

**City Council Meeting, January 3, 2018
Public Comments, Agenda Section F**

**Submitted by: Gary Osterhout
Position: Neutral
Received: 01-02-2018 3:46 PM**

Agenda Item:

F. PUBLIC COMMENTS (3 MINUTES PER PERSON)

Comment:

RE CCA: I hope none of you think this is real outreach designed to engender support, especially absent mention of any upcoming local meeting or acknowledgement of the distance (City of MB posting to NextDoor): "To find out more about this program and to discuss the formation of a Community Advisory Committee that will help guide LACCE, the community is invited to attend a public workshop on Wednesday, January 10 at 6:30 p.m. in the Duarte Community Center, Duarte, CA."

**City Council Meeting, January 3, 2018
Public Comments, Agenda Item No. 3**

**Submitted by: Gary Osterhout
Position: Oppose
Received: 01-02-2018 2:51 PM**

Agenda Item:

**3. 18-0004 Budget Policies and Biennial Budget for Fiscal Year 2018-2019 and Fiscal Year 2019-2020
(Acting Finance Director Charelian). APPROVE AND PROVIDE DIRECTION**

Comment:

The agendized budget policies are a distractive hodgepodge that are best discarded. Absent that, please consider the attached comments. I have also attached some GFOA "best practices" that would serve us well to be taken to heart. Finally, despite huge interest three years ago, the city has never provided a good community budget session and people dropped out of the process. Having the same people run this again will achieve the same results.

(See following attachments)

Budget Policy Review

Gary Osterhout

January 2, 2018

Agenda Item #3

The preface to these policies states the purpose of the budget process is to “help the City Council make informed choices . . . and to promote stakeholder participation in the process.” Our budget process, however, leaves most residents behind in respect to participation (as evidenced by only a handful of participants at the last Joslyn budget session). In the main, I view our budget as structured more for easy integration into the year-end CAFR, and less to make good management decisions or involve the public.

This “Budget Policy Document” itself is overwritten, with little significant information and much leeway in respect to financial shenanigans. Many of the sentences are just unaccountable words that sound good, but have no substance. In other situations, necessary clarity is omitted. There is so much jargon (in addition to all the other budget documents) that any layman is likely to be overwhelmed or confused as to where input is best provided. At the end of the day, residents are faced with making decision based on useless graphing and no real accessible program choices. This document appears to have been developed only so Mark Danaj could put something with his fingerprints in the budget documents. In reality, many of these points could and should be appropriately inserted into either the Financial Policies or General Policies, and this entire document discarded for simplicity.

This is not the first time I’ve provided this input. In fact, I started reviewing the changes and then recalled that I had previously communicated to Council on this policy in April 2015, when these policies were first introduced. Finding the same points as equally viable in 2018 as 2015, I submit these again, refreshed.

Given there was no change from when I submitted this list before (not even to the fact that there was a problem, as now, in the numbering of the paragraphs), it is easily concluded that either you folks (i) really don’t want to hear or consider input, or (ii) take too much of what Bruce Moe tells you as gospel (which is dangerous), or (iii) don’t really even consider this document important so are satisfied merely to its existence like you’re really invested in the budget process.

That said: Changes needed:

1. Overall

- c. There needs to be more oversight to policy development than the City Manager’s proposal. We need an ad hoc advisory committee or a more formal finance committee with resident participation or a community meeting PRIOR to a budget presentation. The current Council Finance Subcommittee is not meeting residents’ needs. If you don’t want to solicit community opinion first, the Subcommittee needs to do more advocacy for residents and less rubber-stamping the same budget prepared by Finance in the same format for over 15 years.

- d. What is a “Council Constituent friendly format?” I would expect that the policy should articulate that, in this respect, the analysis and presentation is objective, free from jargon, and understandable to those with a certain historical level of city government participation or

understanding. Line item detail is certainly expected. But explaining how the line item detail was developed would be of better useful information. As there are certain items that residents are especially interested in, such as pensions, or facility construction, I would think that more information would be provided for those areas. Many line items do not contain sufficient detail. For example, your Storm Drain “line items” consist largely of “contract services,” but no breakdown of how much of this item breaks down even to street-sweeping (and important information point), much less how much money goes direct to sewer-like storm drain piping (which most associate with storm drains) and how much to tangential storm water capture (that broad and infinite range of storm water-related activities dreamed up by various agencies).

e. Doesn't it force a conclusion when it is stated “we have limited resources for operating and maintaining facilities?” Don't we have limited resources for everything? And why doesn't the city devote more funds to facility maintenance—because no one has started a private fund for that? Further, I can't see the connection between decisions on capital improvements and the costs “for operating and maintaining facilities.” If anything, this seems like a continuation of the Dolan-era philosophy of “don't provide decent amenities deserving of M.B., because then we will have to spend money to maintain them.” Please make the old sentence understandable, or delete it.

f. The second sentence of “c” above says the same thing as “f”, at least in part. Again, this document is way overwritten with many other redundancies throughout this document.

g. This section makes no sense, but I could understand the benefit to the reader in identifying what in the budget is discretionary and what is inviolate, and how each are determined.

h. Not phrased in an accountable manner. Might also include specific reference to shared resources between cities.

h and i. Neither of these are budget preparation items under my definition. They are management practices.

i and j. Both are unaccountable.

k. “Total compensation” should be defined, and what “considered” means.

l. I think “vis-à-vis” should be “versus.” But all in all, still an unaccountable section.

2. Fiscal Integrity

a. This seems the same as “d.” “New program” needs defined.

b. This really needs worked on. First, define “carryover balance,” “one-time” or “non-recurring costs.” What's the difference between a “cash balance” and a “carryover balance?” Also, the Financial Policies directly reference the utilization for CIP—why doesn't this? There is such opportunity for abuse—and it has occurred in the past. There have been reserves set up in the past for “Pension Stability,” “Economic Uncertainty”, or employee vacation accruals that seem to be set up from these carryover balance because the City does everything it can not to put any unused year-end fund balance toward CIP—yet that is the one area the City has consistently been unable to display good fiscal discipline. Same with adding to the Insurance Reserve's “working capital” balance—which has been done to cover up when Finance has not adequately

planned for payouts. To me, this is an abuse. A “one-time” measure or non-recurring should be a disaster or some other disastrous or expected (not remote) event. If not used for that singular purpose, then such balances automatically revert to CIP. Mid-year appropriation (and especially in the few months before July) of the expected carryover balance should be prohibited. Frankly, I can’t see where embargoing current money to pay expenses in the future instead of cutting back to a sustainable level or charging out the real costs through an annual budget line item (instead of merely augmenting a fund balance) is in any way “fiscally prudent.” The practice merely covers you from making a necessary decision, or allows city government to unnecessarily expand without fear that future years are not sustainable.

c. The first sentence makes no sense. The second sentence reads OK, but I’m not sure why it needs stated, and equating debt level with services doesn’t make sense since we do not use debt to provide services. I’d be more interested in a practical policy that describes how you guys are going to build and replace facilities given the lack of current efforts. On the other hand, I disagree that the City’s goal should be to “maximize the level of public goods and services.” I think we need to cut back on certain services to a large degree (I’ll go with the replaced wording of “efficiently deliver”).

d. There is too much complication in this section than necessary, and no explanation as to the use or benefit of using a “three-year simple moving average” or a “4% vacancy factor.” There is no explanation why a specific identification would be impossible or impractical. There will be considerable volatility in a 3-year average when key employees are involved in one turnover year vs non-managerial. Sounds susceptible to manipulation.

f. “One time resources” needs defined. Some cities say spikes in sales tax are considered “one time” or nonrecurring.

g. Short term debt can be used to fund ongoing operations?

h. Why would adequate reserves need to be enhanced? Why isn’t there a cautionary statement that reserves should not be excessively enhanced but should be adequate?

3. Revenues

a. “Conservatively” needs defined and/or removed. The term “when available” seems unnecessary, or suggests that economic forecasts will pre-empt government agency standards and estimates.

b. Is this inflation + scheduled rate increases? Or should this be “or” instead of “and.” In addition, general fund reserves should be based on revenues, not expenditures, and expenditures should not assume an increase over inflation. Any difference in revenues and expenditures should be an incremental increase in CIP (facilities) funding.

c. If one time resources “shall not” be utilized to fund on-going operations (as in 2f) then what would this item pertain to? How do we know if one time resources are used to balance the budget or not? The biggest budget violation to date is when during the recession the council “balanced” the budget by using Fleet and IT reserves for on-going expenses but discontinued the charge-outs. That budget manipulation needs addressed (Carmany directly addressed the

problems resulting from this depletion in his first year with the budget, but a policy was never developed to prevent its use in the future).

Funding Non-current Liabilities?

4a. Are you recognizing Maintenance and Replacement funding as a non-current liability? If so, why did you reclaim that set-aside funding in the current year's budget, just because it wasn't needed for current needs?

4b. This is a totally inaccessible and incomprehensible section that sounds written more for our underwriters. Would benefit by a referenced off-line detailed explanation with numerical examples.

5. [First of two 5's] Internal Service Charges. There is no discussion of the basis for developing these costs. GFOA discusses that sometimes these charges are developed to determine the cost of in-house vs. outsource services. But certainly that information can be developed as needed and is not needed through the budget. As most of these charges are uncontrollable by the department head, the policy should be that if these separate funds are found necessary for some reason, the numbers should be reflected "below the line" in a budget (that is, not a fundamental part of the departmental budget). Certainly there are no decisions being made by council or residents that are impacted by whether or not this fund exists. There is no discussion of how often these charges should be reviewed, or how the "proportionate share" is determined. As mentioned above, there should be some restriction to a council putting a moratorium on charges, thus buying down the fund balance of the internal service fund (which is manipulation of the books). Also, the same written layout for each of these funds would sure make it more readable.

Also, the intro paragraph to this section mentions fleet, technology, insurance, building maintenance, and operational costs. Yet only the first three are discussed in the subsections. Its not like the confiscatory "administrative service charge" hasn't been frequently challenged by residents, especially when applied to the trash and storm water service areas.

- a. Fleet management – there is no mention of the basis of allocation (miles traveled? Number of vehicles? Relative vehicle value?). There is no definition of the "established vehicle replacement schedule"—is that schedule too aggressive? There is no need for "working capital" in this fund (the term working capital also being misused, or at least in respect to GFOA guidance), or that this fund could not borrow working capital on a temporary basis from other general fund funds (as it is a general fund fund, but with an artificial carve-out). And what is "sufficient working capital," and who determines that?
- b. Info Systems – if working capital is so important (and I say it isn't), why doesn't this fund have a designated working capital balance? Is "number of devices" a good basis? Is it accountable? Are some department's "devices" more expensive

than others? Do all use the servers to the same degree (within materiality limits, of course).

- c. What is meant by “annual charges for service shall reflect historical experience and shall be established to approximately equal the annual expenses of the fund?” If the charges are based on history, then for what period? If they are supposed to equal the annual expenses (which then suggests a projection), then how is that done? Or, do both sections of this phrase say the same thing?

5. Or, “Second of 2 fives” . **Reporting**

- a. What does this mean? Why would you compare a month’s actuals to YTD actuals (beyond the first month). Even if this is made to make sense, a good policy should state why this will be done.
- b. No change, only there is a difference between financial performance by itself and performance against the budget. This could be better phrased to provide clarity as to the purpose of the review. And one would expect “mid-year” would be “mid-year,” and not March. Any changes needed in March could certainly wait for the new budget in July.
- c. I don’t think there is a legal proscription against projecting longer than 5 years when that sort of information would be helpful (if there is, let me know). I think it should be stated “at least for the next five years and longer if deemed appropriate.” That would then allow analysis that could answer the Mayor’s State of the City assertion that “pensions are potentially unsustainable.” That is a question that should not be dangling, for if there is even the potential you folks should start cutting head count now. I also think that a 5-year General Fund CIP plan should be presented whether the project is funded or not. Otherwise, how can you analyze and express CIP priorities and objectives or focus the CM on the need for him to find additional funds? If “modifications for year 2” are anticipated, then one would expect some guidelines about what is subject to modification and to what extent---when there is discussion of a “two-year budget” that is changed annually, that isn’t a two-year budget anymore.

6. Civic Engagement – There is a whole GFOA best practice on this topic.

- a. I would finish this first section by adding that the budget should be written in concise objective terms, and summarized with resident understanding in mind. Contrary to what staff and council seem to think, just watching you folks discuss the budget does not constitute “involvement.” There needs to be stimulative outreach, showing viable alternatives and advancing trade-off choices that you REALLY want input on. You need a way to equip the user with information, and to assess what information is needed.

- b. This is unnecessary. And “shall be utilized” for what? If you want this, then you should might phrase it “Outreach tools such as the city’s website for education, social media for meeting announcements, and meaningful resident surveys for superficial but directional guidance, are acceptable.” [Note that I think resident surveys are misused and I mistrust their use.]
 - c. I do not think this is necessary. I’d be more impressed if you would say “Council Budget study sessions will be held at a time and for a length accessible to the average resident. The study sessions will be structured to allow citizen input throughout the session.”
 - d. Sort of unaccountable, and only as good as the development of meaningful performance measures. As an example, Public Works has no idea about how many trees they’ve planted in a year or where, and seems to have little accountability as to facility and resource maintenance. Merely using “satisfaction survey” data to determine performance lacks real accountability. When four engineers are allowed to be hired, but no empirical performance-result indicia are presented to accompany the hiring, there is no accountability.
7. Capital budget – Fiscal Policies – Need to segregate between General Fund and Non-general fund CIP.
- a. What does “expected to be reliable as the level of detail known about the project” mean?
 - b. OK, but I think this is a bit detailed for a policy.
 - c. The first sentence should end “within the framework of an ANNUAL Capital budget.” The second sentence needs reworded totally. Is it saying that priority is given to “projects that that present and answer the following questions for Council consideration: (1) Impacts to other projects and (2) Funding sources”? Because that makes no sense, to me (“Consideration is given to projects that answer the following questions for council consideration.”). Also, I do not think a project should have a priority just because it has an outside funding source. If that project is not so critical and it defers a different project due to staff/resource constraints or the need to apply additional general fund money, then it should have no more priority.
 - d. OK, makes sense, but I question if this information will be used to do anything more than allow Staff to torpedo facility construction or deferred maintenance so that current salaries and pensions are protected instead.
 - e. Don’t know what clarity is provided by the second sentence.
 - f. This is nonaccountable and seems to be nonsensical filler. Also “implementing the Capital Budget” is jargon.
 - g. This needs more explanation. If it is a multiyear project, isn’t that “within the budget period” for that project? Aren’t most of our projects funded in one year and completed the next? Isn’t this what “h” says, which sort of makes “g” redundant or nonreflective of the complete policy?
 - h. See g.

- i. I appreciate this, but there needs to be more to advance our general fund CIP than we are doing. Again, this concept would benefit by a separation of the necessary analysis needed for an enterprise fund project than a general fund project. For our enterprise funds we project out the necessary capital needed to keep it running right, and will make the funding/revenue adjustments needed. We need something similar for general fund projects rather than the default “do it later.”
- j. Why is this here? Charging employees to their fund has been long accepted practice (for instance, there is a full-time employee, paid by our trash fees, that is dedicated to serving the trash contract done by an outside provider that has long been charged to the trash fund). Are you saying “as much as possible, charge engineering salaries to the rate payers?” I expect this is more political based on the four engineers hired, instead of using those engineers already in place. But charging new engineers against non-general fund programs still means that we are paying existing engineers (used or not) against the general fund, instead of using those existing engineers to provide non-General Fund services—and those costs should be as equally tracked and monitored. Maybe it would be better to say “whenever feasible, engineers should be charged to a specific activity, whether general or non-general fund, so we can keep track of engineering salary costs.”

GFOA “Best Practice” Selections

Determining the Appropriate Level of Unrestricted Fund Balance in the General Fund

Nonetheless, *financial resources available in other funds should also be considered in assessing the adequacy of unrestricted fund balance (i.e., the total of the amounts reported as committed, assigned, and unassigned fund balance) in the general fund.* Those interested primarily in a government’s creditworthiness or economic condition (e.g., rating agencies) are likely to favor increased levels of fund balance. *Opposing pressures often come from unions, taxpayers and citizens groups, which may view high levels of fund balance as "excessive."*

Sometimes restricted fund balance includes resources available to finance items that typically would require the use of unrestricted fund balance (e.g., a contingency reserve). In that case, such amounts should be included as part of unrestricted fund balance for purposes of analysis.

Public Participation in Planning, Budgeting, and Performance Management

More recently, governments have used new forms of public involvement surveys, *focus groups*, *neighborhood councils*, and Citizen Relationship Management systems, among others as inputs to decisions about service levels and preferences, community priorities, and organizational performance.

While public participation efforts can be extremely valuable, superficial or poorly designed efforts may simply waste valuable staff time and financial resources, and at worst can increase public cynicism if the public perceives that its input has not been taken seriously.

GFOA also recommends that to ensure effective and well implemented public participation processes, governments include the following considerations in designing their efforts:

- Purposes for involving the public;
- Assurances that they are getting the public’s perspective rather than only that of a small number of highly vocal special interest groups;
- Approaches to eliciting public participation and the points in the planning-budgeting-performance management cycle those approaches are likely to be most effective;
- Information that the process will be incorporated into decision making;
- Communication to the public regarding how the information collected will be and was used; and
- Buy-in from top government officials.

Establishing Purposes for Public Participation Efforts

Articulating the purpose for conducting a public participation process is critical because the purpose becomes the foundation for deciding who to involve, how to select them, what activities they will be involved in, what information will be collected, and how the government will use the information. Consequently, determining the purpose should be the first step in designing a participation effort. Governments should not initiate public participation processes without

establishing a tangible purpose or objectives, nor is it sufficient to create a public participation process simply because it is a best practice or because other governments have done so.

Creating public or neighborhood advisory groups, committees, and informal task forces. These are often ongoing and can be used both to seek information during planning and information gathering and can in connection with subsequent phases, including consideration of alternatives, decision making, implementation, evaluation, and reporting. It is important to identify specific groups that will be affected the most by the decisions made.

Providing feedback to the public on how their input has been used

Governments should systematically collect, maintain, monitor, and analyze information gained from public involvement activities, maintain contact information on individuals and groups that wish to be kept informed, and use multiple communication mechanisms to ensure that those involved or interested in the process are notified of opportunities for additional feedback and of decisions made based on the public involvement process. Most importantly, governments should explain how public involvement has made a difference in plans, budgets, and performance, and gather public feedback on how successful the process has been through the public's eyes.

Government Charges and Fees

1. Setting user charges and fees can be difficult. Items to consider when developing charges and fees should include: How will the public be involved in the fee-setting process, and how will the public be informed of the result?
2. *Adopt formal policies regarding charges and fees. The policy should:*
 - Identify the factors (affordability, pricing history, inflation, service delivery alternatives, and available efficiencies) to be taken into account when pricing goods and services.
 - State whether the jurisdiction intends to recover the full cost of providing goods and services. Set forth under what circumstances the jurisdiction might set a charge or fee at more or less than 100 percent of full cost. If the full cost of a good or service is not recovered, then an explanation of the government's rationale for this deviation should be provided.
 - Outline the considerations that might influence governmental pricing decisions. Such policy concerns might include the need to regulate demand, the desire to subsidize a certain product, competition with private businesses, economic development, elasticity of demand for the particular service, and visibility of the service to the community.
 - The specifics of how the fees and charges will be levied and collected should be a consideration when developing policy.

Periodic review of the service demand and competition is also recommended to ensure that the appropriate quality and price point of the service continues to meet actual demand.

- ***There should be opportunities for citizen feedback, particularly when new rates are introduced or when existing rates are changed. This includes the government's policy regarding full cost recovery, subsidies, and information about the amounts of charges and fees (current and proposed), both before and after adoption, and the anticipated impact of the new fee on providing the service in future years.***

Measuring the Full Cost of Government.

The National Advisory Council on State and Local Budgeting acknowledged the importance of measuring the cost of government services in two of its recommended practices: developing a policy on cost recovery through fees and charges (4.2) and assessing how a service could be alternatively provided more efficiently (6.1). Several factors must be considered to ensure that cost data are used appropriately.

Pricing Internal Services

GFOA recommends that governments follow these steps when considering an internal service pricing system:

1. Identify goals of internal service pricing;
2. Develop allocation strategy;
3. Define level of costing detail;
4. Determine cost of service;
5. Decide basis of allocation; and
6. Consider potential drawbacks.

Pricing Internal Services

Consider potential drawbacks of internal costing systems. Finally, governments should be aware of the drawbacks of internal costing systems below and should consider mitigating strategies.

- ***Diminished trust between providers and customers.*** A charge system could create a suspicion among customers about how charges are developed and/or administered, especially if the basis of the charges is not adequately communicated to customers.
- ***Subverting processes or not using shared services.*** If customers perceive charges to be too high or unfair, they may respond by developing their own service capabilities. This can lead to duplication of resources and wasted effort.
- ***Acrimony and debate over the charge system.*** Even if users do not subvert the system, a costing system that is viewed negatively by users could generate a great deal of debate and discussion – energy that could be better spent on other pursuits.

**City Council Meeting, January 3, 2018
Public Comments, Agenda Item No. 4**

**Submitted by: Gary Osterhout
Position: Neutral
Received: 01-02-2018 8:51 AM**

Agenda Item:

4. 18-0006 Discussion of Prior Policy Redirecting CDBG Grant Funding to Non-Profit Community Based Organizations (Acting Finance Director Charelian). DISCUSS AND PROVIDE DIRECTION

Comment:

Why do I never hear of using CDBG funds for transit? I pulled this from a Colorado Dept. of Transportation document on transit planning: "[CDBG] grants . . . cover funding for transportation. A portion of CDBG funds are spent on directly operated transit services, transit facilities or transit-related joint facilities, and services for persons with disabilities, low-income populations, youth and seniors."

**City Council Meeting, January 3, 2018
Public Comments, Agenda Item No. 5**

**Submitted by: Gary Osterhout
Position: Neutral
Received: 01-02-2018 9:11 AM**

Agenda Item:

5. 18-0005 Discussion of Strand Alcove Bench & Tree and Bench Donation Programs (Parks and Recreation Director Leyman). DISCUSS AND PROVIDE DIRECTION

Comment:

Opposed to these programs. Concerned about a lack of defined, systematic annual tree-planting program though. Per the Report "the City will likely not install new trees unless there is a specific need or request" with the alternative to "purchase trees through the existing Public Works Parks maintenance budget on an as-needed basis." This squishy lack of focus is unworthy for any city, much less an environmentally forward city like M.B. [See more in attachment]

Agenda Item #5, Tree Donation Programs

Continuation of e-Comment

Gary Osterhout, 1/2/18

Opposed to these programs. Concerned about a lack of defined, systematic annual tree-planting program though. Per the Report "the City will likely not install new trees unless there is a specific need or request" with the alternative to "purchase trees through the existing Public Works Parks maintenance budget on an as-needed basis." This squishy lack of focus is unworthy for any city, much less an environmentally forward city like M.B. [See more in attachment]

[Continued] In the last year I have been told that the City has no inventory of where it has recently planted trees, nor has followed through with a 2015 funded mandate for a GIS-mapping of trees (through Davey Engineering, see council meeting of 1/20/15)). Nor does Public Works have a specific budget just for trees. Nor do they seem to have a park maintenance budget sufficient to keep our parks up to M.B. standard as it is (or without imperiling the performance bonuses paid out of their budget).

And don't tell me we are keeping pace with "as needed" trees—we have far more capacity for trees in our parks and parkways that has even been scratched. We just lost a good number of trees in Sand Dune Park. If nothing else, not more than a few years past we used to have large fir tree by the Veterans Parkway reverentially referred to as the "Freedom Tree" with its own marker, etc. Don't tell me that tree is no longer "as needed."

I suggest this alternative: Develop an annual tree planting program designed to consistently increase the inventory of public property trees. Follow through on the GIS mapping program. If a resident wants a commemorative plaque, then they can donate to cover the cost of an already-budgeted tree and can choose from the locations already identified for that year.