

*City of  
Redwood City's  
values*

June 20, 2002

Honorable Mayor Claire and Members of the City Council:

## **ECONOMIC OVERVIEW**

No clever lead-in this year nor humorous metaphors to describe the economy. We are now dealing with the most challenging set of financial circumstances in almost a decade and, depending upon what the state government does, our situation could worsen. Last year at this time staff cautioned Council that the economic expansion appeared to be waning and that the leaner times were on the horizon. While staff underestimated the magnitude of the decline, the slowdown we anticipated did materialize. The nationwide recession was felt particularly hard in the technology sector of our economy. Given our location and dependence on revenues that are generated by business activity (sales taxes and transient occupancy taxes), we are experiencing first-hand the effects of this slowdown. Council is to be commended for the forbearance you exercised and for planning for the proverbial "rainy day." Although we are experiencing significant erosion in several major revenues, we are nonetheless well positioned with our reserves to "ride out the storm." Unlike the policy makers in Sacramento, our Council had the good sense not to expand on-going commitments during a very robust period of economic expansion.

*"Our purpose  
is to serve the  
people who  
live, work in,  
and visit  
Redwood  
City."*

Caution, however, must still be exercised in making new, long-term financial commitments until we have seen an unmistakable revival in our key revenues. Although the governor's proposed budget does not appear to have a draconian impact on cities at this point, we anticipate a long, hot summer of budget deficits in Sacramento. The final outcome of the State financial disaster will likely not be known until July or August. Also, the prevailing opinion is that the State will take more drastic actions after the November gubernatorial election and that these actions will more severely impact local government.

*"We take our  
work seriously  
but ourselves  
lightly."*

Overall, I am very proud of the efforts put forth by staff to present you with a spending plan that provides for the continuation of existing services and even provides for a small expansion to respond to Council's priorities.

Included in each department's budget section is an update of that department's performance measures and benchmarking. Please read these sections carefully and ask staff questions as you see fit. We continue to believe that performance measurements and benchmarking are reliable tools for analyzing the efficiency and effectiveness with which we deliver our services. They also provide the Council with yet another tool for oversight. Please see the section "Performance Measures" for further information.

## **GENERAL FUND**

### **Revenues**

General fund revenues are expected to increase modestly to \$62.7 million (or 2.1%) in FY 2002/03 from \$61.4 million in FY 2001/02. In FY 2003/04 revenues are expected to increase 5.9% to \$66.4 million.

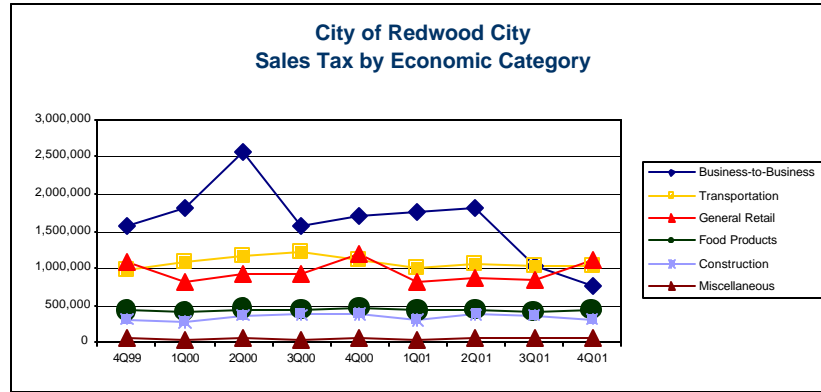
*"Wander  
where there is  
no path."*

The major assumptions behind these revenue estimates are:

- No additional cuts from the State other than the \$335,000 that is included in the governor's May revised proposed budget.
- The Council will approve an increase in parking citations from \$15 to \$20 in FY 2002/03.
- Sales tax will recover and that there is no further erosion in our business-to-business sales tax revenues.

- Property tax revenues will increase slightly as the result of several offsetting factors.

In FY 2003/04 we have increased our transient occupancy tax revenues by \$460,000 based on the assumption that the Council will support and the voters will approve an initiative that increases the transient occupancy tax rate from 8% to 10%. Should this increase not materialize, the projected deficit in FY 2003/04 will increase by \$460,000.



### Expenditures

Department heads were directed to not submit requests for additional staff nor to expand programs in each of the next two years unless completely supported by additional revenues or grants. The only exception to this directive has been the addition of one Planner in the general fund to respond to the Council's priority for an expansion of "advance planning." All other increases in employee costs are due to honoring existing commitments to employee groups through various memorandums of understanding.

We have also relied upon \$420,000 in "vacancy factors" in Police, Library, and Parks and Recreation in FY 2002/03. The vacancy factor was initiated in the early 1990s as a way to reduce budgets without actually reducing positions. It is merely an estimate of the savings departments normally realize due to on-going turnover that they experience. Departments have not been directed to delay hiring, which would impair service levels.

With respect to supplies and services, departments were advised not to increase these budgets unless required to do so because of contractual arrangements or charges imposed by other agencies. Examples of significant increases in supplies and services are retiree health premiums (+ \$206,000 or 41%) and the animal control contract with the County of San Mateo (+ \$90,000 or 23%).

There are no planned reductions in services. Since we have not increased staff and not increased supplies and services (except where legally required or absolutely necessary), the organization will have to confront the challenge of meeting an ever increasing demand for services without additional resources.

Overall, expenditures in FY 2002/03 are \$60.7 million and have increased 7.7% from FY 2001/02. In FY 2003/04 expenditures are anticipated to increase 7.9% to \$65.5 million. The vast majority of these increases is driven by increased employee costs and increased costs like those mentioned in the previous paragraph.

The only substantive programmatic recommended increase is:

- \$89,255 One Associate Planner is included in the general fund budget to provide part of the staff support necessary to begin to do Advance Planning (an additional Senior Planner to further assist the Advance Planning effort is also included in the FY 2002/03 Redevelopment Agency budget).

"We are directly responsible for our individual behaviors and accountable for being fully committed to the success of the teams in which we participate."

"Redwood City is committed to continuous improvement and constant learning."

## Transfers

Included are the "normal" transfers from the general fund to the gas tax operations fund (\$198,000), the traffic safety fund (\$1,046,000), and the water fund (\$118,000) in FY 2002/03 with similar amounts in FY 2003/04.

In past years funds realized from our lower retirement system costs have been transferred from the general fund to the capital improvement program to provide additional resources for park renovations, playing fields, and storm drain system improvements. Due to the decline in general fund revenues, we are no longer in a position to recommend a full continuation of this transfer. Eliminating this transfer is one of several actions that staff initiated to provide you with a balanced budget.

## Future Years

As you will see from the Five Year Projection, based on the best information currently available we foresee deficits in FY 2004/05 through FY 2006/07. This information tells us that we need to be diligent in managing our financial commitments in the coming years. In practice this will require that we be cautious in terms of adding costs to the organization and that we be more aggressive in working to retain and expand revenue sources. Among the efforts that we will be focusing our attention on will be expanding our automobile dealerships and the downtown cinema project to increase our sales tax revenues. Projects such as Abbott Laboratories also offer the potential to generate additional revenues. Moreover, as the current three million plus square feet of vacant office space becomes occupied we anticipate a moderate rebound in business-to-business sales tax.

*"Rules will not  
override our  
values of  
flexibility,  
accountability  
and  
innovation."*

## CAPITAL PROJECTS

With the economic downturn and the decline in general fund revenues, the proposed Capital Improvement Program (CIP) for the next two years has been trimmed. The CIP continues an emphasis on the upgrade of essential infrastructure such as roofs, HVAC, carpet, painting, IT servers, sidewalk, street pavement, storm drainage, and lagoon dredging.

In the category of City Council priorities, the next two-year CIP includes funding for projects in the area of:

### Water Supply

- Recycled Water System Development (Water Enterprise)
- Water Conservation Rebate Program (Water Enterprise)

### Youth And Education

- Andrew Spinus Park Renovation
- Schaberg Library Renovation and ADA Improvements
- Childcare Site Acquisition (Redevelopment)
- Redwood Shores Library (GID 1-64)

### Transportation and Traffic

- Pedestrian Crosswalk Warning Lights
- Neighborhood Traffic Calming

### The Downtown Improvements

- Tentative Downtown Parking Structure (Redevelopment)
- City Hall Plaza (Redevelopment)

### Housing

- El Camino Housing (Redevelopment)

### Effectiveness and Efficiency

- Police Department Voice Radio System
- IT Voice Over Internet
- IT Electronic Record System (FY 2003/04)

*"We depend on  
each other to  
achieve  
excellence.  
We work as a  
team."*

The first two phases of the Fifth Avenue/Bay Front Flood Control Program have been completed. The 66 inch diameter flood relief transmission main has been installed from Hoover/5<sup>th</sup> Avenue under Highway 101 and capped in front of the pump station located at Harbor Village Mobile Home Park. The pump station replacement project (Phase III) will connect the transmission main to the new pump station which is under design and scheduled for construction in summer 2003. With regard to the levee protection and additional storage project (Phase IV), staff is in the process of interviewing consultants and exploring different alternatives.

### **REDEVELOPMENT AGENCY**

The Agency is in sound fiscal condition with cash balances for the Agency general fund and housing fund in excess of \$3,900,000 and \$2,400,000, respectively for FY 2002/03 and 2003/04.

The only additions to the budget for FY 2002/03 in terms of projects are \$500,000 for acquisition of land in connection with a new site for a child care center in the downtown; \$200,000 to install the fountain in the City Hall Plaza; and \$2,000,000 towards the development of parking in the downtown.

The Redevelopment Agency has the ability to generate significant funds for important future projects through the issuance of bonds.

### **ENTERPRISE FUNDS**

#### **Water Fund**

The water enterprise fund is in sound fiscal condition, with a \$2 million emergency reserve. Use of unappropriated fund balance for additional future water supply (including implementation of the Recycled Water Project), regulatory and demand management initiatives is proposed in the fiscal years FY 2002/03 and FY 2003/04 water fund capital improvement program.

On July 9, 2001, the City Council approved a resolution increasing the "lifeline" water rate from \$0.86 to \$0.88 per unit, continuing the established practice of setting the Redwood City "lifeline" rate at the San Francisco Public Utilities Commission (SFPUC) wholesale rate. The Council also approved a 3.5% increase from \$10.09 to \$10.44, driven primarily by increases in salaries and benefits to the monthly basic service charge that provides the financial support for the operations and maintenance of the City's water system.

The City Council approved delaying the implementation of the basic service charge and lifeline rates increases to January 1, 2002, to mitigate the impact to Redwood City households and businesses of excessive increases in electricity bills.

#### **Sewer Fund**

The sewer enterprise fund remains in sound fiscal condition, with a \$1 million emergency reserve. Beginning in FY 2000/01, the City has budgeted for the preparation of a Sanitary Sewer Overflow (SSO) Plan in anticipation of new regulations from the U.S. Environmental Protection Agency (EPA). Within the next two-year budget cycle, staff expects that EPA will issue new regulations for preparation and implementation of the SSO Plan.

On July 23, 2001, the City Council approved an increase in the sewer service charge from \$18.97 to \$19.57 that became effective January 1, 2002. The 3.2% increase was driven primarily by increases in salaries and benefits and projected increases of 5.18% in FY 2002/03 and 5.10% in FY 2003/04 for sewage treatment services provided by South Bayside Systems Authority.

### **APPROPRIATIONS LIMITS**

Article XIII B of the California Constitution defines and establishes the City's appropriation limit. No city in California may spend from its "proceeds of taxes" more than the amount of its "appropriation limit." The appropriations limit is determined by a formula contained within Article XIII B. Redwood City's appropriation limit for FY 2002/03 is estimated to be \$92,979,808. The FY 2002/03 appropriations subject to limitations are \$52,318,883. We are well within our legal limit.

*"Authority to act is vested in those closest to the service delivered. We are committed to delivering quality service and quality products to customers."*

*"Just do it."*

## ACKNOWLEDGMENTS

This document reflects the toils and deliberations of many throughout the organization, especially the executive team. I want to thank Magda Gonzalez, Peter Ingram, and Brian Ponty for their thorough reviews of the departmental budget requests. Denise Connich is to be commended for her efforts in organizing and managing the performance measurement and benchmarking elements of this process. Thank you to the Finance Department team: Alison Freeman, Financial Services Manager; Senior Accountants, Irv Weinstock, Gloria del Rosario, and Kyi Khin; Jill Greenhorn, Accountant; and Senior I.T. Analyst, Debbie Matsuura. Their relentless "number crunching," analysis, and attention to details has made this budget document possible. My compliments to Sandy Jennings, Administrative Assistant to the Finance Director, for her patience, talents, and long hours to publish the document you have before you.

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but ourselves  
lightly."*

This City is very fortunate to have Brian Ponty as our Finance Director. He brings his incredible financial skills to bear in overseeing the development of this budget. He nicely mixes his technical skills as an accountant with his professional skills and understanding of accurately projecting revenue and anticipating the state economy.

This budget has been an incredible team effort during a tough economic time. Thanks to all involved.

Sincerely,

Ed Everett  
City Manager