

August 14, 2008

To: Members, Formation Commission

From: Martha Poyatos
Executive Officer

Subject: Report & Recommended Determinations- Municipal Service Review and Sphere of Influence Review for the Town of Atherton & Atherton Channel Drainage District

Summary:

The attached municipal service review and sphere review examines the categories set forth in Government Code Section 56430 and 56425 in regard to services of the Town of Atherton, including the Town-governed Atherton Channel Drainage District.

In the course of the municipal service review, preliminary interest was expressed regarding expansion of the Town's sphere of influence to include areas of North Fair Oaks to add revenue diversity and to facilitate meeting the Town's region housing needs allocation. Given that there was not consensus on the issue, the municipal service review and sphere review provide direction for the Town to further study the feasibility of annexation. In the meantime, given that the Cortese Knox Hertzberg Act requires periodic review and permits application for amendment of the sphere of influence, it is recommended that the Commission reaffirm the sphere of influence of the Town of Atherton and the Atherton Channel Drainage District by taking the following actions:

- Adopt the Municipal Service Review Determinations found on Pages 17 through 19
- Adopt the Sphere of Influence Determinations found on Pages 22 and 23
- Reaffirm the sphere of influence of the Town of Atherton and Atherton Channel Drainage District

July 30, 2008

TO: Town of Atherton
Affected Agencies
Interested individuals

SUBJECT: Municipal Service Review and Sphere of Influence Update
for the Town of Atherton

Attached please find the municipal service and sphere of influence review for the Town of Atherton and Atherton Channel Drainage District. LAFCo is required by State law to complete municipal service and sphere of influence reviews for all cities and special districts in the County by taking three actions:

- Prepare and adopt Municipal Service Review Report and Determinations pursuant to Government Code Section 56430
- Prepare and Adopt Sphere of Influence Report and Determinations pursuant to Government Code Section 56425
- Reaffirm or Amend the Sphere of Influence

This municipal service and sphere review report and determinations have been prepared for consideration by the Commission at the August 20, 2008 scheduled to begin at 2:30 in the Board of Supervisors Chambers in Redwood City.

This report is available on line at www.sanmateolafco.org.

Additional comments on the report may be submitted to LAFCo by August 11, 2008 at the following address:

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Municipal Service & Sphere of Influence Review
Town of Atherton
Atherton Channel Drainage District
July 30, 2008

Introduction

Government Code Section 56430 requires that LAFCo complete municipal service reviews prior to update of a sphere of influence reviews on all cities and special districts. This report is a municipal service review for the Town of Atherton and Atherton Channel Drainage District, a subsidiary district of the Town. Service providers include the Town, West Bay Sanitary District, County-governed Fair Oaks Sewer Maintenance District, Menlo Park Fire Protection District and California Water Service Company. This municipal service review is not a proposal for reorganization, rather a State-mandated study of the Town in regard to nine areas of determination as set forth in Section 56430:

- (1) Infrastructure needs or deficiencies
- (2) Growth and population projections for the affected area
- (3) Financing constraints and opportunities
- (4) Cost avoidance opportunities
- (5) Opportunities for rate restructuring
- (6) Opportunities for shared facilities
- (7) Government structure options, including advantages and disadvantages of consolidation or reorganization of service providers
- (8) Evaluation of management efficiencies
- (9) Local accountability and governance

The study provides an opportunity for the public and affected agencies to comment on service provision prior to LAFCo adoption of required determinations. Once adopted, LAFCo uses determinations in updating a sphere of influence, which is a plan for boundaries and governance of a public agency.

Local Agency Formation Commission (LAFCo): LAFCo is a State-mandated, independent commission with countywide jurisdiction over the boundaries and organization of cities and special districts including annexations, detachments, incorporations, formations and dissolutions. The Commission includes two members of the Board of Supervisors, two members of city councils, two board members of independent special districts, a public member, and four alternate members (county, city,

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special district and public). LAFCo adopts a budget and contracts with the County of San Mateo for services. The Executive Officer serves as LAFCo staff reviewing boundary change applications and preparing municipal service reviews and sphere of influence studies. LAFCo's net operating budget is apportioned in thirds to the County of San Mateo, the 20 cities in the County and the 24 special districts.

Area under Study: The study area includes the Town of Atherton. Service delivery is summarized below.

	Town of Atherton-Service Providers
Police	Town of Atherton
Fire	Menlo Park Fire District
Streets/Lights	Town of Atherton
Street Sweeping	BFI/Allied Waste contracted by the Town
Animal Control	County of San Mateo Joint Powers Authority Contract with Peninsula Humane Society
Library	County of San Mateo Library Joint Powers Agreement
Park & Rec.	Town of Atherton
Sewer	West Bay Sanitary District (Majority), Fair Oaks Sewer Maintenance District
Water	CalWater ¹
Garbage Collection	BFI/Allied Waste thru membership in South Bayside Waste Management Authority

Please see maps of the Town and the Drainage District on following pages.

¹ California Water Service Company is an investor-owned public utility and is not subject to LAFCo jurisdiction.

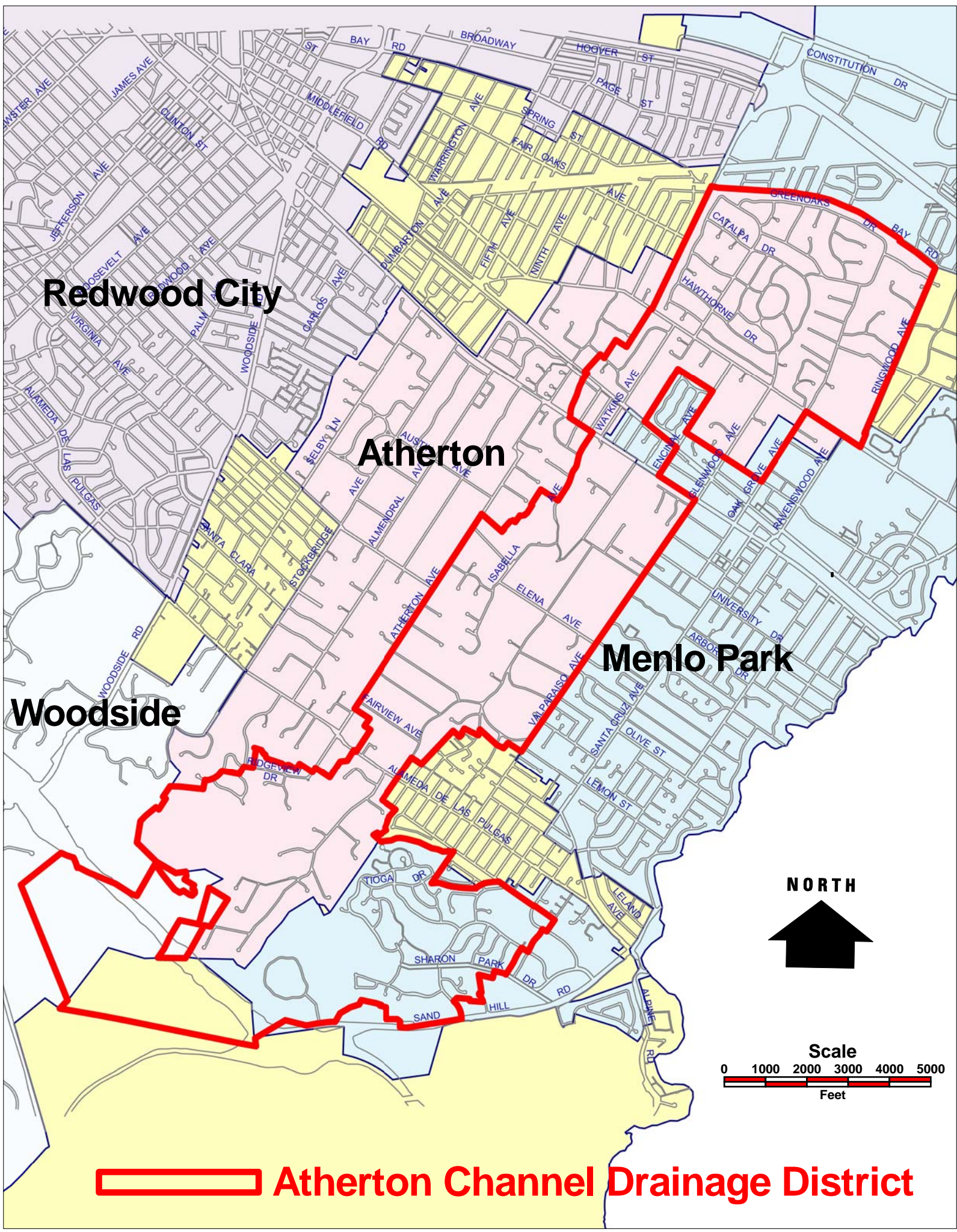
Town of Atherton



Municipal Government

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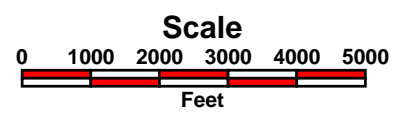
Redwood City

Atherton

Menlo Park

Woodside

NORTH



Atherton Channel Drainage District

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Municipal Service Review

Service review criteria as set forth in Government Code Section 56430 are examined below. Discussion provides background on each agency and is organized under the nine areas of determination required by Government Code Section 56430. Recommended determinations will be drafted after comment by the affected agencies, residents and interested parties.

Town of Atherton:

The Town of Atherton (incorporated in 1923) is a general law city² with five council members elected at large operating under a council-manager form of government. The Council selects the Mayor and appoints the City Manager, City Attorney and members of Town boards and commissions. The State Department of Finance January 2007 estimated population for the Town was 7,423 persons (Census 2000 was 7,194). Atherton encompasses approximately six square miles and is bounded by the City of Redwood City, Unincorporated County of San Mateo, Town of Woodside and City of Menlo Park. The Town's sphere of influence is coterminous with Town boundaries, with no territory eligible for annexation to the Town. The Town, by design upon incorporation, is primarily residential. The Town of Atherton website states: "*The Town of Atherton desires, insofar as possible, to preserve its character as a scenic, rural, thickly-wooded, residential area, with abundant open space with streets designed primarily as scenic routes rather than for speed of travel.*"

Town services provided directly or by contract include administration, police protection, recreational services, street maintenance (54 road miles), planning and building inspection. Fire protection and paramedic service is provided by the independent Menlo Park Fire Protection District, sewer service is provided by West Bay Sanitary District and Fair Oaks Sewer Maintenance District and water service is provided by California Water Service Company. Ambulance service is provided through a countywide joint power agreement³. The

² California has two main classes of cities, general law and chartered. General law cities are governed by state law and local ordinances. Chartered cities have more freedom to govern their own affairs and are governed by charters and ordinances as well as some state laws.

³ San Mateo County fire agencies participate in the San Mateo County Pre-hospital Emergency Services Joint Powers Authority (ALS-JPA), the San Mateo Operational Area Emergency Services JPA and the Fire Net Six providing centralized dispatch and a move-up-and-cover plan to ensure that systematic fire station coverage is provided during periods of increased service demand. American Medical Response (AMR) and four local fire agencies provide emergency advanced life support transport.

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Town is within the Menlo Park City School District and Sequoia High School District. Appendix A includes a profile of the Town.

(1) Infrastructure needs or deficiencies

A) Town of Atherton

Town of Atherton facilities include Council Chambers, Library, Police Department/Administration/Town Hall/Building, Permit Center/Building and Public Works and Corporation Yard located in the vicinity of Ashfield and Station Lane, and Holbrook Palmer Park on Watkins between Middlefield Road and El Camino Real. As noted above the Town maintains 54 road miles. Sewer service is provided predominantly by West Bay Sanitary District with some areas served by County-governed Fair Oaks Sewer Maintenance District. Water service is provided by California Water Service Company.

Initial Town comments cited assessment of the need for a new town hall which would integrate services into one building and replace the current Police/Administration building (constructed in 1965) and the modular building which houses the Building and Public Works Departments.

The Adopted Capital Improvement Program for 2007-2008 totals \$3,331,894 including appropriation for carry-over projects from the 2006-2007 fiscal year, \$1.2 million in street seal and reconstruction, improvements at Holbrook Palmer Park and other capital projects. Funding sources primarily include the parcel tax, gas tax, road impact and grants. The 2008-2009 Adopted Budget includes \$5,121,894 for capital improvements with significant projects including street reconstruction, resurfacing and repair, drainage projects and improvements at Holbrook Palmer Park.

B) Atherton Channel Drainage District

The City Council is also the governing body of the Atherton Channel Drainage District, which is a subsidiary district⁴ of the Town. The Town formed the District in 1958 to construct and maintain storm water collection facilities in areas determined to be in the local stream flood plain. The

⁴ Subsidiary district is defined as a district of limited powers in which the city council is the ex officio board of directors. By definition, at least 70% of the assessed value and 70% of the registered voters of the District must located within the City.

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District boundaries include most of the Town, a portion of unincorporated University Heights, and small areas of City of Menlo Park and Town of Woodside. The District is operated as a public works function of the Town with accounting and administrative functions performed by Town staff and the District receives advances from the Town to finance operations. The financial activities of the District are included in the Atherton Channel District Capital Projects Fund in the Town's basic financial statements.

Under the direction of the City Council, the Town Public Works Department manages the District, performing improvements based on revenues available. As a result of low assessments by the District prior to implementation of Proposition 13, the District was allocated a low share of the 1% property tax. The District receives approximately \$65,000 per year, which funds minor maintenance and is insufficient to fund replacement of channel lining now forty to fifty years old, creek bank stability and scour protection or reversal in unlined sections.

In 2001, the Town commissioned an engineer's study that identified a series of street and channel improvements categorized by priority. The City Council did not give direction specific to drainage projects, but annually approves the capital improvement program. Projects are approved based on a public works prepared work plan, which is first reviewed by the Finance Committee, the Facilities Committee, and the Transportation Subcommittee. The capital improvements have been financed on a pay as you go basis. Based on annual revenue, drainage district improvements will be limited to revenues available or funded with a new revenue source such as an assessment.

In the 2005-2006 Fiscal Year the Upper Atherton Channel Repair Project Phase I was completed with funding of approximately \$335,000 from the Channel Drainage District Fund balance and approximately \$70,000 from road impact fees⁵. For 2007-2008, the capital improvement program included \$55,000 for drainage projects. The 2008-2009 Adopted Budget includes \$1,960,000 for drainage projects with funding from both the Channel Drainage District and Capital Improvement Fund.

⁵ Road impact fees were used to fund a retaining wall that was part of the project due to accelerated deterioration of Walsh Road from construction vehicles related to construction of new homes along Walsh Road and Valley Road.

(2) **Growth and population projections**

Based on the Association of Bay Area Governments (ABAG) "Projections 2007", the Town of Atherton 2000 population is projected to grow by 8% by 2035 as illustrated in the following table.

Census 2000 & ABAG 2025	2000	2020	2035
Town of Atherton	7,194	7,600	7,800

(3) **Financing constraints and opportunities**

A) **Town of Atherton**

The Town of Atherton land use is predominately residential with property tax comprising 43% of Town revenues. Other significant revenues include other taxes including a special tax (\$1.8 Million) and building fees (\$1.3 Million). The Town cites the impacts of Proposition 13 and various State tax shifts that reduce local government revenues as constraints on the Town budget.⁶ The following table includes general fund revenues available to the Town as reported in the adopted 2008-2009 budget:

General Fund Revenues⁷	2006-07 Actual	2007-2008 Projected	2008-2009 Adopted
Property Tax	4,075,437	4,465,583	4,731,282
Sales & Use Tax	167,393	238,051	238,235
Other	1,350,921	1,413,416	1,461,300
Licenses & Permits	1,716,348	1,516,770	1,870,000
Fines & Forfeitures	57,453	32,528	41,000
Investment & Rental Income	323,658	540,448	511,000
Revenue from Other Agencies	168,160	904,162	782,706
Charges for Services	444,464	640,450	723,000
Other Revenues	335,165	48,377	34,000
Subtotal Revenues	\$8,524,355	\$9,799,785	\$10,392,522
Interfund (Operating) Transfers			
Capital Projects Cost Recovery	-	150,000	150,000
Spec. Tax Op. Transfer	-	-	-
Gas Tax/Road Impact	-	100,000	100,000
Total Interfund Transfer	-	250,000	250,000
Total Revenues/Other Financing Sources	\$8,524,355	\$10,049,785	\$10,642,522

⁶ As a result of Proposition 13, the Town is apportioned approximately 10% of the 1% property tax . Revenue shares vary for each city with some cities receiving as low as 7% and others as high as 27%, depending upon taxes levied prior to Proposition 13. The net distribution to cities and districts is reduced due to State mandated transfers to the Educational Revenue Augmentation Fund (ERAF).

⁷ FY 2008-09 Adopted Budget, Page 6

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As shown above, estimates of projected revenue are conservative and indicate that from Fiscal Year 2006-2007 to Fiscal Year 2008-2009, gross general fund revenues increase by \$2,118,167 or 24.8%. This includes fluctuations in refunds of excess ERAF distribution and grant funding from year to year as well as increased building fees. Property tax revenues are estimated to grow by 6% in the current fiscal year. The audit for year ended June 30, 2007 reflects a General Fund unreserved fund balance of \$5,216,519 or 53% of the total general fund expenditures. Unreserved fund balance is \$4,716,519 and is available for discretionary spending.

The Town's special tax was renewed by the required two-thirds voter approval in 2005 for the purpose of capital improvements, public safety and municipal operations. This fiscal year the parcel tax is estimated at \$1,858,000 and the Adopted 2008-2009 Adopted Budget provides that, for the first time, all parcel tax revenues will be appropriated to capital projects. This special tax will sunset after the 2009-2010 fiscal year and goals established for the current fiscal year include investigation of long-term financing mechanisms well in advance of the parcel tax sunset.

In response to questions received following the Circulation Draft Service Review, the following summarizes other revenues available to California cities. Sales tax, property tax and fees for services are three primary revenue sources for California cities, of which sales and property tax may be used for general purposes. Other general fund (discretionary) revenue sources that may be adopted by a City Council⁸ include:

- Utility User Tax (UUT) which is levied on users of utilities including electricity, gas, telephone, cable;
- Business license tax that can be based on gross receipts, number of employees, square footage, etc.;
- Transient Occupancy Tax (TOT) or hotel tax with the tax varying from 4 to 15 percent of cost of lodging;
- Rent, Royalty & Concessions include revenue generated from advertising, concessionaires on City property, facility rental, etc.;
- Franchise Fees are collected in lieu of rent on city streets from garbage collectors and utility companies;

⁸ Business license tax, Transient Occupancy Tax and Utility User Tax are subject to voter approval.

B) Atherton Channel Drainage District

The following table summarizes revenue, expenditures and fund balance for the Atherton Channel Drainage District. As noted elsewhere, because the District was not levying significant assessments prior to enactment of Proposition 13, the share of property tax received by the District is inadequate to fund needed capital projects.

Atherton Channel Drainage District ⁹				
	2005-06 Actual	2006-07 Actual	2007-08 Projected	2008-09 Estimated
Revenues	61,445	58,866	77,392	79,666
Expenditures	55,632	462,758	10,000	110,000
Fund Balance	36,040	48,391	71,147	115,783

Post Proposition 13, new or improved infrastructure for existing development requires new funding, commonly through assessments, which may not be based on value of property, but on the benefit the property receives from the improvements. Benefit assessments are subject to property owner protest and require an engineer's report that identifies scope and cost of improvements and maintenance, and justification of allocation of costs to benefited parcels.¹⁰

(4) Cost avoidance opportunities

The Town is the only agency that provides police, public works, park and recreation, building inspection and planning activities within Town boundaries. Existing cost avoidance practices include contracting for city attorney, planning services, code enforcement, engineering animal control, and street cleaning, and participation in several joint powers agreements.¹¹

⁹ 2008-09 Budget, Pages 1-4

¹⁰ Please see attachment of funding tools identified in City of Morgan Hill Exhibit. The Atherton Channel Drainage District includes 2,489 parcels.

¹¹ The Town participates in the City/County Association of Governments (C/CAG) for development of State mandated plans, South Bayside Waste Management Authority (solid waste & recycling), Library Joint Powers Agreement and Alcohol Violation Temporary Housing Authority (AVTHA) for temporary housing and counseling to persons accused of alcohol related violations.

The following table includes General Fund expenditure data:

General Fund Operating Expenditures¹²	2006-07 Projected	2007-08 Projected	2008-09 Adopted
Salaries & Benefits	6,525,664	7,256,250	7,556,469
Contract Services	1,697,504	2,426,696	1,785,374
Supplies & Materials	211,073	283,576	355,502
General Expenses	224,880	280,937	396,983
Facility and Equipment	99,404	100,499	184,705
Rents and Leases	17,293	17,751	52,568
Cost Allocation	351,945	380,272	306,285
Total Expenditures	\$9,127,763	\$10,745,981	\$10,637,886

In the 2008-09 Adopted Budget, salaries and benefits represent 71% of total operating expenditures, which includes \$4,307,039 in salaries and benefits for police or 56% of the General Fund salary and benefits.

Reductions in the General Fund for the 2008-2009 fiscal year include reduction of one police officer by terminating an assignment to the narcotics task force and reduction of the city attorney contract resulting from resolution of litigation.

The existing practice of contracting for engineering, legal counsel and planning services versus staffed positions allows for budget adjustments on an annual basis based on the Town's anticipated needs.

(5) Opportunities for rate restructuring

Fees for service include building permit fees and park and recreation. The Audit for the period ending June, 2007 indicates that based on recent construction trends and the current building fees, the Building Department (excluding Planning and Environment) is expected to be self sufficient and require no General Fund subsidy. The Adopted Budget cites the Public Works goal in this fiscal year to revisit grading and drainage fees to assure fees cover cost of plan check and inspection.

¹² FY 2008-09 Adopted Budget, Page 10

(6) Opportunities for shared facilities.

The Town cites the existing practice of resource sharing in the Library Joint Powers Agreement (JPA) in which the Town owned library is staffed and operated by the County Library JPA. As a donor city, library funds are returned to the Town and accrue in the Library Special Revenue Fund with expenditures subject to approval of the JPA.¹³

Other joint powers agreements that provide for shared resources include: City/County Association of Governments (C/CAG) for development of State-mandated plans, South Bayside Waste Management Authority (SBWMA) for garbage and recycling; Alcohol Violation Temporary Housing Authority (AVTHA) for temporary housing and counseling related to alcohol related violations. The Town also participates in a countywide contract for animal control services and insurance through Cities Group Workers Compensation and the Association of Bay Area Governments.

(7) Government structure options, including advantages and disadvantages of consolidation or reorganization of service providers.

As noted above, the Town incorporated in order to maintain the community as a strictly residential community. As required discussion in a municipal service review, governance alternatives for municipalities include annexation of areas within the city's sphere. The Town of Atherton's sphere of influence is coterminous with Town boundaries and no adjacent lands are eligible for annexation. Absent a sphere of influence amendment that would provide for annexation of multi-family residential and commercial uses, the Town has limited opportunities to expand revenue base or provide for an affordable housing component.

¹³ In 1998, the Town joined the County and ten other cities in the County in the San Mateo County Library Joint Powers Agreement to coordinate and expand library services throughout the County, member city boundaries and unincorporated areas. Because the Library fund was levying a tax before Proposition 13, the Library Fund receives a share of the 1% property tax in unincorporated areas and eleven cities. The JPA is funded primarily from this revenue. For the Town of Atherton, the JPA remits to the town revenues in excess of operating expenditures and the Town deposits these monies in a Library Special Revenue Fund. Expenditure of these funds is subject to approval of the Library JPA. The fund balance for the Library Special Revenue Fund was \$2,564,923 as of June, 2007.

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In response to a Grand Jury Report, the Town Council and senior management personnel participated in a Leadership Workshop that focused on creating leadership vision, priorities and goals for the Town of Atherton City Council. At the workshop, of 17 potential goals identified by the council and senior management staff, priorities included: obtaining approval by residents of long-term financing mechanism for the Town of Atherton which would address lack of revenue diversity and if feasible, pursue annexation of designated areas to address both revenue enhancement and expanded land use alternatives.

In regard to sphere of influence amendment and annexation, preliminary discussions have included a portion of North Fair Oaks Unincorporated area including lands to the north of the current Town boundary (See study area on attached map). This geographic area was identified in preliminary discussions on annexation because it is immediately north and east of existing Town boundaries, is bounded by Caltrain tracks which isolate it from other areas in North Fair Oaks and it would extend the northern Town boundary that exists west of El Camino Real. Clearly, in considering a sphere amendment, further consideration can be given to alternative boundaries with the goal of using rear lot lines as boundaries and providing for logical service delivery.

The area includes medium density residential and neighborhood commercial. While no research has been conducted regarding level of support for a sphere amendment and annexation, or what potential for additional housing exists, this area meets the basic land use criteria currently lacking, that would provide housing land use options as well as potential revenue diversity to the Town. The area identified is currently in the sphere of influence of the City of Redwood City. The territory includes 6.45 acres, an assessed value of \$154,745,792, a Census 2000 population of approximately 1,432 persons¹⁴ and 447 registered voters.

As noted above, the territory is in the sphere of influence of the City of Redwood City and as unincorporated area, under the land use jurisdiction of the County of San Mateo. Prior to formal consideration of a sphere amendment, the Town is encouraged to engage in formal discussions with the County of San Mateo and City of Redwood City and community to gauge support for such a change. Also, given that the discussion of

¹⁴ The area includes portions of census blocks resulting in estimates on portions of census blocks.

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a sphere amendment responds to concerns about revenue diversity and inability of the Town to meet regional housing needs for affordable housing, consideration should also be given to alternatives in these areas such as likelihood of continued support for a parcel tax and possibility to partner with private schools to provide affordable faculty and staff housing that would meet affordable housing criteria.¹⁵

The process for sphere of influence amendment is governed by Government Code Section 56428. If after further study, the Town determines that it is appropriate to apply to LAFCo for a sphere amendment, Government Code Section 56428 permits application for a sphere of influence amendment and requires that the agency comply with the California Environmental Quality Act (CEQA). It is important to emphasize that sphere amendment and annexation would be subject to a series of notice public hearings that would include environmental review and rezoning by the Town, and public hearing by LAFCo and if approved, a protest hearing and potential election in the annexation area.

Atherton Channel Drainage District

In regard to the Atherton Channel Drainage District, absent additional revenues, the Town could consider dissolution of the District, with the District's share of property tax outside Town boundaries reverting to respective jurisdictions with flood control responsibility. The advantage of continued existence of the district is the ability of the governing body to capture revenues from parcels that contribute runoff to the District's channels. Whether the District remains in tact or is dissolved, there is an apparent need for additional funding¹⁶ and potential for coordinated flood control and drainage efforts with adjacent jurisdictions.

¹⁵ For example, the San Mateo County Community College District has sponsored two projects, one at CSM and more recently Canada College, which provide faculty and staff housing on campus property. In the case of Canada College, both City of Redwood City and Town of Woodside benefit with Regional Housing Needs Allocation credits.

¹⁶Please see attached Exhibit from City of Morgan Hill, summarizing finance mechanisms for existing versus new development.

(8) **Evaluation of management efficiencies**

The Town has 53.25 full-time positions budgeted in the 2008-2009 fiscal year, including 27.75 in police personnel equating to 1 fulltime city position per 139 of population or 1 fulltime police position per 267 of population, compared to the Town of Portola Valley with one employee per 355 of population and one officer per 770 of population and Town of Woodside with one employee per 264 of population and one officer per 795 of population, reflecting a higher level of service per thousand than nearby comparable jurisdictions. The Town contracts for city attorney, planning services, code enforcement and engineering.

(9) **Local accountability and governance**

This section examines the degree to which an agency keeps affected residents informed about city/district services, budget, programs, anticipated changes in service, effectiveness of the city or district in responding to requests for information and the degree to which the an agency encourages public participation in decision making.

The Atherton Town Council meets the third Wednesday of the each month at 7:00 p.m. The agenda is distributed to a list of subscribers that include residents, members of the press and interested parties. The agenda is posted on the Town website and is also posted at Town Hall and the library. The Town produces and distributes a quarterly newsletter to residents. The Town's Finance Department prepares the annual budget, which is considered by the Town's Finance Committee prior to consideration by the Council at a public hearing. The budget and financial statements for current and previous fiscal years are available on the Town's website. Council meetings are subject to the Ralph M. Brown Act governing public meetings. The Town has a number of committees that advise the council on matters related to Town services.

The Town's Adopted Budget includes Financial Policy Goals that provide for a balanced budget, a General Fund balance equal to at least 50% of the operating budget for all funds at year-end, minimum insurance and equipment reserves and policies for infrastructure, accounting and reporting standards, risk management, debt and investments and financial management.

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Town workshops cited above included an evaluation of Town advisory committees and commissions and adoption of a resolution governing Town Committees and Commissions, including a statement of powers and duties. Also, since the Grand Jury Report was initiated, the Town hired a new City Manager.

Recommended Municipal Service Review Determinations

Based on the foregoing it is recommended that the Commission adopt the following determinations pursuant to Government Code Section 56430:

1. **Regarding infrastructure needs and deficiencies, the Commission determines:**
 - a) Town of Atherton facilities include Council Chambers, Library, Police Department/Administration/Town Hall/ Building, Permit Center/Building and Public Works and Corporation Yard located in the vicinity of Ashfield and Station Lane, and Holbrook Palmer Park on Watkins between Middlefield Road and El Camino Real.
 - b) The Town has identified the need for a new town hall, which would integrate services into one building, replacing the current Police/Administration building constructed in 1965 and the modular building for the Building and Public Works Departments.
 - c) The Atherton Channel Drainage District infrastructure includes aging channel lining in need of replacement.

2. **Regarding growth and population projections for the affected area, the Commission determines:**
 - a) Census 2000 Population for Town of Atherton was 7,194. Association of Bay Area Governments Projections 2007 projects 8% growth of by 2035 indicating that the Town will grow to 7,800 by 2035.

3. **Regarding financing constraints and opportunities and opportunities for rate restructuring, the Commission determines:**
 - a) The Town of Atherton, as a residential community lacks revenue diversity, which is mitigated by a voter approved parcel tax.

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- b) The Town has a set a priority of identifying financing needs and tools in advance of the 2009-10 sunset of the current parcel tax.
- c) This fiscal year the Public Works goal is evaluating grading and drainage fees to assure fees cover cost of plan check and inspection.
- d) The Town lacks land use designations that would provide for retail, commercial or transient occupancy revenues.
- e) The Atherton Channel Drainage District is receives inadequate property tax revenues to fund capital improvements.

4. Regarding cost avoidance opportunities and shared resources, the Commission determines:

- a) The Town of Atherton existing practices for cost avoidance and shared resources include a variety of joint powers agreements including library, animal control and emergency services, and other contract positions for engineering, planning and legal services.

5. Regarding opportunities for rate restructuring, (see #3 above)

6. Regarding opportunities for shared facilities (See #4 above)

7. In regard to government structure options, including the advantages and disadvantages of consolidation or reorganization of service providers, the Commission determines:

- a) The Town incorporated in 1923 to retain the residential character of the community.
- b) As a residential community with no commercial, retail or multi-family land use designations, fiscal viability is dependent upon a voter approved parcel tax.
- c) The Town's sphere of influence is coterminous with Town boundaries and there are no lands eligible for annexation.
- d) The advantage of an expanded sphere of influence would be potential for expanded revenue diversity and land use to meet regional housing needs.
- e) Continued existence of the Atherton Channel Drainage District should include consideration of

an assessment that would adequately fund capital improvements identified by the District.

8. Regarding evaluation of management efficiencies, the Commission determines:

- a) The Town provides municipal services including administration, land use, public safety, park and recreation, road maintenance and refuse with a combination of paid personnel and contract services which allows the Town to customize service levels based on resources available and service needs.

9. Regarding local accountability and governance, the Commission determines:

- a) The Town is governed by a five-member locally elected council that meets on the third Wednesday of the month at 7:00 p.m. at the Town Council Chambers.
- b) The Town employs a variety of notification measures about council meetings including distribution to subscribers including residents, members of the press and interested parties. The Agenda is posted on the Town website and at Town Hall and the library. The Town produces and distributes a quarterly newsletter to residents.
- c) The Town has a number of council appointed committees that provide for expanded participation.
- d) The Town's Finance Department prepares the annual budget, which is considered by the Town's Finance Committee prior to consideration by the Council at a public hearing and the budget and financial statements for current and previous fiscal years are available on the Town's website.
- e) The Town's Adopted Budget includes Financial Policy Goals that provide for a balanced budget, a General Fund balance equal to at least 50% of the operating budget for all funds at year-end, minimum insurance and equipment reserves and policies for infrastructure, accounting and reporting standards, risk management, debt and investments and financial management.
- f) The Town has a number of committees that advise the council on matters related to Town services.
- g) Council meetings are subject to the Ralph M. Brown Act governing public meetings.

Sphere of Influence Review and Update

Government Code Section 56425 specifies that in determining the sphere of influence of each local agency, the Commission shall consider and prepare a written statement of its determinations with respect to each of the following:

1. *The present and planned land uses in the area, including agricultural and open-space lands*
2. *The present and probable need for public facilities and services in the area.*
3. *The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.*
4. *The existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency.*

This sphere of influence update incorporates information and determinations in the municipal service review as well as changes that have taken place since the sphere of influence was originally adopted, and provides for public input. Comments to LAFCo by affected agencies, organizations individuals are requested in order to be included in the Executive Officer's report to the Commission.

Town Sphere and Service Area:

The sphere of influence designation for the Town of Atherton is coterminous with Town boundaries indicating that no areas are eligible for annexation to the Town. With regard to boundary changes since spheres were adopted in 1985, LAFCo processed one minor boundary adjustment in 1993 involving adjustment of the Town boundary to include a portion of a parcel split by the boundary and there have been no other changes to Town boundaries.

Sphere of Influence Determinations:

Section 56425 requires the Commission to make determinations concerning land use, present and probable need for public facilities and services in the area, capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide and existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency. The following section discusses these areas of determination.

The present and planned land uses in the area, including agricultural and open-space lands

Land use in the Town includes Residential, Parks and Open Space, and Public Facilities and Schools. There are no agricultural land use designations and no land use designations for multi-family housing or commercial/retail uses. As noted in the service review discussion above, lack of multi-family and commercial land use designations, impedes the Town's ability to develop revenue diversity or meet regional housing needs allocation.

The present and probable need for public facilities and services in the area

The area within Town boundaries consists primarily of residential land use requiring basic municipal services and there is a demonstrated need for continued delivery of services. Services provided by other agencies include sanitary sewer service by West Bay Sanitary District and small areas by County-governed Fair Oaks Sewer Maintenance District, water service by California Water Service Company and fire and emergency response by Menlo Park Fire Protection District.

The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide

Services provided by the Town are outlined above. The Town is in the process of evaluating Town facilities including needed Town Center improvements. The Town's public facilities including parks and roads are adequate to serve Town population. However, some streets are impacted by traffic from surrounding areas and the Drainage District lacks funding to complete needed improvements. Water service is under the jurisdiction of the California Water Service Company. The Town is primarily served by West Bay Sanitary District, with some areas served by the County Governed Fair Oaks Sewer Maintenance District.

The existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency

The Town constitutes an established community with demonstrated support for Town services as indicated by voter approval of a special tax to fund city services.

Recommended Sphere of Influence Determinations

Based on the foregoing, the following section includes sphere determinations that could be adopted by the Commission.

(1) The present and planned land uses in the area, including agricultural and open-space lands.

Land use in the Town includes Residential, Parks and Open Space, and Public Facilities and Schools. There are no agricultural land use designations and no land use designations for multi-family housing or commercial/retail uses. Lack of multi-family and commercial land use designations impedes the Town's ability to develop revenue diversity limits ability to meet regional housing needs allocation.

(2) The present and probable need for public facilities and services in the area.

The area within Town boundaries consists primarily of residential land use requiring basic municipal services and there is a demonstrated need for continued delivery of services.

(3) The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.

The Town is in the process of evaluating needed Town Center improvements. The Drainage District lacks funding to complete needed improvements.

- (4) The existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency.**

The Town is served by regional agencies including West Bay Sanitary District, Menlo Park Fire District and California Water Service Company. Residents contribute to the regional economy of Southern San Mateo County. The Town constitutes an established community that has demonstrated support for Town services through voter approval of a parcel tax.

Recommended Sphere of Influence:

The Town's coterminous sphere of influence reflects the original intent to retain the residential character of the community. Since that time, two events have challenged the viability of remaining strictly residential. Trends in local government finance, in particular State shifts of local revenues have resulted in California cities reducing services and relying on revenues from land uses other than residential or in the alternative, instituting fees, assessments or parcel taxes to balance the city budget. Also, State Housing law requires all cities and counties to adequately plan to meet the existing and projected housing needs of all economic segments, including high-density housing.

Alternatives to mitigate fiscal challenges include continued parcel tax or other new revenues, reduction of services or a combination of these methods. Alternatives to meet housing needs include affordable housing in partnership with the several private schools located in Town boundaries. If the Town determines these are not viable alternatives, it can study amending the sphere of influence to annex territory to meet these needs. This process should be initiated by the Town and not LAFCo, and would include land use and fiscal analysis and collaboration with the County of San Mateo and City of Redwood City. If the Town determines that a sphere amendment is feasible it would then comply with the California Environmental Quality Act (CEQA) and apply to LAFCo for a sphere amendment pursuant to Government Code Section 56428.

Staff recommendation for the sphere of influence of the Town of Atherton and the Atherton Channel Drainage District is to reaffirm the spheres that are coterminous with current boundaries. Spheres are reviewed every five years or the Town may request an amendment prior to the five year review.

Municipal Service & Sphere of Influence Review – Town of Atherton

July 30, 2008

Town of Atherton

**91 Ashfield Road
Atherton, CA 94027**

Jerry Gruber, Town Manager

650/325-4457

650/688-6528 (Fax)

www.ci-atherton-ca.us

Date of Incorporation: September 12, 1923

Governing Board: Five-member council elected to four-year terms

a. Membership and Term Expiration Date: Charles Marsala(11/2010), James R. Janz, Mayor (11/2008), Jerry Carlson (11/2010), James Dobbie (11/2010), Kathy McKeithen (11/2008)

b. Compensation: None

c. Public Meetings: Third Wednesday of each month at 7:00 p.m., 94 Ashfield Road, Atherton

Services Provided: Building inspection, parks, recreation, planning, police, public works

Area Served: 6 sq. miles Estimated Population: 7,423 (2007 Estimate)

Contractual Arrangements: City Attorney & Planning Services, Animal Control, Refuse & Recycling, Street Sweeping, Library Joint Powers Authority, Comcast Cable through City of Palo Alto

Number of Personnel: 53.25 Full-time Equivalent

Sphere of Influence: Status Quo (Boundaries of 1984)

Financial Data: Next Page

Municipal Service & Sphere of Influence Review – Town of Atherton
 July 30, 2008

General Fund Revenues¹⁷	2007-2008 Projected	2008-2009 Adopted
Property Tax	4,465,583	4,731,282
Sales & Use Tax	238,051	238,235
Other	1,413,416	1,461,300
Licenses & Permits	1,516,770	1,870,000
Fines & Forfeitures	32,528	41,000
Investment & Rental Income	540,448	511,000
Revenue from Other Agencies	904,162	782,706
Charges for Services	640,450	723,000
Other Revenues	48,377	34,000
Subtotal Revenues	\$9,799,785	\$10,392,522
Interfund (Operating) Transfers		
Capital Projects Cost Recovery	150,000	150,000
Spec. Tax Op. Transfer	-	-
Gas Tax/Road Impact	100,000	100,000
Total Interfund Transfer	250,000	250,000
Total Revenues/Other Financing Sources	\$10,049,785	\$10,642,522

General Fund Operating Expenditures¹⁸	2007-08 Projected	2008-09 Adopted
Salaries & Benefits	7,256,250	7,556,469
Contract Services	2,426,696	1,785,374
Supplies & Materials	283,576	355,502
General Expenses	280,937	396,983
Facility and Equipment	100,499	184,705
Rents and Leases	17,751	52,568
Cost Allocation	380,272	306,285
Total Expenditures	\$10,745,981	\$10,637,886

¹⁷ FY 2008-09 Adopted Budget, Page 6

¹⁸ FY 2008-09 Adopted Budget, Page 10