

PORTOLA VALLEY TOWN COUNCIL REGULAR MEETING NO. 904, FEBRUARY 25, 2015

I CALL TO ORDER AND ROLL CALL

Vice Mayor Derwin called the Town Council's regular meeting to order at 7:30 p.m. and led the Pledge of Allegiance. Ms. Hanlon called the roll.

Present: Councilmembers John Richards and Ann Wengert; Vice Mayor Maryann Moise Derwin

Absent: Mayor Jeff Aalfs; Councilmember Craig Hughes

Others: Nick Pegueros, Town Manager
Leigh Prince, Town Attorney
Sharon Hanlon, Town Clerk
Debbie Pedro, Town Planner

II ORAL COMMUNICATIONS – None

III CONSENT AGENDA [7:31 p.m.]

(1) Approval of Minutes: Town Council Regular Meeting of February 11, 2015 [*pulled from Consent Agenda*]

(2) Approval of Warrant List: February 25, 2015, in the amount of \$95,511.38.

Councilmembers approved Item unanimously with a roll-call vote.

(1) Approval of Minutes: Town Council Regular Meeting of February 11, 2015

Councilmember Richards moved to approve the minutes of the February 11, 2015 meeting, as amended. Seconded by Councilmember Wengert, the motion carried 3-0.

IV REGULAR AGENDA [7:32 p.m.]

(A) Presentations: Tina Hugg, MROSD Senior Planner, with Midpeninsula Regional Open Space District's Proposal of Priority Conservation Areas (PCA) within Portola Valley and its Sphere of Influence

Senior Planner Tina Hugg advised the Town Council that Planning Manager Jane Mark was at a MidPen Board meeting and could not attend the Town Council meeting. Ms. Hugg relayed Ms. Mark's apologies. Ms. Hugg's presentation included background and history of MidPen, descriptions of the Association of Bay Area Governments' (ABAG) Planned Bay Area initiative, the Priority Conservation Area (PCA) program in general, and a presentation of MidPen's proposal for the Windy Hill PCA and the next steps. Ms. Hugg presentation clarified that the PCA designations are strictly for grant funding purposes only, to identify lands of key open space importance that merit grant funding. PCAs are neither regulatory in nature, nor do they have any effect on local land use or zoning designations or future local land use decisions.

Vice Mayor Derwin asked for questions from the Council.

Councilmember Wengert asked where MROSD sees the additional PCA funding sources coming from that they could not previously source, now that PCAs are heavily in use and endorsed with ABAG's concurrence and encouragement. She asked if they were stepping up the regional, state,

and federal chain. Ms. Hugg said there was a pilot PCA grant program last year, with \$5 million set aside for northern Counties and another \$5 million was set aside from MTC. She said they were joined by the Coastal Conservancy who put in another \$2.5 million, resulting in our five southern Counties having \$7.5 million to work with. She said the word is they are trying to increase the amount because the projects were very popular.

In response to Councilmember Wengert's question, Ms. Hugg confirmed the money is ultimately coming from Federal but is administered by the State. Mr. Pegueros added that the money was coming from the federal transportation funds, the same funding source that provides monies for local roads.

Councilmember Wengert said we've seen a huge uptick in usage at Windy Hill and asked if the grant monies could also address the parking lot staging areas. Ms. Hugg said those types of projects do qualify because they provide access to Regional Recreation. Councilmember Wengert is in favor of the project, but wants it planned for being able to accommodate it in a way that's safe for everybody.

In response to Vice Mayor Derwin's question, Ms. Hugg confirmed that the lands proposed for the PCA were all within MidPen's jurisdiction and do not include any private lands.

Mr. Pegueros asked Ms. Hugg to speak to the amendment process in the future, if the Town wanted to expand the scope. Ms. Hugg said that ABAG representatives confirmed that there would be opportunities for revisions and changes to the PCA boundaries at a future date but the process is still under development. The ABAG representative said there would be regular visitation to the PCA program at which time jurisdictions can actually nullify and redo the PCAs, providing opportunity to add to or create new ones.

Councilmember Wengert asked if, since all of Windy Hill is not part of this application, there would be any impact on funding applications given the fact it's under two different PCAs or would they be merged? Ms. Hugg confirmed that it would not matter as long as they were both jurisdictionally under PCAs. In response to Mr. Pegueros' question regarding the exact boundaries of the proposed PCA, Ms. Hugg said the boundaries of the new application would be very specific to ensure that only MROSD lands are included in this new PCA.

There were no questions from the audience. Vice Mayor Derwin asked for Council comments.

Councilmember Richards said it was an interesting approach to encourage development in the way you want it rather than controlling development, which is a good thing to do.

Councilmember Wengert agreed and said from a regional perspective is a terrific potential funding mechanism. She believes the demand is only going to grow so we would certainly encourage and welcome any additional resources that MidPen's and other's efforts could bring to bear. Councilmember Wengert is very much in favor of it.

Vice Mayor Derwin asked if the Planning Commission should see this. Mr. Pegueros said because it was a land use issue, it should be put on the Planning Commission's next agenda.

Vice Mayor Derwin directed Mr. Pegueros to place it on the Planning Commission agenda next week and then bring it back to the Town Council in March.

(B) Committee Reports and Requests [7:52 p.m.]

(1) Council Liaison Reports

- Councilmember Wengert – None
- Councilmember Richards – Attended Emergency Preparedness, Cultural Arts, and Conservation.
- Vice Mayor Derwin – Attended the meeting held by the Department of Public Works for San Mateo County to discuss operations at the interchange of Alpine Road and the 280 Freeway. County staff used the meeting as part of their data collection that would be used to issue an RFP for a comprehensive corridor study. The result of the RFP process would be to contract with a consultant, hold many more public meetings, seek grant opportunities, and eventually take action on whatever recommendations come from the study that are approved by the Board of Supervisors.

(C) Public Hearing: None

(D) Staff Reports and Recommendations [8:07 p.m.]

(1) *Report by Town Attorney* – Update to Personnel Policies Manual

(a) A Resolution of the Town Council of the Town of Portola Valley Adopting the Revised Town of Portola Valley Personnel Policies Manual (Resolution No. 2646-2015)

Town Attorney Leigh Prince presented the report.

Councilmember Wengert asked regarding Item #6. While she does not expect there to be complaints about the Town Manager, she would feel more comfortable if the Mayor should also be notified in addition to the Town Attorney because she thinks the Council should be responsible for some oversight of the Town Manager. Ms. Prince said that in 6.4.1 and in 11.1.1, they would change it to read: "If a complaint concerns the Town Manager, employee may make a complaint to the Town Attorney or designee who shall perform the functions of the Town Manager in consultation with the Mayor with respect to these complaint procedures."

Councilmember Wengert asked, regarding Item #11, the leave balance deficit, under what circumstances employees would have a leave balance. Mr. Pegueros said it was a rare occurrence with active or tenured employees, but, for example, if a new hire had already planned a two-week vacation and did not have enough accrued leave, this would allow that employee to have a leave deficit. It's a judgment call basis, for example, if an employee was out sick and fell short a couple of hours of accrued time, this would allow them to have a leave balance deficit instead of unpaid leave, knowing that that accrued time would be earned back within the next pay period.

Councilmember Richards moved to approve the Resolution as amended. Seconded by Councilmember Wengert; motion passed 3-0.

(2) *Report by Town Manager* – Update on Pension and Retiree Medical Liabilities.

Mr. Pegueros presented.

Regarding the Pension aspect of the report, Councilmember Wengert asked if we had heard anything from surrounding communities regarding the impact of the unfunded pension liabilities on their finances, speculating that many would not be able to afford the interest alone on the unfunded pension liability at 7.5%. Mr. Pegueros said he is unaware of any discussions in neighboring cities primarily because options are few. Councilmember Wengert said that leaving

the PERS system was a choice and with a present value analysis of that decision versus the longer term impact, it wouldn't be hard to see where some communities might decide, just from a purely financial perspective that they cannot afford to stay in PERS. While she does not think that's where Portola Valley will come out, Councilmember Wengert said she wonders, now that the numbers are finally showing clearly that the system is in big trouble and potentially not financial stable, if Mr. Pegueros had heard anything among his peers. Mr. Pegueros said if the Town were to leave PERS, the cost would be equal to the Town's operating budget, so leaving CalPERS would be tough choice. He said that while technically any city can terminate its CalPERS contract, the reality is that the cost would likely be too high. Councilmember Wengert said unless they were correct in their assumptions of how they're going to turn the ship around, essentially we're continuing to fund into a proposition that could potentially fail. Vice Mayor Derwin asked if that meant when the Town's employees retire, there may be no money. Mr. Pegueros said that CalPERS is saying that if the CalPERS system does not address this issue soon, there is the possibility the pensions could be rescued. He said the situation would CalPERS telling the Town, "Portola Valley, in order to pay your employee his/her pension at 75 years old, you need to give us extra money." And if Portola Valley says, "No, we don't have that extra money," the only other option is to tell the employee, "Sorry, Portola Valley didn't give us the extra money, we're going to give you x amount on the dollar." Mr. Pegueros said that since he's been involved in municipal finance, this is the first time he's seen CalPERS talking in real terms that pensions might be cut if changes aren't made to the system.

Councilmember Richards said he was surprised to see the tables go to 100% because he thought most of the pension funds had a cap of 80%. Mr. Pegueros said CalPERS has several different plans, with maximum pensions differing. In the 2.0% at 55 formula, employees to reach or exceed 100%.

Councilmember Wengert asked if an irrevocable trust would have the advantage if CalPERS was no longer fully liquid – would we still have access to those dollars? Mr. Pegueros said irrevocable trusts are set up for a specific purpose and the trust contemplated in the staff report would be for employee pensions. He said he had talked to some people who run trusts for cities and they are saying that, considering the management fees that are involved, there is inflection point at about \$10 million but perhaps that could change as this issue evolves. Councilmember Wengert said that if we don't do something, either an irrevocable trust or paying it off, we are just bleeding further.

Councilmember Richards asked how the money transfers if an employee leaves here and goes to another agency. Mr. Pegueros explained it is a transferable benefit and each agency pays their share of the retiree's pension. He said the final salary of an employee can go backwards in time and impact employers who had first hired that person.

Councilmember Wengert said that while there are a lot of assumptions that would underlie CalPERS' continued financial viability, she thinks there will be other opportunities along the road. She said we may have some short term goals and medium term goals relative to CalPERS because, from a hiring standpoint and perspective, we put ourselves at a big competitive disadvantage at this juncture and we're also in a position to be able to afford to deal with our liability in whichever fashion we choose. In that situation, she said we're almost saying we'll roll the dice one more time with CalPERS and see how they do going forward. She said that the reduced discount rate mentioned by Mr. Pegueros that may be considered by CalPERS, 6.5%, is still a very aggressive return assumption. Mr. Pegueros said he does not see the unfunded pension liabilities going down and, in fact, they could go up considerably, depending on what happens at CalPERS. He said he does not want to represent the possibility of funding the

unfunded pension liability as being “we pay of the million dollars and everything is good”. He said that in reality we will probably get another million dollar bill even if we fully funded today.

Mr. Pegueros continued with his presentation, moving on to Retiree Medical Liability. [8:49 p.m.]

Councilmember Wengert asked if the unfunded liability amount had ever been calculated in the past. Mr. Pegueros said that the Town was were required to calculate it beginning fiscal year ending 2009 and the auditors had made a note that we weren't doing it. He said, however, that they considered it immaterial because we only had one retiree. Now we have four retirees and the liability became of increasing importance to the auditors therefore the actuarial valuation was critical for the fiscal year ended June 30, 2014. Mr. Pegueros said that given the Town's contract with CalPERS for medical, however, it is the number of employees, not the number of retirees that drives the liability amount.

Mr. Pegueros said that if the Town Council wants to know more about how the Town might plan for these unfunded liabilities, the recommendation is to send this issue to the Finance Committee or analysis and recommendations. Mr. Pegueros said that because this would be a huge burden on the Finance Committee and staff to conduct a thorough analysis, he would like direction from the Council. The other option, if the Council is acceptive, is setting the unfunded pension as an assigned fund in the General Fund, leaving that as is, and letting the retiree medical piece grow over time.

Councilmember Wengert said because she is uncomfortable with a situation where dollars are being spent when there may be other alternatives to stop negative leverage, she would encourage the Council to explore options with regard to pension liabilities and believes the Finance Committee is very good with that. With regard to the Medical side, because we are in a strong position and not suffering from the same negative leverage situation, Councilmember Wengert said she would not turn the Medical portion of it over to the Finance Committee at this point. She said she has a lot of confidence in the Finance Committee and would encourage the Council to send the Pension part of the issue to the Finance Committee.

Councilmember Richards agreed and said we need to have real clarity. He favors the Pension aspect going to the Finance Committee for review.

Vice Mayor Derwin concurred with Councilmembers Wengert and Richards and asked if there would be a timeline for the project. Mr. Pegueros said if the Council decides to transfer the money to CalPERS; it is in our best interest to do that before June 30 of any year but did not know if it could be thoroughly analyzed before June 30, 2015. Mr. Pegueros said he ran some of the discussion points by the Committee Chair and some consideration of the issue has already started. Councilmember Wengert, who is the Finance Committee Liaison, said the Finance Committee was very financially savvy and willing to dig in and help with research so it does not fall entirely on Town Staff, and they may be able to meet the June 30, 2015, deadline.

The Council directed Town Staff to send the Pension Liability issue to the Finance Committee for review and analysis.

(3) *Report by Town Manager – Update on Budget Goals and Priorities.* [9:03 p.m.]

Mr. Pegueros presented.

Councilmember Richards said that Item #14 under Community Services & Engagement (*Working with the Town Council and Committee members to identify new areas that enable Town Residents to make a contribution that keeps Town staff small and contains costs*), is a very high priority and he is happy to see it is ongoing.

Councilmember Richards said, with regard to Item 15(c) (*Digitize parcel files*) he'd like to keep in mind digitizing part of the permit process as well. Mr. Pegueros said he would like to see permit applications to be submitted electronically but there has been concern about introducing viruses to the network. Mr. Pegueros said Staff is working to get the core system (digitizing the files and putting them into a database) in place and will then look at digitizing the process.

Councilmember Richards would like to see Emergency Preparedness, Objective 3, Item 29 (*Identify emergency water supplies for the Town in the event of a catastrophic situation*) pushed up on the list. Mr. Pegueros said the Fire District is looking at mobile water purification systems that can use water from pools and different water sources in town if needed. Mr. Pegueros said another discussion was the possibility of an emergency well on campus but there were a lot of risks related to that as well as a potential contradictory message to Town residents.

Councilmember Richards said Item 31 (*Manage sport field irrigation and maintenance to optimize water resources*) is listed as cancelled and he thought it was on hold. Mr. Pegueros said it is cancelled for this fiscal year, temporarily. Mr. Pegueros clarified that this is the organic biological management of the fields. He said "cancelled" is not correct. Mr. Pegueros said we have significantly reduced irrigation on all fields and do not expect to have a repeat of what happened to the soccer field last summer.

Councilmember Wengert asked regarding Item #12 (*Alpine Road trail reconstruction*). She said she is not comfortable with "waiting for a response" and would encourage Staff to prioritize that one, if possible. Mr. Pegueros said the constraining factor there is the budget process of MROSD, which should be close to completion. Mr. Pegueros said the challenge will be if MROSD decides not to move forward.

Councilmember Wengert thanked the Staff for the update, and said it was a great tool, but said that it was a little difficult to tell what how the items were prioritized. As a next step, Councilmember Wengert suggested the items be prioritized in a more global sense, if possible. She noted that the Planning Commission didn't seem to be particularly active this year and she's seen a lot of cancelled meetings, although there were some initiatives that were put on the docket. She would encourage a revisiting of the Planning priorities to ensure that things haven't slipped off or perhaps were just subsumed by other projects that required quicker response time. She said Open Space Acquisition Category would fall into that category and possibly Ground Water Management.

Vice Mayor Derwin said she didn't see the sound system for the community hall on the update and asked if they were still working on it. Mr. Pegueros said they are working on it. Staff is looking at options.

Vice Mayor Derwin asked why it has taken so long to relocate the Town Engineer. Mr. Pegueros said they have to order new furniture for the office.

(E) Council Liaison Reports on Regional Agencies and Organizations [9:19 p.m.]

- (1) Councilmember Wengert - None
- (2) Councilmember Richards - None
- (3) Vice Mayor Derwin attended C/CAG and Friends of Library.

Mr. Pegueros explained the process for dispersing the donor city funds. Town staff is brought into the process early. After a lot of negotiation, a budget of \$50,000 of donor city fund monies was included in the 2013-14 budget. The JPA Board is who actually authorizes the disbursement of donor city funds, but they defer to the decisions made by the subject city. When this project was adopted as part of the budget, the board took that as the Town supporting the project and made the inclusion in their budget. The Library staff is now moving through the process of design.

V WRITTEN COMMUNICATIONS [9:32 p.m.]

- (1) Town Council Digest: February 13, 2015

#6 – Email from resident Danna Breen re: Alpine Road Retaining Wall Project. Mr. Pegueros said ASCC had been asked for their initial feedback. Mr. Young is taking that feedback through to the design and are looking at doing as much as possible to provide for the approved improvement but also the aesthetics. Since then, the Conservation Committee has also asked to be included in the project. Councilmember Richards said that is because there was some discussion of landscaping. Councilmember Wengert asked if we had enough time in our schedule. Mr. Pegueros said Mr. Young was moving forward. Mr. Pegueros said the next step is to have a preliminary design to present.

- (2) Town Council Digest: February 20, 2015

#4 – Email from resident Tina Nguyen re: Article from the Palo Alto Weekly – Request for Support of City of Palo Alto Noise Abatement Efforts. Vice Mayor Derwin asked if Mr. Pegueros got an update from Mr. Young's talk with Palo Alto. Mr. Pegueros said Palo Alto staff is still forming it up the next steps and as soon as they know where they are going, he will report back to the Council.

VI ADJOURNMENT [9:37 p.m.]

Vice Mayor Derwin adjourned the meeting in the memory of Mayor Aalfs mother, Kathleen Aalfs, who died on February 13, 2015.

Mayor

Town Clerk