

**Council Meeting: May 6, 2008****SUBJECT: Fleet Services Budget Overrun in the Amount of \$270,000 Due to Increased Fuel Costs in Fiscal Year 2007/2008 and Approval of Budget Modification No. 52****REPORT IN BRIEF**

A budget increase is requested in the amount of \$270,000 for Program 763 *Provision of Vehicles and Motorized Equipment* (Fleet Services) to fund additional fleet costs resulting from the recent increase in fuel prices. Council approval is requested for Budget Modification No. 52 to appropriate \$270,000 from the General Services Fund/Fleet Services Sub-Fund Reserve to cover the expected overage at fiscal year end in operational expenditures.

BACKGROUND

The General Services Fund accounts for the expenditures associated with support services such as Fleet Services. Funding for this service is recovered through internal services charges to benefiting operating programs. The Fleet program has a current operating budget of \$2,466,933. It is anticipated that this program will exceed its current budget appropriation by approximately \$270,000 due to the sharp increase in fuel prices over the course of this fiscal year.

EXISTING POLICY

Fiscal Long Range Goals and Policies 7.1A.4.1 – Expenditures for each department are legally limited to the amount authorized by the City Council in the Budget Resolution, plus subsequent changes individually approved by the City Council through Budget Modifications.

DISCUSSION

High fuel costs have had a significant impact on the Fleet Services budget (Program 763). As of this writing, gasoline prices for the City have risen from \$2.14 per gallon in July 2007 to the current price of \$3.31, and diesel fuel has risen in the same period from \$2.27 per gallon to \$3.94 per gallon. The City annually requires approximately 186,000 gallons of gas and 65,000 gallons of diesel. As many of the products and services necessary in the transportation field rely on petroleum based products, Fleet Services has also seen a corresponding increase in the cost of repair parts and the cost of outside repairs. As a result, a budget modification in the amount of \$270,000 is

requested at this time to fund the increased costs through the remainder of FY 2007/2008. This requested increase is based on the following estimates:

Fuel cost increase:	\$181,228
Parts cost increase:	\$ 24,885
Outside labor/parts increase:	\$ 63,887
<u>Total:</u>	<u>\$270,000</u>

Historically Fleet Services has provided savings in vehicle replacement costs by deferring the planned replacement of vehicles and equipment based on conditional assessments of the applicable units and subsequent extension of their life expectancy. This year, it is expected that this will yield \$368,000 in equipment expenditure funds returned to the Fleet Services Sub-Fund Reserve based on the following savings:

FY07/08 Planned equipment replacement	\$1,528,884
<u>Actual replacements</u>	<u>\$1,160,577</u>
Savings	\$ 368,307

This expected savings from the deferral of equipment procurements will offset the requested increase in operational expenditures. This is expected to be a one-time operational issue, as the increased fuel prices have been incorporated into the FY 2008/2009 Fleet Services budget proposal.

FISCAL IMPACT

This requested one-time increase in operational expenditures to cover increased fuel costs will be offset by expected savings in Fleet equipment expenditures for FY 2007/2008. Budget Modification No. 52 has been prepared to appropriate \$270,000 from the Fleet Services Sub-Fund Reserve to the operating budget of Program 763 Provision of Vehicles and Motorized Equipment operating budget.

**BUDGET MODIFICATION NO. 52
 FISCAL YEAR 2007/2008**

	<u>Current</u>	<u>Increase (Decrease)</u>	<u>Revised</u>
General Services Fund – Fleet Services Sub fund Expenditure:			
Provision of Vehicles and Motorized Equipment Program (Program 763)	\$2,466,933	\$270,000	\$2,736,933
Reserves:			
Fleet Sub –Fund Reserve	\$1,956,785	(\$270,000)	\$1,686,785

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, in the Council Chambers lobby, in the Office of the City Clerk, at the Library, Senior Center, Community Center and Department of Public Safety; posting the agenda and report on the City's Web site; and making the report available at the Library and the Office of the City Clerk.

ALTERNATIVES

1. Approve Budget Modification No. 52 in the amount of \$270,000 to increase the operating budget for Program 763 *Provision of Vehicles and Motorized Equipment* to cover the increase in fuel costs.
2. Do not approve Budget Modification No. 52.

RECOMMENDATION

Staff recommends Alternative 1: Approve Budget Modification No. 52 in the amount of \$270,000 to increase the operating budget for Program 763 Provision of Vehicles and Motorized Equipment to cover the increase in fuel costs.

Increased costs for future years will be addressed in the next recommended budget.

Reviewed by:

Marvin Rose, Director, Public Works
Prepared by: Tony Vargas, Fleet Manager

Reviewed by:

Mary J. Bradley, Director of Finance

Approved by:

Amy Chan, City Manager