



**TOWN OF PORTOLA VALLEY**  
**Finance Committee Meeting**  
**Monday, August 19, 2024**  
**4 PM**

**George Savage**, Chair  
**Stephen Cassani**, Member  
**Kenneth Lavine**, Member  
**Chris Rittler**, Member  
**Michele Takei**, Member  
**William Urban**, Member  
**Mark Waissar**, Member

**SPECIAL MEETING**

**HISTORIC SCHOOLHOUSE– 765 PORTOLA RD. – PORTOLA VALLEY, CA**

**REMOTE MEETING ADVISORY:** On March 1, 2023, all committees in Portola Valley will return to conducting in-person meetings. A Zoom link will be provided for members of the public to participate remotely; however, the Town cannot guarantee there will be no technical issues with the software during the meeting. For best public participation results, attending the meeting in-person is advised.

**ASSISTANCE FOR PEOPLE WITH DISABILITIES**

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Town Clerk at (650) 851-1700 or by email at towncenter@portolavalley.net. Notification 48 hours prior to the meeting will enable the Town to make reasonable arrangements to ensure accessibility to this meeting.

**NOTE:** Mark Waissar will join remotely from 1050 Barnegat Lane, Mantoloking, New Jersey

**VIRTUAL PARTICIPATION VIA ZOOM**

**To access the meeting by computer:**

<https://us06web.zoom.us/j/82031514544?pwd=fv5naenaBVIZPMe2DZaNHys6uvEQ3q.1>

**Webinar ID:** 820 3151 4544

**Passcode:** 408586

**To access the meeting by phone:**

1-669-900-6833 or 1-888-788-0099 (toll-free)

*Mute/Unmute – Press \*6 / Raise Hand – Press \*9*

- 1. CALL TO ORDER & ROLL CALL**
- 2. ORAL COMMUNICATIONS FOR ITEMS NOT ON THE AGENDA**  
*Speakers' time is limited to three minutes.*
- 3. ANNOUNCEMENTS and PRESENTATIONS:**
- 4. APPROVAL OF MINUTES:**
  - a. Minutes of June 11, 2024 meeting
- 5. NEW BUSINESS:**
  - a. Audit status
  - b. General fund reserve policy discussion
  - c. PV Thrive working group updates and discussion
- 6. OTHER BUSINESS:**
- 7. ADJOURNMENT**  
This meeting body meets on an as-needed basis.

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**Land Acknowledgement:**

The Town of Portola Valley acknowledges the colonial history of this land we dwell upon—the unceded territory of the Ramaytush (rah-my-toosh) Ohlone, Tamien Nation, and Muwekma (mah-WEK-mah) Ohlone, who endured a human and cultural genocide that included removal from their lands and their sacred relationship to the land. Portola Valley recognizes that we profit from the commodification of land seized from indigenous peoples and now bear the

ecological consequences. We seek to understand the impact of these legacies on all beings and to find ways to make repair.

**TOWN OF PORTOLA VALLEY**  
**Finance Committee Minutes**  
**Tuesday, June 11, 2024**

**Attendees**

Sharif Etman, Town Manager  
Tony McFarlane, Finance Director  
Craig Taylor, Council Liaison  
George Savage, Chair  
Stephen Cassani, Member  
Ken Lavine, Member  
Michele Takei, Member  
Bill Urban, Member  
Mark Waissar, Member  
Chris Rittler, Member, Acting Secretary

**Call to Order**

The Chair called the meeting to order at 4:05 pm.

**Roll Call**

The Chair confirmed attendance.

**Oral Communications**

Public commented on the on-going IT problems encountered for town meetings and requested that these be addressed as soon as possible. Sharif commented that there was an expenditure in the proposed 24-25 budget to upgrade the IT system used for meetings.

**Approval of Minutes**

The minutes of the May 20, 2024 meeting were approved as is.

**New Business**

Sharif presented the materials that he plans to present to the Town Council on June 12. The Finance Committee was provided with print outs of the details of the proposed budget that is available on the town's website via Open Gov. The Finance Committee had been provided access to the data via the website beginning on the evening of Friday, June 5.

The members of the Finance Committee asked clarifying questions and provided recommendations to Sharif and Tony regarding the proposed budget, the budgeting process, and the presentation planned for the Town Council. Sharif and Tony answered all questions posed and made note of recommendations.

Members of the public provided recommendations to the Finance Committee, Sharif, and Tony regarding the proposed budget, the budgeting process, and the presentation planned for the Town Council. The Finance Committee made note of recommendations.

Council member Craig Taylor requested that the Finance Committee provide a recommendation to the Town Council based on the members' independent review and the discussion at this meeting. The Finance Committee agreed to provide the following recommendation to the Town Council.

The Finance and Audit Committee recommends that the Town Council ask the Town Manager and staff to conduct further budget scenario planning, including presenting a fully balanced budget, in September 2024. We further recommend that the Town Council request that town fund balances be recalculated on a quarterly basis rather than the current annual tally.

#### **Update on Audit Process**

Sharif stated that draft financials for 20-21 are available now and invited comment from the Finance Committee. Draft financials for 21-22 will be available in September; 22-23 will be available in December.

The Finance Committee agreed to provide comments on the 21-22 draft at the next meeting. Sharif will schedule a meeting with the auditors and the Finance Committee in December after the complete set of audited financials is available.

#### **Update on PV Thrive Working Groups**

The Finance Committee agreed to meet in August to review recommendations and findings from the working groups established at the May 20th meeting. Sharif requested that individual working groups provide Tony and him with any significant recommendations or findings prior to September as they become available.

#### **Adjournment**

The Chair adjourned the meeting at 6:20PM

## **Portola Valley Finance Committee**

### **REAL PROPERTY TRANSFER TAX (RPTT) AND CHARTER CITY PROPOSAL (Draft 7/16/24)**

**Appeal to Voters: Who Pays** Like property tax, everyone who owns property pays. And, like property tax, the payment is proportional to the value of the property. However, unlike property tax, the tax is paid only when the property changes hands ... so when it is sold. There already is a \$1.10 per thousand dollars RPTT paid to San Mateo County. Assuming that the RPTT is set at \$3.30 per thousand (same as Palo Alto), and that the average resident owns a property for 30 years, the RPTT payment is equivalent to an annual tax of 11 cents per thousand of valuation each year. Either the buyer or seller pays the tax or the tax can be split.

The RPTT paid by the buyer is added to the income tax basis of the property while the RPTT paid by the seller would reduce any taxable gain on the sale of the property. Recent reduction in the amount of realtor sales commissions paid on sale may also make paying the RPTT a little more palatable.

#### **Anticipated Revenues**

Assuming a transfer tax rate of \$3.30 per thousand of property value, and based on the average value of homes sold in Portola Valley over the past 5 years (2019-2023), (per Paula Cone) we estimate that a RPTT would raise \$850,000 per year and the buyer/seller would pay around \$12,000 at the median 5 year price average. However, the tax rate can be set at whatever rate is deemed best. See attached spread sheet for amounts the town would receive and buyer/sellers would pay at the different tax rates of nearby Bay Area cities. Some cities have a sliding scale of tax rates.

Because the annual number of homes sold and average home price are quite variable, a RPTT will result in fluctuating annual revenues. Consequently, it would be desirable to establish a reserve account of RPTT revenues that would allow a predictable annual use of the tax.

#### **Complexity to Implement**

Unfortunately, general law cities are prohibited from implementing a RPTT greater than 27.5 cents per \$500 valuation. Consequently, before implementing a greater RPTT, the Town would have to become a Charter City. This would require the consideration of many issues in drafting a charter, take time and be costly. The change to a charter city is subject to approval of a majority of voters. The adoption of a RPTT would be subject to approval by a majority of voters for a general purposes tax and two-thirds of voters for a special purposes tax. In addition, consideration of a general purposes tax must occur at the same time as Council elections except in cases of fiscal emergency declared by a unanimous vote of the Town Council. The Town of Los Altos Hills at its 5/16/2024 meeting to discuss a RPTT estimated a cost of \$150,000 (\$60K manager & attorney time, \$50K communication, \$40K polling of voters) to become a Charter City. Note: Since the Town of LA Hills planned to hold an election in November, 2024 or 2026, the Town did **not** budget for a special election(s), believing their situation did not qualify for the fiscal emergency exception.

#### **Cost/Effort to Maintain**

Minimal cost, as a RPTT is already collected by the county. And, the revenue collected would automatically increase along with property values over the years.

#### **Duration**

Because it requires the town to write a town charter and then voters to adopt both a change to a Charter City and a RPTT, it is a complex process. However, it is possible to place both measures on the same ballot. November, 2026 is the earliest election that could be used to obtain voter approval without a special election (cost between \$30-\$50K and qualification unknown).

#### **Future Flexibility**

Like property taxes, a RPTT would reflect the general increase in property values. Consequently, revenues derived from such a tax would increase over many years along with property tax revenues.

#### **Legal Risks**

Many Charter Cities currently impose a RPTT, thus there is little risk of legal challenges to them. Every California county currently imposes a RPTT.

*The information presented above is to the best of our knowledge and limited by what is publicly available.*

August, 2024

## Town of Portola Valley Finance Subcommittee for General Fund Reserve Policy

Members: Chris Rittler and Bill Urban

### Recommendation for Revised Town of Portola Valley General Fund reserve policy

Current policy states that the General Fund minimum unrestricted fund balance shall be maintained at or above 60%, measured as the current general fund unrestricted fund balance (including funds labeled as assigned or reserved) divided by the adopted fiscal year budget general fund expenditures.

#### Proposed Revised Policy

**The unrestricted fund balance shall be maintained in a range of 25% up to 60%, measured as the current general fund unrestricted fund balance divided by the adopted (or as amended) fiscal year budget general fund expenditures.**

The reserve measurement shall be calculated and reported at the end of each calendar quarter, based on the most recent general fund unrestricted fund balance and the run rate of annualized current planned spending. If the reserve calculation ever drops to 30% or lower, the reserve measurement shall be calculated and reported at the end of each month until the reserve returns above 30%.

**The 25% lower bound is a hard floor, and any decline below, or monthly forecast of a decline to below 25% will dictate the following actions be taken:**

Town Council and Finance Committee shall convene a joint special meeting within 30 days to approve immediate actions to reduce current expenditures or to access alternative sources of cash to preserve essential spending. Every alternative that does not impair current essential spending shall be considered, including at a minimum, suspension of new capital projects, a pause in current ongoing capital projects, deferral of pay down of long term liabilities, and a hiring freeze and deferral of raises.

It shall also identify then available additional standby cash resources. Those standby resources shall include any external cash sources available through agency or other governmental grants or loans, as well as the existing restricted funds held in the Open Space(15) and Inclusion in Lieu (45) accounts. These standby actions may be considered for purposes of maintaining the general fund reserve balance above the 25% level floor, but shall not be used for increasing it above the 60% reserve ceiling.

#### What is the goal of a reserve policy?

We understand the goal of the General Fund reserve policy is to provide sufficient funds for the continuation of essential Town services and facilities to residents, in the event of a fiscal or safety and health emergency, and to protect citizens' personal safety and safe access to their real and personal property, and the enjoyment thereof.

#### What is the benefit of an unrestricted general fund reserve policy?

A well designed fund reserve policy buys time for the Town to develop and implement solutions to address a fiscal emergency that threatens the ability of the Town to deliver services to its citizens. The reserve policy itself does little to address the underlying challenges that may be caused by increasing expenditures or inadequate revenues, but it can buy additional time to develop and implement solutions.

### **Why is a change in the timing and frequency of measurement recommended?**

This measurement has traditionally been taken annually, in early July following adoption of the new fiscal year budget, based on the unrestricted fund balance as of June 30.

However, to the extent that some reserved or assigned funds are highly likely to be spent within a known time period, even if they are not fully expected to be spent in the current fiscal year budget, these funds may be less available or prudent to tap in a financial emergency. For example, capital expenditure assignments may represent actual planned spending in current year, or in a future budget, whereas an assignment to pay off all or part of a long future liability, such as other post-employment benefits (OPEB), may not actually require full or even partial payment in the near term, and thus is more clearly available to serve as an emergency reserve source. Hence, a calculation of a second, or "immediately available" fund balance percent excluding both restricted funds and funds in likely near term expenditure assignments should be calculated on a periodic basis.

### **Why is an acceptable range being recommended, rather than a single minimum 60% figure?**

A single number or percentage implies a precision in the determination of an acceptable limit that may not be warranted or supported by available data or experience with managing financial emergency conditions. The reserve measurement can be affected dramatically by either large changes in planned expenditures over which the Town has some control, or large changes in revenues over which the Town may have little to no control, particularly in the short term. For example, there is a normal seasonal large cash drawdown period between the two annual dates of property tax collections forwarded by the County tax assessor to the Town at end of April and end of December.

A single minimum percentage also tends to bias management of unrestricted cash reserves to be at or above that amount at all times, without recognizing that there are both opportunity costs to the Town and taxpayers of holding excessive reserve funds, not just risks of holding insufficient reserve funds in a financial emergency. The current Town policy already acknowledges that the Government Finance Officer's Association (from 2007 survey) has recommended minimums that are substantially lower than 60%, including as low as 10-30%. The 60% ceiling is recommended as a "soft" ceiling, not requiring Town action to reduce below that level, but to encourage consideration of the opportunity cost of holding excess reserves. Those costs include loss of inflation-adjusted purchasing power and restrictions on the investment opportunities for Town funds.

### **Why is quarterly measurement and reporting of the policy recommended?**

A single measurement on the anniversary date of new fiscal year budget adoption may mask the variability and volatility of the measurement that results from seasonal planned or unplanned changes in cash flows and spending throughout the fiscal year. Since financial risk may arise at any point during the fiscal year, more frequent measurement provides more information about the ability of the Town to manage those risks. This may be particularly important if encountering a year of potential budget deficits or surpluses and the current measurement shows a reading close to either the lower or upper limit of the range limits, as it allows the application of potential fiscal actions at times other than at a single annual measurement date. In past years, in the past decade, monthly reporting of the then current reserve ratio appeared on the Town's monthly financial report.

For example, the proposed FY '24-'25 budget reports estimated starting unrestricted cash reserves of \$5,445,940 against annual proposed expenditures of \$8,683,381, or a 62.7% reserve ratio. However, end of fiscal year estimated unrestricted reserves of \$2,298,223 against next fiscal year expenditures of the identical amount to the current year, even with no spending increases, results in a ratio of 26.5%. The possibility of such a precipitous drop over just a single year dictates much more frequent measurement and management against the then current reserve ratio.



### **Where and in what form should reserves be held?**

Reserves can be held at any of the financial institutions currently used by the Town, including bank or credit unions, brokerage accounts, or the Local Agency Investment Fund (LAIF). Transfers should be freely and quickly available among any of these accounts.

The reserves need not, and most often should not be held in large amounts in only low-yielding bank accounts, or need not be held only in cash equivalent vehicles, such as money market mutual funds. Exchange traded funds invested in short term government and corporate fixed income holdings are fully compliant with the government code, and are quickly convertible into cash within 24-48 hours. The Town has a separate Investment Policy Statement that governs the type of allowable securities.

Earnings from the cash reserves, restricted funds, and other Town operating accounts that are currently managed as a combined pool of funds at the various financial institutions, are allocated on a prorata basis among the various funds as required by government code. Instead, it may be advisable to set up a separate account number within the brokerage firm and the LAIF to hold the combined amounts of only the few restricted funds that have no or minimal regular annual disbursements or expenditures (Open Space-15, Park in Lieu-40, and Inclusion in Lieu-45.) In this way, the monies needed to be held by an account number in low yielding bank accounts to pay monthly payroll and warrant list expenditures will be prorated only among the other Town general funds that require frequent disbursements. The few restricted funds will be able to continuously earn the full, higher returns available in the brokerage and LAIF accounts.

### **-What other sources of funds beyond the reserve should be considered to cover emergency financial needs if the trajectory of the reserve level is to continue declining below 25%?**

Outside private or public lines of credit may be available, such as grants or loans from Federal, State or local agencies or governments, like FEMA or others, as a result of specified natural disasters that cause a financial emergency and immediate needs for additional funds.

The qualifying situations, application procedures, timelines, and amounts that the Town may be able to access from various agencies and outside grants or emergency funds should be researched and documented in advance to aid in assessing the adequacy of any changes required to the reserve requirement. We expect the major types of financial needs include costs of post-emergency cleanup and debris removal, as well as repair or replacement of physical assets such as roads and Town-owned structures and equipment. The El Nino weather damage that afflicted the Town in the late 1990's may be a good starting point for assessing the likely types and costs of repairs and replacements, as those storms did major damage to a number of Town roads and structures. That period also likely holds some lessons about the procedures to qualify the Town to receive recovery grants and loans.

Interfund transfers/loans for periods up to one year from a restricted fund to the general fund, may be permissible under State law under certain conditions. These conditions include having a committed repayment plan and proper reporting of the existence of the transfer/loan. We would not propose actually moving funds from a restricted account to the general fund except in the case of inability to pay a Town payroll or process a warrant list. The following link comes from the California State Auditor's office regarding limitations on the permissible use of loans from restricted funds to town general funds, and a case study from 2018 of how the town of Lincoln northeast of Sacramento attempted to manage the use of such fund transfers.

<https://information.auditor.ca.gov/reports/2018-110/sections.html>

REAL PROPERTY TRANSFER TAXES FOR PORTOLA VALLEY, CA

| CALENDAR YEAR | NUMBER OF SALES | AVE PRICE<br>\$ | MEDIAN PRICE<br>\$ | RESIDENTIAL<br>+ OTHER<br>\$ | TOWN RECEIVES TAX USING PAULA<br>CONE SALES VALUES |           |           | IF BUYER/SELLER PAYS TAX USING<br>MEDIAN HOME PRICE |          |          | 30 YR<br>FIXED RATE |
|---------------|-----------------|-----------------|--------------------|------------------------------|--|-----------|-----------|---|----------|----------|---------------------|
|               |                 |                 |                    |                              | \$3.30/1000  | \$6/1000  | \$7/1000  | \$3.30/1000   | \$6/1000 | \$7/1000 |                     |
| CITIES        |                 |                 |                    |                              | PALTO/MVIEW  | SJOSE     | SMATEO    | PALTO/<br>MVIEW                                     | SJOSE    | SMATEO   |                     |
| 2015          | 53              | 3,320,185       | 3,000,000          | 168,554,000                  | 556,228  | 1,011,324 | 1,179,878 | 9,000   | 18,000   | 21,000   | 3.99%               |
| 2016          | 60              | 3,303,209       | 2,950,000          | 190,068,087                  | 627,225  | 1,140,409 | 1,330,477 | 8,850   | 17,700   | 20,650   | 3.79%               |
| 2017          | 68              | 4,040,805       | 3,510,000          | 244,298,955                  | 806,187  | 1,465,794 | 1,710,093 | 10,530  | 21,060   | 24,570   | 4.14%               |
| 2018          | 46              | 3,831,905       | 3,779,000          | 167,815,000                  | 553,790  | 1,006,890 | 1,174,705 | 11,337  | 22,674   | 26,453   | 4.70%               |
| 2019          | 46              | 4,218,714       | 3,610,000          | 187,173,000                  | 617,671  | 1,123,038 | 1,310,211 | 10,830  | 21,660   | 25,270   | 4.13%               |
| 2020          | 80              | 4,489,185       | 4,056,500          | 344,077,091                  | 1,135,454  | 2,064,463 | 2,408,540 | 12,170  | 24,339   | 28,396   | 3.38%               |
| 2021          | 76              | 4,563,750       | 3,842,500          | 333,550,750                  | 1,100,717  | 2,001,305 | 2,334,855 | 11,528  | 23,055   | 26,898   | 3.15%               |
| 2022          | 41              | 5,947,813       | 4,652,250          | 237,087,500                  | 782,389  | 1,422,525 | 1,659,613 | 13,957  | 27,914   | 32,566   | 5.53%               |
| 2023          | 38              | 5,071,095       | 4,500,000          | 189,030,500                  | 623,801  | 1,134,183 | 1,323,214 | 13,500  | 27,000   | 31,500   | 7.00%               |
| AVE 19-23     | 56              |                 |                    |                              | 852,006  | 1,549,103 | 1,807,286 | 12,397  | 24,794   | 28,926   |                     |

DATA SOURCE: PAULA CONE PRESENTATION TO FINANCE COMMITTEE MARCH 25, 2024. Residential + multifamily, commercial, industrial sales values used. Ave & Median price are for residential sales only  
 ESCROW OF THE WEST FOR CITY TAX RATES  
 MORTGAGE RATES FROM BANKRATE.COM

| Option   | Description   | Projected Incremental Annual Revenue | Town Data    |  | Assumptions   |                           |                |                               |
|--|---|--------------------------------------|--------------|--|---------------|---------------------------|----------------|-------------------------------|
|  |   |                                      | Town Data    | Comment regarding Town Data                                | Interest Rate | Incremental Rate Increase | Tax per Parcel | Incremental Increase in Share |
| 1  | Utilize Interest from All Reserve Funds for GF Expenses | \$1,080,000                          | \$21,600,000 | Estimated balance of All Reserve Funds (Unaudited)         | 5.00%         |                           |                |                               |
| 2  | Utilize Interest from OSF Reserve for GF Expenses       | \$415,000                            | \$8,300,000  | Estimated balance of OSF Reserves (Unaudited)              | 5.00%         |                           |                |                               |
| 3  | Utilized OSF UUT Revenue for GF Expenses                | \$400,000                            | \$383,405    | 2023-2024 OSF UUT Actuals (Unaudited)                      |               |                           |                |                               |
| 4  | Incremental Increase to UUT for GF Expenses             | \$178,421                            | \$1,338,160  | 2023-2024 Total UUT Actuals (Unaudited) 7.5% UUT           |               | 1.00%                     |                |                               |
| 5  | Parcel Tax Assessment for GF Expenses                   | \$102,000                            | 1700         | Parcels actively paying taxes (estimate)                   |               |                           | \$60           |                               |
| 6  | Increase incremental share of RE Tax from County        | \$69,814                             | \$2,995,000  | Revenue based on actual 3.82% for GF plus 0.47% ERAF to GF |               |                           |                | 0.10%                         |
| Numbers in blue font are changeable assumptions that will adjust the Projected Incremental Annual Revenue in the same row. |   |                                      |              |  |               |                           |                |                               |



**Town of Portola Valley**  
**Finance and Audit Committee**  
**Expense Reduction Working Group**  
**August 2024**

The former Mayor of Portola Valley, Steve Toben, wrote that Bill Lane “envisioned a community grounded in three values: frugality, volunteerism, and respect for the land.” In this context, a core element of frugality is fiscal discipline and reducing expenses as much as reasonably possible. The expense reduction working group of the Town’s Finance and Audit Committee has evaluated the Town’s financials available to us, compared them with the surrounding towns of Los Altos Hills and Woodside, and received input from the Town’s Finance Director. We present below our key findings and recommendations for the Town Council to consider.

The Town manages its finances through the various funds – some of which are restricted to specific uses. Most of the Town’s revenues and cost of services are accounted for through the Town’s General Fund. The analysis below relates to the revenues and expenses associated with the Town’s General Fund. Even though revenues from property taxes have risen substantially, well in excess of inflation since 2014, Town expenses have grown dramatically more. This has led to a situation today that the Town Manager and members of the Town Council have described as a “structural deficit”. We disagree that there is a structural deficit. The Town is in a fortunate position of having a steady and predictable rising source of property taxes, and \$5,445,940 of unrestricted fund balances in the Town’s General Fund, which is a result of the Town’s minimum fund balance policy, and years of fiscal discipline (we note that the \$5.4 million fund balance amount may change based on the results of the audits currently underway). This unrestricted fund balance, assuming the post-audit amount is similar to what we currently assume, should afford the Town Council the opportunity to return the Town to operating with a budget surplus, but the Town Council must make hard choices now in order to do so.

## Revenue

Two significant sources of revenue received by the Town are from (i) property taxes paid by the Town's property owners to San Mateo County, a portion of which is allocated to the Town, and (ii) charges for services related to property development.

Property tax revenues received by the Town have risen meaningfully in the past 10 years. In the fiscal year ended June 2014, property tax revenues to the Town were \$2.3 million. In the fiscal year ended June 2024, property tax revenues are estimated to be \$3.7 million, an increase of ~60%, representing a compound annual growth rate (CAGR) of 4.9%, well ahead of the 2.8% annual inflation rate over the same period. As part of the annual budgeting process, it has been the Town's historical practice to estimate increased property taxes resulting from changes in ownership in addition to the maximum 2% annual increase of property taxes under Proposition 13. This practice recently led to an overestimate of expected tax revenues when sales of property were lower than expected. **We recommend that the Town budget include only the potential increase of the previous year's tax revenues (maximum of 2%), and exclude any projections of further increased tax revenues as a result of property sales.**

Although property taxes have increased meaningfully at 1.75x the rate of inflation over the past 10 years, fees charged for services by the Town have been largely flat over the same period. For the fiscal year ended June 30, 2014, charges for services were \$1.1 million, equal to the level for the fiscal year ended June 30, 2024. For the fiscal year ended June 2025, charges for services are expected to be even lower, totaling \$835,200, a decrease of 24% from 2014. The last comprehensive fee study for services was completed in 2012. The Town has recently started the process to evaluate and update its fee schedule for services and has issued a request for proposal from consultants to update the fee schedule.

## Expenses

There are three significant categories of Town operating expenses: (i) the cost to employ Town staff, (ii) the cost of law enforcement services, and (iii) the cost of consultants. **Any meaningful attempt to bring expenses in line with existing sources of revenue must focus on rationalizing these three expense categories (and for context, this analysis assumes no new revenue sources).**

*Town Staff.* The cost to employ Town staff has grown dramatically, largely as a result of a larger staff. In the fiscal year ended June 2021, there were 15 full-time equivalent (FTE) employees with an aggregate

cost of \$2.4 million (including salaries and benefits). Budgeted for the fiscal year ended June 2025, there are 20 FTE's with an estimated cost of \$3.8 million, a 56% increase.

Below are the budgeted FTE's for the Town staff over the past 14 years:

| <u>'12-13</u> | <u>'13-14</u> | <u>'14-15</u> | <u>'15-16</u> | <u>'16-17</u> | <u>'17-18</u> | <u>'18-19</u> | <u>'19-20</u> | <u>'20-21</u> | <u>'21-22</u> | <u>'22-23</u> | <u>'23-24</u> | <u>'24-25</u> |
|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| 13            | 14            | 14            | 14            | 15            | 16            | 16            | 16            | 15            | 15            | 20            | 19            | 20            |

There were 4,353 residents of the Town in the 2010 census and 4,462 in the 2020 census, a growth of less than 3%. The growth of the Town's staff and corresponding cost has far outpaced the growth of the Town. During the ten-year period from FY2012-13 through FY2021-22 staffing of 14-15 FTEs was typical (and extensive use of consultants was not required). **We recommend that the Town Manager and the Town Council explore ways to improve efficiency and optimize operations so that the Town's staffing levels can be reduced to be more in line with this historical range.**

*Law Enforcement.* The cost of law enforcement has also grown dramatically. For the fiscal year ended June 2015, the cost of law enforcement funded by the General Fund was \$807,963. For the fiscal year ended June 2025, the budgeted cost is \$1,776,384, an increase of +120%. However, this dramatic increase is understated. The Sheriff's Office of San Mateo County agreed to defer a more dramatic cost increase until after the fiscal year ended June 2025, the expiration of the current contract. The current contract specifies 5.25 law enforcement FTE's allocated to the Town at an estimated full cost of \$2,346,584, an increase of +190% from 2015. **We recommend that the Town Council determine the right level and type of law enforcement FTE's, and after having made that determination, explore alternative law enforcement options, such as the City of Menlo Park and City of Palo Alto police departments, and the County of Santa Clara Sheriff department, in addition to the San Mateo County Sheriff department.**

Because the current contract with the Sheriff of San Mateo County expires on June 30, 2025, **we recommend that the Town Council make the FTE determination and instruct the Town Manager to send a request for proposal for law enforcement services to all interested and capable departments before the end of this calendar year (December 2024).** Even the addition of one more department

bidding for this contract will introduce competition and provide valuable negotiating leverage where very little exists today.

Below is a comparison of the amount spent by surrounding towns on law enforcement:

|                 | Portola Valley | Woodside    | Los Altos Hills |
|-----------------|----------------|-------------|-----------------|
| Residents       | 4,462          | 5,053       | 8,168           |
| Law Enforcement | \$1,776,384    | \$2,911,785 | \$3,026,838     |
| Cost/Resident   | \$398          | \$576       | \$371           |

*Use of Consultants.* 10 years ago, the use and cost of consultants not charged to residents seeking building permits was negligible and the cost of the Town Attorney was \$116,135. For the fiscal year ended June 2025, the budgeted cost of consultants is \$617,040 and the cost of the Town Attorney is \$245,000 (not including the additional \$45,000 to conduct a user fee study). The funds used to pay consultants comes from the Town’s unassigned, unrestricted fund balance of the Town’s General Fund. As of June 30, 2024, the Town’s total general purpose funds were \$5,445,940. However, only \$2,298,223 of this amount was unassigned. The rest of the unrestricted funds are assigned to specified uses such as unfunded pension liabilities and unfunded retiree medical expenses. As of June 30, 2025, the unassigned, unrestricted portion of the general fund is expected to be only \$372,426. This means that the Town Council has only this current fiscal year (ending June 2025) to cease deficit spending by either significantly reducing spending or by significantly increasing taxes. **Given the difficulty of raising additional taxes in an already high-tax jurisdiction, we recommend that the Town Council consider sharply reducing or eliminating the use of consultants.** The Town simply does not have the funds to pay consulting fees beyond this current fiscal year.

**Other Things to Consider**

*Planning Function.* As discussed above, the Town is commissioning a comprehensive fee study that may result in additional revenue to the Town as fees are adjusted to reflect current market rates. However, it is unlikely that fee rationalization alone will come close to closing the gap between Planning Division revenue and expenses, which in the 2024-25 preliminary budget period is expected to result in a massive loss of (\$822,257). As a comparison, in 2023-24, the Planning Division also showed a substantial actual loss of (\$593,536), and the year prior an even larger loss of (\$1,199,483). **We recommend that**

**The Town Council seriously consider outsourcing the Planning function which would almost certainly result in substantial cost savings.**

*Capital Projects.* We must take a hard look at the Capital Projects Fund budget and prioritize projects that are absolutely necessary, defer or cancel those that are not, and get creative with alternatives, as appropriate. **For example, we recommend that the \$600K Sheriff Substation/Expansion be shelved and/or significantly reimagined given the current fiscal situation.** Perhaps a room or area of the Town Center can be repurposed for use by the Sheriff. Or the materials that are stored in the Sheriff's current space can be moved to another location or structure. We believe that the Town cannot currently afford the planned \$600K project.