



FINANCE COMMITTEE

Regular Meeting
Tuesday, May 12, 2009

The Finance Committee of the City of Palo Alto met on this date in the Council Chambers at 7:05.m.

Present: Burt (Chair), Klein, Schmid

Absent: Morton

1. Oral Communications

None

Director of Community Services, Lalo Perez defined the use of the term Parking Lot; during the budget process as a placeholder for items set aside for further discussion prior to the budget being brought before Council. It took two Committee members' consensus to move the items to the Parking Lot with the goal of continued fact-finding and decision by the end of the process. He reviewed the additions to the Parking Lot since the meeting of May 7, 2009 to include; 1) Citywide travel budgets by department in summary, 2) A Utilities' savings based on sustainability effort, 3) A \$500,000 reduction in the Police Department budget, with specific recommendations for a reduction of \$492,000, 4) Cost for the Library Book Hold System, 5) The impacts of removing two planners from the Planning Department, 6) The consideration of not including the Comprehensive Plan extension of one-year at a savings of \$75,000, 7) Numbers for the Basic Life Support (BLS) program were updated at \$98,429 in revenue removed with evaluation of future organizations of the Office of Emergency Services consolidation and coordination. There was also the Staff-recommended change for the removal of the Assistant Planning Director which was noted in the current spreadsheet numbers.

City Manager, James Keene clarified it was by the Committee's action and not the Parking Lot decisions in which there was a balance of \$648,000 in the pro forma for the 2010 Budget in positive numbers, with a negative of \$3 million in 2011. He stated the continued question for the Committee was whether or not they wanted the Parking Lot issue follow-ups initially or later in the meeting for the detailed reports.

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Council Member Klein asked why the energy savings for the environmental programs had not been added to the Parking Lot.

Mr. Keene stated this item was included under the Utilities' Energy Savings to be determined. He noted he could give a preliminary report on the amounts.

Council Member Klein asked if the 3rd quarter financial results could be discussed as well as an overview of where they stood prior to evaluating the particular departments.

MOTION: Council Member Klein moved, seconded by Chair Burt to move Agenda Item No. 8 forward to become Agenda Item 1A.

MOTION PASSED 3-0 Morton absent

Mr. Keene noted two Parking Lot items for which they had returned with specifics:

- 1) Staff had asked Department Directors to be prepared to speak to the Committee on their training and travel budget during the budget process.
- 2) The energy savings question returned with reference to the Sustainability Quarterly Update provided to Council which identified a potential \$2 million in energy savings due to the implementation of the City's Climate Action Plan.

The projections were based on achieving these factors; cross-fund considerations and the projects which reach out to the year 2012 as the near-term targeted horizon for the five percent reductions. The upcoming calendar year 2009 holds the explicit five percent reductions targeted, around which departments were targeting their budgets. Staff had projected, on successful implementation of the CO2 reductions and savings, 2009 with \$269,000 in savings with a ramp-up for additional years. There was approximately \$265,000 in the General Fund tempered by the fact that the next Budget Year begins halfway through 2009 which cut those numbers in half. He proposed that it not be budgeted as an explicit appropriation reduction but instead identified as savings budgeted as a credit in each departmental budget over the course of the year for an aggregate in targeted savings. This could be revisited at mid-year with the Council to report on what was achieved, consideration of reallocation of those funds



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and savings and budgeted as an explicit credit this provided incentive for all departments to make sure the goals were achieved.

Council Member Klein asked for further clarification.

Mr. Keene suggested looking at the \$669,000 estimated from the Climate Action Plan for 2009 as not just a real number, but a number obtained over the calendar year. There was methodology for apportioning a share of savings to each department.

Council Member Klein gave the example of a hypothetical department with a \$50,000 goal, and asked what that might look like.

Mr. Keene stated a department with a \$50,000 goal would be budgeted that same amount in credit against their budget with the understanding that it was expected over the course of the year to achieve that goal. He stated if goals were not met, or the methodology was off by a sum, he did not wish to force them into an alternative budget balancing strategy. At the same time, he wished for the process to be realistic in that when performance management took place, department members would have to report on whether they were on target.

Council Member Klein asked if the energy savings translated to a situation where cuts would not have to be made, for instance cutting a part-time employee.

Mr. Keene stressed that budgeting these CO2 fiscal savings was a new process. He stated one might ask each department whether or not they wanted to commit to the energy savings rather than the comparable other budget reductions.

Council Member Klein stated the other possibility was to consider the energy savings as part of the bridge.

Mr. Keene stated that was another way to look at it, but stressed it was a detail Council did not necessarily care for. He did suggest a specific allocation of a savings share to each department was critical in their ability to work together in achieving ultimate savings. He stressed a reduction in the bridge amount worked to the benefit of all.



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Chair Burt reiterated the bridge looked at the additional \$3 million shortfall for Fiscal Year 2011. He stated a position reduction or other budget savings in a department could be noted definitively, whereas the energy cost reduction avenue was a goal that was set to be achieved. He asked when the savings would be evident.

Mr. Keene stated the savings allocation was equal to half of the upcoming year's savings.

Chair Burt noted there was a placeholder expectation for the Fiscal Year which included the pro rata share of the next Fiscal Year. The energy savings achieved over the year meant more savings in the second half the calendar year. He stated it ramped up every year after that.

Mr. Keene agreed.

Mr. Perez stated Council would be given information on May 21st for the May 26th meeting.

Chair Burt reiterated the intention was for all of the travel expenses to also include training.

Mr. Keene stated that was the direction Staff took. He assured the Committee that by the 21st of May all of that accounting would be compiled by the departments.

Council Member Schmid asked if items in the Emergency Services category could be addressed further as Parking Lot issues. He questioned adding the joint services with surrounding communities to the Parking Lot as well to review as a possible avenue for savings.

Mr. Perez stated he had used acronyms for the Parking Lot issue and that the items under Office of Emergency Services (OES) was indeed included for potential consolidation and coordination with surrounding communities. He stated Basic Life Support (BLS) and Emergency Response were also listed under the umbrella.

Council Member Schmid stated he was interested in a wider sense of sharing on a variety of services and not just the emergency services.



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Mr. Keene noted that in his transmittal of the Budget to Council, he identified possibilities for 2011 budget balancing in regionalization of services and was included in the Parking Lot list.

Chair Burt asked whether Police and Fire were listed as a single line item or separate.

Mr. Keene stated Police and Fire had individual line items.

1A. (Former No. 8) Third Quarter Fiscal Year 2009 Financial Results

Director of Administrative Services, Lalo Perez gave a brief summary and informational report on the Third Quarter Fiscal Year 2009 Financial Results. He stated revenues were at sixty-nine percent of target, with expenditures at seventy-eight percent. Adjustments were made on sales tax, the hotel tax, the documentary transfer tax and fees which were included in the current summary. He noted the Adopted and Adjusted Budget columns which reflected changes of expenditures for each department with encumbrance and reappropriations at \$4.4 million dollars with adjustments made at the midyear. This reflected a reduction of the Reserve at \$5.1 million, drawn down purposefully to cover two items including the \$3.4 million Budget Amendment for the Public Safety Building and Design and the \$400,000 option payment for the Public Safety Building land. The Public Safety Building design was stopped at five percent of the design itself with no further activity. There was also a \$2 million Budget Amendment for the City Manager's housing which resulted in an increase in the Administrative Services budget of \$2 million dollars for the City Manager's transaction at the time this occurs. There was a net return of funds to the Reserve for the Retired Administrative Services Director Housing Loan at approximately \$700,000. Expenditures were highlighted with increases which resulted from overtime in three major areas in Fire, Police and the Planning Department.

City Manager, James Keene asked Staff to share numbers on the key revenues.

Deputy Director of Administrative Services, Joe Saccio stated at the end of the Fiscal Year some categories were below targeted revenues and some slightly higher. He stated this was dependent on the last quarter of receipts and noted taxes were overall on target.



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Council Member Klein asked why a percentage of departments were over-budget in overtime. He asked if they had overstated the number of Fire Department overtime dollars and what this number was with the \$437,000 State reimbursement.

Mr. Perez stated he did not have the numbers readily available, however the numbers would be provided at a later date.

Council Member Klein asked for seasonal and standard over-time numbers and the over-time for within city limits and assisting with State fires.

Mr. Perez noted the importance of addressing and conveying the different variables for each type of over-time.

Mr. Keene stated the Police and Fire over-time would be placed in the Parking Lot to which Staff would bring back a more specific response. The goal was to forward onto Council a budgeting which held the appropriate background and context to support the numbers.

Chair Burt suggested the Fire Department's receipt of compensation from a State agency be included under the category of income from other agencies. He felt it was clearer to Council and the public if the line items under the Fire Department were broken out and were designated as services to other agencies. He suggested there be a line item with overtime not compensated by other agencies.

Mr. Perez agreed and stated the recommendations would be addressed.

Chair Burt asked for information on the tax revenue categories which generated sixty-four percent of the adjusted Budget. He asked whether there were seasonality factors affecting the numbers and whether or not they would reach their 100 percent levels.

Mr. Saccio noted the sales tax figures were dependent on the triple-flip payment which occurred bi-annually. He noted the second payment had not appeared for the year and was expected to be comprised of a substantial dollar amount. Property tax was reconciled at year-end, the transient occupancy tax (TOT) had seasonal factors with revenue in the end months of the year due to the Stanford University graduations and activities.



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Chair Burt suggested an approximation number be used for the 4th quarter. He noted the public may not be familiar with terms used by accounting which made it important to see firm understandable numbers and placeholders.

Council Member Klein agreed a very small number of people were familiar with terms such as the triple flip.

Chair Burt asked if the triple flip terminology could be summed up in one sentence.

Mr. Saccio stated in order for the State to balance its Budget, it was determined to delay twenty-five percent of the sales tax payment on a bi-annual basis.

Council Member asked if the Planning and Transportation Commission (P&TC) was aware of the overtime problems Staff was encountering for multiple meetings.

Mr. Keene stated the P&TC's annual retreat several months prior included discussions regarding overtime issues.

Council Member Klein asked for a running report on the overtime costs per meeting on a quarterly basis.

Budget Manager, Sharon Bozman reviewed the At Place Items which included the revised Organization Chart and Table of Organization for the Community Services Department, the revised Fund Summary for the Electric Fund, revision of the Gas Fund Summary, revision of the Water Fund Summary, revisions to the Waste Water Collection Fund Summary, previously omitted pages for the Capital Improvement Budget document, Draft Minutes for the Utilities Advisory Commission, review of the proposed Utilities Fund Budget and the Planning and Transportation Commission letter and minutes from their review on May 6, 2009 of the Capital Improvement Plan.

Council Member Klein noted the oversight of \$2.5 million in electricity sales and asked if it was carried through the Budget.

Ms. Bozman stated the \$2.5 million was not included in the calculation of the Utility Users Tax (UUT).

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Mr. Keene stated there had not been a correlation of effects on the rate schedule.

2. Community Services Department Budget

Budget Manager, Sharon Bozman gave a slide presentation for the Community Services and Utility Department budgets.

Interim Director of Community Services, Greg Betts referred to a letter At Places from the Family Resources Foundation regarding the reduction of \$96,000 for the Family Resource Program. He gave a summary of the factors and criteria used by the Community Services Department which determined the budget reductions.

Council Member Klein asked for clarification on the \$350,000 in increased parking fees for Open Space.

Mr. Betts stated there was an estimated 50,000 motorized users at a fee of three dollars per vehicle equaled the \$350,000.

Council Member Klein asked for clarification of the \$198,000 deficit in income and operations for the golf course.

Division Manager of Recreation and Golf, Rob De Geus stated the last three to five years the revenue had been higher than what was brought in. He stated the miscellaneous expenses, temporary salaries and supplies and materials were adjusted down to meet the budget. He stated the revenue expectations for the proposed budget were conservative.

Council Member Klein asked why there was not a proposed increase in the green fees in order to balance the budget.

Mr. De Geus stated the current green fees were at the mid to high level compared to the surrounding courses. He noted after reviewing the 2009 summer season income, a fee increase may be proposed in January 2010.

Council Member Klein stated in the current budget process, this was a \$198,000 hit to the overall budget. If this was at zero, this lent to \$198,000 which needed to be made up in the total \$3 million they looked at for a balanced budget.



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Director of Administrative Services, Lalo Perez stated Staff would work with the department to identify additional savings including information on debt service. He suggested reviewing into this adjustment and providing additional information on drawing down from the reserves for a balancing opportunity.

Chair Burt asked for clarification on the conservative figures given, were the numbers for Fiscal Year 2008-09 or 2009-10.

Mr. De Geus stated the conservative figures referred to Fiscal Year 2009-10.

Chair Burt asked for clarification on the conservatism and asked how they were doing on the Fiscal Year 2008-09 projected budgets.

Mr. De Geus stated both budgets were on target for this time last year. He noted comparison to other courses they were close to ten to fifteen percent down and doing quite well despite the current economy. Next year's figures were projected to include the new golf carts.

City Manager, James Keene stated appropriations were made at the expenditure level and if departments were not able to meet the revenue targets an additional adjustment would be required for the remainder of the year on budgets and savings.

Chair Burt asked if the green fees were currently in the mid to high range.

Mr. De Geus stated yes, green fees were tracked regularly with approximately thirteen comparable courses where they fell in the mid to high range.

Rick Saal, Bryant Street, spoke in support of the budget agreed upon by the Children's Theatre Staff and the City.

Lynn Krug, SEIU, spoke regarding the services provided by the Family Resources Center and Foundation. She stated the facility's costs were too high for the City's future.

Craig Allen, 315 Melville Avenue, spoke regarding the outsourcing of the maintenance for the golf course to reduce costs and current maintenance Staff levels at the course.



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Caroline Willis, 1120 Palo Alto Avenue, supported the Recreation Department as a vital part of community services and public engagement.

Wendy Dransfield spoke regarding the importance of the Junior Museum and Zoo and announced the Zoo's 75th anniversary to the community.

Herb Borock, PO Box 632, opposed the proposal to have a parking fee imposed in Open Space areas. He noted increased fees lent to decrease park use. He requested selling the Foothills Park to the Open Space District for the same price the City paid when the property was purchased in 1956.

Ray Bacchetti, 850 Webster Street, requested the Committee revisit the recommendation to reduce the Family Resources Center funding and staff.

Jo Coffaro, 1150 Page Mill Road, addressed how the Family Resources Foundation had been raising funds to maintain the community needs. She was not in favor of elimination of the one staff position at the Family Resources Center.

Mr. Keene clarified no changes were made to the budget published online and stated the second tier reductions were not presented to the Committee and were a backup recommendation.

Chair Burt stated this was all a part of the evaluations toward bridging the anticipated \$3 million shortfall in the budget for fiscal year 2010. He stressed the items moved to the Parking Lot were those elements identified as areas for potential savings.

Council Member Schmid asked why administration had grown rapidly while Human Services had declined in budget measures by comparison.

Ms. Bozman stated there had been changes in personal benefit costs in the Administrative Department and an increase in allocated charges for increased water charges to the facilities.

Council Member Schmid asked why Human Services was identified as the department to bear more of the spending cuts than other departments.

Mr. Betts noted an expectation was created for each division to come forth with a five percent cut. He noted the actual cost of the reductions in

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programs for Human Services lent to an actual decrease that was the same amount as experienced by Recreation and Golf, Parks and Open Space and the Arts and Science divisions by comparison.

Council Member Schmid asked whether the City was preempting a program in Family Resource Center program by eliminating position that had not yet received full funding.

Mr. Perez stated the position was slotted for elimination in prior years. A plea was made by various community groups to where the position remained for several additional years. The current fiscal year arrangements were made with the Family Resources Foundation to end the position with the understanding that it would resume if funding were achieved for the \$96,000 expense.

Council Member Schmid asked the Family Resources Foundation they had already raised \$55,000 why did they not cut the balance from the mix, rather than cutting the position in total.

Mr. Perez stated if the Committee wished to move forward on consideration of whether the remaining funds could be raised was merited.

Council Member Schmid requested to grant the Family Resources Foundation more time to raise the remainder of the funds necessary to retain the position in danger of elimination.

Mr. Keene stated the program was not a pilot program but an enhancement program with a focus more specifically on coordinating a localized level of Human Services. These services were provided by the not for profit sector or by County government.

Council Member Schmid asked the merit of the program, he deemed it a program for people looking for services. He asked for current and past data on the number of people making use of the program.

Mr. Betts clarified the \$55,000 raised thus far was actually toward reimbursement to the City for the current year's budget. Next years, fund-raising would begin toward the goal of \$96,000 for the position.

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Cubberley Center & Human Services Division Manager, Kathy Espinoza-Howard cited the metrics for the program as fifty people participating in the program each year utilizing approximately eighty kiosks throughout the City.

Council Member Schmid asked whether the \$55,000 had been received by the City with funds been contributed to the budget of 2009.

Mr. Perez stated it had been turned over to the City and applied to the 2009 budget with a projection of \$70,000 of the \$96,000 to be received.

Chair Burt asked for clarification on the projected shortfall for the golf course. He asked if the shortfall were reconciled, would there be additional revenue which could be allocated elsewhere.

Mr. Keene stated yes, however; revenue would not be gained and reallocated. The budget gap would shrink by the potential amount.

MOTION: Council Member Klein moved seconded by Council Member XX that the Finance Committee recommends to the City Council to adopt the Community Center Budget with the following alterations; 1) Reinstate the Family Resource Center funding regarding the funds as a loan so the budget reflected the ninety-six thousand dollars as a reduction, 2) Delete the charges for Open Space parking, and 3) Make the accounting adjustment on the golf course as a break even position which needed to be achieved by a combination of revenue increases and expense reductions.

MOTION FAILED DUE TO LACK OF SECOND

Council Member Schmid requested the Motion separate the items.

MOTION: Council Member Klein moved, seconded by Council Member Schmid, that the Finance Committee recommends to the City Council to tentatively approve the Community Services Department Budget.

Chair Burt asked for details on the elimination of the two concert series, the Brown Bag and the Twilight, and the breakdown of costs for each.

Mr. Betts stated the concerts were scheduled in advance for the summer season. The artists were booked in advance and the funds for the artists were encumbered out of the current budget with the current effect next summer and spring for the Brown Bag and Twilight concerts.

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Arts & Culture Division Manager, Linda Craighead stated the breakdown for the concerts would be brought to the Committee at a later date. She did note the \$35,000 was not solely for the artists it covered sound, stage and other equipment costs for each concert.

Chair Burt asked for an estimate of the allocation for each separate concert series and attendance to each.

Ms. Craighead stated the Twilight series were highly attended and the Brown Bag was a mid-day lesser attended series but she would return with additional information on these. She guessed approximately 75-100 people attended the Brown Bag concerts.

AMENDMENT: Council Member Klein moved, seconded by Chair Burt that the Finance Committee recommends to the City Council reinstate the Family Resource Center funding regarding the funds as a loan so the budget reflected the ninety-six thousand dollars as a reduction in the budget with revenue of ninety-six thousand.

Chair Burt concurred and also noted in challenging economic times it was important to leverage every dollar possible. He asked for the total amount of reimbursement still due in FY 2009.

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Mr. Betts clarified it was at \$5,000 and \$10,000 for a total of \$15,000.

Chair Burt noted this came in at close to seventy-five percent of the expenditures for which they would compensate the City. He also stressed the importance of the volunteer staff and the inability to quantify the value of this work done as well. He reiterated the need to leverage the City's resources.

Council Member Schmid agreed on the substantial return the City would receive on this investment. He suggested an Amendment for restoration of the five percent which had been cut from the Human Services contracts, at approximately \$150,000 for 100 percent leverage.

Council Member Klein did not agree that this was the appropriate place for such an Amendment.

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Chair Burt stated he was willing to consider and discuss this, but the recommendation to split the Motion already followed along in this vein.

AMENDMENT PASSED 3-0 Morton absent

Mr. Perez clarified on the assumption that the \$15,000 in additional donations came in, this brought the amount to the \$70,000 level. He asked if the intent of the Motion was to consider this as a loan for next year on the assumption of the shortage.

Council Member Klein stated his intention was that this language was effective on July 1st.

Mr. Keene clarified the most accurate way of stating this was; these funds were appropriated with an addition of the \$96,000 to the expenditure side with the anticipated \$96,000 revenue. There was also the understanding that a shortfall may be experienced. He asked whether the program should be allocated in the HSRAP program next year.

Council Member Klein stated that was a good idea and requested a Policy and Services review of the HSRAP program.

AMENDMENT: Council Member Schmid moved, seconded by Council Member XX that the Finance Committee recommends to the City Council Human Services five percent cuts be restored and distributed through the services organizations equally based on the provision of matching funds on a two to one basis.

Council Member Klein noted all the organizations received significant amounts of money from other sources and the City was not their sole funding source. Matching funds meant the director of each agency would make line adjustments in order to match the City's funds.

Council Member Schmid stated this resulted in a second letter being sent out to their fund sources regarding matching funds.

Council Member Klein cautioned the Motion clarify a two-to-one fund matching basis with two outside funding sources and one from the City.

Council Member Schmid as Maker agreed to the language.

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Chair Burt stated there was merit in concept but he did not see this on the implementation side.

Mr. Keene noted funding programs were previously considered by the Finance Committee and in part by the Human Relations Committee. Due to reductions noted, the goal was to reduce funding at five percent across the board.

Chair Burt voiced concern over whether some of these cuts in Human Services would be off-set by the golf course reconciliation.

Council Member Klein stated the HSRAP process needed further review and comparison with other cities. He noted he was against the proposal and suggested leaving things as they were.

Council Member Schmid spoke further on Chair Burt's points on balancing the cuts and expenditures in that they either be done sequentially or in an additive way. He suggested looking at where they stood at this point and then move ahead.

Chair Burt suggested in the future looking if there was some mechanism where Palo Alto donors might be looked at in terms of fund matching. If the community wanted to support a program, perhaps the agencies could identify matching funds in those community members.

AMENDMENT FAILED DUE TO LACK OF SECOND

AMENDMENT: Chair Burt moved, seconded by Council Member Schmid that the Finance Committee recommend to the City Council to reinstate the funding for the Twilight concert series.

Chair Burt stated the series needed to be more clearly advertised.

Council Member Klein did not support the Motion as these concerts were a luxury item. He felt the public would perceive keeping these as opposed to cuts in other areas as a not so serious way of cutting the budget.

Chair Burt stated the Council supported the Senior Games which was an item that made Palo Alto an essential place to live and the Twilight series was the same type of activity.

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AMENDMENT PASSED 2-1 Klein no, Morton absent

AMENDMENT: Council Member Klein moved, seconded by Council Member XX that the Finance Committee recommends to the City Council to eliminate the parking fee for the Open Space areas. In the context of a very difficult budget, he felt this was a small expenditure with good return.

Mr. Betts stated the fees were determined by entrance gates at the parks for which Arastradero did not have.

Chair Burt asked for clarification on the collection methods.

Mr. Betts stated the collection process worked two ways; typically, an Iron Ranger device was in place if staff was not present at the front gate. An envelope was provided for vehicle information, address, name and fee amounts. A tear-off permit was placed on the vehicle windshield. Staff was available to take the money directly on weekends and holidays.

Chair Burt asked how the Baylands was controlled without a gate system.

Mr. Betts noted there were closing gates without entrance stations such as those at Foothills Park. They were looking at a mechanism for fee collection at the Baylands.

Chair Burt asked why the Baylands had no gate but had a fee, yet Arastradero had no fee because there was no gate.

Mr. Betts stated the Baylands had eight different parking lots whereas Arastradero had merely five parking spaces total with multiple foot entrances.

AMENDMENT FAILED DUE TO LACK OF SECOND

AMENDMENT: Chair Burt moved, seconded by Council Member Schmid that the Finance Committee recommends to the City Council to reduce the parking fee from three dollars per motorized vehicle to two dollars, consider an annual pass fee at the Foothills Park and eliminate the fee for the Baylands.

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Council Member Schmid stated Foothills tended to be a destination location whereas the Baylands tended to be an activity center with frequent but short time users. He requested to eliminate the fees for Arastradero and Baylands.

Chair Burt agreed his points had merit. However, he anticipated all of this to net out with the restoration of other services and the golf course reconciliation. He wished to go ahead with the Motion as stated with a request that Staff come back with alternative recommendations on how to balance the budget on the final reconciliation.

Council Member Klein did not support the Motion. He saw no need to balance the reductions and increases per department. He stated if full Council adopted it as such there would be public outrage. In all fairness, he did not see them being able to enforce parking fees on a seven-day a week basis.

Mr. Betts stated staffing levels would not change in relationship to checking for the dashboard permit slips.

Chair Burt as Maker of the Amendment accepted the removal of the Baylands.

AMENDMENT PASSED 2-1 Klein no, Morton absent

AMENDMENT Council Member Klein moved, seconded by Chair Burt that the Finance Committee recommends to the City Council to amend the proposed Community Services budget to produce a zero number to the profit or loss from the golf course through increased revenue, cost reduction or a combination thereof.

Council Member Schmid stated there were structural changes in golf course use throughout the country with data to support the fifteen percent drop in usage. He suggested looking at the role of the golf course in the long-term and how to keep it as a revenue source with the declining usage rates.

Council Member Klein reiterated that Staff would reduce the golf course labor costs to get to net zero in the short-term.

Mr. De Geus stated the goal was to break even by adjustment of their expenses. He noted they had done the same thing for the last three years.

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Mr. Keene stated there was an ongoing analysis of the golf course operations to improve and ensure profitability.

AMENDMENT PASSED 3-0 Morton absent

MOTION AS AMENDED Council Member Klein moved, seconded by Council Member Schmid that the Finance Committee recommends to the City Council to tentatively approve the Community Services Department Budget with the following amendments:

- 1) Reinstate the Family Resource Center funding regarding the funds as a loan so the budget reflected the ninety-six thousand dollars as a ~~expense~~ in the budget with revenue of ninety-six thousand
- 2) Reinstate the funding for the twilight concert series.
- 3) Amend the proposed Community Services budget to produce a zero number to the profit or loss from the golf course through increased revenue, cost reduction or a combination thereof.

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MOTION PASSES 3-0 Morton absent

Committee took a break at 9:47 pm and reconvened at 9:57 PM

3. Utilities Electric Fund – Includes Operating Budget, Capital Improvement Program, Rates and Reserves

Budget Manager, Sharon Bozman gave a presentation of the revenue increases and expenditure decreases in the Electric Fund for the 2010 Fiscal Year budget.

Council Member Schmid asked why the Enterprise Funds were different than the other budgets on review. He noted there was an obligation to the rate payers for transparency on these issues and the resultant rate increases.

Chair Burt asked for clarification on the funds and increases.

Director of Utilities, Valerie Fong noted the overview of what had occurred with the electric rate which the Finance Committee had seen earlier in the year. She stated what was particularly driving the electric rates were the dry hydro conditions which force them to buy more hydro on the market at an additional cost on top of what was already paid on debt service and operations and maintenance for hydro. Hydro conditions were known until 05/12/09



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after the fiscal budget year begins which required a mid year transfer from reserves to make-up the numbers.

Council Member Klein asked why there was a difference between the annual audited report and the budgets.

Director of Administrative Services, Lalo Perez stated the actuals in the annual financial reports were items that followed governmental accounting standards. Those numbers did not include encumbrance and reappropriations which for budgetary purposes these were included. This resulted in the difference of what was considered the actual. He noted Staff was looking for a way to provide a reconciliation of the two numbers as a supplemental report.

Council Member Schmid asked for clarification on restricted access, encumbrance and reappropriations.

Mr. Perez stated the reappropriations and encumbrance were included but not spread through out the line item. The reappropriation was included in the encumbrance but it did not spread out over each category of expenditures as it was in the budget.

Council Member Schmid requested a document accessible to the public with explanations as to the increases in cost of electricity.

Mr. Perez clarified there would be an overall view of the budget in simplified language prepared for the public.

Council Member Schmid stated if the driving force was to rebuild the reserves he felt it was good to have some note of the historical trends and information on the reconciliation of the unrestricted assets reported as the correct numbers by the Auditor as opposed to what was listed as reserves in the Budget Report.

Mr. Perez stated Staff would take a look at drafting a document that reflected the forward and back looks at costs for public transparency.

Council Member Klein clarified the budget before the Committee was the approval of the 2010 budget.

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Mr. Perez stated that was correct. The 2011 budget was there for continued thought and proposal.

City Manager, James Keene stated the \$2 million net sales increase was not included in the original proposal. When it was factored in, it may have a potential impact on rates. He noted there were also issues relating to the calculation of the rates and inclusion of the cost of living adjustment and other benefit increases. He stressed there were variables still in play.

Mr. Perez stated the rate model included the increase of three percent for salary.

Council Member Klein noted a driving force was the city rates were kept in line by Pacific Gas & Electric (PG&E) where the City's utility rates were usually twenty-five to thirty percent lower.

MOTION: Council Member Klein moved, seconded by Council Member Burt that the Finance Committee recommends to the City Council to tentatively approve the Utilities Electric Fund - Includes Operating Budget, Capital Improvement Program, Rates and Reserves.

Council Member Klein asked why LEDs were not more widely implemented.

Ms. Fong stated the Utilities Department was applying for funding through Energy Efficiency Conservation Block Grants (EECBG) for the \$663,000 of which they would use a portion of the funds for the LED street lighting. She noted Staff was working on a limited pilot program at the current time and would be getting neighborhood feedback.

Council Member Klein understood the merits of feedback on the level of light and safety concerns. However, he stated in other regards to the LED lighting there were enumerable projects in other cities to which Staff could review.

Ms. Fong stated the other cities had not yet done large-scale deployments. The fairly limited deployment data needed to be factored into Palo Alto's streets, tree cover and other lighting impacts and standards.

Chair Burt stated by the time the City completed the pilot program, one of the other area cities may have a wider roll-out which put them behind the curve. He asked what could be expected in the return on investment.

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Based on the projected cost declines in LEDs, he asked what would be the return on investment in 2010 or 2011 for purchase.

Electric Engineer Manager for Utilities, Patrick Valath stated the calculations of payback based on the LED fixtures was approximately eleven years.

Chair Burt asked whether Staff had looked at the rate of decline in LEDs and the projected future rate of decline of LEDs as wide evaluation factors.

Mr. Valath stated it boiled down to the type of fixtures currently available. He noted once these fixtures were in more wide scale production the costs would go down. There were not many choices on the market current in LED fixtures.

Chair Burt asked when the pilot rollout would come to fruition for the projected return on investment in the coming years

Mr. Valath stated Staff would return in a future date with the data requested.

MOTION PASSED 2-1 Schmid no, Morton absent

4. Utilities Fiber Optics Fund – includes Operating Budget, Capital Improvement Program, Rates and Reserves

Budget Manager, Sharon Bozman gave a presentation of the revenue decreases and the expenditure increases for the Utilities Fiber Optic Fund for the 2010 budget year.

Council Member Schmid asked for clarification of the fiscal year 2010 revenue increase projections listed at 13.7 percent. He noted the budget was looking at a decline of approximately six percent in revenues.

Ms. Bozman noted there may have been a typographical error in the text, but due to the marketing decreases and customer activities revenue was indeed declining at approximately \$200,000.

Chair Burt noted the net was increasing at \$300,000 while the expenditures were decreased by a half-million dollars and a revenue decrease of \$200,000.

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Director of Administrative Services, Lalo Perez stated the adjusted budget had two reserves at \$1.1 million and the proposed budget had a projection of two reserves of \$1.4 million.

Chair Burt asked for clarification on the projected revenue increases.

Mr. Perez stated there appeared to be a typing error.

Ms. Bozman stated there was not a rate increase for the Fiber Optic Funds. There were several small schedules with very minor increases but the overall larger rate increase did not occur for Fiber Optics.

Senior Administrator for Utilities, Rosemary Ralston stated there was a rate increase of the EDF1 (Electric Dark Fiber) which went up by the Consumer Price Index (CPI). All new customers were on the EDF3 (Electric Dark Fiber) rate as an incentive for the EDF1 established customers to move to the EDF3 rate because now there was a financial incentive. With the expected numbers that may move over they were looking at approximately \$47,000 but they were projecting a decline due to the economy.

Chair Burt clarified the revenue decline was due to a decline in customers due to the economy.

MOTION: Council Member Schmid moved, seconded by Council Member Klein that the Finance Committee recommends to the City Council to tentatively approve the Utilities Fiber Optics Fund – includes Operating Budget, Capital Improvement Program, Rates and Reserves.

MOTION PASSED 3-0 Morton absent

5. Utilities Gas Fund – includes Operating Budget, Capital Improvement Program, Rates and Reserves

Budget Manager, Sharon Bozman gave a presentation of the Revenue and Expense decrease for the Gas Fund for the 2010 budget year.

Council Member Klein asked why the rates were being discussed for increase when the outside market showed decreased rates.

Director of Utilities, Valerie Fong noted the gas markets had a 30-day spot market which was low, but they were also seeing the 12-month out market

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without these low prices. She stated they were purchasing as much natural gas as they could as close to the low market prices as possible. However, she stated the 2011 increase was mostly driven by the fact that there was not enough of the gas price decrease to offset the big CIP project of \$5 million for 2011.

Assistant Director of Utilities, Jane Ratchy^e stated the gas reserve for fiscal year 2010 and 2011 had previously been purchased and hedged. She reiterated that what was seen as the spot-price for delivery of oil and gas over the ensuing one month period but did not reflect ongoing price along the forward curve.

Chair Burt asked about Project 19 schedule in the CIP plan for fiscal year 2011 which comprised the bulk of the Capital Improvement Plan for that year. He noted its significant impact on the gas rates since much of the CIP project costs were absorbed in the 2011 rate structure.

Assistant Director of Engineering for Utilities, Tomm Marshall noted Staff would be replacing pipe that had reached its useful lifespan. In the current year they actually delayed the project due to an inadequate level in staff to engineer the project. This delay reduced the rates for the current year, but the following year would need to have the additional funding for the replacement work that was not done in 2010.

Chair Burt clarified the project was pushed out in current year due to staffing. He asked if there was a risk to public safety if it was pushed out further.

Mr. Marshall stated it absolutely affected public safety to delay the project beyond 2011. He noted it was an acceptable risk for 2010 but it would be of deeper concern if put off past 2011.

Council Member Schmid noted the unrestricted assets in the Gas Fund were approximately eighty percent higher than the year 2005 and 2006 which indicated the past increases were very successful in covering costs and building reserves. He wondered why current projects included rate increases in speculation of perhaps higher gas prices.

Ms. Fong stated there was a ten percent decrease in gas rates, which were not deemed as high rates.

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Chair Burt stated the decrease was over Fiscal Year 2010 versus 2009.

Council Member Schmid noted that overall increases against the base of increases in 2005 the rates were approximately forty to forty-five percent higher even after the ten percent rate increase. He noted they tend to lag the market coming down. He asked why it was necessary to keep the rates so high if the market had moved below.

Ms. Fong stated she did not believe the gas prices were in the six to seven dollar range in 2004.

Council Member Schmid stated 2004 rates averaged seven dollars on the national market, 2005 rates were eight dollars and 2006-2007 rates averaged at approximately seven and a half dollars.

Ms. Fong stated they were not in the spot market to that extent in 2004. She was not clear if the prices they purchased at in 2004 were comparable to what was paid today.

Chair Burt asked for further insights on the correlation between the California or western state market and the national market rates in the western region.

Ms. Ratchy^e noted she had additional information on the numbers, however; she did not have the information with her at the time. She stated the price for delivery on a particular month changed every day and gave examples and scenarios of a particular month, product trading and the incumbent changes and purchase price ranges. She noted the forward curve changed every day. Spot prices were actuals that could be looked at. Bid week prices were considered with daily prices. Market prices held a big range, up and down and on closing, delivery and spot prices during the delivery month.

Council Member Klein asked for an estimate of where they stood on the laddering system with regard to how much was bought^t on spot and how much was 2010 and 2011 delivery.

Ms. Ratchy^e estimated eighty-five percent was hedged for Fiscal Year 2009; seventy-five percent hedged for Fiscal Year 2010 and hedged sixty percent in Fiscal Year 2011.

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Council Member Schmid noted there was a substantial discrepancy in the gas and utility rate data for Palo Alto for 2004 and that same delivered fuel price in California price notations.

Chair Burt clarified the request for a better understanding and more information on how the City appeared to have a greater spread in rates.

Ms. Fong stated the General Fund transfer from the Gas Utilities Fund was also a driver and embedded in the resale rate increases for the City.

Chair Burt noted additional information on this was not presently and readily available and questioned the best process for a return to the issue. He did not know if the Parking Lot was the correct place for this open question posed by Council Member Schmid on the rate discrepancies. They would instead return to the issue at the end of the budget process.

Council Member Klein agreed the Parking Lot was not an appropriate place for this item.

MOTION: Council Member Klein moved, seconded by Chair Burt, that the Finance Committee recommends to the City Council to tentatively approve the Utilities Gas Fund— includes Operating Budget, Capital Improvement Program, Rates and Reserves.

MOTION PASSED 3-0 Morton absent

Chair Burt asked for clarifications on the frequency of vacancies in the Utilities Department.

Director of Utilities, Valerie Fong stated retirement and performance evaluation results in budget savings. There was also a ramping up of the performance expectations which resulted in the release of probationary employees which created a vacancy and some budget savings at times.

Chair Burt noted other departments hold an expectation of vacancies which ends up rolled into the budget expectation. He asked if that was the case with the Utilities Department and if this influenced the rates.

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Ms. Fong stated this was a self-correcting mechanism where the funds were ultimately factored in and what was not spent moved to reserves.

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6. Utilities Wastewater Collection Fund – includes Operating Budget, Capital Improvement Program, Rates and Reserves

Budget Manager, Sharon Bozman gave a presentation on the revenue increases and expenses for the Wastewater Collection Fund for Fiscal Year 2010.

MOTION: Council Member Klein moved, seconded by Council Member Schmid that the Finance Committee recommends to the City Council to tentatively approve the Utilities Wastewater Collection Fund– includes Operating Budget, Capital Improvement Program, Rates and Reserves.

MOTION PASSED 3-0 Morton absent

7. Utilities Water Fund – includes Operating Budget, Capital Improvement Program, Rates and Reserves

Budget Manager, Sharon Bozman gave a presentation on the increases and decreases of the Utilities Water Fund.

Council Member Schmid asked for clarification on the total amount for the bond issuance.

Ms. Bozman clarified there was one issuance of \$35 million.

Council Member Schmid asked for clarification for the increase the full-time salaries and benefits if the positions are remaining the same.

Ms. Bozman stated the increases were reflective of the personal benefit cost increases citywide, and also the Utility Fund were allocating General Fund positions directly in to the Utility Fund. She stated in the Administrative Services Department (ASD) budget that had not been discussed yet, there were five positions directly allocated to the Utility Fund.

Council Member Schmid asked why this did not show up under the personnel full-time positions.

Ms. Bozman noted employees were not under the direction of the Utilities Department so they appear in the ASD budget and were allocated in the Organizational Chart.

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Assistant Director of Utilities, Jane Ratchy^e spoke on the increase in operating costs from the actual in 2008 to the budget. She noted several items which were proposed for the 2010 and 2011 budget for consulting contracts under Resource Management in rate studies and additional studies on residential water conservation programs in coordination with the Bay Area Water Supply and Conservation Agency (BAWSCA).

Ms. Fong asked how many dedicated FTEs existed for the water utility.

Ms. Ratchy^e stated she was unsure of how the different positions were divided up in resource management.

Ms. Fong stated there was a significant increase in salaries and benefits between the 2007 and 2008 actuals and the 2008 and 2009 adjusted budget which was consistent with the 2009, 2010 and 2011 budgets.

Mr. Keene stated 2007 and 2008 was at \$176,000 with 2.3 FTEs. He noted some salary lapses and vacancies had to have played in a number in those vacancies.

Council Member Klein asked what could be done to repair the high level of cost in the Water Utility Department.

Ms. Fong was unclear on how to measure out whether or not they were out of line in their employee costs.

Council Member Klein noted they were higher than the comparable cities which had been noted in previous charting.

Ms. Fong stated an analysis was done of the total of full-time equivalents allocated to Water and Waste Water versus what other cities were doing. She stated Palo Alto was very much in line. She noted that what was seen was the pretty aggressive Capital Improvement Program which drives the numbers up. Other than that, she noted the other costs line up with what the other cities have experienced.

Council Member Klein noted the Emergency Water Supply Program (EWSP) was scheduled for completion in a few years. He asked if they could anticipate a decline in rates after that fact in convergence with the comparable cities.

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Mr. Keene noted he did not ask if the prices would drop since the prices on the commodity side would also go up equally for everyone in this convergence.

Council Member Klein noted that the BAWSCA cities were actually lower than the cities in the southern counties which buy their water from the Water Project.

Assistant Director of Engineering for Utilities, Tomm Marshall stated there was an aggressive CIP in order for water system replacements. He noted the other cities had not invested in their infrastructure. He believed the rates would converge on both sides as they would at some point have to invest in their infrastructure as well.

Mr. Keene expected they would hear a followup question on this next year.

Council Member Klein stated someone in the year 2014 or 2015 might be looking towards this convergence in rates as compared to other cities.

MOTION: Council Member Klein moved, seconded by Council Member Schmid that the Finance Committee recommends to the City Council to tentatively approve the Utilities Water Fund– includes Operating Budget, Capital Improvement Program, Rates and Reserves.

MOTION PASSED 3-0 Morton absent

~~8. Third Quarter Fiscal Year 2009 Financial Results~~

9. Discussion for Future Meeting Schedules and Agendas.

Mr. Perez noted the next meeting was scheduled for May 13, 2009. He gave an overview of the Agenda with the General Fund CIP, Public Works General Fund Operating Budget and if time allowed the Administrative Services Department Budget. May 19, 2009 included the Agenda items for the Public Works Enterprise Fund, the City Attorney's Office and the Internal Services and related CIPs. The Committee was scheduled to wrap up on May 26, 2009 with the Municipal Fee Schedule and any items in the Parking Lot along with Staff's return with any requested information or changes.

ADJOURNMENT: The meeting adjourned at 11:08 p.m.

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