

RESOLUTION NO. 2008-29

A RESOLUTION OF THE CITY COUNCIL FOR THE CITY OF LOS ALTOS
AMENDING THE SERVICE AND FINANCIAL PLAN FOR 2008-2009

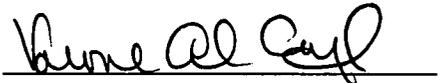
WHEREAS, it has been determined that the adoption of a two-year service and financial plan is an effective and prudent management tool;

NOW, THEREFORE, BE IT HEREBY RESOLVED that:

1. The City Council adopts the Service and Financial Plan for fiscal year 2008-2009 as submitted; and
2. The City Council adopts those capital improvement projects listed as being undertaken in 2008-2009 as the Capital Improvement Program based on the funding in the attachment to this Resolution; and
3. Said Plan and Program will be otherwise known as the City's "Budget" for the respective fiscal years; and
4. City programs, services, and activities will be provided and maintained within the confines of this Budget and be consistent with adopted Financial Policies.
5. The City Council adopts the proposed changes to the Financial Policies which forgives the debt owed by the Community Improvement Reserve, eliminates the Facility Fund and the Community Improvement Reserve/Fund and creates a new Fund called "Community Facility Renewal Fund". The purpose of the Community Facility Renewal Fund will be to serve as a repository for the assets of the "Facility Fund" and the "Community Improvement Reserve/Fund" as well as future funds in the years ahead and from which expenses related to the effort to improve facilities can be expensed.
6. Funds are deemed appropriated for those purposes and in amounts contained in said Budget and the City Manager is authorized to approve expenditures and transfers of these funds to the extent allowed by law and Financial Policies. In addition to transfers included in this Budget, any fund balance in excess of \$300,000 (Three Hundred Thousand Dollars) remaining in the general fund at the end of each fiscal year shall be transferred to the Capital Projects Fund. General Fund Operating Reserve and Emergency Reserves will be funded prior to the transfer of fund balances in excess of \$300,000.
7. Encumbrances and capital improvement projects that have not been completed at the end of each fiscal year shall be reappropriated in the next fiscal year.

I HEREBY CERTIFY that the foregoing is a true and correct copy of a Resolution passed and adopted by the City Council of the City of Los Altos at a meeting thereof on the 27th day of May, 2008, by the following vote:

AYES: PACKARD, SATTERLEE, CASAS, BECKER, CARPENTER
NOES: NONE
ABSENT: NONE


Valorie Cook Carpenter, MAYOR

Attest:


Susan Kitchens, CITY CLERK



Fiscal Year 2008-2009
Year Two of the 2007-2009 Biennial Budget

Dear Mayor Carpenter, Members of the City Council and Citizens of Los Altos,

Abraham Lincoln once commented that the American people can not escape history. For the City Council and staff of Los Altos in 2008, we can not escape choice. Framed by the current lugubrious forecasts from the Governor of a \$17,200,000,000 shortfall, prudent financial planning for our immediate future would be to postpone taking any budgetary action until certain decisions that may impact Los Altos are promulgated from the State Capitol. Yet, as mandated by State law, we must act.

We could proceed with an ambitious budgetary review at this time, reexamining and tweaking all the estimates on both the revenue and expenditure sides of a budget proposal for 2008-09. But with uncertainty prevalent, we have the choice to undertake a minimalist approach until we know with certainty the home impacts casted upon us from a place afar.

We are fortunate that the City Council approved a two year budget in 2007 covering the forthcoming biennial of 2007-09. Although the Council is required by State law to act by 1 July for the "Year Two" budget to become legal and operative, the adopted Service and Financial Plan for 2008-09 provides us an anchor to which we can attach until the fiscal storms from Sacramento pass. We are proposing diminutive budget changes for now and will bring back more extensive adjustments in the autumn once we know the extent of the summer impacts from the actions of the State. We do not want to significantly act now and then have to substantially react later.

With the recommendation that the Council readopt, with minor modifications, the plan approved in 2007, the bottom-line for expenditures in all funds is adjusted. Only one alteration in the General Fund revenue forecasts, Property Tax—Secured, is proposed at this time until we know the sum of the changes from the Legislature and Governor. The Governor's Budget of 14 May indicates that this revenue source is secure for the City. The Santa Clara County Assessor is the source of the estimated revenues from the Property Tax-Secured.

GENERAL FUND

The General Fund is the primary operational engine for the City, inclusive of all financial activities except for the enterprise funds. The Council had approved estimated revenues in June 2007 for FY 2008-09 of \$ 28,568,548. I am proposing that this amount be adjusted only by the anticipated increase in the Property Tax-Secured in the amount of \$407,000 for a revised total of \$ 27,925,618. All other revenues, of which State subvention monies amount to \$1,481,000 and are thus "in play" during this Summer in Sacramento, would remain as approved last year until further review this autumn by the Council. Even with the adjustments in civic fees approved by the Council on 13 May, I

do not anticipate significant alterations to the revenue estimates approved by Council last June.

Adopted June 2007 for 2008-09 --General Fund Revenues	\$ 27,518,618
Proposed Adjustment for 2008-09.....	407,000
Revised Total: General Fund Revenues.....	27,925,618

On the expense side, the two major categories for change are in personnel costs and Services and Supplies. The proposed adjustments, including one new piece of capital equipment, total \$105,680. This is less than one percent of the General Fund.

The personnel changes have all been previously approved by Council except for the salary adjustments for some managerial positions. As I have previously written to Council, some of these positions are below the external market for like-positions or are internally inequitable, or both. Council's previous approvals have been for the reorganization of the Engineering division (creation of Manager and Senior Engineer); reclassifications in Planning (Director to Assistant City Manager; Planning Services Manager); Maintenance (Superintendent to Manager) and Finance (Accountant to Director) and the exchange of vacant, authorized positions for new classifications. No new positions are added with this budget; the number of authorized positions in the 2007-08 Budget of 129.75 remains unchanged. The proposed net personnel adjustments (salary and benefits) for the above referenced purposes for 2008-09 total \$174,980.

There are several reassignments associated with personnel and reflected in the budgetary numbers. The expenses associated with the Assistant City Manager, previously assigned to the Administration and Financial Management, have been moved to the City Manager's Office (CMO) budget. The recently created Special Projects Manager position has also been placed within the CMO.

With the change in the year of the next Council election, a significant expense is removed from the 2008-09 budget. Even with new Services and Supplies modifications, the total amount is a net decrease of \$70,143. The new or augmented expenses include software maintenance registrations, the addition of training monies for the IT staff (not budgeted in 2007-08) and numerous small changes in the \$1000-\$5000 range such as a second summer concert at Grant Park.

There is one small truck proposed as a new capital equipment acquisition in the General Fund.

Adopted June 2007 for 2008-09—General Fund Expenses.....	\$27,446,223
Proposed Adjustments for.....	105,680
Fully Funded Reserves.....	150,000
Revised Total: General Fund Expenditures.....	\$27,701,903

COUNCIL DISCRETIONARY CHOICES

The differential between the proposed new revenue vs. the listed expenses is a positive \$223,715. Council has several choices with these monies. It could not allocate the monies for any expenditure(s) and await the results from Sacramento; or, it could determine a project(s) or program(s) for utilization of some or all of the monies. A list of probable additional expenses which are being held back until Autumn is provided for Council's perusal should it wish to consider moving a project(s) or program(s) forward for action at this time. Because of the limited approach being taken with this budget recommendation, the listed personnel requests have NOT been fully vetted by the Staff Budget Review Team.

While the Council certainly has the discretion to address the addition of a new position(s) at this time, I would strongly recommend against such action until the Autumn.

COMMUNITY CENTER RENEWAL FUND/COMMUNITY IMPROVEMENT FUND

The City has a Facility Fund which currently has a balance of approximately \$2,500,000. While monies from this fund have been available in the past for facility needs, I am proposing that the purpose of the fund be redirected and established as a Community Center Renewal repository into which additional monies can be deposited in the years ahead and from which expenses related to the Community Center renewal effort, such as costs of the EIR, can be withdrawn.

The City also has a Community Improvement Reserve Fund which had been a funding source for park land acquisitions in the past. I am proposing forgiving the 1997 debt of \$2,000,000 of this fund and consolidating the balance of \$1,200,000 into the proposed Community Center Renewal Fund. Thus, we would consolidate our monies and simplify our financial structure.

Facility needs of structures not affiliated with the Community Center would be funded from Capital Projects Fund monies.

2007-08 AUDIT

In the Audit Report for last year, the auditor recommended that the City address the long languishing debt owed to the Equipment Replacement Fund and the Facility Fund from the Community Improvement Reserve Fund. The resolution before Council proposes that the debt be forgiven. This matter has been unresolved since 1997 and the elimination of the debt has no actual financial impact on the City or the budget.

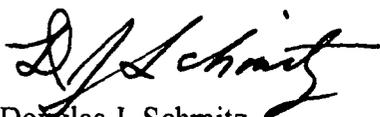
EPILOGUE

It has been said of Lord Melbourne that "his first instinct was to leave everything alone in the belief that...to tinker with either the existing state of society or with the existing arrangements might bring everything crashing down." In this spring of 2008, as we present the Budget for the forthcoming year, we do not have the option or the opportunity "to leave everything alone." We must act. But our actions can we gauged towards a short term view of a few months until we know the impacts from the Summer in Sacramento.

To do too much might bring things "crashing down" later, making the autumn analysis more reconstruction than renewal. We have undertaken a few modifications which mostly reflect adjustments that have already been considered by the City Council or for which either outside influences, internal needs or timing have warranted consideration at this time.

In summary, you are presented a budget that is adjusted by a diminutive amount from what the City Council approved in June 2007; keeps the number of employees at the same level as last year; and gently holds us in place until we know the impacts, if any, from the actions by others.

Respectfully Submitted,


Douglas J. Schmitz
City Manager

22 May 2008



MEMORANDUM

DATE: May 19, 2008
TO: City Council
FROM: Starla Jerome-Robinson, Assistant City Manager
SUBJECT: 2008-2009 SERVICE AND FINANCIAL PLAN UPDATE

RECOMMENDATION

1. Adopt Resolution 08-29 approving the 2008-09 Service and Financial Plan and Capital Projects;
2. Adopt Resolution 08-26 setting the Appropriations Limit for fiscal year 2008-09;
3. Adopt Resolution 08-27 setting the Transient Occupancy Tax Rate at 11%, for fiscal year 2008-2009; and
4. Adopt Resolution 08-28 setting the Utility Users Tax rate at 3.5% for 2008-09.

BACKGROUND

The City of Los Altos prepares a biennial budget. Fiscal Year 2008-2009 is the second year of this budget cycle. Council adopted the Fiscal Year 2007-2008 budget on June 26, 2007 and the plan for 2008-2009. The Council adopted the 2008-2009 Capital Improvement Program in February. Traditionally the mid term budget evaluation incorporates updates and minor changes. This year we are recommending incorporating the changes resulting from the reorganization efforts throughout this past fiscal year, but deferring contemplation of anything more substantial until the impact of the State's budgetary action is known which is anticipated to be in September or October.

Our Service and Financial Plan, or operating budget, needs to be adopted by July 1 of each fiscal year. Other procedural matters must also be acted on annually including setting the Appropriations Limit, the Utility Users' Tax, and the Transient Occupancy Tax. A list of the proposed minor changes to the 2008-09 Service and Financial Plan are shown in Attachment A.

DISCUSSION

Appropriations Limit: Article XIII (b) of the State constitution, alternatively known as the Gann Limit or Proposition 4, requires the City Council to annually adopt a resolution showing the calculation equivalent to the legal appropriations limit. This limit establishes the maximum amount that the city may spend on tax supported activities and is modified annually by changes in cost of living and population in the city or county. The current calculated limit of \$24,275,008 exceeds current City resources and does not pose any budgetary constraints at this time. The Resolution is provided as Attachment B, including the calculation.

Transient Occupancy Tax: The City Council is required to hold an annual public hearing to set the Transient Occupancy Tax (TOT) rate by resolution prior to July 1. The proposed resolution and projected revenues are based on a TOT rate of 11%. The proposed ordinance is provided as Attachment C.

Utility Users Tax: The City Council is required to hold a public hearing to set the Utility Users Tax (UUT) rate by ordinance on an annual basis prior to July 1. The proposed ordinance maintains the current rate of 3.5%. Proposed revenues assume the UUT rate remains consistent with prior years. The proposed ordinance is provided as Attachment D.

Budget Adoption: The budget resolution is provided as Attachment E, including the minor adjustments to revenues and expenditures, which are detailed in Attachment A.

The funding levels established at the June 26th, 2007 meeting for community groups and certain Commission and Committee are identified in Attachment F. Although last year Los Altos Mediation Program received Community Development Block Grant funding, we have included a proposal to switch the funding back to the General Fund.

The budget has been modified to include the position reclassifications/updates approved by City Council throughout the year. An updated Position Allocation Schedule is provided as Attachment G. The reorganization of City staff has not changed the total number of authorized positions.

In summary, for fiscal year 2008-09 the Service and Financial Plan includes minor changes totaling \$105,680 in expenditures which is more than offset by updating our Secured Property Tax projection based on more recent information from the Santa Clara County Tax Assessors' Office by \$407,000.

There are a variety of additional requests from the Departments. With the recommendation to make only minimal adjustments at this time, we are postponing additional requests of committees or staff totaling \$847,900, plus one Capital Project for \$220,500. These requests have not been internally vetted by the Staff Budget Review Team. Once the results of possible impacts of State decisions are known, the SBRT will reconvene in order to prepare recommendations for Council's consideration this Fall.

Fund Changes: We are proposing forgiving the \$2 million loan owed by the Community Improvement Reserve/Fund to the Facility Fund (\$1 million) and the Equipment Replacement Fund (\$1 million) based on a management audit comment during the last audit. Forgiving the debt has no net financial impact on City assets or cash since the "loan" was between City funds. The original purpose of using a "loan" was to identify available funds for the purchase of the Saint Williams site, later Rosita Park, without depleting the resources of the other funds for their intended purpose. At the time the loan occurred, the proceeds of the future sale of the Treatment Plant land were pledged to the loan repayment. Since that time, the Council has decided to use the proceeds of the sale proceeds for other purposes. As a result, the loan has no source of repayment and no timeline. The auditors suggested developing a repayment plan. A graphical explanation of the \$2 million loan is attached to this memo.

Following the decision to forgive the loan, we recommend eliminating two of our existing funds and creating a new one to acknowledge the Civic Center renovation efforts. Attachment H provides the proposed changes to the Financial Policies in two versions. The first is a marked up version showing each addition and deletion. The second is a final version with the changes incorporated. Four changes are recommended with respect to fund transfers and financial policies:

1. Forgive the debt of the Community Improvement Reserve/Fund to the Equipment Replacement Fund and the Facility Fund.
2. Create a new fund to be called the "Community Center Renewal Fund."
3. Move all of the assets in the Facility Fund (approximately \$2.5 million) and the Community Improvement Reserve/Fund (approximately \$1.2 million) into the new Community Center Renewal Fund.
4. Close the Facility Fund and Community Improvement Reserve/Fund.

Transfers and Financial Policies: The Utility Users Tax (UUT) transfer from the General Fund to Capital Projects is budgeted based on past practice at the equivalent of 50% to 80% of revenues. From a practical perspective, however, at year-end all funds in excess of a \$300,000 fund balance are transferred from the General fund to the Capital Projects Fund to pay for future capital projects. Historically, the year-end transfer exceeds 100% of Utility User Tax revenues. For budgeting purposes this year, we are showing a transfer of 50% of projected UUT revenues, including the debt service payment.

The use of the proposed transfers is different, however, than those presented in the original 2007-2009 Service and Financial Plan. City debt was reduced by paying off the outstanding bonds for the First and Main site, which reduces our annual debt service. In addition, by consolidating the Facility Fund and the Community Improvement Reserve Fund (CIR/F) into a "Community Center Renewal Fund" the need for the annual transfers to the Facility Fund (\$405,000) and the CIP/R (\$5,000) is eliminated.

The final result will be that in 08-09 the only ongoing transfers from the UUT revenues will be the \$161,500 for debt service expenses and the year end transfer of all residual proceeds to the Capital Projects Fund.

General Funds for Enterprise Activities: We fund the Storm Drain and Urban Runoff Pollution Prevention Program enterprise funds by transferring funds from the General Fund due to a lack of an existing fee. The City Council could consider including a Storm Drain fee as a future ballot measure.

Reserves: The increased balance in the 2% Operating Reserve and the 10% Emergency Reserve will be funded as of July 1, 2008, in an amount to bring the reserve to the designated percentage level. Estimates are included in the Resolution, \$60,000 to replenish the Operating Reserve and \$90,000 to increase the Emergency Reserve. Actual funding will be based on the amount required to fully fund the 2% Operating Reserve and the 10% Emergency Reserve.

Funding for Capital Projects: In February City Council adopted a Capital Improvement Program for 2009-20013. We are proposing minor changes to the 2008-09 program including:

- Increasing the Concrete Repair project from \$82,000 to \$250,000;
- Providing \$75,000 for the Day Worker Center;
- Increasing the Annual Striping project of \$65,000 to \$131,000 to include funding for striping the parking plaza's; and
- Minor modifications to the funding sources for certain projects to authorize the use of nondiscretionary funding before discretionary funding.

Our policy is always to use non discretionary funding such as Gas Tax before discretionary funding sources such as Capital Projects funding. As detailed in the Resolution attachment, both funding sources are shown. Eligible projects will be funded in whole or in part with the identified nondiscretionary funding to the extent such funding is available, and then provide supplemental funding from the Capital Projects fund.

Sewer Fund: The current proposed budget assumes no rate increase for 2008-2009 revenues. A change in rate methodology is currently underway. The Engineering staff indicates the rates will be presented for approval during the summer but the actual rate information is not yet available. The Engineering staff indicates that the Sewer Fund has adequate resources to fund the proposed Capital Projects. The proposed capital projects are:

2008-2009	
Annual Chemical Root Foaming	295,000
Annual Sewer Main Spot Repairs	333,000
Annual Sewer Main Video Inspection	343,000
Sewer Main Corrosion Rehabilitation Project A	1,080,000
Sewer Main Replacement – Sewer Master Plan Project PCR A, Phase 2	543,000
2008-2009 Total:	\$2,594,000

Solid Waste Fund: In May, the City Council will consider a rate increase requested by Los Altos Garbage Company. The proposed budget does not take this request into consideration, since action has not yet been taken.

ALTERNATIVES

The City Council could modify the proposed service levels in the Service and Financial Plan as well as the Capital Program.



Starla Jerome-Robinson
Assistant City Manager

SJR/sjr

Attachments

- Attachment A: List of Changes to the Proposed 2008-2009 Service and Financial Plan
- Attachment B: Resolution 08-26 Setting the Appropriations Limit (Gann Limit with attached calculations)
- Attachment C: Resolution 08-27: Transient Occupancy Tax
- Attachment D: Resolution 08-28: Utility Users Tax
- Attachment E: Resolution 08-29 Adopting the 2008-2009 Service and Financial Plan, Capital Program and Financial Policy Changes
- Attachment F: Community Group Funding Levels
- Attachment G: Position Allocation Schedule
- Attachment H: Suggested Changes to Financial Policies

Financial Policies: Loan to the Community Improvement Reserve/Fund

1997

Equipment Replacement Fund – Loaned \$1 million to the Community Improvement Reserve/Fund for St. Williams property purchase for Rosita Park

→→\$1,000,000→→
Loan

Facility Fund – Loaned \$1 million to the Community Improvement Reserve/Fund for St. Williams property purchase for Rosita Park

→→\$1,000,000→→
Loan

Community Improvement Reserve/Fund
Used the \$2,000,000 loan to purchase St. Williams for Rosita Park

2008

- \$2 million in “loans” forgiven
- Treatment Plant sale proceeds disposition to be determined
- Create a new fund “Community Center Renewal Fund” which with transferred assets will have approximately \$3.7 million
- Close the Community Improvement Reserve/Fund and transfer assets of approximately \$1.2 million to the Community Center Renewal Fund
- Close Facility Fund and Transfer assets of approximately \$2.5 million to the Community Center Renewal Fund

LIST OF GENERAL FUND BUDGET CHANGES

Attachment A

	Approved 2008-09		Updated 2008-09
Revenues	28,268,197		
Add'l revenue generated by Teen Coord Position	39,655		
Increase in add'l fee due to added Assist Planner Position	170,832		28,478,684
Increase in secured property tax		407,000	407,000
Transfer In for Replacement Equipment	435,500		435,500
Subtotal:	28,914,184		29,321,184
Transfers			
Transfer to Facility Fund	(405,000)	(405,000)	0
Transfer to Community Improvement Reserve Fund	(5,000)	(5,000)	0
Transfer for Debt Service	(230,507)	(69,500)	(161,007)
Transfer for UUT 50% Transfer	(554,661)	410,000	(1,034,161)
Transfer for URPP Fund & Storm, Drain	(200,398)	0	(200,398)
Available Revenue	27,518,618	(69,500)	27,925,618
Original Expenditure Budget	27,279,938		
Additional Assistant Planner Position	120,584		
Increase for Community Promotions	6,001		
Increase for Teen Programs			
Annual Conference	200		
High School Dances	2,600		
Two Teen Special Events	3,300		
Conference Attendance	300		
Added PARC Programs			
Public Sculpture Committee	4,000		
Pilot After school Enrichment Program	10,000		
Sculpture Maintenance	500		
Environmental Com. Web Improvements	500		
MVLA Tennis Court Maintenance	8,000		
Additional Maintenance of City Tennis Courts	10,300		
Add'l Personnel Costs for reorg and reclass		179,980	179,980
Savings from not holding an election		(156,700)	(156,700)
Annual Maintenance for Recreation Registration System		6,000	6,000
Additional Cost of Annual Audit		3,000	3,000
Business License Software Maintenance		2,000	2,000
Fee for Cal Opps to advertise positions		1,500	1,500
Fee Study and Update the Cost Allocation Plan - Rec Fee's		25,000	25,000
Additional funding for Car Allowances		9,000	9,000
Training for Information Technology Services		5,000	5,000
Los Altos Mediation Program (in lieu of CDBG funding)		2,000	2,000
Second Summer Concert at Grant Park		1,000	1,000
Human Resource System Fees		12,000	12,000
Busingees Cards for Commissioners and Committee Members		900	900
Small Truck for Special Projects Manager		15,000	15,000
Expenditures	27,446,223	105,680	27,551,903
(estimate Increase to 10% Emergency Reserve (Estimate))	40,000		90,000
(estimate Replenish 2% Operating Reserve (Estimate))	50,000		60,000
Current Expenditures	27,536,223		27,701,903
<i>Total Difference between Revenues/Expenditures</i>	-17,605		223,715