



Storm Drain Oversight Committee

MEMORANDUM

Date: April 24, 2006

To: Honorable Finance Committee of the Palo Alto City Council

From: Members of the Storm Drain Oversight Committee
John Melton, Chair

Subject: Review of the Proposed FY 2006-07 Storm Drainage Fund budget

As directed by the City Council, we have reviewed the proposed Storm Drainage Fund budget for fiscal year 2006-07 and compared it with the provisions of the Storm Drainage Fee increase approved by Palo Alto property owners in 2005. Based on this review, we find that the proposed budget reflects the increased fees, CIP projects, and operating expenditures approved in the ballot measure. However, the Committee notes that construction costs and in particular prices of construction materials have increased and continue to increase at a much faster rate than the CPI. If this trend continues, it is likely that some of the projects approved in the ballot measure will have to be reduced in scope due to lack of funds. The Storm Drain Oversight Committee wishes to bring this to the attention of the City Council at the earliest opportunity. See Item 7 below for additional detail.

The Committee held its inaugural meeting on Wednesday, April 5, 2006. Prior to the meeting, Storm Drainage staff provided a packet of informational materials about the approved ballot measure and the proposed budget for the Committee's review. During the meeting, staff presented information regarding the Storm Drainage Fund operating and capital budgets and answered questions from the Committee members. Based upon our review of the materials provided to us by Storm Drainage staff, we find that the attached comparison of the ballot measure and the preliminary budget accurately describes the relationship between the budget and the ballot measure.

In addition to these findings, we offer the following comments to the Finance Committee relevant to the proposed budget items (the comments are keyed to the budget items listed on the attached comparison sheet):

1. Committee requests a written statement that staff has a high level of confidence that the funds budgeted for the Clara Drive Storm Drain Project (CIP SD-06104) will be adequate to accomplish the intended scope of work. Committee notes that \$1.8M from FY 2006-07 revenue will be held in reserves for one year to permit the construction of the San Francisquito Creek Pump Station to begin in early FY 2007-08.
2. Committee requests a detailed list of storm drain system components to be funded in FY 2006-07 for replacement or repair as part of Storm Drain System Replacement and Rehabilitation Project (CIP SD-06101).

3. Committee has no comments on this budget item.
4. Staff described their proposal to apply for a State of California grant to retrofit storm water pump stations to convey low-quality storm water to the sanitary sewer system for treatment prior to discharge to local creeks and the Bay. Under staff's proposal, FY 2005-06 and 2006-07 "innovative project" funds would be used as the local matching funds for the project (each \$3 of State grant funds requires \$1 in matching City funds). Committee requests that staff determine whether the proposed project will result in long-term costs to the Storm Drainage Fund for sanitary sewer discharge fees.
5. Committee notes that these are not new expenditures, but reflect a change in the funding source for existing expenditures from the Waste Water Treatment Fund to the Storm Drainage Fund as authorized in the ballot measure.
6. Committee notes that the Engineer position will sunset after 12 years (upon completion of the seven approved storm drain capital improvement projects) unless the Storm Drainage Fee increase is renewed.
7. Committee conveys its concern that the ballot measure restricts annual increases in the Storm Drainage Fee to the local rise in the Consumer Price Index (CPI) or 6%, whichever is lower, even though construction costs are increasing at a substantially higher rate. Committee is concerned that rising construction costs will exceed available project funding, resulting in a potential scenario in which the City will not be able to fund all seven of the proposed capital improvement projects without a supplemental funding source. Committee is concerned that there may be a gap between community expectations (based on the ballot measure language) and what can actually be constructed with available funding. Committee notes that staff currently plans for the seven major projects to be accomplished in 11 years (see attached Proposed Projects spreadsheet) rather than 12 years forecast in the ballot measure, thus mitigating the increase in the constructions costs. Committee encourages staff to complete projects as quickly as funding permits in order to minimize costs. Committee requests that staff research its project cost estimates, compare them with current and projected construction costs, evaluate the feasibility of an accelerated construction schedule funded by a loan from the City's Infrastructure Reserve, develop an alternative schedule for CIP projects in the event one of the major projects is delayed, and submit a report to the Committee for review no later than October 2006.
8. Committee requests supplemental information on who (General Fund or Storm Drainage Fund) receives the interest on the Storm Drainage Fees pre-paid to the Storm Drainage Fund by the General Fund. Committee requests information on how the \$60,000 interest income line item in the FY 2006-07 Storm Drainage Fund budget was calculated. Committee requests information on whether the General Fund will need to make supplemental payments to the Storm Drainage Fund if Storm Drainage rates increase by more than the assumed 2% in future years.