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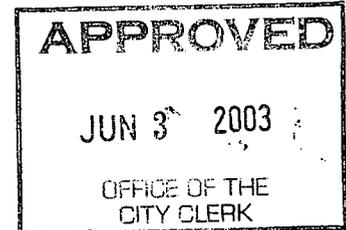
Department of Utilities
Business Services Division

CITY OF SACRAMENTO
CALIFORNIA

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May 16, 2003

City Council
Sacramento, California



Honorable Members in Session:

SUBJECT: FY 2003-04 PROPOSED STORM DRAINAGE FUND OPERATING AND
CAPITAL IMPROVEMENT PROGRAM BUDGETS

LOCATION AND COUNCIL DISTRICT: Citywide

RECOMMENDATION

This report recommends that the City Council approve an intent motion approving the FY 2003-04 Proposed Storm Drainage Fund Operation and Capital Improvement Program budgets.

CONTACT PERSONS: Michael Stamper, Business Services Manager, 264-1468

FOR THE COUNCIL MEETING OF: June 3, 2003

SUMMARY

This report presents information on the FY 2003-04 proposed Storm Drainage Fund Operating and Capital Improvement Program Budgets

COMMITTEE/COMMISSION ACTION: None.



CITY OF SACRAMENTO
DEPARTMENT
OF UTILITIES

Making a Difference in Your Neighborhood

BACKGROUND INFORMATION

The Storm Drainage Fund is a self-supporting enterprise fund which supports storm drainage pumping operations, the storm drainage collection system, related engineering services, flood plain management, customer service and a significant capital improvement program. Revenues in this fund are derived primarily from user fees.

The operating environment for this utility service is influenced by increasing regulation by state and federal agencies, diminishing the extent of local control over service levels and associated costs. Stricter regulation has led to closer scrutiny of daily operations by the State Regional Water Quality Control Board (RWQCB) and increasingly stringent Environmental Protection Agency requirements for storm water quality monitoring. There is also a continuing need to conduct long-range drainage basin master planning leading to capital projects, for both existing and newly developing areas of the City. The need to meet regulatory requirements while also planning for the orderly economic development of the City continues to drive the spending plans for this utility enterprise.

Goals for the Storm Drainage Utility:

- Protect community health
- Improve the stormwater collection system where feasible to minimize major storm event flooding in neighborhoods
- Continue to implement a balanced approach to capital maintenance and improvement between system-wide and area specific projects
- Comply with regulatory authority
- Keep utility rate increases to a minimum while meeting the City's long and short term infrastructure needs
- Continuous improvement of water quality

Major issues include:

- Rehabilitating the central City's combined sewer and storm drainage system (CSS) at the least possible cost to ratepayers
- Reducing capital spending in areas outside of the CSS to only rehabilitation or replacement needs in order to preserve funding pending a plan to increase revenues consistent with requirements of Proposition 218
- Supporting regional flood control efforts
- Improving drainage system reliability
- Improving water quality relative to discharges
- Maintaining a prudent contingency reserve
- Operating under Proposition 218 restrictions

FINANCIAL CONSIDERATIONS

FY 2004 Proposed Operations Budget

The Department of Utilities Storm Drainage-funded operation has a current authorized workforce of 167.5 FTE and an operating budget of \$19 million. The Department proposes a staffing increase of 13 FTE with a net budget increase of \$334,000. The Department is proposing to transfer the Underground Service Alert Program (11 FTE) from Water Distribution in the Water Fund to Drainage Collection in the Storm Drainage Fund; offsets will minimize the cost impact on either fund. The budget augmentations address labor cost of living adjustments, increases in operational costs for North Natomas detention basin maintenance (2 FTE), and additional vehicles.

FY 2004 Proposed Capital Improvement Program Budget

The total appropriation recommended for the FY 2004 Storm Drainage Fund Capital Improvement Program is \$4 million and conforms to the directive of the City Council that at least 50% of funding be directed to projects outside the combined system: \$3.1 million is allocated outside the combined system and \$872,500 is allocated within the combined system. The capital improvement spending program has been reduced to only rehabilitation, replacement, or mandated needs in order to preserve funding until a plan to increase revenues consistent with Proposition 218 can be developed and implemented.

FY 2004 Proposed Rates

The Department of Utilities does not propose an increase in storm drainage monthly user fees for FY 2003-04.

Five Year Forecast

The following table provides the revenue and expenditure projections for the Storm Drainage Fund for the next five years. The Storm Drainage Fund is forecast to end the current fiscal year with a fund balance of approximately \$3.6 million. The projection assumes no increase in rates over the next five years due to Proposition 218 restrictions. To stretch the Fund's resources and still maintain an adequate funding level for storm drainage operations and debt service, a reduced level of capital funding is being recommended. To the extent that the department becomes unable to meet regulatory requirements or adequately address neighborhood flooding caused by major storm events, rate increases may eventually become necessary.

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**STORM DRAINAGE FUND
 REVENUE AND EXPENDITURE FORECAST
 (\$ IN 000)**

FIVE YEAR PROJECTION:	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Projected Rate Increase	0%	0%	0%	0%	0%
BEGINNING FUND BALANCE	3,589	5,749	7,150	8,433	8,702
REVENUES					
User Fees	29,119	29,411	29,705	30,002	30,302
Interest	1,400	1,400	1,400	1,400	1,400
Other	171	165	158	151	145
Total Revenues	30,690	30,976	31,263	31,553	31,847
EXPENDITURES					
Operating	21,440	22,167	23,408	24,171	24,959
Debt Service	3,090	3,407	4,112	4,112	4,112
CIP (financed)	0	5,100	5,100	0	0
CIP (pay-as-you-go)	4,000	4,000	4,000	3,000	3,000
Total Expenditures	28,530	34,674	36,620	31,283	32,071
OTHER SOURCES	0	5,100	6,640	0	0
ENDING FUND BALANCE	5,749	7,150	8,433	8,702	8,478

POLICY CONSIDERATIONS

Chapter 13.08 of the Sacramento City Code allows the City Council to establish storm drainage rates and fees by resolution. However, the process to increase storm drainage user fees to fund additional operations, maintenance and CIP programs has been significantly altered in light of the passage in November 1996 of Proposition 218, the "Right to Vote on Taxes Act." If storm drainage fees are considered "property-related fees" subject to Proposition 218, a proposed fee increase would be required to be submitted to a vote

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and approved by either a majority vote of the affected property owners or, at the option of the City, a 2/3 vote of the electorate residing in the area where the fee is imposed.

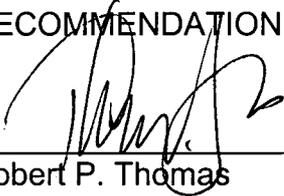
Although no rate increase in monthly user fees is proposed for next fiscal year, upward pressure on spending for operations, maintenance and capital improvements, in addition to maintaining a consistent level of service and prudent reserve, will likely create the need for a rate increase in the future.

Respectfully submitted,



Gary A. Reents
Director of Utilities

RECOMMENDATION APPROVED:



Robert P. Thomas
City Manager

APPROVED:



Thomas V. Lee
Deputy City Manager