



## FINANCE COMMITTEE

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Special Meeting  
May 26, 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, Morton, Schmid

Absent: None

1. Oral Communications

None.

2. Proposed Amendments to Fiscal Year 2010 Municipal Fee Schedule (CMR:261:09)

Director of Administrative Services, Lalo Perez disclosed and reviewed the ongoing process of the Committee meetings. He reiterated the use of the terminology Tier-Two budget items, and Parking Lot itemization process. He gave a brief overview of the Parking Lot items and changes since the prior meeting.

Chair Burt commented on the Committees work towards the \$10 million dollar need for budget gap closure. He noted this amount was after the City Manager had addressed the \$2 million compensation reductions.

City Manager, James Keene stated they focused on the \$10 million budget balancing challenge. This was actually a \$12-million gap with possible deferral of pay increases for management and professional staff, as well as negotiations with the Service Employees International Union (SEIU) for the zero pay increases. Built into the budget was the assumption that they deferred any pay increases for the Management Professional Group.

Chair Burt noted the previously discussed budget areas and those that were left for discussion prior to their plan to look at the Parking Lot items, further move on items and wrap-up of the meeting. He reminded the Committee of the potential for State borrowing from property taxes which was anticipated at approximately \$2.5 million.



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Board President of the Palo Alto Police Union, Wayne Bénitez spoke on behalf of the members of the Palo Alto Police Officer's Association and their agreement with the City that the Police Union postpone their contractually-negotiated 6 percent raise for one year with the extension of their current Memorandum of Agreement expiration date also by one year. This resulted in a savings to the City of approximately \$800,000.

Council Member Klein asked if this was part of Item No. 5.

Chair Burt stated it was categorized in that way.

Council Member Klein stated he appreciated the Police Union's actions.

Vice Mayor Morton expressed his appreciation as well.

Chair Burt added the entire City faced challenging times and commended the outstanding commitment and actions of the Police Department.

Budget Manager, Sharon Bozman reviewed the Committee's at places items.

Chair Burt asked if the revised Planning and Transportation Commission letter was indeed the revised letter.

Ms. Bozman noted this was the revised letter, but the date itself was not revised.

Ms. Bozman reviewed the Municipal Fee Schedule, Contract scopes at greater than \$85,000, equity transfer methodologies and their budget wrap-up. The majority of fee increases provided full cost recovery. Estimated increases for new fees to the General Fund revenue were \$406,000 offset by revenue decreases.

Mr. Keene noted Staff planned to return at the June meeting to discuss the delinquent alarm registration, the overall process related to the alarm permit program, noticing, enforcement and other variables.

Council Member Klein asked for clarification park admittance and parking rates. He asked if the Baylands were removed from these fee discussions.



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Ms. Bozman stated the \$2 dollars was reflective of fees for Foothills Park. She deferred to Staff for explanation of the \$2-5 fee range.

Council Member Klein asked for clarification on the \$5 fee.

Interim Director of Community Services, Greg Betts stated the fee range was consistent with other Community Services fees. The intent was to set the fee at \$2 with the flexibility for fee increases in the future up to \$5.

Council Member Klein noted Council made the fee level decisions on a yearly basis. He did not understand the flexibility range inclusion for this reason.

Ms. Bozman directed the Committee to further at places materials which noted this fee as \$2 dollars per car.

Council Member Klein stated there was difficulty in reading all the at places items and not knowing the information in advance.

Mr. Keene stated the at places Memorandum noted the correct figure in response to the Committee's specific directions early in the budget talks.

Council Member Klein asked if the fee schedule for Foothills College and Cubberley had been discussed with the college administration.

Mr. Betts stated it had been discussed with the college administration.

Council Member Klein asked what the college administration thought about this fee schedule.

Mr. Betts stated there was an understanding by the administration with regard to the surrounding the cost of maintenance of the parking lot. The fee schedule and range was meant to fit those attending for more full-time hours and lot use versus those in the lot or on campus for shorter times.

Council Member Klein asked if there were a set number of spaces set aside at the lot for Foothills College users.

Mr. Betts stated the logistics of this were not clear at the current time. Permit parking lot usage was planned for a certain portion of the lot.



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Council Member Klein asked for clarification on the \$3-5 daily and \$25-50 term ranges in parking fees.

Ms. Bozman stated the plan was to start at the lower range with the flexibility for change in the interim if needed.

Mr. Keene stated it was under Council's discretion to settle on the fee. The recommendation for the current Budget was the base fee of \$3.

Mr. Perez added the Community Services Department typically used this range since cost recovery levels were factored into the amount.

Council Member Klein asked for clarification on the dramatic increases in Junior Museum and Zoo package rentals.

Mr. Betts stated the range of fees was dependent on the type of activity and the room used within the Junior Museum for the event.

Council Member Klein clarified he was referencing the range for the package rentals for the Junior Museum and Zoo. He asked if this was in reference to renting out the entire building.

Mr. Keene stated they would come back to this item.

Council Member Klein asked if Planning and Transportation's new fee schedule for the Green Building Ordinance was reflective of Council's previous action for elimination of services and a reduction in the fee.

Interim Director of Planning & Community Environment, Curtis Williams stated this was a cut in the fee by half but did not include the portion for pre-application meetings or the back-end for monitoring and data collection.

Council Member Klein asked for clarification of the Legal Review Fees Appeal for the City Council.

Assistant City Attorney, Donald Larkin noted this was in error and did not belong there.

Vice Mayor Morton asked if any economic studies were planned on the cost of oversight for the new parking fee schedule.



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Mr. Betts stated they looked at two options for fee collection, 1) the Iron Ranger envelope system of self-payment, and 2) a mechanical gate system for cash and credit card admittance. Either system brought with it a cost of approximately \$15,000 for setup of the systems. He noted their \$2 fee was lower in comparison to area community parks.

Vice Mayor Morton stressed his concern remained in oversight of these parking systems since there was the elimination of an employee position at the gates.

Chair Burt noted that in prior years where there were fees at Foothills Park annual passes were also available. He asked what the entry fee was during those years.

Mr. Betts stated the fee was \$2.

Chair Burt stated the annual pass was \$20 where \$30 dollars was now being proposed.

Mr. Betts stated the annual fee prior had been \$25 based on a full 12 months from the date of the pass to the end of 365 calendar days.

Mr. Perez suggested they return to the information on a prior question regarding the fee schedule for the Junior Museum and Zoo.

Mr. Betts noted there were currently no fees at the Junior Museum for any of the rooms. The noted fees were for the science lab, clay room, exhibit hall and other rooms were new fees. The package rental for the entire Junior Museum and Zoo was for exclusive use of the facility for the reservation rate of \$500 per hour of use. This included the Zoo, exhibit hall and classrooms for private parties and events.

Council Member Klein asked if there were many requests for this usage.

Mr. Betts stated there had not been a huge demand in the past, but the program at the museum and zoo for private parties had grown over the years. It held the opportunity for rental of the facility and revenue in that regard.

Council Member Klein asked if the use of these areas exclusively was done for free prior to the fee schedule.



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Mr. Betts stated there had not been a set fee. The facilities were available on days when the museum and zoo were open to the general public. An entire classroom was used for birthday parties with the fee established at the time of this separate service.

Council Member Klein asked what someone was expected to pay, prior to this fee schedule, when they called to rent space.

Mr. Betts stated the person there was told there was not a set fee schedule for facility rentals.

Council Member Klein stated if no fee schedule existed prior, there also were no rentals then.

Mr. Betts stated this was correct.

Council Member Klein asked if they expected a demand for this service now that it was available for rental with set fees.

Mr. Betts stated they did expect a demand for this service.

Council Member Klein reviewed the fees for the different rooms and halls. He asked if the top level of \$500 was at a discount considering they were renting the entire place versus the room-by-room costs.

Mr. Betts stated that was correct.

Chair Burt clarified no rentals were previously done at the museum or zoo.

Mr. Betts stated this was correct.

Chair Burt asked if the rent proposal was expected to occur during regular business hours for the public.

Mr. Betts stated this was not the case.

Arts & Science Division Manager, Linda Craighead noted the rentals were for times when the museum and zoo were closed to the public. They were available for individual and nonprofit use. The museum and zoo were the only facilities in the City that did not have rental opportunities thus far.



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Chair Burt asked what Staff numbers were necessary for these large rentals.

Ms. Craighead stated a house manager established the use and needs. A house manager fee was assessed in addition to the rental fee.

Chair Burt asked if they expected greater staffing concerns for the zoo rentals versus other areas.

Ms. Craighead stated there was a house manager for the zoo in keeping with the sensitivity of the animal care issues, but also in the exhibition area.

Emily Renzel, 1056 Forest, spoke on the commercial rates for refuse. She noted Council's policy was for a temporary close in refuse traffic until the Compost Subcommittee completed its work. She stated determination of a new refuse rate lent to a new public hearing on same. She suggested this rate be incorporated into the budget talks currently rather than not having this rate in keeping with components of Prop. 18. She also asked for clarification on the extra charges for the curbside single-stream rates and the new rolling carts.

Bob Moss, 4010 Orme Street, spoke on the increase of fees for the use of the Community Center. He noted how unfortunate this rise in fees was considering the bad economy and the community members wishing to find a place to go and spend time versus money. He hoped for a reduction in these fees or increases of lesser than planned so as not to preclude usage numbers. He also suggested no legal fees be charged for Architectural Review Board, Planning Commission or Directors' opinions. He felt this discouraged community involvement. He also asked for clarification on the legal fees for mitigation monitoring Mitigated Negative Declarations (MNDs) and Environmental Impact Reports (EIRs).

Council Member Schmid asked if it was helpful to maintain the Construction & Debris (C&D) fees in the books.

Mr. Williams asked for clarification on maintenance of this fee.

Council Member Schmid stated it was with regard to the Refuse Fund which was not eliminated but continued on a temporary basis.



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Public Works Director, Glenn Roberts assumed he referred to the commercial rates which were brought up in public comments, which were actually a different rate than the C&D rate. The commercial rate included items brought in commercially but not able to be processed like the C&D materials. The elimination of the commercial rate did not affect the C&D program. Staff stated since the program did not exist, no fee was necessary. Under Committee's direction, they could show the fee as suspended and later reinstate it.

Council Member Schmid asked for clarification on the individual legal pleas for other boards and commissions.

Mr. Larkin stated this was a cost recovery fee to recover the cost for preparation and review of appeals.

Council Member Schmid stated this was a transfer of the cost burden to the individual.

Mr. Larkin agreed this was a transfer of the burden to the general taxpayer.

Mr. Keene noted fee schedule was designed to more accurately associate the cost recovery with the specific actions.

Vice Mayor Morton asked for comments on the extra refuse carts.

Mr. Roberts noted there were currently three carts for refuse, green waste and recyclables which continued under the new program. No increased differential charge was associated for these three carts. For those with multiple refuse carts, there was a fee for the additional cart.

Vice Mayor Morton asked if this applied to multiple recycling carts or green waste carts.

Mr. Roberts stated there was no additional charge for the recycling or green waste carts included in the base charge.

Vice Mayor Morton asked if there was an additional charge if a customer had more than one recyclable or green waste cart.

Mr. Roberts stated this was very rare for a single-family home, and there was no extra charge for this.



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Chair Burt asked what the time period was for the mitigation monitoring.

Mr. Larkin stated there was a one-time fee for the development of the mitigation monitoring program and this did not include enforcement efforts.

Chair Burt asked if this was a one-time fee even if the mitigation monitoring progressed indefinitely.

Mr. Larkin stated this was the case as the fee was the development for the program with no ongoing legal review once the program was developed.

Chair Burt stated this was within the legal department. However, he asked if there was an additional charge for the Staff monitoring the process.

Mr. Larkin reiterated that the fee mentioned was the legal review fee.

Mr. Williams stated the additional staffing costs underwent recovery in an open account. Other times a separate account was established to cover this. It was on a deposit-basis unless specified in the Conditions of Approval.

Chair Burt asked if this was a cost-recovery system on the ongoing monitoring.

Mr. Williams stated this was correct.

Mr. Perez directed the Commission to the at places item that included the changes made to excavating and grading.

**MOTION:** Council Member Klein moved, seconded by Vice Mayor Morton, that the Finance Committee recommend to the City Council to Propose Amendments to Fiscal Year 2010 Municipal Fee Schedule.

**AMENDMENT:** Council Member Klein moved, seconded by Vice Mayor Morton that the Finance Committee recommend to the City Council to eliminate the parking fee at Foothills Park.

Council Member Klein noted the Committee's previous discussions on this and the merits to his Motion.



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Vice Mayor Morton concurred that the recovery cost likelihood was minimal and the annoyance factor to the public was maximum.

Chair Burt asked Staff for a reminder of the anticipated revenue.

Mr. Keene stated \$80,000 was the projected revenue for Foothills Park.

Vice Mayor Morton reiterated his concerns over monitoring of the gate and enforcement of these fees.

Chair Burt clarified they were dealing with an approximate agreement on the facts and fees as they made their decision on cost recovery.

Mr. Keene clarified the reduction to the budget fell at \$80,000 for their projected revenues.

Council Member Schmid suggested the \$30 annual fee be made voluntary through the Friends of Foothills Park.

**AMENDMENT PASSED:** 3-1 Burt no

**AMENDMENT:** Council Member Klein moved, seconded by Council Member Schmid that the Finance Committee recommend to the City Council to reinstate the commercial dump fee.

**AMENDMENT PASSED:** 4-0

Chair Burt asked for clarification on the Library's hold program figures.

Library Director, Diane Jennings stated estimated hold costs were slightly less than \$100,000 for staffing. They also used volunteers for the service at 36-38 percent of the time. Self-checkout savings were not estimated.

Chair Burt asked if there was a fee for items not picked up on the free hold system.

Ms. Jennings stated there was service charge of \$1 dollar for holds not retrieved.

Chair Burt asked what the dollar amount was attributed per hold item.



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Ms. Jennings stated the charge had formerly been 50 cents per item.

Chair Burt asked for the estimated cost of the hold service.

Ms. Jennings stated they had spent approximately \$100,000 to provide the hold service. Over 200,000 were anticipated for the year.

Chair Burt stated at this cost level he was not going to make a Motion.

Mr. Perez clarified the previous Action taken on the Public Works Fee for Commercial. He stated this was an item for the Refuse Rates and not the Fee Schedule.

Mr. Keene noted this was the cost for the disposal of construction and debris.

Council Member Klein stated they had suggested leaving the language in where it had been deleted.

Mr. Roberts stated the item for commercial fees for the landfill was in the fee schedule and was proposed for deletion. He noted the return of the deletion but the suspension of it as a fee.

### **MOTION PASSED 4-0**

3. Approval of Fiscal Years 2010 and 2011 contract scopes of consultant services agreements greater than \$85,000.

Budget Manager, Sharon Bozman stated there was one agreement for 2010 with the Highway 101 Pedestrian Overpass Feasibility Study, four (4) other agreements for 2011, and all were design studies.

Vice Mayor Morton asked if the Arts Center Electrical and Mechanical Upgrades was a design study or for scheduling the construction.

Public Works Director, Glenn Roberts stated the initial studies had been done but this was for the engineering designs.

Vice Mayor Morton asked why the library project was not in these materials.



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Mr. Roberts stated the library project was already under contract for services and into final design aspects.

**MOTION:** Vice Mayor Morton moved, seconded by Council Member Klein, that the Finance Committee recommend to the City Council Approval of Fiscal Years 2010 and 2011 Contract Scopes of Consultant Services Agreements Greater than \$85,000.

**MOTION PASSED:** 4-0.

Council Member Klein suggested more clear delineation in the use and terminology of the word consultant for public transparency.

City Manager, James Keene stated they would implement the use of more concise language for the work being done.

4. Recommendation of City Council to Change Methodology Used to Calculate the Equity Transfer from Utilities Funds to the General Fund (CMR:260:09)

Budget Manager, Sharon Bozman reviewed the answers to the Committee's questions from prior meetings which included Palo Alto's Electrical Fund Transfers at the mid to high level when in comparison to other cities. She clarified the tax and risk adjustment approximations for individual investors versus municipal and corporate bond investments. The investment rate of return was higher. Staff recommended a 15 percent risk adjustment.

City Manager, James Keene stated there was discussion with the Committee about the fact that they had done the math on the methodology and then basically backed off and discounted the equity transfer by both of these adjustments.

Council Member Klein asked how area electrical rates compare to Pacific Gas & Electric (PG&E rates).

Director of Utilities, Valerie Fong noted, as a rule, the very low rate utilities included Santa Clara. Palo Alto and Roseville were in line with each other. She stated rates were not just low for Northern California, but were lower for the State of California and lower than PG&E. Others might be higher, but she needed to return with those figures.

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Bob Moss, 4010 Orme Street, reviewed some past history of utility costs and transfers. He spoke to more reasonable approaches on return on investments and risk adjustments.

Herb Borock, PO Box 632, spoke on equity transfers and economic strategies for the utilities in Palo Alto and the impacts on residential and commercial customers.

Stephanie Muñoz, 101 Alma, spoke that she had received information on green savings and contributions in these efforts. She noted there were several areas of this program that may seem hypocritical to the lay customer when considering whether the rates were actually cheaper overall. She encouraged consideration of rate reductions over the long-term by investing any intended savings.

John Hackmann, spoke on the high level of utility billing. He noted it was adjusted by theory and consultant reports, traditions and comparable studies. These services were now at a considerable cost burden to the community. He also suggested investing the surplus in long-term cost reduction programs.

Council Member Klein asked how far back data exists for the City's utility transfers. He asked if there was charting as far back as 1912.

Director of Administrative Services, Lalo Perez stated it was not compiled as such, but they could go back through the records and chart this.

City Manager, James Keene agreed they would get this to the Committee Members.

Vice Mayor Morton asked for clarification of the percentages for 2009-10 if the numbers were based on a calculate percentage with the same number in both years.

Ms. Bozman stated in 2009 they used the current methodology. The 2010 numbers were consistent with the change in methodology.

Council Member Schmid asked for clarification on why Palo Alto used the rate base methodology while other areas used a revenue-based method.



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Ms. Bozman stated the revenue number they used was a comparison in order to reach the proper percentage. She noted area cities used a wide variety of ways to calculate their equity transfers.

Council Member Schmid stated their formula produced a 50 percent premium on the other municipal utility rates. This formula allowed for the generation of more income.

Ms. Bozman clarified the city comparisons were with regard to their 2009 numbers which were comparable to Palo Alto's 2009 numbers.

Council Member Schmid noted this was prior to the new rate which was 50 percent above the average of all cities but one.

Chair Burt stated he did not agree that it was 50 percent above.

Council Member Schmid stated he was looking at the revenue percentages under the new formula.

Chair Burt stated this involved comparison of other city 2009 numbers to their 2009 numbers. He stressed they did not know the area city numbers were for 2010.

Council Member Schmid stated if a formula existed for these cities, it clearly was not the same as Palo Alto's new formula.

Mr. Keene stressed Council did not make their decisions based on the numbers of other jurisdictions. He stated the recommended methodology made sense and stood on its own merits.

Chair Burt asked what the percentage of revenue transfers now versus what had been transferred in the past. He asked what the gross revenue income was from electric utilities for any early periods along with comparisons on transfer percentages.

Ms. Fong stated this required some additional work to get to that number.

Council Member Schmid looked to the City Manager's Report (CMR) for an explanation on how to treat the revenue transfers and proprietary funds as common and accepted practices. He assumed Palo Alto wanted a practice in



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line with other cities, but it appeared that the City broke away from this in alignment with investor-owned utilities.

Mr. Keene stated this application of the CMR was more in keeping with the times of 1982 and not the current approach.

Council Member Schmid stated this was the time when the City decided not to use investor-used utilities as their basis. He noted the importance of an open and transparent formula that the public can understand clearly and tracks what other cities are doing in justification of the different practice.

Chair Burt agreed with the need for transparency. He encouraged Staff to look into simplifying it as much as possible for the public's understanding.

**MOTION:** Vice Mayor Morton moved, seconded by Council Member Klein, that the Finance Committee recommend to the City Council to change methodology used to calculate the equity transfer from Utilities Funds to the General Fund.

Vice Mayor Morton supported the Motion on principle and recommended that the Committee also support Staff's recommendations.

Council Member Klein agreed the utility transfer made sense for the City for a number of reasons.

Council Member Schmid supported the move to ensure a straightforward and transparent description of the formula and methodology.

Chair Burt stated, even without the historic rates of return, there was a long history of this practice. He noted the various reasons why this was a win-win situation for both business and residential customers.

**MOTION PASSED:** 4-0.

5. Recommendation (Wrap-up) to City Council Fiscal Years 2010 and 2011 Proposed Budget

City Manager, James Keene reviewed the past month of Committee meetings which included the pie chart with regard to bridging the budget gap. He noted the discussions and adjustments made over the last month

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as well as positioning notes for what was left to do in discussions and setting policy objectives.

Budget Manager, Sharon Bozman stated the \$571,000 budget surplus was the buffer to allow for discussions and changes. She reviewed the list of changes made through the hearings to date with the ending balance at \$742,000. An additional adjustment included reduction by \$80,000 with removal of the parking fees which left the adjusted balance at \$662,000.

Mr. Keene reiterated the sections of the chart the Commission previously discussed, actions taken and recommendations made. He noted their additional series of reductions and adjustments and movement towards bridging the budget gap. He discussed placeholders and one-time proposed adjustments. He summarized the issues related to pending agreements and information which left question marks until negotiations were finalized. He noted the various prospects for discussions on further cuts or reductions. Staff was keeping track of the adjustments and proposals thus far. Items remaining in the Parking Lot were in two categories, those that required further discussion and those that might provide real numbers towards the budget deficit.

Council Member Schmid asked if the \$1.9 million in postponed medical benefits was included in the deferral of \$1 million to the General Fund.

Mr. Keene stated this was correct, but the actual number for the medical payments was \$2.1 million.

Council Member Schmid stated these were not included in the Parking Lot issues and should be listed there.

Mr. Keene stated they had not made a specific move to change or adjust these items.

Council Member Schmid stated of the \$4.6 million, three measures have been proposed or identified by Staff.

Mr. Keene noted this was essentially correct. However, Staff had also counted the \$600,000 worth of additional cuts already made by Council against the placeholder and bridging option which reduced that to \$2.4 million.



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Council Member Schmid asked if those were the same reductions already done in the 2009 budget, putting off the million-dollar transfer to the CIP and postponement of the medical benefits of \$1.9 million.

Mr. Keene stated this was correct.

Council Member Klein stated the items in the bridge proposal were postponing the problem while the other items raised the possibility of permanent reductions.

Mr. Keene stated this was correct. He noted the Committee early on faced the question of whether or not to leave an additional deficit for 2011, which was what occurred with the bridging option, or would they rather readdress that the current year to eliminate its additional deficit in the following year.

Council Member Klein reiterated that they had the option to mix and match their options.

Stephanie Muñoz, 101 Alma, spoke in support of the Committee's recommendation for a transfer tax in order to recoup the loss of the Prop. 13 and Prop. 58 revenues for sold properties. She championed any efforts to return monies to the school districts.

Penny Ellson, 513 El Capitan Place, spoke as Chair for the PTA Traffic and Safety Committee and the Safe Routes to School Partnership and the maintenance and proper balance of engineering, education, encouragement and enforcement. She noted the importance of everyone working together in these areas to ensure traffic safety in the school district. She requested Staff clarify specifically how the Police Department's traffic and safety teams' job responsibilities will be managed in the future.

Council Member Schmid asked whether they should focus on the global scope in their current discussions or one detail at a time.

Chair Burt suggested they have a preliminary discussion of the broad scheme with a return to details to follow.

Council Member Klein clarified the details for the so-called loan the State was apparently taking from the City. At face value it would be a loan that that is considered an asset and therefore part of the reserves.

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Mr. Keene stated the estimated hit on the City would be \$2.4 million. The funds would be floated out of the City's reserves as a way to pay the loan to the State and then Staff would book it as an asset with a return to the City within the three-year timeframe which the State was required for repayment.

Chair Burt asked the City Manager for a review of the \$2 million in compensation reductions and the \$10 million dollar shortfall after these reductions.

Mr. Keene stated it was a \$12 million dollar deficit. From the beginning the decision was to not grant any pay increases to the management and professional staff for 2010 under the assumption that they would be able to negotiate a pay contract for 2010 with the SIEU which at a minimum included no pay increases. This saved \$2 million upfront and that was what gave the beginning point of a \$10 million dollar budget deficit.

Chair Burt asked if this also included elimination of the prior historical bonuses.

Mr. Keene stated the \$2 million dollar reduction does not include the elimination of the bonus program.

Chair Burt asked if the balance of the variable management compensation bonus program for the managers was potentially under the other compensation reductions.

Mr. Keene stated this was the correct placement for this item and the program actually moved across multiple funds. They were dealing with City's General Fund deficit, the \$10 million deficit, and the amount that the variable management compensation program would yield in the General Fund at about \$650,000 in 2010.

Council Member Schmid noted all budget outcomes had them looking at a the City of Palo Alto as less exceptional in services than in the past. He stressed the effects of cuts and deferrals on the community and how they must strive for a way to measure these affects across the board when it came to decisions to improve the budget situation.

Council Member Klein asked if they had not already counted the \$700,000 before getting to the 4.6 million.

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Mr. Keene stated this was correct with the hopeful inclusion of the firefighter's wage piece.

Council Member Klein spoke to the solid decisions the Committee had made thus far as well as the hefty number of items left prior to budget adoption. He suggested tabling discussions with the solid items finalized with room then in the fall for further discussions and amendments.

Vice Mayor Morton agreed they had some general structure towards this year's budget with room for budget amendment processes at a later date.

Chair Burt agreed with this overall approach. He suggested moving forward with the discussion of specific Parking Lot items that held the possibility of reductions with the latter items held for future discussion.

Mr. Keene generally summarized where they stood with their solid options and the number of ways to proceed.

Council Member Schmid suggested the Council's Contingency Fund remained a valuable item that could be put toward the budget deficit.

Chair Burt reiterated the purpose of the Council Contingency fund and whether it was actually up for realistic consideration.

Council Member Schmid stated it provided a useful impact to the operating budget if it were transferred over.

Mr. Keene noted that in his career, Councils were hesitant to agree to the use of the Contingency Fund in this manner. Those that did try it often regretted the move.

Chair Burt suggested a deeper look into the history of the fund and how it had been used in the past. He was hesitant to support the recommendation for its usage prior to his knowledge of its historical use and impacts.

Vice Mayor Morton noted, in the last seven years, the fund was utilized at year's end for transfers into the deferred medical fund or the infrastructure reserve. Another year it was used to fund a Family Services program which otherwise would have been eliminated. He suggested further definition and



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discussion of the Parking Lot issues to decide which were of numerical value to the budget and which were housekeeping or discussion items.

Chair Burt noted the five items left in the Parking Lot and agreed they move forward to identify those with clear monetary revenue source gains and those which were held for later discussion. He wished to hear more from the Police and Fire Department actions and proposals as well. He stressed the discussion of the more concrete items at present.

**MOTION:** Vice Mayor Morton moved, seconded by Council Member Klein, that the Finance Committee recommend to the City Council to move \$11,000 from the budget for the CAO evaluation contract, and add said amount to the City Council Contingency Fund.

Chair Burt was not in support of this Motion.

Mr. Keene stated the City Clerk advised him the \$11,000 figure was not the accurate figure for the Motion; it was the difference and the total amount was closer to \$27,000. Moving the cost out of the Budget to Council Contingency meant that corrected figure of \$27,000.

City Clerk, Donna Grider clarified the \$11,000 came from Council's budget with the balance from the Contingency when they hired Sherry Lund Associates in the past year.

Chair Burt reiterated the question was whether the Motion was to remove the \$11,000 from the Budget and leave it up to Council whether they had a CAO outside advisor, or whether to remove the entire \$27,000.

Vice Mayor Morton stated he wanted it out of the Parking Lot. He stated if Council wanted the CAO they could take it out of the Contingency, so he took the whole item out.

Council Member Klein heard that the second part was not a part of the Motion, but it was in the case that the Council wanted this. They were in effect removing the \$27,000 for the Budget.

Chair Burt reiterated this was where they needed clarity as to whether this was the removal of \$27,000 from the Budget.

Vice Mayor Morton stated this was removal of the \$27,000.

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Ms. Grider clarified there was not \$27,000 in the Council's present budget where only \$11,000 remained in fact.

Mr. Keene stated the elimination of \$11,000 brought with it the understanding that the funding for the CAO contract to the Council Contingency, if the Council so-desired, could be a \$27,000 hit on the Contingency Fund.

Vice Mayor Morton agreed with this clarification for the City Manager.

Chair Burt asked if it was clear to everyone that the impact to the Budget was \$11,000 which was what they would be voting on in the Motion. He noted the \$11,000 was the amount in the General Fund and the balance was the contingency. In this case, he was supportive of the elimination of the \$11,000 to maintain the status quo in their funding practice.

### **MOTION PASSED:** 4-0.

Council Member Klein suggested a dollar amount be attached to their travel budget discussions with the institution of a 20 percent reduction across departments. He noted there were not exact figures as to the travel expenses across departments to date.

Chair Burt stated he made an attempt at this number for travel and instruction and training. He approximated a figure of \$216,000 and about \$190,000 in Utilities for a total of \$406,000.

Council Member Klein asked if this included travel and instruction.

Mr. Keene stated Staff might have more definitive numbers.

Chair Burt noted it was important to discuss instruction and training separately since there was information pertinent to what was mandated for training versus travel which was more discretionary.

Director of Administrative Services, Lalo Perez stated the total for the General Fund Departments for travel expenditures was \$177,498. The training expenditures fell at \$331,319.

Chair Burt stated he had come up with \$216,000 but may be wrong.

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Mr. Perez suggested they double-check the numbers while the Committee continues discussion.

Mr. Keene held his opinion on the 20 percent suggested reduction until he heard the actual figure. He preferred if it were done that it was an aggregate 20 percent reduction as opposed to 20 percent from every department.

**MOTION** Council Member Klein moved, seconded by Chair Burt that the Finance Committee recommend to the City Council to consider instituting an aggregate 20 percent reduction in the General Fund travel budget.

Council Member Schmid asked if they referred to the 20 percent cut for travel-only. He thought travel was a key part of training.

Mr. Keene stated this was true in some but not all cases.

Council Member Schmid asked if an overall Motion was more appropriate to cut both travel and training by 20 percent allowed for more flexibility.

Council Member Klein stated restriction of travel resulted in staff trying to find the same training either online or locally.

Chair Burt asked for the more definitive numbers on these expenses.

Mr. Perez stated what caused confusion in the number was due to the fact that some departments included General Fund, Enterprise and Internal components. He clarified the amount \$177,000 was reflective of these variables.

Chair Burt stated he had included the Public Works Enterprise and Internal Service funds which did not properly belong in the figure outcome.

Mr. Perez stated the focus was on the General Fund costs versus the costs across funds.

Mr. Keene stated this was \$35,000 based on the above figure to be put up as a negative.



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Chair Burt stated this was the Motion on the floor and asked for further input.

**MOTION PASSED:** 4-0.

Chair Burt asked for feedback on the instruction and training budget. He asked how much this budget was.

Mr. Perez stated training expenditures for the General Fund were \$331,319.

Chair Burt asked the City Manager if distinctions were made in the department's ability to reduce costs in that category versus the travel and meeting budget.

Mr. Keene stated there was less discretion in this area due to the fact that there were different ways to get the training. Of the \$331,000 figure, over \$190,000 was in Police and Fire training the bulk of which was mandatory training. Across other department areas it was definitely mandatory.

Chair Burt suggested the Committee make place hold this item until the City Manager can return with some additional information on possible way to cut these costs.

Vice Mayor Morton asked if this item was currently in the Parking Lot.

Chair Burt stated travel and training were in the Parking Lot and had been in the Staff's report.

Vice Mayor Morton noted the many professional areas which required training. He stated it was difficult for employees to maintain their licensing and qualifications if they tweaked the numbers too much. He felt Staff was better able to decide where cuts were possible without affecting these factors and understood the ongoing budget pressures. He did not see a lot of abuse upcoming as employees sought to maintain their training levels.

Council Member Schmid asked Staff whether they might appreciate some guidelines from Council for a target percentage of 5-10 percent.

Mr. Keene stated 5-10 percent was appropriate and lent to a \$15,000-30,000 reduction across the \$331,000 figure in the General Fund. He asked whether they sought to reduce that figure or issue guidelines in order that

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Staff take a look at possible reductions of 5-10 percent and return with those guidelines.

**MOTION** Council Member Schmid, seconded by Chair Burt that the Finance Committee recommend to the City Council to ask Staff to create guidelines to review what was discretionary in the training budget, and identify 5-10 percent reductions in the instruction and training budget in the General Fund, and return with a more specific proposal to the City Council based upon said guideline.

Chair Burt clarified this was not a Motion as an explicit requirement. It was a request for the City Manager and Staff to review what was discretionary with the return of a more specific proposal to Council based on the guideline.

Council Member Klein asked if the 5-10 percent was based on discretionary amount or the entire amount.

Chair Burt clarified it was 5-10 percent of the instruction and training budget in the General Fund.

Council Member Klein did not see how they avoided mandatory training. He suggested the elimination of one-third of the discretionary instruction and training.

Chair Burt was unclear of the categories within what was termed as discretionary instruction and training. He was interested in the City Manager's return with information on what he and Staff viewed as an achievable goal.

Council Member Klein stated the 5-10 percent figure did not belong in the Motion since they had not heard yet the City Manager and Staff's recommendations regarding an achievable goal.

Chair Burt stated this was the range given to the City Manager and his Staff to which he will return with an achievable figure within that range.

Mr. Keene clarified their direction was to bring back a feasible range within their directed 5-10 percent.

**MOTION PASSED: 4-0.**

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Chair Burt reminded the Committee they had yet to discuss the Enterprise and Utility funds and asked if this was the appropriate time.

Mr. Perez stated the way the Parking Lot was understood was this included all departments in their current discussions.

Chair Burt asked colleagues if it made sense to apply the same formula in instruction and training cuts to the Utility and Enterprise funds as they had done with the General Fund.

Vice Mayor Morton repeated they were entering areas where their tweaking of the instruction and training budgets may affect an employee's skill level.

Chair Burt stated the prior Motion and his prospective next Motion was not intended to restrict mandatory training.

**MOTION** Chair Burt moved, seconded by Council Member Klein that the Finance Committee recommend to the City Council to ask Staff to create guidelines to review what was discretionary in the Enterprise and Utilities Fund for the reduction in travel and meeting budget by 20 percent, identify 5-10 percent reductions in the instruction and training budget, and come back with a more specific proposal to the City Council based upon the guideline.

**INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER** to request the Utility Department's personnel to review the first part of the guideline rather than the City Manager so that the City Manager has discretion on what can be achieved.

Council Member Klein stressed morale was one of his key reasons for support of this Motion. Equitable cuts across departments made better sense.

**MOTION PASSED:** 3-1 Morton no

Chair Burt noted their next item Parking Lot item was the inclusion of Utility savings based on sustainability efforts. The City Manager had previously indicated a direction that these savings were not predominately apparent at the outset. With this as a given, he asked Committee members if they chose to put a minimum amount as a placeholder budgetary figure.



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Mr. Keene recalled that the estimate for 2010 across all funds was approximately \$669,000 and the General Fund piece represented \$212,000 in approximate savings.

Council Member Klein stated his recollection was triple his approximations.

Mr. Keene stated the higher figures were for a time period extending into 2012.

Council Member Klein stated it was still \$2 million a year.

Mr. Keene disagreed with this figure.

Chair Burt stated by 2012, it rose to \$2 million a year, but some of the items were already achieved and had been folded in as non-quantifiers.

Mr. Keene noted operationalizing behaviors into actual savings required a focus on the 2010 budget at \$69,000 across all funds. He was hesitant to budget a reduction at the current time. He suggested identification of a credit against all departments for appropriation of the full amount. On a monthly or quarterly basis this was up for tracking. Without a previous track record he remained reluctant to take a stance on General Fund appropriations in particular.

Chair Burt suggested making it more realistic they take a target amount as an internal goal to which departments reported back. This provided a quantification of progress throughout the year.

Mr. Keene stated in this sense both peer and Council pressure fueled the performance reports over the course of the year.

Council Member Klein asked for clarification on how this worked as an incentive towards achieving savings.

Mr. Keene gave the example of a department budgeting \$50,000 as a negative against their budget. For management purposes, this left a \$950,000 budget for the course of the year. It was not a big issue until yearend, but monthly or quarterly they were tracking the savings ongoing toward the target.



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Council Member Klein asked if this was a credit to the department it lent to the department having \$50,000 extra to use.

Mr. Keene stated this was not the method or intent.

Mr. Perez noted the Systems and Applications and Data Processing (SAP) system allowed them to statistically track this amount which did not allow the department to access the additional funding. He stressed the department does not have ultimate control of the movement of these budget line items.

Council Member Klein asked why this was not just noted as a \$50,000 reduction in a department's budget. He stressed his concerns over their ongoing credibility in reporting the numbers for public transparency. He suggested a start at even half of the number reported as more functional.

Mr. Keene explained the difference between a Council's adoption of an ordinance for actual fund appropriation versus a budgeted credited line item.

Vice Mayor Morton asked if a department's appropriations were effectively cut if they did not reach their estimated goals in reductions.

Council Member Klein noted the Environmental Coordination Team had been given numbers. They then reported, across the City departments, there was the identification of additional areas for savings at \$669,000 for 2010 and up to \$2 million in savings through 2012. He was suggesting that they hold the departments to this at 50 percent of what had been suggested as an achievable goal. This did not take money from the departments but aimed them in the direction of achieving these goals.

Vice Mayor Morton stated they had taken an admirable goal and now made it a requirement with no credit in return.

Chair Burt noted the many positives towards his proposed Motion while also taking into consideration the City Manager's concerns.

Council Member Schmid stated there would be difficulties in accountability of these factors. He questioned whether the cost of accounting for these departments might exceed the amount they hoped to achieve in savings.



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Mr. Keene stated they are committed to tracking this with or without the Motion since it was a serious target goal and they own the software which allows them to track these variables. In comparison to other Utility jurisdictions this put the City out there as a trendsetter as a community who budgets their energy savings.

Chair Burt noted their system was a model for other communities. He stressed this was an important message and leadership factor for the City.

**MOTION:** Chair Burt moved, seconded by Council Member Schmid, that the Finance Committee recommend to the City Council to take 50 percent of what Staff had identified as anticipated energy cost savings for Fiscal Year 2010, resulting from the Sustainability efforts, in both the General and Enterprise Funds, and allocate said 50 percent savings as a budget reduction.

**MOTION PASSED:** 4-0.

Council Member Klein asked for the Committee's intent for the remainder of the meeting considering the late hour.

Chair Burt reviewed where they were on the Parking Lot line items, what was left for discussion and the possibility of an additional meeting in two days.

Vice Mayor Morton suggested continuance of as many items as possible currently with a return in two days for the remainder.

Chair Burt noted they reached the consensus to continue until 11:00 p.m.

Mr. Keene asked for clarification of the meeting time for the Thursday meeting.

Chair Burt stated the consensus was for a 7:00 p.m. meeting.

Mr. Keene asked for discussion of the Police Department Budget prior to 11:00 p.m.

Chair Burt stated this as the demarcation point. He noted at places they had a summary report and attachments addressing the overtime analysis.



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Mr. Perez asked if the Committee desired a recap of the individual items.

Council Member Schmid suggested looking at all the items related to the Police Department budget in order to move things forward.

Mr. Keene recalled to the Committee that they had the first recommendation of \$500,000 in reductions which was the target number and the City Manager identified ways in which to make these cuts. The second measure was more specific and detailed. It took a series of recommendations and adding back the half-time volunteer coordinator with the additional add-back of revenue to the department.

Mr. Perez stated the four positions generated \$100,000 in revenue. The add-back reflected the removal of only two positions reflective of the \$50,000 figure.

Mr. Keene clarified the specifics as adding back the volunteer coordinator, cutting half of the traffic team and then taking the other positions as recommended reductions, reducing it by half rather than total elimination.

Chair Burt asked for clarification of the net impact of these measures.

Mr. Keene stated this was a half-million dollars in reductions with either of the two recommendations. One of the uncertainties that existed during the Committee's last meeting was that they had not heard from the Palo Alto Police Officers Association (PAPOA) on the pay issue.

Council Member Klein stated the add-back of the half-time volunteer coordinator and the \$50,000 revenue item this became a \$392,000 item.

Mr. Perez directed the Committee to the bottom of Attachment A which detailed the addition of half-time volunteer coordinator as an added expense.

Chair Burt clarified this as two added expenses of \$52,000 for the half-time employee addition and the add-back revenue. The remainder were reductions. If those are added up it equaled the \$392,000.

Mr. Keene stated this was his understanding as well.



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Council Member Klein stated it was equal to \$392,000 unless the \$102,000 was counted some other way prior.

Ms. Bozman stated the \$50,000 was a revenue increase add-back.

Council Member Klein asked if the math of this went in the other direction then so the savings were \$542,000 with the subtraction of the cost for the half-time employee.

Ms. Bozman noted this was correct.

Chair Burt clarified this as \$492,000.

Council Member Klein stated the notational system was not used correctly. The add-back in revenue remained a negative.

Chair Burt agreed this was correct.

Vice Mayor Morton asked if this impacted the offer of the Police and Fire Department to forgo their scheduled pay raises.

Mr. Keene stated union discussions identified the fact that tier two cuts existed. Without meeting the targets for employee savings, it was inevitable that the tier cuts would take place. He personally hoped to get the department chiefs' reactions on the cut.

Chair Burt stressed it was worth the Committee's time to wait for more information from the City Manager on the cuts in this department and also whether they needed to look at cuts in other departments.

Mr. Keene stated they looked to the Acting Police Chief to clearly express the service impacts of their final recommendations.

Chair Burt agreed to the hefty nature of these cuts.

Council Member Schmid spoke to further discussion of regionalization options and overtime, both of which dealt with long-term efficiencies versus service cuts.



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Vice Mayor Morton asked if it was equitable to ask the Police Department to come up with an additional \$900,000 after they had already proposed the deferral of pay raises.

Council Member Klein stated this was a combination of those moves and not in addition to the deferrals.

**MOTION:** Council Member Klein moved, seconded by Vice Mayor Morton that the Finance Committee recommend to the City Council to postpone this item for consideration in the future to include the additional \$900,000.

**INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER** that the Finance Committee recommend to the City Council to add back to the General Fund \$52,000 for a half-time volunteer coordinator position.

Chair Burt asked if they still wanted the Acting Police Chief to return for discussion of the impacts on services with proposed cuts.

Mr. Keene understood the two aspects of the Motion as 1) The specific addition of \$52,000 for the half-time volunteer coordinator position, and 2) Identification of funding.

Council Member Klein stated the Motion meant to postpone the item for later consideration.

Mr. Keene noted this included discussion of service impacts as related to the Tier-Two cuts. He stated the recommendation for regionalization of police services was something that would undergo analysis and discussions in the coming year. It was not something they would have specific recommendations for prior to budget adoption.

Chair Burt asked if the Motion's intent was to ask for this report at the next Committee meeting.

Council Member Klein stated it was not asking for this report.

Chair Burt asked for clarification on the overtime patterns for the Police Department. He noted there was an upward trend in overtime, but also many vacant positions. He was concerned that the overtime budget dollars



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were exceeded every year with all things considered. He asked when the Committee could expect to hear information back on this.

Council Member Klein suggested a vote on the Motion and then discussion of this point.

Council Member Schmid asked if the Motion spoke to the addition or subtraction of the \$52,000.

Mr. Keene stated there was also the directive for Staff to return with discussion materials on the tier two reductions in the future upon request.

Chair Burt clarified the regionalization discussions for the Fire and Police Departments were 2010-2011 discussion items. The Police and Fire Department overtime presentation, including reimbursements, was also pending.

**MOTION PASSED:** 4-0.

Discussion for Future Meeting Schedules and Agendas

Mr. Keene stated the Director of the Library had a commission meeting which precluded his attendance at the next meeting. He asked if they had any library questions they wanted to address presently.

Chair Burt noted the only item for discussion was the book hold system which they had earlier addressed.

Mr. Keene clarified the Police and Fire Department overtime discussions were rolled over until the next meeting.

Vice Mayor Morton asked if they had the opportunity for input on what they expected to hear on the Basic Life Support program's cost recovery.

Chair Burt stated it was his understanding that they had already taken Action on this.

Mr. Perez stated it was placed in the Parking Lot but there was no final resolution as yet.

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Chair Burt noted this was scheduled for the next meeting as well, noting the next meeting was scheduled for Thursday, May 28<sup>th</sup> at 7:00 a.m.

ADJOURNMENT: The meeting adjourned at 10:54 p.m.