

**CITY COUNCIL MEETING  
REGARDING ITEM #330, 331, 332, 333 and 601: PRESENTATION OF THE  
FISCAL YEAR 2005  
PROPOSED BUDGET BY THE CITY MANAGER  
June 22, 2004**

The City Council meeting for the Fiscal Year 2005 Proposed Budget was called to order by Mayor Dick Murphy on June 22, 2004 at 11:30 a.m. In attendance were Deputy Mayor Atkins, Councilmembers Frye, Inzunza, Lewis, Madaffer, Maienschein, Peters and Zucchet.

The following occurred:

Item 330, the Service Level Agreements for the Water, Metropolitan Wastewater, and Environmental Services Departments were introduced by City Manager Lamont Ewell. He stated that the presentation would provide a detailed explanation of Service Level Agreements (SLA's), which are contracts between two City departments.

The City Council recessed for lunch.

When the Council meeting resumed, City Attorney Casey Gwinn informed the Mayor and City Council of a report they received on June 21<sup>st</sup>, 2004 that is a compilation of ten years of reports by the City Attorney's office on the legality of SLAs. He stated that no legal issues have arisen as a result of the City's SLAs. He stated that many other large cities incorporate payments from their enterprise funds to their general funds for services, but do not document the transaction through SLA's as San Diego does. He noted that the City of San Diego has implemented SLAs in the interest of full disclosure, accountability and transparency in budgeting.

Deputy City Manager Richard Mendes gave an organized presentation on Service Level Agreements. (See attachment).

Public Comment was taken.

Deputy City Manager Richard Mendes informed the Council that KPMG recently completed an audit of the Metropolitan Wastewater Department overhead rates at the request of the participating agencies and reported no adverse findings.

Councilmember Frye noted that some of the cost figures on the SLAs compiled by staff did not match the Fiscal Year 2005 Proposed Budget. She asked about checks and balances to ensure that the SLAs are carried out with accuracy in terms of costs. She asked why some of the SLAs were not signed and asked if the SLA's were a line item in the budget.

Financial Management Director Lisa Irvine stated that the SLAs are not 'line-itemed' in the budget because the budget is organized programmatically. She noted that cost detail for the SLAs is provided through the Financial Management Information System (FMIS). She informed the Mayor and City Council that SLA language has been standardized for consistency. She noted that SLA's do not pay for positions but for specified services, and accounting for these services is tracked through the job orders used on time cards. She also stated that SLA's are signed by all Departments involved, but the copies provided to the Mayor and City Council were file copies and some did not have signatures.

Deputy City Manager Richard Mendes noted that services may be provided by various staff, each charging a fraction of a position for the service. He noted that SLAs are reviewed and revised annually.

City Manager Lamont Ewell stated that the amount in the SLA's is not the amount that will be spent, but is a not-to-exceed amount.

Deputy City Manager Richard Mendes reiterated that the amounts in the SLA are the not-to-exceed amounts, and will therefore often differ from the budgeted or actual amounts expended.

Mayor Murphy indicated that Councilmember Frye was willing to trail further discussion of Item 330.

Item 332, Actions regarding Reaffirmation of Water Fees and Charges Previously adopted on April 30, 2002 was moved by Councilmember Peters, seconded by Councilmember Zucchet, and passed 6-3, with Districts 5,6, and 7 voting against.

Utilities Finance Administrator Dennis Kahlie gave an organized presentation on Item 331, Increased Water Capacity Charges.

Following public comment Mayor Murphy asked Deputy City Attorney Kelly Salt for an opinion on how to add a pipeline capacity charge.

Deputy City Attorney Salt stated that this could be done by resolution following the passage of the item by the Mayor and City Council.

Councilmember Frye moved Item 331, to adopt the full cost recovery charge and to include language to allow the pass through of pipeline costs, and to direct the City Manager to return to Council with similar language for the sewer rates. The motion was seconded by Councilmember Maienschien. It was voted on and passed unanimously.

Councilmember Frye made a motion to support the City Manager's recommendation of Item 333, New Water Rate Structure. The motion was seconded by Councilmember Madaffer.

Mayor Murphy stated that he would not support the City Manager's recommendation to reallocate water capacity charges due to recent rate increases for other City services that have impacted businesses. Councilmember Frye acknowledged Mayor Murphy's concerns and stated that she felt the City Manager's recommendation to shift costs to usage would have a beneficial affect on water conservation. She noted that most of San Diego's water is imported and conservation is important. Councilmember Madaffer stated that he would not support the City Manager's recommendation to reallocate water capacity charges. Councilmember Peters supported a continuance of the item in order to develop a better representation of costs for businesses. Councilmember Zucchet did not see benefit to a continuance and was concerned about the potential significant cost of additional studies.

Councilmember Madaffer moved to continue the item for six months on the basis that staff would study additional possible subclasses. Councilmember Peters seconded this motion.

The motion failed on a 4-4 vote, with Districts 2, 3, 4, and 6 voting against and District 5 absent.

The motion to approve the City Manager's recommendation was voted on.

The motion failed on a 4-4 vote, with Districts 1, 7, 8 and the Mayor voting against, and District 5 absent.

Councilmember Zucchet motioned to continue the item for one week in order to allow Councilmember Maienschein to also vote on the recommendation. The motion was seconded by Councilmember Frye.

The motion failed on a 4-4 vote, with Districts 1, 7, 8, and the Mayor voting against and District 5 absent.

Mayor Murphy asked Councilmember Frye if she had any additional comments on Item 330.

Councilmember Frye stated that she had issues with the SLAs and asked that it be continued.

Councilmember Zucchet stated that the SLAs had received significant media coverage. He stated that he felt that all information on the SLAs had been divulged and it was clear that they were beneficial as well as legal and appropriate. He stated that City staff have successfully executed the SLAs which provide accountability and control of costs.

He stated that he would not, at the present time, support an audit of the City's SLA's. He stated that the claims of wrongdoing surrounding the SLA's are baseless. He also noted that the investigative report done by the media was proven to be factually incorrect.

Councilmember Peters stated that the City receives its legal services from the City Attorney through SLA's, which results in savings compared to hiring outside Counsel.

He referred to his own experience as a member of the County of San Diego's County Counsel office where it was determined that using County Counsel services rather than private legal services resulted in considerable cost savings.

Councilmember Madaffer spoke about the need for restraint in calling for an audit every time an allegation is made. He felt that this was an unproductive and inappropriate use of resources. He commended the City Manager and the City Attorney for their responsiveness and effective leadership. He noted that if their assistance wasn't available, the Council would still have to go out and pay for those services to a private entity.

Item 330, to accept the report on Service Level Agreement for the Water Department, Metropolitan Wastewater Department, and Environmental Services Department was voted on and passed 8-0, with District 5 absent.

Item 601, the Fiscal Year 2005 Budget Review follows.

The Fiscal Year 2005 Water Department Proposed Budget was moved and seconded (inaudible) and passed 8-0, with District 5 absent.

The Fiscal Year 2005 Metropolitan Waste Water Department Proposed Budget moved and seconded and passed 8-0, with District 5 absent

The Fiscal Year 2005 Environmental Services Department Proposed Budget was moved and seconded and passed 8-0, with District 5 absent.

A question was asked about the Community and Economic Development Child Care Coordinator position. Councilmember Inzunza noted that none of the C&ED programs had been eliminated and he was reassured by the City Manager that an effort would be made to find employees other positions within the City if their present positions are eliminated.

The City Manager stated that as the City downsizes, vacancies will occur, and he assured the Council that an attempt would be made to match displaced individuals with current vacancies.

The City Manager commented on the Performance Institute's allegation that an Employee Morale Survey was suppressed. He stated that City staff spent 12 hours researching this allegation, and found that on November 15, 1996 then City Manager

Jack McGrory sent a survey form out to all City staff. On July 17, 1997, a Program Manager for the Organizational Effectiveness Program sent out memos to all labor unions, informing them that the survey went to all employees. A PowerPoint presentation dated 1997 gave summary information for all findings from the survey thus indicating that the information was not suppressed.

The City Manager informed the Council that the survey form information handed out to the Mayor and City Council by the Performance Institute was created in April of 2004, two months ago, and was not released to employees as alleged by the Performance Institute. He noted that this represented another example of unfounded allegations designed to waste the City's time and money, and adversely impact staff productivity.

The meeting concluded at approximately 5:30 p.m.