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:
Laurie Montes, Deputy City Manager
Johnny Ford, Deputy City Manager
Ren Nosky, City Attorney
Dianna Garcia, Director Human Resources
Mark Moses, Chief Financial Officer
Mike Taylor, City Auditor
Mark Madison, Director Municipal Utilities
Katherine Meissner, City Clerk
Mike Niblock, Director Community Development
Gordon MacKay, Deputy Director O&M, Public Works
Patti Johnson, Deputy Director IT
Bob Granberg, Deputy Director, MUD Water Resources
Barbara Berlin, Deputy Director Planning
Di Smith, Assistant Director Human Resources
Jeff Willett, Assistant Director MUD
Janet Salvetti, Assistant Director Administrative Services
Patti Johnston, Assistant IT Director
Joe Maestretti, Budget Officer
Carol Marshall, Program Manager III, Budget Staff
Rick Butterworth, Program Manager III, Fire
Tom Hennig, Program Manager III, Police
Gary Dickson, Program Manager III, Public Works
Kimberly Trammel, Program Manager II
Erin Mettler, Program Manager II
Ralph Risso, Program Manager II
Kathy Whitman, Revenue Officer
Kathleen VonAchen, Finance Officer
Mahin Shah, Senior Administrative Analyst
Dora Sidrian, Supervising Deputy City Clerk
Darrell Raimer, Information Technology
Patty Vasquez, Administrative Aide
OTHERS:
David Siders, The Record
Mike Fitzgerald, The Record
Mary Morley

ISSUES/COMMITTEE RECOMMENDATION:

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

ISSUE NUMBER 1: Uncollectible Receivables
RECOMMENDATION: It is recommended that the City Council approve changes to SMC 3-133 and Council Policy 700-3 to facilitate the improvements to reporting and collecting of accounts receivable.

ISSUE NUMBER 2: Department 2009-10 Budget Reviews
  o Internal Services Funds
  o Municipal Utilities Department
RECOMMENDATION: NONE. INFORMATION ONLY.

ISSUE NUMBER 3: MUD Supplemental Financial Report
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 Fritchien opened the Council Budget/Finance/Economic Development Committee meeting of April 27, 2009 at 3:03 p.m. with Vice Chair Katherine Miller and Committee Member Elbert Holman, and others in attendance.
Public Comment

None

Laurie Montes, Deputy City Manager gave an overview of the agenda for today’s meeting – revision to City’s Collection Policy; Internal Service Fund Budgets; Municipal Utilities Department Budget and Municipal Utilities Fund – Supplemental Financial Report.

Issue One: Uncollectible Receivables

Mark Moses, Director of Administrative Services and Chief Financial Officer presented to the Committee a PowerPoint presentation (Attachment #1) and referred to the packet of information given to the Committee the prior week (Attachment #2) regarding the proposal to revise collection strategies and reporting. Prompting recommended changes: difficulty in properly reflecting the value of accounts receivable in the City’s financial reports; recognition that writing off receivables for the purpose of financial reporting is not the equivalent of an expenditure and does not waive or inhibit our collection efforts; inability to accept settlements of debts is not in the interest of the City.

Committee Member Elbert Holman inquired how bad debts are reported in the financial statements.

Mr. Moses responded Accounting procedures require us to allow for bad debt as you book them to the extent the debts may not be collectible. Thus, these debts have already been expensed; at the point of a resolution (as in a settlement) the debt is removed from the books. Over time, there is an accumulation on the books of old receivables and old allowances, which does not represent the City’s current state in terms of receivables. Mr. Moses explained the SMC 3-133 and Council Policy 700-3 provide criteria for determining that an account is uncollectible; and provide authority to remove the account from the City’s financial reports. Recommended changes would streamline process to allow for timely write off of uncollectible accounts; authority to accept settlement of debts that are in the interest of the City; authority to sell accounts when all other collection efforts are exhausted; allow immediate adjustment of incorrectly billed charges. City will be exploring the following in the future: pilot program outsourcing collections to several agencies to identify most successful agency; possibility of factoring old receivables that collection agencies will not pursue; renegotiate existing contract with CB Merchants to reduce their commission (40%) to 15-20%; identify/implement online payment processor to facilitate payments; research feasibility of outbound auto-dialing system to leave messages for delinquent customers to call us about their account.

Vice-Chair Kathy Miller inquired about the timeline to renegotiate the contact.

Mr. Moses responded about three to four months.
Committee Member Holman inquired what the normal commission is for these types of contracts, 40% seems high.

Mr. Moses responded 40% is not excessive, but it depends on the quality of the debt; amount invoiced and how aggressive the agency is. The collection area is very competitive, so we should be able to obtain a fair arrangement. He explained the bad debt write-off history of Miscellaneous Accounts Receivable for the City for the past six years has been about $200,000 per year. For 2008-09 pending bad debt write-off for utilizes has increased activity due great deal of turn-over of properties. Collection activity is relatively new to the City, since there was a legal determination about eight-years ago, preventing us from our practice at the time of property owner-based billing, which made collections in utilities a non-issue, and property owners were ultimately responsible. Since that time, for rentals, the tenant is responsible. If the tenant leaves and there is not enough deposit or the water is not turned off quickly there are balances to collect. Regarding composite billing, water, stormwater and garbage are all combined into one bill; we have learned that the larger the bill, the less likely it is to get paid in full, which has become in issue affecting collections.

Mr. Moses stated the recommendation if the Committee approves this approach, to forward the recommended changes to SMC 3-133 and Council Policy 700-3 for approval to the City Council, in order to facilitate the proposed improvements to reporting and collecting of accounts receivable.

Chair Fritchien inquired what the main changes to the policy. The majority of the changes are formatting changes. Additions to the policy: in Section #3, ‘allows the Director of Administrative Services or his/her designee has determined that the debt obligation or claim is uncollectible’; and the Director of Administrative Services may liquidate or factor certain accounts. Prior to these changes the only option the City had was to send to a collection agency.

Mr. Moses responded in the affirmative and noted that there would also be some formatting changes including updating language and trying to make it more readable. The policy did not distinguish what it means to write-off a bad debt for the purposes of the financial statement presentation and the actual management of how you pursue the claim or debt owed to the City.

Committee Member Holman made the motion to recommend staff’s recommended changes to SMC 3-133 and Council Policy 700-3 for approval to the City Council, in order to facilitate the proposed improvements to reporting and collecting of accounts receivable. Vice-Chair Miller seconded the motion.

Vote: Motion carried 3-0
Issue Two: Department 2009-10 Budget Reviews

Internal Service Funds

Joe Maestretti, Budget Officer presented to the Committee a PowerPoint presentation (Attachment #1) regarding the City's Internal Service Funds (ISF). This information is used to build the budget for 09/10. He explained these are funds that are internal to the City, in operations that the City has that support other internal programs. There are two types of Internal Service Funds: major capital equipment that we have to maintain and replace; and employee benefits, that we administer and accumulate assets for the long-term liabilities associated with our MOU's as related to employee benefits.

The slide labeled Fleet Fund shows revenue, rent charged to departments, are projected down, reflecting the reduction in vehicles especially in Public Works Department and fuel reimbursement

Chair Fritch en inquired in all the ISF the revenue is what is charged to each of the departments.

Mr. Maestretti responded yes, allocated to the departments based on their usage or based on the number of equipment items. Expenses are down on the Administration side due to the voluntary separation program and holding off on vehicle replacements until later. Cash Reserve projections are expected to be at a $3 million balance at the end of year. We are compiling a list of reserves needed for each fund. At a later date we will be brining that information back to the Committee for a formal reserve policy for each one of the funds. Each fund has different cash reserve needs, they each need a separate policy.

Chair Fritch en inquired why the need for a reserve, for expenses that come in that were not anticipated.

Mr. Maestretti responded that was correct and the need would vary by fund. In the case of fleet the fund would need reserves for long-term replacement of expensive vehicles. In this fund we are starting to use financing, which helps level out the cost over the long period.

The slide labeled Computer Equipment Fund shows revenues also down, based computer system uses going down and some of the major projects the City was working on are slowing down. The expenditure side shows the Administrative costs for MIS and GIS are up mainly because of the reclassification of expenses from operations and maintenance. Reserve projections for this fund are starting off well due to monies from prior years for the Document Management Program that have not been spent.

The slide labeled Radio Equipment Fund shows revenues down, for the same reasons as the previous funds. Expenses in Administration are down due to vacancy savings; Operations and Maintenance expenses are down due to pending decisions on the sizing of departments that use radios. Reserve projections for this fund show it currently has a
healthy balance. In the future if this fund needs to do major upgrades and replacements using financing to keep the expenditures smooth over a long period of time.

The slide labeled Telecommunications Fund shows a lot of activity recently. Revenue is up due to increase in rents to cover additional Operation and Maintenance Costs when we transitioned to the new phone system, we have to maintain both systems for a while. Financing was a one time thing for the replacement of the phone system. Expenses are down on the Administration side due to vacancy savings, while Operations and Maintenance is up because we are maintaining two systems. Reserve was spent down to replace the system and is now on a long process to build the reserve back up in anticipation of the next replacement.

The slide labeled Miscellaneous Equipment Fund this includes all the little miscellaneous office equipment and items unique to specific departments. Revenues are declining due to reduced rents charged to departments. Expenses are down on the Administration side due to vacancies. This fund has a Transfer Out to the Duplicating Fund. The Duplicating Fund is not self-supporting primarily because of the rental rate it pays back to this fund for its machines. We are looking at possibly merging these two funds together, no need to have inter-fund play.

Vice-Chair Miller inquired if the City continually monitors the age of all the equipment in the different departments, to determine a replacement schedule. For example the computers, is there an ongoing inventory that is updated on an annual basis.

Mr. Maestretti responded each of the departments that manage an ISF have detailed equipment lists that are updated regularly. In the Fleet Department they have a useful life schedule for each vehicle, which is used to calculate the rental rate for each vehicle. Departments have very detailed records that support all their rental rates. Keeping track of the age of equipment so they know when to replace and they know the amount they will need each year for capital replacements.

Vice-Chair Miller inquired in all these departments is the City on target of where we are supposed to be for replacing equipment.

Mr. Maestretti responded in some departments we are and in some we are not. For example in the Fleet Department we have been postponing replacements, there are deferrals in the current year and some in the next fiscal year. The reason for the postponements is due to lack of funds.

Gordon MacKay, Deputy Director O&M, Public Works informed the Committee generally with Fleet most of the public safety equipment we are pretty much up to date. We have gotten a little behind on some of the engines, the Fire Department wanted to move to a 15-year replacement cycle, we are currently on a 20-year replacement cycle. Police cars are up to date. All the other vehicles have a replacement cycle established, then evaluated when their time comes up to see if we can keep them in service. It has only been the past
couple of years that we have not replaced anything, except on an emergency bases that we have gotten behind.

Committee Member Holman inquired regarding the police department if there were mileage levels when vehicles have to be replaced.

Mr. MacKay responded typically it is five years or 100,000 miles, some can go a little longer or they are taken out of front line service, there are secondary uses like the VIPS.

Mr. Maestretti stated the City is not far behind now in replacing vehicles but can not continue to not replace vehicles.

Vice-Chair Miller stated she understood due to the budget crisis the need for expenditures to be postponed. These need to be reviewed and not forgotten; at some point monies may need to be redirected to cover these replacement costs before a dangerous situation is created.

Mr. Maestretti stated there is currently enough reserve in the Fleet Fund to take care of any emergency replacements.

The slide labeled Central Duplicating Fund indicates declining revenue, due to departments using less copying services and trying to use less paper. This fund is subsidized by the Miscellaneous Equipment Fund. The largest expense is the rents paid to the Miscellaneous Equipment Fund for the copiers. Looking into combining these two funds and will bring that proposal back to the Committee at a later date.

Vice-Chair Miller inquired how the fees were set for printing and mailing, what are they based on in terms of what other departments are charged.

Mr. Maestretti responded most of the fee is based on the fixed cost of operating the machines and the employees, as the volume of jobs declines they need to raise the rates. If the rates are raised too much then they are charging more than it would cost to have the job done outside. For mailing in the past the only the cost of postage has been charged to departments, a new revenue for this fund will be to charge departments for staff time involved in the mailing.

The slide labeled Risk Management Fund indicates revenues down from the previous year, due to lowering rates in order to raise the rates in other funds. Reserve for this fund has a good balance, but will start declining due to the lower rates charged to departments. Overall Administration costs are budgeted to go up, they will be filling some of the vacant positions due to the workload.

The slide labeled Worker’s Compensation Fund indicates a reduction in revenues in order to increase the revenues in the Health Fund. Next year these rates will need to be raised back up in order to meet the projected reserve target.
The slide labeled Health Fund indicates revenues for this year are increased to try and bring up the ending balance, which has never had a very big reserve. Some expenses are projected down due to vacancy savings, while Medical Plan Expenses are projected to go up. Reserves are projected to go up by adjusting the rental rate charged to departments for each active employee.

The slide labeled Unemployment Fund indicates this is a relatively small fund but anticipate it may go up, not sure by how much due to potential layoffs that are not known yet. We expect an increase in cost from the part-time employees who were not hired back this year. Rates were increased this year, which should be a one-time increase and should be decreased next year.

The slide labeled Long Term Disability & Life Insurance Fund indicates declining revenues due to fewer employees. The fund is not self-insured. We purchase insurance premiums from both long-term disability and life insurance. Expenses are going down due to vacancy savings. This fund does not need a large reserve.

The slide labeled Retirement Fund indicates a decline in revenue reflecting the decline in projected payroll for the 2009-10 year due to projected vacancies. Reduction in Administrative Costs is a transfer of costs for one employee that will now be paid from the Deferred Compensation Fund. Reserve declined due to the Voluntary Separation payment expense in the current fiscal year, which is projected to be recovered in the next fiscal year.

The slide labeled Compensated Absences Fund, this fund is used to pay employees that separate from employment with the City for vacation balances and a portion of sick leave balances. Revenues are up slightly only because it was down significantly in the prior year. This year a Transfer-In has been budgeted, for the unknown separation costs we may have, which will be a one time transfer based on the actual costs for employees separating next year.

Chair Fritch en inquired about the decline in total ISF funds from 2007-08 to 2008-09 was the City living off these funds.

Mr. Maestretti responded yes, to some extent. These funds can vary widely depending on the number of employees and claims experience. The fiscal year 2008-09 revised budget relied on about $4.5 million in ISF funds as a one-time funding source to cushion the impact of the reductions we were facing at that time. This one-time funding was needed particularly knowing that the savings from the VSP program would not kick in until the second half of 2008-09.
Municipal Utilities Department Budget

Mark Madison, Director Municipal Utilities Department presented to the Committee a PowerPoint presentation (Attachment #1) regarding Municipal Utilities Department Budget. This information is used to build the budget for 09/10. Referring to the MUD Business Plan is a strategic goal to maintain fiscally responsible business practices. He stated MUD has prepared a Supplemental Financial Report to give the Committee an understanding of MUD’s finances; and an understanding of the birth of MUD’s financial responsibility; and provide an honest look into the future for some of the issues and challenges we foresee and the tentative game plan we have. Introduction of MUD staff – Jeff Willett, Assistant Director of MUD; Bob Granberg, Deputy Director of Water Resources; Ralph Risso, Program Manager II

The slide labeled Municipal Utilities – Water Fund indicates expenses eclipse revenue slightly, but we do have a plan for a balance budget. This portion of the water utility balanced and fairly stable with a healthy fund balance projected at the end of the year. Salaries are up do the MUD taking over the Hydrant Program from the Fire Department the City has about 10,000 hydrants. Material and Supplies is up do the purchase price of water from Stockton East has gone up.

The slide labeled Municipal Utilities - Wastewater Fund indicates this fund is balanced but not healthy. To achieve a balance budget by the end of next year we have closed some CIP projects that have been sitting and we are holding back some CIP until we can deal with the fiscal issues. Operations and Maintenance has increased, a portion is due to additional cleaning of our wetlands at the MUD plant. Salaries are up due to allocating staff from Stormwater to Wastewater to keep Stormwater’s budget balance, moving people around to balance the workload but also maintain a fiscally sound policy.

The slide labeled Municipal Utilities – Stormwater indicates this fund is not balanced or healthy. Existing on a fee that was set in 1991 at $2.10 per home per month, which has not been adjusted due to the rate ordinance that was adopted did not allow for inflationary adjustments. More recently there are some issues with Proposition 218 that make raising this fee difficult. To achieve a balance budget we are deferring capital improvements; closed all the CIPs; cutting back on travel & training and deferring regulatory compliances based on our Stormwater Permit.

Committee Member Holman inquired why the fee has not been dealt with in all this time.

Mr. Madison responded an interim fee was adopted in 1991, which was adopted into a permanent fee in 1995 after a rate study was done. There were some errors made in setting the fee, we thought we would be making more revenues and the City Manager at the time did not want to raise the fee. Overtime there have been significant increases in regulatory compliance responsibility, such as a new Stormwater Discharge Permit and regulations are tightening. Our system has grown, our utilities are much larger then what it was in 1991. He believed there was a reluctance to deal with the problem and a mind set