

To: City Council

From: James L. App, City Manager
Mike Compton, Director of Administrative Services

Subject: City Budget and Financial Plan FY 2004 - 2007

DATE: June 3, 2003

Need:

For the City Council to consider adoption of the proposed Budget and Financial Plan for Fiscal Years 2004 - 2007.

Facts:

1. In fiscal year 2002, the Council adopted a four-year financial plan including appropriations (i.e. a budget) for two years. The two-year budget expires June 30, 2003. Thus, the need to adopt a new budget and update of the four-year financial plan.
2. Given the State budget crises, it is recommended that the City adopt a one year budget deferring consideration of a second year until the first quarter of 2004.
3. The Council's ad hoc budget committee has undertaken a lengthy review of the preliminary four-year financial plan operating budget and capital improvement projects budget.
4. With one exception, the ad hoc budget committee has recommended that the Council consider approval of the base budget, certain new/expanded service requests and operating capital outlay as noted in the attachments.
5. The one exception relates to the imposition of a franchise fee on City utilities. The committee was unable to reach a consensus on this fee.
6. The Council has held two public budget workshops to review the proposed budgets.
7. A budget adoption resolution is enclosed for Council consideration. The resolution provides for an increase in the solid waste collections (Paso Robles Waste Disposal) franchise fee as well as a new franchise fee for City utilities, sewer and water.

8. An ordinance is enclosed to initiate a minor phased rate increase in sewer user fees to offset the cost of the proposed franchise fee on the City sewer utility operation (1% on 1/4/04, 1% on 7/1/04 and 1% on 1/1/05).

Analysis and
Conclusions:

The City continues to benefit from a sound financial base and local economy. Positive results of the last five fiscal years (1998 through 2002) have increased General Fund fund balance (savings) by nearly \$4.7 million. Unreserved fund balance at June 30, 2002, was \$6.3 million, representing a 42% reserve.

The Council's fiscal policy calls for a minimum reserve of 15%. The purpose of the reserve is to provide resources in case of economic downturn, natural disasters, take advantage of special opportunities as they might arise, and emergencies.

A form of emergency has arrived. The draft budget presented herein for Council consideration assumes that the States will take \$1 million in City General Fund resources annually to balance their budget. The City has anticipated such an action since last July when the State budget deficit became known. All budget projections and discussions since last July have anticipated a \$1 million per year loss of General Fund resources.

To weather this loss of revenues, the proposed budget contains the following actions:

1. Maintain existing General Fund base budget – virtually no expanded or new services/programs added; and
2. Broaden the General Fund revenue base; and
3. Utilize reserves over the next four years by about \$1 million; and
4. Adopt a one-year budget in lieu of the standard two-year budget.

The 42% reserve as noted in the first paragraph above is estimated to decline by 6% by year-end. The draft budget and four-year financial plan, as proposed, provides for a 29% General Fund reserve at the end of fiscal year 2007.

At the last budget workshop, some concern was raised regarding proposed revenue enhancements. Revenue enhancements are consistent with the Council's recently adopted goals and fulfills the Council's fiscal policy:

1. *The City will strive to diversify and stabilize its revenue base, reducing dependency upon any single revenue source.*
5. *The City will investigate potential new revenue sources, particularly those that will not add to the tax burden of residents or local businesses.*
7. *The City will establish and maintain a user fee policy (to be developed as attachment #4) that:*

- a. *Imposes user fees when appropriate to capture the cost for the delivery of services and goods; and*
- b. *Attempts to establish levels of cost recovery that support all costs including administrative overhead and depreciation; and*
- c. *Determines the minimum frequency of user fee reviews.*

This budget proposes a 2% transient occupancy tax increase be put on the November 2004 ballot; that the solid waste collection franchise fee be increased to 10%; that a new franchise fee be imposed upon City provided utilities, i.e. sewer and water operations; and finally, that the City undertake a comprehensive, citywide fee study.

The operating budget will be re-visited again in early 2004 once the State budget has been adopted and evaluated for impacts upon City finances. The City will continue to assess opportunities to restructure its operations such that base operation expenses may be controlled and/or reduced.

Should the Council adopt an increase in the solid waste collection franchise fee, increasing it to 10%, the impact upon residential curbside collection rates is illustrated in attached Exhibit "K".

Robles Waste Disposal (PRWD) has proposed to convert the manual, blue "tot" recycling containers to 50 or 60 gallon automated containers in order to increase efficiency and improve the City's progress towards meeting the State mandated 50% diversion requirement.. There is no immediate cost impact upon the residents of the City. PRWD is proposing to implement the service effective July 1 without a rate increase. In fact, PRWD has guaranteed in writing that no rate increase would be requested for at least two years.

Fiscal
Impact:

But for the anticipated impact of a State budget deficit, estimated at \$1,000,000 annually, the City's 4-year financial plan would be balanced. With prudent use of savings (set aside for just such a circumstance), the City can continue existing services while general and new revenue growth replaces the prospective loss of income. Despite this use of savings, reserves are projected at 29% at the end of FY 2007, in excess of the Council's policy to maintain a minimum reserve of 15%.

The budget as developed is viable so long as the following assumptions remain sound:

1. The economy remains relatively stable at current levels.
2. The State does not take appreciably more than \$1 million per year from local revenues.
3. Council adopts the revenue enhancements noted above.
4. No new significant General Fund appropriations are approved.

5. 801 4th Street is sold.

Budget documents attached herewith include the following:

Exhibit "A"	Base Budget Appropriations for fiscal year 2004
Exhibit "B"	Detailed Schedule of Revenue Projections
Exhibit "C"	General Fund Recap
Exhibit "D"	Sewer Operations Recap
Exhibit "E"	Water Operations Recap
Exhibit "F"	Airport Operations Recap
Exhibit "G"	Transit Operations Recap
Exhibit "H"	Schedule of Recommended Base Budget Additions/Adjustments
Exhibit "I"	Capital Improvement Projects Budget for fiscal year 2004 through 2007 (note that some items previously included herein were relocated to operations and now appear on Exhibit "H")
Exhibit "J"	Capital Improvement Projects Budget by Fund
Exhibit "K"	Illustration of impact upon residential curbside trash collection rates of an increase to 10% in the franchise fee

Options:

- a. That the Council, upon close of the public hearing, take the following actions:
 1. Adopt Resolution No. 03-XX approving revenue estimates and appropriations for operating and capital improvement project budgets; and
 2. Introduce and hold first reading of Ordinance No. XXX N.S. to modify sewer user fees; and set June 17, 2003, as the date for adoption of said ordinance; or
- b. Direct staff to make any desired budget modifications and return June 17th for budget adoption action; or
- c. Amend, modify or reject any of the options above.

RESOLUTION NO. 03-

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASO ROBLES
ADOPTING MAINTENANCE AND OPERATIONS APPROPRIATIONS FOR
FISCAL YEAR 2003-04 AND FOUR-YEAR CAPITAL IMPROVEMENT
PROJECTS PROGRAM

WHEREAS, it is anticipated that the State budget deficit will have a significant impact upon City General Fund resources; and

WHEREAS, the City has anticipated the potential impact upon General Fund resources at \$1,000,000 annually beginning in fiscal year 2004; and

WHEREAS, to address this anticipated decline in General Fund resources, a number of appropriation recommendations are contained herein, i.e. one year budget, very little change to existing base budget appropriations; and

WHEREAS, the budget recommendations contain a number of General Fund revenue enhancements, i.e. non-utility fee study, increase in solid waste collection franchise fee, imposition of a franchise on City utility operations and transient occupancy tax increase measure on the 2004 ballot; and

WHEREAS, the proposed fee adjustments are consistent with and carry-out the Council's adopted Fiscal Policy as well as their recently adopted goals while serving to broaden the City's General Fund revenue base; and

WHEREAS, the budget document contains all projected revenues, appropriations and transfers, it shall be implemented by the City Manager per this resolution.

NOW THEREFORE BE IT RESOLVED by the City Council of the City of El Paso de Robles does hereby approve and/or direct the following budgetary actions:

1. All existing programs remain in effect unless management can reduce a program's cost via installation of new technologies or any other cost efficiencies therein enabling the City to reduce reoccurring operating expenditures; and
2. General Fund revenues shall be continuously monitored in order to measure collections against estimates. The City Manager is directed to develop a plan to address any projected revenue shortfalls and submit said plan to the City Council by the first meeting in February each fiscal year.

BE IT FURTHER RESOLVED by the City Council of the City of El Paso de Robles as follows:

3. The base budget appropriations as contained in the attached Exhibit "A" are hereby approved; and
4. The revenue estimates as contained in the attached Exhibit "B" are hereby approved; and
5. The revenue and expenditure transfers as contained in the attached Exhibit "C" are hereby approved; and

6. The various base budget appropriation and revenue adjustments as identified in the attached Exhibit "D, E, F, G, H and "I" are hereby approved; and
7. The capital improvement projects budget for the four-year period ending 2007 as identified in the attached Exhibit "J" are hereby approved.

BE IT FINALLY RESOLVED by the City Council of the City of El Paso de Robles as follows:

8. That a three percent (3%) franchise fee shall be imposed upon City sewer and water utility operations as payment for use of public right-a-ways and easements and to maintain said public right-a-ways and easements in their original condition; and
9. That the solid waste franchise fee shall be increased to ten percent (10%) effective January 1, 2004 and collection rates shall be modified in accordance with attached Exhibit "L"; and
10. The Council shall cause to have put on the November 2004 ballot a measure asking the electorate to increase the transient occupancy tax by 2%.

PASSED AND ADOPTED by the City Council of the City of Paso Robles this 3rd day of June 2003 by the following vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

Frank R. Mecham, Mayor

ATTEST:

Sharilyn M. Ryan, Deputy City Clerk

EXHIBIT "K"

Waste Collection Rates
Adjusted for Increase in Franchise Fee

Currently Monthly Rate Effective <u>1/1/2003</u>	Approved Monthly Rate Effective <u>1/1/2004</u>	Rate W/Franchise Fee <u>Increase</u>	Approved Monthly Rate Effective <u>1/1/2005</u>	Rate W/Franchise Fee <u>Increase</u>
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Residential - Automated:

40 Gallon Automated at Curb	\$ 21.19	\$ 21.72	\$ 23.24	\$ 22.26	\$ 23.82
60 Gallon Automated at Curb	28.09	28.79	30.81	29.51	31.58
90 Gallon Automated at Curb	31.11	31.88	34.12	32.68	34.97

ORDINANCE NO. ____ N.S.

AN ORDINANCE OF THE CITY OF EL PASO DE ROBLES
AMENDING SECTIONS 14.04.020 AND 14.16.020 OF THE CITY OF EL
PASO DE ROBLES MUNICIPAL CODE TO ADJUST SEWER USER FEES

WHEREAS, the City Council determined that the Sewer and Water Operations Funds should pay a franchise fee to the City's General Fund for the use of public right-a-ways and easements; and

WHEREAS, it is also intended that said franchise fee shall reimburse General Fund expenditures for labor and materials necessary to maintain said public right-a-ways and easements to their original condition; and

WHEREAS, it is proposed that a three percent (3%) franchise fee be imposed upon the fixed portion of the sewer and water user fee; and

WHEREAS, the Water Operations Fund has sufficient resources to absorb the additional operating expense; and

WHEREAS, the Sewer Operations Fund does not have sufficient resources to absorb the additional operating expense; and

WHEREAS, it is proposed that the three percent (3%) franchise fee on Sewer Operations be implemented in a phased manner with one percent (1%) on January, 1, 2004, one percent (1%) on July, 1, 2004, and one percent (1%) on January 1, 2005; and

WHEREAS, the proposed sewer user fee increase was considered by the City Council at budget workshops held on May 14, 2003 and May 21, 2003 and heard public comment on the proposed fee increase at the regular City Council meeting on June 3, 2003 as an advertised public hearing.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF EL PASO DE ROBLES DOES ORDAIN AS FOLLOWS:

SECTION 1. Subdivision C of Section 14.04.020 of the Paso Robles Municipal Code is hereby amended to read as follows:

14.16.020 Sewer charges

Every person whose premises are served by a connection with the system of sewerage of the city, whereby the sewage or industrial wastes, or either or both, are disposed of by the city through the sewage treatment plant, or otherwise, shall pay a sewer service charge established by ordinance of the city council. Other than as expressly provided herein, the rates for such sewer service fee shall only be established or amended by a two-thirds vote of the city council in favor of such establishment or amendment of sewer service rates.

Effective January 1, 2004, the base sewer service charge for all customers shall be increased to \$43.72 per billing period. Residential customers shall pay only the base sewer service charge. Nonresidential customers shall pay the base sewer service charge for 1,000 cubic feet of metered water and shall pay an additional charge of \$1.07 for each additional 100 cubic feet of metered water used by said nonresidential customer. Metered landscape water is not included in the determination of sewer service charges.

[Effective July 1, 2004, the sewer service charges established in this section shall be modified annually each July 1 by the increase in the Consumer Price Index for the San Francisco-Oakland-San Jose Region as reported by the Bureau of Labor Statistics for the year ending April of each year.]

The sewer service charge shall be further modified on July 1, 2004 and January 1, 2005 by an additional 1%.

The sewer service charges shall further be reviewed no less than bi-annually in conjunction with the update of the City's budget to ensure that the sewer service fees then in existence do not exceed the costs of providing sewer service within the City.”

SECTION 3. Severability

If any action, subsection, sentence, clause or phrase of this ordinance is, for any reason, held by a court of competent jurisdiction to be invalid or unconstitutional, such decision shall not affect the validity of the remaining portions of this ordinance.

Introduced at a regular meeting of the City Council held on June 3, 2003, and passed and adopted by the City Council of the City of El Paso de Robles on the 17^h day of June 2003 by the following roll call vote, to wit:

AYES:
NOES:
ABSTAIN:
ABSENT:

Frank R. Mecham, Mayor

ATTEST:

Sharilyn M. Ryan, Deputy City Clerk