

CITY MANAGER'S MESSAGE

(As presented in the FY 2008-2009 Proposed Budget Document)

Honorable Members of the City Council:

Introduction

On behalf of the employees of the city organization, including myself, I would like to salute the City Council and the East Palo Alto community on the pending 25th anniversary of the city's incorporation. Indeed, the historical record provides independent confirmation that significant change has occurred demographically, culturally, economically, and physically over the period from incorporation to the present. Such change has positively contributed to the uniqueness that defines East Palo Alto and has greatly enriched its residents. It has also frequently unleashed forces that have confronted the community and the city organization with difficult choices as both have sought to ways to enhance the overall quality of life. From a city organizational perspective, staff continues to be inspired by the city's history and remains committed to the quest of achieving the level of excellence in service delivery as contemplated at incorporation.

While an occasion for celebration, the city's anniversary of its incorporation has presented an opportunity for reflection from various perspectives including my own. This is my fifth budget message. Since my arrival in October, 2003, I can personally attest that notable changes have taken place in the city organization. For instance, employees have, for the most part, collectively been relocated to improved working environments although we have yet to achieve the benefits and efficiencies that physical consolidation under a single roof would provide. We have also made progress in reducing the average age of vehicles comprising the city's fleet by replacing most of the older vehicles with newer, more efficient equipment. This year's budget proposal would continue progress toward the goal of ensuring that staff has the best equipment possible to assist in optimizing service to East Palo Alto residents.

Pressed by the urgency of the situation, the City Council and staff collaborated and demonstrated widely acknowledged resourcefulness in acquiring resources to affect significant repairs and upgrades to portions of the levee system that provides vital protection against flooding from San Francisquito Creek. While completing that task, staff also demonstrated an immediate benefit of taking over drainage district responsibilities from the County by improving the appearance of the O'Connor Street Pump Station and placing the facility on a more predictable maintenance schedule thereby enhancing the likelihood that it will operate as intended when significant runoff results from heavy rains. The long awaited phase I Bay Road reconstruction is currently underway and is expected to contribute positively to the overall appearance of neighboring properties abutting the project when it is completed in late June 2008.

Some changes are less obvious but have been of no less significance in contributing to enhanced quality of life for East Palo Alto residents. For instance, city staff has utilized creative methods to encourage sponsors of private development to install expensive but needed community-benefiting water, drainage, street and traffic infrastructure improvements in various locations as they have implemented their own projects. In those instances, localized flooding may have been reduced or water pressure increased to better support fire protection.

Over the last several years, important relationships have been reestablished between the city and various community organizations as the Police Department has partnered with them to pursue various community policing initiatives. Upsurges in crime activity does occur from time to time, however, measurable progress has been made in the department's quest to enhance public safety. The department and its community partners continue to work tirelessly and aggressively to not only directly address factors that threaten public safety but also those that effectively contribute to crime prevention. Grant resources obtained from federal and state sources are also being brought to bear in proactively addressing the needs of previously incarcerated individuals wanting to change their status and return to productive lives in the community.

Background

This transmittal serves to present the City Manager's budget proposal for Fiscal Year 2008-2009 for City Council review and consideration. The proposal acknowledges the very real and difficult challenges

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facing the city resulting from forces that have historically threatened its fiscal stability, (now further compounded by new vulnerabilities resulting from our troubled national, state and local bay area economies). However, its focus is on maintaining core services while leveraging non-General Fund resources to take better advantage of opportunities presently available to address long-standing, critical service needs.

Fiscal Year 2007 – 2008 In Retrospect

Fiscal Year 2007-2008 began for the city with a variety of fiscal vulnerabilities and uncertainties (in such areas as: potential legal settlements and other unplanned expenditure requirements, higher than expected employee medical coverage, labor, and other business costs, potential additional unfunded mandates from state and federal sources, etc.). However, unlike previous years, it also began with a Council authorized financial blueprint. The Financial Plan, included in the adopted Fiscal Year 2007-2008, provided city management with an additional tool to utilize in constructing a sound mid-range fiscal strategy to offer to the City Council intended to guide fiscal decision-making on a proactive, rather than reactive basis. The Financial Plan has provided a useful point of reference as the city found a way to successfully meet its commitments resulting from agreements with two of its collective bargaining organizations completed during the fiscal year. Equally important, it articulated a goal that, together with the ongoing tight fiscal controls being administered by city management, has generated a projected unallocated general fund balance that will afford the City Council the opportunity to establish for the first time in the city's history, a reserve fund going into the new fiscal year. A reserve fund, modest though it may be at the recommended approximately 10 percent of proposed authorized expenditure for next year, will allow the city to take its rightful place among virtually every other local government in San Mateo County in establishing a capacity to offset unexpected cost increases sufficiently large to threaten the city's fiscal viability.

Notwithstanding, fiscal uncertainty, the city successfully pressed forward with long-standing plans to commence construction of Bay Road, Phase I. By all indications, the project is anticipated to be completed before the end of the Fiscal Year 2007-2008. Also completed was a Pavement Management Survey of all 38 lane miles of the city's street system. The survey has made an important contribution to updating the city's 5-year Capital Improvement program scheduled for review by the Planning Commission and Public Works and Transportation Commission. Those commissions will provide recommendations for City Council in due course. The survey has also provided a basis for the Public Works and Transportation Commission to recommend specific street maintenance improvements to be commenced in Fiscal Year 2008-2009. City staff also successfully obtained over \$800,000 in grant funding to undertake specified sidewalk improvements to enhance safe routes to a number of the city's elementary schools. Again, these projects are expected to get underway in Fiscal Year 2008-2009.

In February, 2006, the City Council identified among five major categories that it wanted to focus on, improving the management, efficiency, and operating effectiveness of the City organization. Accordingly, through the City Manager, it commissioned the preparation of an organizational assessment of the Community Development Department by the Matrix Consulting Group. Matrix prepared a list of recommendations, the majority of which have yet to be comprehensively considered by the City. However, high on the list of Matrix recommendations, and one included in this proposed budget for Council consideration, is that of creating a new Community Development Director position to lead the Community Development Department. Although the Community Development Department was created by a previous City Council, historical evidence suggests that it has never had the guidance of a department head. A funding source would have to be identified to support a new director position, however, in staff's judgment, it is key to effective implementation of whatever Matrix recommendations the Council may be inclined to support as well as establishing a more firm organizational foundation upon which to enhance customer service delivery .

The City, through its Housing Staff, successfully participated with the other 19 cities and San Mateo County to complete development of the county's component of the Association of Bay Area Government's Regional Housing Need Allocation Plan (RHNA). San Mateo County jurisdictions, including the City of East Palo Alto, were the only entities anywhere in California, to complete the RHNA on a collaborative

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basis. Our RHNA process is being cited by ABAG and the California Housing and Community Development Department, as a model to be emulated throughout the state. The RHNA, which provides a required housing allocation that reflects a recognition of the leading role historically played by East Palo Alto in the provision of affordable housing, will provide necessary data to support the required update of the city's Housing Element of the General Plan, scheduled to occur in Fiscal Year 2008-2009.

Expanded efforts were made during Fiscal Year 2007-2008 to provide the general public and media with accurate, timely reports on significant matters relating to city operations. Accordingly, in February, 2008, televised coverage of public meetings was expanded to include City Planning Commission meetings.

Finally, the city took another significant step in repositioning its relationship with the County. A year ago, the city assumed responsibility from the County for managing a lighting district and drainage district – both of which serve East Palo Alto residents. The city retained a \$75,000 maintenance agreement with the County to ensure that it had sufficient capacity in place to adequately respond to service demands related to the lighting district as staff familiarized itself with the system. The City recently terminated the maintenance agreement and assumed full responsibility for servicing the lighting district.

The Police Department also ended its County Services contract with the Sheriff as anticipated at the start of the fiscal year, thereby allowing it to redirect resources to fill some vacant positions.

The Fiscal Year Ahead

Fiscal Year 2008-2009, will present the city with both significant challenges and opportunities relative to its role as a member agency in various regional agencies that either provide services to the community or whose operations impact it. Specifically, the City Council authorized the staff of the SBWMA, which manages the master agreements with Allied Waste, for waste collection services, waste transport and recycling and disposal on behalf of the city to manage the process of selecting new service providers and negotiating new service agreements. The City Council will be provided with recommendations related to the selection of new service providers and new service agreements during the next fiscal year. The Council should also anticipate the need to consider recommendations related to a new Master Water Agreement between BAWSCA, of which it is a member, and the San Francisco Hetch-Hetchy during the latter part of the next fiscal year. The new Master Water agreement will likely contain significant increases in water supply related costs and therefore, will present the city with difficult choices in meeting the needs of the community in this important service area. The San Francisquito Creek Joint Powers Agency, of which the city is a member, is in the process of identifying alternative treatments for reducing the threat of flooding from the creek. Possible options suggest that a significant financial commitment will be required of member jurisdictions to implement ultimately agreed upon solutions and an implementation schedule that could require that funding commitments be made as early as next fiscal year.

Fiscal Year 2008-2009: The Budget Proposal

As in previous years the Fiscal Year 2008-2009 budget proposal attempts to balance a number of objectives and considerations. As always, there are competing demands on a very limited funding resource available to accommodate them. Preliminary revenue forecasts suggest contradictory forecasts relative to declining revenues in specific categories, such as sales tax receipts, but a projected increase in development related fees. The latter masks a longer-term projected decline due to a short-term infusion of significant fees related to permit processing associated with the new University Place 180,000 square feet of office development scheduled to commence construction in the near future. The anticipated decline in sales tax receipts, and eventually in development fees, is related to continued problems resulting from the troubled housing market and, continued weakness in the overall economy.

◇ Fund Community Requests From Non-General Fund Sources

Notwithstanding the fiscal uncertainty expected to result from the preceding factors discussed, this budget proposal contains a dimension that has not been available in previous years. Specifically, sufficient resources have accumulated in other non-General Fund categories to reduce the need for the City

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Council to look to the General Fund to accommodate community requests for funding assistance if it is so inclined.

The City Council has already recognized the need to establish policy priorities and resource allocation criteria for considering community-based funding requests from the accumulated Measure C fund balance. It is recommended that the Council also establish policy priorities and resource allocation criteria for consider funding requests appropriate for consideration from the TOT-based Children Youth Seniors and Family Fund as well.

◇ Establish a Reserve Fund

As discussed earlier, an opportunity exists for the Council to establish a Reserve Fund. Therefore, it is recommended that the City Council end the current fiscal year by formally establishing a Reserve Fund and that it be endowed with an initial minimum allocation equivalent to 10 percent of authorized expenditure for Fiscal Year 2008-2009. As suggested in the Fiscal Year 2007-2008 Adopted Budget, it would be prudent to establish a reserve fund representing 10 -20 percent of authorized General Fund expenditures. Staff recommends that the proposed 10 percent represent a first step toward achieving a 15 percent minimum next fiscal year (Fiscal Year 2009-2010).

◇ Restore Public Safety Support Positions

A full-time Records Clerk position was eliminated in the FY 05-06 adopted budget as part of an effort to avoid layoffs at the time. The reduced staffing in the Police Department has necessitated increased overtime on an ongoing basis in remaining positions servicing the function. Staff believes that it would be more cost-effective to restore the position than continue with the current understaffed arrangement. It is also recommended that the Crime Analyst position, which was also reduced by 25 percent (to .75 Full Time Equivalent) for the same reason, be restored to a full position.

◇ Enhance Information Technology Capabilities to Increase Service Efficiency

A Permit Tracking System is proposed to be funded in order to increase service efficiencies in the Community Development Department. Specifically, it is proposed that a permit tracking system be installed that will automate the tracking of development permits being processed by the Planning, and Building Divisions. The system would also automate permit applications being processed by the Engineering Division of the Public Works Department and provide for more efficient tracking and coordination of all development reviewing agencies, including the Menlo Park Fire District and the East Palo Alto Sanitation District. Installation of an automated Permit Tracking System is a recommendation of the recently completed Matrix Organizational Assessment. The system would also be designed to provide the city with a geographic Information system mapping capability, which would enhance its ability to better analyze the implications and potential impacts of proposed projects as well as facilitate future land use policy formulation.

◇ To Extent Possible, Fund Required Studies From Non-General Fund Sources

Studies are needed, from time to time, to assist the City Council and the staff to identify options for addressing important issues confronting the community. Such studies are often of sufficient importance or urgency as to justify support from the General Fund. Given the possibility of reduced revenues in the General Fund in the coming fiscal year as well as , the high level of competing demands on available funds, it is recommended that the Council seek to leverage to the maximum extent possible, non-general fund sources to fund studies believed to be necessary.

◇ Maintain Timely Vehicle Replacement Schedule

In Fiscal Year 2006-2007, the staff recommended and the City Council authorized an aggressive vehicle replacement program to replace much of the city's worn vehicle fleet. Extensive replacement was warranted for many reasons, not the least of which included: increasing service efficiencies, eliminating

