

CITY COUNCIL SPECIAL MEETING AGENDA

Monday, January 30, 2012, at 5:30 p.m.
701 Laurel Street, Menlo Park, CA 94025
City Council Chambers

ROLL CALL

A. SPECIAL SESSION

- A1. Provide general direction on preferred approaches for addressing the loss of RDA funding for the next fiscal year in preparation for the 2012-13 operations and capital budgets ([Staff Report #12-016](#))
- A2. Approve a transition plan and tentative budget for elimination of the Housing Division ([Staff Report #12-017](#))

ADJOURNMENT

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ADMINISTRATIVE SERVICES DEPARTMENT

Council Study Session Date: January 30, 2012
Staff Report #: 12-016

Agenda Item #A1

STUDY SESSION: Provide General Direction on Preferred Approaches for Addressing the Loss of Redevelopment Area (RDA) Funding for the Next Fiscal Year in Preparation for the 2012-13 Operations and Capital Budgets

RECOMMENDATION

Staff recommends Council provide general direction on preferred approaches for addressing the loss of RDA funding for the next fiscal year in preparation for the 2012-13 operations and capital budgets.

BACKGROUND

At the January 24, 2012 Council meeting, staff presented an overview of the impacts of the dissolution of Redevelopment Agencies on the City of Menlo Park's ability to maintain services at the current levels (see Staff Report #12-015 Attachment F).

At the Study Session scheduled for January 30th, staff will be asking Council to provide general direction on the preferred approaches for addressing the loss of RDA funding for the next fiscal year in preparation for the 2012-13 operations and capital budgets. The goal of the session is for Council to provide staff with feedback on categories of strategies that are acceptable to pursue, unacceptable to utilize for developing the budget, or that require more information and discussion before a decision can be made.

ANALYSIS

General categories of options and their various pros and cons described in this report include:

1. Continued shift of some activities to other, non-general fund sources until depleted
2. Service cuts
3. Tax increases such as Transient Occupancy Tax (TOT) or Utility Users Tax (UUT)
4. Use of new revenues from the pending development agreement with Facebook

5. Use of reserves
6. Decrease in the CIP transfer

Following this general direction from Council, it is anticipated that specific recommendations for returning to sustainability will be made during the upcoming 2012-13 budget process, which will also be challenged by past staff reductions, extended staff vacancies, increased operating costs, deferred capital improvements and opportunities Council may wish to pursue such as acquisition of Flood Park.

Sustainable Budget Approaches

1. Shift of some activities to other funds (including Prop 218 and creation of special assessment districts):

There are multiple funding sources in the City outside of the General Fund. These funding sources are typically earmarked for specific purposes such as Measure A, which is dedicated to funding transportation related activities and improvements. These funding sources have been utilized for their intended purpose and have helped the City fulfill the objectives of the funding sources and reduce the burden on the General Fund. Many of the funding sources are at a sustainable level with revenues matching expenditures, such as the sidewalk assessment for repair of sidewalks damaged by City street trees. Some of the funds have a healthy balance from previous larger-than-expected revenue and/or the revenue exceeded expenditures, such as the Highway Users Tax (Gas Tax), which can be used for street repair activities. However, there are several other sources, which have an ongoing imbalance, and the use of those funding sources will need to be reduced or shifted. This scenario is the case for the Storm Water Management Fund, which receives funding through a regulatory fee on properties. The regulatory fee was set prior to Proposition 218 and cannot be increased without a vote. However, storm water activities and required funding have increased based on state requirements, thus some of the required activities funded through the storm water fund will need to be shifted to the General Fund. For example, participation in the San Francisquito Creek Joint Powers Authority (SFCJPA), funded by redevelopment funds (\$38,000) and the Storm Water Fund (\$60,000) will need to be funded from the General Fund in 2012-13.

2. Service Cuts:

During the recent economic downturn, Council has selected budget strategies minimizing the impacts to priority services. If revenue options are not selected, service (personnel) cuts remain one of the few remaining approaches to achieve sustainability. Choosing this approach means that Council will need to determine which categories of services or specific services should no longer be provided by the City. As personnel costs are the largest expense for most City services, this approach reduces FTE's and the related benefit and retirement costs. Savings are offset by the amount of program revenues generated and, of course, but impacts recipients of and participants in those programs / services.

A tool that may be useful in considering service cuts is information related to the amount of General Fund subsidy or level of cost recovery of individual programs. Attachment B illustrates the net tax subsidy level for the City's General Fund programs. Staff has provided a comprehensive list of service reduction options for Council's consideration as Attachment C.

3. Tax increases:

Attachments D and E provide useful information regarding the Utility Users Tax and Transient Occupancy Tax. Increases in these two tax revenues are shown as options for addressing the loss of RDA funding in Attachment C.

4. New revenues from Facebook and other business development opportunities:

The City is currently processing the review of the Facebook Campus Project. The recently released Draft Environmental Impact Report (EIR) studies both the East Campus and the West Campus, but Facebook has only applied for land use entitlements for the East Campus, which is the site of the former Oracle/Sun Microsystems campus. The land use entitlements for the East Campus include a revision to the Conditional Development Permit and a Development Agreement. A Development Agreement is a contract between the City and a project sponsor that delineates terms and conditions of a proposed development project. A Development Agreement allows a project sponsor to secure vested rights, and it allows the City to secure certain benefits. One of the benefits that has been mentioned to date is a source of ongoing revenue comparable to a fee in lieu of sales tax. Over the years, the City has received income from sales and use taxes generated from business-to-business sales. The former Oracle/Sun Microsystems campus in particular was one of the City's top sales tax revenue producers. Any potential revenue from the Facebook East Campus Development Agreement would need to be negotiated. Based on the Council-established schedule for the review of the project, the negotiations are scheduled to begin after the Council establishes parameters at the February 14, 2012 Council meeting. The goal is to return to the Council with a term sheet on April 17, 2012. At that point in time, the Council would have a better understanding of the potential amount of such a revenue source. If the project stays on the Council-established schedule, then the Development Agreement could be approved as early as June 2012 with an effective date of July 2012. The timing of any revenue payments would also be subject to the Development Agreement negotiations.

5. Decrease in the Capital Improvement Plan transfer:

Currently, the General Fund transfers \$2.3 million annually to the CIP fund for CIP projects throughout the City. The transfer was calculated based on sustaining the existing infrastructure within the City at the level when the transfer was first established in 2004. The transfer needs to be increased by inflation to

continue to maintain the current infrastructure. A decrease in the transfer from the General Fund would allow more funding in the General Fund, but would leave infrastructure with unsustainable funding. This scenario is exacerbated by the loss of redevelopment funds and would leave capital projects unfunded, creating a backlog of infrastructure projects. Maintaining infrastructure throughout its life, especially early in the life cycle, is much more economical than waiting until there are more major issues to address. For example, the regular maintenance of the roadway system utilizing crack sealing, slurry sealing and overlays earlier in the life of a road is less expensive than waiting until the roadway completely deteriorates and rebuilding the roadway.

The transfer to the CIP fund from the General Fund can be lowered for a short period of time due to the current balance in the CIP fund, but this is not sustainable and may require future transfers to be increased. However, as mentioned above, the utilization of the Highway Users Tax (HUT) to further fund street resurfacing allows that overall street resurfacing program to remain in place and reduces the funding from the CIP fund. This shift in funds would allow the transfer to the CIP fund from the General Fund to be reduced. This shift isn't sustainable in the long term, but could likely be sustained for the next several years.

6. Use of reserves:

The General Fund currently has a fund balance of \$18.2 million. The General Fund Reserve Policy requires that 43% to 55% of the budget be in reserve, and the existing fund balance currently meets that requirement (48%). The City Council has been explicit regarding the need for a balanced budget so our recommendations endeavor to maintain a balance between revenues and expenditures. Some use of reserves may be needed while solutions and alternatives are prepared and authorized to achieve the desired service levels for the community in order to transition from the funding previously provided by the Redevelopment Agency.

7. Alternative Service Delivery:

In addition to the general options described above, Council has also asked staff to investigate shared services and other alternative services options in order to address the loss of RDA funding. Attachment C summarizes alternative service approaches staff will evaluate in preparation for Council's review of the 2012-13 budget, including; shared services with the Boys and Girls Club to replace services currently provided through the Belle Haven After School / Summer Camp program; and shared services for Information Technology with the Fire District and contracting out Median Maintenance.

a. Vehicle Maintenance

The City has been in preliminary discussions with two local Districts to provide vehicle maintenance at the City's Corporation Yard. The discussions

are very early in their development, but both agencies are interested in the City providing this service. Further analysis is required to determine specifics such as required staffing levels to maintain current City vehicle service levels. This service could possibly generate a net revenue increase in the vehicle maintenance fund of \$20,000-\$50,000 annually.

b. Contract for Median Maintenance:

During the 2011-12 budget process last year the City Council asked staff to compare contractor's costs versus City costs of providing right-of-way/median maintenance. Staff was going to begin the process of developing a Request for Proposal (RFP) when the closing of Flood Park by San Mateo County became an immediate issue. Staff placed the RFP on hold to work on the Flood Park project due to the short time frame (San Mateo County had indicated that they would only fund operation of Flood Park until June 2012). On January 24, 2012 the City Council gave staff direction on negotiating an agreement with San Mateo County which will extend the time frame that Flood Park would remain open until June 2013. Since Flood Park is not as pressing an issue related to maintenance of the park, staff will begin the process of developing a RFP for right-of-way/median maintenance for Council consideration. Staff is tentatively looking to bring a staff report to the City Council by June 2012 which will compare contractors' cost versus City costs of providing right-of-way/median maintenance.

This report only discusses the estimated impact to the General Fund for the fiscal year 2012-13 budget. Other impacts that may result in increased pressure on the General Fund will be presented later in the budget process. This report also does not include detailed information about impacts of the loss of RDA funding to the City's Capital Improvement Plan, which will be presented in more detail on March 13, 2012 following consideration and comments from the City's seven Commissions and Committees.

RECOMMENDATION

Staff recommendations for addressing the estimated net impact of the loss of RDA funding are included as a part of Attachment C. Essentially, staff feels that the use of one-time revenues, an increase in the TOT, and departmental service realignments for the coming fiscal year can provide the time and revenues needed to develop and implement more sustainable strategies in the long term.

IMPACT ON CITY RESOURCES

Attachment A illustrates the impact to the General Fund of the loss of the City's Redevelopment Agency. Attachment C summarizes the possible alternatives that staff feels are available to mitigate these impacts.

POLICY ANALYSIS

The options prepared by staff are consistent with sustainable budget practices and Council policy.

ENVIRONMENTAL REVIEW

Environmental Review is not required for this action.



Carol Augustine
Finance Director



Starla Jerome-Robinson
Interim City Manager

PUBLIC NOTICE

Public Notification was achieved by posting the agenda, with this agenda item being listed, at least 72 hours prior to the meeting.

ATTACHMENTS:

- A – Impact of RDA Dissolution – General Fund 2012-13
- B – Costs of General Fund programs funded from taxes
- C – Options for Council Consideration
- D – UUT Information Sheet
- E – TOT Information Sheet
- F – Staff report 12-015

**Additional Activities for General Fund
2012-13 Budget Inclusion**

| | Non-housing 2012-13 Budget | Housing 2012-13 Budget | Total | |
|--|----------------------------------|------------------------------|------------------|----------------------------------|
| 5502 - Landscaping Services | 0 | | 0 | |
| 5519 - Other Services | 71,272 | | 71,272 | |
| 5519 - Other Services (SFCJPA) | 100,000 | | 100,000 | \$40k from RDA, \$60k from NPDES |
| 5521 - Accounting & Auditing | 4,275 | 2,000 | 6,275 | Audit fees reduced |
| 5531 - Legal | 15,000 | 3,000 | 18,000 | Legal fees reduced |
| 550 - Services | 190,547 | 5,000 | 195,547 | |
| 510 - Salaries And Wages | 889,810 | | 889,810 | |
| 520 - Fringe Benefits | 301,496 | | 301,496 | |
| Personnel | 1,191,307 | 0 | 1,191,307 | |
| 5301 - Printing | 0 | | 0 | Paid by Measure A |
| 5302 - Legal Notices | 200 | | 200 | |
| 5303 - Advertising | 200 | | 200 | |
| 5304 - Postage | 0 | | 0 | Paid by Measure A |
| 5311 - Department Supplies | 1,500 | | 1,500 | |
| 5316 - Police Safety Supplies | 250 | | 250 | |
| 5321 - Memberships | | | 0 | |
| 5322 - Employee Training | | | 0 | |
| 5331 - Rent and Leases | 11,400 | | 11,400 | HEART |
| 5343 - General Liability Internal Service | 39,106 | | 39,106 | |
| 5354 - Books | | | 0 | |
| 5355 - Periodicals | | | 0 | |
| 5356 - Software | | | 0 | |
| 5381 - Tax Collection Admin Fees | | | 0 | |
| 5382 - Special District Taxes | 100 | | 100 | |
| 5391 - Miscellaneous | 1,700 | 11,700 | 13,400 | |
| 5395 - Shuttle Bus Payments | | | | Paid by Measure A |
| 530 - Operating Expense | 54,456 | 11,700 | 66,156 | |
| 5411 - Gas and Electric | 1,500 | | 1,500 | |
| 5441 - Telephone & Alarms | 1,800 | | 1,800 | |
| 540 - Utilities | 3,300 | | 3,300 | |
| 560 - Fixed Assets & Capital Outlay | | | 0 | |
| 570 - Travel | 600 | | 600 | |
| 590 - Rehab Loans | | | 0 | |
| Transfer to General Fund - Overhead | | | 0 | |
| Total Expenditures | 1,440,210 | 16,700 | 1,456,910 | |
| - Add'l property taxes from redevelopment | | | 150,000 | |
| - Administration fee as Successor Agency | | | 250,000 | |
| + Overhead Transfer, Rent to GF eliminated | | | 332,000 | |
| Total Impact to General Fund | | | 1,388,910 | |
| Recommendations: Increase Hotel Tax (TOT) | | | 280,000 | If approved and effective 1/1/13 |
| Partially Fund CIP transfer w/ Gas Tax | | | 250,000 | Recommended |
| Remaining Gap for 2012-13 | | | 858,910 | |

General Fund

Program Revenues and Expenditures/ All Programs

Fiscal Year 2011-12 (Budget)

| | 2011-12 Revenues* | 2011-12 Expenditures | 2011-12 Net Revenue |
|---|----------------------|--|------------------------|
| Police | 1,627,345 | 13,891,219 | (12,263,874) |
| 101 - COMMUNITY SAFETY | 411,340 | 8,930,411 | (8,519,071) |
| 102 - PATROL SUPPORT | 1,216,005 | 3,258,688 | (2,042,683) |
| 103 - EMERGENCY PREPAREDNESS | 0 | 262,424 | (262,424) |
| 104 - TRAFFIC AND SCHOOL SAFETY | 0 | 1,439,696 | (1,439,696) |
| Public Works | 273,350 | 5,039,371 | (4,766,021) |
| 201 - CITY FACILITIES | 0 | 2,444,503 | (2,444,503) |
| 203 - CITY VEHICLES AND EQUIPMENT | 15,600 | 359,104 | (343,504) |
| 204 - URBAN FOREST | 32,000 | 300,735 | (268,735) |
| 205 - CITY-OWNED STREET AND OTHER RIGHT-OF-WAY | 196,750 | 1,367,503 | (1,170,753) |
| 206 - STORMWATER MANAGEMENT | 10,000 | 176,888 | (166,888) |
| 207 - RESOURCE CONSERVATION | 0 | 66,416 | (66,416) |
| 208 - TRANSPORTATION MANAGEMENT | 19,000 | 324,222 | (305,222) |
| Community Services | 4,716,741 | 6,562,829 | (1,846,088) |
| 310 - SOCIAL SERVICES & CHILDCARE | 2,367,491 | 3,805,898 | (1,438,407) |
| 311 - RECREATION/PHYSICAL ACTIVITIES | 2,349,250 | 2,756,931 | (407,681) |
| Library | 215,800 | 2,033,990 | (1,818,190) |
| 401 - LIBRARY COLLECTIONS AND ONLINE RESOURCES | 189,650 | 1,642,762 | (1,453,112) |
| 402 - READING PROMOTION AND LIFE SKILLS | 26,150 | 391,228 | (365,078) |
| 600 - Community Development | 2,551,500 | 2,728,503 | (177,003) |
| 601 - COMPREHENSIVE PLANNING | 0 | 291,982 | (291,982) |
| 602 - DEVELOPMENT SERVICE | 2,551,500 | 2,436,521 | 114,979 |
| Administrative Services | 2,283,988 | 4,954,665 | (2,670,677) |
| 701 - POLICY DEVELOPMENT AND CITY COUNCIL SUPPORT | 0 | 857,640 | (857,640) |
| 702 - SERVICE EXCELLENCE | 0 | 276,164 | (276,164) |
| 703 - ELECTIONS AND RECORDS | 0 | 84,613 | (84,613) |
| 704 - COMMUNITY ENGAGEMENT | 0 | 196,887 | (196,887) |
| 705 - FINANCE * | 2,281,488 | 1,252,118 | 1,029,370 |
| 706 - INFORMATION SUPPORT | 2,500 | 906,949 | (904,449) |
| 707 - INTERNET AND WORLD WIDE WEB | 0 | 28,366 | (28,366) |
| 708 - EMPLOYEE SUPPORT | 0 | 859,706 | (859,706) |
| 709 - LEGAL SERVICES | 0 | 295,805 | (295,805) |
| 710 - BUSINESS DEVELOPMENT | 0 | 196,417 | (196,417) |
| Net Cost of All Programs (Services funded by tax revenues) | 11,668,724 | 35,210,577 | (23,541,853) |
| | | + Tax Revenue & Transfer from other funds | 25,593,875 |
| | | - Transfer to CIP and other funds | (2,377,800) |
| | | Net deficit (commitments of prior year budget) | <u>(325,778)</u> |

*Remove: tax revenue and transfers from other funds: \$25,593,875; transfer \$2,377,800 to CIP Fund.

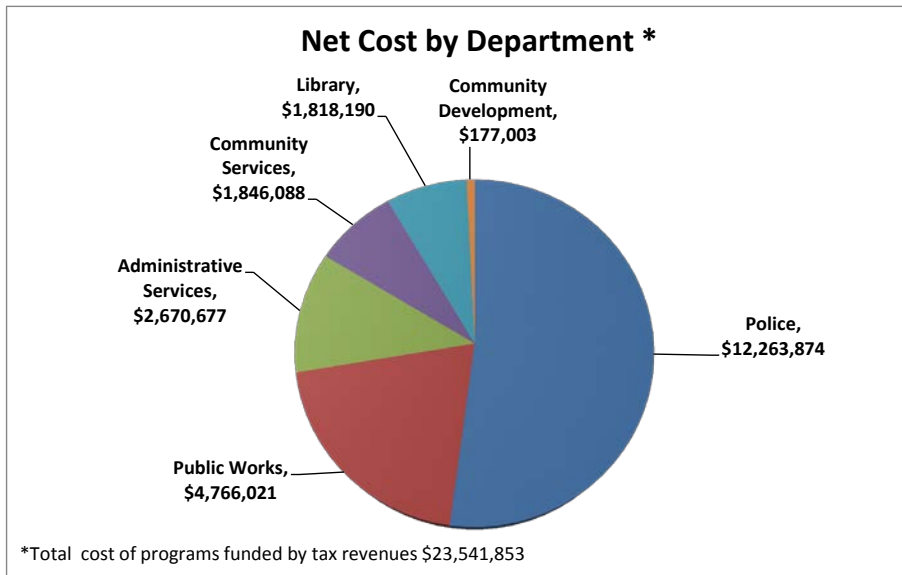
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|---------------------------|----------------|
| Tax Revenue : | |
| Property Tax | 13,021,000 |
| Sales Tax | 6,203,000 |
| Hotel Tax | 2,580,000 |
| UUT | 1,249,000 |
| Franchise Fees | 1,743,000 |
| Vehicle License Fees | <u>111,000</u> |
| | 24,907,000 |
| Transfer from other funds | <u>686,875</u> |
| Total revenues removed | 25,593,875 |

Finance revenues include \$1,493,000 in business license fees, \$893,188 interest & rent.

**General Fund
Program Revenues and Expenditures/ All Programs
Fiscal Year 2011-12 (Budget)**

| | |
|-------------------------|------------|
| Police | 12,263,874 |
| Public Works | 4,766,021 |
| Administrative Services | 2,670,677 |
| Community Services | 1,846,088 |
| Library | 1,818,190 |
| Community Development | 177,003 |

| | |
|--|-------------------|
| Total cost of programs funded by tax revenues | 23,541,853 |
|--|-------------------|



Community Services Cost Recovery Analysis 11/12 Budgeted

Social Services Programs

| Program | Cost Recovery | Cost Recovery Policy Subsidy Range |
|--|--|------------------------------------|
| Menlo Children's Center | 113% (net contribution to GF = \$155,443 for Admin overhead) | 70-100% |
| Belle Haven Child Development Center | 63% (69% cost recovery for 10-11 but loss of state funding this yr.) | 30 - 70% |
| Senior Center | 17% | 0 - 30% |
| Onetta Harris Community Center | 8% | 0 - 30% |
| Belle Haven After School and Summer camp | 18% | 30 - 70% |

Recreation Programs

| Program | Cost Recovery | Cost Recovery Policy Subsidy Range |
|--|-----------------------|------------------------------------|
| Gymnastics | 116% | 70 - 100% |
| Youth Sports | 88% | 70 - 100% |
| Adult Sports | 74% | 70 - 100% |
| Aquatics | Burgess 98% BH 13% | 70 - 100% combined |
| Arrillaga Rec Center | 90% | 70 - 100% |
| Special Events | 13% | 0 - 30% |
| Other facilities (tennis courts, dog parks, picnic areas, Bedwell Bayfront, etc) | 83% | 70- 100% |

RDA Dissolution FY12-13 Options for Council Consideration

Current RDA Non-Housing Services

| Strategy / Service | Net Savings if eliminated | Impacts | Dept. | Council Choice? |
|-----------------------------|----------------------------|---|-------|-----------------|
| 1. NET team | \$870,000 | 4FTEs provide drug and gang interventions in the Belle Haven area (possible decrease to 3FTE) | PD | |
| 2. RDA business development | \$100,000 | .5 FTE provides recruitment and retention in the M2 area | Admin | |
| 4. Community School | \$26,000 RDA (\$23,000 GF) | 1 FTE for Community School Director. Remainder funded by Ravenswood and other sources | CSD | |
| 5. Code enforcement in RDA | \$65,000 | .6 FTE for blight abatement and code enforcement in Belle Haven | PD | |
| 6. Mid day shuttle service | \$72,000 | Possible to reduce or qualify for grant | PW | |
| 8. Graffiti abatement | \$21,000 | | PW | |
| 9. CIP staff | 0 | No savings – staff not hired. RDA CIP projects eliminated or moved to other funds | PW | |

General Fund Services

| Strategy | Net savings | Impacts | Dept. | Council Choice? |
|---|-------------|---|-------|-----------------|
| 1. Close the Main Library on Sundays | \$40,000 | Reduce temp staff; reduces accessibility (550 – 700 Sunday attendance) | LIB | |
| 2. Close OHCC | \$340,000 | Reduce 2.75 FTE Provides recreation programming to avg 100 daily participants in Belle Haven | CSD | |
| 3. Close Belle Haven Library | \$265,000 | Reduce 2 FTE. Also impacts Main Library staffing. 150 attendees daily | LIB | |
| 4. Eliminate Belle Haven after school program & summer camp | \$340,000 | Reduces 1.75 FTE. Serves 50 children. Summer camp serves 65. Consider grant to Boys and Girls Club for shared service | CSD | |
| 5. Close BHCDC | \$450,000 | 14 FTEs. May be possible to subsidize another provider for less | CSD | |
| 6. Close Senior Center | \$350,000 | Reduce 2.5 FTEs. Serves average of 100 seniors per day | CSD | |
| 7. Eliminate MCC and lease building to child care provider | +\$150,000 | Reduce 8 FTE . 58 FT children, 44 PT children, 78 after school. FY 11-12 115% Cost recovery | CSD | |

| | | | | |
|---|-----------------|---|-----|--|
| 8. Restructure PD support staff | \$91,400 | Eliminate 1 FTE Secretary | PD | |
| 9. Reduce / Eliminate Community Funding | Up to \$110,000 | Community agencies must seek funding elsewhere | ADM | |
| 10. Do not fund housing non-profits | \$53,700 | Eliminate non-profit housing funding | ADM | |
| 11. Reduce financial services | \$95,000 | 1 FTE Financial Analyst. Less on-going financial analysis and departmental budgetary support; | ADM | |
| 12. Reduce Code Enforcement | \$180,000 | Eliminate 1 vacant FTE, retains 1 FTE in code | PD | |
| 13. Eliminate Business Development Mgr. | \$160,000 | Business Development Plan would not be able to be implemented | ADM | |
| 14. Asphalt purchases from Const. Impact Fund | \$35,000 | Utilize Construction Impact fees to purchase asphalt- previously GF | PW | |
| 15. Charge .25 Streets worker to Const. Impact Fund | \$20,000 | Utilize Construction Impact fees - previously GF | PW | |

Revenue Options

| Strategy | Revenue | Impacts | Council Choice? |
|---|--------------------------------------|---|-----------------|
| Increase TOT | \$242,500 per each 1% | Requires ballot measure, overall impacts should be minimal | |
| Use Reserves | Up to X | Policy sets goal of 43-55% currently at 48.6% | |
| Increase UUT | Up to max; \$510,000 – \$2.2 million | Approx. \$1.2 million per 1% increase | |
| Decrease CIP transfer permanently | \$2.3 million | Decreases quality of infrastructure such as roads (ie pavement quality goals) | |
| Prop 218 or Assessment district for storm water | ? | Requires ballot measure | |

Future Options to evaluate

| Strategy | Revenue / Savings | Next Steps | Council Preference? |
|---|------------------------------|---|---------------------|
| Vehicle Maintenance shared services | \$20,000 - \$50,000 annually | Possible contract with other agencies in discussion stage | |
| Contract Median maintenance | ??? | RFP being prepared | |
| Continued efforts to complete and operate Police Substation | \$135,000 annually | Determine Council preference for continuing with the project. Costs shown are minimal staffing, utilities and maintenance. Add \$100,000 to \$300,000 for furnishings beyond current allocation | |
| Shared Service with Boys and Girls Club for BH after School | \$300,000 | Needs further discussion and investigation with Boys and Girls Club – eliminates 1.75 FTEs - could be absorbed into vacant CSD positions | |
| Paperless Agendas | \$70,000 | Determine Council interest. Savings represent costs for paper, printing, delivery, etc. | |
| Shared IT services with Fire District | ???? | Need to begin discussion with Fire District | |

One time Options

| Strategy | Revenue | Impacts | |
|---|-----------|--|--|
| Sale of Terminal Avenue Property to Beechwood | \$850,000 | | |
| Delay vehicle purchases | \$100,000 | Not sustainable. Previous delays already impacting long term maintenance costs | |
| Eliminate CIP transfer for one year | Varies | Not sustainable | |
| Decrease CIP transfer & supplement with Gas Tax | \$250,000 | Further depletes gas tax reserves | |

Staff recommendations

| Strategy | Revenue | Impacts | |
|---|-----------|--|--|
| Sale of Terminal Avenue Property to Beechwood | \$850,000 | In process | |
| Delay vehicle purchases one year | \$100,000 | Not sustainable. Previous delays already impacting long term maintenance costs | |
| Decrease CIP transfer & supplement with Gas Tax | \$250,000 | Further depletes gas tax reserves | |
| Increase TOT | \$280,000 | If approved and implemented in January 2013 | |

Utility Users' Tax (UUT) Information Sheet

Surrounding Cities Utility Users' Tax Rate (2010-11)

| City | Population | Median Income | Electric | Gas | Water | Telephone | Cable | UUT Collected 2010-11 |
|-------------------|---------------|----------------|-----------|-----------|-----------|-----------|-----------|-----------------------|
| Redwood City | 74,508 | 67,611 | 5% | 5% | - | 4% | 4% | \$9.6 m |
| Menlo Park | 32,185 | 108,261 | 1% | 1% | 1% | 1% | 1% | \$1.1 m |
| East Palo Alto | 33,899 | 48,411 | 5% | 5% | 5% | 5% | 5% | \$1.6 m |
| Palo Alto | 60,171 | 118,989 | 5% | 5% | 5% | 5% | | \$10.8 m |
| Mt. View | 72,222 | 92,504 | 3% | 3% | - | 3% | | \$5.7 m |
| Los Altos | 28,622 | 154,823 | 3.5% | 3.5% | 3.5% | 3.2% | 3.2% | \$2.5 m |
| Sunnyvale | 133,963 | 88,364 | 2% | 2% | - | 2% | | \$6.8 m |
| Cupertino | 54,278 | 118,904 | 2.4% | 2.4% | - | 2.4% | | \$3.2 m |

www.city-data.com

www.uutinfo.org

Utility Users' Tax Rate by .5 Percent Interval

| Utility Users' Tax Rate | 0.5% | 1.0% | 1.5% | 2.0% | 2.5% | 3.0% | 3.5% |
|-------------------------|------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Electric | \$280,000 | \$560,000 | \$664,607 | \$911,267 | \$1,163,958 | \$1,419,663 | \$1,651,249 |
| Gas | \$65,000 | \$130,000 | \$149,090 | \$205,536 | \$263,603 | \$322,479 | \$374,876 |
| Water | \$52,500 | \$105,000 | \$150,750 | \$206,625 | \$263,850 | \$321,750 | \$374,250 |
| Sub-total | \$397,500 | \$795,000 | \$964,446 | \$1,323,428 | \$1,691,410 | \$2,063,892 | \$2,400,374 |
| *Prepayments | - | 24,000 | 36,000 | 48,000 | 60,000 | 84,000 | 108,000 |
| Total | 397,500 | 819,000 | 1,000,446 | 1,371,428 | 1,751,410 | 2,147,892 | 2,508,374 |
| Phone | \$170,000 | \$340,000 | \$510,000 | \$680,000 | \$850,000 | Maximum Rate 2.5% | |
| Cable | 45,000 | 90,000 | \$135,000 | \$180,000 | \$225,000 | | |
| Sub-total | \$215,000 | \$430,000 | \$645,000 | \$860,000 | \$1,075,000 | \$1,075,000 | \$1,075,000 |
| Total | \$612,500 | \$1,249,000 | \$1,645,446 | \$2,231,428 | \$2,826,410 | \$3,222,892 | \$3,583,374 |
| Less Current 1% | | (1,249,000) | (1,249,000) | (1,249,000) | (1,249,000) | (1,249,000) | (1,249,000) |
| Total Increase | | \$0 | \$396,446 | \$982,428 | \$1,577,410 | \$1,973,892 | \$2,334,374 |

City of Menlo Park UUT Collection April 2007 – June 2012.

| | Maximum UUT Rate Actual | Maximum UUT Rate Actual | 1% Rate Actual | 1% Rate Actual | 1% Rate Actual | 1% Rate Actual | 1% Rate Budget |
|---------------------------|-------------------------------|--------------------------------------|------------------------------------|----------------------|----------------------|----------------------|----------------------|
| Utility Users' Tax | April - June 2007 | July - September 2007 | October - June 2008 | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
| Electric UUT | 286,205 | 357,567 | 351,935 | 437,612 | 448,108 | 475,521 | 560,000 |
| Gas UUT | 67,979 | 60,301 | 127,770 | 122,666 | 111,642 | 120,717 | 130,000 |
| Water UUT | 73,292 | 100,187 | 55,004 | 84,240 | 85,557 | 92,565 | 105,000 |
| AT&T UUT | 32,859 | 55,721 | 107,182 | 192,176 | 170,098 | 120,725 | 130,000 |
| Wireless Services UUT | 111,769 | 130,986 | 168,287 | 228,256 | 232,735 | 207,503 | 210,000 |
| Cable UUT | 36,564 | 39,374 | 49,164 | 70,645 | 76,314 | 81,909 | 90,000 |
| UUT Cap Prepayments | 33,000 | 48,000 | 0 | 27,000 | 24,000 | 24,000 | 24,000 |
| Total | 641,668 | 792,135 | 859,343 | 1,162,595 | 1,148,453 | 1,122,940 | 1,249,000 |
| | | 1,651,478 | | | | | |

Who pays how much?

- Approximate percentages for:
 - Electric = Residential 25% Commercial 75%
 - Gas = Residential 61% Commercial 39%
 - Water = Residential 43% Commercial 57%
- Average payment per month for electric, gas and water:
 - **Residential** units 12,347, average household currently pays: **\$1.79** per month
 - **Commercial** units 1,767, average business currently pays: **\$25.02** per month

UUT Temporary Rate Reduction - City Ordinance 3.14.130

Finding needed to enact continued temporary UUT rate:

The temporary tax reduction shall not adversely affect the City's ability to meet its financial obligations as contemplated in its current or its proposed budget

TOT Information Sheet

| Transient Occupancy Tax Rate for Surrounding Cities January 2012 | | |
|---|-------------|------------------|
| Cities of San Mateo County | Rate | Guest Fee |
| Town of Atherton | n/a | |
| City of Belmont | 10.0% | |
| City of Brisbane | 12.0% | |
| City of Burlingame | 12.0% | 0.25% |
| Town of Colma | n/a | |
| City of Daly City | 10.0% | |
| City of East Palo Alto | 12.0% | |
| City of Foster City | 9.5% | |
| City of Half Moon Bay | 12.0% | |
| Town of Hillsborough | n/a | |
| City of Menlo Park | 10.0% | |
| City of Millbrae | 12.0% | |
| City of Pacifica | 12.0% | |
| Town of Portola Valley | n/a | |
| City of Redwood City | 12.0% | |
| City of San Bruno | 12.0% | |
| City of San Carlos | 10.0% | |
| City of San Mateo | 12.0% | |
| City of South San Francisco | 10.0% | \$2.50 |
| Town of Woodside | n/a | |
| Cities in Santa Clara County | Rate | Guest Fee |
| City of Campbell | 12.0% | |
| City of Cupertino | 10.0% | |
| City of Gilroy | 9.0% | |
| City of Los Altos | 11.0% | |
| Town of Los Altos Hills | n/a | |
| City of Los Gatos | 10.0% | |
| City of Milpitas | 10.0% | |
| City of Monte Sereno | n/a | |
| City of Morgan Hill | 10.0% | |
| City of Mountain View | 10.0% | |
| City of Palo Alto | 12.0% | |
| City of San Jose | 10.0% | \$2.00 |
| City of Santa Clara | 9.5% | |
| City of Saratoga | 10.0% | |
| City of Sunnyvale | 9.5% | |

Voter Approval Needed:

Rate must be approved by a 2/3 vote of the City Council (for ballot)

Requires majority of the City's voters

Next Regular Municipal Election November 6, 2012

Ballot measure must be submitted to the County 88 days before the election (August 10, 20

Each 1% increase yields approximately \$280,000 annually for General Fund



ADMINISTRATIVE SERVICES

Council Meeting Date: January 24, 2012
Staff Report #: 12-015

Agenda Item: F-1

REGULAR BUSINESS: Implications to the 2011-12 City Budget Resulting from the Dissolution of the Menlo Park Community Development Agency

RECOMMENDATION

Staff recommends City Council discuss the status of the dissolution of the Community Development Agency, and the implications for the City's 2011-12 budget.

BACKGROUND

On December 29, 2011, the California Supreme Court delivered its decision in the *California Redevelopment Association v. Matosantos* case, finding ABx1 26 (the "Dissolution Act") largely constitutional and AB1x 27 (the "Alternative Redevelopment Program Act") unconstitutional. The Court's bifurcated decision means that all California redevelopment agencies, including the Community Development Agency (CDA) of the City of Menlo Park, will be dissolved under the constitutional Dissolution Act, and none will have the opportunity to opt into continued existence under the unconstitutional Alternative Redevelopment Program Act.

As a result, the CDA will be dissolved on February 1, 2012. The Agency's non-housing funds and assets will then be turned over to a successor agency (the "Successor Agency") charged with the responsibility of paying off the former Agency's existing debts, disposing of the former Agency's properties and assets to help pay off debts, returning revenues to the local government entities that receive property taxes (the "Taxing Entities"), and winding up the affairs of the former redevelopment area.

The CDA's affordable housing assets, other than its existing housing fund balance, will be turned over to a successor housing agency (the "Successor Housing Agency") to continue performing affordable housing activities. The former Redevelopment Agency's affordable housing fund balance will be used to repay existing housing fund debts and/or remitted to the County Auditor-Controller for deposit into a Trust Fund for eventual distribution to the Taxing Entities.

At the January 10, 2012 Council meeting, the Council elected to serve as both the Successor Agency to the former CDA and the Successor Housing Agency.

ANALYSIS

Since the Court's decision, staff have been analyzing the impacts of the loss of the RDA and it is clear that the implications for the City's budget are severe. For the CDA, tax increment for 2011-12 was initially estimated to be approximately \$10.2 million, but with a drop in the assessed value due to the turnover of several large properties in the area last year, these revenues are now projected to be slightly less than \$10 million. Debt service will be approximately \$5.48 million, and pass-thru payments will be slightly less than \$3 million. These will be paid out of a Redevelopment Property Tax Trust Fund ("Trust Fund") established by the County and funded with the property tax increment that would have been allocated to the CDA if not for the dissolution. There are very few RDA-funded obligations in the form of enforceable contracts outstanding other than the debt and the previously contracted pass-thru payments to other taxing entities. As the Successor Agency, the City will receive an administrative fee of \$250,000 annually; the remaining \$1.3 million will be apportioned by the County to school entities and other local taxing entities as property taxes. The 2011-12 budgets in place for redevelopment activities (nearly \$3.1 million) including Housing, Narcotics, Code Enforcement and a \$305,000 transfer to the General Fund for overhead expenses, will be unfunded after February 1st and for subsequent fiscal years. In addition, unencumbered fund balances (shown as estimates here) of the Redevelopment Services Agreement Special Revenue Fund (\$8 million), the Housing Authority Fund (\$5.5 million) and the Public Improvement Grant Fund (\$6 million), all created to fund redevelopment services and capital improvements into the future, will be eliminated. The City will need to determine which redevelopment activities previously funded by the CDA will be continued, and how they will be funded.

As successor agency, the City will continue to satisfy enforceable obligations of the former Community Development Agency, and administer dissolution and wind down of the dissolved redevelopment agency according to the Dissolution Act. A separate item on this Council meeting's agenda supplies an amended Enforceable Obligation Payment Schedule (EOPS) which identifies all liabilities of the CDA at the time of dissolution, and payments on those obligations to be paid out of the Trust Fund.

Attachment A to this report is a schedule of budgeted line items funded from redevelopment funds in fiscal year 2011-12. Attachment B provides a listing of FTE (full time equivalent) staff positions funded from redevelopment funds – it shows that 37 staff positions are at least partially funded with redevelopment resources for a total of 11.12 FTE. This report is intended to present all City activities, projects and programs which will be impacted by the dissolution of the CDA. Although staff are analyzing specific courses of action to mitigate the impacts to the City's budget for the remainder of the current fiscal year (to provide recommendations for the Mid Year Report), each of these services will in the future need to be funded from other sources or discontinued in order for the City to maintain a sustainable budget. To the extent alternative funding is to be provided from the General Fund, other City services will need to be reduced to prevent deficit spending.

Services funded from redevelopment funds in 2011-12 include:

Housing Activities – Housing activities for the 2011-12 fiscal year included work to increase the supply of affordable housing, maintain the condition of housing stock and expand housing opportunities through rehab loans, purchase assistance loans, the Neighborhood Stabilization Program and the Below Market Rate Housing program. In addition, several non-profit agencies were also previously funded on an annual basis by the Redevelopment Housing Set-aside Fund including: Human Investment Project (HIP) at \$20,000; Eden Council for Housing Opportunities (ECHO Housing) at \$7,250; and the Council for the Independence of the Disabled (CID) to fund housing accessibility modifications at \$14,000. Again, these activities are not considered enforceable obligations and should the Council wish to continue support for these activities, funding from the General Fund would be required. Council will consider options for configuration of housing activities as a separate item on this meeting agenda.

Menlo Park Police Narcotics Enforcement Team – The narcotics enforcement team (NET) combats narcotic and gang activity within our community and neighboring communities. The team acts as a response team to violent crimes. The team is often used regionally and has a cooperative relationship with the FBI, DEA, and the San Mateo County Narcotics Task Force.

NET was formed in 2003 with resources freed up from the elimination of the police department's special traffic unit. The team's primary mission is to proactively fight violent street crimes, narcotic offenses, and suppress the criminal activity of gangs. NET spends most of its time in the Belle Haven neighborhood. Due to an increase in violence in 2007, NET partnered with the FBI and East Palo Alto Police Department to conduct an 18 month long investigation. This investigation targeted a violent Belle Haven and East Palo Alto street gang called the "Taliban." The Taliban Gang had been responsible for at least 12 homicides, 30 violent felonies, 25 misdemeanors, and 80 non-violent misdemeanors since 2002. The cooperative effort – "Operation Crackdown" – resulted in approximately 50 arrest warrants and more than 20 search warrants, and completely dismantled the Taliban Gang and severely impacted the flow of narcotics in and out of both Menlo Park and East Palo Alto.

NET continues to work collaboratively with the FBI and East Palo Alto Police Department on on-going narcotic and gang related investigations. The team provides highly visible street enforcement resulting in over 50 arrests and the seizure of cocaine, methamphetamine, heroin, Ecstasy, and marijuana with an approximate street value of \$153,000 during the first two quarters of this fiscal year.

Code Enforcement – The Code Enforcement Unit was created within the police department in 1990. At that time, there were two civilian employees. Today the unit has one civilian employee.

The code enforcement unit responds to approximately 2,200 complaints a year. The most common are unsightly garbage, weeds, illegal business, graffiti, and noise. The unit also self-initiates enforcement action approximately 500 times a year. The most

common self-initiated code violations are: abandoned, wrecked, dismantled, or non-operative vehicles; illegal dumping; animal complaints; illegal signs; and high hedges blocking traffic signs. A significant portion of code complaints and self-initiated code enforcement takes place in the Belle Haven neighborhood.

Shuttle Transportation Program – The City shuttle operations currently run four different service lines: Marsh, Willow, Midday and Shopper Shuttle. The Marsh and Willow routes are peak hour routes from the Caltrain Station to businesses along the route. The Midday shuttle service runs a loop through the City on Mondays through Fridays from 9 am to 3 pm. Finally, the Shopper Shuttle runs two days a week as an on demand service picking up residents and bringing them to various shopping destinations throughout the area. The overall program has a total cost of approximately \$424,000 per year. The shuttle program is mainly funded through grants from C/CAG and the San Mateo County Transportation Authority. The City is required to have a certain level of matching funds that are paid through Measure A, Redevelopment Agency funds and Development Impact Fees. The Midday shuttle includes RDA funds that partially pay for the operation. The Midday shuttle includes a redevelopment fund budget of \$70,000. For the remainder of 2011-12, the costs of this program formerly funded by the CDA will be paid from Measure A funds.

Graffiti Abatement – Over the past few years the Public Works staff began using Redevelopment Agency funds to pay for removal of graffiti within the boundaries of the Redevelopment Agency. The cost of Graffiti abatement funded through the Redevelopment Agency was approximately \$21,000. The graffiti removal includes City right-of-way and City parks. Staff estimates \$10,000 will be required to fund the remaining balance for fiscal year 2011-12.

Community School – Funding from the CDA also supports a portion of the City's partnership with the Ravenswood School district at the Belle Haven Community School. Roughly 25% of the Community School Director's time is spent on gang and violence prevention in the neighborhood, organizing and facilitating community meetings to build neighborhood capacity for self governance, neighborhood and community conflict resolution and other activities that support the City's efforts to improve the quality of life in the area.

Capital Improvements – The 5-Year Capital Improvement Plan (CIP) for 2011-16 included over \$10 million worth of capital projects to be funded from the RDA Public Improvements Grant Fund and Redevelopment Services Agreement Fund - \$1.5 million funded in the current fiscal year. All projects funded in the current or previous years from redevelopment funds that have not been committed by contract or purchase order by June 27, 2011 can no longer be spent on these projects. (Recall that most redevelopment activities were suspended upon enactment of the Dissolution Act, and the City has since that time avoided entering into any contracts that would serve to commit redevelopment funds.) The following projects cannot be initiated and the funds appropriated for these projects must be sent to the County Controller for deposit in the Trust Fund to be distributed as property tax proceeds to the various taxing agencies in the County:

| | 2011-12 <u>Combined Budget</u> |
|---------------------------------------|-----------------------------------|
| Atherton Channel Flood Abatement | 2,300,000 |
| Belle Haven Pool/Boiler Upgrade | 50,000 |
| Belle Haven Pool Improvements | 78,269 |
| Dark Fiber Installation Pilot Project | 50,000 |
| Belle Haven Avenue Security Lighting | 50,000 |
| LED Streetlight Conversion | 340,244 |
| OHCC Solar Power Conversion | 400,000 |
| O'Brien Drive Streetscape | 500,000 |
| Willow Road Signal Interconnect | 300,000 |
| Kelly Park | 1,336,642 |
| RDA Streetscape -Overall | <u>2,000,000</u> |
| Total | <u><u>7,405,155</u></u> |

In addition, *any* unencumbered fund balance in the RDA Public Improvements Grant Fund must be submitted to the Trust Fund – a total of approximately \$7.7 million. Capital projects slated for future fiscal years, including an additional \$2 million for the Atherton Channel Flood Abatement project and various streetscape projects totaling \$3.9 million, will need to be deferred and funded from other sources or abandoned.

Note that the Capital Improvement Plan for 2011-12 through 2015-16 also included an RDA-funded project to plan for a Dumbarton Transit Station (\$1,000,000) which would have provided matching funds for a grant offered by the Metropolitan Transportation Commission (MTC) for the project. Staff estimates that matching funds from the General Fund would be approximately \$800,000. Without RDA funding, staff recommends notifying MTC of our intent to withdraw from this project.

The Police City Services Center on Willow Road is considered an enforceable obligation under the dissolution act due to the existence of the contract between the City and a third party. The Police Department will be developing a staffing plan for the Center and cost estimates for its operations so that Council can consider the overall budget impacts of continuing to move forward with the project or make a decision to end the contract given the loss of RDA funding for operations. Over \$1.6 million remains committed to this project. Several other projects will rely on small encumbered amounts for completion.

Comprehensive Planning Projects – The City's 5-Year CIP includes a category of Comprehensive Planning projects and studies, although a designated long-term funding source or strategy for such projects had not yet been developed. For fiscal year 2011-12, one project was planned as partially funded through the Public Improvements Grant Fund, with available fund balance from non-housing redevelopment sources. The Willow

Business Area Phase 1.3 would involve the creation of a new zoning district for the Willow Business Area consistent with the General Plan in order to streamline the approval process for tenant improvements involving a change of use for preferred uses or construction of new square footage for preferred uses. The project includes the preparation of an Environmental Impact Report (EIR) and a Fiscal Impact Analysis (FIA). The estimated cost for consultant services associated with the EIR and FIA is \$300,000, of which \$198,000 would have been funded from redevelopment sources, as 66% of the study area acreage is located in the Project Area. The project now needs to be backfilled by the General Fund or the project cannot be completed based on its current scope.

Business Development – The Business Development Program focuses on business attraction and retention. A substantial portion of opportunity areas for business development are located in the Redevelopment Project Area. In addition to the commercial corridor along Willow Road, the following business activity centers of the M-2 zoning district are located in the Redevelopment Project Area:

- Menlo Business Park (Tarlton Properties);
- Menlo Science & Technology Park (Prologis);
- Facebook East Campus;
- Haven Avenue

With Facebook's move to the former Oracle/Sun Microsystems campus, business development opportunities appear positive.

The Business Development program includes funding for 0.52 FTE across two positions that are partially funded through redevelopment resources. The Business Development Manager position is currently vacant. If the position remains vacant for at least three months, then there would be no impact to the General Fund for the current fiscal year. A greater percentage of the Development Services Manager's time has been spent on fee-based activities than originally budgeted due to a vacancy in the Planning Division. Therefore, the impact to the General Fund for this fiscal year should be minimal.

Administration and Overhead – As can be seen on Attachment B, the current year budget provides for redevelopment funding of 1.14 FTEs of Administrative Services staff. Ten employee positions charge a portion of their time to redevelopment accounts to reflect work hours associated with redevelopment activities as they are performed. It is anticipated that work hours charged to redevelopment accounts will consume well over half of the current year (redevelopment) budget for these positions, as the administration of redevelopment activities under the provisions of the Dissolution Act has required considerable staff hours. In the remaining months of this fiscal year, staff involved in the dissolution of the former CDA will charge their time to a separate account specifically for Successor Agency activities. Over time, this direct staff time is expected to diminish somewhat as there will be fewer assets to manage. Legal, accounting and auditing services associated with the dissolution will be similarly charged.

In addition to the expenditure budgets of the Redevelopment Services Grant Fund and the Housing Authority Fund, a transfer (\$305,000 in 2011-12) to the General Fund has provided reimbursement for administrative and overhead expenses not directly charged to the CDA. As updated in the City's Cost Allocation Plan completed in 2008, the amount of this transfer is based on the provision of general administrative services (for example: payroll, investment management, agency board administration, IT and HR) and maintenance (including janitorial and utilities costs). In addition, rent of \$27,000 annually has been charged by the General Fund for office space utilized by Housing Division staff. These will not be considered enforceable obligations of the former CDA, and the costs will have to be absorbed into the General Fund's budget. Going forward, an annual amount of \$250,000 will be allocated from the Trust Fund to the City as Successor Agency to cover all administrative and overhead expenses associated with the dissolution of the CDA.

Other Services/Programs – In addition to the main redevelopment services described above, redevelopment revenues have also provided funding for the City's participation in the San Francisco Creek Joint Powers Authority (SFCJPA) - \$38,000 in 2011-12. The SFCJPA addresses mutual issues of concern related to the creek, including bank stabilization, channel clearing and planning of flood control measures. Although adequate creek maintenance serves the redevelopment area to a large extent, the cost of SFCJPA participation will not be considered an enforceable obligation of the former CDA. Unfortunately, the remaining \$60,000 cost of the SFCJPA has in recent years been borne by the City's Storm Water Management Fund, other demands on this fund render this an unavailable resource in future fiscal years. The result will be an additional \$100,000 annual commitment of the General Fund, further diminishing discretionary resources.

An annual Community Drop-off Event (\$17,000) and various landscaping/cosmetic projects (\$13,000) that have benefitted the project area in the past have also been funded from redevelopment monies.

Mid-year Report

The annual midyear report and adjustments is scheduled for presentation to the Council on February 28th. Staff are working on closing each successive month of the 2011-12 fiscal year to provide the most accurate picture of year-to-date status of revenues and expenditures. Although the mid-year analysis will include all funds of the City to ensure a complete picture of the City's long-term fiscal health, special emphasis will be made in closing out the redevelopment fund budgets and keeping the necessary impact to the General Fund at a minimum. While one-time savings (largely from vacancies in various departments), non-recurring revenues (in the form of increased property taxes from distribution of Trust Fund amounts) or the use of other funds may be recommended to reduce deficit spending for the remainder of this fiscal year, such options are not considered sustainable and will not be available to continue all current redevelopment programs and services in fiscal year 2012-13.

Attachment C provides a summary of the Redevelopment Services Agreement Fund's current fiscal year budget and estimated actual expenditures from the date of dissolution (February 1st) through the end of the fiscal year if non-housing programs and services continue. The anticipated impact to the General Fund in order to sustain these services in 2011-12 is derived after taking other funding sources into consideration. Staff will recommend utilizing these other funding sources in the Mid-Year Report, and may also be able to recommend further cost reductions for services previously funded by the CDA.

Implications for the 2012-13 Budget Process

At a Study Session tentatively scheduled for January 30th, staff will be asking Council to provide general direction on the acceptable approaches for addressing the loss of RDA funding for the next fiscal year in preparation for the 2012-13 operations and capital budgets. The goal of the session is for Council to provide staff with feedback on categories of strategies that are acceptable to pursue, unacceptable or that require more information and discussion before a decision can be made. General categories of options staff is currently preparing implications for include:

- Use of new revenues from the development agreement with Facebook (currently in negotiations)
- Continued shift of some activities to other, non-general fund sources until depleted
- Revenue increases such tax increases such as Transient Occupancy Tax (TOT) or Utility Users Tax (UUT)
- Service cuts
- Use of reserves
- Decrease in the CIP transfer

Following this general direction from Council, it is anticipated that specific recommendations for returning to sustainability will be made during the upcoming 2012-13 budget process, which will also be challenged by past staff reductions, extended staff vacancies, increased operating costs, deferred capital improvements and opportunities Council may wish to pursue such as acquisition of Flood Park.

IMPACT ON CITY RESOURCES

Although staff will continue to seek both short and long-term remedies to the loss of funding that results from the dissolution of the CDA, the impact to the General Fund could substantially change capital and operating budgets in future years.

POLICY ISSUES

Ultimately, the choices that the City Council makes regarding revenues, services levels and projects will determine how operations are funded and how City resources are utilized to provide financial stability for the future. Implementation of various budget strategies could impact a number of policy issues related to the City's fiscal health, organizational structure, and service levels.

ENVIRONMENTAL REVIEW

Environmental review is not required.

Carol Augustine, Finance Director
Report Author

ATTACHMENTS

- A. Combined Redevelopment Funds Budget for fiscal year 2011-12
- B. Distribution of FTE (Staff) Funded by Redevelopment funds
- C. Projected Impact of CDA Dissolution on 2011-12 General Fund Budget



COMMUNITY SERVICES DEPARTMENT

Council Meeting Date: January 30, 2012

Staff Report #: 12-017

Agenda item #: A-2

REGULAR BUSINESS: Approve a transition plan and tentative cost estimates for elimination of the Housing Division

RECOMMENDATION

Staff recommends that the City Council approve the attached transition plan and cost estimates required for elimination of the City's Housing Division. Complete budget adjustments will be included with the February 28, 2012 Midyear Financial Summary and Budget amendments.

BACKGROUND

The City's ability to fund activities of the Housing Division through the Redevelopment Agency changed drastically on December 29, 2011, when the California Supreme Court delivered its decision in the *California Redevelopment Association v. Matosantos* case. The Court's decision results in the elimination of all California redevelopment agencies, including the Community Development Agency of the City of Menlo Park.

On January 10, 2012, Council approved a resolution electing to serve as the Successor Housing Agency but left open the question of the extent to which housing activities would continue without redevelopment funding. Election to serve as the Successor Housing Agency obligates the City to continue to service previously approved Rehab Loans and Emergency Repair Loans and forward any loan payoffs to the Trust Fund.

On January 24, Council considered three options for operation of the Housing Division given the loss of RDA funding and indicated their preference for eliminating the programs funded through the RDA, contracting out the BMR program, pursuing only statutorily required housing activities and shifting the remaining workload to other departments. Council also expressed a desire to continue to fund area non-profit housing agencies, previously funded through the RDA, with General Fund dollars.

ANALYSIS

Attachment A represents the draft transition plan for the Housing Division, indicating the tasks necessary to wind down the City's housing activities; staff needed to do that work and for how long; and where ongoing tasks will be assigned.

Council will note that much of the work load that will need to continue going forward will be the responsibility of the Planning Department, already stretched to meet deadlines for major development and community planning projects. Additionally, other tasks will be assumed by the Finance Department which is also stretched given the additional workload created by the dissolution of the RDA, the start up and management of the Successor Agencies and support for the soon-to-be-created Oversight Board.

Given these and other recent staff cuts and vacancies, staff feels that the capacity does not exist to continue staffing the Housing Commission. Additionally, the Housing Commission's Two Year Work Plan is no longer relevant as it includes tasks such as outreach for the City's housing programs, and work on the Housing Element. Finally, it has been difficult to recruit replacements for vacant Housing Commission positions. There are currently two vacancies with the recently replaced Chair of the Commission serving an additional 6 months following expiration of her term as there was no replacement. In the past year, three meetings were cancelled due to lack of a quorum. Currently there are numerous vacancies on the City's other commission that are often difficult to fill. Staff suggests the remaining Housing Commissioners be asked to serve in these vacancies. Staff will also commit to first asking the former Housing Commissioners to participate in any future project specific task forces or process as representatives of housing interests.

Timeline for Employment Actions

The Transition Plan indicates the need to retain staff according to this rough schedule:

- Megan Nee, Management Analyst: wind down activities through the end of March (assumes layoff notice issued early February)
- George Starmer, Housing Rehab and Finance Specialist: wind down activities through April 1 (assumes retirement date of April 1 or layoff notice issued mid-February)
- Doug Frederick, Housing Manager: wind down activities through end of June (assumes layoff notice issued mid May)

The idea of providing "re-tooling" opportunities for staff if possible was mentioned at the January 24, 2012 Council meeting and staff is currently reviewing options, consistent with employment rules and organizational needs. Although all the implications of this approach have not yet been studied, current vacancies in the Engineering Division have created a need for a temporary "project manager" consistent with the skill set of the Housing Manager. This work would support progress on capital and other projects not funded through the General Fund but it has not yet determined what employment action would need to occur in order to include this in the transition plan. Again, the final budget for the housing division wind down will be included with the midyear adjustments

and reflect the costs of this opportunity should it be determined it is consistent with employment rules and Council's original intentions.

Impact on City Resources

Estimates of the budgetary needs for winding down the Housing Division prior to the end of the fiscal year range between \$175,000 and \$260,000 without reinstatement of the contracts that have been canceled with the area housing non-profit agencies (which would add approximately \$20,000 for the remainder of this fiscal year). Another \$11,700 operating expense already paid earlier in the fiscal year provided for the City's payment to HEART (Housing Endowment and Regional Trust) and will be needed in future years should Council choose to continue to support that program.

Policy Analysis

ABx1 26 stipulates that Redevelopment Agencies, including their housing related activities must cease by February 1, 2012. On January 24, Council indicated their intention to eliminate housing programs in light of funding limitations caused by the dissolution of the Redevelopment Agency. Exclusive of the BMR Fund activities, any costs associated with continuing housing activities now need to come from the City's General Fund. This report outlines in more detail the steps and funding needed in order to finalize this action.

Environmental Review

No Environmental Review is required for this action.

Cherise Brandell
Community Services Director

PUBLIC NOTICE

Public Notification was achieved by posting the agenda, with this agenda item being listed, at least 72 hours prior to the meeting.

ATTACHMENTS

A. Housing Division Elimination Transition Plan

and reflect the costs of this opportunity should it be determined it is consistent with employment rules and Council's original intentions.

Impact on City Resources

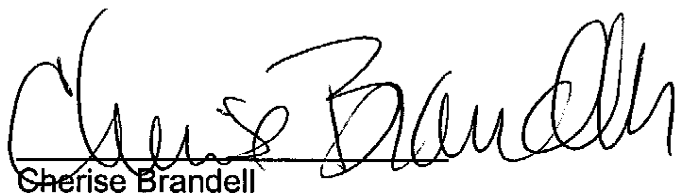
Estimates of the budgetary needs for winding down the Housing Division prior to the end of the fiscal year range between \$175,000 and \$260,000 without reinstatement of the contracts that have been canceled with the area housing non-profit agencies (which would add approximately \$20,000 for the remainder of this fiscal year). Another \$11,700 operating expense already paid earlier in the fiscal year provided for the City's payment to HEART (Housing Endowment and Regional Trust) and will be needed in future years should Council choose to continue to support that program.

Policy Analysis

ABx1 26 stipulates that Redevelopment Agencies, including their housing related activities must cease by February 1, 2012. On January 24, Council indicated their intention to eliminate housing programs in light of funding limitations caused by the dissolution of the Redevelopment Agency. Exclusive of the BMR Fund activities, any costs associated with continuing housing activities now need to come from the City's General Fund. This report outlines in more detail the steps and funding needed in order to finalize this action.

Environmental Review

No Environmental Review is required for this action.



Cherise Brandell
Community Services Director

PUBLIC NOTICE

Public Notification was achieved by posting the agenda, with this agenda item being listed, at least 72 hours prior to the meeting.

ATTACHMENTS

A. Housing Division Elimination Transition Plan

Housing Transition Plan Feb 1, 2012 – June 30, 2012

| Task / activity | Due date (or ongoing) | Who does it now | Who will do it after July 1 | Hours needed |
|--|--|-----------------|---|--|
| RHNA process | June allocations issued | Doug | Planning staff | One three hour meeting per month |
| 21 Elements (HE development consortium) | Ongoing (unless City decides to not participate) | Doug | Planning staff | Quarterly meetings, becoming more active next year |
| Beechwood property sale (includes Habitat home on Terminal) | July 1, 2012 | Doug | Justin | ~10 hours |
| Hamilton property sale / Oversight comm. Approval | ASAP after May 1 (by July 1?) | Doug | Cherise if needed | ~20 hours |
| Complete Hollybourne rehab | April 1 | George | Doug if needed | ~30 hours |
| Complete Almanor Rehab | By June 1 | George | Doug if needed | ~80 hours |
| Contract out BMR administration and oversight | By July 1 | Doug/Meg | Oversight of contract – Planning /Finance | ~50 hours |
| Housing Authority phase out | By July 1 | Doug | Finance | ~20 hours |
| Housing Commission | Recommend phase out | Doug | NA | ~10 hours |
| Citizen referrals | Ongoing | Meg/George/Doug | Community Development Front Counter | ~5 hours per week |
| Developer referrals | Ongoing | Doug | Planning | ~1 hour per week |
| Work with area housing agencies / advocates etc | Ongoing | Doug | Will no longer occur | ~5 hours per month |
| VA housing project | | Doug | Planning | ~5 hours until their activity level increases |
| Habitat request NRP funding for additional 5 homes | July 1 | Doug | Finance will need to manage payments | ~10 hours |
| BMR activities and wait list maintenance until contract approved | Through July 1 | Meg / Doug | NA | ~10 to 40 hours depending on service requests |
| Sale of NSP Homes | Through May | Meg/Doug | Contractor for future home sales | ~80 hours |

| | | | | |
|--|--------------|-----------------|-------------------------------|-------------|
| Future BMR agreement processes | After July 1 | NA | Planning | Per request |
| Palo Alto Rehab contract | Through May | George / Doug | NA | ~100 hours |
| Transition servicing of CDBG loans to County | July 1 | Doug and George | NA | ~20 hours |
| Housing paper file storage / disposal | July 1 | NA | Clerk's office, City Attorney | |
| E-file storage / retrieval | July 1 | NA | Clerk's office | |
| Web site update and referral info | July 1 | Doug | NA | ~5 hours |