ (2,458,838)
26	20% Operational		\$ (2,880,824)	\$ (2,987,402)	\$ (3,100,082)	\$ (3,246,807)	\$ (3,401,475)	\$ (3,573,946)	\$ (3,758,614)	\$ (3,278,450)
27	Available Fund Balance		\$ 11,723,808	\$ 8,185,251	\$ 7,307,355	\$ 5,595,264	\$ 3,739,127	\$ 2,369,207	\$ 2,019,743	\$ 5,848,536
Set-Aside Buckets										
28		Bike/Ped Master Plan	\$ -	\$ -	\$ 650,000	\$ 150,000	\$ -	\$ -	\$ -	\$ 800,000
29		Drainage Master Plan	\$ -	\$ -	\$ -	\$ 750,000	\$ 250,000	\$ -	\$ -	\$ 1,000,000
30		Park Master Plan	\$ -	\$ -	\$ -	\$ 500,000	\$ 100,000	\$ -	\$ -	\$ 600,000
31		Federal Funding (Eschoo) Grant Match	\$ -	\$ -	\$ 450,000	\$ -	\$ -	\$ -	\$ -	\$ 450,000
32		Road Improvement Plan	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
33		Long Term Liabilities (Pension UAL)	\$ -	\$ 500,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 500,000
34		Long Term Liabilities (OPEB UAL)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 450,000	\$ 450,000	\$ 900,000
35		COP/Debt Service	\$ -	\$ 1,100,000	\$ 1,100,000	\$ 1,100,000	\$ 1,872,100	\$ -	\$ -	\$ 5,172,100
36		Green Infrastructure Plan	\$ -	\$ -	\$ -	\$ 500,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 650,000
37		Facility Replacement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 500,000	\$ 500,000	\$ 1,000,000
38		Totals	\$ -	\$ 1,600,000	\$ 2,200,000	\$ 3,000,000	\$ 2,272,100	\$ 1,000,000	\$ 1,000,000	\$ 11,072,100
39	Net Available Fund Balance (After Set-Asides)		\$ 11,723,808	\$ 6,585,251	\$ 5,107,355	\$ 2,595,264	\$ 1,467,027	\$ 1,369,207	\$ 1,019,743	
40	Rec'd Minimum Unallocated Fund Balance (10%)		\$ 1,440,412	\$ 1,652,025	\$ 1,734,626	\$ 1,821,356	\$ 1,912,426	\$ 2,008,047	\$ 2,108,449	
Long Term Liability										
41		PERS UAL	\$ 17,644,864	\$ 16,450,979	\$ 14,550,160	\$ 12,895,851	\$ 11,117,451	\$ 9,211,751	\$ 7,222,751	\$ 5,164,151
42		OPEB UAL	\$ 3,105,300	\$ 2,958,619	\$ 2,776,194	\$ 2,584,648	\$ 2,383,524	\$ 2,172,344	\$ 1,500,606	\$ 817,780
43		COP	\$ 8,594,772	\$ 7,756,842	\$ 5,795,842	\$ 3,833,971	\$ 1,872,100	\$ -	\$ -	\$ -