TO: HONORABLE CITY COUNCIL

ATTN: FINANCE COMMITTEE

FROM: CITY MANAGER DEPARTMENT: ADMINISTRATIVE SERVICES

DATE: FEBRUARY 7, 2006 CMR: 135:06

SUBJECT: 2005-06 ADJUSTED BUDGET – SECOND QUARTER (Q2) FINANCIAL RESULTS, MIDYEAR AMENDMENTS AND CAPITAL IMPROVEMENT PROGRAM STATUS

RECOMMENDATION
Staff recommends that the Finance Committee recommend to the City Council adoption of the attached Budget Amendment Ordinance (BAO) (Attachment 1), which includes:

a. Proposed midyear adjustments to the 2005-06 Budget for the General Fund, Enterprise Funds, Special Revenue Funds, Internal Service Funds, and Capital Improvement Fund (Exhibit A).
b. New or amended 2005-06 CIP Project Descriptions (Exhibit B).
c. Amendments to the 2005-06 Adopted Municipal Fee Schedule (Exhibit C).
d. Amendments to the 2005-06 Table of Organization (Exhibit D).
e. Resolutions to the 2005-06 Compensation Plan (Attachments 4 & 5).

The 2005-06 midyear Capital Improvement Program Projects Status Report is attached as an informational item (Attachment 2). A list of continuous projects follows this summary (Attachment 3). No action is required on these two items.

Staff also recommends the Finance Committee review and comment on the preliminary financial condition of the City as of December 31, 2005 (Exhibit A).

BACKGROUND
This report summarizes the changes to the 2005-06 Adopted Budget necessary as part of the normal course of business through December 2005. Where possible, adjustments are held until this midyear report is brought to Council in an effort to consolidate changes and streamline the BAO process. The discussion in this report is organized by fund with a primary focus on major changes in the General Fund. Details of these changes, as well as all fund summaries, are included in Exhibit A. The midyear CIP project status report (Attachment 2) provides the Finance Committee with information on the status of the City’s CIP projects as of December 31, 2005. As recommended by the City Auditor, this report also provides the Finance Committee and City
Council with preliminary insight into the financial condition of the City through December 31, 2005. It is worth noting the second quarter totals are not audited and are subject to change.

**DISCUSSION**

**General Fund**

The following is a summary of major revenue and expenditure adjustments as detailed in Exhibit A.

At midyear, General Fund operating revenues and expenditures are at 44 and 52 percent of budget respectively. The difference between these numbers reflects predictable timing issues with the collection of tax revenues and contract encumbrances. By year-end, total General Fund expense will be less than total revenues.

In the first half of 2005-06, the City witnessed improvement in the local economy and modest increases in its economically sensitive revenue sources. While this marks a positive turn for the City, the modest increase in jobs, the wariness of consumers, and potential worries about the housing market cause concern about the projected rebound in sales and transient occupancy taxes. These revenue sources are being adjusted upward, however, at midyear.

- **Sales Tax** revenues for 2005-06 are being increased by $0.98 million to $20.0 million at midyear. Sales tax in the second and third quarters of calendar year 2005 improved over the prior year quarters by 3.8 percent and 2.3 percent, respectively. On a quarter to quarter basis, the economic segments showing strength within the City are drug stores, office equipment, service stations, electronic equipment, and auto sales (showed increases in third quarter). Those having decreases were leasing and furniture appliance.

- **Property taxes** are being increased by $1.3 million to $18.2 million. Of the $1.3 million, $0.73 million or 58 percent is attributable to property taxes and $0.53 million or 42 percent comes from the In-Lieu Vehicle License Fee (VLF). This fee is now paid through property tax receipts paid by the county. With secured property rolls rising by 9.4 percent in 2005-06, property taxes are expected to perform well.

- **Other Taxes and Fines** Under this category, the Motor Vehicle License Fee (VLF) is being increased by $1.1 million to $1.5 million. In 2003, the State “borrowed” $1.03 million, known as “VLF Backfill Loan Gap.” The State’s intent was to repay the loan in 2006-07 but the Governor and Legislature returned the funds one year earlier than expected. This is a one-time payment.

- **Parking Citation** revenues are being reduced by $0.1 million (7 percent) due to the opening of 2 downtown public garages and the extension of free parking time limits from 2 to 3 hours.

- **Other Revenues** are being increased by $0.2 million (5 percent) due primarily to various donations and grants received. The Police Department received $115,000 to fund public safety training, police bicycles, a pilot bloodhound program, a DUI simulator, and a DUI enforcement program. Animal Services received a donation of $60,000 to assist with the
expansion of the spay and neuter clinic. The Community Services Department and the Library Department also received grants for various programs or projects. The $4.2 million adjusted budget includes previously approved grants totaling $2.6 million for the purchase of the Bressler Open Space property.

**Department expenditures** are being increased by a net $1.0 million (1 percent). Of the increase in the General Fund, $214,000 is grant-funded spending. The Planning Department is requesting $285,000 for the Intermodal Transit Station environmental impact report. The funding is reimbursed by $250,000 after completion of the specific phases of the project. This revenue is already included in the Planning Department 2005-06 Budget. (Staff expects to present to the Council in March, the contract with the Valley Transit Authority for the Intermodal Transit Station.) The City Attorney’s Office is requesting $100,000 for litigation expenses related to the collection of utilities users’ tax due to the City. The Community Services Department received $28,000 from the following agencies: Palo Alto Art Center Foundation, Arts Council Silicon Valley, California Coastal Conservancy, San Francisco Estuary, and Santa Clara Valley Water District. The Fire Department received $11,000 in federal grants for training reimbursement. The Library Department received $31,000 from the Public Library Fund and Friends of the Library. The Police Department received over $100,000 in grants and donations from the Office of Traffic Safety, Bureau of Justice Assistance, Palo Alto Police Department Foundation, and private donors.

Included in the 2005-06 Budget reductions was the elimination of a position and related costs due to a planned retirement in January 2006 in the Community Services Department. A change has resulted in this position staying with the City for at least the remainder of 2005-06. The additional expense associated with the position staying will be covered through other savings in the department.

**General Fund Overtime Analysis:**
Attachment B shows total overtime expenditures reaching 75 percent of the adjusted budget. Although most of the General Fund departments are below their overtime budget, the Fire, Planning and Police Departments exceed their budgets for the following reasons:

- The Fire Department is at 89 percent of adopted budget for overtime. The main factors contributing to overtime usage are disability leave, Katrina relief, and mandated training. Currently, there are eight personnel on disability leave, so overtime will be partially offset with salary savings. The Fire Department deployed two personnel for Katrina relief for over three weeks. The Federal Emergency Management Agency (FEMA) will reimburse the City for a portion of the overtime. In addition, a significant amount of time was spent for training. A majority of the training will be reimbursable via grant funds.

- The Police Department is at 75 percent of the adopted budget for overtime. The main factors contributing to overtime usage are staffing shortages due to vacancies, disability leave, and two major investigations. Overtime usage will be partially offset with salary savings.

- The Planning Department is at 61 percent of the adopted budget for overtime resulting from staffing shortages due to vacancies and military leave. The overtime usage will be offset by salary savings.
With the Police and Fire departments removed from the overtime analysis, General Fund overtime expense is at 47 percent of budget at midyear.

**CITY OF PALO ALTO**

**2005-06 MIDYEAR FINANCIAL REPORT**

**GENERAL FUND OVERTIME**

*(in thousands of dollars)*

<table>
<thead>
<tr>
<th>(as of 12/31/05)</th>
<th>Adopted Budget</th>
<th>Midyear Budget</th>
<th>Midyear Changes</th>
<th>Actual</th>
<th>% of Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>City Attorney</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>City Auditor</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>City Clerk</td>
<td>7</td>
<td>7</td>
<td>-</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>City Council</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>City Manager</td>
<td>3</td>
<td>3</td>
<td>-</td>
<td>-</td>
<td>0%</td>
</tr>
<tr>
<td>Administrative Services</td>
<td>45</td>
<td>45</td>
<td>-</td>
<td>8</td>
<td>18%</td>
</tr>
<tr>
<td>Community Services</td>
<td>185</td>
<td>185</td>
<td>-</td>
<td>93</td>
<td>50%</td>
</tr>
<tr>
<td>Library</td>
<td>58</td>
<td>58</td>
<td>-</td>
<td>29</td>
<td>50%</td>
</tr>
<tr>
<td>Fire</td>
<td>959</td>
<td>959</td>
<td>-</td>
<td>851</td>
<td>89%</td>
</tr>
<tr>
<td>Human Resources</td>
<td>3</td>
<td>3</td>
<td>-</td>
<td>2</td>
<td>67%</td>
</tr>
<tr>
<td>Planning and Community Environment</td>
<td>66</td>
<td>66</td>
<td>-</td>
<td>40</td>
<td>61%</td>
</tr>
<tr>
<td>Police</td>
<td>982</td>
<td>982</td>
<td>-</td>
<td>741</td>
<td>75%</td>
</tr>
<tr>
<td>Public Works</td>
<td>113</td>
<td>113</td>
<td>-</td>
<td>52</td>
<td>46%</td>
</tr>
<tr>
<td><strong>Total Overtime</strong></td>
<td>2,421</td>
<td>2,421</td>
<td>-</td>
<td>1,816</td>
<td>75%</td>
</tr>
<tr>
<td><strong>Total Overtime Excluding Public Safety</strong></td>
<td>480</td>
<td>480</td>
<td>-</td>
<td>224</td>
<td>47%</td>
</tr>
</tbody>
</table>

**Enterprise Funds**

The major utility operating fund issues are discussed below. Please refer to the detailed fund summaries in Exhibit A for more information on these midyear changes and to the CIP section of this report for a discussion of the changes in Enterprise CIP project funding.

- Electric Fund (Net reserve addition of $3.7 million) - A decrease of $3.9 million in electric commodity costs is due to higher than expected availability of hydro energy and lower independent service operator (ISO) costs.

- Fiber Sub Fund - A new sub fund has been established in the Electric Fund to segregate the revenues, expenses, and reserve associated with the fiber business.

- Gas Fund (Net reserve reduction of $1.7 million) - An increase of $5.3 million in gas commodity costs is due to rising gas prices. A corresponding increase of $4.0 million in customer sales is due to higher rates charged to market rate customers. The gas fund reserve is reduced by $0.5 million for an additional appropriation for the CIP project GS-05002 Gas Main Replacement.

- Wastewater Collection Fund (Net reserve reduction of $0.7 million) - A decrease of $0.7 million in customer sales is due to lower than expected water consumption.
- Water Fund (Net reserve reduction of $2.0 million) - A decrease of $0.6 million in water commodity costs is due to lower than expected water consumption. A corresponding decrease of $2.0 million in customer sales is similarly due to less water usage. The water fund reserve is further reduced by $0.05 million for an additional appropriation for the CIP project WS-80014 Water Service Hydrant Replacement.

Capital Improvement Program
Adjustments to the City’s 2005-06 Capital Plan are noted in Exhibit A, with specific project adjustments described in Exhibit B. All of the CIP changes fall into three basic categories: projects requiring additional appropriations, projects necessitating reduction in appropriations, and other miscellaneous adjustments such as transfer of funding within projects. Highlights of CIP changes are as follows:

- **Golf Course Maintenance Yard Sewer Line Replacement – CIP PF-06005 (New Project)** – Established to capture maintenance costs provided by the Utilities Department to the Golf Course yard sewer line. (Capital Fund, $36,200 General Fund funding).

- **Photovoltaic Design and Installation – CIP PE-05001** – Increase funding by $399,900 and increase project cost by the same amount. Adjustment is made to match approved grant funding. (No additional funding required).

- **Street Maintenance – CIP PE-86070** – Increase funding by $84,133 and increase project cost by the same amount. Adjustment is made to reflect increased revenues collected from fees and State of California Proposition 42. (No additional funding required).

- **Art in Public Places – CIP AC-86017** – Increase funding by $60,000 and increase project cost by the same amount. Adjustment is made to recognize grants received from Stanford Management Company and Hewlett Packard, Inc. (No additional funding is required)

- **Library Automation Service – CIP LB-94018** – Transfer $50,000 to the Library operating budget to purchase specialized library public access computer tables and terminals. Transfer of another $5,300 to CIP TE-06000 (Library Automation Service) to cover additional cost of the project. (No additional funding required).

- **El Camino Real/Churchill Intersection – CIP PL-01017** – Funding is removed and returned to Gas Tax Fund reserve. The project is delayed indefinitely as other transportation projects have been prioritized. (Gas Tax Fund: $100,000 returned to reserve).

- **Middlefield Road Circle Improvements - Midtown – CIP PL-04003** - Funding is removed and returned to Gas Tax Fund reserve. The City will retain the existing lane configuration in Midtown on Middlefield Road between Oregon Expressway and Colorado Avenue. (Gas Tax Fund: $55,000 returned to reserve).

- **Document Management Implementation - CIP TE-05002** – Funding is removed and returned to Technology Fund reserve. Implementation of an enterprise-wide document management system is delayed due to funding and staff reduction. (Technology Fund:
$500,000 returned to reserve).

- **Acquisition of New Computers - CIP TE-99010** – Funding is reduced and returned to reserve. The adjustment is part of a citywide budget reduction measure. (Technology Fund: $69,000 returned to reserve).

- **eGov-Web Infrastructure & Applications - CIP TE-02014** – Funding is reduced and returned to reserve. The adjustment is part of a citywide budget reduction measure. (Technology Fund: $150,000 returned to reserve).

- **Citywide GIS Data, Infrastructure & Applications - CIP TE-02015** - Funding is reduced and returned to reserve. The adjustment is part of a citywide budget reduction measure. (Technology Fund: $250,000 returned to reserve).

- **Permit Information Tracking System - CIP TE-95016** – Funding is reduced and returned to reserve. The adjustment is part of a citywide budget reduction measure. (Technology Fund: $50,000 returned to reserve).

- **Water Service Hydrant Replacement – CIP WS-80014** – Additional funding is needed to cover labor charges. (Water Fund: $50,000 reserve funding).

- **GMR-Project 15 - CIP GS-05002** – Additional funding is needed for replacement of four existing gas main crossings under the Caltrain right of way. (Gas Fund: $454,000 reserve funding).

Amendments to the 2005-06 Adopted Municipal Fee Schedule

Staff is proposing to amend the 2005-06 Municipal Fee Schedule as shown in Exhibit C.

Future year annual revenue increases due to these changes are not significant. The new or increased fees are for Enjoy catalog advertising, open space use permit, playing fields use fees, theatre fee, fire inspection, parks development impact fees, map fees, use permit, variance permit, dog boarding (correction), and excavating, grading and fill permits. As directed by Council, the Community Services Department reviewed the fees for the rent of community garden plots and revised them to include a fee reduction program to assist low-income individuals.

Table of Organization Changes

The proposed adjustments to the Table of Organization (Exhibit D) include six reclassifications, one addition, and one elimination.

- City Attorney: Elimination of 0.75 Full Time Equivalent (FTE) Senior Assistant City Attorney due to the restructuring of duties. The position is currently vacant and the responsibilities have been distributed to other attorneys. (See Human Resources).

- City Attorney: Reclassification of 1.0 FTE Legal Secretary to Secretary to City Attorney due to restructuring efforts. This reclassification is being implemented to reflect additional work responsibilities.
• Human Resources: Addition of 0.75 FTE Senior Administrator due to staffing needs and increasing core competencies in the department. The Senior Administrator will be responsible for rebuilding the business area by establishing new protocols, procedures, and systems to improve the effectiveness and efficiency of the Human Resources Department. Funding for the additional 0.75 FTE will be offset by the elimination of 0.75 FTE Senior Assistant City Attorney.

• Library: Reclassification of 1.0 FTE Coordinator, Library Programs to Business Analyst due to business change. The Business Analyst will meet one of the department’s priorities in increasing the use of technology to deliver services and improving efficiency. The Internet and web-based services have greatly changed the methods by which libraries deliver services. The Library’s websites are at the top of the City’s list of most accessed and updated web pages.

• Library: Reclassification of 1.0 FTE Coordinator, Library Circulation to Supervisor, Librarian due to departmental reorganization. One of the Library Advisory Commission’s recommendations was to place the Coordinator, Library Circulation in charge of both the College Terrace and Downtown Libraries. The change in position requires higher supervision and more management of work groups and facilities.

• Utilities Department: Reclassification of 1.0 FTE Electrical Assistant I to Office Specialist due to departmental reorganization.

• Utilities Department: Reclassification of 1.0 FTE Assistant Director Utilities/Engineering/Operations to Assistant Director Utilities/Operations due to departmental restructuring.

• Printing and Mailing Services: Reclassification of 1.0 FTE Offset Equipment Operator to Offset Equipment Operator – Lead due to departmental reorganization. A lead position is needed to oversee the print shop and mail room production, resolve customer issues, and manage daily operations. This will enable the Supervisor, Reproduction and Mail to focus on improving customer service and production and administrative duties.

2005-06 Midyear Capital Improvement Program Projects Status Report:
This report provides the Finance Committee with information on the status of the City’s Capital Improvement Program (CIP) projects as of December 31, 2005. In the attached matrix (Attachment 2), all City departments have submitted information on their projects and commented on any issues that might cause a change in the scope or timing of the projects. Information in this report is intended to keep Council abreast of progress on all CIP projects that were open at the beginning of the 2005-06 fiscal year and on those projects which were added or completed during the current year.

The attached matrix categorizes CIP projects into minor projects (projects which can be completed within a one-year period) and multi-year projects (projects which have multi-year budgets and/or complex implementation schedules with identifiable phases). The projects status portion of the
matrix identifies the phase the project was in as of December 31, 2005. Information on phases is intended to give Council a perspective on how much progress was made on a project. Three distinct phases are utilized, as follows:

<table>
<thead>
<tr>
<th>Phase</th>
<th>Activities:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-Design</td>
<td>• Preparation of a feasibility study</td>
</tr>
<tr>
<td></td>
<td>• Development of a master plan</td>
</tr>
<tr>
<td></td>
<td>• Definition of a project scope</td>
</tr>
<tr>
<td></td>
<td>• Preparation of an Environmental Impact Report</td>
</tr>
<tr>
<td>Design</td>
<td>• Hiring a design consultant</td>
</tr>
<tr>
<td></td>
<td>• Completion of project design</td>
</tr>
<tr>
<td></td>
<td>• Soliciting bids or proposals</td>
</tr>
<tr>
<td>Construction</td>
<td>• Acquisition of major equipment</td>
</tr>
<tr>
<td></td>
<td>• Installation</td>
</tr>
<tr>
<td></td>
<td>• Implementation of a project</td>
</tr>
</tbody>
</table>

The comment section of the matrix provides Council with information clarifying the status of certain projects.

In the attached matrix, projects are listed by department for the General Fund and by fund for the Enterprise and Internal Service Funds. The matrix also includes information on the total budget from inception for each project, the available budget as of the beginning of the fiscal year, the fiscal year expenditures through December 2005, including commitments (encumbrances), and the remaining balance in the project budget as of midyear. The available budget figures for each project include funding for estimated labor costs related to each project. These labor costs will be finalized at year-end and will be presented to the Council with the year-end report.

The matrix does not include "continuous" projects. These projects, such as water meter replacement, have no definitive beginning or end dates and receive ongoing funding to reflect the continuing replacement cycles or commitments. During the first half of 2005-06, progress was made on all of the "continuous" projects (Attachment 3).

**RESOURCE IMPACT**
Adoption of the attached ordinance will allow for adjustments to the fiscal year 2005-06 budget, along with amendments to the Table of Organization, the Municipal Fee Schedule and eight General Fund CIP projects. With the approval of this ordinance, the projected ending balance of the General Fund BSR is $22.6 million, an increase of $2.6 million. The Capital Fund Infrastructure Reserve is projected to end with a balance of $18.5 million, a reduction of $0.02 million. The projected ending Rate Stabilization Reserve total for all Enterprise funds decreases by $0.6 million mainly due to changes in commodity costs in the various funds.
POLICY IMPLICATIONS
These recommendations are consistent with existing City policies.

ENVIRONMENTAL ASSESSMENT
This is not a project for purposes of the California Environmental Quality Act (CEQA).

PREPARED BY:  
DAVID RAMBERG  
Budget Manager

DEPARTMENT HEAD APPROVAL:  
CARL YEATS  
Director, Administrative Services

CITY MANAGER APPROVAL:  
EMILY HARRISON  
Assistant City Manager

ATTACHMENTS
Attachment 1: Budget Amendment Ordinance with the following exhibits:
   Exhibit A  Fund Summaries and detail changes to the General Fund, Enterprise Funds,  
               Special Revenue Funds, Internal Service Funds, and Capital Improvement  
               Fund
   Exhibit B  CIP Project Descriptions
   Exhibit C  Amendments to the 2005-06 Adopted Municipal Fee Schedule
   Exhibit D  Amendments to the 2005-06 Table of Organization
Attachment 2: 2005-06 Midyear Capital Improvement Projects Status
Attachment 3: List of Continuous Capital Projects
Attachment 4: Resolution of the Council of the City of Palo Alto amending the Compensation Plan for Management and Professional Personnel and Council Appointees Adopted by Resolution No. 8554 to change four classifications
   Exhibit A  2005-06 Compensation Plan Changes for Management/Professional Personnel
Attachment 5: Resolution of the Council of the City of Palo Alto amending the Compensation Plan for Classified Personnel (SEIU) Adopted by Resolution No. 8452, by changing two classifications
   Exhibit A  2005-06 Compensation Plan Changes for SEIU Personnel