



FINANCE COMMITTEE

Regular Meeting
May 19, 2009

Chairperson Burt called the meeting to order at 7:04 p.m. in the Council Chambers, 250 Hamilton Avenue, Palo Alto, California.

Present: Burt (chair), Klein, Schmid

Absent: Morton

1. Oral Communications

None

2. Public Works Department Budget – Enterprise Funds: Storm Drainage (includes Operating Budget, Capital Improvement Program and Rates and Reserves).

Director of Administrative Services, Lalo Perez reviewed the summary of the budget process and items placed in the Parking Lot from previous Finance Committee meetings.

Council Member Schmid asked for clarification on the removal of the Assistant Director position which appeared in two locations and asked whether there were actually two positions being removed.

Budget Manager, Sharon Bozman stated the line item was shown in two separate locations reflective of two different types of savings for the one position cut.

Council Member Schmid noted the resultant surplus amount.

Chair Burt spoke to the Parking Lot issues, a number of which took specific position reductions into consideration.

Ms. Bozman reviewed the Committee's At-Place Items then gave a brief presentation of the Public Works proposed budget for the Storm Drain Fund.



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Council Member Klein asked for clarification of whether there had been an increased operating transfer to the General Fund.

Ms. Bozman stated yes there had been.

Mr. Perez stated the rate stabilization at the end of Fiscal Year 2011 was \$166,000.

Council Member Klein asked for clarification of the loan amount from the General Fund to the Storm Drain Fund.

Senior Engineer, Joe Teresi stated the loan payments in Fiscal Year 2010 were scheduled to be \$647,000 and in Fiscal Year 2011 were scheduled to be \$574,000.

Council Member Klein asked if at the end of Fiscal Year 2011 the loan balance would be reduced to zero.

Mr. Teresi stated yes.

Council Member Klein asked for clarification on the amount of current deficit compared to the original plan.

Mr. Teresi stated unless there were a decrease in construction costs there would not be adequate funding for the Clara Drive, Southgate, and a portion of the Matadero Creek Pump projects.

Council Member Klein asked whether the Channing-Lincoln project had been considered as part of the deficit. He asked to what extent the Pump Station Projects were over budget.

Mr. Teresi stated the Pump Station Project was approximately \$4 million over budget.

Council Member Klein asked whether the deficit was affected by acceleration of the Channing-Lincoln project, given the low construction bids.

Mr. Teresi stated based on cash flow revenue another funding source would be necessary in order to accelerate the project.

Council Member Klein asked the loan needed to be repaid at this time.



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Mr. Perez stated not repaying the loan was an option.

Council Member Klein asked whether the loan funds came from Reserves or the Operating Budget.

Mr. Perez stated the funds were from the Reserves.

Council Member Klein asked if it would affect the Operating Budget this year if the loan was not repaid.

Mr. Perez stated it was possible for the Storm Drain Fund to not repay to the and the money to come out of the General Fund Budget Stabilization Reserve. The current BSR the percentage rate was at 15.3 percent.

Council Member Klein stated leveraging money was the best way to take advantage of the opportunity on construction projects.

Mr. Perez stated with the reduction in construction costs he agreed.

Director of Public Works, Glenn Roberts stated what was shown was the first two years of a four-year project spread over the life of the CIP.

Council Member Klein asked whether Staff could accelerate next year's project into this year's.

Mr. Roberts stated consolidation was possible from four years to two years with appropriate funding.

Council Member Schmid stated \$647,000 was on the General Fund loan repayment section. He asked if the notation of Other Storm Drain Expenses previously covered by General Fund subsidy was a loan.

Mr. Teresi stated prior to 2005 the Storm Drain Fund operated in a deficit mode with a portion of the new money being paid on a portion of the old program.

Council Member Schmid asked if the General Fund fronted either monies to the Storm Drain Fund.



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Mr. Teresi stated prior to 2005, the General Fund made up the difference and was a permanent deficit filled now from revenues rather than General Funds.

Council Member Schmid asked if the amount covered by the General Fund in 2010 was a sum of \$1.4 million out of the \$3.3 million.

Mr. Roberts stated prior to the passage of the Storm Drain rate increase the operating budget ran at a deficit which needed subsidies from the General Fund. He noted with the passage of the rate increase the subsidy would no longer be necessary.

Chair Burt asked to replace the word previously with historically in an effort to eliminate any confusion.

Mr. Roberts agreed to the language change. He explained the reason the line items were separated was for ease of delineation between the tracking and report how the proceeds of the new rate increase were utilized.

Council Member Schmid suggested separating the project into one-time CIP projects, enhanced maintenance, and regular maintenance.

Chair Burt agreed with the delineation.

City Manager, James Keene verified the requested numbers for the seven Storm Drain Capital Improvement Projects (CIP) and that staff would bring back the information to full Council during the budget hearings.

Council Member Schmid asked how much had been accomplished on the Channing-Lincoln project with the current strength of the dollar.

Mr. Roberts stated the scope for the projects had not changed. Project phasing was managed with consideration of the available cash flow.

Chair Burt stated that if the scope of the project came in at a lower amount then it is conceivable that additional projects could return from the drawing board.

Mr. Roberts noted this was possible.



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Council Member Klein stated the projects were not limited to the funds raised by the Storm Drain. He stated the Council had approved projects which were under-funded with funding considerations from the General Fund.

Chair Burt noted concern over the timeframe necessary to present this information. He asked Mr. Roberts if a considerable amount of work was required before they understood where they were headed.

Mr. Roberts stated Staff would return with the status of the Ballot Measure Projects and the Storm Drain and associated projects.

Council Member Schmid stated he was more interested in the Ballot Measure projects.

Mr. Roberts stated that Staff could come back quickly with the information on the Ballot Measure Projects.

MOTION: Council Member Klein moved, seconded by Council Member Schmid that the Finance Committee recommends to the City Council to tentatively approve the Public Works Department Budget – Enterprise Funds: Storm Drainage (includes Operating Budget, Capital Improvement Program and Rates and Reserves).

INCORPORATED INTO THE MOTION BY CONSENT OF THE MAKER AND SECONDER: To direct Staff to return to the Finance Committee for discussion of the possibility of deferring loan payments to the General Fund in order to accelerate the Channing-Lincoln Project.

Council Member Klein noted the Public Works Department may need to hire additional Staff to complete pending projects which could eliminate significant savings. He requested a report on precise numbers for costs and benefits.

Council Member Schmid requested a review of the current seven projects with strategic discussions on how to accomplish the maximum amount of work with a minimum amount of funds.

Council Member Klein stated the Storm Drain projects were important individually and should be treated equally.



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Mr. Roberts agreed.

Chair Burt stated a status report on the seven projects was necessary to gain complete understanding of progress.

MOTION PASSED: 3-0 Morton absent

3. Public Works Department Budget – Enterprise Funds: Refuse (includes Operating Budget, Capital Improvement Program and Rates and Reserves).

Budget Manager, Sharon Bozman gave a brief presentation of the Public Works Refuse Fund proposed Budget.

Council Member Schmid asked if the line item Payment to PASCO was with regard to PASCO GreenWaste.

City Manager, James Keene stated yes.

Council Member Schmid asked how the GreenWaste contract went from a seventeen percent increase to a forty-four percent increase.

Director of Public Works, Glenn Roberts stated the difference was an adjusted cost from the retained PASCO contract and the new GreenWaste contract with included equipment needs and services.

Mr. Keene noted the GreenWaste services were expanded.

Council Member Schmid asked how the contract discussions with GreenWaste went from a six percent increase to a seventeen percent increase.

Mr. Roberts stated there were two components which made up the difference between the increases and potential decreases not yet realized.

Chair Burt asked which line item the Smart Station appeared under and whether the percentages in question were included in the 2010/2011 budget.

Mr. Keene stated he believed the line item was under Solid Waste Operations.



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Mr. Roberts stated the line item was located under Collection, Hauling and Disposal.

Chair Burt asked how the line item was shown as not changed in one location and as reduced in another.

Mr. Roberts noted this to be correct. Staff was scheduled to report on this in preparation of next year's budget.

Council Member Schmid stated there was no revenue item increase for the rent at the landfill. He asked if there was any anticipation by Staff for activities at the landfill after the closure date.

Mr. Roberts stated there were no anticipated land use changes after the close of the landfill per Council Policy direction.

Council Member Schmid asked for clarification on the Council Policy.

Mr. Roberts stated the rent policy was unaffected since Council's previous direction on rents and the durations of rentals.

Council Member Schmid stated Schedule A showed payments from previous years to the expired date on January 01, 2011.

Mr. Roberts stated yes, the payment schedule expired on January 01, 2011.

Council Member Schmid asked when Byxbee Park was scheduled to open after the landfill closing.

Mr. Roberts stated the Master Plan needed to be reviewed prior to a firm date being confirmed.

Council Member Schmid stated funding for the Open Space development was included in the landfill closure reserve funds.

Mr. Roberts stated the landfill closure reserve funds were for the capping, grading and methane gas collection systems and did not include the Open Space development costs.

MOTION: Council Member Klein moved, seconded by Council Member Schmid, that the Finance Committee recommends to the City Council to



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tentatively approve the Public Works Department Budget – Enterprise Funds: Refuse (includes Operating Budget, Capital Improvement Program and Rates and Reserves).

MOTION PASSED: 3-0 Morton absent

Council Member Schmid noted the Parking Lot issues had not yet been discussed.

Chair Burt noted Parking Lot items held the potential to be raised at any time during the meeting.

Council Member Klein stated the Storm Drain item was actually a Parking Lot issue.

4. Public Works Department Budget – Enterprise Funds: Wastewater Treatment (includes Operating Budget, Capital Improvement Program and Rates and Reserves).

Budget Manager, Sharon Bozman gave a brief presentation of the Public Works Wastewater Funds proposed budget.

Council Member Schmid asked what the difference was between the facility condition assessment and retrofit versus the plant and equipment replacement in the CIP's listed.

Director of Public Works, Glenn Roberts stated the facility replacement item was the ongoing line item which carried over from year-to-year for the maintenance and operations of facilities over thirty-five years. He stressed the need for this ongoing assessment due to the corrosive environment. The condition assessment helped to understand the continued needs for the future system replacement features for both mechanical wear and tear and functional and technological changes. The two items were separate with inter-related functions.

Council Member Schmid asked for clarification on the sequence of completion for the following projects; the water pipe to Mountain View, the interim change from gas to liquid disinfectant, and the UV facility.

Mr. Roberts stated all three projects were related to the push, emphasis and sensitivity to the environment and the quality of the work done at the plant.



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This work included the reduction of greenhouse gases, toxic material elimination and the production of a better product in reclaimed water.

Council Member Schmid asked which CIP projects were completed and why the CIP budget numbers were lower than prior years. He asked if the CIP projects were paid for out of the rate base.

Mr. Roberts stated the CIP's were paid through a combination of sources which included the rate base paying for the City's share and State and Federal grants.

Council Member Schmid asked for clarification on the allocated charges listed for the CIP's.

Mr. Roberts stated allocated charges were the overhead costs for support functions to aid in plant operations.

Council Member Schmid stated there had been a \$7 million reduction in allocated services.

Chair Burt asked for clarification on where the allocated charges were located in the Budget materials.

Council Member Schmid stated the numbers appeared under Operations accounting and the Environmental Compliance accounting.

Director of Administrative Services, Lalo Perez stated there was a misprint for the allocated charges including Utilities gas, water and vehicle replacement for 2008. He stated the corrections would return during the wrap-up.

Council Member Schmid noted a spike in numbers for reclaimed water delivery and asked whether the item generated revenue.

Mr. Roberts stated the product was distributed which covered the cost of the system.

Chair Burt asked if all CIP items were included in the portion the City's share at Rate Base of thirty-five percent of the costs.

Mr. Roberts stated yes.



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Chair Burt asked if the allocated charges were performed by in-house Staff and whether all the participating cities shared the services.

Mr. Roberts stated yes, all charges were passed through the partnering cities' budgets.

Chair Burt asked whether the hazardous materials removed from the water system were at levels above the Title 19 threshold.

Mr. Roberts stated yes and the City had been de-listed from the registry.

Chair Burt asked for clarification on the difference between the Plant Master Plan and the Facilities Condition Assessment and Retrofit.

Water Quality Control Plant Manager, James Allen stated the Facilities Condition Assessment and Retrofit project addressed the structural condition of the facilities. The Plant Master Plan brought the community together to view the future technologies; the environmental, economic, and technological and operational issues related to future CIP's to reduce greenhouse gasses.

Chair Burt asked if the ongoing facilities assessment incorporated the fundamental changes to the site.

Mr. Allen stated the Facilities Condition Assessment prioritized backlog lists fed into the Master Plan efforts.

Chair Burt asked if the long-term action toward the incinerators was within the Master Plan or the Facility Condition Assessment.

Mr. Allen stated that function fell under the Master Plan.

Council Member Klein asked how the total revenue numbers ranged from \$2.8 million to \$20 million between 2007-08 and 2008-09 then showed currently at zero.

Mr. Roberts stated the ranges pertained to the grant revenues for the previously discussed projects.



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Council Member Klein asked if there were any grant revenues beyond the years noted.

Mr. Roberts stated grants were always pursued with no current committed bond figures.

MOTION: Council Member Klein moved, seconded by Council Member Schmid, that the Finance Committee recommends to the City Council to tentatively approve the Public Works Department Budget – Enterprise Funds: Wastewater Treatment (includes Operating Budget, Capital Improvement Program and Rates and Reserves).

MOTION PASSED: 3-0 Morton absent

5. City Attorney's Office Budget

(Continued from Finance Committee Meeting May 5, 2009)

City Attorney, Gary Baum gave a brief presentation on the City Attorney's proposed budget. Budget cuts were noted at 2.5 percent or \$67,100. Their percentage met or exceeded cuts made by other Council Appointed Officers (CAO's) and compared favorably with other departments. In addition to these cuts, Committee members suggested that one attorney and one support staff be laid off due to the City's fiscal difficulties. He noted this lay-off affected two of the ten members of their office, with a twenty percent reduction in their staff. He stressed no other department had been asked to cut such a significant staff level and the additional dollar reduction. The proposed cut brought the City Attorney's Office cuts to twelve and a half percent of their overall budget. He noted the number of attorneys in the office in prior years and eliminations that were already made to right-size their office with twenty-one percent reductions. He gave an overview of the tier positions which also saved the City \$104,000 per year. He also noted the various areas and offices in the City where the remaining six attorneys in the office spread their work. He compared the metrics of Palo Alto's City Attorney's Office in comparison to other cities. He noted their productivity levels as well as the ratio of attorneys to secretarial staff in the office. He closed with additional pros and cons for these additional proposed staff reductions.

Council Member Schmid asked if the Attorney's budget was a Parking Lot issue.



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Mr. Baum stated yes, however, the City Attorney's Budget had not passed as of yet.

Council Member Klein asked for the methodology behind the tripling of assignments from 2002 to 2008.

Mr. Baum stated the nature of assignments had not changed over the past six years moreover there was better management over record keeping. He confirmed any request to the office, responded to by Staff in any way, counted as an assignment which was how it had been documented for the past five years. The numbers were not expected to continue rising.

Council Member Klein asked what type of work was considered an assignment.

Mr. Baum stated all requests that came into his office were considered as assignments whether they came by person, phone, email, memo, letter, or other. Anything that required an attorney's response in any manner was an assignment. He noted he looked at the aggregate numbers for each attorney in his office on a monthly basis.

Council Member Klein noted four lawyers were assigned to General Fund concerns with two for Utilities. He asked why it appeared the Utilities lawyers also worked on General Fund matters.

Mr. Baum stated the two Utilities attorneys primarily worked on Utilities issues but several items, including Prop 218 were both General Fund and Utilities in nature.

Council Member Klein asked if there had been an analyzed workflow report.

Mr. Baum stated there were actually percentage breakdowns for the time each attorney spent on each department.

Council Member Klein asked if he was still comfortable with four attorneys for the General Fund and two attorneys for Utilities.

Mr. Baum stated he would have to check the overall allocation. He stated he may be closer to 2.5 for Utilities and 3.5 for the General Fund for Staff allocations. He would return at a later date with accurate numbers.



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Chair Burt asked for overall information on the outsourcing trends for legal services.

Mr. Baum stated tort litigation was outsourced resulting in a savings of approximately \$60,000 per year. In-house Staff handled the majority of the litigation, lawsuits, code enforcement litigation and ordinary prosecutions for zoning codes.

Chair Burt asked if California Environmental Quality Act (CEQA) violations were handled in-house.

Mr. Baum stated primarily yes.

Chair Burt asked how tort litigation saved \$60,000 when previously noted outsourced litigation costs were more expensive than in-house.

Mr. Baum stated tort litigation was handled by insurance defense firms which had less expensive billable rates. Other types of litigation and advisory work tended to be a higher per hour billable rates.

Chair Burt stated the price metrics for the City Attorney's office fell within the mean range and asked whether Redwood City out-sourced a higher number of items.

Mr. Baum stated Redwood City provided a different level of service and outsourced a large volume of work.

Chair Burt asked if there available comparison data of surrounding cities for number of city employees, the size of their General Fund and overall City Attorney's Office budgets.

Mr. Baum stated in previous comparison analysis' Palo Alto fell in the mid range.

Chair Burt asked the location of legal settlement costs in the budget or knowledge of surrounding cities' legal office budgets for comparison.

Mr. Baum stated he was unaware of any city which showed city attorney's office budgets. He noted the absorbed litigation and attorneys' fees were included in their budget.



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

Council Member Klein suggested the use of outside consultants to review the total number of positions, the quantity of work and other metrics beyond what was presented by Mr. Baum.

Council Member Schmid noted it was invaluable to discuss metrics and comparisons from other offices.

Chair Burt stated it was important in the future to find out if the City Auditor felt her office held the expertise and bandwidth to take on the assignment or whether an outside consultant was necessary. He requested a clearer methodology to quantify the number of assignments and outsourcing in the Attorney's office.

MOTION PASSED: 3-0 Morton absent

City Manager, James Keene clarified the requested analysis of the City Attorney's Department was in pursuit staffing changes, streamlining of staffing and operations and other components.

Chair Burt stated in the past the Planning and Urban Environment Department used an outside consultant for a comprehensive study.

6. Public Works Department Budget – Internal Service Funds: Vehicle Replacement/Maintenance (includes Operating Budget and Capital Improvement Program).

Budget Manager, Sharon Bozman gave a brief presentation on the Public Works Vehicle Replacement/Maintenance Fund proposed budget.

Council Member Schmid asked why there was not a long-term replacement schedule in place.

Director of Public Works, Glenn Roberts stated although there was a predetermined schedule of replacement or maintenance on a mileage basis, unfortunately they did not necessarily line-up linearly and varied over time. He stated a new approach had been taken and had intentionally not shown funding for vehicle replacements for this year or next. He noted the intent



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was to return to Council at mid-year to discuss where Staff was with further research into vehicle replacement, efficiencies, fleet reductions and other goals. Staff worked with the Administrative Services Department to review the allocated charges in the Vehicle Replacement Fund to understand whether the allocations were correctly or incorrectly amortizing the costs of replacements.

Council Member Schmid asked why in Vehicle Operations and Maintenance, the contracted services had grown so large.

Mr. Roberts stated most of the increase was in relationship to the landfill equipment and maintenance of the heavy equipment for the landfill.

MOTION: Council Member Klein moved, seconded by Council Member Schmid, that the Finance Committee recommends to the City Council to tentatively approve the Public Works Department Budget – Internal Service Funds: Vehicle Replacement/Maintenance (includes Operating Budget and Capital Improvement Program).

MOTION PASSED: 3-0, Morton absent

Committee took a break at 8:50 p.m. and reconvened at 8:58 p.m.

7. Utilities Advisory Commission Recommendation to Adopt Three Resolutions: 1) Approval of the New Water Supply Agreement with San Francisco; 2) Approval of Palo Alto's Individual Water Sales Contract with San Francisco; and 3) Adoption of Findings for Purposes of the California Environmental Quality Act in Connection with Approval of a Water Supply Agreement with San Francisco (CMR:252:09).

City Manager, James Keene stated Staff was available to answer questions but had no current presentation. He noted their recommendations were the result of the joint Utilities Advisory Commission (UAC) meeting with Council and Art Jensen, General Manager of the Bay Area Water Supply and Conservation Agency (BAWSCA).

Chair Burt stated there had been extensive discussion with Council in joint Study Sessions with the UAC.



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Council Member Schmid asked for clarification on the numbers for gallons per day usage and gallons per day allocation. He asked if water assurances could be traded.

Assistant Director of Utilities, Jane Ratchye stated the numbers did not change in the contract. She stated there was further work on how to allocate water between the agencies within a drought period since the interim drought period's allocation plan had expired. She noted the number for supply assurance was part of the calculation.

Council Member Schmid asked if there was a way the water assurances could be monetized or traded.

Ms. Ratchye stated Staff requested data from BAWSCA on facilitation of a process of understanding among the agencies involved which ones may have an interest in purchasing excess water rations or have excesses of their own for sale. Transactions or trades were part of the monetization process.

Council Member Schmid asked whether the water could be sold at a below market rate or force the delivery of water at the below market rate.

Ms. Ratchye stated the sale of a supply assurance was a transaction between the City and another BAWSCA agency or San Francisco with a direct money exchange between the agencies. San Francisco did not set the delivery rate.

Council Member Schmid stated they deliver a certain number of gallons per day with the potential delivery of extra gallons if the City wanted to sell the excess.

Council Member Klein noted San Francisco delivered at their current gallon-per-day limit.

Ms. Ratchye noted the limitation in the contract for delivery was 265 million gallons per day.

Council Member Klein noted the current amount sold to themselves was subtracted out of this number.

Ms. Ratchye stated San Francisco sold 81 million gallons which made the deliveries for the BAWSCA agencies at 184 million gallons.



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Council Member Klein stated the City was not currently taking down the entire 184 million gallons of water per day.

Council Member Schmid asked if the City could take down 184 million gallons per day.

Council Member Klein stated it was possible however, if they sold some of their water rights, they were not selling the actual water but selling the right to draw down the extra water. By that event, San Francisco sent the bill for the additional drawn down water to the agency who bought the water rights from Palo Alto.

Ms. Ratchye stated San Francisco was obligated to provide up to 184 million gallons per day to Palo Alto.

Council Member Schmid stated selling water rights appeared to be a revenue source for consideration.

Mr. Keene asked if there was a sense of when more detailed information would be expected on the water market.

Ms. Ratchye stated Staff requested BAWSCA's facilitation in the discussion and development of a contract between agencies interested in participating. She anticipated having more information within the next several months.

Council Member Schmid stated an effective cap and trade market might generate real incentives for water conversation.

MOTION: Council Member Klein moved, seconded by Council Member Burt, that the Finance Committee accept the Utilities Advisory Commission recommendation to adopt three resolutions: 1) Approval of the new water supply agreement with San Francisco; 2) Approval of Palo Alto's individual water sales contract with San Francisco; and 3) Adoption of findings for purposes of the California Environmental Quality Act in connection with approval of a water supply agreement with San Francisco (CMR: 252:09).

MOTION PASSED: 3-0 Morton absent

8. Utilities Advisory Commission Recommendation to Approve the Funding of Certain Projects from the Calaveras Reserve in an Amount not to



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Exceed \$270,000 in Fiscal Year 2010 and \$200,000 in Fiscal Year 2011 (CMR: 250:09).

Council Member Schmid asked if there were energy efficiency programs which had reserve items attached to them to be lent out as part of the reserve.

Director of Utilities, Valerie Fong stated that was not part of the reserve fund's allocations.

Council Member Schmid asked if this was the first movement of the Calaveras Reserve Funds in utilization.

Ms. Fong stated yes.

Council Member Schmid asked for clarification on the strategy or long-term discussion regarding the proper use of the funds.

Ms. Fong stated they went to the Utilities Advisory Commission (UAC) and listed the number of projects by priority and identified where they should look first to potentially spend some of the Calaveras Reserve monies. She stated Council had recently discussed the potential use of the fund for some of the unbilled financing for electric customers.

Council Member Schmid asked whether there had been previous discussion on what share of the Calaveras Reserve Fund was available for utilization on small projects as opposed to the larger scale projects.

Ms. Fong stated although there had not been discussions a large scale project would deplete the entire reserve.

Council Member Schmid asked if there was a formulation of how many of the items were on the priority list for use of the Calaveras Fund.

Ms. Fong stated the Calaveras Funds were limited. She noted there had been a \$32 million surplus not needed to cover the stranded costs, but this was now down to \$16 million due to the current market. She stated a project such as the Advanced Metering Project could easily use up the entire fund. Prior to a proposal that large they believed it was important to look at whether or not it made sense given cost and timeframe.



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Mr. Keene stated when the UAC and Council had heard and discussed this issue previously there was the sense that a very strategic look was taken with regard to any investments made through this Fund. Utility benefit, rate payer benefits, and long-term cost savings were considered in the discussions. He noted a number of investigations had been done with regard to small projects and their return on investment. He suggested keeping a running account and tally on decisions which showed the balance sheet and decision-making process for transparency purposes.

Chair Burt asked if the initial study for the Smart Metering Program was included in the discussions. He noted a consultant had recommended not proceeding although Council elected to proceed. He asked if it were true that the consultant had recommended the initiation of a 12-month evaluation.

Ms. Fong stated that was correct.

Council Member Klein asked if the costs in the Calaveras Reserve Fund were stranded and was last reviewed who made the decision and guidelines to decide on whether it was stranded or not.

Ms. Ratchye stated a proposed guideline was approved by the Finance Committee on recommendation for the Council to approve which wrapped into the Budget document. This outlined the policies and procedure guidelines for the stranded costs.

Council Member Klein noted there was great importance in delineating the procedures and guidelines for stranded costs and discussion of the direct access components. He noted there were many legislative actions which might negatively impact the utilities. He stressed the need to ensure whether the funds were stranded costs or whether the money should be restricted.

Mr. Keene agreed and noted more information would return to the Finance Committee and Council.

Chair Burt agreed there should be more time spent on the topic in the future.

Mr. Keene stated there needed to be strategic conversations with regard to the potential savings and possible returns on investment.



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Ms. Fong added no matter how the reserve amount was quantified, there was no limiter in the amount when reviewing projects. She noted amounts always exceed what was proposed as strategy.

Chair Burt noted the consultant they used for the Smart Metering was a nationally recognized expert but they did not fund the consultant.

Ms. Fong clarified the consultant came on his own time to give his advice free of charge.

MOTION: Council Member Schmid moved, seconded by Council Member Klein, that the Finance Committee accept the Utilities Advisory Commission recommendation to approve the funding of certain projects from the Calaveras Reserve in an amount not to exceed \$270,000 in fiscal year 2010 and \$200,000 in fiscal year 2011 (CMR:250:09).

MOTION PASSED: 3-0, Morton absent

9. Feedback on Business License Tax

City Manager, James Keene updated the **State** election Ballot Measures at 9:20 p.m. twenty-four percent of the precincts reported with Measure 1A thirty-six percent yes, Measure 1B forty percent yes, Measure 1C thirty-eight percent yes, Measure 1D thirty-eight percent yes, Measure 1E thirty-eight percent yes, and Measure 1F seventy-six percent yes. He stated by Council and Commission direction Staff had looked at the Business License Tax. A proposal was presented two months prior and meetings held with various stakeholders and business groups. Staff was scheduled to return June 2nd for a formal discussion on their findings. If Council wished to proceed with a Ballot Measure, the deadline for it was July 20th to make the November 2009 election. A special Council Meeting was scheduled for June 22nd for full discussion of the Business License Tax after the adoption of the 2010 and 2011 Budgets. He noted they also held two meetings with representatives from the Chamber of Commerce, non-chamber members, Chair Burt and Council Member Klein. Another one may be scheduled for discussions with the Finance Committee for direction to Staff on how to proceed.

Chair Burt asked the City Manager to share the more feasible alternatives suggested after Staff's initial evaluation.



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Mr. Keene stated Staff had explored both a flat tax methodology and an employee numbers-based tax versus the gross receipt method for business license taxation. It was clear in the business community that Staff effectively communicated the revenue challenges faced by the City, structural deficits, significant infrastructure and planning decisions pending. The business community asked if there were additional alternatives beyond the business tax. The two most focused alternatives included 1) Increased rate of the City's Documentary Transfer Tax and 2) Increased sales tax of half a percent. Both options required fifty percent voter approval.

Director of Administrative Services, Lalo Perez stated that ~~areas~~ Staff was committed to the provision of additional information including the flat tax and the employee tax options.

Chair Burt asked what the impact was for the current initiatives. He asked if there were pending initiatives in Sacramento for borrowing from local government sources which impacted the City at \$2.5 million per year with further effect to the budget.

Mr. Keene stated yes, that was an additional threat the City faced despite Council's opposition.

Chair Burt clarified the amount was not \$2.5 million per year it was an option twice in a two-year period.

Mr. Keene stated he believed it would be one time and would return with information after verification. He noted the repayment schedule was over a three-year period with interest.

Chair Burt clarified it was not an ongoing option but a one-time option.

Mr. Keene stated yes.

Chair Burt clarified the Documentary Transfer Tax was essentially a real estate transfer tax.

Council Member Klein asked whether Staff was scheduled to return with additional information on the suggested options by the Chamber of Commerce.



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Mr. Perez stated the options were included in the plan for the June 2nd report.

Mr. Keene stated ~~other than discussion of the Tax Equity & Fiscal Responsibility Act (TEFRA)~~ the June 2nd meeting was devoted to a detailed discussion with the entire Finance Committee on the trade-offs in each methodology.

Council Member Klein corrected the Chamber of Commerce had not suggest the options but the options were suggested by individuals who were Chamber and non-Chamber members.

Mr. Keene stated Staff welcomed comments for the meeting scheduled for June 2nd. Staff had made efforts to be responsive to the stakeholders most immediately affected by the proposed tax by having them fully briefed and prepared prior to meeting with the Committee or Council.

Council Member Schmid stated the Business License Tax appeared appropriate and a key source of income. The Utilities taxation weighed heavy on business without offsetting the inequity of property tax burdens. He noted it was difficult for business to say more Documentary Transfer Taxation was necessary or fair. All routes of discussion led back to the fairness of the Business License Tax versus other options which were more regressive than aggressive in taxation gains.

Mr. Keene made two additional points which included 1) The Business License Tax was subject to an affirmative vote by the public which would not take place until November 2009 and did not balance the current Budget, and 2) Members of the business community expressed concern over the message the Business License Tax brought during these tough economic times. He stressed there was flexibility prior to the November 2009 election to structure the Measure and its potential effects.

Chair Burt asked the earliest date the Measure took effect if voted in.

Mr. Perez stated the earliest point was July of 2010; however, continued information and comments had led them to structure potential tax with more flexibility.

Chair Burt clarified that July 2010 was the earliest point of inception and noted the Business License Tax had zero impact on the 2009-10 Budget. He



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discussed the pros and cons of the different tax options as he saw them in his decision-making process.

No action required by the Committee

10. Discussion for Future Meeting Schedules and Agendas

Director of Administrative Services, Lalo Perez noted the next scheduled meeting was Tuesday, May 26th, for follow-up information on outstanding issues with finalization of the Parking Lot issues. The Municipal Fee Schedule was on the Agenda and the Budget wrap-up with finalization of their recommendations for Council's June 8th meeting.

City Manager, James Keene added the biggest unknown in the discussion was how to achieve the \$3 million identified target for salary and compensation savings.

Council Member Schmid asked for clarification on the budget wrap-up including the Parking Lot and the 2010 and 2011 budgets.

Council Member Klein clarified the wrap-up of the budget discussion and a review of the Parking Lot for both 2010 and the notational 2011 Budget.

Mr. Keene noted there were no meetings scheduled for the night prior to the May 26th meeting. A formal vote on discussed items was planned with review of the Parking Lot items in order for movement of some of the items into Budget recommendations. Leftover Parking Lot items were schedule to move on to Council as an informative ongoing list of concerns.

Chair Burt stated the Parking Lot concepts had been going back and forth and now held two purposes: 1) Parking Lot items as a bridge to the 2009-10 infrastructure and reserve shortfalls, or 2) Carried forward as prospective 2010-11 measures to address any anticipated shortfalls.

Mr. Perez stated yes and dependent upon how the Motion was structured in terms of each Fiscal Year with the first year as the Adopted Budget and the second year in-concept only.

Council Member Klein clarified there would not be a vote on the 2011 Budget.



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Chair Burt stated that was correct.

Council Member Schmid asked if the Closed Session on the negotiations was scheduled before or after the meeting on the 26th of May.

Mr. Keene stated the meeting would occur on June 08, 2009.

ADJOURNMENT: The meeting adjourned at 9:50 p.m.