

July 1, 2003

Honorable Mayor and Town Councilmembers:

The new fiscal year has begun. Our activities and undertakings will be guided by the budget that you adopted last week for the two-year period encompassed by 2003-05. The budget, which totals a net \$5.37 million for the first fiscal year, provides a comfortable operating cushion against whatever action is ultimately taken during the upcoming weeks as State budget deliberations come to a head. We will be closely watching the news from Sacramento and will continue to monitor local economic indicators on a constant basis.

There is much to be done over the course of the next two years. I look forward to implementing the program objectives that you have adopted with this budget. Thanks for the continuing opportunity to work with you and the staff for the good of the Town of Woodside.

Sincerely,

Susan George
Town Manager
June 6, 2003

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Honorable Mayor and Councilmembers:

The new fiscal year approaches. Budget season is upon us, a time for rational, decisive action as the Town's available resources are allocated to many competing priorities. As this two-year budget is transmitted to the Town Council, the Town is an island of fiscal calm amidst a sea of financial turbulence. By adhering to its own Financial Management Policies, the Town Council has kept its spending in check and has built strong reserves. Unlike other cities across the State of California, the Town is not facing a budget shortfall and the accompanying need to dismantle programs and services. We weathered the economic downturn because we did not assume that the heady prosperity of the late 1990's would last indefinitely. We spent some of the "windfall" on one-time things and banked the rest of it. If the Town were truly an island, this transmittal letter would be brief. Unfortunately, despite the Town's financial strength, we are facing a significant level of uncertainty about the future shape and size of our General Fund revenue base because of the condition of the State of California's fiscal house and the continuing abysmal performance of the Governor and the State Legislature. This issue is at the core of the strategy that underlies the Town's 2003-05 Proposed Budget.

Just over two years ago, the State was wallowing in revenues and sitting upon a \$20 billion surplus. Lacking any apparent financial judgment and being naturally myopic, the State's elected officials ran amuck. They added programs and personnel in the boom years, assuming that the good times would continue to roll. Filling the hole in the Golden State's financial base will require tough and timely decision-making. It is unlikely that either tough or timely decision-making is going to emanate from Sacramento any time soon, despite a State Constitutional requirement for a balanced budget by July 1st. This leaves local governments across the State, including the Town, on tinder hooks, waiting to see what local revenue source, if any, the State will shift away from local coffers to fill its fiscal hole. This situation brings to mind an old Aesop's Fable: The Ants and the Grasshopper. In this fable, a slacker grasshopper plays all summer, failing to store up any food for the bleak winter months ahead, while the hardworking ants diligently build up an adequate supply of grain to see them through. When winter hits, the grasshopper looks to the ants to bail him out. In Aesop's version of the story, the ants let the grasshopper die of starvation.

In today's version of the fable, the State plays the part of the grasshopper and the Town stars as the ants. The State has not saved any "grain" for the cold winter months, while the Town has prudently put aside a healthy store. In this version, unfortunately, the grasshopper can steal the ants' grain, by shifting it for its own purposes or by failing to return grain that was borrowed in previous winters. The Town's 2003-05 Proposed Budget was thus developed without knowing what the grasshopper's plans are.

In January of this year, the Governor presented his proposed budget for 2003-04. Included among his proposals for dealing with the State's \$38 billion deficit was a plan to eliminate the State's "backfill" of vehicle license fees (VLF) to local governments. In 1998, while times were good, the State generously reduced vehicle license fees in a move to appease voters. Unfortunately, these fees did not belong to the State, but were constitutionally allocated to

city and county governments. In order to keep the local agencies whole, the State promised to make up the loss (or “backfill” it) with monies from its own general fund. The implementing legislation in 1998 included a commitment to “trigger” a reinstatement of the vehicle license fee to its former level should State revenues ever prove inadequate to support the backfill. The Governor’s January proposal would have eliminated the backfill, but would not have triggered the reinstatement of the fee, leaving local governments with significant holes in their revenue bases. This would have meant a loss of about \$247,000 in 2003-04 for the Town’s General Fund.

In the ensuing months, a myriad of budget proposals have been floated in Sacramento. The two legislative houses and the two major political parties within each house have published their own versions of the budget. Each version impacts local government differently. The Governor has issued his May budget revisions, which have modified his January proposals. While he is continuing to propose the elimination of the VLF backfill, he has concluded that the restoration of the fee can be triggered administratively, without the approval of the legislature and he has vowed to “pull the trigger” and leave local governments unscathed. While this is good news for local governments, it is by no means a done deal. There are parties on the sidelines who have promised a legal challenge to the notion that the legislature can be left out of the VLF triggering action and there is at least one member of the Senate who has expressed his intention to eliminate the VLF totally through a voter initiative. So, the ants must make their own plans, despite the grasshopper’s continuing indecision.



The Town’s Proposed Plan

The total net Town proposed budget for 2003-04 is \$5.3 million, 10.2% less than the current year’s budget. Although there are elements of this reduced expenditure plan that fall outside of the General Fund and which are highlighted later in this letter of transmittal, it is the Town’s General Fund that is at the center of the current fiscal uncertainty. How can the Town approach the major unknown impact that the State’s budget dilemma represents? The Town’s General Fund is healthy, having hit the apparent bottom of the economic downturn. The Town took preemptive steps in the current year to pare back expenses and laid off one employee and implemented a series of administrative belt-tightening actions. Current projections underscore the results of these actions: expenditures are expected to come in well under the budget, adding over \$190,000 to the Town’s General Fund reserve, which will approach \$1.4 million, or 42% of operating revenues, by June 30, 2003.

The General Fund budget crafted for 2003-04 is based upon the premise that some, as yet, undetermined negative impact will have to be shouldered as a result of the State’s budget actions. Since there is no Town crystal ball, the budget was developed to provide a cushion against the fiscal blow that may come. The 2003-04 General Fund budget, as currently proposed, is \$3.3 million, 6.5% less than the current year’s adopted level. It does not reduce or eliminate any services, programs, or activities and it will not hamper the Town’s ability to address new currently unforeseen projects that may arise as the new fiscal year unfolds. Most importantly, beyond being a balanced expenditure plan, the 2003-04 Proposed General Fund budget has a **net positive position of almost \$185,000**, meaning that the Town can

withstand a loss of the same level of revenue without making any further budget modifications. Because there is a possibility that the impact from the State will be as much as \$300,000 (total loss of all vehicle license fee revenue), the budget identifies over \$111,000 in possible reductions that the Town Council can consider if needed. It is important to understand as the individual departmental budgets are reviewed that **the Town Council's approval of these Contingent Reduction Targets is not currently proposed.** The targets were identified in order to provide a contingency plan that the Council can readily turn to if the news from Sacramento is exceedingly bad. None of the reduction targets involve further lay-offs and, although some involve activities that we have come to enjoy, none of the reductions will impede the delivery of basic services. Hopefully there will be no need to implement these reductions, but the Town will be prepared to face the worst case.

There is a series of issues that underlie the 2003-04 budget beyond the uncertainty that the State's budget woes introduce. These issues merit the Town Council's focus as budget deliberations begin.

- **Planning Department Staffing:** Since 1998, the Town has utilized the services of a contract planner for processing Planning Commission and Architectural and Site Review Board items. The various incumbents of this position have, over the years, served as a full-time member of the Town staff. Although contracting out for these services ostensibly provides flexibility in responding to downturns in workload, there has never been a time in the last five years that the demand required less than a full-time position and contracting out is an expensive proposition. The proposed budget includes a recommendation that the Town Council authorize the addition of a second staff planner, at the assistant/associate level, eliminating the need to continue the contract planner services. The Town will save about \$43,000 annually through this action. Because the proposed budget also includes the elimination of the Administrative Assistant position that was vacated through a lay-off earlier this year, the addition of a second staff planner will not increase the Town's total authorized employee count. The shift will provide the Planning Director with more flexibility in terms of hiring and staff development. The contract planner would stay on board during the recruitment period for the new staff planner, minimizing any disruption in service.
- **Public Works Matching Fund Program:** The Public Works Matching Fund Program was initiated by the Town Council in 1998-99. An annual pool of \$100,000 was established, to be used to match residents' funds on a dollar-per-dollar basis, up to \$20,000 per project application, for six different categories of public works projects, including public roadway improvements, emergency access projects, drainage improvements, fire hydrant installations, off-street parking projects, and sewer projects. During the five-year history of the program, the Town Council has approved and funded eleven applications. Interest in the program has waned and only one project has been approved since 1999-00 (the Cañada Corridor Sewer Extension Project). Beginning in 2001-02, the funds for the program were reduced to \$40,000 a year, reflecting the lack of demand for the program. Even this reduced level of funding does not appear warranted, based upon recent experience. Of the \$380,000 allocated for the program over the course of the last five years, only \$148,133 has been utilized. The 2003-05 Proposed

Budget recommends the total elimination of the program and reduces the General Fund budget by \$40,000.

- **Road Program:** The Proposed Budget continues the General Fund's \$500,000 contribution to the Road Program. This support is more critical than ever, given that the performance of traditional dedicated road revenues, such as the Measure A sales tax and Road Impact Fees, has fallen off in the last year and is not projected to immediately rebound. The total Road Program budget proposed for the next two years totals about \$2.8 million, with almost \$1.9 million of this amount dedicated to major road projects. After the Town has determined what the impact of the State budget actions is on its coffers and if that impact is not too dire, the Town Council may wish to allocate a one-time additional infusion of General Fund money from its reserves to provide for a more aggressive rehabilitation program in the second year of the proposed budget, when funds available for these projects drops to \$710,000. This is an issue that the Council can address when it reviews the first of the two annual Road Program reports, which will be delivered in December of this year.
- **Trails Maintenance:** The Trails Committee has prepared its own budget proposal for 2003-04, which is described in detail in the Trails Department budget, which begins on page thirty-five of this document. The committee is proposing a \$10 increase in the Trails Users Fee, taking it from \$25 to \$35 per horse annually. The fee, which was established in 1997-98, has only been increased once since its inception and that was in July of 2000, when it was adjusted upward from \$20 to the current \$25. The committee is also proposing a more aggressive maintenance regime and a more hands on role for committee members in the entire process. The committee's proposal increases the Trails Maintenance budget by 21.2% and provides \$60,000 to support the maintenance effort.
- **Sheriff's Office Contract:** The Town's agreement for services with San Mateo County for police services expires on June 30, 2003. A new three-year agreement will be before the Town Council on June 24, 2003. The new agreement, and the 2003-05 Proposed Budget, reflect a major increase in cost. Because the County is facing a serious budget shortfall, the County Manager has directed that heretofore "free" services be added into the contract. Specifically, the County's cost of providing emergency dispatch services is now included as a cost element, adding about \$62,000 annually. When combined with the normal annual salary adjustments associated with the County's labor agreement with the Deputy Sheriffs, a 24%, or roughly \$90,000, increase in the cost of the agreement for police services results. The Sheriff's Office has phased this increase in over the three years of the new agreement, which dramatically lessens the impact and leads to a \$33,610, or 9%, increase in 2003-04 and a \$33,390, or 8.1%, increase in 2004-05. The County still does not charge the Town for a range of other support costs or for any overhead.
- **Litigation:** The Town has been fortunate to have enjoyed a period of calm on the litigation front, spending less than \$20,000 in the current year to complete the defense of the appeals associated with the last two cases on the Town's docket. The 2003-05 Proposed Budget includes \$75,000 in each year for litigation expenses. There is potentially some new litigation activity on the horizon, with several appeals of Planning

Commission actions waiting to be heard by the Town Council and two significant code enforcement cases pending. The Town Council, Town Attorney, and Town Manager will monitor this area closely as the new fiscal year begins and as we get a better handle on what might be filed either by or against the Town.

- **Woodside Community Museum:** The renovation of the recently renamed Woodside Community Museum is scheduled to be completed late this summer. The museum includes office space that is to be leased to non-profit organizations, per the plan proposed to the Town Council by the committee sponsoring the renovation work. The rental income from the lease of the offices is to be sufficient to support the operating and maintenance costs of the building. The proposed budget does not include any estimated expenses or income that may accrue from the Town's management of the property. Staff will be working with members of the committee to develop a maintenance budget, determine adequate rental charges, and to find appropriate tenants. A full report on these activities will be submitted to the Town Council after all of the necessary details have been developed. The Town Council was very clear that the operation of the building was not to create a new General Fund burden. That direction will underscore the staff's approach to this task.
- **Playfields Project:** The Town Council approved \$65,000 in the current year to pay for needed consulting services to develop a Master Plan for property on Farm Hill Boulevard that has been promised to the Town as a site for development of much needed playfields. The planning process has just begun, with the project tentatively scheduled to go to the Architectural and Site Review Board in July and to the Planning Commission in October. No funds are currently included in the 2003-05 Proposed Budget for this project. Once the project has received the needed planning and environmental approvals, it will be brought to the Town Council for approval. Included will be a construction budget, an agreement with the current property owner governing use of the property after its transfer to the Town, and acceptance of the funds raised through the current private efforts to garner financial support for the project. The Council will also accept grant funds from the State for this project at that time. The Town Council has specific Financial Management Policies governing capital projects. This project will be processed in compliance with those policies.
- **Public Employee Retirement System (PERS) Contributions and Health Insurance Costs:** The 2003-05 Proposed Budget reflects two financial realities associated with the Town's relationship with PERS. The Town has enjoyed very low retirement system contribution rates in recent years and was actually "overfunded" for several years. PERS' most recent actuarial study of all of its members' status includes an assumption that a significant reduction in the level of return on invested deposits will be experienced over the course of the next two-year period. Because of this downward assumption, PERS has projected that the Town will utilize the last of the accrued credit that resulted from the prior years' overfunding in 2003-04 and will be required to pay a 2.6% employer contribution rate in 2003-04, which rises to 6.8% in 2004-05. This cost has been fully integrated into the proposed budget for both years. PERS has also informed its member agencies that health insurance rates are likely to increase by 20% or more in 2003-04. PERS is still negotiating with the various insurance carriers with which

it contracts and final rates won't be known until late this calendar year, to go into effect on January 1, 2004. The proposed budget includes a reserve to support the Town's associated increase in costs.

- **Historical Preservation Element:** The Town Council provided \$40,000 in the current year for the preparation of a draft Historical Preservation Element. If the Council is pleased with the element, it will need to decide whether it wishes to provide the funds needed to move the project to its next phase. No funds are included for that next phase in the proposed budget. The Town Council will need to set its expectations for this project some time next fall when the draft of the Historical Preservation Element comes up for review.
- **The Economy:** The 2003-05 Proposed Budget is built upon the assumption that the economy has hit the bottom of its downward spiral but that it is not going to make a splashy recovery in the near term. Total projected General Fund revenues for 2003-04 reflect less than one percent growth over the current year's base and just over 2% total growth for 2004-05. A 5% increase in property taxes is included, pursuant to notification from the County Assessor's Office that the Town's assessment role for 2003-04 has grown by that amount. The charts on the pages that follow this letter provide an overview of several of the Town's key revenue sources.

I feel confident as I transmit this budget to the Town Council that the Town is well positioned to respond to whatever challenges it may face in the next two-year period. The 2003-05 Proposed Budget is a prudent spending plan that was developed pursuant to the Town Council's Financial Management Policies. It does not drain any of the Town's General Fund reserves and it provides a healthy hedge against the pending impact of the State's budget balancing decisions. I look forward to reviewing the budget in detail with the Town Council and the public during the course of the next few weeks. My thanks, as usual, to Janet Koelsch and Marsha BonDurant for their indefatigable assistance as the budget was being developed. It doesn't get much better than this!

Respectfully submitted,

Susan George
Town Manager