TO:   HONORABLE CITY COUNCIL
FROM:  CITY MANAGER   DEPARTMENT: ADMINISTRATIVE SERVICES
DATE:  JUNE 11, 2007   CMR: 272:07
SUBJECT:   APPROVAL OF AN ORDINANCE ADOPTING THE 2007-08
BUDGET, INCLUDING THE 2007-08 CAPITAL IMPROVEMENT
PROGRAM, CHANGES TO THE MUNICIPAL FEE SCHEDULE,
UTILITY RATES AND CHARGES, AND CHANGES TO
COMPENSATION PLANS AND ADOPTION IN-CONCEPT OF
THE 2008-09 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 2007-09 Proposed Budget (Exhibit A - previously distributed).
   b. All changes detailed in the Amendments to the City Manager’s 2007-09 Proposed
      Budget (Exhibit B).
   c. 2007-08 Proposed Municipal Fee Schedule (Exhibit C - previously distributed).
   d. Revised pages to the Table of Organization (Exhibit D).
   e. Amendments to the 2007-08 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 storm and surface water drainage 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 commercial fiber optic rate increase
   (Attachment 5).

6. Resolution Amending the Compensation Plan for Management and Professional Personnel
   and Council Appointed Officers (Attachment 6).


BACKGROUND
The City Manager’s 2007-09 Operating Budget was submitted to the Finance Committee on May 1, 2007 and the 2007-09 Proposed Capital Budget was submitted on May 8, 2007. 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 five public hearings were held on May 1, 3, 8, 15, and 22 during 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 on April 17, 2007.

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 important to note that the 2008-09 fiscal year budget is adopted “in-concept” with the attached ordinance (Attachment 1). The 2008-09 spending plan will be reviewed and modified as necessary during the interim budget cycle next year.

DISCUSSION
This staff report focuses primarily on the financial changes recommended by the Finance Committee and the adjustments suggested by staff having a fiscal impact. 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 22 and will be incorporated into the 2007-09 Adopted Budget document.

Additionally, the Finance Committee directed staff to report back during the 2007-08 fiscal year on the following issues:

- The Finance Committee directed staff to return to the Finance Committee with a discussion on establishing a process to address the ecological stewardship of the City’s natural resources.
- The Finance Committee directed staff to return to the Finance Committee with a status on the effort to update the list of infrastructure needs and costs and include a discussion of Storm Drainage capital projects.

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

- The 2007-09 City Council Contingency account has been allocated as follows:

  1. Human Services Resource Allocation Process (HSRAP) funding is to be distributed proportionately, on an ongoing basis, to all sole source agencies (Avenidas, PAC, Second Harvest Food Bank and Project Sentinel) in the amount of $16,300.
2. Funding is restored for non-salary expenses related to the Family Resources Program, $20,000.

<table>
<thead>
<tr>
<th>2007-09 City Council Contingency account</th>
<th>2007-08</th>
<th>2008-09</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Beginning balance</strong></td>
<td>$250,000</td>
<td>$250,000</td>
</tr>
<tr>
<td>HSRAP (one-time)</td>
<td>($16,300)</td>
<td>($0)</td>
</tr>
<tr>
<td>Family Resources Program (one-time)</td>
<td>($20,000)</td>
<td>($0)</td>
</tr>
<tr>
<td><strong>Ending Balance</strong></td>
<td>$213,700</td>
<td>$250,000</td>
</tr>
</tbody>
</table>

**General Fund**

**Community Services**
- Family Resources Program
  - Restore salary and benefits funding for 1.0 FTE Coordinator Recreational Programs dedicated to the Family Resources Program $95,541. This includes a revenue reimbursement of $95,541 (one-time in 2007-08) from the Family Resources Foundation.
  - Restore funding for non-salary expenses for the Family Resources Program $40,564. This includes a revenue reimbursement of $20,564 from the Family Resources Foundation and $20,000 from the City Council contingency account (one-time in 2007-08).
- Open Space Division
  - An ongoing increase to the ACTERRA contract in the amount of $10,000 with the same level of work was discussed. The funding for this increase will come from the department’s existing budget.

**Planning and Community Environment**
- In response to a Finance Committee comment regarding the Planning and Community Environment’s Department Council Priority Implementation under Emergency Preparedness, staff has revised the statement to read:

  “The Building Division staff will participate in emergency operations and disaster response training and maintain State OES Disaster Service Worker certifications in order to perform post-disaster safety evaluations of buildings and structures within the City.”

**Enterprise Funds**

**Refuse Fund**
- Additional compensation to the Palo Alto Sanitation Company in the amount of $814,832 has been included for cost increases pertaining to services as approved by the Finance Committee on May 15, 2007 (CMR:245:07). This change reduces the projected ending rate stabilization reserve balance to $1.6 million in 2007-08, and $0.8 million in 2008-09.
• As requested by the Finance Committee, staff will indicate in the supplementary information section of the CIP page of project RF-11001 (Landfill Closures) and RF-07001 (Relocation of Landfill Facilities) the life cycle of the project.

Storm Drainage Fund
• Finance Committee recommended that the Storm Drain CIP projects that have no funding be included in the CIP plan as placeholders until funding is determined.

Municipal Fee Schedule
On May 22, 2007, the Finance Committee approved the proposed amendments to the 2007-08 Municipal Fee Schedule (CMR:223:07) with the exception of the fee increase for the University Avenue Parking District. The parking district fee will be considered by the City Council with the proposed budget on June 11, 2007. By not considering the parking district fee increase, the Finance Committee allowed time for staff to review additional information regarding the fee increase (see page 6 of this report) with representatives from the parking district.

Contracts Greater Than $85,000
On May 22, 2007, the Finance Committee approved the fiscal year 2007-09 contract scopes of professional services agreements greater than $85,000 (CMR:242:07).

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.

City-Wide
• Due to the completion of a review of clerical positions a number of position changes are proposed (included Attachment 6 and 7). These changes were not incorporated into the proposed budget because the review was not final. The position changes are incorporated into the revised Table of Organization (Exhibit D) being considered with the proposed budget. Funding for these changes is included in the salary contingency in the 2007-09 Proposed Budget.

General Fund

City Manager’s Office
• Coordination of Sustainability and Climate Action Efforts
On April 23, 2007, Council directed staff to return to the Finance Committee during budget wrap-up with a proposal to add a position to the City Manager’s Office to coordinate the interdepartmental and community efforts on sustainability and climate action. During the budget wrap-up meeting on May 22 staff proposed the addition of a Senior Administrator position ($151,000 salary and benefits) to the City Manager’s Office and $30,000 of contractual services. These changes have been incorporated into the City Manager’s proposed budget and the details are described in Appendix 4.
Community Services Department

- **Open Space Division:** Regarding the Open Space and Parks Division service level changes on the frequency of cleaning the restrooms (page 109, operating budget), CSD will reallocate budget to maintain the frequency of cleaning the restrooms at the open space facilities.

- **Golf Course Financial Summary:** Reduce loan payments to General Fund from $130,000 to $118,369 for two CIP Projects: PG-08001 (Golf Course Driving Range Turf & Netting) and PG-07700 (Golf Course Irrigation Pump, Motors and Control Panel Replacement) due to the application of the Golf Course net income of $148,154 in 2005-06 to the loan balance and the change in the timing of PG-08001 (Exhibit B). This change has no impact on the budget stabilization reserve.

- **Community Services Department Budget by Program Area:** Change Golf Course expense from $3,200,207 to $3,188,576 due to change in the loan amortization payment to the General Fund as discussed in the previous section. This change has no impact on the budget stabilization reserve.

**Fire**

- Revenue from the contract with Stanford for fire services is increased $67,000 due to a correction in the contract cost calculation. This is a late change to the proposed budget which was not reviewed by the Finance Committee.

**Police**

- Increase temporary salaries $40,000 (ongoing) to fund noise complaint enforcement.

**Public Works**

- Under benchmarking measures for the Trees section of the operating budget (page 207, operating budget) staff is changing the number of trees pruned from 5,200 to 5,000 in 2007-08. This change reflects the decrease in the tree trimming cycle from seven to ten years.

**Infrastructure/CIP**

- The following items were presented to the Finance Committee with the May 15, 2007 “at-places” memo.
  - New CIP Project PE-08004 (Lytton Plaza Renovation): Funding of $50,000 will be provided by infrastructure reserve.
  - New CIP Project PL-07003 (Palo Alto Caltrain Connectivity Improvements): Funding of $30,000 will be provided by the General Fund.
  - New CIP Project PG-08001 (Golf Course Driving Range Turf & Netting): transfer funding of $90,000 from 2008-09 to 2007-08.
  - Additional funding of $175,000 to CIP Project PE-86070 (Street Maintenance) from California Integrated Waste Management Board (CIWMB).
  - Additional funding of $270,000 to CIP Project PF-06003 (Cubberley Community Center Fire Alarm System) from Infrastructure Reserve.

- Page 42 of 2007-09 Proposed Capital Budget: change funding source from “Utility Revenue Bond 10%” to “Water Rate Stabilization Reserve 10%.” This change has no impact on the reserve balance.
Enterprise Funds

Electric Fund
- Revenue from the sale of salvaged copper for $4,000 and expense of $4,000 for safety programs have been added.

Special Revenue Funds

University Avenue Parking District
- Revenue in the parking district is reduced by $33,400 in 2007-08 due to the revised permit fee increase.

Internal Services Funds

Vehicle Replacement and Maintenance Fund
- Revenues and expenditures have been revised to account for the addition of $70,000 for CIP Project VR-08001, two new vehicles for Utility Operations to be funded by the Water and Gas Funds.
- Changes to the projected balance in unrestricted assets have been revised to account for Budget Amendment Ordinance 4915, which provided an additional $103,000 for CIP Project VR-01001, MSC Fuel Storage Tank and Fuel Storage Service Island Replacement.

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. Included in Attachment 8 are revisions to the IAFF compensation plan that were inadvertently omitted from the IAFF compensation plan approved by Council in February 2007 (CMR:151:07). The changes to the IAFF compensation plan have no impact on the budget stabilization reserve.

Table of Organization
Amended pages to the 2007-09 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
University Avenue Parking District: As a result of additional review a revised parking permit fee of $420, a $35 increase, is presented with this report (Attachment 1, Exhibit E). The fee increase covers maintenance costs for the parking facilities in the University Avenue Parking District and provides a contribution to the district’s fund balance.

RESOURCE IMPACT
The 2007-09 Proposed Budget as submitted to the Finance Committee resulted in an increase to the General Fund Budget Stabilization Reserve (BSR) of $25.8 million in 2007-08 and $27.4
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 2007-08 and a $0.1 million reduction in 2008-09 (Appendix 1). The projected ending balances for the BSR in 2007-08 and 2008-09 are $25.7 million and $27.1 million respectively. As a result of the changes to the capital budget the projected ending balances in the Infrastructure Reserve (IR) in 2007-08 and 2008-09 are $12.2 million and $7.8 million respectively. Additional changes to the Enterprise Funds result in an approximate $1.0 million overall decrease in reserve balances in 2007-08 and $0.9 million decrease in 2008-09 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 the California Environmental Quality Act (CEQA).

PREPARED BY: DAVID RAMBERG
Budget Manager

DEPARTMENT HEAD APPROVAL: CARL YEATS
Director of Administrative Services

CITY MANAGER APPROVAL: EMILY HARRISON
Assistant City Manager

ATTACHMENTS
Attachment 1: Budget Adoption Ordinance with the following Exhibits:
   Exhibit A: City Manager’s 2007-09 Proposed Budget (previously distributed)
   Exhibit B: Amendments to the City Manager’s 2007-09 Proposed Budget
   Exhibit C: 2007-08 Proposed Municipal Fee Schedule (previously distributed)
   Exhibit D: Revised Pages in the 2007-09 Table of Organization
   Exhibit E: Amendments to the 2007-08 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-3, 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 Schedule D-1 (Storm and Surface Water Drainage)
Attachment 4: 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 5: Resolution of the Council of the City of Palo Alto Amending City of Palo Alto Utility Rate Schedules EDF-1 and EDF-2 of the City of Palo Alto Utilities Rates and Charges Pertaining to Fiber Optic Rates

Attachment 6: Resolution of the Council of the City of Palo Alto Amending the Compensation Plan for Management and Professional Personnel Adopted by Resolution No. 8678 to amend certain classification titles, reinstate one classification and amend certain classification compensation grades

Exhibit A: 2007-08 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. 8658, to add new classifications, amend certain classification titles and amend certain compensation tables

Exhibit A: 2007-08 Budget SEIU Compensation Plan Changes

Attachment 8: Resolution of the Council of the City of Palo Alto Amending the Compensation Plan for International Association of Fire Fighters Personnel (IAFF) Adopted by Resolution No. 8694, to amend certain compensation tables

Exhibit A: 2007-08 Budget IAFF Compensation Plan Changes

Appendix 1: 2007-09 General Fund Summary and Reserve Balances

Appendix 2: 2007-09 Enterprise Fund Summary and Reserve Balances

Appendix 3: 2007-12 Capital Improvement Fund Summaries and Amended Projects

Appendix 4: May 22, 2007 Memorandum to Finance Committee detailing changes to 2007-09 City Manager’s Proposed Budget to date

Appendix 5: Memorandums distributed “at-places” during the Finance Committee budget hearings.