



Office of the City Manager

TO BE DELIVERED AGENDA MATERIAL

Meeting Date: February 12, 2008
Item Number: 21

Item Description: FY 2008 Second Quarter Budget Update



Office of the City Manager

ACTION CALENDAR
February 12, 2008

To: PK Honorable Mayor and Members of the City Council
From: PK Phil Kamlarz, City Manager
Submitted by: Tracy Vesely, Budget Manager
Subject: FY 2008 Second Quarter Budget Update

RECOMMENDATION

Adopt a resolution to

1. Set aside anticipated, one-time General Fund revenue of \$1.5 million for specific one-time expenditures:
 - \$1 million for the Animal Shelter reconstruction project, and
 - \$500,000 for the Ed Roberts Campus – City of Berkeley contribution;
2. Defer any new one-time or recurring costs for consideration during the FY 2009 Mid-Biennial Budget Update; and
3. Identify a specific project for Proposition 1B Transportation Bond funding in the amount of \$1.7 million and amend the FY 2008 budget to include this project.

CURRENT SITUATION AND ITS EFFECTS

As discussed in the First Quarter Budget Update in November 2007, the fiscal outlook for both the national and local economies is continuing to decay. Based on numbers released a couple of weeks ago, the Federal deficit will jump to about \$250 billion and could rise as high as \$368 billion if an economic stimulus package is factored in. On January 10, 2008, the Governor released his proposed budget for FY 2009 – forecasting a \$14 billion deficit.

What does this mean for Berkeley? The volatile real estate market is a key driver in the economic picture. The Bay Area is experiencing the biggest home sales decline in nearly two decades, and mirroring this trend, Berkeley's home sales for January show a 68.9 percent drop over last year, with transfer tax revenue dropping 66.7 percent. Coupled with minimal growth in recurring economy-based revenues, Berkeley must continue to limit spending in the face of declining revenues. New revenue is needed to maintain some current service levels as well as address critical infrastructure and program needs. A separate item on tonight's agenda discusses some of the options for generating new revenue through possible ballot measures for high-priority services like public safety, storm drain infrastructure and youth programs.

In the past four years, Council cut \$20 million in recurring General Fund costs, while at the same increasing our infrastructure investment through the use of one-time "windfall" property transfer tax revenue. Reducing recurring spending and implementing the Council policy of using one-time money for one-time expenses has placed the City in a

better position to address the latest economic downturn – as evidenced by the recent improvement of the City’s bond rating. The FY 2009 Adopted Budget contains about \$750,000 in additional General Fund reductions and does not fully fund Fire Department staffing. By implementing these cuts and controlling labor costs the City will maintain a balanced budget into FY 2010. However, new revenue is needed to mitigate these reductions and/or to implement other needed program improvements.

General Fund Forecast & Reserve

The City Council’s policy is to maintain the reserve at 6% of gross General Fund revenues. The undesignated liquid reserve is currently approximately 11% of General Fund revenues. The reserve provides some flexibility to help balance the budget, to smooth out economic swings, address the loss of revenues as threatened by the State budget, and to fund emergencies such as natural disasters.

Council has been prudent in its management of the reserve. The City has been fortunate to receive one-time Property Transfer Tax revenues generated by the real estate market during the past two years. Pursuant to Council policy, these one-time revenues have been allocated for one-time expenses such as capital infrastructure improvements. Unfortunately, Property Transfer Tax revenues are a casualty of the crashing real estate market and these one-time revenues have significantly diminished.

The City faces rising costs and limited revenue growth over the next few years. While the reserve provides some buffer, it is a one-time source of funds that should not be used for recurring costs. The forecast reflects a balanced budget in FY 2009 assuming no further decline in revenue. However, without significant revenue growth in FY 2010, the City faces a deficit, which grows to -\$1.6 million by FY 2011. This forecast includes the adopted FY 2009 reductions in staffing and services, which contribute to the City’s ability to maintain a balanced budget in FY 2009. Without additional revenue, more reductions in programs and/or services may be necessary in the out years of the forecast.

General Fund Forecast <i>(in millions)</i>	FY 2007 Actual	FY 2008 Projected	FY 2009 Projected	FY 2010 Projected	FY 2011 Projected
Beginning Fund Balance	\$ 25.19	\$ 30.23	\$ 14.71	\$ 12.18	\$ 11.35
Revenues	\$ 145.64	\$ 139.59	\$ 142.00	\$ 145.21	\$ 148.89
Expenditures	\$ (140.60)	\$ (151.81)	\$ (141.23)	\$ (146.03)	\$ (150.52)
Operating Surplus / Shortfall	\$ 5.04	\$ (12.22)	\$ 0.77	\$ (0.83)	\$ (1.64)
Reserve Designations		\$ (3.30)			
Available Cash Fund Balance	\$ 30.23	\$ 14.71	\$ 12.18	\$ 11.35	\$ 9.72
<i>Reserve @ 6% of revenues</i>	\$ 8.74	\$ 8.38	\$ 8.52	\$ 8.71	\$ 8.93

FY 2008 Second Quarter Results & Outlook

General Fund Revenue

After six full months of budget performance, some expenditure and revenue trends are worth noting. Attachment 2 provides a summary of all key General Fund revenues for the first six months of FY 2008. We are currently projecting year-end General Fund revenues to be about \$1.6 million above the Adopted Budget. The revenues that are showing growth is primarily attributed to improved collection efforts, and much of this revenue is one-time in nature.

Economy-sensitive revenues are relatively flat, with limited growth in revenue streams such as sales tax and utility users tax. Also sensitive to the economy, interest revenues generated from the City's investment portfolio are decreasing. Property-based revenues are trending down, particularly the volatile Property Transfer Tax. Staff is leaving the revenue forecast for the Property Transfer Tax unchanged at this point because of a large, one-time commercial property sale in July that resulted in significant transfer tax revenues. However, if the current property sales trend continues, staff projects that revenue could be down by about \$1 million, wiping out most of the current projected surplus. *Given this very possible decline in revenues, staff does not recommend allocating General Fund revenues for any new spending.*

General Fund Expenditures

At this point, staff is projecting a net \$300,000 year-end expenditure surplus, primarily due to salary savings from vacant positions throughout the organization (Attachment 3). While the City continues to focus on filling critical public safety positions, the Manager has instituted a hiring review process to best manage our expenses in light of the volatility of revenues as described above.

The Fire Department is projecting significant year-end over-spending of about \$600K in the General Fund. This is primarily due to 14 sworn vacancies resulting from workers' compensation, family medical leave, parental leave, long-term sick leave, and military leave – most of which is not controllable. The obligation of mandatory staffing requires the department to fill these vacancies with overtime. Since a majority of these absences are on paid leave, the cost of backfilling the positions is exacerbated. Staff will be working with the Fire Department to best manage this negative trend.

Other Operating Funds

Attachments 4 and 5 provide a summary and analysis of the status of other key operating funds. While most of these non-General Fund operating funds do not project deficits for FY 2008, future year forecasts for several funds require significant balancing measures. Critical issues:

- ❑ Absent new revenue, the Paramedic Tax Fund will require an increased General Fund subsidy by FY 2009 of \$417,000.
- ❑ The Library Tax continues to run an annual shortfall and will deplete its fund balance by FY 2010.
- ❑ The Clean Storm Water Fund will be in significant deficit by FY 2010 and will require \$1 million in new revenue to maintain current levels of service.

- The Refuse Fund, following the conclusion of a comprehensive rate study, will need to adjust rates in FY 2010 to fund increased landfill disposal costs and the new Organics Program that commenced this year, as well as future costs associated with improved recycling programs and the reconstruction of the Transfer Station.

State & Federal Budget Impacts

Given the State and Federal deficit projections, there are a number of issues that will directly impact Berkeley.

Proposition 1A

As estimates of the State's chronic general fund budget problem continue to grow, staff is reviewing the provisions of Proposition 1A as approved by the voters 2 years ago. Proposition 1A prohibits the state from shifting property taxes from cities, reducing or altering distribution of the local sales and use tax rate, or reducing the vehicle license fee (VLF) from the .65 percent rate without providing replacement funding to cities and counties. 1A requires the State to reimburse cities for any revenues shifted to fund the state economic recovery bonds under the "triple-flip."

However, beginning in FY 2009, the Legislature may temporarily suspend the property tax protection provisions of 1A and may borrow up to 8 percent of the total property tax revenues if the provisions bulleted below are met. Eight percent of Berkeley's property tax revenue equals about \$2.8 million. This potential loss of revenue underscores the need to maintain a General Fund reserve.

- The Governor issues a proclamation of "severe fiscal hardship,"
- The Legislature enacts an urgency statute that suspends Prop. 1A protection with a two-thirds vote of each house, and
- The Legislature enacts a law providing for full repayment of the borrowed funds plus interest within three years.

The Legislature may not enact such a suspension more than twice in any 10-year period and may only do so if any previous borrowing under this provision has been repaid.

With respect to Proposition 42 of 2002, which earmarked revenues from the state sales tax on gasoline for transportation (streets and roads), the provisions of Proposition 1A explained above apply. This means that the \$300 million due to cities in FY 2009 (Berkeley is set to receive \$1 million) could be lost if 1A is invoked by the State.

Other State Impacts

- The Governor is proposing to delay payment of approximately \$500 million in Highway Users Tax (per gallon Gasoline Excise Tax) revenues to local governments. This plan would suspend these payments for a five-month period (April-August 2008) to be paid in full without interest in September 2008. The Berkeley impact would be a delayed payment of \$845,625, possibly impacting projects and causing a liability against the General Fund.
- It is highly likely that the second portion of the Proposition 1B Transportation Bond funding (discussed later in this report) will be delayed or revoked. This

would be a loss of one-time transportation funding to the City of about \$1.6 million.

- AB2034, Integrated Services for Homeless Adults, funding was eliminated from the State budget effective this fiscal year. The funding impact to the City is about \$1 million. While there is one-time State funding of \$925,000 this fiscal year to help bridge the transition, the full loss of State funding goes into effect July 2008. Staff is currently developing a transition plan to deal with this dramatic program cut.
- Local governments are closely watching an initiative set for the June 2008 ballot called the "California Property Owner and Farmland Protection Act" (CPOFPA) - a measure that would abolish rent control; prohibit eminent domain for the consumption of natural resources, such as in the acquisition of property for parks or water projects; and perhaps constrain government authority to implement inclusionary housing ordinances, including the fee in-lieu provisions of these programs. If passed, the effects would be dramatic and citywide. Staff is analyzing the potential impacts and will return to Council with a more comprehensive report in the next couple of months.

Federal Impacts

- Federal Community Development Block Grant (CDBG) funding for FY 2009 was reduced by \$134,419 (4.2%) and Federal Home funds were reduced by \$38,854 (3.12%) - resulting in reduced program funding.

Budget Referrals

The list of items referred to the budget process is attached (Attachment 6). Given the uncertainty of the City revenues, staff recommends that no action be taken now – and that these requests are considered as part of the FY 2009 Mid-biennial Budget Update.

Project Funding

Pursuant to previous Council action, staff is recommending that Council set aside \$1.5 million in General Fund revenues toward the completion of two Council priority projects:

Ed Roberts Campus (\$500,000)

On November 27, 2007, Council took action to allocate \$2 million in funding toward the Ed Roberts Campus (ERC) project at the Ashby BART Station in South Berkeley – transferring an existing \$1.5 million in ACCMA funding from the I-80 Sound Wall project and allocating \$500,000 from the General Fund. These funds will be matched by Metropolitan Transportation Commission funding.

Animal Shelter (\$1 million)

In November 2002, the residents of Berkeley approved Ballot Measure I, a \$7.2 million General Obligation Bond to acquire property, if necessary, and to construct or rehabilitate a building for an animal shelter that meets the requirements of state law. The bond was recently sold and the City is now prepared to begin the project. It is close to 5 years since the ballot measure passed, and with each passing year the new construction purchasing power of the \$7.2 million is diminishing. Current estimates are indicating the project to cost about \$8.2 million. To bridge this gap, maximizing the use of the approved bond funding, staff recommends that \$1 million in General Fund

revenues be set aside toward completing this project. Staff will be returning to Council in March 2008 to present project options for Council to consider.

Proposition 1B Transportation Bond Project Allocation for \$1.7 million

Attachment 7 includes a memorandum to the City Manager regarding Proposition 1B transportation funding. The City is projected to receive \$1,714,960 of Proposition 1B (Transportation Bond) funding in FY 2008 and an additional \$1,613,881 in FY 2009. While the FY 2009 might become a casualty of the State budget woes, the FY 2008 allocation is currently available. As part of the process to receive Proposition 1B funds, each city must submit to the Department of Finance (DOF) a list of projects expected to be funded with bond funds before an allocation is made.

All projects included on the project list submitted to DOF must also be included in the City budget that has been adopted by Council at a regular public meeting. Projects included in the FY 2008 local budgets or addendums to existing budgets would both meet this requirement. Staff is presenting this information to Council tonight so that a specific project is adopted and the FY 2008 Adopted Budget is amended to reflect this project.

Staff is presenting to Council two projects for Council's consideration, as detailed in Attachment 7, and is recommending that the Martin Luther King, Jr. Way Street Rehabilitation Project be selected for this round of funding.

Upcoming FY 2009 Mid-biennial Budget Update

Staff will present budget update information to Council over the next few months as part of the FY 2009 Mid-Biennial Budget Update. Multi-year labor contracts were recently approved for the Berkeley Firefighters Association and the Berkeley Police Association. The City is commencing negotiations with the remaining collective bargaining units for contracts that will be effective July 1, 2008. Staff's budget recommendations to the Council will attempt to balance long-term fiscal stability against the continuing challenges of the volatile economy and the variety of competing priorities.

CONTACT PERSONS

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Bob Hicks, Finance Director, Finance, 981-7300

Claudette Ford, Director of Public Works, 981-6302

Attachments:

1. Resolution
2. FY 2008 Second Quarter General Fund Revenue Projections
3. FY 2008 Second Quarter General Fund Expenditures
4. FY 2008 Second Quarter All Funds Expenditures
5. FY 2008 Second Quarter Projections for Other Key Operating Funds
6. City Council Referrals to the Budget Process
7. Staff Memo on Proposition 1B Transportation Bond & Project Map

RESOLUTION NO. ##,###-N.S.

PROPOSITION 1B FUNDING FOR MARTIN LUTHER KING, JR. WAY STREET
REHABILITATION PROJECT

WHEREAS, as part of the process for triggering the allocation of Proposition 1B funds, the City is required to include the proposed Proposition 1B project(s) as part of the adopted City budget; and

WHEREAS, the City has already adopted the FY 2008 budget on June 26,2007; and

WHEREAS, Council approval is needed to add the list of project(s) and the anticipated cost as an attachment to the FY 2008 budget; and

WHEREAS, the Martin Luther King, Jr. Way Street Rehabilitation Project is proposed as the FY 2008 Proposition 1B project.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that Proposition 1B funds will be used for the Martin Luther King, Jr. Way Street Rehabilitation Project and said funding for the project is included in the FY 2008 budget.

Attachment 2

General Fund Revenue Projections

FY 2008 Six-Month General Fund Revenues						
Revenue Categories	Adopted FY 2008	Actual 7/1/07-12/31/07	% Received To Date	Projected FY 2008	Change Over Adopted	
Secured Property	\$35,170,269	\$18,900,792	53.74%	\$35,170,269	0.00%	\$0
Unsecured Property Taxes	2,141,031	1,737,433	81.15%	2,070,594	-3.29%	(\$70,437)
Supplemental Taxes	2,000,000	123,535	6.18%	2,000,000	0.00%	\$0
Property Transfer Tax	12,500,000	8,381,451	67.05%	12,500,000	0.00%	\$0
Sales Taxes	14,362,193	7,311,268	50.91%	14,625,823	1.84%	\$263,630
Utility Users Taxes	14,557,787	7,373,904	50.65%	14,738,522	1.24%	\$180,735
Transient Occupancy Taxes	3,328,000	1,992,665	59.88%	3,600,000	8.17%	\$272,000
Business License Tax	11,487,315	931,947	8.11%	12,230,627	6.47%	\$743,312
Vehicle In-Lieu Taxes	8,363,907	4,018,840	48.05%	8,363,907	0.00%	\$0
Parking Fines	10,700,000	5,367,560	50.16%	10,700,000	0.00%	\$0
Moving Violations	550,000	187,884	34.16%	550,000	0.00%	\$0
Interest Income	4,800,000	3,614,459	75.30%	4,800,000	0.00%	\$0
Ambulance Fees	2,564,560	1,433,812	55.91%	2,800,000	9.18%	\$235,440
Franchise fees	1,721,141	401,073	23.30%	1,721,141	0.00%	\$0
Other Revenue	6,590,049	2,794,025	42.40%	6,590,049	0.00%	\$0
Transfers	7,136,256	3,525,385	49.40%	7,136,256	0.00%	\$0
Total Revenue:	\$137,972,508	\$68,096,033	49.35%	\$139,597,188	1.18%	\$1,624,680

General Fund Revenue Variance Analysis

Property Transfer Tax

While the City benefited from a large commercial property sale activity in the first quarter of FY 2008, resulting in about a \$1 million or 28.8% increase over the same period in FY 2007, the second quarter of FY 2008 commenced a decline in sales and revenues. Reflecting the trends in the market, third quarter property sales and related Transfer Tax revenues have collapsed. For the first two months of the third quarter (December 2007 and January 2008), property sales plunged 59.3%. January property sales dropped 68.9% and transfer tax revenue declined 66.7% from one year ago.

As a result, staff is leaving the FY 2008 projection for this volatile revenue source unchanged. If the downward spiral seen in December and January continues for the remaining four months of FY 2008, Transfer Tax revenue could fall to approximately \$11.5 million – a \$1 million loss in planned revenue. This possible revenue loss is

another reason not to spend funds now, but to instead set-aside any possible spending decisions until next fiscal year (FY 2009).

Sales Tax & Use Tax +\$263,630

While the economy is not necessarily generating new tax revenue and sales tax revenues are flat, increased efforts by staff to maximize current revenues are paying off. During the first half of FY 2008, Sales Tax revenue totaled \$7.3M, which was \$229,977 or 3.25% more than the same period in FY 2007. This increase is the result of the City's and UC Berkeley's Use Tax Direct Pay Programs, which allow the City to receive the entire 1% local portion of the Sales/Use Tax, instead of .0643%.

Transient Occupancy Tax (TOT) +\$272,000

During the first half of FY 2008, TOT revenue totaled \$1.9M, which was \$249,140 or 14.3% more than the same period in FY 2007. This increase is the result of double-digit growth rates for five of the nine largest hotels (due to many rooms being put back on the market after reconstruction efforts), and collections of delinquent amounts resulting from audits of the hotels.

Business License Tax (BLT) +\$743,312

During the first half of FY 2008, BLT revenue totaled \$931,947, which was \$718,754 or 338% more than the same period in FY 2007. This increase is the result of collecting approximately \$300,000 in delinquent accounts (one-time revenue), and collecting about \$300,000 on miscoded licenses discovered in FY 2007.

Interest Income

During the first half of FY 2008, Interest income totaled \$3.6M, which was \$1.3M or 56% more than the same period in FY 2007. However, the current economic climate is causing a significant reduction in short-term interest rates. Staff expects that the decline in interest on the City's short-term portfolio, due to the sharp reductions in the Federal Funds rate, will offset the higher interest rates earned on the long-term portion of the City's portfolio. As a result, staff has left the FY 2008 Interest Income projection unchanged at \$4.8 million. Staff will be monitoring interest earnings closely, as it is possible this revenue could be reduced.

Ambulance Fees +\$235,440

During the first half of FY 2008, Ambulance Fees income totaled \$1.4M, which was 26.5% more than received for the same period in FY 2007. This increase was primarily due to better billing and collection processes. Effective January 2008, the ambulance fee rate structure changed (as adopted by Council in November 2007), and should result in new revenue in FY 2008 of about \$200,000 and recurring new annual revenue of about \$400,000 effective FY 2009.

FY 2008 General Fund Expenditures (By Department)

The FY 2008 Second Quarter ended on December 31, 2007. This table shows General Fund expenditures by department at the end of the second quarter and the percentage of budget spent against the Adjusted Budget. The Adjusted Budget represents the inclusion of carryover of funds from FY 2007 into FY 2008 and other budget modifications, and is the budget to which actual expenditures are measured.

FY 2008 Mid-Year General Fund Expenditures and Projections

Department	FY 2008 Adopted	FY 2008 Adjusted	YTD Actuals	% of		Surplus/ (Deficit)	% Over/ Under
				Budget Spent	Year-End Projected		
Mayor & Council	1,627,766	1,666,819	717,560	43%	1,666,819	-	0.0%
Animal Care Services	1,338,286	1,378,891	540,239	39%	1,378,891	-	0.0%
Auditor	1,790,386	1,801,972	738,076	41%	1,721,721	80,251	-4.5%
City Attorney	1,730,487	1,980,683	885,634	45%	1,908,783	71,900	-3.6%
City Clerk	2,105,060	2,530,169	632,741	25%	2,430,955	99,214	-3.9%
City Manager	3,706,138	3,689,491	1,516,459	41%	3,636,222	53,269	-1.4%
Economic Development	1,701,625	2,213,905	988,155	45%	2,148,490	65,415	-3.0%
Finance	6,096,825	6,878,280	2,761,831	40%	6,848,471	29,809	-0.4%
Fire	22,721,142	23,874,475	11,461,773	48%	24,488,488	(614,013)	2.6%
Health & Human Services	9,952,436	10,418,996	4,508,334	43%	10,380,726	38,270	-0.4%
Housing	1,817,119	2,074,306	871,029	42%	2,074,306	-	0.0%
Human Resources	1,916,045	1,920,113	904,736	47%	1,948,581	(28,468)	1.5%
Information Technology	3,430,380	6,251,522	2,128,114	34%	6,182,664	68,858	-1.1%
Parks and Waterfront	4,890,748	6,924,823	3,093,874	45%	7,030,177	(105,354)	1.5%
Planning	1,184,663	1,362,737	539,325	40%	1,245,076	117,661	-8.6%
Police	46,199,794	49,359,403	21,552,911	44%	49,359,403	-	0.0%
Police Review Commission	557,158	576,538	214,932	37%	528,021	48,517	-8.4%
Public Works	3,399,589	3,565,086	847,977	24%	3,176,728	388,358	-10.9%
Non-Departmental	26,484,592	25,660,257	9,283,783	36%	25,660,257	-	0.0%
Totals	142,650,239	154,128,466	64,187,483	42%	153,814,779	313,687	-0.2%

Berkeley Housing Authority	507,365	507,365	28,993	6%	507,365	-	0.0%
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Assumptions:

- ⇒ Target Savings for some departments are built into department FY 2008 Adopted and Adjusted Budgets
- ⇒ Year-to-date payroll through 12/21/07; equals 46% of the payroll budget expended
- ⇒ Non-Personnel YTD expenditures through 12/31/07 – and generally assumed to be fully expended

FY 2008 General Fund Expenditure Analysis (By Department)

City Auditor's Office

City Attorney

City Clerk

City Manager

Office of Economic Development

Department of Information Technology

Police Review Commission

These departments are all projected to finish FY 2008 under budget as a result of salary savings due to vacant positions during the year. In some cases, these positions will be filled before the end of the fiscal year, but salary savings will accrue.

Fire -\$614,013

The Fire Department is projected to be over budget in the General Fund by \$614,013 at the end of FY 2008. The cause for this projected deficit is the need to fill an unusual number of minimum staffing absences resulting from employees out on workers' compensation, family medical leave, parental leave, long-term sick leave, and military leave. Currently, the department has nine sworn personnel, including two Assistant Fire Chiefs, out on leave. In addition, Fire has five sworn vacancies including four Firefighter /Paramedic positions. This is a total of 14 vacancies in the department at the time of this report. The need to fill behind the vacancies and the staff out on leave will continue to have an impact on the department's overtime budget.

A new entry-level Firefighter recruitment will begin this month. It was delayed due to increased efforts to address workforce composition. A new recruit academy is expected to begin later this fall. Given a 16-week fire academy, the new recruits will not be available for duty until early 2009.

Parks Recreation & Waterfront -\$105,354

Parks Recreation & Waterfront's General Fund budget is projected to be over budget by \$105,354. The General Fund budget is entirely for Recreation and Aquatics programs. The primary reason for the overage is a significant increase in work hours by Recreation Activity Leaders during this past summer season. Staff is developing a plan to bring program costs in line with the budget.

Public Works Department +\$388,358

The Department's General Fund expenditures are projected to be under budget by \$388,358 from the Adjusted Budget due to salary savings from a number of position vacancies in transportation, general engineering and streets.

FY 2008 All Funds Expenditures

(By Department)

This summary presents a year-to-date expenditure summary by department for all funds (in addition to the General Fund).

FY 2008 Mid-Year All Fund Expenditures and Projections							
Department	FY 2008 Adopted	FY 2008 Adjusted	YTD Actuals	% of Budget Spent	All Expenditures Year-End Projected	Surplus/ (Deficit)	% Over/ Under
Mayor & Council	1,627,766	1,666,819	717,560	43%	1,666,819	-	0.0%
Auditor	1,923,536	1,935,122	797,690	41%	1,850,885	84,237	-4.4%
City Manager	3,958,114	3,944,104	1,624,084	41%	3,884,729	59,375	-1.5%
Animal Care Services	1,380,286	1,420,891	549,003	39%	1,420,891	-	0.0%
Police Review Commission	557,158	576,538	214,867	37%	528,021	48,517	-8.4%
City Attorney	3,738,219	5,006,888	1,687,546	34%	5,025,765	(18,877)	0.4%
City Clerk	2,105,060	2,530,169	632,259	25%	2,430,955	99,214	-3.9%
Economic Development	2,902,363	3,759,065	1,359,922	36%	3,591,410	167,655	-4.5%
Information Technology	3,863,877	6,993,248	2,276,047	33%	6,923,165	70,083	-1.0%
Finance	8,394,765	9,205,131	3,685,840	40%	8,966,035	239,096	-2.6%
Human Resources	3,000,445	3,101,879	1,366,511	44%	3,053,444	48,435	-1.6%
Health & Human Services	29,944,332	32,305,566	13,368,344	41%	31,075,899	1,229,667	-3.8%
Public Works	86,521,869	105,769,387	35,667,811	34%	97,168,372	8,601,015	-8.1%
Parks and Waterfront	21,115,961	31,163,263	11,685,147	37%	31,029,620	133,643	-0.4%
Fire	28,354,518	33,591,075	14,096,538	42%	34,321,867	(730,792)	2.2%
Police	50,333,416	54,209,182	23,390,872	43%	53,709,340	499,842	-0.9%
Housing	13,407,779	22,966,850	9,176,379	40%	22,963,257	3,593	0.0%
Planning	13,684,769	14,931,301	5,534,533	37%	14,256,965	674,336	-4.5%
Rent Stabilization Board	3,497,000	3,543,009	1,484,562	42%	3,543,009	-	0.0%
Library	15,232,605	15,966,112	6,408,418	40%	15,412,904	553,208	-3.5%
Non-Departmental	49,297,412	55,225,723	17,323,719	31%	55,225,723	-	0.0%
Dual Appropriations Offset	-54,197,616	-67,367,368			-67,367,368	-	0.0%
Totals	290,643,634	342,443,954	153,047,652	45%	330,681,707	11,762,247	-3.4%

Berkeley Housing Authority	23,947,920	23,947,920	969,033	4%	23,939,944	7,976	0.0%
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Assumptions:

- ⇒ Target Savings for some departments are built into department FY 2008 Adopted and Adjusted Budgets
- ⇒ Year-to-date payroll through 12/21/07; equals 46% of the payroll budget expended
- ⇒ Non-Personnel YTD expenditures through 12/31/07 – and generally assumed to be fully expended

FY 2008 Other Funds Expenditure Analysis

(By Department)

The following variance analysis is an expenditure snapshot by City department and is intended to present possible expenditure trends for this fiscal year. These expenditure trends do not indicate the status of a particular revenue fund. A more complete revenue fund perspective for key revenue funds is provided in Attachment 5.

Finance +239,096

Projections show that Finance will be under budget on an all funds basis by \$239,096. The majority of savings is due to personnel vacancies in a variety of special revenue funds, including staff paid from the Refuse, Measure B Paratransit, and Private Sewer Lateral Funds, as well as the Central Services Fund. The decision to not fill the Central Services Supervisor position in order to help balance the Central Services Fund has resulted in savings of approximately \$117,000.

Fire -\$730,792

The Fire Department is projecting significant year-end over-spending of about \$614,000 in the General Fund and \$116,000 in the Paramedic Tax Fund. This is primarily due to 14 sworn vacancies resulting from workers' compensation, family medical leave, parental leave, long-term sick leave, and military leave – most of which is not controllable. The obligation of mandatory staffing requires the department to fill these vacancies with overtime. Since a majority of these absences are on paid leave, the cost of backfilling the positions is exacerbated. Staff will be working with the Fire Department to best manage this negative trend.

Police +499,842

The Police Department is projected to finish FY 2008 with savings on all funds basis of \$499,842. These non-General Fund savings are due to vacant Parking Enforcement positions funded by the Parking Meter Fund and sworn positions funded by Proposition 172 grant funds. It is expected that these vacancies will be filled by the end of the year.

HHS +1,229,667

Projections indicate significant salary savings of \$1 million due to vacant grant-funded positions in Mental Health and Public Health. The department has been actively working with Human Resources to fill some 40 vacancies as quickly as possible so that grantors do not revoke the grant funding.

Library +533,208

The Library's mid-year budget projections show expenditure savings of \$533,208, which is the result of a significant number of vacant positions. As explained in Attachment 5, even with these expenditure savings, the Library Tax Fund is running an annual operating shortfall.

Planning Department +\$674,336

The Planning Department's budget projects expenditures to be \$674,336 less than the Adjusted Budget. These possible savings are primarily in the Permit Service Center

Fund and attributed to salary savings due to 10 vacancies that have occurred during the first half of the year.

Public Works +8,601,805

The Public Works Department's mid-year budget projects an overall decrease in expenditure of \$8.6 million in all funds that are budgeted in the Department. The primary fund variances are discussed below:

Sanitary Sewer Fund

Expenditures by the Public Works Department in the amount of \$13,288,605 are projected for this fund. This reflects a \$4,229,500 decrease compared to the Adjusted Budget. The decrease is attributable to lower salary and benefit expenditures of \$1.7 million resulting from a number of vacancies that have occurred in the Administration and Streets and Sanitation Divisions and \$2.5 million unexpended for replacement and rehabilitation work.

Capital Improvements Fund

Public Works expenditures in this fund are projected at \$11.6 million, which is \$1.5 million less than the Adjusted Budget. Savings are projected as a result of not expending certain contract funds and facilities maintenance funds.

Refuse Fund

Projected expenditures of \$27,899,682 in the budget reflect a savings of \$647,000 compared to the Adjusted Budget. This is primarily the result of a projected \$566,660 salary savings due to seven position vacancies in the streets and sanitation division.

Projections for Other Key Operating Funds

In addition to the General Fund, the City maintains multi-year forecasts for the City's other operating funds. The table below provides projections for ten of the key funds for 2008 and fund balance projections through 2011. The projected balances reflect ending fund balances.

Fund	FY 2008 Projections				FY 2009 - FY 2011 Forecast		
	Fund Balance 7/1/07	Projected Revenues	Projected Expenditures	Projected Balance 6/30/08	Projected Balance 6/30/09	Projected Balance 6/30/10	Projected Balance 6/30/11
Parks Tax	2,226,162	8,350,538	8,876,543	1,700,157	1,635,725	1,757,379	1,623,787
Library Tax	1,261,323	13,224,248	13,975,085	510,486	(470,983)	(1,250,618)	(1,828,703)
Paramedic Tax	362,019	2,910,862	3,282,612	(9,731)	(417,600)	(849,847)	(1,307,204)
Clean Storm Water	992,690	2,354,403	2,810,640	536,453	(307,112)	(1,246,343)	(2,268,211)
Streetlight Assessment	498,967	1,851,744	1,879,258	471,453	223,522	(65,474)	(397,179)
Permit Service Center	4,477,191	9,636,126	10,431,604	3,681,713	2,023,878	366,043	(1,291,792)
Sanitary Sewer	11,019,696	14,501,381	13,602,162	11,918,915	10,362,650	10,066,322	9,594,406
Refuse Fund	3,647,810	28,772,314	29,914,708	2,505,416	975,176	(664,108)	(4,063,454)
Parking Meter	709,208	4,277,083	4,291,934	694,357	457,272	527,434	112,603
Marina Fund	2,826,215	4,568,980	5,795,941	1,599,254	1,086,465	904,421	294,631

Parks Tax Fund

By the end of FY 2008, the Parks Tax Fund balance will be reduced by about \$500,000 as the department implements much needed capital improvement projects by the end of the year. The fund maintains a reasonable reserve.

Library Tax Fund

Staff projects that the Library Tax Fund balance will be decreased by about \$751,000 by the end of FY 2008. Even with projected expenditure savings in FY 2008, the fund continues to operate with an annual shortfall. Available fund balance has offset this deficit, but this continued annual shortfall will deplete the fund balance by the end of FY 2009 and expenditure reductions will be necessary to balance the fund.

Paramedic Tax Fund

By the end of FY 2008, the fund balance in the Paramedic Tax Fund is expected to be completely gone. This is due to personnel expenditures exceeding the budget as a result of minimum staffing requirement for filling behind employees out on workers' compensation, family medical leave, parental leave, long-term sick leave, and military leave. In the absence of other available funding, in FY 2009 and FY 2010, the General Fund subsidy of \$700,000 will need to be increased by \$417,000 to balance the fund.

Clean Storm Water Fund

Clean Storm Water fund revenues are fee-supported and capped at 1996 levels by Proposition 218. Without a fee increase, which requires a 2/3-voter approval, the Clean Storm Water Fund will be in deficit by 2009 – reflecting a \$1 million annual recurring shortfall. Additional funding is necessary to fund current maintenance efforts as well as implement capital improvements to the storm drain system. Currently, the fund cannot support a capital improvement program. One-time General Funds have been allocated

for storm drain improvements the past couple of years, but this funding will not be available in future years.

Street Light Assessment District Fund

The Street Light Assessment District Fund revenues are fee-supported and capped at 1996 levels by Proposition 218. Since 2000, this fund has required an annual \$516,000 subsidy from the General Fund. An annual \$250,000 shortfall is expected in FY 2009 through FY 2011 resulting in a negative fund balance by 2010. Without additional program revenue, the General Fund subsidy will need to be increased or expenses reduced to balance the fund.

Permit Service Center Fund

Projected revenues in the Permit Service Center Fund are expected to finish FY 2008 almost \$1.7 million more than budgeted. On the other hand, the fund balance is projected to decrease by \$1.1 million due to increased expenditures for a new lease, credit card processing fees, and additional staffing to handle increased workload. Expenditures in FY 2009 and 2010 are not expected to keep up with projected revenues, causing annual shortfalls that will draw down most of the fund balance by the end of FY 2010. Fee increases are planned for FY 2009 to address these shortfalls.

Sanitary Sewer Fund

For FY 2008, staff is projecting this fund to be under-spent due to personnel vacancies and a delay in implementing capital improvement projects. While projected cost increases in FY 2009 - FY 2011 will lead to annual operating shortfalls, the fund balance is able to support these cost increases. The City is conducting a comprehensive sewer program rate study that should conclude this summer. Currently, no rate increases are planned.

Refuse Fund

The fund balance in the Refuse Fund is expected to decrease by about \$1 million at the end of June 2008, with budgeted personnel and non-personnel expenditures fully spent. The recently negotiated landfill disposal contracts result in an annual cost increase of \$1 million. Coupled with the introduction of the weekly Organics Program in FY 2008, the current revenues cannot support these increased costs and rate adjustments are needed. The City is conducting a comprehensive refuse program rate study that should conclude this summer, and rate increases for garbage service are planned for FY 2010.

Parking Meter Fund

The parking meter operations are supported by meter revenue. The General Fund subsidy for this fund (\$600,000 in the FY 2008 Adopted Budget) has been eliminated as the increased revenues from the parking improvement program and the highly efficient Pay & Display stations. With the recent \$.25 per hour rate increase, an additional \$1 million per year will be generated effective FY 2009 that will be transferred to the General Fund to support the Public Commons for Everyone Initiative as adopted by Council. Staff will be presenting a report to Council in the next few months that provides and update on the parking program and future installation of Pay & Display stations.

Marina Fund

The Marina Fund balance will to be erased by FY 2011. Berth rentals revenues are expected to come in at least 5 percent lower than budgeted and projected expenditures

include expending \$850,000 for the Marina Docks H-I project. Fee increases of 3 percent for berthing and recreation fees are planned for in FY 2009 and FY 2010. Increased costs from debt service on a \$9 million Boating & Waterways loan for dock reconstruction will cause the fund to deplete its fund balance and limit available capital funding.

**Council Referrals to the Budget Process Summary
(as of February 12, 2008)**

Date	Referrals	Source	1-Time	Recurring	Total
June 26, 2007	Restore of funding for BOSS' Multi Agency Service Center and Harrison House programs	Bates	15,366		
July 17, 2007	Testing of Speed Cushions	Bates, Maio, Capitelli	?		
July 17, 2007	Railroad Corridor Quiet Zones	Maio	TBD		
July 17, 2007	Ohlone Dog Park	Spring, Maio	100,000		
July 17, 2007	Sweat-Free Consortium	Worthington, Spring	25,000		
September 18, 2007	City Preferred Alternative for Bus Rapid Transit	Bates	TBD		
October 23, 2007	Berkeley Food and Housing Project	Worthington	15,587		
November 27, 2007	Ed Roberts Campus	Bates	500,000		
December 11, 2007	Measuring Electromagnetic Field Levels	Spring, Maio, Anderson, and Bates	10,000		
December 18, 2007	Violence Prevention and Response Plan	Worthington		?	
December 18, 2007	3rd Annual Berkeley International Food Festival for 2008	Moore, Maio	7,500		
January 29, 2008	Bicycle Safety Signs	Moore	TBD		
February 12, 2008	Cell Phone Antenna Equipment Purchase	Spring, Anderson, Bates	7,000		
February 12, 2008	Our Family Coalition	Moore	20,000		
February 12, 2008	Aquatic Park EGRET's cabin	Moore	15,000		
February 12, 2008	2008 Bike to Work Day	Worthington	5,000		
TOTAL:			720,453	-	720,453

MEMORANDUM

Date: February 7, 2008
To: Phil Kamlarz, City Manager
From: Claudette R. Ford, Director, Public Works
Subject: Proposition 1B (Transportation Bond) Funding for Martin Luther King, Jr.
Way Street Rehabilitation Project

Staff recommends that City Council adopt a Resolution approving of use of FY 2008 Proposition 1B funding in the amount of \$1,714,960 for the Martin Luther King, Jr. Way Street Rehabilitation Project.

In 2007, voters approved Proposition 1B, the Transportation Bond. The Budget Bill (SB 78) included a \$600 million appropriation for cities and counties from the Local Streets and Roads Account (LSR) contained in Proposition 1B. SB 88, which provides for the implementation of Prop. 1B also included an additional appropriation of \$350 million for a total allocation of \$950 million for cities and counties in FY 2008. SB 88 also codified a three-year use it or lose it provision that specifically requires the funds to be expended within three fiscal years after the fiscal year in which the Controller makes the allocation. This means that all Prop. 1B LSR monies appropriated in FY 2008 must be expended by June 30, 2011. This provision will also dictate the timing for eligible expenditures, thus only those made after allocation of the funds would be eligible.

The City is projected to receive \$1,714,960 of Proposition 1B (Transportation Bond) funding in FY 2008. An additional allocation of \$1,613,881 is scheduled for FY 2009, but in light of the State budget crisis, it is possible the State may withhold this funding.

Proposition 1B Funding Guidelines

As part of the process to receive Proposition 1B funds, each city must submit to the Department of Finance (DOF) a list of projects expected to be funded with bond funds before an allocation is made. The list of projects (Attachment 2) must include, at a minimum, the following:

- A description and location of the proposed project
- A proposed schedule for the project's completion
- The estimated useful life of the capital improvement

All projects included on the project list submitted to DOF must also be included in the City budget that has been adopted by Council at a regular public meeting. Projects included in the FY 2008 local budgets or addendums to existing budgets would both meet this requirement.

The League recommends that cities and counties generate a Proposition 1B list (included herein), which is then approved by the Council, and as part of that action, state that the projects were included within the adopted budget or specifically named within the capital improvement plan (major project). The types of projects that are eligible for Proposition 1B funding include street and highway pavement maintenance, rehabilitation, installation, construction and reconstruction of necessary associated facilities such as drainage and traffic control devices.

Project Options

Option 1: Martin Luther King Jr. Way (MLK)

MLK is one of the City's arterial streets and is in need of pavement rehabilitation. The portion of MLK between Ashby Avenue and Adeline Street is included in the current 5-Year Street Plan in FY 2011. This project would move that area up in the schedule and rehabilitate all of MLK from Yolo Street south to Oakland.

The cost to rehabilitate the street pavement on Martin Luther King, Jr. Way (MLK) from Yolo Avenue to the South City Limit is estimated at approximately \$1.8 million. The Proposition 1B funds will fund almost all of the project with the \$85,000 balance coming from the Street Capital Program FY 2008 budget.

Option 2: University Avenue

University Avenue from 6th Street to San Pablo Avenue is planned for reconstruction in FY 2009. University Avenue from San Pablo to Oxford is in need of pavement rehabilitation.

The cost to rehabilitate the street pavement on University Avenue is approximately \$3.0 million. If the FY 2009 allocation of Proposition 1B funds occurs, this portion of University Avenue could be rehabilitated with the fund balance coming from the Street Capital Program in FY 2010.

City of Berkeley Proposition 1B Project List

FY 2008

Description and location of the proposed project

Rehabilitation of pavement on Martin Luther King, Jr. Way from Yolo Avenue to South City Limit

Proposed schedule for the project's completion

Late FY 2008 through Early FY 2009, no later than FY 2011 per legislative requirements

The estimated useful life of the capital improvement

10 years

FY 2009

Description and location of the proposed project

Rehabilitation of pavement on University Avenue from San Pablo Avenue to Sacramento Street

Proposed schedule for the project's completion

Late FY 2009 through Early FY 2010, no later than FY 2012 per legislative requirements

The estimated useful life of the capital improvement

15 – 20 years