BUDGET
’06 – ‘07

TO: HONORABLE CITY COUNCIL
FROM: CITY MANAGER
DEPARTMENT: ADMINISTRATIVE SERVICES
DATE: JUNE 12, 2006
CMR: 259:06
SUBJECT: APPROVAL OF AN ORDINANCE ADOPTING THE 2006-07
BUDGET, INCLUDING THE 2006-07 CAPITAL IMPROVEMENT
PROGRAM, CHANGES TO THE MUNICIPAL FEE SCHEDULE,
UTILITY RATES AND CHARGES, AND CHANGES TO
COMPENSATION PLANS

RECOMMENDATION
Staff recommends that the City Council approve the following:

1. The Budget Adoption Ordinance (Attachment 1), which includes:
   a. The City Manager’s 2006-07 Proposed Budget (Exhibit A - previously distributed).
   b. All changes detailed in the Amendments to the City Manager’s 2006-07 Proposed Budget (Exhibit B).
   c. 2006-07 Proposed Municipal Fee Schedule (Exhibit C - previously distributed).
   d. Revised pages to the Table of Organization (Exhibit D).
   e. Amendment to the 2006-07 Proposed Municipal Fee Schedule (Exhibit E).

2. Resolution Amending Utility Rate Schedules for a water rate increase (Attachment 2).

3. Resolution Amending Utility Rate Schedules for a storm and surface water drainage rate increase (Attachment 3).

4. Resolution Amending Utility Rate Schedules for a gas rate increase (Attachment 4).

5. Resolution Amending Utility Rate Schedules for a wastewater collection rate increase (Attachment 5).


7. Ordinance Amending the City of Palo Alto Municipal Code to change the names of Utilities Department Divisions (Attachment 7).


BACKGROUND
The City Manager’s 2006-07 Operating Budget was approved in-concept by the City Council on June 20, 2005 (CMR:290:05). An updated Operating Budget was submitted to the Finance Committee on May 2, 2006 and the 2006-07 Proposed Capital Budget was submitted on May 4, 2006. During the month of May, the Finance Committee held hearings and reviewed the Proposed Budget, including the General Fund and Enterprise Fund Capital Improvement Programs and the Municipal Fee Schedule. A total of five public hearings were held on May 2, 4, 9, 16, and 23, at which the committee reviewed and discussed the City’s operating and capital expenditures for the next year. The Finance Committee also reviewed several proposed rate adjustments within the Enterprise Funds. As a result of the hearings, the Finance Committee and staff have recommended changes to the Proposed Budget as detailed in Exhibit B.

DISCUSSION
This staff report focuses on the financial changes recommended by the Finance Committee and the adjustments suggested by staff having a fiscal impact. Please note that all non-financial recommended changes to the proposed budget are described in Appendix 4, which was distributed to the Finance Committee on May 16, and will be incorporated into the 2006-07 Adopted Budget document.

The following is a motion by the Finance Committee, directing staff to report back during the 2006-07 fiscal year:

- The Finance Committee directed staff to develop a proposal to study the issues related to public/private partnerships and return with the proposal in September 2006.

Finance Committee-Recommended Changes to the City Manager’s Proposed Budget

- The 2006-07 Council Contingency has been allocated as follows:

  1. **Reinstate Human Services funding for Project Sentinel to 2004-05 levels** – During the Finance Committee meeting held on May 5, 2005, $4,492 was allocated to the Community Services Department budget in both 2005-06 and 2006-07 to return funding to the 2004-05 level for Project Sentinel.

  2. **Reinstate Human Services funding for Inn Vision/Urban Ministry** – During the Finance Committee meeting held on April 4, 2006 $31,000 was allocated, on a one-time basis, to the Community Services Department budget for 2006-07 for Inn Vision/Urban Ministry as part of the Human Services Resource Allocation Process (HSRAP).
Citywide

- **Average Salary and Benefits** – The Finance Committee directed staff to include a breakdown of average employee salary and benefits in future budget documents. This breakdown shall be similar to that provided to the Finance Committee “at places” on May 2.

General Fund

- **Utility users tax and utility expense changes** – Due to the elimination of the proposed electric utility rate the City’s utility users tax (UUT) revenue will be decreased by $261,000 in 2006-07 and the General Fund utility expense will be reduced by $92,283. The expense reductions occur in several General Fund departments and these reductions are detailed in Exhibit B. A revised General Fund summary is attached (Appendix 1).

City Manager’s Office

- **Add 1.0 full time equivalent (FTE) position** – During the Finance Committee meeting held on May 23, a new position was added to the City Manager’s Department to provide support to the department’s oversight function.

Community Services Department

- **Reinstate 1.0 FTE Recreation Coordinator, Family Resources (one-time)** – The total position cost of $86,500 is to be funded by grants and donations for the duration of 2006-07. This transaction has no impact on the Budget Stabilization Reserve.
- **Program Detail** – The Finance Committee directed staff to include Community Services Department program detail in future budget documents. The presentation of this information shall be similar to that provided to the Finance Committee “at places” on May 16 and shall include contributions from Friends groups.

Planning and Community Environment

- **Department reorganization** – The Planning Department reorganization was approved by the City Council on May 8 (CMR:225:06) and the changes are reflected in the revised table of organization (Exhibit D). A motion by the City Council on May 8 changed the proposed Deputy Director position to an Assistant Director position and this change is also reflected in the table of organization.

<table>
<thead>
<tr>
<th>2006-07 Council Contingency</th>
<th>2006-07</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning balance</strong></td>
<td>$250,000</td>
</tr>
<tr>
<td>HSRAP – Project Sentinel (from 2006-07 adopted-in-concept budget)</td>
<td>($4,492)</td>
</tr>
<tr>
<td>CSD – HSRP: Inn Vision/Urban Ministry (one-time)</td>
<td>($31,000)</td>
</tr>
<tr>
<td><strong>Ending Balance</strong></td>
<td>$214,508</td>
</tr>
</tbody>
</table>
Enterprise Funds

- **Utilities expense reduction** – As a result of the change to eliminate the proposed electric utility rate increase, the utility expenses in the enterprise funds are reduced as detailed in Exhibit B.

Electric Fund

- **Change in Net Sales** – During the Finance Committee meeting held on May 9 the proposed electric rate increase of 11.7 percent was eliminated. This resulted in a decrease of $9,618,000 in Net Sales in 2006-07.

Municipal Fee Schedule (Exhibit E)

On May 16 the Finance Committee approved the proposed amendments to the 2006-07 Municipal Fee Schedule (CMR:180:06).

- **Clarify language pertaining to the new laptop fee in the Library Department** – In response to a comment from the Finance Committee, language is added to the Library Department’s Loaner Laptop fee in the Municipal Fee Schedule as follows: “A fee is charged once the customer exceeds the free 2 hour limit by a 15-minute grace period.”

Contracts Greater Than $85,000

On May 16 the Finance Committee approved the fiscal year 2006-07 contract scopes of professional services agreements greater than $85,000 (CMR:228:06). The related contracts remain subject to City Council review before they are approved.

Staff-Recommended Changes to the City Manager’s Proposed Budget

General Fund

Community Services

- **Service level changes** – The service level changes section of the Community Services Department budget is revised to reflect the restoration, for one year, of the 1.0 FTE Recreation Coordinator, Family Resources to the Family Resources Program.
- **Revision to Golf Course financial table** – The column heading titled “2002-03 Actuals” of the Golf Course Financial Summary in the 2006-07 Proposed Budget (Page 85) is revised to “2003-04 Actuals”. This is a change to the column heading only and no financial data is impacted.

Infrastructure/Capital Fund

The Finance Committee approved changes to the 2006-07 Capital Budget on May 4 (Appendix 5). Amended pages to the capital budget document are attached and funding adjustments have been incorporated into the associated financial tables (Appendix 3). The following are the amended projects in the Capital Fund in 2006-07:

- **CIP PE-05010** – College Terrace Library and Child Care Center Improvements
  Add $100,000 to the design cost in 2006-07 and reduce $100,000 from the construction cost in 2008-09; funding will be provided by the Infrastructure Reserve.
- **CIP PL-04010** – Bicycle Boulevards Implementation Project
Add grant revenue of $75,000 from the State Transportation Development Act (TDA); revenue of $50,000 applied to 2007-08 and $25,000 applied to 2008-09.

- **CIP PL-06002 – Comprehensive Parking Signage Plan**
  This change reduces the total project cost from $500,000 to $400,000 in 2006-07 and transfers project costs of $200,000 from 2006-07 to 2007-08. The University Avenue Parking District will provide funding for the project costs in 2006-07 and the General Fund is proposed to provide funding for its share of the project in 2007-08.

- **PE-86070 – Street Maintenance**
  This change was not included in Appendix 5 due to timing in the receipt of information. The City was awarded a federal grant of $788,000 by the Department of Transportation for the rehabilitation and resurfacing of a portion of Page Mill, University Avenue and Embarcadero Road. This amendment will change the project scope of PE-86070 to include a portion of Page Mill, University Avenue and Embarcadero Road and increase project costs and revenues by $788,000. The change has no effect on the Infrastructure Reserve. (The receipt of this grant revenue occurred after the Finance Committee completed its review of the proposed budget on May 16.)

**Enterprise Funds**

- **Utilities Department division names** – Changes to the Palo Alto Municipal Code (Section 2.08.200(b)) are proposed to reflect the change of the name of the “Customer Services Division” to the “Customer Support Services Division” and the division of “Engineering and Operations” to the “Engineering Division” and the “Operations Division” (Attachment 7).

**Wastewater Treatment Fund**

- **Increased operating expense** – Staff recommends increasing operating expense in the amount of $180,000 for chemicals and lab-related costs. These changes were not finalized in time to be included in the proposed budget. This item was presented to the Finance Committee in the budget presentation on May 9, 2006.

**Special Revenue Funds**

**Parking District**

- **Capital project transfer change** – Decrease in transfer to the Capital Fund of $300,000 to reflect the change in CIP PL-06002. This revision is related to the change to CIP PL-06002, which was presented to the Finance Committee with the May 4, 2006 “at-places” memo.

**Compensation Plans**

Several classification changes are requested in the Management and Confidential, and Classified Compensation Plans to implement position changes included in the proposed budget and position changes approved by the Finance Committee. New or changed classifications are included, along with the accompanying resolutions (Attachments 8 and 9). These changes include revisions to the compensation plans for the Assistant City Manager and the Administrative Services Director positions. Also included, are title changes only, with no dollar impact, for the Fire Marshal and the Executive Assistant to the City Manager positions. (These two changes
were not included in the proposed budget and have been added since the Finance Committee completed its review of the proposed budget on May 16.)

**Table of Organization**
Amended pages to the 2006-07 Table of Organization are included with this report (Exhibit D). The table has been revised to reflect the staffing changes presented in this report. Changes reflected in the table of organization will be incorporated into the relevant department organization charts and the revised organization charts will be published in the adopted budget.

**RESOURCE IMPACT**
The 2006-07 Proposed Budget as submitted to the Finance Committee resulted in an increase to the General Fund Budget Stabilization Reserve (BSR) of $1.7 million in 2006-07. The changes resulting from the Finance Committee hearings and staff recommendations resulted in a $0.3 million decrease to BSR funding in 2006-07 (Appendix 1). The projected ending balance for the BSR in 2006-07 is $24 million. As a result of the changes to the capital budget the projected ending balances in the Infrastructure Reserve (IR) in 2006-07 is $10.7 million. Additional changes to the Enterprise Funds result in an approximate $1.8 million overall increase in reserve balances in 2006-07 from the proposed document (Appendix 2).

**POLICY IMPLICATIONS**
These recommendations are consistent with existing city policies.

**ENVIRONMENTAL REVIEW**
Adoption of the budget does not represent a project under California Environmental Quality Act (CEQA).
ATTACHMENTS

Attachment 1: Budget Adoption Ordinance with the following Exhibits:
   Exhibit A: City Manager’s 2006-07 Proposed Budget
   Exhibit B: Amendments to the City Manager’s 2006-07 Proposed Budget
   Exhibit C: 2006-07 Proposed Municipal Fee Schedule
   Exhibit D: Revised Pages in the 2006-07 Table of Organization
   Exhibit E: Amendment to the 2006-07 Proposed Municipal Fee Schedule

Attachment 2: Resolution of the Council of the City of Palo Alto Amending Utility Rate Schedules W-1, W-2, W-4, and W-7 of the City of Palo Alto Utilities Rates and Charges Pertaining to Water Rates

Attachment 3: Resolution of the Council of the City of Palo Alto Amending Utility Rate Schedule D-1 (Storm and Surface Water Drainage)

Attachment 4: Resolution of the Council of the City of Palo Alto Amending Utility Rate Schedules G-1, G-2, G-3, G-4, G-6, G-10, G-11 and G-12 of the City of Palo Alto Utilities Rates and Charges Pertaining to Gas Rates

Attachment 5: Resolution of the Council of the City of Palo Alto Amending Utility Rate Schedules S-1 and S-2 of the City of Palo Alto Utilities Rates and Charges Pertaining to Wastewater Collection Rates

Attachment 6: Resolution of the Council of the City of Palo Alto Amending City of Palo Alto Utility Rules and Regulations 2, 3, 4, 5, 9, 10, 11, 13, 17, 18, 20, and 26 And Adding rule and Regulation 27 Governing Utility Rates

Attachment 7: Ordinance of the Council of the City of Palo Alto Amending Section 2.08.200 of Chapter 2.08 of Title 2 of the City of Palo Alto Municipal
Code to Effect Changes to the Organizational Structure of the Department of Utilities

Attachment 8: 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 add a new classification, make a title change on classification title, and revise compensation for two positions

Exhibit A: 2006-07 Compensation Plan Changes for Management and Professional Personnel

Attachment 9: 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 three employee classifications and changing one employee classification salary

Exhibit A: 2006-07 Budget SEIU Compensation Plan Changes

Appendix 1: 2006-07 General Fund Summary and Reserve Balances

Appendix 2: 2006-07 Enterprise Fund Summary and Reserve Balances

Appendix 3: 2006-11 Capital Improvement Fund Summaries and Amended Projects

Appendix 4: May 16, 2006 Memorandum to Finance Committee detailing changes to 2006-07 City Manager’s Proposed Budget to date

Appendix 5: Memorandums distributed “at-places” during the Finance Committee budget hearings and answers to Finance Committee questions previously distributed via email.