TO:   HONORABLE CITY COUNCIL
FROM:  CITY MANAGER    DEPARTMENT: ADMINISTRATIVE SERVICES
DATE:  JUNE 20, 2005    CMR: 290:05
SUBJECT:   APPROVAL OF AN ORDINANCE ADOPTING THE 2005-06 BUDGET, INCLUDING THE 2005-06 CAPITAL IMPROVEMENT PROGRAM, CHANGES TO THE MUNICIPAL FEE SCHEDULE, UTILITY RATES AND CHARGES, AND CHANGES TO COMPENSATION PLANS AND ADOPTION IN-CONCEPT OF THE 2006-07 BUDGET

RECOMMENDATION
Staff recommends that the City Council approve the following:

1. The Budget Adoption Ordinance (Attachment 1), which includes:
   a. The City Manager’s 2005-07 Proposed Budget (Exhibit A - previously distributed).
   b. All changes detailed in the Amendments to the City Manager’s 2005-07 Proposed Budget (Exhibit B).
   c. 2005-06 Proposed Municipal Fee Schedule (Exhibit C - previously distributed).
   d. Revised pages to the Table of Organization (Exhibit D).
   e. Amendments to the 2005-06 Proposed Municipal Fee Schedule (Exhibit E).

2. Resolution Amending Utility Rate Schedules to affect an electric rate increase (Attachment 2).

3. Resolution Amending Utility Rate Schedules to affect a gas rate increase (Attachment 3).

4. Resolution Amending Utility Rate Schedules to affect a wastewater collection rate increase (Attachment 4).

5. Resolution Amending Utility Rate Schedules for various refuse service rates (Attachment 5).


BACKGROUND
The City Manager’s 2005-07 Proposed Operating Budget was submitted to the Finance Committee on May 3, 2005 and the 2005-06 Proposed Capital Budget was submitted on May 12, 2005. 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 eight public hearings were held on May 3, 5, 10, 12, 17, 19, 26, and 31 at which the committee reviewed and discussed the City’s operating and capital expenditures for the next two years. 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. It is worth noting that the 2006-07 fiscal year budget is adopted “in-concept” with the attached ordinance (Attachment 1). This spending plan will be reviewed and modified as necessary during the interim budget cycle next year.

DISCUSSION
This staff report focuses on the financial changes recommended by the Finance Committee and the adjustments suggested by staff that have 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 31, and will be incorporated into the 2005-07 Adopted Budget document.

The following is a list of motions by the Finance Committee, directing staff to report back on various items during the 2005-06 fiscal year:

- The Finance Committee directed staff to report, one year from the date of implementation of the day use fee, on the possibility of expanding the fee to include the Baylands Preserve. This report shall also include an analysis of the payment of the day use fee by residents and non-residents.
- The Finance Committee directed staff to present alternatives, by mid-year 2005-06, on how to slow the increase of employee benefits and lessen their impact on the ability to fund infrastructure and other City priorities.

The following is a list of follow-up items that, while not approved by a Finance Committee motion, staff has committed to report back on during the 2005-06 fiscal year:

- In response to a suggestion to add a benchmark to evaluate all staff, staff will present a report in 2006 outlining a work plan to improve and monitor the performance evaluation system.
- The Fire Department will provide Council with an update in fiscal year 2005-06 on the revenues and expenses of the basic life support service (BLS) program.
- The Police Department is compiling data on the trial Wellness Program. Staff will share the results with other departments and prepare an informational CMR measuring the success and determining the future of the program.
Finance Committee-Recommended Changes to the City Manager’s Proposed Budget

- The 2005-07 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, $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. (Staff originally showed this change applying only to 2005-06 in the memorandum provided to the Finance Committee on May 31. Staff has confirmed that the change was for both years and this correction is represented in this report.)

<table>
<thead>
<tr>
<th>2005-07 Council Contingency</th>
<th>2005-06</th>
<th>2006-07</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning balance</strong></td>
<td>$250,000</td>
<td>$250,000</td>
</tr>
<tr>
<td>HSRAP – Project Sentinel</td>
<td>($4,492)</td>
<td>($4,492)</td>
</tr>
<tr>
<td><strong>Ending Balance</strong></td>
<td>$245,508</td>
<td>$245,508</td>
</tr>
</tbody>
</table>

**General Fund**

- **Utility users tax and utility expense changes** – Due to various reductions in proposed utility rates the City’s utility users tax (UUT) revenue will be decreased by $147,000 in 2005-06 and $309,000 in 2006-07 and the General Fund utility expense will be reduced by $117,070 in 2005-06 and $168,211 in 2006-07. The expense reductions occur in several General Fund departments and these reductions are detailed in Exhibit B.

**Community Services Department**

- **Reinstate funding for the Wingspread program** – During the Finance Committee meeting held on May 10, $43,000 in expense was added for the Wingspread program as well as $14,500 in ticket revenue in 2005-06 and 2006-07.

- **Reinstate funding for 0.5 full-time equivalent (FTE) Park Ranger position** – During the Finance Committee meeting held on May 10, $40,903 was added in salary and benefit expense in 2005-06 and 2006-07.

- **Reinstate funding for the Family Resource program** – During the Finance Committee meeting held on May 10, $42,500 was added to salary and benefit expense for a Coordinator of Recreation Programs position as well as $20,000 in revenue to reflect funding that is to be received from Santa Clara County in 2005-06 only. The funding represents the amount needed to fund the program for approximately six months. The funding and the position are to be eliminated in 2006-07.

**Planning and Community Environment**

- **Restructuring in the Planning Department Transportation Division** – During the Finance Committee meeting held on May 31, $70,000 in expense was reduced from the Transportation Division with the details of the reduction to be determined by staff. The
details of this reduction are presented under the staff-recommended changes section of this report.

Police Department
- **Reinstate support for the Wildlife Rescue program** – During the Finance Committee meeting held on May 5, support for the Wildlife Rescue program was reinstated through the provision of free rent. This change will reduce rental revenue in the General Fund by $20,652 in 2005-06 and 2006-07.

Enterprise Funds
- **Utilities expense reduction** – As a result of changes to utility rates the utility expenses in the enterprise funds are revised as detailed in Exhibit B.

Electric Fund
- **Change in Net Sales** – During the Finance Committee meeting held on May 26, a change was made to the electric rate increase reducing it from 19.5% to 11.5%. Due to this change, net sales is reduced as follows: from $90,390,184 to $84,669,184 in 2005-06 and from $100,761,256 to $95,557,256 in 2006-07.
- **Commodity Purchases** – This change will result in an increase of $4.2 million in the 2005-06 projected beginning balance of the electric supply rate stabilization reserve to reflect the refund the City will receive in fiscal year 2004-05 from an escrow account in a settlement relating to services claimed by PG&E. The $4.2 million represents the remaining balance of the escrow account after payment of the settlement amount to PG&E. This transaction was recorded in 2004-05.

Wastewater Collection Fund
- **Change in Net Sales** – During the Finance Committee meeting held on May 19, a change was made to the sewer rate increase reducing it from 17% to 12%. Due to this change, net sales is revised as follows: from $14,265,652 to $13,678,652 in 2005-06, and from $14,352,652 to $14,397,652 in 2006-07.

Water Fund
- **Change in Net Sales** – During the Finance Committee meeting held on May 26, the 5% water rate increase was eliminated. Due to this change, net sales is reduced as follows: from $24,408,951 to $23,288,951 in 2005-06, and from $25,633,951 to $23,288,951 in 2006-07.

Storm Drainage Fund
- **Changes resulting from approval of fee increase** – During the Finance Committee meeting held on May 17, a number of changes were made as a result of the recent approval of the Storm Drain fee increase. These changes are detailed in Exhibit B and include, among other changes, the addition of 1.0 FTE engineering position at a cost of $126,475 and the reallocation of 0.6 FTE related to environmental compliance, at a cost of $61,517, from the Wastewater Treatment Fund. These changes will result in a change to the table of organization. In addition, a number of CIP projects were added and the
amended CIP pages and the changes to the associated financial tables are presented in Appendix 3.

- The 2005-06 budget includes revenue from the General Fund for the fund’s portion of storm drain fees. The plan for General Fund payments of storm drain fees after 2005-06 will be presented to the City Council during the 2005-06 fiscal year. At that time, the revenue received from the General Fund in 2006-07 and future years will be presented. In the 2006-07 Storm Drainage Fund in-concept budget, staff has designated a placeholder in the amount of $529,000 for this planned revenue, which may be revised once the payment plan is determined.

**Capital Budget**
- **Charleston/Arastradero Corridor Capital Improvement Project (CIP) (PL-05002) –** During the Finance Committee meeting held on May 12, $100,000 was included as a placeholder to establish the Charleston/Arastradero CIP. The source of funding will be determined at a later time and recommended when the project returns to the City Council for approval 2005-06.

**Municipal Fee Schedule (Exhibit E)**
- **Revise the proposed day use fee** – During the Finance Committee meeting held on May 31 the addition of the day use fee was revised. This change will result in the Community Services Department fee applying to only Foothills Park and Arastradero Preserve. The fee will not apply to the Baylands Preserve as originally proposed. This motion will reduce revenue in the Community Services Department by $40,000 in 2005-06 and 2006-07. The Municipal Fee Schedule has been revised to clarify this change.

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

**General Fund**
- **Decrease in the General Fund transfer to the Storm Drainage Fund** – This change transfers $81,000 in funding associated with watershed work of the San Francisquito Creek Joint Powers Agreement (JPA) and the San Francisquito Watershed Council in 2005-06 and 2006-07. This change is made in accordance with a recommendation by the Blue Ribbon Storm Drain Committee that creek-related expense should not be funded through the Storm Drainage Fund. The General Fund transfer to the Storm Drainage Fund is reduced by $81,000 and an associated expense increase is reflected in the Public Works Department operating budget, resulting in no net change to the General Fund budget.

**Community Services**
- **Increase Children’s Theatre ticket fee revenue** – This change will increase revenue in the Community Services Department by $28,480 in 2005-06 and 2006-07. The department will be charging the fee in the higher fee range in the published Municipal Fee Schedule.
- **Reinstate 0.75 FTE Parks/Open Space Assistant position** – This change increases salary and benefit expense by $22,109 in 2005-06 and 2006-07.
Library Department

- *Create volunteer coordinator* – This will result in a change to the table of organization by dropping one existing Library position and adding a Coordinator of Library Programs. This change will not increase the dollar amount of the Library Department budget.

Planning and Community Environment

- *Restructuring in the Planning Department Transportation Division* – This change will result in a $85,051 decrease in expense in the Planning Department in 2005-06 and 2006-07. This reduction is made up of the following: reclassification of 1.0 FTE Traffic Engineer to 1.0 FTE Transportation Project Manager, a reduction of $17,268; reclassification of 1.0 FTE Engineer to 1.0 FTE Engineer Tech II, a reduction of $46,140; and elimination of $30,000 in expense for contracts. These reductions are offset by an expense increase of $8,357 associated with the reclassification of 1.0 FTE Chief Planning Official to 1.0 FTE Deputy Director/Chief Planning Official.

Public Works

- *Transfer from the Storm Drainage Fund* – This change transfers $81,000 in funding associated with watershed work of the San Francisquito Creek Joint Powers Agreement (JPA) and the San Francisquito Watershed Council in 2005-06 and 2006-07. The Public Works budget is increased by $81,000 and an associated decrease is reflected in the General Fund transfer resulting in no net change to the General Fund budget.

- *Reclassification of Manager of Maintenance Operations* – This change will increase salary and benefit expense in the Public Works Department General Fund by $15,783 in 2005-06 and 2006-07. The reclassification is part of a restructuring plan associated with a retirement and will result in the reallocation of 0.12 FTE Manager of Maintenance Operations from the Public Works Refuse Fund to Public Works General Fund. This represents a change to the table of organization. The cost savings from the retirement was reflected in the proposed budget.

- *Drop 1.0 Account Specialist and add 1.0 Staff Secretary* – This change will result in a change to the table of organization, but will not change the dollar amount of the budget.

Capital Fund

The Finance Committee approved changes to the 2005-07 Capital Budget on May 12 (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 with the Capital Fund in 2005-06:

- *Children’s Library Improvements (PE-04010)* – This change corrects a staff omission by adding expense in 2005-06 of $3,000 for the electrical improvements with the revenues source identified as a $3,000 from the Friends of the Library as part of a grant received from Cable Co-op.

- *Building Systems Improvements (PF-01003)* – This change makes a correction to show construction costs in 2005-06 of $63,000 with the revenue designated as a grant in the amount of $63,000 from the Friends of the Library as part of a grant received from Cable Co-op.
• **Open Space Day-Use Fee Collection Center (OS-06008)** – This project is included as part of the implementation of the new day use fee in the Community Services Department. Funding of $25,000 is provided from the General Fund for this project.

Other CIP
• Amended capital projects in the Technology Fund are detailed in Appendix 3.

**Enterprise Funds**

• **Reallocation of positions** – This change will correct a staff error and reallocate 1.5 FTE from the Wastewater Collection Fund evenly to the Electric, Gas, and Water funds.

• **Capital Project changes** – The Finance Committee approved changes to the 2005-06 Capital Budget on May 12 (Appendix 5). The amended pages of the enterprise fund capital projects and the associated changes to the financial tables are detailed in Appendix 3.

**Electric Fund**

• **Street Cut Fees** – This change will decrease internal street cut fees expenditures from $79,350 to $11,000 in 2005-06 to reflect proper allocation among the Utilities funds.

• **Supply Rate Stabilization Reserve** – This change will decrease the 2005-06 projected beginning balance of the reserve by $18,060,000 to reflect the settlement agreement with Enron. This change reflects the budget amendment ordinance (BAO) that was approved in 2004-05.

• **Program and Project Consultants expense** – This change will result in a $500,000 expense reduction to realize a move of the power plant feasibility study from the operating budget to the CIP budget.

• **Capital improvement project changes** – This change is due to revised CIP projects, as presented in Appendix 3. The revisions change the amount of reimbursement from various enterprise funds back to the Electric Fund. As a result the transfers to the Electric Fund are changed to show the following amounts:

<table>
<thead>
<tr>
<th>Transfer From</th>
<th>2005-06</th>
<th>2006-07</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water Fund</td>
<td>$340,150</td>
<td>$81,400</td>
</tr>
<tr>
<td>Gas Fund</td>
<td>$155,800</td>
<td>$90,000</td>
</tr>
<tr>
<td>WWC Fund</td>
<td>$3,021</td>
<td>$22,824</td>
</tr>
<tr>
<td>Storm Drainage</td>
<td>$900</td>
<td>$6,800</td>
</tr>
<tr>
<td>Refuse Fund</td>
<td>$5,400</td>
<td>$40,800</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$505,271</strong></td>
<td><strong>$241,824</strong></td>
</tr>
</tbody>
</table>

**Gas Fund**

• **Street Cut Fees** – This change will increase internal street cut fees expenditures from $148,120 to $194,000 in 2005-06 to reflect proper allocation among the Utilities funds.

• **Supply Rate Stabilization Reserve** – This change will decrease the 2005-06 projected beginning balance of the reserve by $3,440,000 to reflect the settlement agreement with Enron. This change reflects the BAO that was approved in 2004-05.

• **Capital improvement project changes** – As a result of various CIP changes, as presented in Appendix 3, the amount of transfer from Gas Fund to the Electric Fund is $155,800 in 2005-06 and $90,000 in 2006-07.
Wastewater Collection Fund

- *Street Cut Fees* – This change will decrease internal street cut fees expenditures from $153,410 to $125,000 in 2005-06 to reflect proper allocation among the Utilities funds.
- *Capital improvement project changes* – As a result of various CIP changes, as presented in Appendix 3, the amount of transfer from Wastewater Collection Fund to the Electric Fund is $3,021 in 2005-06 and $22,824 in 2006-07.

Water Fund

- *Street Cut Fees* – This change will increase internal street cut fees expenditures from $148,120 to $199,000 in 2005-06 to reflect proper allocation among the Utilities funds.
- *Capital improvement project changes* – As a result of various CIP changes as presented in Appendix 3 the amount of transfer from Water Fund to the Electric Fund is $340,150 in 2005-06 and $81,400 in 2006-07.

Refuse Fund

- *Palo Alto Sanitation Company (PASCO) expense* – As part of the annual review of the PASCO budget, from which the cost to the City of the PASCO agreement is derived, expense is increased by $70,833 in 2005-06 and 2006-07. This will reduce the rate stabilization reserve from $2,094 million to $2,023 million. Staff inadvertently omitted this increase in the proposed budget.
- *Capital improvement project changes* – As a result of various CIP changes as presented in Appendix 3, the amount of transfer from Refuse Fund to the Electric Fund is $5,400 in 2005-06 and $40,800 in 2006-07.

Wastewater Treatment Fund

- *Reallocation of position* – This change is related to the approved increase in the storm drainage fee and will result in 0.6 FTE reallocated to Storm Drainage Fund for environmental compliance at a cost of $61,516.

Storm Drainage Fund

- *Capital improvement project changes* – As a result of various CIP changes as presented in Appendix 3, the amount of transfer from Storm Drainage Fund to the Electric Fund is $900 in 2005-06 and $6,800 in 2006-07.

Compensation Plans

Several classification changes are requested in the Management and Confidential, and Classified Compensation Plans. New or changed classifications are included, along with the accompanying resolutions in Attachments 6 and 7.

Table of Organization

Amended pages to the 2005-07 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.
Municipal Fee Schedule
Certain pages of the Municipal Fee Schedule have been revised to reflect the following:

- An updated explanation to the increase in the plan check fee is provided (Exhibit E). This change updates the original explanation as presented in the report that transmitted the Municipal Fee Schedule to the Finance Committee on May 31 (CMR:241:05).
- An amended page is attached showing the revision to the day use fee description in the Community Services Department. The fee applies to only Foothills Park and the Arastradero Preserve (Exhibit E).
- Fees have been added in the Fire Department for advanced life support (ALS) services. These fees have been added to allow the department to charge for ALS services as part of its revenue generating paramedic service (Exhibit E).
- A note will be added to relevant pages of the adopted Municipal Fee Schedule identifying documents that are available on the City’s web site.

RESOURCE IMPACT
The 2005-07 Proposed Budget as submitted to the Finance Committee resulted in an increase to the General Fund Budget Stabilization Reserve (BSR) of $0.1 million in 2005-06 and $0.9 million in 2006-07. The changes resulting from the Finance Committee hearings and staff recommendations resulted in a $0.1 million decrease to BSR funding in 2005-06 and a $0.2 million reduction in 2006-07 (Appendix 1). The projected ending balances for the BSR in 2005-06 and 2006-07 are $21.4 million and $22.1 million respectively. As a result of the changes to the capital budget the projected ending balances in the Infrastructure Reserve (IR) in 2005-06 and 2006-07 are $24 million and $16.8 million respectively. Additional changes to the Enterprise Funds result in an approximate $1.1 million overall increase in reserve balances in 2005-06 and a $7.8 million decrease 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 2005-07 Proposed Budget
   Exhibit B: Amendments to the City Manager’s 2005-07 Proposed Budget
   Exhibit C: 2005-06 Proposed Municipal Fee Schedule
   Exhibit D: Revised Pages in the 2005-06 Table of Organization
   Exhibit E: Amendments to the 2005-06 Proposed Municipal Fee Schedule

Attachment 2: Resolution of the Council of the City of Palo Alto Amending Utility Rate Schedules E-1, E-1-G, E-2, E-2-G, E-4, E-4-G, E-4-TOU, E-7, E-7-G, E-7-TOU, E-14, E-16, E-18, and E-18-G of the City of Palo Alto Utilities Rates and Charges Pertaining to Electric Rates

Attachment 3: 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 4: Resolution of the Council of the City of Palo Alto Amending Utility Rate Schedule S-1 and S-2 of the City of Palo Alto Utilities Rates and Charges Pertaining to Wastewater Collection Rates

Attachment 5: Resolution of the Council of the City of Palo Alto Amending Utility Rate Schedules R-1, R-2, and R-3 of the City of Palo Alto Utilities Rates and Charges Pertaining to Refuse Collection and Amending the Rules and Regulations Governing Utility Services

Attachment 6: 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. 8455 to add a new classification and to make a title change on classification title
Exhibit A: 2005-06 Compensation Plan Changes for Management and Professional Personnel

Attachment 7: 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: 2005-06 Compensation Plan Changes for SEIU Personnel

Appendix 1: 2005-07 General Fund Summary and Reserve Balances

Appendix 2: 2005-07 Utility Fund Summary and Reserve Balances

Appendix 3: 2005-10 Capital Improvement Fund Summaries and Amended Projects

Appendix 4: May 31, 2005 Memorandum to Finance Committee detailing changes to 2005-07 City Manager’s Proposed Budget to date

Appendix 5: Memorandums distributed “at-places” during the Finance Committee budget hearings including proposed changes to the budget, additional department information and answers to Finance Committee questions