



Public Works Department
Engineering Division

MEMORANDUM

Date: January 17, 2007

To: Storm Drain Oversight Committee

From: Joe Teresi (x2129)
Senior Engineer

Subject: Submittal of the Storm Drainage Fund year-end report for FY 2005-06

Attached please find documents to assist the Committee with its assigned task of comparing the Storm Drainage Fund FY 2005-06 Year-End Report with the 2005 Storm Drainage Fee increase ballot measure approved by Palo Alto property owners. Staff believes that the materials are presented in a manner which demonstrates that the FY 2005-06 Storm Drainage Fund expenditures are compatible with the approved ballot measure.

The following materials are provided for your review:

1. "Description of Proposed Storm Drainage Fee Increase," included with the official notices mailed to each property owner prior to the March 7, 2005 public hearing on the proposed fee increase.
2. "Resolution No. 8483," adopted by the City Council on December 6, 2004 and included with the storm drain ballots mailed to each property owner prior to the April 26, 2005 Storm Drainage Fee increase ballot proceeding.
3. Budget vs. Actual FY 2005-06 Storm Drainage Fund budget (including revenues, expenditures, and staff positions).
4. FY 2005-06 Year-End Storm Drainage Fund Capital Improvement Program Projects Status Report
5. FY 2005-06 Comprehensive Annual Financial Report for Storm Drainage Fund (including revenue, expenses, and reserves)
6. FY 2004-05 Comprehensive Annual Financial Report for Storm Drainage Fund (including revenue, expenses, and reserves) [*For use in comparison to FY 05-06*]
7. Matrix comparing approved Storm Drainage Fee increase ballot measure with 2005-06 Storm Drainage Fund expenditures.
8. Highlights of 2005-06 Storm Drainage Year-End Report.

If you have any questions or need further information regarding the attached information, please contact me at (650) 329-2129.

DESCRIPTION OF PROPOSED STORM DRAINAGE FEE INCREASE

Reason for the Proposed Fee Increase. The storm drainage fee was established by the City Council in 1989 as a means to fund storm drain capital improvements, maintenance, and storm water quality protection programs. Although several key storm drain projects have been implemented, significant additional drainage improvements are needed throughout the City. The fee was last increased in 1994. Revenues under the current fee structure are inadequate to fund current operations, which has necessitated a subsidy from the General Fund for the past several years. The proposed increased fee would pay for the following items:

A. Seven proposed storm drain capital improvement projects

A detailed description and map of the proposed capital improvement projects are provided below.

B. Proposed funding for enhanced maintenance of the City's storm drain system

1. \$500,000 budgeted annually (subject to annual adjustment for inflation) to replace and/or rehabilitate deteriorated components of the City's storm drain system, including pipelines, catch basins, and manholes.
2. \$90,000 budgeted annually (subject to annual adjustment for inflation) to fund additional storm drain maintenance resources, including staff and/or contract services, to perform services including, but not limited to, storm drain cleaning, minor storm drain repairs, and/or video inspection of storm drain pipelines.

C. Funding of innovative projects

\$125,000 budgeted annually (subject to annual adjustment for inflation) for innovative projects to reduce the amount of storm water runoff and environmental pollutants that enter storm drains and creeks.

D. Funding of storm water quality protection activities

\$100,000 budgeted annually (subject to annual adjustment for inflation) to pay for existing services related to storm water quality protection currently funded through the Wastewater Treatment Fund.

E. Funding of additional engineering staff

\$115,000 budgeted annually (subject to annual adjustment for inflation) for an additional staff engineer to assist with implementation of the recommended storm drain capital improvements.

PROPOSED STORM DRAIN CAPITAL IMPROVEMENT PROJECTS

**1. Construct pump station at 96" storm drain outfall to San Francisquito Creek
(estimated cost = \$4.5 million)**

A 1250-acre area in the northeastern portion of the City drains through a single 96" outfall pipe into San Francisquito Creek downstream of Highway 101. High creek levels prevent this pipe from draining freely, causing storm runoff to back up and pond in streets and gutters. Street flooding frequently occurs on streets throughout the Green Gables, Crescent Park, and Walnut Grove neighborhoods.

Installation of a pump station at the 96" outfall is the initial step in improving drainage in this watershed. The pump station will alleviate chronic street flooding by allowing the streets to be drained regardless of the creek level. This work will be carefully coordinated with the Santa Clara Valley Water District and the San Francisquito Creek Joint Powers Authority in order to avoid any negative flooding impacts on San Francisquito Creek.

2. Install new storm drain pipelines to increase drainage capacity on Channing and Lincoln Avenues (from Channing/Heather to Lincoln/Alma) (estimated cost = \$4.6 million)

The existing Channing Avenue box culvert between Heather Lane and Newell Road is at a higher elevation than the tributary storm drains that feed into it at Newell Road and from De Soto and Walter Hays Drives. This hydraulically inefficient condition causes

the upstream pipes to back up and water to pond onto the street surface at multiple locations upstream of the Newell Road/Channing Avenue intersection. Drainage in the Professorville neighborhood is extremely poor due to undersized storm drain pipelines.

Installation of new storm drains along Channing and Lincoln Avenues will provide needed drainage capacity. The Green Gables, Walnut Grove, Community Center, and Professorville neighborhoods will benefit from this proposed project.

3. Install Southgate neighborhood storm drain system (estimated cost = \$2.0 million)

The Southgate neighborhood drains to a single storm drain inlet at the corner of Mariposa and Sequoia Avenues. There are no underground storm drain pipelines to serve the neighborhood, and there are many sections of uneven curb and gutter that pond water during rain events.

The recommended infrastructure improvements include the construction of additional storm drain inlets, new pipelines, and curb and gutter repairs to eliminate street flooding in the Southgate neighborhood.

4. Extend Gailen Avenue/Bibbits Drive storm drain outfall to the Adobe Storm Water Pump Station (estimated cost = \$650 thousand)

A 280-acre watershed in the Charleston Terrace, Greenhouse, and Greenmeadow neighborhoods is served by a 36" storm drain that flows by gravity into Adobe Creek behind Bibbits Drive. Once the water level in Adobe Creek rises, the pipeline cannot drain by gravity. Subsequently, water begins ponding on Bibbits Drive and Gailen Avenue, and causes back-ups upstream in the drainage system.

The recommended infrastructure improvements involve the construction of 1,800 feet of 36" storm drain to connect the existing gravity outfall to the Adobe Pump Station. Connection of this watershed's drainage system to the pump station will allow the streets to be drained regardless of the creek level.

5. Connect the Clara Drive storm drains to the Matadero Storm Water Pump Station (estimated cost = \$900 thousand)

Clara Drive currently drains to Matadero Creek by gravity. Street flooding occurs during even moderate storm events, with the extent of the ponding increasing with the creek level.

Connection to the pump station will allow Clara Drive to drain regardless of the creek level.

6. Construct improvements to the Matadero Storm Water Pump Station and install new storm drain pipelines to increase drainage capacity leading to the Matadero Storm Water Pump station (estimated cost = \$3.0 million)

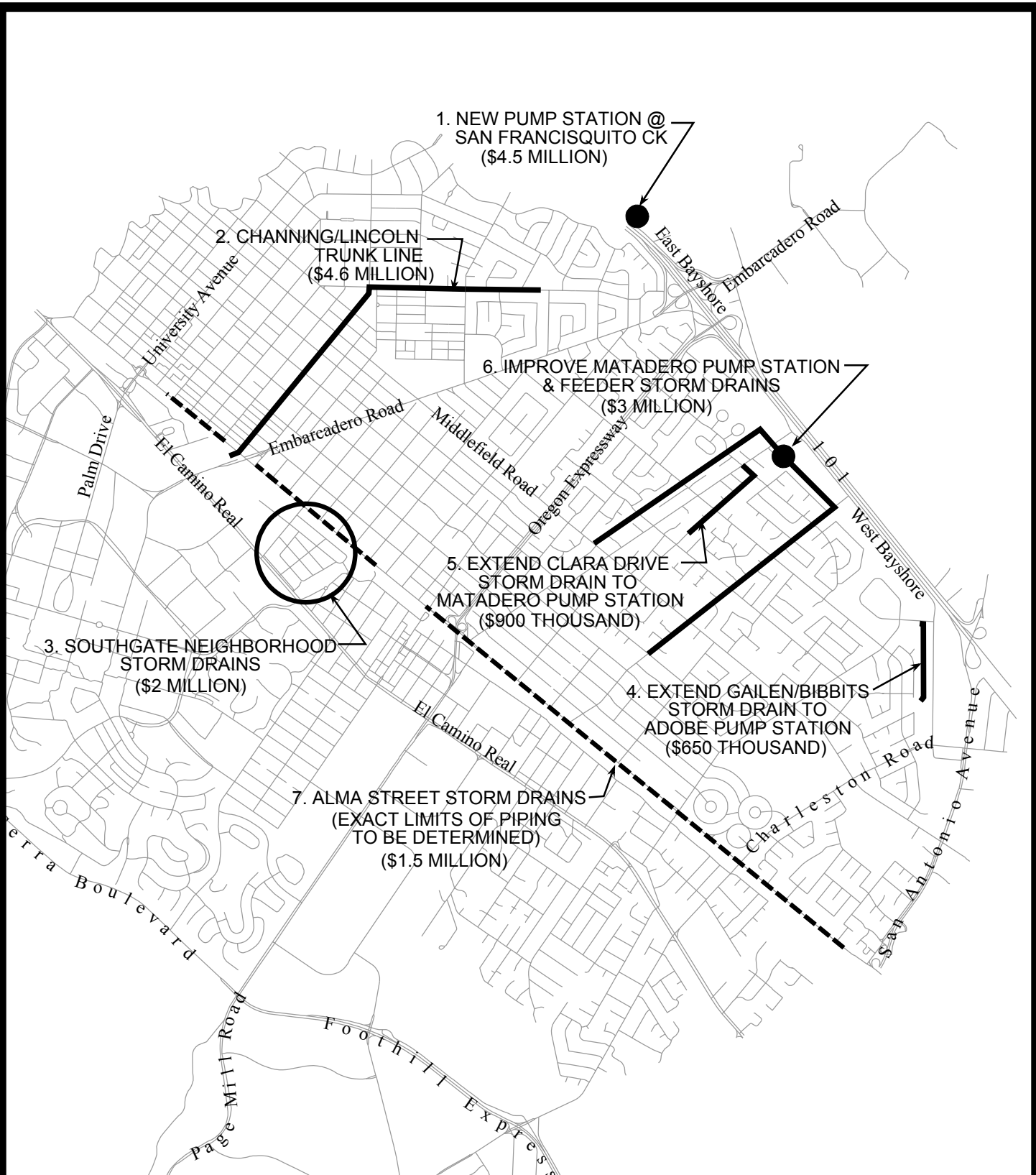
A 1200-acre area of southeastern Palo Alto drains to Matadero Creek via the Matadero Storm Water Pump Station. Much of the land in this watershed, particularly the eastern portion near Highway 101, is lower than the creek water level during storm events. Without the pump station, this area would be unable to drain until the creek recedes, several hours after the rainfall stops. Problems in this watershed, which encompasses the Midtown and Palo Verde neighborhoods, include the capacity of the pump station and the storm drain pipelines leading to it.

The recommended infrastructure improvements include upgrades to the Matadero Pump Station and the construction of new storm drains feeding the pump station. Storm drains along Loma Verde Avenue, the former Seale-Wooster Canal right-of-way north of Colorado Avenue, and the former Sterling Canal right-of-way east of Maddux Drive and Kenneth Drive are undersized and need to be replaced with larger pipelines or supplemented with parallel pipelines.

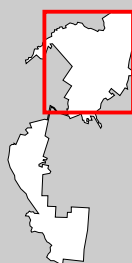
7. Install storm drainage improvements along southbound Alma Street (estimated cost = \$1.5 million)

There are several locations along southbound Alma Street that do not have adequate storm drain capacity. Due to nonexistent or undersized storm drains, excess storm runoff ponds along the roadway edge, causing dangerous road conditions for motorists.

The recommended infrastructure improvements include the construction of numerous new catch basins along the southbound side of Alma Street and installation of approximately 4,400 linear feet of new storm drain pipelines to properly drain this heavily traveled roadway.



The City of Palo Alto



Proposed Storm Drain Capital Improvements

This map is a product of the City of Palo Alto GIS



RESOLUTION NO. 8483

RESOLUTION OF THE COUNCIL OF THE CITY OF PALO ALTO ADOPTING THE AMOUNT OF THE PROPOSED STORM DRAINAGE FEE INCREASE, DESCRIBING THE STORM DRAIN CAPITAL IMPROVEMENTS AND PROGRAM ENHANCEMENTS ON WHICH THE PROPOSED FEE WILL BE SPENT IF APPROVED, AND ADOPTING A SCHEDULE FOR THE PROTEST HEARING AND MAIL BALLOT PROCEEDING ON THE PROPOSED FEE INCREASE

[Approved By Palo Alto City Council on December 6, 2004]

EXHIBIT “A”
Description Of Amount Of The Proposed Storm Drainage Fee Increase

A. Summary of current storm drainage fee system

The City’s current storm drainage billing system is based on Equivalent Residential Units (“ERU”), which are generally determined by the square footage of impervious surface area on a property. One ERU equals 2500 square feet of impervious surface area on a property, and the current fee for one ERU is four dollars and twenty-five cents (\$4.25). The ERU calculation was based on a sampling of single-family and duplex properties in the City, in which the typical impervious surface area was 2500 square feet. Thus, all single-family and duplex residential properties in the City are presumed to have one ERU of impervious surface area and are currently charged \$4.25 per month for that ERU, regardless of the actual impervious surface area of their property. Commercial, industrial, institutional, government, and multi-family residential properties are charged for their actual amounts of impervious surface area, at a rate of one ERU per 2500 square feet of impervious area.

B. Proposed storm drainage fee increase

1. *New residential rate structure and increased fee*

The proposal to increase storm drainage fees involves two components. First, the charge per ERU would be raised from four dollars and twenty-five cents (\$4.25) to ten dollars (\$10). Second, the impervious surface area would no longer be presumed to be one ERU for all single-family and duplex properties. Instead, those properties would be placed into one of three ERU tiers based on the size of the property. Commercial, industrial, institutional, government, and multi-family residential properties would continue to be charged based on actual impervious surface area, but at the increased rate of \$10 per ERU.

The following tables describe the changed rate structure and proposed fee increase:

RESIDENTIAL RATES (Single-Family & Duplex)		
PARCEL SIZE (sq.ft.)	ERU	PROPOSED RATE
< 6,000 sq.ft.	.8 ERU	\$8.00
6,000-11,000 sq.ft.	1 ERU	\$10.00
> 11,000 sq.ft.	1.4 ERU	\$14.00

COMMERCIAL RATES (Commercial, industrial, multifamily res.)
\$10.00 per 2,500 square feet of impervious surface area (ERU), rounded to the nearest 0.1 ERU.

2. *Annual inflation adjustments to proposed fee increase*

In order to offset the effects of inflation on labor and material costs, the proposed fee increase would be subject to annual increases beyond the initial \$10.00 per ERU rate as of July 1 of each year, starting in 2006. Inflation adjustments would be based on the lesser of the local rate of inflation (based on the change in the Consumer Price Index [CPI] for the San Francisco-Oakland-San Jose CSMA, published by the United States Department of Labor, Bureau of Labor Statistics) or 6 percent. The City Council would have the authority and discretion to implement inflation adjustments on an annual basis as part of the City budget process.

3. *Twelve year sunset provision for proposed fee increase*

The proposed storm drainage fee increase would sunset twelve (12) years from the date the fee increase is implemented, as the storm drain capital improvements to be funded by the increase would be completed by that time.

4. *Oversight provision for proposed fee increase*

The City Council would appoint an oversight committee to monitor and review the proposed storm drain capital improvements and insure that the money raised from the increased Storm Drainage Fee is spent in accordance with this resolution. The oversight committee would report its findings to the City Council at least annually.

5. *Applicability of the Rate Assistance Program*

The City's existing Rate Assistance Program, which provides a 20% discount to qualified low-income utility customers, would apply to the Storm Drainage Fee.

6. *Pay-as-you-go funding of capital improvements*

The storm drain capital improvements to be funded through the proposed Storm Drainage Fee increase would be paid for on a pay-as-you-go basis, without debt financing.

7. *Up-front payment of Storm Drainage Fees by City of Palo Alto*

In order to accelerate the construction of the proposed storm drain capital improvements, the City of Palo Alto would pre-pay in advance the Storm Drainage Fees attributable to City-owned properties for a period of twelve years, upon approval of the increased Storm Drainage Fee.

EXHIBIT "B"

List Of Storm Drain Capital Improvements And Program Enhancements To Be Completed With Funding From The Proposed Fee Increase

A. Seven proposed storm drain capital improvement projects

1. Construct pump station at 96" storm drain outfall to San Francisquito Creek (estimated cost = \$4.5 million)
2. Install new storm drain pipelines to increase drainage capacity on Channing and Lincoln Avenues (from Channing/Heather to Lincoln/Alma) (estimated cost = \$4.6 million)
3. Install Southgate neighborhood storm drain system (estimated cost = \$2.0 million)
4. Extend Gailen Avenue/Bibbits Drive storm drain outfall to the Adobe Storm Water Pump Station (estimated cost = \$650 thousand)
5. Connect the Clara Drive storm drains to the Matadero Storm Water Pump Station (estimated cost = \$900 thousand)
6. Construct improvements to the Matadero Storm Water Pump Station and install new storm drain pipelines to increase drainage capacity leading to the Matadero Storm Water Pump station (estimated cost = \$3.0 million)
7. Install storm drainage improvements along southbound Alma Street (estimated cost = \$1.5 million)

A map of the proposed projects is included in this exhibit.

B. Proposed funding for enhanced maintenance of the City's storm drain system

1. \$500,000 budgeted annually (subject to annual adjustment for inflation) to replace and/or rehabilitate deteriorated components of the City's storm drain system, including pipelines, catch basins, and manholes.
2. \$90,000 budgeted annually (subject to annual adjustment for inflation) to fund additional storm drain maintenance resources, including staff and/or contract services, to perform services including, but not limited to, storm drain cleaning, minor storm drain repairs, video inspection of storm drain pipelines, and/or curb and gutter repairs.

C. Funding of innovative projects

1. \$125,000 budgeted annually (subject to annual adjustment for inflation) for innovative projects to reduce the amount of storm water runoff and environmental pollutants that enter storm drains and creeks.

D. Funding of storm water quality protection activities

1. \$100,000 budgeted annually (subject to annual adjustment for inflation) to pay for existing services related to storm water quality protection currently funded through the Wastewater Treatment Fund.

E. Funding of additional engineering staff

1. \$115,000 budgeted annually (subject to annual adjustment for inflation) for an additional staff engineer to assist with implementation of the recommended storm drain capital improvements.

BUDGET VS. ACTUAL FY 2005-06 STORM DRAINAGE FUND BUDGET

FUND SUMMARY

<u>CATEGORY</u>	<u>BUDGET</u>	<u>ACTUAL</u>
Service Fees/Permits/Licenses	\$81,500	\$63,951
Interest Income	\$21,200	\$34,197
Customer Sales	\$4,860,000	\$5,093,814
Operating Transfer From General Fund	\$533,591	\$533,591
TOTAL REVENUES	\$5,496,291	\$5,725,553
Administration	\$501,940	\$375,804
System Improvements		
Capital Improvement Program	\$2,629,773	\$580,176
Operations	\$147,937	\$115,246
Operations & Maintenance	\$1,287,268	\$1,063,588
Debt Service	\$950,320	\$623,782 (A)
Operating Transfers-Out	\$5,086	\$116,086 (B)
TOTAL EXPENSES	\$5,522,324	\$2,874,682
TO/FROM RESERVES	-\$26,033	\$2,850,871 (C)

(A) Variance is the principal portion of debt and is due to differences in reporting formats between budget and actuals. For budgeting, it is a requirement to include the cash expenditure of both the principal and interest. For reporting actuals, the principal portion is not an expense item and is therefore excluded from this statement.

(B) Variance is due to transfer for retiree health liability expense.

(C) Includes \$2.3 million designated for CIPs and carried forward to 2007.

BUDGET VS. ACTUAL FY 2005-06 STORM DRAINAGE FUND BUDGET

FUND LEVEL

<u>CATEGORY</u>	<u>BUDGET</u>	<u>ACTUAL</u>
Salaries & Benefits	\$935,948	\$907,170
Contract Services	\$351,629	\$225,397
Supplies & Materials	\$98,250	\$39,339
General Expenses	\$8,200	\$3,091
Rents & Leases	\$6,000	\$0
Facilities & Equipment	\$11,621	\$0
Allocated Charges	\$525,497	\$379,641 (D)
Debt Service	\$950,320	\$623,782
Operating Transfers-Out	\$5,086	\$116,086
Capital Improvement Program	\$2,629,773	\$580,176
TOTAL EXPENSES	\$5,522,324	\$2,874,682
TOTAL FULL-TIME POSITIONS	9.50	9.50

(D) Allocated Charges include expenses for printing and mailing, vehicle maintenance and replacement, technology, liability insurance, and General Fund administrative support.

BUDGET VS. ACTUAL FY 2005-06 STORM DRAINAGE FUND BUDGET

SYSTEM IMPROVEMENTS

To plan and construct drainage system improvements and to administer the City's participation in the National Flood Insurance Program in order to provide adequate drainage and reduce the risk of flood damage for City residents.

<u>CATEGORY</u>	<u>BUDGET</u>	<u>ACTUAL</u>
Salaries & Benefits	\$132,837	\$106,241 (includes \$13,000 for Engineer position funded by the fee increase)
Contract Services	\$3,750	\$3,414
Supplies & Materials	\$3,650	\$2,089
General Expenses	\$3,100	\$2,088
Allocated Charges	\$4,600	\$1,414
Capital Improvement Program	\$2,629,773	\$580,176 (includes \$117,000 for Engineer position funded by the fee increase)
TOTAL EXPENSES	\$2,777,710	\$695,422
TOTAL FULL-TIME POSITIONS	3.00	3.00

Red font = Items funded by the 2005 property owner-approved Storm Drainage Fee increase.

BUDGET VS. ACTUAL FY 2005-06 STORM DRAINAGE FUND BUDGET

OPERATIONS AND MAINTENANCE

To perform preventative, routine, and emergency maintenance on the City's storm drainage system, and to conduct a program of public outreach and code enforcement to optimize local drainage and enhance water quality.

<u>CATEGORY</u>	<u>BUDGET</u>	<u>ACTUAL</u>	
Salaries & Benefits	\$716,502	\$680,331	(includes \$61,000 for storm water quality staff in PW Environmental Compliance Div)
Contract Services	\$347,879	\$221,983	(includes \$28,000 for storm water quality + \$75,000 for storm drain maintenance)
Supplies & Materials	\$94,600	\$37,250	(includes \$6,000 for pumps, \$6,000 for equipment, \$14,000 for misc supplies & materials)
General Expenses	\$5,100	\$972	
Rents & Leases	\$6,000	\$0	
Facilities & Equipment	\$11,621	\$0	
Allocated Charges	\$105,566	\$123,052	
TOTAL EXPENSES	\$1,287,268	\$1,063,588	
TOTAL FULL-TIME POSITIONS	6.15	6.15	

Red font = Items funded by the 2005 property owner-approved Storm Drainage Fee increase.

BUDGET VS. ACTUAL FY 2005-06 STORM DRAINAGE FUND BUDGET

FULL-TIME EQUIVALENT (FTE) POSITIONS

<u>Cost Center</u>	<u>Position Title</u>	<u>BUDGET</u>	<u>ACTUAL</u>
<u>FUND ADMINISTRATION</u>			
	Asst Director of Public Works	0.15	0.15
	Senior Engineer	0.20	0.20
	Total FTE for FUND ADMINISTRATION	0.35	0.35
<u>SYSTEM IMPROVEMENTS</u>			
Flood Control Impmts			
	Senior Engineer	0.20	0.20
	Project Engineer	0.10	0.10
	Engineer	0.10	0.10
	Engineer	0.10	0.10
	Engineering Tech III	0.10	0.10
	Engineering Tech III	0.10	0.10
	Engineering Tech III	0.10	0.10
	Engineering Tech III	0.10	0.10
	Total FTE for Flood Control Impmts	0.90	0.90
CIP - System Improvements			
	Senior Engineer	0.40	0.40
	Project Engineer	0.80	0.80
	Engineer	0.90	0.90
	Total FTE for CIP - System Impmts	2.10	2.10
	Total FTE for SYSTEM IMPROVEMENTS	3.00	3.00
<u>OPERATIONS & MAINTENANCE</u>			
Administration			
	Supervisor PW Operations	0.10	0.10
	Manager Maintenance Operation	0.50	0.50
	Total FTE for Administration	0.60	0.60
In-House Maintenance			
	Heavy Equipment Operator - Lead	0.70	0.70
	Heavy Equipment Operator - Lead	0.10	0.10
	Heavy Equipment Operator	0.90	0.90
	Truck Driver	0.06	0.06
	Equipment Operator	0.36	0.36
	Electrician - Lead	1.00	1.00
	Electrician	0.10	0.10
	Total FTE for In-House Maintenance	3.22	3.22
Emergency Response			
	Heavy Equipment Operator - Lead	0.10	0.10
	Heavy Equipment Operator - Lead	0.05	0.05
	Heavy Equipment Operator	0.10	0.10
	Heavy Equipment Operator	0.10	0.10
	Truck Driver	0.03	0.03
	Equipment Operator	0.09	0.09
	Traffic Control Maintenance Worke	0.06	0.06
	Total FTE for Emergency Response	0.53	0.53
Storm Water Quality Contro			
	Senior Engineer	0.20	0.20
	Project Engineer	0.10	0.10
	Manager Env Control Programs	0.10	0.10
	Industrial Waste Investigator	1.00	1.00 (0.10 FTE of this position funded by the fee increase)
	Industrial Waste Investigator	0.20	0.20
	Industrial Waste Inspector	0.10	0.10
	Engineering Tech III	0.10	0.10
	Total FTE for Storm Water Quality Contro	1.80	1.80
	Total FTE for OPERATIONS & MAINTENANCE	6.15	6.15
	Total FTE for STORM DRAINAGE FUND	9.50	9.50

Red font = Positions funded by the 2005 property owner-approved Storm Drainage Fee increase.

FY 05-06 YEAR-END CAPITAL IMPROVEMENT PROGRAM PROJECTS STATUS

FUND TYPE: ENTERPRISE

Includes Continuous Projects SD-06101 and SD-06105 for Storm Drain Committee Reporting

FUND NAME: STORM DRAINAGE FUND

DEPARTMENT NAME: PUBLIC WORKS DEPARTMENT

Project Number	Project Title	Project Category	Total Budget From Inception	Available Budget FY 2005-06	Current Fiscal Year Expenditures	Current Fiscal Year Contingencies	Current Fiscal Year Commitments	Remaining Balance	Percent Complete	Project Status	Estimated Comp. Date	Comments
MINOR PROJECTS												
SD-06103	Extend Gailen/Bibbits Storm Drain Outfall to the Adobe Pump Station	Minor	\$676,959	\$676,959	\$9,301	\$0	\$2,000	\$665,658	2%	Design	Apr 07	Construction to commence Fall 2006
MULTI-YEAR PROJECTS												
SD-06102	San Francisquito Creek Storm Water Pump Station	Multi-Year	\$927,720	\$927,720	\$123,352	\$0	\$452,876	\$351,492	62%	Design	Jun 08	Construction to commence Summer 2007
SD-06104	Connect Clara Drive Storm Drains to Matadero Pump Station	Multi-Year	\$180,224	\$180,224	\$224	\$0	\$0	\$180,000	0%	Pre-Design	Oct 07	Construction to commence Spring 2007
SD-06101	Storm Drain System Replacement and Rehabilitation	Multi-Year	\$577,336	\$577,336	\$190,315	\$0	\$298,987	\$88,034	85%	Pre-Design	Oct 07	Construction to commence Spring 2007
SD-06105	Innovative Storm Drain Improvements	Multi-Year	\$57,056	\$57,056	\$7,056	\$0	\$0	\$50,000	12%	Pre-Design	Oct 07	Construction to commence Spring 2007

City of Palo Alto - Proprietary Funds
Statements of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2005
(In thousands of dollars)

	Business-type Activities - Enterprise Funds	
	Storm	Drainage
OPERATING REVENUES		
Sales of utilities:		
Customers	\$2,336	
City departments	126	
Wholesale		
Excess capacity		
Wastewater treatment		
Service connection charges and miscellaneous		
Charges for services		
Other operating revenues	22	
Total Operating Revenues	<u>2,484</u>	
OPERATING EXPENSES		
Purchase of utilities		
Retail		
Excess capacity		
Administration and general	563	
Engineering (operating)	578	
Resource management and energy efficiency programs	78	
Operations and maintenance	791	
Rent		
Depreciation and amortization	520	
Claims payments and changes in estimated self-insurance liability		
Compensated absences and other benefits		
Total Operating Expenses	<u>2,530</u>	
Operating Income	<u>(46)</u>	
NONOPERATING REVENUES (EXPENSES)		
Return on investment	15	
Interest (expense)	(641)	
Joint venture debt service (Note 15)		
Gain (loss) on disposal of fixed assets		
Other		
Net Nonoperating Revenues (Expenses)	<u>(626)</u>	
Income (Loss) Before Transfers and Special Item	<u>(672)</u>	
Transfers in (Note 4)	457	
Transfers (out) (Note 4)	(13)	
Special item (Note 16)		
Change in Net Assets	<u>(228)</u>	
Total net assets at beginning of year	<u>5,917</u>	
Total net assets at end of year	<u>\$5,689</u>	

Some amounts reported for *Business-type Activities* in the Statement of Net Assets are different because certain Internal Service Fund assets and liabilities are included with Business-type Activities

Change in Net Assets of Business-type Activities

See accompanying notes to financial statements

Summary of Fund Reserves

Notes to Basic Financial Statements - Note 10

Designated for future catastrophic losses is the portion of net assets to be used for unforeseen future losses.

Designated for retiree health care represents the portion of net assets set aside to defer future costs of retiree health care coverage.

Designated for interfund advances/payables represents the portion of net assets set aside to indicate these items do not represent available, spendable resources even though they are a component of assets.

Enterprise Funds

At June 30, 2005, Enterprise Fund net assets reservations included (in thousands):

	Water	Electric	Gas	Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	External Services	Total
Rate stabilization									
Supply		\$44,199	\$3,821						\$48,020
Distribution		13,519	4,023						17,542
Operations	\$5,217			\$4,917	\$1,882	\$3,842	\$330		16,188
	5,217	57,718	7,844	4,917	1,882	3,842	330		81,750
Emergency plant replacement	1,204	2,509	934	595	1,807				7,049
Calaveras		72,963							72,963
Reappropriations	9,446	8,557	1,857	5,627	3,532	19	216		29,254
Commitments	5,507	3,221	1,295	2,340	5,390	2,775	27		20,555
Restricted bond proceeds					3				3
Underground loan		668							668
Refuse Water Resources Board						590			590
Shasta rewind loan									
Public benefit program		2,224							2,224
Central Valley Project		145							145
Debt Service	780		952						1,732
External Service - Information Technology								\$30	30
Total	\$22,154	\$148,005	\$12,882	\$13,479	\$12,614	\$7,226	\$573	\$30	\$216,963

The City Council has committed unreserved net assets for general contingencies, future capital and debt service expenditures including operating and capital contingencies for unusual or emergency expenditures.

Basic Financial Statements

City of Palo Alto - Proprietary Funds
Statements of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2006
(In thousands of dollars)

	Business-type Activities - Enterprise Funds
	Storm Drainage
OPERATING REVENUES	
Sales of utilities:	
Customers	\$4,827
City departments	283
Wholesale	
Surplus energy	
Wastewater treatment	
Service connection charges and miscellaneous	
Charges for services	
Other operating revenues	64
Total Operating Revenues	<u>5,174</u>
OPERATING EXPENSES	
Purchase of utilities	
Retail	
Surplus energy	
Administration and general	376
Engineering (operating)	340
Resource management and energy efficiency programs	164
Operations and maintenance	676
Rent	
Depreciation and amortization	534
Claims payments and changes in estimated self-insurance liability	
Compensated absences and other benefits	
Total Operating Expenses	<u>2,090</u>
Operating Income	<u>3,084</u>
NONOPERATING REVENUES (EXPENSES)	
Return on investment	34
Interest (expense)	(623)
Joint venture debt service (Note 15)	
Gain (loss) on disposal of fixed assets	(13)
Capacity fees	
Other	
Net Nonoperating Revenues (Expenses)	<u>(602)</u>
Income (Loss) Before Transfers and Special Item	2,482
Transfers in (Note 4)	534
Transfers (out) (Note 4)	<u>(116)</u>
Change in Net Assets	2,900
Total net assets at beginning of year	<u>5,689</u>
Total net assets at end of year	<u>\$8,589</u>

Some amounts reported for *Business-type Activities* in the Statement of Net Assets are different because certain Internal Service Fund assets and liabilities are included with Business-type Activities

Change in Net Assets of Business-type Activities

See accompanying notes to financial statements

Summary of Fund Reserves

Notes to Basic Financial Statements - Note 10

Designated for **future catastrophic losses** is the portion of net assets to be used for unforeseen future losses.

Designated for **retiree health care** represents the portion of net assets set aside to defer future costs of retiree health care coverage.

Designated for **interfund advances/payables** represents the portion of net assets set aside to indicate these items do not represent available, spendable resources even though they are a component of assets.

Enterprise Funds

At June 30, 2006, Enterprise Fund net assets reservations included (in thousands):

	Water	Electric	Gas	Wastewater Collection	Wastewater Treatment	Refuse	Storm Drainage	External Services	Total
Rate stabilization									
Supply		\$64,542	\$2,801						\$67,343
Distribution	\$4,143	12,281	3,868						20,292
Operations				\$4,293	(\$4,597)	\$3,099	\$720		3,515
	4,143	76,823	6,669	4,293	(4,597)	3,099	720		91,150
Emergency plant replacement	1,279	2,567	972	629	2,195				7,642
Calaveras		73,163							73,163
Reappropriations	10,463	5,687	3,928	2,518	13,378	150	1,772		37,896
Commitments	2,581	3,641	692	7,069	2,598	848	608		18,037
Restricted bond proceeds					21				21
Underground loan		693							693
Refuse Water									
Resources Board						590			590
Public benefit program		1,384							1,384
Central Valley Project		(2,692)							(2,692)
Debt Service	780		952						1,732
External Service - InformationTechnology								\$18	18
Total	\$19,246	\$161,266	\$13,213	\$14,509	\$13,595	\$4,687	\$3,100	\$18	\$229,634

The City Council has committed unreserved net assets for general contingencies, future capital and debt service expenditures including operating and capital contingencies for unusual or emergency expenditures.

Approved Storm Drainage Fee Increase Ballot Measure vs. **FY 2006-07 Storm Drainage Fund Expenditures**

BALLOT MEASURE

1. Implementation of seven (7) high-priority storm drain capital improvement projects.
2. \$ 500,000 annually (adjusted annually for inflation) for storm drain system repair and rehabilitation.
3. \$ 90,000 annually for augmented storm drain system maintenance.
4. \$ 125,000 annually (adjusted annually for inflation) for innovative projects to reduce storm water runoff and pollutant levels.
5. \$ 100,000 annually to fund storm water quality protection activities formerly funded by the Wastewater Treatment Fund.
6. \$ 115,000 annually for an engineer to assist with implementation of storm drain capital improvement projects.
7. Pre-payment of Storm Drainage Fees for City-owned properties to accelerate implementation of storm drain capital improvement projects.

FY 2005-06 EXPENDITURES

1. \$132,877 expended and \$454,876 committed for Gailen/Bibbits, Clara Drive, and SF Creek Pump Station projects.
2. \$190,315 expended and \$298,987 committed for Storm Drain System Replacement and Rehabilitation (CIP SD-06-101).
3. \$27,019 expended and \$27,680 committed from the augmented funds for contract services, pumps, and supplies & materials.
4. \$7,056 expended for Innovative Storm Drain Improvements (CIP SD-06105).
5. Funded 0.6 FTE in Storm Water Quality Protection; \$182 expended and \$2,975 committed from the augmented funds for contract services, equipment, and supplies & materials.
6. New Engineer position (1.0 FTE) funded in Storm Drain System Improvements (employee hired 9/26/05).
7. Pre-payment of \$766,200 to Storm Drainage Fund by General Fund for FY 2005-06.

Highlights of 2005-06 Storm Drainage Fund Year-End Report

- Actual Storm Drainage Fund revenue generated by customer sales (monthly Storm Drainage Fee) was 99% of expected revenue (\$5,093, 814 vs. \$5,143,200).
- Pre-payment of \$ 766,200 in Storm Drainage Fees for City-owned (General Fund) properties was received to expedite the implementation of storm drain capital improvements.
- Capital program highlights included the award of a consultant contract for design of the San Francisquito Creek Storm Water Pump Station, completion of the in-house design of the Gailen Avenue/Bibbits Drive Storm Drain Connection to Adobe Pump Station, and construction of several storm drain repair/rehabilitation projects. Much of the \$2.6 million in FY 2005-06 capital improvement program funding was not expended by year-end, so it was carried forward to FY 2006-07.
- Expenditures in most expense categories were less than budgeted, resulting in a higher than expected transfer to the Storm Drainage Fund reserves.