BUDGET ‘08-09’

TO:   HONORABLE CITY COUNCIL

FROM:  CITY MANAGER    DEPARTMENT: ADMINISTRATIVE SERVICES

DATE:  JUNE 09, 2008    CMR: 269:08

SUBJECT:  ADOPTION OF AN ORDINANCE ADOPTING THE 2008-09 BUDGET, INCLUDING THE 2008-09 CAPITAL IMPROVEMENT PROGRAM, CHANGES TO THE MUNICIPAL FEE SCHEDULE, UTILITY RATES AND CHARGES, AND CHANGES TO COMPENSATION PLANS, AND RELATED RESOLUTIONS

RECOMMENDATION
Staff recommends that the City Council approve the following:
1. The Budget Adoption Ordinance (Attachment 1), which includes:
   a. The City Manager’s 2008-09 Proposed Budget (Exhibit A - previously distributed).
   b. All changes detailed in the Amendments to the City Manager’s 2008-09 Proposed Budget (Exhibit B).
   c. 2008-09 Proposed Municipal Fee Schedule (Exhibit C - previously distributed).
   d. Revised pages to the Table of Organization (Exhibit D).
   e. Amendments to the 2008-09 Proposed Municipal Fee Schedule (Exhibit E).
2. Resolution Amending Utility Rate Schedules for an electric rate increase (Attachment 2).
3. Resolution Amending Utility Rate Schedules for a water 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 refuse rate increase (Attachment 5).
6. Resolution Amending Utility Rate Schedules for a storm and surface water drainage rate increase (Attachment 6).
7. Resolution Amending Utility Rate Schedules for Electric, Water, Gas and Wastewater connection fees and Water and Wastewater capacity fees (Attachment 7).
BACKGROUND
The City Manager’s 2008-09 Operating Budget was submitted to the Finance Committee on May 6, 2008 and the 2008-09 Proposed Capital Budget was submitted on May 8, 2008. During the month of May, the Finance Committee held hearings and reviewed the Proposed Budget, including the General Fund, Enterprise Funds, Internal Service Funds, Capital Improvement Programs and the Municipal Fee Schedule. A total of four public hearings were held on May 6, 8, 13, and 15 during which the Committee reviewed and discussed the City’s operating and capital expenditures for the next year.
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 primarily on the financial changes recommended by the Finance Committee during the public hearing process and the fiscal related adjustments suggested by staff following submission of the original proposed budget. Certain key non-financial changes are also highlighted in this report. All other non-financial recommended changes to the proposed budget are described in Appendix 4, which was distributed to the Finance Committee on May 15, and will be incorporated into the 2008-09 Adopted Budget document.

Finally, the Finance Committee directed staff to report back during budget adoption on the following issues:

- Gas Fund – In response to a question from the Finance Committee regarding the issue of “unaccounted for gas”.
  - Staff will return with a plan for updating the estimate of natural gas leakage from the distribution system in Fall 2008.
- The pros and cons of a team approach to filling the Environmental Coordinator position in the City Manager’s Office and the experiences from the current team-members.
  - Staff will respond during the budget hearing
- The economics of City sponsored camp programs:
  - In response to the Finance Committee’s inquiry regarding the economics of the City’s summer camp program versus local agencies providing similar programs, the Community Services Department is committed to supplying programs that meet the community’s demand as well as meeting the needs of our community’s diverse economic strata. To that end, the Department will work more closely with the Palo Alto Unified School District prior to developing its 2009 summer camp programs to assure a diverse offering of summer programs that avoids redundancy yet maintains or enhances the cost recovery expectations for the department.

Finance Committee Recommended Changes to the City Manager’s Proposed Budget
- The 2008-09 City Council Contingency account is proposed for allocation as follows:
• Contract services for Earth Month outreach and activities coordinated through the City Manager’s Office - $30,000
• Contract services related to the creation and initial work of the Community Environmental Action Partnership coordinated through the City Manager’s Office - $15,000
• Contract services for advice and guidance on the management of the City of Palo Airport coordinated through the Administrative Services Department - $30,000

<table>
<thead>
<tr>
<th>Council Contingency account status</th>
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<tbody>
<tr>
<td><strong>2008-09</strong></td>
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<tr>
<td><strong>Beginning balance</strong></td>
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<tr>
<td>Earth Month outreach</td>
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<tr>
<td>Community Environmental Action Partnership</td>
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<tr>
<td>Airport consultant</td>
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<tr>
<td><strong>Ending Balance</strong></td>
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• Refuse Fund – The Finance Committee tentatively approved the Refuse Fund 2008-09 Operating Budget which included the annual PASCO compensation amount as recommended by staff. The Finance Committee noted there is a potential contract dispute regarding the compensation amount and requested that legal clarification be provided to the full Council. A confidential memorandum on the potential contract dispute has been submitted under separate cover by the City Attorney and a summary of staff’s recommendation and PASCO’s alternative proposals is discussed in the Refuse section in this report.

Staff-Recommended Changes to the City Manager’s Proposed Budget
Staff recommends the following changes based on new information following submittal of the original proposed budget.

**General Fund**

**Fire**
• Emergency Medical Services (EMS) Study - $50,000. In 2008-09, the Fire Department will use contract services to conduct a study of the EMS operations. The scope of the study will include:
  
  o A comprehensive assessment of current resources and service demands
  o The evaluation of the effectiveness and efficiencies of the current program
  o Projected service demands and changes in the delivery system to meet anticipated future needs
  o Evaluation of current field practices/procedures and staffing levels
Maximizing efficiencies in billing and collections
- Assessment of funding needs and additional/enhanced revenue sources
- Assessment of equipment and vehicle needs
- Development of a Master EMS plan recommending best strategies, policies and procedures for the future

**Human Resources**
- Under benchmarking measures for the workload outputs section of the operating budget, (page 96, operating budget) staff is changing the number of grievances filed from 15 to 10 in 2008-09. This change more accurately reflects the trend rather than an average.

**Police**
- Reclassification of 1.0 FTE Community Services Officer to Program Assistant I - $5,500 to align position with actual work duties.

**Public Works**
- Addition of supplies and materials - $10,000. In 2008-09, an additional 1.0 FTE Facilities Mechanic was added to the Public Works Department in response to recommendations made to the City by Kitchell CEM consultants in a report on the General Fund Infrastructure backlog. Additional supplies and materials for the new hire will be needed to assist them in their job duties.
- Addition of $18,000 in temporary salaries to support the graffiti abatement program. This will provide funding for the continuance of the current abatement program.

**Infrastructure/CIP**
- The following items were presented to the Finance Committee with the May 6, 2008 “at-places” memo:
  - New CIP Project AS-09000 (City of Palo Alto Municipal Airport Transition Project). Funding of $50,000 will be provided by the Infrastructure Reserve.
  - New CIP Project PE-09004 (Los Altos Treatment Plant (LATP) Master Plan Study). Funding of $100,000 will be provided by the Infrastructure Reserve.
  - New CIP Project EL-09001 (Evaluation of Local Cogeneration Opportunities) – Funding of $350,000 will be provided by the Electric Fund Supply Rate Stabilization Reserve.
  - Additional funding of $600,000 to CIP Project PE-04014 (Animal Service Center) from Infrastructure Reserve.
  - Additional funding of $300,000 to CIP Project PE-08004 (Lytton Plaza Renovation) from Infrastructure Reserve.
  - Additional funding of $50,000 to CIP GS-07000 (Elwell Court Tenant Improvements) from Gas Fund ($12,500), Water Fund ($12,500), Electric Fund ($12,500), and Wastewater Collection Fund ($12,500)
  - Change funding of $125,000 to CIP RF-10003 (Drying Beds, Material Storage and Transfer Area) from Refuse Fund ($125,000) to Refuse Fund ($62,500) and Wastewater Collection Fund ($62,500)
Additional funding $45,000 to CIP VR-09000 (Scheduled Vehicle and Equipment Replacement) from General Fund

Scope change to CIP PE-09002 (Greer Park Irrigation System Replacement and Phase IV). This change has no impact to reserves.

**Enterprise Funds**

### Electric Fund
- Addition of PaloAltoGreen Commodity expense - $109,000. The increase in customer and City sales for PaloAltoGreen requires an addition to the purchase of the commodity.

### Fiber Optics Fund
- Establish a new Emergency Plant Replacement Reserve and establish reserve guidelines for the Fiber Optics Fund. The original request for the Emergency Plant Replacement Reserve was in the amount of $250,000. Staff is increasing that recommendation to $1 million to be consistent with other Utility Fund Emergency Plant Replacement Reserve guidelines.

### Refuse Fund
- The current waste hauling and recycling contract with PASCO requires the Council to approve the reasonableness of PASCO’s annual compensation as part of the budget process. For FY 2008-09, PASCO has asserted that it is entitled to additional compensation in the amount of $767,000 to $950,000 to compensate it for cost overruns and losses incurred in FY 2006-07. Based on the contract language, staff disagrees with this approach and instead recommends that the compensation be adjusted by the applicable CPI as specified in the agreement. Accordingly, the proposed budget includes an annual compensation amount of $10,960,234, which reflects the CPI increase recommended by staff. (For further background, see CMR 246:08).

**Internal Service Funds**

### Vehicle Replacement and Maintenance Fund
- Increase in revenue from Operating transfers-in from the General Fund for the purchase of van for the new facilities mechanic position in the Public Works Department - $45,000

### External Services Fund
- Based on previous Council direction, the External Services Enterprise Fund and associated positions have been eliminated in 2008-09 effective 6-9-2008.

**Revenue and Expense Options to Help the General Fund Accommodate Debt Service for the Public Safety Building**

Staff presented to the Finance Committee the “Best Bets” for revenue enhancements and expense reductions to identify $1.0 million to transfer to the Public Safety Building Reserve. The Finance Committee tentatively approved the options identified with the exception of the elimination of
0.5 FTE Sr. Librarian. Staff has removed that option from the “Best Bets” as presented in Appendix 4.

Additionally, the item to remove Fire personnel support from the Bike Safety program has been eliminated. It has been determined that the Fire Department can continue to support the program since the department will soon be fully staffed and could potentially use Fire personnel assigned to light duty to support the Bike Safety program. The Fire personnel support for the Bike Safety program will continue and the “Best Bet” expense reduction will be reflected as overtime savings.

**Compensation Plans**
Two classification changes are requested in the Management and Confidential, and Classified (SEIU) Compensation Plans. New or changed classifications are included, along with the accompanying resolutions in Attachments 8 and 9.

**Table of Organization**
Amended pages to the 2008-09 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**
The Police and Planning and Community Environment Departments have additional municipal fee changes to the schedule for increases in animal services and inspection services. There is also one change in the citywide fees to add an online payment processing fee for parking citations.

**Contracts Greater Than $85,000**
On May 15, 2008, the Finance Committee approved the fiscal year 2008-09 contract scopes of professional services agreements greater than $85,000 (CMR:238:08).

**RESOURCE IMPACT**
The 2008-09 Proposed Budget as submitted to the Finance Committee resulted in an increase to the General Fund Budget Stabilization Reserve (BSR) of $0.3 million in 2008-09. The changes resulting from the Finance Committee hearings and staff recommendations resulted in a $0.1 million decrease to BSR funding in 2008-09 (Appendix 1). The projected ending balance for the BSR in 2008-09 is $25.5 million. Additional revenue and expense reductions of $1.0 million were identified as funding options for the Public Safety Building debt service. Those dollars will be transferred to the Public Safety Building Reserve when established. The projected ending balance for the Public Safety Building Reserve in 2008-09 is $4.0 million. As a result of the changes to the capital budget, the projected ending balance in the Infrastructure Reserve (IR) in 2008-09 is $11.6 million. Additional changes to the Enterprise Funds result in an approximate $8.3 million increase in reserve balances in 2008-09 (Appendix 2).

**POLICY IMPLICATIONS**
These recommendations are consistent with existing City policies.
ENVIRONMENTAL REVIEW
Adoption of the budget does not represent a project under the California Environmental Quality Act (CEQA).

ATTACHMENTS
Attachment 1: Budget Adoption Ordinance with the following Exhibits:
   Exhibit A: City Manager’s 2008-09 Proposed Budget
   Exhibit B: Amendments to the City Manager’s 2008-09 Proposed Budget
   Exhibit C: 2008-09 Proposed Municipal Fee Schedule
   Exhibit D: Revised Pages in the 2008-09 Table of Organization
   Exhibit E: Amendments to the 2008-09 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 W-1, W-2, W-4, and W-7 of the City of Palo Alto Utilities Rates and Charges Pertaining to Water Rates

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

Attachment 6: Resolution of the Council of the City of Palo Alto Amending Utility Rate Schedule D-1 (Storm and Surface Water Drainage)

Attachment 7: Resolution of the Council of the City of Palo Alto Amending City of Palo Alto Utility Rate Schedules E-15, G-5, W-5, and S-5 of the City of Palo Alto Utilities Rates and Charges Pertaining to Connection Fees and Capacity Fees

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. 8748 to change the title and compensation of one classification.
   Exhibit A: 2008-09 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. 8658 to add one classification.
   Exhibit A: 2008-09 SEIU Compensation Plan Changes
Appendix 1:  2008-09 General Fund Summary and Reserve Balances
Appendix 2:  2008-09 Enterprise Fund Summary and Reserve Balances
Appendix 3:  2008-13 Capital Improvement Fund Summaries and Amended Projects
Appendix 4:  May 15, 2008 Memorandum to Finance Committee detailing changes to 2008-09 City Manager’s Proposed Budget to date and summary of Revenue and Expense Options to Help the General Fund Accommodate Debt Service for the Public Safety Building.
Appendix 5:  Memorandums distributed “at-places” during the Finance Committee budget hearings.

Related Staff Reports:  CMR:165:08;  CMR:169:08;  CMR:170:08;  CMR:171:08;  
CMR:182:08;  CMR:185:08;  CMR:213:08;  CMR:223:08;  
CMR:227:08;  CMR:238:08;  CMR:243:08;  CMR:246:08

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