

**MINUTES OF THE CITY COUNCIL
OF THE CITY OF LOS ALAMITOS**

SPECIAL MEETING – September 8, 2014

1. CALL TO ORDER

The City Council met in Special Session at 5:05 p.m., Monday, September 8, 2014, in the Council Chamber, 3191 Katella Avenue, Mayor Graham-Mejia presiding.

2. ROLL CALL

Present: Council Members: Edgar, Grose, Kusumoto,
Mayor Pro Tem Murphy, Mayor Graham-Mejia

Absent: Council Members: None

Present: Staff: Bret M. Plumlee, City Manager
Cary Reisman, City Attorney
Tony Brandyberry, Public Works Superintendent
Corey Lakin, Community Services Director
Bruce McAlpine, Police Captain
Steven Mendoza, Community Development Director
Cassandra Palmer, Support Services Manager
Windmera Quintanar, CMC, City Clerk
Glenn L. Steinbrink, Interim Admin. Services Director

3. SPECIAL ORDERS OF THE DAY

**A. Prioritization of the Replenishment of General Fund Reserves
(Finance)**

This Staff report was presented to continue the discussion regarding the prioritization of the replenishment of General Fund Reserves.

Mayor Graham-Mejia opened the item for public comment. There being no one present wishing to speak, Mayor Graham-Mejia closed the item for public comment.

City Manager Plumlee introduced the item. Interim Administrative Services Director Steinbrink summarized the Staff report, referring to the information contained therein, and answered questions from the City Council.

Council Member Grose stated concern for discussing the 25% adjustment at this time as it would add confusion to the process and believed it should be addressed as part of the mid-year adjustments. He pointed out the

emergency reserve fund money would still exist, but it would be reserved. He preferred to leave the allocation at 25%. He believed the same concept applied to the 80% allocation to PERS. He wanted to avoid using these funds for undesignated items and recalled \$200,000 had already been pulled from PERS for additional project latitude. He supported what Council originally adopted; PERS 80% and Emergency Reserve 25%. He asked if 800 MHz was a factor at this point or if that was part of the internal service fund discussion.

Interim Administrative Services Director Steinbrink stated it was an Internal Service Fund.

Council Member Grose stated support for continuing with what was originally agreed upon and addressing the difference in change at the close of the FY 14/15 Budget.

Mayor Graham-Mejia stated support.

Mayor Pro Tem Murphy stated support. He asked what date Staff should bring back modifications.

Council Member Grose stated Council adopted the budget and percentages on July 1st and baring something dramatically different, Staff should adhere to those percentages. If there is a savings at the end of year, Council could discuss adjustments going into next year budget.

Interim Administrative Services Director Steinbrink stated Council's adopted policy set the emergency reserve at 25% of the General Fund appropriations; the \$3.25 million was not 25% of the General Fund. He clarified general fund appropriations of the adopted budget would be \$3.55 million. In order to stay in compliance with general fund policy, the 25% is the minimum amount of reserves allowed. If in any one year the reserves fall below that mark, then reductions to the general fund appropriations would be needed. He stated the 25% reserve was non-spendable, but that did not mean at some point in the future it could not be appropriated. He specified Council could not appropriate the 25% emergency reserve fund unless there was an actual emergency.

Mayor Graham-Mejia asked if Council could take action to change the percentage.

Interim Administrative Services Director Steinbrink stated yes and added the policy would need to come back to Council for approval.

Mayor Graham-Mejia indicated in tough economic times, Council may need to bring the policy back for discussion and adjustments if needed.

Council Member Edgar was supportive of maintaining 25% and discussing any adjustments at mid-year, to be used in the next budget cycle. He thought this item was to establish mechanics to aid in the planning process next year and discussion of where to spend excess funds. He stated support for a mechanical allocation which would allow Council to know in what conditions excess amounts would be applied to reserves; specifically the pool, parks, and streets. He stated interest in seeing more specifics by category and what would happen to undesignated reserves so Staff has a process to follow and prioritize projects.

Council Member Grose agreed and believed the policy should be in place when the budget is adopted and adjustments could be made throughout the year. He stated concern the balanced budget was balanced using reserve funds that are designated for certain projects. He referred to the 800 MHz project and stated \$77,000 had been allocated from reserves to the internal service fund account, with the understanding it would be rebuilt yearly.

Council Member Edgar Stated concern the budget was balanced on assumptions such as implementation of metered parking.

Council Member Grose reiterated support for the adopted policy and reviewing the budget at the end of the fiscal year to determine any needed adjustments. He advised Council would be relying on Staff now.

Mayor Graham-Mejia confirmed Council consensus had been received to leave the policy as is and no further action was needed.

B. Fund Balance Policy for the Internal Service Funds (Finance)

This Staff report was presented to formally adopt a fund balance policy for the Internal Service Funds based upon the reserves established by City Council with the adoption of the Fiscal Year 2014-2015 Budget.

Mayor Graham-Mejia opened the item for public comment. There being no one present wishing to speak, Mayor Graham-Mejia closed the item for public comment.

Interim Administrative Services Director Steinbrink summarized the Staff report, referring to the information contained therein, and answered questions from the City Council.

Council Member Edgar stated Staff was mechanically set up by having a general fund policy and knowing the garage fund had a target of \$250,000. A matrix to show when money gets pushed into the Internal Service Funds was now needed. He indicated the schedule was right and

the City could not afford it. He referred to the 800 MHz project and asked what the baseline was.

Interim Administrative Services Director Steinbrink stated \$35,000 a year would be allocated for the next 20 years. He clarified the need right now was for CAD RMS and 800 MHz system. The fund would grow every year by CPI. He added these reserves were to purchase the next CAD RMS system 15-20 years from now, not the one the City is buying over the next 6-7 years.

Council Member Edgar summarized the City could not afford the \$250,000 needed for the garage fund, there was no funding for the pool, and street funding was short and reliant on grants. He stated the budget was \$400,000-500,000 short with no structural revenue source to catch up.

Interim Administrative Services Director Steinbrink agreed.

Council Member Edgar stated there was a structural problem; the City couldn't afford what was needed and would eventually need to spend reserves. He indicated the Council needed to start fixing the revenue projections and see what could be done to increase the revenue source in the City.

Council Member Grose stated his understanding the garage fund was not a garage fund and was merely salaries and benefits for Public Works employees and garage related items.

Interim Administrative Services Director Steinbrink clarified the fleet maintenance fund and equipment replacement fund were included in one fund.

Council Member Grose stated concern departments were paying a percentage into the garage fund to fund mechanic and parts for the entire fleet. He questioned why a separate department was not created. His interpretation of the garage fund was for vehicles and replacement, similar to the technology fund. He stated it was logical to create that job in a department function and then when equipment and funding of equipment could be discussed clearly. He did not realize departments were paying for maintenance and operations and that vehicles were not being replaced. He stated the equipment on the list included total amounts, all equipment and scheduled replacement and believed the process was improving.

Mayor Graham-Mejia clarified Council Member Grose preferred to bifurcate the two items; equipment in one department and cost for employees doing the work in a separate department.

Council Member Grose agreed and added it appeared to be a better approach to have everything related to employees mechanical wise separated.

Council Member Edgar pointed out there were two separate functions of the garage fund; maintenance and operations and replacement. Previously, Council had stopped spending money on things because it wanted to maintain Staff. He indicated Staff was aware they were paying for maintenance personnel and not replacement of equipment. He was supportive of separating equipment so Staff would have to agree on what was needed. He questioned if separating maintenance and operations was feasible for the next budget cycle.

Mayor Graham-Mejia requested background on why the fund was structured as is and if there was a benefit to changing it.

Public Works Superintendent Brandyberry indicated the garage fund has always had two functions; 1. to repair vehicles, fund the mechanic, oil, parts, repairs to the lift in shop, and everything that encompass running the shop; and, 2. replacement of equipment. In his tenure the mechanic's salary has always been a part of operations. He pointed out as vehicles are not replaced, parts and labor increase.

Mayor Graham-Mejia indicated it was logical newer cars would need less maintenance.

Council Member Kusumoto asked if the labor was a variable tax to the departments that changed from year to year.

Public Works Superintendent Brandyberry stated currently departments are charged for materials, supplies, and labor. Labor was calculated by taking the salary of the mechanic and dividing it by number of vehicles.

Council Member Kusumoto suggested a different way of funding. Instead of dividing the total salary by the number of cars, each department would give a lump sum of money for service. He indicated the funding was coming from the departments instead of Council and asked if the allocations were steady.

Public Works Superintendent Brandyberry answered in the affirmative and added when new vehicles are purchased; parts and labor are decreased and then steadily increased over the years for repairs.

Council Member Kusumoto questioned the variability of overtime and salary increases. He questioned if bifurcation would be a difficult process.

Public Works Superintendent Brandyberry indicated it would be the same process for his department.

Interim Administrative Services Director Steinbrink stated the true purpose of an internal service fund is to set up a place in the budget for operations that provide services to all other departments in the City. Internal services funds are a cost center. They are not set up for Police and Recreation because they do not provide services to other departments. He indicated his experience was that every city with a vehicle replacement fund has it as an internal service fund. He stated the mechanics would be exactly the same if Council wanted to bifurcate the fund into two separate components. Departments would still be charged, the fund would still bring in money, and the money would still be used still used for the purpose in which it was established.

Council Member Edgar was supportive of best practices. He questioned what was acceptable for internal service funds and if there were any hard rules.

Interim Administrative Services Director Steinbrink stated there were no legal requirements to have internal service funds.

Council Member Edgar believed this was an opportunity to set precedent and it could work, unless there was some accounting reason it would not. He indicated Council was starting to codify a policy it was not going to be able to afford. Allocating \$50,000 was very prudent when \$250,000 was needed. He stated he was very interested in looking into the issue further.

Council Member Grose indicated the money is all in the general fund. He believed payroll should come from one fund and items to support operations should come from another fund. He believed vehicles and equipment did not reflect personnel. He believed it would be easier to have personnel costs broken out so when an item is needed, it would come out of budgeted capital. He indicated it was all the same money, just broken out differently. He supported doing the same with parks and landscape.

Council Member Edgar stated the public works budget had certain divisions; streets, parks, and fleet maintenance included. He did not recall fleet maintenance including salary and benefits and maintenance and operations.

Council Member Grose supported the fund being more transparent and defined.

City Manager Plumlee clarified it was laid out in budget operationally. He explained each public works division was detailed with salaries. Fleet maintenance is an internal service fund and charged back to the departments. It is laid out so wages and benefits in that one division are clear. In addition, there's a revenue source that goes into that division and capital is charged back to departments. He concluded if the fund is a true internal service fund and being handled right, there will be charges and allocations per department.

Mayor Pro Tem Murphy stated support for bifurcation. He believed if there were two funds it would be clear when money was not going into the fund to replace vehicles. He felt it was a good idea that would hold the City accountable. He preferred the current process for determining percentages, but wanted to review the process to ensure everything was being included and departments were not being undercharged. He supported bifurcation because it would provide more accountability and give a clearer picture of what each department expends.

Mayor Graham-Mejia stated support for leaving the process as is. She asked if it was possible to receive a report that clearly tracks expenses for clarification. She reiterated support for leaving it as is and requested a report be generated that outlines all purchases so it is clear what is being spent and what is needed.

Council Member Kusumoto understood and supported the internal service fund for replacement of vehicles. He supported bifurcation for labor, but would not be insistent upon it. He believed Staff understood the needs for labor and could best estimate it on past experience. He hypothesized that Staff could be contracted out to neighboring cities if the true cost of labor is known.

Mayor Graham-Mejia stated it would no longer be an internal service fund if it was bifurcated.

Interim Administrative Services Director Steinbrink confirmed and clarified only vehicle replacement would be an internal service fund.

Mayor Pro Tem Murphy asked if bifurcation could be done within the internal service fund.

Interim Administrative Services Director Steinbrink stated it could, but he understood Council was requesting vehicles be shown as a department with no further allocations. He suggested reporting it as two separate internal service funds and with two separate funds so each department would know how much was being spent on maintenance and replacement.

Mayor Graham-Mejia asked if that was a lot of work for Staff.

Interim Administrative Services Director Steinbrink stated no.

Council Member Grose questioned if this was something the Ad Hoc Committee could address.

Council Member Edgar believed it could and questioned if the department was going to plan the expense or if it would be a tax.

Council Member Grose stated funds were coming out of the same general fund and questioned if all departments should be paying the expense of public works staff.

Council Member Edgar believed Council was supportive, but was uncertain if Council was ready for that direction.

Mayor Graham-Mejia was supportive of discussion at a future meeting with the Ad Hoc Committee bringing greater detail forward.

Council Member Kusumoto questioned if the discussion should be continued and felt unintended consequences have arose from the discussion. He questioned what other cities have done and how it has affected them.

City Manager Plumlee indicated Interim Administrative Services Director Steinbrink had suggested two internal service funds with two separate line items. He indicated the idea was worth having the Ad Hoc Committee discuss.

Mayor Graham-Mejia believed that was logical and would still allow tracking without micromanaging.

Motion/Second: Kusumoto/Grose

Unanimously Carried: The City Council directed the Budget Ad Hoc Committee to explore the options provided and bring back to Council at a future study session.

Mayor Graham-Mejia moved on to the Staff recommendation.

Council Member Edgar asked if Council had discussed anything that went against the proposed policy.

Interim Administrative Services Director Steinbrink answered no and stated the policy was general and established a starting point to replenish funds. He indicated it could be changed at any time.

Motion/Second: Murphy/Grose

Unanimously Carried: the City Council adopted Resolution No. 2014-23, entitled, "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF LOS ALAMITOS, CALIFORNIA, ESTABLISHING A FUND BALANCE POLICY FOR THE INTERNAL SERVICE FUNDS."

ROLL CALL

Council Member Edgar	Aye
Council Member Grose	Aye
Council Member Kusumoto	Aye
Mayor Pro Tem Murphy	Aye
Mayor Graham-Mejia	Aye

Council Member Kusumoto referred to a meeting he had with Townsend and questioned if there was support for a retainer agreement.

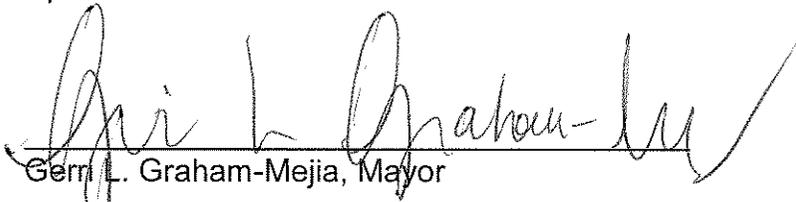
City Attorney Reisman advised that was not open for discussion as it was not listed on the agenda.

Council Member Grose requested an agenda item be added to a future meeting to discuss the pool and maintenance. He asked if he could specify his direction.

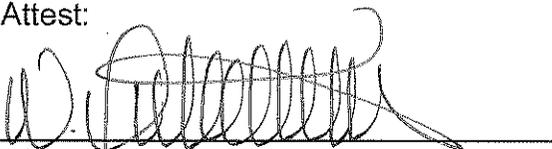
City Attorney Reisman advised no.

4. ADJOURNMENT

The City Council adjourned at 6:15 p.m.


Gern L. Graham-Mejia, Mayor

Attest:


Windmeja Quintanar, CMC, City Clerk