



## FINANCE COMMITTEE

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Regular Meeting  
Wednesday, May 13, 2009

The Finance Committee of the City of Palo Alto met on this date in the Council Chambers at 7:06 p.m.

Present: Burt (Chair), Klein, Schmid

Absent: Morton

1. Oral Communications

None.

2. Transmittal of the Fiscal Years 2010 and 2011 General Fund Capital Improvement Program.

Director of Administrative Services Division, Lalo Perez recapped the budget process, the two-tier items and the Parking Lot issues. The May 12<sup>th</sup> meeting Parking Lot items included the following: 1) Regionalization options for Police Services and a separate line item for Fire Services, 2) Police and Fire Department overtime and reimbursements, 3) A quarterly report which included Planning Department overtime.

Council Member Klein asked how the Police and Fire Department overtime fit into the Parking Lot as an area for reduction or change in the budget.

Mr. Perez stated this item was removed from the Parking Lot and was noted as an information-only item.

Council Member Klein noted concern over the way this item was presented which was unclear in a variety of ways.

Mr. Perez noted this would be moved from the Parking Lot to an informational item.

Chair Burt suggested a separate list of items that were in the followup and informational category.



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Mr. Perez stated a followup list was appropriate. The ongoing list was scheduled for release with the May 21, 2009 packet.

City Manager, James Keene stated this list was compiled as each meeting progressed.

Mr. Perez continued with his presentation on the budget process worksheet with the addition of these items for 2010-11 Budget: 1) The removal of the parking fee for Foothills Park and the Twilight concert series with a placeholder of approximately \$100,000 for both. 2) The reinstatement of the Family Resources position with \$96,000 revenue and \$96,000 expenditure with no net impact. 3) A planned solution for the golf course as to whether it was a revenue source or a combination of revenue and expenses.

Budget Manager, Sharon Bozman gave an overview of the Committee's at-places items. She clarified an item from the previous night's meeting, the question on the Utility's User Tax (UUT) and the \$2.5 million omitted from FY 2011 for the Electric Fund. Staff's treasury department confirmed that the UUT calculation had included this in all documents. Six items were included at places tonight: 1) Proposed changes and associated Capital Improvement Projects (CIP), 2) The updated General Fund infrastructure backlog report, 3) The reconciliation of the General Fund transfers to the CIP for 2010-11, 4) The revised Organizational Chart and Table of Organization for the CIP, 5) A reference list of 2008-09 Adopted CIPs, and 6) CIP pages for AS-08000, the acquisition of the Los Altos Treatment Plant Site, AC-86017, the Art in Public Places and PE-10002, the Ventura Community Center and Park projects which had previously been omitted from the CIP listings. She continued with a presentation and review of the General Fund CIPs, the Public Works Department General Fund Operating Budget and the Administrative Services Department. She discussed the CIP committee process for the year which included meetings, discussion and identification of completed projects with remaining reappropriations and the return of these to the Reserves. Citywide returns were \$4.5 million with \$2.9 million to the Infrastructure Reserve. She reviewed the prioritization criteria along with the projections of the infrastructure Reserve balance and the review of the current capacity in light of Staff's capacity to accomplish projects within budget. The General Fund CIP for fiscal year 2010 included \$5.3 million for buildings and facilities, \$700,000 for parks and Open Space, \$2.1 million for streets and sidewalks and \$2.9 million for miscellaneous project. Total General Fund projects for 2010 equaled \$11 million with netted



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reimbursements. Proposed budgeted projects were \$67.2 million, less the reimbursement of \$56.2 million and the net General Fund at \$11 million. Fiscal year 2011 revealed \$6.3 million for buildings and facilities, \$2 million for parks and Open Space, \$2.5 million for streets and sidewalks and \$2.2 million for miscellaneous projects for a total of \$17.5 million in General Fund projects less any reimbursements at \$4.5 million. She reviewed a graph of the overall Infrastructure Reserve with projected ending balances for 2010 at \$6.3 million, 2011 at \$2.7 million, 2012 at \$3.5 million, 2013 at \$7.8 million and 2014 at \$12.8 million after adjustments to the proposed Budget. She noted the two biggest projects were the Measure N Library projects equaled to \$50.5 million, along with Civic Center improvements at \$4.2 million. Other significant projects included sidewalk and street repairs, the Junior Museum and Zoo items and downtown tree grants and other improvements downtown. She gave an overview of the miscellaneous projects for 2010 with the Art in Public Places, Cubberley bleacher replacement, building system improvements, Children's Theater audio and visual equipment, Ted Thomson garage improvements, Open Space and park maintenance projects and the final payment for the Los Altos Treatment Plant site. She addressed the overview of funding equaling \$67.2 million for these projects. General Fund contributions to the CIP fund for 2010 fell at \$10.9 million dollars with \$7.2 million in ongoing replacements and rehabilitation and \$2.5 million for individual projects. The 2011 contributions were cited as \$10.2 million, with \$8.5 million in ongoing rehabilitation and maintenance infrastructure, \$5 million for individual projects and \$1.2 million for salary and benefits. The Infrastructure Reserve supported the current five-year plan; however, the \$1 million year-end budgeted transfer was suspended in 2009 and 2010- and resumed again in 2011. The Infrastructure Reserve was projected at below \$3 million for 2011 as a worrisome figure. She noted the previous backlog report initially brought to the Committee last year with \$455 million with \$15 million in appropriations against that for an unfunded backlog of \$404 million. The updated backlog report was \$449 million with \$64 million in appropriations for an unfunded backlog of \$385 million.

Council Member Schmid noted last year's General Plan expenditures were at \$21.6 million for CIPs. He stated budget materials noted this as \$10.7 million. He asked if this figure was short any additional CIP spending that was going on.

Mr. Perez stated this was correct. He stated \$10.7 million was the budgeted number which than had carry-overs from prior projects and prior years



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which actualized the final budget amount for the actual expenditures. Dependent on the projects, bond figures also played a role in this.

Council Member Schmid noted he was looking at the expenditure program for 2010 which included new funds and funds from prior years. He asked why this total does not add up to \$20 million.

Mr. Perez stated the 2010 total was for new projects only. Projects with savings or expenditures lesser than anticipated were closed with the money retained in the Reserve. The Reserve then funded the new projects.

Council Member Schmid asked if they had to wait until the comprehensive financial reporting at the end of the year for the actual spending for the fiscal year.

Mr. Perez stated this was not in correlation with what was budgeted, per se, due to the timing issues of the CIPs.

Council Member Schmid noted, even though there were year-to-year fund transfers, some of this year's funds were transferred to the next fiscal year. He stated the level of spending remained at around \$20 million.

Mr. Perez agreed this was the better way to look at the level of actual expenditure trends.

Council Member Schmid asked about the library bond carry-over at approximately \$55 million. He understood this was based on the initial building costs done in 2008 which dropped in 2009 on the average. The library bond also carried an 8 percent escalator. He asked if the library were built right now would they save 25 percent in costs.

Mr. Perez walked through the library bond and funding process. Once a number was arrived at for funding costs, this was the amount issued for debt as a placeholder until they have the actual number.

Assistant Public Works Director, Mike Sartor explained to get to that actual number they did close tracking of the status of the current construction market. The Mitchell Park Library and Community Center was currently under design as well as the Downtown Library Renovation Project. Cost estimate updates pended through the design process. At contract award, a final cost estimate was expected to include figures consistent with the



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current construction market. It was hoped to get this bid out very soon in order to take advantage of the current downtrend in construction market costs. The actual bond issuance was planned to reflect actual contract amount after the bidding process.

Council Member Schmid asked what procedures were followed to have this project ready for market bidding in as short a period of time as possible.

Mr. Sartor stated several mechanisms were in place to control the scope of work and budget on the project. This included the actual scope of work approved by voters for size options for each facility and the amount of work needed. This was also approved by Council. A bond oversight committee was also planned for quarterly insurance of the bond measure project management. The City Auditor was also auditor of the bond program and its expenditures. The Managing Department controlled the scope, cost and scheduling as per usual.

Council Member Schmid noted the scope issue was clear, but he wished to hear more on the timing issue for the best market construction costs.

Mr. Sartor noted the intent was to proceed as quickly as possible. The Architectural Review Board and Site Development processes still pended approval. The bond schedule was an aggressive schedule.

Mr. Perez spoke to the financing issues of these projects. He noted the possibility for the spring issuance of the debt in phases which resulted in a lower cost. The construction market was monitored on a regular basis, with meetings with financial advisors and bond issuance members. He stressed the importance of demonstration to the bond market that the City is fiscally responsible in these areas.

Council Member Schmid asked if he indicated this as the spring of 2010 for bond issuance with actual bids following.

Mr. Sartor clarified their intent to bid the projects prior to bond issuance so the bonds reflected the actual construction costs.

Council Member Klein asked if the \$4.5 million return to reserves and the \$2.9 returned to the Infrastructure reserves were typical returns.



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Ms. Bozman stated it was different in the current year due to the concern over the Infrastructure Reserve balance. New projects were considered after Staff looked at old completions for the possibility of leftover funding. She cited projects which had monetary returns.

Council Member Klein noted her list thus far included a cancelled project which moved funding to an additional project.

Mr. Sartor noted the Cubberley turf renovation project pertained to Park Impact Fees which were returned to the Park Impact Fund and funded through the Utility Department.

Council Member Klein tallied the projects she mentioned as short a million dollars in reported return of funds.

Ms. Bozman stated she did not have the monetary details of all the projects, but had listed a majority of projects with returns.

Mr. Perez noted a list could be provided.

Council Member Klein asked if a similar amount of revenue returns was possible to count on for the next year.

Ms. Bozman stated this was not necessarily the case. Yearly numbers were dependent on ongoing cost savings variables.

Council Member Klein noted that Measure N was responsible for the higher returns this year.

Ms. Bozman stated it was a process Staff had considered to ensure there were no budgeted monies subject to a move to other projects.

Council Member Klein asked if there was more information on the individual projects scheduled for later in the meeting.

Ms. Bozman noted he was correct.

Chair Burt asked about the prioritization criteria for the CIP. He asked in what way the Comprehensive Plan played a role in the prioritization process.



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Mr. Sartor stated the Comprehensive Plan was the guiding document for the CIPs put forth but was not generally a prioritization criteria. The General Plan's role was to ensure any projects brought forward were in compliance with the plan.

Chair Burt stressed his belief that the Comprehensive Plan guided the priorities as well as individual project consistency. He noted the Planning Committee's role was limited to individual project consistency toward the Comprehensive Plan. The Municipal Code, however, described the Committee's duties as consistent with his initial description of guiding the priorities and individual project consistency factors. He stated the CIP reserves had dipped and then rose. He asked for clarification on this rise and fall pattern.

Mr. Perez stated within the last several years there were Budget Amendments for additional project funding which eroded standing balances. He stressed the importance of consideration of lower expenditures in the ensuing years in an effort to improve the standing balance. He stated an outstanding audit recommendation existed to increase the infrastructure transfers from the General Fund in the future. He reiterated the infrastructure balance is very low at the moment and required recovery in order to meet future infrastructure needs. He noted there was considerable review of each project and its merit with leftover balances slated for return to the reserves.

Chair Burt asked if the planned upswing for 2013 at approximately \$2 million in increased reserves with a \$2.5 million increase in 2014 were based on a sensed need or funding sources already identified.

Mr. Perez stated the assumption was a continuance of the same identified funding sources with the exception of the embedded escalator in the challenge to bridge the \$3 million dollar budget gap. He 2010's original number was \$3 million and has now risen to \$3.6. By 2013, this was projected at \$4.6 million as an escalator and indicator of the level of commitment from the General Fund to the Infrastructure Reserve. Subsequent years' budgeting was also a component in their figuring.

Chair Burt asked what portion of last year's unexpended funds were the result of low construction costs and how many projects bid out prior to this lower rate. He what was used as a projection for the next two years.



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Mr. Sartor asked if he was interested in figures with regard to the projects which were not completed.

Chair Burt stated he was interested in the costs for projects which came in under the previously projected costs.

Mr. Sartor noted Staff looked at approximately 20 project bids over an approximate 12-month period with the average costs at approximately 30 percent below the estimates.

Chair Burt noted for the below 30 percent estimates, the bulk of the unexpended funding for last year was attributable to Measure N. If this was the case, he expected a bigger leftover amount than what was cited.

Mr. Keene stated Staff will bring back more detailed estimate information as well as information on other factors which affect these numbers.

Mr. Sartor noted the next budget cycle process included the determination of the infrastructure outlook with a number of these projects scheduled for completion. This included the planned return of unspent funds.

Mr. Keene suggested a look at projects which were bid 18 months prior and were near their end point. The realized savings ability on these projects was more restrictive than in going forward.

Chair Burt asked whether there was expected realization for more of these savings for the current fiscal year. He questioned whether it was possible to spell out and show the projects finished which still had monies leftover.

Mr. Perez noted a status report on the CIPs was provided twice a year. He suggested they include the identification of savings on completed projects.

Council Member Schmid noted there was evidence of back and forth work with Staff on CIP priorities based on their set criteria. He asked why there was not more opportunity for comprehensive public discussion on projects. He also asked why the Comprehensive Plan is not specifically recognized as the driver for the selection process of these projects.

Council Member Klein noted the above was a policy statement rather than a question. He noted that well over 80 percent of the CIP budget was slated for Mitchell Park alone beyond any other areas of the City or further



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projects. The southeastern portion of the City received a disproportionate number of dollars in this scenario compared to other areas of the City. He stressed it was not the areas of the map which included more projects, but specific large projects which took the majority of the available CIP funding. He agreed more attention need be paid to the Comprehensive Plan components.

Council Member Schmid agreed Mitchell Park Library was unique in the fact that multiple dollars were spent in the southeastern portion of the City on just one project. He noted, however, this was decided upon by the voters and had no part in Staff discussions for the Operating Budget Fund which revealed an even greater distortion.

Council Member Klein stated the Mitchell Park project was approved by the voters; however, it was approved and developed in process prior to the voting process.

Chair Burt agreed the Mitchell Park project came about by an initiative driven for ballot placement. This was then supported by the voters based on the priorities and the recognition that the need existed in southeastern Palo Alto. This required a commitment by the community to place more funding in this particular area of need.

Mr. Keene agreed the addition of the Comprehensive Plan as a criteria in the document was important. However, he has informed Staff that everything included must conform to the Comprehensive Plan. He noted there were not a lot of available funds in the CIP fund for allocation. To honor the process directly with the Municipal Code directed, Staff was not in the position to assess the relative priority of each project based on the Comprehensive Plan as structured in connection with the CIP. The Comprehensive Plan required strengthening by Council and the Planning & Transportation Commission for guidance. Because limited dollars existed, the items ultimately returned to Council for decision due to the competition over funds. He noted further discussion was needed regarding the infrastructure backlog. He stated the estimates were too low and required further policy discussion.

Chair Burt addressed the issue of the historic practice of whether items remained consistent with the Comprehensive Plan. He asked for clarification on what had happened with the Comprehensive Plan Implementation Plan



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Director of Public Works, Glenn Roberts stated historically it was a balance between both ways of looking at the question. He agreed with Chair Burt's description of the lower tier of this process. He noted much more has also taken place in the way Staff advocated and compiled the proposed CIPs. The Comprehensive Plan Implementation was also a criteria Staff followed for General Fund CIPs and Enterprise Fund CIPs. He cited CIP projects which supported their look at the Comprehensive Plan Implementation process.

Chair Burt agreed many of the CIP expenditures had fulfilled the Comprehensive Plan priorities. He noted this was all the more reason to include this in the prioritization criteria.

Mr. Keene noted a rationale existed for these decisions. Further transparency and with the Committee and the public was necessary, however. He stressed the issue was more procedural than process-oriented. He noted the majority of the current General Fund expenditures were allocated by way of voter majority on the bond issues. He agreed it was appropriate to build a stronger nexus between the Comprehensive Plan, Staff responsibilities, the Committee, Council and community.

Council Member Schmid stressed the City's Comprehensive Plan was their guide for the future. He noted the backlog of CIP projects totaled in excess of \$100 million over time. He stressed the need for future devotion of capital resources to increase the infrastructure with guidance from the Comprehensive Plan.

Einar Sunde, 675 Channing, spoke on behalf of the Public Arts Commission in appreciation of the continued recognition of the importance of a visually stimulating community.

Chair Burt wrapped up the Comprehensive Plan Implementation with the suggested inclusion of the Land Use and Urban Environment plans and priorities. He noted CIP expenditures might be more clearly laid out in this manner with the alignment between the priorities and expenditures. This conscious consideration lent to a definitive alignment versus an approximation.

Council Member Klein asked if they were discussing and/or voting on the current issues.



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Mr. Perez stated it was Staff's intention that the Committee make their decision on the CIPs.

Council Member Klein stated Item No. 2 at hand was now more like Item No. 2a and 2b, with the former as the overview and the latter as each of the projects specifically.

Mr. Perez stated if this was the route to understanding the Item, they were ready to proceed. He stated the process in the past was to open it up through the Committee project by project while at other times it required only the overview.

Council Member Klein was concerned that the Item was mislabeled. However, he also noted they were undergoing a preliminary voting procedure. He asked what the process was if they wished to consider removal of \$1 million from the CIP to go as part of the \$3 million debt bridge.

Mr. Perez stated the Committee and Council had the absolute discretion to not make the General Fund transfers to the Infrastructure Reserve. In doing so, this included approximately \$7.6 million. Any or all this was subject to transfer. He stated Staff then had to look at the balance of the Infrastructure Reserve in order to understand if it accommodated this transfer in its \$6.3 million ending balance. The projects conceivably moved forward as proposed with this less \$1 million in transfers for a balance of \$5.3 million. An alternative included recommendation that \$1 million in projects were removed from the CIP budget.

Mr. Keene asked how this impacted the balance amounts for 2011 with this reduction in the Infrastructure Reserve by this \$1 million.

Mr. Perez stated the current estimates for FY 2011 was \$2.8 million. Any reduction made over this \$1 million took away from the \$2.8 million balance at the end of 2011.

Mr. Keene reiterated that if everything else remained the same, this included a \$1.8 million balance in the coming year. If the desire was not to do this, but to look at the productions and make reductions, a sense of priority from the Committee was helpful. At this point, Staff needed to go back and look at this more closely. Staff had looked for ways in which to cut expenses. He noted with the additional plan to cut this \$1 million they would look back on

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how this affected the scaling back or reductions on particular projects. He was unclear how this would balance out overall.

Council Member Klein asked if this were part of the midyear review were there cuts to reach the differential. He questioned if what they had considered as a proposal.

Mr. Perez stated Staff had considered closure of projects that had not yet commenced. Also, if a project was in the design phase without construction contract, it was also not scheduled to continue.

Council Member Klein asked if one of the possibilities included reduction of the transfers for the year.

Mr. Perez stated this was the case.

Council Member Klein noted if this occurred at midyear, project reductions would be on a first come first serve basis.

Mr. Perez noted that several projects required time to gear up.

Council Member Klein noted this process lent to deferral of projects which were not shovel-ready.

Mr. Perez stressed they looked at the prior year's ongoing projects. Some of those projects might also have delays.

Council Member Schmid asked if the items in the current CIP were estimated on the basis of the current market or the market of six months ago.

Mr. Sartor stated the projects were estimated based on current market conditions.

Council Member Schmid noted there was already a substantial discount then at the current market rates.

Mr. Sartor noted this was correct. Other than the bond projects, the preponderance of projects in the CIP were annually funded projects for set dollar amounts.



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Council Member Klein noted the savings in street and sidewalk projects included State and Federal money as well.

Mr. Sartor stated additional monies were received from State and Federal programs.

Council Member Klein stated the only project which held major cost savings was the project with regard to the Civic Center building.

Mr. Sartor stated this was a continuing phased project which involved ongoing work. Construction was underway on the generators and City garages. Karen Smith, Manager of Facilities Maintenance Projects had taken a look at these project costs for the next bidding opportunity.

Mr. Roberts noted the 40-year-old building was long overdue for upgrades and other work. Pressing needs existed in order that the building was functional over time. The next phase included the electrical systems and fiber upgrades for future demands. The project was split through multiple years in order to minimize cost impacts on the CIP cash flow.

Council Member Klein asked if they anticipated lower bids for this proposed \$4 million project and if the leftover funds could be considered for other purposes.

Mr. Roberts deferred this question to Ms. Smith had returned to the meeting.

Karen Smith, Manager of Facilities Maintenance Projects noted it was anticipated that the funds would be expended entirely in the next project phase.

Chair Burt asked if these were on bids that had already been received or were they on items going out for bidding.

Ms. Smith noted the project was set for bidding later in the calendar year.

Chair Burt asked what the previous upgrade cost estimates were for the last year.

Ms. Smith noted the project received funding several years ago. She stated savings were noted at this point but were not escalated for the next phase.

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Without this escalation in the next year when the project underwent bidding there was the anticipation that the market savings brought the project back in line with the actual project budget.

Chair Burt asked when the remodeling and upgrades began on the Civic Center building.

Ms. Smith stated the project was started in 2002 or 2003 with several phases of construction completed to date. Two additional phases remained.

Chair Burt asked if the earlier phases were in the period where construction costs had escalated beyond the anticipation of funding. He noted the City had fallen behind in what was accomplished for every given dollar amount. In the new year, he asked if they would catch up overall.

Ms. Smith stated this is exactly what they had anticipated for the next phase.

Council Member Klein asked for clarification on this offsetting of costs.

Chair Burt explained the first years of the project included allocation of a certain dollar amount. Of that amount, the cost of construction was higher than anticipated, which resulted in less of the project accomplished than planned. The dollar amount allocations for the coming year were projected to be lower and accomplished more than anticipated the year prior which offset what occurred the previous year.

Council Member Klein understood this, but noted he had not received an answer to his initial question. He asked if bids were lower than the expected budgeted amount, would these leftover funds be used for other purposes.

Mr. Roberts stated bids and funds were tracked. Any realized savings were subject to reallocation for other projects. Staff's recommendation was to use this money for the next phase of the Civic Center improvements which was a policy choice.

Mr. Keene noted if the Committee's objective was to look at how to free up CIP funds for use elsewhere in the 2010 budget, as a bridge or otherwise, this did not entirely cover this. However, in conjunction with Mr. Roberts' thoughts he was uncomfortable in estimating a savings number at this point to reduce the budget deficit on the books. He noted planning for a specific

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policy discussion was more feasible after the bidding process. Another possibility existed for the appropriation of approximately \$3.4 million towards the design of the Public Safety Building. A little over \$1 million was spent on this thus far. The possibility existed to reallocate these planning and design funds since the project was frozen at the moment.

Chair Burt asked if this design allocation occurred in 2010.

Mr. Keene stated it was allocated for the current year, 2009, with essentially encumbered and allocated funds. The unspent funds were in cash freed up for the year 2010.

Mr. Perez provided the additional note in that the funding strategy reduced the Budget Stabilization Reserve in the General Fund from 18.5 percent to 15 percent in dollar savings. He stated this was monies backed then by the General Fund.

Chair Burt asked for further questions and moved forward towards a Motion.

Council Member Schmid noticed the CIP and other budget held a transfer of positions from various places into a category notated as Capital Funds. He noted a change of employee base transfer of 3-5 people for salaries and benefits resulted in a half million dollars. He asked if this was \$3.4 million in the last several years, why they spent less in capital but had more people on staff.

Ms. Bozman stated those positions were allocated through the Department of Public Works and were positions dedicated to CIP work. They were appropriately placed within the CIP as a better reflection of their roles and costs.

Council Member Schmid asked why they were removed then from the General Fund budget.

Ms. Bozman stated the allocation was noted in the Public Works budget only.

Council Member Schmid asked if this was a net increase in the CIP budget with this transfer of people into the payroll.

Mr. Perez noted there were salary increase expenses and a reduction of the reserve balance for the infrastructure. He stated funding sources shifted

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from the General Fund to the Infrastructure Reserve, project workload and resources assessments were made.

Ms. Bozman stated the numbers were with regard to four full-time employees (FTEs) and approximately \$400,000.

Mr. Keene added the Infrastructure Reserve activities made this unnecessarily complicated. He had considered recommendations for next year for more clarity in this area. In general, the funds were taken from the General Fund and put in the Infrastructure Reserve. They were then programmed into the General Fund via the funded portion of the Capital Budget where they remained as General Fund dollars. Public Works Staff funded out of the General Fund operating budget resulted in a connection to the CIPs for which they were involved. Money came from the General fund and these adjustments did not affect its bottom line.

Mr. Roberts clarified the reasons why the CIP workload went down while additional Staff was still charged. He noted consideration of the \$50 million workload on the Library Bond Project which had not gone down even though there was a reduction in General Fund portions of the CIPs. This was reabsorbed with no additional staff requirement.

Chair Burt asked about the Planning & Transportation Commission (PTC) review of the CIP plan for 2010-14. He asked for Staff's intentions on the time and forum for these issues and their movement through Council and the Committee.

Ms. Bozman stated some of the PTC suggestions were incorporated in the Adopted Budget followup and wrap-up. The remaining suggestions were broader and required further discussion on their incorporation.

Chair Burt asked how this returned to the Committee and whether their comments were necessary on a portion of, or all of the items. He asked how Council was to respond to the Committee's recommendations.

Mr. Perez stated once the items were identified where they had not captured the issue fully, further discussion would occur on May 26<sup>th</sup>. All of the recommendations made by Staff or the Committee returned to Council with the proposed budget, adjustments and change in action.



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Chair Burt stated, beyond the peer financial responses, two-thirds of the items dealt with broader issues. He asked what the intended forum was for the Committee's response.

Mr. Keene stated many of the items included notation for language changes and other housekeeping issues. The process and relationship changes dovetailed to the earlier conversations on the Committee's role and public process. He did not think there was any immediate bearing of these issues on the adoption of the budget at hand and did not require resolution prior to the budget's presentation to Council. He did note the items spoke to how and where things moved forward. He recommended Staff meet and review with a return to Council and a report on building these additional items in with enumerations and policy and procedure considerations after the budget talks.

Chair Burt stated this was a substantive response. He noted Item No. 4 was a request for items to assist in the PTC's review in the future. He looked through the items, and asked if Staff's return included discussion on which items were actually beneficial for Staff and their process in analyses and tracking of the budget process. Regarding the potential overpass on Highway 101 and its subsequent study for the fiscal year, he asked if this increased the likelihood of securing outside funding.

Mr. Sartor noted the feasibility study for this overpass was included for 2011 with the submission of applications to the Santa Clara County Valley Transportation Authority (VTA) for potential stimulus funding.

Chair Burt noted the PTC asked whether the acceleration of this study to 2010 increased the likelihood of outside fund security. If this was the case, the PTC made the recommendation that this study move forward. He asked whether there was this increased likelihood for outside funding.

Mr. Perez stated Staff planned to look at this. There was a placeholder for the funding from the Infrastructure Reserve if there was no success in securing outside funds or grants.

Mr. Keene asked if this lent to an essentially balanced budget in the sense of these infrastructure reserves.

Mr. Perez noted this was correct and was included in the Committee's at-place items.

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Mr. Keene stated in this case, if it was taken out of the reserves, it did not make much difference financially to back it in 2010. It amounted to removal of these reserve funds at an earlier date. He recommended a shift toward being shovel-ready if this were the case.

Chair Burt stated this would be included in the Motion process. He spoke to Attachment 2a and 2b and improvement of street work project coordination.

Council Member Klein stated this had already been done in that Staff had already been working on this for several years.

Chair Burt agreed this was policy; however, he felt the issue was more to the fact of whether or not implementation of the policy was efficient.

Council Member Klein asked what the data revealed on this.

Chair Burt stated the item could be deferred if this was not the proper venue and it would not affect the financial allocations for the current year's CIP.

Mr. Keene noted that Staff took their directions from Council as it related to policy implementation. He suggested an update on their performance as per Council's policy directives.

Chair Burt stated this was acceptable to include a report on how Staff is implementing Council policies for an upcoming Agenda.

Council Member Klein stated the meeting had drifted off-task in CIP discussions. He suggested focus on the current issues for the meeting. He was also concerned over the bounds of appropriateness. He noted Staff's time was valuable. He looked to what Council had asked Staff to provide for the future, some of which was acceptable and some of which was difficult to understand.

Chair Burt suggested a look at the reasonable aspects of what was being asked of Staff.

Council Member Klein stated that if boundaries were placed on their tasks, he wished to understand the cost of Staff's work prior to further direction. He noted the same procedure is followed after a Colleague's Memo wherein Staff is requested to come back with cost components.

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Chair Burt noted this fell to what degree the recommendations underwent discussion by the Committee as they gave input for Staff's work on agendaizing the items. He asked to what degree they were to discuss these recommendations at the current meeting. He stressed they were not to act on behalf of the entire Council. The Committee's input was acceptable in suggesting the agendaized items. He asked what Staff wanted to see and what they viewed as reasonable items for the Agenda. He stated 4a and 4b required additional Staff feedback. He stated 4c, 4d and 4e also required additional feedback and he had asked the City Manager to assess whether this would be of value to his Staff as well. If the Committee concurred with recommendations, consideration also was necessary on whether this had Staff and Planning Commission value.

Mr. Keene did not feel there was adequate Staff to support the Finance Committee and Council in their CIP budget decisions as well as conducting an analyses on how to improve the future process. He suggested further discussion of these issues, after the budget process, was more appropriate for the next City Manager's Report (CMR). He stated further discussions on improving the CIP process were more appropriate for later discussions.

Chair Burt agreed to this approach.

Council Member Schmid stated the PTC had raised some serious issues with regard to the CIP process. He agreed there was limited impact of this on the current discussions and looked toward additional future discussions.

**MOTION:** Council Member Klein moved, seconded by Council Member Schmid that the Finance Committee recommends to the City Council to tentatively approve the Transmittal of the Fiscal Years 2010 and 2011 General Fund Capital Improvement Program.

**AMENDMENT:** Council Member Klein moved, seconded by XXX to reduce the allocation from the General Fund to Infrastructure Fund by \$1 million.

### **AMENDMENT FAILED DUE LACK OF A SECOND.**

Council Member Klein spoke to the concept of the Motion and Amendment. He felt further consideration was necessary as to whether the Infrastructure Reserve complicated budget matters. Staff's response to questions with regard to money tied up in the design of the Public Safety Building

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suggested they did not need all the monies allocated to the Infrastructure Reserve. This complicated budget matters. He noted the level of infrastructure projects required more focus. A reduction of infrastructure reserve amounts did not change how much money was spent in a fiscal year's scheduled projects. He stated there was not a clear deficit in the infrastructure reserves. He felt the cushion was larger than previously identified.

Chair Burt supported inclusion of this in the Parking Lot items. He hesitated on its inclusion as an Amendment since it required additional thought.

Mr. Perez noted the reserve came about from a former City Auditor's recommendation approximately 5-6 years prior. Part of her logic included the fact that the dollars were increasing in the General Fund and from a policy perspective were better if separated out in a clear distinction between the dollars available for operating and capital costs.

Chair Burt understood it was all part of long-term planning process creating a pool of funding allowable for scheduled maintenance of infrastructure improvements and allocations. It prevented borrowing monies from other capital improvement projects to pay for operating expenses in other areas. He was open to a fresh look at this process. He did not wish to make a fundamental change or Amendment at this time and chose to keep this in the Parking Lot.

Council Member Klein noted the elimination of the reserve was not part of what he suggested. He stated this may come from the City Manager at some point in the fiscal year but was not part of what he discussed. He suggested a reduction in the transfer amount. He accepted placement of this in the Parking Lot for further discussion and consideration.

**AMENDMENT:** Chair Burt moved, seconded by Council Member Schmid to include the Highway 101 Pedestrian Overpass Feasibility Study to the current fiscal year.

Mr. Keene noted the designation of funding reflected for 2011 was then moved forward to 2010.

Council Member Klein asked if there was a possibility that this study may not be necessary.

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Mr. Sartor noted a stimulus project application was submitted to the VTA but the feasibility study and analysis were necessary in order to support the application.

Chair Burt asked what happened if they were denied the VTA grant.

Mr. Sartor stated the feasibility study and analysis was still scheduled.

Chair Burt asked if the purpose of this was for the pursuit of future grants.

Mr. Sartor stated the purpose was to position for future grants and for the determination of costs.

Chair Burt reiterated this as the determination to move forward, either way, in an effort to be ready for the project.

Mr. Sartor noted this was correct in their efforts at shovel readiness.

**AMENDMENT PASSED:** 3-0 Morton absent

**MOTION PASSED:** 3-0 Morton absent

The Committee took a 5 minute break.

### 3. Public Works Department Budget – General Fund

Budget Manager, Sharon Bozman, gave an overview of the Public Works Operating Budget. This included revenues of \$52,000 in planned check fees, increased building and new construction at \$30,000 and decreased street opening permit revenues of \$122,000. Allocated revenues decreased at \$138,000 for 2010 and increased at \$46,000 in 2011. Citywide charges were discussed and included reallocation of four (4) FTEs to the Capital and Storm Drain Funds at a total of \$414,000 in reductions. There was an increase in salary and benefit costs for 0.24 FTEs and the reallocation of Administrative Services Department (ASD) personnel dedicated specifically in Public Works and Public Works Enterprise Funds. Increases in supplies and material for graffiti removal were reimbursed by the Utility Fund with also an increase in facility maintenance for backflow device testing and repair at \$15,000 and increased facility maintenance supplies at \$67,000. Service level reduction built-ins included the elimination of 1.9 FTEs at \$226,000 and another 0.2 FTE allocated to the Storm Drain. The service

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level impacts for the eliminations were expected for mitigation by the reduction in service demands of the current recession. Second tier reductions in Public Works included the elimination of the tree-trimming contract at \$379,000 which resulted in transfer of this responsibility for routine trimming to the property owner and required a change in Policy and Municipal Code with no impact on Utilities for line-clearing or tree trimming. Another reduction suggested included contracting out the tree-trimming as a \$46,000 net expense. One vacant position existed for this program and three (3) currently occupied FTEs with in-house crews reduced by attrition on retirement.

Council Member Klein noted all budget cycles included reallocations from the General Fund to the Enterprise Funds. He asked if there was ever a time in the future where there were no reallocations.

Director of Administrative Services Division, Lalo Perez, noted this was an attempt at cleaning up in these positions with the review of workloads and activities for reassessment of better usage of funds. There were resource constraints which also shifted the allocations. He noted partial body transfers were not part of the transfer. They looked at specific dedicated positions where the responsibilities were clearly defined. Dependent on how the workload shifted, these reallocations were necessary.

Council Member Klein noted the City was listed to have one of the highest street sweeping frequency schedules for the Bay area. He asked for a comparison of the City's sweeping costs in comparison to the other areas with lesser schedules. He asked if there was the potential for any further savings in this area.

Director of Public Works, Glenn Roberts, noted the City was provided with street sweeping on a weekly basis while jurisdictions provided this same service on a monthly basis. There were many benefits to the weekly service level to where many other areas would soon be required to increase their levels as well to comply with storm drain and water quality requirements on particulate matter prevention. He noted this was not a General Fund expenditure and was paid for by the Refuse Fund as part of the community refuse billing process. Reductions were possible, but he did not recommend them. Any reductions would appear in the Refuse and not in the General Fund.



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Council Member Klein asked what was proposed as the standard street sweeping schedule and which agency had proposed this for the storm drain and water quality components.

Mr. Roberts noted the other cities would have to increase their sweeping since some were at monthly or lesser levels.

Council Member Klein asked who required these newer levels.

Mr. Roberts stated the new non-point source permits issued by the Regional Water Quality Control Boards to all cities and counties contained the new standards on particulate matter and runoff for storm drains and creeks.

Council Member Klein asked what the Water Quality District proposed as the standard level.

Mr. Roberts stated the cleaning schedule had an indirect relationship in that more frequent sweeps lessened the run-off into the creeks and drains.

Council Member Klein asked if the City used vacuum sweepers which were the most effective at removing this particulate matter.

Mr. Roberts stated the City used a combination of both vacuum and broom sweepers during their weekly scheduled runs.

Council Member Schmid noted the big change in the proposal was in the reallocation of the four (4) FTEs. He stated these employees were slated for probable full-time work in either the Capital or Storm Drain Fund. He asked if they had worked on these types of projects in the past. He questioned why the revenues were not transferred to account for the interdepartmental workload. He asked if this translated as a revenue loss for Public Works.

Mr. Roberts stated a combination of issues applied to other positions where there was reimbursement for work performed in other departments. He noted, however, this was not the case for these cited four (4) FTE positions which previously came from the General Fund and now were changed to the Capital Fund due to their compliant duties with no loss of revenue associated with the change.

Council Member Schmid asked if in the future their duties shifted would they return to their prior Public Works' positioning.

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Mr. Roberts noted this was possible although he did not see it happening in the short-term. For at least three years, in consideration of the Library Bond issuance and work, this staff was fully scheduled for Capital Fund-devoted activities.

Council Member Schmid asked if any of the Capital activities were funded as enterprise activities.

Mr. Roberts noted this was not the case for these four (4) FTE positions.

Council Member Schmid noted a prior transfer of up to 40 employees from the General Fund to the Enterprise fund positions as a way to accommodate the budget crisis in the early 2000s. He asked if this was an accurate statement.

Mr. Roberts stated this was perhaps a citywide initiative in numbers which included more than just the Public Works Department. He deferred to Mr. Perez for further explanation of this.

Mr. Perez stated at that time there was the creation of an Internal Services Fund for technology in order to accommodate this major shift from Administrative Services and transfer of the Information Technology (IT) positions and functions. The Internal Services Fund was basically the way in which they captured this activity costs and then distributed them back out to all the funds. A shift of 36.5 positions occurred at that time Council Member Schmid spoke to.

Council Member Schmid asked if it were more difficult to track and monitor costs when the most expensive item, such as personnel, is shifted from one operating budget into another budget which gained indirect revenue.

Mr. Perez asked if he was looking at the trend since from his perspective it was easier to identify and track the expenses for technology as an example. He noted the direct categories of expenditures were visible.

Council Member Schmid noted the value of the technology was transferred back and/or calculated on an unclear basis.



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Mr. Perez stated even if the funds were in Administrative Services and not in the Internal Services Fund, allocations were made in any case. He suggested further thought and discussion on how to reflect these allocations.

Chair Burt noted the four (4) FTE allocations were lumped together in the Storm Drain Fund and the Capital Fund. He asked in what proportion these four (4) FTEs were reallocated to each fund and whether these funds were reallocated to the Capital Fund and library work project bond proceeds.

Mr. Perez stated clear and distinct rules existed for the bond proceeds. There was also the Library Oversight and the auditor's review process requirements.

Chair Burt asked if at least some of the employee reallocation expenses were anticipated as proper for bond measure funds.

City Manager, James Keene noted there was no City or Staff expenditure charge against the Library Bond funding. Consultant design costs were made against this project and it was necessary for the City Staff to manage and administrate these consultant contracts. The employee expenditure changes were for this staff management and support which were not charged directly to the Bond proceeds.

Chair Burt stated if it was proper to change them over to the Capital Fund for an operating budget savings.

Mr. Perez stated it was not a net savings in this regard.

Mr. Keene noted this was for more direct accountability of the spending which was taking place.

Chair Burt asked when they tallied the savings, was this done in an anomalous manner in that some portion of the savings showed up elsewhere in the budget but was attributed as a savings versus a reallocation. He noted reallocation to the Enterprise Fund came out of the Operating Budget while reallocation to the Capital Fund were not really net savings.

Mr. Perez noted this was correct. He reiterated Council Member Klein had asked for the difference between these Enterprise dollars versus the Capital Funding. He stated whatever came from the Storm Drain fund translated to a savings for the General Fund as an expenditure reduction.

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Mr. Keene asked that he apply this to the savings issue since it was not counted as a savings on the budget balancing side.

Mr. Roberts noted the split was two-tenths of a position or approximately \$18,000 as the Storm Drain portion is a very small fraction of the total.

Mr. Perez noted the complexities since there were technically two funds. This split in positions reduced the General Fund expenditures in the Operating Budget and increased the expenditures for the General Fund on the Capital side.

Chair Burt asked if these reductions and net savings belonged in the category with the \$3.8 million for the Capital Fund. He noted the previous anomaly in Community Serves which existed in how they allocated their funds in comparison to how the other departments noted this.

Mr. Keene stated the allocations were appropriate in dealing with the Budget Deficit target of approximately \$10 million dollars in the General Fund. He noted there was question as to whether this transfer helped to balance the budget, but in essence it drew down on the Infrastructure Reserve Funds in the General Fund Budget on the Capital side. He noted the effort was toward dealing with the structural deficit problems and not just meeting this \$10 million dollars. By once sense they have solved this on the operational side; however, they have ignored the structural deficit problems between the future infrastructure needs and the available funding abilities. He stated further conversation was necessary on closing this gap.

Chair Burt asked if it was correct that this was a reduction in the operating budget for the Public Works Department, or were they noting the draw-down on the Infrastructure Reserve Amounts.

Mr. Perez noted it was a wash and applied to one or the other assumption.

Council Member Klein moved toward discussion of the local government potholes. He noted 2007-08 included the 1.8 potholes filled per hour. In 2008-09 pothole filling reduced to 1.2 per hour and this was proposed for the current budget. He asked why they settled for the dramatic one-third reduction in pothole filling efficiency.



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Mr. Roberts stated it was not a reduction in efficiency but was actually good news as a reduction in demand. The number of potholes was eliminated by occurrence as the quality of the street maintenance contracts has improved. Additional funding at the State and Federal grant levels led to more resurfacing and pavement which eliminated the number of streets which required pothole work. There is less to do now which has allowed the same staff to do other work instead in traffic control or help in storm drain cleaning as an example.

Chair Burt asked for clarification on the answer to the one-third reduction in efficiency. He noted there was still this reduction in the number of potholes filled per hour and questioned the efficiency level drop. He asked why the same number of hours were associated with a lesser filled holes.

Mr. Keene stated the problem was there was an error in sticking with the same measure. He suggested a productivity report per hour per person was more transparent and could include pothole filling and/or other tasks. This combined reporting provided a more obvious and efficient shift. He noted there was obviously a free-up in time with City employees able to complete additional work other than potholes.

Council Member Klein noted a more sophisticated metric was in order on this pothole issue with regard to the employee's use of and work completed during their additional one-third time savings.

Chair Burt asked in the absence of this correction, the City stood to hear some complaints or editorializing in the local news. He stressed the difficulty in providing meaningful metrics, but as organizations struggle with this they eventually find the proper metric as part of the process. He stated no metrics were better than an ill-thought metric.

Council Member Schmid noted the one-third extra time was offset by the additional tree trimming duties jump from 1.8 to 3.2.

Chair Burt corrected this as a person hours per tree and an increased metric in how many hours a person spent per tree. It was not an offset.

Council Member Klein stated this amended the decrease in efficiency.

Council Member Burt suggested further discussion on the tree trimming metric as well. He stressed the importance of the metric actually noting less



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efficiency since this is why metrics existed in the first place, to monitor problem areas.

**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 – General Fund.

**MOTION PASSED:** 3-0 Morton absent

4. Administrative Services Budget
  - a. Internal Services  
(Continued from Finance Committee meeting May 7, 2009)

Chair Burt asked for clarification on the agenda items since it appeared he did not have the most current and revised Agenda.

Director of Administrative Services Division, Lalo Perez noted there was a revised Agenda. He brought these materials to Chair Burt in order to revise the record.

Budget Manager, Sharon Bozman, gave an overview of the ASD budget. Citywide changes resulted in the elimination of two (2) FTEs which resulted in \$177,000 in savings. There was the reallocation of 5.2 FTEs to the Enterprise Fund at a reduction of \$625,000. An increase in temporary salaries resulted in the warehouse for \$30,000 and a decrease of non-salary expenditures of \$101,000.

Council Member Schmid asked what types of work were being outsourced from ASD.

Mr. Perez, in reference to page 28 of the General Fund Summary, clarified this was the change between the adjusted 2009 and the proposed 2010 budgets. The reason there was a significant decrease was because \$2 million dollars was added in the current fiscal year for the City Manager's loan which went into one of the divisions for real estate which resulted in a one-time reduction.

Council Member Schmid noted 7.2 full-time equivalents were transferred from ASD.



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Ms. Bozman clarified that the reallocation was 5.2 with two positions actually being eliminated.

Mr. Perez clarified the reallocations and eliminations. In revisiting their activity, there were three eliminations in accounting and one purchasing. These positions were attributed to direct workload for the Enterprise Fund. These were not counted as reductions but were reallocations which produced a savings to the General Fund. The other actual reductions came out to about 4.6%. These included two positions which accounted for the majority of the savings with the elimination of a position in accounting due to a reduction in the workload. The second eliminated position occurred in the warehouse where a person left and they were now changing the level of service in the warehouses with reallocations for vacancies and illness with an impact to services and supplies.

Council Member Schmid asked if the ASD had been previously reimbursed with Enterprise Funds for accounting and purchasing.

Mr. Perez noted the positions in accounting and purchasing were reimbursed by the Enterprise Fund as an indirect allocation based on the activity of every position. One position was now fully dedicated to these Enterprise Funds. The position was then transferred into the cost of the enterprise.

Council Member Schmid asked why there is such a large net savings in this case if they are losing both the employee and the earned revenue.

Mr. Perez noted there was a decrease in the allocation revenue as well to make that net number.

Ms. Bozman directed the Committee to look at the citywide changes where there was a decrease of \$558,000 dollars in the cost plan revenue which reflected the expenditure dollars which went out to the enterprise fund directly.

Council Member Schmid asked if the net savings was actually very small.

Mr. Perez stated this was the case, but this was also not the focus of his reductions in his department. The main reductions were the two positions and other non-salary expenditures.



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Council Member Schmid thought the cost plan dealt with pensions and benefits which had led to his questions.

Council Member Klein asked what the real estate financial analyst, noted on the organizational chart, actually does in the ASD.

Mr. Perez noted there was an agreed-upon change in 1990 between the Finance Director at that time and Human Resources (HR) Director to try and move positions to one classification for more flexibility for growth and budgeting. The real estate financial analyst helped to manage low-income housing as well as property sales, Cubberley leases, Gamble Gardens and the ice rink.

Council Member Klein asked if it was fair to say the Financial Analyst in the Real Estate Department really does not do any analysis but rather assists instead.

Mr. Perez clarified he would not call this assistance since this person also negotiates deals on real property with management of assets.

Council Member Klein stated a Real Estate Analyst reviews the value of property based on rent rolls and other information, but he felt the City did not have much of that type of work.

Mr. Perez stated there were perhaps not as many property sales but there was work on easements. Utility work throughout the City provided the need for easements, and the valuation and granting of same.

Council Member Schmid asked for clarification on where they were headed if there was a Motion to accept the current budget. In that vein, he noted they were also accepting the suggested budget cuts. In budget process, he asked if it was correct that they had begun by cutting \$571,000.

Mr. Keene clarified this cut of \$571,000.

Council Member Schmid noted, then, insofar as what they had done, this had now increased to \$745,000 in cuts. He asked how close this was to the target for 2010 if they moved for approval.

Chair Burt stated this excluded any Parking Lot issues which focused on the \$3 million dollar budget shortfall.

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Mr. Keene stated they were slowly moving in the right direction.

**MOTION:** Council Member Schmid moved, seconded by Chair Burt that the Finance Committee recommends to the City Council to tentatively approve the Administrative Services Budget, General Fund Internal Services.

**MOTION PASSED:** 3-0 Morton absent

Mr. Perez added the numbers they had just discussed were on the General Fund side. He noted for the record they still needed to do the Technology Fund side.

Council Member Klein asked if the beginning balance was \$571,000 in the positive, then there was no need to worry because the budget was in surplus. He assumed that the budget was only in surplus if they took into account the recommended bridge.

Mr. Keene noted that in the sense he just described this was correct.

Council Member Klein stated then, in a different sense, prior to any further adjustments they were still \$2.5 million in bridging or reductions away from the actual settled budget.

Mr. Keene clarified they were now \$2.25 million away which he noted was a slow move in the right direction. He presumed some Parking Lot items held the potential to move over as an Action item to increase the bridge amount.

Council Member Klein asked then for a verified bridge number.

Council Member Schmid noted it was a combination of the bridge and the cuts.

Council Member Klein agreed but also noted the bridge item does not appear in the 2010 column as it stood currently.

Council Member Schmid noted they were working on cuts and they had added to this number.

Chair Burt clarified this as starting with a minus \$3 million number.

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Council Member Klein noted this was correct.

Mr. Keene suggested continued tracking. He suggested adding a column for the bridge at \$3 million in order to start counting that down. He clarified they wanted to track the incremental changes. While the bridge was a worthy objective, he stressed they were assumed to recapture \$3 million in employee compensation savings. These were items that had yet to unfold.

Council Member Klein was troubled by the \$571,000 as a positive number in budget surplus at the start. He stated this raised the question of why they did not start at \$0 to reduce the need for the bridge.

Mr. Keene stated everything before them was a planning document for the Committee's purposes. It was further expressed in whatever way the Committee found necessary.

Council Member Schmid stated his view was that the \$580,000 was the number needed to achieve the service adjustment in consistency with the original budget.

Mr. Keene stated a generalized approach was taken on viewing the budget. They did not concentrate reductions in any one area. Cuts were spread out between employee pay, compensation and service cuts. Since this was an ambitious goal, the remaining gap was introduced as the bridge concept. All these numbers together became \$571,000 more than the \$10 million dollar deficit which resulted in an over-plan as they sought to share each piece. He noted the Committee was focused on eliminating the need for this bridge. A report back on that target was possible but there were also elements that may skew this prior to the meeting on May 26<sup>th</sup>.

Ms. Bozman gave an overview of the Printing and Mailing Internal Service Fund. There was a cost plan expense decrease of \$17,000, personal benefit cost decrease of \$49,000 and printing and mailing service revenue decreases of \$52,000 for the Printing and Mailing Fund.

Mr. Perez gave additional information on the Printing and Mailing Fund. With the Systems and Application Data Processing (SAP) project there was the hope for a decrease in mailing out and postage and associated costs. They have accepted a negative number in this area due to the fact that it will be made up. If they cannot realize this, they will adjust the reallocations to the departments at mid year.

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Council Member Schmid asked if this was the first revenue generation from the SAP program.

Mr. Perez stated he had no numbers for the FTEs but he did have temporary dollar amounts. He noted they had to see how this materialized. They generate \$200 million in Utility billing. He was hesitant to try and save \$20,000 if it jeopardized this \$200 million. He stressed the need for careful consideration and assurance that the bills are out, processed and revenue received. His intention was to net the cost out. No profits were intended.

Council Member Schmid clarified it was good to note any potential savings in the budget.

**MOTION:** Council Member Klein moved, seconded by Council Member Schmid, that the Finance Committee recommends to the City Council to tentatively approve the Administrative Services Budget, Internal Services – Printing and Mailing Internal Service Fund.

**MOTION PASSED:** 3-0 Morton absent

Ms. Bozman gave an overview of the Technology Fund. Cost plan expenses decreased at \$49,000 in 2010 and \$84,000 in 2011. Personal benefit cost increases included revenue reimbursements from the City with departmental increases at \$217,000 for IT support. Reimbursements for CIPs were decreased at \$6.1 million for 2010 and increased \$1.1 million in 2011. CIP expenditures decreased at \$2.8 million in 2010 and increased at \$2.5 million in 2011 with a decrease in non-salary expenditures at \$531,000.

Council Member Klein understood the revenue decrease but asked what caused the revenue jump back for 2011 and the expense increases that year after the decrease in 2010.

Mr. Bozman stated the increase was mainly due to the completion of the Utilities Billing Module, but there were still ongoing enhancements to follow.

Mr. Perez stated there were reimbursements for other funds in supplementation of this Capital program which caused the revenue fluctuation. He noted policy changes also affected the expense reductions because they went from a three-year computer replacement program to a



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four-year schedule which reduced the expenses and allocations to other departments.

Council Member Schmid asked if they were talking about a \$10 million fund for Internal Services.

Mr. Keene noted this was correct at \$10 million for 2010.

Council Member Schmid asked if there were personnel pages which pertained to this fund.

Mr. Perez directed the Committee to page back to the Administrative Services page in the materials where they had combined this.

Mr. Keene noted the FTEs were at 36.5 on page 394 of the materials.

Mr. Perez noted page 82 held the organizational chart and directed Council Member Schmid toward items listed under the Chief Information Officer, Glenn Loo.

Council Member Schmid stated these numbers did not show up in this budget.

Mr. Perez clarified they did not show up in the General Fund portion of the budget as part of his earlier-explained concept with regard to the Internal Services fund and allocation of the expenses across all funds.

Council Member Schmid asked if the valuation of the output of the funds was measured by time or hours spent.

Mr. Perez stated it was a combination of valuations. One allocation was based on computers and others were based on revenues of the fund. Still others were based on transactions at the Help Desk and support call tracking for areas, departments and funds. Various methodologies were used to cite these cost distributions.

**MOTION:** Council Member Klein moved, seconded by Chair Burt, that the Finance Committee recommends to the City Council to tentatively approve the Administrative Services Budget, Internal Services – Technology Internal Service Fund.



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**MOTION PASSED:** 3-0 Morton absent

Ms. Bozman reviewed the General Benefits/Insurance and Retirement Health Internal Service Funds. Pension expenses increased at half-a-million dollars. Medical expenses increased at \$1.2 million. Other benefits increased at \$500,000. Citywide retiree medical expenditures increased \$700,000. The General Fund contribution to the retiree medical liability was suspended at \$2.1 million in 2010 with resumption in 2011.

Council Member Schmid stated the revenue and expenditure grew year by year. He asked what the purpose was in not contributing to the reserves. He questioned whether this enhanced their cash balance since they still carried a liability on this.

Mr. Perez stated in this fund they estimated what was foreseen as potential increases in the various benefits. There was a warning that 2012 brought with it an increase in pension costs. Staff then looked at the fund balance of the General Benefits and Insurance and tried to see where to bulk up the reserves. Insurance pieces of the budget also held unknowns which may spike one year and not materialize the same way the following year.

Ms. Bozman clarified that the \$2.5 million was a change. They had not built in extra dollars in the departmental budgets to build the fund reserve. This change reflected the adjusted budget versus the proposed budget. She noted that in 2009 they purposely did not allocate the entire General Fund benefits increases in order to draw down on that fund at \$2.5 million. Fiscal year 2010 there were allocations for the full benefit increases. The fluctuations are resultant of fund drawn downs for one year and then a move to zero the following year.

Council Member Schmid asked what the line Other Income meant.

Ms. Bozman stated for this fund the Other Income notation was the charges made out to the other departments, the General Fund and other Enterprise funds.

Council Member Schmid asked if this was counted towards revenue.

Ms. Bozman stated this was correct.



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Council Member Schmid clarified this was the total amount that the city workers had available.

Ms. Bozman stated this was correct.

Council Member Schmid noted the trick was to cover not just health and pension benefits but also the self-insurance benefits and Workers Compensation.

Ms. Bozman noted General Liability, Workers Compensation and employee benefits were included in this.

Council Member Schmid asked how much of this revenue is held by the City versus those held by agencies such as the California Public Employees Retirement System (CalPERS).

Mr. Perez noted all were revenues held which eventually paid out to the agencies.

Council Member Schmid asked if the \$44 million was going out for pensions.

Mr. Keene clarified \$23 million of the \$44 million was the pension share.

Council Member Schmid noted this was sent out and therefore should not show as a balance of \$44 million.

Mr. Keene stated it was a holding account and was a way of budgeting and managing the expense during the course of the year.

Council Member Schmid clarified this was not the end-of-year balance but reflected what took place over the year.

Mr. Perez noted this was correct.

**MOTION:** Council Member Schmid moved, seconded by Council Member Klein, that the Finance Committee recommends to the City Council to tentatively approve the Administrative Services Budget, Internal Services – General Benefits/Insurance and Retiree Health Internal Service Funds.

**MOTION PASSED:** 3-0 Morton absent



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### 5. Discussion for Future Meeting Schedules and Agendas

Mr. Perez noted the meeting for May 19, 2009 for discussion of the Public Works Enterprise Fund and the Attorney's office budget as well as continuation of the Public Works Internal Services fund. Any related CIPs will also be discussed. The meeting following this, May 26<sup>th</sup>, had the Municipal Fee Schedule, the scope of contracts and the wrap-up. Staff's goal was to return with all the followup items in a packet by May 21<sup>st</sup> or earlier.

ADJOURNMENT: The meeting adjourned at 10:29 p.m.