CITY OF ASHLAND

Budget Committee Meeting Minutes
September 8, 2016 - 6:00pm

CALL TO ORDER

The meeting was called to order at 6pm

ROLL CALL

Cody	Present
Darrow	Present
Furuichi	Present
Gates	Present
Lemhouse	Arrived at 6:14
Lucas	Present
Marsh	Present
Moran	Present
Morris	Present
Rosenthal	Absent
Runkel (Chair)	Present
Seffinger	Absent
Stromberg	Present
Voisin	Absent

APPROVAL OF MINUTES

MOVED Cody
SECOND Lucas
That the minutes of the May 12, 2016 budget committee meeting be approved with the following changes;

- page 3 – "*meeting ~~and if a serial~~ as such are not allowed"*
- page 5 – "*to determine ~~often~~ and disagreed with Kanner's"*

All Ayes
MOTION PASSED

The chair noted that at the last meeting, it was agreed that major revenue streams would be discussed at the current meeting, but this topic never made it to the agenda and that he would like to see this on the next agenda.

PUBLIC INPUT

Runkel requested to be recognized as a member of the public, in light of Lee Tuneberg's, (Administrative Services/Finance Director) retirement announcement, to give a speech thanking Lee Tuneberg for his service to the City of Ashland. Runkel noted that Tuneberg has been a true professional and that the City would be losing a true asset. He also recognized that Mr. Tuneberg has brought savings to the City and his work has been recognized on a local and state (and national) level. He thanked Mr. Tuneberg for being able to provide answers quickly to members if the information was unavailable at the time of the meeting and closed by welcoming him to retirement.

Roberta Stebbins - Visitor and former Budget Committee member, expressed her memories of working with Mr. Tuneberg over the last 15 years and how she compared accounting to that of a foreign language. She thanked him for understanding that language and being an outstanding professional and wished him the best in retirement. She closed by saying that her career has been enriched working with him.

Lynn Thompson – Visitor and former Budget Committee member, announced she was shocked to hear that Mr. Tuneberg was retiring and that she felt as though his relationship with staff was professional and reliable. She fondly remembered his lengthy answers and attested these to his skill in his role. She closed with best wishes.

William Gates thanked Mr. Tuneberg for his cordial and prompt nature dealing with questions and wished him the best of luck.

Stromberg recognized Mr. Tuneberg for his contribution to the grant process in particular the creation of the spreadsheet that continues to be used to this day.

DISCUSSION ISSUES FOR THE BUDGET COMMITTEE

Public Employee Retirement System (PERS) Update

Kanner revisited the subject of PERS rates increasing on average in 4 different categories at about 24% and the impact of this was projected to be about $1.5 million, however this projection done in the spring was based on projected rates from PERS, not on actual rates. He explained that actual rates would be available within two months. Kanner reported that last month the PERS actuaries reported to the PERS Board that the *actual* return on investment was lower than what had been used to create the projected rates and PERS has informed their member jurisdictions that they can expect their actual PERS rates to be at least 10% higher than projected last spring. He noted that in light of this, the City doesn't know what the actual rates will be and it seems that this could prevent the City from funding anything new in the next budget cycle.

Furuichi asked where the rate collar was. Kanner answered that the preliminary rates given were below the rate collar, therefore the new rates should still be within the rate collar, but will potentially be a shock to the system. Furuichi asked what the worst case scenario impact would be if the collar rate was used. Kanner explained that the City has not run those numbers yet because the collar that PERS uses is not a hard collar because there are provisions within the policy that allow PERS to exceed it. At this point the City is not sure if those conditions exist. He did note that even without the projected rates available to him, he feels there is a lot of room between the projected rate and where the collar would likely be. Furuichi asked if PERS could project this. Kanner answered no but the City could have their numbers as early as this month. Furuichi asked if Kanner knew where the collar is. Kanner answered this is typically 4 percentage points above where you were previously. Furuichi asked if it was time to consider a worst case scenario projection. Kanner answered it would be better to wait until the City receives their actual numbers.

Stromberg asked if the PERS assessment could go up another 10% above the $1.5 million. Kanner answered he hoped it was only that much. Stromberg explained to Furuichi that the collar is a way of limiting the total impact of the deficit and funding for PERS so that it doesn't bankrupt municipalities, but if you hit that collar it means what you owe has increased more than that and this is a protection. He continued that it protects you but it also forces your liability into the future. Furuichi responded that he understands the concept that if the actual increase is above the collar then the City has accrued unfunded liability. The concern that he has is it will add debt to debt and adds burden to employees down the road. He noted that projections were out last spring and were dire then and said he believes they were inaccurate then.

Stromberg asked Kanner what the rate of return is on the PERS investment portfolio causing the increased deficit. Kanner believed the assumption given for crediting member's accounts was 7.5%. Moran said he thought 8.5% and Furuichi interjected that he thought it was even higher.

Furuichi expressed concern about mass retirements and believes this could be a liability that needs to be taken into account.

Stromberg asked if staff can calculate where we are in relation to the collar. Kanner explained that the collar is not a set number and varies from jurisdiction to jurisdiction. He continued that on average the collar is designed to disallow any particular payroll rate increase by more than 4 percentage points, however it can exceed it. If PERS determines the system is less than 70% funded they can dispense with the collar all together.

Stromberg reframed Furuichi's question regarding whether the City is getting into a situation where unfunded liability is growing beyond PERS rates. He pointed out that PERS raised the City's rate based on our actuarial calculation and believes we need to get these numbers from PERS. Kanner agreed noting the City's Oregon Public Service Retirement Plan (OPSRP) rates are reasonable for general service police and fire, however this will impact the City negatively and create higher rates for those departments. PERS has been warning this will be the first round of several increases and the idea behind the collar is to fix the unfunded liability over time instead of all at once. The problem this is causing PERS is the liability keeps growing. Stromberg asked if the City is about to reach the collar. Kanner explained they are looking at the unfunded liability and the ratio of this to the funded portion and when PERS gave the City their projected rates, Oregon was approximately 78% funded. The issue is not particularly rate of return as it applies to Ashland specifically, but rather what it means for the unfunded liability which is still over 70% funded even with the lower rate of return.

Runkel asked if there was any activity between municipalities and school districts to get the legislature to deal with the issue. Kanner responded there was and it is a number one priority for the League of Oregon Cities. He understood that the PERS board is putting together proposals for the legislature to consider in the next session but was unsure what they were, however he does suspect that if some are implemented we will see a lot of people rushing to retirement because it will be too costly to continue working.

Moran referred to the February 18 notes and asked Tuneberg if the City share of unfunded liability was $3.58 million. Tuneberg answered yes. Moran asked if this had increased. Tuneberg said yes but he hasn't seen the numbers for this year. Moran questioned if we have to pay the unfunded liability or if it is used to calculate what the City has to pay. Tuneberg responded it is used to calculate what the City pays. Moran asked if it <u>could</u> be stable now. Tuneberg answered yes. Moran noted the projected return of this fund is 8.5% and asked what a realistic assumption of the actual return was. Tuneberg said he didn't know what PERS experienced.

Stromberg noted some municipalities issued bonds in an attempt to play the market better than PERS but that was not something the City would do. Moran asked if that was something that the City would consider doing. Kanner answered that was something PERS allowed jurisdictions to do 12-15 years ago. They were allowed to establish side accounts during a time where there was a similar problem of sharply increasing rates and he doesn't believe that PERS is allowing that at this time. Stromberg noted at the time, interest rates were high and they were attempting to take advantage of those, now it would be a case of taking advantage of low interest rates for funding. Moran thinks the City should consider this option. Kanner noted a lot of the municipalities regretted that decision when the recession hit. Tuneberg noted initial participants in that option did well but many after 2002 did not.

4th quarterly financial report
Tuneberg outlined the financial report which was presented in full at City Council meeting on August 2, 2016.

Furuichi asked what the total F&B revenues would be. Tuneberg explained this report doesn't include preliminary accruals therefore that number wouldn't be accurate until after July. Tuneberg said he did a comparison for the entire year. Kanner stated it was approximately $2.8 million total for FY16 and the projection was $2.63 million and they ended up approximately $168,000 over that. Tuneberg clarified he didn't do a comparison to budget, rather a year to year. He went on to explain that Transient Occupancy Tax (TOT) is up year to year 12.9% over a total of $2.46 million in 2015. F&B is up 8.6% over a 2015 total of $2.65 million. Furuichi asked which category F&B appears in. Tuneberg said 20% is for AP&R open space recorded in the City Capital Improvement Funds (CIP) fund and 80% in Waste Water Fund. The report has preliminary numbers and the final numbers will show up in the Comprehensive Annual Financial Report. Furuichi referred to the summary on page 2 and asked if it includes all of the TOT & F&B tax. Tuneberg answered it is all included in Taxes on that page. Tuneberg noted the report is a city wide summary. Furuichi asked where this is allocated. Tuneberg answered on pages 12 & 15 of the report and reminded members these are preliminary numbers and do not include accruals.

Cody referred to the TOT being up 13% and asked what happens to the excess. Tuneberg explained all TOT monies go in to the general fund and excess monies are rolled over to the following year and are controlled by a resolution that council passes each year. Stromberg noted that some of these funds are marked to be used for tourism and some are unrestricted.

Runkel referred to large balances in the water, waste water & street funds and asked what the interest rates are. Tuneberg answered about .25% and that there were some that have been invested by the City Recorder that are receiving a slightly better rate. Runkel asked why they are allowed to grow so large. Tuneberg explained 68% of those funds are restricted and are specifically allocated for projects so the funds sit there and wait for a qualifying project. Runkel asked about the large increase in the waste water fund. Tuneberg explained this was System Development Charges (SDCs) and there needs to be a qualifying SDC project for use. Runkel asked if this accumulation is due to charging customers too much. Tuneberg pointed out that policy and managerial decisions dictate the money be set aside for SDC projects, money to defray future debt service, cash fund projects, and money that helps the City meet their covenants on any borrowing. It is a very complex mix of dollars. Runkel asked for a comparison of having customers fund the growth as opposed to borrowing money. Tuneberg said, depending on the project and the type of borrowing, interest costs are approximately 2.5% to 3%. Runkel believes council should reconsider growing the funds at the expense of customers and waiting until the projects arise and then borrowing the money.

Stromberg referred to the Water Advisory Committee and its determination that to raise interest rates at short notice for projects would be a shock to the community and how they recommended to increase rates slowly each year with little impact to citizens. Runkel disagreed and asked that it be revisited stating he doesn't believe the accounting is correct. Stromberg countered noting the point of the decision was to have the least impact on citizens.

Darrow asked for an update on the Health Benefits Fund. Kanner reported despite a bad year, the City is within budget. Final accruals are not yet available but the preliminary number was a 94% loss ratio. He added that the Employee Benefits Advisory Committee (EBAC) is engaged in discussions about changes to the plan to lower the cost of the benefits and these recommendations should go to Council by spring. Darrow asked about moving away from being self-insured. Kanner said it is cheaper being self-insured and since its implementation they have saved at least a $1 million dollars, however, the City hasn't been able to build the reserves and has only paid back ½ of the loan to the reserve fund.

Furuichi asked what that $1 million dollars means. Kanner answered if the City had remained fully insured with Pacific Source with the current plan, premiums would have gone up significantly more than with a self-insured entity. Furuichi asked if it were possible to get a cost estimate if we were to reframe the plan. Kanner explained Pacific Source no longer offers that plan and was doubtful anyone does based on its favorable benefits and they wouldn't be able to quote that for us. Furuichi asked if there were plans to change the benefit structure. Kanner said the intention of the advisory committee was to discuss the possibility of making changes and lowering the cost. Furuichi asked if staff could bring a cost estimate of that scenario. Kanner answered, assuming they could find an insurer who offered that plan then yes. Furuichi stated while he is happy for employees to have a gold plated health plan, he feels there should be full disclosure to the tax payers that they will be paying more tax to fund the current level of benefits. Kanner noted if an insurer were to estimate the cost for the current plan under their rates it would be more expensive than what we currently pay as a self-insured organization.

Stromberg referred to 2 years prior when the decision was made to move to being self-insured and how the City did an interim step because they couldn't get actuarial figures on our own covered members. At the time we were in CIS which is a state wide pool. He pointed out that CIS rates were going up 11% that year. The City came to an agreement with Pacific Source to keep the City's rate flat for 2 years. The first year saved the City $440,000 and the second year was never calculated however the City did receive rebates. He estimated that with these combined the City has saved a lot of money, however staff would need to go back and calculate CIS increases to figure out exactly how much. He went on to explain that the City has union contracts and commitments in those contracts which somewhat limits the ability outside of bargaining periods to adjust those benefits. The whole structure of the union contracts is keyed off of fire and police who have a no strike clause. This clause gives them the right to force the City to go to compulsory arbitration and the arbitrator looks at what the City is paying and what fire and police in other jurisdictions are paying that are comparable.

Furuichi expressed concern at the lack of growth in reserves and increased losses and questioned if the City has a secondary insurance for large losses and if that would mean even more cost if that insurance was utilized. He believes the fact that the City can't find an insurance company who will quote on the current City benefits is a factor that needs to be considered. Stromberg pointed out that the reason insurance company quotes would come out higher is because those companies would be taking a profit.

Runkel referred to pages 14-15 and asked what the "other" financing sources were; $14.9 million in water and $5.3 million in waste water funds. Tuneberg explained these are potential borrowings. Runkel referred to page 23 and asked about the fund balance line; particularly a percentage of 6,809.1% and asked if this was a typo. Tuneberg explained this number is derived from dividing $273,318 by $4,014.

Runkel referred to page 24 and questioned the small amount of money that has been spent. Tuneberg explained that would be covered later in the CIP section.

Furuichi asked for clarification regarding CIP for Parks & Recreation (P&R) and asked if the 20% F&B tax goes to P&R. Tuneberg explained the System Development Charges (SDCs) and F&B tax for parks are recorded in the city's CIP Fund 410. He noted when it transferred to P&R CIP Fund (411) is called Charges for Services - Internal and is used for future funding of projects. Furuichi questioned the mismatching totals of the 410 account on page 12 and the 411 account on page 24 of the report. Tuneberg explained that because of GASB, when we move funds into a component unit, we have to name the funds differently This includes not only some portions of the $431,530 but also prior F&B funds that were released from the 410 to reimburse for projects as well as SDCs that we might have transferred over plus transfers from other unrestricted money that isn't F&B. He explained that you cannot get an exact number here due to timing and these are summary reports.

Moran asked who negotiates union contracts for the City. Kanner responded it depends on which union we are negotiating with but the City would typically have the HR manager and in many cases Lee Tuneberg participate in the bargaining process. The City would also draw on department heads and senior staff who would typically manage the people we are bargaining with.

Moran referred to $6.5 million in the street fund on page 10 of the report and asked what F&B tax is used for if not all being used for streets pointing out only 21% had been used to date. Tuneberg explained that $3.68 million divided by the 2 year budget of $18 million is how you derive 20%. Moran rephrased his question asking what street operations are used for. Kanner answered the fund pays for the 5 member street crew and the street supervisor who do routine maintenance and crack seal as well as striping, maintenance, street sweeping, and storm drain maintenance with some contracted out for slurry seal projects. This is basic repair and maintenance of the City streets and some maintenance of traffic lights. Moran asked for confirmation that this is not a duplication of the F&B tax function. Kanner answered that the F&B tax would go toward pavement management programs to overlay all the arterial and collector streets.

Cody asked what percentage employees pay toward their premium for health care. Kanner answered 5%.

Moran referred to the Telecommunication Fund & Ashland Fiber Network (AFN) on page 17 of the report and noted at the last meeting it was discussed that AFN was running below revenue budgeted and that it looks as though that's still happening. He stated he is concerned this could create a large deficit. Kanner explained that customer loss has stopped and accounts are flat. He also noted there are new rate schedules which make selling AFN more profitable for the ISPs. Moran asked if increased profit meant the cost structure has changed. Kanner said yes the wholesale price that the City charges the ISPs has changed and makes it more profitable for them to sell AFN as well as having increased the charges to purchase the service directly from AFN, which makes it more attractive to go the ISPs. Moran asked if Kanner was confident going forward. Kanner answered he can't guarantee anything but that the plan throughout has been to boost revenue and they had anticipated some increase in customers and flat customer numbers is a good sign.

Marsh commented that the City is engaged in an AFN marketing process with a goal of strengthening the relationship with the partners and being able to market the system as a whole which will be an advantage for some customer confusion that has been experienced.

Furuichi asked if the City increased rates to customers and lowered rates to wholesalers. Kanner explained one of the concerns of the ISPs was there is not enough margin between charges and wholesale cost to make it profitable to market AFN. He noted there was also concern the City was selling direct to customers. As a way to address these concerns and encourage ISPs to sell AFN the City recreated the rate structure with new services and higher speeds. They also guaranteed that we would not undercut the ISPs when selling directly. Therefore there is a higher margin if they sell at our recommended rate due to a larger gap. Also with the City selling retail direct at a higher rate than the recommended ISP rate, this encourages customers to buy from ISPs.

Furuichi asked if there were commitments to increase customer count. Kanner answered not that he was aware of. Furuichi believes the City has created a greater margin for ISP's with the anticipation they would seek out more customers and asked if our customer count was flat.

Stromberg suggested Marsh, who has been serving on the committee which helped restructure the rates, would be better to talk to this. Furuichi recalled being given a rate plan by Dennis Slattery at the commencement of his Budget Committee service and he feels that plan is wrong for the City. He believes that a plan with a good tier strategy would serve the City better. He asked if City is doing that. Kanner answered the City is following the plan with new tiered rates related to higher speed levels and noted AFN is now able to offer higher speeds and more competitive rates than Charter®. He also noted Charter's® market style of offering lower rates and then increasing those rates in the second year of their contract and pointed out AFN's rates are very competitive in that sense. He explained the vast majority of AFN customers don't get AFN from AFN, but from the ISP's and the City made a decision many years ago that ISP's would be the primary marketing tool for selling AFN. For a period of time the City policy was that we would not sell directly to customers, however, the City reneged on this decision when one of the ISP's folded and AFN subsequently took their customers. He stated if someone comes and wants to purchase AFN direct, we will sell it to them with full disclosure that it's cheaper to go to Ashland Home Net but we will not turn people away if they wish to buy direct from us.

Marsh explained that she and the Mayor are members of the ad hoc committee who is trying to decipher functional solutions for AFN and have concluded the issue of customer confusion around the different levels of service is being addressed. Marsh suggested any one of the budget members who would like to sit down and discuss these matters were free to contact her. Furuichi said he would like to see the business plan. It was discussed that AFN service could be directly supplied to 13,000 households in Ashland but currently serves 4,000.

Stromberg pointed out that the ISP's own their customers and we are not in a free market situation where we can compete with them.

Mark Holden, Director of Information Tech. and Electric Utility, noted the City also has reduced the cost of internet which has allowed AFN to increase their margin.

P&R performance audit
Michael Black presented the results of the P&R performance audit and noted that they are right at the cusp of the adoption. He presented the following information.

- Performance Audit Timeline
  - RFP Out – October 7, 2015
  - Contract Approved – January 21, 2016
  - Matrix Consulting Group $49,000
  - Work Progression
  - *Feb. 17-19* Consultants On-site
  - *March 17* APRC Profile Document
  - *March 30* Diagnostic Assessment
  - *April 27* Steering Committee Meeting
  - *June 13* Draft Report Received
  - *June 21* Draft Final Report Received
  - *June 26* Report Presented to P&R Commissioners
  - *July-Aug.* Revisions made to Final Report
  - *Sept.7* Audit Committee Approved Report

- Project Scope of Work
  - Document current services and evaluate opportunities to continue providing high levels of service.
  - Compare APRC to 'benchmarks' and to 'peer' communities.
  - Evaluate:
    - staffing and other resources
    - how services are organized
    - management, including community outreach
    - existing and potential partnerships with other public, private and non-profit entities in the region, including outsourcing

        - current form of governance

- Methodology of review
    - Collected Staff and Stakeholder Input
    - Data collection and analysis of:
        - Programs, service levels and resources, costs and revenues.
        - improvement opportunities working toward detailed plans for implementation
    - Compared APRC services to national 'best practices'
    - Collaborated with APRC staff, Commissioners, City Officials and Project Steering Committee.

- Study results – Admin Division
    - Expand the CIP to include:
        - Repair and replacement plan
        - Technology plan
    - Streamline internal operations including:
        - Policies and procedures
        - Joint-use agreements
    - Create an APRC 'brand'
    - Create a golf operations unit in the Administration Division
    - Maintain existing governance structure

- Study results – Recreation Division
    - Development of a comprehensive recreation plan for the future
    - Identify community needs
    - Streamline internal operations, including policies and procedures
    - Expand customer feedback and input:
        - Program evaluation
        - Advisory groups
    - Focus on program cost recovery
    - Increase services to the underserved

- Study results – P&R Division
    - Focus on:
        - maintenance of existing facilities:
        - Quality maintenance standards/performance indicators
        - Routine maintenance procedures
        - Training
        - Volunteers, seasonal, contracting
    - Adopt a computerized maintenance management system.
    - Develop a detailed inventory of P&R and open space assets.
    - Streamline internal operations:
        - Maintenance operations
        - Pubic park information

- Study results – Golf Operations
    - Create *Golf Operations Division*
        - Consolidate pro shop and golf maintenance in the Admin. Div.
    - Create Golf Operations Manager Position
    - Incorporate 'business model' Management Strategies.
    - Expand program opportunities with increased marketing efforts.
    - Recognize that the golf course condition is a key element to its success.

- General observations from auditors.

- “Agency goals and objectives focus on future direction of organization.”
    - “Basic organizational infrastructure for success is in place.”
    - “Management leadership ready to move to next level.”
    - “Positive working relationships between APRC and the City.”
    - “P&R, programs and services are important to the community.”
    - “Streamlining internal operations, focusing on preventive maintenance and increasing services will significantly increase the APRC’s effectiveness.”
    - “Concentrating on maintenance of existing facilities should be considered.”

- Implementation process
    - Link Recommendations to Adopted APRC Goals
    - Prioritize Recommendations
        - 47 recommendations total
        - 32 groups of recommendations
    - Determine Fiscal or Staffing Impacts
    - Assign Project Managers
    - Establish Timeframe for Each Recommendation
    - Commission Adoption of Audit Recommendations and Implementation Strategy

Mr. Black closed stating he believed that all of these things can be achieved in the next 2 years.

Gates asked when the finalization date would be. Black answered Monday September 26th 2016

Mr. Black was asked by Runkel to explain the rating order. Mr. Black replied, critical, necessary and then desirable. He explained some things that may seem critical are actually desirable because they are already implemented and ongoing therefore, they aren’t critical.

Moran asked Mr. Black to define cost recovery. Black answered that P&R success is measured differently than a business and unless they have an enterprise system the programs are there for the benefit of the people. Moran agreed but noted without golf clubs, you can’t play golf and regarding the golf “business” P&R should be stringent because there are other golf courses around. He pointed out that personnel services cost is projected at 120% of projected revenue which has increased 150% with a 2017-19 projection of 200%. He also noted that revenue is down 10% as well as maintenance and material and services being down 12%. He said he believes P&R are paying fewer people more money to generate less revenue and that is not viable especially in a facility that doesn’t cater to the entire population. Mr. Black stated he doesn’t use the fact that P&R is a government organization as an excuse; staff and the commissioners look at these as businesses and try to use business models when doing so. He added when you are looking at fees and charges there is a limit that P&R can charge customers and if P&R starts charging more than other agencies, for example YMCA, things will start to taper off. Mr. Black stated that if 5 years from now, the golf course is not working, he will accept that. He pointed out that part of the audit was to determine how to fix these issues and now is the time to implement those solutions. He said the P&R Commission will make decisions based on what they think is the level of importance for maintaining these different amenities and this will dictate decisions of how much they will be subsidized and the effect on fees and charges. He also noted the golf course is open to everyone and disproportionally used buy a variety of people. Moran pointed out again that while he agrees with that, the access to it is considerably less than other amenities. He used the example, unless you have golf clubs you can’t use it therefor the percentage of people who can use it is low.

Stromberg pointed out that the discussion contained policy and budget issues, and that most of what Moran is discussing is how much we should subsidize a particular activity like golf and while he himself has no political interest in the matter, it is a policy of the P&R Commission. He explained whether they are using a cost accounting system that tells them all the costs and the true subsidy they are making, that is a budget issue. Moran stated he believes we should be aware of what these costs are and make an economic decision to advise the P&R if they should be investing more money into this. Stromberg believes that a directive of that nature would be a policy decision. Moran agreed.

Runkel noted it was interesting that 6 of the 9 items in the report are critical and involve the golf course. Mr. Black explained the reason being was they spent a lot of time with the consultants at the golf course because they believe it's a viable asset and while it is a timely process he believes there is a lot of opportunity there. He explained there are other programs such as archery that are now taking place there as well.

Furuichi asked what the revenue policy for the golf club is and if Mr. Black would be bringing that to the budget committee as well as referred to the revenue model for the ice rink and asked if that was a policy. Mr. Black explained every year the commission looks at the cost recovery for all of the programs which then sets the rate, however, P&R didn't change their rates this year as it was undergoing the audit. Mr. Black said this year things will look a little different. Furuichi asked if cost recovery would be part of the revenue policy. Mr. Black answered yes. Furuichi asked if the two golfing clubs who use the course are providing any cost recovery assistance. Mr. Black answered while they pay for their rounds and organize tournaments, no fundraising was being done. He added while the volunteer system in the city is robust, it isn't highly utilized at the golf course. Furuichi asked for a full copy of the report. This was provided to him by Ms. Blackman via email.

Runkel called this item closed.

Stromberg withdrew the item he earlier requested be included due to lack of presence of budget members.

Capital improvement plans – project identification, funding and prioritization
Kanner spoke to this and explained while there is no legal requirement to show a CIP in the budget or for the City to have a CIP, it is considered a "best practice" by the Government Finance Officers Association. He explained that a CIP is not a mandate or that the cost listed on the CIP is a limit to how much is spent or that funds can't be moved around to fund that CIP. He explained that a CIP identifies the need for building, infrastructure, technology etc. and determines the estimated cost, prioritizes the projects, and develops financing strategies. He noted the first step of a CIP is a master plan which determines the vision for the project and identifies the funding source. He continued that the governing body then makes its capital investment decision on basis of the long range master plans. He explained that a CIP can be driven by things other than master plans such as citizen request, neighborhood plans, and the availability of grant funds, but in general these things should be reviewed in context of consistency with the master plan. The master plan should strike a balance between the vision of the governing body, the vision of the master plan, and the City's financial capacity to fund it. Financial factors are a major part of the development of master plans which in turn drives the CIP and both cost and revenue streams need to be considered. Kanner turned the topic over to Tuneberg.

Tuneberg explained that projects are included in the budget to create appropriations. Appropriations are spending authority and are placed in the budget based on what the departments bring forward. If all things align, the City then has the ability to spend the money on that project. He reminded the committee that in the budget projects are shown as an appropriation and when the project happens it appears as an expenditure. When we add projects to the budget we must have an offset, explaining that offsets come in many different forms. Tuneberg referred to a question earlier in the meeting regarding financing in certain funds in the budget and explained that money was placed there to recognize that in order to put the projects in the budget the City may need to borrow money. He clarified that not all projects are funded with borrowed money; sometimes they are done with money on hand e.g. SDC's that grow over time. The City also puts in other financing and referred to issuing bonds or getting bank loans or funding from other sources such as grants, but that these projects may have to be listed in the CIP and in our budget to qualify to request the grant.

Tuneberg praised Public Works for how successful they have been getting money from the State through the Safe Drinking Water Act and reminded the commission that while we budget those costs, the City doesn't actually see that money up front, it comes as reimbursements from the State.

If we borrow money and don't do a project and haven't used the money, that money sits in the ending fund balance and is used the following year. If we don't plan for it, don't borrow, and don't do it, there is no impact to the EFB. If there is money that is restricted and we don't use it, that money rolls over and remains restricted for that project, however if it rolls back into the fund the department will need to re-budget it in the next budget.

Furuichi asked if there were any 2013-2015 CIP's that lapsed. Tuneberg said he is sure there were but the departments have that information. Furuichi would like to see those identified for the committee's information.

Furuichi asked how debt service is funded. Tuneberg explained you borrow money and over 10 or 20 years it is paid back with interest. If it is an enterprise, normally it is paid back with rates and fees, if it is not an enterprise, bonds are issued and those are paid off with property tax. If it is funded by SDCs it would be repaid with SDC revenue. He added there must be a tie between CIP's and how it is paid for and if it is not paid for in cash we generate an obligation.

Cody referred to Nevada Street and its increasing cost and questioned her ability to ask questions about increases to CIPs. Stromberg reiterated the role of the budget committee and noted if the budget committee decides this isn't a solid budget we cannot recommend it. He explained when we are talking about P&R and setting rates, advice from the budget committee would be policy based.

Moran asked if a CIP didn't start in this budget cycle would the department have to re propose it in the next budget cycle. Tuneberg answered yes. Moran suggested that a start date for each program be entered into the CIP. Tuneberg agreed that this is something that could be done. Kanner asked what the budget committee would do with this information. Moran explained it was informative.

Furuichi pointed out there are a number of CIPs which span multiple years, for example the waste water treatment plant, which will cost $7 million this year and asked what we have spent in total. Scott Fleury – Engineering Services Manager, answered $40 million for the upgrade in 2002 when the plant was fully operational. Furuichi asked if there is a GASB34 report on the capital assets for the City that would give us that number and noted one of the questions that keeps coming up is why the City continues to spend money on the wastewater treatment plant when the F&B tax report just released indicated a surplus and that F&B could be diverted. He noted that one option was to lower that tax to 4% and another was to move it to streets and asked why. Marsh answered there is a bond payment which can't be repaid until the bond expires and therefore the surplus was recommended to go to streets. Kanner interjected and said the debt service on the wastewater treatment plant also comes from rates and a certain amount of debt payment or capital expenditure is built into wastewater rates. Additional money has been flowing into the fund for the past few years and has allowed the City to back off the projected rates that were included in the wastewater master plan. If the City had continued with that schedule they would be seeing 10% increases for the next 3 or 4 years. This has instead allowed 8% this year and 5% next year with normal inflationary increases each year after that. Furuichi asked if the surplus can pay for the wastewater plant. Kanner answered no. Stromberg explained that the street maintenance program is absolutely essential to long term care of the streets and the F&B tax is proposed for that because a lot of the people who come to the city to eat are using our streets but don't pay regular taxes. Furuichi asked how much of the F&B is actually going to the street fund because only $2.1 million was generated. Stromberg answered it is going to pay debt service on a staged series of bond issues that match our ability to do the construction projects to regain control of street program. Furuichi asked if the $13 million that the City is spending on the street program covers any of the new CIP projects. Kanner answered it includes capital projects and much of that can be new construction or anticipated grants and even if we don't have the grant in hand we would appropriate it so we can spend the money if it's received during the budget cycle. He noted ongoing routine maintenance is close to $3 million and the rest appropriated money is mostly for capital projects. It was agreed to discuss this at another time.

Kanner mentioned that staff were present to answer questions regarding CIP projects.

Runkel asked Mr. Black if the slowness of spending in P&R has anything to do with the master plan. Mr. Black answered yes, P&R is trying to get on track with spending and completing CIPs was by hiring a project manager for the first 6 months of the fiscal year. He explained that some projects moved slower e.g. Garfield Park which is $850,000, the $360,000 sale of a property which came through just after the fiscal year and if you add up all of the projects that are ready to go, it totals $1.495 million which in addition to the $360,000 property sale is 49% of the CIP budget.

Cody referred to North Mountain Park and asked how that is reflected in this budget. Mr. Black answered there are a lot of projects that have been postponed or cancelled for example projects that are too small to be considered CIP as well as two projects which happened by surprise; dry rot in the golf club house and the North Mountain Beach Street crossing where there was an issue with the possibility that the bridge could collapse.

There were no further questions on this topic.

Furuichi suggested next time CIP be placed first so that staff don't have to wait. He also asked if we could change the budget presentation to break out personnel services into salary, fringe benefits and overtime so it's more in compliance with the LL30 form from the Department of Revenue. Kanner responded that staff can look into this if space in the document allows.

Kanner noted that the tier one accounts in PERS were credited 7.75% in 2015 and the rate of return on earnings was 2.21%.

ADJOURNMENT

Moved GATES
Second LUCAS
To adjourn the meeting

All Ayes
MOTION APPROVED

The meeting was adjourned at 8:16pm.

Respectfully submitted
Kristy Blackman
Administrative Assistant