

## Budget Committee October 14, 2025

### Action Minutes of September 15, 2025

1. Approval of the Action Minutes Meeting Document from August 25, 2025, with minor corrections, including the misspelling of the word "approval," removal of an extra letter "b" in item #2, and the corrected spelling of "Ragle".
2. Cost Allocation Plan Proposed Methodology Change – Clearsource Consultant.

Staff presented a proposal to shift from the current full-cost allocation method to a federal cost principle methodology. This change would exclude certain overhead costs and could have a significant impact on the general fund budget. Phil Carter expressed concern about the potential annual financial effect and recommended a gradual phase-in approach. Jeanette from ClearSource clarified that the new methodology would rely on actual prior-year expenditures rather than adopted budgets. The committee agreed to review the City's existing Cost Allocation Plan before any further analysis is conducted. It was recommended that this item be postponed from the upcoming City Council agenda until both the Budget Committee and the newly formed Enterprise Fund Committee have had an opportunity to review the proposed changes.

3. Pension 115 Trust Investment Proposed Shift to 50/50 Allocation – Shuster Investment

The item focused on aligning portfolio strategy with budget planning, acknowledging the City's conservative stance while exploring a phased approach to reallocation. Mark presented performance data for the City's 20/80 fund allocation, noting a 9% year-to-date return, but projecting long-term returns of 4.65–5.2%, which fall short of the 6.8% hurdle rate. He recommended a gradual shift to a 50/50 allocation between equities and fixed income, rather than an immediate move to a 70/30 ratio like CalPERS. The committee discussed transitioning from the current very conservative 20/80 allocation to more balanced options such as 30/70 or 50/50, with Mark emphasizing that a 50/50 portfolio could yield higher potential returns (9–15%), albeit with increased risk. He also clarified that the City's investments would remain separate from CalPERS, but a more balanced approach could help offset potential losses from CalPERS' riskier strategy. Mark explained that while the portfolio is monitored weekly, quarterly reporting and rebalancing is more appropriate for long-term planning, helping avoid decisions driven by short-term market volatility. He also highlighted the strong performance of international markets and the committee is comfortable with the allocation to 40–60%.

4. Water Rate Study Update – Public Works

Toni provided an update on the water rate study, explaining that the current budget aligns with the Raftelis model and will be reviewed after the first quarter to determine if a formal rate study update is needed. The committee received the report out and not action taken.

5. Review of Budget at a Glance – Administrative Services

Staff presented the Budget at a Glance document for committee feedback. The Budget Committee recommended enhancing the Measure U section by listing specific funded projects to improve clarity. They also suggested separating the Utility User Tax into its own category on the pie chart for better visual distinction. The personnel staffing graph was reduced to a table format to conserve space, as it did not require half a page. For the Enterprise Fund section, the committee advised adjusting the axis scale on the cost allocation plan bar chart to ensure consistency—pointing out that the current visual makes Water appear disproportionately higher than Wastewater, which could mislead the public.

6. Review and Discuss the Result of IT Audit Assessment – Administrative Services

The committee is not recommending a \$40,000 IT audit proposal from a single vendor and instead in agreement for staff to reject the proposal and to explore community expertise and contact other cities for IT service RFP examples.

7. Q4 Quarterly Update – Enterprise Fund – Public Works

Staff presented the preliminary year-end performance for the Enterprise Fund, reporting that water and sewer revenues exceeded targets due to rate increases implemented in July 2024. Expenses were well-managed, coming in at 93% for water and 96% for wastewater, reflecting improved cost control. Toni recommended clarifying the “transfers out” label for public, committee and ultimately the council understanding, suggesting a separation of water and sewer capital funds. Ana explained that the Enterprise Fund does include capital funds, and that “transfers out” from operation are a standard mechanism to fund capital improvement projects tied to the rate model. She emphasized that since capital funds do not manage water and sewer billing, transfers from the operating budget serve as a standard mechanism to fund capital improvement projects. The committee received the report, and no action was taken.

8. Q4 Quarterly Update – General Fund – Lead: Administrative Services

Staff presented the City’s preliminary year-end financial performance for the General Fund as of June 30, 2025. The report indicated a projected deficit of \$340,000, which is lower than earlier estimates due to improved fiscal management and Measure U revenues totaling \$370,000. However, some expenditures exceeded budget expectations due to unanticipated one-time personnel-related payments and project reimbursements that did not materialize as expected. The committee received the report for informational purposes, and no formal action was taken.

9. Measure U Update – Administrative Services

Staff presented the item and committee received with no formal action was taken.

10. Burbank Farm ADA Path and Restroom Facility Project – Public Works

The committee received report from Toni about budget modifications for the Burbank Farm ADA Path and Restroom Facility project, where Toni explained that due to delays in housing building permits, they would need to reallocate funding from park-and-lieu fees to Measure M parks funds, using \$276,700 instead of the originally planned \$30,000. The conversation ended with a discussion about how these funding changes might affect other park projects, including potential delays to the Ives Park Segment 2 pathway project if sufficient park-and-lieu fees are not collected. No action taken from the committee.

11. Porchfest Special Event Fee Waiver – Public Works

Staff represented the item and committee in agreement to support the \$500 fee waiver request. Additionally the event applicant paid a \$1,000 security deposit to reserve the park, which will be refunded after the event if no damages to the event location. Applicant initially paid \$1,548 for police services, but due to a last-minute switch to private security, that fee will also be refunded.

12. Standing Topics

- Permits for City Buildings – Interim City Manager – Public Works to develop a policy for fee waivers on city-owned buildings.
- Budget Related Items – No open item was discussed and no action taken

13. Future meeting schedules

- October 14, 2025 starting at 10AM
- November 17, 2025 starting at 10AM
- December 15, 2025 starting at 10AM

14. Current Meeting Recap – short recap was presented and staff to send out the meeting minutes for the committee to review and provide feedback.

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