

Final Finance and Investment Committee Meeting

Members Present Allan Epstein, Susan Mason, Stan Mok, Chris Nam, Medha Rishi, Roddy Sloss.

Members Absent Cheryl Evans, Chris Welborn, Bill Silver (resigned prior to the meeting).

Associate Members Present Jim Lai, Kjell Karlson. **Associate Member Absent** Frank Lloyd.

Council Present Michelle Wu, Mayor. Kavita Tankha, Vice Mayor.

Staff Present Carl Cahill, City Manager. Sarina Revillar, Administrative Services Dir. Zach Dahl, Planning Dir.

Guests Present none

Public Present Anand Ranganathan and Jay Sutaria Resident.

Mr. Sloss, Chairman, called the meeting to order at 4:04 pm. **Approval of minutes - Medha Nicky Rishi.** The February 3, 2020 meeting minutes were approved by members in attendance.

Agenda Items

1. **Resignation of Bill Silver** Roddy Sloss informed the Committee of Mr. Silver's resignation.
2. **Planning and Building Fees follow-up presentation:** Zach Dahl, Planning Director.
Report on Cost of Services (User Fee) Study.
 - a. Based on the comments received from the Committee at its February 3, 2020 meeting, Mr. Dahl presented an updated report. The report analyzed the three department activities: Building, Engineering, and Planning. Utilizing a method of comparing actual 18/19 revenue with projected 19/20 budgeted costs the report concludes that overall, the town is under-recovering its total fee related costs by \$566K (73% recovery rate). Potential for improvements were mentioned:
 - i. The cost recovery rate for each department varies and compared with Matrix's benchmarks, Building (74%) is below the 80-100% range. Other departments fall within Matrix's benchmark ranges.
 - ii. User fees are going up to cover the cost of doing business.
 - iii. Staff recommends the Town continue to subsidize building permits for furnaces, gas lines and water heaters to minimize risks from unpermitted work. Propose fees increase from \$69 to \$82 consistent with the change at CPI.
 - iv. Proposed planning fees are unchanged but an additional fee was added to provide for minor administrative reviews for basic zoning compliance at \$1500.
 - v. A no charge dead Oak tree removal permit was added.
 - b. A new section of the presentation compared Town fees for two different sized single family homes with those in other jurisdictions. Mr. Dahl emphasized that proportionally, the Town is consistent with how other jurisdictions apply fees and noted that the average construction valuation will likely increase since the Town is no longer capping the dollar per square foot rate. This increased valuation will likely result in building department cost recovery being closer to the 100% target.
 - c. Mayor Wu asked why the Town of Atherton was not included in the fee comparison chart, Mr. Dahl clarified that local jurisdictions were selected because of their similar foothills topography, but agreed to look into this comparison further.
 - d. Mr. Mok inquired as to why Los Altos permit fees for a comparable house were lower than the Town's. Mr. Dahl explained that the key difference is the valuation methodology the Town uses

and the fact that Los Altos has commercial, multi-family and residential development and can recover costs differently with each class.

- e. Mr. Epstein inquired about methodology of the single family home valuation permit methodology and the electrical portion being identified separately; why utility deposits were such large amounts and why Early Electrical Meter Release increased from \$20k in last month's presentation to \$40k.
 - i. Mr. Dahl clarified that other jurisdictions have separate permit and electrical fees while the Town does not, but for comparison purposes to other jurisdictions, the Town fee was split. Mr. Dahl also clarified that early meter releases are not allowed, but due to substantial delays with PG&E, builders can occupy them provided they pay a large deposit to ensure completion. The choice of the \$40K number is with a component of arbitrariness.
 - Mr. Epstein was curious as to why these deposits were never on an approved fee schedule for Council, and the reason was because nothing in code required this.
 - ii. Mr. Epstein inquired about how departmental and Town wide overhead allocation was divided in the Planning Department between public related and private activities. He also asked why the overall cost recovery in the January report was 97% while this report showed 73%, and why the total value of fees and costs in today's report show three to four times January's report.
 - Mr. Dahl clarified that this fee study did not address the overhead allocation, but it would be addressed in the upcoming Budget. The fully burdened rate includes departmental allocations. He said the breakdown will be sent to Mr. Epstein separately for review.
 - With regards to the cost recovery reduction from 97% to 73%, Mr. Dahl clarified that the prior numbers did not factor in building costs, and that was purely to permit processing costs minus departmental overhead. The numbers were changed to align with the Town operating budget.
- f. Ms. Tankha inquired if there are some fees in which we are overcharging, and how long it takes to refund deposits after conditions are cleared.
 - i. Mr. Dahl clarified that we are doing regular studies to ensure that there is no over-charging as per the law. Mr. Cahill stated refunds were granted within 30 days of final occupancy and balances were cleared.
- g. Mr. Sloss inquired about the percent of costs incurred that are not recoverable. Mr. Dahl responded that building operations are all recoverable, but that some specific permits or activities do end up being subsidized.
 - i. Mr. Sloss further stated that the 74% cost recovery level for building fees is out of line with our experience and expectations, and if we can perhaps find a model to help better understand. It would be also advisable to showcase FY'18-19 revenue vs. cost as a comparative model.
 - ii. Most fees are collected in one period and work is incurred in another, which creates a disparity. Accounting principles require that we recognize fee revenue in the same period and hence, Maze as the accountant may come back with this.
 - Mr. Dahl confirmed that for Planning the restructuring of fees will get collection and expenditure closer. Currently we have a planning application with deposits

that go through the entire project timeline, but with the proposed deposit program, these deposits will be broken up to better align with services provided.

The Committee voted unanimously to approve the User Study recommendations. Refer to Ballot Sheet supplemental attachment for further comments and reservations by members.

3. **Report on Finance Matters of Interest:** presented by Carl Cahill, City Manager.
 - a. Remaining unanswered questions on the 2018-19 CAFR would be presented at the next FIC meeting.

Mr. Sloss commented on the remedial steps being taken as a result of Maze material weakness findings, and his expectation that the Staff's plan would contain more detailed steps and a timeline.

Report on Recent Activity:

4. **Mayor Wu:** inquired about any requirement to replace Bill Silver, to which Mr. Sloss stated the Committee has varied in size over the years and that the position could be filled at the Council's discretion.
5. **Vice Mayor Tankha:** referred to the upcoming changes in ADU permitting due to the change in state law and possible future changes to fee structure for ADU's.

Future Meeting Topics

6. **CAFR, Pensions and OPEB**
 - a. Mr. Sloss suggested the next meeting contain follow-up on outstanding CAFR issues, and whether to make further pension liability prepayments and if so how much, and to whom.
 - i. Ms. Revillar mentioned that she had met with the CalPER actuarial team at a recent meeting and reviewed all three plans. Town's miscellaneous group is 84% funded, their advice is to not go beyond 90% funding. In order to get there, the Town needs an additional \$900K. Current PARS pension plan contains approximately \$500K.
 - b. Next OPEB actuarial report is due within two months.
 - c. Mr. Sloss inquired if the Town was being reimbursed for the direct payments made in January to retirees for healthcare benefits. Mr. Cahill clarified that the Town will request reimbursement from the fund, so the Town will receive a \$60k reimbursement.
7. **Next meeting date** was proposed to be the regular meeting in April with the topics of: CAFR (Carl), Pensions (Mr. Sloss), and Base Budget (Ms. Revillar).

Other Matters: None

Adjournment At approximately 5:22 pm, there were no further matters to be discussed and the meeting adjourned.

Respectfully submitted: Medha Nicky Rishi, Committee Secretary