

Storm Drain Oversight Committee April 5, 2006 Meeting Summary

Attendees:

SDC Members Present		City Staff	
John Tarlton, Vice-Chair	Rod McNall	Joe Teresi	Ted Hammond
Stephenny McGraw		Matt Raschke	Glenn Roberts
Richard Whaley		Dale Wong	
SDC Members Absent		City Council	
John Melton, Chair			

The meeting opened with introductions of the Committee and City Staff at 9:05. Joe Teresi described the background of the storm drain fee increase that led to the formation of the Committee and its purpose. He also described the packet contents.

Agenda Item I – Roll call

Roll call was formally taken with only John Melton absent.

Joe described the meeting schedule proposed by staff. It would include two annual meetings with one in January to look back at the previous year's budget and one in April to look forward at the proposed budget.

Agenda Item II- Election of Committee Chair and Vice-Chair

Rod McNall made a motion to nominate John Melton as Committee Chair. The motion was seconded by Stephenny McGraw. The motion was approved by unanimous vote of the Committee present. Richard Whaley made a motion to nominate John Tarlton as Vice-Chair, and it was seconded by Rod McNall. This motion was also approved unanimously.

Agenda Item III – New Business

John Tarlton asked for more information on how the Committee will work. Glenn Roberts explained that the Committee can choose to meet more often than staff proposed and that their task is to ensure that the Capital Improvement Program (CIP) is consistent with the intentions of the Storm Drain Blue Ribbon Task Force (BRTF) and the voters.

Rod McNall said he interpreted the mandate as ensuring the fee increase is consistent with the proposed program. He asked how much was due to the increase. Joe Teresi explained the increase amount as \$5.75 on top of the previously existing \$4.25 base monthly fee. Approximately 55% of the revenue is from the fee increase.

Glenn Roberts suggested some methods of measuring success, such as if the projects were getting done and monitoring any dollar amount differences between the initial project estimates and the actual costs. Joe Teresi read the description of the committee from the 2005 ballot measure. Richard Whaley asked if the first budget year had the increased revenue. Joe stated that it did and the increase became effective in June 2005.

Joe then described the proposed CIP program of 7 projects over 12 years. The fee increase also provides funding for an annual pipeline rehabilitation project, an annual innovative projects budget, and increased annual funding for operations and maintenance. Rod McNall asked for a clarification on the meaning of innovative projects. Joe described the grant program proposal that would provide funding for public and private projects to install things like green roofs or cisterns to reduce the amount of runoff. It is an alternative to constructing bigger pipes to handle the water by encouraging small scale runoff reductions.

Joe introduced Ted Hammond as the new engineer funded by the fee increase. Richard Whaley asked if any engineering would be outsourced. Joe indicated that the majority of the work is planned to be done by in house expertise. Only the more complicated projects such as the new San Francisquito Creek Pump Station would involve outside engineering help.

John Tarlton asked about the inflation index. Dale Wong stated it is the Bay Area Consumer Price Index (CPI) for December to December. Ted Hammond asked if it was tied to any specific construction cost indexes. It is not. Richard Whaley stated that that was unfortunate.

It was stated that the previous debt financing is paid by the existing \$4.25 element of the monthly storm fee. Rod McNall asked how much the City's up front storm drain fees will be. Dale Wong explained the Budget Plan spreadsheet on the second to last page of the packet. The City's advanced payment is split among the first three years of the program and totals approximately \$3.11 million. Joe explained that annual fee revenue then drops off after the third year, but it is accounted for in the project plan.

John Tarlton remarked that the pre-payment benefits the storm fund [and has an opportunity cost] on the general fund. He stated that the opportunity cost is a reasonable trade off for the benefit of the storm drain fund. The Committee asked who gets the interest and at what point in the year the transfer is made. **Action Item for Staff**

John Tarlton asked what the process would be to get permission to borrow funds now instead of continue on a "pay-as-you-go" basis. He expressed concern that the construction cost indexes are accelerating much faster than CPI. He remarked that building shell costs have increased 50% over the last two years. Joe Teresi explained that the fee drops back to \$4.25 at the end of year 12, so long-term debt would not be feasible. Glenn Roberts also thought it would take another ballot action of property owners to make such change. Joe Teresi pointed out that some of the projects are potentially scalable to fit the budget estimates. He specifically identified Alma Street and South Gate improvements as having flexibility. Rod McNall stated that the General Fund (GF) could pay for the cost increases and that Council should consider that. John Tarlton said there are many competing issues for GF monies. Glenn Roberts pointed out that Council has made it clear that this is an enterprise fund.

Glenn Roberts suggested the Committee raise the issue with City Council. John Tarlton said that we know today that the root assumptions of the program are wrong with respect to inflation. Rod McNall asked when the first report from the Committee was due. Joe explained the Committee should submit a report to the Finance Committee on May 4, 2006. John Tarlton said it should have a request for staff to prepare a plan to address the funding gap. Joe Teresi pointed out that it has yet to be seen if increased construction costs will affect the program goals. We have not had any recent bid openings to compare with engineering estimates. Richard Whaley stated that no one can foresee 12 years ahead and that at least the projects are prioritized. Stepheny McGraw added that the innovative projects fund could be considered to offset the funding gap.

Joe Teresi then described the current course of action for the innovative projects fund. Palo Alto has submitted a concept proposal to the State Water Resources Control Board (SWRCB) for a grant to construct dry-weather diversion systems to route non-storm-related water to the sanitary sewer system. This would leverage two years of innovative projects funding [\$250,000] into \$1 Million. The concept grant proposal was submitted on February 9, 2006 and SWRCB estimated that invitations for a full proposal would be sent out in March. [After the meeting on April 7, 2006 Palo Alto was invited back for a full proposal].

Joe Teresi then described the last page of the packet that compares the 2005 ballot measure to the preliminary budget for fiscal year 2006-07. Richard Whaley commented that the proposed project timeline was out of order from the ballot measure list. Joe indicated that the ballot listing was not meant to be a prioritization list. The projects were fit into the twelve year program based on their priority and the ability to fund the with the pay-as-you-go revenue stream.

John Tarlton asked about the meaning of contract services on Preliminary Budget Item 3 [on the last page of packet]. Joe Teresi described this as small maintenance projects such as painting the pump stations and pipeline televising.

Richard Whaley confirmed that the committee is not being asked to look at the historical budget items funded by the \$4.25 portion of the monthly fee.

John Tarlton asked if Preliminary Budget Item 5 was just a transfer of funds from one fund to another. Joe confirmed this to be correct. It eliminates a past subsidy by the Wastewater Treatment Fund.

John Tarlton asked for clarification that the funding for the new engineer position [described in Item 6] ends after year 12. Joe stated that was correct.

Joe Teresi said the proposed budget goes to the Finance Committee meeting on May 4, 2006. The goal is to prepare a memo report to submit to the Finance Committee at that meeting. John Tarlton asked who is on the Finance Committee meeting. Ted Hammond relayed information from the City Manager that Council Members Yoriko Kishimoto, Larry Klein, Bern Beecham, and Dena Mossar serve on the Finance Committee.

John Tarlton suggested using the Preliminary Budget list [on the last page of the packet] as a starting point for discussion. He also stated that the memo should indicate a high level of confidence that the proposed funds will be sufficient

Item 1

Rod McNall pointed out that the 2006-07 conceptual budget had \$2.6 Million in projects. The Preliminary Budget for 2006-07 does not have this much in it now. Joe explained that the funds shown in the conceptual budget are being banked in reserves to fund the construction contract for the San Francisquito Creek Pump Station that is scheduled for award shortly after July 2007. The full construction amount must be in the budget in order to award the contract. Matt Raschke explained that the project is currently moving along well in design and that numerous permits for the construction will be required. The July 2007 construction start date works well with the permitting schedule.

Item 2

John Tarlton requested that a list of projects and locations be included for the rehabilitation project at future meetings. Rod McNall expressed concern about coordination with the street resurfacing project. Joe Teresi explained that storm drain engineering shares the same office with street resurfacing staff and they stay very coordinated on their respective projects.

Item 3

Richard Whaley indicated that the increased maintenance funding was not a major increase and that it was good for the program.

Item 4

John Tarlton stated that he is in favor of the concept grant proposal for the innovative projects fund. But he asked if it would engender additional recurring costs for use of the sanitary sewer system. Matt Raschke answered that the question has been raised with wastewater staff, but it has not been given a definite response to date. He added that it will be answered prior to going any further with the grant proposal process [i.e. submittal of a full proposal upon invitation].

Item 5

Rod McNall asked if the storm water quality protection program was a mandate. Joe confirmed that it was.

Item 6

John Tarlton suggested that the description clarify that the new engineer FTE sunsets at the end of 12 years.

Item 7

John Tarlton suggested inserting a statement about the concern over the root inflation assumptions and increased construction costs. Rod McNall added that increased costs will create a gap between community expectations and what can be built. John Tarlton predicted that bids for Gailen Drive/Bibbits Drive project will be much higher than anticipated.

Item 8

John Tarlton stated that the City is being generous by paying the fees up front [due to the opportunity cost]. He asked that the budget clarify when the transfer is made and which fund receives the annual interest.

Joe Teresi offered to prepare the first draft of the memo report to the Finance Committee. A motion was made and seconded to have staff prepare the memo to reflect the discussion. It passed unanimously.

Rod McNall stated that he would be out of the country for two weeks starting on Sunday, April 9, 2006. Joe said he would send out a draft memo by April 7, 2006.

At 10:46am John Tarlton moved to adjourn. The motion was seconded and passed unanimously.

Action Items:

- Joe Teresi to e-mail a draft memo to the Committee for review.
- Staff to answer question about when the GF transfer of pre-payment funds occurs and which fund receives the interest
- Future packets to contain page numbers for easy reference

Matt Raschke
April 12, 2006