



Office of the City Manager

ACTION CALENDAR

December 13, 2005

To: Honorable Mayor and
Members of the City Council

From:  Phil Kamlarz, City Manager

Submitted by: Phil Kamlarz, City Manager

Subject: FY 2006 & FY 2007 Biennial Budget Update – First Quarter

RECOMMENDATION

Adopt a Resolution allocating anticipated, one-time General Fund revenue in the amount of \$878,564 to provide continued funding for specific programs and to fund non-discretionary costs that have arisen since July 1, 2005, as identified in Attachment A, and approve additional staffing for Permit Center activity.

SUMMARY

The Council adopted a two-year budget on June 28, 2005 for Fiscal Years 2006 and 2007. The Council at that time referred the funding of a number of programs to the mid-year budget review and requested staff to return in December 2005 with recommendations for continued funding of these programs if additional revenue was realized. Additionally, Council requested an update on certain budget issues.

The actions taken by Council in adopting this biennial budget established the spending levels for two fiscal years. This report presents to Council a brief summary of FY 2006 & FY 2007 biennial budget first quarter performance and related budget issues; an analysis of the primary General Fund revenues; and a number of budget augmentation recommendations based on new revenue. A more detailed Second Quarter Budget Update will be presented to Council on February 7, 2006 that includes two full quarters of expenditure and revenue data (July 1, 2005 – December 31, 2005).

FY 2006 revenues are currently projected to be \$1.08 million more than the FY 2006 Adopted Budget. Items referred to the budget since July 1, 2005 total \$2.6 million. This report includes the recommendation that Council provide \$878,564 in funding from this new revenue to continue operations for a number of programs, as well as to provide required funding for non-discretionary costs incurred since the beginning of the fiscal year. With an unstable economy and future deficits forecasted, we should be careful in allocating “projected” revenues that we have not yet fully realized. Other expenditures should be deferred until staff has had the opportunity to review more data and can be considered in February 2006.

FISCAL IMPACTS

New General Fund Revenue =	\$631,564
Use of General Fund Reserve =	<u>\$247,000</u>
Total Allocation =	\$878,564

Recurring expenditures will also require baseline expenditure increases to the FY 2007 budget in the amount of \$531,564.

Permit Service Center (PCS) Fund (Fund 833) = \$500,000 (approximately)

Recurring annual funding from the Permit Service Center Fund (Fund 833) of approximately \$500,000 to fund four (4) new full-time positions is available in the PCS fund balance to pay for these recurring costs for the next five years, while still maintaining an adequate fund reserve.

INTRODUCTION

After several years of financial crisis, the City’s fiscal outlook is gradually improving. Council took actions to address the City’s General Fund deficit by adopting recurring General Fund reductions totaling almost \$21 million from FY 2003 – FY 2007, including reducing the City’s workforce by approximately 10%, as well as significant reductions in other key operating funds. These difficult decisions helped place the City in a much healthier fiscal position.

While we are seeing growth in property-based revenues slowing, these revenues continue to perform above projections contained in the Adopted Budget. Sales tax revenues remain relatively flat over prior year returns. However, Council should be aware that major General Fund revenues are beginning to trend down. After careful analysis, staff is projecting FY 2006 General Fund revenues to be \$1.08 million above the FY 2006 Adopted Budget. Given the fluctuations in revenues, and the fact that much of the projected increase in FY 2006 is one-time revenue, FY 2007 revenue projections remain unchanged.

However, as indicated in the State’s recent *Budget Outlook* published by the Legislative Analyst’s Office, we are not entirely out of the woods yet. Even assuming continued economic growth, which has actually been relatively flat in Berkeley, our five-year projections show deficits in the General Fund (\$1.6 million in FY 2007, \$1.3 million in FY 2008), as well as in a couple other key operating funds. Another significant economic slowdown could further add to these deficits.

Some good news is that we recently received revised retirement rates from CalPERS and revised medical rates (as presented in a separate report on tonight’s agenda) that could result in significant savings to the General Fund in FY 2007. I am hoping that this helps provide for a time of relative fiscal stability in the City, allowing us to review the impacts of the past years’ budget reductions and the possibility of mitigating some of these impacts. Increased FY 2006 recurring revenue, coupled with reduced benefit costs, will help offset the adopted cuts of \$1.6 million included in the FY 2007 budget.

For these reasons, it will be important for Council to minimize operating shortfalls, match any new or increased program funding with offsetting savings or revenues, and avoid depleting the General Fund reserve.

CURRENT SITUATION AND ITS EFFECTS

Before discussing the FY 2006 status, it is helpful to recall the development of the FY 2006 & FY 2007 Adopted Biennial Budget. A two-year \$10.5 General Fund deficit and a \$4.8 million deficit in other funds were balanced through expenditure reductions, cost shifts, and implementing some fee increases. Since 2003, over \$20 million has been cut from the General Fund and over 173 staff positions have been eliminated, which represents approximately 10% of the City's workforce. Many of these position reductions occurred in the City's administrative and support functions.

FY 2006 & FY 2007 Review of Budget Policies & Priorities

During the development of the FY 2006 & FY 2007 budget, Council adopted a number of key budget policies that have guided the adoption of the biennial budget:

Budget Policies

1. Implement a two-year approach to eliminate the City's structural deficit that includes a plan for future uncertainties and deficits.
2. As one-time revenue becomes available, first consider the use of these funds for City capital improvements and investments to yield future savings.
3. Minimize impact on direct services to the community.
4. Balance reductions to City administrative services so as to not jeopardize fiscal and administrative accountability and control.
5. Minimize staff layoffs.
6. Maintain the unrestricted General Fund Reserve at a minimum of 6% of revenues.
7. Maintain an adequate balance of funding and risk for the City's unfunded liabilities.
8. No new expenditures without a corresponding reduction or new revenue.

Council Budget Priorities

- Public Safety
- Streets & Roads
- Affordable Housing
- Homeless & Poverty Programs

FY 2006 General Fund Expenditures

The FY 2006 First Quarter ended on September 31, 2005. At this early point, expenditures are generally tracking well against the Adopted Budget (with a few exceptions). A more detailed Second Quarter Budget Update will be presented to Council on February 7, 2006 that includes expenditure and revenue data (July 1, 2005 – December 31, 2005). However, there are a couple of expenditure areas that are tracking beyond the Adopted Budget and will require continued review and possible increased appropriations.

Referrals to the Budget Process

Attachment B provides a listing of all the expenditure referrals to the budget process since July 1, 2005 totaling \$2.6 million. These referrals include a mix of one-time and recurring expenditures, with most expenses being recurring. Any recurring costs that are added to the budget will add to future years' deficits.

In order to continue operations of certain social programs and to fund non-discretionary costs that have arisen since July 1, 2005, I am recommending that \$631,654 be funded from new

revenue and \$247,000 be funded from the General Fund reserve. This allocation from the reserve is specifically to pay for delinquent bills for City street lights due to incorrect billing by PG&E. We are currently projecting \$1.08 million in new revenue above the projections included in the Adopted Budget. I am recommending that the \$451,697 balance not be allocated until we have additional months of revenue experience on which to base any further funding allocations. I am making these recommendations now instead of waiting until February to avoid discontinuation of some of these programs and to allow payment of non-discretionary costs (See Attachment A).

Status Report on Budget Issues

1. The Mayor's budget amendment added \$135,000 in one-time funding for homeless services – with an emphasis on consolidated services among agencies. The Human Welfare and Community Action Commission (HWCAC) and the Homeless Commission reviewed this amendment and concur with the recommendations included in this report
2. *Fire Department Staffing & Services Review*: Staff presented Council with a detailed update on the Fire Department staffing on October 25, 2005. Our goal is to not temporarily close more than one station at a time during a flexible staffing rotation. The department is now fully staffed and with this full compliment, we anticipate a lesser need to implement flexible staffing.

The Adopted Budget transferred \$300,000 from one-time capital spending for streets to the Fire Department to minimize company closures, to ensure not more than one company would be closed at a given time and Station #7 would not be closed during fire season. I will be recommending that \$300,000 be added to the Fire Department's baseline budget in FY 2007 to maintain a similar service.

We will continue to monitor overtime spending in the Fire Department, its effects on the budget and the ability to reduce possible apparatus closures. At this point, the Fire Department projects General Fund Fire Suppression regular overtime spending to surpass budgeted overtime by approximately \$175,000 and Paramedic Tax regular overtime by \$33,000 (caused by leave and a prolonged fire season). However, these expenses may be offset by salary savings and will be partially offset by reimbursement from FEMA for the Hurricane Katrina and Rita disasters.

3. *Community Choice Aggregation*: Staff will present Council with an update on this program and a long-term plan later this fiscal year. The \$140,000 for Phase II funding is not currently being recommended, but is part of the deferred list of funding needs to be reviewed later in the year.
4. *Pedal Express*: Staff will present Council with an update on this program and a long-term plan later this fiscal year. Funding to continue this program for the remainder of the fiscal year in the amount of \$12,500 is included in the funding recommendation.
5. *Daytime Drop-in Center*: A report updating the progress of this community agency is on tonight's Council agenda. \$8,856 in continued funding is being recommended.

6. *Warm Water Pool:* Staff will return to Council with a detailed plan in February. However, there are currently limited options. The total project cost at an existing or new B.H.S. site is projected at approximately \$7 - \$8 million. The bond proceeds for the warm water pool are \$3 million at B.H.S. and the City has set-aside an additional \$1 million from the General Fund. Another option would be to build on other sites at a cost of \$4 million. In order to complete the project, it looks like it will be necessary to return to the voters (possibly in November 2006) to 1) modify the bond language to provide increased flexibility in spending the bond funds at a location other than the BUSD downtown campus, and 2) increase the bond proceeds by \$3 - \$4 million to fully fund the project.
7. *Life Long:* No additional funding recommendations are being made. The City assisted Life Long with the purchase of the 6th Street facility by lowering the selling price by \$200,000. The Adopted Budget included a projection of the sales price of 6th Street of \$2.4 million and this \$200,000 shortfall has impacted available General Fund revenues.

Energy Costs

While staff needs additional usage data better project the expenditure trends, current information indicates that a minimum of \$250,000 will be required to fund increased costs, which is being recommended as part of this report.

Gasoline

Fuel expenditures totaled \$598,000 in the first five months of FY 2006. The total annual budget for fuel is \$699,000, and 85% of the FY 2006 budget has already been spent. If expenditures continue at this same rate, the annual cost will have doubled from what was originally budgeted to a total of \$1.4 million. One reason for this large variance is a historical under funding of the baseline fuel costs in the Facilities Maintenance budget. However, the price of fuel has added considerable to this spending trend. While fuel costs have been extremely high in the last few months, the price of fuel has recently come down and using the first five months of spending patterns may not be an accurate measure of costs for the remaining seven months. We will report back to Council in February with an updated projection of fuel costs and the potential impact on the General Fund and other funds.

Electricity & Natural Gas

Gas and electric expenditures totaled \$607,000 in the first five months of FY 2006. The total annual budget for gas & electric costs is \$2.4 million, and to date 25% of the FY 2006 budget has been spent. We are anticipating a 5% increase in electricity beginning in January and a 50% increase in the cost of gas was effective in October. It is too soon to project the impact these increases will have on the budget.

The first five months of expenses are not an accurate benchmark to base future projections as they do not reflect the expected rate increases; however we anticipate the impact to be significant for the City's largest consumers of gas and electricity- City pools, 1947 Center Street, Senior Centers, Main Library, Public Safety Building and the Animal Shelter. We will report back to Council in February with an updated projection of electricity and gas costs and the potential impact on the General Fund and other funds once we have a few more months of data that includes the increased costs.

FY 2006 General Fund Revenue

While the overall General Fund revenues are tracking above the Adopted Budget, the well-performing revenues are primarily property-based and given the current market, this can result in considerable volatility. Attachment C includes a chart that provides year-to-date information on revenues received compared to the Adopted Budget, as well as a year-end projection of actual revenue based on year-to-date trends. The major revenue categories with higher than projected revenues are Real Property Transfer Tax, Interest Income, Vehicle In Lieu and Utility Users Tax. Revenues to note include:

Property Transfer Taxes +\$500,000

The Property Transfer Tax continues to perform above the FY 2006 Adopted Budget, however, is beginning to experience a downward trend. Through November 30, 2005, Property Transfer Tax revenues totaled 7.7% more than the same period in FY 2005. The FY 2006 total is \$500,000 or 4.0% more than the adopted budget amount. The first quarter of FY 2006 got off to a fast start, with total property sales increasing 8.3%, and Property Transfer Tax revenues increasing 9.1%. However, a negative trend began to develop in September and has continued into October and November, as 30-year mortgage rates exceeded 6%. Based on current trends, FY 2006 Property Transfer Tax receipts are currently projected to total \$13,000,000, a decrease of \$613,975 or 4.5% from the \$13,613,975 received in FY 2005.

In addition, the percentage of property owners taking advantage of the seismic retrofit rebate program was at 42.4% through November 30, 2005. This is important because the higher the percentage of property owners taking advantage of the seismic rebate, the lower the Property Transfer Tax revenue generated by the City. The possibility exists that a much higher percentage of property owners could take advantage of the seismic rebate in the remaining months of FY 2006.

Interest Income +\$300,000

For FY 2006, staff expects Interest Income to total \$3,600,000, which is 20.8% more than interest earned for FY 2005. The FY 2006 projection is \$300,000 more than the adopted budget amount. The increase from the FY 2006 adopted budget amount results from the Federal Reserve Board (the Fed) raising the Federal Funds rate higher than expected. The Federal Funds futures quotes are indicating that the Fed will increase the rate 4.0% currently to 4.75% by May 2006, which may result in increased earnings toward the end of FY 2006 and into FY 2007..

Real Property Taxes +\$143,554

FY 2006 Real Property Tax receipts will not be received until after the December 13, 2005 Council meeting. However, staff's current projection is that FY 2006 Real Property Tax will total \$29,688,694, an increase of 8.1% over revenue received in FY 2005 – and \$143,554 or .5% more than the FY 2006 adopted budget amount. The difference is accounted for by the growth of slightly more than 8% in assessed values reflected in the County's Certification of Assessed Values for Property Taxes, versus the 7.5% estimate reflected in the adopted budget amount.

Sales Taxes -\$500,000

For the first four months of FY 2006, Sales Tax revenues totaled \$4,135,943, a decline of 4.6% from FY 2005 for the same period. This revenue decrease led by declines in the following categories: 3.3% in new auto sales; 29.0% in furniture/appliances; 30.2% in wholesale building materials; and 61.9% in chemical products. As a result, staff currently expects FY 2006 Sales

Tax revenues to total \$13,603,880, a decrease .1% from FY 2005 and \$500,000 less than the FY 2006 Adopted Budget amount.

Vehicle In-Lieu Tax / License Fees (VLF) +\$552,649

In 2004, the Governor lowered the annual VLF to 0.65%, from 2.0%. In the budget agreement between the Governor and cities and counties, the Governor agreed to backfill the 1.35% difference in VLF with property taxes from the Education Revenue Augmentation Fund (ERAF), in exchange for cities and counties taking cuts of \$350 million in FY 2005 and FY 2006. Berkeley's share of the cuts is \$1.83 million each in FY 2005 and FY 2006. Beginning in FY 2006, the property tax in lieu of VLF will grow with the change in gross assessed valuation of taxable property in the City from the prior year.

For FY 2006, VLF revenues are currently projected to total \$5,069,291 (after allowing for the \$1.83 million State take-away), which was an increase of 3.6% over the FY 2005 total. The expected FY 2006 total is \$552,649 more than the FY 2006 adopted budget amount, as the latter amount didn't fully reflect the growth in the back-fill amount.

Utility Users Tax (UUT) + \$365,848

For the first four months of FY 2006, UUT revenues totaled \$4,455,736, a decrease of \$209,317 or 4.49% from the FY 2005 total of \$4,665,053. Originally, staff expected to revise the FY 2006 UUT revenue projection to show a decrease of \$284,186 from the adopted budget amount of \$14,260,480, to reflect the trend through October 31, 2005. However, after the jump in natural gas prices as a result of the impact on supplies caused by the recent hurricanes, and PG&E's request for an electricity rate increase, staff increased the projection to \$14,642,142. These revenue increases will most likely be offset by like increases in the City's energy and fuel costs.

UUT revenue from standard telephone is continually decreasing and revenue from wireless telephone is beginning to level off due to slower growth and lower fees. Both are in danger as Voice over Internet Protocol (VoIP) takes a larger share of the voice communication market, since VoIP is protected against local taxes by Federal rule.

UUT (and franchise fees) from cable are also under threat due to the rapid convergence of technology, the intense market competition between cable and telephone companies, and the legislative desire to classify any service (voice, video, or data) received via broadband as an "internet service" thereby removing it from local taxing authority. We can expect intense legislative and regulatory activity in these areas over the next 18 months, which will require diligent monitoring by staff and rapid response by policy makers.

Parking Fines -\$837,981

During the first four months of FY 2006 Parking Fines totaled \$2,459,435, a decrease of 11.8% from revenue received in FY 2005. The number of valid tickets written during the period increased by 403, to 75,742 from the total of 75,339 written for the same period in FY 2005.

The adopted budget for Parking Fines revenue for FY 2006 assumed (1) productivity increases due to the addition of one Parking Enforcement Supervisor position in FY 2006, to improve enforcement operations and productivity; and (2) increased ticket writing as a result of the addition of three parking enforcement officer positions in FY 2006. Since those employees will be hired later than expected, Parking Fines revenue for FY 2006 is expected to total \$8,365,000,

which is \$105,142 more than the FY 2005 total, but \$837,981 less than the FY 2006 adopted budget amount.

FY 2006 General Fund Reserve

Current Council policy is to maintain a General Fund unrestricted reserve of 6%, which equals \$7.4 million for FY 2006. The unrestricted reserve is currently at around 8% and is due to revenues received in FY 2005 above the adopted budget such as increased Property Transfer Tax and the VLF loan repayment from the State (total of around \$6.5M). However, these revenues are already included in the General Fund 5-Year projections to help offset projected deficits and also to fund one-time expenditures and included in the Adopted Budget.

FY 2006 First Quarter Update on Citywide Performance Measures & Work Plans

The City-wide Work Plan Priority Projects as adopted by the Council as part of the FY 2006 & FY 2007 is well underway. A summary Work Plan Priority Projects chart is included (Attachment D) with brief updates as to the status of the project. From the original 92 projects that comprise the Critical Initiatives and Special Projects identified city-wide, 11 projects are completed, and 6 are in “on-hold” status. The remaining 75 projects are currently active and moving toward completion. Please note that each project can be quite variable in scope and many of these projects are multi-year efforts and comprise numerous phases and milestones prior to completion status.

FY 2007 Adopted Budget

The FY 2007 Adopted Budget included cuts and cost shifts of \$1.6 million and includes zero cost of living adjustments (COLAs) for fire fighters starting in FY 2007. If we assume that the \$531,564 in recurring expenditures are approved as recommended in this report, the FY 2007 deficit grows to \$2.1 million. I would like to address this deficit with as minimal an impact on City services as possible – hopefully by not implementing the planned program and position reductions.

Benefit rate changes will result in significant cost savings in FY 2007 of up to \$1.5 million to the General Fund – reducing much of the deficit and mitigating some of the planned expenditure reductions. This will leave a deficit of approximately \$600,000 that can be addressed without further program and position reductions. Other key operating funds will also see costs savings that will be helpful to those funds with forecasted deficits.

Retirement Costs

We recently received revised retirement rates from CalPERS that indicate significant decreases in rates for FY 2007 – of up to \$1.2 million for the General Fund. The rate decreases are primarily in public safety. This is tempered, however, with a like increase in the unfunded liability of our retirement plan. The City’s third-party actuary provided us last week with an analysis of the rates and the impact on our unfunded liability.

Essentially, CalPERS has implemented a rate smoothing strategy that decreases rates by assuming a 30-year rolling amortization– resulting in the continued growth of the unfunded liability. The City should review its options as to how to manage this rate change to best mitigate the negative impact to our unfunded liability:

Options

1. Take the revised PERS rates for FY 2007, realizing savings in FY 2007, but assuming a shorter amortization period that results in no further rate decreases (and limited increases) in subsequent years. This reduces the growth on our unfunded liability.
2. Take the PERS rates as provided, realizing a significant rate decrease in FY 2007, with continued minor rate decreases in the future – while growing the unfunded liability each year.
3. Continue with the PERS rates as included in the Adopted Budget, paying higher rates today, while decreasing the future unfunded liability. This results in no savings.

Staff is continuing to review these options and will present a recommendation to Council in February. At this point in time, option #1 appears to provide the City with the greatest savings, while limiting the growth of the unfunded liability.

Other Benefit Rates

As with the retirement rates, we recently received new rates for Workers' Compensation and from our health care providers. Worker's Compensations rates, while including a component for the unfunded liability, show a minor decrease in some classification categories. However, staff has not completed an analysis of actual budget impacts and will return to Council in February with a more complete picture. Tonight's Council agenda includes an item on the City's medical rates with HealthNet and Kaiser. The City's rates have come in lower than budgeted and will result in savings of up to \$250,000 to the General Fund for FY 2007.

Labor Negotiations

It should be noted, however, that the 5-year projections include assumptions of zero cost of Living Adjustments (COLAs) for two years following the conclusion of each of the labor contracts. The current contracts expire as follows:

- ❑ Fire = 6/30/2006
- ❑ Police = 12/30/2007
- ❑ Miscellaneous = 6/30/2008

Labor negotiations with the Berkeley Fire Fighters Association will commence in February 2006. The FY 2007 budget includes zero COLAs for sworn firefighter personnel. Any changes to this assumption will result in a change to the deficit projections for FY 2007 and beyond.

Other FundsPermit Service Center Fund

The Permit Service Center Fund currently has a significant positive fund balance, due largely to increased fees in recent years and a rising volume of service usage. With this increase in planning projects, staff is proposing to use fund balance to fund four (4) new full time positions and an annual of approximately \$500,000. These positions will greatly improve planning and Permit Service Center services to the public. Staff projects that the fund balance can absorb this increased expenditure, while maintaining a reserve through FY 2010.

Refuse Fund

The Refuse Fund has depleted its fund balance and faces significant deficits – especially in light of planned increased expenses in FY 2007 to bring the City toward the 75% recycling goal.

Recognizing this trend, significant expenditure reductions were implemented, as well as an 8% fee increase for refuse collection and a 20% increase in Transfer Station fees for the FY 2006 budget. Even with the reductions and increased fees, the Refuse Fund is unable to generate sufficient revenue to cover the costs associated with the collection of refuse in Berkeley and is projected to continue to experience an annual shortfall. The fund balance will be in deficit by the end of FY 2006 unless additional balancing measures are implemented.

One measure already implemented to prevent expenditures from growing any further in FY 2006, was not approving the carryover of any unspent appropriations from FY 2005. As the majority of the carryover funds were allocated for projects already in progress, but not yet completed, a funding shortage has been created for these projects and alternative funding will be required. Adding to the funding shortfall is the 75% recycling mandate required by 2010. Complying with the 75% goal requires both additional staff and related costs. Built into the FY 2007 budget is \$345,000 to begin the process of compliance, and additional funds will be required in the out years. Without additional revenue over and above the projected annual fee increases (increased revenue = increased fees) and/or expenditure decreases, the recycling program will create an additional unfunded cost to the fund and create a General Fund liability.

Parks Tax Fund

The overall health of the Parks Tax Fund has improved since the projections included in the FY 2006 & FY 2007 Proposed Budget. This improvement is attributed to the collection of additional revenue not anticipated and non-personnel expenditures being less than originally projected. The Parks Tax revenue is tied to the CPI, which has experienced slow growth over the last 2 years. As the Parks Tax has no ability to generate additional revenue, other than what the CPI yields, it must rely strictly on expenditure reductions to balance the fund. With the projections included in the Proposed Budget, the Parks Tax would have ended the fiscal year with a \$1.6 million annual shortfall between revenue and expenditures and would require reductions in the out years to bring the fund into balance. To address this shortfall, significant reductions were taken in FY 2006 with additional balancing measures planned for FY 2007. While there is still an annual shortfall between expenditures and revenues, given the improvement in the fund, the fund is relatively healthy through FY 2009. This may mitigate the need to take all of the planned reductions in FY 2007, and instead spread out reductions, as needed, over the a few years.

Marina Fund

The docks rehabilitation project is scheduled to begin this fiscal year. The majority of the project is being funded through a loan from Boating and Waterways; however, the Marina fund is contributing \$1million to the project in addition to making the annual interest payments. A 12% berthing fee increase was implemented in FY 2006, but the revenue increase is not sufficient to cover budgeted expenditures and the fund is projected to run an annual shortfall through FY 2010. The fund balance will be exhausted by FY 2007, and while there are planned fee increases in subsequent years, this alone will not resolve the shortfall. Expenditure reductions were taken in FY 2005, FY 2006 and more are planned for FY 2007, but it is likely that additional reductions will be needed to bring the fund into balance.

Library Fund

The Library Fund is expected to experience annual shortfalls, as expenditures are not expected to keep pace with annual revenue increases in the Library Tax. As a result of the hiring freeze, not filling vacant positions, and limited non-personnel spending in FY 2005, the overall fund balance at the end of FY 2005 grew from approximately \$661,000 to \$1.7 million.

Starting in FY 2006, vacant positions are being filled and there will be significant increases in non-personnel spending to make up for the limited spending that occurred in prior years. These two factors, along with reopening the Central Library on Sundays, which began in September, are expected to result in the fund balance being spent down by almost \$1 million by the end of the year. By the end of FY 2007, the fund balance is projected to be almost fully spent down and becomes negative in FY 2008.

Conclusion

As Council considers adding \$878,564 to the FY 2006 Budget, consideration should be given to the impact of recurring costs to the FY 2007 budget and beyond. Anticipated new revenue provides Council with an opportunity to provide continued funding for some programs and cover non-discretionary costs. However, these expenditures are based on estimated revenues that are not yet fully realized. I recommend that Council withhold allocation of the remaining new revenue until staff has had an opportunity to better analyze the revenue trends. We will be returning to Council on February 7, 2006 with a more detailed Second Quarter Budget Update that includes two full quarters of expenditure and revenue data (July 1, 2005 – December 31, 2005).

CONTACT PERSON

Tracy Vesely, Budget Manager, 510-981-7000

Attachments:

- 1: Resolution
- 2: FY 2006 & FY 2007 Recommended Budget Augmentations
- 3: Summary of FY 2006 & FY 2007 Referrals to the Budget Process
- 4: General Fund Revenue Analysis
- 5: Summary of Work Plan Priority Projects

RESOLUTION NO. -N.S.

APPROVING FY 2006 AND FY 2007 BIENNIAL BUDGET UPDATE – FIRST QUARTER

WHEREAS, the City Council adopted the FY 2006 and FY 2007 Biennial Budget on June 28, 2005; and

WHEREAS, Council referred a number of programs to the FY 2006 mid-year review for continued funding; and

WHEREAS, several non-discretionary costs have arisen since July 1, 2005 that require allocation of funds not currently included in the FY 2006 Adopted Budget; and

WHEREAS, General Fund revenues for FY 2006 are projected to be \$1.08 million more than the FY 2006 Adopted Budget; and

WHEREAS, activity at the Permit Service Center has increased and four (4) additional positions are needed to maintain adequate service levels; and

WHEREAS, the Permit Service Center Fund has a sizeable fund balance that can accommodate the addition of four new positions at a cost of approximately \$500,000.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley allocates anticipated, one-time General Fund revenue in the amount of \$878,564 to provide continued funding for specific programs and to fund non-discretionary costs that have arisen since July 1, 2005, and approve additional staffing for Permit Center activity.

**FY 2006 and FY 2007
Recommended Budget Augmentations**

Attachment 2

	1-Time	Recurring	Total
REVENUES			
Available New Revenue			
Use of Reserve	\$ 247,000		
Revised FY 2006 Revenue Projections*	\$ 1,083,261		
Total Available Revenues:	\$ 1,330,261		\$ 1,330,261
EXPENDITURES			
Homeless & Social Programs			
Paratransit Services		\$ (9,000)	
Civic Arts Coordinator		\$ (24,165)	
Pedal Express		\$ (12,500)	
Berkeley Boosters - BART Escorts		\$ (19,643)	
Japanese American Services of the East Bay		\$ (7,500)	
Berkeley Day Time Drop In Center		\$ (8,856)	
BOSS		\$ (31,000)	
Veterans Building Unbudgeted Costs for Agencies		\$ (112,000)	
Subtotal	\$ -	\$ (224,664)	
Other Program Costs			
Police Crime Analyst		\$ (40,000)	
NewsScan		\$ (9,400)	
Subtotal	\$ -	\$ (49,400)	
Non-discretionary Costs Since 7/1/05			
Telephone Emergency Response System		\$ (7,500)	
PG&E Street Lights - back bills*	\$ (247,000)		
Hurricane Katrina - non-reimbursable costs	\$ (100,000)		
Increased Fuel Costs (estimated)		\$ (250,000)	
Subtotal	\$ (347,000)	\$ (257,500)	
Total Recommended Expenditures:	\$ (347,000)	\$ (531,564)	\$ (878,564)
Total Remaining Available Revenue:			\$ 451,697

**FY 2006 Budget Update
Referrals to Budget Process**

Budget Item	1-Time	Recurring	Total
Referred by Mayor During Budget Adoption			
Paratransit Services		\$ 9,000	
Civic Arts Coordinator		\$ 24,165	
Police Crime Analyst		\$ 40,000	
Events Funding	\$ 25,000		
Pedal Express		\$ 12,500	
NewsScan		\$ 9,400	
Telephone Emergency Response System		\$ 7,500	
Community Choice Aggregation**	\$ 140,000		
Bike/Ped Gate to BART	\$ 50,000		
CEID Hearing Aids	\$ 38,802		
Lifelong-Detox Set-aside	\$ 10,000		
Sustainable Business Alliance		\$ 3,488	
Berkeley Art Center			
Berkeley Boosters - BART Escorts		\$ 19,643	
Japanese American Services of the East Bay		\$ 7,500	
Berkeley Day Time Drop In Center		\$ 8,856	
BOSS		\$ 31,000	
Subtotal	\$ 263,802	\$ 173,052	\$ 436,854
Other Adjustments			
Social Programs		\$ 225,000	
BORP	\$ 7,097		
Center for Accessible Technology	\$ 10,000		
Habitot	\$ 10,000		
Street Repair Funds Shifted to Fire OT	\$ 300,000		
FY 2005 Phase 3 Traffic Circles	\$ 200,000		
Disaster Preparedness	\$ 300,000	\$ 200,000	
Parks CIP Project Funding Shortfalls	\$ 200,000		
PG&E Street Lights - back bills	\$ 247,000		
Hurricane Katrina - non-reimbursable costs	\$ 100,000		
Veterans Building Unbudgeted Costs		\$ 112,000	
Increased Fuel Costs		\$ 250,000	
Subtotal	\$ 1,374,097	\$ 787,000	\$ 2,161,097
GRAND TOTAL	\$ 1,637,899	\$ 960,052	\$ 2,597,951

FY 2006 Four-Month General Fund Revenues (7/1/05 - 10/31/05)						
Revenue Categories	Adopted FY 2006	Actual 7/1/05-10/31/05	% Received To Date	Projected FY 2006	Change over Adopted	
					%	\$
Secured Property	\$29,545,140	\$225,730	0.76%	\$29,688,694	0.49%	\$143,554
Unsecured Property taxes	1,989,055	1,691,927	85.06%	1,939,055	-2.51%	(\$50,000)
Transfer tax	12,500,000	6,033,087	48.26%	13,000,000	4.00%	\$500,000
Sales taxes	14,103,880	4,135,943	29.32%	13,603,880	-3.55%	(\$500,000)
Utility users taxes	14,276,294	4,455,736	31.21%	14,642,142	2.56%	\$365,848
Transient occupancy taxes	2,728,000	1,055,887	38.71%	2,776,880	1.79%	\$48,880
Business license	11,254,035	261,982	2.33%	11,150,719	-0.92%	(\$103,316)
Vehicle in lieu taxes	4,516,642	285,469	6.32%	5,069,291	12.24%	\$552,649
Parking Fines	9,202,981	2,459,435	26.72%	8,365,000	-9.11%	(\$837,981)
Moving Violations	500,000	206,030	41.21%	550,000	10.00%	\$50,000
Interest income	3,300,000	876,938	26.57%	3,600,000	9.09%	\$300,000
Ambulance fees	2,371,080	805,757	33.98%	2,371,080	0.00%	\$0
Supplemental taxes	1,291,620	150,143	11.62%	1,500,000	16.13%	\$208,380
Franchise fees	1,464,015	353,195	24.13%	1,464,015	0.00%	\$0
Other revenue	8,762,336	1,640,413	18.72%	8,680,583	-0.93%	(\$81,753)
Transfers	8,768,238	2,635,452	30.06%	8,755,238	-0.15%	(\$13,000)
Total revenue:	\$126,573,316	\$27,273,124	21.55%	\$127,156,577	39.14%	\$583,261

Looks like \$500 too much in the Adopted Budget
Does not exactly tie to the Master GF spreadsheet
We should like the two spreadsheets.



**MID-YEAR PROGRESS REPORT - DECEMBER 2005
FY2006 & FY 2007
WORK PLAN PRIORITY PROJECTS
CRITICAL INITIATIVES (CI) AND SPECIAL PROJECTS (SP)**

PROJECT TYPE	LEAD DEPT.	PROJECT ID NO.	PROJECT TITLE (Projects On Hold)	STATUS	COMMENTS
CI	OED	1	San Pablo Avenue Revitalization Program	Complete	Facade Program completed. See project # 1004 for intersection paving improvements.
CI	PLN	4	Southside Plan Adoption and Implementation	Active	EIR in preparation; expected release in January 2006.
CI	PLN	22	West Berkeley Redevelopment Capital Projects	Active	Train Stop Completed. Consultant selected for Addison/4th Street improvements.
CI	PW	326	Warm Water Pool	Active	Pending final BHS Master Plan and review of funding shortfall estimated at \$3 Million
CI	HSG	488	Org. Improvements & Restructuring Efforts – Housing Authority	Active	BHA improvement plan was brought to Board at the October meeting, and deadline for compliance is June 2006.
CI	PLN	535	General Plan Implementation	Active	Work anticipated to begin early spring 2006
CI	HSG	543	Oxford Lot Development Brower Center	Active	Proposed Development Agreement being drafted. Council review by February 2006.
CI	CMO	820	LRDP Mitigations/Fiscal Compensation with UCB & LBNI	Complete	Agreement adopted – monitoring plan developed Dec '05 – monitoring begins July 2006 (see project # 958 for Use Tax Program implementation).
CI	HSG	833	Green Business Expansion and Support	Active	Contract executed with Natural Logic to develop recommendation to Council on Sustainable Business Action Plan. Focused goals include Zero Waste, Climate Neutral, Green Business, Green Building and Green City.
CI	PLN	838	University Avenue Plan Implementation	On Hold	Per budget adoption.
CI	PW	858	Hills Fire Station – Construction Phase	Active	Under construction – contractor's completion date is February 17, 2006.
CI	HHS	871	Alcohol & Other Drug (AOD) Prevention & Treatment	Active	Alameda County Detox Center site selection in progress.

**MID-YEAR PROGRESS REPORT – DECEMBER 2005
 FY2006 & FY2007 WORK PLAN PRIORITY PROJECTS
 CRITICAL INITIATIVES & SPECIAL PROJECTS**

PROJECT TYPE	LEAD DEPT.	PROJECT ID NO.	PROJECT TITLE (Projects On Hold●)	STATUS	COMMENTS
CI	CMO	889	New Animal Shelter Selection	Active	Searching for site through three brokers.
CI	CMO	892	Customer Service Improvements	Active	Program vendor selection planned for June 2006. Multiple tasks include Work Flow Analysis to determine needs and preparation of RFP. Partial implementation with on-line payment for parking tickets and refuse (Finance Dept).
CI	PR&W	897	Gilman Street Sports Fields (JPA)	Active	\$5 million has been secured for Phase I, which is on schedule for completion by September 1, 2006.
CI	OOT	919	Center Street Garage Development	Active	Staff is working on the development parameters. Council report by January 2006.
CI	OOT	920	Parking Meter Program Expansion	Active	Phase II was approved by Council on October 25, 2005.
CI	IT	937	New Public Safety System	Active	Proposals received and under evaluation. Selection by March 2006.
CI	PLN	947	West Berkeley Plan Update (Incremental)	Active	Auto dealer rezoning underway; Gilman/Ashby corridor planning to begin in January with adoption of detailed work program.
CI	PLN	948	Downtown Hotel/Conference Center●	On Hold	Waiting for Developer to gain site control.
CI	OED	950	Business Retention/Revenue Tax Base (Policy)	Active	Focus is retention of auto dealers by relocation to W. Berkeley
CI	PLN	971	Landmarks Preservation Ordinance Revision	Active	Before the City Council for direction Nov 29.
CI	PLN	972	Waterfront Specific Plan Amendment	Complete	Plan Amendment adopted by Council.
CI	PLN	992	Mayor's Permit Task Force Implementation (Non-Policy)	Active	Standardized hearing notices and agendas under review by relevant commissions and boards. New language relevant to fences reviewed by Planning Commission in January. Density bonus issue currently under study by joint subcommittee of PC, ZAB, and HAC.
CI	POL	1003	Parking Violations Management (Meters/Fines)	Active	The test for new PEO's has been completed Hire date set for January; fully trained and productive March 1, 2006. New meters and supervisory controls are improving citation production. Fine revenue will continue to lag until new PEOs are trained in the field.
CI	PW	1004	San Pablo Avenue Crosswalks & Streetscape (Phase 1)	Active	Bid documents currently being reviewed by Caltrans. Bid project in February pending adequate funding.
CI	HSG	1007	Housing: Increase Preserve Resources	Active	Redevelopment Agency Bond sold generating \$1.6 million (see project 1009). Staff is also reviewing other mechanisms for funding such as condo conversion fees.
CI	PLN	1009	Extend Life of Redevelopment Agency/Affordable Housing	Complete	Generated \$1.6 million for affordable housing (see project #1007).

**MID-YEAR PROGRESS REPORT – DECEMBER 2005
FY2006 & FY2007 WORK PLAN PRIORITY PROJECTS
CRITICAL INITIATIVES & SPECIAL PROJECTS**

PROJECT TYPE	LEAD DEPT.	PROJECT ID NO.	PROJECT TITLE (Projects On Hold●)	STATUS	COMMENTS
SP	PW	119	Aquatic Park Sound Barrier	Active	Funding is programmed by Caltrans/MTC in FY 2007.
SP	OED	120	Dock of the Bay Property Disposition	Complete	Relations with tenant are handled in PW/Property Mgt.
SP	PR&W	121	Civic Center Park Plan	Active	Bids received exceeded the construction budget of \$981,000. Project will be re-scoped and re-bid in early 2006, and completed by December 2006.
SP	PR&W	167	Aquatic Park Improvements	Active	Up to \$2 million was committed by Coastal Conservancy for water quality and habitat improvements. Actual size of award to be determined when City performs CEQA. Preliminary Design, and Cost Estimate. Completion date Fall 2007.
SP	OED	177	Ed Roberts Campus	Active	Has Use Permit and will apply for subdivision of parcel. Funding issues.
SP	OED	178	2501 Haste St. (Formerly Berkeley Inn)	Active	Progress in moving the Wooley House & purchasing 2509 Haste.
SP	OOT	224	Gilman Interchange Study	Active	Information report submitted to Council on 12-13-05.
SP	HSG	234	Community Index	Active	Draft Community Indicators will be available in December 2006 based on input from City Departments.
SP	FIN	381	Review of Financial Enterprise System●	On Hold	No funds allocated.
SP	OOT	512	9 th Street Bicycle Boulevard Extension Project	Active	Currently working on purchasing rail right-of-way.
SP	OOT	523	Employee Transit – Parking Alternatives●	On Hold	Per Budget adoption.
SP	IT	532	E-Commerce	Active	First phase goes live December 19, 2005.
SP	Fire	536	Measure Q (Fire Safety Tax) Improvements	Active	Final review of water system RFPs with contract to Council in early January. Warehouse site acquisition is moving forward. The warehouse is a City partnership of bike path, City Clerk records, and water system storage.
SP	OOT	549	I-80 / Ashby Interchange Study●	On Hold	Per Budget adoption.
SP	PLN	550	Soft Story Program	Active	First phase assessment program adopted by Council.
SP	PR&W	559	Boating and Waterways \$7 Million Loan / Dock Replacement	Active	\$7 million in loan funds were approved by the State and ready for draw down as of August 2003. Design work has been completed. Bids currently being solicited in November 2005 for H & I dock. State budget expected to approve additional \$2 million loan in July 2006.
SP	PW	565	Corp Yard Seismic Upgrade – Phase I-III	Active	Modular buildings scheduled for delivery in January 2006.

**MID-YEAR PROGRESS REPORT – DECEMBER 2005
 FY2006 & FY2007 WORK PLAN PRIORITY PROJECTS
 CRITICAL INITIATIVES & SPECIAL PROJECTS**

PROJECT TYPE	LEAD DEPT.	PROJECT ID NO.	PROJECT TITLE (Projects On Hold●)	STATUS	COMMENTS
SP	HSG	590	Revise Condominium and Inclusionary Ordinances	Active	The revised condominium conversion ordinance may become a major source of additional funding for affordable housing.
SP	PLN	605	City Compliance with URM Ordinance, Phase II	Active	Continuing enforcement to address remaining structures (approximately 50).
SP	HHS	805	Senior Program Restructuring	Active	Progressing well on Meals on Wheels/Project Open Hand and Targeted Case Management objectives.
SP	FIN	813	Cash Handling/Related Audit Responses	Active	Internal control reviews have been conducted & will continue to take place; in addition, staff conducts surprise cash counts at the City's various cash handling sites. Finance is on track to provide scheduled Audit status reports and a revised cash handling AR.
SP	PW	815	Panoramic Hill	Active	Waiting for response from Oakland for cooperative effort.
SP	CMO	829	Sunshine Ordinance	Active	Research underway - draft Ordinance to Council in May 2006.
SP	HHS	836	Public Health Patient Information Management System Phase II	Active	Minor contract delay. In general progressing and on track.
SP	CMO	837	Enterprise Content Management	Complete	Council Report system (Acorde) implemented (City Clerk).
SP	CMO	839	Alcohol Outlet Policy for On-Sale and Off-Sale Establishments	Active	Policy developed for internal distribution.
SP	HSG	842	Community Choice Aggregation/Public Power	Active	The Energy Commission will consider the update and a decision on whether or not to proceed with the development of a business plan on December 8, 2005. A Council report is expected in January 2006.
SP	HSG	843	Harrison Street Environmental Issues/Expansion	Active	Sanfoka House completed. Other upgrades to Harrison House in progress.
SP	HSG	845	Alameda County Homeless and Special Needs Housing Plan	Active	Staff is actively seeking commission input and will seek Council adoption of the Plan by February 28, 2006.
SP	PR&W	852	Touchdown Plaza – Site & Access Improvement Project●	On Hold	\$800,000 in funding has been secured from Caltrans and implementation is on hold pending the status of Aquatic Park Water Quality Improvement Project and the Addison Street Improvement Project at the same area. Decision to hold will be revisited February 2006, and plan to complete by September 2007.
SP	HHS	856	Minimum Wage Proposal	Complete	AB 48 vetoed by Governor.
SP	PW	859	Animal Shelter – Construction Phase●	On Hold	Construction on hold until site is secured.
SP	HHS	869	Nutrition and Physical Activities	Active	Salad bars established at senior centers. Walk to School Campaign and coordination with Project BUILD, Spiral Gardens

**MID-YEAR PROGRESS REPORT – DECEMBER 2005
FY2006 & FY2007 WORK PLAN PRIORITY PROJECTS
CRITICAL INITIATIVES & SPECIAL PROJECTS**

PROJECT TYPE	LEAD DEPT.	PROJECT ID NO.	PROJECT TITLE (Projects On Hold●)	STATUS	COMMENTS
					underway.
SP	CMO	880	Service View Performance Measures●	On Hold	Pending resolution of workload issues.
SP	HR	887	Employee Safety/Workers Compensation	Active	Quarterly reports are sent to Council. There is a continuation of a trend of smaller number of indemnity or lost time claims.
SP	HHS	888	School Linked Health Services	Active	Combined with Project 1001. Measure 'A' funding secured to develop school nurse program in elementary schools; coordination underway with Berkeley Integrated Resources Initiative to develop other health and mental health services in schools.
SP	IT	902	Cable TV Franchise Renewal	Active	Consultant RFPs in development.
SP	CMO	903	Management Review of City Vehicles and Fleet	Active	Working with Public Works Staff.
SP	CMO	904	Succession Planning, Diversity, and Leadership Development	Active	First Leadership Development Program completed. Ongoing initiatives and strategic planning being developed.
SP	PLN	911	Creeks Ordinance Revision – Creeks Task Force	Active	Creeks Task Force working toward May deadline.
SP	OOT	921	Telegraph Bus Rapid Transit	Active	Staff to review EIR when is released in January 2006.
SP	OOT	925	Pedestrian Plan	Active	Work program initiated with consultant; this is a one-year project.
SP	OOT	931	Pavement Marking Retrofit Program (5 Year Program)	Active	Funding secured for three years, will go out to bid this winter.
SP	PLN	938	Commercial Parking Standards Revision	Complete	
SP	PR&W	944	Bay Trail Extension – Berkeley Marina	Active	Currently in design phase. Coastal Conservancy to fund construction pending final estimate from design phase up to \$2 million to be completed by December 2006. New funding application due to ABAG in January 2006.
SP	HSG	953	Berkeley Housing Authority System Upgrade	Active	Full system upgrade scheduled for completion June 30, 2006
SP	FIN	954	Contracts: Develop "Mini" Contract	Active	General Services is utilizing a mini-contract as part of test program. Internal review needed.
SP	FIN	958	Use Tax: Establish Use Tax Cooperation Program with Large Businesses	Active	Met with UCB staff, who provided us w/queries on prior year out-of-state purchases equal to ~\$200,000 in additional sales taxes to City. Currently developing a step-by-step plan for UCB staff to implement Use Tax Direct Pay Plan, or use an acceptable alternative. City consultants (MBIA) are also looking at generating additional use taxes from capital leases.
SP	FIN	960	Contracts: Develop Centralized Contract Administration Process	Active	Contract Administrator position was approved & recruitment opened. Position is expected to be filled by January 2006.

**MID-YEAR PROGRESS REPORT – DECEMBER 2005
 FY2006 & FY2007 WORK PLAN PRIORITY PROJECTS
 CRITICAL INITIATIVES & SPECIAL PROJECTS**

PROJECT TYPE	LEAD DEPT.	PROJECT ID NO.	PROJECT TITLE (Projects On Hold●)	STATUS	COMMENTS
SP	FIN	965	Implement Environmental Purchasing Policy (EPP)	Complete	Initiated; progress will continue as part of routine operations & will be reported to Council as part of Precautionary Principle reports.
SP	HHS	967	Chronic Disease Management and Clinical Services	Active	Hypertension Town Hall conducted; draft plan for CD management completed.
SP	OOT	968	Vista College Mitigation	Active	This is connected to the Center Street Garage Project # 919.
SP	PR&W	994	Shorebird Nature Center – Environmental Classroom	Active	Funding has been obtained from Prop 12 Urban Recreation Community Center grant (\$290,000) plus City funds. Currently in preliminary design phase and on schedule for completion by February 2007.
SP	OOT	995	BART & Downtown Improvements	Active	Work program has been initiated. This is a one-year project.
SP	HSG	998	Implementation of the Precautionary Principle	Active	Four commissions are reviewing draft Precautionary Principle Ordinance to be submitted for Council approval in February 2006. Draft priorities being developed with environmental departments for Council approval by February 2006.
SP	CMO	999	Implement Instant Runoff Voting (IRV) by 2006	Active	Working with Alameda County. Report to Council on Status in January 2006.
SP	CMO	1000	URM and Soft Story Legislation for Funding	Complete	New State law effective January 1, 2006.
SP	HHS	1001	School Resource Centers (Rosa Parks & Longfellow School)	Active	Combined with Project 888.
SP	CMO	1002	Youth Service Center South & West Berkeley (Study)	Active	Folded into new Integrated Resource Initiative with COB, BUSD, and UC. Beginning January 2006.
SP	OED	1006	Arts District in South Berkeley (Study)	Active	Meetings in progress with community and arts venues.
SP	HSG	1008	Solar Bond Program	Complete	Cancelled. The parties were unable to resolve issues about the allocation of risks and the contract for the development of the fund \$30K – \$50K) was never executed.
SP	PLN	1011	South Berkeley Plan Implementation	Active	Working with community on possible plan for Ashby BART area.
SP	PLN	1012	BUSD Monitoring, Project Review & Tracking●	On Hold	No current activity relevant to Planning and Development Dept.
SP	PLN	1013	Density Bonus New Procedures	Active	Density Bonus Subcommittee working toward recommendation.