

**Town of Portola Valley
Finance Committee Meeting
Wednesday, January 18, 2023**

Finance Committee Meeting Minutes

Attendees

Lucy Neely, Chair	Judith Hasko, Council Liaison
George Savage, Acting Secretary	Jeremy Dennis, Town Manager
Michele Takei, Member	Cindy Rodas, Finance Director
Ken Lavine, Member	Jim Saco, Finance Consultant
Bill Urban, Member	Grace Zhang, Maze & Associates

Call to Order: The meeting was called to order at 3:15 PM.

Oral Communications and Announcements:

1. Question about the process for posting past committee meeting minutes to the town's website.
2. Request that the agenda be adjusted to move the audit subcommittee and committee chair discussion up in the order of business.

Approval of Minutes:

The minutes of the October 18, 2022 meeting were approved.

New Business:

Review FY19-20 audit

FY19-20 audit of Town finances was presented by Grace Zhang, Maze and Associates and town staff. Full discussion by Finance Committee (FC) members followed.

Key discussion issues: Delay in completion of FY19-20 audit plus the pendency of audits for FY20-21 and 21-22.

Contributing factors cited by staff:

1. COVID-19 pandemic
2. Change of town finance software
3. Finding accounting help to assist with audit preparation

Combining the FY20-21 and 21-22 audits into one 24-month package was suggested. Ms. Zhang does not believe this would save time. The key issue is whether the data are ready or not.

Next steps:

1. Cindy is preparing the data for the FY20-21 and 21-22 audit
2. A temporary accounting hire was approved by the Town Council to address back work b
3. Town staff wish to complete all audits this spring before the next budget is submitted.
4. Ms. Zhang committed to starting both audits concurrently if data are ready.

Public comments:

Rita Comes emphasized that audit years should be handled separately and that consultant spending and government COVID relief dollars need to be accounted for. The Finance Committee or a separate audit committee should see the audit before it is formally signed off.

Mr. Dennis stressed the difficulty in hiring accounting help. Ten-to-fifteen candidates were interviewed without a successful hire. This is why temps are now being sought. No COVID funds were disbursed in 2020, so this is not in the FY19-20 audit.

Allyson Wood Illich asked whether we could ask town residents with financial expertise to help, potentially as volunteers. Jeremy expressed openness to all suggestions but pointed out that this would be unusual.

Mr. Savage asked why the Town was unsuccessful in hiring accounting help.

Mr. Dennis said staff screened 40-50 applicants, only a handful had relevant experience. Some misstated qualifications; others did not appear for scheduled interviews. Salaries are not competitive, especially for line accountants.

Savage suggested that we may need to pay more and should bring this to the Town Council.

A couple more comments were ruled out-of-scope for this agenda item.

Summary: Nobody is happy about this situation. We want to get back on track with respect to audits. Staff is working to do this.

5b. Receive Update on PV Investment Fund

Mr. Urban led a discussion of the Town's investment fund

- Four or five years ago, all Town cash was held in LAIF (Local Agency Investment Fund), which provided an extremely low rate of return
- PV and other municipalities are allowed to invest in a more diversified manner. While not allowed to own equity, high-quality fixed income investments are permitted.

Investment fund approximate asset mix:

- 10% inflation protected bonds
- 62% -- short-term gov't bonds - Vanguard ETF
- 28% -- Corp short term bond fund

Intended as buy-and-hold assets, not timing the bond market
Compliant with CA code

Performance

- \$4.5M placed in fund, value is now \$4.589M (marked to market daily)
- 1.94% return over most recent 3-month period

Educationally focused discussion, not a recommendation.

- Reserves exceed what is required by town policy; what do we want to do with them?
- We have \$13-14M total liquid funds, which is large for a town of our size.
- Some funds are restricted.
- For unrestricted funds we can discuss how best to hold these funds
- Best-case for bonds is to stay ahead of inflation by 1/2 to 1.5%
- Should we spend the money on town needs?
- Transient deficit spending could be appropriate, given our large reserves
- Could also return funds to taxpayers

Suggested future agenda item: Quantitative analysis and discussion of how much money town should hold in reserve.

Public comment:

David Cardinal pointed out the difficulty in getting money back by raising taxes after it is returned to taxpayers. There are many worthwhile things we cannot afford such as affordable housing, utility undergrounding, etc.

Rita Comes offered support for Mr. Urban's analysis.

5.c Form Subcommittee on Inclusionary Housing Fund.

A subcommittee was proposed to explore recommending an allocation methodology for the Town's inclusionary housing fund (approximately \$4.6M). Impetus was a request by developers of the Willow Commons project for \$3.5M in subsidy for 7 units.

Subcommittee creation was agreed to. Lucy Neely and George Savage agreed to join. Members not in attendance will be contacted regarding participation.

Public comments:

Several comments were made expressing frustration at the lack of progress on using the inclusionary housing fund to create inclusionary housing.

5d -- Discuss FY23-24 Budget and Committee Workshop with Town Council

- Budget process will kick-off with discussion of priorities at TC meeting in January

- By first meeting in March the TC will provide direction to Staff
- This will be brought back to the FC a couple months later

Mr. Savage suggested a compensation survey to find a structural fix for our hiring problem. Mr. Dennis agreed to look into this.

Public comment:

Rita Comes suggested looking into skills we need but are missing. Could we convert contractors to full time cost-effectively? Spending on contractors is very high. Someone should analyze this.

Jeremy Dennis pointed to the enormous salary differential between public and private sector managerial positions as a key problem in converting contractors to full time salaried employees.

Nan Shostak proposed a handbook for new residents. Something that explains how the town works; how to read town financial statements; geologic safety, etc.

Lucy Neely agreed but did not think the FC should lead.

Danna Breen asked whether spending money isn't a matter for the Town Council and not this committee.

Ms. Neely clarified that the FC advises the TC on financial and audit matters, but elected council members make all spending decisions.

5e. - Discuss Budget Deficit/Revenue Generation Brainstorming; form subcommittee or study sessions

Brainstorming:

- This is the first year we've run an operational deficit in some time
- Historically, road maintenance is a cause
- This year the operating deficit is related to housing element consulting
- Two positions were ARPA (American Rescue Plan Act) funded. \
- Need to add a revenue source if we keep ARPA-funded positions longer term
- Significant recurring expense items such as the contract with SM County Sheriff keep increasing in cost and will likely outstrip growth in property tax revenues
- We may struggle eventually with built-in operational deficits.
- No transient occupancy tax revenue (i.e., hotels).
- Conversational only.

FC agreed to address this topic more thoroughly at a future meeting

Public comment:

Rita Comes suggested that the FC meet more frequently. She stressed that year-end financials and audits need to be up to date ahead of meaningful budget discussions.

5.f – Discuss Committee Chair Position

- Lucy Neely serves as chair of another PV committee
- Rules limit individuals to one such role
- Therefore, Lucy will step down as chair of the FC, effective immediately
- George Savage volunteered to serve as FC chair and was elected to the position by the members

5.g – Discuss possibility of an Independent Audit Committee

Discussion now turned to advisability of creating an independent audit committee.

- Members Takei and Lavine were not clear on the rationale for a separate committee: a committee will not solve the audit completion problem.
- Neely stressed that we already have a lot of committees
- Urban expressed frustration that the current FC is not focused on the audit
- Savage suggested a subcommittee of the current Finance and Audit Committee rather than a separate committee

Public comment:

Rita Comes has been a board audit committee member in the past. She suggests that an audit subcommittee meet three times during the audit, starting when the year-end financials are ready. She is happy to volunteer.

Betsy Morgenthaler thanked Lucy Neely for her service as committee chair and said that an Independent audit committee would build confidence.

After further discussion, the FC recommended that the Town Council consider creating a subcommittee of the FC to focus on the audit process

6. Adjournment

The meeting was adjourned at 5:30 pm a