

TOWN OF PORTOLA VALLEY
Finance Committee
Tuesday, January 6, 2015 – 5:30pm
Town Hall Conference Room
765 Portola Road, Portola Valley, CA

Minutes – January 6, 2015 Meeting

Attendees:

Michele Takei – Chair
Bill Urban
Gary Nielsen
Ken Lavine, acting secretary
George Savage

Nick Pegueros – Town Manager
Stacie Nerdahl – Admin. Svcs Mgr
Craig Hughes – Council Liaison

The meeting was called to order at 5:30pm

Oral Communications - None

Minutes of May 13, 2014 - Approved with following corrections to discussion of Old Business:

1. UUT increase is largely due to an increase in the “useage of” water, not “rate charged for” water.
2. A key concern in exploring UUT alternatives is the experience of other “taxing entities” not other “municipalities”.

New Business:

1. 2015 Committee Membership

Michele Takei thanked all committee members for signing up for 2015.

2. Financial Statements for FYE 06/30/14

Stacie Nerdahl presented and led a discussion of the financial statements for FYE June 30, 2014. Driven by increased economic ativity, the town’s Net Position grew in 2014 by 2.4%, Total Funds grew by 10.4% and General Fund grew by 22.6%. Net Capital Assets declined slightly while Liabilities increased by 24.7%.

It was suggested to clarify the Financial Highlights bullet that attributes the increase in the General Fund’s balance to increases in revenues, including building permits activity, property taxes and sales taxes. Total property taxes and sales taxes actually decined from the previous year.

During the year, the town corrected a shortcoming in the business license renewal database that resulted in increased business license revenues. And while anyone doing business in Portola Valley should have a license, it’s known that most contractors and gardeners to do not. The provision is difficult to enforce.

While closing out the Stanford Trail project, the town charged Stanford for staff time not previously billed. Stanford paid.

Areas of significant investigation in 2015 will be: (1) the use of assigned general fund balance to fund either the Town's unfunded CalPERS pension liability (\$955,472 as most recent CalPERS report) or the other post-employment benefit liabilities (\$308,280 as of June 30, 2014 report), and (2) the renegotiation of the Town's law enforcement contract with the County of San Mateo Sheriff's Office, currently a \$920,000 annual contract. Nick Pegueros believes that the Sheriff's costs may increase due to renegotiation of union contracts.

Nick Pegueros indicated that a new CalPERS rule provides that lump-sum funds sent to CalPERS can now exclusively benefit the town's account, whereas previously they benefited the pool. Questions were asked if this rule could be reversed in the future or if there were other risk factors associated with such a lump-sum payment. One reason to make such a payment is that CalPERS' expected return on funds invested is much greater than that earned on funds invested by the town.

The Committee agreed to forward the Financial Statements to the Town Council without comment.

3. General Fund Assignments

Stacie Nerdahl lead a review of general fund balances. The general fund balance as of 6-30-14 was \$4,850,321. Approximately \$1.7 million of this is unassigned and \$3.1 million is assigned for specific purposes. Assigned balances can be reassigned at the Council's discretion. Reserve accounts are useful as a planning exercise. The idea is to convey to councilmembers and the public a clear view of potential liabilities and contingent expenses.

Town staff proposes: (1) to donate to a local organization the \$2,660 assigned to the Children's Theatre Fund; (2) to return to the unassigned general fund the \$2,991 assigned to the Historic Museum Fund; (3) transfer to the Open Space Restricted Special Revenue Fund the \$377,499 assigned to the Open Space Acquisition Fund and (4) assigning \$308,280 for Other Post-Employment Benefits. There was some discussion as to whether the \$308,280 should be rounded off or not. After some discussion, the Committee supported all four recommendations.

The staff also proposed and the Committee endorsed changing the name of the Emergency Capital Replacement/Repairs to Capital Replacement/Repairs to avoid misinterpretation of the purpose of the assigned funds.

After some discussion, the Committee felt that building a rigorous basis for determining assigned reserve balances would not be worth the effort at this time.

4. Investment Options

Bill Urban lead a discussion of how to invest funds that do not need to be spent immediately. Ann Wengert, Nick Pegueros and Bill met to discuss this topic after the last committee meeting. They found that the California Code limits investment opportunities, and prohibits exposure to equities. Consequently, while we might be able to do better than our current returns, we can't get even close to where we'd like to be.

However, under certain circumstances, it is possible to get around restrictions imposed by the Code by (1) creating irrevocable trusts for specific expenses or needs, or (2) creating a development corporation whose funds are used exclusively for a specific development (or perhaps "non-development" in the case of open space funds.) The tradeoffs are that you give up fund flexibility in exchange for increased expected investment returns, and increased returns are associated with greater risk of principle. It was agreed that given the size of the fund (\$3,918,322), the time-frame in which the funds might be utilized, and the fact that property values that would be purchased with the funds increase at a significant rate, the Open Space Restricted Special Revenue Fund is the best candidate to employ this concept. It was agreed that Nick and George would investigate this possibility.

5. Undergrounding of Utility Wires

Ken Lavine reported that the Cable Committee continues to investigate the possibility of initiating a referendum to raise funds for the undergrounding of utility wires. Recent events are not positive. The town council has indicated that though they favor the undergrounding of utility wires, they have more pressing issues and that the town staff cannot devote a lot of time to the issue. Additionally, the town has been informed by PG&E that recent projects are much more costly than previous projects. They've increased their guidance from \$325 per linear foot to \$500 per linear foot. And many projects cost more than \$700 per linear foot.

The meeting was adjourned at approximately 7:30 pm.

Ken Lavine, Acting Secretary