

**LODI CITY COUNCIL  
SHIRTSLEEVE SESSION  
CARNEGIE FORUM, 305 WEST PINE STREET  
TUESDAY, SEPTEMBER 13, 2016**

A. Roll Call by City Clerk

An Informal Informational Meeting ("Shirtsleeve" Session) of the Lodi City Council was held Tuesday, September 13, 2016, commencing at 7:00 a.m.

Present: Council Member Johnson, Council Member Nakanishi, Mayor Pro Tempore Kuehne, and Mayor Chandler

Absent: Council Member Mounce

Also Present: City Manager Schwabauer, City Attorney Magdich, and City Clerk Ferraiolo

NOTE: Mayor Pro Tempore Kuehne left the meeting at 8:07 a.m.

B. Topic(s)

B-1 Discuss Framework for Budget and Fiscal Policies (CM)

Deputy City Manager Jordan Ayers provided a PowerPoint presentation regarding budget and fiscal policies. Specific topics of discussion included process; history; today's objective; employee survey responses regarding the City having reserves, level of reserves, and priority of reserves; basic guidelines; budget administration; reserves and Governmental Accounting Standards Board reporting; General Fund reserves; special revenue funds reserves; enterprise funds reserves; Internal Services funds reserves; and Capital Improvement Plan (CIP).

In response to Council Member Nakanishi, Mr. Ayers confirmed that the employee survey showed that a majority of employees felt the City should have either 16 percent (i.e. two months of operating costs) or 25 percent (i.e. three months of operating costs) as the City's reserve level, adding that recent survey results on the City Manager's listserv forum showed a majority of the responding cities had a 25 percent reserve level.

Mayor Pro Tempore Kuehne stated his preference is a three-month reserve level, but not at the expense of negatively effecting City business, and that two months would be the lowest level he would be willing to accept. Mr. Ayers stated that it would be relatively simple to craft a policy in a manner that can be easily maintained. The current policy sets forth two reserves, each at 8 percent - one for catastrophic events and one for economic matters - either or both of which could be adjusted in any manner to reach a 25 percent level.

Council Member Johnson questioned if the City could ease into reaching such a level, to which Mr. Ayers responded in the affirmative, stating it is a balancing act of setting a policy and a plan to reach that goal level within a realistic timeframe.

In response to Mayor Pro Tempore Kuehne, Mr. Ayers stated that a 25 percent reserve would equal \$12 million and the City is currently at a 16 percent level, which is roughly \$8 million. He stated it will take a significant sacrifice to get to that level and once the money is set aside in the reserve, it would not be available for other purposes.

In response to Council Member Nakanishi, Mr. Ayers stated that the Electric Utility has a multiple-step component to its reserve policies: it has a 90-day operating capital reserve, a local contingency, and the amount it maintains at the Northern California Power Agency.

Mayor Pro Tempore Kuehne questioned how staff lines up with the employee ranking on the priority of funding reserves. City Manager Schwabauer responded that his number one reserve

priority would be the general fund with the pension stabilization reserve second because they are linked as the California Public Employees Retirement System (Cal-PERS) liability would be a severe constraint on the general fund if there is no reserve to pay increased costs. He further responded that the Other Post-Employment Benefits (OPEB) reserve would be his lowest priority with the other three - information technology (IT), facility replacement, and vehicle replacement reserves - being equal because they are all important to operations and are mission critical. Mr. Ayers reminded Council that at the February Shirtsleeve Session, the general fund reserve was listed as the top priority, followed by OPEB because of the ease of funding that reserve and then the pension, IT, facility, and vehicle reserves. Currently, there is no reserve set aside for IT needs, there is a small amount set aside for facility and vehicle replacements, and there is \$1 million in the benefits fund earmarked for OPEB, but because it is held locally, the City receives no credit for it in the actuarial process.

In response to Mayor Chandler, Mr. Schwabauer stated that the proposed policy is based on staff's recommendations and Council's input at the previous Shirtsleeve Session on this matter, not the employee ranking. In further response, Mr. Ayers confirmed there has been no public outreach on its priorities or preferences on reserve policies.

In response to Council Member Nakanishi, Mr. Ayers stated that the concept of a reserve has been around for a long time and is tied to an Internal Revenue Service (IRS) code. There is currently one vendor, Public Agency Retirement Services (PARS), that has a private ruling with the IRS for pension stabilization funds available to public agencies, and Mr. Ayers estimated the vendor has roughly 30 to 50 clients. Mr. Ayers stated that a branch of Cal-PERS is seeking legislative authority to establish such a fund through separate legislation.

Council Member Johnson questioned if the OPEB issue will slowly decline and ultimately disappear, to which Mr. Ayers responded that only half of it will. He explained there are two components: one is the contract sick leave conversion for retirees and a number of existing employees; the second piece is the payment relating to the Public Employees' Medical and Hospital Care Act for as long as the City offers health care through Cal-PERS. Mr. Schwabauer added that leaving Cal-PERS could cut that liability in half; however, the consequence of such an action is that it would significantly increase the cost of health insurance because retirees would no longer be securing their insurance through the Cal-PERS pool.

Council Member Nakanishi stated he was not advocating this, but some have suggested borrowing money for a reserve fund at a low interest rate; however, agencies that have done so went bankrupt. Mr. Ayers stated it is a huge gamble that interest earnings on the loan will exceed interest costs. Agencies that opted for pension obligation bonds did not fair well because the market turned downward and returns were less than the interest earned.

In response to Mayor Pro Tempore Kuehne, Mr. Ayers stated that the transfer to the Library fund has been a fixed dollar amount since 2008, but it took a hit with the recession, built up since then, and stayed relatively stable. Mr. Schwabauer stated that the Library transfer increased to address negotiated changes in pay as the budget improved.

Mayor Chandler questioned the recommendation that department directors approve movement of funds within their departments because Council sets the budgets for each category. Mr. Ayers explained that the concept is to give department heads flexibility within their own department to move money within a function as long as the bottom line does not change. Mr. Schwabauer stated that Council approval would be necessary if a department head wanted to move money to a different function; for example, moving funds from the Engineering function to complete a construction project would require Council authority.

In response to Mayor Pro Tempore Kuehne, Mr. Ayers stated that \$10,000 for fixed asset capitalization is a more realistic figure than the current \$3,000. In further response, Mr. Ayers stated that the three recommendations listed for budget administration are current practice; however, they were not previously formalized in writing. This will add the current operating practices to the policy. Mayor Pro Tempore Kuehne expressed his discomfort with the second practice of permitting the City Manager/Deputy City Manager to approve movements within a

fund, but stated he would accept it since it is current practice and there have been no complaints. Mr. Schwabauer stated that staff would provide Council with examples of the practice.

Council Member Nakanishi stated that, if this type of movement of funds at the department level happens often, he was amenable to it because obtaining approval would take time and effort. Mr. Schwabauer used the example that a department head may opt out of attending a conference during a particular year and use the money instead on necessary books, which would require movement of funds from one account to another within the same function.

Council Member Johnson stated that he was comfortable with the budget administration recommendations because recommendation number one - that Council is responsible for approving all initial and increased appropriations and all position additions/deletions - covers every aspect of the other two recommendations (i.e. City Manager/Deputy City Manager authority and department director authority). If movement of money away from a particular fund is necessary, the matter would come back before Council, as would adding or deleting any positions to the workforce. The ultimate authority is at the Council level, and he added that over the years, Council has adjusted the City Manager's authority level in order to accomplish business with a certain amount of flexibility.

Mayor Pro Tempore Kuehne stated he would like to see the economic reserve at the three-month level be the first priority and then work on increasing the catastrophic reserve to a three-month level within a reasonable timeframe. Mr. Schwabauer requested clarification that the suggestion is to increase the economic reserve to 12 percent and, once there, focus on increasing the catastrophic reserve to 12 percent, to which Mr. Kuehne responded in the affirmative. Mayor Pro Tempore Kuehne further stated he believed the public perception would be to fund the Cal-PERS liability as the number one priority, followed by the general fund for 12 percent, and then allow the City Manager/Deputy City Manager to determine the remaining ranking.

Council Member Nakanishi stated his business does not have a reserve because he has ongoing expenses and revenues to balance, just as the City has ongoing projects to fund. He believed an 8 percent reserve is reasonable, but if Council prefers 25 percent, he would accept that.

Mayor Chandler stated that he felt the current reserve levels are acceptable, adding that the public likely does not want money used to fund a reserve when it should be used on maintaining City assets, keeping current on IT needs, and not deferring maintenance.

Mr. Ayers stated the two current reserves are general fund money only: the catastrophic reserve is in place should Council declare a catastrophic event due to flood or train wreck that impairs the City's abilities; and the economic reserve is to weather downturns in the economy and an impaired tax base in order to continue to maintain services until the tax base improves.

Council Member Nakanishi stated he trusts the current administrators and would prefer to leave the reserve levels as they currently are, adding that too big of a reserve could be problematic and have a negative public perception.

Council Member Johnson stated there was a time when Lodi had no reserves and it took a long time to reach the current reserve levels. He expressed concern, not with what the appropriate level should be, but rather where the money would come from to build a reserve and how long it might take. Mr. Schwabauer stated that the only opportunity to build a reserve is to set aside one-time savings or dollars. He used the examples of the one-time, unbudgeted \$1 million from the Lodi Energy Center and when expenses come in under budget due to low staffing levels. He stated staff is comfortable leaving the two current reserves at 8 percent because there are other reserve funds that should be created, such as the pension stabilization fund.

In response to Council Member Nakanishi, Mr. Ayers stated the concept of crafting the policy is to continue with the two 8 percent reserves and set up additional reserves for pension stabilization, facilities, vehicles, etc.

In response to Mayor Pro Tempore Kuehne, Mr. Ayers confirmed that the extended expected life

of vehicles, as previously discussed by Council, was incorporated into the policy. He further stated there is no reserve fund for IT; however, \$65,000 is allocated every year for IT-related expenses, which does not cover all of the needs. Mr. Ayers confirmed that the Police Department dispatch consoles cost \$500,000 and have a lifespan of seven to ten years and the 9-1-1- system was completely grant funded. In further response, Mr. Ayers stated that IT runs the data center and is in the process of building a new data center. The components of the new data center will likely be obsolete in three to seven years, and the City should be setting aside money now to replace the pieces once the equipment reaches its useful life.

Mr. Schwabauer explained that every City department has IT needs, whether it is office computers and tablets, data storage, servers, WiFi, communications to the Internet, etc., but some departments have specialized needs, such as the Fire Department program that maintains staffing levels and the Building Department's permit software.

In response to Mayor Chandler, Mr. Ayers stated there is currently \$1 million set aside for the OPEB fund, which came from one-time money related to the property tax settlement with the County and from money that was set aside from the enterprise funds. If Council opted to establish a third-party trust for OPEB, the City could use that as seed money to set up the fund. With regard to a pension stabilization fund, the City could use current operations or see if there are excess reserves at the close of the 2015/16 budget.

Council Member Johnson questioned how many California cities utilize a third party for pension stabilizations funds, to which Mr. Ayers responded that this is a relatively new concept and he would research the numbers; however, roughly 400 entities have tapped into the OPEB third-party trust through the two providers. Further, Council Member Johnson expressed support for the CIP, stating it was well overdue, and questioned whether the \$10,000 level was too low. Mr. Ayers stated the amount addresses the auditor's standpoint that all fixed assets must be capitalized.

Mr. Ayers stated staff's recommendation is that the policy be reviewed every other year during the budget process to ensure the policy is on track and is still realistic.

In response to Council Member Nakanishi, Mr. Ayers confirmed that the City currently has no reserve set aside for pension stabilization. Mr. Ayers stated that, if there is Council concurrence, he will bring forth approval to opt into both the pension stabilization and OPEB funds in October when the budget and fiscal policies come before Council for approval. He stated that, in both cases, there is no obligation to fund those trust funds; they can be set up to fund with one-time money or on-going. Mr. Ayers further confirmed that no new budget policies have been adopted since the first policy, which was approved as part of the 2003/05 budget, and this will serve as a stand-alone policy document that will be built upon as a comprehensive financial policy and be added to the debt management and investment policies. The bulk of the recommendations are existing practices, along with recommendations on reserve funds.

Mayor Chandler stated he would like the City to be prepared with OPEB and pension stabilization funds.

Mr. Ayers provided examples of CIP projects, such as road overlays, water meter projects, roof replacements, and parking lot rehabilitations. Mr. Schwabauer stated the concept is to survey all CIP projects to anticipate upcoming needs versus replacing or repairing items once they become critical.

Ed Miller questioned if the policy includes methods to deal with the capital problems facing the Parks, Recreation, and Cultural Services Department, stating that replacement costs for play systems are significant and many of them appear to be on the verge of repair. Mr. Ayers stated this policy is not a funding program - that is handled as an operating transfer as necessary - but the CIP will identify needs into the future, as well as potential funding sources.

C. Comments by Public on Non-Agenda Items

None.

D. Adjournment

No action was taken by the City Council. The meeting was adjourned at 8:19 a.m.

ATTEST:

Jennifer M. Ferraiolo  
City Clerk