

**Minutes for the Meeting of the Finance Committee**  
**January 22, 2019**  
**4:30 P.M. –Town Hall, Del Mar Civic Center**

**Attendees**

**Council Liaison:** Terry Gaasterland, Sheryl Parks

**City Staff:** Scott Huth, Kristen Crane, Rosanna Arguelles, Monica Molina

**Members:** Tom McGreal (Chair), Al Corti, Clive Freeman, Bob Gans, Jas Grewal, Scott MacDonald, Jeffrey Sturgis, Tom Tullie

**Invited Guests:** Barry Entous

1. The meeting was called to order at 4:32 P.M.
2. Council liaison Sheryl Parks announced that newly elected Councilmember Terry Gaasterland has been appointed to serve as liaison to the Committee with Ms. Parks. The Chair welcomed Ms. Gaasterland.
3. City Manager Scott Huth reported the following: (i) the City is exploring the possibility of combining its Finance and Administrative Services departments, to save costs and eliminate inefficiencies; and (ii) a full study of the City's utility fee and rate structure is in the final stages of preparation, and will be brought to the Committee for review at its next meeting.
4. On motion duly made and seconded, the minutes of the meeting of the Finance Committee held on December 4, 2018, were approved.
5. Barry Entous provided an update on behalf of the Undergrounding Project Advisory Committee. Mr. Entous reviewed the most recent cost estimates for the proposed undergrounding project, which reflect significant increases over prior estimates. Mr. Entous reported that current estimates for the public portion of the project were in the range of \$50 million, which includes a 15% contingency proposed by the City's undergrounding consultant. (Mr. Entous noted that private property owners' costs in hooking up to the new lines were currently estimated to be \$6.3 million). Mr. Entous also outlined a proposed timetable and cash flow forecast for the project, which contemplated undergrounding one block per year between 2020 and 2027, when the bulk of the expenditures would be made. Mr. Entous also outlined the assumptions underlying the forecasts and cost estimates presented. An extended discussion ensued regarding a variety of aspects of Mr. Entous's presentation, including the following: (i) the various components of the cost estimates presented; (ii) the reliability of the cost estimates, especially if implementation of the project is delayed; (iii) the state of readiness of the

City and SDG&E to begin implementation; (iv) the most cost-effective means for the City to staff the undergrounding project; (v) means of reducing the projected costs; and (vi) the City's ability and means to finance the project. At the conclusion of this discussion, the Committee tasked the Long Term Planning Subcommittee with reviewing the information presented and evaluating the means by which the City could finance the project.

6. Tom McGreal led a discussion regarding the use of Measure Q funds during the current fiscal year, noting that projected expenditures of these funds exceed the budget by approximately \$1.5 million arising from the following: (i) \$1.1 million related to the Downtown Streetscape Project; and (ii) \$360,000 related to the Undergrounding Project (which Mr. Entous outlined during his presentation). Staff presented a proposal to fund this overage by borrowing from the City's General Fund Contingency, which currently stands at 21.16%. As part of its proposal, Staff presented a repayment schedule pursuant to which the contingency would be repaid in full by 5-31-20, through the application of Measure Q revenues. A discussion ensued, during which: (i) a consensus emerged in favor of the proposed borrowing to fund Streetscape; but (ii) questions were raised as to whether, given the increased cost estimates of undergrounding, the City Council remained committed to this project, thereby necessitating expenditure of the additional \$360,000 in funds sought for the current fiscal year. At the conclusion of this discussion, the Committee determined to review Staff's proposal for undergrounding funding if and when the Council demonstrates its continuing commitment to this project in view of the increased cost estimates. Further, on motion duly made and seconded, the Committee recommended that Council authorize the borrowing of \$1,104,923 from the General Fund Contingency to fund the Downtown Streetscape Project, to be replenished through future Measure Q tax receipts no later than the third quarter of Fiscal 2020 pursuant to the "General Fund Loan Repayment" schedule prepared by Staff and presented to the Committee.
7. Mr. McGreal made a presentation outlining the risks and consequences of the City failing to comply with the Finnell Plan, (which provides for expense growth to trail revenue growth by no less than 1.4%), both in the current and future budget cycles. Mr. McGreal's presentation included an analysis of the Fiscal 2019 budget compared to compared to the Fiscal 2018 preliminary actual results, which shows expense growth outstripping revenue growth year over year, largely due to significant spending on "special projects." He noted that this information was not available at the time the Fiscal 2019 budget was approved, since actual results could not be accessed at that time. Mr. McGreal also outlined the consequences of failing to comply with the Finnell Plan into the future based on maintaining expense growth at the current rate and revenue growth ranging from 1% to 3%, all of which lead to an elimination of the City's free cash flow no later than Fiscal 2022. Mr. McGreal concluded his presentation with the following recommendations: (i) take all steps necessary to comply with the Finnell Plan, which would include cutting approximately \$557,000 from the Fiscal 2019 budget; (ii) begin to fund special projects out of a new fund similar to the CIP Reserve rather than general revenues, to be similarly funded out of free cash flow; (iii) finalize the determination of the appropriate metrics to be used to gauge the City's fiscal health; and (iv) conduct a review of the City's budgetary and internal financial reporting system, in an effort to avoid

a repeat of the current circumstance in which it was not known until late in the budget cycle that there was a risk of non-compliance with the Finnell Plan. Mr. McGreal also suggested that the Finance Committee participate in the upcoming Council Goals and Priorities workshop in February, to provide meaningful input in the budget process. After discussion, a consensus emerged from the members of the Committee in favor of Mr. McGreal's recommendations.

8. Mr. Huth presented various revenue generating ideas to the Committee for consideration, as well as a high level overview of the approvals necessary to implement these measures. After discussion, the Long Range Planning Subcommittee was tasked with reviewing Mr. Huth's proposals, as well as examining other potential sources of additional revenue, and reporting back to the Committee in due course.
9. Mr. McGreal reported that the Metrics Subcommittee is in the process of meeting with Staff regarding its proposals, and will defer making any recommendations to the Committee until these meetings are concluded.
10. There was no report on behalf of the Sheriff's Subcommittee.
11. On behalf of the Pension Subcommittee, Mr. McGreal reported that the most recent CalPERS performance reports have been received and will be circulated to the Committee.
12. There was no report on behalf of the Long Range Planning Subcommittee.
13. There was no report on behalf of the Affordable Housing Subcommittee.

There being no further business to come before the Committee, the meeting was adjourned at 6:55 P.M.

The next meeting of the Committee will occur on **Tuesday, February 26, 2019, at 4:30 PM**, in the Council Chambers, Town Hall, Del Mar Civic Center.

Respectfully submitted,

Bob Gans, Secretary for the meeting