



FINANCE COMMITTEE SUMMARY MINUTES

Regular Meeting
February 2, 2021

The Finance Committee of the City of Palo Alto met on this date in virtual teleconference at 7:00 P.M.

Present: Burt, Cormack, Filseth

Absent:

Oral Communications

No Speakers.

Agenda Items

1. Fiscal Year 2021 and Prior Finance Committee Referrals Update and Direction to the City Council to Accept the Current Status Report.

Kiely Nose, Chief Financial Officer shared that the item is an update on several historical referrals.

Vice Mayor Burt pointed out that the Business Tax is summarized as on hold indefinitely and the Affordable Housing Tax is in progress. He believed that the summaries should reflect that the Business Tax and Affordable Housing Tax are on a concurrent timeline.

Ms. Nose confirmed that both taxes are on a concurrent timeline and will update the statuses.

Vice Mayor Burt asked if the Colleague's Memo on Transportation and Labor Negotiations will return to the Council for affirmation.

Rumi Portillo, Human Resources Director shared that there have been informal discussions with bargaining groups. Confidentiality and transparency are addressed when contracts come up for negotiations.

Vice Mayor Burt requested that Ms. Portillo's update be reflected in the status of the report. He challenged that there have been no contracts negotiated since September of 2018.

Ms. Portillo restated that there have been informal bargaining discussions, but no formal discussions.

SUMMARY MINUTES

Ms. Nose added that due to the shortfalls in the Fiscal Year 2020 Budget and the Coronavirus (COVID-19) Pandemic, Palo Alto (City) extended the term another year.

Vice Mayor Burt advised that be included in the status report as well.

Council Member Filseth wanted to know when discussions regarding the Business Tax will continue.

Ms. Nose mentioned that the Business Tax is part of the Community and Economic Recovery Plan. Staff planned to bring that to Council in March of 2021 and then to the Finance Committee (Committee).

Council Member Filseth predicted that it may not come to the Committee until the fall of 2021. He questioned if that is enough time to work the process and have it ready for the ballot in 2022.

Ms. Nose believed it would be enough time.

Council Member Filseth requested if there is a list containing what ground rules are anticipated for labor negotiations.

Ms. Portillo disclosed that can be discussed with Council when staff receives perimeters. Staff has concept ideas that would improve transparency.

Council Member Filseth foresaw long-term challenges when it comes to the delivery model for the Fire Department. He shared that General Fund (GF) revenues have been growing 4 ½ percent a year for several years. The revenue coming into the department has not grown as fast as the overall budget which resulted in reduction of Staff size. He emphasized that this is a long-term trend seen throughout the past 16-year. If the department's budget continued to track the GF's growth, there would need to be a large increase in revenue or Staff size will continue to be reduced. He concluded that many of the City's departments have the same trend but it is exacerbated in the Fire Department.

Ed Shikada, City Manager agreed with Council Member Filseth's concern. He clarified that the Fired Department referral was directly responding to changing the delivery service from a fire dominate oriented model to a dominant medical oriented model.

Council Member Filseth inquired how the City plans to address the stability problem.

SUMMARY MINUTES

Mr. Shikada answered that Staff will continue exploring ways to deliver services. He added that increasing cross Staffing may mitigate, if not eliminate, the issue.

Geo Blackshire, Fire Chief explained that the cross-staffing model meant that one crew staffed two units; a fire engine and an ambulance. By making the switch to that model, the department has been able to capture the majority of call volumes as well as reduce the calls being rerouted to Santa Clara County's Fire Department.

Council Member Filseth restated that the City will need a long-term solution.

Mr. Blackshire mentioned very few surrounding Cities bring in as much revenue as the City's Fire Department does.

Vice Mayor Burt assumed that Council Member's Filseth analysis did not capture COVID-19 impacts.

Council Member Filseth shared that is correct.

Vice Mayor Burt summarized that the City has captured additional revenue by not having as many interagency patient transfers and there have been Staff reductions. He questioned how those two affect the gap between revenue and expenses.

Mr. Blackshire shared that the revenue from the ambulance service has plateaued. The department does not have a lot of control over those fees and they are not adjusted often.

Vice Mayor Burt wanted to see in a follow-up meeting a comparison between the City's Fire Department and surrounding Cities. He asked Council Member Filseth if his analysis was a high-level analysis or if deeper details were included.

Council Member Filseth explained that his analysis was a high-level analysis.

Vice Mayor Burt wanted Staff to provide an answer to his question and he wanted to understand if there is stabilization or not in increases in the pension liability from pension reforms.

Chair Cormack cautioned the Committee that the item is not agendized. She asked Staff when is the appropriate time to have the conversation.

Ms. Nose noted that the best time to have the conversation would be during the budget process unless the Committee requested that Council refer the item back to the Committee for further discussion. The City does do an

SUMMARY MINUTES

annual review of the City's pension status in terms of the California Public Employees Retirement System (CalPERS) reports. Staff planned to return to the Committee in the fall to discuss that review.

Mr. Shikada suggested that the referral be closed.

Vice Mayor Burt wanted to see a discussion happen before the budget process.

Chair Cormack announced that she would discuss it with Staff. She suggested that when the referral updates go to Council, the Committee will share that the department's long-range outline warrants further discussion.

Vice Mayor Burt questioned if it would be an Action Item or a Consent Calendar Item at Council.

Mr. Shikada explained that if the Committee unanimously approved the update, it would go on the Consent Calendar for Council. As part of the Staff report, Staff will include the concern that the Committee has.

Vice Mayor Burt inquired if the item is on the Consent Calendar, how does the full Council weigh in on the large issue.

Ms. Nose stated that if the Committee wanted to see a new referral created, that could be included in the Finance Committee's recommendation to Council. The other option was through budget deliberations, the Committee could refine what it is looking for, and then make that referral to Council.

Mr. Shikada confirmed that through the budget process Staff will investigate the concern across the board as well as for individual departments.

Vice Mayor Burt responded that since Staff has a heavy workload during the budget process, it may be best to have the discussion when the Committee reviews the pension reports.

Chair Cormack requested that when the Business Tax comes to the Committee, that Staff bring the work that was done in prior years. She asked if the items going to the Office of Transportation will be vetted through the Planning and Transportation Commission before going to Council.

Ms. Nose shared that the items would go through the appropriate body before going to Council.

Chair Cormack asked if the Fiscal Sustainability Work Plan moved to the Policy and Service Committee.

SUMMARY MINUTES

Ms. Nose answered yes.

Chair Cormack questioned if the Utilities Advisory Commission will be reviewing the second transmission line.

Mr. Shikada nodded his head yes.

Ms. Nose clarified that the Council acted to move the 311 system to the Policy and Services Committee and Council acted to move the Stanford University Medical Center (SUMC) Fund from the Policy and Services Committee to the Finance Committee.

Vice Mayor Burt asked Council Member Filseth when he thought the discussion should take place regarding the Fire Department's long-term sustainability.

Council Member Filseth wanted Staff to provide a long-term financial plan for public safety that showed how the City plans to maintain and sustain the service delivery, how much it will cost, and how does the City reach a steady state of sustainability.

MOTION: Vice Mayor Burt moved, seconded by Council Member Filseth to forward this status report update of City Council referrals requested for Finance Committee Action to the City Council for approval with the following addition:

- A. For the Council to direct the Finance Committee to have an additional review of Public Safety long term financial trends, beginning with the Fire Department, and concurrent with the September review of pensions.

Mr. Shikada requested that the Motion not single out the Fire Department.

Vice Mayor Burt shared that he was trying not to cover all the departments at once.

Chair Cormack disclosed that the Policy and Service Committee is reviewing the delivery model of the Police Department.

Vice Mayor Burt clarified that the discussion is focused on the existing model and the Policy and Services Committee is reviewing the type of service provision.

MOTION PASSED: 3-0

SUMMARY MINUTES

2. Review and Affirm City Council Procedures and Protocols for Contract Approval on City Council Agendas and Forward to the City Council For Approval.

Kiely Nose, Chief Financial Officer introduced Christine Paras who presented the item to the Finance Committee (Committee) and Pete Gonda who prepared the analysis for the referral.

Christine Paras shared that during the 2020 Annual City Council (Council) retreat, the Meeting and Agenda Guidelines section of the City's Protocols and Procedures Handbook was reviewed. Because of that discussion, the Committee was tasked to come up with a threshold related to Consent Calendar items. On average it took approximately an hour to an hour and a half to review one action item. The highest concentration of items on the Consent Calendar occurred in June, followed by October and then February. After analysis, it was discovered that the dollar amount of a contract does not necessarily correlate to the time spent on the item by Council. Staff's recommendation was to review the data analysis and affirm the current practice. Staff offered additional options which included to clarify the types of purchase contracts that must be placed on the Consent Calendar, implement a contract dollar threshold for items that must be placed on the Consent Calendar, or consider increasing the threshold for Council approval of contracts and/or include indexing provisions of those thresholds.

Council Member Filseth found the information useful and found the average time spent per item was interesting. He specified that the analysis did not indicate that there were too many contracts being put on the Consent Calendar.

Vice Mayor Burt agreed that the presentation was informative. He asked why the bulk of the contracts come up in June.

Kiely Nose, Chief Financial Officer shared that many of the City's contracts match the fiscal year. All summer contracts are approved in June so that Council can have a summer break in July.

Ms. Paras added that Staff is working on staggering the contracts so that the bulk of them are not bunched into two or three months.

Vice Mayor Burt inquired why the number of contracts with the threshold of \$1 to \$5 million doubled from Fiscal Year 2019 to Fiscal Year 2020.

Pete Gonda, Management Partners predicted that if the data set was broadened, it would show variability within the bands.

SUMMARY MINUTES

Vice Mayor Burt requested that Staff continue to monitor it. He inquired what patterns have been seen in terms of items that have been pulled from the Consent Calendar over the last year, did Council take additional action on those items, and did that inform what should be instituted in terms of policies and practices.

Ms. Paras disclosed that she could not think of any item that was pulled from the Consent Calendar that was voted down.

Ms. Nose clarified that Staff did not review all the items that were pulled from the Consent Calendar and then explore if they were modified or not.

Vice Mayor Burt wanted to know if the Downtown Streets Team contract was ever on the Consent Calendar.

Council Member Filseth confirmed that it was.

Vice Mayor Burt summarized that the Downtown Streets Team and the automated toilet contract were pulled from the Consent Calendar because there were ethical or legal issues. He wanted to know if there are mechanisms in place where Staff reviews all the background issues of the contractors.

Ed Shikada, City Manager explained that the City does a basic review, and many times Staff tries to anticipate if the item would best be suited on the Consent Calendar or not.

Molly Stump, City Attorney emphasized that the process in place does a good job of catching contracts that have red flags within the community. It is a rare occurrence that Staff places an item on the Consent Calendar and does not catch any issues.

Vice Mayor Burt restated that it may be beneficial to do a broad public record search of contractors before the item is brought to Council on the Consent Calendar.

Mr. Shikada indicated that there is no filter like that and the direction to Staff is not to rely on, but not ignore, red flags that are raised through a Google search.

Council Member Filseth questioned how often a contract comes to the Council on Consent that has issues.

Ms. Paras explained that Staff does not review or look for those items when a contract comes before the evaluation team.

SUMMARY MINUTES

Ms. Nose inquired how many contracts the City executes on an annual basis.

Mr. Paras answered 1,800.

Mr. Gonda added that there is a lot of work done on Public Works contracts to ensure that the bidders are responsive and responsible.

Ms. Stump proclaimed that there is a question on the Request for Proposals about disclosing litigation. There is no recheck for litigation when a contract is up for renewal.

Vice Mayor Burt stated that litigation should be rechecked during the renewal process.

Ms. Stump noted that it would have to be a reasonable and narrow request for certain types of litigation.

Chair Cormack asked how much the City spent to do the analysis.

Ms. Paras answered roughly \$8,000 and that did not include Staff work.

Chair Cormack agreed that she could not remember having an item pulled from the Consent Calendar that did not get approved. She indicated that because the City owns its utilities, that made it hard to compare the number of contracts with surrounding Cities. She concluded that the current process is the best and should not be changed.

MOTION: Chair Cormack moved, seconded by Council Member Filseth to review and accept this report, affirm current practices for approval of contracts on consent agendas, and forward this status to the City Council for approval.

Council Member Filseth found the report to be thorough and felt there was no need to change the current process.

Vice Mayor Burt shared that the purpose of the study is to convey and convince Council on what items should be pulled. He wanted the report to be an Action Item when it comes to Council.

Chair Cormack explained that the analysis was more about where an item should be placed instead of why the item was pulled from the Consent Calendar. Her concern about having the report be an Action Item was it may prompt more requests and questions.

Council Member Filseth preferred a summary of the discussion be provided to Council.

SUMMARY MINUTES

Mr. Shikada indicated that he could emphasize the discussion during City Manager Comments if the item is put on the Consent Calendar.

Chair Cormack agreed with Mr. Shikada's suggestion.

Council Member Filseth supported that idea.

MOTION PASSED: 3-0

Future Meetings and Agendas

Kiely Nose, Chief Financial Officer summarized that the Finance Committee holds their meetings on the first and third Tuesday of every month with a start time of 6:00 P.M. Staff has released a tentative budget schedule for May of 2021.

Chair Cormack confirmed that a 6:00 P.M. start time was appropriate. She commented that the proposal to have two budget sessions, 9:00 A.M., and 12:00 P.M. and 2:00 P.M. to 5:00 P.M., on May 11th, 12th, and 13th is to allow for a break from the virtual meeting. She suggested that the Operating Budget and the Capital Budget be considered separately.

Council Member Filseth supported having the two sessions.

Vice Mayor Burt agreed with having two sessions. He asked when did the switch occur to have daytime budget meetings.

Ms. Nose remarked that it has been that way for three or four budget seasons.

Vice Mayor Burt indicated that the reason for nighttime meetings is to allow the public to participate, but due to the pandemic it may not be an issue to have daytime meetings. He questioned how long wrap-up takes.

Ms. Nose confirmed it takes one day.

Vice Mayor Burt proclaimed he would review his schedule.

Chair Cormack indicated that the schedule can be adjusted if needed.

Adjournment: The meeting was adjourned at 8:54 P.M.