TO: HONORABLE CITY COUNCIL  
ATTN: FINANCE COMMITTEE  
FROM: CITY MANAGER DEPARTMENT: ADMINISTRATIVE SERVICES  
DATE: JUNE 20, 2006 CMR: 270:06  
SUBJECT: OPTIONS FOR INCREASING FUNDING FOR INFRASTRUCTURE

RECOMMENDATION

Staff recommends that the Finance Committee direct staff to pursue the short-term options included in this report for increasing infrastructure funding and move forward with planning for the medium- and long-term options for incorporation into the 2007-08 budget.

BACKGROUND

In April 2006 the City Council approved the milestones for the “Top 3” priority, Increase Infrastructure Funding (CMR:191:06). The milestones include reviewing options to increase long-term “CityWorks” funding by $3 million through a combination of expenditure reductions and revenue enhancements. These options are to be presented to the City Council and incorporated into the City’s Long Range Financial Plan and the 2007-08 budget.

The Finance Committee held an initial discussion of the options on May 23 and directed staff to return to the Finance Committee for further discussion. This report presents the options for further discussion.

DISCUSSION

The Infrastructure Reserve (IR) was created in 2001 to provide funding for projects in the Infrastructure Management Plan (IMP). In 2004, $36 million was transferred from the General Fund to the Capital Fund to fund the IR. The interest income generated from the reserve (approximately $1 million) combined with an additional $1 million from General Fund year-end surplus, when available, is intended to contribute approximately $2 million to the IR annually. Along with a base transfer from the General Fund of $3.6 million for project expense, the total contribution to the IR is approximately $5.6 million annually.
While maintaining the base transfer to the IR, the expense base in the General Fund operating budget has been reduced by approximately $20 million over the past four years as part of the budget reduction strategies. Over this same period, capital spending has increased to $14 million from $7 million. The increase in spending has not been sufficient to cover the growth in infrastructure project costs, which have been impacted by inflation, changes in scope, and an increase in the cost of construction materials. To maintain an adequate IR balance to fund the City’s long-term infrastructure needs while covering increased construction costs, the contribution to the IR should be between $7 million and $10 million per fiscal year, representing approximately $3 million in additional funding over current levels.

The attached list of options (Attachment 1) for increasing revenue and reducing expense to achieve an additional $3 million for “CityWorks” is organized into short-, medium-, and long-term alternatives. The short-term options are to be implemented with the 2007-08 budget, the medium-term options are to be implemented with the 2007-09 budget and the long-term options are to be implemented in 2009-10 and later. The attached list of options shows the anticipated steps needed to implement each option as well as possible policy issues that may need to be addressed. Finally, the list shows a summary of the “best bets” (most doable) for moving forward. Together these options are intended to provide the necessary annual contribution to the IR required to maintain the reserve balance at adequate levels to complete the IMP and maintain the City’s infrastructure.

With Finance Committee direction on the list of options, staff expects to return to the Finance Committee and then the City Council with an implementation plan in the fall 2006 timeframe. With that plan, staff will identify the steps needed to accomplish the options and suggest actions for addressing potential obstacles to implementation.

**RESOURCE IMPACT**

The development of the plan for increased funding for infrastructure will be accomplished with existing resources in the Administrative Services Department budget and no additional funding is needed.

**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: Options for Increasing Funding for Infrastructure