

Regular Meeting  
December 2, 2008

Chair Morton called the meeting to order at 07:03 p.m. in the Committee Conference Room, 250 Hamilton Avenue, Palo Alto, California.

Present: Burt, Morton (chair), Schmid, Yeh arrived at 7:04 p.m.

Absent:

1. Oral Communications

None

2. Discussion and Options for Using Funds in the Electric Utility Calaveras Reserve Fund.

Monica Padilla, Senior Resource Planner, Utilities Department, gave a presentation and an overview of the Calaveras Reserve Fund. She stated that the objectives were to: 1) introduce and provide background information and get feedback from the Finance Committee on the Utilities Advisory Commission (UAC) and Staff's revised proposal on not to change how the Calaveras Reserve is managed at this time, 2) get advise from the Finance Committee on whether to have a study session with the full Committee at a later date, and 3) if the Finance Committee would like to change how the Calaveras Reserve is managed, to inform the Finance Committee that Staff must return to Committee for approval on the change of the guidelines. If the Finance Committee agreed that there should be no change to how the Calaveras Reserve is managed at this time, then the Finance Committee could do one of two things: 1) advise Staff that a study session with the full Council should be conducted and or advise Staff to return to the UAC to explore expenditures from specific projects with subsequent Finance Committee and Council approval. If the recommendation is to change or deviate from Staff's proposal on how the Calaveras Reserve is managed, then Staff must return to the Finance Committee for approval of revisions to the existing Calaveras Reserve guidelines and draw down schedule, and changes would have to be incorporated in the Fiscal Year 2009/2010 budget. She said Staff was

proposing no change. She stated that there is a Committee-approved policy for how to manage the existing Calaveras Reserve, and Staff is proposing to leave it intact.

Committee Member Schmid said no, that the current policy is to spend \$4 million dollars per year to subsidize rates. He didn't think anybody was proposing to leave it as is.

Ms. Padilla said Staff's proposal was to continue to transfer \$4 million dollars per year through 2132.

Chair Morton recognized Utility Advisory Commission (UAC) Chair, Dexter Dawes and asked if Mr. Dawes wanted to make any comment.

Mr. Dawes stated that he was there if the Committee had any questions.

Mr. Herb Borock, P.O. Box 632, Palo Alto, CA spoke on two items: 1) the Agenda description since it was unclear to the public whether the legislative body was taking action on an item and 2) implementation of smart grid technology, the infrastructure for this and Fiber to the Home negotiations.

Committee Member Burt was interested in hearing from Mr. Dawes regarding discussion at the UAC. After reading the minutes, there were comments made. He was not clear if a consensus was reached.

Mr. Dawes stated the UAC's conclusion was an agreement with Staff on current reserves as being more than adequate when considering current pricing and the electric markets. Their costs were \$3 million dollars. He stated 50 percent was very adequate when considering the marketing production and rates at 20 and 10 percent, respectively. Consensus was this amount of money was available in good use for electric ratepayers. If it bled over into the Rate Stabilization Reserve, it would subsidize rates as long as it lasted. This was not reflective of true production and rate costs and not a good signal to the citizens. He stated this year purchases and costs are both high. They are competitive with respect to PG&E and commercial customers are not restive. He suggested sorting through to make recommendations on how best to invest the funds in rate reduction or capital projects. He stated a list was made for this, with a rough ranking of possible places to invest the funds. He felt local generation was an important factor with the congestion in the transmission and the potential costs of the new rate structure, and that it was important to build that up, whether by some sort of modest base load plan, or maybe sale of Calaveras to reduce the hydro emphasis. He discussed the pros and cons of having a gas-fired plant versus a hydro plant. He stated these were the types of discussions which are strategic in nature

and where the UAC spends a lot of time, saving the Committee from having to spend a lot of time on them.

Chair Morton spoke about the worse case scenarios of the Calaveras Hydro Project costs. He pointed out that \$68 million is roughly conservative. He questioned the probability of the reduction dropping to 80 percent, and asked what affects the drop would have.

Ms. Padilla stated this was a long-term scenario. There were no developed probabilities on any of the scenarios. She stated that would be more of a global warming type scenario.

Chair Morton stressed the belief that global warming was here. He stated that the column numbers spoke to the probabilities, but the actuals were not known.

Ms. Padilla stated he was correct. In the short-term, they will get about 80 percent on the average. This was seen this year, last year and the year before.

Chair Morton stated if there was a five or ten-year trend, there would be problems.

Mr. Dawes stated it was important to note that the low-hydro in California drove the prices, which reduces the costs.

Chair Morton pointed out in the second column, and the A and B factorization. He asked if these would accrue in a major deflationary period.

Mr. Dawes stated in the past this has been true and the pattern was consistent in his eight-years experience. Extreme deflation lends to recession or depression. In that scenario, industrial production goes down, and that is what drives prices down when 70-75 percent of the load is commercial-industrial, primarily industrial would drop down fractionally. He stated such a scenario would involve very high unemployment rates and major stress in that area.

Ms. Padilla stated market power prices directly relate to the price of crude oil. There have been years where hydro has been really wet, and prices have been high as well. There is no clear understanding of the correlation. She stated that long-term, Mr. Dawes was correct in pointing out that if there is less hydro available in California, higher prices would ensue.

Mr. Dawes stated the quarterly Risk Management Report showed they are under water on their purchase contracts due to the price reductions.

Chair Morton said that his concern is in the stranded costs if the 60-80 percent scenario is not probable, all numbers change with the excess evaporating quickly. He asked about the probability for 50 percent of current reserves being excess. There was the assumption that this was excess-based, but if those assumptions change, the excess evaporates.

Mr. Dawes stated the approach was one of gradualism where the amount is not inflated in a relatively short period. If it remained gradual, then it is seen how things develop under variable A and B.

Chair Morton noted it would be risky to transfer the full excess at one time. He said if it were done project-by-project or year-by-year, the calculations could be revisited.

Committee Member Schmid stated the projects were listed in a rough order of priority based on Mr. Dawes' prior statements. He asked if that indeed referred to the list on page 16 or another list.

Mr. Dawes noted that Staff added to the list and he was aware of these additions. Items below number 5 on the list were not discussed. He stated the issues were known however.

Committee Member Schmid asked if these were listed in order of priority in the City Manager's Report (CMR).

Mr. Dawes said that was his recollection but he would go back and check it against the minutes.

Committee Member Schmid asked why the purchase of land under number 4 would be advantageous.

Mr. Dawes stated this was due to the return on investment. He gave the example of the switchyard on Bayshore Road that was leased to the City and the land is under appraisal process, with an opinion given on the value of the land, based on using it for multi-family housing. He stated there are significant rents paid on the facilities.

Lalo Perez, Director of Administrative Services, said that an appraisal was done of the land and uses.

Mr. Dawes stated there were homes across the street and he assumed that was the case.

Committee Member Schmid stated if this was already a bargain, there was not much more to achieve.

Mr. Dawes stated this was dependent on the returns on investment.

Mr. Perez stated the best analysis was considerations over time. If there were a long rental period versus a purchase, there could be an advantage to the fund.

Mr. Dawes noted that this froze the expense load.

Committee Member Schmid asked what the appropriate interest rates were for the loan funds mentioned in number 5.

Mr. Dawes stated it varied with administrative services.

Committee Member Schmid asked if this would be a subsidized or market rate.

Mr. Dawes stated this decision was not up to them. They could make recommendations to Council and that it would have to be economically rational as a proposal.

Committee Member Schmid asked if there was any benefit to the General Fund borrowing from them.

Mr. Dawes stated it was not likely to be a large amount.

Mr. Perez stated the General Fund has lent money to other funds, and that the practice was to use the rate of return.

Committee Member Schmid stated that was a safe rate.

Committee Member Burt asked if implantation of the smart grid technology was in terms of smart meters within premises and infrastructure for their implementation.

Mr. Dawes stated this was a general topic which was raised as a subject which deserved further analysis and discussion. It has been pointed out that the Investor Owned Utilities (IOUs) were moving in the direction of smart meters. He stated the economics of the smart meters was different than the

current electric-only or electric and gas utility IOUs. He stated it was more and more viable for the future if time-based rates were elected to affect conservation measures. He stated charging would not be possible without the meters so this remained an ongoing, large, complex discussion and that it may or may not turn out to be economically feasible.

Valerie Fong, Director of Utilities, noted that they had provided in the packets, a to-date list of what has been done. She stated it has not been on smart grid, but was around automated meter reading. Staff has done premise type solutions which allowed customers to monitor usage, and that significantly more engineering discussions were required. Utilities is a small entity making it difficult to get an economy of scale in the way an investor-owned utility might.

Committee Member Burt stated he was aware of the future possibilities, and that there were differentiations needed between smart meter reading and smart meters within the premises which do other functions. He noted that those two functions get lumped together and may or not be the same system. He asked if this was correct.

Ms. Fong stated they hoped to use some of the same infrastructure that was put in place, but that he was correct in that the meter-reading effort required specifics at the meters. Customers can manage their own usage with the appropriate consumer education. She stated this was the additional piece which was more customer-specific.

Committee Member Burt stated this lent to a number of potential projects. In order to do an adequate feasibility and timing appraisal of the emerging technologies, they needed adequate staffing resources and funding. He asked if these were in place in order to pursue the different options when evaluating engineering and technology needs.

Ms. Fong stated the Assistant Director of Engineering could better respond. However, it was true there are not at this point adequate resources.

Tom Marshall, Assistant Director of Engineering, indicated the resources did not presently exist to undergo a smart grid implementation with the automated meter reading (AMR) solution. Construction of a new network required further technology in the home, and noted that it was a big program to embark upon.

Committee Member Burt asked if there was adequate staffing at the present time and bandwidth in order to look at locally owned or partially locally owned renewable resources of local generation.

Mr. Marshall said that some of the options have already been invested in, and that an initial study was done on the 230kV. The initial study was done on AMR, and consultants were necessary at points, but staff managed those consultants. He added that the capabilities exist for this work.

Ms. Fong stated they have additional resources with the Northern California Power Agency (NCPA) for expertise. This was dependent on the project size, but was another alternative for expertise and knowledge.

Committee Member Yeh noted it was a positive discussion and thanked Staff for the helpful input. With regard to slide 11, he asked if the listed criteria was the full extent or would there be additional criteria that could be provided to the Finance Committee and Council.

Ms. Padilla asked if this was in regard to excess fund availability.

Ms. Fong stated it started with the over-arching criteria. A specific project might be looked at and any other appropriate restrictions would be imposed at that time. She stated it may be project-specific and that Staff was looking for over-arching guidelines.

Committee Member Yeh stated one area which had undergone brief discussion was existing Council policies which exist as guidelines for the committees, the UAC and the commissions. He gave the example of the Removal Portfolio Standard. He stated this was a policy that has been decided upon by Council with the potential for criteria integration. He asked if there was room to integrate some policy criteria given by Council relative to the Calaveras Reserves.

Ms. Fong stated there was absolutely room for this, and that this could be incorporated into the over-arching principles.

Mr. Perez noted that the idea was covered under reassigned funds to a new reserve, as an example.

Mr. Dawes stated more could be added to clarify and make it more specific.

Committee Member Yeh said there had been discussion for the reassigned funds and earmarking funds that are currently on reserve, and the UAC had been against this.

Mr. Dawes stated it may or may not be that particular way, and that it was premature at this time to say what should be done with the money. He

noted that many discussions take place before ranking the strategic alternatives in order to prioritize funds. The decision between smart meters or renewables was something they were not prepared to make a big decision on without more discussion.

Committee Member Yeh stated if there was a way to integrate the criteria more specifically this was helpful. The integration of the details helps in understanding the financial implications, and the cost-investment comparisons were helpful in policy decisions.

Mr. Dawes stated the guidance at the moment is a half-cent on the rate for project impacts, and that the graph was indicative of this. Proceeding further was going to cost more. He stated an additional item on the list, solar power considerations, resale and whole rates, and other issues were encouraging to people who might put solar power units on their premises.

Chair Morton clarified Committee Member Yeh's concerns as pertaining to a special type of reserve that dealt with future financing of the renewables. He stated this came down to a form of rate subsidization and ultimately meant using a portion of whatever it is to effectively control the prices as the market swings for renewables.

Committee Member Yeh stated this was not the first principle proposed, but that it must benefit lesser rate payers.

Chair Morton stated there are different ways of distributing benefits. One way was to look at the future competition over a limited supply of renewables.

Ms. Padilla stated the do-nothing approach benefited rate payers as well since it earned quite a bit of interest.

Chair Morton stated this ultimately transferred back to rate calculations and utilized the build-up as a way to control rates. If you reduce the transfer this impacts rates since it is not part of the income stream. He stated if the excess is dispersed in the short-term, then there is ultimately a long-term rate increase built in.

Committee Member Yeh supported Staff and UAC's recommendations.

Committee Member Schmid stated there were actually two proposals from Staff.

Committee Member Yeh supported the recommendation for the status quo and continuation of the \$4 million annual transfer. He stated his interest was in trying to help provide additional direction.

Motion???

Chair Morton stated that what is clear from the UAC point of view is that it was premature to divide the excess. It was premature because the initial project proposals need further analysis for viability and cost. The most prudent approach was to do what is being done at the present, which is working well.

Committee Member Schmid understood from the Staff recommendations and the UAC that they were ready for a change in policy. He stated the change in policy recognized the needed amount for reserves at \$32.4 million and that the rest of the money was available for longer term investments for energy futures. He was in favor of this for the rate payer. In the long-run, the utilities have served them well with investments and a rate structure over the last 50 years well below the commercial utilities. He stated this was an opportunity where there was up to \$30 million to invest in the future. He spoke to the many options afforded them in the future that would have a positive effect on rate payers. He stressed the importance of using this accumulated cash flow to make an investment in the future.

Mr. Dawes commented on policy issues and the current power prices. He stated Calaveras needed no subsidies, and that it would be prudent if the resolution dealt with how much of the reserves would be transferred to paying Calaveras bonds based on the actual performance of the Calaveras investments of that year. He noted that a low hydro year would provide enough cash to pay the bond requirements, and that amount should be removed from the reserve to pay the balance of the bonded indebtedness. He stated in good years this would zero, and an appropriate policy would be to transfer from the reserve a variable amount based on the earnings of the investment versus the bond payments required.

Committee Member Schmid said his understanding of the stranded power costs was that the stranded cost would regularize payments over the good or bad years.

Mr. Dawes noted this was a guess of the A and B variables that are prudent, and barring a major depression, that pricing would affect pricing.

Committee Member Schmid cited oil as being \$49 a barrel currently.

Ms. Padilla stated in the short-term, but in the long-term it is closer to \$60.

Mr. Dawes stated the 80 percent at current pricing could not be expected any time soon. He suggested annual calculations and transfer of only as much as needed to be paid.

Chair Morton clarified that Staff recommended additional time prior to their irreversible decision. More time was required to explore policies.

Committee Member Schmid was in favor of more time to deliberate rather than stopping in the process to explore policy issues. He stressed covering only what was needed. He stated there would be pressure on Staff and the Commission to move ahead on their ideas.

Chair Morton asked for Staff's reaction to the proposal. He asked if they wished it to be deliberative at present with a response later.

Ms. Fong stated Staff was accommodative in either direction, but in keeping the rate increases in mind.

Committee Member Yeh supported going forward with the status quo. His assumption was the two-year budget preparation had included this transfer. As the project continued the criteria would be clear as they considered the capital projects. The costs are mitigated and it is a low-growing source of energy. This provided Staff the opportunity to come back with further details and provision of future framework evaluations for individual projects.

Chair Morton felt there were two levels of discussion: 1) whether to confirm the calculation for basic costs, and decision not to recommend specific projects at this time, and 2) the likely recommendations for further analysis or discussion. He asked to separate these two options for a vote with a later return for specific suggestions for Staff and the UAC's exploration.

Committee Member Schmid stated it would be easier if he would accept the fact that they are in a rate period that has been voted on. He stated continuation of that took them to the next rate cycle.

Amendment???

Chair Morton clarified this as a stay on the proposed Amendment for this budget year with future recommendation to the Finance Committee.

Committee Member Burt asked whether the **Motion** would preclude expenditures on alternatives and their implementations and also expenses related to their exploration. He stressed the lack of bandwidth required to

explore these options further which made it important for funds to be spent on in-depth evaluation of the alternatives.

Chair Morton's stated his understanding was this was a conceptual decision. Any expenditure would be project-by-project and required a return for budget amendment or a return to the Finance Committee for authorization.

Mr. Keene stated this was correct to the extent that money would be taken from the Reserve in order to fund projects.

Chair Morton stated, with this being the case, the Motion does not preclude expenditures, but also does not authorize them.

Committee Member Schmid asked how it was possible to come up with serious alternatives.

Committee Member Burt stressed the need for serious investment in research and engineering to be able to come back with vetted alternatives.

Mr. Keene noted the UAC has stated they have not begun even rudimentary cost benefit analysis on these projects. His instinct was to allow a first level of review and analysis prior to funding consideration. That being said, there was the possible need for seed money for preliminary analysis of projects.

Committee Member Burt stated the Calaveras Reserve gave them a long-term thinking pool of dollars. The UAC on the whole, and the members of the Utilities staff, were also available for analysis of the options prior to more in-depth analysis. He stated civic participation on the City website was also a highly technical function in the search for experts and information. He suggested a potential advisory group be formed in this vein.

Mr. Dawes stated the last two UAC meetings dealt with getting these reviews and discussions on the Agenda. He stated the process was monumental, and they will manage through it. He suggested they come up with refined list of options for discussion with the Finance Committee.

Committee Member Burt added synergies between project and Fiber to the Premises would be interesting to see.

Chair Morton stated they were moving forward with three elements:  
1) The Calaveras Reserve will continue to cover the stranded costs. 2) The Calaveras Reserve would continue making the annual transfer of approximately \$4 million dollars through the current budget cycle. 3) Staff, with UAC input, would review possible projects for the currently calculated

excesses of the reserve with a return to the Finance Committee with recommendations.

Committee Member Burt asked for clarification on the dynamics and function of the UAC reporting process.

Chair Morton stated the wording would be changed to read that the staff and the UAC review the possible projects prior to a return with recommendations. He stated in that way, if the UAC and staff are not in agreement, the UAC would provide their direct report.

Moved by Yeah and seconded by Chair Morton their recommendation that Committee adopt a resolution that the Calaveras Reserve would continue to cover currently calculated stranded costs at \$32.5 million, and that the Calaveras Reserve would continue the annual transfer of approximately \$4 million to the Rate Stabilization Reserve through the current budget cycle. Staff and the UAC would review possible projects for the current calculated excesses with return on recommendations to the Finance Committee with their recommendations to City Committee.

Ms. Fong asked if a Resolution was needed for Committee.

Chair Morton stated this allowed discussion of the calculated excess.

Mr. Keene added clarification on the final section of the Motion and the return to the Finance Committee with recommendations. He stated those recommendations could be specific recommendations and/or an array of worthwhile items meriting further study.

Chair Morton stated it was clear from their discussion that the Finance Committee would like to see at the start.

Mr. Keen clarified in staying the course, they are recognizing the potential of the reserve to be put to some use. They are merely asking staff and the UAC to return with more information. He stated no recommendations would be formulated until they reached that point.

Committee Member Burt wanted to make sure that energy efficiency and conservation options were pursued as vigorously as alternative energy efforts and the rising costs of green energy goals. He stressed usage and demand were important variables.

Chair Morton stated this was duly noted.

Committee Member Schmid clarified Committee Member Burt his comment reflected in the record in that one of the greatest variables was usage and demand. He stated the ultimate goal was to benefit utility rate payers and increase the awareness of the greatest returns on these rates.

**MOTION:** Committee Member Yeh moved, seconded by Committee Member Morton to recommend that the City Committee adopt a Resolution directing that the Calaveras Reserve would continue to: 1) cover the stranded costs currently calculated at 32.5 million dollars; 2) transfer approximately 4 million dollars to the Rate Stabilization Reserve through the present budget cycle, and furthermore that staff and the Utilities Advisory Commission review possible projects for the calculated excess and return to the Finance Committee for approval and recommendation to the City Committee.

**MOTION PASSED:** 4-0

3. Report on the Status of Audit Recommendations.

Lynda Brouhard, City Auditor presented the Report on the Status of Audit Recommendations. She noted 142 recommendations from 14 completed audits were reviewed. Of the 142 recommendations 56 were new recommendations which were issued during finance year (FY) 2007-08, and 86 are recommendations from previously completed audits. Based on the review of the 142 recommendations, 78 of the audit recommendations were completed or resolved (55% of the 142), 51 are in process and 13 are not started, with 10 of the 13 not started items being in the infrastructure report card, which was issued in March 2008. The City Manager's office committed itself to bring forth a plan and a follow-up by the end of January 2009. She gave highlights of the accomplishments from the completed audit recommendations. She stated staff tried a new approach this year. An audit recommendation not yet completed was outlined in steps by staff in looking toward the next review in order to close out the audit recommendation.

Committee Member Schmid noted that each item was significant, important and useful to talk about. He asked what Committee can get from this, and what the role was of this report for them as policy makers. He noted the audit is done once per year, and yet many items are not started, not done or scheduled for next year. He asked if it would be useful for the Committee, as policy-makers, to prioritize a list of items to be attacked over a six-month period. Many items run into negotiations, such as call-outs with contract negotiations. He asked if it would be helpful for the Auditor to appear before the Committee prior to negotiations in order to indicate five or ten items

involved in contract negotiations. It was difficult when looking through the report to identify the items that might have budget impacts versus policy issues. He stated in these, and other ways, the Auditor could help Committee to organize and identify items more efficiently.

Committee Member Burt suggested looking to the more significant open items to better understand their fiscal and/or operational impacts. He stated those proving to be more problematic for implementation could remain scheduled as is or reconsidered later.

Ms. Brouchoud stated the report's format reported the status of the recommendations from their inception. The most current status was reflected at the bottom of the list of completed items. In terms of contract negotiations, she noted some items touched on contract negotiations and staff's encouragements to departments on same in order to better focus on the internal control weakness factors in the audit report. Those items still open reflected staff's viewpoint on where audit recommendations were in process. Departmental differences were in implementing the recommendations. Staff was still addressing the internal control weakness in the audit report. Staff has had dialogue and that is reflected in each of the responses.

Mr. Keene noted that there is a separation between what the Committee ought to be concerned about and what the staff ultimately is concerned with. The auditor has responsibilities as far as transparency in reporting to be sure that Committee gets the information. Committee's awareness was paramount to prevent an ethical breach in public trust and confidence. Procedural items do not require intense scrutiny as long as there is process to address them. Committee's main focus area is on bigger issues with underlying difficulties which hinder their completion, such as infrastructure report card, audit of street maintenance and the audit of overtime expenditures. He stated there may be additional measures that staff could undertake in order simplify the process. The audit uncovers systemic challenges which must be dealt with appropriately.

Ms. Brouchoud noted the variety of audit topics and the varied levels of complexity. She felt staff were efficient and in-depth when looking into all these complexities.

Mr. Keene stated the audit is structured to report back to Committee in advance of, and separate from, the budget process itself. He noted the tremendous volume of information and very little time to get into a lot of in depth discussion. For instance, the overtime issues involve very complex

variables. The Finance Committee may benefit from the opportunity of meeting with the Fire Chief to delineate what is driving those issues.

Committee Member Schmid noted concrete examples on pages 11, 12, 13 and 14 in that these items were not started, were in process, delayed, or will begin next year. In five years' time, he looked for more information on these items. He stressed that in 97 pages of reporting, he could find only two clear budget numbers. He found it difficult to attach saving considerations to these items without a clear understanding of the budgeting final numbers.

Chair Morton noted the audit report included conclusions from the prior period. For example on page 11, the auditor update is as of September 2005 in historical comment, but the current Auditor comment on that item is the last dated comment.

Committee Member Schmid agreed, however, his point was this is done once a year and there are a number of items reflecting no change in numbers.

Mr. Perez gave a history of the challenges and items being referred to and said that it depends on what the goal of the organization is for that particular negotiation. For example, the last negotiation staff had with Service Employees International Union (SEIU), the ultimate goal was to reduce health care exposure. A typical negotiation may undergo multiple changes prior to the final contract. He agreed impacts are not clear, and some actually did not occur. He stated some items may remain inactive for long periods of negotiation process.

Committee Member Schmid asked how decisions on healthcare are pegged as the most critical issues with a willingness to move slower on other issues. He asked how the three or four most important items are identified.

Chair Morton asked if he desired a historical perspective, staff would return with that in Closed Session prior to negotiations. Committee would sort out issues to be concentrated upon in the negotiation period in order to rank items.

Committee Member Schmid asked if it was the Auditor who points out the dollar savings points.

Ms. Brouhard stated she can comment on audit reports that are completed. She cannot express opinions on audits that have not been done. She stated the overtime audit does date back to 2003. She stated someone has come in with the recommendations, and staff were able to find that six

recommendations were completed. She stated six others are in process, and one item involves a follow-up study which is not complete, and that some would take more time than others to be implemented. She stated where these fit in the budget cycle is a larger issue beyond the scope of the review and would need further thought. The current report is a snapshot in time where things stood for audit recommendations in November.

Mr. Keene reiterated that an audit, in and of itself, is a snapshot in time, and concurrent to that are the everyday shifts and currents. The challenge in the reporting process is to respond to these snapshots. He stated in looking at now and future items, the best way to utilize time would be to look at the patterns that are emerging and ask further questions in that regard in order to sort things out. He likened this to the methods used when deciding Committee Priorities, in that key items are chosen to guide the year. He stated this related to the audit priority process as well.

Ms. Brouchard stated they could also possibly go through and point out the outstanding audit recommendations that would impact the budget. She stated some have policy impacts only, while others carry a budget impact, and staff could be directed to make those delineations.

Chair Morton pointed to the Index on page one. He asked if an item such as was stated is an area of Finance Committee responsibility and budget impact. Additionally, he asked if Policy & Services items meant they were policy-only in nature.

Ms. Brouchard stated the Auditor's office reports back to the Finance Committee on all audits, and that on an exception basis, if the audit report dealt with citywide policy issues, it went to Policy & Services. She stated they routinely default to the Finance Committee.

Committee Member Yeh stated framing it as what would be expected in reference to those considered to be completed is clear direction. However, he stated the last time the audit came before the Commission there were 5 completed recommendations, and there were now 78. He asked for clarification in this jump from 5 to 78.

Ms. Brouchard stated there was a combination of things happening, such that some items were of the nature where one movement or action closed multiple recommendations at one time. She stated they also invested a great deal of time in meeting with departments to clarify internal control weaknesses in the audit report and where things stood.

Chair Morton asked for clarification on how an item reaches completion and is brought to conclusion. He cited the Park & Maintenance cost benefit analysis, when there is already a built-in bias on page 32 as an example.

Ms. Brouchoud clarified that the Chair was referring to recommendations numbers 9, 10 and 11, on pages 32-37 as part of the Parks & Maintenance audit. She stated these recommendations constituted getting bids, for which if they were beneficial, contracts would be considered. She stated three recommendations were of one essence. She cited an analysis on recommendation 11 there was no notable cost difference so they felt comfortable in completing that particular recommendation. She stated the other recommendations pointed to cost savings, so departmental discussions included an opportunity to come up with a Cost Reduction Proposal. She stated if that does happen this could become a policy decision.

Chair Morton asked if the auditory assumed that the issue was entirely a question of cost reduction and staff cites more complexity, how and when does it move on to a point where the Auditor is not the decider of policy on park maintenance.

Ms. Brouchoud stated discrepancies such as this would be brought back to the Committee with their decision on how to proceed.

Chair Morton stated this was of concern. No matter how carefully questions are framed, they have to be careful not to undermine issues that would effect the public services and waiting for resolutions that might not come.

Committee Member Burt stated long-term consideration should be undertaken in looking at the number of items moving from column to column, and that the natural solution might be to group items in major and minor categories to streamline the process. He stated patterns would become evident then since there is an inability to focus on just on time period. He looked forward to scheduling perhaps a segment or two of Finance Committee meetings to talk about staff and auditor's priorities, and those items that seem to be stuck in place.

Committee Member Yeh stated the categorized items were in a document that was scan-able, and that with a dollar amount which was high, moderate or low, there was a way to look at the dollar amounts and the timeframe relationships. He suggested a time bar indicating implementation guesses would be helpful as well as some type of priority symbols next to items. This would help Committee in tracking progress and integration.

Committee Member Schmid shared the Chair's opinion on the Park & Maintenance items. He stated their prior dialogue on overtime for the Fire Department has taught them some lessons. He asked when departments cross, such as Utilities, Public Works and Parks all dealing with a similar concern, who is the responsible party. He stated issues such as this affect the whole City so further study was warranted for future perspective. He suggested a face sheet highlighting certain key items and impacts, or an additional session to pick out some of these priorities.

Mr. Keene reminded everyone the current Auditor and Manager were newly in place, and that the process design used currently is an interesting conversation in and of itself. He stated they might consider further conversations on how the Auditor's time is structured, the offices' time and also the staff in connection with issues and outcomes of potential big investment return. He stated that managing the process lends to disputes over fundamental value processes. He stated some of the disputes and discussion would go beyond the actual audit process, and a new plan for their shared process was merited.

Ms. Brouchoud stated their approach resulted in a great consensus on how to move forward on the multiple items. She was under the impression that discord or disagreement was at a minimum. She stated departmental meetings were helpful in outlining what could be agreed on in order to move forward. She spoke to the two earlier items of concern in that if there is no consensus as to the next follow-up process, it may have to go through a different level of discussion. Aside from that, she stated they were not quite there yet, but working diligently.

Chair Morton clarified that projects lacking progress were stalled by the fact that there were no agreements towards a final solution. In that case, there is no way the item can be completed. He stated formulated recommendations do not necessarily include all the nuances of the situation in actuality. Further discussion on solutions is necessary for resolution.

Ms. Brouchoud stated this could be seen in the dialogue and progression of the recommendations. Some items are older and if things change, this needs to be reflected in the response reports. She stated she will follow up on items done prior to her appointment, and look at the intent of the recommendations to make sure there is coverage and control. Regarding the infrastructure report, she stated of ten recommendations, the majority were with regard to implementing best practices from the Government Finance Officers Association (GFOA). She stated the final recommendation was the big one on how to address the infrastructure backlog. She cited the other recommendations as being about implementing best practices, which

are things they can work on in the next year, and that they should see and expect progress in those areas.

Committee Member Burt stated it would be helpful to notate the month of status changes. He stated this would better delineate the how and when of changes that have occurred since the new City Manager and City Auditor came into their positions.

Ms. Brouchoud stated they would make an effort to include these monthly status notations to the extent possible.

Committee Member Burt suggested placing this in the bold section labeled "In Process" any time that status changes. He stated where the status has changed from prior reports, there could be notation of the month in which the status change occurred. He stressed a lot of work had been done and progress had been made. He also suggested the discontinued use of technical jargon and acronyms for transparency across the board for those with technical knowledge, those with moderate knowledge and the lay person or public. He also stressed the need for greater discussion and methodology for future audits. An added element he suggested was a more systemic avenue for public input, either through the website or other. He stated Committee's decisions would not be based upon this input but could take this input into consideration for deeper insight into public perceptions of the auditing process. He suggested a second look at longer process items in order to break them up into smaller milestones to affect quicker progress.

Ms. Brouchoud added that in going through the work plan process, the City Auditor's website included a public input avenue. They also solicited feedback from the executive staff and Committee.

Chair Morton made several comments on the infrastructure and the updating of the inventory reports. He asked if breaking the items down into parts and departments helped move it forward. He asked if it were conceivable to bring one segment of the City's inventory in, or would it have to be done all at once.

Mr. Perez stated he could give a financial perspective but deferred to the Director of Public Works for additional information on managing that type of workload and prioritization. He stated what they were looking at were the next five-year targets and estimated expenses. He stated the committee is headed by the Administrative Services Department (ASD) and Public Works with others reviewing the work cross-organizationally. He stated the prioritization of those needs and requests is done, and one thing that was needed was a plan going forward as part of the recommendations on how to

look at funding and special challenges. He stressed the need for a fine balance in working with the Auditor and then returning to Committee, and the administrative burden on this team would impact the amount of work that would be completed.

Chair Morton clarified that this returns to the consideration of costs over implementation, and the difficulty in looking back over the Auditor's report.

Mr. Keene suggested a future theme to keep in mind was staff's ultimate desire for effective reporting to Committee on key initiatives. He stated staff is large and may have other jobs simultaneously in their departments or organization which limits their time in all areas. He stated this small pool of people manages a large body of work across departments.

Committee Member Schmid stated this was very important when identifying audit issues for the coming year in that they are careful in choosing topics which are critical to the City on the whole.

Committee Member Burt noted that when the new Auditor came onboard, she reached out to Committee. Often when they come together as a policy body there is not an opportunity for in-depth discussion. He stated this might be a beneficial component of the priority setting process. There could be deeper discussion, some degree of debate and also public input and dialogue. Follow-up discussion on the top priorities within the audit have been discussed.

Mr. Perez stated if the Finance Committed chooses to assign these tasks, staff will add this to their list and make it part of the agenda items for next calendar year.

Ms. Brouchoud asked for clarification. When they came before the Finance Committee with the proposed work plan, did staff wish to weigh in on the slated priorities.

Committee Member Burt stated the desire was for an update of implementations and also on open items and their prioritization.

Ms. Brouchoud asked if he meant the top priorities for the outstanding audit recommendation.

Committee Member Burt confirmed this to be exact.

Committee Member Schmid stated everything they had learned thus far would be duly noted.

**MOTION:** Committee Member Schmid moved, seconded by Committee Member Burt that the Finance Committee accept the City Auditor's Report on the Status of Audit Recommendations.

**MOTION PASSED:** 4-0

4. Discussion for Future Meeting Schedules and Agendas.

December 16, 2008 at 7:00 p.m.

2007-08 Year-End Capital Improvement Program Projects Status Report

Maze & Associates Audit of the Financial Statements as of June 30, 2008 and Management Letter

Recommendation Regarding Ordinance Closing The 2007-08 Fiscal year, including Reappropriation requests, Closing completed capital improvement projects, Authorizing transfers to reserves and Approval of Comprehensive Annual Financial Report (CAFR)

Update to Long Range Financial Forecast

First Quarter Fiscal Year 2009 Financial Results

ADJOURNMENT: The meeting adjourned at 9:46 p.m.