



FINANCE COMMITTEE SUMMARY MINUTES

Special Meeting
May 25, 2021

The Finance Committee of the City of Palo Alto met on this date in virtual teleconference at 9:00 A.M.

Present: Burt, Cormack, Filseth

Absent:

Agenda Items

1. Discussion on the Fiscal Year (FY) 2022 Budget Wrap-Up and Recommended FY 2022 Budget for City Council Adoption.

Christine Paras, Administrative Services Assistant Director remarked that two At Places memos were sent to the Finance Committee (Committee). The first memo contained the results of the 2021 Budget Survey. The second memo was the budget wrap memo which outlined the current recommended adjustments to the budget, provided a summarization of items the Committee should consider recommending that City Council (Council) direct Staff on, additional information that was requested by the Committee and Council, and a summarization of all the actions and reference materials from the May 2021 budget hearings. Staff recommended that the Committee review the tentative budget adjustments, review additional information the Committee requested, revise the General Fund (GF) Long Range Financial Forecast using Scenario B assumptions and the summary for the funding source statues for the ROTH building, and explore an alternative balancing strategy should labor concessions not be achieved.

Kiely Nose, Administrative Services Director announced that over 888 residents responded to the survey. The first question was about prioritizing Palo Alto (City) service areas. The top three priorities were community and library services, public safety, and planning and transportation. Question 2 requested that the respondent prioritizes items to be restored. The top three priorities included the neighborhood libraries and distribution services, the Children's Theater operations and production Staffing, and police patrol Staffing. Question 3 asked residents to rank alternative funding sources. The top three were to reduce the City Reserve by 25 percent, advance the

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second year American Rescue Program Act (ARPA) funding for Fiscal Year (FY) 2022-2023 in FY 2021-22, and reduce the City Reserves by 10 percent. Question 4 were open ended questions and Staff transmitted those answers to the Council Members. Several themes were reoccurring in the answers including explore options related to the Junior Museum and Zoo (JMZ) entrance fee so that it is lower than \$18, support teens and youth wellness programs, reinforce priorities, continue to look for efficiencies and provide services differently, and support for Charleston/Arastradero project to continue. She reminded the Committee and the public that Council did review the funding for the Charleston/Arastradero project and supported full funding for the project.

Ms. Paras reviewed the current status of recommended adjustments. The Committee and Council's recommended one-time costs totaled \$2 million and the ongoing costs totaled \$2.3 million. Staff's recommended adjustments totaled \$0.3 million in one-time funds and \$0.6 million in ongoing. Additional Staff recommended adjustments included a request of \$53,000 to restore the facilities and custodial services at the libraries and Interpretive Center. Also, \$82,000 for the Business Registry Certification and Business Improvement District fee waiver as well as \$1 million to restore Citywide administrative support functions.

Ms. Nose explained that the request to restore administrative positions was Staff's estimation of what is needed to restore baseline levels of service.

Ms. Paras reviewed the Long-Range Financial Forecast that assumed that the Staffing restorations are adopted and labor concessions are successful. The forecast used Scenario B and it assumed that ARPA funds were split with a 60/40 percent use in FY 2022 and FY 2023. With those adjustments, the cumulative net operating margin over the next 5-years was expected to be negative \$11.5 million. An alternative scenario was provided that assumed labor concessions were not successful and no further reductions are made which resulted in a cumulative net operating margin for FY 2022 through FY 2026 of negative \$13 million.

Ms. Nose added that the forecast does assume the ramp up of the Capital Improvement Transfer. For FY 2022, the base transfer is \$2.6 million, but moving through the 5-year forecast, the base transfer increases up to \$17.7 million in FY 2026. Staff did run an analysis if the forecast used Scenario A, which was a projected 2- to 3-year recovery period, and the City was still in the negative.

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Ms. Paras provided a list of assumption that were not included in the forecast which included Parks Master Plan, Loans for special projects, other Capital Improvement Projects (CIP) and several others.

Chris Robell was concerned that there will be an operating loss in the long rang plan due to ARPA funds only being available for 2-years. He suggested to explore cuts to optimize the organization and implement a Business Tax to close the funding gap in the later years. He strongly opposed a tax on residents.

Monica Yeung Arima encouraged the Committee to provide funding to rehabilitate the Roth Building, so that the Palo Alto Museum can be providing fundamental education to the community.

Jeremy Erman was concerned about the labor concessions and was confused as to why that was not done before the budget meetings. He encouraged the City Manager to reduce his salary to help fund programs. He disclosed that the Committee does not have the full budget and that made it hard to move funding around. He believed that if Council restored services, that would encourage the groups to fundraise.

Laura Jones shared three observations related to the use of Stanford University Medical Center (SUMC) Funds for the rehabilitation of the Roth Building. The project is an infrastructure project and is a long-term reinvestment, the project addresses sustainability, and the project is unique and important to the community. She requested that the Committee recommend approval of the funding for the Roth Building.

Hal Mickelson spoke on behalf of the Palo Alto History Museum. He stated that Impact Fees are not a funding source that is going to rescue the City's Operating Budget challenges. He advised the Committee to use the funds to restore the Roth Building.

Stephen Raney requested that the City provide strong advocacy at the June 30, 2021 Caltrain Board meeting for Palo Alto Transportation Management Association (PATMA) regarding the Go Pass Donation Program. He expressed that PATMA needs input from the Council on how PATMA should become self-sufficient.

Teresa Lunt spoke on behalf of the Palo Alto Art Center. She thanked the Committee for restoring the previously Proposed FY 2022 Budget cuts to the Palo Alto Art Center. She requested that the Committee consider restoring the cuts that were adopted in the FY 2021 Adopted Budget.

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John Northway announced he is a Board Member for the Palo Alto Museum. He noted that the Roth Building is structurally unsound and cannot be occupied until the rehabilitation work is complete. The Palo Alto Museum has an active Building Permit and the project is shovel ready. That permit is due to expire in the next 6-months and if it expires, the cost to rehabilitate the building will increase.

Mora Ooman spoke as the Executive Director of Youth Community Service (YCS) and thanked the Committee for reinstating funding for the Youth Connective Initiative (YCI) Program. For future budgets, she encouraged the City to include the public in the conversations earlier in the process.

Steve Staiger disclosed he is a historian for the Palo Alto Historical Association (PAHA) and PAHA manages the historic archives for the City. City Staff and residents regularly use the archives. He encouraged the Committee to recommend approval of funding for the rehabilitation of the Roth Building, so that the archives have a permanent home where all folks can enjoy them.

Rich Green speaking for Laura Bajuk, Nelson Ng, Kimberley Wong, Doug Kreitz, Carol Kiparski, and Ian Irwin. He announced he is the President of the Palo Alto Museum and he presented a list of all the names of folks who support and have donated to the project. He found it encouraging that Council has directed the Committee to explore funding for the Roth Building's rehabilitation through using SUMC Funds and Impact Fees. He expressed that the building is an eye sore in a very historical and beautiful park. If funding is approved, construction can begin in July of 2021 and the museum can be open to the public by summer of 2022.

Council Member Filseth assumed that FY 2024's operating margin figures assumed that the City has balanced FY 2023's one-time negative amount of \$8.8 million.

Ms. Paras answered yes.

Council Member Filseth noted that the cumulative net operating margin assumed that the City found \$8.8 million in cuts in FY 2023 per year, another \$5.3 million in cuts per year in FY 2024 and then \$1.5 million in cuts per year in FY 2025. He asked if anyone thought that could be accomplished. He summarized that the Long-Range Financial Forecast shows that expenses are growing faster than revenues. He said the FY 2022 Proposed Budget either assumed a \$50 million gap over 5-years or it assumed that the City is trading a \$5 million cut in FY 2022 for an \$8.8 million cut in FY 2023 and a \$5 million cut in FY 2024. He did not support skipping a \$5 million cut for FY 2022 for a \$8.8 million cut in FY 2023.

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Vice Mayor Burt asked what is the average increase in revenue that the City has had over the last 8-years leading up to FY 2021.

Ms. Nose noted that Staff can provide that answer to the Committee later in the meeting.

Vice Mayor Burt expressed that is an important reference point. He noted that the steeper the dip in downturn often results in a stronger recovery. He mentioned that during the great recession, the City faced very similar structural deficits and the City was able to find ways to cover the gap. He stated that a Business Tax has the potential to bring in over \$30 million a year to Palo Alto. He assumed that the growth in revenue projects is conservative and often the City saw a higher rate of revenue growth than what was projected.

Council Member Filseth answered that the City's average revenue growth over the past 8-years was 5 percent. That percent included raising the Transfer Occupancy Tax (TOT) and other items.

Ms. Nose added that the 5 percent also included two, possibly three, ballot measures.

Vice Mayor Burt wanted to know what it is absent of the rate changes. He remarked that the TOT is dedicated to the Capital Plan rather than the GF Operating Budget. He wanted better clarity on the summary of restorations that were restorations to the intended cuts for FY 2022 versus restorations to cuts that occurred in FY 2021. He wanted to know if the administrative restorations correlated to the intended administrative cuts for FY 2022 or where they restorations from the FY 2021 Adopted Budget cuts.

Ms. Nose noted that the majority of the proposed administrative restorations are FY 2022 cuts except for the restorations in the fire department and the Human Resources Department. None of the restorations fully restore the restorations proposed for FY 2022 that the departments were recommending.

Chair Cormack agreed with Council Member Filseth's interpretation of the Long Range Financial Forecast. She noted that the changes that the City has made over the last couple of years had to do with visitors and she was not sure if the City will reach the level of tourism it once had. She acknowledged that the community has strongly advocated for City provided services and she found it appropriate to ask the community to contribute to funding those programs. She agreed that a Business Tax will help with revenues, but she predicted that the City will still have to accommodate some cuts to services in FY 2023. In terms of the \$1.6 million for labor

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concessions, she was comfortable setting aside \$136,000 out of that fund but no more. She supported Staff allocating extra funds to the Community Services Department for Children's Theatre and matching the SUMC to the Human Services Resource Allocation Process (HSRAP) fund. In terms of the increase in the Uncertainty Reserve from \$400,000 to \$500,000, she stated it is important to keep some resources unallocated due to the volatility of the economy. She expressed that she will not support any changes to parking until Mr. Kamhi brings forward more information from the Office of Transportation. She wanted to understand what the reduction meant for the Transportation Management Association (TMA) in terms of traffic and provided services.

Philip Kamhi, Chief Transportation Official explained that the TMA provided a projection of how many commuters they expect to be returning over time and it is a ramp up. Staff did not expect the TMA to be at the February 2020 commute levels in July or August of 2021, but possibly could be at that level in March of 2022. Any decrease in funding would require the TMA to scale back the program to meet the cash flow requirements and would impact Caltrain, Ways, and Lyft commuters.

Vice Mayor Burt inquired if there have been any updates on the revenue projections. He reported that Staff had projected a \$2 million to \$3 million increase in revenue.

Ms. Nose mentioned that Staff will be receiving the cash receipts for Sale Tax, but the economic side of the tax will not be available until a month after the cash receipts have been received.

Vice Mayor Burt assumed that Staff used \$2 million for budget purposes.

Ms. Nose answered that when the Budget Stabilization Reserve (BSR) was being budgeted, Staff did assume a \$2 million revenue increase.

Ms. Paras clarified that in the Long-Range Financial Forecast, Staff included adjustments in Educational Revenue Augmentation Fund (ERAF), to Property Tax and adjustments to TOT. There were slight increases, but nothing that came close to the \$2 million that was adjusted in FY 2021. Staff also evaluated average revenue growth from FY 2015 to FY 2020 Actual and there was a 5 percent increase. Staff did not have the data to estimate what the revenue increase would be without the ballot measures included.

Vice Mayor Burt indicated that there are two other revenue categories, one on-going and one potential method to bridge the gap. The on-going revenue stream was the golf course. He restated that Staff expressed revenue from

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the golf course will be over half a million more than what was projected for FY 2021.

Kristen O’Kane, Community Services Director answered that is correct.

Vice Mayor Burt declared that the golf course is recognized as one of the top public courses in the State of California. He predicted revenue will continue to come in over what is projected for FY 2022. He commented that the Fiber Fund was never included as part of funds that were accessible for meeting GF needs. He was interested in using \$5 million from the Fiber Fund over 2-years to restore services, or increase the Discretionary Fund for COVID-19 recovery in FY 2021 in order to restore services in early FY 2022.

Chair Cormack explained that while the service restorations are at 65 percent, Staff estimates that it is a 50 percent restoration on the Staff side, and she supported that. She expressed concern regarding the statement that Staff will experience barriers and resistance to hiring.

Ms. Nose shared that professional Staff are listening to the budget conversations and are evaluating the financial health of organizations. She acknowledged that though the City may be restoring Staff positions, the City may not have individuals to provide those services.

Rumi Portillo, Human Resources Director added there are several factors that make the hiring and retention environment difficult. One was a concern among employees about stability and surrounding jurisdictions are hiring whereas Palo Alto is not. The other factor was a reluctance to leave a permanent employer to go to the City who is in a negative economic condition.

Chair Cormack said that the Council should discuss that further. She said having the expenditures rise at double the rate of revenue is the definition of unsustainable. In terms of the Fiber Fund, the Rate Stabilization Reserve has a minimum target level of \$500,000 to \$1.1 million. She wanted to understand why the fund was categorized that way and what restrictions there are.

Ed Shikada, City Manager was not ready to respond to that question and can answer it after the break.

Chair Cormack said it may be possible to loan \$4 million from the Fiber Fund to the Palo Alto Museum in the hope of receiving federal funding. That could be used as a bridging strategy to allow the Palo Alto Museum to move forward on their project and enable continuation of the funds from the federal government.

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The Finance Committee took a break at 10:31 A.M. and returned at 10:40 A.M.

Ms. Nose indicated that Staff has an update on the golf course.

Ms. O’Kane said that the City’s golf contractor is estimating that revenues will exceed the projected amount in FY 2022, but only by \$200,000 based on historical data. She indicated that one reason why the revenue has increased for FY 2021 was due to the seasonality of the course and warm weather.

Dave Yuan, Utilities Strategic Business Manager reported on the Fiber Fund Rate Stabilization Reserve. He shared that the fund was established 15-years ago and rates have not increased since 2008.

Council Member Filseth agreed that it is important to explore available flexibilities, but that did not help the concern that the Long-Range Financial Forecast in FY 2025; or the concern that expenses needed to be \$15.7 million per year lower than projected. He said even a Business Tax is unlikely to bring in \$15 million per year.

Vice Mayor Burt disagreed. He stated it was not \$15 million that the City has to reduce in revenues, but closing a \$15 million gap that was created by expenses and revenues.

Council Member Filseth added per year.

Vice Mayor Burt answered yes, but it was not all expenses. He expected the City would implement a Business Tax, that is similar to the City of East Palo Alto’s tax, which could bring in over \$30 million a year based on the City’s current structure. He agreed that in FY 2026, Staff projected a very conservative expense growth, but in the preceding 4-years, those years have an organic conservative revenue growth. He anticipated that the City will have a quick economic recovery. In terms of hiring concerns, he mentioned that the FY 2021 Staffing cuts has jeopardized the City’s ability to hire professionals. He emphasized that is a big issue and the notion that the downturn should be the bases for very fundamental diminishment of the services that the City provides is misguided information. The City should be looking at strategic changes instead of slash and cut. He did not understand the concept to keep reserve funds at target levels when the City was in an emergency already and those funds should be used as bridging mechanisms for the next 2 years. He wanted to understand how the loan concept may work for the Palo Alto Museum.

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Mr. Shikada understood that earmark funding will be going through Congress Committees and then fall under specific federal programs. All those programs have their own rules and Staff will be exploring those rules as the project progresses through the earmark process.

Mr. Green found the idea of a \$4 million loan interesting. He stated the federal grant is not guaranteed and that it is a resource that cannot be counted on as collateral the City can use for a loan. He agreed that there needed to be more studying done.

Chair Cormack asked if it would be beneficial to increase the electrical rate now.

Dean Batchelor, Utilities Director commented that if the rates are raised, the extras funds would go back into the Electric Reserves until the electrical system can be evaluated.

Chair Cormack felt better after hearing the explanation to leave the electrical rate at a zero percent increase for now. She said the total available Impact Fee amount equated to \$0.9 million and of that, \$0.5 million is eligible.

Ms. Nose answered yes.

Chair Cormack said that if the Roth Building project is funded, that would take away funding to the safety improvements at Rinconada Park and the equipment for the neighborhood libraries.

Ms. Nose confirmed that is correct.

Chair Cormack emphasized that parks and libraries were at the top of the priority lists for residents in the Budget Survey. She could not support removing funding for a safer park and the libraries. She said there is an alternative method to fund the Roth Building Project through the Fiber Fund Stabilization Reserve.

Mr. Shikada confirmed that the federal grant for the Roth Building is requested for FY 2022. If the Committee and Council wanted to consider a loan, he suggested not to spend the funds until FY 2022 begins.

Chair Cormack asked if the City went ahead and provided the loan, would that indicate to the federal government that the City is a partner and increase support for the project.

Mr. Shikada strongly recommended not to start expenditures in order to ensure the City can meet the process requirements.

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Vice Mayor Burt emphasized that the Roth Building is an important historical City owned asset and needs to be restored to a level that allows the building to be leased. He understood that Palo Alto Museum has not expressed interest in making any tenant improvements. He shared that he has always felt that the City should be responsible to rehabilitating the building. In terms of Community Center Funds versus Park Funds, he agreed that the restrooms are an appropriate use of the Park Fund. He inquired if the Community Center Funds could be used for the Roth Building and the Park Fund be used for the safety improvements at Rinconada Park. Also, he wanted to know what the projected incoming amounts will be for both funds in the next year or two.

Ms. Nose requested clarification on which Park Fund Vice Mayor Burt was talking about.

Vice Mayor Burt reemphasized that the Rinconada Park improvements were to rebuild the park and the Community Center Fund should not be used for that project. He wanted to use the Park Funds for that project and use Community Center Funds for the Roth Building.

Brad Eggleston, Public Works Director pointed out that the agreement between the Friends of the JMZ and the City was that the City make contributions to the JMZ projects in several different aspects. One was that the City would fund the pathway and the entrance way project to the park. Separately, there were cash payments made to the project directly to the Friends of the JMZ by the City and those payments came out of the CIP project.

Mr. Shikada asked what are the amount of the funds paid to the JMZ.

Mr. Eggleston answered he did not have those figures available.

Ms. Nose summarized that the Rinconada Park project was originally funded by the GF. In order to provide the payment to the JMZ as part of the upgrade, Staff took funding from the GF Rinconada Park project and paid JMZ the cash payment with the understanding that the City would replenish the Rinconada Park Project with funding from the Community Impact Fees. She mentioned that there are two Park Funds and each have their own regulations and the Committee can request that Staff compare and reallocate Park Impact Fees and Park Dedication Fees.

Vice Mayor Burt wanted to explore that concept further. In terms of the Fiber Fund, he stated that by the end of FY 2021 there would be \$6 million above what Council allocated to the contract to build out the fiber system.

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He advised those funds be placed in a recovery reserve and explore using those funds as bridging mechanisms between FY 2021 and FY 2022.

Mr. Yuan clarified that \$2 million from the Fiber Fund Reserve was allocated to the engineering design of the fiber build out and that was not part of the \$30 million contract with Magellan.

Chair Cormack agreed that Impact Fees should be used to build the restrooms at the Roth Building. She said there will be a lot of components to sort out when the lease comes to Council. She understood that the restrictions in the Park Dedication Fund were limited and a large amount was allocated to the park for the Ventura Neighborhood. She noted that some of the components that the Palo Alto Museum has expressed could be funded through the SUMC fund where not direct matches.

Council Member Filseth said all the mechanisms to fund the Roth Building are within reason.

Vice Mayor Burt understood that the library component of the Roth Building project was the historical archives. He understood that Library Impact fees would fund that component.

Ms. Nose confirmed that \$300,000 has been allocated for Library Impact Fees for establishment of the City archives. Based on square footage of the archives, the City would be allowed to spend up to \$800,000 of the Library Impact Fee. The remainder \$500,000 could be used for the City archives, but Staff identified that all the Library Impact Fees have been allocated to other projects except \$65,000.

Vice Mayor Burt requested how much does the Library Impact Fee grow annually.

Ms. Nose replied that fund grew by \$46,000.

Vice Mayor Burt asked how fast do the newly adjusted Community Center Fund and Park fund grow annually.

Ms. Nose reported the Community Center In-Lieu Fee collected roughly \$134,000 in FY 2020.

Vice Mayor Burt pressed what is the new increase that Council just adopted for those two funds.

Ms. O'Kane said she can provide that answer shortly.

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Vice Mayor Burt summarized that the Fiber Fund has \$4 million available in funds that can be spread over 2-years, on top of the \$700,000 adjustment from the Golf Fund. He mentioned that a recent report from a major residential broker showed a 98 percent increase in residential sales with a 10 to 11 percent higher average selling price. He claimed this equated to a potential doubling of the Document Transfer Tax (DTT) and that will increase the City's revenue. He acknowledged that the City took a huge hit in the TOT and he predicted that the City will see an increase in the occupancy in the more modest priced hotels in the coming year. He predicted that the full recovery of the TOT will take a long time, but the increase may be more than what the City anticipates in the short term. He strongly believed the City would going through a 2- to 3-year recovery, rather than the 5-year recovery period the City was projecting.

Chair Cormack asked if a failed Motion can be re-voted on.

Molly Stump, City Attorney explained that the rules state that an item can be reopened during the meeting in which it was voted, but only on motions made by someone who voted in the majority.

Chair Cormack inquired if that applies to the entire Motion or a segment of the Motion.

Ms. Stump reported that the rules are not clear on that.

Ms. Nose explained Staff's attempt at an outline for Motions to make things easier for the Committee.

Chair Cormack reported she had no additions to Motion A, she included retain the \$1.7 million of unallocated funds for Motion B, was fine with Motion C and requested that Staff add Motion D regarding the Committee's recommendation for the Roth Building.

Vice Mayor Burt was interested in placing the \$1.7 million unallocated funds as well as \$4 million from the Fiber Fund in a COVID Recovery Fund to enable the Council to restore services in the future. He asked if Motion D.ii. meets Council's direction.

Chair Cormack answered yes.

MOTION: Chair Cormack moved, seconded by Council Member Filseth to:

- A. Recommend the City Council adopt the FY 2022 Operating and Capital Budgets, Municipal Fee Schedule, and approve the FY 2022-2026 Capital Improvement Plan as amended by the actions outlined in the

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staff report section 1 and 3 including Committee and Council tentative adjustments and staff recommended adjustments with the following additional amendments:

- i. In the event the unallocated \$1.7 million and/or other funding adjustments remain available, place it in the Council Uncertainty Reserve and retitle the reserve to "Council Recovery Reserve";
- B. Recommend to the City Council an alternative balancing strategy to be implemented in the event the City does not achieve agreement on labor concessions. This includes amending the budget outlined in item 1 with the following additional adjustments:
 - i. Recommend the allocation of unspent funding of \$1.7 million identified on staff report page 4, in the event that the City is unable to reach agreement with City labor groups;
- C. Recommend the City Council refer the following items to Staff for further discussion and review subsequent to the annual budget process;
- D. Direct Staff to prepare two scenarios for refurbishing the Roth Building:
 - i. Research the feasibility of \$4 million, zero percent interest, 18-month loan from the fiber fund to the museum, with the option to be repaid by the potential federal government community infrastructure grant; and
 - ii. Utilize \$2 million in SUMC funding from the community and infrastructure funds and utilize \$350,000 in impact fees for parks for the restroom and research the possibility of reallocating parks impact fees to the Rinconada PE 08001 in lieu of community center fees.

Vice Mayor Burt said if the loan for the Roth Building is one that is separate from utilizing the surplus from the Fiber Fund to be included in Motion B.i., then he supported that. He noted if the intention was it is either or, then he did not support that.

Chair Cormack confirmed that it is either or and the motion does not contemplate using resources from the Fiber Fund to fund operations.

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Vice Mayor Burt mentioned that a loan would not compete with that and the reason is because the City does not have the intention to spend \$30 million for the fiber build out in the next 18-months.

Chair Cormack clarified it would be a loan with the full understanding that it might not be repaid should the federal government not provide the funds. She added that she is comfortable taking the risk.

Vice Mayor Burt did not support that and requested that motion be separated out for a separate vote. He proposed an amendment.

AMENDMENT: Vice Mayor Burt moved, seconded by Council Member XX to add to the Council Recovery Reserve:

- A. \$700,000 from projected net revenue increases from the golf course from FY21 and FY22; and
- B. \$2 million for FY22 from surplus funds in the Fiber Fund, with an anticipated \$2M toward FY23 Operating Budget.

Council Member Filseth commented on his second and said he liked that Motion D.i. guaranteed that funding happens for the Roth Building and the City will not be displaced if the federal funding comes with restrictions that do not allow the funds to be used for the Roth Building. He noted there is a significant risk of the City depleting the Fiber Fund, the TOT, and everything else in the new few years in order to pay for services.

Vice Mayor Burt wanted the \$500,000 to be described differently and not as unspent funding. He said if the \$500,000 is intended to allow Council to use the funds to restore services in the coming months, then it should be described as a COVID recovery fund.

Chair Cormack suggested that be incorporated in Motion A.ii.

Ms. Nose asked if the intent from the Committee is to segregate the BSR versus the Council Recovery Reserve.

Vice Mayor Burt answered yes.

Chair Cormack understood that the motion would provide flexibility and the Council does not have to spend what is in the Council Recovery Reserve. Those funds could go back into the BSR if Council so chooses.

Council Member Filseth asked what the difference was of allocating funds from the BSR versus the Council Recovery Reserve.

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Ms. Nose wanted further clarification on that as well.

Vice Mayor Burt stated there is a procedural difference between the two funds.

Ms. Nose agreed that there is a difference in voting, but typically reserve funds have targets and are very specific. She stated she would have to explore it further offline.

Vice Mayor Burt suggested the Committee break to allow Staff to receive that clarification. He restated the intent is to possibly restore additional services cuts in the near future.

Chair Cormack suggested a break to allow for lunch and Staff to collect the answers to the questions raised.

The Finance Committee took a break at 12:05 P.M. and returned at 2:00 P.M.

Ms. Nose said that Staff is concerned about the and/or in Motion A.i., that the language is very vague and the use of the Council Recovery Reserve is very vague. Staff recommended the Committee create a sub-bucket under the BSR. Then identify a portion of the BSR that the Committee can recommended by earmarking it for recovery efforts which would required a 2/3s vote from the full Council in order to allocate the funds. The other option was to establish a separate reserve and those funds would be available by a simple majority vote. She noted that the Committee must clearly articulate the level of the reserve and the use of the reserve.

Chair Cormack found having a BSR sub-bucket complicated. She proposed different language for Motion A.i.

Council Member Filseth agreed to the new language.

INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER to update Motion Part A.i. to read, "In the event the unallocated \$1.7 million remains available place it in the budget stabilization reserve and retitle the Council Uncertainty Reserve to "Council Recovery Reserve" to be used to restore FY 2021 cuts as appropriate".

Ms. Nose suggested the Committee change Motion D.i. because there may not be an option for the City to be repaid by federal funds.

INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER to update Motion, Part D.i. to read, "Research the feasibility of \$4 million, zero percent interest, 18-month loan from the fiber

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fund to the museum, with a forgiveness option depending on receipt of Federal Government Community Project Funding”.

Ms. Nose remarked for Motion D.ii., that the \$2 million SUMC Funding required funds be used from either the Mitigation Fund or the Climate Action Fund. If that was the intention of the Committee, then \$2 million is the right figure. If that was not the Committee’s intention, then the figure would be \$1.85 million from the Community Health and Wellness Fund and the Infrastructure and Affordable Housing Fund. The remaining would come from the Expansion Cost Mitigation Fund or the Climate Change and Sustainability Communities Fund.

INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER to add to Motion, Part D.ii., “...primarily from the community and infrastructure funds...”.

Ms. Nose noted in terms of Park Funds, Staff will be exploring whether the funds are allocated for different projects, legal requirements, and if the project itself falls into the category of being eligible for Impact Fee Funds. She moved to the amendment proposed by Vice Mayor Burt. She disclosed that Staff was checking whether the \$200,000 in FY 2022 is already a component of the FY 2022 Proposed Budget.

Vice Mayor Burt clarified that there is already a \$200,000 anticipated profit from the golf course and he understood that figure was above the budget amount.

Ms. Nose noted that Staff is confirming that.

Ms. Paras confirmed that the \$200,000 is above the proposed revenue level in the FY 2022 Proposed Budget. However, the golf operator fee was \$80,000 which brought the figure to \$175,000.

Ms. Nose emphasized that based on Council’s direction, Staff does take a conservative approach when estimating revenues. If the Committee wants a revised estimate of what the BSR is going to be, she recommended that the Committee review all GF revenue in totality. She was concerned about having the Committee explore only one revenue source and not all of them together.

Vice Chair Burt agreed that the Committee should look at them all together, but disagreed that the one revenue stream was being singled out. He mentioned that Staff informed the Committee that the BSR was projected to be increased by \$2 million to \$3.3 million and Staff chose the low range of that. DTT was not included in the revenue either.

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Ms. Nose clarified that the increase to the BSR included the increase to DTT. DTT included both residential and commercial sales. In terms of the Fiber Fund, she noted that the motion to use the fund are exceptions to Council's guiding principles for long rang forecasting and the BSR Policy. Staff suggested that the Council establish an overarching policy associated to the Fiber Fund as fiber to the home is being built out.

Ms. Stump added that Staff will be including in Council's adoption package a motion to make exceptions to any of the previously adopted policies.

Mr. Shikada suggested the Committee set a timeframe of when the estimated updates should be prepared by.

Ms. Nose clarified that Staff has a referral for that already and Staff will be coming to Council on a quarterly basis to allow for adjustments to be made to the budget in real time.

Vice Chair Burt felt it would be worthwhile to clarify policies going forward. He did not agree with the notion that a pandemic and the response is a one-time event. He was not sure if the Council and the public will know what is being conveyed in Motion A and B and the difference between the two was unclear.

Ms. Nose proposed a reorganization of the motion.

Chair Cormack suggested to split A.i. into two sections.

Vice Mayor Burt wanted the motion to be clear on what is in the Council Recovery Reserve and what's going to the BSR. He suggested if there was not full consensus on his amendment, then he was willing to vote on A and B separately.

Chair Cormack asked Staff to clarify the \$700,000 amount.

Ms. Nose explained that the amendment intended to recognize additional revenues from both FY 2021 and FY 2022 from the golf course. That would increase available funds in the BSR and those funds would be used as a source of revenue.

Chair Cormack clarified that her understanding was that the \$200,000 is a gross number, not a net number.

Vice Mayor Burt mentioned that there was \$208,000 anticipated net income for FY 2021, but it was increased to \$700,000 for the golf course.

Ms. Paras answered that is correct.

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Chair Cormack was not comfortable spending the funds based on the information she heard from Staff about the uncertainty in the coming year.

Council Member Filseth reiterated that Council has the ability to move the funding, whether or not it is in a recovery reserve. He suspected there will be resistance from the full Council of moving money from the Fiber Fund to the Operating Budget.

Chair Cormack asked if Council Member Filseth was interested in seconding Amendment A.

Council Member Filseth answered no.

Chair Cormack disclosed she will not be seconding Amendment B.

Council Member Filseth did not second Amendment B.

AMENDMENT RESTATED: Vice Mayor Burt moved, seconded by Council Member XX to add to the Council Recovery Reserve:

- A. \$700,000 from projected net revenue increases from the golf course from FY21 and FY22; and
- B. \$2 million for FY22 from surplus funds in the Fiber Fund, with an anticipated \$2M toward FY23 Operating Budget.

AMENDMENT FAILED DUE TO THE LACK OF A SECOND

MOTION RESTATED AS CLARIFIED BY STAFF: Chair Cormack moved, seconded by Council Member Filseth to:

- A. Recommend the City Council adopt the FY 2022 Operating and Capital Budgets, Municipal Fee Schedule, and approve the FY 2022-2026 Capital Improvement Plan as amended by the actions outlined in the staff report section 1 and 3 including Committee and Council tentative adjustments and staff recommended adjustments with the following additional amendments:
 - i. Recommend to the City Council an alternative balancing strategy to be implemented in the event the City does not achieve agreement on labor concessions by using current unallocated funds of \$1.7 million to offset the additional expense estimated at \$1.6 million in the General Fund, \$2.5 million all funds;

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- ii. In the event the unallocated \$1.7 million and/or other funding adjustments remain available, place it in the Budget Stabilization Reserve and retitle the reserve to “Council Recovery Reserve”;
- B. Recommend the City Council refer the following items to Staff for further discussion and review subsequent to the annual budget process;
- C. Direct Staff to prepare two scenarios for refurbishing the Roth Building:
 - i. Research the feasibility of \$4 million, zero percent interest, 18-month loan from the fiber fund to the museum, with the option to be repaid by the potential federal government community infrastructure grant; and
 - ii. Utilize \$2 million in SUMC funding from the community and infrastructure funds, and utilize \$350,000 in impact fees for parks for the restroom and research the possibility of reallocating parks impact fees to the Rinconada PE 08001 in lieu of community center fees.

Vice Mayor Burt asked how Motion D.ii aligns with Council’s direction and if what is proposed is a potential way to meet the \$4 million as opposed to using the available \$4 million.

Chair Cormack confirmed that it is a way to meet it.

Vice Mayor Burt indicated that it has not been determined that what is proposed is a feasible maneuver.

Council Member Filseth asked if the Vice Mayor’s intent was to use the surplus from the Fiber Fund for the Roth Building.

Vice Mayor Burt answered no and what is being proposed is different from Council’s direction. He reiterated that what Chair Cormack was proposing is a second alternative.

Chair Cormack suggested different language to Motion C.ii.

Vice Mayor Burt agreed to the change.

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INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER to add to Motion, Part C.ii., "...community center fees, else use \$1.65 million in Community Center Fees and defund the Rinconada Park Program".

Vice Mayor Burt cautioned the Committee and Staff to anticipate the Council taking a different course of action than what the Committee recommends.

Chair Cormack suggested Motion B be removed.

INCORPORATED INTO THE MOTION WITH THE CONSENT OF THE MAKER AND SECONDER to remove from the Motion, Part B.

Mr. Shikada shared that in terms of Motion B.ii., the Rinconada Park Project has already been bid on and is planned to come to Council on June 28th, 2021.

Council Member Filseth asked if the Council could decide to allocate funds from the Fiber Fund to the project.

Vice Mayor Burt answered yes, but he thought it was a relocation of funds. Not to defund the project as was written in the motion.

Chair Cormack explained that the direction from Council was to use SUMC Impact Funds and she was trying to comply with that direction.

Vice Mayor Burt proclaimed he understood that Staff was going to explore whether the Rinconada Park Project could be funded through Park Funds. Community Center Funds would be then used for the Roth Building.

Chair Cormack understood from Staff that was an appropriate referral and that Staff cannot do that work in one-day.

Ms. Nose agreed with Chair Cormack. Staff will identify whether or not there are eligible Park Impact Fees to fund the Rinconada Park Project. If not, then the priority of those funds would be used for the Roth Building.

Council Member Filseth agreed with Ms. Nose's interpretation.

Chair Cormack confirmed that is the intent.

Vice Mayor Burt stated he did not know the full range of Park Fund uses. He asked if the Rinconada Park Project is using all the funds.

Chair Cormack indicated that Staff would need time to provide an answer.

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Vice Mayor Burt restated he is not supportive of the language for Motion B.ii.

Council Member Filseth disclosed that he was going to vote no on the whole motion because he could not support a budget where expenses exceed revenues in the future.

MOTION AS AMENDED: Chair Cormack moved, seconded by Council Member Filseth to:

- A. Recommend the City Council adopt the FY 2022 Operating and Capital Budgets, Municipal Fee Schedule, and approve the FY 2022-2026 Capital Improvement Plan as amended by the actions outlined in the staff report section 1 and 3 including Committee and Council tentative adjustments and staff recommended adjustments with the following additional amendments:
 - i. Recommend to the City Council an alternative balancing strategy to be implemented in the event the City does not achieve agreement on labor concessions by using current unallocated funds of \$1.7 million to offset the additional expense estimated at \$1.6 million in the General Fund, \$2.5 million all funds;
 - ii. In the event the unallocated \$1.7 million and/or other funding adjustments remain available, place it in the Budget Stabilization Reserve and retitle the reserve to "Council Recovery Reserve";
- B. Direct Staff to prepare two scenarios for refurbishing the Roth Building
 - i. Research the feasibility of \$4 million, zero percent interest, 18-month loan from the fiber fund to the museum, with the option to be repaid by the potential federal government community infrastructure grant; and
 - ii. Utilize \$2 million in SUMC funding from the community and infrastructure funds, and utilize \$350,000 in impact fees for parks for the restroom and research the possibility of reallocating parks impact fees to the Rinconada PE 08001 in lieu of community center fees, else use \$1.65 million in Community Center Fees and defund the Rinconada Park Program.

MOTION AS AMENDED PASSED: 2-1 Burt no

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Council Member Filseth confirmed that he will vote no on the motion when it comes to Council.

Chair Cormack reported she may be doing the same.

Oral Communications

None

Future Meetings and Agendas

Kiely Nose, Administrative Services Director announced the Finance Committee's next meeting is scheduled for June 15, 2021 at 6:00 PM. Staff will be presenting to the Committee potential funding mechanisms as well as a lease agreement.

Council Member Filseth remarked that the previous motion was consistent with what Council directed the Finance Committee to do and he voted yes for that reason. He predicted that City Council and Finance Committee will be having the same discussion for the Fiscal Year 2023 Budget.

Adjournment: The meeting was adjourned at 2:50 P.M.