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Department of Utilities
Business Services Division

CITY OF SACRAMENTO
CALIFORNIA

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May 14, 2001

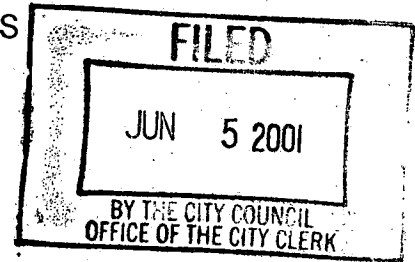
City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: FY 2001-02 PROPOSED STORM DRAINAGE FUND OPERATING AND
CAPITAL IMPROVEMENT PROGRAM BUDGETS

LOCATION AND COUNCIL DISTRICT: Citywide

RECOMMENDATION



This report is for informational purposes only. No specific action is being recommended.

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

FOR THE COUNCIL MEETING OF: June 5, 2001

SUMMARY

This report presents information on the FY 2001-02 proposed Storm Drainage Fund Operating and Capital Improvement Program Budgets.

COMMITTEE/COMMISSION ACTION: None.

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



CITY OF SACRAMENTO
DEPARTMENT
OF UTILITIES

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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.

Major issues include:

- Rehabilitating the central City's combined sewer and storm drainage system (CSS) at the least possible cost to ratepayers.
- Upgrading drainage service to areas outside of the CSS to meet citywide standards.
- Supporting regional flood control efforts.
- Improving drainage system reliability.
- Maintaining the financial strength of the Fund for the purpose of raising sufficient capital to finance rehabilitation of the CSS. To date, the State has authorized five low-interest loans totaling more than \$53 million.
- Maintaining a prudent contingency reserve.
- Operating under Proposition 218 restrictions.

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FINANCIAL CONSIDERATIONS

FY 2002 Proposed Operations Budget

The Department of Utilities Storm Drainage-funded operation has a current authorized workforce of 162 FTE and an operating budget of \$18.4 million. The Department proposes a staffing increase of 4.5 FTE with a net budget increase of \$800,000. The augmentation addresses labor cost of living adjustments, increases in General Fund support costs and debt service, and increased workloads in engineering support, construction inspection, and storm pump maintenance.

FY 2002 Proposed Capital Improvement Program Budget

The total appropriation recommended for the FY 2002 Storm Drainage Fund Capital Improvement Program is \$9.9 million and conforms to the directive of the City Council that at least 50% of funding be directed to projects outside the combined system: \$8.2 million is allocated outside the combined system and \$1.7 million is allocated within the combined system.

FY 2002 Proposed Rates

No rate increase is proposed for storm drainage user fees for FY 2001-2002.

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 healthy fund balance of approximately \$12 million. The projection assumes no increase in rates over the next five years due to Proposition 218 restrictions. To preserve the Fund and maintain an adequate funding level for storm drainage operations and debt service, a decline in capital funding is projected. 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 2002	FY 2003	FY 2004	FY 2005	FY 2006
Projected Rate Increase	0%	0%	0%	0%	0%
BEGINNING FUND BALANCE	12,003	10,790	9,476	8,067	8,249
REVENUES					
User Fees	27,775	28,053	28,333	28,617	28,903
Interest	1,697	1,697	1,697	1,697	1,697
Other	0	426	426	426	426
Total Revenues	29,472	30,176	30,456	30,740	31,026
EXPENDITURES					
Operating	16,496	16,994	17,633	18,296	18,982
General Fund Tax	3,055	3,086	3,117	3,148	3,179
Debt Service	1,200	3,410	4,115	4,115	4,115
CIP (financed)	0	10,200	0	0	0
CIP (pay-as-you-go)	9,934	8,000	7,000	5,000	4,000
Total Expenditures	30,686	41,689	31,865	30,558	30,276
OTHER SOURCES	0	10,200	0	0	0
ENDING FUND BALANCE	10,790	9,476	8,067	8,249	8,998

POLICY CONSIDERATIONS

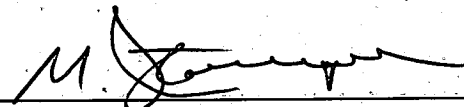
Chapter 13.08 of the Sacramento City Code allows the City Council to establish storm drainage rates and fees by resolution. However, the process to increase storm drainage user fees to fund additional operations, maintenance and CIP programs has been significantly altered in light of the passage in November 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 and approved by either a majority vote of the affected property owners or, at the

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option of the City, a 2/3 vote of the electorate residing in the area where the fee is imposed.

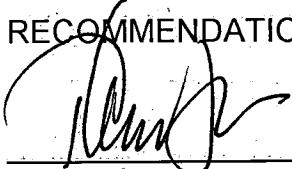
Although no rate increase is proposed for next fiscal year, upward pressure on spending for operations, maintenance and capital improvements, in addition to maintaining a consistent level of service and prudent reserve, will likely create the need for a rate increase in the future.

Respectfully submitted,




For Jim Sequeira
Director of Utilities

RECOMMENDATION APPROVED:



Robert P. Thomas
City Manager

APPROVED:



Thomas V. Lee
Deputy City Manager