

CITY OF BELMONT

FINANCE COMMISSION MINUTES

June 3, 2004

Commissioners Present: Lieberman, Troyan, Korn, Sepah-Mansour, White, Mannisto

Staff Present: Finance Director Fil, Treasurer Violet and Administrative Assistant Voelker

Others Present: Candidate Mike Loo, Councilmember Bauer, Councilmember Feierbach, and Councilmember Mathewson

1. Commission Vice Chair Mannisto called the meeting to order at 7:47 P.M. There were no public comments.
2. Finance Director Fil requested to amend the agenda by adding the March financial reports to be noted and filed, since the May Finance Commission meeting was cancelled due to lack of quorum. However, in the interest of time, he will skip review of these reports.
3. Moved by Commissioner Korn, seconded by Commissioner Troyan, by unanimous voice vote, the Finance Commission minutes of April 1st were approved.
4.
 - a. Finance Director Fil reviewed the April financial reports.
 - i. The General Fund balance stands at roughly \$2.05 million, which is on track

with the revised budget estimate. Overall revenues are in excess of the budget – nearly \$3.7 million – but this is due mainly to a timing issue since property taxes were received in April.

Director Fil noted that he would only focus specifically on funds with negative

balances. He pointed out that the Recreation Fund will be negative through the end of the year. This fund is primarily a problem of revenue due to a significant decrease in program participation. City staff has decided to wrap this deficit up as a loan and the Recreation Department will have 5 years to pay it off. The fund will start fresh and staff will take a close look to review all programs (Senior, Day Care, Recreation, & Special Events) mid-year.

In response to a question by Commissioner Korn, Director Fil stated that the recent changes in the fee schedule will help this fund over time, but not immediately. In response to a question by Commissioner Sepah-Mansour, Finance Director Fil responded that the work on the Recreation fees was very helpful, especially because the Parks & Recreation department have never had a scientific approach to determining fees before. He added that staff has a plan in place to review the Recreation programs periodically. The Parks & Recreation department will need to be more adept to change and staff is moving towards a higher accountability in budget performance within that department.

In response to a question by Commissioner Mannisto, Director Fil responded that there have been a number of staff cuts in the Parks & Recreation department as a result of the Budget Correction Plan; one permanent position and a series of part-time positions have been proposed to be eliminated.

Finance Director Fil then moved on to review the Development Services fund. He noted that staff plans to build a reserve;

quarterly reviews with the Community Development department and the Public Works department has been implemented and the fund is expected to end positively by year-end.

Director Fil pointed out the Street Improvement fund related to the work done on Ralston Avenue. This deficit will be reversed completely by the State grant monies coming in. He assured the Commission that the Finance Department hard at work in retrieving these monies and may take over the grant paperwork/ application from the Public Works department, due to the amount of time this fund has been outstanding. Director Fil noted that the goal is to book these funds as receivables by June 30th.

Lastly, Director Fil reviewed the RDA fund and noted that this negative balance should be reversed by year-end, as well.

In response to a question by Commissioner Sepah-Mansour regarding the City Hall retrofit, Director Fil commented that the project is going well. The only problem that has arisen was with the 3rd floor slab; this change order cost was approximately \$10,000. The exoskeleton is up, the vertical seismic reinforcement is complete, and the fire sprinkler system is still pending. There have been minimal change orders thus far. The contractor will soon be installing steel beams to link the two wings of the building together.

Moved by Vice Chair Mannisto, seconded by Commissioner Sepah-Mansour, with Chair Lieberman abstaining, by unanimous

voice vote, the March and April financial reports were noted and filed.

b. Treasurer Violet then reviewed the monthly April Treasurer's report for the City of Belmont, noting that there was an ending balance of roughly \$31 million, due to the infusion of property tax payments.

Commissioner Korn inquired how close the City's property tax receivables were, compared to what was expected? Finance Director Fil responded that the amounts were exactly accurate because the City is on a "teeter plan", which means that the City receives 100% of all property taxes, regardless. However, the County collects and keeps all late penalty charges.

Treasurer Violet provided detail on the remainder of the report, including LAIF investments. He noted that all accounts have been reconciled and signed off.

Treasurer Violet then reviewed the April Treasurer's report for South County Fire Authority, with an ending balance of approximately \$597,000, pointing out that this month's expenditures include a final payment on Fire Station 14.

Commissioner Sepah-Mansour commented that with this pattern of decreasing funds, the Authority will go bankrupt in a matter of months! Director Fil responded that actions are being taken to deal with the financial challenges; for instance, the sub-committee is now in the process of studying the Authority's finances, the Fire Chief and Board will possibly consider more budget cuts, as well as other options such as consolidation, increasing revenues, and taking out additional loans with the two funding agencies to help solve the cash flow problem.

Director Fil continued that it this month's balance is extraordinary because of the final payment on Fire Station 14; and that future month's will look better when revenues exceed expenditures. Nevertheless, he added that several options can address the cash flow issue, but the Fire Board must ultimately address the structural deficit that is inherent in South County Fire.

In response to a question by Chair Lieberman, Director Fil answered

that Chief Lowden should be issuing his report sometime in June. At that time, the sub-committee may wish to review and study that in order to consider other possible options as well.

Treasurer Violet reported that all accounts for South County Fire were reconciled and approved. On a motion by Commissioner White, seconded by Commissioner Sepah-Mansour, with Chair Lieberman abstaining, by unanimous voice vote, the March and April Treasurer's Reports were noted and filed.

5. Director Fil then turned the Commission's attention toward the Budget review. He stated that the City is facing an unprecedented structural deficit. However, there are early indications that sales tax numbers are looking better and that the City's finances may be close to finally bottoming out. The deficit is a combination of local economy, revenue problems, PERS, Workers' Compensation rates, and the State's budget.

Director Fil reviewed Tab 1 of the FY '05 Budget Binder. He began with the preface that the City Budget is based on what the State Budget numbers are likely to be, in order to ensure that the City is as prepared as possible. Staff has produced a Budget Correction Strategy Schedule D, which totals roughly \$1.5 million, as well as Schedule E alternatives, which include revenues such as Utility User's Tax and special assessments.

Director Fil explained that all departments participated in the reduction strategy; this gave opportunities to transfer funds from the General Fund into specialized funds. He cited an example in which the City proposes to bring sewer enterprise videotaping in-house. This saves the City roughly \$80,000. In response to a question by Chair Lieberman, Director Fil responded that the City had previously outsourced this work because it used to be more of a specialty trade.

In addition, staff has proposed to cut one vacant Maintenance Worker in Streets. Commissioner Mannisto inquired as to where the other personnel cuts were? Director Fil stated that the Finance Department is taking a ½ position cut; as of July 1st, one staff member will be relocated to the Permit Center. Consequently, a Permit Center staff member will likely relocate to Public Works, thus consolidating two positions into one. In essence, this strategy creates a Cashier position for the new City Hall.

Director Fil continued on to explain that the Police Department is also proposing to reorganize their management administrative staff. They have planned for the elimination of one Captain position (vacant) and Support Service Administrator, as well as a Community Service Office (CSO) and a part-time Emergency Operations Center coordinator. In addition, the Parks & Recreation department has proposed eliminating a Superintendent, along with three positions in the Senior Center. This equals eight positions, added to two vacant positions for a total of ten positions.

Commissioner Sepah- Mansour questioned whether other cities are implementing the BFI fee? Director Fil responded that, indeed, other cities have indicated they are pursuing this strategy as well, which will bring in roughly \$100,000 a year for Belmont.

Director Fil explained further that many of the budget correction strategies reallocate costs from the Street Maintenance fund into Development Services fund. In addition, a corresponding increase in fees for development (building and permit fees) has also been proposed. He continued on to add that City Council has taken action to eliminate community group funding this year. This action results in a \$67,500 savings, which can be left in the fund balance or re-programmed to use elsewhere.

Hearing no further questions, Director Fil went on to review the Base Budget with the Commission. The General Fund assumes that the City continue "business as usual", which means that if no corrective action plan is implemented, the City of Belmont will have around \$1 million in the General Fund by June 2005.

Director Fil went on to note that staff is assuming that Belmont's revenue budget will improve; last year the City took a one-time cut in the area of Vehicle Licensing Fees. The City will be reimbursed for these funds in 2006, which estimates an approximate 2% recovery.

Director Fil mentioned that the General Fund is structurally sound, but transfers and subsidizing are largely responsible for many of the budget challenges in this fund. He also noted that, with the exception of BPOA (on contract), there will be no negotiated salary increases for City employees, aside from step increases. In response to a question from Commissioner Troyan, Director Fil cited that many of the employees are at top step for their positions.

In reviewing the 7 Year Trends & Projections, Chair Lieberman pointed out that the General Fund balance may be quite a bit lower if the City should experience a catastrophic event or disaster. Councilmember Bauer added that the Commission should also keep in mind that the value of the \$2 million minimum fund balance reserve requirement decreases in value with each year, so this adds to the challenge. Director Fil responded that staff should be periodically adjusting the "floor" of the General Fund balance. If the City sustains the outer years, staff and City Council should definitely revisit the \$2 million floor. Director Fil commented that he would feel much more comfortable with a reserve goal of roughly \$6 million. Treasurer Violet recommended that as the years pass, the City should raise the bar on this floor.

Director Fil commented that this FY 04-05 Budget completes the City Hall retrofit project, as well as part of the 101 Bike Bridge project. In response to a question by Commissioner Sepah-Mansour, Director Fil stated that roughly \$800,000 represents engineering costs funded largely by grants. He added that the Bike Bridge is more than likely to be funded.

As part of a department initiative, staff set out to maintain all services and operations. Director Fil pointed out that the only significant change will be in the Public Works department. In addition, the Finance department's big challenge this next fiscal year will be the implementation of a new financial system and coping with the staffing reduction as part of the budget correction strategy.

In response to Candidate Loo's inquiry, Director Fil cited that a 5% increase is the City's contribution to South County Fire Authority; the assumption being that South County Fire will ultimately solve its structural problem. He stated that it's probable that a recommendation for a Fire Assessment District tax will go forward and be adopted by the voters. In addition, a separate effort to merge and consolidate will proceed, but this will be a great challenge for the Board to implement.

Director Fil then pointed out to the Commission that the budget contemplates two deficit financing loans from the Fleet & Equipment fund to the Recreation fund and the Facilities Management fund in the amount of \$200,000 and \$112,000, respectively. The repayment terms are 5 years at the LAIF rate. He then briefly reviewed the

Budget tab-by-tab and opened the floor for any questions by the Commission.

In response to a question posed by Commissioner Troyan, Director Fil stated there will be termination costs associated with employee layoffs, but that these usually come out of the Benefit Stabilization fund. This led to a discussion regarding the Worker's Compensation plan for the next fiscal year, in which Director Fil revealed to the Commission that the City will be pulling out of State Fund in an effort to drive down the Worker's Compensation costs. The City will either be associated with a pool, move over to another company or self insure with stop loss coverage. Either way, this will force a reduction in rates, although it will increase the City's risk exposure.

Director Fil also pointed out that a new service center has been added – Public Works Engineering – in order to provide a fund for engineering costs related to development.

Commissioner White commented that, overall, the budget looks good, but that the City cannot afford to lose any police officers. To this, Director Fil responded that there will be no police officers eliminated; instead, the City will have a cost savings by eliminating a vacant Captain position.

The Commission began to discuss various recommendations to City Council, at which time Commissioner Troyan recused himself from the discussion. The Commissioners continued to confer on various recommendations for the budget, including being more proactive about implementing more revenue diversification in Belmont, applying more revenue discipline in the Recreation department, and focusing on the impact that South County Fire is having on the Belmont Fire Protection District.

Commissioner White suggested an idea for revenue - to change the sales tax law in order to keep up with changes in technology. She explained that Oracle has implemented an automated shipping service of computers – this can possibly be translated into sales tax revenue for Belmont. She suggested that the Commission write a letter to our Senator, requesting a change in the definition of a "tangible product", thus allowing Belmont to tax these computers. Director Fil commented that letters have already been written, but that if the Commission wishes to pursue this further, they may want

to draft a letter together for consideration by City Council.

Moved by Chair Lieberman, seconded by Commissioner Mannisto, by unanimous voice vote, the Finance Commission recommended the adoption of the FY 05 Base Budget and Corrective Strategies Schedule D, with the following amended recommendations that (1) the \$67,500 savings from the elimination of the Community Group Funding be added to the reserve and included in the Budget Correction items, (2) that the City Council consider raising the General Fund reserve as a long term strategy, and (3) that Council continue to pursuit options for revenue diversification in Belmont.

The Finance Commission then agreed that they would spend time in the future giving the City Council recommendations and suggestions that will help with the direction of the budget.

Director Fil then briefly reviewed the Financial Policies with noted changes. On a motion by Commissioner Mannisto, seconded by Commissioner Sepah-Mansour, by unanimous voice vote, the changes to the Financial Policies were approved, and recommended for adoption.

6. In the interests of time, the Commission agreed to table the discussion of Reports from Chair & Commissioners until the July meeting.

7. Moved by Vice Chair Mannisto, seconded by Commissioner Sepah-Mansour, by unanimous voice vote the meeting was adjourned at 10:44 p.m.

Sincerely,

Thomas Fil

Finance Director