



FINANCE COMMITTEE

Regular Meeting
Tuesday, May 5, 2009

The Finance Committee of the City of Palo Alto met on this date in the Council Chambers at 7:04 p.m.

Present: Burt, Klein, Morton, Schmid

Absent:

1. Oral Communications

Greg Kerber, Birch Street, Palo Alto spoke about the Rate Assistance Program (RAP) and read a letter regarding this.

2. Transmittal of Fiscal Years 2010 and 2011 General Fund Budget

Chair Burt invited Staff to begin their presentation on the Transmittal of Fiscal Years 2010 and 2011 General Fund.

City Manager James Keene asked for the Committee's preference regarding whether the presentation should be done first followed by discussion, or would they prefer to have a preliminary discussion.

Chair Burt asked the Committee to consider whether they wanted to discuss the process for the next six weeks now or after Staff's presentation. He asked the Committee for suggestions on how to proceed.

Vice Mayor Morton stated his preference was to hear the initial presentation.

Council Member Klein stated a preference for the presentation first and then a general discussion on whether or not to adopt tentative strategies which included the \$3 million carryover bridge versus other options.

Council Member Burt noted the order as presentations first and then discussion among the Committee members on process and



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fundamental concepts which framed the agendas for subsequent meetings.

Mr. Keene updated the Finance Committee on new information gleaned from prior Council meetings. This included a Staff presentation of slides Council had also viewed. He stressed the importance of Council and Committee alignment in the process. This included reference to information in two previously published documents, the transmittal of the Fiscal Year 2010 and the Fiscal Year 2011 General Fund Budget with a summary of the comments received at two public outreach forums, and the Memorandum updating the Council on changes in the published budget document. He also noted actions taken, set to go live on the City's website, in order that the public have timely information and access to the budget discussions. He stated this was a four-fold avenue for information and input gathering which included: 1) The slide show with voiceover, 2) Links to the entire budget document, 3) Highlights of the hearings, and 4) Creation of an email address for comments with a summary of comments provided to the Committee. In opening the presentation he went over basic strategies for closing the estimated \$10 million gap which included: 1) The already factored \$2 million savings due to no pay increases in Fiscal Year 2010 for Management and Professional Class employees along with the assumption that we can successfully negotiate no pay increase at a minimum for the Service Employees International Union (SEIU) for 2010, 2) Departmental Services cuts 3) Temporary funding reductions and, bridging options. He gave examples of worse case scenarios if they failed in achievement of success in any of these targeted areas. He gave examples of possible scenarios if the Committee chose not to go with the bridging strategies. He stressed there was no linear strategy but instead a puzzle which needed further work and discussion. He discussed the budget schedule at present and its continued meetings, which included those with Council, to finish through May 26, 2009. He reiterated the amount of the current year's budget gap as \$8 million due to overall revenue declines. He acknowledged the current year's balanced budget was due to one-time expenditure reductions. One-time cost savings arose at approximately \$3 million departmentally and \$1 million in infrastructure contributions by eliminating the year-end surplus transfer, and suspension of the General Fund contribution to retirement and medical liability in the amount of \$1.9 million. Institution of a hiring freeze took place for the remainder of the year which resulted in additional savings. It was



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assumed that the remaining \$1.1 million reduction arose from Capital Funding. He stressed, due to the fact that the gap was dealt with systemically only, it did carry over into 2010 to include \$2 million in additional revenue declines.

Director of Administrative Services, Lalo Perez, stressed the difficulties in the budget and decision-making process. He spoke on the General Fund Overview of expenditures for Fiscal Years 2010 and 2011. The Adjusted Budget reflected a decrease in reserves at \$4.2 million, with planned reductions to the Reserve for the Public Safety Building design work, with not all funds spent and work stopped at 35 percent of design. This reduced the size of the reserve to 15 percent of General Fund expenditures. A \$600,000 balance was projected for 2010 with built-in room left for Council and Committee decision-making opportunities as well as allowance for implementation.

Mr. Keene stressed these adjustments and numbers was approximately \$450,000 as a result of adjustments to contingencies. He stressed the implementation aspects required in this flexibility.

Mr. Perez stated a net decrease of \$2.8 million in community services resulted in this process and this was a reflection of the downturn in revenues. There was also a projected decrease in revenues for the following year due to these adjustments, which left a \$3.1 million deficit in Fiscal Year 2011 which was not addressed as of yet. These adjustments were scheduled to take place after cuts to the budget documents were addressed. Citywide, for the year 2010, there was a \$498.4 million budget combined of all funds, and \$461.4 million for 2011, with changes reflective of Library Bond issuances. He stressed a fluctuation in the citywide numbers as a result of either commodity purchases or capital programs. Staffing in terms of the General Fund included 624.74 full-time equivalent positions, which reflected a decrease of 26.53 positions in the General Fund, 4.2% from the current year. He went over the summary and details of the 20.3-position elimination with 7.23 positions reallocated to the Enterprise Fund reflective of a direct charge for those positions specifically assigned as full-time activities to the Enterprise Fund. One position was also added as the Deputy City Manager in the City Manager's Office. A reduction in hourly positions also existed at the equivalent of 3.02 FTE positions or 28 hourly positions with 20 non-represented positions and eight positions represented by SEIU. In addition,



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1056.10 full-time equivalent positions existed, Citywide which reflected a decrease of 19.5 positions, 1.8% from 2009 and a 20.5 FTE equivalent elimination. A second tier of service-level cuts was not included in the above summary. He gave an overview of these potential additional cuts which fell in the approximate \$2.4 million range with 21 FTEs and contracting out for the Parks and Golf Maintenance at a total of 13 positions. The Parks' maintenance contracting out was suggested by the Internal Auditor which resulted in savings with the use of outside contractors versus in-house employees. Previous Golf Maintenance consultant reports also reflect potential savings. He went over the reasoning behind the elimination of the Police Traffic Team with reduction of four FTE positions in the motorcycle team. These vacant positions entailed re-absorption of the positions versus an actual lay-off. The City Shuttle service elimination was discussed. Two City Police Officers dedicated to the Police School Resource Officer Program at the junior high and high school resulted in a vacant position which was eliminated with a second position slated for elimination the following year. Tree trimming contract eliminations were set to increase the cycle of trimming beyond ten years. Elimination of the Office of Emergency Services resulted in Public Safety Staff's absorption of these responsibilities. Reduction of the Crime Analyst program was also planned with reduction of the Police Outreach Program. He stressed the significant impacts of the above program cuts and provided useful information to the Committee and the community on the summary of revenues for the 2010 base and the Adopted Current Budget as point of reference. This included the 2010 Proposed Budget. He stressed the overall economy and the need to go with a flat status and few incremental increases reflective of current economical issues. He discussed the Property Tax increases for 2009 reflective of a 10 percent increase. Property value reductions alongside assessment values for the area were reflected in these numbers. County growth expectations were also taken into consideration. The Utility User Tax also projected increases. The Hotel Tax reflected revenue decreases at a significant 17 percent for the current year and held flat for the second. The Documentary Transfer Tax was reflective of the proportional decreases driven by the reduction in property transfers, both residential and commercial. He included an overview of fee revenue projections with highlights in the following areas: 1) Permits, 2) Cost Plan and reimbursements from other funds for administration of the City and, 3) Interest Income. Reasons behind reductions in these revenues were discussed.



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Changes in Equity Transfers were also noted. Further information on Sales Tax was given in the manner of a slide used in community outreach. Emphasis was placed on the steep decline since the year 2001. The loss of several auto dealerships in the area played a role in these reductions as well as a drop in department store revenues. The Documentary Transfer Tax in graph form also noted this steep decline. Hotel and Transient Occupancy Tax numbers were highlighted with the differences between 2008 and what was received through February 2009 for a decline of \$251,000, 33 percent. He stressed the budget started at \$8.4 million, but a \$7 million budget was now suggested which includes a \$1.4 million reduction. General Fund Expenditures were at \$141.2 million and a \$4.4 million decrease, 3.3 percent, compared to the 2009 Adjusted Budget and included already-negotiated salary increases for Public Safety at a total of \$1.4 million and a placeholder for the anticipated reduction in employee costs at \$3 million with the \$2.8 million expenditure reduction. Fiscal year 2011 reflected \$146.7 million, a \$5.6 million increase, or 3.9 percent when compared to 2010. Several assumptions were made: 1) The 3 percent increase for all employee groups totaling \$3 million in salaries, and 2) Reinstitution of the General Fund retirement and liability contribution at approximately \$2.1 million with additional expenditure increases at \$0.5 million. Reserves were discussed in the General Fund which included the Budget Stabilization Reserve. These policies were set in the past on advisement by Council. The policy included a reserve in the range of 15-20 percent of General Fund expenditures with a target goal of 18.5 percent. This was recently modified, with consideration of future work on the Public Safety Building, with Council's approval of Staff's recommendation for a decrease to 15 percent. He stressed these reserves are marked for one-time unexpected needs and are not meant to fund ongoing operational expenses. Some level of remaining savings was of great importance. The proposed budget included a reserve level at 15 percent with the noted adjustments. However, the 2011 Budget does not reflect this same 15-percent rate and instead included an Adoption in Concept at 13.2 percentage. Additional budget adjustments will need to be made to fix the deficit amount in order to bring it back to 15 percent in the year 2011.

Mr. Keene stated, because of the \$3 million deficit programmed for 2011, Staff assumed the use of Reserves was necessary to close the gap. He stated this reduced the Reserves to an unacceptable level



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which required recapture by 2011. If Council came forth with the ability to adopt strategies other than the bridging option, this would not be the situation, and made these levels more theoretical in nature.

Mr. Perez stated this was a request for the Committee to adopt the first year's budget, but the second year was in concept form in affirmation of Mr. Keene's point. The capital side reflected an Infrastructure Reserve at \$6.3 million for 2010 with an ending balance of 2.8 million at the end of 2011. This was reflective of low dollar amounts of real concern. There was an outstanding audit recommendation for increased funding; however, this occurred during less difficult economic times. This requirement needs to be addressed in the long-term budget discussions. The \$1 million year-end budgeted transfer from the General Fund was suspended in the current fiscal year with the recommendation for suspension in the next fiscal year as well. Within the second year of the proposed budget, this was expected to be back on track.

Budget Manager, Sharon Bozman, gave an overview of the Capital Improvement Program (CIP). The General Fund CIP expenditures budgeted out at \$6.8 million for 2010 and \$17.4 million in 2011. The 2010 figures reflected \$450.5 million for Measures and Library Bond expenditures, construction and improvements. The General Fund contribution to the CIP for 2010 was \$10.9 million with further discussions slated for May 13, 2009 on the CIP and the General Fund in depth. Citywide CIPs were budgeted at \$114.9 million for 2010 and \$62.1 million in 2011, reflective of Bond Measures for the Library and Water Reserves, and \$3.8 million was fulfilled as one of the top three Council Priorities. These included three projects: 1) The Vehicle Replacement Fund for the Diesel Truck Retrofit Program at \$400,000, 2) the General Fund Open Space Lakes and Parks Pond Maintenance at \$200,000, and 3) the Streetlight Conversion Project at \$3.3 million on this five-year project with a \$100,00 for the first year.

Mr. Keene stated this included the LEDs and proposed induction lighting.

Ms. Bozman cited figures for the Enterprise Fund CIP program by detail which totaled \$46.5 million for 2010 with further discussion slated on May 12, 2009 for the Utilities funds and on May 19, 2009 for the Enterprise Funds for Public Works. An overview of the rates



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proposed in the Enterprise Fund was given which included: 1) The average residential utility bill increase at \$4.42 or 1.4 percent, 2) The gas service rate decreases at 10 percent in 2010 due to deferral of a systems infrastructure project and an increase of 15% in 2011 due to increasing commodity costs and the resumption of the previously deferred infrastructure program, 3) Electric service rate increases of 10 percent in 2010 and 15 percent in 2011 due to increased supply and transmission costs, 4) Water service rate increases at five percent in 2010 and 7 percent in 2011 due to infrastructure needs and wholesale water rate increases, 5) Wastewater collection rate increases at five percent in 2010 and 2011 due to the increased treatment plant costs, and 6) Refuse rates increased at 17 percent in 2010 due to increased waste hauling costs and Zero-Waste Program operating costs with refuse rate proposals revisited every year. The Storm Drain costs reflected a rate based on the voter-approved increase and CPI of zero growth for 2010 projected increases. An overview was given of average residential billing for the upcoming two years with an overall total increase for 2010 at the \$4.42 or 1.4 percent suggested earlier.

Mr. Keene, in discussion of process, asked Staff to keep a rolling list of decisions and questions for follow up. This gave the Committee the ability to track the progress toward final resolution. Additionally, he suggested the Table of Organization be looked at as the City's reflection of positions by department in the year-by-year comparisons. In the past, positions without funding were left in the table as frozen positions, which is not the present case. Lastly, he shared news with regard to an email he received prior to the current meeting which stated that the Director of the Department of Finance announced a proposal to the Governor to uphold the Proposition 1A trigger which allowed the State to borrow from local government property tax revenues in order to address State budget problems. This proposal suggested an eight percent State borrowing capacity on local property tax receipts. He stated more information was coming, and the Governor had not yet adopted this recommendation. He stressed eight percent of the City's \$25 million property tax revenue equaled \$2 million. The original Proposition 1A of 2004 stated the State held a one-time ability to borrow from local government with repayment and interest over a three-year-period. In current economical times, he stressed the tremendous impact of this on City government budget concerns. Council's existing policy did not require a return to them



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with any specific recommendations in opposition to this proposition, but he felt it was a worthwhile Agenda item the future Council meetings for appropriate attention.

Chair Burt suggested the meeting move ahead with Committee questions on the presentation, Committee discussion on process for the balance of the budget cycle meetings, ending with a discussion on the target for the current meeting's length as well as pace-setting for the remaining meetings through the month of May.

Council Member Klein spoke on Proposition 1A by the State to make use of the City's property tax revenues. A second email from the State included the actual proposal components from the Department of Finance. He agreed this was an item which needed placement on a future Committee Agenda. He asked if there was any financial impact to the City if the bridging option were followed in that the future retirement medical obligations were not funded at this time. He questioned whether this took interest cost impacts into consideration over the long-term. He asked how this compared to the use of funds in the Budget Stabilization Reserve to make payments on the retirement medical obligations.

Mr. Perez stated this was an actuarial calculation required to be done in terms of determination of the impact. Concern lay with the assumed rate the City used for these funds used toward these contributions. He stated an estimate of this could be done. The money in the trust included an assumed Rate of Return at 7.75 but was a negative number now in the 20 percent range. He stated the contributed dollars included the assumption as to what they will earn at a later point in time. He stressed the need to understand the exponential growth of the liability. He asked about additional implications and he questioned how the rating agencies viewed this issue.

Council Member Klein stated he assumed there were financial costs for not making the payments and questioned how this compared to any additional interest the City received on keeping this \$3 million in the Budget Stabilization Fund. He stressed this was not a one-year cost since the City would have to make up the \$3 million to the medical retirement at some point.



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Mr. Keene stated Staff would return with further numbers on this. He stressed Mr. Perez's point that a further check with the City's financial advisor would provide an additional sense as to the ramifications of falling below the adopted policies and the effect of this on the reserves.

Council Member Schmid stated a rough estimate of \$30-32 million which was put into the Retiree Medical Reserve. He stated further calculations were complicated since the City could not count on the State's rate assumption and they did not reveal an amortized number initially. He stressed this was less that they missed the California Public Employees Retirement System (CalPERS) contribution but this was for the long-term reserve of retiree medical benefits.

Mr. Keene stated this was a point well taken; however, he stressed Council Member's Klein's question was more that of a one-year timeframe and did not deal with the whole actuarial. Rather than taking the bridge option, the question was whether the City could make a planned commitment with a contribution to Retiree Medical from the reserves and whether or not this received the higher return rate than it would if these monies continued to sit in reserve. He stated Staff would provide additional information on how this might play out.

Council Member Klein repeated that the question was about how this played out in rate of returns.

Council Member Schmid stated the interest rate versus the amortized calculation was what caused him some confusion.

Council Member Klein stated the interest did get into these amortized calculations.

Council Member Schmid stated this was more a worry over the trade-off in interest.

Council Member Klein gave the example of this as the same as a mortgage holder's decision to pay down his mortgage versus allowing that money to grow in the bank. He also asked about the four-fold strategy for deeper service cuts, since he felt this had previously been listed as a three-fold strategy.



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Mr. Keene stated the bulk of the considerations were three-fold with the additional revenue acknowledgement as the fourth consideration.

Council Member Klein held concern over the cuts made with regard to retirement and other vacancies. His particular concern included the three positions described as emergency medical technicians. He asked if this was a significant portion of the emergency team, whether or not this was realistic, and whether these positions were back-filled.

Mr. Keene stated this was not an accurate representation and dealt more with the elimination of the Basic Life Support Program which was back-filled by 14 part-time employees and translated out to three emergency medical technician FTEs. He stressed the Committee, however, needed to discuss the programmatic impacts mindful of the loss of these part-time and not full-time positions.

Council Member Klein asked if this was the same scenario in the position lost for the EMS Battalion Chief.

Mr. Perez stated the EMS Battalion Chief position had been one of the frozen positions for approximately the last three years up to the current fiscal year.

Council Member Klein asked how these frozen positions translated into budget savings.

Mr. Perez stated several positions were frozen and were merely headcounts with a mix of those eliminations reflective of no dollar savings.

Mr. Keene stated several positions were removed from the books rather than carried over. The Communications Manager position in the City Manager's office was not budgeted in the past year and, like the elimination of the Battalion Chief's position, did not reflect a dollar-for-dollar savings.

Council Member Schmid asked for clarification on the presentation, but also noted the presentation contained complex issues. He asked if they were postponing discussion on these more complex issues and



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were instead discussing the process of when to talk about issues by type.

Chair Burt stated the Committee would go through, segment by segment, on the current Agenda items. Additionally, the Committee needed to revisit the comprehensive outlook since a number of unknowns existed in labor reduction expenses, for example. He suggested general questions and comments as appropriate with more in-depth discussion, department by department to follow.

Council Member Schmid stated the bridge funding option implied a postponement of payments, then taken care of in future years, which lent to a bridge leading to nowhere with no better outcome than if the City doubled payments going forward. He looked for more sustainable long-term options which did not hold structural problems or issues. He stressed the nature of promises made to future employees with the bridging option seen as a postponement effort. Prior to discussing the varied service areas, he suggested a look at the issue on whether there was compensation to workers in an appropriate manner in order that they deliver the services to the City at a reasonable cost. He stated postponement of payment of these retiree medical costs would be difficult to budget in the future in keeping with rising costs. Structural issues needed immediate attention.

Chair Burt suggested opening the over-riding issue of the concept of the \$3 million bridge in 2010 and 2011.

Council Member Klein agreed the bridge was not the best option. Instead, he suggested they undergo an effort to find the \$3 million by other options. He stressed this made their task harder but was more effective.

Vice Mayor Morton stated most of the bridge funding was more of the reserve funding than they had seen in the past. A goal was set to transfer \$1 million to the infrastructure with a goal to fund \$2 million into the long-term deferred medical for retirees. He stressed they are close to breaking the budget, with the additional consideration of the State's possible need to take close to \$3 million from the City's books. His feeling was that they hear the budget through and not debate this bridging issue presently. He questioned whether additional funds



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existed beyond the bridging option which made it premature to debate the bridging option.

Chair Burt asked how the Committee would continue over the next month if additional information regarding labor negotiations altered their ability to make decisions on the current budget issues. He asked whether issues were tackled as they happened or were considered in terms of parallel tracking. He stated the City Manager alluded to an alternative plan, and asked for further thoughts on this.

Mr. Keene stated the larger issue was Staff's hope that information from the Police and Fire Unions would arise regarding pay increases for the coming year before the Committee made a final decision. He assured the Committee the bridging option was not proposed as a definitive recommendation but as a flexible option for Council consideration. He asked the Committee to keep this in perspective with the \$2.4 million in second tier cuts not included but identified with roughly a \$600,000 figure programmed into the budget as an excess combined to \$3 million. He stated this was maybe not the right \$3 million dollar mix but gave the Committee an idea of the budget impacts. The Committee's mode of scrutiny was likely different than Staff's approach dependent on the Committee's ultimate goals. Staff's model held flexibility but was also open for Committee's opinions on the cited alternatives. He stressed the Capital Improvement Program was slim in comparison to the identified needs they were presented with for the community. Deferment of infrastructure investments, he stated, was not the advisable position to take on a routine basis.

Chair Burt asked what budget review complications arose if the Committee were to move in parallel tracks throughout their discussions.

Mr. Keene stated this was achievable. If the Committee was interested in this approach, he suggested Staff track this in a workable manner. He understood this as taking an issue with the stance of dealing with the amount all at once versus a bridge option, and how to move through this item-by-item with proper tracking.

Vice Mayor Morton asked if, in order to absorb this \$3 million, they took 40-45% from Police and Fire this might be a realistic available cut to make an equitable share among all departments. He stated Fire



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and Police deferment of salary increases was one struggle, but the addition of an additional 45% of the \$3 million as an additional cut brought with it the concern for concessions becoming more impossible.

Council Member Schmid suggested moving ahead, although not in parallel tracks. However, he stressed the importance of a strategy surrounding benefits such as Staff's research on an appropriate long-term sustainable target for benefits as a share of compensation. He suggested Staff return with this as an option or alternative in a month's time. He gave the School Systems two-tier benefit system as a good example. He suggested deferral of payment as a viable option. He noted retention of the City's money in continued reserve lent to perhaps higher returns than payments into CalPERS.

Mr. Perez stated CalPERS had noted a 24-25 percent decline in their portfolio which included mostly pension monies. In consideration of the Retiree Medical trust dollars at approximately \$30 million, with the assumption of similar declines and no knowledge of the real stakeholding declinations, with information solely regarding stock market returns, actual declines were not expected until August. Consideration of the matured dollars and investment rate of returns was important, but this required a seven-year lookout for a two percent rate. This was a positive rate of two percent on the assumption this timeframe was accurate, or one percent for the very short-term versus any negative percentage discussions now or in the future.

Chair Burt asked if there was consensus on procession of the \$3 million shortfall issues.

Council Member Klein stated the decision was two-fold regarding: 1) whether to defer the retiree medical funding or take it out of Reserve which was not necessary prior to June 30, 2009 with additional time yet available for future data compilation, and 2) consideration Mr. Perez's data which was irrelevant because it was reflective of what happened in 2008. CalPERS investments from January 2009 to today were likely positive by more than the 2 percent previously cited. He stated he did not know this for absolute, but it was true of many other investment areas as far as what was likely to happen in the future. He stated parallel tracking was an interesting idea since this was not an all or nothing situation. He was not in favor of blanket statements, for example, that Police and Fire were worthy to offer up 45% in budget



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cuts. He stated this was based on past numbers as to the worth of this department. He stressed, the Committee's job was to find the most appropriate place for budget cuts which left adequate community services intact. He suggested a move forward along this parallel track to look for additional cuts which were ultimately necessary to be consistent with the City Manager's comments that this was not just part of the current economic cycle, but that significant changes have occurred within society which needed reflection on what a post-recovery society and economy looked like.

Chair Burt stated advantages to the parallel track included: 1) These were serious matters that full Council was interested in weighting with a full set of options, and 2) The City Manager suggested the City was headed for a shortfall in infrastructure investment which was another factor which drove the need for alternative decisions available. With Committee consensus, he took this as the manner for their approach, with dual-track discussion of the alternatives. He stressed in the context of the proposed employee position eliminations, clarifications were made in that several of these were previously frozen positions. His understanding was these previously frozen positions were essentially credited as position reductions in prior years, while they were also characterized as unfilled positions. He expressed concern over his understanding of this, and asked if his understanding was at all correct.

Mr. Perez stated in terms of budget dollar reductions, this was the correct perspective.

Chair Burt asked for clarification on the math of these reductions.

Mr. Perez stated this would be done.

Chair Burt asked, for transparency reasons, these numbers be made very clear with no room for public or press claims as to the difficulty in clarity of the issue.

Mr. Perez stated that three of the 20.3 positions discussed were frozen positions. Additional note and clarification of this was made for continued public and press transparency of these numbers.



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Chair Burt asked if there were any additional over-riding questions regarding the presentation. He then suggested a 10:00 p.m. meeting adjournment target for the current meeting.

Mr. Keene agreed with meeting adjournment time suggestion.

Chair Burt noted discipline was necessary for continued concise comments, questions and answers.

Mr. Keene suggested that very often questions cannot be effectively answered in an instant case. He stated it was important to allow Staff to digest some questions with a return at the next scheduled meeting.

Chair Burt clarified each departmental budget was an agendized item, but the process enabled them to be revisited at future meetings for additional information. He suggested the Committee table long-term questions and keep placeholder decisions in the forefront with the opportunity to return for more comprehensive discussion at a later meeting.

Council Member Klein agreed with the approach but also suggested agendizing a session on the tier two budget cuts beyond the current meeting.

Mr. Keene suggested acceptance of the fact that there were some difficult questions and conversations ahead, and that this was not slated to come together until the end of the recommendations. He noted there was some anxiety in this process from start to finish. An option existed for a Staff-compiled rolling count of shifting numbers for ongoing clarity and progress.

Vice Mayor Morton asked for abeyance on the tier two cuts until the end of the process after the Committee had a clear outline of additional proposed cuts.

Chair Burt asked to hear from other Committee members on whether or not they build an ongoing list of cumulative alternatives for the tier two budget cuts, and/or was the Committee in line with an earlier presentation from the City Manager on the tier cuts.



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Council Member Klein stated this was indeed his own suggestion, but he also disagreed with it in part, in that it was better to consider the tier two suggestions as they came along in the particular department discussions.

Mr. Keene agreed with Council Klein's suggestion to consider the two tier cuts as they discuss issues department-by-department as the effective route of discussion.

Chair Burt asked if the Committee was in agreement with the above-mentioned approach as fleshed out by the City Manager.

Council Member Schmid agreed with procession in this manner.

Chair Burt reiterated this was the process going forward.

Mr. Perez recommended tentative approval, department-by-department in an effort to free time for the wrap-up.

Chair Burt agreed and stated this enabled the Commission continuance in the dual track manner. He called for members of the public to speak.

Herb Borock, PO Box 632, Palo Alto stressed there were alternatives for balancing the budget that were not seen department-by-department. He suggested several areas of consideration since he did extensive research on these. These included variable management compensation and bonuses, rent payments to the School District on a portion of Cubberley and equity transfers. He spoke on Staff's previous advice as to medical benefits, payments on PERS and retirement benefits. He stressed there was a \$700,000 in Budget Stabilization Reserve which should be paid by June 30, 2009.

Mr. Keene pointed out that the former Administrative Services Director loan had indeed been paid back to the City.

Chair Burt asked for further questions or comments on Item No. 2 and saw none. He moved on to Item No. 3, the City Attorney Office Budget.



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Mr. Perez went over several slides prior to the City Attorney Budget which included the contingency with a memo at places which added additional information on the Fiscal Year 2010 and 2011 Budget dated May 5, 2009. Changes and corrections were included on the City Manager and City Attorney's Organizational Chart, along with correction to the Revised Resource Level changes for the City Manager and Revised Resource Level changes on pages in the Technology and Internal Service Fund and also the Printing and Mailing Internal Service Fund. The biggest change, for which they proposed the Committee make a motion, included the oversight in the contingencies carried over as an incorrect amount from the Adjusted Budget for the City Manager and City Council's Contingency. Staff's recommendation was replenishment of these dollars to bring the Contingency back to the \$250,000 mark for each, a total change of \$127,100, which came out of the \$571,000 overage in 2010. Approval of this left a balance of \$443,900 in the first year with a deficit increase to \$3.2 million in 2011.

Chair Burt reiterated Staff sought a Committee motion to approve this item, and asked for questions from his colleagues on the above-mentioned item. He also noted the public, if interested, also had the option to speak to this item, noted no such interest and closed public comment.

Vice Mayor Morton wished to make the Motion to Approve.

Chair Burt noted Motion to Approve by Vice Mayor Morton and Seconded by Council Member Klein.

MOTION: Vice Mayor Morton moved, seconded by Council Member Klein, that the Finance Committee recommends to the City Council to tentatively approve the City Manager's Contingency Fund and City Council's Contingency Fund Budget.

Council Member Schmid asked a clarifying question as to what page this budget item appeared.

Mr. Perez stated this was a non-departmental item that was found on page 28 of the General Fund Summary under the Expense Heading as the last item.



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Mr. Keene asked if there were further details on the non-departmental items.

Mr. Perez stated they would provide these details on the non-departmental items at a later date.

MOTION PASSED: 4-0

Chair Burt asked if there was a balance of slides to complete prior to the City Attorney's Budget discussions.

Mr. Perez stated there was an additional item for which they would wait until after the City Manager's Budget for addressing it in terms of what was seen on the slides for the Council Contingency.

3. City Attorney's Office Budget

Chair Burt suggested Staff continue with their presentation.

Budget Manager, Sharon Bozman, prior to her presentation, addressed the citywide changes that departments needed to be aware of but did not necessary control. These included: 1) Cost Plan Revenue increases and decreases, 2) A decrease in Internal Service Fund allocations, 3) Personnel Benefit cost increases, 4) Employer Medicare Contribution increases and, 5) Various other benefit increases totaling \$200,000. She stated the General Fund portion of this total was \$1.1 million. She noted, across departments, there was also an increase reflected in the Benefit Allocations in comparison of the 2002 benefits to the 2009 benefits. A bridge solution was used in 2009 in order to balance the numbers for allocation of \$2.5 million of the General Fund Benefits, which left the Internal Services Fund to absorb this in their funding balance. She stated this brought the 2010 benefits back to their normal allocation levels with an increase in departmental numbers.

City Manager James Keene stated this was not the mid-year budget adjustment but was part of the original adoption of the Fiscal Year 2009 Budget.

Ms. Bozman stated all the department budgets, for General Fund Retiree Contributions, resumed in 2011 with an increase in personnel



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benefit costs in all the departments in reference to this. She proceeded with discussion of the City Attorney's Department Budget. The citywide changes included the Cost Plan Revenue decrease at \$62,000 in 2010 and increasing \$16,000 in 2011, Personnel Benefit Costs increased at \$60,000 in 2010 and \$45,000 in 2011, other revenue decreases related to Stanford University at \$35,000, outside Council expenditures decreased at \$67,000 with the City Attorney's number one Savings Strategy as part of their departmental cuts, and a one-time decrease of \$270,000 in the City Attorney Department.

Chair Burt asked for comments from the City Attorney, received none and opened the floor for questions from Committee Members.

Council Member Schmid asked if the unforeseen contingencies that moved in and out of departments could be found somewhere else.

Director of Administrative Services, Lalo Perez, understood Staff needed to provide more details into certain areas which included non-departmental areas. He stated on the revenue side, they went to a lower level of detail with the goal to do this same thing on the expenditure side. He stressed further details would be provided at the next meeting.

Mr. Keene stated the Adopted Budget that the Council adopted included this as well.

Council Member Schmid stressed these were significant numbers which required tracking. He asked about the Employer Medicare Contribution and the Retiree Medical Insurance Premium, and whether this was before people qualified for Medicare, such as retirees not yet under the Medicare umbrella. He asked if retirees eventually moved to Medicare and then paid their own contributions.

Ms. Bozman stated this was a required payroll expenditure. This expenditure reflected the required Medicare payroll contribution.

Council Member Schmid asked if this was an expenditure shared by the employees.

Mr. Perez stated both the employer and employee paid the benefit at 1.6% on the employer's side and driven by the employee's salary size.



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Council Member Schmid asked what happened when the retiree reaches the age of 65.

Mr. Perez stated there was a mandatory sign-up for Medicare or they lost their healthcare benefits.

Council Member Schmid asked if the coverage paid the supplemental Medicare costs.

Mr. Perez stated he would return with those specifics on supplemental costs, and noted a Staff member was also prepared to answer.

Assistant Director of Human Relations, Sandra Blanch, stated Medicare was paid into by the employees, who were informed by CalPERS at age 65 of the necessity to sign with Medicare with the PERS Health Plan in addition to their Medicare plan.

Council Member Schmid stated the employee, then, does not pay for these supplements due to the fact that PERS pays the supplement costs.

Ms. Blanch stated the employee pays the Medicare portion.

Mr. Keene reiterated the PERS supplemental portion was paid by PERS with no contributions from employees.

Council Member Klein asked for further information on the number of lawyers for the City in the municipal practice of law and whether the City's numbers were higher and/or lower than the local average.

City Attorney Gary Baum, stated he had given thought to this and looked at ongoing statistics since his arrival. He stated he had reduced the number of attorneys in office from 7.75 by 1.75 with six attorneys now in office which he felt was the right size for his office. He stressed it was difficult to compare this number to that of other jurisdictions, because Palo Alto is the only city in the State of California with Gas, Water, Electric and Waste Water utility offices. He stressed two attorneys solely work on Utilities. The four remaining attorneys, based on the City's population and employee base, were comparable



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to area cities. He felt they were fairly consistent with other cities if their actual logistics and duties were taken into consideration.

Council Member Klein stated, by subtraction of the two Utilities lawyers, this was in effect four lawyers for the General Fund at \$140,000 in revenue which should be compared to other jurisdictions' expenditures.

Mr. Baum stated he had not seen the General Fund comparison in dollars but had seen it compared to the overall employee count.

Council Member Klein reiterated the comparison included the Utilities employees. He wished to separate out the headcount towards the General Fund at 650-675 and asked if this was correct.

Mr. Perez stated the headcount was correct though he planned to double-check this figure.

Council Member Klein asked how these numbers per head actually stood up in comparison to other cities.

Mr. Baum stated they were roughly equivalent to other cities of the same size.

Council Member Klein asked for further data on these numbers.

Mr. Baum stated he did not know if the General Fund was the proper comparison but he would get the data from the other cities of the same size.

Council Member Klein, regarding Staff, stated there were three secretaries and a legal administrator for the six lawyers in place which translated as one-half secretary for each lawyer in comparison to his law firm, for example, who held a ratio of four-tenths of a secretary, or 20 percent less secretarial employment ratio, for each lawyer. He stressed the need to keep up with national norms, and stated it was unusual to find a one secretary per lawyer ratio. He asked for further thought on this.

Mr. Baum stated his secretary in actuality worked for him and another Staff member and therefore all secretarial ratios in his office were two-



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to-one. He stated Palo Alto's secretarial ratio across the board was two-to-one. A survey on this issue was done which revealed private secretarial ratios were not directly comparable and he cited areas with differing ratios. He stated the City of Palo Alto had no paralegals and their secretaries functioned at higher levels due to this in preparation of first drafts through final documentations for the offices they support. The City's Secretarial Staff was benchmarked to those in other areas and the City of Palo Alto's secretarial duties were more often handled by paralegals by comparison. He noted the first level of contact for the public, and City Staff from other offices, also went through these same secretaries. He reiterated their analysis was certainly consistent with most other city attorney offices in the area.

Council Member Klein asked if the surrounding areas also had legal administrators as well.

Mr. Baum was not at liberty to speak to this but hazarded a guess that some areas did have these legal administrators in place.

Council Member Klein asked Staff to check on this as well since usually a legal administrator is taken into account in the Secretarial Staff-to-Lawyer Staff ratio calculations. He asked for clarification on the actual amounts spent on travel and continuing education in the City Attorney's office as well.

Mr. Baum stated these amounts are under the category of Official and Administrative Duties but was not shown in the budget. He stated \$15,280 was spent on all of this training including Staff training and attorney continuing education. An additional \$11,300 was spent on training-related travel which also included the attorney mileages to courts or meetings. He advocated for continued legal education for his Staff to better serve the City in-house versus outside counsel expenditures.

Council Member Klein stated the trend had been toward online training or local training. He asked if there were additional courses that required these travel expenses beyond what might be offered online or at the local level.

Mr. Baum stated Utilities training was available only in Texas, as well as the Power training exclusively offered out-of-state. He required



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Staff to use their own funds set aside for them for the out-of-state travel and almost all of the training is in state, with a shift toward web-based training.

Chair Burt stated many cities cut back on travel expenses and conferences despite any value lost. He asked if the City Attorneys training and travel costs included instances where Staff traveled to speak on their papers at conferences.

Mr. Baum stated this was included and it was not divided out where these were presented.

Chair Burt suggested the City Attorney's office as well as other City offices consider reductions in these areas on the second parallel track. He stressed this was a somewhat discretionary area. He gave the suggestion that one person may just as likely attend a conference effectively as opposed to the consideration toward funding of two attendees at the same conference. He stressed there was a continued need to account to the public on all expenditures which would be placed under intense scrutiny during the current economic times. In an area such as Engagement for the Common Good he suggested careful wording be present for public transparency to which it was very clear which tasks were entirely new and which were continued tasks which would otherwise be expected as in previous years. He noted it was necessary to come up with a consistency in the language to characterize these listed tasks towards Council priorities to better inform the public of actual new task expenditures versus historically expected expenditures.

Vice Mayor Morton suggested a Move for Approval since the Committee had spent a half hour on this item.

Chair Burt corrected for the record that ten minutes was spent on the City Attorney items.

Vice Mayor Morton restated this as 2-1/2 hours spent on three times thus far in the meeting.

Chair Burt stressed, as Chair, his need for an accurate record. He acknowledged the Motion to Approve by Vice Mayor Morton which received a second by Council Member Schmid.



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MOTION: Vice Mayor Morton moved, seconded by Council Member Schmid that the Finance Committee recommends to the City Council to tentatively approve the City Attorney's Office Budget.

Council Member Klein stated he was not prepared to vote in favor at the current time and required answers to the questions asked. Subject to additional information from the City Attorney he suggested a cut of one lawyer and one secretary.

Chair Burt asked for clarification on their second track discussion, with an understanding that the Director of Administrative Services, received the approval of this as track one. He asked if they would, then, in parallel have track two discussions. He asked if Council Member Klein wished for additional information for approval of this budget under track one, as one issue, but if there was need for further information for track two, this was slightly different in treatment.

Council Member Klein clarified that he was not prepared to rush through approval of the items before them. He stated the bulk of the night's presentation was from the Staff, which covered material that would not be repeated at subsequent meetings. He did not see the point, given the touch nature of the information, to rush through approval. He wished to hear this further information from the City Attorney and stressed the need to do the same when asking other department heads for information they might not understandably have at their fingertips immediately. He stressed the Committee was coming back, and could hear additional information and answers to their questions at future meetings. He again stated a preference to continue the item at hand and so moved.

SUBSTITUTE MOTION: Council Member Klein moved, seconded by Chair Burt that the City Attorney's Office budget be continued pending response to questions raised by Council Member Klein

Chair Burt added some budget items did not hold room for substantive questions, and these items would move forward for approval more quickly.



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Mr. Keene stated it was appropriate to move items without further question forward while rolling over items that required further information. He asked how to handle the possible suggestions by one member of Committee versus having a Vote. He gave the example of Council Member Klein's suggestion on track two to eliminate one attorney and one support Staff member. He asked, as this issue was tracked, was it enough for one Council Member to identify the need to do so, or was it necessary to have a consensus by the Committee to hold this item over.

Chair Burt suggested a pause in the current discussion in order to discuss the protocol for holding items over for future discussion. He asked whether one Committee Member's concerns merited holding over an item, or whether it required Committee consensus on the whole.

Mr. Keene stated the reason for clarifying this dealt with keeping the facts straight and not letting items disappear into the ether.

Chair Burt stated this was valid questioning and lent to perhaps the practice of saying, two Committee Members' in shared concern was enough and does not require a majority vote, or by the same token it could be just one member who offered the item for tabling and future information gathering.

Council Member Schmid agreed with the Chair's suggestion which included looking at the base data given, and if there was approval on the general pattern, this could be approved, but any member with an item which they felt needed further question and thought required one second to roll it over for this further discussion. Rather than continuing an entire items, parts of its whole which had been rolled over would return with further answers and comparisons for discussion.

Chair Burt stated this sounded reasonable. He made sure to understand this position in that it stated that tier one items with substantive questions be considered for continuation.

Council Member Schmid stated, in addition, anyone could make a motion on the base item, and with a Majority to Change, this tier one item that would then be moved.



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Chair Burt asked for other comments on this for clarification of their future actions in this regard.

Mr. Baum stressed the City Attorney's Office had already contributed \$67,000 reductions in outside counsel and tier one cuts. He stated there were no tier two cuts in that they had already contributed the 2.5 percent of their budget in the tier one cuts.

Chair Burt asked whether items earmarked for the tier two list required a single request by a Committee Member or a second to that request as the best process. In polling the Committee the consensus was that two Committee members were necessary to hold an item over for further follow up.

Vice Mayor Morton asked in Point of Order where they were on the Substitute Motion or a Tier Two Motion.

Chair Burt stated they were on the Substitute Motion in that the City Attorney's Budget was continued pending response to questions raised by Council Member Klein. He stressed this did not differentiate it, necessarily, as to whether this was a mixture of potential tier one and potential tier two in how this was characterized in the Council Member's questions.

Vice Mayor Morton stated if none of the budget items were up for tentative approval, then it was merely an information gathering meeting. In his view, he felt items needed tentative approval and then a wait for the tier information to come back to the Commission. For this reason, he stated his vote was against the Substitute Motion with no point in their delay to tentatively approve items.

Chair Burt responded to Vice Mayor Morton in that the statements made did not suggest a move forward without approval of items, but in fact stated that if a specific motion was made to do so, they would do that. He corrected for the record that this was not the intention as stated by anyone on the Committee.

SUBSTITUTE MOTION FAILED: 2-2 Morton, Schmid no



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Chair Burt stated this did not allow for the Action and returned to the initial motion.

MOTION FAILED: 2-2 Burt, Klein no

4. City Auditor's Office Budget

Chair Burt noted for the record a ten-minute break by Committee members prior the presentation of the City Auditor's Budget.

Budget Manager, Sharon Bozman, noted where the City Auditor's Budget was located in the Budget Book. She also noted the citywide changes which affected the Auditor's Budget which included the Cost Plan Revenue increase at \$250,000 in 2010 and an additional increase of \$13,000 in 2011 with a change from the FTE methodology to department support and more direct allocations to the Enterprise Department, Personnel Benefit cost increases of \$48,000 in 2011 and an additional \$15,000 in 2011, decrease expenditure revenues and auditing expenses with regard to the outside contracted revenue audits at \$8,000 as one of the number one saving strategies, a contractual obligation for an increased External Auditor contract at \$11,000 in 2010 and an increase for training and other supplies at \$5,000 for the City Auditor's Budget.

Chair Burt asked if Ms. Lynda Brouchoud, the City Auditor had any additional comments.

City Auditor, Lynda Brouchoud, stated additional answers to the budget questions included the fact that they had put forward the consideration of a 2.5 percent budget reduction for the City Manager's consideration. This included information at places with regard to a decrease in auditing expenses for the sale tax consultant used to assist in sales tax recovery. A second portion included the \$7500 decrease in intern funding.

Chair Burt asked for questions from the Committee. He included his own question on the external auditing contract. He asked for further understanding of the \$11,000 increase.

Ms. Brouchoud stated this contract originated in 2005 with the current external Financial Auditor. This was a citywide contract for which they



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performed the CAFR along with a variety of additional financial statements for the City. The contract was amended and extended for three years in February of 2008. One of those years has occurred, with the second and third years pending on the contract which had modest increases built in. She noted there was an agenda item for Council regarding the fact that this contract included additional services which the external auditors had to do including additional single audit requirements. These items were not included in the original budget for that contract and also made up some of the potential increases.

Chair Burt stressed the theme of sharing the economic burden currently in that a lot of contracts, including those with employee unions, which would undergo renegotiations. He stated built-in escalators based on a different economic period which were included in future contracts were something of a concern and required a second look. On general principle, the a second look approach was certainly widespread in the private sector where no one was receiving price increases even if an understanding existed in the past of built-in escalators of any kind. He stressed many of these escalators were essentially based on inflationary assumptions, to which there was no inflation at the current time. He asked if this particular renegotiation was part of a broader contract with the citywide discussions being a sub-element.

Ms. Brouchoud stated the contract covered the citywide financial statements. She informed the Committee they could go back and look at the contract negotiations, but these had been assigned as legally binding contracts. She stated additional advice on this was necessary from the City Attorney as to whether they can renegotiate these numbers since the original contract was part of a Request for Proposal (RFP) back in 2005. She understood this was the lowest provider at that time.

Director of Administrative Services, Lalo Perez, addressed what was asked in the very least, but noted further discussion around Information Technology (IT), which he would provide later in the meeting might prove important as to efforts taken in maintenance reduction costs which were artificial insurances, per se, in the IT world.

Chair Burt asked if this belonged in the track two column.



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Council Member Klein expressed trouble over this since realistic tier two changes included ones which could be enforced. He stated this particular issue held with it more of a wish rather than the ability for enforcement since binding contracts were by all means binding contracts. He interpreted this as a direction to the Auditor to renegotiate, but that it did not belong in tier two.

Chair Burt stated this was a reasonable approach to return it to the City Auditor for renegotiation.

City Manager James Keene stated this was also slated for tracking on the rollover items list.

Chair Burt asked for a brief explanation on indications that there was a new way of allocating and explaining the expenditure increases showing up as departmental expenditure increases. By way of clear question, he asked if this was between the \$100,000 budget change of 2008 and 2009, or that of 2009 and 2010.

Ms. Bozman was not sure she understood the question and deferred.

Ms. Brouchoud stated he made reference to the Benefits increase between the years.

Ms. Bozman asked if she had misspoke on this, and reiterated it was a \$40,000 increase in 2010 and a \$15,000 increase for 2011 with this as the Auditor's portion of the citywide benefit increase which had been discussed.

Chair Burt, on the decrease in revenue of the Audit being an expenditure for savings on sales tax recouped, asked if this was an area of potentially less revenue with the decrease in that expense.

Ms. Brouchoud stated the Sales Tax Consultant they used was budgeted under contracted services. She noted this year's sale taxes were down along with revenue totals, in keeping with recovery downturns. In the event that sales taxes increased with a budget recovery hoped for in return, this required a revisit in the future.



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Chair Burt asked if this was viewed as costs in proportion to the amount of sales tax, adjusted up or down, as the rule their rule of thumb.

Ms. Brouchoud stated their efforts included arrival at a 2.5% savings, with a quarter of the budget year left to go, and they were not quite sure what the outcome would be; however, they were mindful of the downward trend at this time.

Chair Burt stated there were no comments from the public and asked for a return to the Commission for comments or a Motion to Approve.

MOTION: Council Member Klein moved, seconded by Vice Mayor Morton that the Finance Committee recommends to the City Council to tentatively approve the City Auditor's Office Budget.

Council Member Klein asked if there was an understanding that these were tentative approvals for the departments discussed.

Chair Burt stated this was the understanding and that if, in process, he had failed to clarify this, he again repeated these to be the tentative approvals on the departmental items discussed. This remained the case until otherwise discussed in the budget process.

MOTION PASSED: 4-0

5. City Clerk's Office Budget

Chair Burt opened Staff's presentation on the City Clerk's Office Budget.

Budget Manager, Sharon Bozman, noted where the City Clerk's Office Budget could be found in the Operating Budget Document. She stated increases in the Cost Plan Revenue in 2010 at \$137,000 with a decrease in 2011 at \$92,000 due to one-time expenditures which moved in and out of the Clerk's office for Election expenditures. Personnel Benefit cost increases were \$43,000 in 2010 and \$19,000 in 2011 also due to increased Election expenditures on a one-time cost basis for 2010 at \$305,000. Advertising and Publishing increased at \$20,000 and Other Contracted Services increased at \$15,000 in order for replenishment of the City Clerk's Budget for last year's cuts known



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as the Best Bets, which went forward but Council decided against those specific cuts. The cuts needed permanent placement back into the City Clerk's Budget. This included sense minute reductions and other contracted services.

Chair Burt asked for Committee member's questions. No cards existed for public comment and the Committee moved on to further comments and/or a Motion to Approve.

MOTION: Council Member Klein moved, seconded by Council Member Schmid that the Finance Committee recommends to the City Council to tentatively approve the City Clerk's Office Budget.

Council Member Schmid asked about the diagram on page 56 of the City Clerk Budget materials with regard to the average time needed to finalize Council minutes which went up approximately 20 percent in 2008. He asked for additional information on this percentage rise.

City Clerk, Donna Grider, stated Staff out on Workers Compensation, as well downsizing by one management Staff person resulted in the delay of completion of Council Minutes in 2008.

Council Member Schmid asked if this reflected what went on in Council, such as longer meeting times.

Ms. Grider stated Council was standardized in their meeting times. She stated it mainly was reflective of her Staffing issues.

MOTION PASSED: 4-0

6. City Council's Budget

Chair Burt introduced Item No. 6, the City Council's Budget.

Budget Manager, Sharon Bozman, noted the location of the City Council's Budget in the Operating Budget Document. She stated Cost Plan Revenue decreases at \$24,000 due to Council Contingency Items moved into the budget in 2009 but did not appear in 2010, and also Benefit Costs at an increase to Council at \$26,000.

Chair Burt asked for Committee questions.



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Vice Mayor Morton asked what the tier two proposals were for decreases in this budget and who comes up with what Council tier items needed adjustment, and how this was put before Council.

City Manager, James Keene, stated Council's Budget was small, and outside of the portion which dealt with salaries and benefits, again a comparatively small amount, there was really no flexibility in the Council's proposed budget. He questioned whether talks over the contract services portions were possible.

City Clerk, Donna Grider, stated the only thing budgeted in this regard was the Police Auditor and the Council Appointed Officer (CAO) evaluator.

Mr. Keene did not presume that either of these was under consideration for cuts.

Vice Mayor Morton stated they could make a return to doing their own evaluations, negating the need for an outside evaluator. He so-Moved on the City Council Budget with the potential for no tier two cuts, which he did not propose currently, but that such a cut include that of the outside evaluator.

MOTION: Vice Mayor Morton moved, seconded by Council Member Schmid, that the Finance Committee recommends to the City Council to tentatively approve the City Council's Budget.

Chair Burt so-noted the Motion to Approve and the second. He asked for further discussion or comment from the Committee members.

Council Member Klein, noted his previous vote against outside services for the CAO evaluations on previous occasions, and urged Council Member Morton join him in suggestion of this as a two-tier cut.

Vice Mayor Morton stressed he had done this and had received a second on the motion.

Chair Burt stated he did not understand the motion as exactly what he had expressed above.



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Council Member Schmid stated it was combined in an effort to save time with a Motion to Approve and at the same time the suggestion that any tier two cuts be made in the area of the CAO evaluator.

Council Member Klein agreed on this combination in the above-made motion.

Chair Burt suggested separation of the two items in the above-made motion with a vote first on the tier two cut of the CAO evaluator.

Vice Mayor Morton, as a Point of Order, stated that since there were two votes on the second item it was now not a matter of voting process. He stressed it merely required two Council Members ask for it to be put on the tier two order.

Chair Burt stated, in the instant case, he separated the tier two request from the existing motion. The tier two request then moved forward automatically on the basis of Vice Mayor Morton and Council Member Schmid's requests. He moved toward the vote on the primary Motion for Approval of the Council's Budget.

MOTION PASSED: 4-0

7. City Manager's Office Budget

Chair Burt introduced Item No. 7, the City Manager's Office Budget.

Budget Manager Sharon Bozman noted the City Manager's Office Budget was found in the Operating Budget Document. Cost Plan Revenues decreased \$100,000 in 2010 and increased \$11,000 in 2011. Personnel Benefit Costs increased \$139,000 in 2010 with minimal changes for 2011. Temporary salaries increased \$75,000 with an addition of half an FTE for the Deputy City Manager's Department at \$124,000 and the expense for this FTE was shared with the Planning and Community Environment Department along with elimination of one FTE Senior Administrator as part of the \$161,000 savings strategy and elimination of one FTE Communications Manager with a decrease in instruction and training at \$58,000 as an additional savings strategy component for departmental cuts, along with an increase in Sustainability Programs at \$32,000. Within the previous increases for Sustainability Programs, the Finance Committee was



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asked to recommend funding an additional \$32,000 out of Council Contingency to increase the Sustainability Program to \$64,000.

City Manager, James Keene, expanded on this in that a revised Organizational Chart for the City Manager's Office was at places. He pointed out the correct Fiscal Year 2010 position total was 10.5 full-time employees and 1.0 hourly employee. Earlier conversations today, he noted an example of problems of the frozen position approach in budget talks. He stated this was set for elimination next year, which made future talks less confusing, but he noted an FTE Senior Administrator was eliminated at \$161,000 allocated for this position. An elimination of the Communication Manager's position listed in this budget was not funded. However, a look at comparative data, by example, showed two FTEs under Communications with the approximate same cost as one FTE in the following year. He stated this was an additional indication as to why the frozen position approach confused budget issues and numbers. Additionally, he stated the City Manager's Budget included significant savings from Fiscal Year 2009, which occurred due to the fact that they did not fill the City Manager slot as well as by not adding the Assistant City Manager approved by Council and not filling the Senior Administrator position. He did not feel there was the capability of function in an ongoing way at that level. He planned for this Assistant City Manager position to be filled sometime in the Fiscal Year with a significant one-time salary saving of at least \$150,000. Since this was not an ongoing systemic change it was not included as a cost savings in the current proposed budget. The proposal was that two Interim Deputy City Managers positions had one return to the Assistant to the City Manager slot and the other Deputy mentioned with half-funding between the Planning and City Manager's offices with a majority of the issues for this position dealing with strategic Land Use and Planning issues. He stressed the more accurate representation for comparative purposes were the 10.5 FTEs for Fiscal Year 2010 and not the 10.0 listed in the Operating Budget Document.

Vice Mayor Morton asked for further information on the temporary salary increase at \$75,000. He asked if this was a potential tier two item.

Mr. Keene stated the temporary salaries were his solution to keep a graduating Fellow on Staff in a temporary position without the



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necessity for a higher level of pay and benefits. He noted elimination of the Senior Administrator's position for an ongoing \$161,000 with the substitution of a one-time one-year expense of \$75,000.

Vice Mayor Morton clarified that these two expenditures related to each other with one function filled by someone who did not require the full benefit and salary package of an FTE.

Mr. Keene agreed this was the case, with a basic savings of \$90,000 with this approach for Fiscal Year 2010, and availability of the full \$161,000 in Fiscal Year 2011 when the position went away.

Council Member Schmid asked for clarification on the half-time Deputy City Manager split. He asked if the person would work part-time in each role, or would the roles combine with planning being a more central part of the position's activities.

Mr. Keene noted the thought was the position resided within the City Manager's Office with the work plan shaped to ensure at least 50 percent of the work was on Planning and Land Use issues. Concurrent to this, the Planning Department Budget included the recommendation to not fill the Assistant Planning Director Position in the Planning Department for an offset of saving. The higher level capacity and strategic issues were more of a trade-off and he had discussed this with the Planning Staff with the assurance that 50 percent of the time would be spent on Planning issues. He had received their support on this.

Vice Mayor Morton asked what was included as high-level issues, and whether or not this referred to Stanford University and the library project, or if there were other major projects which required substantial time.

Mr. Keene stated this also included high-speed rail, strategic work on advancing the Comprehensive Plan and further items in this realm.

Council Member Klein commented on the nature of the frozen positions and notation of their expenditure plans in the budget. He sought better wording in order to erase any confusion over salary and benefits amounts. He suggested a footnote to better delineate these amounts.



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Mr. Keene stated he and the Budget Staff had a general discussion about a change in the document on the whole, with the inclusion of the Adopted 2008 and 2009 Budget Column which in one sense would compare that to the Proposed Budget. He noted the Adjusted Budget showed the cuts offered this year, but rather than received acknowledgement for those cuts and the sacrifices made, it looked to report the exact opposite as if the City Manager's Budget had grown by leaps and bounds.

Chair Burt asked if the Adopted Budget was slated to be added to this document in an effort to make items less confusing.

Mr. Keene stated he and Staff continued to negotiate on inclusion of the Adopted Budget information, and they would return with this information.

Chair Burt stated this item was included in the roll-over items. He opened the discussion to public comment, saw no cards, closed public comment and made one additional comment. Regarding the sixth bullet item in the PowerPoint on Sustainability Programs, he noted this showed up in the City Manager's Office, and he asked if this previously had been an expenditure allocated to the City Manager's Office when the service was provided by/and for Staff members working part-time on it.

Assistant to the City Manager, Kelly Morariu, stated the cost allocation for the percentage of time that Sustainability Team members spent in the City Manager's Office was included in the City Manager's Office Budget as well the operating expenses.

Chair Burt reminded everyone that, one week prior in review of the Sustainability Program they discussed, if these targeted achievements were met, this resulted in over \$2 million in savings through these efforts.

Mr. Keene stated this was indeed the case with \$2 million in savings.

Chair Burt stressed the importance of placement of this on the record as the potential savings up to that \$2 million expectation level which far exceeded any expenditures.



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Mr. Keene pointed out an additional correction, on Page 80 of the booklet, which broke the City Manager's Budget down in program areas. This page dealt with Sustainability in the Proposed 2010 and 2011 Budget did not reflect accurate numbers since the full salary and benefit allocations were not included. He stressed the bulk of this was inappropriately placed in the Administration and City Manager's portions. He slated this for correction in the Adopted Budget materials to reflect the accurate distribution of work.

Vice Mayor Morton proposed the tentative adoption of the City Manager's Budget with the adjustment to the City Council Contingency Fund for \$32,000 to fund the second half of the Sustainability Programs.

MOTION: Vice Mayor Morton moved, seconded by Council Member Klein that the Finance Committee recommends to the City Council to tentatively approve the City Manager's Office Budget, to include a reduction to the City Council Contingency fund of \$32k to fund one-half of the Sustainability Program.

Council Member Klein asked why Sustainability continued with as part of the Council's Contingency. He questioned when it became a regular part of the budget negotiations.

Mr. Keene felt there the thought arose in concern over the budget challenges with a suggestion that they share in a split amount with the Council Contingency. He stated it was appropriate for Staff's return with comparisons on building this in. For the most part, he stated Sustainability dealt with ongoing support and contract issues for items such as the dashboard software suggested for purchase which enabled fund recapture. He noted Staff was open to the suggestions on a built-in of this into the budget itself.

Council Member Klein noted integration of this into the budget itself was the more appropriate direction to take. He stated the Council Contingency Fund was a fund on which Council made decisions to change the budget around. He stressed the sustainability item had been there from the start.

Council Member Schmid suggested this be the tier two contribution.



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Chair Burt concurred with Council Member Klein and asked if he wished to make a Substitute Motion.

Council Member Klein stated he did not as he felt this was a separate item. He suggested a vote on the current item and then perhaps a motion later to direct Staff to restore the \$32,000 to the Council Contingency Fund with a spread over the City Manager's future budget.

Chair Burt noted this very adjustment was included in the current motion.

Council Member Klein Moved then with a Substitute Motion for Approval of the City Manager's Budget with the exception of the \$32,000 presently allocated to the Council Contingency Fund.

SUBSTITUTE MOTION: Council Member Klein moved, seconded by Council Member Burt that the Finance Committee recommends to the City Council to tentatively approve the City Manager's Office Budget, with the exception of the \$32,000 allocated from the Council Contingency Fund to fund one-half of the Sustainability Program.

Chair Burt asked if there was further Committee discussion.

Council Member Klein stressed the budget impact of this Substitute Motion was zero in that it remained a question of where the money was accounted. He suggested additional wording in that the \$32,000 was added to the City Manager's Budget, and he did not want it taken out of the overall budget.

Mr. Perez stated this reduced the balance from \$443,900 by \$32,000 out the General Fund excess if it was added to the City Manager's Budget.

Council Member Morton noted this was another instance where they spoke of sustainability but wanted someone else to pay for it such as the City Manager's Department. He stated, while the City Manager's Budget afforded this, absorption of some of the cost could still be considered under the Council's Contingency. In this regard, he would vote against the Substitute Motion since he felt it better dealt with as a shared budget measure.



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Council Member Klein stressed this was not Council's money to put forth, and remained the City's money. He reiterated it was not appropriate to use the Council's Contingency Fund on a continuing basis when there was an item that clearly stretched on for years. He noted this item belonged in one budget or another.

Chair Burt agreed the Council Contingency was not a kitty, per se, for the Council to draw from and remained a public fund where Council made discretionary policy changes through the year. He stressed the Sustainability Program now required a permanent position with brought with it the need for a permanent place in the budget planning. A permanent place for this item lent to a greater endorsement by Council rather than a lesser endorsement since it spoke to proper accountability.

SUBSTITUTE MOTION PASSED: 3-1 Morton no

Chair Burt did a time check at 10:10 p.m. with movement through Item No. 7 and the Administrative Services Department (ASD) Budget and the Human Resources (HR) Department Budget left for discussion. He asked if the ASD Budget was the more substantive discussion or was it equal to the Resource Department Budget discussion.

Mr. Perez stated the HR portion was likely faster than the ASD portion.

Mr. Keene stated, for the most part, the ASD was a captive audience at any Finance Committee meeting with the ability to fill in at any open spot.

Chair Burt suggested, given the time spent on prior items, they skip Item No. 8 with a carry-over to the next schedule meeting, and a move forward on Item No. 9 at the current time.

MOTION: Council Member Burt moved, seconded by Council Member Morton to continue Agenda Item No. 8 to May 7, 2009 to be heard after the other scheduled items.

MOTION PASSED: 4-0

~~8. — Administrative Services Department Budget~~



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~~a. Internal Services Funds~~

9. Human Resources Department Budget

Budget Manager, Sharon Bozman, noted the Human Resources Department Budget was found in the Operating Budget Document. Cost Plan revenues decreased \$23,000 in 2010 and increased \$49,000 in 2011. Personnel Benefits increased \$116,000 in 2010 and \$61,000 in 2011. Additional revenue decreases included a decrease of \$11,000 for the Management Talent Exchange Program which was now moved to San Mateo County for administration. Expenditures included a drop of one FTE Employee Relations Manager as part of the Savings Strategy at \$179,000 with the addition in its place of a Human Resources Assistant at \$100,000 with a \$79,000 savings. Increases in temporary salaries came in at \$30,000. Suspending of non-mandatory training saved \$50,000 as an additional Savings Strategy. This did not affect mandatory training in Safety, Policies and Procedures. Transfer of citywide benefits costs which were previously held in HR transferred to General Benefits Internal Fund for better allocations throughout all City departments with a decrease in the HR budget of \$73,000.

Chair Burt asked for questions from the Committee.

Council Member Schmid noted the completion of the implementation of the Systems Application and Data Processing (SAP) Program. He asked if any technology savings had been noted or expected with respect to these new technology investments.

Director of Administrative Services, Lalo Perez, stated any changes made did not focus on HR or Payroll but included an upgrade to the system with the second phase on the Utility module. No efficiencies resulted in the HR project.

Council Member Schmid clarified the general upgrade had no impact on internal services.

Mr. Perez stated there were no major changes, but some efficiencies in the example of a reduction in clicks or screens necessary in navigation but no other significant efficiencies were noted.



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Council Member Schmid asked if efficiencies were expected in other departments other than Utilities.

Mr. Perez stated efficiencies were found in the Administrative Services Department as well with a shift expected in total. Where his department had some potential efficiencies these well might create an increase in either the Utilities' efficiencies or other IT group areas. These were slated for discussion of the Administrative Services Proposed Budget.

Council Member Klein asked Mr. Carlson how his 16 FTEs compared to other cities of comparable size.

Director of Human Resources, Russ Carlsen, stated there was good data for comparisons. He had prepared for this question with research of the 12 comparable cities. The City fell in alignment with the area communities with roughly, although he felt a higher ratio for the City of Palo Alto required some consideration of areas he felt remained understaffed. He stressed HR did have a backlog and was unable to do things in a timely fashion which ultimately affected the City as further insight on his dilemmas the HR Director in terms of workload completion.

Council Member Klein asked what an HR Representative was as listed on his Organizational Chart.

Mr. Carlsen the Assistant Director of Human Resources explained this term. He stated, however, the generic term was Human Resources Technician with different levels within this and the assistant position was the lowest clerk level with the HR Representative as the entry level professional.

Assistant Director of Human Relations, Sandra Blanch, noted this classification in other organizations held the title of HR Analyst I. By best mention, she stated this position was the profession entry level position in the department. She stated the representative in position for Palo Alto administered the Employee Benefit Program and the Employee Training Program. With the decrease in the training budget the second representative's duties were restructured in that this employee was retrained for support in Benefits. An administrative support position was lost in Benefits, so the second HR Representative



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was trained for this slot for assistance to employees on retirement, processing applications, estimates and calculations and primarily this representative in Benefits processed the eligibility reports, reviewed plan documents and answered employee questions.

Chair Burt noted no further questions from colleagues and no cards from the public in close of public comment and returned to Committee comments and/or a Motion to Approve.

MOTION: Vice Mayor Morton moved, seconded by Council Member Klein that the Finance Committee recommends to the City Council to tentatively approve the Human Resources Department's Budget.

MOTION PASSED: 4-0

10. Discussion of Future Meeting Schedules and Agendas.

Chair Burt noted the next meeting was scheduled for Thursday, May 14, 2009. This meeting was tentatively agendized with Police, Fire, Library Planning and Administrative Service Budget proposals. The following Tuesday, May 12, 2009, included Community Services, Utilities and Utilities Capital Improvement Plan Budget proposals as well as meetings on May 13, May 19 and May 26, 2009.

Director of Administrative Services, Lalo Perez, noted an additional item for the Tuesday May 12th meeting was the 3rd Quarter results for the General Fund which would appear on the Agenda for the primary discussions.

ADJOURNMENT: Meeting Adjourned at 10:22 pm