FINANCE COMMITTEE
FINAL MINUTES

Regular Meeting
November 19, 2013

The Finance Committee met on this date in the Council Chambers at 6:59 P.M., 250 Hamilton Avenue, Palo Alto, California.

Present: Berman, Burt (Chair), Shepherd, Schmid

Absent:

ORAL COMMUNICATIONS

None

1. Macias Gini & O'Connell's Audit of the City of Palo Alto's Financial Statements as of June 30, 2013 and Management Letter.

Houman Boussina, Acting City Auditor, reported Macias Gini and O'Connell (MGO) presented eight reports including the City's Comprehensive Annual Financial Report (CAFR). MGO issued an unmodified opinion for all the City's basic financial statements, which meant MGO concluded that the statements were presented fairly in all material respects. MGO did not have any recommendations; however, the report to the Council contained the status of prior year recommendations. Of five outstanding significant deficiencies MGO reported in the prior year, two were corrected and three were in progress. Some recommendations covered areas that were also addressed in audits conducted by the Office of the City Auditor. Staff met with MGO to discuss concerns regarding internal control deficiencies and financial misstatements in the City's inventory balances. MGO shared Staff's concerns regarding controls over inventory management, but concluded overall that the City's financial statements were not materially misstated. The audits conducted by MGO focused on financial reporting and material misstatements. Audits conducted by the Office of the City Auditor addressed risks involving operational compliance and strategic objectives that may not necessarily have a material impact on the City's financial statements.

David Bullock, Macias Gini and O'Connell, provided eight reports and one Management Letter and issued unmodified opinions. The language of modified opinions changed because of new audit standards implemented in 2013. The City issued two financial statements which were not in accordance with Generally Accepted Accounting Principles (GAAP), the Cable TV Franchise audit and the Regional Water Quality Control Plant audit. Both reports were prepared in order to meet contractual requirements. The City's CAFR information was reported on a GAAP basis. MGO made one finding regarding the federal awards audit under the City's procurement process. The Planning Department was required to ensure that vendors were eligible for federal contracts. That finding was considered to be an internal control finding rather than a compliance finding. One prior year finding related to the schedule of federal awards not being complete. Staff made necessary corrections to ensure grants were reported properly. The Management Letter encapsulated any comments and required communications. In accordance with new accounting pronouncements, the City implemented four new standards, none of which were significant. Two other statements were required to be implemented in the following two years. One affected reporting of debt, and the other affected pension obligations to employees. There were two items not corrected in the financial statements. One related to notes and the other to inventory.

Council Member Schmid requested Mr. Bullock comment on questions raised in 2011 regarding Information Technology (IT) security.

Mr. Bullock indicated MGO's IT experts helped identify areas for IT improvements. MGO issued six findings in 2011, one of which had been corrected. Two findings were corrected in 2013. The City determined one finding would not be implemented because of a cost-benefit analysis and because the City had other mitigating controls. The remaining three findings were in progress.

Jonathan Reichental, Chief Information Officer and Director of Information Technology, reported the IT Department extensively discussed the issue of the fire suppression system and visited several data centers to gain information. The fire suppression system was a dry pipe set-up. The temperature in the room had to reach a certain level before the system was invoked. By the time the system was invoked, the servers would be destroyed by fire. If smoke occurred in the server location, the Fire Service would inspect the room and attempt to extinguish a fire well before water sprayed the room. He remained concerned that the City had an extensive amount of equipment in one location without sufficient recourse or back-up equipment at a different location. Staff was in the process of moving core systems into the cloud, which was essentially another location. Moving data to the cloud would provide the best method for disaster recovery.

Council Member Schmid inquired whether Staff believed the cloud environment provided adequate security for City data.

Mr. Reichental answered yes. Staff would not move data to the cloud without sufficient diligence and assessment. Many vendors now provided secure cloud services specifically for government-related data.

Council Member Schmid asked if Staff would resolve the two critical issues by mid-year 2014.

Mr. Reichental indicated the City would be in a better position. Staff would uncover additional risks during a risk assessment. Protecting City data would never be complete because cyber attacks continued and became more sophisticated.

Council Member Schmid inquired about sensitive issues regarding estimates and fair value of investments.

Mr. Bullock reported the purpose of that portion of the audit was to identify those areas where numbers could be manipulated. MGO was required to report estimates contained in the financial statements, because estimates involved management's judgment. MGO highlighted areas in the financial statements where judgment was involved in recording estimates.

Council Member Schmid understood the City's investment policy was fairly secure in the sense that the City invested in dated, short-term securities.

Mr. Bullock stated investment policies for governments were typically simple and did not risk principal.

Council Member Schmid requested Mr. Bullock comment on the City's relationship with the California Public Employees' Retirement System (CalPERS) with respect to pension and retiree health accounts.

Mr. Bullock inquired if Council Member Schmid meant the risks CalPERS took with portfolios.

Council Member Schmid replied yes, the City's responsibilities and the security of CalPERS' assumptions.

Mr. Bullock commented that CalPERS was widely regarded. There were concerns about how CalPERS invested and reported funds. He could not comment on how CalPERS invested funds.

Vice Mayor Shepherd referred to the negative news reports regarding Fannie Mae and Freddie Mac investments, and asked if the City had any exposure to risk because of prior investments in Fannie Mae and Freddie Mac.

Mr. Bullock did not judge the quality of investments chosen by the City. MGO only ensured the investments were reported properly.

Vice Mayor Shepherd inquired whether MGO only utilized the book value of investments.

Mr. Bullock answered yes. To his knowledge, the City's portfolio did contain any asset-backed securities.

Vice Mayor Shepherd questioned whether Staff should present information to the Finance Committee (Committee) regarding investments.

Lalo Perez, Chief Financial Officer, explained that the Council adopted a policy of investing in only a certain grade of securities. If a security fell from that investment grade, then Staff would present information to the Council. With respect to Fannie Mae and Freddie Mac investments, he understood the Federal Government would grandfather any securities issued under the old format. The investment grade would change for the new format. Most likely the new format would not meet the City's investment policy, and Staff would not procure those types of securities.

Vice Mayor Shepherd suggested the Committee follow up at a future meeting.

Council Member Schmid was shocked to read on page 22 an inflation rate of 3.77 percent when he understood inflation was under 2 percent.

Mr. Bullock reported the appropriations limit was adopted by the City Council at the beginning of the year. That number was not the inflation rate presented by the Bureau of Labor Statistics. It was the California Per Capita Income change. The City followed the State's inflationary factor.

Council Member Schmid felt the rate was still a little high. With respect to the Mitchell Park encumbrances outstanding, he asked if MGO reviewed the percentage of completion when reviewing items such as encumbrances.

Mr. Bullock answered no. MGO reviewed the remaining amount on the contracts.

Council Member Schmid clarified that MGO did not review the remaining amount of funds to be spent.

Mr. Bullock explained that not all the funds may be contracted; therefore, MGO reviewed the contracts the City entered into and amounts expended to date. The remaining amount represented the amount of funds to which the City was obligated under the contract.

Council Member Schmid inquired whether MGO reviewed the time period through June 30, 2013.

Mr. Bullock indicated the number should be the amount remaining to be spent under contract as of June 30, 2013.

Chair Burt requested Mr. Bullock summarize changes scheduled for 2015 regarding pension obligation reporting.

Mr. Bullock stated in the CAFR MGO reported the schedule of funding progress, which was the City's position in the pension plan as of an actuarial date. The City reported the 2011 actuarial valuation in the 2013 report, because that was the most recent valuation available from CalPERS. The actuary estimated the City's obligation as of June 30, 2011. Under new requirements, CalPERS could no longer wait two years to report that information. In the 2013 report, the City would have to report the 2012 information. CalPERS was working to present that information more quickly to cities.

Chair Burt inquired whether that change was the one Mr. Perez expressed previously regarding two-year blending.

Mr. Perez indicated the two-year blending was a different change. CalPERS was receiving pressure to shorten the two-year delay in reporting information.

Mr. Bullock explained that the assets column contained an actuarial basis of assets with smoothing and other factors. That would no longer be the appropriate basis to measure. The City would utilize the actual net position of the City's portion of the CalPERS plan as of the date of the valuation. In other words, the City would compare the actuarial liability to the actual fair value of the assets held in the City's plan.

Chair Burt asked if the City would be comparing a future obligation to a present cash value.

Mr. Bullock responded yes. CalPERS would discount it back using the discount rate. The City's 2015 financial statements would contain the 2014 estimated obligation and the investments held at CalPERS as of June 30, 2014. That would be the measurement date, and that was what the City would report. To the extent liabilities exceeded assets, the difference would be reported on the government wide financial statements as the net pension liability. It would be a hard number on the City's financial statements. It would not be contained in fund statements for the governmental funds. Enterprise Funds would also present it on a full accrual. The City would have more disclosure. There could be some changes in terms of the amortization period and other things that affected how the liability was calculated and how the contribution rates were determined. There would be a significant number of impacts to the financial statements.

Mr. Perez noted that Staff would present the latest actuarial reports to the Committee in December 2013.

MOTION: Council Member Schmid moved, seconded by Council Member Berman to recommend the Finance Committee review and forward to the City Council for its approval the City of Palo Alto’s audited financial statements for the fiscal year ended June 30, 2013 and the accompanying reports provided by Macias Gini & O’Connell LLP.

MOTION PASSED: 4-0

2. Recommendation to Adopt Ordinance Authorizing Closing of FY 2013 Budget, Including Re-appropriation Requests, Closing Completed Capital Projects and Authorizing Transfers to Reserves; Approval of FY 2013 Comprehensive Annual Financial Report (CAFR).

David Ramberg, Assistant Director of the Administrative Services Department, presented the Fiscal Year (FY) 2013 year-end report. Staff was scheduled to present the FY 2014 first quarter financial report on December 3, 2013. Overall the City finished FY 2013 in a positive position. Revenues continued to return to pre-recession levels. All major tax revenues showed strong growth, particularly sales tax and the Transient Occupancy Tax (TOT). Expense controls such as cost sharing with employees in the medical and pension plans and systematic budget controls helped keep expenses in line with the Budget. Vacancy savings produced less than budgeted actual amounts on the expense side. In several categories revenues exceeded the Adjusted Budget. All of this allowed funds to be transferred to the Budget Stabilization Reserve (BSR) in the General Fund and the Infrastructure Reserve. Approximately $8.9 million would be transferred to the Infrastructure Reserve.

Laura Kuryk, Accounting Manager, reported tax revenue sources outperformed expectations in FY 2013. The City experienced double digit year-over-year growth in sales tax, TOT, and document transfer tax categories. FY 2013 revenue exceeded the Adjusted Budget by $3.5 million.

The current budgeted amounts for FY 2014 sales tax and documentary transfer tax were 7 percent and 16 percent less than actual revenue levels for FY 2013. Property tax and TOT were budgeted at 3 percent and 7 percent higher than FY 2013 actuals. Revenue forecasts for FY 2014 would be refreshed with the Long Range Financial Forecast (LRFF) in December 2013, and mid-year changes would be presented to the Finance Committee (Committee) in February 2014. The FY 2013 actual expenses totaled $144.6 million, which was $3.4 million less than the Adjusted Budget. Savings resulted from higher than expected vacancy savings, and non-salary savings were spread evenly across departments. Police and Fire Departments reduced expenses by 4 percent from FY 2012, due to reduced overtime and increases in pension and medical contributions. Planning and Community Environment Department increased expenses by $1.9 million, due to an increased volume in development and building activities. An increase in revenues offset increased expenses. Combined expenses remained flat at $137 million year-over-year. The BSR had an opening balance of $28.1 million as of July 1, 2013. The surplus for FY 2013 was $8.9 million. Staff presented an Adjusted Budget which indicated a surplus of $1.7 million. Additional revenue totaled $3.5 million. Reduced expenditures totaled $4.6 million. A net change in operating transfers totaled $0.9 million. Net changes in other Reserve Fund balances totaled $2.2 million. Thus, the total FY 2013 surplus was $11.1 million. Staff recommended $8.9 million in surplus funds be transferred to the Infrastructure Reserve, leaving a BSR balance of $30.4 million or 19 percent of the FY 2014 budgeted expenditures. The FY 2012 surplus amount was $7.6 million. Those funds were in addition to the transfer of $2.2 million for keep-up items.

Mr. Ramberg clarified that a portion of BSR funds accumulated in FY 2011 was included in the $7.6 million transfer to the Infrastructure Reserve in FY 2012.

Ms. Kuryk indicated the Infrastructure Reserve balance totaled $17.5 million as of June 30, 2013. The Infrastructure Reserve balance was calculated only once per year and was a snapshot of one day in time. All Enterprise Funds had surplus funds from operations in FY 2013 with the exception of the Airport Fund, which continued to be funded through General Fund loans. As of June 30, 2013, General Fund loans totaled $610,000. All Rate Stabilization Reserve (RSR) positions were in a positive balance as of June 30, 2013 with the exception of the Refuse Fund. The Refuse Fund negative RSR was created by the reserve for landfill closure. FY 2013 results improved the position from -$4.1 million to -$2.8 million. If the landfill reserve did not have to be included, the RSR would be positive in the Refuse Fund. The Airport Fund continued to show a negative RSR. The Airport

Fund incurred costs without generating revenue during the transition. The negative position would continue for the next few years.

Vice Mayor Shepherd inquired about the City's financial position in relation to years prior to the recession.

Lalo Perez, Chief Financial Officer and Director of Administrative Services, believed the City's position improved in almost all categories and reached record highs in the documentary transfer tax category. In general, the City's position was better than it was in 2008.

Vice Mayor Shepherd wanted to understand whether revenues were meeting or exceeding those prior to 2008. She asked if current revenue streams were exceeding 2008 levels.

Mr. Perez answered yes.

Council Member Schmid noted packet page 87 listed sales tax reaching $25.6 million; whereas, Santa Clara County (County) reported Palo Alto received $27.8 million in sales tax. He inquired about the reason for the discrepancy.

Joe Saccio, Assistant Director of Administrative Services, explained Staff would provide an adjustment for FY 2014 revenue in the mid-year review. The LRFF would contain a projection aligned with the information presented to the Committee. The dramatic increase in revenue was due to a particular vendor. Staff was attempting to determine whether the windfall would continue into the future. Staff would provide an adjustment at mid-year to reflect the current year's revenue.

Council Member Schmid asked if the Committee should interpret the sales tax amount as possibly being $2 million higher; although, the increase could be one time only.

Chair Burt suggested Council Member Schmid's question was directed to a disparity between the accounting number and the report.

Mr. Saccio described the number as reflecting remittances received from a particular vendor only in the last two or three quarters. The number in the Budget was calculated prior to Staff's realization that the City would receive that revenue.

Council Member Schmid asked if Staff's recommendation to transfer $8.9 million might be outdated.

MINUTES

Mr. Saccio believed the revenue that would be booked for FY 2013 was correct and due to the City. It correlated with the amount stated in the report from the Auditor's Office.

David Bullock, Macias Gini & O'Connell, explained that revenue recognition required the City to recognize revenue up to 60 days of collections. The numbers presented to the Committee might not correlate exactly to numbers stated on the accounting records. Based on the date receipts were received, receipts might not be reflected on the accounting records.

Council Member Schmid inquired whether the Committee could confidently recommend the numbers in the report to the Council.

Mr. Perez viewed the sales tax increase as one-time excess funding and recommended they be transferred to the Infrastructure Reserve.

Council Member Schmid noted the property tax amount stated in the table on page 87 was $28.7 million; however, the table on page 274, Governmental Activities, indicated property taxes totaled $31.9 million. He inquired about the distinction between the General Fund and Governmental Activities.

Ms. Kuryk reported page 37 of the Comprehensive Annual Financial Report (CAFR) indicated $28.7 million was General Fund and $3.188 million was other governmental. The total was $31.9 million.

Council Member Schmid referenced the definition of Governmental Activities on page 143, and asked how Governmental Activities could be separate from the General Fund.

Ms. Kuryk indicated that Special Revenue Funds would be considered part of Governmental Activities and would combine into the Governmental Activities statement.

Council Member Schmid clarified that Special Revenue Funds were not part of the General Fund.

Ms. Kuryk concurred that Special Revenue Funds were separate and apart from the General Fund.

Council Member Schmid inquired whether they were equivalent to $3 million, $4 million, $5 million.

Ms. Kuryk reported according to the report they totaled $3.2 million.

MINUTES

Council Member Schmid asked if they were all based on property taxes.

Ms. Kuryk answered yes. In this case, the $3.188 million was all property tax for the library project.

Mr. Saccio added that the amount was basically the assessment for the General Obligation (GO) bonds. The $3.188 million amount was collected from property owners according to the assessment. That amount was not placed into the General Fund; it was used to offset debt service.

Council Member Schmid noted the Airport Fund had a deficit and asked when the City could anticipate the Airport generating revenue.

Mr. Perez believed the current agreements were effective through 2017. The City could not change the structure of those agreements at the current time. Staff anticipated revenue occurring in 2018 when new agreements were established.

Council Member Schmid inquired whether the General Fund would provide an annual subsidy until that time.

Mr. Perez reported the Council directed Staff to move forward with early transition of the Airport. Staff alerted the Council that the General Fund would have to provide loans to the Airport Fund. Under Federal Aviation Administration (FAA) requirements, the City could be eligible for reimbursements assuming net revenue was generated from operations within a seven-year window.

Council Member Schmid asked if the Committee could expect deficits for four more years.

Mr. Perez felt that was a safe estimate.

Chair Burt recalled that the Council had two alternatives with respect to transition of the Airport. One was to renegotiate and extend leases to capture additional revenue in the short term. The other was to wait until leases expired to negotiate new leases and then perhaps capture higher long-term revenue. He inquired whether the Council could negotiate a lease extension in exchange for an increase in the lease amount in the near term.

Mr. Perez agreed with Chair Burt's recollection. The Council could seek different options such as a partner in rebuilding facilities.

Chair Burt felt it was important for the public to understand that the Council made a deliberate decision that it believed was the wiser option.

Council Member Schmid understood the County did not wish to make long-term investments at the Airport, and the Council chose to speed up the transition so that it could make those investments.

Mr. Perez indicated the County fell out of compliance and became ineligible for FAA grants. Airport users were concerned that the runway was not being properly maintained. He understood the County was now in compliance. Staff was working closely with the FAA in the process in trying to be the lead agency. The City needed to take over the Airport officially in order to make plans and commitments.

Council Member Schmid referenced the table on page 284 regarding assessed valuation. Currently residents were paying 73 percent of the assessed valuation. In 1979 the amount was 50/50 between commercial and residential. From 2010 to 2013 the percentage rose from 69 percent to 73 percent. There was a great deal of commercial building and development over that period, yet property tax was coming increasingly from residential. He asked if that information implied that investing in commercial development was not a good investment for the City.

Mr. Perez reported the increase in residential resulted from Proposition 13.

Council Member Schmid believed the numbers indicated that Proposition 13 favored commercial development over residential development.

Mr. Perez agreed. Staff was working to perform an in-depth analysis of the data.

Council Member Schmid was interested in having that data when the Committee discussed the Budget.

Mr. Perez indicated Staff was working with the different departments to use the data in new ways. The sale of real property impacted the documentary transfer tax and reassessment. Having that information would assist Staff with forecasting as well.

Chair Burt inquired whether the TOT projection included anticipated new inventory.

Mr. Saccio reported the Budget included some revenue for the Casa Olga project for FY 2014; however, the amount projected would change because the opening date moved from January 2014 to April 2014.

Chair Burt asked if the projected amount for the document transfer tax in FY 2014, $5.7 million, was realistic or conservative.

Mr. Saccio stated the projection was low. Staff did not believe the $6.8 million amount experienced in FY 2013 was realistic for FY 2014. Staff would increase the projection considerably in the mid-year report. The amount probably would exceed $6.8 million based on current receipts.

Mr. Perez added that large commercial properties were being bought and sold as well.

Mr. Saccio indicated the number of transactions was almost 10 percent more than the number in FY 2013. The value of transactions also increased.

Council Member Berman requested an explanation of the decline in Gas Fund revenues and asked if revenues and expenses would even out.

Mr. Perez understood the City received better pricing by purchasing at market rates rather than through long-term fixed contracts.

Chair Burt asked when the adjustment would end.

Mr. Perez would provide that answer at a later time.

Mr. Saccio reported the City had few remaining long-term contracts and would move to all market-priced purchases in the next few months.

MOTION: Vice Mayor Shepherd moved, seconded by Council Member Schmid to forward the attached Ordinance and associated exhibits to the City Council for its approval:

- Close the Fiscal Year 2013 Budget;
- Authorize re-appropriation of Fiscal Year 2013 funds into the Fiscal Year 2014 Budget;
- Close completed Capital Improvement Projects;
- Transfer remaining balances to or drawing from the appropriate reserves, including the transfer of the General Fund surplus of $8.9 million from the General Fund to the Infrastructure Reserve in the Capital Projects Fund; and
- Request that the Finance Committee review and forward to the City Council for its approval the City's Fiscal Year 2013 Comprehensive Annual Financial Report (CAFR).

MINUTES

Vice Mayor Shepherd inquired whether the surpluses from FY 2012 and FY 2013 would be utilized for catch-up infrastructure projects.

Mr. Perez reported Staff could provide recommendations for utilization of the surpluses; however, Staff would not make recommendations until the Infrastructure Committee identified priorities.

Mr. Saccio believed the analysis for the Infrastructure Committee included a projection of the FY 2013 surplus amount.

Vice Mayor Shepherd felt the surplus was an excellent means to fund catch-up and keep-up infrastructure projects.

Chair Burt stated the surplus over the prior three years was a major achievement, but a small fraction of the amount needed for the infrastructure backlog. He hoped the Council would discuss specific projects and allocations and include in the Budget an annual increase for infrastructure projects.

Mr. Perez indicated Staff would discuss that as part of the LRFF presentation.

MOTION PASSED: 4-0

3. Fiscal Year 2013 Year-End Capital Improvement Program Projects Status Report.

David Ramberg, Assistant Director of Administrative Services, indicated the informational report showed the final status on the full population of capital projects. The report provided the project number, the original budgeted amount, the total budgeted amount, the encumbrance, the amount expended, and progress of all projects.

Council Member Schmid noted the Council discussed a fundamental revision of the traffic model and comprehensive parking. He inquired whether the Capital Improvement Program (CIP) contained anything that would help the Council reach that point.

Jaime Rodriguez, Chief Transportation Officer, reported the Parking and Transportation CIP, PL 12000, was the fund source for efforts to develop a new traffic model. Staff was in the process of presenting that to the Planning and Transportation Commission (PTC) and City Council. The Parking and Transportation CIP funded work on the traffic model as part of the Comprehensive Plan update.

MINUTES

Council Member Schmid asked if Staff would draw on the Parking and Transportation CIP for projects such as parking and traffic studies.

Mr. Rodriguez responded yes.

Council Member Schmid inquired whether Staff intended to draw about $300,000 per year on that.

Mr. Rodriguez answered yes.

Council Member Schmid asked if the update of the traffic model was included as only the Downtown parking study was mentioned.

Mr. Rodriguez replied yes, an updated traffic model was included within that Program. When Staff developed the original language for the Program for the 2013 fiscal year, an updated traffic model was not a project Staff intended to begin. An updated traffic model resulted from work on the Comprehensive Plan. The Parking and Transportation CIP was used to fund projects as they came online or as needed.

Council Member Schmid was interested in more funding for that. He suggested Staff work with the Information Technology (IT) Department to gather data and numbers on traffic and parking.

Chair Burt noted the Finance Committee (Committee) could request greater consideration for specific items. He inquired about timing for review of the CIP iteration for Fiscal Year (FY) 2015.

Lalo Perez, Chief Financial Officer and Director of Administrative Services, questioned whether Chair Burt meant new projects for FY 2015.

Chair Burt replied yes. Council Member Schmid expressed interest in additional funding for traffic planning issues.

Mr. Perez felt such comments would help Staff shape the FY 2015 Budget.

Chair Burt asked if Staff could benefit from hearing whether the Committee as a whole was interested in moving in such a direction.

Mr. Perez indicated direct comments would aid Staff in shaping programs.

Chair Burt encouraged colleagues to take advantage of the opportunity to provide guidance for the FY 2015 Budget. If one Committee Member was interested in a specific project, it was appropriate for the balance of the

Committee to provide input so that Staff could determine if the Committee reached consensus.

Council Member Berman noted Street Improvements on packet page 339, page 19 of 21 Exhibit 1, contained a balloon expenditure in FY 2013 of $7.1 million and a less than expected expenditure from FY 2012 of $3.1 million. He asked if $2 million in projects were not completed in FY 2012.

Brad Eggleston, Assistant Director of Public Works, did not have details of the projects with him. Typically funding amounts depended on when projects were bid and construction contracts awarded. Depending on the timing of when projects were bid and constructed, one year could have $3 million of expenditures with $8 million the following year.

Council Member Berman suggested that $8 million in street work in one year could result in quite a few streets under construction at one time, which could overwhelm residents.

Mr. Perez explained that the amount of money encumbered was the technical term for a contract. The report reflected the payout, not necessarily the work itself. There were concerns regarding capacity and impacts of work.

Council Member Berman believed Staff was aware of the impact of street construction on residents.

Vice Mayor Shepherd asked if Staff was working on categorizing infrastructure projects. She received an email from a constituent who felt Staff was taking too long to implement a system.

Mr. Perez inquired whether Vice Mayor Shepherd was referring to the Infrastructure Management System application.

Vice Mayor Shepherd answered yes.

Mr. Eggleston reported Staff first funded a project for an Infrastructure Management System in July 2012. Staff performed preliminary evaluations of existing software, but did not find any software that was effective for the City's needs. Staff then assigned a project manager who began working on the project in the fall of 2012. Around February 2013, the project became part of the new IT Governance Policy, and a project manager from the IT Department was assigned. Since that time Staff developed a project charter. The IT project manager conducted internal interviews with City Staff and decided to split the project into two phases. The first phase involved consultation services to review the City's existing systems for tracking infrastructure assets and to compare City practices to industry best practices. The second phase would make recommendations for procuring a system. Staff issued a Request for Proposal (RFP) for consultant services in the summer of 2013, and received only one proposal approximately six weeks prior. The proposal amount was higher than expected; therefore, Staff changed the scope of work and issued a second RFP. Staff expected to receive proposals in approximately two weeks, and expected consultant work to require three to four months once the contract was awarded. Staff would move directly into procuring a system based on recommendations.

Mr. Perez indicated Staff found that there was not an existing system that encompassed all of Staff's needs and desires to centralize information. Staff may have to accept a different result or a different product and augment it. Staff's goal was not to have separate systems.

Chair Burt expressed surprise that existing software was not available.

Mr. Perez clarified that existing software was available; however, Staff could not connect pieces to it.

Chair Burt inquired about software other entities were utilizing.

Vice Mayor Shepherd learned about IBM Smart City software at the League of Cities meeting the prior week, and asked if Staff had reviewed it.

Mr. Eggleston was not familiar with that software.

Vice Mayor Shepherd indicated the Smart City Asset Master Plan supposedly tracked everything and allowed the user to schedule projects.

Mr. Eggleston still hoped to identify existing software that could be implemented without too much trouble and that met Staff's needs. In reviewing demonstration software, Staff typically found that software to be asset inventory and work order processing software. Staff was focused on software that could provide long-term planning and reports over a thirty-year timeframe to assist with capital planning. The software Staff reviewed did not meet that goal.

Chair Burt encouraged Staff to emphasize the need for those elements in software. He requested Staff provide at a later time the methodology for prioritizing streets. He was mystified as to why some streets were repaired before others.

Mr. Eggleston reported the goal was to achieve a Citywide Pavement Condition Index (PCI) average of 85 by 2019 with no street having a PCI below 60. Those scores were determined by performing a Citywide survey of every street every two years. The last survey was completed in the summer of 2013. Staff attempted to meet the goal by ranking streets from highest PCI to lowest PCI. Coordination of street repair with utilities work was causing the discrepancy in not repairing the worst streets.

Chair Burt recommended Staff communicate that they were planning deliberately and the methodology for planning street repair. There was a community perception that Staff was digging up streets shortly after they were repaired. He encouraged Staff to engage with the Chief Communication Officer to spread that message.

Mr. Eggleston added that in the next month the street survey PCI information would be posted on the City's open data webpage. Perhaps that message could be included in the survey information.

Chair Burt asked if Staff was considering next generation smart systems for traffic control. He assumed that type of traffic control was contained in capital investments even if it was a hybrid of hardware and software systems.

Mr. Rodriguez reported Staff implemented the first phase of updated traffic control systems over the prior two years. However, new traffic control systems could not be launched because grant funds for a central system had not been released to the City. Once an upgrade of the central traffic signal system was complete, Staff would replace controllers at individual traffic signals. That would allow Staff to retime intersections more quickly, to collect data on a daily basis, and to push information on online.

Chair Burt was aware of technology that continuously adjusted traffic signals in response to traffic demand. He inquired whether the new traffic signals could respond to a system that provided real-time information.

Mr. Rodriguez indicated the signals Staff procured would respond on the fly. The system Staff wished to purchase was called SynchroGreen, and it would be effective. Santa Clara County (County) utilized the same system along Oregon Expressway and Page Mill Road.

Chair Burt asked if Staff was reviewing any systems that were fully comprehensive.

Mr. Rodriguez stated the SynchroGreen system was everything tied together.

Chair Burt inquired if it would tie together everything in the City or along a corridor.

Mr. Rodriguez reported the entire City would be tied together. In addition, Staff talked to the vendor regarding development of a parking module that would allow Staff to push information online as well.

MOTION: Council Member Berman moved, seconded by Vice Mayor Shepherd to have the Finance Committee review and accept the information on the City's Capital Improvement Program contained in this report.

MOTION PASSED: 4-0

FUTURE MEETINGS AND AGENDAS

Lalo Perez, Chief Financial Officer and Director of Administrative Services, announced the next meeting was scheduled for December 3, 2013. The Agenda included the Fiscal Year 2014 first quarter results, results of the conceptual plan for street sweeping, and amendment of some fees as a result of the Cost of Service Study. The Agenda for the December 17, 2013 meeting included a review of emergency medical transport fees, a recommendation on the Clean Program, an inventory management audit, and a large gas customer rate option.

Council Member Schmid inquired about a date for the Long Range Financial Forecast (LRFF).

Mr. Perez needed to vet information Staff believed was critical to the LRFF before presenting it to the Finance Committee. Staff could present the LRFF in January 2014 or the first meeting in February 2014, depending upon when the new Mayor announced the members of the Finance Committee.

ADJOURNMENT: This meeting was adjourned at 8:41 P.M.