



# **FINANCIAL COMMISSION MEETING- AMENDED 1-20-2023 AGENDA**

**6:00 PM - Monday, January 23, 2023**

***Telephone/Video Conference Only***

Please Note: Per California Executive Order N-29-20, the Finance Commission will meet via teleconference and video only. Members of the Public may join via video at <https://losaltosca.gov.zoom.us/j/81198917366?pwd=TC96a3Y3d2k0RlZ2VWZtUmxreXJKUT09or> or call (669) 444-9171 to participate in the conference call (Meeting ID: 811 9891 7366, Passcode 805568). Members of the Public may only comment during times allotted for public comments. Public testimony will be taken at the direction of the Chair and members of the public may only comment during times allotted for public comments. Members of the public are also encouraged to submit written testimony prior to the meeting at [financialcommissionmeeting@losaltosca.gov](mailto:financialcommissionmeeting@losaltosca.gov). **Emails received prior to the meeting will be included in the public record.**

## **ESTABLISH QUORUM**

## **PLEDGE OF ALLEGIANCE**

## **PUBLIC COMMENTS ON ITEMS NOT ON THE AGENDA**

Members of the audience may bring to the Commission's attention any item that is not on the agenda. Please complete a "Request to Speak" form and submit it to the Staff Liaison. Speakers are generally given two or three minutes, at the discretion of the Chair. Please be advised that, by law, the Commission is unable to discuss or take action on issues presented during the Public Comment Period. According to State Law (also known as "the Brown Act") items must first be noticed on the agenda before any discussion or action.

## **ITEMS FOR CONSIDERATION/ACTION**

- [1.](#) Draft Minutes: Approve Minutes for the Meeting held on Nov. 21, 2022
- [2.](#) Approve and adopt a resolution for Final Adjustments to FY22/23 Budget Appropriations
3. 2023 Finance Commission meeting schedules
4. FY24 City Budget process, presentation and level of detail
5. Finance Commission work plan discussion

## **INFORMATION ONLY**

- [6.](#) Memo: Sewer Rate Study Draft Q & A

## **COMMISSIONERS' REPORTS AND COMMENTS**

**POTENTIAL FUTURE AGENDA ITEMS**

7. Discussion with Finance Director on City's Financial Policy – TBD
8. Discussion with Finance Director on City's Investment Policy – TBD

**ADJOURNMENT****SPECIAL NOTICES TO PUBLIC**

In compliance with the Americans with Disabilities Act, the City of Los Altos will make reasonable arrangements to ensure accessibility to this meeting. If you need special assistance to participate in this meeting, please contact the City Clerk at least 48 hours prior to the meeting at (650) 947-2720.

Agendas, Staff Reports and some associated documents for Financial Commission items may be viewed on the Internet at <http://www.losaltosca.gov/meetings>.

If you wish to provide written materials, please provide the Commission Staff Liaison with **10 copies** of any document that you would like to submit to the Commissioners in order for it to become part of the public record.

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**MINUTES OF THE MEETING OF THE FINANCIAL COMMISSION OF THE CITY  
OF LOS ALTOS, HELD ON, MONDAY, November 21, 2022, AT 6:00 P.M.  
VIDEO/ TELECONFERENCE**

**ROLL CALL**

PRESENT: Chair Kalkat, Vice-Chair McClatchie, Commissioners Claras, Frey, Richmond, Kalbach, Whipple

ABSENT: None

**PLEDGE OF ALLEGIANCE****PUBLIC COMMENTS**

none

**ITEMS FOR CONSIDERATION/ACTION**

1. Approval of Minutes of the Meeting, October 17, 2022

Action: Upon comments with regard to the Cyber Security by Commissioner John that no commission got the charge for, a motion by Commissioner Arthur, second by Commissioner Gary, the Commission approved the minutes of the meeting of October 17, 2022, by the following vote: AYES: Chair Kalkat, Vice-Chair McClatchie, Commissioners, Claras, Frey, Kalbach, Richmond, Whipple. NOES: None, ABSTAIN: None; ABSENT: None.

2. Discussion Items

The Commissions discussed several topics including sewer rate study, quarterly investment report and FY23 work plan draft.

- NBS Sewer Rate Study: Jordan from NBS gave a presentation about sewer rate charge study. It includes 15% increase of sewer rate and Commissioners pointed out that the City won't have deficiency per the projection table provided by NBS and questioned why the City would need the rate increase. Allan found that the table did not reflect the rate-funded capital expenses correctly and Chair Kalkat requested the revised copy of the report. Finance Director suggested to have a special meeting if we have enough time but if not, route it by e-mail. Chair Kalkat suggested a subcommittee and Chair Kalkat and Commissioner Mark agreed to be a subcommittee to review the report more in detail and send it to rest of the financial commissioners via e-mail.
- Quarterly Investment Portfolio report: Finance Director presented the September 30, 2022 Quarterly Investment Report. Commissioners asked questions and FD responded. No recommended changes to Investment Policy at this time.

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- FY23 Work Plan Draft: The draft with highlights was shared with the Commissioner and there was a question by Chair Kalkat regarding the non-recurring item and Mayor Anita responded that the item most likely to get swept up in implementing the new housing element update and ask Finance Direct to check with City Manager whether the item should carry forward.

## COMMISSION AND STAFF REPORTS AND DIRECTIONS ON FUTURE AGENDA ITEMS

- Discussion about future in-person/hybrid finance committee meeting in 6 months.
- Commissioner Tony requested for staff to plan ahead for Finance Committee meeting dates for 2023 and share with the commissioner know for any adjustments.

## ADJOURNMENT

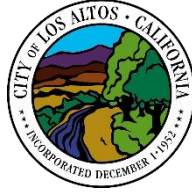
### SPECIAL NOTICES TO PUBLIC

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**AGENDA REPORT SUMMARY**

**Meeting Date:** February 14, 2023

**Subject** **Approve and adopt a resolution for Final Adjustments to FY22/23 Budget Appropriations**

**Prepared by:** June Du, Finance Director

**Approved by:** Gabriel Engeland, City Manager

**Attachment(s):**

- 1. Attachment 1- General Fund Summary, Revenues, Expenditures, and Transfers
- 2. Attachment 2- Other Funds Summary, Revenues, Expenditures, and Transfers
- 3. Resolution

**Initiated by:**

Staff

**Previous Council Consideration:**

June 1, 2021; June 14, 2022

**Fiscal Impact:**

Budget revisions detail

**Environmental Review:**

Not applicable

**Policy Question(s) for Council Consideration:**

- Does the City Council wish to approve the proposed adjustments to the FY22/23 Budget as presented?
- Does the City Council wish to adopt the recommendation of staff to complete reconciliation and corrections of the current fiscal year budget, including direct and indirect appropriations to the Enterprise funds for services received and correctly reflecting fund balances?

**Summary:**

City Manager

GE

**Reviewed By:**

City Attorney

JH

Finance Director

JD



**Subject: Approve and adopt a resolution for Final Adjustments to FY22/23 Budget Appropriations**

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On June 14, 2022, City Council approved the FY22-23 Mid-Term operating budget and FY22-26 capital improvement budget. Throughout the past six months, staff has actively monitored actual revenues and expenditures. This report provides an update to the City Council on the General Fund operating budget for the remainder of FY22-23 and outlines proposed budget adjustments to all City Funds.

**Staff Recommendation:**

Approved the recommended adjustments to the FY22/23 budget appropriations as presented.



**Subject: Approve and adopt a resolution for Final Adjustments to FY22/23 Budget Appropriations**

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**Discussion/Analysis**

At the December 2021 Council retreat, City staff notified the City Council of an in-year budget deficit of \$2M as well as known but unbudgeted expenditures of \$2.6M. The budget errors were in addition to underfunding of Workers' Compensation, Dental, General Liability, and Fleet and Equipment. The underfunding of these expenditures needed to be corrected by the close of the budget. Since this meeting staff has worked to provide the expected level of government service to residents, as well as implement Council goals and priorities, while also making the corrections to the operating budget.

At the direction of the Council, staff has restored funding in benefits, Workers' Compensation, General Liability, Fleet and Equipment Replacement, and increased the General Fund reserve to 20% (from 15.6%). In addition to restoring the above listed funds, staff has corrected nearly \$2.6M in actual expenditures that were unbudgeted. This was completed while reducing the operating deficit from \$2M to the current projected deficit of \$402,000.

Staff will continue to provide exceptional services to the public, and implement the Council goals, while eliminating the current projected in-year deficit of \$402,000 by June 30, 2023, bringing the final recommended changes to the City Council for approval.

**Subsequent events:**

On June 14, 2022, City Council adopted changes to the Mid-Term FY22/23 budget. Since this date, the City Council further approved \$340,000 in additional appropriations to the general fund and changed the grant reimbursement appropriation policy, which resulted in an additional \$40,000 in appropriated funds.

Please see the summary of changes below.

**Corrections:**

- American Rescue Plan Act (ARPA) revenue recognition: The City received ARPA funding in an amount total to \$7M in July of 2021 and August of 2022, in payments of approximately \$3.5M each. The current biennial budget included revenues of \$7M in ARPA funding; however, due to a substantial shortfall in funding from the FY20/21 budget, the initial ARPA payment of \$3.5M, received in July of 2021 the City cost to recognize those revenues in the previous fiscal year to complete the audit and close the books. Because of this action, the current biennial budget needs to have revenues reduced by a corresponding amount of approximately \$3.5M.



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- **Purchasing commitment budget carryover:** Per the City’s financial policy, “... *Operating expenditure appropriations not spent during the fiscal year lapse at year-end except for encumbrance or commitment, as in the form of finalized purchase orders, made during the fiscal year that has not been completed as year-end...*”, staff identified \$917,514 such purchase orders in General Fund, \$174,896 in Wastewater Fund and \$15,396 in Solid Waste Fund during the review, those purchase commitments were not included in the budget carryover during the June 14 budget review process.

**Enterprise Administrative Fee Study:**

On June 14, 2022, during the Mid-Term Budget review, staff presented the CPI and other corrections to the City’s Enterprise Fund administrative fees. Furthermore, the City hired the NBS to conduct the indirect cost allocation study in conjunction with the city’s direct cost allocation study. Per the results of these studies, the net changes are \$644,405 to the Wastewater Fund, and \$511,649 to the Solid Waste Fund, respectively.

Below is the summary of the General Fund summary before any departmental requests.

Table 1 General Fund Budget Summary (In Million) _Part 1					
	6/14 CC meeting budget (1)	CC subsequent Event (2)	Error Corrections (3)	Enterprise Admin Fee Study (4)	Revised GF Budget (5)=(1)+(2)+(3)+(4)
Budgeted Revenues	53.43	0.04	-3.60	0.85	50.72
Budgeted Expenditures	-48.26	-0.38	-0.96	0.31	-49.29
<b>Net</b>	<b>5.18</b>	<b>-0.34</b>	<b>-4.55</b>	<b>1.16</b>	<b>1.44</b>
Transfer In	0.23	0.00	0.00		0.23
Transfer Out	-2.88	0.00	0.00		-2.88
<b>Surplus/ (Shortfall)</b>	<b>2.53</b>	<b>-0.34</b>	<b>-4.55</b>	<b>1.16</b>	<b>-1.21</b>

**Departmental Budget Changes**

- **Community Development (\$287K in net revenues):**

For the past six months, the City has collected \$4.26M in community development fees, \$58.7K above the annual budget of \$4.2M. Staff is anticipating an additional \$ 1.05M by the end of the fiscal year. Meanwhile, the department is requesting an additional \$750,000 professional services





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fee and \$13,000 in another operating expenditure budget to provide the services to the permitting and staff developments. Overall, the department anticipates an additional \$287,000 in net revenue to the General Fund.

- **Police Department (\$155K in net expenditures):**

The police department is requesting an additional \$155,000 expenditure appropriation. The request includes \$65,000 in crossing guard services and \$ 90,000 to cover the utility costs.

The crossing guard services were discussed and approved by the City Council prior to the adoption of the current budget but were not included in error.

The \$90,000 in utility costs is an annual item but was not included in the current budget in error.

- **Engineering Department (\$92.4K net expenditures):**

The engineering division is requesting \$92,400 to hire Heydari consulting group to manage ongoing projects. The City is contracting services with Heydari in place of filling two open vacancies that would manage these projects.

- **Park and Recreation (\$11K in net revenues)**

- 1) The community center rental budget to actual is currently at 92%, \$68,455. The department is anticipating an additional \$75,000 in revenue by the end of the fiscal year.
- 2) The department will also expand facility hours for the community center and senior program; the part-time staff cost is approximately \$20,000, and the increasing senior membership and future rentals will cover it.
- 3) To re-certify the City of Los Altos as an age-friendly city, the department requests \$30,000 in funding for the program. No revenue is anticipated from this request.
- 4) Summer Concerts. Additional \$36,000 for the contract services. The requests include sound services and live band costs based on six concert schedules. Staff also anticipate \$7,000 in revenue through concert sponsorships.
- 5) 4<sup>th</sup> of July and Spring Family Fun Series. The division is requesting \$8,000 to cover the event supplies. A \$3,000 sponsorship for the events is anticipated.



**Subject: Approve and adopt a resolution for Final Adjustments to FY22/23 Budget Appropriations**

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- **City Administrative (\$91K in net expenditures)**
  - 1) The Finance Department has experienced critical personnel loss for the first part of the fiscal year. Due to the staffing issue, City hired Eide Bailly to assist with the FY22 Audit; the cost of the contract is \$35,000.
  - 2) In conjunction with Prop 218 Sewer Rate Study, City hired the NBS to conduct the citywide indirect cost allocation plan. The cost of the contract is \$15,000.
  - 3) To implement upcoming FY24 budget preparation, the Finance department contracted with OpenGov to provide zero-based budget planning software. The department is requesting \$25,000 from this budget appropriation.
  - 4) The City Clerk's office requests \$16,000 to cover the cost of KMVT contract for the remainder of the fiscal year.
  
- **Other Budget Adjustments (\$0.85M in net revenues/transfers )**
  - 1) Transient Occupancy Tax/ Hotel Tax. As of November 2022, the City has collected \$767K, 47.6% of the TOT tax. Staff anticipates an additional \$50,000 in tax revenue by the end of the fiscal year.
  - 2) To balance the General Fund budget, the staff proposes not to transfer the \$1M as planned to fund additional CalPERS unfunded accrued liability, which was a planned expenditure from the City's "Covid Stabilization Fund" approved by the City Council for the current fiscal year.
  - 3) Staff is estimating increases in the insurance claims by the end of FY23 and requesting \$200,000 appropriation to replenish the fund balance.



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Table 2 General Fund Budget Operating Requests				
Department	Descriptions	Expenditures	Revenues	Net
Community	Plan Check Fee		1,050,000	
Development	Professional Services for Plan Checks	750,000		
	Cost for Amend Municode	4,000		
	Staff training and development	3,000		
	Advertising/Office Supplies	6,000		
	<b>Subtotal</b>	<b>763,000</b>	<b>1,050,000</b>	<b>287,000</b>
Police Department	Crossing Guard Services	65,000		
	Utility Cost	90,000		
	<b>Subtotal</b>	<b>155,000</b>	<b>-</b>	<b>(155,000)</b>
Engineering	Project Manager-Heydari Consulting	92,400		
	<b>Subtotal</b>	<b>92,400</b>	<b>-</b>	<b>(92,400)</b>
Park and Recreation	Community Center Rental		75,000	
	Expanding Facility Hours	20,000	20,000	
	Funding to re-Certify the City as an Age-Friendly City	30,000		
	Summer Concerts	36,000	7,000	
	July 4th and Spring Family Fun Events	8,000	3,000	
	<b>Subtotal</b>	<b>94,000</b>	<b>105,000</b>	<b>11,000</b>
City Administration	FY22 Audit Services- Eide Bailly	35,000		
	Indirect Cost Allocation Study_ NBS	15,000		
	FY24 Zero-Based Budget Software- OpenGov	25,000		
	KMVT	16,000		
	<b>Subtotal</b>	<b>91,000</b>	<b>-</b>	<b>(91,000)</b>



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Other Budget	Increase TOT Tax revenue projection		50,000	
	Transfer to Liability Fund	200,000		
Adjustments	Reduce the transfer to CALPERS UAL	(1,000,000)		
	Subtotal	(800,000)	50,000	850,000
<b>Surplus/ (Shortfall)</b>				<b>809,600</b>

**Conclusion**

\$402K will be reduced from the City’s General Fund balance. The proposed budget changes are summarized in the tables below. Staff will continue to review the financial records and will bring forward the changes if it is needed on a case-by-case basis. At this time, staff recommends that the City Council approve the final cleanup changes requested to the FY22-23 budget as presented in this report.

<b>Table 1 General Fund Budget Summary (In Million) _Part One</b>					
	6/14 CC meeting budget (1)	CC subsequent Event (2)	Error Corrections (3)	Enterprise Admin Fee Study (4)	Revised GF Budget (5)=(1)+(2)+(3)+(4)
Budgeted Revenues	53.43	0.04	-3.60	0.85	50.72
Budgeted Expenditures	-48.26	-0.38	-0.96	0.31	-49.29
<b>Net</b>	<b>5.18</b>	<b>-0.34</b>	<b>-4.55</b>	<b>1.16</b>	<b>1.44</b>
Transfer In	0.23				0.23
Transfer Out	-2.88				-2.88
<b>Surplus/ (Shortfall)</b>	<b>2.53</b>	<b>-0.34</b>	<b>-4.55</b>	<b>1.16</b>	<b>-1.21</b>

<b>Table 1 General Fund Budget Summary (In Million)- Part Two</b>			
	Revised GF Budget (5)=(1)+(2)+(3)+(4)	Operating Request (6)	Final Revised Budget (7)=(5)+(6)
Budgeted Revenues	50.72	1.21	51.93
Budgeted Expenditures	-49.29	-1.20	-50.48
<b>Net</b>	<b>1.44</b>	<b>0.01</b>	<b>1.45</b>
Transfer In	0.23	0.00	0.23
Transfer Out	-2.88	0.80	-2.08
<b>Surplus/ (Shortfall)</b>	<b>-1.21</b>	<b>0.81</b>	<b>-0.40</b>

**General Fund Revenue Summary**

Revenues	FY 22 Actual	FY 23 Revised Budget 6/14/22	FY 23 Corrected Budget	FY 23 Revised Budget	Mid Year Budget Change
Business License Tax	612,218	520,000	520,000	520,000	-
Community Development	4,685,269	4,202,300	4,202,300	5,252,300	1,050,000
Documentary Transfer Tax	996,702	600,000	600,000	600,000	-
Franchise Fees	2,339,195	2,340,225	2,340,225	2,340,225	-
Motor Vehicle Tax	35,247	-	-	-	-
Property Tax	30,086,155	32,000,000	32,000,000	32,000,000	-
Sales Tax	3,738,113	3,500,000	3,500,000	3,500,000	-
Transient Occupancy Tax	1,778,966	1,610,000	1,610,000	1,660,000	50,000
Utility Users Tax	3,093,784	2,811,385	2,811,385	2,811,385	-
Admin Fees-Enterprise	-	-	-	849,118	849,118
Construction Tax	121,242	110,000	110,000	110,000	-
Interest Income	(923,056)	382,300	382,300	382,300	-
Miscellaneous Revenue	48,198	99,000	99,000	99,000	-
One Time Revenue	3,598,964	3,598,964	-	-	(3,598,964)
Police Fees	232,740	283,200	283,200	283,200	-
Recreation	1,133,955	1,352,000	1,352,000	1,457,000	105,000
Rental Income	77,085	24,000	24,000	24,000	-
Grants	10,630	-	-	-	-
Other Revenue	187,431	-	40,000	40,000	40,000
<b>Grand Total</b>	<b>51,852,836</b>	<b>53,433,374</b>	<b>49,874,410</b>	<b>51,928,528</b>	<b>(1,504,846)</b>

**General Fund Expenses Summary**

Expenditure	FY 22 Actual	FY 23 Revised Budget 6/14/22	FY 23 Corrected Budget	FY 23 Revised Budget	Mid Year Budget Change
Executive	7,419,026	6,617,469	6,803,081	6,819,081	201,612
Legislative	451,763	394,875	443,875	443,875	49,000
Finance	953,424	1,707,699	1,707,699	1,782,699	75,000
Non Departmental	(1,305,862)	(898,165)	(648,165)	559,000	1,457,165
Community Dev	3,727,035	4,218,019	4,748,580	5,382,456	1,164,437
Engineering	3,363,203	4,097,312	4,187,678	3,555,828	(541,484)
Maintenance	5,664,787	6,296,811	6,475,967	5,855,546	(441,265)
Public Safety	21,067,055	23,039,670	23,043,009	23,194,203	154,533
Recreation	2,540,415	2,784,446	2,793,926	2,887,926	103,480
City Wide Salary Savings	-	-	-	-	-
<b>Grand Total</b>	<b>43,880,845</b>	<b>48,258,136</b>	<b>49,555,650</b>	<b>50,480,614</b>	<b>2,222,478</b>

**Details of Transfers**

**Transfers Out**

Transfers Out	FY 22 Actual	FY 23 Revised Budget 6/14/22	FY 23 Corrected Budget	FY 23 Revised Budget	Mid Year Budget Change
Transfer to Debt Service - COP 2004	-	-	-	-	-
Transfer to Debt Service - Community Center	-	-	-	-	-
Transfer to ARPA Fund	-	-	-	-	-
Transfer to CIP Fund	3,074,033	103,068	103,068	103,068	-
Transfer to Raymundo Debt Service	13	-	-	-	-
Transfer to CAPERS UAL	6,500,000	1,000,000	1,000,000	-	(1,000,000)
Transfer to OPEB	-	-	-	-	-
Transfer to Technology Fund	1,458,582	-	-	-	-
Transfer to Dental Fund	100,000	20,000	20,000	20,000	-
Transfer to Workers Compensation Fund	126,000	857,000	857,000	857,000	-
Transfer to General Liability Fund	158,000	600,000	600,000	800,000	200,000
Transfer to Traffic Congestion Fund	3,013	-	-	-	-
Transfer to Real Prop Fund	23,652	-	-	-	-
Transfer to Equipment Replacement fund	900,000	300,000	300,000	300,000	-
Transfer to Storm Drain Fund	23,939	-	-	-	-
<b>Totals</b>	<b>12,367,232</b>	<b>2,880,068</b>	<b>2,880,068</b>	<b>2,080,068</b>	<b>(800,000)</b>

**Transfers In**

Transfers IN	FY 22 Actual	FY 23 Revised Budget 6/14/22	FY 23 Corrected Budget	FY 23 Revised Budget	Mid Year Budget Change
Transfer from Downtown Parking Fund	40,000	40,000	40,000	40,000	-
Transfer from Supplemental Law enforcement Fund	100,000	100,000	100,000	100,000	-
Transfer from Vehicle Impound Fund	20,000	20,000	20,000	20,000	-
Transfer from CIP Fund	-	-	-	-	-
Transfer from PEG Fund	70,000	70,000	70,000	70,000	-
<b>Totals</b>	<b>230,000</b>	<b>230,000</b>	<b>230,000</b>	<b>230,000</b>	<b>-</b>

FUND	FY23 Adopted					FY23 Mid-Year Changes				Revised Estimated Ending Balance 6/30/2023
	Unaudited Beginning Balance 7/1/2022	Revenue	Expenditures	Capital Expenditures	Transfer In/(Out)	Ending Balance 6/30/2023 @ 6/14/2022 Meeting	Revenue	Expenditures	Transfer In/(Out)	
<b>RESERVE FUND</b>										
PERS & OPEB Reserve	292,614	-	(1,058,700)	-	1,058,700	292,614	-	-	(1,000,000)	(707,386)
Technology Reserve	1,278,768	-	-	(700,000)	-	578,768	-	-	-	578,768
<b>Total General Fund:</b>	<b>1,571,381</b>	<b>-</b>	<b>(1,058,700)</b>	<b>(700,000)</b>	<b>1,058,700</b>	<b>871,381</b>	<b>-</b>	<b>-</b>	<b>(1,000,000)</b>	<b>(128,619)</b>
<b>ENTERPRISE FUNDS</b>										
Sewer Fund	25,511,666	8,570,000	(6,638,182)	(4,256,000)	(201,000)	22,986,484	-	644,405	-	23,630,889
Solid Waste Fund	5,360,985	914,828	(1,174,599)	-	(57,700)	5,043,514	-	511,649	-	5,555,163
Storm Drain Fund	-	-	-	-	-	-	-	-	-	-
<b>Total Enterprise Funds:</b>	<b>30,872,650</b>	<b>9,484,828</b>	<b>(7,812,781)</b>	<b>(4,256,000)</b>	<b>(258,700)</b>	<b>28,029,997</b>	<b>-</b>	<b>1,156,054</b>	<b>-</b>	<b>29,186,051</b>
<b>CAPITAL IMPROVEMENT FUNDS</b>										
Grant Reimbursement Fund	290,145	35,000	-	-	-	325,145	-	-	-	325,145
Capital Projects Fund	11,850,959	-	-	-	-	11,850,959	-	-	-	11,850,959
Equipment Replacement Fund	683,947	-	-	(376,500)	300,000	607,447	-	-	-	607,447
<b>Total Capital Improvement Funds:</b>	<b>12,825,052</b>	<b>35,000</b>	<b>-</b>	<b>(376,500)</b>	<b>300,000</b>	<b>12,783,552</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,783,552</b>
<b>INTERNAL SERVICE FUNDS</b>										
Dental/Vision Fund	5,253	277,695	(297,695)	-	20,000	5,253	-	-	-	5,253
Unemployment Fund	96,698	-	(15,000)	-	-	81,698	-	-	-	81,698
Workers Compensation Fund	1,256,027	-	(809,582)	-	857,000	1,303,445	-	-	-	1,303,445
Liability Fund	(27,721)	809,582	(1,200,000)	-	800,000	381,861	-	-	200,000	581,861
<b>Total Internal Service Funds:</b>	<b>1,330,258</b>	<b>1,087,277</b>	<b>(2,322,277)</b>	<b>-</b>	<b>1,677,000</b>	<b>1,772,258</b>	<b>-</b>	<b>-</b>	<b>200,000</b>	<b>1,972,258</b>
<b>SPECIAL REVENUE FUNDS</b>										
Road Maintenance (SB1)	347,841	615,000	-	(500,000)	-	462,841	-	-	-	462,841
CDBG Fund	-	-	-	-	-	-	-	-	-	-
Grants Fund-ARP Act	-	-	-	-	-	-	-	-	-	-
Downtown Parking Fund	931,916	40,000	-	-	(40,000)	931,916	-	-	-	931,916
Estate Donation Fund	18,191	-	-	-	-	18,191	-	-	-	18,191
Gas Tax Fund	1,899,176	840,057	-	(800,000)	-	1,939,233	-	-	-	1,939,233
Prop 1B Road Maintenance	130	-	-	-	-	130	-	-	-	130
Measure B	436,933	550,000	-	(550,000)	-	436,933	-	-	-	436,933
In Lieu Park Fund	8,671,789	927,200	-	(1,715,000)	(793,965)	7,090,024	-	-	-	7,090,024
Supplemental Law Enforcement Fund	207,292	100,000	-	-	(100,000)	207,292	-	-	-	207,292
TDA Fund	88,358	50,000	-	(50,000)	-	88,358	-	-	-	88,358
Traffic Impact Fee Fund	(218,523)	812,055	-	(450,000)	-	143,532	-	-	-	143,532
Vehicle Registration Fund	1,192,389	195,000	-	-	-	1,387,389	-	-	-	1,387,389
PEG Fees	251,951	100,000	-	-	(70,000)	281,951	-	-	-	281,951
Public Art Fund	498,290	-	-	(130,000)	-	368,290	-	-	-	368,290
Storm Drain Deposits	56,086	-	-	-	-	56,086	-	-	-	56,086
Vehicle Impound Fund	-	20,000	-	-	(20,000)	-	-	-	-	-
<b>Total Special Revenue Funds:</b>	<b>14,381,820</b>	<b>4,249,312</b>	<b>-</b>	<b>(4,195,000)</b>	<b>(1,023,965)</b>	<b>13,412,167</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13,412,167</b>
<b>DEBT SERVICE FUND</b>										
General Obligation Bond	370,388	-	(171,875)	-	171,875	370,388	-	-	-	370,388
Community Center Lease	0	-	(622,089)	-	622,089	0	-	-	-	0
<b>Total Debt Service Fund:</b>	<b>370,389</b>	<b>-</b>	<b>(793,964)</b>	<b>-</b>	<b>793,964</b>	<b>370,389</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>370,389</b>
<b>AGENCY FUND</b>										
Blue Oaks Line Sewer	84,676	48,000	(41,185)	-	-	91,491	-	-	-	91,491
<b>Total Debt Service Fund:</b>	<b>84,676</b>	<b>48,000</b>	<b>(41,185)</b>	<b>-</b>	<b>-</b>	<b>91,491</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>91,491</b>
<b>ALL OTHER FUNDS TOTAL</b>	<b>61,436,226</b>	<b>14,904,417</b>	<b>(12,028,907)</b>	<b>(9,527,500)</b>	<b>2,546,999</b>	<b>57,331,235</b>	<b>-</b>	<b>1,156,054</b>	<b>(800,000)</b>	<b>57,687,289</b>





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**M E M O R A N D U M**

**DATE:** December 20, 2022  
**TO:** Financial Commission  
**FROM:** NBS and June Du, Finance Director  
**SUBJECT:** SEWER RATE STUDY

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NBS attended the Finance Commission meeting on November 21, 2022, to inform the committee on the draft sewer rate results. As a result of this meeting, several questions were asked from the Financial Commission and a subcommittee was formed to review a second time. Questions from the Commission included the following:

1) The operating fund target is 180 days of O&M costs. Although you included a slide showing that having a reserve is consistent with policy, why is the amount so high?

*Answer: The industry standard for O&M reserves is 90-180 days of O&M costs. The City currently uses 180-days as target policy. Since the City receives the tax revenues in two payments, 180 days is recommended for cash flow purposes. It is also a governmental accounting principle that the enterprise fund has to stand on its own.*

2) The O&M reserve is 50% of operating costs whereas the overall Los Altos budget only uses a 20% guideline. Further can you please confirm that the total Los Altos accounting process does not include the sewer costs? Otherwise, we would be creating two levels of reserves.

*Answer: \*NBS defers to June Du for this question Reserves are set on the basis that the Sewer Enterprise Fund will be self-sufficient and not depend on General Fund assistance.*

3) The capital reserve fund target is 12 months of average capital expenditures. This also seems excessively conservative.

*Answer: Using the annual average capital expenditures over the rate study period is a common industry practice that is consistent with the last rate study. Using the 5-year annual average would result in a \$3.9M annual capital reserve target. However, we are using the FY 23/24 capital expenditures estimate of \$3.08M for our targeted reserve level. Given future higher expected expenditures and bids from Palo Alto that are coming in higher than originally planned, it is better to have reserves available for any variance in costs.*

4) The current revenue forecast at prevailing rates shows no actual change in sewer usage. This seems inconsistent with the city's residential building targets. It also seems to contradict the level of sewer capital expenditures. Do any of these capital projects increase capacity?

*Answer: We are using a conservative approach of assuming no growth in the City for rates. This protects the City from potentially under collecting revenues should no growth happen. NBS looked at the growth since 2017 as a reference point. The data shows a cumulative growth total of about 0.32% from 2017.*

5) Could you please show us how the minimum reserve targets are calculated (showing the specific calculations).

Answer:

- *Operating reserve: Budget of \$6.4M in FY22/23 divided by 2 and rounded to the nearest 100<sup>th</sup>.*
- *Capital Reserve: Annual CIP budget of \$3.084M in FY22/23 and inflated by CPI (~3%) annually.*

6) Regarding the large capital and operating reserves, the consultants said it is up to the city to decide the level of operating and capital reserves for this fund. It seems we may be double counting operating funds reserves for sewer in the general fund if we don't have totally dedicated staffing and facilities for it; and highly unlikely that the city would deny the sewer fund capital improvement monies if and when needed. In general, we think increasing rates to raise reserves may not be necessary. Since it is discretionary, we suggest you look at it and set the right level.

*Answer: Reserves are set on the basis that the Sewer Enterprise Fund will be self-sufficient and not depend on General Fund assistance. The City set the operating reserve at 180 days and the Capital Reserve at one year of expenditures because of cash flow concerns. The City receives the sewer tax revenue twice a year, one in late January and another one in late August (accrues back to June to make one fiscal year). Meanwhile, the City does not control the progress of the majority of sewer CIP projects; the City of Palo Alto does. Due to the above two factors, the City will need to have the O&M reserve for six months and CIP reserve for twelve months to make sure the cash flow won't run short.*

7) Why does receiving sewer revenue bi-annually mean we need to reserve costs in advance? Los Altos receives property tax asymmetrically but doesn't reserve capital. Plus, the City is already reserving 20% of costs through the city's operations reserve.

*Answer: The CIP projects and payment dates are largely outside of the control of the City. Should a bill be received prior to the collection of funds the Sewer fund may not be able to make the payment for the project. It's primarily a cashflow issue. The 20% GF reserve will not be used for enterprise funds. In this scenario, the saying "property taxpayers don't subsidize rate payers" is appropriate. Reserves are set on the basis that the Sewer Enterprise Fund will be self-sufficient and not depend on General Fund assistance.*