



Item No. 2 Town of Atherton

CITY COUNCIL STAFF REPORT – STUDY SESSION

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

FROM: ROBERT BARRON III, FINANCE DIRECTOR

DATE: APRIL 5, 2023

SUBJECT: FY 2023/24 GENERAL FUND/OPERATIONS BUDGET

RECOMMENDATION

It is recommended that the Council review and discuss this Report.

BACKGROUND

This is a review of the Town's General Fund Operational Budget only. Expenditures include the Administration, Finance, Planning, Building, Inter-Department, Public Works, and Public Safety departments. The Operations Budget focuses on the Town's fiscal outlook of revenues and expenditures over time to the Town's General Fund. The March 1 Study Session provided a high-level view of revenue and expenditure assumptions and a five-year forecast using those assumptions. Those assumptions are incorporated herein.

FY 2023/24 Total General Fund revenues are projected at \$22,010,474 against \$19,396,276 in expenditures.

The FY 2023/24 Budget is approximately \$858K more than the FY 2022/23 adjusted Budget. The bulk of the increase is within the Planning, Administration, Inter-department, and Public Works Departmental budgets.

ANALYSIS

R E V E N U E S

FY 2023/24 Total General Fund revenues are projected at \$22,010,474 against \$19,396,276 in expenditures. This is a single year surplus of \$2.61 million, before the addition one-time revenues or transfers in/out (such as ERAF or CIP). There is a projected year-end positive fund balance in the General Fund of \$17.78 million.

The Town's ERAF revenue for FY 2022/23 was \$2,339,064. This is an increase of \$23,064 over budget of \$2,316,000. Even though the Town has seen increases in ERAF recently, this funding remains at risk and should still be considered below-the-line for one-time use.

In FY 2022/23, Property Taxes represent approximately 72% of the Town General Fund Revenues. The total projected revenue from property taxes is \$15,526,595, approximately 5.3% or \$611,000 over the FY 2022/23 actuals estimate. Atherton's changes in property values are based mainly on CPI growth, residential remodels, and new construction on razed properties. The Town's Property Tax Consultant HdL Companies suggests that the Town use a projected increase of 4.5 to 5.5 percent in Property Tax revenues. Since FY 2011/12, the Town has seen an Assessed Property Value growth of about 223% - roughly 7.5% per year. However, while some years are higher and some years are lower, the overall trend is a decrease in growth.

Below, staff projected the various property taxes based on current assumptions for Secured Taxes and Property Tax in lieu of VLF. There was a shortfall of VLF in FY 2020/21 \$573,549 and FY 2021/22 in the amount of \$341,984. We received FY 2020/21 VLF and \$143,026 in August 2022 as partial payment for the FY 2021/22 VLF shortfall. Total amount we received for FY 2021/22 VLF is \$1,204,764. There is still a shortfall of \$198,958 as well as a new shortfall of \$71,580 for FY 2022/23. This represents an uncharacteristically high Property Tax VLF in FY 2023/24 of \$1,856,000. The property tax projection is 5.3% for FY 2022/23 property tax revenues and will be revisited when we receive our second installment. Secured property taxes represent 5% of the increase. This is a moderate estimate. Actual revenues may be higher.

Source	FY 2017/18 Actual	FY 2018/19 Actual	FY 2019/20 Actual	FY 2020/21 Actual	FY 2021/22 Actual	FY 2022/23 Estimate	FY 2023/24 Projection
Property Taxes	\$10,319,908	\$11,016,883	\$11,611,597	\$12,050,352	\$13,232,475	\$14,744,494	\$15,526,595
Excess ERAF	\$1,280,172	\$1,691,772	\$1,784,091	1,863,658	\$2,488,713	\$2,339,064	\$2,339,064
Total Property Taxes	\$11,600,080	\$12,708,655	\$13,395,688	\$13,914,010	\$15,721,188	\$17,083,558	\$17,865,659

Sales & Use Tax

The Town is not heavily reliant upon Sales & Use Tax revenue. There is a projected increase in Sales & Use Tax of \$17,000 for a total of \$321,000. The State advances Sales Tax funds based on prior year transactions and then trues up the following year.

Source	FY 2022/2023 Estimate Budget	FY 2023/24 Projected Budget	Projected Change to FY 22/23 Est. Budget
Sales & Use Tax	\$195,000	\$209,000	\$14,000
Prop 172 Sales Tax Police	\$109,000	\$112,000	\$3,000
TOTAL	\$304,000	\$321,000	\$17,000

Building and Planning Revenues

Staff projects that building permit revenues will return to normal levels. As Building Department services are provided by contract, any projected increase in revenues will also reflect a corresponding increase in expenditures. Planning services are not revenue based and are offset by lower fees to encourage compliance and counter services.

Public Works Revenues

Public Works issues Encroachment Permits for construction activity. These permits are also anticipated to increase as we move to Spring/Summer months. The Department is also responsible for the maintenance and operation of all public infrastructure. Revenue from activities in the Building, Planning and Public Works Departments comprise the majority of fee revenue for the Town. Revenue is projected to increase \$513,009 for a total of \$2,886,000 for FY 2023/24.

Sources	FY 2022/2023 Est. Budget	FY 2023/24 Projected Budget	Projected Change to FY 22/23 Est. Budget
Building Revenue	\$1,562,291	\$1,952,000	\$389,709
Planning	\$290,000	\$298,300	\$8,300
Public Works	\$520,700	\$635,700	\$115,000
TOTAL	\$2,372,991	\$2,886,000	\$513,009

Franchise Revenue

Franchise revenues are projected to increase 1.5%-3% to \$1,025,000. Miscellaneous revenues were evaluated on current trends, one-time revenues, and eliminated revenues.

Summary of Projected General Fund FY 2023/24 Revenues

Source	Revenue
Property Taxes	\$15,526,595
ERAF	\$2,300,000
Sales Tax	\$321,100
Franchise Fees	\$1,025,000
Charges for Services (Building, Planning, DPW, Police)	\$3,171,690
Licenses and Intergovernmental	\$324,300
Use of Money/Property (Total Misc.)	\$1,434,289
Park Program Revenue	\$207,500
Total General Fund Revenues	\$24,310,474

- Note – table includes ERAF.

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

Overall, General Fund expenditures are estimated at \$19.39 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 corresponding changes in rate adjustments for CalPERS, health costs, and Workers' Compensation rate adjustments.

Overall Personnel Costs and Benefits

Basic CalPERS pension costs for employees are 7% of salary for Miscellaneous employees (non-sworn personnel) and 9% of salary for Public Safety employees (sworn personnel). Through cost-sharing agreements with employees, in addition to the preceding rates, employees pay an additional 1% (local miscellaneous) and 3% (public safety) of the employer retirement cost.

The employer cost for CalPERS pension costs for Miscellaneous employees is 12.63% this represents an increase of 1.57% from prior year. With the above cost sharing agreement, the actual cost is reduced to 11.63%. The Public Safety employee cost is 29.09% (an increase of 3.45%). Through the cost-sharing agreement, the Town's actual cost is 26.09%.

Listed below are the Unfunded Accrued Liabilities (UAL) dollar amounts the Town has paid for FY 2016/17 through FY 2022/23. The FY 2023/24 total UAL payment is \$1,259,579 and is a decrease of \$6,283. These expenses are incorporated into respective department budgets.

CalPERS Employer Payment of Unfunded Liability	UAL FY 2016/17	UAL FY 2017/18	UAL FY 2018/19	UAL FY 2019/20	UAL FY 2020/21	UAL FY 2021/22	UAL FY 2022/23
Miscellaneous Employees	\$146,085	\$183,648	\$230,536	\$288,470	\$333,762	\$393,774	\$452,652
Public Safety Employees	\$402,865	\$498,416	\$607,679	\$750,799	\$860,123	\$6,007,045	\$813,210
Total Contribution	\$548,950	\$682,064	\$838,215	\$1,039,269	\$1,193,885	\$6,400,819	\$1,265,862

OPEB & Workers' Compensation

Town retiree health expense is now being paid through the PARS Trust. This is an operational cost savings expense to all General Fund operation departments in the amount of (\$495,032). The OPEB Liability is \$7.73 million and there is currently \$7.82 million in the Trust. This results in an estimated Net OPEB Liability asset of \$93,344.

The Town will continue to make only the Actuarial Determined Contribution (ADC) towards the OPEB trust to satisfy the future normal cost (cost of new service) and amortized unfunded liability (cost of past service). This amount is \$138,301 for FY 2023/24. These costs are included and charged to respective departments and allocated to the Employee Benefits Fund.

Each department is responsible for an allocated cost for Workers' Compensation. Such allocations vary based on the risk assessed for each department (by type) and the number of employees. For the FY 2023/24 budget the Workers' Compensation charge was reduced from 7% to 1% of salary costs and other departments charges reduced from 3% to 1% for total cost of \$64,909. This reduction in Workers' Compensation charges produces a total savings of approximately \$245,322 in the General Fund operating departments.

The Town is "self-insured" as part of a risk pool – Cities Group Joint Powers Authority. The Town also maintains an active Workers' Compensation Risk Management Program. There are approximately 12 open claims (down from 17) that incur a reserve claims cost of approximately \$551,832 in the current year. This is a decrease of \$112,064 in reserve claims for previous fiscal year. Claim costs and reserves are established for each claim; however, these amounts are not indicative of the actual claim paid. The three-year average claim loss/expense is approximately \$197,115 an increase of \$77,257. The current year assessment is \$212,350 and is expected to decrease to \$141,568 in FY 2023/24. The decrease is due to the Town equity reserve share is at \$151,007 and does not need a replenishment to maintain its reserve requirement

Departmental Budgets

During the review of department operations, each department evaluated service and maintenance needs required for the next fiscal year. Overall, the Town's total combined operational expenditures increased by \$858,351 compared to the FY 2022/23 adjusted budget – an increase of 4.6%. The majority of departmental increases are due to salary and benefits adjustments, planning department expenses, savings due to OPEB retiree health paid from PAR Trust, Workers' Compensation reduced allocation charges equipment and facility maintenance contracts new service costs, one-time expenses, council priorities, purchases for continued level of service within the community, and contract increases. There is a COLA placeholder of 4% within the budget.

Staff will provide a PowerPoint presentation to present departmental summary expenditures trends over the past couple of years along with the projection for FY 2023/24. Operational expenditures within departments include items such as professional services (MCE, Interwest, Planning, Legal, Contract Custodial services, Park Event services etc.), advertising, utilities, equipment repair, copier leases, phone service, training, technology, computers, postage, etc. – everything net of salaries and benefits.

Each department summary provides context for most of the major adjustments; however not every specific adjustment is noted in the narrative as minor adjustments are not noted.

CITY COUNCIL OPERATIONS OVERALL NET INCREASE OF \$7,502

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.), Elections, utilities for the Council Chambers and

incidentals.

Operations

FY 2023/24 includes an increase of \$500 for advertising/publishing for council meeting postcard notifications and business meetings & meals increased \$2,900 meeting meals, snacks, and refreshments. There was an increase of \$1,000 in training and workshops for Council related community workshops and team building. There is an increase in contribution to HIP Housing to \$15,000 for grant participation in the Town's first home sharing program. There was a decrease in municipal election budget line item of \$12,000 as no election costs are anticipated in the fiscal year.

ADMINISTRATION DEPARTMENT OVERALL NET INCREASE OF \$43,123

The Administration Department budget includes the City Manager's Office and City Clerk's Office. This represents four full-time salaries and benefits (City Manager, City Clerk/Deputy City Manager, Management Analyst II, and Office Specialist), 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.

Personnel and Benefits

Overall, the salaries and benefits categories increased by \$185,023. Majority of the increase is salary and benefits \$172,000 due to the hiring of Management Analyst II in the department for existing increased role for Town administration department for emergency preparedness, community outreach, environmental programs committee, sustainability programs, and information technology. Additional increase of approximately \$7,000 for salary adjustment of 4%. Workers' Compensation allocations decreased (\$5,964) due to program allocation reduced from 3% to 1%. . There were reductions for retiree health insurance costs (\$10,177) due to the reduction in OPEB retiree health expense as the PARS Trust is paying all retiree health costs. There is still actuarial annual required contribution for future services. The CalPERS UAL payment decreased by \$3,722. The CalPERS normal cost expense increased by \$16,552.

Operations

There was a decrease in operations expense in the amount of (\$141,900). Majority of the reduction is due to the contract human resources (\$110,000) reduction in need for legal human resources assistance litigation support. This was a non-recurring expenditure. Other equipment repair and maintenance had an increase of \$2,400 as this for copier lease and increased printing of materials. Slight increase in advertising-notices of \$2,000 for town mailers. There was an increase in recruitment costs in the amount of \$3,500 for recruitment consultant. Training and Workshops increased \$1,000 for food pantry for staff and conferences increased \$300 for municipal management analyst conference. There was a decrease in other contract services in the amount of \$35,000 as we adjusted services for newsletter, website and communication

support. Environmental Programs committee expense decreased \$6,500 as the AZGA event was a current year additional appropriation only. Special event and awards increased \$1,000 for quarterly staff team building luncheons hosted by Town departments. Other contract services budget is \$115,000 but the amount allows the Town to refocus efforts on areas that have been neglected. These includes the expansion of sustainability programs and outreach such as public outreach on the Town's Climate Action Plan, SB 1383 Compliance efforts, home energy audits, energy demonstration programs, battery loaner program, and a number of other programs and outreach efforts.

**CITY ATTORNEY'S OFFICE
OVERALL NET INCREASE OF \$0**

The City Attorney's Office budget consists of the legal retainer for the City Attorney and other associated legal services. The Town has a new City Attorney and adjusted retainer amount. The budget also includes a line item for Additional Services as needed.

**FINANCE DEPARTMENT
OVERALL NET DECREASE OF \$30,123**

The Finance Department budget includes the salaries and benefits of three full-time employees (Finance Director, Accountant and Jr. Accountant). 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.

Personnel and Benefits

Overall, the salaries and benefits category decreased by \$4,484. This was attributed to a reduction in Workers' Compensation and retiree health expenses. There was a decrease in Workers' Compensation of (\$8,858) as the allocation percentage was reduced from 3% to 1% in the budget. Salaries and benefits had an increase of \$18,884 due to salary place holder adjustment of 4%. The allocations for retiree and active employee health insurance costs decreased by \$19,008 as OPEB retiree health expense is now being paid exclusively from the PARS Trust. The CalPERS normal cost contribution increased by \$5,714 and the UAL payment decreased by (\$2,230).

Operations

Operation expenses for the Department decreased by (\$25,639). Most of the decrease is in Other Contract Services due for the Cost Allocation Study which is anticipated to complete in June 2023. There were slight increases in various expense accounts audit and financial, technical services, business meeting and meals for a total of \$7,876. Business license processing fee had an increase of \$8,000 and reduction of \$1,000 in COVID-19 emergency expense.

**PLANNING DEPARTMENT
OVERALL NET INCREASE OF \$887,748**

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 Planning Department continues to reflect more significant adjustments due to a new Town planning services consultant and one-time programmatic expenditures related to the various General Plan Updates (Safety Element, Housing Element, etc.) and associated Zoning Code updates. These include preparation of the required environmental reviews for CEQA (~\$325k); creation of expanded objective design standards (~\$150k); General Plan Safety Element Update (~\$65k); preparation of the In-Lieu Inclusionary Fee Nexus Study and the Financial Feasibility Analysis Report (~\$100k); Evolving state mandates are requiring the Town to make modifications to the ADU Ordinance and implementation of an expanded ADU Program; and the implementation of the SB 9 Urban Lot Split Program. There are necessary Planning staff hours and counter review for day-to-day processing of basic applications that also see an increase in expense due a change in contract planning service providers. Contract rates for Good City Company were approximately 20%-30% below market. Upon their departure, there was a determination that the processing and review being conducted were not sufficient. The cost of daily services can be largely offset through the pending fee study and fee adjustments, the one-time project costs for Housing elements cannot.

The anticipated increase in planning department operation budget includes \$426,165 increase for Contract Planner hours and \$456,000 increase (one-time costs) for the above Housing Element updates.

Operations

Total operating Planning budget increased \$887,748 to \$1,649,819. The current planning contract is estimated to increase \$426,165 to \$877,440. This is for the core staffing planning services component for the Town. This is three (3) full time equivalents of Town Planner, Senior Planner, Assistant Planner, Associate Planner at total of 480 hours per month. Costs related to updates to the Housing Element, environmental reviews for CEQA, objective design standards, general plan safety update, modifications to ADU ordinance and implementation program, and preparation of the In-Lieu Inclusionary Fee Nexus Study and financial feasibility analysis report an increase of \$410,099 for a total of \$693,109. There is an increase in advertising/noticing expense of \$8,500 and increase in other contract services of \$37,440 for a shared housing planner. There is an increase in miscellaneous computer equipment of \$3,000 and computer equipment software increase of \$2,040 for two additional licenses for CRW Trakit software.

BUILDING DEPARTMENT OVERALL NET DECREASE OF \$2,890

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, Senior Engineer/Maintenance Manager, and Office Specialist), general office supplies and materials, software costs, and a share of the building department share of utilities.

Personnel and Benefits

Overall, the salaries and benefits category decreased \$23,940. There were minor adjustments in Salaries, Employee Benefits Earned, PERS Retiree Contribution, and Unemployment Insurance allocations. Allocations for retiree employee health insurance costs decreased by \$22,408 due to the expense now being paid by the PARS Trust.. Workers' Compensation decreased by (\$3,581) due to allocation cost reduced to 1%. The CalPERS UAL payment decrease by \$5,075.

Operations

The majority of the increase is due to a corresponding Building and Life Safety Contract Services increase - \$18,150 This is based on the revenue assumption for the department for the upcoming fiscal year. Technical services increased \$10,000 for CRW software maintenance fee. There was slight increases in advertising and publishing, office supplies, subscriptions, safety supplies & materials of \$2,900.

INTERDEPARTMENTAL OVERALL NET INCREASE OF \$31,031

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.

Operations

There is a decrease in IT support by (\$47,004) for year cost of services contract compensation adjustment. General liability, employment practice, and property insurance costs increased \$73,035 to maintain the Town's cost for insurance and self-insured retention. There is an increase of \$5,000 in county tax administration cost. IT support amount remained static and provides three (3) days of onsite support and also will provide support scope of work with needed network upgrades, phone system replacement, and other application maintenance for Town Center needs.

IT Infrastructure expense includes needs and upgrades identified with Town Center. The FY 2023/24 Budget include updates to the Town's phone system continued cybersecurity, storage, various licenses, and software application needs. General technology services are within this department (maintenance as well as infrastructure) and include current Shoretel Phone Services, Data Storage Plans, Servers, virus protection systems, software licensing and transparency tools.

PUBLIC WORKS DEPARTMENT OVERALL NET INCREASE OF \$153,634

The Public Works Department budget consists of 5 distinct areas of focus: Engineering, Streets, Park Maintenance, Park Programs, and Building Maintenance. The department recently went through a restructuring to include the hiring of a Public Works Director and the new classifications of Associate Civil Engineer to Senior Engineer/Maintenance Manager, and addition of Parks

Manager to Town Arborist. The salaries and benefits of all or portions of four full-time employees (Public Works Director, Senior Engineer/Maintenance Manager, Town Arborist/Parks Manager, and Office Specialist) are included in the budget. The budget includes contract services for the Town Maintenance Services (MCE), Custodial Services, new Landscape Maintenance Services, Facility Maintenance 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 budget includes the expenditures for change in the department's operations largely related to existing and new contract services: MCE Contract Services, New Town Landscaping services, facility maintenance services, Park Event Services, and custodial services. Many of these items were refined during the fiscal year with no major increased. The new equipment and facility servicing needs for Town are incorporated to include systems maintenance and monitoring, landscaping, custodial, and utilities for these new facilities. The Public Works Department also reflects one of the more significant adjustments due to costs for the Facilities Manager, new maintenance contracts and building system costs this position will oversee. Within the budget includes maintenance costs for building systems (heating systems, chilled water systems, BMS systems, radiant ceiling and flooring, elevator, green infrastructure, permeable paving, etc.), expanded landscape services, and overall utility costs.

Personnel and Benefits

Overall, the salaries and benefits category increased \$121,086. This includes net adjustments of savings from OPEB retiree health expense, worker's compensation, and UAL. The majority of the increase in salaries and benefits category is due to the addition of the Maintenance Manager position and 4% salary adjustments estimation \$171,000. There was an adjustment decrease in Workers' Compensation of (\$7,103) due to the reduction in the allocation charge to 1%. There was decrease in retiree health OPEB insurance cost of (\$73,546) due to no more "pay as you go" retiree health as the PARS Trust is now use for retiree health. The CalPERS normal cost had an increase of \$17,089 mainly due to new maintenance manager and CalPERS UAL payment decreased by \$7,602.

Operations

During fiscal year 2022/23 there were adjustment in the operations budget related to maintenance manager addition, contract professional engineering town service needs, existing contract for facilities maintenance services, repair and maintenance. There is a reduction in contract engineering services of (\$27,000) for contract professional services as anticipation for the hiring of a senior engineer in the new year. The Town has entered into service contracts with various vendors for the needs and services for the Town Center facility maintenance. There is an increase in the Equipment Repair and Maintenance budget by \$97,500 for service contracts with the vendors for inspections and servicing of new equipment and systems of new facilities. These include servicing contracts for elevator \$3K, BMS monitor system \$32K, Fire Alarm \$12K, generator \$4k, HVAC \$16K, heat pump \$7K, water treatment \$1K, Power wash \$6K and allowance of \$89k for repairs if needed for equipment and systems. The Facility Repairs and

Maintenance expense increased by \$25,000 for anticipated minor facility repairs at park facilities, HVAC, water heater at Pavilion, roof, Gilmore house, playground equipment, painting and other repairs. There was an increase in utilities of \$9,500. Utility costs are estimated at \$266,000 with 64% for the Town Center and remaining 36% to the Library. These costs have been distributed across the respective departments and the Public Works budget increased \$3,500. The total current contract DPW maintenance service budget is estimated at \$910,000. This does include a funding for a contractual adjustment in the MCE contract for CPI, as staff expects to have the adjustment at the next reiteration review of the operations budget. The budget included the new Landscape Services for Town Center and Park facilities. With some additional enhancements for the park and town center campus. These potential adjustments and enhancement absorb the portion of the Facilities Manager allocation expense. This includes as follows:

Contract maintenance for streets, building maintenance, and park events - \$5300,000

New Landscape maintenance - Town Center Campus and Holbrook Palmer Park -\$325,000; includes park enhancements of \$55,000.

There are minor areas of adjustment in rent machinery & equipment, membership dues, office supplies, construction materials and computer equipment software for total of \$7,600. Building Improvements expense budget decreased \$40,000 for carryover budget of the renovation of the Carriage House bathrooms, and painting of Little League building at the Park. COVID expense decrease \$10,000. Contract Park Event services decreased as contract is on exclusive catering for events.

POLICE DEPARTMENT
OVERALL NET DECREASE OF \$231,674

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. Deployment 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.

There is a continuing recruitment effort seeking lateral as well as recent academy graduates. Vacancies often result in increased overtime offset by overall salary savings at the end of the year. The Department experienced some retirements and lateral promotions from officers to sergeant supervisor positions as this provides opportunity for advancement and growth with the department.

Personnel and Benefits

Overall, the salary and benefits category decreased \$361,098 This is largely due to decreases in OPEB retiree health and Worker's Compensations expenditures in the department. There is an estimated annual salary adjustment of 4% place holder in the budget. The Memorandum of Understanding (MOU) with the Atherton Police Officer's Association expires in FY 2022/23. The

results in a salary adjustment of \$168,132 for FY 2023/24. This is for personnel represented by the APOA only. Overtime expense is expected to increase \$185,000 over the adopted FY 2022/23 budget. This is due to new augmented categories for built in 4 hours OT pay for dispatchers; OT for backfill staffing-court, training, investigations, court; special operations OT, and holiday OT.

There is a decrease in retiree and active health insurance of (\$375,893). This is decrease is due to the Town now using the PARS OPEB Trust to pay all retiree health. With the Council recent direction to start paying the retiree health expense via the PARS Trust there is a realized decrease in operation expense for OPEB costs. This reduced OPEB operational expenditure for the department and also opens up the ability to allocate the savings as discussed earlier to one-time expenses or Council priorities in the General Fund. As discussed earlier, with the increase in adequate reserves in the Worker's Compensation fund, staff felt there was an opportunity to reduce the expense allocation for the department from 7% to 1% for sworn personnel and 4% to 1% for non-sworn personnel. This decreased Workers' Compensation expense by (\$219,843). Staff will continue to monitor this expense and may need to increase the allocation in future years to maintain adequate reserves. The normal cost for CalPERS contribution increased by \$71,343 as the contribution increased 3.45% to 29.09% in FY 2023/24. There was a minor increase in EE Benefits Earned/Medicare Tax and Unemployment/Insurance. The CalPERS UAL payment decreased by (\$29,353), mainly due to the ADP of \$5 million and the 21.3% return in FY 2020/21.

Operations

Overall, the Operations expenditure budget for the Police Department increased by \$129,424. The majority of this was due to an increase in the equipment replacement fund expense of \$31,463, technical services for \$33,880 and disaster/emergency expense for \$20,000.

The Department is purchasing some supplemental budget items within its equipment replacement fund. These items include weapons rack \$7,732, Narcan life-saving medication \$3,000, Aardvark door breaching tool that allows entry into home or school to assist in active shooter or other crime. \$18,566, Red dot pistols new technology that will improve accuracy and prevent the misuse of a firearm \$28,865, and LED portable emergency light \$2,500. The Department is also anticipating the purchase of 2 Tahoe patrol vehicles as part of its regular equipment replacement schedule. There is a normal standard Equipment Replacement Fund allocation of \$175,000 each year. With the increase in radio equipment for the vehicles this has increased to \$185,000. These are two new replacement vehicles to the patrol fleet. that These purchases will be from the Equipment Replacement Fund. There was increase in disaster/emergency expense of \$20,000 for ADAPT's request to purchase emergency equipment cache boxes with tools, emergency equipment, and information for ADAPT members.

In addition to the preceding adjustments, technical services increased \$33,880 due to contract maintenance agreement for Town security cameras and door key cards. There was an increase in equipment maintenance-other for \$2,000. The electricity utility increased by \$13,000. Printing expenses decreased by \$2,000 as police resident handbooks are completed. There was an increase in Post Training of \$10,000 due to sending new hires and staff to more training. There is an increase adjustment of \$18,187 for Other Contract Service expense with the recent increase for Department of Emergency Management and National Night Out expenses. Increase in K-9 expenses of

\$12,000 as the department is adding a new K-9 unit. There was an increase in Computer Equipment/Software of \$18,897 due to an adjustment for new package installation of new surveillance cameras system at HP Park. There were decrease adjustments made across animal control services, other supplies and materials, machinery and equipment.

OVERALL SUMMARY

Overall, the Operational Budget increased \$858,351 over last year's Adjusted Budget. For FY 2023/24 the Town's General Fund Revenues are projected at \$22,010,474 against \$19,396,276 in expenditures. This will result in a single year-end positive balance of \$2,614,198 and a total positive ending Fund Balance of \$17,785,893.

FY 2023/24 includes below the line items of \$2,300,000 for ERAF and budgeted debt service payment \$861,871, the single-year projected change in fund balance is \$1,438,129. The Town is now focusing on various priority buckets for the allocation of Unallocated General Funds to Town Master plans in the CIP, Town long-term liabilities, other Council priorities or one-time expenses.

Reserve Calculations

Any remaining fund balance not reserved or committed is designated as Unallocated Fund Balance. The projected unallocated available fund balance for FY 2023/24 is \$10,260,010. This Unallocated Fund Balance represents funds that have not yet been assigned. After review of Out-Year Financial Planning Model, and with Council direction, the unallocated reserve balance can be appropriated towards operational use, capital projects or to pay down liabilities. With a completed Town Center, now focus is expected that the unallocated reserve balances will be used for CIP allocations and used for other town priorities.

The FY 2022/23 beginning General Fund Balance was \$13,585,333. The FY 2022/23 updated estimate actual projected year-end fund balance is \$13,733,566. This includes the ERAF revenues, as allocated. With the inclusion of debt service, there is a total General Fund projected FY 2023/24 year-end fund balance of \$17,785,893.

FY 2023/24 Beginning Fund Balance	\$13,733,566
FY 2023/24 Projected Revenues (inclusive of ERAF)	\$24,310,474
Total Available Funds	\$38,044,040
COP Debt Service for FY 2023/24	(\$861,871)
FY 2023/24 Expenditures (Projected Budget)	(\$19,396,276)
Projected FY 2023/24 Ending Fund Balance	\$17,785,893

As shown below, the Town will meet its reserve requirements in FY 2023/24 and projects an unallocated reserve that is 52% of projected expenditures. This is a change over last year reserve that was 50% of projected expenditures. This is attributed to the General Fund use of unallocated

reserves for the completion of the Town Center project.

FY 2023/24 Expenditures	\$19,396,276
Projected FY 2023/24 Ending Fund Balance	\$17,785,893
15% Emergency Reserve	\$2,909,441
15% Budget Stabilization Reserve	\$2,909,441
TOTAL RESERVE REQUIREMENT	\$5,818,882
<i>Reserved for ARPA</i>	<i>\$1,707,000</i>
<i>Less Above Reserve Requirement = Unallocated Reserves</i>	<i>\$10,260,010</i>

Other Budgetary Issues

Financial Planning Model, Master Plan Projects, and Council Priorities

In FY 2021/2022 staff created a Financial Planning Model to assist the Council in the discussion of the allocation of Unallocated General Funds over the next five (5) years to various identified Town priorities. During these discussions set aside buckets were used to illustrate funding towards various priorities. The set aside buckets are planning tools and do not lock the Town into funding in specific areas or specific projects.

The attached Financial Planning Model is updated with the FY 2023/24 projected budget and staff can walk through the Model during the April 5 Study Session. The Model is General Fund Only and the Operational Revenues and Expenditures match those in the Operational Budget. Allocations for FY 2023/24 CIP have not been incorporated.

User Fee Study

In FY 2022/23, the Town will complete a Comprehensive Fee Study which will include revisions to cost allocation plans and calculation of a fully burdened staff rate. This Study will inform an update to the Town's Master Fee Schedule. With the completion of the Town Center and some "time in facility" staff with the assistance of consultant Capital Accounting Partners will gather sufficient experience data that will assist in defining appropriate overhead costs. Most fees are set at full cost recovery; however, some fees, such as those for planning applications, are intentionally set below full cost recovery to encourage compliance and to account for customer service hours provided to applicants as part of the process. Valuation-driven fees, such as Building Permit fees and Plan Check fees, have remained consistent with the market since 2013. These fees were not adjusted by the labor component increases but are planned to be adjusted this year.

COP Lease Payments

The Town issued COP Lease Financing of \$7.68m for cash flow purposes for the Town Center Project. The COP is a ten (10) year financing tool with a five (5) year call option and average annual debt service of approximately \$861,000. The first semi-annual payment began December 2020. We have made \$2.13m in payments on the COP Lease. The Town can exercise the call option in June 2025 and pay off the COP. The call option estimated payment amount is \$4.7m.

Through term, the total lease financing payments is \$8.6m of which includes interest of \$915k. Staff has appropriated the \$861,871 amount for FY 2023/24 for its debt service payments.

ARPA Funding

The Town received \$1.7 million from the American Rescue Plan. These funds may be used to respond to the public health emergency with respect to COVID-19; but are also fairly broad in their application. Funds must be obligated by December 31, 2024 and must be spent by the end of calendar year 2026. Current regulations allow local governments to utilize funds for expenditures in response to COVID-19 or to recoup negative economic impacts, such as revenue loss. There are also special categories of uses for the funds that the Town can take advantage of for special projects.

Staff has segregated these funds within the Town's General Fund and they will be allocated as part of the FY 2023/24 Budget to eligible expenses (past and present). Below is recommendation of projects and expenditures to be considered for reimbursement through ARPA.

1. Town Center Project Construction COVID related delays: \$453,135 (Capital Expenditures related to response)
2. Police Technology: The Town's Axon Agreements for tasers, incorporating new integrated and transparency technologies for body cameras, interview cameras, and fleet vehicles. This will be part of a multi-year agreement that includes licensing, storage, and technology upgrades. The multi-year, integrated system agreement will represent an overall long-term savings to the Town and will vastly improve staff efficiency and data transparency- 3-year worth of cost - \$288,000. (Government Services-Police and Public Health Safety)
3. Town administrative Offices & Park facilities Generator: \$350,000 (Government Services-Police and Public Health Safety)
4. Drainage projects necessary to assist in heavy storm mitigation: \$615,800 (Government Services-Police and Public Health Safety)

ARPA funds are non-recurring so their use should be applied primarily to non-recurring expenditures (i.e. one-time purchases or infrastructure).

Authorized Uses of ARPA Funds:

1. Replace lost public sector revenue;
2. Government services, such as roadway construction and maintenance, as well as other infrastructure related to government administration, staff, and administrative facilities; provision of police and other public safety services;
3. Responses to Public Health and Economic Impacts of COVID-19, including Public Communication efforts, Emergency Operations Centers & response equipment;
4. Public Sector Capacity Enhancements - Public Safety, Public Health, and Human Services;
5. Capital Expenditures related to response to public health and negative economic impacts;
6. Premium Pay to eligible workers performing essential work during the pandemic; and
- 7/ Water & Sewer Infrastructure necessary investments in water and sewer infrastructure.

FISCAL IMPACT

None.

GOAL ALIGNMENT

This Report and its contents are in alignment with the following Council Policy Goals:

- Goal Area A – Maintain Fiscal Responsibility
- Goal Area F – Be Forward-Thinking, Well-Managed, and Well-Planned

POLICY FOCUS

This item discusses revenue and expenditure projections, the use of excess ERAF, reserve policies, priority set aside bucket for out-year financial planning, and recommendations for General Fund Budget. These are policy areas for Council discussion and direction as we prepare the FY 2023/24 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 Protection District, service providers (water, power, and sewer), and regional elected officials.

COMMISSION/COMMITTEE FEEDBACK/REFERRAL

This item has not been before a Town Committee or Commission

ATTACHMENTS

1. FY 2023/24 General Fund Revenue and Expenditure Details By Department
2. Financial Planning Model