

Issue: Storm Drain Fund Subsidy

Should the General Fund subsidize the Storm Drain Fund?

The Storm Drain Fund is presently unable to carry the full cost of the services and programs assigned to it. Operating expenses in the Fund have generally exceeded revenues for the past several years. In order to continue to meet the requirements of the City's NPDES Permit, staff has virtually eliminated all CIP funding and drawn down reserves in the fund to continue to support operations. Even with these efforts, the operational needs for the 06-07 Fiscal Year will exceed revenues plus reserves.

STORM DRAIN FUND (6280): All Programs included

	Actual	Adopted	MidYr Est	Proposed
	04-05	05-06	05-06	06-07
Operating Revenue	5,162	5,097	5,196	5,270
Operating Expenses	6,021	5,738	6,394	5,834
Operating Income/(Loss)	(859)	(641)	(1,076)	(564)
Non-Operating Revenue/(Expense)	(177)	20	20	8
Net Income/(Loss) before Transfers	(1,036)	(621)	(1,056)	(556)

The Storm Drain Fund includes the following programs and proposed budgets for 06/07:

- Stormwater Collections (\$3.3 Million)
- Street Sweeping (\$1.4 Million)
- Storm Water Monitoring and Administration (626,000)
- Leaf Collection (\$319,000)
- Engineering Support (\$24,000)
- Billing & Collection (\$234,000)
- General (support provided by other funds, C&ED, Attorney, etc.) (\$51,000)

Background:

Staff examined the programs in the Storm Drain Fund to determine the feasibility of eliminating them, reducing service levels or finding alternative funding sources. A discussion of the most feasible options follows.

Leaf Collection

One program examined is the Leaf Collection program, which resides in the Forestry Division. The proposed budget for FY 06-07 is \$319,262. Working together, the Pruned Refuse, Leaf Collection and Street Sweeping programs are responsible for keeping City streets, gutters and storm drains clean and clear of debris year-round. The Leaf Collection program picks up an average of 13,840 tons of leaves annually. Equipment and labor from the Pruned Refuse and Street Sweeping programs are used by the Leaf Collection program to perform its tasks.

The Leaf Collection program is currently a Best Management Practice (BMP) under the City's National Pollutant Discharge Elimination System (NPDES) permit. It also meets the

requirements set forth in the Storm Water Pollution Plan (SWPP), and is included in the contractual obligations of the CalTrans Highway Maintenance agreement.

Prior to creation of the Storm Drain Fund, the Pruned Refuse, Leaf Collection and Street Sweeping programs resided in the General Fund. In January 2006 City Council approved moving the Pruned Refuse program from the Sewer Fund back to the General Fund on a temporary basis (not to exceed two (2) years) until a permanent funding source could be found for the program.

With the Storm Drain Fund unable to continue full support of its programs, several options are being considered to keep the Fund solvent, including: 1) discontinuing the Leaf Collection program, 2) continuing the Leaf Collection program and severely reducing all program budgets within the Storm Drain Fund, and 3) moving the Leaf Collection program out of the Storm Drain Fund and into the General Fund.

Option 1: Discontinue the Leaf Collection Program.

While this option would reduce the City's spending obligation by \$319,262 (for FY 06-07), thus shoring up the Storm Drain Fund by a like amount, eliminating the Leaf Collection program will also result in multiple negative impacts, as follows:

- 1) A violation of the City's current NPDES permit BMP (under green waste disposal), and SWPP requirements.
- 2) A breach of the Caltrans Highway Maintenance Contract.
- 3) Street flooding and property damage.
- 4) Street, gutter and storm drain damage due to standing water.
- 5) Traffic safety hazards.
- 6) Pedestrian safety hazards.
- 7) Public outcry due to discontinuation of a long-standing service, along with complaints regarding the unkempt and unsafe conditions of the City's streets.
- 8) Shifting of the liability from Leaf Collection to Stormwater Collections, wherein the catchbasins and rockwells will require additional, more frequent cleaning.

Option 2: Continue the Leaf Collection program without change.

Leaving this program in the Storm Drain Fund for FY 06-07 will cause considerable hardship on the Fund and result in extensive budget cutbacks in all programs within the Fund. If across-the-board cuts are made to all programs in the fund, the percentage reduction is 10.3%. Most programs, including Leaf Collections, cannot be sustained at current service levels with a reduction of this magnitude. Every program in the Fund would either be severely curtailed, so as to be rendered ineffective, or discontinued.

Option 3: Move the Leaf Collection Program into the General Fund.

This option keeps the program intact and houses it in the same fund as the Pruned Refuse program. These two programs work closely together, sharing equipment and labor. This option includes identifying a new, shared funding source for both programs. Impacts of this option include:

- 1) Reduction in across-the-board budget cuts to the 5.2% level. Program impacts will be provided once evaluations have been performed.
- 2) Continuation of the Leaf Collection program in compliance with the City's NPDES permit BMPs, SWPP requirements and Caltrans contract obligations.

- 3) Time to pursue a new funding source shareable by both the Leaf Collection and the Pruned Refuse programs without interrupting or reducing services in the meantime.

Street Sweeping

The Street Sweeping Program is considered a BMP under the terms of the City's NPDES permit. The City currently owns 7 street sweepers, with one as a hold back sweeper. Residential areas are swept two times per month, except during leaf collection season, when the sweepers follow the leaf collection vehicles. Commercial and industrial areas are swept once per week. Downtown areas are swept daily, at night. Traffic islands, bridges and overpasses are swept more frequently, ranging from once per week to once per month, dependent upon staffing. State highways (108 and 132) are swept once per week as part of an agreement with Caltrans. Street sweeping was considered for privatization in Fiscal Year 97-98. Based upon responses obtained during the RFQ/RFP process, Council determined it was more cost-effective to retain the services in-house.

Option 1: Reduce Street Sweeping Schedule.

Reducing street sweeping frequency does not represent a savings to the Fund unless schedules are reduced to the point that one sweeper and one motorsweeper operator can be eliminated. The current staffing level and number of sweepers is the minimum number required to provide present service levels and meet NPDES permit requirements.

Option 2: Seek Supplemental Funding Sources for Street Sweeping.

Caltrans currently pays the City \$18,000 annually for weekly sweeping of state highways 108 and 132 (within the City limits). This contract is due for renewal. Staff believes renegotiating the contract could result in increased revenues to the fund in the amount of \$18,000 additional dollars annually. While this is not sufficient to "save" the fund, it is additional revenue that can be pursued.

In addition, the Downtown area currently receives a higher service level than any other area of the City. There is the potential to seek DID funding to offset some of the costs for this higher service level. Staff estimates an additional \$20,000 in funding may be realized from this option.

Finally, staff could potentially bring revenues to the Fund by selling street sweeping services to adjoining agencies and/or the County. This option would not be possible without adding overtime funding or additional staff. Staff estimates there may be \$40,000 of additional revenues (netted for expenses) potentially available from this funding source.

Fleet Replacement Fund

At present, the Fleet Replacement dollars set aside for vehicles and equipment owned by the Storm Drain Fund totals \$1.3 Million. Of this amount, \$70,000 is planned for expenditure on vehicle/equipment replacement for Fiscal Year 06/07.

Option: Use Fleet Replacement Funds to "Rescue" the Fund for 06/07.

One option is to use Fleet Replacement Funds to offset some or all of the shortfall in the Storm Drain Fund for Fiscal Year 06/07. Staff has considered this option and does not recommend it for the following reasons:

- Short-term fix with long-term consequences
- Maintenance costs increase when vehicles are kept beyond their recommended life cycles

- Equipment and vehicles owned by the Fund are costly (Street sweepers, Vaccon trucks) to replace and the Fund is already “behind” on what should be held in the Replacement Account
- Once the replacement fund is raided, catch up is even more difficult

As the programs contained within the Storm Drain have grown to meet the needs of the community, the underlying fee structure has not changed to ensure that the increasing costs to provide these programs are fully recovered.

Options: Direct staff to seek a fee increase to fully recover the costs to operate these programs. The fee structure can be amended but would not be subject to a majority protest vote like the water or sewer fees. This means that a majority of the customers would have to vote for the increase in order for it to take effect – which means a lengthy ballot and education process to assure success.

Billing and Collection

Billing and Collection comprises four percent (4%) of the Fund’s annual operating budget expenditures. These charges are assessed to the Fund by the Finance Department for preparation, mail out and collection of storm drain bills. The Finance Department also handles customer service calls related to Storm Drain bills. Collectively, the Customer Service Division charges the Water, Sewer and Wastewater Funds \$1.5 Million in direct costs for Billing and Collections on an annual basis.

Option: Outsource Billing and Collections

Another option for potential savings in the Storm Drain Fund is outsourcing billing and collections for the Storm Drain Fund, as well as the other Utility Funds. The privatization process is time-intensive to conduct and it is unknown whether substantial savings would be realized by pursuing this option. A review of the outsourcing options was conducted in the past and concerns were raised then about an outside vendor’s ability to provide the same caliber of service and maintain a “one-stop shop.” Further, even if the billing and collections were outsourced, the city would need to maintain its cashiering function to ensure that our walk-in customers have a fixed location to make their payments and bring forth their concerns about the utility services they receive.

Recommendations:

Due to the mandates set forth in the SWPP, along with the NPDES permit BMPs and Caltrans Highway Maintenance requirements, staff recommends the following:

Immediate

- Initiate across-the-board budget reductions of 5.2% for all programs in the Storm Drain Fund.
- Temporarily remove Leaf Collection from the Storm Drain Fund to the General Fund under the same conditions as the Pruned Refuse program. This recommendation includes placing both programs in the same permanent fund when this fund is identified.

The combination of the above two recommendations is sufficient to keep the Fund viable for both 06/07 and 07/08, assuming only a 2% increase in operational costs for 07/08.

Intermediate

- Explore revenue enhancements and savings associated with contracting services to other agencies and outsourcing as longer-term projects to enhance revenues/reduce expenditures.

Long-term

- Pursue rate increase in the Storm Drain Fund, with an automatic inflator to adjust for changes in operational needs.

Finance Committee Action:

Committee concurs with staff short-term and long-term recommendations resulting in a \$319,000 transfer from the General Fund in FY 2006-07.