RECOMMENDATION

Staff recommends that the Finance Committee direct staff to pursue the “best bets” options included in this report for increasing funding for infrastructure and other City priorities so that staff can move forward with planning for the short- and medium-term options and incorporate them into the Long Range Financial Plan (LRFP) and the 2007-09 budget.

BACKGROUND

In April 2006, the City Council approved the milestones for the “Top 3” priority, Increase Infrastructure Funding (CMR:191:06). The milestones included reviewing options to increase long-term Infrastructure Management Plan (IMP) funding by $3 million a year through a combination of expenditure reductions and revenue enhancements. In addition, staff has identified other challenges that require long-term funding consideration, such as the retiree medical liability and the potential loss of utility users’ tax (UUT) revenues.

The Infrastructure Reserve (IR) was created in 2001 to provide funding for projects in the IMP. In 2004, $36 million was transferred from the General Fund Infrastructure Reserve funds to the Capital Fund for IMP projects. The annual interest income generated from the IR (approximately $1 million), combined with an additional $1 million from General Fund year-end surpluses, 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 expenses, the total contribution to the IR is intended to be $5.6 million annually.

While maintaining the base transfer of $3.6 million 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 budget reduction strategies. Over this same period, capital spending has ramped up 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.

In addition, staff has identified an additional $3-5 million of long-term funding needs related to retiree medical costs and the potential loss of UUT revenues. The combined amount needed to address these needs is $6-8 million over the long-term.

**DISCUSSION**

The Finance Committee held an initial discussion of options on May 23 and directed staff to return to the City Council for further discussion. A study session with the City Council was held on July 31 where the “best bets” were discussed. This report presents the options for further direction.

The attached list of options (Attachment 1) for enhancing revenues and reducing expenses to achieve an additional $3 million for the IMP and other priorities is organized into short- and medium-term alternatives. The short-term options would be implemented with the 2007-08 budget; the medium-term options would be implemented with the 2007-09 budget and later. The attached list of options shows a summary of the “best bets” (most doable) for moving forward. These options are intended to provide the necessary annual contribution to the IR required to keep the reserve balance at adequate levels to maintain the IMP program to maintain the City’s infrastructure, while also addressing other long-term funding issues, such as retiree medical and the potential of lost UUT revenue.

Among the revenue enhancement options listed for consideration is an alternative approach to how the City funds non-emergency sidewalk repair. The history of the City’s sidewalk repair/replacement program along with alternatives is discussed in Attachment 2.

With Finance Committee direction on the list of options, staff would incorporate changes into the Long Range Financial Plan (LRFP) and then the 2007-09 budget process. The LRFP is expected to be presented to the City Council in December 2006.

**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 and City Priorities
Attachment 2: City Sidewalk Repair/Replacement Program History and Alternatives