

Mr. Williams discussed unfunded and vacant positions in the City employee workforce, including cost implications. He highlighted the \$8.09 million required for the City's PERS contribution, up from \$2 million in FY 2001-02. Meanwhile, the biggest challenge for the budget continued to be medical insurance premiums, with an average 12.6% increase since 2000. This year, there was an estimated 10% increase in medical insurance costs.

The City Manager highlighted methods used to achieve a balanced budget, including eliminating outdated and surplus equipment, improved use of online technology, and more efficient use of staff with cross-training.

Councilmember Gomez inquired about the \$4.5 million structural deficit, and then Mayor Esteves asked what exactly was the definition of "structural deficit." Staff responded that it was the difference between revenue and expenditure over time.

Mr. Williams provided highlights of the new budget year, including maintenance of a high "AA" general credit rating, a focus on Redevelopment area projects such as the Midtown Specific Plan and the Transit Area Specific Plan, and work on recruiting businesses to the City. He then introduced Finance Director Emma Karlen.

Budget Presentation by the City Finance Director

Finance Director Emma Karlen gave a detailed summary of the proposed FY 2008-09 budget. A \$151.3 million budget was recommended including General Fund, Water and Sewer Funds and the Redevelopment Agency. A 17.5% or \$22 million increase was proposed, primarily due to the Capital Improvement Program funding, including the new Senior Center and a significant Water Pump station. A 4.1% increase in salary and benefits was included (covering increased medical insurance premiums and pre-funding a portion of retiree medical costs), a 5.1% increase in services and supplies with \$7 million in housing loans for affordable housing programs, a \$868,000 increase in costs of water and fuel, along with a decrease in contribution to the San Jose/Santa Clara Water Pollution Control Plant.

Councilmember Gomez asked how many employee bargaining groups' contracts were up next year. Staff responded four groups: ProTech, Police, Fire, and Mid-Management.

Ms. Karlen explained the capital outlay request was for \$870,000 in replacement of vehicles and for technology. Debt service payment next year would be \$18 million total for three bond series and a payment to the County for land purchase. She reviewed the financing sources (bond payments).

As discussed by the City Manager, General Fund budget solutions offered were: 1) to demand RDA loan payment of \$6 million, 2) to review personnel for Engineering and Planning to allocate to Redevelopment, and 3) to implement cost cutting by all City departments. The balance of revenues versus expenditures for the General Fund, balanced at \$72.6 million in total, was displayed.

Revenue projections were conservative for the next fiscal year, with only a 1.5% increase over current year's revised revenue projection. Ms. Karlen anticipated no change in building and development activities (with regard to revenue). A 5-year projection of the General Fund was given with modest growth. A 2.3% to 3.1% increase in salaries and benefits in each of the next five years was estimated and still a structural deficit was anticipated.

Councilmember Polanski noted that the following day the Governor's revised May budget for the state would be issued, and she wanted to know what would happen in terms of effects on the City. Ms. Karlen responded that it changed often, so staff could not be sure. The City hoped to rely on its reserve to deal with any take-away of funds from the State of California. \$20 million was built up in last few years in reserves.

Ms. Polanski knew the City was working on plans in the Mid-Town and Transit Areas, and so might need additional services there. How would the City bridge the structural deficit? City Manager Williams spoke on recently issued state Department of Finance numbers showing that Milpitas was the fastest growing City in Santa Clara Valley. He highlighted a Mello-Roos District adopted in the Mid-Town to fund some of the needs in that part of town.

Councilmember Gomez commented that the more the City tapped into the Redevelopment Agency loan payment, he had a certain level of discomfort. He wanted to know how to slow the rate of growth and what if the City budgeted less than 4.1% total overall for the increase in salary and benefits? Ms. Karlen responded that such costs were included in the budget proposed.

Vice Mayor Livengood commented on the Redevelopment Agency loan payment that if projections were correct, that loan would run out in 2017. That was a lot longer time frame to pay it back than originally planned, when the land was sold. It represented good work in stretching the amount out over time. The strategy had helped the City

get through a longer rough patch economically, than when conceived originally. The City had been judicious in how to use that funding source. Mr. Livengood further remarked that, after having been in Sacramento recently, Proposition 172/COPS grants were proposed to be reduced by the state. He asked if the City received money from this fund and staff confirmed it. The Vice Mayor reported that those funds may go away, per a meeting he attended.

Mayor Esteves commented about one chart displayed, where it appeared to him that it was obvious that salaries and benefits were the main item that drove the structural deficit.

The Finance Director completed her presentation at this point and invited the City Manager to the podium.

2. Operating Departments/Divisions Presentations

City Council

City Manager Tom Williams presented the proposed budget for the City Council, which included a small 2% increase. Accomplishments were policy direction, guidance to control City spending, and oversight on RDA projects. There were five funded positions in this budget - the elected City officials.

Councilmember Gomez asked about services and supplies, with \$44,000 in memberships/dues. He wanted to know how much was actually spent each year. City Manager replied that line was used to pay for League of California Cities dues, County association dues, and other organizations the City belonged to, including ABAG and LAFCO. The training budget was spent very little or zero in the past two years.

City Manager

Mr. Williams reviewed three functions of the City Manager's office, and noted the four full time staff authorized (with two of those vacant). He itemized three accomplishments of the City Manager's office. The budget presented was essentially status quo with 3% increase overall, due to slight personnel increases.

Councilmember Gomez inquired if there was an employee suggestion program in Milpitas, for employees to share ways to save money as done in the private sector. It could be a good way to save money, where those in the jobs knew how to find savings. He asked if he could have a report back later on this idea. The City Manager replied yes and noted that he encouraged this idea on an informal basis now.

City Clerk

City Clerk Mary Lavelle presented her division budget, for three function areas: City Clerk office, Document Processing Center, and Print Shop. She highlighted one primary reason for a slight increase for next year's budget. That was due to the scheduled municipal election on November 4, 2008 for the Mayor and two City Council member positions. Other cost items remained status quo, with no change in personnel for the division.

She noted accomplishments in the past year including preparation of all City Council meeting agendas and meeting minutes, an increase in revenue from passport application acceptance service, and continued implementation of the Open Government ordinance.

Redevelopment and Economic Development

Economic Development Manager Diana Whitecar reported on her division. Accomplishments included the acceptance of the new City brand, ongoing business retention and attraction via outreach, and work completed toward a parking ordinance update. The division budget was essentially the same as last year's.

Councilmember Gomez had a request about the Arts Commission: was there any chance that the Arts Commission and the Public Art Committee could be combined into one body? Staff could surely look into that idea. He asked about the R&D vacancy rate projection in the budget, and asked which accomplishments actually generated revenue to the City. Ms. Whitecar noted the work efforts with Building and Planning on assistance for businesses to move into Milpitas quickly.

Councilmember Gomez talked about the application process and how helpful to business it was. He wanted to have other numbers that could measure performance and demonstrate success of the work done by the Economic Development Manager.

Councilmember Giordano noted when the Economic Development Plan was adopted, there was discussion about measurement. In particular, it was mentioned when allocating money into the branding program. She wanted to see more definitive growth in numbers. Housing was important and she wanted to learn if the City was achieving goals. Ms. Whitecar noted the Action Plan she reported on earlier this year.

Vice Mayor Livengood stated there had not been very clear evidence that the Economic Development Plan was producing more bottom line revenue to the City. He had not seen that yet. Over the next few months, he would like to see something more definitive on the impact of the plan showing people and financial efforts. The City was not quantifying very well the plan goals, and perhaps needed to try to do something different. Perhaps find a different strategy, for example, with Cisco expanding in the City.

Building and Safety

Chief Building Official Keyvan Irranejad defined Building Department services: plan check, inspection and permit processing. He highlighted especially the online permitting and automated inspection request line (Integrated Voice Response phone system) that started this year. The imaging of scanned documents was a main cost item in his budget and it was getting reimbursed to the City by developers.

Councilmember Giordano asked him about vacant unfunded positions. The Building Official explained the online system allowed for staff cross-training, and moving in different areas to continue to meet service needs effectively.

Councilmember Gomez asked questions about the number of building permits per fiscal year, and if it was going down. Mr. Irannejad responded with information on cost recovery for costs of permits and inspections. There were recently big improvements in commercial projects, with less residential activity. Mr. Gomez asked if there were opportunity for cross training between Planning and Building? City Manager responded yes. At this time, staff accomplished savings at the public counter, where planning, building, and engineering worked together to assist customers. Mr. Gomez asked when the temporary project inspectors, specific to named projects, would be finished and the reply was at the end of the year.

Information Services

Information Services Director Bill Marion presented his budget. Accomplishments included online permitting for building, online registration for recreation classes, and implementation of the integrated voice response phone appointment system in building. In cable television service, he highlighted success in public information via Channel 15 and the newly established shared Channel 26.

Mr. Marion further noted labor cost changes, with charges back to specific CIPs reduced in the coming budget year, so an increase in charges to the General Fund were apparent. That accounted for the 14% increase.

Vice Mayor Livengood offered congratulations to Mr. Marion for the good service provided by the IS department. He asked if there were any costs to the Earthlink takeover. Staff replied the only cost was charges for electrical usage, at maybe \$700 per month. The City still planned to liquidate any excess assets possible to cover the costs.

Human Resources

Human Resources Director Carmen Valdez reported on her centralized full service department handling recruitments, benefits administration including the workers compensation program, and conducting labor/employee relations services.

Accomplishments included recruitments including the City Attorney's office completion of the transition permanently to the Delta Dental program, and implemented several training opportunities for all employees.

Vice Mayor Livengood noted there were about 400 employees, and asked how many retirees? Ms. Valdez reported approximately 160.

Councilmember Gomez asked the status of moving toward the "total compensation" concept for employee salary and benefits, as Council had suggested in the past. The Human Resources Director replied the City was moving toward that model and had set up meetings with other cities that administer plans that way. She would return to Council with a recommendation later this year.

Councilmember Gomez stated his preference to budget from one pot of money for all employee groups. Mr. Gomez referred to the 4.1% set aside for increases, found in the proposed budget. He asked if that would be appropriate. Finance Director Karlen responded that it was a percentage estimate for the whole package. Staff had an idea of what the medical costs would be and the rest of it was for salaries (to be negotiated).

Mayor Esteves spoke of surveys, and whether an internal survey for the Department's own benefit was done. Ms. Valdez replied yes. He had additional questions on how the surveys were reported. City Manager Williams responded that surveys were turned in to the City Manager first, similarly to those done in the Building Department.

The cost of using an outside vendor for a survey was prohibitive. The Mayor appreciated that sealed surveys go to the City Manager before affected the City Department.

City Attorney

City Attorney Mike Ogaz presented his department's superior availability of service to City staff now that an in-house City Attorney was available. The department had two permanent staff and anticipated one more attorney due to start on May 27. Labor negotiations and litigation were handled in this department. Other specific topics were under review also, such as the Transit Area Specific Plan in which he was helping two offices in preparation of this important City document.

Councilmember Gomez pointed out the tremendous savings of \$885,000 compared to the \$1.6 million spent on City Attorney costs in FY 2006-07. City Manager Williams made the point that the City was staying out of court with our new in-house City Attorney.

Public Works

City Engineer/Public Works Director Greg Armendariz reviewed five sections in this department: Streets, Trees and Landscaping, Utility Maintenance, Fleet Maintenance, Facilities Maintenance, and administration. Public Works handled approximately 3,500 service requests in the last fiscal year. He highlighted the Street Trees program, maintenance of these allowed for the lack of tree limbs on the ground after major storms last winter and avoided flooding in the spring. 455 trees were planted in the Manor neighborhood last year, and staff would continue targeting a new neighborhood each year for more trees.

The planned water tanker truck purchase was accountable for most of the capital outlay increase request.

Councilmember Giordano asked about how staff implemented a new program like the street trees program. She asked more about paving and street maintenance. The Public Works Director noted he would discuss that more in the CIP presentation.

Mayor Esteves confirmed that Public Works staff provided same day response and he wanted to know how. Mr. Armendariz said staff responded to calls, assessed the issue to determine if it was a City or resident issue, and then set about fixing it. Crews fixed the most urgent ones first, like a broken water or sewer main. With graffiti in the city, crews package the work on removal to do once per week, except when it was offensive graffiti, and then it was cleaned immediately.

Engineering

Mr. Armendariz next reported on the five sections within this department: RDA Projects, Design and Construction, Land Development, Traffic, and Utilities and Solid Waste Services. Accomplishments included the completion of 17 Capital Improvement Projects, approved development projects, and utility program enhancements.

Significant grants were awarded for important projects, such as VTA \$1,500,000 grant for Streetscape work, and another VTA grant for South Main St. improvements. Sufficient sewer capacity was being secured for the Mid-Town plan area and also Hetch Hetchy water capacity increased. Allied Waste management of the franchise proceeded, along with a new contract for street sweeping services.

Councilmember Giordano asked about vacant, unfunded positions and Engineering goals in the coming years. Staff kept an eye on the housing market, driven by the Transit Area Specific Plan and its future growth and development in order to keep pace with service delivery by appropriate City staff.

Planning and Neighborhood Services

Planning and Neighborhood Services Director James Lindsay reported on two major changes: the transfer of one position from Recreation into Neighborhood Services (child care coordinator), and the removal of funding for two Associate Planner positions in order to use those funds for contract planning services.

Councilmember Gomez asked questions about expense versus budget on personnel in the Planning Department, and Mr. Lindsay re-iterated the savings, based on his comments above.

Mayor Esteves announced the Council would take a break at 8:01 PM for 10 minutes. The City Council/RDA reconvened at 8:11 PM.

Parks and Recreation Services

Parks and Recreation Director Bonnie Greiner outlined services in the department which provided a wide range of programs at four Recreation facilities and at more than 80 City parks and public facilities. Accomplishments

included the redesign of Calle Oriente Park, instituted the Homework Center for Teens, received more than \$6,000 for the Recreation Assistance Program grants, more Senior Nutrition meals, and online youth sports field allocation was implemented.

Councilmember Giordano inquired how the department would respond to the recent survey about Parks services. Ms. Greiner replied that once the Parks Master Plan was done and brought to Council, a plan for implementation would be prepared. There was some funding in the CIP budget for park improvements.

Councilmember Gomez spoke about Rainbow Theatre, suggesting the City go to outside funding sources (as done in other cities); on the School District use of facilities, he asked some questions about rates charged between districts. He requested a report back on data and what to do about balancing out the relationship between Milpitas Unified School District and the City of Milpitas, including shared park use.

Vice Mayor Livengood asked about the "After the Bell" program. It was totally staffed by the City, held on school district property, during after-school hours. All City staff and registration was done through Recreation. The Vice Mayor suggested this was augmenting schools in some way, and again how much the City was subsidizing MUSD. Staff could make a list of shared uses and programs in conjunction with schools. Mr. Livengood believed there was a partnership with the schools in this City.

Mayor Esteves inquired about the Senior Center number of members and the number of nutrition meals served. Staff provided information, noting an increase in both this past year.

Police Department

Police Chief Dennis Graham highlighted accomplishments in the Police Department including 24/7 protection, reduced emergency response time, a reduced year-to-year crime rate, with violent crime rate down to the lowest level since 1977. The department had 130.5 funded positions.

Councilmember Gomez asked about the crime analyst position previously proposed to be eliminated, and what was the cost? Chief Graham responded approximately \$139,000. Mr. Gomez asked how much savings would be achieved if the Police Commander position was frozen and Chief Graham responded approximately \$200,000.

Councilmember Gomez inquired about cost of police services provided at the Great Mall. The Chief reported the cost for four officers was the significant element and the Great Mall paid for two of those. The department was studying costs when other officers were called over to the Mall from other parts of town.

Mayor Esteves asked about vacant positions and what functions would staff do if filled. Chief Graham responded those would do administrative work, put officers on the street, dispatch and office work. The Mayor wanted to know if the City could do away with those, then. Chief Graham replied no, while prioritizing and re-assessing department needs all the time.

Councilmember Gomez returned to the matter of school district cost sharing. The Chief noted the request for \$292,000 to cover half of the costs of School Resource Officers and school crossing guards. MUSD responded with half the cost of one SRO. The department achieved the DARE program and other activities with Recreation staff assistance.

Chief Graham responded to Mr. Gomez idea about the concept of freezing the Commander position. It certainly could be studied, but the chief was not favorable, particularly since there was no longer a Captain in the department at this time.

Fire Department

Fire Chief Clare Frank discussed the primary functions of the Fire Department, including emergency response as the priority, training as an internal function for the firefighters, and external training for preparation of citizens through the Strategic Actions For Emergencies ("SAFE") program, along with prevention and enforcement via state fire codes in the Fire Prevention office.

Accomplishments in the previous year included high response time, an improved disaster preparedness program, and enhanced prevention cross-training. The department had eliminated overtime for Battalion Chiefs in the new budget, since those personnel were exempt management positions.

Mayor Esteves asked about the overall picture for overtime costs. Chief Frank reported she made a reduced request from the last Fiscal Year to the new one. Councilmember Gomez asked how much overtime was attributable to

Battalion Chiefs, and staff responded, \$34,000 over six months. There would be an estimated \$50,000 in savings for the coming year, with more in reduced injury and illness in the next budget.

Vice Mayor Livengood commented about Fire administration. He felt the structure was debilitating for the Fire Chief, and perhaps there was a need to re-fund the Assistant Fire Chief. Having only Battalion Chiefs as the next managers in line was tough, and they work 24 hours per day. He encouraged the Fire Chief to consider a management structure over time with differing skill sets of the staff needed.

Mayor Esteves asked specifically why the overtime budget was reduced from the previous budget. Chief Frank discussed MOU requirements and compensatory time off versus overtime pay. The Mayor wanted to know the maximum overtime amount allowed per firefighter per week. The Chief replied there was no cut-off.

Finance

Finance Director Emma Karlen highlighted the major functions of the Finance Department, including the safeguarding of assets, external and internal customer service. Accomplishments over the past year included the establishment of a trust fund for retiree medical benefit costs, new desktop deposits for water billing customers and the introduction of newly designed utility bills.

Vice Mayor Livengood asked questions about personnel in the Finance Department and a vacant position. He clarified with the Finance Direction that there were no funded vacancies.

Councilmember Gomez noted that some Finance customers were internal, and asked if there could be a survey done internally? Ms. Karlen replied yes. Mr. Gomez further asked about debt collection and how effective the City's efforts were. The percentage for collection was very good for a city of Milpitas' size.

Mayor Esteves commented on the average turnaround time for accounts payable invoices. Ms. Karlen noted that staff tried to keep it constant. The Mayor felt it might be better to delay the payment as far out as possible prior to the proper due date.

Non-Departmental

Ms. Karlen next reviewed what the non-departmental section of the budget contained: items such as debt service payment, city-wide utility payments, and liability insurance payments that were not allocated to any one specific department. This area also included sick leave cashouts by employees, MOU obligations, other cash outs, retiree medical contributions and others.

3. Review of Redevelopment Agency Budget and Financing

Finance Director Karlen next discussed the RDA budget. There was an 8.6% increase in revenue projected, partly from property tax and contribution from developers, and grant money for CIP projects. A 39.1% increase in expenditures was proposed with the large increase primarily for the new Milpitas Senior Center CIP project.

Capital Improvement Program budget presentation

City Engineer/Public Works Director Greg Armendariz reviewed the CIP for the coming fiscal year, noting that it had previously been reviewed by appropriate Commissions and Subcommittees. He listed summaries of the Five-Year CIP, broken out into six categories: Community Improvements, Park Improvements, Streets, Water, Sewer Improvements, and Storm Drain Improvements. He highlighted the new Senior Center and nearly finished new Milpitas Library as major CIPs in the City.

There was \$2.7 million in Streets Projects for next FY. The City's pavement condition index ("PCI") of 70 was reported with regard to streets. \$1.4 million for street resurfacing was budgeted next year, and that would cover about one mile of surface. Vice Mayor Livengood asked about this issue, and noted that citizens had been calling him on this issue lately. Mr. Armendariz reported on the huge cost increase of asphalt in the current market, which impacted the smaller amount of streets to be covered next year. He suggested a bond to locate more revenue for paving more mileage than the limited amount currently.

Councilmember Giordano also wanted to address streets. Her view was that it was not going to work to pave only one mile per year. The City must find it as a priority over other public works project. Staff annually inspect one third of City streets each year and report it to the Metropolitan Transportation Commission. In three years, thus, the entire City gets surveyed. Ms. Giordano felt there was a problem in the City about the quality of streets, and she asked for a re-prioritizing within the CIP. Perhaps this topic could be assigned to the Council's CIP Subcommittee.

Motion carried unanimously by a vote of:

AYES: 5
NOES: 0

(3) Motion: to conceptually approve the FY 2008-09 Capital Improvement Program, and to send the issue of locating more funding for the Streets Improvement next year back to the CIP Subcommittee for consideration

Motion/Second: Councilmember Gomez/Councilmember Polanski

Motion carried unanimously by a vote of:

AYES: 5
NOES: 0

(4) Motion: to conceptually approve the Preliminary FY 2008-2015 Capital Improvement Program

Motion/Second: Councilmember Gomez/Councilmember Giordano

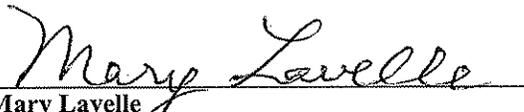
Motion carried unanimously by a vote of:

AYES: 5
NOES: 0

ADJOURNMENT

Mayor Esteves adjourned the Joint City Council/Redevelopment Agency budget hearing meeting at 9:42 PM.

The foregoing minutes were approved by the Milpitas City Council as submitted on June 3, 2008.


Mary Lavelle
City Clerk