



Storm Water Management Oversight Committee

MINUTES: Wednesday, August 8, 2018

Special Meeting
Community Meeting Room, City Hall Ground Floor
1:00 PM

Committee Members Present:

David Bower, Peter Drekmeier, Marilyn Keller, Hal Mickelson,

Committee Members Absent:

Dena Mossar, Bob Wenzlau, Richard Whaley

Staff Present:

Michelle Austin, Maybo AuYeung, Paul Harper, Alex Harris, Judy Ng, Venessa Silva

Call to Order: 1:10pm

Oral Communications: None

Old Business

New Business

Introduction of Office of Management & Budget staff Paul Harper and Alex Harris.

1. City of Palo Alto Budget Process Overview

AuYeung addressed this meeting is scheduled per Committee request on reviewing the city budget process with a high-level overview, where questions specific to the Storm Drainage Fund (SD Fund) will be collected and discussed at the next meeting. The Storm Drainage Fund budget documents will be used as an example throughout.

Overview:

Private sector financials is profit-driven focusing on making; public sector, financial management is budget driven focusing on recovering costs, spending is governed by laws and charter. City budgets are forward looking plans of the upcoming year to manage revenues and expenses, community is involved in the development and is prepared for community members to better understand city functions. Comprehensive Annual Financial Reports (CAFR) are statements of fact, shows financial position as a city, and accounts for funds spent and future or long-term obligations.

Timeline:

June, Re-Appropriation: request to move unencumbered funds to next fiscal year for tasks/projects that were not completed, requires City Council approval in September or October.

September – November, Base Budget: update ongoing expenses for current budget items and continuous services (e.g. contractual annual cost increase), review and update five year plan for CIP. Long-range financial forecast prepared by Administrative Services Department is applied to development of base budget.

December, Mid-year Adjustments: request adjustments to the current fiscal year budget if applicable and necessary since the year is half way over.

January-April, Proposed Budget: request to add or reduce services or expenses when comparing to base budget for next fiscal year.

May-June, Budget Adoption: Departments attend internal hearings to get City Managers approval, then OMB to create proposed budget documents to present to the community and City Council Finance Committee. After incorporating recommendations and answering questions, the proposed budget is presented to full council for adoption.

Operating budget:

This document is organized by departments and funds, it includes narratives of each department to provide context for services, accomplishment, goals, objectives, and performance measures. It also includes budget summary tables (organized by divisions, expenses, revenues, and positions), a detail staffing table, and a reconciliation table which shows what changed from the prior budget year and the next.

Budget summary table & Staffing table:

First, expenses are shown by divisions (functional groups). Then, the amounts are shown by major expense categories, where the total for FY2019 proposed budget is the same in the first section (\$9.4M for SD Fund). After that, revenues are shown by major revenue categories. Lastly, full time equivalents (FTE) are shown by divisions (13.55 FTE SD Fund), the total will be the same in the staffing table below listed by job classifications.

Budget Reconciliation table:

Information is aggregates by detailing major activities, it shows expenses and revenues side by side. The first row is the prior year budget, the amounts will tie to corresponding section total in the budget summary tables in the FY2018 adopted budget column. The amounts in the bottom row (Total FY2019 Proposed Budget) will tie to the corresponding section total in the budget summary tables in the FY2019 proposed budget column. One time prior year budget adjustments contain actions for the previous year

budget and will be removed as we move on to the proposed budget year. Adjustments to cost of ongoing activities are base budget adjustments necessary to remain ongoing services delivery without significant expenses and revenues changes. Any new or changes on top of base budget adjustment will be captured in the budget adjustment section (i.e. citywide supplemental pension trust fund contribution).

Capital budget:

This document is organized by departments and funds, then CIP are organized by project categories (e.g. Capacity improvement and system rehabilitation for SD fund). It includes summary, statistics, narratives on accomplishments, and description of recurring projects (happen for various years) and non-recurring projects (only happen once).

Summary of capital activity table:

This table shows all projects planned for the next 5 years, and completed projects with actual expenses in the past 2 years (FY2017 actuals and FY2018 estimates) while showing future estimated expenses to be \$0.

Project pages:

Each project describes project information (funds, location, managing department, start and finishing date, etc.), project description, justification, supplemental information, significant changes for the next 5 years, funding sources and expenditures schedule, and future operating impacts which identify potential on-going operating costs which might affect the operating budget in future.

CIP Prioritization:

Staff proposed CIP according to council priorities, infrastructure blue ribbon committee priorities, input from community, Planning and Transportation Commission, Finance Committee. For SD CIP specifically, staff refers to the Storm Drain Blue Ribbon Committee, Storm Drain Master Plan, for which 13 projects are identified to be of highest priority. SD CIP are planned are based on highest priority, funding availability, and technical project timing alignment limitation.

Enterprise Fund section (in operating budget document):

Includes overview of Utilities enterprise funds and Public works enterprise, enterprise funds summary which shows tables and charts on revenues and expenses, and enterprise fund reserves table which shows the projected ending balance for the prior year and the budget year.

(Harper) GASB 68 Pension Reserve is shown as part of fund reserve as a liability, it skewed the fund balance actual but it is important to include.

Questions, comments, discussion during presentation:

Overview section:

- Bower: What is the Storm Drainage Fund fiscal year?
Harper: Fiscal year starts July 1st of each year. Fiscal year starting on July 1st, 2018 and ending on June 30th, 2019 is considered fiscal year 2019.

- Mickelson: Clarify differences between budget adoption, budget appropriation, and spending approval.
Harper: Once Council adopts the budget in June, funding is appropriated for spending beginning July 1st. If an augmentation of budget is needed, a memo to council or a mid-year adjustment is required to request additional appropriation of funding.
Austin: Public Works has the authority to spend what is approved and appropriated in the budget year up to a certain amount, i.e. contracts over \$250K per year or over 3 years. To award a contract above the threshold, individual council approvals are required.

- Bower/Harper: SD Fund has a steady revenue stream from the SWM fee per parcel size. Money cannot be moved between funds without council approval. Storm Drainage Fund (an Enterprise fund) is supposed to pay for itself, the services provided by the SD Fund should be paid by the SWM fee collected.

- Keller: Does Palo Alto ever adopt budgets for two fiscal years at once?
Harper: No, Palo Alto only reviews and adopts annually for the next fiscal year.

- Mickelson: Does Palo Alto always have the budgets adopted prior to July 1st and have the appropriate funds available on July 1st?
Harper: Yes, the city is legally obligated to do so. The finalized publication would not be ready, but funds would be loaded into the financial system.

- Drekmeier: How is the fund from Calaveras reserve (energy related) being appropriated? It was an energy surcharge collected in the past, would like to follow up separately.

- Mickelson: Clarify how Department budget and enterprise fund budget is presented in the budget documents.
Harper: Departments are organized as individual sections (e.g. Utilities), there is a summary for all the individual funds associated with the department (e.g. gas fund, electric fund, water fund), then each fund is described separately.

Operating budget section:

- Mickelson: Is the Retiree Medical category the city contribution for current employee for when they retire from the city, or is it an allocation to staff who are currently retired?
Harper: It is the city contribution paying into the future retirement benefits for current employee.
Drekmeier: Is there a separate expense item showing contribution towards current retiree's benefits.
Harper: There is but it is separated from pension through CalPers.
- (Bower) The last column of the summary table shows the difference between the FY2018 adopted budget amount and the FY2019 proposed budget amount.
- (Drekmeier) Net sales in revenue for SD fund is the amount collected through the Stormwater Management Fee per parcel.
- (Drekmeier) The debt service for SD fund will end with last payment in FY2024.
- Bower: In budget reconciliation table, is the net fund \$1.99K the available balance to spend?
Harper/ Harris: No, it is the change in the SD Fund balance, it is not the SD fund balance amount. Expenses is expected to be \$1.99K higher than revenue in FY2019, for which the CIP expenses seem to be the driver.
Bower: Would like to see fund balance summary including beginning fund balance, expenses, and ending fund balance
Harper: CARF will show actual fund balance amounts, and the Enterprise Fund section of budget document shows projected amounts.

Capital budget section:

- Keller: Is maintenance cost capital or operating expense for SD fund?
Austin: Operating. The CIP project on system replacement and rehabilitation are for pre-identified larger scales tasks.
- Keller: Are SWM fee the only revenue source for SD fund CIP?
Austin: Yes for SD CIP. For other general fund CIP, staff applies for grant funding e.g. Highway 101 bridge project - google contribution and grant finding.
Harper: CIPs funded by General fund are competing, when outside grants are available it will be helpful for funding a specific CIP. Generally public health and safety is top priority, followed by council priorities, then workload and funding capacity. A 5-year plan allows for future planning and prioritization between CIPs across departments.

- Bower/Drekmeier: Can SD fund receive outside funding? For GSI funding?
AuYeung: Yes, if there is grants available we would apply.
- Keller: Do department share budgets or split costs in a project? E.g. permeable pavement at school parking lot would benefit GSI but it is a transportation project.
Austin: The goal is to incorporate GSI in all CIP as a requirement across the city and each department will need to budget for their CIPs. SD fund currently is funding the Charleston/Aratradero Rd project, eventually SD fund will not be supplementing that portion of the cost in the future.
Harper: Trend for city CIP is collaboration on mutually benefiting multiple departments while complying to requirements or addressing areas of concerns. Enterprise fund also needs to follow requirements on how the fund can be used.
- Keller: Can we have some quantifiable metrics on how storm water treatments are carried out by GSI? How to measure benefits of reducing stormwater impact by GSI or permeable pavement. Potentially used to calculate funding contributions for CIPs.
Bower: There is no metric to measure storm water currently.
(Staff to follow up with Engineer)
- Harris: Use Ctrl+F to search for keywords within PDF file of the budget document to navigate to sections of interest. Documents are available online.
- (Bower) Confirmed that school district pays the corresponding SWM fee.
- Drekmeier: We need to encourage staff and departments which work on anything water related to improve collaboration and increase opportunities for staff to discuss and plan for future operating and capital needs which should be reflected in the development of the budgets. The recommendations by the Storm Drain Blue Ribbon Committee were approved by council, and we need to formalize tasks and budget needs.
- Bower: We should change the Storm Drainage Fund to Stormwater Management Fund as directed as part of the ballot measure.

2. Next Meeting

Next meeting will be held at Rinconada Library instead of downtown location. Staff encouraged Committee members to bring ideas or suggestions for FY2020 budget process.

Adjournment: 3:25pm