

June 28, 2006

Honorable Mayor and Town Councilmembers:

Last night, the Town Council adopted the Town budget for 2006-07, providing a net expenditure plan of just under \$6.4 million. The budget, as adopted, differs from the proposed budget only in the addition of a \$4,000 reserve in the Town Council Department budget. The Council will be considering whether it wishes to adopt a policy concerning the granting of funds to non-profit agencies within the County later this summer. The \$4,000 will be available for allocation, depending upon the outcome of the Council's policy discussion.

The staff and I will now undertake the various projects and tasks that the adopted budget is meant to support. We will bring in a space planner to look at Town Hall space usage needs. We will be identifying the best project/permit tracking software for installation at Town Hall and available through the Town's website to our customers and residents. We will be working with the Sheriff to most effectively deploy the additional deputy position added with this budget. We will follow through with the myriad of other undertakings designed to improve how business is done and we will quietly handle all of the daily responsibilities that accompany running the Town government.

The staff and I look forward to a productive year and to providing the Town Council, the various advisory bodies, and the residents of Woodside with the best service possible.

Respectfully submitted,

Susan George  
Town Manager

June 7, 2006

Honorable Mayor and Town Councilmembers:

One year ago, you considered the budgets for the two-year period ending June 30, 2007, adopted the first year's budget, and gave your preliminary approval to the second year's expenditure plan. Now, in what seems like a nanosecond later, you have the opportunity to take another look at that second year before you adopt it as the Town's formal budget for 2006-07. I have updated the revenue and expenditure bases for the 2006-07 and, in light of certain changing fortunes and needs, have incorporated several new proposals that I feel are required as we face the new fiscal year and the challenges it will bring. First, to borrow a phrase, let's do the numbers.

The budget as now proposed for 2006-07 totals \$6.4 million, net of all interfund transfers. This is 11% higher than was the preliminary budget that you reviewed in June of 2005, an increase of about \$632,000. This increase is the net result of several factors, all of which are discussed later in this Transmittal Letter. The Town's total resources available to support the budget have also increased during the last year. The operating revenues now projected for 2006-07 are about \$605,000 above the levels anticipated a year ago and available reserves, primarily in the General Fund, have grown by about \$4 million. This fortunate change in available financial support provides the Town the wherewithal to comfortably meet its obligations and to make decisions that will close old chapters and open new ones in the course of the Town's history. I think that it is especially appropriate, in this the year that the Town celebrates fifty years of incorporation, that we remember that the decisions made today will be woven into the continually growing fabric of what constitutes the Town's history. As will be outlined in following paragraphs, the Town's current fiscal position provides the Town Council the opportunity not heretofore available to leave its positive mark on the Town's record book. On to the key issues and decisions that are before you:

**The Resource Base**

During 2005-06, the Town's fortunes rose dramatically, with the General Fund being the main benefactor. Not only did we experience two major windfalls, but our regular revenue stream performed well above expected levels. These matters have all been reported to the Town Council during the course of the year, but a quick review of the most significant components of our current position is warranted. First, in late November of 2005, the County forwarded a check for over \$1.1 million in prior years' property tax revenues. It seems that an obscure section of the State Revenue and Taxation Code dating back to the late 1980's (the Tax Equity Allocation, or TEA) mandates counties to ensure that the cities within the county receive at least 7% of the property taxes generated within each city's boundaries. This mandate had been overlooked by San Mateo County and four cities within the county were receiving less than the 7% level, including the Town of Woodside, which has historically received about 4.9%. Following inquiries from Portola Valley, the County Controller discovered the mistake and allocated additional property taxes for two fiscal years (2003-04 and 2004-05). The Controller also indicated that ongoing allocations of the TEA funds could be anticipated by the involved cities. For the Town, this translated into another

\$500,000 for 2005-06 and beyond. Thus, the TEA mandate added \$1.1 million to reserves and \$500,000 to the current and ongoing revenue base. The second windfall occurred this spring, when the Town received a check for over \$1.97 million, representing its twenty percent share of the proceeds of the sale of property donated to it in the late 1960's. Finally, our regular revenue sources have performed well during the year, with property taxes, sales taxes, real property taxes, and interest income at the head of the pack. Total additional revenues of just under \$400,000 will be in the Town's coffers by this fiscal year's end.

The TEA mandate is still a topic of discussion between the County and the four involved cities. The cities are questioning the County's assertion that it owes revenues for just the two prior years, rather than back to the effective date of the legislation that created the TEA. The cities are also questioning the County's treatment of Education Revenue Augmentation Fund shifts vis-à-vis the 7% property tax allocation requirement. The ongoing revenues included in the 2006-07 Proposed Budget are conservatively based and do not anticipate the potential for additional revenues should the cities prevail on these issues.

**Police Services: The Contract with the Sheriff**

The Town's current agreement with the County of San Mateo for police services terminates on June 30, 2006. When the 2005-07 Proposed Budget was being prepared, there were no estimated cost figures available for the new three-year contract period that will begin on July 1, 2006. This was flagged as an issue for the Town Council. A projected increase of about 6.5% above the 2005-06 contract level was built into the budget for both the basic services and the Citizens' Option for Public Safety (COPS) Program.

The Sheriff's Office recently provided the Town with its proposal for the next three-year contract period. At the insistence of the County Manager, a number of additional costs are being included in the new contract rate, including the cost of command supervision and general County overhead charges. The total contract cost is thus quite higher than it has been heretofore. The following chart summarizes the Town's costs for police services for the current fiscal year, the costs assumed in the 2005-07 Proposed Budget, and the County's new contract cost levels.

Service Component	2005-06 Cost	2006-07 Preliminary	2006-07 Proposed
Basic Services	\$493,469	\$518,469	\$640,262
COPS Program	140,872	150,000	162,320
<b>Subtotal</b>	<b>\$634,341</b>	<b>\$668,469</b>	<b>\$802,582</b>
Less: State COPS Funds	(100,000)	(100,000)	(100,000)
<b>Net General Fund Cost</b>	<b>\$534,341</b>	<b>\$568,469</b>	<b>\$702,582</b>

The first year of the new three-year contract is a net 31.5% above the 2005-06 level and 23.6% above what was included in the preliminary budget for 2006-07. This funding requirement will continue to rise over the life of the new agreement, with net General Fund costs of \$760,260 and \$817,033 for 2007-08 and 2008-09, respectively.

**☑ Enhanced Traffic Enforcement: A Trial Program**

An enhancement in the level of available traffic enforcement resources is proposed, on a trial basis, for 2006-07. The Sheriff's Office was requested to provide a proposal for such an enhancement. There are two ways to accomplish this. The first involves the use of weekend shifts, using deputies on an overtime basis to provide augmented weekend only traffic enforcement. A three-day (Friday – Sunday) weekend shift would cost \$2,873 per weekend. The second way to augment these services involves the addition of one deputy, on a year-round basis, dedicated to Woodside traffic enforcement, at an annual cost of about \$179,000.

This trial program is being proposed to address the many issues that the Town has encountered during the last year involving its roads. Incidents of speeding have increased, as have other negative road user behaviors. Anecdotal evidence supports a feeling that the roads are becoming increasingly less safe for all categories of road users. Enforcement is universally cited as the most effective means for addressing undesired behaviors. It is proposed that the option of adding a full-time deputy, on a year-round basis, be adopted for 2006-07. This deputy would not be shared with Portola Valley, as is done with the regular contingent of deputies. Having a dedicated position, rather than relying on weekend overtime shifts, would allow for broader coverage and would also provide the added advantage of ensuring that the assigned deputy is familiar with the Town and its needs. A trial program is proposed, to cover the 2006-07 fiscal year, to be evaluated for its effectiveness and continuing fiscal feasibility by April of 2007.

**☑ Repaying the General Fund Debt: Let's Burn the Mortgage**

The Town has done a good job of reducing its debt over the years, eliminating all short-term debt in 1997, and consistently paying down its long-term obligations. At this point, there is still over \$1.8 million outstanding, for two debt issuances. These two debt service issues date back to 1990 and 1992, when the Town Council issued Certificates of Participation (COP's) to finance the construction of Town Hall and the purchase of the Mathisen residential property for the parking assessment district (PAD). The original debt totaled \$3,645,000 and included repayment schedules that extended to 2015 for the 1990 COP's and 2012 for the 1992 COP's. Both issues have been refinanced over the ensuing years. The following table summarizes the history and current status of each COP's issuance.

<b>Issue</b>	<b>Original Amount</b>	<b>Outstanding</b>	<b>Average Annual Debt Svc.</b>	<b>Interest Rate</b>
1990 Town Hall	\$2,240,000	\$1,223,000	\$145,000	4.2%
1992 PAD	1,405,000	623,531	98,000	3.95%
<b>Total</b>	<b>\$3,645,000</b>	<b>\$1,846,531</b>	<b>\$243,000</b>	

The Town Council is in the enviable position of having the resources it needs to fully retire this debt now, six years early for the PAD COP's and nine years early for the Town Hall COP's. This debt was the source of major citizen consternation when it was first issued and the Town's annual expenditure capacity has been diminished by at least a quarter of a million dollars every year since the debt was first issued. This is that

moment in history when the Council can decide to close a chapter of history and move the Town out of debt for the first time in over sixteen years. This proposed budget is based upon a recommendation that the outstanding debt be called by June 30, 2006, with about \$1.936 million in principal, accrued interest, and prepayment penalties allocated from current reserves to fully retire the debt. The 3% prepayment penalty of about \$55,000 will be recovered by the end of 2008, based upon projected interest expense savings versus the interest earnings that the Town might accrue should it just invest the \$1.936 million and leave the debt in place. The Town's average interest earnings rate over the last two years has been about 2.8%, lower than the cost of interest for these two COP's issues. The repayment of the debt is the financially prudent thing to do with a part of the Town's windfall earnings. Moreover, what its repayment represents has its own intrinsic value for the Town, a value that cannot be added to the balance sheet. The Town will still enjoy over \$2.75 million in General Fund reserves at June 30, 2006, and will be mortgage free as the next fifty years of Town history is recorded.

**Workplace Improvements: Providing Adequate Tools and Space**

The Town has been working to implement a series of recommendations that were included in last year's report on the Development Services process. Two of these recommendations concern the need to provide better tools and adequate, efficient space for the staff who is responsible for reviewing, processing, and issuing building and other development-related permits. The specific tool recommended in the report is a new software system for tracking all permits and their status, accessible through the Town's website. Currently the Town has a database that uses Access to gather and sort this type of information. It has very limited flexibility and is a marginally useful tool. Initial research has been done on the types of software systems that are currently available to the Town. A staff team, including the new Development Services Engineer, will be working this summer to develop a recommendation for acquiring the new system software. The team's charge will include site visits to other jurisdictions to fully assess the capabilities of available packages and to determine what custom features might be most useful to the Town. No funds are included in the 2006-07 Proposed Budget for the cost of the new system, as we as yet have no solid cost data. This is something that will require resources later this calendar year. Given the Town's reserves and its estimated operating surplus of over \$250,000 for 2006-07, identifying the needed resources should not pose a problem.

The companion recommendation is that adequate and efficient space needs to be provided in order for the staff to work at top capacity. Town Hall is overcrowded and there are not enough open work spaces for such functions as plan checking. To accommodate the added space needs associated with the addition of the Development Services Engineer and the as yet unidentified Assistant Town Manager, the Sheriff is losing the "substation" office off the reception area and will be temporarily assigned to the open area across from the Town Council's mailboxes at the back entry. This is not an arrangement that can be sustained for very long, but it is the only current option available. The 2006-07 Proposed Budget includes \$40,000 to be used to hire a professional space planner to assess Town Hall and provide a recommendation that will result in the additional needed space and that will make that space more efficient. It is not yet predictable what avenue that recommendation will take. It may be feasible to

totally rearrange the current space in order to meet the needs, but it may also be necessary to add space to the rear of the building on the planning and building side. Evidently, there were plans drawn up for such an addition when the original building plans were designed in the late 1980's, although these have not been located in the Town's storage. Whatever the ultimate recommendation involves, there will be one-time costs associated with its implementation. Hiring an expert early this fiscal year will ensure that a recommendation is delivered to the Town Council by this fall. Costs and financing sources will be taken up at that time.

**Planning Department Administrative Support**

A year ago, the Town Council approved the addition of an Administrative Technician position to the Planning Department staff, for a one-year period. The department was suffering from a backlog of administrative tasks and projects and needed the extra help. It is my assessment, in tandem with the Planning Director, that this support staff is still critically needed as the new fiscal year approaches. There are many projects still on the work plan and new undertakings, such as the identification and implementation of the new permit tracking system, that wait in the wings. The 2006-07 Proposed Budget includes about \$70,000 for the continuation of this position for another year. This resource has been invaluable to the department and to the Director during the last eleven months. A one-year continuation of this support seems prudent at a time when many changes are taking place and the attention of the Planning Director to non-administrative details is a critical factor.

**Barkley Fields and Park**

The construction contract for the Barkley Fields and Park Project was awarded in early June of 2006 and the groundbreaking ceremony is scheduled for June 19<sup>th</sup>. The project was delayed for several reasons during 2005-06 and operation of the park is now not scheduled to go online until the spring of 2007. For that reason, the operating budget for the park has been reduced from the level included in the preliminary 2006-07 budget and is now proposed at a level sufficient to cover about two months in the next fiscal year. This reduces General Fund requirements by about \$65,000.

**50<sup>th</sup> Anniversary Festivities**

The plans for this year's celebration(s) are more firmly identified than they were a year ago and an additional \$25,000 has been added to the Administration Department budget to support these plans, which will culminate with an anniversary party on November 16, 2006. More details will follow as the things are further refined.

**Requests for Funding: Non-profit Organizations**

The Town has received requests for funds from four non-profit organizations for 2006-07. Three of these requests are discussed in the Town Council Department budget summary. They include:

1. Sustainable San Mateo County has requested \$2,500 to support the printing and distribution of *Indicators for a Sustainable San Mateo County*. This publication includes approximately thirty indicators of the County's quality of life. This is the seventh

year that the Town has been requested to provide such funding. To date, the Town Council has declined to grant funds to this organization.

2. HIP (Human Investment Project) Housing has requested an unspecified contribution from the Town. This is the first time that HIP Housing has approached the Town for funds. According to the literature provided, the organization provides permanent housing solutions for over 1,000 people throughout San Mateo County and assists 2,500 people with housing resources.
3. Shelter Network has requested a \$2,000 grant to support its transitional housing programs for homeless families and individuals. The Town Council approved a \$2,000 grant to this organization in July of 2005.

In keeping with my past recommendations concerning such funding requests, no funds have been included in the 2006-07 Proposed Budget for any of these three organizations. It has been my position that although these organizations may offer wonderful and needed services, they do not directly contribute to specific Town goals and objectives.

A fourth funding request, for \$5,000, was received from the Citizens' Emergency Response and Preparedness Program (CERPP). As the Town Council may recall, the Town has provided \$70,000 to CERPP since its inception in 1999. As of June 30, 2005, CERPP had over \$15,000 in Town monies still unspent in its bank account and the Town Council decided to forego allocating additional resources until such time as CERPP could provide a justification for the additional funds. In response to CERPP's recent request for funds in the next fiscal year, I asked the new Treasurer for an accounting of the \$15,000 and was told that the Board of Directors had decided to commingle all funds, making a specific accounting impossible. While I support the mission of CERPP and feel that it is one non-profit that does directly contribute to the Town's goals and objectives, I am not supportive of providing funds without any accountability on the organization's part. I have included the requested \$5,000 in the 2006-07 Proposed Budget, but my recommendation is that it not be contributed in one lump sum. Rather, I would suggest that I work with the CERPP Treasurer to develop a reimbursement process, whereby CERPP identifies those things for which it specifically needs Town funds, I okay the purchase, and then allocate funds to CERPP on a reimbursement basis.

The Town is in an enviable position from a financial standpoint and the Town Council has several opportunities before it as the discussions of the 2006-07 Proposed Budget get underway. There is a lot of work on the plates of the Town's staff and I will be providing you with an overview of the current work plan during our budget meetings. I am optimistic that we are on the brink of making some needed changes for the good and that the next fiscal year will be productive and positive. I look forward to working with you towards that end. Managing this Town has never been without its challenges and it can never be successfully done without the support of the Town Council or without the hard work and dedication of the many individuals who make up the Town Hall staff family. My thanks both to you and to them for working collegially together through the thick and the thin towards a common goal.

I would like to especially thank our Town Engineer, Kent Dewell. I was so fortunate that he was willing to come to Woodside thirteen years ago, after his illustrious and successful career in San Jose. He has made many changes in the Town during his tenure and we would never have accomplished half the things we have without his steady and resourceful efforts. He thinks and cares deeply about the Town and its natural resources and environment and he has always gone the extra mile to identify additional funds to fix the roads or to respond to emergency situations in a cool and considered way. I have always considered myself lucky to have been handed another chance to work with Kent, following our days working together for the City of San Jose. I will miss him tremendously after he retires and takes up traveling and gardening instead of the never-ending hurdles at Town Hall. He has been a loyal and steadfast confidante and friend. I wish him the very best and will never be able to thank him enough.

Respectfully submitted,

Susan George  
Town Manager