TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER DEPARTMENT: ADMINISTRATIVE SERVICES

DATE: MARCH 11, 2002 CMR:174:02

SUBJECT: FINANCE COMMITTEE RECOMMENDED CHANGES TO THE 2001-02 ADJUSTED BUDGET – MIDYEAR AMENDMENTS AND CAPITAL IMPROVEMENT PROGRAM STATUS

RECOMMENDATION
Staff recommends that the City Council approve the following:

1. Adopt the attached Budget Amendment Ordinance (Attachment 1), which includes:
   a. Proposed midyear adjustments to the 2001-02 Budget for the General Fund, Enterprise Funds, Special Revenue Funds, Internal Service Funds, Debt Service Fund, and Capital Improvement Fund (Exhibit A).
   b. All changes detailed in “2001-02 CIP Midyear Adjustments” (Exhibit B).
   c. Amendments to the 2001-02 Adopted Municipal Fee Schedule (Exhibit C).
   d. Ending the Utility Users Tax (UUT) rebate effective April 1, 2002.

2. Utility Rate Schedule Resolution to amend electric and gas rates, aggregating rates paid by the City into a lower cost class (Attachment 2).

The 2001-02 midyear Capital Improvement Program Projects Status Report is attached as an informational item (Attachment 3). A list of continuous projects follows this summary (Attachment 4). No action is required on these two items.

BACKGROUND
On February 5, 2002, the Finance Committee reviewed the 2001-02 Adjusted Budget – Midyear Amendments and Capital Improvement Program Status staff report (CMR:137:02). This report summarizes the Finance Committee changes from the February 5, 2002 review of the 2001-02 midyear adjustments staff report (CMR:137:02). Please review that report for details surrounding the changes prior to the Finance Committee review. All attachments to this report have been amended to reflect Committee recommendations. The Committee recommended the items contained under the “Additional General Fund Changes” section of
that report be incorporated into the relevant attachments upon return to Council for adoption. These items as well as two other miscellaneous adjustments are described below.

**DISCUSSION**

**General Fund**
The following is a summary of Finance Committee-recommended changes to the 2001-02 Adjusted Budget – Midyear Amendments report, as detailed in Exhibit A. All comparisons are made from the 2001-02 Adjusted Budget.

Revenues: (net reduction $6.0 million)
Finance Committee-recommended changes to revenues total $2.25 million and fall into three main categories: Utility Users Tax, rental income, and other revenues.

- **Utility Users Tax (increased $0.25 million)** The attached BAO proposes to end the UUT rebate effective April 1, 2002. While this rebate was designed with residents in mind, local businesses have consumed 70% of the $700,000 in program funding through December 31, 2001. It is important to note that this rebate is set to expire, unless renewed, on June 30, 2002. The Utility Department will propose utility rate reductions as part of the upcoming 2002-03 budget process.

- **Rental Income (increased $1.0 million)** This increase represents an additional one-time payment from the Refuse Fund, and represents a partial payment on the previously discussed accumulated landfill rent due to the General Fund (CMR:181:95 of March 21, 1995). After this payment the projected amount due as of June 30, 2003 is $6,180,818 and will be paid at a future date.

- **Other Revenue (increased $1.0 million)** The Federal Emergency Management Agency (FEMA) is expected to reimburse the City $980,000 for expenses associated with the 1998 floods. This payment is expected prior to the end of the fiscal year. Also, $20,000 in bus shelter ad revenue has been removed from the midyear changes, as the City Council did not approve the recent bus shelter maintenance contract with Valley Transportation Authority.

Expenditures: (reduced $5.5 million)
Finance Committee-recommended changes to expenditures total $0.4 million and include additional salaries and benefits reductions.

- **Salaries & Benefits (reduced $0.4 million)** Five additional positions have been frozen, with funding to be removed from department budgets. These do not reflect permanent changes to the Table of Organization. The five positions are: Senior Technologist (ASD), Office Specialist (Fire), Fire Inspector (Fire), Chief Communication Technician (Police),
and Office Specialist (Police). The salary and benefit savings realized in 2001-02 totals $425,782 and is slightly less than the $500,000 goal presented to the Finance Committee.

**Enterprise Funds**
Please refer to the detail fund summaries in Exhibit A for complete information on all midyear changes and to the CIP section for a discussion of the changes in Enterprise CIP project funding.

- Refuse Fund (Net reserve reduction of $1.7 million)
  
  Expenses *(increased $1.0 million)* The additional $1.0 million in landfill rent paid to the General Fund results in a projected rate stabilization reserve (RSR) balance of $8.2 million as of June 30, 2002. The fund remains in a strong fiscal position as the RSR is projected to exceed the maximum reserve guideline of $3.7 million.

**Other Funds**
- *Special Revenue Fund:* The $14,000 appropriated from the Residential Housing In-Lieu Fund Reserve (Attachment A) will be used for the property holding costs, repairs and other expenses associated with the sale of the BMR unit at 2464 West Bayshore Road, Unit #1, Palo, Alto, CA 94303. The sale is likely to occur prior to the end of this fiscal year.

**RESOURCE IMPACT**
Adoption of the attached ordinance will allow for adjustments to the fiscal year 2001-02 budget, along with the establishment of two new General Fund CIP projects. With the approval of this ordinance, the projected ending balance of the General Fund BSR is $23.0 million, a reduction of $1.5 million. The General Fund Infrastructure Reserve (IR) is projected to end with a balance of $24.3 million, an increase of $1.1 million. These balances reflect a $1.9 million transfer from the BSR to the IR per reserve policy, capping the BSR at 18.5% of budgeted expenditures. The projected ending RSR total for all Enterprise funds combined declines by $10.3 million mainly due to a reduction in electric sales revenues and rent payments to the General Fund by the Refuse Fund. The projected surplus in the General Fund is now estimated to be $0.6 million as of June 30, 2002.

**ENVIRONMENTAL ASSESSMENT**
This is not a project for purposes of the California Environmental Quality Act (CEQA).

**ATTACHMENTS**
Attachment 1: Budget Amendment Ordinance with the following exhibits:
  Exhibit A Fund Summaries and detail changes to the General Fund, Enterprise Funds, Special Revenue Funds, Internal Service Funds, Debt Service Fund and Capital Improvement Funds
  Exhibit B 2001-02 CIP Midyear Adjustments
  Exhibit C Amendments to the 2001-02 Adopted Municipal Fee Schedule
Attachment 2: Resolution amending electric and gas rates, aggregating rates paid by the City into a lower cost class
Attachment 3: 2001-02 Midyear Capital Improvement Projects Status
Attachment 4: List of Continuous Capital Projects

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