BUDGET
’02 – ‘03

TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER DEPARTMENT: ADMINISTRATIVE SERVICES

DATE: JUNE 17, 2002 CMR:289:02

SUBJECT: ADOPTION OF THE 2002-03 BUDGET AND APPROVAL OF A BUDGET ADOPTION ORDINANCE, INCLUDING THE 2002-03 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 Proposed 2002-03 Budget (Exhibit A - previously distributed).
   b. All changes detailed in the Amendments to the City Manager’s Proposed 2002-03 Budget (Exhibit B).
   c. Proposed 2002-03 Municipal Fee Schedule (Exhibit C - previously distributed).
   d. Revised pages to the Table of Organization (Exhibit D).
   e. Amendments to the Proposed 2002-03 Municipal Fee Schedule (Exhibit E).

2. Resolution Amending Utility Rate Schedules for various electric service rate changes and approval of a $4.0 million transfer between Electric Fund reserves (Attachment 2).

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

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

5. Resolution Amending Utility Rate Schedules to affect a water rate increase (Attachment 5).
6. Resolution Amending Utility Rate Schedules for various Utility Service Call and Connection Fees (Attachment 6).

7. Resolution Amending Utility Rate Schedules for various refuse service rates (Attachment 7).


BACKGROUND
The City Manager’s 2002-03 Proposed Operating Budget was submitted to the Finance Committee on May 7, 2002 and the 2002-03 Proposed Capital Budget was submitted a week later on May 14, 2002. 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. The Finance Committee also reviewed several proposed rate adjustments within the Enterprise Funds. As a result of those hearings, the Finance Committee and staff have recommended changes to the Proposed Budget (Exhibit B).

DISCUSSION
The changes recommended by the Finance Committee and the adjustments suggested by staff are discussed below. The recommended changes for the General and Utility Funds Proposed Budgets are summarized in Appendices 1, 2 and 3. Please note that all non-financial recommendations will be incorporated into the 2002-03 Adopted Budget document.

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

- The 2002-03 Council contingency has been allocated as follows:
  1. **Shuttle Program/Traffic Calming Program** - During the Finance Committee meeting held on 5/17/01, $192,000 was allocated to the Planning and Community Environment budget to support the Shuttle Program and $50,000 for the Traffic Calming Program.
  2. **Twilight and Brown Bag Concerts** – During the Finance Committee meeting held on 5/7/02, $20,000 was allocated to the Community Services Department budget as one-time funding of a proposed one-time budget reduction in the Arts Division.
3. **Boards and Commissions** – During the Finance Committee meeting held on 5/7/02, $15,000 was allocated to the Community Services Department to fund one-time department-recommended reductions in the Arts, Human Services, and Library Boards and Commissions 2002-03 budgets.

4. **Fields Management Committee** - The remaining $73,000 in the Council Contingency has been allocated to the non-departmental contingency in the General Fund. Staff will return to the Finance Committee with several options for expanding field usage as recommended by the Fields Committee. The following is a summary of the 2002-03 contingency allocation:

<table>
<thead>
<tr>
<th>Shuttle Programs (2001-03 allocation)</th>
<th>$192,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traffic Calming Programs (2001-03 allocation)</td>
<td>50,000</td>
</tr>
<tr>
<td>Twilight and Brown Bag Concerts (CSD)</td>
<td>20,000</td>
</tr>
<tr>
<td>Boards and Commissions (CSD)</td>
<td>15,000</td>
</tr>
<tr>
<td>Non-Departmental Contingency (fields)</td>
<td>73,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>350,000</strong></td>
</tr>
</tbody>
</table>

- **Review of Funding Alternatives for Future Transportation Staffing** – Staff will return to the Finance Committee with several options to fund transportation staffing within Planning and Community Environment, as the needs are identified in the future. This review will include analysis of the following Finance Committee suggestions: parking enforcement fees, a “head tax” per employee for the business community, and broadening parking district programs to encompass transportation projects (e.g. Transportation Assessment District). Also included in this review will be a further exploration of alternative transportation models.

- **Addition of Traffic Calming Performance Measures for the Police Department** – The following will be added to the Police Department Overview section of the budget document:
  - Reduce the total number of accidents within the super block bordered by Charleston Road, Alma Street, East Meadow and Middlefield Road by 15 percent compared to 2001-02.
  - Reduce the total number of injury accidents by 15 percent compared to 2001-02.

  Data will be added to the above goals within the 2003-05 performance measures that the Police Department prepares for the next two-year budget cycle.

- **Removal of Valley Transportation Authority (VTA) Bus Shelter Advertising Revenues** – The Finance Committee recommended against the staff proposal for the VTA to perform bus shelter maintenance in exchange for advertising opportunities on the shelters. As a result of this action, $20,000 in revenue has
been removed from the proposed budget and $20,000 in expenditure has been added to the Public Works Department budget for annual maintenance and replacement expense for the shelters.

- **Addition of a Senior Rate for the Annual Foothills Park Pass** – The Finance Committee recommended the addition of a senior rate to the re-established annual pass to Foothills Park. Staff proposes a $30 annual rate for seniors, which represents a $10 discount from the regular rate (Exhibit E of Attachment 1).

- **Bicycle License Fees** – On a recommendation from the Finance Committee, the bicycle license fees in the Police and Fire Department sections of the municipal fee schedule will be standardized at $3 per year and moved to the Citywide Fee section of the schedule (Exhibit E of Attachment 1).

- **Referral of CPA External Services Fund to Audit Committee** – The Finance Committee recommended referral of the operations of the CPA External Services Fund to the Audit Committee for review. The dual goals of the referral are to establish a customer service evaluation baseline and to make sure the external services are not drawing on core City services.

- **Recommended Electric Fund Public Benefit Funded Study** – The Finance Committee recommended that staff review the possible funding of a “heat island” study and the effects on energy conservation. It is understood the use of these funds is restricted to certain conditions and it is not clear that a study of this kind can be funded with Public Benefit funds.

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

**General Fund**

- **Allocation of 2002-03 Compensation Increases to Department Budgets** – Staff has allocated estimated compensation increases from the non-departmental category into the department budgets. This is only a shift in presentation in order to more accurately compare the 2002-03 proposed department budgets to the prior year. There is no net impact to the proposed expenditure budget as a result of this action. However, each department budget has increased by its estimated 2002-03 compensation increases, with an equal offset reduction in the non-departmental category.

- **Removal of Art Center Studio Membership Fee** – Staff recommends the removal of the newly proposed Art Center membership fee revenue. As a result, $10,000 in revenues will be removed from the Community Services Department budget.
• **Removal of PAUSD Proposed Revenue Reduction** – Due to staff-recommended changes to expenditure reductions, the proposed cost-sharing revenues from PAUSD will be realized in 2002-03. As a result, $16,750 in revenues will be added to the Community Services Department budget.

• **Filling the Role of Administrator of Special Events** – The Community Services Department has received approval from the Executive Staff Approval Committee to under-fill the Administrator of Special Events with a Special Events Coordinator. This was presented as a frozen position in the proposed budget, however staff recognizes the need to perform the duties that surround event planning. As a result, $111,443 in salary and benefits expense will be added to the Community Services Department budget.

• **Hiring of Project Engineer Frozen Position** – The Project Engineer position was incorrectly noted as frozen in the proposed budget and has been filled. As a result, $107,166 in salary and benefits expense will be added to the Public Works Department budget.

• **Reversal of 0.1 FTE Reallocation of Engineering Technician III to Storm Drainage Fund** – Due to a clerical error, the 0.1 FTE reallocation of Engineering Technician III to the Storm Drainage Fund is reversed. As a result, $7,317 in salary and benefits expense will be added to the Public Works Department budget.

• **Increase in Line Clearing Reimbursement** – The Public Works Department is receiving additional reimbursement revenues from the Electric Fund due to the correction of a clerical error. As a result, $80,718 in revenues will be added to the Public Works Department budget.

• **Reduction in State of California Reimbursement of County Booking Fees** – The Police Department has received notice that the 2002-03 State of California reimbursement for County booking expense is being eliminated due to the state budget shortfall. As a result, $150,000 in Police Department revenue is being removed from the proposed budget.

**Capital Budget**

• **CIP Project 10224 – Children’s Theatre Light and Sound Systems Upgrade:** Staff recommends appropriating $35,000 for design funding from the Infrastructure Reserve to replace the outdated light and sound systems at the Children’s Theatre (Appendix 4).
• **CIP Project 19707 – Emergency Generator Replacement** - Staff recommends appropriating $210,000 from the Infrastructure Reserve for this safety issue involving the replacement of the existing back-up generators at the City-owned fire stations (Appendix 4). Funds for this project will be realized by a reduction in the following item, CIP Project 10102.

• **CIP Project 10102 – Civic Center Improvements** - Due to the economic climate, staff recommends reducing funding for 2002-03 in this project by $210,000 to fund CIP Project 19707 (Appendix 4). If this project goes into its construction phase in 2001-02 then staff may return to Council for approval of additional funding at that time.

**Internal Service Funds**

Vehicle Replacement and Maintenance Fund

• **Additional Department Allocation Revenue** – Due to a clerical error, the offset revenue for the new Fire Department ambulance was omitted. As a result, $30,000 in revenues will be added to the Vehicle Replacement and Maintenance Fund budget.

• **Reclassification of Position** – The Human Resources Department recently approved a reclassification request on appeal, of 1.0 Motorized Equipment Mechanic to Motorized Equipment Mechanic-Lead. As a result, $4,566 in salary and benefit expense will be added to the Vehicle Replacement and Maintenance Fund budget.

**Enterprise Funds**

Electric Fund

• **Reduction in Northern California Power Association (NCPA) Reimbursement** – Staff recommends a reduction of $268,000 in revenues as the Fund received this amount earlier than anticipated in 2001-02.

• **Increase in Line Clearing Expense** – Due to the correction of a staff position allocation error, the Fund’s line clearing expense is increasing by $80,718.

• **CIP Project 0117 – Upgrade Traffic Signal Control System**: Due to a delay in the anticipated receipt of grant funds, staff recommends a reduction of $414,000 in grant revenues in 2002-03 (Appendix 4). The new grant-funding amount would be $186,000.
• **CIP 0314 – Edgewood Drive Undergrounding Conversion District #40:** Staff recommends the addition of a new CIP to the Electric Fund’s capital program in 2002-03. This project was included in the Proposed Capital Budget document, however, the funding was not included in the Proposed Electric Fund Budget. This project covers design work to replace the existing overhead distribution system with an underground system along Edgewood Drive between Jackson and Greer (Appendix 4).

**Gas Fund**

• *Adjustment in Gas Fund Reserve Balances* – Two changes have occurred with the Gas Fund Reserves since the proposed document was produced. The first involves a change in the proposed beginning balance of the fund’s Rate Stabilization Reserve due to a revised projection. The second involves the creation of a Debt Service Reserve from the Bond Proceeds Reserve per bond covenant requirements (Appendix 3).

**Wastewater Collection Fund**

• **CIP Project 9913 – Sanitary Sewer Manhole Rehabilitation and Replacement:** Staff recommends a $350,000 reduction in project funding for 2002-03, from $750,000 to $400,000 (Appendix 4). This level of expenditure represents a more realistic estimate of the work that can be accomplished in this fiscal year.

**Water Fund**

• *Reduction in Water Commodity Expenditure* – Staff recommends a $600,177 reduction in water commodity cost as an anticipated increase in San Francisco Public Utilities Commission (SFPUC) water rates was not realized.

• *Adjustment in Water Fund Reserve Balances* – Two changes have occurred with the Water Fund Reserves since the proposed document was produced. The first involves a change in the proposed beginning balance of the fund’s Rate Stabilization Reserve due to a revised projection. The second involves the creation of a Debt Service Reserve from the Bond Proceeds per bond covenant requirements (Appendix 3).

**Refuse Fund**

• *Increase in Landfill Post-Closure Liability Expense* – Even with the landfill’s post-closure liability being fully funded, State regulators require an annual CPI increase in the funding amount. Staff recommends increasing the liability funding by $137,240 in 2002-03, which represents a 2.2% increase.
• Revised Commercial Refuse Collection Rate Schedule R-3-1 – Staff has amended the refuse rate schedule R-3-1 (Attachment 7), originally described to the Finance Committee on May 14, 2002 (CMR:258:02). In addressing some of the Committee’s concerns on traffic calming, the revised schedule gives a financial incentive to less-frequent commercial bin collections.

Storm Drainage Fund
• Two Minor Adjustments – The first is reversing a clerical error, with the reallocation of 0.1 FTE of Engineering Technician III from the General Fund. The second is the removal of temporary discharge fee revenue from the proposed budget. As a result of these two transactions, $3,817 in expense will be removed from the fund’s proposed budget.

Municipal Fee Schedule
Once adopted by Council, the fees in the Municipal Fee Schedule (Exhibit C) will be effective July 1, 2002, with the exception of the development-related fees which will not take effect for 60 days to comply with state noticing requirements.

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 8 and 9.

RESOURCE IMPACT
The 2002-03 Proposed Budget as submitted to the Finance Committee resulted in a total increase to the General Fund Budget Stabilization Reserve (BSR) of $0.6 million. The changes resulting from the Finance Committee hearings and staff recommendations, total $0.3 million in revenue reductions and expenditure increases (Appendix 1 & 2). The projected ending balances for the BSR and IR are $22.7 million and $20.7 million respectively (Appendix 2). Additional changes to the Enterprise Funds result in an insignificant change to their overall reserve balances in 2002-03 (Appendix 3).

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 Proposed 2002-03 Budget
   Exhibit B: Amendments to the City Manager’s Proposed 2002-03 Budget
   Exhibit C: Proposed 2002-03 Municipal Fee Schedule
   Exhibit D: Revised Pages in the Table of Organization
   Exhibit E: Amendments to the Municipal Fee Schedule

Attachment 2: Resolution of the Council of the City of Palo Alto Amending Utility Rate Schedules E-1, E-1-G1, E-1-G2, E-1-G3, E-2, E-2-G1, E-2-G2, E-2-G3, E-4, E-4-TOU, E-4-G1, E-4-G2, E-4-G3, E-7, E-7-TOU, E-7-G1, E-7-G2, E-7-G3, E-8, E-16, E-17, and E-18 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-7, 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 Schedules S-1, S-2, S-3, and S-4 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 Utility Rate Schedules W-5, G-5, S-5, E-15, and C-1 of the City of Palo Alto Utilities Rates and Charges Pertaining to Connection Fees

Attachment 7: Resolution of the Council of the City of Palo Alto Amending Utility Rate Schedules R-1, R-2 and R-3 and Eliminating Schedule R-1-FA of the City of Palo Alto Utilities Rates and Charges Pertaining to Refuse Collection

Attachment 8: Resolution of the Council of the City of Palo Alto Amending the Compensation Plan for Classified Personnel (SEIU) Adopted by
Resolution No. 8056 and Amended by Resolution Nos. 8059 and 8141, to include new Classifications

Exhibit A: 2002-03 Compensation Plan Changes for Classified Personnel

Attachment 9: Resolution of the Council of the City of Palo Alto Amending the Compensation Plan for Management and Confidential Personnel and Council Appointed Officers Adopted by Resolution No. 8096, and Amended by Resolution No. 8117, to add new Classification

Exhibit A: 2002-03 Compensation Plan Changes for Management and Confidential Personnel

Appendix 1: Summary of Changes to the 2002-03 Proposed General Fund Budget

Appendix 2: 2002-03 General Fund Summary and Reserve Balances

Appendix 3: 2002-03 Utility Fund Summary and Reserve Balances

Appendix 4: Capital Improvement Fund Summaries and Amended Projects

Appendix 5: Infrastructure Management Plan PowerPoint presentation to the May 14, 2002 Finance Committee

Related Staff Reports: CMR:277:01; CMR:165:02; CMR:203:02; CMR:241:02; CMR:242:02; CMR:243:02; CMR:244:02; CMR:245:02; CMR:258:02

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