



## Item No. 13 Town of Atherton

### CITY COUNCIL STAFF REPORT – REGULAR AGENDA

**TO: THE HONORABLE MAYOR AND CITY COUNCIL**

**FROM: GEORGE RODERICKS, CITY MANAGER**

**DATE: DECEMBER 15, 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 meeting, staff will present the spreadsheet via a shared screen and will walk through the various components of the spreadsheet and make 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. The objective is to use this spreadsheet to model various financial goals and strategies as staff and the Council identify various priorities for the coming years’ budgets.

No funding or financial decisions will be made at the December 15 meeting; however, staff will use the feedback from the Council as we return the spreadsheet for discussion during the mid-year and future year budget workshops.

#### **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. In addition, there are bond commitments as part of the Certificates of Participation that ensure that the Town’s reserves are maintained.

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*”. Staff recommends that this amount be set at another 10% of the Town’s Operational Expenditures; but it can be set at a lower or greater amount.

***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 spreadsheet can also be used to model additional income streams or debt. 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 provides (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

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	
<b>General Fund Revenue Projections</b>										
<b>Major Revenues</b>										
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
11		Hypothetical GF Revenue Stream	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>At Risk/One-Time Revenue</b>										
12	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
13	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
14		Rule 20A Swap	\$ 642,521	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 642,521
15		America Rescue Plan	\$ -	\$ 1,707,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,707,000
16		<b>Total General Fund Revenues</b>	<b>\$ 19,858,752</b>	<b>\$ 20,166,797</b>	<b>\$ 19,127,431</b>	<b>\$ 19,820,108</b>	<b>\$ 20,538,789</b>	<b>\$ 21,284,473</b>	<b>\$ 22,058,198</b>	<b>\$ 20,407,793</b>
<b>General Fund Expenditure Projections</b>										
<b>Major Expenditures</b>										
17	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)
18		CIP - GF Allocations	\$ (14,889,826)	\$ (6,137,592)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (3,003,917)
19		COP Debt Service	\$ (837,930)	\$ (861,000)	\$ (861,871)	\$ (861,871)	\$ -	\$ -	\$ -	\$ (488,953)
20		ARC - OPEB	\$ (146,681)	\$ (182,425)	\$ (191,546)	\$ (201,124)	\$ (211,180)	\$ (221,739)	\$ (232,826)	\$ (198,217)
21		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)
22		<b>Total General Fund Expenditures</b>	<b>\$ (30,131,878)</b>	<b>\$ (23,518,844)</b>	<b>\$ (18,208,136)</b>	<b>\$ (19,075,430)</b>	<b>\$ (19,124,257)</b>	<b>\$ (20,080,470)</b>	<b>\$ (21,084,494)</b>	<b>\$ (21,603,358)</b>
23		<i>Net</i>	\$ (10,273,126)	\$ (3,352,047)	\$ 919,295	\$ 744,678	\$ 1,414,532	\$ 1,204,004	\$ 973,704	\$ (1,195,566)
24		<b>Beginning General Fund Balance</b>	<b>\$ 27,038,376</b>	<b>\$ 16,765,250</b>	<b>\$ 12,313,203</b>	<b>\$ 11,682,499</b>	<b>\$ 11,327,176</b>	<b>\$ 10,869,609</b>	<b>\$ 12,073,613</b>	<b>\$ 14,581,390</b>
25		<b>Net Beginning General Fund Balance</b>	<b>\$ 16,765,250</b>	<b>\$ 13,413,203</b>	<b>\$ 13,232,499</b>	<b>\$ 12,427,176</b>	<b>\$ 12,741,709</b>	<b>\$ 12,073,613</b>	<b>\$ 13,047,317</b>	<b>\$ 13,385,824</b>
<b>Annual Reserve Requirements</b>										
26		<b>15% Emergency</b>	<b>\$ (2,160,618)</b>	<b>\$ (2,240,551)</b>	<b>\$ (2,325,061)</b>	<b>\$ (2,435,105)</b>	<b>\$ (2,551,107)</b>	<b>\$ (2,680,460)</b>	<b>\$ (2,818,960)</b>	<b>\$ (2,458,838)</b>
27		<b>20% Operational</b>	<b>\$ (2,880,824)</b>	<b>\$ (2,987,402)</b>	<b>\$ (3,100,082)</b>	<b>\$ (3,246,807)</b>	<b>\$ (3,401,475)</b>	<b>\$ (3,573,946)</b>	<b>\$ (3,758,614)</b>	<b>\$ (3,278,450)</b>
28		<b>Available Fund Balance</b>	<b>\$ 11,723,808</b>	<b>\$ 8,185,251</b>	<b>\$ 7,807,355</b>	<b>\$ 6,745,264</b>	<b>\$ 6,789,127</b>	<b>\$ 5,819,207</b>	<b>\$ 6,469,743</b>	<b>\$ 7,648,536</b>
<b>Set-Aside Buckets</b>										
29		Bike/Ped Master Plan	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
30		Drainage Master Plan	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
31		Park Master Plan	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
32		Federal Funding (Eschoo) Grant Match	\$ -	\$ -	\$ 450,000	\$ -	\$ -	\$ -	\$ -	\$ 450,000
33		Road Improvement Plan	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
34		Long Term Liabilities (Pension UAL)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
35		Long Term Liabilities (OPEB UAL)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
36		COP/Debt Service	\$ -	\$ 1,100,000	\$ 1,100,000	\$ 1,100,000	\$ 1,872,100	\$ -	\$ -	\$ 5,172,100
37		Green Infrastructure Plan	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
38		Facility Replacement	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
39		<b>Totals</b>	<b>\$ -</b>	<b>\$ 1,100,000</b>	<b>\$ 1,550,000</b>	<b>\$ 1,100,000</b>	<b>\$ 1,872,100</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,622,100</b>
40		<b>Net Available Fund Balance (After Set-Asides)</b>	<b>\$ 11,723,808</b>	<b>\$ 7,085,251</b>	<b>\$ 6,257,355</b>	<b>\$ 5,645,264</b>	<b>\$ 4,917,027</b>	<b>\$ 5,819,207</b>	<b>\$ 6,469,743</b>	
41		<i>Rec'd Minimum Unallocated Fund Balance (10%)</i>	<i>\$ 1,440,412</i>	<i>\$ 1,652,025</i>	<i>\$ 1,734,626</i>	<i>\$ 1,821,356</i>	<i>\$ 1,912,426</i>	<i>\$ 2,008,047</i>	<i>\$ 2,108,449</i>	
<b>Long Term Liability</b>										
42		PERS UAL	\$ 17,644,864	\$ 16,450,979	\$ 15,050,160	\$ 13,395,851	\$ 11,617,451	\$ 9,711,751	\$ 7,722,751	\$ 5,664,151
43		OPEB UAL	\$ 3,105,300	\$ 2,958,619	\$ 2,776,194	\$ 2,584,648	\$ 2,383,524	\$ 2,172,344	\$ 1,950,606	\$ 1,717,780
44		COP	\$ 8,594,772	\$ 7,756,842	\$ 5,795,842	\$ 3,833,971	\$ 1,872,100	\$ -	\$ -	\$ -