

TOWN OF PORTOLA VALLEY
Finance Committee Meeting
Wednesday, January 18, 2022
3:15 p.m.

Lucy Neely, Chair
Stephen Cassani, Member
Ken Lavine, Member
Jason Pressman, Member
George Savage, Member
Michele Takei, Member
William Urban, Member

HYBRID MEETING

HISTORIC SCHOOLHOUSE– 775 PORTOLA RD. – PORTOLA VALLEY, CA

REMOTE MEETING COVID-19 MEETING ADVISORY: On September 16, 2021, the Governor signed AB 361, amending the Ralph M. Brown Act (Brown Act) to allow legislative bodies to continue to meet virtually during the present public health emergency. AB 361 is an urgency bill which goes into effect on October 1, 2021. The bill extends the teleconference procedures authorized in Executive Order N-29-20, which expired on September 30, 2021, during the current COVID-19 pandemic and allows future teleconference procedures under limited circumstances defined in the bill.

ASSISTANCE FOR PEOPLE WITH DISABILITIES

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Town Clerk at (650) 851-1700 or by email at mthurman@portolavalley.net 48 hours prior to the meeting start time. Notification 48 hours prior to the meeting will enable the Town to make reasonable arrangements to ensure accessibility to this meeting.

VIRTUAL PARTICIPATION VIA ZOOM

To access the meeting by computer:

<https://us06web.zoom.us/j/87440528102?pwd=cXVwUndxS2RmSFZUUpRdWRtdi9tQT09>

Webinar ID: 874 4052 8102

Passcode: 061155

To access the meeting by phone:

1-669-900-6833 or 1-888-788-0099 (toll free)

Mute/Unmute – Press *6 / Raise Hand – Press *9

- 1. CALL TO ORDER & ROLL CALL, ICEBREAKER**
- 2. ORAL COMMUNICATIONS FOR ITEMS NOT ON THE AGENDA**
Speakers' time is limited to three minutes.
- 3. ANNOUNCEMENTS and PRESENTATIONS:**
- 4. APPROVAL OF MINUTES:**
 - a. October 18, 2022
- 5. NEW BUSINESS:**
 - a. Review FY19-20 Audit and Discuss
 - b. Receive Update on PV Investment Fund
 - c. Form Subcommittee on Inclusionary Housing Fund
 - d. Discuss FY23-24 Budget and Committee Workshop with Town Council
 - e. Discuss Budget Deficit/Revenue Generation Brainstorming; form subcommittee or study sessions
 - f. Discuss Committee Chair Position
 - g. Discuss possibility of an independent Audit Committee
- 6. ADJOURNMENT**

The Town of Portola Valley acknowledges the colonial history of this land we dwell upon—the unceded territory of the Ramaytush (rah-my-toosh) Ohlone, Tamien Nation, and Muwekma (mah-WEK-mah) Ohlone, who endured a human and cultural genocide that included removal from their lands and their sacred relationship to the land. Portola Valley recognizes that we profit from the commodification of land seized from indigenous peoples and now bear the ecological consequences. We seek to understand the impact of these legacies on all beings and to find ways to make repair.

TOWN OF PORTOLA VALLEY
Finance Committee Minutes [DRAFT]
Tuesday, October 18, 2022 – 3 pm Video
Conference

Attendees

Jeremy Dennis, Town Manager
Cindy Rodas, Finance Director
Jim Saco, Finance Consultant
Nicole Tanori, Town Finance
Grace Zhang, Audit firm
Craig Hughes, Council Liaison
Sarah Wernikoff, Council Liaison
Lucy Neely, Chair
Stephen Cassani, Member
Ken Lavine, Member
Jason Pressman, Member
George Savage, Member
Bill Urban, Member
Michele Takei, Member
Dale Pfau
Kristin Brew
Rita Comes
Betsy Morgenthaler
Mary Huff
Sue Chaput
Peter Lipman
Kristi Corley
Caroline Vertongen
Jerrie Welch
Cathryn Gawne
Cornelia Tilney
Nan Shostek
David Cardinal
Adnan Iftekhar
Alyson Wood Illich
Igene Chaput
Jerry Shefren

Note: There were other attendees who only showed a first name on Zoom or a phone number.

Call to Order

The Chair called the meeting to order at 3:03 pm.

Roll Call

The Chair confirmed attendance.

Oral Communications

- Betsy questioned the Town's relationship with its outside auditor.
- Kristi suggested that there be a live link to our Zoom meeting.
- Peter asked for the status of the FY21 and FY22 audits.

Announcements

- Receipt of Brown Act Training and Resources provided by Melissa Thurman. Lucy asked all committee members to review the Brown Act training.
- Lucy Acknowledged that the Backlog of Finance Committee Minutes Are Now Posted

Approval of Minutes

The minutes of the May 31, 2022 meeting were approved with the correction that Sarah is not a member of the Finance Committee but is Council liaison and that Jason was the acting secretary. This recorded Zoom meeting will be posted on the Town YouTube channel prior to the minutes being posted on the Town website. Lucy will distribute the suggested template to be used for future minutes.

New Business

- Accept the Memo to Commissions and Committees Regarding Town Text/Email Policy. Craig noted that the text/email policy will be revised in the future to clear up ambiguities. The Committee voted to accept the text/email policy.
- Reconfirm Finance Committee Calendar of 4-6 Meetings Per Year. Details of future agendas will be set later.
- Update from Town Staff on FY 19-20 Audit Status
We are 18 months behind on audits due to the loss of finance directors, Cindy's learning curve and short staffing, our new software system at the beginning of the pandemic. George says we should set reasonable expectations and then meet them. It was agreed that the finance chair should reach out to the auditors if there are any unexpected delays. Some members of the community have suggested that there be an audit committee which is a subset of the Finance committee.
- Update and Discussion of Finance Department Workload/Resource Balance. Based on the 10 years that Ken has been on the committee, Ken has found an increasing delay in finalizing the year end audit. So there clearly aren't enough finance department resources. The finance workload should be reduced and the resources increased. The committee agreed that quarterly reports do not need to be produced for now. The committee supports obtaining additional finance resources. It was suggested that the FY20 audit be released as soon as final and to have the Finance committee discuss the audit later and to perhaps discuss multiple year audits at the same time.
- Discuss Inclusionary Housing Fund to Provide Guidance to Town Council [Carryover to the next meeting]
- Receive Update on PV Investment Fund and Discuss and Decide Whether to Modify [Carryover to the next meeting]
- Discuss Status of Other Post-Employment Benefits (OPEB) and Additional Retirement Benefits/Pension Funding [Carryover to the next meeting]
- Discuss FY23-24 Budget and Committee Workshop for the Town Council [Carryover to the next meeting]

- Discuss FY23-24 Budget Preparation, Revenue Needs and Deficit Spending and Create Study Sessions and/or Subcommittee [Carryover to the next meeting]

Adjournment

The Chair adjourned the meeting at 5:22 pm. The next meeting will be in early November.

Michele Takei – Acting Secretary

**TOWN OF PORTOLA VALLEY
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2020**

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TOWN OF PORTOLA VALLEY
Basic Financial Statements
For the Year Ended June 30, 2020
Table of Contents

	<u>Page</u>
<i>Independent Auditor’s Report on Basic Financial Statements</i>	1
<i>Management’s Discussion and Analysis</i>	3
 Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position.....	14
Statement of Activities	15
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.....	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	19
Statement of Revenues, Expenditures, and Changes in Fund Balance	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in the Fund Balance of Governmental Funds to the Statement of Activities	21
Agency Funds:	
Statement of Net Position	24
Notes to Basic Financial Statements	25
 Required Supplementary Information:	
Pension Plan:	
Schedule of the Proportionate Share of Net Pension Liability	50
Schedule of Contributions	51
OPEB Plan:	
Schedule of Changes in the Total OPEB Liability and Related Ratios	52

TOWN OF PORTOLA VALLEY
Basic Financial Statements
For the Year Ended June 30, 2020
Table of Contents

	<u>Page</u>
Budgetary Comparison Schedules:	
Schedule of Revenues Expenditures and Changes in Fund Balance – Budget and Actual:	
General Fund	53
Open Space Restricted Special Revenue Fund.....	54
Measure A Special Revenue Fund	55
Notes to Required Supplementary Information.....	56
 <i>Supplemental Information:</i>	
Non-major Governmental Funds:	
Combining Balance Sheet.....	60
Combining Statement of Revenues, Expenditures and Changes In Fund Balances	62
Schedule of Revenues, Expenditures and Changes In Fund Balances-Budget and Actual	64
Agency Funds:	
Statement of Changes in Assets and Liabilities – Agency Funds.....	70
 <i>Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards</i>	
	73

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the Town Council
Town of Portola Valley, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Portola Valley, California (Town) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and other required supplementary information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The Supplemental Information listed in the Table of Contents is presented for purposes of additional analysis and is not required parts of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2022 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Maze & Associates

Pleasant Hill, California
October 19, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

This analysis of the Town of Portola Valley's (Town) financial performance provides an overview of the Town's financial activities for the fiscal year ended June 30, 2020. Please read it in conjunction with the accompanying financial statements.

FINANCIAL HIGHLIGHTS:

- Including the deferred inflows and outflows of pension resources, the assets of the Town exceeded its liabilities as of June 30, 2020 by \$46.4 million. Total net position decreased by \$66,874. The decrease in net position is primarily due to capital depreciation (\$967,156) and increased obligations for pensions (\$166,166) and Other Post Employment Benefits-OPEB (\$137,576), largely offset by increases in Fund Balance (\$1,214,744).

The Town has taken active steps to reduce the GASB 75 Other Post-Employment Benefits (OPEB) liability by establishing a trust account through the California Employers' Benefit Trust CalPERS (CERBT), a Section 115 trust maintained by the California Public Employees' Retirement System (CalPERS). The Town Council approved and authorized the trust agreement on August 12, 2020.

- The total liabilities increased 3.1% to \$4.04 million, primarily due to increased obligations for pensions, OPEB and accrued compensated absences.

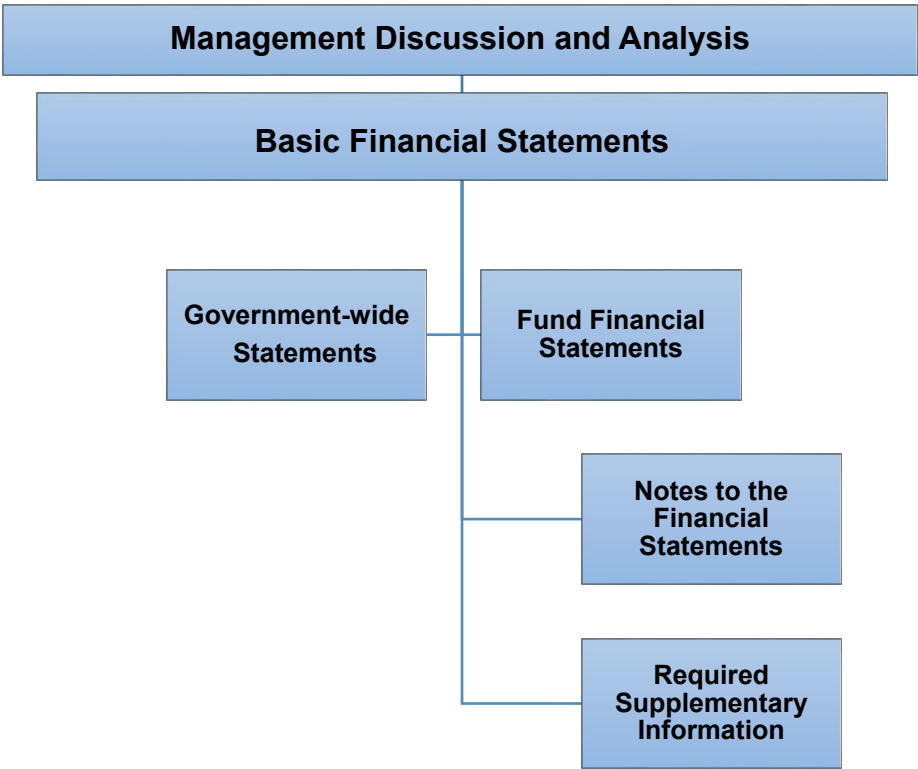
OVERVIEW OF THE FINANCIAL STATEMENTS:

This discussion and analysis serves as an introduction to the Town's basic financial statements that are comprised of three components:

1. Government-Wide Financial Statements - Provides both *short-term and long-term* information about the Town's overall financial status.
2. Fund Financial Statements - Focuses on *individual parts* of the Town's financial information – reporting these operations in *more detail* than the government-wide financial statements.
 - The *governmental funds statements* and the *agency funds statements* tell how basic services such as operations, administration, and restricted funds were financed in the short-term as well as what remains for future spending.
3. Notes to Basic Financial Statements – Provides explanation of the information contained in the basic financial statements.

The basic financial statements also include notes that explain some of the information in the statements and provide more detailed data analysis. Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Organization of the Town of Portola Valley’s Financial Report



Government-Wide Financial Statements:

The government-wide financial statements present the financial picture of the Town and provide readers with a broad view of the Town’s finances. The current year’s revenues and expenses are considered, regardless of when cash is received or paid.

The first of the government-wide statements is the *Statement of Net Position*. The *Statement of Net Position* reports the difference between the Town’s total assets and total liabilities and includes all the Town’s capital assets and all its long-term debt.

Although the *Statement of Net Position* reports a total net position of \$46.4 million, the Town has restrictions over the use of these funds. The investment in land, buildings, and equipment (capital assets, net of related debt) is necessary for the successful operation of the Town. Governmental laws segregate funds and place restrictions on spending. This should be considered when reviewing the report.

The second of the government-wide financial statements is the *Statement of Activities*. This statement shows the result of operations that caused net position to change from the prior year to the amount reported on the *Statement of Net Position* as of June 30, 2020. This change in net position is important because it tells the financial statement user whether the financial position has improved or diminished for the Town. The causes of this change may be the result of many factors. To assess the Town’s overall health, consideration should be given to additional non-financial factors such as building and land improvements, governmental mandates and staffing levels.

The Statement of Activities classifies expenses by functional area. The report also shows corresponding charges for services and restricted grants for each function that help support the expenses. The resulting Net Revenue/(Expenses) and Changes in Net Position for OPEB, Pension, Fund Balance, Capital and other assets shows the remaining expenses not supported by charges for services and restricted grants. General revenues are then applied to the remaining expenses resulting in the total change in net position.

Fund Financial Statements:

The fund financial statements provide detailed information about the Town's major funds, defined as funds having significant activities and balances in the current year. Non-major funds are combined in a single column, referenced in the Supplemental section of this report.

Funds are accounting devices used to keep track of specific sources of funding and spending on particular programs. These are not reflective of the Town as a whole. It is important to note that:

- Some funds are required to be established by State law.
- The Town establishes other funds to help it control and manage money for specific purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money.

The fund financial statements include statements for governmental funds only. These are considered major funds and include:

- The General Fund – Most of the Town's basic services and financial resources are contained in this fund.
- Open Space Restricted Fund – This fund accounts for monies accrued from special voter-approved utility tax. It is used to support services for open space within the Town.
- Inclusionary-in-Lieu Fund – This fund accounts for fees that can only be used for affordable housing.
- Measure A Fund – This fund accounts for sales revenue that is restricted for the improvement of local transportation and road maintenance services.

The governmental funds statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the future to finance the Town's programs. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. Reconciliations are provided for both the governmental funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in fund balances to facilitate this comparison.

With the implementation of GASB-54 in 2011, the usefulness of fund balance information has been enhanced by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. In the case of the Town's statements, fund balances within the General Fund that were formerly classified as "designated" by the Council are now reclassified as "assigned" fund balances. In the case of the Town's loan receivable, these have now been reclassified as "non-spendable" fund balance.

Notes to Basic Financial Statements:

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information:

In addition to the basic financial statements, this report also presents certain Required Supplementary Information including the Town's budgetary comparison schedules for the General, Open Space Restricted, Inclusionary-in-Lieu and Road Impact Fee funds.

Other Supplementary Information:

Supplementary schedules concerning balance sheets and changes in fund balances for all other funds are presented immediately following the Required Supplementary Information. Financial activity related to the Town's agency funds (maintenance districts) is also presented separately in this section.

GOVERNMENT-WIDE FINANCIAL ANALYSIS:

Statement of Net Position:

The Town's net position has remained stable as of June 30, 2020 compared to prior year, decreasing 0.1% from \$46.5 million to \$46.4 million. The following are major components of the Town's net position:

Town of Portola Valley
Condensed Statement of Net Position

	Fiscal Year Ended		<u>Amount</u>	<u>Percent</u>
	<u>06/30/19</u>	<u>06/30/20</u>		
Assets:				
Other Assets	18,058,195	19,069,120	1,010,925	5.6%
Capital Assets, Net	32,033,472	31,066,316	(967,156)	-3.0%
Total Assets	<u>50,091,667</u>	<u>50,135,436</u>	<u>43,769</u>	0.1%
Deferred Outflows	484,210	517,118	32,908	6.8%
Liabilities:				
Accounts Payable	2,036,316	1,832,497	(203,819)	-10.0%
Long-term Liabilities	1,884,406	2,211,160	326,754	17.3%
Total Liabilities	<u>3,920,722</u>	<u>4,043,657</u>	<u>122,935</u>	3.1%
Deferred Inflows	189,744	210,360	20,616	10.9%
Net Position:				
Invested in Capital Assets,	32,033,472	31,066,316	(967,156)	-3.0%
Restricted	10,507,986	11,311,160	803,174	7.6%
Unrestricted	3,923,953	4,021,061	97,108	2.5%
Total Net Position	<u>46,465,411</u>	<u>46,398,537</u>	<u>(66,874)</u>	-0.1%

The Town's net position of \$46.4 million consists of \$31.1 million net investment in capital assets, \$11.3 million in restricted net assets, and \$4.0 million in unrestricted assets. Restricted net assets are restricted by State law, municipal code and contractual obligation to be utilized for public works, safety and open space. Unrestricted assets are not restricted by law; however, \$3.1 million of these funds remain assigned by the Town for special programs.

The increase in Long-Term Liabilities is primarily due to increases of \$166,166 (or 24.8%) in pension liabilities and \$137,576 (or 12.3%) in OPEB liabilities. OPEB liabilities should decline as the Town begins to fund the CalPERS OPEB trust.

The Town uses capital assets to provide services to the Town's populace; consequently, these assets are not available for future spending.

Statement of Activities:

The Town's total overall revenues for FY 2020 decreased by \$801,775 (or 10.8%) from the prior year. The expenses increased by \$630,284 (or 10.4%), which included adjustments for capital depreciation of \$967,156 and adjustments to OPEB and pension liabilities totaling \$303,742. These are offset by an increase in Fund Balance of \$1,214,744. Taken together these adjustments result in a small decrease in the Town's Net Position of \$66,874 (or 0.1%).

Town of Portola Valley
Condensed Statement of Activities

	Fiscal Year Ended		Change	
	<u>06/30/19</u>	<u>06/30/20</u>	<u>Amount</u>	<u>Percent</u>
Revenues:				
Program Revenues				
Charges for Services	1,120,052	784,651	(335,401)	-29.9%
Grants and Contributions	1,318,258	630,802	(687,456)	-52.1%
General Revenues				
Property Taxes	3,058,184	3,158,836	100,652	3.3%
Agency Revenues	302,720	449,377	146,657	48.4%
Franchise Fees	311,471	246,226	(65,245)	-20.9%
Utility Users Tax	951,600	939,261	(12,339)	-1.3%
Investment Earnings	357,834	407,168	49,334	13.8%
Miscellaneous	10,909	12,932	2,023	18.5%
Total Revenues	7,431,028	6,629,253	(801,775)	-10.8%
Expenses:				
General Government	3,313,111	3,841,246	528,135	15.9%
Parks and Recreation	324,723	283,571	(41,152)	-12.7%
Town Center Facilities	638,788	619,639	(19,149)	-3.0%
Public Safety	1,149,440	1,244,971	95,531	8.3%
Public Works	639,781	706,700	66,919	10.5%
Total Expenses	6,065,843	6,696,127	630,284	10.4%
Change in OPEB Liability	(295,992)	(137,576)	158,416	-53.5%
Change in Pension Liability	42,381	(166,166)	(208,547)	-492.1%
Change in Fund Balance	1,874,397	1,214,744	(659,653)	-35.2%
Change in Capital Assets	(235,020)	(967,156)	(732,136)	311.5%
Change in Other Assets	(20,581)	(10,720)	9,861	-47.9%
Net Position - Beginning	45,100,226	46,465,411	1,365,185	3.0%
Net Position - Ending	46,465,411	46,398,537	(66,874)	-0.1%

Other Observations for 2020:

The most significant variances in revenue occurred in Grants and Contributions, Agency Revenues, Charges for Services, Franchise Fees and Investment Earnings.

- Grants and Contributions decreased by 52.1% primarily due to a one-time contribution of \$588,646 to the Open Space Fund and various grants totaling \$65,500 in the previous fiscal year.
- Agency Revenues increased by 48.4% primarily due to the first allocation of Measure W Half-Cent Sales Tax proceeds of \$109,229 for road improvements.
- Charges for Services decreased by 29.9% primarily due to the Covid-19 lockdown, which resulted in lower revenues from most charges for services, including Town Planning Fees, Building Permits, Plan Check Fees, Inspection Fees, and Class Fees.
- Franchise Fees decreased by 20.9% as budgeted revenues from California Water Service Company of \$45,000 and Comcast of \$25,000 were not booked until FY 2020-21.
- Investment earnings increased by 13.8% due to the Town's investment in Schwab securities coupled with higher returns on funds invested in the Local Agency Investment Fund (LAIF).

The most significant variances in expenditures occurred in General Government, Parks and Recreation and Public Works.

- General Government increased by 15.9% primarily due to adjustments to pension and OPEB liabilities, negotiated salary increases, the promotion of a Maintenance Worker II to a Recreational Facilities Coordinator, and the addition of an Assistant Planner position.
- Parks and Recreation decreased by 12.7% due to the Covid-19 lockdown, which resulted in lower expenditures for Class Instructors and Parks & Field Maintenance.
- Public Works (which includes Capital Improvement Projects-CIP) increased by 10.5% due to the allocation of change in capital assets, which is annual depreciation expense net any new capital purchases or CIP projects completed during the fiscal year. There were capital purchases and CIP projects totaling \$732,136 in FY 2018-19 and none in FY 2019-20, resulting in a significant year-over-year change. Expenditures for Public Works and CIP actually decreased by \$559,680 in FY 2019-20, but those savings were more than offset by the annual depreciation expense.

FUND FINANCIAL STATEMENT ANALYSIS

As the Town completed the year, its governmental funds (General Fund, Open Space Restricted Fund, Inclusionary-in-Lieu Fund, Measure A Fund, and Other Governmental Funds) reported combined fund balances of \$17.2 million, an increase of \$1.2 million from last year's ending fund balances of \$16.0 million. The increase is attributable to revenues in excess of expenditures. Revenues for the year totaled \$6.6 million, while expenditures were \$5.4 million.

The following assigned fund balances, totaling \$3.1 million, can be used for their specific purposes within the General Fund; however, these funds can be reassigned at the Council's discretion. These assignments are consistent with prior years:

- | | |
|---|-----------|
| • Assigned for unfunded pension reserve | \$712,486 |
| • Assigned for OPEB | 834,871 |

- Assigned for emergency capital reserve 1,400,000
- Assigned for equipment replacement 100,000
- Assigned for legal contingency 100,000

The General Fund had unassigned fund balance of \$2.7 million at fiscal year-end. The remaining \$11.4 million in restricted funds can only be used for projects within the intended purpose of the funds.

Additional detail on specific fund balances can be found in the notes to the financial statements.

Fund Budgetary Highlights:

Overall, for FY 2019-20, Town revenues were under budget by \$724,491. Shortfalls were largely due to the Covid-19 pandemic lockdown which took effect March 16, 2020. Some of the more impacted revenue sources include Town Planning Fees of \$143,027, Building Permits of \$52,569, Plan Check Fees of \$43,758, Inspection Fees of \$36,002, Site Development Permits of \$10,127, Class Fees of \$50,112, and Sales and Use Tax of \$26,112. There were also items appropriated but not realized during FY 2019-20, most notably contributions from the Town Library of \$84,603 and Measure M Sales Tax Revenue of \$75,000. The Library Fund has a surplus and an agreement was reached with the Library to reimburse the Town for maintenance and janitorial services on a pay-as-go basis once the surplus is exhausted. Measure M is a reimbursement program based on completed road related eligible expenditures. The unrealized Measure M revenue was due to no completed CIP projects in FY 19-20.

Town expenditures were under budget by \$2,102,175. Salaries and Benefits savings were under budget by \$229,383 due to staff vacancies and lower than anticipated Employee Health Insurance costs. The primary reason for the budget savings was due to the Covid-19 pandemic lockdown as non-staff operating expenditures were under budget by \$563,272 and capital expenditures were under budget by \$1,199,548, as most major projects were deferred during the lockdown. Some of the significant budget savings that resulted from the lockdown include Miscellaneous Consultants of \$119,999, Engineering Services of \$30,068, Plan Check Services of \$44,488, Tree Trimming and Mowing of \$60,908, Landscape Supplies and Services of \$40,533, Parks and Fields Maintenance of \$32,185, Instructors and Class Refunds of \$18,722, and Town Committee expenditures of \$27,926.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

As of the end of fiscal year 2020, the Town had invested \$31.1 million (net of depreciation) in a broad range of capital assets including buildings, land and technology upgrades. The Town's gross capital assets decreased by \$967,156 during the fiscal year, which was entirely due to depreciation expense for the year. Depreciation expense is allocated to the fund and category in which the capital asset has been recorded. No new assets came online during FY 2019-20.

Additional information on the Town's capital assets can be found in Note 3.

Town of Portola Valley
Condensed Statement of Capital Assets

	Fiscal Year Ended		Change	
	<u>06/30/19</u>	<u>06/30/20</u>	<u>Amount</u>	<u>Percent</u>
Land	6,690,959	6,690,959	0	0.0%
Construction in Progress	564,653	564,653	0	0.0%
Infrastructure	10,769,254	10,769,254	0	0.0%
Land Improvements	3,070,430	3,070,430	0	0.0%
Buildings & Improvements	19,838,406	19,838,406	0	0.0%
Equipment	<u>462,688</u>	<u>462,688</u>	<u>0</u>	0.0%
 Total Capital Assets	 41,396,390	 41,396,390	 0	 0.0%
 Accumulated Depreciation	 <u>(9,362,918)</u>	 <u>(10,330,074)</u>	 <u>967,156</u>	 -10.3%
 Total Net Capital Assets	 <u>32,033,472</u>	 <u>31,066,316</u>	 <u>967,156</u>	 3.0%

Long-Term Debt:

The Town's long-term liabilities is made up of three components: Net Pension Liability of \$836,271, Net OPEB obligations of \$1,257,439, and compensated balances (unpaid vacation leave) of \$117,450. No new debt was incurred during the fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET:

The factors that most significantly impact the Town and its budget are driven by property values, building activity, and labor costs. The local real estate market and housing demand in the region remained steady. These two factors directly impact property taxes, which are the Town's largest revenue source.

In this fiscal year 2019-20, the COVID-19 pandemic crisis fundamentally altered how government interacts with its constituency and how its services are delivered. Some of these changes are frustrating and counter to how Portola Valley's staff and the residents we serve have traditionally enjoyed; other changes are positive and provide service more responsively. As we are still in the early stages of this pandemic, staff will continuously assess the longer-term financial impacts of COVID-19 as they relate to the Town.

The Town recognizes its contractual obligations to employees for vacation and benefits payable. As of June 30, 2020, the Town had accumulated obligations totaling \$117,450 for unpaid vacation leave. Funding for this liability has not occurred since it is not payable currently. The annual expected payout of vacation leave is reflected in the current operating budget of the General Fund. The Town also provides post-employment benefits other than pensions such as health insurance to their retirees, more commonly known as Other Post-Employment Benefits (OPEB). The Town's OPEB obligation increased from

\$1,119,863, to \$1,257,439, an increase of 12.3%. The increase was largely driven by the implementation of GASB 75, which includes sweeping disclosure changes and fundamental overhauls in the standards for reporting OPEB. Most impactful is the recognition of a liability for OPEB obligations, known as the net OPEB liability (NOL) to be fully recognized on the balance sheet with a corresponding OPEB expense recognized in the income statement. Under the former GASB 45, the unfunded accrued liability (UAAL) for OPEB was reported in the notes for the plan. There are some technical differences between UAAL and NOL, but the most significant impact of GASB 75 is the move from the note disclosures section of the financial statements to the balance sheet.

The Town entered into an agreement with CalPERS in December 2020 for OPEB trust services. Future obligations should decline as the Town begins to fund the CalPERS OPEB trust.

The Town is currently evaluating the impact of GASB 84, issued during January 2017. The pronouncement includes numerous changes for reporting fiduciary activities in governmental financial statements and is effective for fiscal years ending on or after December 31, 2019. Staff is currently evaluating the impact of this pronouncement. If applicable, changes will be reflected in the Fiscal Year 2021 financial statements.

The Town is also evaluating the impact of GASB 87, issued during June 2017. The pronouncement seeks to increase the usefulness of governments' financial statements by requiring the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provision in the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this pronouncement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This pronouncement is effective for fiscal years beginning after December 15, 2019. Staff anticipates that the impact should be negligible given the Town's current lease agreements.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT:

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or would like additional financial information, please contact the Finance Director at the Town of Portola Valley, 765 Portola Road, Portola Valley, California 94028.

TOWN OF PORTOLA VALLEY

**STATEMENT OF NET POSITION
AND STATEMENT OF ACTIVITIES**

The purpose of the Statement of Net Position and the Statement of Activities is to summarize the Town's entire financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the Town's assets, liabilities and deferred inflows/outflows, as well as all its revenues and expenses. This is known as the full accrual basis – the effect of all the Town's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between Town funds have been eliminated.

The Statement of Net Position reports the difference between the Town's total assets and deferred outflows of resources, if any; and the Town's total liabilities and deferred inflows of resources, if any, including all the Town's capital assets and all its long-term debt.

The Statement of Net Position summarizes the financial position of all of the Town's Governmental Activities in a single column.

The Town's Governmental Activities include the activities of its General Fund along with all its Special Revenue Funds and Capital Projects Funds.

The Statement of Activities reports increases and decreases in the Town's net position. It is also prepared on the full accrual basis, which means it includes all the Town's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

The Statement of Activities presents the Town's expenses first, listed by program. Program revenues – that is, revenues which are generated directly by these programs – are then deducted from program expenses to arrive at the net expense of each governmental program. The Town's general revenues are then listed in the Governmental Activities column and the Change in Net Position is computed and reconciled with the Statement of Net Position.

TOWN OF PORTOLA VALLEY
STATEMENT OF NET POSITION
JUNE 30, 2020

	Governmental Activities
ASSETS	
Cash and investments (Note 2)	\$17,811,772
Restricted cash (Note 2)	1,199,132
Accounts and interest receivable	39,424
Loans receivable (Note 5)	18,792
Capital assets, net (Note 3)	
Nondepreciable	7,255,612
Depreciable, net of accumulated depreciation	23,810,704
Total Assets	50,135,436
DEFERRED OUTFLOWS OF RESOURCES	
Related to pensions (Note 7)	517,118
LIABILITIES	
Current liabilities:	
Accounts payable	628,907
Refundable customer deposits	1,203,590
Non-current liabilities:	
Accrued compensated absences (Note 1G)	117,450
Net Pension Liability (Note 7)	836,271
Net OPEB obligation (Note 8)	1,257,439
Total Liabilities	4,043,657
DEFERRED INFLOWS OF RESOURCES	
Related to pensions (Note 7)	210,360
NET POSITION (Note 6)	
Net investment in capital assets	31,066,316
Restricted for:	
Special Revenue Projects	11,276,135
Capital Projects	35,025
Unrestricted	4,021,061
Total Net Position	\$46,398,537

See accompanying notes to financial statements

TOWN OF PORTOLA VALLEY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

Functions/Programs	Operating Expenses	Program Revenues		Net (Expense) Revenue	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Governmental Activities:					
General government	\$3,841,246	\$564,266		\$570	(\$3,276,410)
Parks and recreation	283,571	54,040			(229,531)
Town center facilities	619,639	166,345			(453,294)
Public safety	1,244,971		\$171,113		(1,073,858)
Public works	706,700		454,119	5,000	(247,581)
Total governmental activities	\$6,696,127	\$784,651	\$625,232	\$5,570	(5,280,674)
General Revenues:					
Property tax revenues.....					3,158,836
Other governmental agencies revenues.....					449,377
Franchise fees.....					246,226
Utility user tax.....					939,261
Investment earnings.....					407,168
Miscellaneous revenue.....					12,932
Total general revenues					5,213,800
Change in net position					(66,874)
Net Position, beginning of year					46,465,411
Net Position, end of year					\$46,398,537

See accompanying notes to financial statements

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TOWN OF PORTOLA VALLEY

FUND FINANCIAL STATEMENTS

The Fund Financial Statements present only individual major funds, while non-major funds are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year.

The funds described below were determined to be Major Funds by the Town in fiscal year 2020. Individual non-major funds may be found in the Supplemental section.

GENERAL FUND

Accounts for all financial resources except those required to be accounted for in another fund.

OPEN SPACE RESTRICTED

Accounts for monies accrued from a special 2% utility tax approved by the voters in 1997, 2001, 2005, 2009, 2013 (Measure Q), 2018 (Measure T) and from private donations. Restricted for acquisition and support of open space within the Town. Private donations are generally in the form of tax-deductible checks or appreciated securities.

INCLUSIONARY-IN-LIEU

Accounts for the subdivision developer's fee, payable by fee or land that can only be used for affordable housing.

MEASURE A

Accounts for the half-cent County sales tax revenue restricted for the improvement of local transportation, including streets and roads for the recovery of road repair costs from building permit applicants due to road wear and tear from construction vehicles.

TOWN OF PORTOLA VALLEY
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2020

	General	Open Space Restricted	Inclusionary In-Lieu	Measure A	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and investments (Note 2)	\$6,278,595	\$6,871,064	\$3,728,845	\$386,602	\$546,666	\$17,811,772
Restricted cash - customer deposits (Note 2)	1,199,132					1,199,132
Accounts and interest receivable	38,903	129	85	6	301	39,424
Due from other funds (Note 4)	86,573					86,573
Loans receivable (Note 5)	18,792					18,792
Total Assets	\$7,621,995	\$6,871,193	\$3,728,930	\$386,608	\$546,967	\$19,155,693
LIABILITIES						
Accounts payable	\$593,235				\$35,672	\$628,907
Refundable deposits	1,203,590					1,203,590
Due to other funds (Note 4)					86,573	86,573
Total Liabilities	1,796,825				122,245	1,919,070
FUND BALANCES (Note 6)						
Nonspendable	18,792					18,792
Restricted		\$6,871,193	\$3,728,930	\$386,608	514,106	11,500,837
Assigned	3,147,357					3,147,357
Unassigned	2,659,021				(89,384)	2,569,637
Total Fund Balances	5,825,170	6,871,193	3,728,930	386,608	424,722	17,236,623
Total Liabilities and Fund Balances	\$7,621,995	\$6,871,193	\$3,728,930	\$386,608	\$546,967	\$19,155,693

See accompanying notes to financial statements

TOWN OF PORTOLA VALLEY
RECONCILIATION OF THE
GOVERNMENTAL FUNDS BALANCE SHEET
TO THE
STATEMENT OF NET POSITION
JUNE 30, 2020

Fund Balances - Total Governmental Funds \$17,236,623

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:

Governmental capital assets	\$41,396,390	
Less: accumulated depreciation	<u>(10,330,074)</u>	31,066,316

Retirement contributions and changes in net pension liability subsequent to the measurement date are not recognized on the Fund Balance Sheets and taken into the Statement of Net Position:

Deferred outflows of resources - pension		517,118
Deferred inflows of resources - pension		<u>(210,360)</u>

Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds

Collective net pension liability		(836,271)
Net OPEB Liability		(1,257,439)
Compensated absences		<u>(117,450)</u>

Net Position of Governmental Activities \$46,398,537

See accompanying notes to financial statements

TOWN OF PORTOLA VALLEY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2020

	General Fund	Open Space Restricted	Inclusionary In-Lieu	Measure A	Other Governmental Funds	Total Governmental Funds
REVENUES						
Taxes						
Property taxes	\$3,158,836					\$3,158,836
Sales tax	191,109			\$309,938	\$124,394	625,441
Utility users tax	658,037	\$281,224				939,261
Gas tax					181,544	181,544
Business license tax and other taxes	99,870					99,870
Total taxes	4,107,852	281,224		309,938	305,938	5,004,952
Agency revenues	11,806					11,806
Grants					160,948	160,948
Contributions		570				570
Franchise fees	246,226					246,226
Licenses and permits	503,103					503,103
Service charges and fees	74,051					74,051
Parks and recreation	213,928					213,928
Investment and other revenues	155,229	158,324	\$87,879	5,700	6,537	413,669
Total Revenues	5,312,195	440,118	87,879	315,638	473,423	6,629,253
EXPENDITURES						
General government	3,520,942					3,520,942
Parks and recreation	221,427					221,427
Town center facilities	127,632				59,386	187,018
Public safety	1,076,917				160,305	1,237,222
Public works	13,723				102,416	116,139
Capital improvement program	131,761					131,761
Total Expenditures	5,092,402				322,107	5,414,509
NET CHANGE IN FUND BALANCES	219,793	440,118	87,879	315,638	151,316	1,214,744
FUND BALANCES, BEGINNING OF YEAR	5,605,377	6,431,075	3,641,051	70,970	273,406	16,021,879
FUND BALANCES, END OF YEAR	\$5,825,170	\$6,871,193	\$3,728,930	\$386,608	\$424,722	\$17,236,623

See accompanying notes to financial statements

TOWN OF PORTOLA VALLEY
RECONCILIATION OF THE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN THE FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

Net Change in Fund Balances - Total Governmental Funds \$1,214,744

Amounts reported for governmental activities in the statement of net position are different because:

Capital outlay is an expenditure in the government funds financial statement, but the cost of those assets is allocated over their estimated useful lives as depreciation expense in the statement of activities.

Depreciation expense	(\$967,156)	(967,156)
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The amount below included in the Statement of Activities does not provide or (require) the use of current financial resources and therefore is not reported as revenue or expenditures in governmental funds (net change):

Pension expense		(153,874)
OPEB expense		(137,576)
Net change in compensated absences		(23,012)

Change in Net Position of Governmental Activities (\$66,874)

See accompanying notes to financial statements

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TOWN OF PORTOLA VALLEY

AGENCY FUNDS

Agency funds are used to account for assets held by the Town as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the Entity – wide financial statements, but are presented in separate Agency Fund financial statements.

TOWN OF PORTOLA VALLEY
AGENCY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2020

	<u>Agency Funds</u>
ASSETS	
Cash and investments (Note 2)	\$703,531
Accounts and interest receivable	<u>11</u>
Total Assets	<u><u>\$703,542</u></u>
LIABILITIES	
Deposits and accrued liabilities	<u>\$703,542</u>
Total Liabilities	<u><u>\$703,542</u></u>

See accompanying notes to financial statements

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of accounting policies of the Town:

A. Reporting Entity

The Town of Portola Valley (the Town) was incorporated on July 14, 1964 under the laws of the State of California. Portola Valley operates under a Council-Manager form of government. The Town provides a full range of municipal services to its citizens including public safety, culture, recreation, public improvements, planning and zoning, and general administrative support. These financial statements present the financial status of the Town.

B. Basis of Presentation

The Town's Basic Financial Statements are prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to governmental agencies. The Government Accounting Standards Board (GASB) is the acknowledged standard setting body for establishing governmental accounting and financial reporting principles.

These Statements require that the financial statements described below be presented.

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government (the Town). These statements include the financial activities of the overall Town government. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Town's funds. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

C. Major Funds

The Town's major governmental funds are presented separately in the fund financial statements. All other funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. The General Fund is always a major fund. The Town may also select other funds it believes should be presented as major funds.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Town reported the following major governmental funds in the accompanying financial statements:

General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Open Space Restricted Fund is a major fund of the Town. Through the years, residents and others have raised funds to preserve some 100 acres of open space within the Town's boundaries. Several fund-raising committees have worked at various times to achieve this goal, culminating in today's Open Space Acquisition Fund (PVOSAF). This fund, overseen by the Town Council, is composed of monies accrued from a special 2% utility tax approved by the voters in 1997 and from private donations. Subsequent elections were re-authorizing the increase of the appropriations limits for 4 additional years. It can be used for the acquisition and support of open space within the Town. Private donations are generally in the form of tax-deductible checks or appreciated securities.

Inclusionary-In-Lieu is used to account for the subdivision developer's fee, payable by fee or land that can only be used for affordable housing.

Measure A accounts for the half-cent County sales tax revenue restricted for the improvement of local transportation, including streets and roads for the recovery of road repair costs from building permit applicants due to road wear and tear from construction vehicles.

The Town also reports the following fund types:

Agency Funds account for assets held by the Town as an agent for individuals, private organizations, and other governments. The financial activities of these funds are excluded from the Government-wide financial statements, but are presented in separate Fiduciary Fund financial statements.

D. Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds financial statements are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The Town considers all revenues reported in the governmental funds to be available if the revenues are collected within 45 to 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Those revenues susceptible to accrual are property tax, sales tax, utility user tax, interest revenue and franchise fees. Fines, licenses and permits are not susceptible to accrual because they are not measurable until received in cash.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Non-exchange transactions, in which the Town gives or receives value without directly receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Town may fund programs with a combination of cost-reimbursement grants and general revenues. Thus, both restricted and unrestricted net position may be available to finance program expenditures. The Town's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Certain indirect costs are included in program expenses reported for individual functions and activities.

E. *Property Taxes*

County tax assessments include secured and unsecured property taxes. Unsecured taxes are taxes on personal property. Tax assessments are secured by liens on the property being taxed. The County makes annual adjustments as needed to current year revenues based on true-ups and prior year tax roll corrections to special districts related to Tax Equity Allocations.

Revenue is recognized in the period for which the tax and assessment is levied. The County of San Mateo levies, bills and collects property taxes for the Town. The County remits the entire amount levied and handles all delinquencies, retaining interest and penalties.

Secured and unsecured property taxes are levied on January 1. Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on August 31 and becomes delinquent on September 30.

F. *Implementation of Governmental Accounting Standards Board Statements*

The Town has implemented the requirements of the following GASB Pronouncements:

GASB Statement No. 83 – *Certain Asset Retirement Obligations*. This statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with retirement of tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognized a liabilities based on the guidance in this statement. This Statement had no impact on the Town's financial statement in fiscal year 2019-20.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB Statement No. 88 – *Certain Disclosures related to Debt, including Direct Borrowings and Direct Placements*. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement had no impact on the Town’s financial statement in fiscal year 2019-20.

G. *Compensated Absences*

Compensated absences represent the vested portion of accumulated vacation and compensation time. Upon termination, 100% of vacation leave will be paid. The Town records a liability for unpaid compensated absences.

The changes of the compensated absences are as follows:

Beginning balance	\$94,438
Additions	90,419
Payments	<u>(67,407)</u>
Ending balance	<u>\$117,450</u>

Accumulated sick leave benefits are not recognized as liabilities of the Town. The Town’s policy is to record sick leave as an operation expense in the period taken since such benefits do not vest nor is payment probable.

For all governmental funds, amounts that have matured are recorded as fund liabilities; the long-term portion is recorded in the Statement of Net Position.

Compensated absences are liquidated by the fund that has recorded the liability. The long-term portion of governmental activities compensated absences is liquidated primarily by the General Fund.

H. *Deferred Compensation Plan*

Town employees may defer a portion of their compensation under Town sponsored Deferred Compensation Plans created in accordance with Internal Revenue Code Section 457. Under these plans, participants are not taxed on the deferred portion of their compensation until distributed to them; distributions may be made only at separation, retirement, death or in an emergency as defined by the Plans.

The laws governing deferred compensation plan assets required them to be held by a Trust for the exclusive benefit of plan participants and their beneficiaries. Since the assets held under these plans are not the Town’s property and are not subject to the Town control, they have been excluded from these financial statements.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position or fund balance that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

K. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 2 – CASH AND INVESTMENTS

The Town maintains a cash and investment pool for all funds consistent with the Town’s investment policy and relevant governmental code.

A. Policies

The California Government Code requires California banks and savings and loan associations to secure the Town’s cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the Town’s name.

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Town’s cash on deposit or first trust deed mortgage notes with a market value of 150% of the Town’s total cash deposits, as collateral for these deposits. The Town may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The Town, however, has not waived the collateralization requirements. Under California Law this collateral is held in a separate investment pool by another institution in the Town’s name and places the Town ahead of general creditors of the institution.

The Town follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agent is credited directly to the related fund.

The Town’s investments are carried at fair value, as required by the generally accepted accounting principles. The Town adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

B. Classification

Cash and investments are classified in the financial statements as follows:

Statement of Net Position:	
Cash and investments	\$17,811,772
Restricted cash and investments	1,199,132
Cash and investments of the Town	19,010,904
Cash and investments in Agency Funds	703,531
Total cash and investments	\$19,714,435

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 2 – CASH AND INVESTMENTS (Continued)

C. Investments Authorized by the California Government Code and the Town’s Investment Policy

The Town’s Investment Policy and the California Government Code allow the Town to invest in the following, provided the credit ratings of the issuers are acceptable to the Town; and approved percentages and maturities are not exceeded.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
California Local Agency Investment Fund	N/A	None	\$65 million
U.S. Treasury Obligations	5 years	None	None
US Government Agency Bonds	N/A	None	None
Joint Powers Authority Pool	N/A	None	None
County Pooled Investment Funds	N/A	None	None
Negotiable Certificates of Deposits	5 years	30%	None
Money Market and Mutual funds *	Upon Demand	None	None

* For Funds investing over 80% of assets in either:

- 1) short to medium term corporate bonds holding an average credit not to exceed 30% of surplus funds, of rating of “A” or better
- 2) short to medium term Federal Agency or U.S. Government sponsored enterprise obligations.

The Town does not enter into any repurchase or reverse repurchase agreements.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates will be.

Information on the fair values of the Town’s cash and investments at June 30, 2020, is provided by the following table:

Investment Type	12 Months or less	Total
California Local Agency Investment Fund	\$12,298,234	\$12,298,234
Money Market Mutual Funds	4,721,146	4,721,146
Total Investments	<u>\$17,019,380</u>	17,019,380
Cash in Bank		2,693,555
Cash on Hand		1,500
Total Cash		<u>2,695,055</u>
Total cash and investments		<u>\$19,714,435</u>

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 2 – CASH AND INVESTMENTS (Continued)

The Town is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Town reports its investment in LAIF at the fair value amount provided by LAIF. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF’s investment portfolio are collateralized mortgage obligation, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2020, these investments matured in an average of 191 days.

Money market mutual funds are available for withdrawal on demand and at June 30, 2020, had an average maturity date of 30 days.

E. Credit Risk

Credit Risk is the risk that an issuer will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required (where applicable) the California Government Code, the City’s investment policy, and actual ratings as of June 30, 2020 for each investment type as provided by Moody’s investment type rating system (as date of the purchase):

Investment Type	AAm/AAA	Not Rated	Total
California Local Agency Investment Fund		\$12,298,234	\$12,298,234
Money Market Mutual Funds	\$4,721,146		4,721,146
Total Investments	<u>\$4,721,146</u>	<u>\$12,298,234</u>	<u>\$17,019,380</u>

F. Fair Value Hierarchy

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets.

The California Local Agency Investment Fund is reported at amortized cost, and is not subject to the fair value reporting requirements. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by our custodian bank.

G. Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the Town’s deposits may not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Significant investments in the securities of any individual issuers, other than U.S. Treasury securities or mutual funds would be subjected to this risk. As of June 30, 2019, no investments were subjected to custodial credit risk on the entity-wide level.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 3 – CAPITAL ASSETS

The Town defines capital assets as assets with an initial cost generally of \$5,000 or more and an estimated useful life in excess of two years except for land which is always capitalized and buildings, land improvements and infrastructure which have a \$25,000 capitalization threshold.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed.

The Town is required to record all its public domain (infrastructure) capital assets. The Town has elected to prospectively record its infrastructure placed into service beginning in fiscal year 2004, including roads, curbs and gutters, streets, trails, paths and drainage systems.

All capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The Town has assigned the useful lives listed below to capital assets:

<u>Asset Class</u>	<u>Useful Lives</u>
Infrastructure	50 years
Improvements other than Buildings	50 years
Buildings and Improvements	20 years
Equipment	5 - 20 years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 3 – CAPITAL ASSETS (Continued)

A. Capital Assets

Capital assets activities during the fiscal year ended June 30, 2020 was as follows:

	<u>Balance</u> <u>June 30, 2019</u>	<u>Additions</u>	<u>Balance</u> <u>June 30, 2020</u>
Governmental Activities			
Capital assets not being depreciated:			
Land	\$6,690,959		\$6,690,959
Construction in Progress	564,653		564,653
Total capital assets not being depreciated	<u>7,255,612</u>		<u>7,255,612</u>
Capital assets being depreciated:			
Infrastructure	10,769,254		10,769,254
Land improvements	3,070,430		3,070,430
Buildings and improvements	19,838,406		19,838,406
Equipment	462,688		462,688
Total capital assets being depreciated	<u>34,140,778</u>		<u>34,140,778</u>
Less accumulated depreciation for:			
Infrastructure	(3,757,497)	(\$458,800)	(4,216,297)
Land improvements	(1,146,901)	(83,183)	(1,230,084)
Buildings and improvements	(4,149,857)	(396,767)	(4,546,624)
Equipment	(308,663)	(28,406)	(337,069)
Total accumulated depreciation	<u>(9,362,918)</u>	<u>(967,156)</u>	<u>(10,330,074)</u>
Total depreciable assets, net	<u>24,777,860</u>	<u>(967,156)</u>	<u>23,810,704</u>
Capital assets, net	<u>\$32,033,472</u>	<u>(\$967,156)</u>	<u>\$31,066,316</u>

B. Depreciation Allocation

Depreciation expense is charged to functions and programs based on their usage of the related assets. The amounts allocated to each function or program is as follows:

Governmental Activities	
General Government	\$5,842
Parks and Recreation	62,144
Town Center Facilities	432,621
Public Safety	7,749
Public Works	458,800
Total Governmental Activities	<u>\$967,156</u>

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 4 – INTERFUND TRANSACTIONS

A. Interfund Transfers

With Council approval, resources may be transferred from one Town fund to another. For the year of June 30, 2020, the Town did not have any Interfund Transfers.

B. Current Interfund Balances

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. As of June 30, 2020 interfund balances were as follows:

Due From Other funds	Due To Other Funds	Total
General Fund	Non-Major Governmental Funds	\$86,573

NOTE 5 – LOANS RECEIVABLE

The Town issued loans to Wayside II Road Maintenance District to maintain the private roads within the Wayside Road area of the Town. The District repays the Town on an annual basis. As of June 30, 2020, the remaining balance of the loans is \$18,792.

NOTE 6 – NET POSITION AND FUND BALANCES

A. Net Position

Net Position is measured on the full accrual basis and is the excess of all the Town’s assets and deferred outflows of resources over all its liabilities, and deferred inflows of resources. Net Position is divided into three captions which are determined only at the Government-wide level, and are described below:

Net Investment in Capital Assets describes the portion of Net Position which is represented by the current net book value of the Town’s capital assets, less the outstanding balance of any retention payables.

Restricted describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Town cannot unilaterally alter.

Unrestricted describes the portion of Net Position which is not restricted to use.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 6 – NET POSITION AND FUND BALANCES (Continued)

B. Fund Balances

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities.

The Town's fund balances are classified in accordance with Governmental Accounting Standards Board Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the Town to classify its fund balances based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the Town prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned.

Each category in the following hierarchy is ranked according to the degree of spending constraint:

Nonspendable represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Assets not expected to be converted to cash, such as prepaids and notes receivable are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then nonspendable amounts are required to be presented as a component of the applicable category.

Restricted fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Nonspendable amounts subject to restrictions are included along with spendable resources.

Committed fund balances have constraints imposed by formal action of the Town Council which may be altered only by formal action of the Town Council. Nonspendable amounts subject to council commitments are included along with spendable resources.

Assigned fund balances are amounts constrained by the Town's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the Town Council and may be changed at the discretion of the Town Council. This category includes *nonspendables*, when it is the Town's intent to use proceeds or collections for a specific purpose; and residual fund balances, if any, of Special Revenue Funds which have not been restricted or committed.

Unassigned fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual General Fund balance and residual fund deficits, if any, of other governmental funds.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 6 – NET POSITION AND FUND BALANCES (Continued)

Detailed classifications of the Town’s fund balances, as of June 30, 2020, are below:

	General Fund	Open Space Restricted Special Revenue Fund	Inclusionary In-lieu Special Revenue Fund	Measure A Special Revenue Fund	Other Governmental Funds	Total
Fund balances:						
Nonspendables:						
Loans receivable	\$18,792					\$18,792
Total nonspendable	18,792					18,792
Restricted for:						
Open space acquisition		\$6,871,193				6,871,193
Public safety COPS					\$125,547	125,547
Library fund					163,857	163,857
Park in-lieu					35,025	35,025
Grants					69,799	69,799
Inclusionary in-lieu			\$3,728,930			3,728,930
Measure A				\$386,608		386,608
Total restricted		6,871,193	3,728,930	386,608	394,228	11,380,959
Assigned to:						
Unfunded pension reserve	712,486					712,486
Equipment replacement	100,000					100,000
Capital replacement/repairs	1,400,000					1,400,000
OPEB	834,871					834,871
Legal contingency	100,000					100,000
Total assigned	3,147,357					3,147,357
Unassigned	2,659,021				(89,384)	2,569,637
Total fund balances	\$5,825,170	\$6,871,193	\$3,728,930	\$386,608	\$304,844	\$17,116,745

C. General Fund Minimum Fund Balance Policy

Town is required to maintain a minimum of 60% of its annual budgeted operating expenditures (excluding capital improvement expenditures) within the General Fund’s unrestricted fund balance. This amount is to be calculated annually via the adopted budget for the next fiscal year. The General Fund unrestricted fund at June 30, 2020 is as follows:

Investment Type	AAm/AAA	Not Rated	Total
California Local Agency Investment Fund		\$12,298,234	\$12,298,234
Money Market Mutual Funds	\$4,721,146		4,721,146
Total Investments	\$4,721,146	\$12,298,234	\$17,019,380

D. Fund Balance Deficit

As of June 30, 2020, the Public Safety Special Revenue Fund and Measure M Special Revenue Fund had fund balance deficits of \$6,478 and \$82,906, respectively. The fund deficits are expected to be eliminated by future revenues.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 7 – PENSION PLAN

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Town’s California Public Employees’ Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans’ fiduciary net position have been determined on the same basis as they are reported by CalPERS. For the purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

A. General Information about the Pension Plans

Plan Description – All qualified permanent and probationary employees are eligible to participate in the Town’s separate Miscellaneous Employee Pension Rate Plans. The Town’s Miscellaneous Rate Plan is part of the public agency cost-sharing multiple-employer defined benefit pension plan (PERF C), which is administered by the California Public Employees’ Retirement System (CalPERS). PERF C consists of a miscellaneous pool and a safety pool (also referred to as “risk pools”), which are comprised of individual employer miscellaneous and safety rate plans, respectively. Individual employers may sponsor more than one miscellaneous rate plan. The employer participates in one cost-sharing multiple-employer defined benefit pension plan regardless of the number of rate plans the employer sponsors. The Town sponsors two miscellaneous rate plans. Benefit provisions under the Plan are established by State statute and Town resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

The Plans’ provisions and benefits in effect at June 30, 2020, are summarized as follows:

	Miscellaneous	
	<u>Classic</u>	<u>PEPRA</u>
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit Formula	2% at 55	2% at 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for life
Retirement age	50 - 67+	52 - 67+
Monthly benefits, as a % of eligible compensation	1.426 - 2.418%	1.000 - 2.500%
Required employee contribution rates	6.902%	6.750%
Required employer contribution rates	9.680%	6.985%

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 7 – PENSION PLAN (Continued)

Beginning in fiscal year 2016, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability (UAL). The dollar amounts are billed on a monthly basis. The City’s required contributions for the unfunded liability in the Miscellaneous Plan was \$71,743.

Contributions – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Town is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2020, the Town’s contributions to the Plan were as follows:

	<u>Miscellaneous</u>
Contributions - employer	\$205,746

B. Net Pension Liability

As of June 30, 2020, the Town reported a net pension liability for its proportionate share of the net pension liability of the Plan as follows:

	<u>Proportionate Share of Net Pension Liability</u>
Miscellaneous	\$836,271

The Town’s net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2019, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 rolled forward to June 30, 2019 using standard update procedures. The Town’s proportion of the net pension liability was based on a projection of the Town’s long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Town’s proportionate share of the net pension liability for the Plan as of June 30, 2018 and 2019 was as follows:

	<u>Miscellaneous</u>
Proportion - June 30, 2018	0.01778%
Proportion - June 30, 2019	0.02088%
Change - Increase (Decrease)	0.00310%

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 7 – PENSION PLAN (Continued)

C. Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2020, the Town recognized pension expense of \$153,873. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$205,746	
Differences between actual and expected experience	58,083	(\$4,500)
Changes of assumptions	39,877	(14,136)
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions		(177,103)
Change in proportion	213,412	
Net differences between projected and actual earnings on plan investments		(14,621)
Total	\$517,118	(\$210,360)

Actuarial Assumptions – The total pension liabilities in the June 30, 2018 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry Age and Service
Investment Rate of Return	7.15%
Mortality	Derived using CalPERS' membership data for all funds (1)
Post Retirement Benefit Increase	Contract COLA up to 2.5% until Purchasing Power Protection Allowance floor on purchasing power applies

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of projected mortality improvement using the Society of Actuaries Scale 90% of scale MP 2016. For more details on this table, please refer to the December 2017 experience study report based on CalPERS demographic data from 1997 to 2015 that can be found on the CalPERS website.

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2018 valuation were based on the results of a December 2017 actuarial experience study for the period 1997 to 2015. Further details of the Experience Study can be found on the CalPERS website.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 7 – PENSION PLAN (Continued)

Discount Rate – The discount rate used to measure the total pension liability for the Plan was 7.15%. The projection of cash flows used to determine the discount rate for the Plan assumed that contributions from all plan members in the Public Employees Retirement Fund (PERF) will be made at the current member contribution rates and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administration expenses.

The table below reflects the expected real rate of return by asset class.

Asset Class (a)	Current Target Allocation	Real Return Years 1 - 10(b)	Real Return Years 11+(c)
Global Equity	50.0%	4.80%	5.98%
Fixed Income	28.0%	1.00%	2.62%
Inflation Assets	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Assets	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	<u>100%</u>		

(a) In the CalPERS CAFR, Fixed Income is included in Global Debt Securities; Liquidity is included in Short-term Investments; Inflation Assets are included in both Global Equity Securities and Global Debt Securities.

(b) An expected inflation of 2.0% is used this period.

(c) An expected inflation of 2.92% used for this period.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 7 – PENSION PLAN (Continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the Town’s proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	Miscellaneous
1% Decrease	6.15%
Net Pension Liability	\$1,887,779
Current Discount Rate	7.15%
Net Pension Liability	\$836,271
1% Increase	8.15%
Net Pension Liability (Asset)	(\$31,675)

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

The \$205,746 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended	Annual
June 30	Amortization
2021	75,396
2022	22,147
2023	515
2024	2,954
Total	\$101,012

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATIONS

A. General Information about the Town’s OPEB Plan

Plan Description

The Town’s Post Employment Benefit Plan is a single-employer defined benefit OPEB plan. Permanent employees who retire under the Town’s CalPERS retirement plan are, pursuant to their respective collective bargaining agreements, eligible to have certain portion of their medical insurance premiums paid by the Town. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Governmental Accounting Standards Board Statement No. 75.

The Town contracts with CalPERS for this insured-benefit plan established under the state Public Employees’ Medical and Hospital Care Act (PEMHCA). The plan offers employees and retirees three CalPERS’ self-funded options, setup as insurance risk pools, or offers various third-party insured health plans. The plan’s medical benefits and premium rates are established by CalPERS and the insurance providers. The Town contribution is established by Town resolution. Retirees and active employees pay the difference between the premium rate and the Town’s contribution. Premiums and Town contributions are based on the plan and coverage selected by actives and retirees. A comprehensive annual financial report of CalPERS, inclusive of their benefit plans, is available at www.calpers.ca.gov. Eligibility and the Town contributions toward month premiums are as follows:

Benefits Provided

The following is a summary of Plan benefits by employee group as of June 30, 2020:

Eligibility

Minimum age before retirement	50
Minimum required years of service:	5

Health Benefit - Employer Contribution

Monthly Premiums

BlueShield HMO medical, pharmacy	\$128
Kaiser medical, pharmacy coverage	\$128
PERSChoice medical, pharmacy coverage	\$128

Employees Covered by Benefit Terms

Membership in the plan consisted of the following at the measurement date of June 30, 2020:

Active employees	14
Inactive employees or beneficiaries currently receiving benefit payments	4
Total	18

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATIONS (Continued)

B. Total OPEB Liability

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the type of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial calculations of the OPEB plan reflect a long-term perspective. Consistent with this perspective, actuarial valuations, after this initial year, will use actuarial methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The ARC for the plan was determined as part of the actuarial valuation using the following methods and assumptions:

	Actuarial Assumptions
Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll
Actuarial Assumptions:	
Discount Rate	2.15%
Payroll Growth	1.80%
Mortality Rate	Pub-2010 Public Retirement Plans Mortality Tables, with mortality improvement projected for 10 years
Amortization Period	20 years Derived from data maintained by the U.S. Office of Personnel Management regarding the most recent experience of the employee group covered by the Federal Employees Retirement System
Pre-Retirement Turnover	4.9% descending to 4.3% over 10 years
Healthcare Trend Rates	

The discount rate was based on the long-term expected rate of return on OPEB plan investments.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATIONS (Continued)

C. Changes in Total OPEB Liability

The end of the year net OPEB obligation is determined as follows:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balance at June 30, 2019	\$1,119,863		\$1,119,863
Changes Recognized for the Measurement Period:			
Service cost	120,877		120,877
Interest on the total OPEB liability	29,825		29,825
Changes of benefit terms			
Differences between expected and actual experience			
Economic gains or losses	(62,829)		(62,829)
Changes of assumptions	56,159		56,159
Contributions from the employer		\$6,456	(6,456)
Benefit payments	(6,456)	(6,456)	
Net changes	137,576		137,576
Balance at June 30, 2020 (Measurement Date)	\$1,257,439		\$1,257,439

D. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates

The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.15%) or 1-percentage-point higher (3.15%) than the current discount rate:

Total OPEB Liability/(Asset)		
Discount Rate -1%	Discount Rate	Discount Rate +1%
(1.15%)	(2.15%)	(3.15%)
\$1,508,934	\$1,257,439	\$1,058,742

The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates of 4.9%, descending to 4.3% over 10 years:

Total OPEB Liability/(Asset)		
Trend rate -1%	Current Healthcare Cost Trend Rates	Trend rate +1%
\$1,008,477	\$1,257,439	\$1,584,631

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 9 – RISK MANAGEMENT

The Town participates in the following public entity risk pools; other risks are covered by commercial insurance.

A. *Liability Coverage*

The Town, along with 28 other Bay Area governments, is a member of the of the Pooled Liability Assurance Network Joint Powers Authority (PLAN JPA), a joint powers insurance authority consisting of 28 member cities in the San Francisco Bay Area, a public-entity risk pool. PLAN JPA provides liability insurance coverage, claims management, risk management services and legal defense to its participating members. PLAN JPA is governed by a Board of Directors, which is comprised of officials appointed by each participating member. Premiums paid to PLAN JPA are subject to a possible refund based on the results of actuarial studies and approval by PLAN JPA's Board of Directors. In the opinion of the Town management, premiums made represent the best available estimate of the ultimate cost of the Town's participation in PLAN JPA and, accordingly, the accompanying basic financial statements of the Town include no provisions for possible refunds or additional assessments. Actual refunds and assessments arising from retrospective premium adjustments relating to prior loss years will be recorded in the Town's basic financial statements in the year they become known. During the fiscal year ended June 30, 2020, the Town contributed \$81,161 or current year coverage.

Prior to January 2018 the Town participated in ABAG Plan Corporation, a non-profit public benefit corporation established to provide liability insurance coverage, claims and risk management, and legal defense to its participating members. On January 16, 2018, ABAG Plan Corporation transitioned to PLAN JPA.

Audited financial information for the JPA may be obtained from PLAN JPA at 1750 Creekside Oaks Drive, Suite 200, Sacramento, CA 95833.

B. *Workers Compensation Coverage*

The State Compensation Insurance Fund covers workers compensation claims up to \$200,000 for each claim and has coverage above that limit to a maximum of \$1,000,000. The Town has no deductible for these claims. During the fiscal year ended June 30, 2020, the Town contributed \$22,166 for current year coverage.

C. *Liability for Uninsured Claims*

The Town has retained the risk for the deductible or uninsured portion of general liability claims. The Town's liability for uninsured claims at June 30, 2020 is believed by management to be de minimis based on the absence of any asserted claims.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 10 – JOINT POWERS AGREEMENT

A. C/CAG

The Town participates in the City/County Association of Governments of San Mateo County (C/CAG), which is governed by a board consisting of a representative from each member. The board controls the operations of C/CAG, including selection of management and approval of operating budgets, independent of any influence by each member beyond member representation on the Board.

C/CAG was established under a 1990 Joint Exercise of Powers Agreement between the Town, San Mateo County and a majority of cities within San Mateo County for the purpose of developing State mandated plans such as an integrated waste management plan. The Town makes annual nonrefundable contributions to C/CAG which are used along with other member contributions to finance C/CAG operations. Audited financial statements may be obtained from the Town of San Carlos, 666 Elm Street, San Carlos, California, 94070. The Town's payments to C/CAG during the year totaled \$28,088. The Town's share of year-end assets, liabilities, or fund equity has not been calculated by C/CAG.

B. San Mateo County Free Library Systems

The Town is a participant with the County of San Mateo in the San Mateo County Free Library System (the Library System), a joint powers agency created to provide extended library services to the residents of the Town and the County. The Agency is governed by a 12-member board made up of a representative from each participating City or Town. The Agency shall continue, uninterrupted, until two thirds of the members vote to terminate the Agency. However, an individual member can terminate its membership, at which the agreement shall terminate on June 30 of the following fiscal year. Upon individual member termination, the member would not be entitled to the return of any funds contributed to the Joint Powers Agency nor to the return in cash or in kind of any materials or supplies contributed. Upon full termination of the Joint Powers Agency the member would receive any surplus money on hand proportionate to its contribution to the Joint Powers Agency. However, all property acquired by the Joint Powers Agency during the term of the agreement shall become the property of the County Free Library System. The Library System's financial statements can be obtained by contacting the San Mateo Library System, 25 Tower Road, San Mateo, CA 94402.

TOWN OF PORTOLA VALLEY
NOTES TO BASIC FINANCIAL STATEMENTS
For the Year Ended June 30, 2020

NOTE 11 – COMMITMENTS AND CONTINGENT LIABILITIES

A. Outstanding Litigation

The Town is subject to litigation arising in the normal course of business. In the opinion of the Town Attorney there is no pending litigation which is likely to have a material adverse effect on the financial position of the Town. Litigation outstanding in prior years has been settled without material cost to the Town.

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings and shelter in place orders. It is at least reasonably possible that this matter will negatively impact the Town. The ultimate financial impact and duration of these events cannot be reasonably estimated at this time.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF PORTOLA VALLEY
Pension Plan
Schedule of the Proportionate Share of the Net Pension Liability
Last 10 Fiscal Years*

Measurement Date	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018	6/30/2019
Plan's proportion of the Net Pension Liability (Asset)	0.03873%	0.00301%	0.01508%	0.01807%	0.01778%	0.00310%
Plan's proportion share of the Net Pension Liability (Asset)	\$957,322	\$82,489	\$523,840	\$712,486	\$670,105	\$836,271
Plan's Covered Payroll	\$993,466	\$1,071,540	\$1,442,039	\$1,522,511	\$1,524,652	\$1,550,930
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	96.36%	7.70%	36.33%	46.80%	43.95%	53.92%
Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	79.82%	78.40%	74.06%	73.31%	75.26%	75.26%

Benefit changes. The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes).

Changes in assumptions. GASB 68, paragraph 68 states that the long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. In 2018 and 2019, there were no changes. In 2017, the accounting discount rate reduced from 7.65% to 7.15%. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5% (net of administrative expense) to 7.65% (without a reduction for pension plan administrative expense). In 2014, amounts reported are based on the 7.5% discount rate. All other assumptions for the June 30, 2014 measurement date were the same as those used for the June 30, 2015 and 2016 measurement dates.

* Fiscal year 2015 was the 1st year of implementation. Additional years will be displayed as they become available.

TOWN OF PORTOLA VALLEY
Pension Plan
SCHEDULE OF CONTRIBUTIONS
Last 10 Fiscal Years*

<u>Fiscal Year Ended June 30</u>	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2017</u>	<u>6/30/2018</u>	<u>6/30/2019</u>	<u>6/30/2020</u>
Actuarially determined contribution	\$111,313	\$84,007	\$116,123	\$141,356	\$153,312	\$205,746
Contributions in relation to the actuarially determined contributions	(111,313)	(84,007)	(116,123)	(141,356)	(153,312)	(205,746)
Additional Contributions	(907,699)	-	-	-	-	-
Contribution deficiency (excess)	<u>(\$907,699)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
 Covered payroll	 \$993,466	 \$1,071,540	 \$1,442,039	 \$1,522,511	 \$1,524,652	 \$1,550,930
 Contributions as a percentage of covered payroll	 11.20%	 7.84%	 8.05%	 9.28%	 10.06%	 13.27%
 Notes to Schedule						
Valuation date	6/30/2012	6/30/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll
Remaining amortization period	15 Years as of the Valuation Date
Asset valuation method	Market Value of Assets
Inflation	2.50%
 Salary increase	 Varies by Entry Age and Service
 Investment rate of return	 7.50% for 2015 to 2018, 7.375% for 2019 and 7.25% for 2020, net of pension plan investment expense, including inflation
 Retirement age	 The probabilities of Retirement are based on the CalPERS Experience Study
 Mortality	 The probabilities of mortality are based on CalPERS Experience Study. Pre-retirement and post-retirement mortality rates include 20 years of projected mortality improvement using Scale AA published by the Society of Actuaries for 2015 to 2018. For 2019 and 2020, pre-retirement and post-retirement mortality rates include 15 years of projected mortality improvement using 90% of Scale-MP-2016 published by the Society of Actuaries.

* Fiscal year 2015 was the 1st year of implementation. Additional years will be displayed as they become available.

TOWN OF PORTOLA VALLEY
OPEB Plan
SCHEDULE OF CHANGES IN THE
TOTAL OPEB LIABILITY AND RELATED RATIOS
Last 10 fiscal years*

Measurement Date	<u>6/30/18</u>	<u>6/30/19</u>	<u>6/30/20</u>
Total OPEB Liability (1)			
Service Cost	\$92,662	\$92,662	\$120,877
Interest		35,711	29,825
Changes of benefit terms			
Differences between expected and actual experience			
Economic gains or losses		(84,838)	(62,829)
Changes of assumptions		258,913	56,159
Benefit payments	(51,432)	(6,456)	(6,456)
Net change in total OPEB liability	<u>41,230</u>	<u>295,992</u>	<u>137,576</u>
Total OPEB liability - beginning	<u>782,641</u>	<u>823,871</u>	<u>1,119,863</u>
Total OPEB liability - ending (a)	<u><u>\$823,871</u></u>	<u><u>\$1,119,863</u></u>	<u><u>\$1,257,439</u></u>
Covered-employee payroll	<u>\$1,522,511</u>	<u>\$1,524,652</u>	<u>\$1,550,930</u>
Total OPEB liability as a percentage of covered-employee payroll	54.11%	73.45%	81.08%

Notes to Schedule:

(1) No assets are accumulated in a trust that meets the criteria in paragraph 4 of Governmental Accounting Standards Board Statement No. 75.

* Fiscal year 2018 was the first year of implementation.

TOWN OF PORTOLA VALLEY
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance Positive (Negative)
REVENUES				
Taxes:				
Property taxes	\$3,124,362	\$3,124,362	\$3,158,836	\$34,474
Sales tax	217,221	217,221	191,109	(26,112)
Business license tax and other taxes	<u>105,000</u>	<u>105,000</u>	<u>99,870</u>	<u>(5,130)</u>
Total Taxes	<u>3,446,583</u>	<u>3,446,583</u>	<u>3,449,815</u>	<u>3,232</u>
Franchise fees	320,112	320,112	246,226	(73,886)
Utility users tax	654,366	654,366	658,037	3,671
Agency revenues	9,700	9,700	11,806	2,106
Contributions				
Licenses and permits	638,750	638,750	503,103	(135,647)
Service charges and fees	245,075	245,075	74,051	(171,024)
Parks and recreation	273,108	273,108	213,928	(59,180)
Investment and other revenues	<u>134,808</u>	<u>134,808</u>	<u>155,229</u>	<u>20,421</u>
Total Revenues	<u>5,722,502</u>	<u>5,722,502</u>	<u>5,312,195</u>	<u>(410,307)</u>
EXPENDITURES				
General government	4,034,445	4,034,445	3,520,942	513,503
Parks and recreation	277,000	277,000	221,427	55,573
Town center facilities	207,993	207,993	127,632	80,361
Public safety	1,076,917	1,076,917	1,076,917	
Public works	6,000	6,000	13,723	(7,723)
Capital improvement program	<u>729,015</u>	<u>729,015</u>	<u>131,761</u>	<u>597,254</u>
Total Expenditures	<u>6,331,370</u>	<u>6,331,370</u>	<u>5,092,402</u>	<u>1,238,968</u>
Excess (Deficiency) of Revenues Over Expenses	<u>(608,868)</u>	<u>(608,868)</u>	<u>219,793</u>	<u>828,661</u>
OTHER FINANCING SOURCES (USES)				
Transfers (out)	<u>(109,972)</u>	<u>(109,972)</u>		<u>109,972</u>
Total Other Financing Sources (Uses)	<u>(109,972)</u>	<u>(109,972)</u>		<u>109,972</u>
NET CHANGE IN FUND BALANCE	<u>(\$718,840)</u>	<u>(\$718,840)</u>	219,793	<u>\$938,633</u>
Fund balance at beginning of year			<u>5,605,377</u>	
Fund balance at end of year			<u>\$5,825,170</u>	

TOWN OF PORTOLA VALLEY
 OPEN SPACE RESTRICTED SPECIAL REVENUE FUND
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2020

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Utility users tax	\$301,337	\$281,224	(\$20,113)
Contribution	1,000	570	(430)
Investment and other revenues		<u>158,324</u>	<u>158,324</u>
Total Revenues	<u>302,337</u>	<u>440,118</u>	<u>137,781</u>
Net change in fund balance	<u>\$302,337</u>	440,118	<u>\$137,781</u>
Fund balance at beginning of year		<u>6,431,075</u>	
Fund balance at end of year		<u>\$6,871,193</u>	

TOWN OF PORTOLA VALLEY
 MEASURE A SPECIAL REVENUE FUND
 SCHEDULE OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2020

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Sales tax	\$298,935	\$309,938	\$11,003
Investment and other revenues	<u> </u>	<u>5,700</u>	<u>5,700</u>
Total Revenues	<u>298,935</u>	<u>315,638</u>	<u>16,703</u>
EXPENDITURES			
Capital improvement program	<u>298,935</u>	<u> </u>	<u>298,935</u>
Total Expenditures	<u>298,935</u>	<u> </u>	<u>298,935</u>
Net change in fund balance	<u> </u>	315,638	<u>\$315,638</u>
Fund balance at beginning of year		<u>70,970</u>	
Fund balance at end of year		<u>\$386,608</u>	

Note to Budgetary Schedules

The Town follows these procedures annually in establishing the budgetary data reflected in the financial statements:

1. The Town Manager submits a proposed budget to the Finance Committee for review and approval.
2. The Town Manager then submits to the Town Council a recommended draft budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
3. The Town Council reviews the proposed budget at one of its regularly scheduled meetings which is open to the public. The Council also conducts a public hearing on the proposed budget to obtain comments from interested persons.
4. Prior to July 1, the budget is adopted through the passage of a resolution. All appropriations lapse at year end.
5. From the effective date of the budget, which is adopted and controlled by the Town Manager at the fund level, the amounts stated therein as proposed expenditures become appropriations to the various Town activities. The Town Council may amend the budget by resolution during the fiscal year.
6. Capital Projects Funds are budgeted on an annual basis. If a capital project is not completed in a budget year, it is included in the subsequent budget year, if necessary. Inclusionary In-lieu Capital Project Fund was not budgeted.

SUPPLEMENTAL INFORMATION

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NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS:

PUBLIC SAFETY

Accounts for half-cent State sales tax revenue designated exclusively for local agency public safety services, (Sec. 35 of Art. XIII of California Constitution).

GAS TAX

Accounts for gasoline tax allocated by the state for street maintenance, repair and improvement.

PUBLIC SAFETY COPS (Citizens' Options for Public Safety)

Accounts for the Supplemental State law Enforcement Fund Service Account (SLESA) revenue for special law and traffic enforcement established by SB89.

LIBRARY FUND

Accounts for library service revenue from San Mateo County Library JPA that can only be used for library related activities.

MEASURE M

Accounts for County-generated motor vehicle registration fee revenue to be used for traffic congestion and water pollution mitigation programs.

MEASURE W

Accounts for amounts restricted for the Town's share of a one-half cent sales tax revenue for road repairs and construction.

CAPITAL PROJECTS FUNDS:

PARK IN-LIEU

Accounts for the subdivision developer's fee restricted for parks or recreational purposes.

GRANTS

Accounts for various grant activities.

TOWN OF PORTOLA VALLEY
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2020

	Special Revenue Funds			
	Public Safety	Gas Tax	Public Safety COPS	Library Fund
ASSETS				
Cash and investments		\$39,663	\$125,544	\$167,406
Accounts and interest receivable		291	3	7
Total Assets		\$39,954	\$125,547	\$167,413
LIABILITIES				
Accounts payable		\$29,305		\$3,556
Due to other funds	\$6,478			
Total Liabilities	6,478	29,305		3,556
FUND BALANCES (DEFICIT)				
Restricted		10,649	\$125,547	163,857
Unassigned	(6,478)			
Total Fund Balance	(6,478)	10,649	125,547	163,857
Total Liabilities and Fund Balances		\$39,954	\$125,547	\$167,413

Special Revenue Funds		Capital Projects Funds		
Measure M	Measure W	Park In-Lieu	Grants	Totals
	\$109,229	\$35,025	\$69,799	\$546,666
				301
	\$109,229	\$35,025	\$69,799	\$546,967
\$2,811				\$35,672
80,095				86,573
82,906				122,245
(82,906)	\$109,229	\$35,025	\$69,799	514,106
				(89,384)
(82,906)	109,229	35,025	69,799	424,722
	\$109,229	\$35,025	\$69,799	\$546,967

TOWN OF PORTOLA VALLEY
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2020

	Special Revenue Funds			
	Public Safety	Gas Tax	Public Safety COPS	Library Fund
REVENUES				
Taxes:				
Sales tax	\$15,165			
Gas tax		\$181,544		
Total taxes	15,165	181,544		
Agency revenues				
Grants			\$155,948	
Investment and other revenues	(12)	(1,428)	2,126	\$5,026
Total Revenues	15,153	180,116	158,074	5,026
EXPENDITURES				
Town center facilities				59,386
Public safety	15,305		145,000	
Public works		89,006		
Capital improvement program				
Total Expenditures	15,305	89,006	145,000	59,386
OTHER FINANCING SOURCES				
Transfers in (Note 4)				
Transfers in (Note 4)				
Total other financing sources				
Net change in fund balances	(152)	91,110	13,074	(54,360)
Fund balances at beginning of year	(6,326)	(80,461)	112,473	218,217
Fund balances (deficit) at end of year	(\$6,478)	\$10,649	\$125,547	\$163,857

Special Revenue Funds		Capital Projects Funds		
Measure M	Measure W	Park In-Lieu	Grants	Totals
	\$109,229			\$124,394
				181,544
	109,229			305,938
			\$5,000	160,948
		\$825		6,537
	109,229	825	5,000	473,423
				59,386
				160,305
\$11,809			1,601	102,416
11,809			1,601	322,107
(11,809)	109,229	825	3,399	151,316
(71,097)		34,200	66,400	273,406
(\$82,906)	\$109,229	\$35,025	\$69,799	\$424,722

TOWN OF PORTOLA VALLEY
NON-MAJOR GOVERNMENTAL FUNDS
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2020

	Public Safety			Gas Tax		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Taxes						
Sales tax	\$15,306	\$15,165	(\$141)			
Gas tax				\$210,390	\$181,544	(\$28,846)
Total taxes	<u>15,306</u>	<u>15,165</u>	<u>(141)</u>	<u>210,390</u>	<u>181,544</u>	<u>(28,846)</u>
Agency revenues						
Grants						
Investment and other revenues		(12)	(12)	5,263	(1,428)	(6,691)
Total Revenues	<u>15,306</u>	<u>15,153</u>	<u>(153)</u>	<u>215,653</u>	<u>180,116</u>	<u>(35,537)</u>
EXPENDITURES						
Town center facilities						
Public safety	15,306	15,305	1			
Public works				247,625	89,006	158,619
Capital improvement program				78,000		78,000
Total Expenditures	<u>15,306</u>	<u>15,305</u>	<u>1</u>	<u>325,625</u>	<u>89,006</u>	<u>236,619</u>
Excess (Deficiency) of Revenues Over Expenses		<u>(152)</u>	<u>(154)</u>	<u>(109,972)</u>	<u>91,110</u>	<u>(272,156)</u>
OTHER FINANCING SOURCES						
Transfers in				109,972		109,972
Transfers out						
Total Other Financing Sources				<u>109,972</u>		<u>109,972</u>
Net change in fund balances		<u>(152)</u>	<u>(\$154)</u>		<u>91,110</u>	<u>(\$162,184)</u>
Fund balances, beginning of Year		<u>(6,326)</u>			<u>(80,461)</u>	
Fund balances (deficit), end of Year		<u>(\$6,478)</u>			<u>\$10,649</u>	

Public Safety COPS			Library Fund			Measure M		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
						\$80,227		(\$80,227)
\$145,000	\$155,948	\$10,948	\$91,298	\$5,026	(\$86,272)	5,227		(5,227)
2,614	2,126	(488)						
147,614	158,074	10,460	91,298	5,026	(86,272)	85,454		(85,454)
			90,636	59,386	31,250			
145,000	145,000					11,440	\$11,809	(369)
						102,000		102,000
145,000	145,000		90,636	59,386	31,250	113,440	11,809	101,631
2,614	13,074	10,460	662	(54,360)	(117,522)	(27,986)	(11,809)	16,177
<u>\$2,614</u>	13,074	<u>\$10,460</u>	<u>\$662</u>	(54,360)	<u>(\$117,522)</u>	<u>(\$27,986)</u>	(11,809)	<u>\$16,177</u>
	<u>112,473</u>			<u>218,217</u>			<u>(71,097)</u>	
	<u>\$125,547</u>			<u>\$163,857</u>			<u>(\$82,906)</u>	

(Continued)

TOWN OF PORTOLA VALLEY
NON-MAJOR GOVERNMENTAL FUNDS
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2020

	Measure W			Park in Lieu		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Taxes						
Sales tax	\$132,860	\$109,229				
Gas tax						
Total taxes	<u>132,860</u>	<u>109,229</u>				
Agency revenues						
Grants						
Investment and other revenues				\$788	\$825	\$37
Total Revenues	<u>132,860</u>	<u>109,229</u>		<u>788</u>	<u>825</u>	<u>37</u>
EXPENDITURES						
Town center facilities						
Public safety						
Public works						
Capital improvement program	132,860		\$132,860			
Total Expenditures	<u>132,860</u>		<u>132,860</u>			
Excess (Deficiency) of Revenues Over Expenses		<u>109,229</u>	<u>109,229</u>	<u>788</u>	<u>825</u>	<u>37</u>
OTHER FINANCING SOURCES						
Transfers in						
Transfers out						
Total Other Financing Sources						
Net change in fund balances		<u>109,229</u>	<u>\$109,229</u>	<u>\$788</u>	825	<u>\$37</u>
Fund balances, beginning of Year					<u>34,200</u>	
Fund balances (deficit), end of Year		<u>\$109,229</u>			<u>\$35,025</u>	

Grants		
Budget	Actual	Variance Positive (Negative)
\$6,600	\$5,000	(\$1,600)
<u>6,600</u>	<u>5,000</u>	<u>(1,600)</u>
6,600	1,601	4,999
<u>6,600</u>	<u>1,601</u>	<u>4,999</u>
	<u>3,399</u>	<u>(6,599)</u>
	<u>3,399</u>	<u>(\$6,599)</u>
	<u>66,400</u>	
	<u>\$69,799</u>	

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AGENCY FUNDS

Agency Funds are presented separately from the Government-wide and Fund financial statements.

Agency Funds account for assets held by the Town as agent for individuals, governmental entities, and non-public organizations.

MAINTENANCE DISTRICTS

Accounts for all revenues and expenditures related to the following maintenance districts formed to maintain roads within the individual district boundaries with governance separate from the Town Council. The Town acts as a fiduciary custodian for the maintenance district assessment revenue collected and disbursed from the County:

CRESCENT MAINTENANCE DISTRICT

PORTOLA VALLEY RANCH MAINTENANCE DISTRICT

WAYSIDE ROAD I MAINTENANCE DISTRICT

WAYSIDE ROAD II MAINTENANCE DISTRICT

WOODSIDE HIGHLANDS MAINTENANCE DISTRICT

ARROWHEAD MEADOWS MAINTENANCE DISTRICT

TOWN OF PORTOLA VALLEY
 AGENCY FUNDS
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 FOR THE YEAR ENDED JUNE 30, 2020

	Balance June 30, 2019	Additions	Deductions	Balance June 30, 2020
<u>Crescent Maintenance District</u>				
<u>Assets</u>				
Cash and investments	\$136,747	\$16,240		\$152,987
Accounts and interest receivable	791		(\$788)	3
Total assets	<u>\$137,538</u>	<u>\$16,240</u>	<u>(\$788)</u>	<u>\$152,990</u>
<u>Liabilities</u>				
Deposits and other liabilities	<u>\$137,538</u>	<u>\$16,240</u>	<u>(\$788)</u>	<u>\$152,990</u>
<u>Portola Valley Ranch Maintenance District</u>				
<u>Assets</u>				
Cash and investments	\$32,384	\$1,745		\$34,129
Accounts and interest receivable	179		(\$178)	1
Total assets	<u>\$32,563</u>	<u>\$1,745</u>	<u>(\$178)</u>	<u>\$34,130</u>
<u>Liabilities</u>				
Deposits and other liabilities	<u>\$32,563</u>	<u>\$1,745</u>	<u>(\$178)</u>	<u>\$34,130</u>
<u>Wayside Road I Maintenance District</u>				
<u>Assets</u>				
Cash and investments	\$7,457	\$222		\$7,679
Accounts and interest receivable	40		(\$40)	
Total assets	<u>\$7,497</u>	<u>\$222</u>	<u>(\$40)</u>	<u>\$7,679</u>
<u>Liabilities</u>				
Deposits and other liabilities	<u>\$7,497</u>	<u>\$222</u>	<u>(\$40)</u>	<u>\$7,679</u>

(Continued)

	Balance June 30, 2019	Additions	Deductions	Balance June 30, 2020
Wayside Road II Maintenance District				
<u>Assets</u>				
Cash and investments	\$87,335	\$31,459	(\$5,663)	\$113,131
Accounts and interest receivable	602		(601)	1
Total assets	<u>\$87,937</u>	<u>\$31,459</u>	<u>(\$6,264)</u>	<u>\$113,132</u>

Liabilities

Deposits and other liabilities	<u>\$87,937</u>	<u>\$31,459</u>	<u>(\$6,264)</u>	<u>\$113,132</u>
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Woodside Highlands Maintenance District

Assets

Cash and investments	\$336,989	\$58,616		\$395,605
Accounts and interest receivable	1,992		(\$1,986)	6
Total assets	<u>\$338,981</u>	<u>\$58,616</u>	<u>(\$1,986)</u>	<u>\$395,611</u>

Liabilities

Deposits and other liabilities	<u>\$338,981</u>	<u>\$56,630</u>		<u>\$395,611</u>
Total liabilities	<u>\$338,981</u>	<u>\$56,630</u>		<u>\$395,611</u>

Total Agency Funds

Assets

Cash and investments	\$600,912	\$108,282	(\$5,663)	\$703,531
Accounts and interest receivable	3,604		(3,593)	11
Total assets	<u>\$604,516</u>	<u>\$108,282</u>	<u>(\$9,256)</u>	<u>\$703,542</u>

Liabilities

Deposits and other liabilities	<u>\$604,516</u>	<u>\$106,296</u>	<u>(\$7,270)</u>	<u>\$703,542</u>
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**INDEPENDENT AUDITOR’S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Members of the Town Council
Town of Portola Valley, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of the Town of Portola Valley, California (Town), as of and for the year ended June 30, 2020, and have issued our report thereon dated October 19, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Town’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control that we consider to be significant deficiencies as listed on the Schedule of Significant Deficiencies included as part of our separately issued Memorandum on Internal Control dated October 19, 2022, which is an integral part of our audit and should be read in conjunction with this report.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We have also issued a separate Memorandum on Internal Control dated October 19, 2022 which is an integral part of our audit and should be read in conjunction with this report.

Town's Response to Findings

The Town's response to the findings identified in our audit is described in our separately issued Memorandum on Internal Control dated October 19, 2022, which is an integral part of our audit and should be read in conjunction with this report. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Maze & Associates

Pleasant Hill, California
October 19, 2022

**TOWN OF PORTOLA VALLEY
MEMORANDUM ON INTERNAL CONTROL
FOR THE YEAR ENDED JUNE 30, 2020**

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**TOWN OF PORTOLA VALLEY
MEMORANDUM ON INTERNAL CONTROL**

For The Year Ended June 30, 2020

Table of Contents

	<u>Page</u>
<i>Memorandum on Internal Control</i>	1
Schedule of Significant Deficiency	3
Schedule of Other Matters	5

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MEMORANDUM ON INTERNAL CONTROL

To the Honorable Mayor and Members of the Town Council
Town of Portola Valley, California

In planning and performing our audit of the basic financial statements of the Town as of and for the year ended June 30, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control included on the Schedule of Significant Deficiencies to be significant deficiencies.

Included in the Schedule of Other Matters are recommendations not meeting the above definitions that we believe are opportunities for strengthening internal controls and operating efficiency.

Management's written responses included in this report have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, Town Council, others within the organization, and agencies and pass-through entities requiring compliance with *Government Auditing Standards*, and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

Pleasant Hill, California
October 19, 2022

Accountancy Corporation
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TOWN OF PORTOLA VALLEY

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF SIGNIFICANT DEFICIENCY

2020-01 Timeliness for the completion of Audit

Criteria: Well-managed organizations should develop a plan to ensure that adequate resources will remain available in the event of employee departures and the potential impact of unexpected events. Part of that is ensuring there are resources available to be utilized on short notice to fill gaps in key positions, especially in the Finance Department. These resources need to be in place throughout the fiscal year to ensure accounting processes and procedures continue and allow time for the analysis of account balances and activities.

Condition: The Town's basic financial statements for the year ended June 30, 2020, were not completed until October 2022.

Cause: Due to the Town's staff turnover, financial system upgrade, and impacts from the pandemic, the Town's staff were not able to prepare and complete recording financial activities for the audit timely.

Effect: As a result, there were significant delays in the completion of the audit, which increases the risk that errors or misstatements may go undetected by staff and corrections may not be made in a timely manner. Audit effort was substantially increased due to the delay and coordination.

Recommendation: The Town should analyze staff resources for backup plans to ensure that the financial data is processed properly and timely during staffing transitions and unexpected events.

Management's Response:

The Town recognizes and agrees with the above findings and is actively working on increased staffing and support as well as a backup plan to ensure accurate and timely processing of financial data.

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TOWN OF PORTOLA VALLEY

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

NEW GASB PRONOUNCEMENTS OR PRONOUNCEMENTS NOT YET EFFECTIVE

The following comment represents new pronouncements taking affect in the next few years. We cite them here to keep you informed of developments.

Effective in fiscal year 2020-21:

GASB 84 – Fiduciary Activities

The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

GASB 90 – Majority Equity Interests—(an amendment of GASB Statements No. 14 and No. 61)

The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

TOWN OF PORTOLA VALLEY

MEMORANDUM ON INTERNAL CONTROL

SCHEDULE OF OTHER MATTERS

Effective in fiscal year 2021-22:

GASB 87 – Leases

The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

GASB 89 – Accounting for Interest Cost Incurred before the End of a Construction Period

The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

TOWN OF PORTOLA VALLEY
REQUIRED COMMUNICATIONS
FOR THE YEAR ENDED JUNE 30, 2020

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**TOWN OF PORTOLA VALLEY
REQUIRED COMMUNICATIONS**

For The Year Ended June 30, 2020

Table of Contents

	<u>Page</u>
<i>Required Communications</i>	1
Significant Audit Findings	1
Accounting Policies.....	1
Unusual Transactions, Controversial or Emerging Areas	2
Accounting Estimates.....	2
Disclosures.....	3
Difficulties Encountered in Performing the Audit.....	3
Corrected and Uncorrected Misstatements	3
Disagreements with Management.....	3
Management Representations.....	3
Management Consultations with Other Independent Accountants	4
Other Audit Findings or Issues	4
Other Information Accompanying the Financial Statements.....	4

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REQUIRED COMMUNICATIONS

To the Honorable Mayor and Members of the Town Council
Town of Portola Valley, California

We have audited the basic financial statements of the Town of Portola Valley, California (Town) for the year ended June 30, 2020. Professional standards require that we communicate to you the following information related to our audit under generally accepted auditing standards and *Government Auditing Standards*.

Significant Audit Findings

Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year, except as follows:

No new accounting policies were adopted and the application of existing policies was not changed during the year, except as follows:

GASB 95 – Postponement of the Effective Dates of Certain Authoritative Guidance

The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

The effective dates of certain provisions contained in the following pronouncements are postponed by one year:

- Statement No. 83, Certain Asset Retirement Obligations
- Statement No. 84, Fiduciary Activities
- Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements
- Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period
- Statement No. 90, Majority Equity Interests
- Statement No. 91, Conduit Debt Obligations
- Statement No. 92, Omnibus 2020
- Statement No. 93, Replacement of Interbank Offered Rates
- Implementation Guide No. 2017-3, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)
- Implementation Guide No. 2018-1, Implementation Guidance Update—2018

- **GASB 95 – Postponement of the Effective Dates of Certain Authoritative Guidance (Continued)**
 - Implementation Guide No. 2019-1, Implementation Guidance Update—2019
 - Implementation Guide No. 2019-2, Fiduciary Activities.

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, Leases
- Implementation Guide No. 2019-3, Leases.

Earlier application of the provisions addressed in this Statement is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

Unusual Transactions, Controversial or Emerging Areas

We noted no transactions entered into by the Town during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Town's financial statements were:

Estimated Fair Value of Investments: As of June 30, 2020, the Town held approximately \$19.7 million of cash and investments as measured by fair value as disclosed in Note 2 to the financial statements. Fair value is essentially market pricing in effect as of June 30, 2020. These fair values are not required to be adjusted for changes in general market conditions occurring subsequent to June 30, 2020.

Estimate of Depreciation: Management's estimate of the depreciation is based on useful lives determined by management. These lives have been determined by management based on the expected useful life of assets as disclosed in Note 3 to the financial statements. We evaluated the key factors and assumptions used to develop the depreciation estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Estimate of Compensated Absences: Accrued compensated absences which are comprised of accrued vacation, holiday, and certain other compensating time is estimated using accumulated unpaid leave hours and hourly pay rates in effect at the end of the fiscal year as disclosed in Note 1 to the financial statements. We evaluated the key factors and assumptions used to develop the accrued compensated absences and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Estimated Claims Liabilities: Management's estimate of the claims liabilities payable is disclosed in Note 9 to the financial statements and is based on actuarial studies determined by a consultant, which are based on the claims experience of the Town. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Estimated Net Pension Liabilities and Pension-Related Deferred Outflows and Inflows of Resources: Management's estimate of the net pension liabilities and deferred outflows/inflows of resources are disclosed in Note 7 to the financial statements and are based on actuarial studies determined by a consultant, which are based on the experience of the Town. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Estimated Net OPEB Liabilities and Pension-Related Deferred Outflows and Inflows of Resources: Management's estimate of the net OPEB liability is disclosed in Note 8 to the financial statements and is based on actuarial study determined by a consultant, which is based on the experience of the Town. We evaluated the key factors and assumptions used to develop the estimate and determined that it is reasonable in relation to the basic financial statements taken as a whole.

Disclosures

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit, except as noted:

The Town experienced unusual difficulty during the fiscal year 2020 year-end close. The Town was in the process of an upgrade for its financial system during the year while dealing with finance staff turnover, plus the COVID-19 pandemic impact on the Town's overall operation which lasted for over two years. Although Town staff worked diligently throughout the process and provided full cooperation to our audit, the current year's audit was adversely affected. The Town's finance staff had difficulty assembling the various required audit items timely. As a result, the audit completion was significantly delayed.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Professional standards require us to accumulate all known and likely uncorrected misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We have no such misstatements to report to the Town Council.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in a management representation letter dated October 19, 2022.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves the application of an accounting principle to the Town’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Town’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information Accompanying the Financial Statements

We applied certain limited procedures to the required supplementary information that accompanies and supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the required supplementary information and do not express an opinion or provide any assurance on the required supplementary information.

We were engaged to report on the supplementary information which accompany the financial statements, but are not required supplementary information. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the Introductory and Statistical Sections which accompany the financial statements, but are not required supplementary information. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

This information is intended solely for the use of Town Council and management and is not intended to be, and should not be, used by anyone other than these specified parties.

Maze & Associates

Pleasant Hill, California
October 19, 2022

Portola Valley Investment Fund Performance

Period: Oct 18, 2022-Jan 11, 2023

Investment Fund (trans cost = \$29.70 7/18-06/1)	10/18/2022		1/11/23		Return Components				10/18/22-1/11/23	Period 10/18/22-1/11/23		
	Value (mid day)	% of total	Value at close	Allocation % of total target %	Annlzd Curr mo. Yield	Div/int (reinvested)	Unrlzd&RlzdCap. Gain	Tot. Return	on 9/17/20	Ret frm div/int	Ret frm cap gain	
VTIP (inflation-protected bonds)	\$ 490,007.08	10.9%	\$ 493,871.82	10.8%	10.0%	0.55%	\$ 11,502.32	\$ (7,637.58)	0.79%	5.15%	2.35%	-1.56%
VGSH (Gov't shrt term bonds)	\$ 2,768,405.23	61.5%	\$ 2,808,262.94	61.2%	62.0%	1.44%	\$ 14,486.05	\$ 25,371.66	1.44%	4.18%	0.52%	0.92%
VCSH (Corp shrt term bonds)	\$ 1,243,537.78	27.6%	\$ 1,287,257.45	28.0%	28.0%	1.75%	\$ 7,885.44	\$ 35,834.23	3.52%	6.25%	0.63%	2.88%
Total investments	\$ 4,501,950.09	100.0%	\$ 4,589,392.21	100.0%	100.0%	1.43%	\$ 33,873.81	\$ 53,568.31	1.94%		0.75%	1.19%
		(+0.28%) on 4/2/21	\$ 4,757,426.02									
		(+0.47%) on 4/21/2	\$ 4,766,241.15									
Annlzd tot return:									8.61%			
cash/money market fund	\$ 503.55		\$ 503.89		0%		\$ -					


Portfolio Composition invested in oil/gas industry components (source: Morningstar, at https://www.morningstar.com/etfs/xnas/vcsh/portofolio)--substitute ETF ticker for VCSH, such as VGSH or VTIP			
ETF Fund	Allocation % to oil/gas industry (source: Morningstar)	Invest. Fund alloc (from above)	Weighted Avg exposure to O&G
VTIP	2.12% (as of 8/5/21)	10.8%	0.228%
VGSH	0.31% (as of 8/5/21)	61.2%	0.190%
VCSH	11.73% (as of 8/30/21)	28.0%	3.290%
		Total of Investment Fund O&G exp:	3.708%
		Estimated \$ value of O&G exp:	\$ 170,171



TOWN OF PORTOLA VALLEY

STAFF REPORT

TO: Mayor and Members of the Town Council

FROM: Jeremy Dennis, Town Manager
Cara Silver, Town Attorney 

DATE: January 12, 2022

RE: Request by Willow Commons Assisted Living Project for Use of Town's Inclusionary Housing Funds to Provide Seven Very Low Income Units

RECOMMENDATION

Staff recommends that the Town Council discuss and give direction to staff on the request from Jim and Patty White to use affordable housing funds to assist in the development of the Willow Commons Supportive Housing project.

BACKGROUND

Affordable Housing Requirement

Like many cities in California, Portola Valley utilizes the concept of inclusionary lots/in lieu fees to support affordable housing development. The "Inclusionary Housing Requirement" is a program of the Town's Housing Element and is also contained in the Town's Municipal Code (Attachments 1 and 2, excerpts). Guidelines for calculating the in lieu fee are contained in Attachment 3. This requirement has been part of the Town's Housing Element since 1991. The Town's Inclusionary Housing Program includes three major elements: (1) new residential subdivisions shall set aside 15% of the lots for affordable units; (2) fractional lots can pay in lieu housing fees and (3) applicants may receive a 10% density bonus if they comply with this requirement.

Use of In Lieu Housing Funds

Program 7 of the Town's Housing Element states that the Town should consider the use of the money in the Town's in-lieu housing fund, including the money from the sale of the Blue Oaks BMR lots, to meet identified local affordable housing needs and provide affordable housing.¹ The Inclusionary Housing ordinance provides: "The in-lieu fees shall be placed in a special housing fund for use solely for affordable housing." (Section 17.20.215.) As of September 16, 2021, the Town had \$3,738,073 in its inclusionary

¹ Section 2489b of the current Housing Element contemplates the fund should, at a minimum, provide 8 moderate income units.

housing fund. In addition, the Town recently received \$870,079 in connection with a parcel map filed by 40 Firethorn bringing the total to \$4,608,079 (not including accrued interest as of September 16).

On September 22, 2022, staff brought a study session to the Town Council to discuss whether to prioritize the development of guidelines to administer the fund. Given the number of other initiatives and projects, the Council did not see an immediate need to develop guidelines and instead directed staff to fold this into the ongoing Housing Element update process. 21 Elements has been working with several small cities to assist in developing trust fund guidelines. Following the September 2021 study session, staff reached out to 21 Elements and received a high-level recommendation for how to approach this update process. (Attachment 4.)

Willow Commons Apartments Funding Request

On October 4, 2021, Jim and Patty White submitted an application to construct an affordable permanent supportive housing project for adults with intellectual or developmental delays (“IDD”) to be located at 4388 Alpine Road, referred to as Willow Commons Apartments. The project will include thirteen total units, with eleven independent living units for adults with IDD, and two accessory dwelling units (“ADUs”) for program managers. (See Attachment 5 for project overview.) The project was submitted under the supportive housing law (AB 2162) and density bonus law. Under the density bonus law, in addition to the requested zoning and land use concessions and waivers, the project requested the following financial assistance from the Town:

The applicant proposes a grant or forgivable loan of \$3,500,000, and a waiver of Town permit application fees and development fees. The proceeds of the assistance would be used to pay for the cost of the school district and other governmental fees, as well as costs of construction of the residential units. (Attachment 6.)

Because the project was subject to a streamlined permit processing period under state law, the applicant and staff agreed that the funding request would be brought forward to the Town Council following the entitlement review. On December 13, 2021, the ASCC conducted a hearing and approved the project. Additional information about the project is available on the [Town's website](#).

DISCUSSION

State density bonus law allows applicants to seek financial assistance as an incentive for providing affordable housing. Unlike other incentives where the Town has little discretion to deny, State law clarifies that the Town has full discretion on whether or not to provide the funding.

Staff has had several follow up conversations with the applicants about their funding request. While the project is largely being self-funded, a local funding subsidy would permit the applicant to permanently deed restrict 2/3 of the units (i.e. 7 of 11) to very low income households. Given the construction timeline of the project, the new housing units will count towards the upcoming Housing Element Cycle (2023-31). Satisfying the very low income category will likely be the most challenging aspect of the 6th Cycle Regional Housing

Needs Allocation and adding 7 very low income units would be significant for the Town. Without a funding commitment by the Town, the applicant would still be required under the Density Bonus law to deed restrict the units to low income households, but with the Town funding contribution, 7 of the units would be further deed restricted to very low income households.

As the Town Council has not yet implemented affordable housing fund guidelines, some questions to consider are:

- Should the Town issue a Notice of Funding Availability (NOFA) to determine whether there are other viable projects that could use the funds?
- Should the Town use all of its housing funds on a single project or attempt to allocate them among other future projects?
- Is it likely there will be other shovel ready affordable housing projects during the next housing element cycle? Should they be used to further incentivize ADU development or affiliated housing projects?
- Should the decision on this request be delayed until the Council has the opportunity to develop formal funding guidelines?
- How can the Town's contribution be best leveraged? Is it better to fund an existing project or provide seed money to a new project?
- In addition to providing affordable housing, should the Town's funds be dedicated to particular demographics who have faced housing discrimination or challenges?
- If the Council were to deny the funding request, would HCD perceive the Town as adverse to affordable housing?

NEXT STEPS

If the Town Council elects to provide a grant to the Willow Commons Apartments, staff would prepare a funding agreement and affordable housing regulatory agreement specifying the affordability levels and requiring certain reporting and certification requirements.

ENVIRONMENTAL REVIEW

In accordance with AB 2162 project is considered ministerial and is not subject to California Environmental Quality Act (CEQA).

ATTACHMENTS

1. Inclusionary Housing Requirement, Town's Housing Element
2. Portola Valley Municipal Code Chapter 17.20.215 Inclusionary lot requirements.
3. Inclusionary In-Lieu Fee Calculation Guidance
4. 21 Elements Technical Assistance Memo
5. Willow Commons Apartments Project Overview
6. Willow Commons' Density Bonus Request dated October 4, 2021

Evaluation of 2009 Element

2410 Portola Valley's current housing element was adopted in 2009. The element has thirteen programs, which are described and analyzed below.

Program 1: Inclusionary Housing Requirements

2411 This program requires that 15% of the lots in new subdivisions be deeded to the town for affordable housing. Each lot can be developed with two to four housing units. The lots are to be improved and ready for development as an integral part of the subdivision. As an incentive, a density bonus of 10% is also provided. Subdividers of sites with fewer than seven lots pay a fee in lieu of providing a lot, while subdividers of sites with seven or more lots pay a fee for fractional lots. These in-lieu fees are placed in a restricted fund titled the Inclusionary Housing In-Lieu Fund for affordable housing programs and projects.

2411a In 2009, the Town held title to four lots in the Blue Oaks subdivision which had been provided to the Town for below market rate, moderate income housing, but had been unable to find a developer to build the units. The housing element called for the Town to explore two options: 1) building the homes on the lots, or 2) selling the lots and using the funds to acquire another site in town. The intention was for the eight moderate income units to be built by the end of the planning period.

Status

2411b To implement this program, the Town first considered the constraints that developers had noted concerning development of the lots. These constraints included the small size of the project, the hilly topography of the lots, and the somewhat remote location of the lots. The Town also looked at a number of potential sites, but found that most were constrained by either availability or cost.

2411c In August 2012, the Town entered into a purchase contract for a 1.68 acre, mostly flat former plant nursery located at 900 Portola Road, on one of the major roads in town. The Town's intent was to partner with an affordable housing developer to build approximately 8-12 moderate income units on the property. The purchase contract had two major contingencies: 1) that the Town be successful in selling the four lots in the Blue Oaks subdivision that had been deeded to the Town for construction of below market rate housing units; and 2) that the property owner of 900 Portola Road provide a release from the County of San Mateo that hazardous materials contamination on the property was properly remediated by December 19, 2012. The Town was able to sell the lots in the Blue Oaks subdivision, as is discussed below, but the contingency for a closure letter relative to the hazardous materials remediation could not be met. The contract lapsed on December 21, 2012 due to uncertainty as to when the closure letter could be obtained. As of May 2014, the County had not yet issued a letter of closure for the property. It is now

the Town's understanding that the property owner and another party have entered into a purchase agreement for the site and the Town is not actively pursuing the purchase of this property.

- 2411d As was mentioned earlier, the other contingency was for the Town to be able to sell the Blue Oaks inclusionary housing lots, and this was completed. This involved amending the Planned Unit Development Agreement for the subdivision, processing a lot line adjustment to create two larger lots out of the four smaller inclusionary housing lots, and finally selling the lots. The sale closed on December 12, 2012 and resulted in the Town receiving \$2,790,096 net of closing costs, which was deposited in the Town's Inclusionary Housing In-Lieu Fund.
- 2411e Because of the sale of the Blue Oaks lots, the difficulties in attempting to purchase 900 Portola Road, the upcoming Housing Element Update, and the desire to build community consensus for future affordable housing efforts, the Town Council created an Ad-Hoc Housing Committee (AHC) early in 2013. The AHC was charged with developing an affordable housing mission statement for the town along with criteria for considering potential affordable housing programs and sites. The AHC completed their work in May and their report was reviewed by the Town Council in June 2013. The Town Council accepted the report and forwarded it to the Planning Commission for consideration in drafting this 2014 Housing Element Update. The report is available on the Town's website.
- 2411f To summarize, the Town worked to implement this program during the planning period and was able to make progress by determining that construction of below market rate units at the Blue Oaks location would not be feasible and selling the lots. The Town attempted to purchase an alternative site but was not able to do so because of hazardous materials issues that could not be resolved in a timely way. As a result, the Town currently has a total of \$2,873,992 in its in-lieu housing fund. As called for in Program 7 of the 2014 Housing Element, the Town will be working to determine the best approach to using these funds to provide affordable housing to serve, at a minimum, eight moderate income households. This housing would be provided in addition to the housing allocated to the Town for the 2014-2022 planning period.

Program 2: Multifamily Housing

- 2412 This program allows multifamily housing to be built on three sites in town: the Sequoias, the Priory School, and the Stanford Wedge. Seven housing units have been built at the Priory School through this program, and eleven more have been authorized there under the Priory's adopted master plan.
- 2412a As was set forth in the adopted 2009 housing element, the town would monitor this program, work with the Priory towards construction of their authorized housing

4. Allow access ramps to extend into required yards beyond what is currently permitted, and allow associated railings to be at least 42 inches in height to be consistent with Title 24.

Status

2419a These zoning amendments were adopted in January 2011, and the reasonable accommodations ordinance was added to the town's zoning code at the same time as Chapter 18.11.

Program 10: Housing Impact Fee

2420 In order to provide more resources for housing, the 2009 housing element called for the town to study the possibility of adopting a housing impact fee.

Status

2420a This work was delayed first to allow the completion of a comprehensive update of all planning, engineering and building fees in 2012 and then to allow staff time to be focused on the attempt to purchase a site for the inclusionary housing program and then to support the Ad Hoc Housing Committee. In this housing element, this program has been combined with the inclusionary housing program, so that the town can consider whether or not to adopt an impact fee at the same time that the town amends its inclusionary housing program.

Program 11: Farmworker Housing Zoning Amendments

2421 This program called for amendments to the town's zoning ordinance to treat farmworker housing for six or fewer persons the same way as single family homes, and for farmworker dormitories to be treated as an agricultural land use.

Status

2421a These zoning amendments were adopted in January 2011.

Program 12: Transitional and Supportive Housing Zoning Amendments

2422 To comply with state law, the 2009 housing element stated that the town would amend its zoning ordinance to provide that transitional and supportive housing be treated as a residential land use subject only to those restrictions that would apply to other residential uses of the same type in the same zoning district.

Status

2422a These zoning amendments were adopted in January 2011.

Dedication and Land for Park or Recreational Purposes

- 2451h In subdivisions of more than 50 lots, the subdivider must dedicate .005 acres of land for each anticipated resident of a subdivision. For subdivisions less than 50 acres, the subdivider must pay a fee based on the above requirement. In the town, no subdivisions of 50 lots or more are anticipated, so only small in-lieu payments can be expected.

Impact of Improvement Requirements on Cost and Supply of Housing

- 2451i Fundamentally, the cost of land in Portola Valley is high. Subdivisions consequently are aimed at rather expensive housing. Given this context, the cost of improvements is a small portion of the total cost of housing. There have been no instances in recent history where the cost of improvements discouraged or prevented planned housing.

Inclusionary Housing Requirement

- 2451j All new single family homes in Portola Valley are custom built, and as a result, inclusionary housing is implemented differently in town than in other jurisdictions. Since 1991, Portola Valley has required all subdividers in town to provide 15% of their lots (for subdivisions with seven or more lots) or an in-lieu fee (for smaller subdivisions and fractional lots) to the town for affordable housing. The cost of providing this land or fee is offset by a 10% density bonus that the town provides to all subdividers who are subject to this requirement. Once the land has been provided, the town can then arrange for the construction of the below market rate units. This arrangement allows the town to set the levels of affordability for each project based on the town's current needs.
- 2451k Because of challenges the town encountered in trying to find a developer to construct units on land provided through this program, however, the town intends to revise this program to require the developer to construct the units, as is described in the programs section of this housing element.
- 2451l Some analysts believe that inclusionary housing requirements can sometimes act as a constraint on housing by either substantially raising the price of market rate housing or making housing too expensive to build. One subdivision has been developed under this requirement, indicating that development can occur under this requirement. In addition, the town's inclusionary housing program provides developers with a 10% density bonus to offset the costs of providing the land. As the program is revised to require that developers build the housing units, local architects and builders will be consulted to ensure that the requirements are not overly onerous and the incentives are appropriate.

- 2451m Because land prices in Portola Valley are high, development of affordable housing would be very difficult unless the land could be provided at no cost through a program such as the inclusionary housing requirement. Market rate housing in Portola Valley is only affordable to households with incomes well above the moderate range. Given the high cost of market rate housing in town, the effects of the inclusionary housing provisions on affordability are negligible.

Summary of Analysis of Land Use Controls

- 2452 Portola Valley's land use controls were developed to fit the town's situation on the edge of the urban San Francisco Peninsula area, with complex and unstable geology, steep terrain, and the San Andreas fault bisecting the town. Within this context, the controls the town has adopted allow for flexibility to fit development to the land. For instance, development intensity is conditioned by steepness of slope, unstable geology, areas subject to flooding and remoteness from major roads. The development approval process results in development that is appropriate to the environment. The town allows and encourages cluster development and planned developments whereby designs fit to sites rather than creating "cookie cutter" developments.
- 2452a These natural constraints, including a location well removed from public transportation and significant employment centers, have led to low density development. The low densities permitted are appropriate for the environment and location, and to ensure the safety of residents.
- 2452b Despite these constraints, the town recognizes that higher density, attached housing can be appropriate in certain locations. Therefore, the town allows multifamily housing in specified locations as set forth in the affiliated housing program of this housing element. Seven units have been built due to this program, and eleven additional units have been approved and are expected to be built in the planning period.

Building Code

- 2453 Portola Valley adopted the 2013 California Building Code. There have been no amendments or additions made to the building code by the town that present a constraint to housing development. The building code is enforced by the town's building official.

Permit and Processing Procedures

- 2454 The town's processing and permit procedures protect the community interest while permitting safe and responsible construction, additions and remodeling on private property. A key aspect is the requirement for geologic investigations to ensure safe development in areas of the town mapped as potentially hazardous.

Programs, Quantified Objectives, and Action Plan

Program 1: Inclusionary Housing

- 2480 To implement a program from the 1990 housing element, the town adopted an ordinance requiring developers to provide 15% of new lots to the town for below market rate housing as part of every subdivision. The Town received title to four lots as part of the Blue Oaks subdivision, but was not able to find a developer to build below market rate units on the lots. To avoid this problem in the future and strengthen the program, the Town intends to revise the inclusionary housing program as described below.
- 2480a The intention is to revise the program to require that developers build the housing units when one or more units would be required under the inclusionary housing program. As part of this revision, the percentage of lots required for below market rate housing may need to be reduced. The percentage should be based on a nexus study for affordable housing, such as the study underway through the 21 Elements process in San Mateo County. With the nexus study results, the town could also consider a housing impact fee. In developing the revisions to this program, the town will consult local developers and builders, and others experienced in the provision of affordable housing, to ensure that the requirements are realistic and that the program includes appropriate incentives.
- 2480b Objective: The town will amend the inclusionary housing program in 2015-16 to make it more effective by having developers of larger subdivisions build the below market rate housing units.

Program 2: Affiliated Housing

- 2481 As established with the previous housing element, affiliated multifamily housing projects are permitted on three sites—The Sequoias, Priory School and the Stanford Wedge—shown on Exhibit 7 in the Site Inventory. This program has the following features:
1. **Planned Unit Developments and Conditional Use Permits.** Multifamily housing on the Priory School site and the Sequoias have and can be permitted through amendments of the CUPs governing those projects. Development on the Stanford Wedge could be accomplished pursuant to a CUP and/or a PUD . The PUD or CUP for a multifamily housing project shall control the siting and design of projects, the mix of units by income category of eligible occupants, methods of controlling rents and/or resale prices, provisions for ongoing management of the project and other matters deemed appropriate by the town.

Action Plan

2493 The actions shown below will be taken to achieve the quantified objectives and implement the programs described above.

Portola Valley 2014 Housing Element Action Plan				
Action	Program	Action	Responsible Party	Timing
1.	Inclusionary Housing	Develop and adopt amendments to the Town's inclusionary housing program to require developers of larger subdivisions to build housing. The Town could consider a housing impact fee instead of or in addition to the inclusionary housing program. Consult with local developers and builders in carrying out this program.	Planning staff	2015-16
2.	Affiliated Hsg	Continue to allow 11 additional affiliated multifamily units to be constructed at the Priory School, and expedite processing of applications to built the units as possible	Planning staff	Ongoing
3.	Affiliated Hsg	Continue discussions and work with the Sequoias to encourage construction of employee housing	Town staff	Ongoing
4.	Affiliated Hsg	Amend Section 18.44.060.I of the Zoning Ordinance to reflect the current name and section number for this program	Planning staff	2015
5.	Affiliated Hsg	Review the development standards and density for the Stanford Wedge to ensure they are appropriate.	Planning staff	2016-17
6.	Affiliated Hsg	Continue discussions with Stanford University concerning potential residential development of the Wedge property.	Planning staff	Ongoing
7.	Second Units	Amend the zoning ordinance to allow: a) second units up to 1,000 sf on lots with 2+ acres; b) two second units on lots with 3.5+ acres, one of which must be attached; and c) staff level review and approval of second units up to 750 square feet when no other permit is needed. As part of this action, amend the performance standards for second units to provide further guidance for staff-level approvals.	Planning staff	2015
8.	Second Units	Monitor the number of second units being permitted annually and take action to increase second unit production if fewer units are permitted than is anticipated. The monitoring will be done in conjunction with the annual housing element report and will be reported to the Planning Commission and Town Council in the spring of each year.	Planning staff	Ongoing
9.	Shared Housing	Continue to support HIP Housing, and work with their staff to improve publicity in order to increase placements in town.	Planning staff	2015 and ongoing

17.20.215 Inclusionary lot requirements.

Fifteen percent of the lot in a subdivision shall be developed for affordable housing, as defined in Section 18.04.055 of this code. The subdivider shall transfer these lots to the town and the town will seek an appropriate subdivider to construct the affordable housing. Alternatively, the subdivider, at the town council's discretion, may retain said lots and develop them for affordable housing subject to all provisions of this section. The subdivider shall provide to the inclusionary lots all subdivision improvements required by this section, and these lots shall be developed as a part of a PUD pursuant to Chapter 18.44 of this code. Deed restrictions approved by the town shall be placed on all inclusionary lots and/or units developed on these lots to ensure continued affordability of the lots and/or units. In calculating the number of inclusionary lots to be provided, a fraction of a lot shall be rounded up to a whole lot; provided that the subdivider may, at the subdivider's option, provide to the town an in-lieu fee for any fractional lot. The amount of such in-lieu fees shall be set out in guidelines established by the town. The in-lieu fees shall be placed in a special housing fund for use solely for affordable housing. The town may waive an in-lieu fee if the subdivider agrees to build a number of affordable housing units acceptable to the town. Any subdivider subject to this section shall receive a density bonus of ten percent notwithstanding the provisions of Chapter 18.50. The procedures for calculating the density bonus shall be set out in guidelines established by the town.

(Ord. 1997-294 § 1, 1997: Ord. 1991-262 § 1, 1991)

TOWN of PORTOLA VALLEY

Town Hall and Offices: 765 Portola Road, Portola Valley, CA 94028 Tel: (415) 851-1700 Fax: (415) 851-4677

POLICIES FOR CALCULATING INCLUSIONARY LOTS, BONUS LOTS AND IN-LIEU PAYMENTS PURSUANT TO SECTION 17.20.215 OF THE MUNICIPAL CODE

Adopted by
the Portola Valley Town Council
on 6/12/91, Revised 12/11/96

State law requires that all cities and counties provide for a "fair share" of the housing needs of different income groups in each region in the state. In complying with this law, the Town of Portola Valley has established three programs. One program encourages the construction of second units, a second allows the construction of multiple family housing in selected sites for affordable housing, and the third requires subdividers to provide lots, at no cost to the town, which are to be made available for the construction of affordable housing. It is envisioned that such housing would be constructed by a non-profit corporation.

This set of forms is intended to provide guidance in determining the contribution of lots, termed inclusionary lots, which must be made by subdividers. The town has decided that 15% of the lots in a new subdivision must be provided under this program. To help offset this burden, the town allows a 10% density bonus in the number of lots in a subject subdivision.

The form on the next page indicates how to determine the number of inclusionary lots which must be included in a subdivision. In many instances a subdivider will end up with a requirement for a fraction of a lot. He may provide a complete lot in such an instance or he may make a payment equivalent to the value of such a fractional lot. The form on the next page indicates how to determine the amount of an in-lieu payment for a fractional lot.

On page 4 of this set of forms is a table which is to be completed by providing information on subdivision improvement costs.

If you need assistance in completing these forms, please contact personnel at Town Hall.

The following procedures are to be followed in calculating the number of inclusionary lots to be provided in a subdivision, the number of bonus lots, and the amount of in-lieu payments required. A subdivider shall use the following table to make the required calculations.

- 1. Maximum number of lots permitted.
Calculate pursuant to Chapter 18.50 of the zoning ordinance. (Exclude fractional lots.) _____
- 2. Total inclusionary lots required.
15% of lots in item 1. (Include fractional lots to nearest 10th.) _____
- 3. Inclusionary lots to be included in subdivision design.
The whole number from item 2. _____
- 4. Fractional inclusionary lots required.
Item 2. minus item 3. _____
- 5. Total bonus lots allowed.
10% of lots in item 1. (Include fractional lots to nearest 10th.) _____
- 6. Bonus lots allowed in subdivision design.
The whole number from item 5. _____
- 7. Fractional bonus lots.
Subtract item 6 from item 5. _____
- 8. In-lieu land payment.
Item 4 minus item 7 times *land value per lot*. * _____
- 9. In-lieu improvement cost payment.
Item 4 times *improvement costs per lot*. * _____
- 10. Total in-lieu payment
Add items 8 and 9 (If negative, enter zero.) _____

* The *land value per lot* and *improvement costs per lot* shall be calculated following procedures set forth on the following page.

The foregoing calculations notwithstanding, all subdivisions shall fully satisfy the 15% inclusionary lot requirement of Section 17.20.215. After provision of inclusionary lots in a subdivision, any remaining fractional lots shall be covered by fees determined pursuant to the land value and improvement costs per lot provisions of these policies. In no case shall the inclusionary lot requirement be less than 15% of the number of market rate lots proposed.

The subdivider shall make a deposit with the town to cover the cost to the town of retaining an appraiser to furnish the appraised value of an average improved lot in the subdivision. The appraiser shall be designated MAI, SREA or SRPA, or be a real estate appraiser certified by the State of California. The subdivider shall furnish the information listed under item 2 on a form supplied by the town.

1. The *land value per lot* is equal to 80% of the appraised value of an average improved lot in the subdivision less the improvement costs, as described in item 2. below, of an average improved lot.
2. *Improvement costs per lot* are the average cost per lot of all on-site and off-site improvements including but not limited to: grading, infrastructure, engineering, architecture, landscape architecture, geology, land planning, law, financing, town fees, special districts, and CEQA. In-lieu payments for inclusionary lots, as required by Section 17.20.215 of the municipal code are not considered improvement costs for the purposes of this calculation.

Should the subdivider disagree with the appraisals, he/she may appeal to the town council who shall hear the appeal under the same rules and obligations as other appeals to the town council are heard under the provisions of the zoning regulations of the town.

FORM FOR CALCULATING IMPROVEMENT COSTS OF LOTS IN SUBDIVISIONS

This form is to be completed by a subdivider in support of information required for lines 8. and 9. of page 1 of this form. You are to list all costs associated with subdividing your property and selling lots. The only cost not to be included is the "in-lieu payment" required pursuant Section 17.20.215 of the Municipal Code. The sum of these costs is to be divided by the number of lots in the subdivision to obtain the improvement costs per lot. The form lists a number of categories of costs but may not include all categories relevant to your subdivision. You are responsible for adding all costs not otherwise provided for on the form.

Bonded Improvements. _____
(Includes improvements, engineering, inspection fees and incidental expenses.)

Costs Prior to Approval of Final Map
Land Planning _____

Engineering _____

Geology _____

Landscape Architecture _____

Architecture _____

Legal _____

Financing _____

Special Districts _____

CEQA _____

Town Fees _____

Other (Itemize) _____

Total Costs _____

Average Improvement Costs Per lot _____

I, the subdivider, hereby certify that the above information includes all development costs except any required in-lieu payment as required by Section 17.20.215 of the Municipal Code.

(Signature) (Printed Name) (Date)



Memorandum

To: Town of Portola Valley
 From: 21 Elements, Janet Stone consultant
 Date: 11/29/2021
 Subject: Housing Trust Fund Memo

Table of Contents

Table of Contents

- I. INTRODUCTION..... 1
- II. PURPOSE..... 2
- III. OPTIONS TO FACILITATE HTF PROGRAM/POLICY DEVELOPMENT AND ONGOING IMPLEMENTATION 3
- IV. DEPLOYING HOUSING TRUST FUND RESOURCES 5
- V. LIST OF ATTACHMENTS – TO ACCESS USE [HTTP://WWW.21ELEMENTS.COM/OTHER-TOPICS](http://www.21elements.com/other-topics) 10

I. Introduction

This memo was prepared by the 21 Elements team in order to help the Town of Portola Valley (herein referred to as Portola Valley or “the Town”) efficiently and effectively deploy its HTF. It aims to provide general guidance and various options to consider. The project team has also included suggested Implementation Program language to consider for Portola Valley’s upcoming Housing Element update.

Portola Valley is one of several jurisdictions that submitted a response to a 21 Elements survey on **Housing Trust Funds** (HTF) sent to all jurisdictions in late August 2021. Portola Valley’s response indicated that staff was seeking additional guidance in deploying the Town’s HTF. On 11/2/21 Janet Stone, consultant with 21 Elements, held an hour-long scoping session zoom call with Adrienne Smith (Senior Planner), Laurel Russell, (Planning & Building Dir) and Jeremy Dennis (Town Manager). The purpose of the session was to review Portola Valley’s HTF program and identify specific areas where staff felt additional assistance was needed to better



deploy the Town's housing trust funds. For Portola Valley, the areas needing additional assistance included:

- **Guidance** on how they might allocate resources in the Town's HTF
- **ADU policy assistance** particularly around: encouraging affordable ADU units; finding out what resources and programs are available on the subject of deed-restricting ADU units; improving the Town's ability to provide additional ADU resources and information
- **Sample language** staff can put in their Housing Element update referring to whatever actions they will be taking on deploying their HTFs

II. Purpose

This memo was developed in response to Portola Valley's HTF survey and information shared during the scoping session. The 21 Elements team also reviewed relevant sections of the Town's current Housing Element, 2020 Housing Element Annual Progress Report (2020 APR), and documents found on the Town's website. Provided at the end of the memo is a link to additional resources on the 21 Elements web site which may prove helpful, such as information on preservation and examples of professional services RFQs (Request for Qualifications), Housing Trust Fund NOFAs (Notice of Funding Availability), and RFQs/RFPs (Request for Qualifications/ Proposals) for site-specific affordable housing.

The purpose of this memo is to provide:

- **General guidance and options to consider** to help the Town effectively deploy current and future HTF resources
- **Suggested Implementation Program language** for Portola Valley's upcoming Housing Element update
- **Ideas for initial steps** the Town may wish to consider to get started

This memo is not intended to provide detailed policy analysis, site identification assistance, or funding recommendations, as these deliverables are beyond the scope of this 21 Elements Housing Trust Fund initiative.



III. Options to Facilitate HTF Program/Policy Development and Ongoing Implementation

A. Consider using some HTF resources to engage a consultant to create guidelines and procedures for deploying HTF resources

Key Idea: Use a small portion of current HTF balance to engage an experienced affordable-housing consultant to help create HTF policy and program guidelines along with allocation procedures for deploying HTF resources.

How to Implement

According to staff, Portola Valley currently has a balance of around \$3.5M in its HTF. This balance has built up over several years. Staff indicated that funding of the HTF is sporadic and difficult to forecast, as it is dependent on when an applicant requests a subdivision.

The Town may want to consider using a relatively small portion of its current HTF balance (e.g., up to around \$30,000, or less than 1%) to contract with an experienced affordable housing consultant or consultants for assistance with structuring the Town's HTF allocation and disbursement program, especially in light of the fact that some funds may be allocated as grants while others most likely will be in the form of loans (e.g., for housing development). Initial tasks could include assisting with development of the HTF's funding priorities and allocation procedures, establishing HTF loan criteria, and drafting an initial Housing Trust Fund NOFA. Ideally, these tasks could be accomplished within about 6-8 months.

Why Implement

There is ample precedent for charging a fee or using a portion of loan funds for program development and administration:

- Cities receiving CDBG and HOME funds are allowed to charge a portion of their allocated funding for administration costs – eligible tasks include developing funding priorities, issuing NOFAs, evaluation of NOFA responses, loan documentation, loan monitoring, etc.
- Jurisdictions that formerly had RDAs (Redevelopment Agencies) used a portion of their RDA funds to cover administrative expenses; successor agencies are allowed to take an administrative cost allowance



- In scoping sessions with a number of jurisdictions, staff reported feeling stretched, often beyond capacity, by additional work related to the new funding programs and/or the modification of existing Inclusionary and Commercial Linkage fee programs
- Figuring out how to use HTF resources calls for affordable housing policy and program expertise that is often beyond the capacity of many smaller jurisdictions
- *Several years ago, San Mateo County Department of Housing began using a small percentage of the Affordable Housing Trust Fund (AHF) to support HCD staffing time involved in administering the AFH*
 - The Department charges a 1.5% loan fee when a loan is committed to an affordable housing development
 - Each year, approximately \$250,000 in AHF loan fees is collected and used for administration of the AHF, including accounting and fiscal services, staff project management time, loan administration, and activities to carry out the NOFA process (e.g., developing NOFA funding guidelines, drafting the NOFA, evaluating responses including due diligence reviews, selection of awardees, etc.)

Suggested HE Update Implementation Program language: *Consider using a relatively small portion of the current Housing Trust Fund balance (e.g., up to around \$30,000 or 1%) to contract with an experienced affordable housing consultant or consultants for assistance with “start-up” tasks necessary to structure the Town’s HTF allocation and disbursement program. Such tasks will include assisting with development of the HTF’s funding priorities, establishing HTF allocation procedures, and drafting an initial Housing Trust Fund NOFA.*

B. Consider using some HTF resources to support a BMR monitoring program

Key Idea: Use a small portion of current HTF balance to engage a consultant to create a monitoring program to track deed-restricted BMR units.

How to Implement

The Town could consider using a small amount of its HTF to engage a consultant with expertise in below-market-rate program implantation in order to create a monitoring program and provide ongoing compliance monitoring for rent-restricted units.



While staff indicated there is only one deed-restricted unit in Portola Valley (with two additional coming soon), it would still be important to put a monitoring program in place for current and prospective deed-restricted units. This memo discusses various possibilities the Town may wish to consider for creating additional for-sale and rental deed-restricted affordable housing units that also could qualify for some type of HTF subsidy or financial assistance.

Why Implement

- Without appropriate BMR agreements and monitoring of compliance with BMR rent/sale and income restrictions, many affordable units – both homeownership and rental – will inevitably be lost over time
- Units may revert to market-rate housing due to lack of awareness on the part of owners or residents, negligence, or intentional noncompliance
- Simple ongoing monitoring efforts can go a long way to ensure that such loss of valuable community assets, worth many millions of dollars to replace, does not happen

Suggested HE Update Implementation Program language: *Consider using a small amount of the HTF funds to support monitoring of previously-built and newly-created rent-restricted units, in order to support an effective ongoing monitoring program for such BMR units.*

IV. Deploying Housing Trust Fund Resources

A. Identify the Town’s funding priorities, guidelines and procedures for allocating HTF resources

Key Idea: Identify funding priorities, eligibility guidelines, and allocation procedures for the HTF.

How to Implement

As mentioned earlier, an important initial step is to identify funding priorities for the HTF. Staff indicated that, to date, the Town has not deployed any of its HTF although there is one new project, Willow Commons, asking for funding (the project’s planning application is scheduled to come before Council in December). It appears that this funding request is being made before the Town has formally adopted any funding guidelines and procedures for deploying HTF resources, putting the Town in somewhat of an awkward position.



The Town Council will most likely look to the Planning staff to implement HTF policies and programs consistent with these guidelines, or to make implementation recommendations for the Council’s consideration. The following types of funding priorities have been identified by a number of jurisdictions in the bay area:

- Creation of new affordable housing units, serving a range of household incomes and a diverse set of populations (including supportive housing), with an emphasis on Very Low- and Extremely-Low Income units -- income ranges that are currently underserved
- Preservation of deed-restricted affordable housing
- Preservation of “naturally-occurring” affordable housing
- Rental assistance for lower-income households
- First-time Home Buyer assistance for income-qualifying homebuyers
- Assistance with rehabilitation and repair for income-qualifying homeowners and rental properties
- Efforts to promote and encourage ADU creation
- Support for programs providing shelter, transitional housing, supportive housing, etc.

Note: not all of these potential funding priorities may apply to Portola Valley. For example, the Town does not have any deed-restricted affordable housing properties that are “at-risk” of conversion to market rate due to expiring use restrictions, and it is unlikely that any so-called “naturally-occurring” multifamily affordable housing exists that could be preserved. Funding priorities that are more likely to be applicable to the Town are discussed below.

As previously mentioned, the Town may wish to engage an experienced affordable housing consultant to assist the Town in exploring various programmatic ideas for deploying the HTF.

Why Implement

- Local HTFs accumulate funds over time and cities allocate these for public purposes
- Newer sources of affordable housing funds, such as Inclusionary Housing in-lieu fees and Commercial linkage fees, generally have been adopted with little guidance about specific affordable housing purposes for which they may be used



- Jurisdictions must be transparent about the use of such funds and keep the public informed about funding policies, eligibility guidelines, allocation rounds and funding decisions
- Before issuing NOFAs or allocating HTF resources, it would be prudent for cities to identify funding priorities, eligibility guidelines, and allocation procedures for these funds – which may, of course, change over time

Examples of affordable housing funding priorities that may be applicable to Portola Valley:

Production of New Affordable Housing Units

Typically, jurisdictions in San Mateo County place a high priority on the creation of new affordable housing units that serve a range of needs. Some jurisdictions, including the County, place a very high priority for their HTFs on the development of affordable housing units serving Very Low-Income (VLI) and Extremely Low-Income (ELI) households, including units serving special needs populations such as large family, senior, and supportive housing for persons with mental and/or physical disabilities.

Production of new affordable housing in Portola Valley will likely be accomplished primarily through the creation of ADUs, on-site below-market-rate (BMR) units built as part of new subdivisions, or through what the Town refers to as “affiliated housing.” In addition, there is currently a planning application for Willow Commons, a new 13-unit deed restricted low-income supportive housing project that will come before the Town in December. According to the *Willow Commons Fact Sheet* found on the Town’s website, the proposers have applied for a “grant or forgivable loan” from the Town’s Inclusionary Funds.

The Town (with the Town attorney’s concurrence) could explore a number of ideas for using the HTF to encourage affordable housing production, including:

- Offering subsidies to assist with the creation of deed-restricted ADU and “affiliated” housing units targeted to those below 80% of Area Median Income
- Offering first-time homebuyer down-payment assistance in conjunction with BMR ownership units produced in new subdivisions
- Offering to subsidize, for a set period of time, all or a portion of the rent paid to the homeowner by a home-sharing program participant, thereby enabling a home-sharing



nonprofit organization to achieve deeper income targeting (ELI/VLI) for prospective clients

- Offering to subsidize the production of deed-restricted low-income supportive housing units that are rented in a manner consistent with fair housing requirements

Encouraging and Promoting ADU Creation

As ADUs – whether deed-restricted or unrestricted – are often a source of affordable housing, some jurisdictions take a more active role in encouraging and promoting ADU construction. During the scoping call staff mentioned that Portola Valley provides the “usual type” of customer service to walk prospective ADU clients through the ADU process. The 2020 APR indicated the Town has taken steps in the past to promote ADUs, including applying for and receiving in 2017 a grant from Home For All to conduct community workshops on housing topics including ADUs (workshops were conducted in 2018).

The Town could explore using a portion of the HTF to support additional activities promoting ADU creation such as loan programs and fee waivers for deed-restricted ADUs, holding another round of community workshops, and providing customized ADU resource materials.

Support for Programs Providing Shelter, Transitional Housing, Supportive Housing, etc.

Currently a number of jurisdictions provide city funding to support nonprofits providing shelter, transitional housing, supportive housing, shared housing, emergency rental assistance, legal aid for low-income tenants, etc. The Town could consider using some HTF resources to support these types of programs on an annual basis.

Suggested HE Update Implementation Program language: *The Town will identify funding priorities, eligibility guidelines and allocation procedures for affordable housing projects and programs funded by the Town’s Housing Trust Fund.*

B. Develop a “Notice of Funding Availability” (NOFA)

Key Idea: Use a NOFA process to deploy funds for affordable housing production, rehabilitation, and preservation.

Key Idea: If using the HTF to assist nonprofits providing housing-related services, consider also using a competitive process to award these funds.



How to Implement

Housing Trust funds for affordable housing production, rehabilitation and preservation are best deployed through an open, competitive process, using NOFAs. A NOFA may include a fixed deadline when responses are due, or it can be issued on an open-ended basis where proposals may be submitted as long as the NOFA is still active. In either case, the use of a NOFA gives the jurisdiction objective criteria against which it can evaluate the merits of various proposals and determine whether the use of public funds is warranted.

A jurisdiction may also decide to use some of its HTF to assist nonprofit organizations providing shelter, transitional housing, or other housing-related services for homeless and other lower-income populations. In this case, the jurisdiction may want to use a competitive process to award these funds as well – either by including the services-related funds in the larger HTF NOFA or using a separate competitive and open funding process.

Why Implement

- Local HTFs accumulate funds over time and cities allocate these for public purposes
- Jurisdictions must be transparent about the use of such funds and keep the public informed about policies, allocation rounds and funding decisions
- Affordable and market-rate housing developers also benefit from understanding the jurisdiction’s funding priorities and policies

Suggested HE Update Implementation Program language: *The Town will issue an initial Housing Trust Fund “Notice of Funding Availability” (NOFA) to assist with affordable housing production. The Town will also consider using a portion of the HTF to support housing-related programs and services provided by nonprofit organizations.*



V. List of Attachments – to access use <http://www.21elements.com/other-topics>

RFQ examples

- RFQ – Affordable Housing Financial Consultant (County Dept of Housing, 2021)
- RFQ – Affordable Housing Financial Consultant – Q&A (County Dept of Housing, 2021)
- RFQ – Affordable Housing/Homeless Services Consultants (County of Alameda, 2020)
- RFQ – Qualified Development Partners for Project Homekey (County Dept of Housing, 2021)
- RFQ – Qualified Developers for Multiple Development Opportunity Sites (Daly City, 2017)
- RFQ – Qualified Developers – Bay Meadows Site (City of San Mateo, 2016)

RFP examples

- RFP – Developer - Middlefield Junction – Parcel A (County Dept of Housing, 2018)
- RFP – Developer - Midway/Bayshore Redevelopment Project (County Dept of Housing, 2017)
- RFP – Developer – Bradford Affordable Housing (Redwood City, 2015)

Other resources

- County Department of Housing Loan Policies – June 2020
- CHPC – *Best Practices in Local Government Preservation Strategies* (2019)
- Jordan Court Affordable Housing (Faith-Based) – Berkeley (2020)
- Immanuel-Sobrato Affordable Housing (Faith-Based) – San Jose (2021)
- *(Partial) List of Affordable Housing consultants who provide assistance to Local Governments*

Willow Commons: Proposal for a Residential Community for Adults with Intellectual or Developmental Delays (IDD.)

While there is general awareness and acceptance of an affordable housing crisis in the San Francisco Bay Area and Peninsula, there is far less appreciation that the housing crisis is even more acute for individuals who require supportive services along with housing. A group that falls into this category are adults with intellectual or developmental delays (IDD). These individuals are eligible for supportive living services offered by California's network of Regional Centers. The Golden Gate Regional Center, which supports San Mateo County residents, reports that over two-thirds of adults with IDD in the county do not have independent housing. This figure includes 100% of adults with IDD who live in Portola Valley, a statistic that must be reported annually to the state for RHNA compliance. The attached proposal intends to assist in addressing this acute need because we believe these individuals deserve high-quality solutions that offer mutual benefits within the communities where they live and work.

We are proposing a thirteen-unit residential community called Willow Commons. The proposal utilizes the legal provisions of California's Density Bonus and Supportive Housing Laws that have been put into place over the last several years to enable the creation of permanent and affordable supportive housing. This is a first for Portola Valley and involves a more streamlined approval process, a fixed timeline, and entails satisfying only objective standards while offering several incentives and concessions if 100% of the units are deed-restricted for low-income residents, which these will. As residents of Portola Valley for over two decades, we value the rural nature of our community and its environmental and historic heritage and so we have considered a number of factors, outlined below when developing this proposal.



View of Willow Commons looking North from Alpine Road

Location: The site we have chosen, 4388 Alpine Road, is in a commercial corridor and part of the Nathorst Triangle, an area about which former planning commissioner Betsy Crowder penned an op-ed in the Almanac two decades ago, promoting the location as ideal for affordable housing. This location offers benefits to various constituencies within the Town. The intended

residents, who for the most part will not have driver's licenses, will have multiple opportunities for employment within walking distance of their homes. Local employers such as The Woodside Priory, The Sequoias, Roberts Market, and the Portola Valley School District, all of whom have provided supportive letters included in this proposal, will have the potential for a loyal, local labor force. The setting within a commercial corridor minimizes the impact of multi-unit housing on current residents of the Town.



Design: Appreciating the care that has gone into the Town's General Plan, the overall design guidelines that stress good environmental stewardship and "blending in," and recognizing that this type of project is a first for the Town, we have been intentional with all aspects of the design. We have assembled a team, including many Portola Valley residents who have worked on many projects in the Town for decades and have asked the architects to use the Portola Valley Town Center as the design inspiration. The architecture of Willow Commons aims to conserve Portola Valley's rural character while providing attractive, tranquil residences and support spaces for the residents. Acknowledging that the site is in the Alpine Scenic Corridor, we have protected and highlighted trees and other natural elements, and created spaces that preserve as much of the existing landscape as possible, allowing and intending for residents and visitors to enjoy meaningful connections with Portola Valley's natural habitats.

Residences: The specific needs of the intended population have guided the decisions around the components of the proposed supportive housing community. The proposal includes eleven one-bedroom apartment units each at less than 500 square feet in size, an attached ADU of similar size and design, and a second, slightly larger, detached ADU. The size of the apartment

units is intentionally small, to be large enough for residents to have a space that is all their own, but not so large that they would prefer spending all their time there rather than interacting with others in the community. This is important because research has shown many adults with IDD who do not have adequate social interaction become isolated and may develop depression. The small unit size also serves to accommodate thirteen units on the site. Thirteen units are the maximum that are allowed “by right” (without a conditional use permit) per the Density Bonus Law. This number of units is a critical factor in ensuring a successful community dynamic and the operational economics for ongoing financial viability. Two units are intended as residences for staff so that we will be able to attract and retain quality support staff in a high cost of living area.

Common Spaces: Residents will enter the Willow Commons through a single, common entrance to a building housing a staff office, allowing for eyes on residents for safety and social interaction as they come and go. This common building will have a kitchen, dining and lounging areas where residents can prepare and share meals, and interact with one another. There will be a multipurpose room for hosting exercise classes, movie nights or other activities that the residents and staff initiate. There will also be a vocational training center where residents will have the opportunity to interact with the broader Portola Valley community while developing the customer service and other skills associated with a training coffee counter.

Sustainability Considerations: The architecture of Willow Commons aims to preserve and enhance the native ecosystems and habitats of the site and the region. The residences are organized behind a main support building that fronts Alpine Road. Residences are oriented along an East-West axis to optimize daylighting. Photovoltaic panels on the residential roofs are oriented south for maximum solar power generation. Roof overhangs and louvers on residences and the support building reduce glare and provide shading during summer months, but allow light penetration for solar heat gain during the winter months, reducing demand from mechanical heating and cooling systems. Additionally, high clerestory windows in the support building and residences paired with sliding glass doors provide cross-ventilation allowing for a night-time cooling cycle.

Impact to the Town:

- The project provides the Town with a significant number of (and some of the first) deed-restricted, low or very low-income housing units. These housing categories are required by state mandates (RHNA) and identified as a priority for the Town.
- The project provides the Town its first example of a residential setting that provides Home-Based and Community services (HBCS), dedicated to providing qualified individuals with successful community integration. This is currently an unmet need in the Town's General Plan/Housing Element.
- The project prioritizes and facilitates residents' initiative, independence, and integration in the larger community, providing the Town with a more diverse, inclusive, and equitable

community, as identified by the Town's new Equity Committee.

- The location sits adjacent to a commercial corridor on a very accessible flat lot within the moderate zone in the 2008 Moritz Fuel Hazard Map and has a relatively lower risk to seismic activity. The location does not interrupt existing trail systems or wildlife corridors.
- The impact on traffic and concerns about the impact of additional vehicles on emergency evacuation will be negligible since the significant majority of residents will not be drivers. The need for parking on a per unit basis will be low for the same reason.
- The project offers an example of intentional building and landscape design that reflects the stated mission and goals of the Town's Conservation and Sustainability Committees. • Local employers will benefit from having a source of loyal, entry-level employees. In particular, the project has the potential to benefit the local schools where, rather than presenting a potential drain on the school system, the residents are potential candidates for some difficult-to-fill staffing and/or volunteer positions.
- The project presents to the Town an ideal opportunity for appropriate use of existing Town funds intended for low-cost/supportive housing and that could provide meaningful assistance to this project.

Architects

[CJW Architecture](#) Carter Warr, Kevin Schwarckopf

[Anderson Brule Architects](#) Pamela Anderson-Brule, Jason Hull, Daniel Ho

Landscape Design

[Cleaver Design Associates](#) Bob Cleaver, Loretta Drummond

Construction

[Tincher Construction](#) Rich Tincher

Interior Design

[Staprans Design](#) Lisa Staprans

Legal

[Meyers Nave](#) Jon Goetz

[Holland & Knight](#) Chelsea Maclean, Kevin Ashe

Consultants

[McClenahan](#), Arborists

[H. T. Harvey & Associates](#), Ecological Consultants

[Lea & Braze Engineering, Inc.](#), Civil Engineers, Land Surveyors

[Kavanaugh Real Estate Group](#), Real Estate

[Willow Commons](#), Executive Director [Brenda Bachechi](#)

Portola Valley Resident Proposers: [Jim White](#), [Patty White](#)

Willow Commons
 4388 Alpine Road, Portola Valley
 October 4, 2021

DENSITY BONUS PROPOSAL

This Density Bonus Proposal is submitted to the Town of Portola Valley pursuant to Chapter 18.17 of the Portola Valley Municipal Code and California Government Code Section 65915(a). This Density Bonus Proposal is submitted concurrently with the filing of the formal planning application for the proposed Project, as provided for in Portola Valley Municipal Code Section 18.17.040.

1. Project Site

Site Address: 4388 Alpine Road
 Project Proponent: Patty Ann and Jim White
 APN: 079-072-120
 Site Area: 54,450 square feet
 Site Zoning District: A-P (Administrative Professional)

2. Project Description

The proposed project is the construction of a groundbreaking affordable permanent supportive housing project for adults with developmental disabilities to be located at 4388 Alpine Road, Portola Valley, tentatively called Willow Commons Apartments (the “Project”). The Project will include thirteen total units, with eleven independent living units for intellectually and/or developmentally disabled (“IDD”) adults, and two accessory dwelling units (“ADUs”) for program managers. The total density for the Project is 10.4 residential units per acre. The independent living units will all be rented at affordable rates for very low and/or lower-income tenants and will be deed-restricted for at least 55 years as required by State Density Bonus Law to ensure that the rents remain affordable. To support the supportive living services program (the “Program”) in a sustainable way, a portion of the managerial staff will be housed in two ADUs on the site, which will help the Project to attract and retain key staff. The program will include extensive services and service coordination to enable the tenants to live independently, support social engagement, build healthy life skills, coordinate outside services such as medical, dental, transportation, and job training, and provide job and employer support at the training center coffee counter as described in the AB 2162 description.

The Project is an outstanding opportunity for Portola Valley to achieve the Town’s long-term goal of creating affordable housing in accordance with the Town’s General Plan Housing Element and its obligations under state law. The Project would be the first supportive housing project in Portola Valley, the first deed-restricted low-income housing in the Town, as well as the first density bonus project.

The number and size of each component of the Project is proposed as follows:

<i>Component</i>	<i>Net Square Feet (Not including exterior Gross Square Feet)</i>
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	<i>walls, shafts, stairs)</i>	
Six Base 1 BR Affordable Independent Living Units	(6 x 493 sq. ft.) = 2,958 sq. ft.	(6 x 555 sq. ft.) = 3,330 sq. ft.
Five 1 BR Density Bonus Affordable Independent Living Units	(5 x 493 sq. ft.) = 2,465 sq. ft.	(5 x 555 sq. ft.) = 2,775 sq. ft.
Two ADUs	(493 sq. ft. + 792 sq. ft.) = 1,285 sq. ft.	(555 sq. ft. + 872 sq. ft.) = 1,427 sq. ft.
Supportive Living Program Common Area (education, recreation, office, training coffee shop, guest room, individual resident onsite storage units). ¹	(535 sq. ft. + 3939 sq. ft.) = 4,474 sq. ft. **Basement area is 1,328 sq. ft., which is less than the area of the first floor of the building. Basement ceiling height does not exceed 12 feet. Basement area therefore does not count as floor area.	(535 sq. ft. + 4,213 sq. ft.) = 4,748 sq. ft. **Basement area is 1,328 sq. ft., which is less than the area of the first floor of the building. Basement ceiling height does not exceed 12 feet. Basement area therefore does not count as floor area.
Total	11,182 net sq. ft. 12,280 gross sq. ft.	
Maximum	12,841 sq. ft. (Derived as proportional to 7,079 sf for six base	12,841 sq. ft. (Derived as proportional

	units) to 7,079 sf for six base units)
Remaining Capacity	1,659 sq. ft. 561 sq. ft.

3. Residential Units.

The Project will consist of six “base” units and five density bonus units, with all of those units affordable to low- and/or very-low-income households, and two Accessory Dwelling Units with no affordability or income restrictions.

a. Base Units. The base units are the six independent living units that are principal permitted uses in the A-P Zone. Principal permitted uses in the A-P Zone to include those uses which are permitted in the R-1 Zone (Municipal Code §18.22.020(B)), including supportive housing for six or fewer persons (§18.14.020(B)). “Supportive housing” is defined in Municipal Code §18.04.515 as “housing with no limit on the length of stay, that is occupied either by adults with low-income having one or more disabilities or by individuals eligible for services provided under the Lanterman Developmental Disabilities Act (Welfare and Institutions Code, Section 4500 et seq.), and that is linked to on- or off-site services that assist the supportive housing residents in retaining the housing, improving their health, and maximizing their abilities to live,

¹ Floor area of the basement does not count as floor area if ceiling height does not exceed 12 feet and basement area does not exceed the area of the first floor of the building (Municipal Code §18.54.050(B))

2

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and when possible, work in the community.” For the reasons discussed above, the Project meets the Municipal Code definition of supportive housing.

b. Density Bonus Units. The density bonus units are five additional supportive housing units. State Density Bonus Law provides that a housing project with 100% of the base units affordable at the low- and very low-income levels (excluding manager’s units) is entitled to an 80% density bonus (Govt. Code §65915(f)(3)(D)). Density bonus units are rounded to the next higher whole number (Govt. Code §65915(f)(5)). With six base units, therefore, the Project is entitled to five density bonus units ($6 \times 80\% = 4.8$, rounded up to 5). The five density bonus units in the Project, therefore, are in conformance with State Density Bonus Law.

c. Accessory Dwelling Units. The Project will include two additional units which are ADUs, pursuant to Municipal Code §18.36.040(B) and Government Code § 65852.2(e)(1)(D). Both ADUs are expected to be used as manager’s units to house Program staff members, and would not have any limits on tenant incomes or rents. In the event that an ADU is instead used as a supportive housing unit, it would be subject to the applicable income and rent limits, and one of the other units would then be used as a manager’s unit with no limits on tenant incomes or rents.

4. Affordable Housing Requirements.

For a project obtaining an 80% density bonus, the State Density Bonus Law requires that at least 80% of the units (other than manager's units) in the Project must be restricted to very-low and lower-income households, with up to 20% restricted to moderate-income households (Government Code §65915(b)(1)(G)). The supportive housing law requires that all of the units (other than manager's units) in the Project be restricted to lower-income households (Government Code §65651(a)(2)). In order to satisfy both requirements, the eleven supportive housing units in the Project are all proposed to be restricted to very low-income and/or lower-income residents. The number of units in each of those income groups will be determined at a later time by the Applicant.

The maximum annual incomes under current San Mateo County median income figures (as published by the California Department of Housing and Community Development on April 26, 2021) are as follows:

Lower-income: \$102,450 for 1 person household
\$117,100 for 2 person household

Very low-income: \$63,950 for 1 person household
\$73,100 for 2 person household

The State Density Bonus Law requires that rental units shall be leased at an affordable rent for a period of not less than fifty-five years (Government Code §65915(c)(1)), and the supportive housing law also requires fifty-five-year affordability restrictions (Government Code §65651(a)(1)). The State Density Bonus Law requires that the rent for lower-income and very low-income affordable units be at an affordable rent as defined by Health and Safety Code §50053 (Government Code §65915(c)(2)), while the supportive housing law does not establish a

3

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maximum rent level. In order to satisfy the affordability requirements of both statutes, the eleven supportive housing units in the Project are all proposed to be rented at an affordable rent as defined by Health and Safety Code §50053. That section establishes the maximum monthly rent for lower-income units at 30% times 60% of area median income for a household size appropriate to the unit (household of two for a one-bedroom unit) and establishes the maximum monthly rent for very low-income units at 30% times 50% of area median income for a household size appropriate to the unit (household of two for a one-bedroom unit).

The maximum monthly rents for one-bedroom affordable units under current San Mateo County median income figures (as published by the California Department of Housing and Community Development on April 26, 2021) would be calculated as follows:

Lower-income residents: $\$119,700 \times 0.3 \times 0.6$ divided by 12 = **\$1,795.50/month**
Very-low income tenants: $\$119,700 \times 0.3 \times 0.5$ divided by 12 = **\$1,496.25 /month**

Median income figures are revised annually, and the maximum monthly rents will also change

upon those annual revisions.

The income and affordable rent requirements described above would be set forth in an Affordable Supportive Housing Regulatory Agreement (or similar document) between the owners of the Project and the Town, which would be recorded against the Project in the San Mateo County Recorder's office and would be binding on all current and future owners of the Project for a fifty-five-year term. The Affordable Supportive Housing Regulatory Agreement would satisfy the requirements of Municipal Code Section 18.17.060, as well as the requirements of the State Density Bonus Law (Government Code §65915(c)(1)) and supportive housing law (Government Code §65651(a)(1)). The Affordable Housing Agreement would also contain covenants and conditions to meet the requirements of the state supportive housing law, including a requirement that all residents of the eleven units must meet the criteria of the target IDD population, that all units contain a bathroom and kitchen, that supportive services will be available to all Project residents to allow all residents to live independently, and that the Project contains the minimum amount of nonresidential floor area needed for onsite supportive services.

5. Requested Incentives and Concessions.

The State Density Bonus Law provides that housing projects with 100% affordable units (other than manager's units) are entitled to four incentives or concessions (Government Code §65915(d)(2)(D)). As the Project provides for 100% affordable units, the Project would therefore be entitled to four incentives or concessions as requested by the Applicant. The Applicant proposes the following incentives and concessions:

- a. Setbacks.** Per the definition of incentives and concessions in the State Density Bonus Law, an incentive or concession may include a reduction in site development standards, a modification of zoning code requirements, or architectural design requirements, including but not limited to a reduction in setback requirements (Government Code §65915(k)(1)). Two of the supportive housing units in the proposed Project (Buildings B and C, located

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near the western property line) have setbacks from the property line that are smaller than the applicable 20-foot setback requirements in § 18.48.010 of the Municipal Code.

The imposition of the 20 ft. setback would obstruct the current placement of Buildings B and C in the Project. (See Site Plan). This would either (1) require the elimination of a building or units within those buildings, effectively reducing the overall density of the Project, and thereby reducing the overall affordable rent gathered for this self-sustaining Project, or (2) require that the density and height of the buildings be increased in order to retain thirteen residential units in the project. Site diagrams illustrating these alternative development scenarios are attached at Attachment 6.

Under the first scenario, if Buildings B and C are precluded from being constructed as configured, one or more residential units within Buildings C and D would need to be eliminated in order to satisfy the setback requirement. The Willow Commons Apartments Pro Forma ("Pro Forma") included below analyzes operational costs and revenue from the Project under two reduced density scenarios: "Loss of 1 Unit" and

“Loss of 1 Building.” The Pro Forma shows that the loss of one unit would result in an increase of capital costs per unit of \$41,266, and the loss of one building would result in an increase of capital costs per unit of \$220,086. The loss of units impacts not only the viability of the supportive housing component of the Project, but also supportive services. The Pro Forma demonstrates that the loss of one unit would result in a \$38,500 annual loss of net income, and the loss of one building would result in a \$161,000 annual loss of net income.

Under the second scenario, in order to adhere to the 20 ft. setback requirement *and* maintain Project viability, the Project would need to construct a 3-story structure at the Project Site. As demonstrated in the Pro Forma, construction, design and landscaping/infrastructure capital costs increase considerably under the 3-story structure scenario, with total costs increasing by \$500,000 and per unit costs increasing by \$38,462. A significant portion of the increase in construction costs per square foot with a 3-story structure would result from the need for the Project to design and install a 3-story elevator to maintain Americans with Disabilities Act (ADA) compliance for physically disabled inhabitants. The Pro Forma demonstrates that the three story design would reduce annual net income by \$8,000, with a portion of the increase due to the elevator maintenance costs..

Therefore, both scenarios above which would be required to comply with the 20 foot setback requirement would both increase the capital costs of the Project and reduce net income. For these reasons, as demonstrated by the Pro Forma, a concession/incentive to the setback will result in identifiable and actual cost reductions to provide for affordable rents to Project residents.

Willow Commons Apartments Pro Forma

Operating Model				
Revenue	Base Case	Loss of 1 Unit	Loss of 1 Building	3 Story design (5)
Resident Revenue (1)	\$627,000	\$570,000	\$399,000	\$627,000
Training Cafe/Other	\$25,000	\$24,000	\$20,000	\$25,000
Total Annual Revenue	\$652,000	\$594,000	\$419,000	\$652,000
Expenses				
Mgmt	\$250,000	\$250,000	\$250,000	\$250,000
Staff	\$350,000	\$332,500	\$280,000	\$350,000
Op Expenses	\$50,000	\$50,000	\$50,000	\$60,000
Total Annual Expenses	\$650,000	\$632,500	\$580,000	\$660,000
Net Income	\$2,000	-\$38,500	-\$161,000	-\$8,000
Capital Costs				
Land	\$2,500,000	\$2,500,000	\$2,500,000	\$2,500,000
Building (2)	\$6,400,000	\$6,150,000	\$5,400,000	\$6,800,000
Design (3)	\$960,000	\$922,500	\$810,000	\$1,020,000
Landscaping/Infrastructure (4)	\$640,000	\$615,000	\$540,000	\$680,000
Total Capital Costs	\$10,500,000	\$10,187,500	\$9,250,000	\$11,000,000
Units	13	12	9	13
Cost/Unit	\$807,692	\$848,958	\$1,027,778	\$846,154

(1) Revenue per resident rental unit is comprised of \$650 monthly rent plus \$4,100/mth service agreement

(2) Building costs are assumed to be \$500/sq. ft.

(3) Design is budgeted at 15% of building costs

(4) Landscaping and Infrastructure is budgeted at 10% of building costs

(5) 3 story would increase building cost for those building to \$600/sq. ft.

b. Open Space Requirements. *[The Applicant believes that the proposed Project is permitted to be constructed under the requirements of the Nathhorst Triangle Area Plan.*

However, if the Town determines that any of the proposed uses on the back portion of the lot do not meet the requirements for Community Park, Open Space and Buffer Planting uses on such portion of the lot, the Applicant hereby makes the following

incentive/concession request] The State Density Bonus Law provides that an incentive or concession may include a reduction in site development standards, a modification of zoning code requirements, or architectural design requirements, or other regulatory incentives and concessions that result in identifiable and actual cost reductions to provide for affordable rents (Government Code §65915(k)(1),(3)). The Applicant hereby requests that the Town waive or modify any conflicting open space requirements of the Nathhorst Triangle Area Plan as may be necessary to permit one ADU housing unit and .

associated facilities including a creative multipurpose space for recreational purposes, a bridge over the creek, bioretention basins, swings, picnic areas, boulders, trees, raised planter boxes, landscaping, sidewalks and other accessory uses on the rear portion of the site, as depicted on the site map submitted for the Project. The majority of the proposed uses on this portion of the site are consistent with the open space objectives of the Nathhorst Triangle Area Plan, specifically including the bridge, bioretention basins, swings, picnic areas, boulders, trees, raised planter boxes,

landscaping, and sidewalks. Allowing housing and the other proposed accessory uses on the rear portion of the lot would actually result in identifiable and actual cost reductions to provide for affordable rents for the Project's supportive housing units. Without the ability to construct these uses in the back portion of the site, the staff housing would need to be moved to the front portion of the site, which would require that the staff units either be built by increasing the height of two of the two-story housing units to three stories, or by adding the staff housing to the nonresidential buildings. Either way, as demonstrated in the above pro forma, these changes would significantly increase the costs of the Project in the same manner as the 20-foot setback, due to the increased complexity of building requirements for those units. Increased costs would worsen the economics of both constructing and operating the Project, and reduce the ability of the Project to provide for affordable rents for the supportive housing units. For these reasons, as demonstrated by the Pro Forma, a concession/incentive to permit one ADU and the above described associated uses will result in identifiable and actual cost reductions to provide for affordable rents to Project residents.

c. Town Financial Assistance. The Applicant hereby requests Town approval of financial assistance to the Project. The applicant proposes a grant or forgivable loan of \$3,500,000, and a waiver of Town permit application fees and development fees. The proceeds of the assistance would be used to pay for the cost of the school district and other governmental fees, as well as costs of construction of the residential units. Upon request, the Applicant will provide the Town a pro forma or other report evidencing that the requested assistance results in identifiable, financially sufficient, and actual cost reductions that are necessary to make the housing units economically feasible. The Applicant would enter into a grant or loan agreement with the Town to memorialize the terms and conditions of the assistance. The agreement for the financial assistance might require the Applicant to restrict some of the independent units to very low-income persons instead of lower-income persons. Financial assistance for the project would be consistent with Program 7 of the Town's Housing Element, which states that the Town should consider the use of the money in the Town's in-lieu housing fund, including the money from the sale of the Blue Oaks BMR lots, to meet identified local affordable housing needs and provide affordable housing.

d. Reservation of Additional Incentives or Concessions. The Applicant reserves the right to request additional incentives or concessions at a later time, to the extent needed.

6. Request for Development Standard Waivers. The State Density Bonus Law provides that a city may not apply a development standard that will have the effect of physically precluding the construction of a density bonus project at the density permitted under the density bonus law (Government Code §65915(e)(1)). It further permits an applicant to submit a proposal for the waiver or reduction of such development standards. Development standards are broadly defined to include such things as height limitations, setback requirements, floor area ratio requirements or open space requirements (Government Code §65915(o)).

a. Floor Area. Applicant believes that the Project is entitled to 12,841 square feet of total floor area under the Municipal Code, which is proportional to the 7,079 square feet of

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total floor area which is permitted for the six base units. However, if it is determined that the Project is entitled to a lesser amount of floor area under the Municipal Code, the Applicant hereby requests a development standard modification to allow 12,841 square feet. The requested square footage of total floor area is the amount of floor area which is necessary for the construction of the thirteen residential units, community space, and associated improvements and is proportional to the amount of floor area which is permitted for the six base units.

Without the proportionate floor area increase, use of the base floor area would physically preclude the construction of the allowable units, community space and associated improvements, as it would not be physically feasible to construct the thirteen units, community space, and associated improvements within 7,079 of floor area. Because the Project is a supportive independent living housing project for persons with intellectual and developmental disabilities, it is necessary for each of the residential units to contain sufficient space for a single bedroom, kitchen, bathroom and living room. It is further necessary for there to be sufficient community space in the Project to conduct the educational, training, and community support programs that are both required under the supportive housing law and necessary for the success of the program. If the allowable floor area is determined to be 7,079 square feet, it is therefore necessary for the floor area required to be modified to 12,841 square feet in order to physically permit the construction of the proposed Project.

To the extent that we later identify any additional development standards that would physically preclude construction of the allowable units, the Applicant reserves the right to make future requests for the waiver or reduction of Town development standards to comply with the State Density Bonus Law.

7. Request for State Law Parking Standards. Under the State Density Bonus Law, upon the request of the developer, a city shall not require a vehicular parking ratio, inclusive of parking for persons with a disability and guests, that exceeds the standards set forth in the State Density Bonus Law (Government Code §65915(p)). If the development consists solely of rental units, exclusive of manager's units, with an affordable housing cost to lower-income families, and the development is a special needs housing project or a supportive housing project, then upon the request of the developer, the city shall not impose any minimum vehicular parking requirement. In order to qualify for this special parking requirement, a development that is a special needs housing development must have either paratransit service or unobstructed access, within a one-half mile to a fixed bus route service that operates at least eight times per day. (Government Code §65915(p)(4)). The developer's request for these parking standards is in addition to and does not count as an incentive or concession request. (Government Code §65915(p)(9)).

We hereby request pursuant to Government Code §65915(p) that the Town not impose any minimum vehicular parking requirement for the supportive housing units in the Project. The Project qualifies for this provision because the development is a supportive housing project, and the residents of the development will qualify for and have access to paratransit service provided by SamTrans.

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However, we do not request any reduction in the parking ratio normally required by the Town Municipal Code for the training coffee counter component of the Project. Normally 10 parking spaces would be required for the 25 seat training coffee counter (one space per each 2.5 seats or stools per Municipal Code §18.60.110, Table 5, food establishments). The proposal includes 17 total parking spaces, which exceeds the 12 spaces required. The requested number of parking spaces will be more than sufficient to meet the needs of the customers of the training coffee counter, Project staff and service providers, and guests and families of the residents.

8. **Application Completeness Determination.** Finally, we request that, pursuant to Government Code §65915(a)(3)(C), the Town notify us of the completeness of our density bonus application, the Town's determination as to the amount of the density bonus, parking ratio, and requested incentives and concessions and development standard waivers, and whether we have provided sufficient information for the Town to make the foregoing determinations.