CITY COUNCIL/REDEVELOPMENT AGENCY

AGENDA ITEM 10.03
PLACE: City Hall, Second Floor, Council Chambers, 3:00 p.m.

ATTENDANCE:

COMMITTEE MEMBERS:
Councilmember Dale Fritchen, Chair
Vice Mayor Katherine Miller, Vice-Chair
Councilmember Elbert Holman, Member

STAFF:
Gordon Palmer, City Manager
Laurie Montes, Deputy City Manager
Dianna Garcia, Director Human Resources
Mark Moses, Chief Financial Officer
Dave Har佐ff, Director Revitalization Department
Pam Sloan, Director Community Services
Katherine Meissner, City Clerk
Mike Niblock, Director Community Development
Bob Murdoch, Interim Public Works Director
Gordon MacKay, Deputy Director O&M, Public Works
Patti Johnson, Deputy Director IT
Greg Folsom, Deputy Director Economic Development
Ken Yamashita, Deputy Director Library Services
Eric Elias, Acting Deputy Director/Building
Janet Salvetti, Assistant Director Administrative Services
Patti Johnston, Assistant IT Director
Joe Maestretti, Budget Officer
Carol Marshall, Program Manager III, Budget Staff
Greg Brazile, Program Manager III, Library
Gary Dickson, Program Manager III, Public Works
Bob Marconi, Program Manager III, Police
Kimberly Trammel, Program Manager II
Erin Mettler, Program Manager II
Ralph Risso, Program Manager II
Greg Meissner, Development Services Manager
Mahin Shah, Senior Administrative Analyst
Valerie Brown, Senior Administrative Analyst
Maricela Calvo, Administrative Analyst
LaVerna Blanco, Administrative Analyst
Bonnie Paige, Assistant City Clerk
Adolfo Cruz, Recreation Superintendent
Gina Delucchi, Recreation Supervisor
Darrell Raimer, Information Technology
Patty Vasquez, Administrative Aide
OTHERS:
David Siders, The Record
Mike Locke, San Joaquin Partnership
Mary Morley
Gary Malloy
Dale Stocking

ISSUES/COMMITTEE RECOMMENDATION:
The items discussed by the Budget/Finance/Economic Development Council Committee were as follows:

ISSUE NUMBER 1: Budget vs Actual for March 2009 and Expenditure Projections for 2008-09 Fiscal Year End
RECOMMENDATION: NONE. INFORMATIONAL ONLY.

ISSUE NUMBER 2: Department 2009-10 Budget Reviews:
  o Revitalization Department
RECOMMENDATION: NONE. INFORMATION ONLY.

ISSUE NUMBER 3: Fee Schedule: Proposed Major Changes
RECOMMENDATION: NONE. INFORMATION ONLY.

ISSUE NUMBER 4: Retiree Medical Benefits; Funding & Accounting
RECOMMENDATION: NONE. INFORMATION ONLY.

COMMITTEE REPORT TO THE CITY COUNCIL

Background

The issues being discussed were referred to the Council Budget/Finance/Economic Development Committee by the City Manager.

Discussion

Committee Deliberations

Chair Dale Fritchen opened the Council Budget/Finance/Economic Development Committee meeting of April 20, 2009 at 3:02 p.m. with Vice Chair Katherine Miller, Committee Member Elbert Holman, and others in attendance.
Public Comment

None.

Gordon Palmer, City Manager gave an overview of the agenda for today's meeting – Revitalization Department Budget; Fee Schedule, Revenue Streams suggested by employees, Budget vs Actual, and the retiree medical benefits.

Issue One: Budget vs Actual for March 2009 and Expenditure Projections to 2008-09 Fiscal Year End.

Mark Moses, Director of Administrative Services and Chief Financial Officer presented to the Committee a PowerPoint presentation (Attachment #1) regarding Budget vs Actual through March 31, 2009; Expenditure Projections for 2008-09 Fiscal Year-End. He informed the Committee there is not a lot of deviation from the trajectory the City was on from the February report. He recommended no changes to the General Fund Expenditures Projections to Year-End, due to no significant reason for change.

Chair Fritchen stated as time runs out on the year it gets more and more difficult to recoup the difference.

Mr. Moses stated that comment was correct: through March 31, three-quarters of the budget for the year has been spent. Now that things have settled from the Voluntary Separation Program effects and other cuts that have been made we are noticing that what departments are spending is in tune with the revised budget.

Committee Member Holman inquired if the figures were going to see more catching up based on the cuts and adjustments made so far to the budget.

Mr. Palmer stated this information is consistent with the information given to the Council a couple of months ago. Revenues are looking a little better than what we were projecting earlier, anticipating being about $2 million above the revised budget; this would come out of the reserves.

Mr. Moses stated departments are cautious and do not want to over commit to the savings level, but that starts to get more realistic as it starts to get closer to year end. Even though we are three-quarters through the year we are aware of the lag, continuing to process invoices for work that was done in earlier in the year, all of which must be accounted for in this fiscal year.

Chair Fritchen inquired if the City Council will be receiving the full written report.

Mr. Palmer responded yes, the Council will be sent the same information.

Issue Two: Department 2009-10 Budget Review – Revitalization Department
Dave Harzoff, Revitalization Director presented to the Committee a PowerPoint presentation (Attachment #1) regarding the Revitalization Department Budget. This information is used to build the budget for 09/10. He informed the Committee there are a several divisions and funding sources within the Revitalization Department. The General Fund only funds the divisions of Real Property and Economic Development. Decrease in Salaries and Benefits due to downsizing Economic Development from five people to one person.

Chair Dale Fricthen asked for confirmation if the rest of the Revitalization presentation has nothing to do with the General Fund.

Mr. Harzoff responded that was correct.

Revitalization – Housing Grant Funds shows several Federal funding sources through the Federal Housing and Urban Development Department: Community Development Block Grant, HOME, and Emergency Shelter. Most significant changes are in two areas - Sub-Recipients, dropping two programs due to anticipation of lower revenue expectation; Debt Service increase due to loan payments are now on a fixed permanent rate.

Vice-Chair Katherine Miller inquired which two programs were eliminated.

Mr. Harzoff responded the programs eliminated were Foreclosure Counseling and the Mayor's Grant Program. Foreclosure Counseling has been included as part of the Neighborhood Stabilization Program.

Revitalization – Central Parking District, this is a self-funding department. Increase in Services, which includes utilities, and monies we are going to spend to analyze the whole parking operation – in terms of making spaces and maximizing revenue. Part of the Debt Service this fund pays $100,000 to the General Fund.

Revitalization – 400 E. Main, this is a stand alone budget. Facing some challenges due to a large amount of space is going to be vacated at the end of the year, budgeting for floors five, six and eight becoming vacant on December 31, 2009. Last week the City Council approved an amendment to the property management company contract to go out and start marketing that space, hopefully will have tenants by the end of the year. Change in Debt Service from actual projected this year and what is budgeted for next year due to fact this was financed with variable rate bonds. It is a low interest rate right now, for next year we are budgeting as if it was a fixed amount at a higher rate.

Revitalization – Redevelopment Agency, very challenging budget, heavy in debt service, balanced due to drawing on resources as a result of bond sales.

Chair Fritchen inquired if the General Fund would cover if these budgets can not make the debt services payments.
Mr. Harzoff responded the choices would be for the Agency to default, which would mean it would never likely sell bonds again or to have the City stand behind the bonds. There is another option if the bond proceeds are not expended, through a very complicated process the bonds can be bought back from the bond holders – this would have to be negotiated and would be very expensive.

Issue Three: Fee Schedule: Proposed Major Changes

Mr. Palmer presented to the Committee a PowerPoint presentation (Attachment #1) regarding the 2009-10 Proposed Fee Schedule. Departments propose fees and rates which are reviewed by Budget Staff, the Fee Review Team, and the City Manager, currently being shown to the Budget Committee with the final being adopted by the City Council with the Annual Budget. Fee Schedule fees are adjusted in different ways: Index driven adjustments either by Consumer Price Index, majority of City fees; California Construction Cost Index, Public Facilities Fees; set by outside agencies; departmental fee recommendations. Departmental fee recommendations for Community Services include: discounted packages at Pixie Woods; reduced ‘additional guest’ ticket for Birthday Parties at the Children’s Museum; Field rentals adjusted to match neighboring cities; package deals at Community Centers for multiple room rentals; Walnut Room Rental at Civic; Boxing Ring set-up Civic; Picnic Site Rental at Weber Point.

Vice-Chair Miller inquired about the Fee Schedule prices for the Children’s Museum, most went up by the Consumer Price Index of 3.8%, however the Birthday Party price went up almost 8%, why. Ms. Miller inquired about the possibility of using commissary at 400 East Main for meetings was that looked into. Ms. Miller inquired how well utilized are facilities like Billy Hebert Field for tournaments, is there is an opportunity to grow that revenue.

Mr. Palmer responded the increase in price for Birthday Parties is due to what is included in the new packages. No fees have been set for the use of the 400 East Main Street commissary, currently trying to market that space for a restaurant facility. Billy Hebert Field and other facilities are used for events and tournaments not everyday of the week, there is opportunity for other activities there. The Sports Commission tries to market the facilities.

Chair Fritchon inquired if the fees from the use of the facilities bring in revenue or just cover the expenses of the City incurs when those activities occur.

Mr. Palmer responded the fees contribute to the expense but do not cover all the expenses.

Departmental fee recommendations for Community Development include: Community Rating System Admin Fee for administering the Flood Plain System for the City; Planning Fees for Historic demolition/relocation/landmark/site designations; Building Fees adjusted based on Nexus Study and overtime inspection fee; Engineering & Transportations regarding traffic handling/lane closure and materials testing fee.
Departmental fee recommendations for Municipal Utilities: Development Services regarding treatment device access & maintenance agreement, mostly for new development; Stormwater regarding commercial/industrial facility inspections; Wastewater regarding fats/oils/greases inspections for restaurants.

Departmental fee recommendations for Police Department: firearms storage fees regarding safekeeping and evidence; digital image files; change to impounded vehicle releases.

Departmental fee recommendations for Revitalization Department: Enterprise Zone Fee for businesses within this area; Morelli Park Daily Parking.

Departmental fee recommendations for other departments: Administrative Services - Collection fee on delinquent accounts; City Clerk – Council Candidate Application Fee for unexpired term; Citywide – Refund Processing Fee and Insurance Processing.

Vice-Chair Miller inquired about the fees for Special Events. There is a fee if the rental of the venue requires an electrician. Ms. Miller stated it has been her experience in the past an electrical is often required for just unlocking the electrical box to plug a cord in. It is a requirement that an electrician has to be sent out. It is always after hours because it is a special event and it is a minimum of two-and-three-quarter hours. We encourage non-profits to rent our venues and hold events downtown and then we impose this fee.

Mr. Palmer responded in discussion with staff on the concept of a fee for an electrician, it is more when the event wants to wire up a large sound system or a lighting system. He stated he would look into this concern.

Vice Chair Miller indicated maybe this is one of those where the actual fee or policy is not the problem, but the application and how the City enforces it with the public.

Mr. Palmer presented to the Committee a PowerPoint presentation (Attachment #1) regarding Revenue Streams, Public and Employee Proposals. He informed the Committee this presentation summarized the suggestions received for revenue streams, both by the public and City staff. Revenue stream suggestions: increase taxes; establish Assessment Districts; sell surplus vehicles; increase parking meter rates; Charge for DUI responses; fee for gun and weapons storage; collect bicycle license fee through retailers. These suggestions have been or will be explored. These are the kinds of suggestions received and the challenges associated with each revenue source received. A few things we are doing or exploring, other issues would need to go to the Council from this Committee, and the Council would need to know what the Council would ask the people to vote for.

Issue Number Four: Retiree Medical Benefits; Funding & Accounting

Mr. Palmer explained the last issue is for the Committee to understand the City’s long term Retiree Medical funding and accounting and the liabilities associated with it. This is a
challenge over the long term and the Committee needs to understand that as we allocate resources towards dealing with retirement and medical.

Mark Moses, Director of Administrative Services and Chief Financial Officer presented to the Committee a PowerPoint presentation (Attachment #1) regarding Retiree Medical Benefits, Funding and Accounting. There are two aspects to this; the accounting implications of our retiree medical benefit and the financial side of how we fund this benefit. In addition to providing pension benefits through PERS, the City provides other post employment benefits, such as health care to retired employees. Contributions to finance these benefits have historically been made on a pay-as-you-go basis. Which means money is not set aside in anticipation of a given employee retiring and realizing the benefit. Instead, as the invoices come in that reflect services provided to retirees, those invoices are paid. Medical coverage, including prescription drug coverage, is provided for retiree plus one dependent, up to 15 years after retirement or until age 65, whichever occurs first. At age 65, this benefit becomes the Medicare supplement plan for retiree plus one dependant.

Chair Fritchen noted that these benefits are provided at the expense of the taxpayers; the employee does not contribute to these benefits. In comparing with other cities or businesses is this consistent with what is provided to employees after they retire.

Mr. Moses responded in comparison with other agencies this is on the high side of the scale of what is provided in terms of the richness of the benefit. This program is self-insured by the City, not a lot of restrictions in terms of which doctors, facilities or networks that can be used, as opposed to a more constrained HMO type concept. This benefit is not tied to a percentage or standard. Some organizations have a cap based on number of years of services. Our benefit is a very lucrative benefit in comparison with other agencies.

Chair Fritchen stated as costs of health coverage rises the City will have to bear those costs completely for the retirees.

Mr. Moses responded that was correct, outside the small deductible and co-pay, the City is exposed to any rise in medical costs.

Committee Member Holman inquired if there was a monthly charge to the employee like most of the other programs.

Mr. Moses responded that was correct there is no monthly charge to the employee. When the Human Resources Department has performed or reviewed surveys of other agencies, they found a much greater sharing of cost by employees and retirees. The sharing of costs was in the form of higher co-pays, higher percentage of contributions, greater restrictions on usage. Mr. Moses informed the Committee in terms of the impact for resource allocation departments are charged $1,875 per month for each active employee. Of that amount about 1/3 is to cover the pay-as-you-go costs for retired employees, and 2/3 goes toward the active employee’s medical, dental and vision costs. This 1/3 to 2/3 split is in the
process of changing, if we hold the number of active employees or if that number drops while the number of retirees rises.

Chair Fritchen inquired if the early retirement program and reduction in number of staff will have a compounding effect on this.

Mr. Moses responded that was correct; this is one of the effects of scaling down. Any fixed costs or prior burdens have fewer places to be allocated. That is the bottom line in terms of funding the pay-as-you-go approach, while less expensive in the short-term it has a long-term impact of taking over a larger percentage of the budget. In the future, a larger portion of the current budget will be required to pay benefits for people who are no longer providing services to the City. Switching to the accounting side and what the accounting directive says to do and where its limits are. Government Accounting Standards Board issued GASB 45, June 2004, objective: Financial statements should reflect benefits costs as they are earned, not as a pay-as-you-go basis. The Statement establishes guidelines for calculating the City’s annual required contribution to fund other post employee benefits and requires disclosure in the City’s financial statements beginning in Fiscal Year 07-08. Impact on the City: annual other post employee benefit costs must be based on actuarially determined amounts, the same as PERS liability is calculated; unfunded actuarial liability is required to be amortized over future periods; must report other post employee benefit costs in financial statements and disclose required amounts. GASB 45 has resulted in a substantial increase in the annual expense recognized by the City for post-employment health care benefits. Options available continue to pay-as-you-go; undertake a Funding Program; establish a Qualified Trust for other post employee benefits. Pay-as-you-go advantages: City’s financial resources can be deployed for immediate needs; other financial resources may become available in the future or benefits may be modified such that liability is reduced; Federal insurance programs may reduce future funding needs. Disadvantages: at some point contributions will become much more expensive that the annual required contribution; failure to pre-fund increases risk that future benefits cannot be fully funded. Undertake a Funding Program, to accumulate monies in a Special Reserve Fund within Treasury of City advantages: preserve flexibility – money set aside may later be transferred for other City purposes. Disadvantages: contributions will not qualify towards the annual required contribution; investment limitations are imposed by government code and City Investment Policy; investment return will be lower than with an outside trust. Establish a Qualified other post employment benefits Trust, GASB 45 will only recognize an employer contribution if it is: irrevocably transferred to a qualify Trust or equivalent; solely used to provide other post employment benefits (OPEB); legally protected from creditors. Qualified OPEB Trust advantages: higher investment return assumption; lower unfunded actuarially accrued liability; lower annual required contribution; potential rating agency benefit. Disadvantages: difficulty in funding the annual required contribution; once funds are placed in the Trust they are no longer available to other City needs. Unfunded Actuarial Accrued Liability (UAAL): Pay-as-you-go $388.3 million; Self-funded Plan $388.3 million, to put in perspective this is a bit more than the annual budget for total operations of the City organization.
Chair Fritchzen inquired how this compares to other cities.

Mr. Moses responded this is on the high side; while there are some similar cities and counties, there are few whose OPEB liability exceeds their annual budget.

In the Qualified Trust the Unfunded Actuarial Accrued Liability (UAAL) is $284.1 million, where you see a difference in being able to anticipate a higher return and the impact that has on the liability. These totals show the total UAAL, about half of which represents the value of benefits for retirees the other half is what should be set aside for the range of current employees, who have accrued this benefit and would be expected to use the benefit once they retire. How this relates to the financial statements is that the net other post employee benefits is about $25 million above the method we are using. Meaning we pay the bills as we go, which pays a part of the obligation, but we are not contributing the full normal cost and we are not catching up on the unfunded liability that at accrued, we have a $24.6 million gap that is reflected in our Financial Statements as a liability. Each year we continue on a Pay-As-You-Go level this number will increase by this amount, the only way to reverse it is to begin the process of setting aside more than what is needed for the Pay-As-You-Go level. Mr. Moses stated the recommendations: set up a plan to increase funding; work on negotiating structures that control liability in the future; explore establishing a Qualified Trust once a pattern has been established for funding.

Mr. Palmer stated this is a challenge especially with the direct budget problems we are facing now. We need to be dealing with our overall long-range sustainability of the City's budget.

Vice-Chair Miller asked for clarification regarding starting to take steps toward setting aside funding in the 09-10 Budget.

Mr. Moses responded in the affirmative. The Budget Office has a provision to increase funding for retiree medical beyond the pay-as-you-go level in the current version of the 09-10 Budget. He noted that, even on the twelve year plan this means every year adding an additional $3 million of funding, to close the gap on the annual required contribution. We also want to work on the cost side these figures are based on the benefit level as it stands now and the cost of healthcare, this is difficult to project. Because it is difficult to project the good news is things my work out for the better, but the bad news is right now the City has all the exposure due to any upward pressure on rates.

Mr. Palmer informed the Committee next week Mayor Ann Johnston and he would be in Washington DC, on the One-Voice Trip with the Council of Governments. Topics to be discussed at the next scheduled meeting: Community Development Department; Municipal Utilities and the Internal Service Funds. The first week in May we will have Police and Fire and the IFG venues.

Chair Fritchzen inquired in regard to Police and Fire if there was any word on the stimulus, how much is coming in.
Mr. Palmer replied the City’s application has been submitted, may not hear anything until sometime July or September, which means we need to do some planning for our budget.

Chair Fritchken inquired if the City was still progressing with the Bargaining Units.

Mr. Palmer replied the City has a meeting scheduled with the bargaining units tomorrow.

Vice-Chair Miller wanted to remind the public, they can still submit questions on-line responses are on the City’s website.

Gary Malloy stated the City can not go forward with current retirement and benefit program the City has. He inquired if the City floated a $125 million bond, to get PERS up to 100%, a few years ago, and now we are already back below where we need to be for funding these programs. If the City does not get the Unions to drop some of there demands, there is not going to be much choice but for the City to file bankruptcy. The citizens of Stockton do not want less police officers on the street; they want the Unions to come to the table. We do not want fewer officers; we want you to pay them less in their retirement and healthcare.

Next meeting scheduled for Monday, April 27, at 3:00 p.m.

There being no further discussion, Chair Fritchken adjourned the meeting at 5:10 p.m.

COUNCIL BUDGET/FINANCE/ECONOMIC DEVELOPMENT COMMITTEE

____________________
Councilmember Dale Fritchken, Chair

____________________
Vice Mayor Katherine Miller, Vice Chair

____________________
Councilmember Elbert Holman, Committee Member

::ODMA\GRPWISE\COS.CM.CM_Library:80132.1
CITY COUNCIL COMMITTEE NOTICE

BUDGET/FINANCE/ECONOMIC DEVELOPMENT

DATE: April 20, 2009  TIME: 3:00 p.m.
PLACE: City Hall, Second Floor, Council Chambers

COMMITTEE MEMBERS:
Dale Fritchen, Chair
Elbert Holman, Member
Katherine Miller, Vice Chair
Susan Talamantes Eggman, Alternate Member

STAFF NOTICED:
J. Gordon Palmer, Jr., City Manager
Ren Nosky, City Attorney
Deputy City Managers
Department Heads
Connie Cochran, Public Information Officer
Budget Staff
Florence Low, Program Manager III
Kindelberg Morales, Administrative Aide I
Patty Vasquez, Recorder

RESPONSIBLE DEPARTMENT AND STAFF FOR ITEMS ON THE AGENDA:
Joe Maestretti, Budget Officer
Mark Moses, Chief Financial Officer
Dave Harzoff, Revitalization Department Director

OTHERS INVITED:
The Record

PUBLIC COMMENT

ISSUE(S) TO BE DISCUSSED:
1. Budget vs. Actual for March 2009 and Expenditure Projection to 2008-09 Fiscal Year End
2. Department 2009-10 Budget Reviews
   Revitalization Department
3. Fee Schedule: Proposed Major Changes
4. Retiree Medical Benefits; Funding & Accounting

cc: City Council
For information contact Carolina Luces at 209-937-8215.
<table>
<thead>
<tr>
<th>Name</th>
<th>Department</th>
<th>Phone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cara Mathis</td>
<td>COS/IT</td>
<td>981-0687</td>
</tr>
<tr>
<td>Patti Johnson</td>
<td>COS/IT</td>
<td>937-2255</td>
</tr>
<tr>
<td>Dale Stocking</td>
<td>CCCoS</td>
<td>948-5478</td>
</tr>
<tr>
<td>Mary Morley</td>
<td>CSE8</td>
<td></td>
</tr>
<tr>
<td>Erin Matter</td>
<td>COS-REV</td>
<td>8794</td>
</tr>
<tr>
<td>LaVerne Blanco</td>
<td>REV</td>
<td>7585</td>
</tr>
<tr>
<td>Marcela Calvo</td>
<td>REV</td>
<td>8041</td>
</tr>
<tr>
<td>Michael Steele</td>
<td>SLP</td>
<td>956-3380</td>
</tr>
<tr>
<td>Greg Sloan</td>
<td>Rent</td>
<td>937-8906</td>
</tr>
<tr>
<td>Mimi Shah</td>
<td>CM</td>
<td>7140</td>
</tr>
<tr>
<td>Bob Marcacci</td>
<td>SPD</td>
<td>8651</td>
</tr>
<tr>
<td>Val Brown</td>
<td>CDD</td>
<td>8919</td>
</tr>
<tr>
<td>Kim T</td>
<td>CM</td>
<td>5066</td>
</tr>
<tr>
<td>Gaye Marsh</td>
<td>Public</td>
<td></td>
</tr>
</tbody>
</table>