



## **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  
ROBERT OVADIA, DIRECTOR OF PUBLIC WORKS**

**DATE: MAY 3, 2023**

**SUBJECT: REVIEW OF THE FY 2023/24 SPECIAL REVENUE, INTERNAL SERVICE FUNDS AND CAPITAL IMPROVEMENT PROGRAM**

#### **RECOMMENDATION**

Review, discuss, and provide feedback Special Revenue, Internal Service Funds and Capital Improvement Program (CIP) for FY 2023/24.

#### **BACKGROUND**

This is the third item of the Town’s Budget Meeting Calendar for the FY 2023/24 Budget – Special Revenue Funds, Internal Service Funds, and the Town’s 5-Year CIP.

The Town maintains a variety of Special Revenue and Internal Service Funds that are “restricted funds” designated for a specific purpose. Special Revenue Funds are used to account for revenues derived from specific sources. Revenues to these funds are usually required by law or administrative regulation to be accounted for in a separate fund. Revenue to Internal Service Funds comes from the various departmental operational budgets based on allocated charges to those departments. Special Revenue and Internal Service Funds include the Library Fund, Tennis Fund, COPS Grant fund, Equipment Replacement Fund, Workers’ Compensation Fund, General Liability Fund, and Employee Benefit Fund.

The Town’s Capital Improvement Program (CIP) is a five-year program that proposes projects to analyze, repair or improve Town infrastructure, and the funding for those projects. With the completion of the Town Center, focus is shifting to other capital projects needs in the Town. The Holbrook Palmer Park Circulation Project is set to begin in the coming months along with priority projects. The General Fund will provide new capacity in the next several years for project priorities within the CIP Master Plans. Such priorities include projects in the Bicycle Pedestrian Master Plan, Drainage Master Plan, Green Infrastructure Plan, and Road Improvement Plan.

The CIP program consists of seven (7) capital improvement fund sources that the Town uses for capital improvement/infrastructure needs. The Facility Building Fund will no longer be a capital

improvement fund as the Town Center is completed but will instead shift to a Facilities Maintenance and Improvement Fund. The capital improvement fund sources include:

- Atherton General Fund
- Measure M – County Congestion Management Fee on vehicle registration
- Measure A – County ½-cent Transportation Sales Tax
- Measure W- County ½-cent tax Congestion Relief Plan
- Gas Tax
- Atherton Channel Fund
- Measure S – Special Parcel Tax (Remaining Residual Funds)

## **ANALYSIS**

This section is a fund-by-fund analysis of the various Town Funds.

# **LIBRARY FUND**

## **REVENUES**

The Town is a member of the San Mateo County Library JPA system. The Library is funded through property taxes that are collected and allocated to library services. Under the JPA, jurisdictions are permitted to retain excess funds generated from the local property taxes as long as the basic library services are met. The Town most recent use of all excess funds have been for the Town Center Project – Library – as well as extended library hours of daily operation, utilities, and maintenance costs. Upon completion of the new Atherton Library, annual excess funds minus amounts needed for yearly operation of the Library will be retained by the Library JPA until the total advancement amount is reimbursed. Once the advancement of funds is reimbursed, any remaining funds will be evenly split between the Library and the Town for library-related activities.

The anticipated FY 2022/23/22 ending balance for the Library Fund is \$1,375,239. This includes the SMCL funds held in trust retained by the Library JPA. The County holds all future excess funds. During the agreement on advancement of Library funds, it was estimated that the projected Library Fund Revenue would be in the range of approximately \$1,600,000. The Town will not receive excess funds from the JPA until the advancement of funds are paid back. It is estimated that it will take approximately 3.5 to 4 years for reimbursement of the advancement of Library JPA funds. This could occur sooner depending upon property tax revenues. The estimated ending fund balance for FY 2023/24 Library Trust funds is \$1,391,239.

## **EXPENDITURES**

The FY 2023/24 projected expenditures for the Library are \$637,102 for operations, utilities, maintenance costs and development of spaces. There is an increase in utilities costs of \$55,000 for electricity and water. Maintenance costs for facility contracts for Library increased \$14,000 for

systems maintenance on new facilities. These amounts are based on the new building needs and operations, campus wide. There is Building Maintenance manager allocation of \$18,852 of Town personnel to oversee management of Library facility and systems. There is an allocation for Other Supplies and Materials of \$300,000 which includes purchases of various items for the development of spaces such as tables, canopies, umbrellas, café benches, community room furniture and community programs for an estimate of \$100,000. Also includes an allocation of \$200,000 toward a facilities replacement and improvement fund.

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## **OTHER RESTRICTED FUNDS**

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The Town maintains a variety of Special Revenue and Internal Service funds that are “restricted funds” for specific purposes beyond basic capital improvement. Revenue to internal service funds are in the form of General Fund department charges based on allocations by department and uses.

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## **EQUIPMENT REPLACEMENT FUND**

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The Equipment Replacement Fund is an internal depreciation fund for the replacement of large assets. The Fund is essentially the Town’s set aside accumulation account to replace large equipment assets over time – such as computer equipment, software assets, vehicles, trailers, emergency equipment, etc. Annual depreciation-style departmental allocations to this Fund reduces the impact to the Town’s Operational year funding to replace the equipment. There remains sufficient funds in the fund to accommodate emergency replacement needs as well as planned needs.

The FY 2023/24, departmental allocations (revenues) total \$313,763 and the expenditures total \$290,663. The largest allocation charge is \$185,000 in the Police Department for FY 2023/24. This allocation reflects the purchase of 2 vehicles each year as part of the regular maintenance and replacement schedule for vehicles. The Department is anticipating the purchase of 2 Tahoe patrol vehicles as part of its regular equipment replacement schedule. These are replacement vehicles to the patrol fleet. It allows the Town to use the State and Federal Multiple-Award Schedule pricing to purchase vehicles from the Equipment Replacement Fund. In FY 2023/24 the Police Department will also purchase \$60,663 in other miscellaneous small equipment assets. These were noted in the General Fund Budget presentation. Public Works will also be replacing an older vehicle in the fleet and is looking at a hybrid vehicle alternative.

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## **WORKERS’ COMPENSATION FUND**

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The Workers’ Compensation Fund accounts for the cost and expense of managing the Workers’ Compensation Program through the Town’s self-insurance risk pool, Cities Group Joint Powers Authority. Within this Fund are costs related to risk management and prevention – safety training, educational materials, and accident prevention programs. As a member of a JPA, the Town contributes an annual assessment to the JPA based on all recognized and potential liabilities. These assessments or contribution rates are calculated annually based on agency claims history and any increases in loss recovery due to excessive claims losses.

The Town maintains an active Workers' Compensation Risk Management Program. There are approximately twelve (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 the previous fiscal year. Claim costs and reserves are established for each claim; however, these amounts are not indicative of the actual claim paid.

The Workers' Compensation Fund tracks expenditures for related expenses across the various departments. Each department is charged an allocation of the expense based on the number and type of personnel within each department. Departmental costs are different not only due to the number of employees within the department but also the type of employee – public works, administrative, public safety, etc. directly related to the type of risk exposure. For the FY 2023/24 budget staff recommends adjusting the Workers' Compensation charge to the Police Department 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 allocation reductions.

The Town maintains an equity reserve designed to keep overall operational rates low. If the equity reserve is maintained, annual operational rates are subject to increase due to a "special assessment" imposed by the Cities Group JPA. 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 replenishment to maintain its reserve requirement. Currently, there are enough reserves in the Town's Worker's Compensation Fund for future allocations of two years for equity replenishment and approximately two and a half years of reserve claims. The FY 2023/24 expense is \$148,186 in the fund.

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## GENERAL LIABILITY FUND

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The General Liability Fund accounts for the insurance cost of general liability claims and property losses. The Town is part of an insurance pool administered by PLAN JPA. The activities within this Fund provide for expenses related to general liability insurance, employment practice insurance and self-insured retention claims. Total internal service charges from the General Fund for FY 2023/24 are estimated at \$536,295. The total FY 2023/24 projected expenditures for this fund are \$636,295. This includes the self-insurance retention expense of \$100,000 that allows the payout of four (4) claims at \$25,000 per claim. The Town does not anticipate expending retention expenses of 4 claims in the fiscal year, however, the amount is a requirement established by PLAN JPA. Average retention claims are about 1.5 per year.

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## EMPLOYEE BENEFITS FUND

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The Employee Benefits Fund tracks expenditures across various departments for employment, unemployment, retirement, and healthcare benefits. The Fund also represents an audit compliant set aside for compensated absences (time earned) – vacation, sick leave, holiday, compensatory time, etc.). Revenue to the fund comes through charges allocated back to each departmental budget

based on number and type of personnel within each department. Revenue to the Fund for FY 2023/24 is \$448,824. Expenditures for FY 2023/24 are \$388,301. The expenditures include the \$138,301 for OPEB actuarial determined contribution (ADC) and employee benefits earned expense \$235,000. The Town is no longer budgeting the “pay as you go” retiree health benefit contribution as an operation expense as the retiree benefits are now funded through the OPEB Trust.

Within this fund is also the employee benefits charge of \$239,994. This is a charge of 3% to 4% of the General Fund Operational Departments salary expense that is allocated for personal leave contributions of sick, vacation, and holiday pay. The Police Department allocation is 4% and all other departments 3%. The Town has a total compensated absences balance of \$966,718. Compensated absences comprise of accrued time-off, vacation, and holiday pay for all employees and are recorded as a liability. These are amounts that would be liquidated or mature due to the termination of Town staff. As noted, these funds are accounted for as part of the Town’s annual audit.

Included within this fund is also unemployment insurance charges if there are any future claims charges to the Town. Any claims would be paid out of this fund. The total budgeted charge is \$66,029. During the General Fund Operations presentation, staff recommended the Town make only the ADC amount of \$138,301 towards the OPEB Trust to satisfy the normal cost (cost of new service) and amortized unfunded liability (cost of past service). These costs are included and charged to the respective departments based on retiree health costs and allocated to the Employee Benefits Fund.

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## **TENNIS FUND**

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The Tennis Fund projected revenues are \$58,900. The majority of this revenue comes through the facility management services contract with Player Capital. This contract provides additional yearly revenue of \$40,000 to the Park. Keys are sold on an annual basis to any person (resident or non-resident) that wishes to use the Tennis courts. The standard key for residents is \$100 and includes clay court key, and the non-resident key increased is \$275 and clay court access of \$30/ hour.

Every year the Town tries to resurface and maintain the courts. The tennis court resurfacing treatment includes crack filling and taping, followed by a new surface coating and striping. This is done on approximately every 3-5 years on a cyclical basis on each of the five (5) non-clay tennis courts. The Tennis Fund had accumulated reserves over the years of approximately \$200,000 for comprehensive repairs. In FY 2021/22, the Town did an overlay of the three (3) rear courts at the facility. The current fiscal year budget included urgent needs rehabilitation of the remaining two tennis courts and clay court maintenance for completion of comprehensive repairs at the facility.

The FY 2023/24 budget includes the purchase of tennis keys by residents and non-residents providing annual revenue of approximately \$18,300. Each January, new tennis keys go on sale for the new court locks that get installed in February.

For FY 2023/24, the Town anticipates expenditures of \$57,500. This includes \$10,000 for contract maintenance services for MCE, general court maintenance and facility repairs needs of \$40,000 and \$5,000 for building security court gates upkeep.

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## **COPS - CITIZEN'S OPTION FOR PUBLIC SAFETY**

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The COPS Office was created as a result of the Violent Crime Control and Law Enforcement Act of 1994. As a component of the Department of Justice, the mission of the COPS Office is to advance community policing in jurisdictions of all sizes across the nation. Community policing focuses on crime and social disorder through the delivery of police services that includes aspects of traditional law enforcement, as well as prevention, problem-solving, community engagement, and partnerships. In FY 1996/97, the California State Legislature created the Citizen's Option for Public Safety (COPS) Program. Funds have been available through the State of California to local entities in the form of Citizen's Option for Public Safety (COPS) Grant. The Town in recent years has received approximately \$160,000 per year from the grant. Funds must be used for front-line law enforcement only. The Town anticipates receipt of this funding on an annual basis and funds are used for sworn personnel salary related expenditures.

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## **CAPITAL IMPROVEMENT FUND**

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The five-year CIP proposes projects to analyze, repair or improve Town infrastructure, and the funding for those projects. The ten (10) projects are categorized into three areas:

- Streets & Transportation
- Drainage
- Town Buildings, Park and Facilities

Projects have been developed based on needs identified by City Council, residents, staff, and adopted master plans.

The 1<sup>st</sup> year (FY 2023/24) of the CIP is incorporated into the Town's Budget and is the **only year** for which the City Council applies available funding. The remaining four (4) years of the CIP reflect proposed projects and funding. These "out years" are revised annually to reflect changes in City Council priorities, direction, needs and funding availability. The CIP is reviewed by the Town's Planning Commission each year for consistency with the Town's General Plan. This year's CIP will be reviewed by the Planning Commission at their May 24 meeting. The Commission will send their comments in writing to the City Council prior to the Council's June 21 meeting at which the Council is scheduled to adopt the budget, inclusive of the CIP.

### **ANALYSIS**

The 5-year CIP is presented to City Council tonight in the Study Session workshop format to allow for questions and discussion of individual projects, general discussion about broader objectives to

be considered for future proposed projects and priorities for allocating funds. In broad areas of the five largest CIP expenditures, this year's CIP recommends:

- \$1.9 million for the Traffic Safety Improvements Program;
- \$1.3 million for Bicycle & Pedestrian Program;
- \$1.6 million for the Road Maintenance Program;
- \$3 million for Drainage Improvements Program; and
- \$0.3 million for Park Improvements;

The total allocation for the 5-year period from FY 2023/24 through FY 2027/28 totals nearly \$35.7 million – the largest expenditures attributable to the Holbrook-Palmer Park Access and Circulation Project. FY 2023/24 includes allocation of the remaining balance of Special Parcel funds.

Following the workshop, staff will implement changes directed by Council and present the CIP to City Council for consideration at the June Council meeting.

## **POLICY FOCUS**

There are a number of issues inherent in the selection of proposed projects, project schedules and project funding. The Town has a number of Master Plans that identify a variety of projects to be completed. Based on critical need, recommendations from Town committees, and goals set by the City Council, staff has compiled the proposed CIP.

**As staff reviews the CIP with the Council at the Study Session, staff will articulate where some projects were shifted from the 5-Year Financial Outlook to address funding availability, project timing, and project design. Larger projects will often require that project design occur in the fiscal year *prior* to actual project construction.**

Clear priorities include: the Annual Road Maintenance Program, Traffic and Safety Improvements, Drainage Master Plan, the completion of identified projects within the Bike/Ped Master Plan and the Neighborhood Traffic Management Action Plan and Park Master Plan improvements. Funding for the CIP consists of a variety of sources, some of which are restricted, such as Measures A, Measure M and Measure W funds, as well as funds allocated from residual Special Parcel Tax, from Gas Taxes, and the General Fund.

The CIP includes a number of basic maintenance improvement projects that are routine in nature and occur year over year, as well as projects that are carried over from the previous fiscal year. However, the CIP also includes several projects that may require policy feedback from the City Council. Specific projects for which staff anticipates Council policy feedback are:

- Bicycle Pedestrian Master Plan Implementation Program – Page 15, #56059
  - This program includes \$1,150,000 towards the construction of the Selby Lane Bike Lanes Improvements Project, widening of Selby Lane to provide class II bike lanes from El Camino Real to Adelante-Selby Spanish Immersion School, which is

design started in the current Fiscal Year. Prior plans identified the desire to improve the El Camino Real intersection such as median modifications, and crossing improvements that could include a pedestrian HAWK beacon. Though the El Camino Real portion is not included at this time, the Town has been placed on a contingency project list for OBAG3 funds to implement the expanded project scope.

- The program includes the initial planning efforts related to the El Camino Real Complete Streets Gap Closure Project, predominantly funded through a grant from the San Mateo County Transportation Authority and will be initiated during the current fiscal year and extend through FY 2023/24.
- Staff is also proposing to implement pedestrian crossing improvements at the Stockbridge Avenue/Alameda de las Pulgas intersection, which includes crosswalk striping, Rectangular Rapid Flashing Beacons, and advance warning signs. Should the Council desire more substantial crossing improvements, such as a HAWK beacon, additional funding will be required. As the intersection is shared with the Unincorporated San Mateo County and borders the Town of Woodside, coordination with the neighboring jurisdictions will be required.
- Evaluation of potential pedestrian improvements along Watkins Avenue from Dinkelspiel Station Lane (Caltrain right-of-way) to El Camino Real is proposed in FY 2024/25.
- Drainage Improvements Program – Page 21, #56034
  - \$2,400,000 is proposed to augment funding for the assessment and relining of the Atherton Channel, upstream of Alameda de las Pulgas. Funding is proposed to be split between the Atherton Channel District (\$200,000) and the Capital Improvements Fund (\$2,200,000).
  - Grant funding for the Atherton Channel Culvert and Detention System project has been recommended by Congresswoman Anna Eshoo in the amount of \$2,250,000 through the Community Funding Project program. Should the funds be awarded, the Town will be required to provide matching funds in the amount of \$750,000, as well as funding for project management over the course of the project. As the project proposes detention facilities at Las Lomitas Elementary School, coordination with the school, their consultants and the State Architect's Office will be required. It is anticipated that a joint maintenance agreement will be required to outline long-term maintenance responsibilities for the facilities will be required.
  - Evaluation of long-term drainage improvements along El Camino Real to address persistent flooding issues is recommended for FY 2024/25 at \$250,000 with funding for potential implementation in the following fiscal year.
- Park Master Plan Implementation Program – Page 26, #56063
  - \$200,000 is proposed in FY 2023/24 to initiate design development of a new playground(s) at Holbrook-Palmer Park. The design effort is anticipated to include consultation with the Park and Recreation Committee as well as community engagement. Funding for construction is proposed in the amount of \$500,000 in FY 2024/25.
  - There have been significant conversations around Pickleball and other needs at Holbrook-Palmer Park. The Council should discuss various park improvement priorities that should be considered in the current and upcoming budget cycles.



## **FISCAL IMPACT**

There is no fiscal impact of the review and discussion of the CIP. Upon Council approval of the projects and funding for FY 2023/24, those approved projects will be incorporated into the Town's Budget and their approved amounts will be reflected in the Budget and in remaining fund balances.

## **PUBLIC NOTICE**

Public notification was achieved by posting the agenda, with this agenda item being listed, at least 72 hours prior to the meeting in print and electronically. Information about the project is also disseminated via the Town's electronic News Flash and Atherton Online. There are approximately 1,200 subscribers to the Town's electronic News Flash publications. Subscribers include residents as well as stakeholders – to include, but be not limited to, media outlets, school districts, Menlo Park Fire District, service providers (water, power, and sewer), and regional elected officials.

The Town maintains a Fiscal Transparency web portal and includes all budget information on its website. Links to these various areas are below:

Fiscal Transparency Web Page:

<http://www.ci.atherton.ca.us/index.aspx?NID=269>

Archive of Town Budgets:

<http://www.ci.atherton.ca.us/index.aspx?nid=273>

Financial Data Portal (OpenGov):

<http://www.ci.atherton.ca.us/index.aspx?nid=361>

Financial Audit Archive:

<http://www.ci.atherton.ca.us/Archive.aspx?AMID=39&Type=&ADID=>

Actuarial Valuations Archive:

<http://www.ci.atherton.ca.us/Archive.aspx?AMID=61&Type=&ADID=>

Labor Contracts, Agreements, and Salary/Benefit Information:

<http://www.ci.atherton.ca.us/index.aspx?nid=192>

## **ATTACHMENTS**

FY 2023/24 Internal Service, Library, Tennis Funds & Other Special Revenue  
FY 2023/24 Capital Improvement Program  
5-Year Fiscal Outlook Spreadsheet