

CITY OF HAYWARD
AGENDA REPORT

AGENDA DATE 06/11/02
WORKSESSION _____
AGENDA ITEM 2

TO: Mayor and City Council

FROM: City Manager

SUBJECT: Public Hearing for the Review of the Operating Budget for the City of Hayward and the Redevelopment Agency Budget for Fiscal Year 2002-03, the 2002-03 Gann Appropriation Limit and the 2002-03 Capital Improvement Program

RECOMMENDATION:

It is recommended that the City Council:

1. Conduct a public hearing on the 2002-03 Operating Budget, the 2002-03 Redevelopment Agency budget, the 2002-03 Master Fee Schedule, the 2002-03 Gann Appropriation Limit, and the 2002-03 Capital Improvement Program.
2. Direct staff to prepare the necessary resolutions to implement Council budget decisions for Council consideration and formal action on June 18, 2002.

BACKGROUND:

Staff is pleased to present the City's operating budget and Capital Improvement Program for 2002-03.

For 2002-03, the operating budget represents expenditures of \$157.4 million for all City funds. Of this total, \$90.9 million is in the General Fund, and \$47 million is in the Enterprise Funds, with the balance distributed between the City's Special Revenue, Debt Service, and Internal Service funds.

The operating and CIP budgets were reviewed with the Council at its June 4, 2002 work session. Following tonight's public hearing the budget will be presented to Council on June 18, 2002 for adoption.

Except for the items presented below, staff is recommending the second-year spending plan as previously presented to the Council.

One of the major assumptions underlying the City's proposed budget for 2002-03 is that there will be no significant impact to Hayward as a result of the State budget. On May 14, 2002, Governor Davis released his revised 2002-03 Budget. Faced with a projected budget deficit of approximately \$23.6 billion, the governor proposed a combination of revenue enhancements, spending cuts, fund

shifts and various other transfers and deferrals to balance the budget. Although Governor Davis did not “balance the budget” on the backs of local government, there are some cuts in the revised budget.

In terms of direct negative impact Hayward is at risk for loss to reimbursements for State mandated costs, a new ERAF (Educational Revenue Augmentation Fund) shift of \$75 million from redevelopment agencies to schools and a reduction of booking fee reimbursements. The City receives payments from the State for various mandated services, generally referred to as “SB 90 Claims”. The impact to the City is in the range of \$100,000 to \$120,000. Because SB 90 claims are usually the first budget items to be reduced or eliminated by the State the City does not budget for these receipts. Consequently, there is no budget impact to the City for 2002-03. In addition, Public Library Funds grant funding may be reduced by approximately \$90,000.

With respect to the redirection of property taxes to schools, staff’s best information at this time is that the City’s Redevelopment Agency may see a reduction of revenue in the range of \$100,000 to \$200,000. (By comparison, the ongoing General Fund ERAF shift for 2001-02 is \$5 million.) Further, it is not clear at this time if this is a one-year or permanent shift in revenue. Finally, the City estimates that booking fee reimbursements will be reduced by approximately \$45,000.

The Governor’s budget, in its present form, leaves the City relatively untouched. However, one of the key assumptions being made by the Governor is that a one-year increase in the vehicle license fee, VLF, will be approved by the State legislature. This and several other controversial aspects of the State budget make it clear that this year’s State budget story is far from being told.

□ **General Fund**

Three attachments to this report relate to the General Fund. Attachment A presents summary revenue and expenditure information and reserves information. Attachment B presents detail revenue information along with transfers and Attachment C shows projected fund balances at year-end.

With respect to Attachment A, the first column, 2001-02 Estimated, presents the 2001-02 Budget as originally adopted by Council, including any adjustments authorized or presented to Council during the year. Revenues are adjusted to reflect staff’s most recent revenue estimates. In order to make the 2001-02 year comparable to 2002-03, the 2001-02 column does not include carry-forward encumbrances. The second column consists of the 2002-03 Proposed budget as approved by Council in the 2001-03 Operating Budget. The third column is the 2002-03 Recommended Budget. This is the budget which staff is recommending to Council for formal adoption for 2002-03.

Based on information currently available, staff estimates the General Fund will realize a surplus of approximately \$1.9 million, which is a more positive projection than presented at the mid-year review work session.

With respect to 2002-03 staff is retaining the same rates of growth as originally developed for property tax (5%) and sales tax revenue (1.5%). While the growth factors remain the same, the starting point or base, reflects staff’s revised estimates for 2001-02. In addition, staff is recommending increases to Employee Services and non-personnel expenses totaling \$468,000.

As a result of these changes staff is pleased to recommend to Council a balanced budget for 2002-03. Total resources available are estimated at \$91.1 million and Total funds required are estimated at \$90.9 million, resulting in a budgeted surplus for the year of about \$200,000.

As noted above staff is recommending changes to both revenue and expenditure budgets over those originally presented to Council when it adopted the two-year budget. These changes are discussed in greater detail below.

□ Revenues

For the most part, Property Tax, Sales Tax, Real Property Transfer Tax and Motor Vehicle In-Lieu revenue categories will do better than expected. Some of the more significant revenue revisions are discussed below.

Property Tax. The real estate market continues to show strength both in terms of the number of sales and property value. To Hayward this means that property tax revenues continue to climb. At the mid-year budget review, staff increased property tax revenue from \$16.6 million to \$16.8 million. Based on revenue estimates received from the County in March, staff is now estimating that the City will realize about \$17 million in property tax revenue for the current year.

Applying the aforementioned growth factor of 5% to the new base of \$17 million results in a new estimate for 2002-03 of \$17.85 million, an increase of about \$600,000 over the amount originally included in the budget.

Sales Tax. Hayward's Sales Tax revenue has generally mirrored that of the State over this fiscal year. The first of the year started with a strong performance followed by a significant dip as a result of the September 11 attacks. Accordingly, staff reduced the estimate for 2001-02 from \$34.2 million to \$30.4 million. It now appears that Hayward will do slightly better. For example, general retail and auto sales have continued to turn in a strong performance. Consequently, staff is increasing the estimate from \$30.4 million to \$30.6 million for 2001-02. With \$30.6 million as the base and using a 1.5% growth factor, staff is now estimating that sales tax revenue for 2002-03 will be approximately \$31 million, a decrease in sales tax revenue of approximately \$4.2 million for 2002-03.

Other Revenues. Several other revenue sources are estimated to change for the 2002-03 budget. Some of the changes are relatively minor while others are not. Revenues with significant changes from the original 2001-03 budget are discussed below.

One revenue source that is being revised is Motor Vehicle In-Lieu revenue. Based on information received from the State staff is increasing this revenue to \$7.6 million for 2001-02. Then, allowing for some growth, staff is recommending that the 2002-03 revenue estimate be increased to \$7.8 million, an increase of \$1.5 million over the original 2002-03 estimate.

Another revenue category that is being revised upwards is franchise revenue. In particular, the PG&E franchise is being revised upward by approximately \$300,000 based on actual receipts for 2001-02. In addition, other franchise categories are being increased to reflect known increases occurring in the 2001-02 fiscal year. Over all, this category is increased over the 2002-03

proposal by approximately \$600,000.

□ **Expenditures**

Changes in expenditures are limited to a few areas, as described below.

Employee Services. When the 2002-03-employee services budget was prepared staff made allowances for known pay rate increases and associated costs. Where increases were not known, estimates were used and some provision was made for anticipated increases in medical insurance costs. With respect to these factors staff is recommending no change. Staff is recommending one change, however, to the Police Department budget, which increases the Employee Services budget by \$198,000.

It is proposed to reestablish the Narcotics Bureau by upgrading an existing police officer position to a sergeant, and by adding two new officer positions, with the cost for the latter partially offset by funds from a federal grant from the Department of Justice (COPS Universal Hiring Program). This program would add \$75,000 in grant revenue, reflected in revenues, and \$198,000 in employee services for a net cost to the General Fund of \$123,000.

Maintenance and Utilities and Supplies and Services. Staff is recommending that the Maintenance and Utilities and Supplies and Services budgets for the General Fund be increased by \$270,000 on a combined basis. The Maintenance and Utilities category is reduced by a net amount of \$80,000, which is due primarily to energy consumption savings anticipated for 2002-03. Supplies and Services reflect a significant increase to retiree medical costs of \$500,000, also \$50,000 for the summer youth program and a reduction to Supplies and Services accounts, overall, of \$200,000. This results in a net increase in the Supplies and Services budget of \$350,000.

The increase in the retiree medical benefits budget, noted above, is due to an anticipated increase in the number of retirements for 2002-03 over the number originally budgeted. Staff anticipates the increase as a result of the enhanced retirement formula that will apply to miscellaneous employees next fiscal year. In addition, increased medical costs are expected which will cause a greater number of the retiree medical payments to be for the maximum amount allowed.

With respect to the summer youth program, last year, the Council allocated \$50,000 to enable the City, HARD and HUSD to offer the program at Chavez and Winton Middle Schools. Because this decision was made outside of the typical budget cycle, funding was included only in the first year of the approved budget. By most accounts this cooperative effort involving the three agencies was a success. In order to continue this program this summer, it is necessary to include \$50,000 in the 2002-03 budget. This submittal reflects this allocation.

□ **Workers' Compensation Fund**

The Workers' Compensation insurance market continues to experience some volatility and increasing premiums. Based on preliminary discussions with the City's insurance broker staff is estimating that the City's insurance premium will increase by approximately \$50,000. The

Workers' Compensation Fund has a budgeted surplus for 2002-03 that is sufficient to absorb the recommended budget increase.

□ **Liability Insurance Fund**

Similar to the Workers' Compensation insurance market discussed above, the general property insurance market is also experiencing volatility. The City has received quotes for general property, fire and boiler and machinery insurance that exceeds the amount budgeted for 2002-03 by \$200,000. Consequently, staff is increasing the insurance premium budget for the Liability Insurance Fund for 2002-03 by \$200,000. There is sufficient fund balance in the Liability Insurance Fund to absorb the recommended budget increase. When the 2003-05 operating budget is prepared it may be necessary to adjust rates charged by the Liability Insurance Fund to the various City funds to recoup this increased expense.

□ **Master Fee Schedule for 2002-03**

The only change to the Master Fee Schedule is a CPI adjustment to administrative fees charged to assessment districts, as provided for in the Master Fee Schedule Resolution.

□ **Capital Improvement Program Budget**

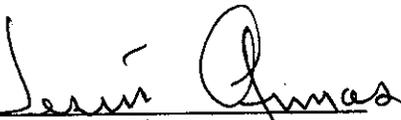
The Capital Improvement Program (CIP) budget, like the Operating budget, is in the second year of the two-year budget cycle. The 2002-03 update includes revised costs for projects already included for 2001-02 and 2002-03. Major projects added during the year include the Youth and Family Services Bureau Addition to the Police Building and the Downtown Sidewalk and Streetscape Project. Refined scope and cost changes for the La Placita Park Improvement Project, as well as the Industrial Parkway S.W. Widening Project are also included as adjustments. Additionally, increases in scope and cost are projected for the renovations to the Water Pollution Control Facility and the Hesperian Booster Pump Station. A discussion of significant changes to the CIP is included in the CIP work session report attached (Attachment E).

□ **Public Hearing and Adoption of Budget**

The purpose of the June 11, 2002 public hearing on the budget and related documents is to provide an opportunity for the Council to receive testimony on the budget and the 2002-03 Gann Appropriation Limit (Attachment D). As the Council will recall, the Gann Limit, or State Proposition 4 approved by California voters in November 1979, places limits on the amount of revenue that can be spent by government agencies. The limit is based on actual appropriations during the 1978-79 fiscal year (the "base" year) and is increased each year using population and inflation growth factors. The City's recommended annual budget has been far below the limit each year, which is the case again for 2002-03.

The revised proposed 2002-03 budget presents a balanced plan of revenue and expenditures. At the conclusion of the June 11, 2002 public hearing, the Council is requested to provide direction to staff

so that the necessary implementing budget resolutions can be prepared and presented for formal action on June 18, 2002.


Jesús Armas, City Manager

Attachments:

- A - Financial Overview – General Fund Revenues and Expenditures**
- B - General Fund Revenue by Source, Reserves and Transfers**
- C - Projected Fund Balance at Year-End**
- D - Gann Limit Information**
- E - CIP Information**

**CITY OF HAYWARD
GENERAL FUND -- 2001-02/2002-03**

Attachment A

(\$ IN 000'S)

	<u>2001-02 Estimated</u>	<u>2002-03 Proposed</u>	<u>2002-03 Recommended</u>
ESTIMATED REVENUES			
TAXES	\$ 57,950	\$ 63,875	\$ 60,434
FRANCHISES	5,240	4,962	5,575
LICENSES & PERMITS	2,163	2,116	2,204
INTEREST & RENTS	1,500	802	1,400
FINES & FORFEITURES	860	710	1,160
FROM OTHER AGENCIES	11,175	9,372	10,882
FEES & SERVICE CHARGES	2,500	1,916	2,500
OTHER	2,083	2,232	2,500
	<u>\$ 83,471</u>	<u>\$ 85,985</u>	<u>\$ 86,655</u>
TRANSFERS TO GENERAL FUND			
TRANSFERS-DETAIL ON PAGE B-3	4,469	4,442	4,442
RESERVES--DETAIL ON FOLLOWING PAGE	18,322	-	-
	<u>\$ 106,262</u>	<u>\$ 90,427</u>	<u>\$ 91,097</u>
EXPENDITURES			
EMPLOYEE SERVICES	70,018	72,547	72,745
MAINTENANCE & UTILITIES	4,264	4,337	4,257
SUPPLIES & SERVICES	9,200	10,282	10,632
CAPITAL EXPENSE	4,200	289	289
NET INTERDEPT. CHRGS (CREDITS)	(3,067)	(3,090)	(3,090)
	<u>\$ 84,615</u>	<u>\$ 84,365</u>	<u>\$ 84,833</u>
TRANSFERS FROM GENERAL FUND			
TRANSFERS-DETAIL PAGE B-3	19,769	6,061	6,061
	<u>\$ 104,384</u>	<u>\$ 90,426</u>	<u>\$ 90,894</u>
EXCESS REVENUE (EXPENDITURE)	\$ 1,878	\$ 1	\$ 203
BEGINNING FUND BALANCE	45,577	29,133	29,133
LESS RESERVES USED IN 2001-02	(18,322)		
SUBTOTAL	<u>\$ 29,133</u>	<u>\$ 29,134</u>	<u>\$ 29,336</u>
LESS RESERVES USED 2001-03	-		
ENDING FUND BALANCE	<u>\$ 29,133</u>	<u>\$ 29,134</u>	<u>\$ 29,336</u>

**CITY OF HAYWARD
SCHEDULE OF RESERVES**

Attachment A

	<u>2001-02 Estimated</u>	<u>2002-03 Proposed</u>	<u>2002-03 Recomm ended</u>
RESERVES			
27TH PAYROLL RESERVE	2,500	-	-
INDUSTRIAL ASSESSMENT DISTRICT RESERVE	1,232	-	-
LAVWMA RESERVE	7,920	-	-
TECHNOLOGY RESERVE	2,700	-	-
2000-01 RESERVE FOR EQUIP. MGMT. FUND	500	-	-
ACQUISITION OF ALBERTSONS PROPERTY	3,470		
	<u>\$ 18,322</u>	<u>\$ -</u>	<u>\$ -</u>

GENERAL FUND REVENUE BY SOURCE

Attachment B

(\$ in 000's)

	2001-02 Estimated	2002-03 Proposed	2002-03 Recommended
TAXES			
PROPERTY TAXES	\$ 17,000	\$ 17,233	\$ 17,850
SALES TAX	30,600	35,242	31,059
BUSINESS TAX	2,000	1,900	2,025
REAL PROPERTY TRANSFER TAX	3,700	4,500	4,500
TRANSIENT OCCUPANCY TAX	1,400	1,500	1,500
SUPPLEMENTAL IMPROVEMENT TAX	1,500	1,750	1,750
EMERGENCY FACILITIES TAX	1,750	1,750	1,750
SUBTOTAL	57,950	63,875	60,434
FRANCHISES			
WASTE MANAGEMENT	2,000	2,000	2,200
CABLE TV FRANCHISE	780	780	880
PG&E	1,050	731	1,050
WATER & SEWER FUND FRANCHISE	1,410	1,445	1,445
OTHER	-	6	-
SUBTOTAL	5,240	4,962	5,575
LICENSES & PERMITS			
CONSTRUCTION PERMITS	1,518	1,430	1,518
HAZARDOUS MATERIALS PERMITS	370	370	370
OTHER	275	316	316
SUBTOTAL	2,163	2,116	2,204
INTEREST AND RENTS			
INTEREST EARNED	1,500	802	1,400
SUBTOTAL	1,500	802	1,400
FINES & FORFEITURES			
LIBRARY FINES & FEES	60	60	60
OTHER	800	650	1,100
SUBTOTAL	860	710	1,160

GENERAL FUND REVENUE BY SOURCE

Attachment B

(\$ in 000's)

	2001-02 Estimated	2002-03 Proposed	2002-03 Recommended
FROM OTHER AGENCIES			
MOTOR VEHICLE IN-LIEU	7,600	6,300	7,800
P.O.S.T. REIMBURSEMENT	60	60	60
GRANTS	447	447	522
OTHER	3,068	2,565	2,500
SUBTOTAL	11,175	9,372	10,882
FEES & SERVICE CHARGES			
POLICE CHARGES	600	554	600
PLAN CHECKING FEES	750	558	750
FIRE SERVICE FEES	300	192	300
ABATEMENT COLLECTIONS	190	167	190
RENTAL UNIT ORDINANCE	50	43	50
APT. HOUSE INSPECTIONS	160	160	160
OTHER	450	242	450
SUBTOTAL	2,500	1,916	2,500
OTHER REVENUE			
	-	-	-
WORKERS COMP. INS. FUND	650	750	900
OTHER	1,433	1,482	1,600
SUBTOTAL	2,083	2,232	2,500
TOTAL REVENUE	\$ 83,471	\$ 85,985	\$ 86,655

CITY OF HAYWARD

(\$ IN 000'S)

Attachment B

	<u>2001-02</u> <u>Estimated</u>	<u>2002-03</u> <u>Proposed</u>	<u>2002-03</u> <u>Recommended</u>
TRANSFERS TO GENERAL FUND			
COST ALLOCATION	\$ 2,584	\$ 2,709	\$ 2,709
TRSF. FROM SPECIAL GAS TAX	1,227	1,239	1,239
CITIZENS FOR PUBLIC SAFETY GRANT	313	295	295
LAW ENFORCEMENT BLOCK GRANT	345	199	199
	<u>\$ 4,469</u>	<u>\$ 4,442</u>	<u>\$ 4,442</u>

TRANSFERS TO OTHER FUNDS

CAPITAL TRSF FOR TECHNOLOGY PROJ	\$ 2,700	\$ -	\$ -
TRANSFER TO CAPITAL PROJECTS	1,060	960	960
INSURANCE COST ALLOCATION	1,025	1,043	1,043
TRSF. TO CENTENNIAL HALL	339	361	361
CAPITAL TRSF. TO TRANSP. SYS. IMP.	400	350	350
CAPITAL TRSF TO ST. LIGHTING	320	320	320
CAPITAL TRSF TO WATER (IAD LOAN)	1,232	-	-
CAPITAL TRSF TO EQUIP. MGMT.	500	-	-
DEBT SERVICE TRANSFERS	3,023	3,027	3,027
HOTEL/CONFERENCE CENTER TRSF	1,250	-	-
LAVVMA TRANSFER TO STREET IMP	7,920	-	-
	<u>\$ 19,769</u>	<u>\$ 6,061</u>	<u>\$ 6,061</u>

City of Hayward
 General Fund
 Budgeted Fund Balances - 2001-02 and 2002-03

Attachment C

(\$ in 000's)

	2001-02 Estimated	2002-03 Proposed	2002-03 Recommended
RESERVED FOR:			
Encumbrances	\$ 1,500	\$ 1,500	\$ 1,500
PERS Reserve	1,000	1,000	1,000
Inventory	100	100	100
	<u>2,600</u>	<u>2,600</u>	<u>\$ 2,600</u>
DESIGNATED FOR:			
Economic Uncertainty	7,000	7,000	7,000
Liquidity	3,500	3,500	3,500
RDA Loan, Civic Center Sale	1,336	1,336	1,336
Public Safety Radio System	2,250	2,250	2,250
Hotel/Conference Center	1,250	1,250	1,250
Contingencies	11,197	11,198	11,400
	<u>26,533</u>	<u>26,534</u>	<u>26,736</u>
Fund Balance	<u><u>\$ 29,133</u></u>	<u><u>\$ 29,134</u></u>	<u><u>\$ 29,336</u></u>

**CITY OF HAYWARD
2002-03 GANN APPROPRIATION LIMIT**

As the result of calculations performed based on applicable state law and the recommended 2002-03 operating and capital budgets for the City of Hayward, the City's 2002-03 Gann Appropriation Limit is

\$161,736,376

The appropriations subject to the Gann Limit total

\$61,637,910

For 2002-03, the City of Hayward is thus under the Gann Appropriation Limit by

\$100,098,466

The material documenting the manner in which the Appropriation Limit was calculated is available from the Director of Finance and Internal Services.



CITY OF HAYWARD
AGENDA REPORT

AGENDA DATE 06/04/02
 AGENDA ITEM _____
 WORK SESSION ITEM ws 2b

TO: Mayor and City Council
FROM: City Manager
SUBJECT: 2002-03 Capital Improvement Program Budget

RECOMMENDATION:

It is recommended that the City Council review and comment on this report.

BACKGROUND:

Last year, a new Capital Improvement Program (CIP) budget process was developed in an effort to streamline preparation and review of the CIP, and to align it with the City's two-year operating budget. Although the CIP is still prepared as a comprehensive document projecting the City's capital improvement needs over a five-year period, the fully detailed document is presented to Council in the first year of the two-year budget cycle, with the second year focusing on significant changes.

As with the City's operating budget, the 2002-03 capital improvement program is in the second year of the two-year budget cycle. The 2002-03 update includes revised costs for projects already included for 2001-02 and 2002-03. However, unlike the first year of the two-year CIP budget cycle, new projects were not solicited for the update and consideration of new requests was limited to those very few projects added due to major changes in circumstances, such as obtaining grant funding for the project. Also, projects scheduled for the out years have not been rescoped or re-estimated in order to allow staff resources to be concentrated on refining projects for the currently approved and upcoming year.

As was previously discussed with Council, the second year of the capital improvement program budget must formally be adopted, as required by the City Charter. The following discussion highlights the major project changes and modifications contained in the 2002-03 update.

DISCUSSION:

An important new project in the CIP approved by Council earlier this year is the Youth and Family Services Bureau (YFSB) Addition, which will add 1,950 square feet of space on the easterly side of the Police Building. As noted when the project was approved, in addition to

the funding provided by a \$300,000 State grant, the 2002-03 CIP update includes an increase of \$70,000 in the General Fund and \$50,000 from the Asset Forfeiture Fund to cover the \$420,000 project cost.

Another major addition to the CIP, discussed previously by Council, is the Downtown Sidewalk and Streetscape project. A \$324,000 transfer from the Redevelopment Agency (RDA) in 2001-02 was previously approved by Council for design of the project. Council recently approved advertisement for Phase I of this project. The budget includes a total of \$2.8 million for Phase I and Phase II. Proceeds of RDA borrowing in the amount of \$2,350,000 is shown in 2002-03, since our expectation is that the financing should and can wait until bids are known for Phase II of this project. Total RDA contribution to this project remains a total of \$3 million, including financing costs.

Regarding one of our smaller parks, HARD and City staff have been working closely with local residents and La Familia to define the scope of La Placita Park Improvement project already in the CIP. The project scope now has been defined and will include a play area with accessible and safe play equipment, a hard court play area, and other improvements. Total cost is estimated at \$110,000. Last year the CIP included \$45,000 in park-in-lieu fees for this project and the update increases this amount to \$87,000 with the remainder of the funding to come from either HARD or possibly a state grant.

The 2002-03 update also reflects a \$157,000 increase in the Industrial Parkway S.W. Widening project. The widening, partially funded by a TEA-21 demonstration project grant, was postponed until full funding was available. These demonstration projects are partially funded in each of the six years of the TEA 21 Program. Since the initial estimate was done, escalations of costs, as well as a modified scope, have significantly changed the project's funding needs.

Most of the changes in the sewer capital improvement funds involve major renovation to the Water Pollution Control Facility. These renovations are currently under design with construction of the two Final Clarifiers scheduled to begin at the end of this year. The construction of the three remaining projects that make up the Water Pollution Control Facility (WPCF) Improvements, Phase I (Second Fixed Film Reactor, Solids Contact Tank, and Two DAF Thickeners) have been delayed by one year and are rescheduled for 2003-04. The associated sale of \$13.8 million in Sewer Revenue Bonds is also rescheduled to 2003-04, since that is when the funds will be needed.

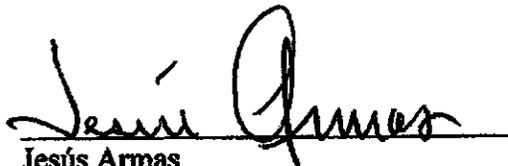
Another portion of the WPCF renovation that has changed significantly is the project to Convert Existing Digester No. 3 to Primary Mode. Costs have increased by \$979,000, as the scope for this project was better defined during preliminary design. A reduction in costs for the Grit Removal System project, plus the determination that the Final Clarifier Pump Gallery Enclosure project will not be needed, partially offsets this increase; but to totally balance these changes, an increase of \$500,000 in transfers from the Sewer Revenue Fund will be needed in 2004-05.

Regarding changes in water fund projects, there is a major increase in the estimate for the Hesperian Booster Pump Station (located near Hesperian and Industrial) based on the consultant's preliminary design. Significant scope changes have been necessary to clean up

contamination on the site, to maintain the Police Department's radio relay station, and to replace a needed storage facility. Also, the scope of landscaping has been significantly increased to better match the Eden Shore Business Park landscaping, which is being constructed across Industrial Boulevard. Contingency amounts have also been increased due to the preliminary stage of the design and the possible change in the bidding climate. To address the total \$2,703,000 increase, we are proposing an additional financing of \$4,000,000 in 2002-03 for construction and debt service, with the debt service being paid through the Water System Capital Improvement Fund.

CONCLUSION:

Except for the major modifications highlighted above, the proposed 2002-03 capital improvement program remains relatively unchanged from the spending plan previously reviewed by Council. Following this worksession the 2002-03 CIP budget will be on the June 11 agenda for public comment and the June 18 meeting for adoption.

A handwritten signature in black ink, appearing to read "Jesús Armas", written over a horizontal line.

Jesús Armas
City Manager