

CITY OF HAYWARD
AGENDA REPORT

AGENDA DATE 06/04/02

AGENDA ITEM _____

WORK SESSION ITEM ws 2a

TO: Mayor and City Council
FROM: City Manager
SUBJECT: 2002-03 Operating Budget

RECOMMENDATION:

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

DISCUSSION:

The upcoming budget year, 2002-03 is the second year of the City's two-year operating budget for the period 2001-03. As discussed at the time the two-year budget was adopted the Council must formally adopt the second year as required by the City Charter. Further, to realize the benefits of preparing a two-year budget the Council indicated that only significant adjustments to the second year would be considered. Based on these guidelines staff will be requesting that Council formally adopt the Proposed Budget 2002-03 as previously presented, with the adjustments discussed below.

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. True to his earlier statements Governor Davis did not "balance the budget" on the backs of local government. As a result, there are no significant revenue reductions on the horizon for Hayward as a result of the state budget. Local government, however, does not escape without 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

There are three attachments to this report, all for the General Fund. Attachment A presents summary revenue and expenditure information and reserves information. Attachment B presents detail revenue information along with transfers and Schedule 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.

Before discussing specific changes, it may be useful to give an overview of estimated results for the current year as well as the upcoming year for the General Fund. For 2001-02 the news is better than presented to you at your mid-year review work session. Based on information currently available, staff estimates we will realize a surplus of approximately \$1.9 million.

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

At the mid-year work session, staff estimated that the General Fund would break-even for the year. At that time the economy was still reacting to the events of September 11, 2001 and the economic climate was uncertain. Since the mid-year point, however, the economy has shown renewed strength and appears to be moving out of the recession. 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.

At your May 28, meeting, the Police Chief described plans to reestablish the Narcotics Bureau. This is proposed to be accomplished 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.

CONCLUSION:

Except for recommended changes noted above, the 2002-03 budget is unchanged from that approved by Council when it adopted the 2001-03 Operating Budget in June of 2001. Staff is recommending some revenue and expenditure changes to the General Fund to update revenue estimates and to ensure that the fund remains balanced. Given the size of the General Fund budget the net impact of these

changes is relatively minor. The recommended 2002-03 budget presents a balanced plan of revenue and expenditures.

A handwritten signature in black ink that reads "Jesús Armas". The signature is written in a cursive style with a large, prominent initial "J".

Jesús Armas
City Manager

- Attachment A: Financial Overview – General Fund Revenues and Expenditures
- Attachment B: General Fund Revenue by Source, Reserves and Transfers
- Attachment C: Projected Fund Balance at Year-end.

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

Schedule 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 | <u>-</u> | | |
| ENDING FUND BALANCE | <u>\$ 29,133</u> | <u>\$ 29,134</u> | <u>\$ 29,336</u> |

**CITY OF HAYWARD
SCHEDULE OF RESERVES**

Schedule 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

Schedule 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 |
| | <hr/> | <hr/> | <hr/> |
| 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 | - |
| | <hr/> | <hr/> | <hr/> |
| 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 |
| | <hr/> | <hr/> | <hr/> |
| SUBTOTAL | 2,163 | 2,116 | 2,204 |
| INTEREST AND RENTS | | | |
| INTEREST EARNED | 1,500 | 802 | 1,400 |
| | <hr/> | <hr/> | <hr/> |
| SUBTOTAL | 1,500 | 802 | 1,400 |
| FINES & FORFEITURES | | | |
| LIBRARY FINES & FEES | 60 | 60 | 60 |
| OTHER | 800 | 650 | 1,100 |
| | <hr/> | <hr/> | <hr/> |
| SUBTOTAL | 860 | 710 | 1,160 |

GENERAL FUND REVENUE BY SOURCE

Schedule 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)

Schedule 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 | - | - |
| LAVWMA 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

Schedule C

(\$ in 000's)

| | <u>2001-02</u> <u>Estimated</u> | <u>2002-03</u> <u>Proposed</u> | <u>2002-03</u> <u>Recommended</u> |
|-----------------------------|------------------------------------|-----------------------------------|--------------------------------------|
| 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>\$ 29,133</u> | <u>\$ 29,134</u> | <u>\$ 29,336</u> |



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.

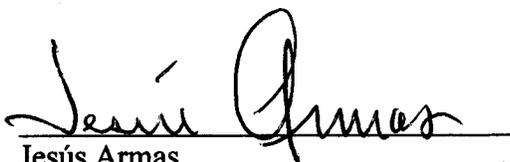
Another portion of the WPCF renovation that has changed significantly is the project to Convert Existing Digester No. 3 to Primary Mode. Costs have increased by \$979,000, as the scope for this project was better defined during preliminary design. A reduction in costs for the Grit Removal System project, 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