

CITY OF MILPITAS
MINUTES of: CITY COUNCIL (FINANCE) SUBCOMMITTEE
Date/Time: Tuesday, January 14, 2014 – 5:00 p.m.

I. CALL TO ORDER: Vice Mayor Althea Polanski called the meeting to order at 5:00pm

Attendance:

City Council: Jose Esteves, Mayor
Althea Polanski, Vice Mayor

Staff: Tom Williams, City Manager
Emma Karlen, Finance Director
Johnny Phan, Assistant City Attorney
Jeff Moneda, Public Works Director/City Engineer
Steven Machida, Principal Engineer
Marilyn Nickel, Associate Engineer
Dat Nguyen, Financial Analyst

II. PUBLIC FORUM: None

III. APPROVAL of MINUTES: The November 21, 2013 minutes were approved.

IV. ITEMS FOR DISCUSSION

A. Review of 2014 Updated Cost Allocation Plan (with attachment)

- Emma Karlen, Finance Director – Presented to the Finance Subcommittee the 2014 Updated Cost Allocation Plan (CAP).
- Mayor asked how the City’s CAP compares to businesses and other cities, whether all costs have been accounted such as land at our parks and what costs are not included. In addition, how do we handle revenue earnings that lessen our cost?
- Vice Mayor mentioned that some soccer leagues feel they should pay less and how should we explain how much it costs versus how much they pay in rental. She mentioned recommendation to do fee adjustment annually with the budget process is a good idea, better than waiting a few years then have a big jump.
- Tom Williams and Emma Karlen answered that the City’s CAP is standard like any other cities and similar to businesses except that there’s no profit margin. Some costs are not fully recovered such as recreation as we have to maintain parks even nobody rents it. Park land is not depreciable as such not included in the calculation. The cost to maintain the park can be easily calculated since we have the hourly rate from the CAP and we can get the hours from Public Works. As for revenue earnings that lessen our costs, they were already accounted for in the General Fund.

ACTION: Vice Mayor recommended staff move forward with the 2014 Updated Cost Allocation Plan for City Council approval.

B. Impact of WPCP 30-Year Rehabilitation Program on City Sewer Rates

- Jeff Moneda, Public Works Director/City Engineer – Presented to the Finance Subcommittee the Impact of WPCP 30-year Rehabilitation Program on City Sewer Rates. The estimated cost of the proposed WPCP rehabilitation program is \$2.2 billion and Milpitas share is approximately 8% or \$168 million. San Jose is implementing pay as you go with Milpitas and other tributary cities but the tributary cities prefer bond financing. With the pay as you go scenario, we can expect sewer rates to increase by 22% for FY15 through FY17 and by 7% to 15% for FY18 through FY21. With Milpitas preferred bond financing scenario, we can expect a constant rate increase of 9% through FY21. The proposed rate increase is within the City Council adopted 4 year plan on May 3, 2011 with an annual 7% rate increase.
- Tom Williams asked why San Jose would have so much reserve to pay their share and whether their rates are higher than ours. How much in the hole would we get if we don't do 9% now? In any case, we will have to have a rate increase sooner or later. He also indicated that San Jose plans to develop the buffer land and wants to keep 100% of the tax generated from the development.
- Jeff Moneda and Steven Machida believed San Jose built up reserve from deferred maintenance and their rates are lower than ours as big cities typically have a bigger base to spread the overhead costs. As for tax sharing of the buffer land development, Jeff Moneda thought they agreed to share based on the last TPAC meeting. Mayor indicated we need to review the TPAC minutes and have it included.
- Vice Mayor asked if San Jose wants to do pay as you go then do we have an option? She indicated that we need to explain costs and why we are forced to increase the rates. It would be difficult to raise rates if there's no timeline and deliverables.
- Mayor mentioned that there are planned schedule with timeline and projected deliverables as he has attended the meetings and it would be good to get a copy. Due to uncertainty, we should propose 9% increase for the first three years.
- Emma Karlen and Jeff Moneda answered that we can not do bond financing ourselves as we do not own the plant. However, one option we can look into is interagency borrowing as San Jose staff have indicated they willing to look into. Assuming San Jose would charge interest rates at San Jose portfolio earning rate, this would be a more advantageous scenario as we only borrow when needed at a much lower rate than bond rate. Jeff Moneda indicated we have a schedule but projects have not been validated.
- Johnny Phan mentioned that technically we can raise sewer rates up to the cap which is equivalent to 22.5% increase for Single Family Residential for FY15 without Council approval.
- Mayor proposed we bring it to City Council as Study Session for proposed increased of 14.5%.

ACTION: Vice Mayor recommended that we bring the proposed rate increase under consent to raise to FY14 rate or equivalent to 14.5% and work with San Jose for timeline and bring back.

V. OTHER BUSINESS

None

VI. NEXT MEETING – To be Determined

VII. ADJOURNMENT