CITY OF OAKLAND

AGENDA REPORT

TO: Office of the City Administrator
ATTN: Deborah A. Edgerly
FROM: Budget Office
DATE: April 24, 2008

RE: **Action on a Report Discussing the Financial Status of the Internal Service Equipment Fund (4100), and Providing Options for Internal Service Rate Changes for User Agencies/Departments in order to Balance the Fund**

SUMMARY

This report provides information about the City of Oakland's Equipment Fund (4100), including the fund's history, financial standing, and possible scenarios for fund balancing and fleet replacement. Note: This report includes excerpts from the Report on Fleet Usage (presented November 1, 2007 at the Finance and Management Committee of the City Council) and the Revenue and Expenditure, Quarter 2 Report (presented March 11, 2008 at the Finance and Management Committee of the City Council). In summary, the four main points addressed in this report are:

- The Equipment Fund has been operating with an annual deficit.
- The Equipment Fund has a sizeable negative fund balance.
- The City's fleet is aging and total equipment and vehicle numbers are decreasing.
- There are no new appropriations for vehicle replacement.

FISCAL IMPACT

This report addresses several key financial facts regarding the Equipment Fund and subsequently provides several goals for future action. These goals are listed below and discussed extensively in the "Policy Discussion" section.

Goal 1: Maintain the current fleet "as is" with no further vehicle purchases and balance the fund according to actual costs. Since the total debt service on the 2000 and 2002 Lease-Purchase Agreement dropped substantially beginning in FY 2007-08, the fund is currently balanced, however internal service charges are not budgeted according to actual usage. Some agencies/departments and funds are being over-charged and some are being under-charged. The fiscal impact per agency/department and fund is provided in the "Key Issues and Impacts" Section below.

Goal 2: Begin a repayment schedule to draw down the negative fund balance. Possible impact in Fiscal Year 2008-09 is $1.6 million.

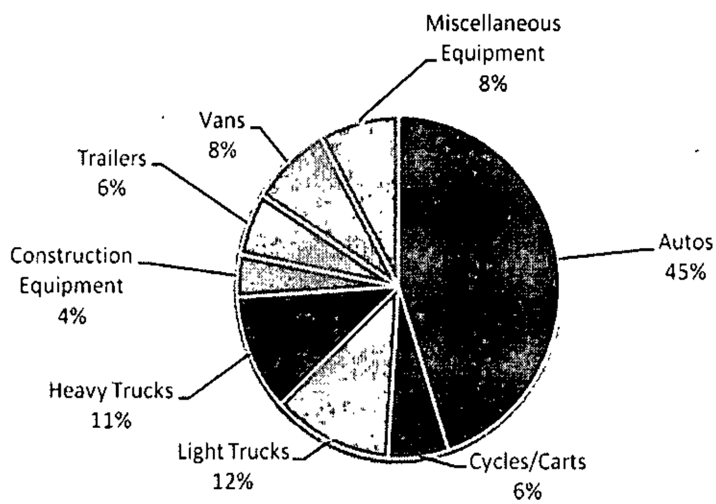
Goal 3: Begin a dedicated fleet management program and provide appropriations for new vehicle purchases. The fiscal impact varies depending on the policy direction.

BACKGROUND

The Equipment Fund is an Internal Service Fund (ISF). ISFs are separate financial accounts used to record transactions provided by one agency, department, division, or unit to other agencies, departments, divisions, or units on a cost-reimbursement basis.

The Equipment Fund charges users for services provided by the Equipment Services Division. The Equipment Services Division (ESD) of the Public Works Agency (PWA) is responsible for "cradle to grave" equipment services, including vehicle and equipment acquisition and disposal, maintenance and repair, governmental and environmental compliance, vehicle and equipment specification and modification development, repair part acquisition, motor pool services, the purchase and management of fuel for City-owned vehicles and equipment, and specialized services such as vehicle wash and outside vehicle/equipment rental. Currently, the ESD maintains 1,684 pieces of equipment that have a total replacement value of approximately $79 million, of which 45% are autos, 20% are light trucks and vans, and 15% are heavy trucks and construction equipment. The fleet size decreased by approximately 146 units (8%) since its high of 1,830 in FY 2002-03.

The graph below represents the distribution of equipment by type:



Equipment Lease Financing
On February 15, 2000 an Agenda Report was presented to the Finance and Management Committee and Resolution No. 75575 C.M.S. was subsequently approved by City Council, allowing the use of a private placement tax-exempt lease in order to finance the immediate replacement of 818 vehicles and equipment valued at approximately $28.8 million (the "2000 Equipment Lease"). The City annually budgeted $4.8 million for the replacement of vehicles and other equipment in its active fleet on a pay-as-you-go basis between 1994 and 2000. At the time, $4.8 million per year was insufficient to replace all of the vehicles and equipment scheduled for replacement; consequently, the City accumulated a significant backlog of over-aged and outmoded equipment in need of immediate replacement. The Public Works Agency developed a proposal for City Council consideration, which covered the debt service payments on the proposed $28.8 million equipment lease financing through the annual Equipment Fund appropriation ($4.8 million plus an additional $1.1 million in annual contributions from the Equipment Fund balance through FY 2002-03). Each lease had an average life equal to the aggregate average useful life of the leased equipment. The majority of the equipment has useful lives between 3 and 10 years, with an aggregate average useful life of approximately seven years. It was the intent of the lease structure that each vehicle and equipment would be replaced at the end of its respective lease expiration.

On April 9, 2002 an Agenda Report was presented to the Finance Committee and Resolution No. 77101 C.M.S. was subsequently approved by City Council to use a private placement tax-exempt lease in order to finance the immediate replacement of 247 vehicles and equipment valued at approximately $14.9 million. Much like the "2000 Equipment Master Lease" each lease within the "2002 Equipment Master Lease" had an average life equal to the aggregate average useful life of the leased equipment.

As staff began to implement the replacement of 247 vehicles and equipment in FY 2001-03, purchasing was postponed while a review of the fleet was conducted. Purchasing resumed in FY 2003-05. Throughout the life of the two leases Council authorized the use of the interest income generated from the 2000 and 2002 Equipment Master Leases to purchase additional vehicles, most recently with 69 replacement police vehicles. No new vehicle or equipment replacement funds have been appropriated since the "2002 Equipment Master Lease."

The advantage of financing equipment acquisition through a lease rather than a pay-as-you-go system is that leasing a vehicle does not require the user department to provide the cost to acquire the vehicle up front. Acquisition costs can be programmed into the lease, requiring the user department to fund only the debt service for that vehicle, plus any operations and maintenance costs. In a pay-as-you-go system, the user department must fund the initial acquisition cost, operations and maintenance costs, and replacement costs.

The disadvantage of financing equipment acquisition through a lease rather than a pay-as-you-go system is that departments do not pay into the Fund for vehicle replacement; and therefore there are not enough appropriations to replace the aging fleet. Also, lease systems require collateral for the financing of new vehicles. In both 2000 and 2002, the Equipment Fund had a positive fund balance and enough equity in the currently owned vehicles to finance the leases. The 2000 and 2002 Equipment Master Leases allowed for lump-sum purchases of new vehicles and equipment. Over 1,000 vehicles were replaced over those fiscal years. As a result, a large number of vehicles are now outside their life expectancy and need replacement. The average age of a fleet should be 6-7 years – currently the City's is approximately 9 years.

Vehicle/Equipment Replacement Criteria
There are several ways to determine the best time to replace a vehicle in a municipal fleet. Generally, lifecycle costing or time and mileage criteria are used to determine the best replacement strategy. To ensure that vehicles and equipment were being used to their optimal levels, the Equipment Services Division developed expanded criteria for making replacement/ retention decisions by combining aspects of lifecycle costing and time and mileage. A point system was developed that took into account not only mileage, age, and maintenance history, but also took a closer look at the specific mechanical systems and body components on each unit. The evaluation process included mechanics and service workers who maintain and repair the vehicles; the first-line supervisors who oversee the repair work orders and interface with the user departments, and the division manager who coordinates vehicles or equipment due for replacement within the ten-year replacement plan. As a result of this three-tiered evaluation process, the Equipment Services Division has been able to make more informed replacement/ retention decisions, even in the absence of an automated fleet management system. This benefits the City by maximizing the financial investment made in the fleet while minimizing costs associated with retaining vehicles beyond their useful life.

Ten-Year Replacement Plan
In preparation for acquiring vehicles and equipment with lease financing, the Equipment Services Division developed a ten-year replacement plan that would replace the over-aged vehicles and equipment in the fleet, and would maintain a regular, consistent future replacement schedule. Vehicles and equipment should be replaced before they begin to incur significant repair costs and when they would bring the highest return when sold at auction.

Since no new funds for vehicle replacement have been appropriated since the 2000 and 2002 lease financing, the City is behind in replacing vehicles and equipment. In the Report on Fleet Usage, presented to the Finance and Management Committee November 13, 2007, the Public Works Agency listed the vehicles and equipment that are in most urgent need of replacement in order to maintain operational efficiencies within the various agencies/ departments. This list represented a small subset (approximately one-third) of the actual list of vehicles that need to be replaced. Included in this list are emergency response vehicles for the Fire Department, marked police vehicles, parking enforcement vehicles, and various units required for parks and other infrastructure maintenance. In the Report on Fleet Usage, staff estimated the cost to replace the 67 identified vehicles is $5.35 million.

Other Issues
Part of the reason no funding is available for vehicle replacements is due to funds being spent to maintain an older fleet. If funding was available to replace a vehicle rather than replace an engine or the transmission, savings would be realized in parts and labor. PWA and Departments plan to perform on-going cost-benefit analyses on specific vehicles to determine the point at which it more cost-effective to replace rather than to repair vehicles.

During FY 2005-07, Council authorized a ten-year repayment plan to rebalance the fund on an annual basis and start reducing the negative fund balance. The plan called for a six percent increase in rates beginning FY 2007-09, however due to the impact this would have had on the General Purpose Fund and other funds, only a three percent increase was included.

KEY ISSUES AND IMPACTS

Negative Fund Balance
In FY 2003-04, the beginning fund balance was $14.4 million. It is projected that at the end of the current fiscal year, the negative fund balance will total $16.3 million.

Year	Beginning Fund Balance (in millions)
FY 2003-04	$14.4
FY 2004-05	$8.9
FY 2005-06	$0.05
FY 2006-07	-$3.6
FY 2007-08	-$11.9
FY 2008-09 (Projected)	-$16.3

Budget vs. Actuals - Overview
In FY 2006-07, the Equipment Fund was budgeted with a deficit of $1.6 million (with revenues of $16 million and expenditures of $17.6 million). The actual deficit was $5.5 million (with revenue of $16 million and expenses of $21.5 million). This was in large part due to the unanticipated and dramatic increase in fuel and commodity prices and debt service of $4.8 million.

In the current fiscal year, the Equipment Fund is budgeted with a surplus of $0.6 million (with revenues of $16.3 million and expenditures of $15.7 million). The largest difference in expenditures for FY 2007-08 compared to FY 2006-07 is a substantial reduction in the debt service on the 2000 and 2002 Lease-Purchase Agreements. However, according to projections, the Equipment Fund will spend at budget and have a surplus of $0.3 million. The decrease in the year-end surplus from budget is due to projected negative interest earnings on the negative fund balance.

Budget vs. Actuals – by Fund
Currently, the budget for equipment ISF rates does not reflect where actual costs are incurred. If the actual costs from FY 2006-07 were used to proportionately distribute internal service charges across funds, the over-/under-funding for FY 2008-09 is shown below in Chart 1.

Chart 1:

Fund	2008-09 Budget	2008-09 Re-Allocation	Over/(Under) Funded	Percentage of total
1010 – General Purpose Fund	8,416,648	8,572,935	(156,287)	53.09%
1710 – Recycling Program	15,984	15,802	182	0.10%
1720 – Comprehensive Clean-up	2,198,466	3,104,419	(905,953)	19.23%
1740 – Haz. Materials Inspect.	21,366	4,880	16,486	0.03%
1750 – Multipurpose Reserve	22,629	16,282	6,347	0.10%
1760 – Telecomm. Reserve	7,846	5,946	1,900	0.04%
2102 – Dept. of Agriculture	24,000	668	23,332	0.01%
2108 – HUD-CDBG	21,707	0	21,707	0.00%
2128 – DHHS	50,985	87,468	(36,483)	0.54%
2211 – Measure B: ACTIA	155,728	35,379	120,349	0.22%
2230 – State Gas Tax	1,217,528	1,246,168	(28,640)	7.72%
2251 – Measure Y	0	16,758	(16,758)	0.10%
2310 – LLAD	1,350,446	1,516,305	(165,859)	9.39%
2415 – Development Service	257,408	73,858	183,550	0.46%
3100 – Sewer Service	1,419,699	852,825	566,874	5.28%
3200 – Golf Course	7,387	587	6,800	0.00%
4200 – Radio/Telecomm	44,657	25,689	18,968	0.16%
4400 – City Facilities	495,867	269,200	226,667	1.67%
4500 – Central Stores	46,935	100,712	(53,777)	0.62%
7750 – Grant Clearing	371,214	200,619	170,595	1.24%
Total	**16,146,500**	**16,146,500**	**0**	**100%**

POLICY DISCUSSION

Internal Service Fund rates should be analyzed and adjusted bi-annually with each budget cycle to ensure the user agencies/departments are fully funding the operations of the fund including any salary increases, retirement/benefits rate changes, and other estimated operating cost changes, such as fuel.

Under the best of circumstances, City staff should strive to accomplish three goals for the Equipment Fund: Ensure a balanced budget based on actual costs; reduce the negative fund balance and move toward a positive cash reserve; and ensure the majority of the vehicles and equipment are managed within a replacement cycle with written policies.

Goal 1 - Rate Re-Allocation
In prior years, the Equipment Fund operated with a deficit. In FY 2006-07 the deficit reached $5.5 million. For the current fiscal year there will be a projected surplus. However internal service charges are not budgeted according to actual usage. Some agencies/departments and funds are over-funded and others are under-funded.

Goal 2 - Ten-Year Repayment Plan
The Equipment Fund has a sizeable negative fund balance. The projected negative fund balance at the end of the fiscal year will be $16.3 million. In order to draw down the negative balance over a ten-year period, the City could increase charges to departments and funds proportionately based on actual expenditures from FY 2006-07. That would increase the average rate a department or fund pays into the Equipment Fund by ten percent. Such a scenario would have a fiscal impact of $1.6 million. Under this scenario, staff would maintain the current fleet "as is" with no further vehicle purchases. Additionally, the City could make a policy decision to allocate a portion any future annual General Purpose Fund surplus toward the repayment of funds with negative balances.

Goal 3 - Vehicle Replacement
The City's fleet is aging and total equipment and vehicle numbers are decreasing. In addition, there are no new appropriations for vehicle replacement. According to the Report on Fleet Usage, the cost to replace 67 vehicles and equipment in urgent need of replacement totals $5.35 million. That list represented a small subset (approximately one-third) of the actual list of vehicles that need to be replaced. In order to manage a real vehicle replacement program, City staff would not recommend immediately acquiring all the vehicles that need replacing.

Municipal vehicle replacement decisions like these are short-term solutions and doing so would bring on-line a large number of vehicles and equipment that would again require replacement at the same time at the end of their lifecycle. A proactive vehicle replacement program would stagger the acquisition of vehicles throughout the lifecycle. For example, if there is a requirement for 500 police sedans to be operational in the City at a given time and each sedan has an expected life of five years, then 100 sedans should be purchased annually.

If the City charges departments and funds based on actual prior year costs, begins a ten-year repayment plan, and replaces the "most urgent" 67 vehicles, the possible fiscal impact would be close to $7 million ($1.6 million for the repayment plan, and $5.3 million for replacement). Options to fund vehicle acquisitions include: (1) Using a portion of the Capital Reserve Fund (5510) to fund vehicles in critical need of replacement; (2) Allowing agencies/departments to allocate projected year-end savings toward vehicle purchases (with Council approval); (3) As the debt service on the remaining lease agreements is paid off, shift that funding to purchase new vehicles ($0.65 million will be available after FY 2008-09, an additional $1 million will be available after FY 2009-10, and the remaining $0.92 million will be freed up after FY 2011-12).

SUSTAINABLE OPPORTUNITIES

There are no direct economic, environmental, or social equity opportunities or impacts associated with the City Council action requested in this report.

DISABILITY AND SENIOR CITIZEN ACCESS

There are no direct disability and senior access impacts associated with the City Council action requested in this report.

RECOMMENDATION(S) AND RATIONALE

Staff recommends internal service rates be analyzed and adjusted on a biennial basis with each new budget cycle and that rate changes be incorporated into the baseline budget. Staff also recommends the rate changes provided in this report for the Equipment Fund be implemented in the baseline development of the FY 2009-11 Budget. This will allow the Budget Office and the Agencies/Departments time to develop strategies in order to ensure these additional internal service charges are balanced with available revenues for each affected fund.

Staff also recommends the City Council consider making a policy decision to allocate a portion of any future annual General Purpose Fund surplus toward the repayment of funds with negative balances.

Finally, staff recommends Council provide direction regarding the three options above with regard to vehicle purchases.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that Council accept this report, and direct staff to incorporate the above recommended rates changes in the FY 2009-11 Baseline Budget.

Respectfully Submitted,

Sarah Schlenk, Budget Director, City Administrator's Budget Office

Prepared by:
Corey Neeld, Budget Office

APPROVED AND FORWARDED TO THE SPECIAL COUNCIL MEETING:

Office of the City Administrator

CITY OF OAKLAND

AGENDA REPORT

FILED
OFFICE OF THE CITY CLERK
OAKLAND

2008 APR 17 PM 5:56

TO: Office of the City Administrator
ATTN: Deborah A. Edgerly
FROM: Budget Office
DATE: April 24, 2008

RE: **Action on a Report Discussing the Financial Status of the Internal Service Facilities Fund (4400), and Providing Options for Internal Service Rate Changes for User Agencies/Departments in order to Balance the Fund**

SUMMARY

This report provides information about the City of Oakland's Facilities Fund (4400), including the fund's history, financial standing, and possible scenarios for fund balancing.

FISCAL IMPACT

This report addresses several key financial issues regarding the Facilities Fund and subsequently provides several goals for future action. These goals are listed below and discussed extensively in the "Policy Discussion" section.

Goal 1: Balance the Fund according to actual costs. Possible fiscal impact in FY 2008-09 is $5.9 million.

Goal 2: Begin a repayment schedule to draw down the negative fund balance. Possible fiscal impact in FY 2008-09 is $8.3 million

BACKGROUND

The Facilities Fund is an Internal Service Fund (ISF). ISF's are separate financial accounts used to record transactions provided by one agency, department, division, or unit to other agencies, departments, divisions, or units on a cost-reimbursement basis. The Facilities Fund supports functions within the Facilities Services Division, the Parks and Building Services Division and Environmental Services.

The Facilities Services Division provides client agencies "direct tenant services", which includes all custodial services, building engineering, security and access controls, monitoring air quality, responding to emergencies, and property management and leasing. This division is also responsible for preparing new building operating estimates, design and project oversight for all minor maintenance and maintenance-related Capital Improvement Projects. The Division includes the following units: Facilities Services Administration, Building Engineering, Custodial Services and Project Design.

The Parks and Building Services Division is primarily responsible for the park grounds and routine building maintenance of park buildings, fire stations, day care and senior centers, and other miscellaneous building structures, including parking lots. The division is responsible for the maintenance and repair of 309 City owned facilities comprising 3,026,269 square feet of space. This includes maintenance and repair of all structural, mechanical, electrical, painting and engineering systems, including routine, emergency and vandalism-related service requests.

The Environmental Services Division is responsible for managing and implementing environmental site assessments for City-owned properties and the energy conservation and efficiency program.

The Facilities Fund will support 111.00 full-time equivalents (FTE's) in FY 2008-09, which is at the same level as FY 2001-02, even though the number of City-owned and maintained properties and total square footage has increased annually.

During that same period, the budgeted personnel costs increased considerably, from $6.5 million in FY 2001-02 to $11.1 million in FY 2008-09 (70%), due to negotiated salary increases, as well as rising retirement and fringe benefit costs.

Operational costs have also increased, but not at the same rate as personnel costs. Chart 1 below represents the budgeted operational costs of the Facilities Fund, excluding internal services and overheads.

Chart 1:

	FY 2001-02	FY 2008-09	Percent Change
Supplies and Materials	1,128,797	1,084,014	-4%
Service Expenditures	4,593,077	6,021,132	31%
Contract Services	1,499,691	2,306,340	54%
Travel and Education	33,854	34,645	2%
Total	**7,255,419**	**9,446,131**	**30%**

Much of the increase in operational costs is attributed to "fixed" costs, such as water, contract contingencies and service contracts for machinery and equipment. The cost of water (Service Expenditure) has increased from $0.04 million in FY 2001-02 to $0.70 million in FY 2008-09. Outside Contract Services including elevators, HVAC systems and security have increased from $0.30 million to $1.3 million.

During FY 2005-07, Council authorized a ten-year repayment plan to rebalance the fund on an annual basis and start reducing the negative fund balance. The plan called for a nine percent increase in rates beginning FY 2007-09, however due to the impact this would have had on the General Purpose Fund and other funds, only a three percent increase was included.

KEY ISSUES AND IMPACTS

Negative Fund Balance
Over the past five years, the fund balance has gone from a negative $8.2 million to -$24.4 million (see Chart 2). It is projected that at the end of the current fiscal year, the negative fund balance will total -$28.9 million.

Chart 2:

Year	Beginning Fund Balance (in millions)
FY 2003-04	-$8.2
FY 2004-05	-$10.8
FY 2005-06	-$13.7
FY 2006-07	-$19.8
FY 2007-08	-$24.4
FY 2008-09 (Projected)	-$28.9

Budget vs. Actuals - Overview
In FY 2006-07, the Facilities Fund was budgeted with a deficit of just over $4 million (with revenues of $18.3 million and expenditures of $22.4 million). The actual deficit was $4.6 million Additional expenditures mostly resulted from increased costs in gas, maintenance and security, and contract services.

In the current fiscal year, the Facilities Fund is budgeted with a deficit of $5.0 million (with revenues of $18.6 million and expenditures of $23.6 million). If costs remain constant, the year-end deficit will be $4.4 million.

Budget vs. Actuals – by Fund
The Facilities Fund costs substantially more to operate than is budgeted in revenues from user agencies/departments. Chart 3 below shows how the deficit for FY 2008-09 ($5.8 million) should be distributed by fund based on FY 2006-07 actual expenditures.

Chart 3:

Fund	2008-09 Budget	2008-09 Re-Allocation	Over/(Under) Funded	Percentage of Total
1010 – General Purpose Fund	10,963,344	14,446,622	(3,483,278)	60.10%
1700 – Mandatory Refuse	286,116	228,286	57,830	0.95%
1710 – Recycling Program	48,527	79,627	(31,100)	0.33%
1720 – Comp. Clean-up	397,865	534,790	(136,925)	2.22%
1750 – Multipurpose Reserve	35,795	36,274	(479)	0.15%
2128 – DHHS	0	32,452	(32,452)	0.14%
2211 – Measure B: ACTIA	83,215	84,331	(1,116)	0.35%
2230 – State Gas Tax	235,691	316,803	(81,112)	1.32%
2240 – Library Svcs. Retention	432,922	483,102	(50,180)	2.01%
2310 – LLAD	3,234,345	4,575,566	(1,341,221)	19.04%
2416 – Traffic Safety	14,903	20,032	(5,129)	0.08%
3100 – Sewer Service	340,286	457,396	(117,110)	1.90%
4100 – Equipment	178,980	240,576	(61,596)	1.00%
4200 – Radio/Telecomm	56,660	259,299	(202,639)	1.08%
4300 – Reproduction	37,138	169,956	(132,818)	0.71%
4400 – City Facilities	318,478	428,082	(109,604)	1.78%
4500 – Central Stores	74,366	84,537	(10,171)	0.35%
4550 – Purchasing	31,587	31,587	0	0.00%
7760 – Grant Clearing	1,444,287	1,559,294	(115,007)	6.49%
Total	**18,214,505**	**24,068,612**	**(5,854,107)**	**100%**

POLICY DISCUSSION

Internal Service Fund rates should be analyzed and adjusted biennially with each budget cycle to ensure the user agencies/departments are fully funding the operations of the fund including any salary increases, retirement/benefits rate changes, and other estimated operating cost changes, such as utilities or new facilities.

Under the best of circumstances, City staff should work to accomplish two goals for the Facilities Fund: Ensure a balanced budget based on actual costs and reduce the negative fund balance, and strive toward a positive cash reserve.

Goal 1 - Fund Balancing
The Facilities Fund is operating with a deficit. In FY 2006-07 the deficit reached $4.6 million and the deficit is projected to be $4.4 million for FY 2007-08. In order to eliminate this gap, this shortfall would need to be allocated to departments and funds proportionately based on the actual costs in FY 2006-07. Under this scenario, staff would maintain the current facilities "as is" assuming no new facilities are operated by the City. The fiscal impact for FY 2008-09 would be $5.9 million across all funds and agencies/departments. This change would increase the average rate a department or fund pays into the Facilities Fund by 32% in FY 2008-09. The impact to the General Purpose Fund is estimated to be $3.5 million.

Goal 2 - Repayment Plan
The Facilities Fund has a sizeable negative fund balance. The negative fund balance is projected to total $28.9 million by the end of the current fiscal year. In order to draw down the negative balance, the City could further increase charges to departments and funds proportionately to actual costs incurred. Under this scenario, staff would maintain the current facilities "as is" assuming no new facilities are operated by the City. One option would be to further increase rates by ten percent, which would have a total fiscal impact for FY 2008-09 of $8.3 million ($5.9 million for fund balancing and $2.4 million for the repayment plan). If this rate increase was sustained, it will take approximately 13 years to pay down the negative fund balance.

However, given the impact that the above rate adjustments would have on a large number of City funds, staff recommends these rate changes be implemented in the baseline development of the FY 2009-11 Budget. This will allow the Budget Office and the Agencies/Departments time to develop strategies in order to ensure these additional internal service charges are balanced with available revenues.

Additionally, the City could make a policy decision to allocate a portion of any future annual General Purpose Fund surplus toward the repayment of funds with negative balances.

SUSTAINABLE OPPORTUNITIES

There are no direct economic, environmental, or social equity opportunities or impacts associated with the City Council action requested in this report.

DISABILITY AND SENIOR CITIZEN ACCESS

There are no direct disability and senior access impacts associated with the City Council action requested in this report.

RECOMMENDATION(S) AND RATIONALE

Staff recommends internal service rates be analyzed and adjusted on a biennial basis with each new budget cycle and that rate changes be incorporated into the baseline budget. Staff also recommends the rate changes provided in this report for the Facilities Fund be implemented in the baseline development of the FY 2009-11 Budget. This will allow the Budget Office and the Agencies/Departments time to develop strategies in order to ensure these additional internal service charges are balanced with available revenues for each affected fund.

Staff also recommends the City consider making a policy decision to allocate a portion of any future annual General Purpose Fund surplus toward the repayment of funds with negative balances.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that Council accept this report and direct staff to incorporate the above recommended rates changes in the FY 2009-11 Baseline Budget.

Respectfully Submitted,

Sarah Schlenk, Budget Director, City Administrator's Budget Office

Prepared by:
Corey Neeld, Budget Office

APPROVED AND FORWARDED TO THE SPECIAL COUNCIL MEETING:

Office of the City Administrator