Call to Order at 6:00 p.m.
Roll Call: Council Member West, Mayor Pro Tem Irish, Council Member Hamilton, Council Member Stadtherr, Mayor Martinez

WRITTEN COMMUNICATIONS
None.

ORAL COMMUNICATIONS
None.

SCHEDULED MATTER
1. CONSIDERATION OF A DRAFT POLICY REGARDING BUDGET AND FISCAL MATTERS

City Manager John Longley presented the item and explained that the draft Policy that would be presented to Council that evening was based largely on the City of San Luis Obispo’s Policy and edited to reflect specific practices within the City of Porterville. Mr. Longley stated that Deputy City Manager Darrel Pyle would review the major headings of the Policy with Council and summarize the materials. He then indicated that there would be no recommendation that evening to adopt the draft Policy, but rather that the Policy was merely being presented to the Council for comments.

Deputy City Manager Darrel Pyle informed Council that Chief Financial Officer Susan Slayton was also available that evening to answer any questions that the Council might have. Mr. Pyle then presented the draft “Budget and Fiscal Policies” document. He explained that as staff had worked its way through the document from San Luis Obispo, they had discovered many elements common to all city governments. He stated that the City of Porterville had already employed a large number of the practices included in the document, but that they were never officially written down as Policy. This document, Mr. Pyle explained, would allow staff to review the City’s practices and measure its performance against the stated policies. He pointed out that some of the elements that would be discussed that evening were newer concepts which had not likely been discussed within the past ten or more years. Mr. Pyle then reviewed the draft Policy, section by section.

Section I - Financial Plan Purpose and Organization
Mr. Pyle explained that this Section described financial plan objectives. He stated that the City of Porterville already included many of the objectives as part of its budget development and goal setting processes, which often times involved input from Council and members of the community. He explained that community needs for essential services were identified in this manner, and pointed to community participation with the development of the Heritage Center as an example of such participation in identifying critical issues facing the City.

Mr. Pyle stated that because of the City’s increased activities with the school districts and the County, critical service needs had been identified, and pointed out that such early identification allowed the City to proactively approach issues affecting the City, such as with future school development and County budgetary restraints. He then stated that the City Council also affected the City’s financial plan objectives. He continued that while some cities had tried to move to a two-year budget cycle, in reality, Porterville’s budget moved closer to a six-month cycle because of volatility in the City’s revenue stream. He explained that staff believed a one-year budget cycle was the most effective. He stated that the City currently had a
one-year budget, with a three-year plan, which allowed the City to remain proactive and provide stable operations and the assurance of maintaining the City’s long-term fiscal health.

Council Member Stadtherr questioned if there were any advantages to a two-year budget considering the passage of State Proposition 1A.

Mr. Pyle responded that one element that staff had been watching was a caveat in Proposition 1A. He stated that this issue would be presented to Council as an Agenda Item at the next meeting. He explained that the County had already received the formula by which Educational Revenue Augmentation Fund (“ERAF”) would be calculated and returned to the cities and the counties. He stated that staff believed that the formula that the State had delivered required the County to pay out more money than the County collected in property tax revenues. He stated that this “hole” came from the State, and pointed out that volatility existed in those funds. Mr. Pyle then explained that while the City could pursue a two-year budget, he believed the budget would still need to be looked at every six months.

Mr. Pyle pointed out that during the budget process, staff had attempted to establish realistic time frames for achieving objectives, and that one element used was the City’s ten-year Capital Improvement Plan in which the Master Plan improvements were set out. He then pointed out that several items in the draft Policy document were still under construction, and that once the cost allocation study by Maximus had been completed, a criteria would be formulated to track accomplishment of the City’s goals and objectives.

Mr. Pyle then discussed the “Operating Carryover” and how the City of San Luis Obispo had recognized the benefit of employing a carryover policy, rather than taking a “use it or lose it” approach. He stated that the City of Porterville also believed in a carryover mechanism and that historically any savings were carried over within the same department. He commented that because of revenue issues with the State, operating budgets by department had been re-baselined. He explained that in some instances, overtime, the formula growth for a particular department exceeded what had actually been needed, yet in other instances some departments were “budget starved” under that same formula. He cited as an example adjustments in the Finance Department to avoid layoffs in the Community Development Department.

As to “Goal Status Reporting,” Mr. Pyle indicated that staff would return to Council with status reports in November, January and April, if necessary. He stated that once the current level of volatility passed, six month reviews would likely be adequate. He explained that staff would provide Council with a brief update on November 16, 2004, and once the December books had been closed in January, final assessments could then be made on current budget assumptions and those brought back to Council. He stated that it was staff’s philosophy that the budget was an active document that should be looked at more than once per year.

Mr. Pyle stated that with regard to a “Balanced Budget,” staff had attempted to identify operating revenues to cover operating expenditures including debt service, and explained that some elements in the Policy occurred as a result of budget activity over the past few years, such as the establishment of “minimum fund balances.” He pointed out that the City of San Luis Obispo established general funds and enterprise funds at 20% of operating expenditures. Mr. Pyle explained that “fund balance” essentially represented the amount of assets in excess of liabilities and pointed out that in many funds, staff had achieved that balance. He stated that this level provided working room in the event a capital project or emergency repair was needed. He indicated that some funds, such as the golf course and airport funds, were currently not there, but that the airport fund was moving in a positive direction.

Mr. Pyle then addressed the appropriate level of unreserved fund balance in the General Fund. He stated that this element of the Policy was highlighted by the Government Finance Officers Association (“GFOA”), the entity that reviewed the City’s comprehensive annual financial report and evaluated it against generally accepted accounting principles. He stated that the GFOA recommended an unreserved,
undesignated fund balance in the General Fund of no less than 5 to 15%, and indicated that Porterville was currently in the 10% range. He stated that the GFOA also recommended that no less than 1 to 2 months of regular general fund operating expenditures be reserved. Mr. Pyle explained that fund balances in excess of 15% were not generally recommended if no intended purpose for such savings had been identified, pointing out that cities existed to provide services, not to amass assets. He suggested that 15% would be prudent in protecting the City against any unforeseen circumstances. Mr. Pyle then confirmed that the City currently had enough reserved funds to cover general fund bills for a couple of months, and stated that the City was in a solid position in terms of cash flow, unlike many other cities throughout California. He then pointed out that under this policy, Council should consider the volatility of expenditures.

Section II - Financial Reporting and Budget Administration

Mr. Pyle explained that the City’s Charter provided for an independent Certified Public Accountant to provide an opinion as to the status of the City’s financial reports, and pointed out that other cities like Porterville submitted their comprehensive annual financial reports to the GFOA for review. He informed the Council that the City had received notice last week that the City’s first GASB 34 Compliant CAFR received the Award of Excellence from GFOA. He pointed out that the Policy stated that the City would strive for an unqualified auditors’ opinion, and assured Council that if there were an event that precluded the City from receiving an unqualified auditors’ opinion, the Council would be notified of that well in advance. He stated that one of the items that staff would be addressing that fiscal year and next fiscal year would be the status of the golf course fund as an enterprise. He stated that the auditor had notified staff that if the City had been unable to turn the course of that fund around and return it to a flush cash position, the City would have to make the determination that the fund could no longer live on its own as an enterprise fund. He explained that as an enterprise fund, overtime, such a determination could result in a qualified opinion because it would be of a growing concern. Mr. Pyle explained that the golf course funding was a division of the Parks and Leisure Services Department in the general fund, it could lose money yet trigger no audit concern at all.

Mr. Longley questioned whether some level of subsidy could be provided to that fund which would result in a positive and allow it to remain as an enterprise fund. He explained that this would be advantageous because if those funds were placed in the general fund, it would be difficult to determine if the golf course was paying for itself.

Mr. Pyle responded that staff could speak with the auditor to determine if that option was possible.

Mr. Pyle continued that in terms of “Interim Reporting,” through the practices of the City Manager and in consideration of significant State Legislative changes, a substantial amount of financial reporting was made, with Council receiving quarterly updates of the financial status and portfolio. He explained that also on a monthly basis, each department received printouts specific to each department’s operations. He stated that revenue analyses were also done on a monthly basis to ensure that the City remained on track.

City Manager John Longley commented that staff followed cash very carefully.

Mr. Pyle pointed out that staff had been unable to find an agency that placed more emphasis on such reporting than the City of Porterville currently did. He then stated that the City’s Charter had some provisions as to how the budget would be administered and also identified the flexibility of the City Manager versus the flexibility of the Council in terms of making modifications to the budget once adopted.

Section III - General Revenue Management

Mr. Pyle stated that the efforts that had been underway during the past few years had been focused on ensuring that the City had a stable, steady revenue stream in light of State activity. He stated that in terms of “Interfund Transfers and Loans,” staff had attempted to identify such loans to Council during the budget development process. He explained that the Policy distinguished “transfers” from “interfund loans,” and that
some of the activity that occurred on a monthly basis was in those funds that currently had negative cash balances. He stated that when books were closed at year end, cash from funds with positive balances was moved to funds with negative cash balances to bring those funds to zero. He stated that this was basically a “thirty second loan,” after which the books were closed, a “picture” taken, and the money moved back. He stated that staff had attempted to highlight those types of activities in the budget and the activity was also reflected in the comprehensive financial report. He commented that he believed staff did a pretty solid job of monitoring and maintaining those cash transfers as well as interfund loans.

Section IV - User Fee Cost Recovery Goals

Mr. Pyle pointed out that this Section was currently under construction as staff worked it way through the process with the firm of Maximus, which he estimated would take approximately twenty weeks. He explained that staff had just prepared and delivered an informational package to Maximus for its initial review. He stated that when that document was ultimately brought before Council for its consideration and/or adoption, the major elements of that document would be referenced in this portion of the Policy. He stated that he assumed that the document would be quite large, and therefore only referenced in the Policy, as opposed to it being incorporated into the Policy.

City Manager John Longley pointed out that Council might not wish to rush to adopt this Policy, but instead Council might consider the performance schedule for adoption be commensurate with the coming budget, perhaps in the next May or June time frame. Mr. Longley stated that he believed this time frame was more likely, because he expected some Council discussion, debate and direction regarding the user fee issue. He stated that the text that would eventually be excerpted into the Policy would basically be the general outlines or basis upon which the user fees would be established.

Council Member Hamilton questioned how far off implementation currently was.

Mr. Pyle responded that years ago when the MSI Study had been compiled, criteria had been established by the Council based on that report. He stated that some of those theories were brought forward in the draft Policy before Council that described the Council’s level of comfort in providing support for certain programs. He stated that previously, Council had determined that some programs should pay for themselves 100 percent, but that other programs should be subsidized because those programs were in the best interest of the community. He stated that the Policy before Council described some of that original criteria, and indicated that some programs – such as those dealing with low to moderate income participants, or after school programs – would probably need be subsidized to some extent. He stated that each of those programs would be identified in the study, as well as each program’s funding and current level of subsidy, along with a recommendation of whether or not the fees should be adjusted.

Mayor Pro Tem Irish pointed out that the MSI Study was almost a quarter of a century old, and suggested that every program in that study was now currently subsidized.

Mr. Pyle agreed with Mayor Pro Tem Irish and added that some of the programs in that study no longer existed. He stated that when those programs had been adopted, the City might have collected 100% of the costs for providing the service, but that over time, for various reasons, annual updates or increases in those fees had not taken place. He suggested that subsidization of the programs likely began three or four years after their initial adoption.

Mayor Pro Tem Irish pointed out that none of the fee in the MSI Study had been tied to the Consumer Price Index (“CPI”), but commented that he did not believe the fees should be tied to the CPI, unless the CPI was specific to Porterville, such as a percentage of the CPI.

Mr. Pyle stated that in the RFP, in addition to the document, staff had requested education to keep that document updated in the most cost efficient method as possible. He indicated that staff did not wish to
have to hire an individual merely to update fees. He stated that in years past, other agencies in that MSI model, such as City of Tulare, actually hired a person to maintain the City’s manual. Mr. Pyle stated that additional criteria could also be included to determine at what percentage fees would be increased. He suggested that each specific program should be reviewed, as some might warrant fee reductions based on economies of scale as participation in the program grew. He explained that Sections B and C of the “User Recovery Goal” section identified criteria and the reasons behind intentional subsidization of programs. Mr. Pyle also explained that Section D addressed high cost recovery levels for programs that were user specific and did not benefit the entire community.

Mr. Pyle explained that there were some concepts regarding the use of service charges which recognized that revenue should not exceed the reasonable cost of providing the service. He again pointed out that government was not in the business of making money. He stated that fees could be challenged if somebody from the community determined that the City had charged more for the service than the City had incurred to provide such service. He stated that for quite some time in California, fees had always been subject to challenge if they were deemed to be in excess of the cost of providing the services. Mr. Pyle then pointed to model information regarding programs in which low cost recovery was advantageous. He stated that in terms of “Recreation Programs,” the former MSI model had similar categories for acceptable levels of subsidy. He pointed out that the recreation activities were broken out into three categories: high-range, mid-range and low-range, and suggested that once the Maximus study had been completed, those activities could be reorganized. Mr. Pyle then informed Council that the draft Policy also addressed a differential between residents and non-residents. He stated that currently, the only program through which the City might have a concept as to this determination was through the San Joaquin Valley Library System.

Mayor Pro Tem Irish commented that he did not believe distinguishing between City and County residents was a good idea.

Mr. Pyle agreed and stated that attempting to make such a distinction, such as in the Library system, would prove to be over burdensome. He then pointed out that the City actually recuperated costs from Tulare County for providing transit services to County residents, that such agreement went before Council every year.

Mr. Longley pointed out that Porterville Library would actually be prohibited from making such a distinction because of the provisions of the Inter-Library program. He then commented that the City of Monterey had begun to distinguish between City and County residents, and immediately thereafter, the County pulled out and provided no further subsidy. He asserted that the actions by the City of Monterey created much resentment.

Mr. Pyle commented that participation in the Inter-Library program benefitted the citizens because the library was able to access books that it would not ordinarily be able to maintain. He stated that such participation was a win-win scenario.

In terms of “Development Review Programs,” Mr. Pyle stated that staff monitored and reported to Council on an annual basis the status of impact fees collected by the City. He stated that Community Development Director Brad Dunlap had prepared an agenda item for the next Council meeting regarding an award of contract for the General Plan. He explained that staff would review the fees for building safety inspections for all engineering work and for fire plan checks, and stated that those items would also be included in the Maximus Fee Study. He indicated that the draft Policy included criteria for using market rates, yet recommended that the rates not be the only criteria considered for the establishment of fees.

**Section V - Enterprise Fund Fees and Rates**

Mr. Pyle explained that Paragraphs A through E covered plans that were currently in existence. He pointed out that additional language needed to be added to Paragraph B to clarify that the Airport Fund was
currently in a negative cash position, but that during the last several years, the Fund had been moving toward the positive. He stated that this year was no exception.

Mr. Longley pointed that part of the trend could be attributed to the subsidy of general fund expense covering the cost of overhead.

Mr. Pyle then discussed Paragraph E regarding Franchise and In-Lieu Fees for enterprise funds, indicating that they would represent a large component of what would be reviewed. He cited, for example, wear and tear on City streets. He stated that in the older MSI Report, a widely-accepted rate had been used. He explained that the use of heavy equipment like refuse trucks and the cutting of streets for sewer and water pipe maintenance and replacement had a substantial effect on the life of a City street. He indicated that in-lieu fees were determined by looking at such effects, and pointed out that the general fund recouped the cost that the enterprise funds put on the City streets, and then used that amount for street programs. He explained that updated logic and science would be a part of the new study.

Mayor Pro Tem Irish questioned if the funds were obligated once they went into the general fund.

Mr. Pyle responded that the revenue was not specifically earmarked. He explained that, generally, the need for streets’ expenditures exceeded the amount that was obtained, so historically the opportunity for those funds to be spent elsewhere has not arisen. He suggested that with the issuance of $20 Million in Certificates of Participation for streets, much of the other street funds had gone towards debt service. He then commented that it would be interesting to see what level of depreciation those enterprise fund activities had on the City streets.

Mr. Longley clarified that while the actual revenue was not specifically earmarked, the amount of revenue was. He elaborated that the dollars were not tracked, but the amount was, and that the amount had been allocated for debt service.

Mr. Pyle agreed and added that the streets’ maintenance function was a General Fund Public Works division which included items like median island maintenance and signalization. He indicated that on an annual basis staff had calculated the streets report for the State Controller’s Office and estimated $1.5 to $3 Million that was actually spent on street maintenance programs. He stated this usually exceeded by far what was collected in the Enterprise Funds.

Section VI - Revenue Distribution

The Deputy City Manager then pointed to Paragraph A of the “Property Taxes” Section and indicated that those rules were still currently in effect, as were the items set out in the “Gas Tax Subventions” and “Transportation Revenues” Sections. He then indicated that Parking Fine revenue was a relatively minor component.

Mr. Longley pointed out that almost every major revenue source that had just been reviewed was relatively minor today.

In response to Mayor Martinez’s question, Mr. Pyle indicated that approximately $10,000 was left in old parking district funds. He stated that he believed those funds had been allocated for parking lot repairs for the lot behind Country Pleasures on Main Street.

City Manager commented that he believed those funds had already been expended.

Chief Financial Officer Susan Slayton clarified that the Finance Department had advertised in an attempt to locate the bond holders, one of whom was identified as deceased with no heirs. Ms. Slayton
explained that based on the State of California’s criteria, those funds were rolled into the general fund when attempts to locate heirs proved unsuccessful.

Mr. Pyle confirmed that the deceased bond holder’s balance was escheated back to the City, and indicated that those funds would be used for the parking lot project this year.

Mr. Longley stated that during one of the upcoming Council Meetings, staff would present the idea of possibly reactivating a downtown parking district, which he surmised would be a large project, but worth the effort. He stated that there was a great deal of interest from individuals who had contacted him, and that the item would be presented to the Council for its review. He pointed out that it would be a major undertaking, as the district would need to be reestablished.

Section VI - Investments

Mr. Pyle stated that the investment component lined up with the City’s mandates on investment and policy reporting to the Council. As to the “Tax and Revenue Anticipation Notes” Section, Mr. Pyle stated that the City was currently in a position in which the General Fund balance did not dip into a negative cash position. He stated that this precluded the City from issuing tax and revenue anticipation notes. He commented that this was a logical policy component, and at some point in the future, the City of Porterville might not be so fortunate and might actually qualify for tax and revenue anticipation notes. This is why, Mr. Pyle explained, that element was included in the draft Policy. He then explained that the remaining sub-headings of that Section were all existing practices and that many were already included in the City’s investment policy.

Mr. Longley pointed out that City reserves were not constant throughout the year. He explained that, for example, the City might have a reserve target of $1.5 Million in the general fund. He stated that on June 30, the City might be funded for that $1.5 Million, but that the real issue was how revenues rolled up and down. He suggested that normally by November, the amount of reserves might be fluctuate between one-half and two-thirds of what it was on June 30. He pointed out that the same amount of money did not come in all of the time. He stated that currently the sales tax had been reallocated to support State indebtedness, and that the City was no longer receiving a much money from VLF. Mr. Longley pointed to property tax revenues and suggested that the character of cash flow might even become more skewed. He stated that the City would not receive its major payments until December and then again in June.

Mr. Pyle stated that sales tax revenues were always received relatively evenly, month by month. However, he pointed out, the City would now likely receive only approximately 25% of that amount.

Mr. Longley pointed out that the VLF was in a similar position.

Mr. Pyle agreed and elaborated the City used to receive a fairly substantial VLF check each month which was calculated on 2% of value, however, he explained, the percentage was now calculated at .65% of the value of the vehicle. He then pointed out that the City would receive property tax installments by the end of December, and suggested that it would likely be a large amount.

Mr. Longley stated that the point he was making was that the timing of these revenues aggravated cash flow. He stated that the City was then put in a position to see what those revenues would be.

Section V - Appropriations Limitation (Note: Section was mis-numbered, and should be Section VII.)

Mr. Pyle explained that Article XIII-B of the California Constitution set out the appropriations practice, and that staff reported those appropriations limits on an annual basis to Council. He stated that he was only aware of one City in the State of California that ever had an issue with reaching the appropriations limit, and suggested that the City of Porterville was well below the City’s limit. He indicated that this would not be an issue for the City of Porterville in the near future.
Section VI - Fund Balance and Reserve  
Mr. Pyle explained that this Section contained detail regarding reserve balances and balances for working capital, setting forth criteria for maintenance of such balances. He pointed to fleet replacement as an item identified in the Policy, indicating that it had been modified to reflect the City’s current practices. He indicated that it had also been adjusted for GASB 34 as to how the City accounted for funds collected for equipment replacement in all funds. He stated that previously all monies went into Fund 54, the “equipment replacement fund,” and inside that fund, each piece of equipment was tracked back to its fund of origination. Through GASB 34, Fund 54 had been broken up and attached to the fund from which it was created. He explained that accounting would look differently in the financial report, but not function differently.

Section VII - Capital Improvement Management  
Mr. Pyle explained that the City had a relatively active Capital Improvement Plan (“CIP”). He stated that this program was reviewed with Council on an annual basis during budget development to reaffirm current priorities to meet the General Plan requirements for growth. He pointed to the “CIP Review Committee” Section and stated that the reference to “City Administrative Officer” would be changed to read “City Manager” in the final draft of the Policy. He then explained that currently the CIP Review Committee was comprised of the department head group and the City Manager. He stated that the plan formulated by the Committee did not change radically from year to year, but rather new items were generally added to the end of the report. Mr. Pyle then stated that in this section of the draft Policy, CIP Phases were also identified. He pointed out that the phases set out had actually been in place for many years, though never before identified. He stated that the first phase began in project development, then depending on the scope of a particular project, the phase might become very detailed. He pointed out that whether the project was City-sponsored or developer-initiated, many of the same elements took place, with the City participating in various capacities. He explained that during each phase the City had an opportunity to review funding and react accordingly.

Mr. Pyle then pointed to the Section regarding “CIP Budget Carryover,” and explained that the City reappropriated funds on an annual basis. He indicated that staff would identify what percentage of a particular project had been completed, how much of the bill had already been paid and explained that if any funds remained in that appropriation, the funds would be carried forward. He stated that the Budget contained both “reappropriated” and “new funding,” and explained that if additional funding was needed to complete a project, that was where it would be reflected in the budget. He stated that if the existing appropriation was sufficient, it would be shown as a reappropriation to ensure that the same dollar was not spent twice.

Mr. Pyle then referred Council to the Section regarding “Public Art.” He stated that this paragraph had been a part of San Luis Obispo’s Policy and that it was kept in Porterville’s draft Policy for Council’s consideration. He explained that while the City had recently completed the public mural, a tool had not previously been in place to track or encourage the inclusion of art visible to the public. Mr. Pyle then pointed to the draft Policy on Public Art from San Luis Obispo which required that 1% of eligible project construction costs be set aside for public art. He then suggested that the word “require” might be too strong, depending on the nature of the project. He stated that to some extent, the new Main Street bridge actually had an artful component, and suggested that this item might be something to consider in project design, particularly for public facilities. He stated that staff did not have a recommendation on that particular component, but wanted to bring it to Council’s attention for its consideration.

Section VIII - Capital Financing and Debt Management  
Mr. Pyle explained that the most of the financing that the City did required a level of coverage, meaning that the revenue stream in the fund responsible for the debt service must be in excess of the amount of the debt service by 10% to 25%. He explained that this requirement limited the amount of debt issued in any one fund because in order to accomplish that next debt issuance, the rates would be no longer realistic.
nor likely tolerated by the public. He explained that this Section identified some criteria about when an agency should borrow versus when an agency should attempt to use its own resources, such as building up the fund balance over a few years to complete small projects. He stated that the Section also recommended not borrowing funds for projects for which the debt service payment might exceed its useful life. Mr. Pyle then explained that this section also covered factors favoring short and long term financing and debt management. He stated that the City currently had strong relationships with a bond counsel, who Mr. Pyle stated was highly respected in the industry. He explained that the Section also covered seeking investment grade ratings when debt issuances were established. He stated that the City provided insurance on its debt issuances and it was AAA rated in that respect. He suggested that the City was solid in its debt management and the past practices fit nicely into the Policy guidelines that the City of San Luis Obispo had identified in writing. He stated that this section also addressed debt capacity in the general fund, as well as in other funds, by identifying how much was too much in terms of borrowing. Mr. Pyle stated that the City of Porterville currently had approximately $60 Million outstanding which was spread out amongst many funds, mainly the water fund, sewer fund and general fund. He stated that the Redevelopment Agency currently had approximately $4 Million outstanding. He stated that some of the largest components of that $60 Million was $20 Million in General Fund for streets, with the next largest being the approximate $14 Million issuance on the wastewater treatment plant expansion. He explained that these were large, tangible assets with useful lives that far exceeded the debt service stream. He stated that staff had attempted to build enough excess capacity so that the City would not have multiple outstanding issuances at any one time.

Mr. Pyle then referred Council to the Section regarding “Land-Based Financing.” He stated that some of items addressed in that Section were described as “Mello-Roos,” which he explained pertained to situations in which developers authorized assessments on parcels in particular developments or sub-divisions that lacked infrastructure. He stated that those assessments would generate enough money annually to make debt service payments that could be used to provide infrastructure.

In response to Council Member Hamilton’s question, Mr. Pyle confirmed that most Mello-Roos designations occurred prior to developers selling off parcels, and clarified that Mello-Roos was not heavily used in the Porterville area.

Mayor Pro Tem Irish commented that public Land Maintenance Districts were the closest thing Porterville had to a Mello-Roos district.

Mr. Pyle explained that a component that might be up before Council for its review and consideration addressed improvements via a district. He explained that a tool existed called a “community facilities district” which could be implemented on a City-wide basis or on a development by development basis. He explained that in most instances when impact fees were discussed, those fees covered specific facilities or a tangible asset. He explained that the community facilities district concept differed in that it allowed a City to develop an ongoing assessment to provide for facilities and operations. He explained that most recently this tool had been successfully implemented in the City of Clovis, which took approximately three months. He stated that the City of Clovis utilized the firm of Maximus – the same firm currently preparing the City’s Fee Study – to assist them in putting together the process. He stated that the first year, Clovis’s assessment would generate $35,000, from a population of approximately 80,000 people. He stated that the City of Clovis projected that when its population reached 400,000, the funds generated by the Community Facilities District would pay for new fire stations and personnel. He stated that Clovis chose to implement it on a development by development basis. Mr. Pyle then pointed out that the fee could either be based on a percentage of value, or be assigned a flat dollar amount.

Mr. Longley stated that he believed the fee must be a flat dollar amount.

Mr. Pyle stated that a Community Facilities District would be handled in much the same way as a Landscape Maintenance District. He explained that it would be a component of the budget and that notices
Mr. Pyle then reviewed the Section regarding “Conduit Financings,” and pointed out that this occurred quite infrequently. He stated that in past, a group of developers had approached various cities, including Porterville, and asked that those cities be conduits for a financing project for housing. He explained that Porterville’s element was a small portion consisting of less than $1 Million out of an approximate $50 Million project, and stated that the City had no obligation or liability for participating. He stated that the mechanism actually lived on the books of another city, which was audited by that city’s auditor on an annual basis. He stated that recently, staff had been informed that the bond issuance had been retired, and that Porterville would receive a refund check for its portion of the reserve balance left with the trust agent. Mr. Pyle stated that the refund check would be approximately $130,000, which would be reflected on the next budget adjustment.

He stated that this section of the Policy also addressed guidelines for refinancing and identified what elements should be considered. He indicated that he and Community Development Director Brad Dunlap would review this as it applied to redevelopment.

Section IX - Human Resource Management (Note: Should be Section XI.)
Mr. Pyle indicated that this Section addressed staffing issues and identified when regular staffing, temporary staffing and independent contractors should be utilized to meet temporary peaks. He stated that some cities actually ran with limited regular staffing with the majority of services being provided by independent contractors. He stated that this was one approach to City staffing.

Section X - Productivity (Note: Should be Section XII.)
Mr. Pyle pointed out that this Section dealt with the concept of ensuring the delivery of service with value for cost. He stated that the Maximus study would identify some measurement tools to help the City determine whether services were provided at good value to the end user. He stated that this Section also made suggestions as to when services should be contracted out and when services should be maintained in-house. Mr. Pyle pointed out that because cities did not have a built-in profit motive, often times cities could provide services for a better price than profit-motivated independent contractors.

Mr. Pyle then concluded his review of the draft Policy and stated that he would be happy to answer any questions Council might have. He pointed out that the Policy just reviewed was a first draft, and over the course of budget development and the review of the Maximus Fee Study, additional modifications might be made, with a final document to Council for its consideration in June 2005.

Council Member Hamilton commented that the draft Policy seemed to be a fairly good roadmap.

In response to Mayor Pro Tem Irish’s question, Mr Pyle indicated that interest was charged on interfund transfers and loans, and explained that staff had handled those transfers in a couple of different ways. He stated that previously, a flat interest rate had been selected, such as 10%. He stated that in more recent years, the rate had been tied more closely with the performance of the portfolio.

Mayor Pro Tem Irish questioned who made the determination in situations in which one department had carried over funds to the following year, and another department wished to borrow that money.

Mr. Pyle explained that this type of situation was handled on a fund by fund basis. He stated that in terms of carryover in the general fund, the interest that would have been calculated on a carryover balance would be all general fund revenue, and therefore did not remain a part of the puzzle. He explained that in the past, balances in the General Fund had been kept per department, however, when a department had a
project in which the cost exceeded what that department had in carryover funds, other departments would indicate whether it had available funds for the other department’s use.

Mr. Longley clarified that the scenario just hypothesized by Mr. Pyle dealt with intra-fund transfers, not inter-fund transfers. He pointed out that any significant inter-fund borrowing would be first approved by the Council.

Mr. Pyle then explained how inter-fund transfers were handled, and cited the initial purchase of golf carts as an example. He stated that those purchases were funded by a loan from the risk management fund, and was formalized by a loan agreement with a stated interest rate and repayment plan. He commented that inter-fund borrowing usually applied to large projects of which Council was generally well aware.

**ORAL COMMUNICATIONS**

* Russell Bettencourt, 67 North Kessing, requested clarification on Paragraph B(1) on Page One, and questioned if that particular Section covered projected allocations for large projects.

Mr. Pyle responded that on the capital side, the Community Development Department maintained a document that identified projects per year, which normally covered projects tied to the Master Plan. He stated that revenue streams were recognized, such as beginning available resources and the amount of projected revenue from the identified revenue stream. He stated that the highest priority projects would be brought forward and taken as far as funding allowed, recognizing that some projects might be more development-driven than others. He then stated that Paragraph B(1) on Page 1 might also refer to the accomplishment of significant objectives identified by Council, such as more police officers. He stated that this issue often came up during budget development, and commented that in years past, the objective had been to reduce graffiti, so staff adjusted the budget based on anticipated revenue to address that. He stated that there was probably room outside of normal operations for four or five significant objectives that the City could attempt to accomplish on resources.

Mayor Pro Tem Irish stated that, theoretically, this was how the budget process addressed funding projects, but pointed to unforeseen circumstances that could arise, such as the school district’s development of Granite Hills High School that ultimately forced the City to borrow $20 Million.

Council Member Hamilton pointed out that windfalls also happened, and cited the plans for widening Jaye Street bridge, which Council Member Hamilton suggested might now be funded through impact fees and development.

Mr. Bettencourt commented that the draft Policy sounded like good guidelines for the City, however he questioned whether concentrating on developing and budgeting for the accomplishment of significant objectives would affect cash on hand in the general fund.

Mr. Pyle responded that this policy could affect the cash on hand, depending on the magnitude of the objective that the Council hoped to accomplish. He explained that if the objective were to be an ongoing expense, staff would attempt to make sure an ongoing revenue stream had first been identified. He stated that considering the concept of budget surplus versus budget deficit, structural deficits – meaning ongoing expenses that lacked ongoing revenue sources – were dangerous. He explained in contrast, non-structural deficits were one time expenses, such as a General Plan Amendment which might cost the City approximately $250,000. Mr. Pyle explained that those types of deficit expenditures were discretionary. He stated that Council could choose not to do those things which might have later ramifications. Mr. Pyle then confirmed that Council would always have the discretion.

Community Development Director Brad Dunlap pointed out that every year, the City was faced with more project than funds.
OTHER MATTERS

Council Member Stadtherr commented that trees near the “Welcome to Porterville” sign on Highway 65 sign were beginning to block the sign. It was discussed that the trees in question were likely City trees from the Parkway.

Mayor Martinez returned the discussion to the scheduled matter and questioned how the proposed Policy would affect the Zalud House.

Mr. Pyle stated that under the proposed Policy, staff would continue to bring to Council budgets for the Zalud House that did not result in the continuing decline of the endowment fund. He stated that this would also apply to the golf course and airport. He stated that staff would continue to strive for innovations that helped staff balance the budget and improve the cash position of those funds. Mr. Pyle stated that he believed that there was currently a grant application for maintenance funds for the Zalud House and that Parks and Leisure Services Director Jim Perrine would be presenting it to Council for its authorization. It was then stated that the Zalud House was approximately 120 years old.

Mayor Martinez then questioned if the cost recovery services for recreation programs also covered upkeep and improvements.

Mr. Pyle responded that the swimming pool was a good example. He explained that the pool had been set up as a separate division in the Parks and Leisure Services Department budget. He stated that staff could identify the operations cost of the pool at the end of the each fiscal year. He explained that there was also a revenue line item which identified all of the different pool revenues. He stated that there would be opportunities to identify whether current levels of subsidy or surplus were appropriate for a particular program.

ADJOURNMENT

The Council adjourned at 7:40 p.m. to November 16, 2004, 6:00 p.m.