

**MINUTES  
REGULAR CITY COUNCIL MEETING  
MONDAY, MARCH 9, 2009**

Mayor Krolik called the regular meeting to order at 6:01 p.m. at the Hillsborough Town Hall, 1600 Floribunda Avenue, Hillsborough, California.

**ROLL CALL:** Present: Benton, Fannon, Regan, Kasten, Krolik

**MINUTES:** The minutes of the February 9, 2009 City Council meeting were approved as submitted.

**PRESENTATIONS:**

- Mayor Krolik presented Citizens Communications Advisory Committee Chair / Committee Member, Diana Witzel, who served as a Committee Member from June 1994 through December 2008 and as Chair from January 1997 through December 2008, with a Certificate of Appreciation

**CONSENT CALENDAR:**

Item 1 was removed for discussion. On motion of Councilmember Fannon, seconded by Councilmember Regan, and unanimous on voice vote, Consent Calendar items 2 through 9 were approved.

1. MONTHLY CLAIMS: FEBRUARY 1 THROUGH FEBRUARY 28, 2009

Vice Mayor Kasten stated that in the Monthly Claims Listing for February 2009, check #37231 for \$134,525.48 showed payment to the City of Burlingame for sewer and library services and Fire dental and vision premiums. Vice Mayor Kasten asked staff to separate each major expense with the dollar amount in the check description when expenses are combined into a single check.

On motion of Vice Mayor Kasten, seconded by Councilmember Fannon, and unanimous on voice vote, the monthly claims for the month of February 2009 in the amount of \$2,466,144.55 were approved as submitted.

2. RESOLUTION ENDORSING THE SAN MATEO COUNTY ENERGY STRATEGY

The resolution endorsing the San Mateo County Energy Strategy was adopted.

3. RECONSTRUCTION OF A NONCONFORMING GARAGE - 417 ROEHAMPTON ROAD

The proposed garage reconstruction at 417 Roehampton Road on the findings that the garage exception will allow the replacement of a deteriorated garage with a sound, properly designed and constructed garage, and that granting the exception will not be materially detrimental to the public health, safety or welfare, or injurious to other property in the Town, was approved.

4. GREEN BUILDING ORDINANCE - INTRODUCTION

The Green Building ordinance was introduced and the first reading was waived. April 13, 2009, was set as the public hearing date to consider adoption of the ordinance.

5. RESOLUTION ALLOCATING FUNDS FOR THE REPAIR OF THE SHINGLED PORTION OF THE ROOF AT 1640 FLORIBUNDA AVENUE IN AN AMOUNT NOT TO EXCEED \$20,000

The resolution allocating funds for the repair of the shingled portion of the roof at 1640 Floribunda Avenue in an amount not to exceed \$20,000 was adopted.

6. RESOLUTION ALLOCATING FUNDS FOR THE INSTALLATION OF AN EMERGENCY INTERTIE METER AT CHESTER WAY AND BROMFIELD ROAD IN THE AMOUNT OF \$16,830.22

The resolution allocating funds for the installation of an emergency intertie meter at Chester Way and Bromfield Road in the amount of \$16,830.22 was adopted.

7. RESOLUTION APPROVING AN AGREEMENT FOR THE DISTRIBUTION OF SAN MATEO COUNTY MEASURE A FUNDS FOR LOCAL TRANSPORTATION PURPOSES IN ACCORDANCE WITH 2004 MEASURE A, EFFECTIVE JANUARY 1, 2009

The resolution approving the Agreement for Distribution of San Mateo County Measure A Funds for Local Transportation Purposes in accordance with 2004 Measure A, effective January 1, 2009, was adopted.

8. RESOLUTION OF LOCAL SUPPORT FOR THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009

The resolution of local support for the American Recovery and Reinvestment Act of 2009 was adopted.

9. RESOLUTION APPROVING THE CONTRACT WITH CYBERNET CONSULTING ENGINEERS FOR PROFESSIONAL ENGINEERING SERVICES FOR THE SCADA SYSTEM UPGRADE PROJECT – BID ASSISTANCE

The resolution approving the contract with Cybernet Consulting Engineers for the SCADA System Upgrade Project – Bid Assistance, in an amount not to exceed \$28,700, was adopted.

**PUBLIC HEARING:**

10. FUNDRAISING EVENT PERMIT APPLICATION 09-02 FOR THE COMMUNITY SERVICE LEAGUE KITCHEN TOUR

City Clerk Miyuki Yokoyama stated that the Community Service League submitted a fundraising application for their annual Kitchen Tour on Friday, May 15, 2009, from 10:00 a.m. to 3:00 p.m. at 263 West Santa Inez Avenue, 2510 Skyfarm Drive, 2045 Forest View Avenue, and 103 Bella Vista Drive.

Ms. Yokoyama stated that public notices have been sent to homeowners located within a 500-foot radius of the four locations and no comments have been received. She added that staff recommends approval of the application subject to the conditions of the Fire, Police and Building Departments.

Mayor Krolik opened the public hearing. There were no comments. The public hearing was closed.

On motion of Councilmember Benton, seconded by Vice Mayor Kasten, and unanimous on voice vote, Fundraising Event Permit Application 09-02 for the Community Service League Kitchen Tour on Friday, May 15, 2009, was approved subject to the conditions recommended by staff.

11. REVIEW AND CONSIDERATION OF THE 2008 GENERAL PLAN IMPLEMENTATION REPORT

Director of Building and Planning Liz Cullinan provided a Power Point presentation on the 2008 General Plan Implementation Report. She stated that California Government Code Section 65400 requires that all cities and counties investigate and make recommendations to the legislative body for implementing the General Plan, and submit to their legislative bodies, the Governor's Office of Planning and Research

(OPR) and the Department of Housing and Community Development (HCD), an annual report on the status of the General Plan (including the Housing Element) and progress in its implementation. She stated that the Draft 2009 Housing Element was submitted to the State in January 2009, and is anticipated to be submitted to the City Council in May 2009. She added that new State law requires that the report be subject to a public hearing.

Ms. Cullinan explained that Agency-Initiated Planning Activities of the 2008 General Plan Implementation Report included facilitating the preparation of the Draft Housing Element, facilitating the preparation of a Permit Streamlining Ordinance, including relaxation of second unit processing standards, and participating in Sustainable Hillsborough and Green Building Ordinance preparation efforts.

Ms. Cullinan reported that key highlights of the 2008 General Plan Implementation Report included permits for 36 new units issued in 2007 and 2008, 27 of which were for second units, participation in sub-regional efforts, and participation in Housing Endowment and Regional Trust (HEART), HIP (Human Investment Project, Inc.) Housing, and Samaritan House.

Vice Mayor Kasten asked Ms. Cullinan if Action C 2.1 of the General Plan Implementation Plan includes the annexation and improvements that will be implemented at the intersection of Black Mountain Road / Hayne Road / Skyline Boulevard. Ms. Cullinan replied that these future improvements would be acknowledged in next year's implementation report.

Mayor Krolik thanked Ms. Cullinan and the Housing Element Steering Committee.

Mayor Krolik opened the public hearing. There were no comments. The public hearing was closed.

On motion of Vice Mayor Kasten, seconded by Councilmember Fannon, and unanimous on voice vote, the 2008 General Plan Implementation Report was accepted.

12. APPROVAL OF THE TENTATIVE PARCEL MAP 09-01 FOR 851 SHARON AVENUE – STANLEY LO, GREEN BANKER LLC, APPLICANT

City Engineer Cyrus Kianpour provided a Power Point presentation on the Tentative Parcel Map for the subdivision of 851 Sharon Avenue into two lots. He stated that the applicant has submitted Tentative Parcel Map 09-01 to subdivide the 2.3-acre parcel of land into two parcels; the existing house will remain on a 1.7-acre parcel and a new 0.6-acre parcel will be created for a new house. He added that access to the two parcels will be from Sharon Avenue.

Mr. Kianpour stated that a dedication to the Town has been proposed with the application for a five-foot public utility easement, which is to be located on both sides of the proposed property lines subdividing the land. He stated that the heavy vegetation along Sharon Avenue will remain. He added that improvements proposed by this application include the construction of a new driveway for the proposed 1.7-acre parcel, reconfiguration of the existing driveway for the proposed 0.6-acre parcel, installation of a new sewer lateral and a new water service connection for the proposed 0.6-acre parcel, installation of a separate onsite drainage system for each proposed parcel, and a separate domestic water/irrigation meter system for each parcel.

Mr. Kianpour stated that staff has referenced the Hillsborough Municipal Code and the Subdivision Map Act in reviewing the application and has determined that the application is in conformance with the requirements of both documents. He added that the Town ordinance requires a public hearing prior to approval of the Tentative Parcel Map and appropriate public notices were mailed and posted.

Mr. Kianpour stated that City Attorney Norm Book recommended modification of Condition 3 of the conditions of approval to read “No further subdivision of the 1.7 acre parcel on the right/northern portion of the site is permitted, *which condition shall be a matter of public record so as to impart notice to subsequent property owners.*”

Mayor Krolik thanked Mr. Kianpour.

Mayor Krolik opened the public hearing. There were no comments. The public hearing was closed.

On motion of Councilmember Fannon, seconded by Vice Mayor Kasten, and unanimous on voice vote, Tentative Parcel Map 09-01 for 851 Sharon Avenue was approved, subject to the conditions as amended and recommended by staff.

### **OLD BUSINESS:**

#### 13. UPDATE ON REFUSE COLLECTION CONTRACTOR SELECTION PROCESS

Public Works Director Martha DeBry provided a Power Point presentation on the update on the refuse collection contractor selection process. She stated that the City Council Subcommittee discussed the options of an independent request for proposal process, and opted to contact the South Bayside Waste Management Authority (SBWMA) recommended vendor, Norcal, and that staff met with Norcal.

Ms. DeBry reviewed the Norcal options, including the variables affecting price, which included the days of service, number of side/rear yard customers, level of service, and truck specification. She stated that in interpreting the costs, the costs are relative to the 2008 overall revenue requirement for collection and that rate increases adopted in 2009 or 2010 (potential) may yield more revenue than the 2008 revenue requirement. She explained that the projected revenue requirement for 2008 was \$2,094,000 and \$2,307,000 for 2009. Ms. DeBry added that the rates are set for a \$200,000 shortfall.

Ms. DeBry explained that Hillsborough currently receives five days of service throughout the Town, and the Request for Proposal (RFP) included the fewest days of service. She stated that there would be approximately a 3% cost difference for five days vs. three days of service.

Ms. DeBry stated that the number of side/rear yard customers is currently 25% or 1,000 residences, and that the RFP anticipates the percentage dropping to 17% or 600 residences. She stated that an update to the time analysis for side/rear yard service will be completed in late Summer 2009 to evaluate pricing for rear/side yard service and to confirm the cost.

Ms. DeBry stated that weekly service for recyclables and green waste (with food scraps) would add about 15% to the cost and that retaining the current level of biweekly service for recyclables and green waste reduces costs.

Ms. DeBry stated that the RFP included the cost for new trucks at a cost of about \$330,000 per truck and that over 9% of costs is associated with the purchase of the new trucks. She stated that as long as the level of service is maintained, she had no preference whether the trucks are purchased now or five years from now.

Ms. DeBry reviewed the four Norcal options for trash (weekly service), recyclables (weekly or biweekly service), green waste (weekly organics or biweekly service), trucks (new or not specified), and the cost difference for the options, which included a 22.03% increase for Option A, a 7% increase for Option B, and a 2.77% decrease with Option C.

Councilmember Regan pointed out that Option D was missing the cost difference information in the Power Point chart. Ms. DeBry replied that she did not have the

information from Norcal on the cost difference with Option D, but that she would provide that information to the City Council.

Ms. DeBry stated that the Town could consider weekly organic service, which accounts for a significant amount of the waste. She added that the cost is at a slightly higher rate, which would equal approximately a 4-5% increase, but would be quite doable with the rate structure. She stated that she could explore that option if the City Council decides to do so.

Ms. DeBry stated that the next steps are to take general direction from the City Council, continue discussions with Norcal, analyze the cost effect on rates, and to meet with the City Council Subcommittee

Vice Mayor Kasten asked Ms. DeBry if the organic green waste included food scraps. Ms. DeBry replied that the organic green waste did include food scraps and would account for 14% of the waste stream.

Mayor Krolik stated that weekly organic service should be offered and residents should be educated on the importance of separating green waste from the trash.

Councilmember Fannon asked Ms. DeBry if the Town is currently doing Option C, would the Town see an approximate 3% decrease in costs. Ms. DeBry replied that the Town would see an approximate 3% decrease from 2008 costs if the Town did Option C with Norcal.

Councilmember Benton stated that this was the first time he saw Option D, which includes the weekly organic service. He stated that residents want to hold the costs down, so it would be a cost-driven decision whether to stay with the bi-weekly green waste service. Ms. DeBry stated that 43% of the residents that participated in the recent refuse survey expressed interest in the weekly organic service. She added that green waste is a large contributor to greenhouse gas and that residents will need to be educated on green waste recycling, but there is a cost associated with it.

Mayor Krolik asked Ms. DeBry when Ox Mountain landfill is expected to close. Ms. DeBry replied that it is anticipated that Ox Mountain will be closing in 2028. She added that it was previously expected that Ox Mountain would close in 2014, but due to the increase in recycling, the landfill site will be open longer. Mayor Krolik pointed out that costs will increase significantly when Ox Mountain is filled.

Councilmember Fannon stated that the residents should be educated first on the need to recycle and then decide on service options.

Vice Mayor Kasten stated that there are eight cities that are not part of the SBWMA and asked Ms. DeBry if she reviewed their refuse contractor agreements. Ms. DeBry replied that Daly City and Millbrae have not been competitively bidding for the refuse contract as they are serviced by a different transfer station and that the SBWMA does not hold a lot of benefit for them. She added that Half Moon Bay refuse goes directly to the transfer station.

Vice Mayor Kasten stated that it would be helpful to have bullet points on why refuse rates are increasing. Ms. DeBry replied that she would provide bullet points to the City Council on why the refuse rates were increasing.

Mayor Krolik thanked Ms. DeBry for the update on the refuse collection contractor selection process.

14. RESOLUTION AUTHORIZING THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY (SBWMA) TO SELL BONDS IN AN AMOUNT NOT TO EXCEED \$65,455,000 TO FINANCE SHOREWAY MASTER PLAN IMPROVEMENTS

Public Works Director Martha DeBry provided a Power Point presentation on the SBWMA bonds and stated that the \$65,455,000 bond was needed to build a new Materials Recycling Facility, remodel and expand the Transfer Station, and acquire single stream sorting equipment. She explained that the current equipment being used is not suitable for single stream sorting. She stated that bids for improvements are due in April 2009, and that the SBWMA plans to retire the 2000 debt of \$13 million. Ms. DeBry stated that the proposed financing plan was reviewed by Josh Cooperman of the Financial Advisory Committee.

Ms. DeBry stated that when recycling increases by 9% or more, the anticipated benefit of a higher commodity volume, avoided trash tipping fees and improved operations will outweigh the cost of the bond. Councilmember Regan asked if it is possible that recycling will increase by 9%. Ms. DeBry replied that it was possible that recycling will increase by 9% and that it is projected that there would be a 30% increase in recyclable materials. She added that the commodity pricing could drop 14% to \$136/ton from the expected \$161/ton. Councilmember Regan asked if it would be difficult to get financing from the banks. Ms. DeBry replied that it should be possible to get financing from the banks.

Vice Mayor Kasten stated that the financing plan should be subject to the City Council's approval. Ms. DeBry replied that the financing would be subject to the City Council's approval of the final financing plan.

Vice Mayor Kasten stated he understood that the Master Plan Project bond would be \$119 million, the retrofit bond would be for \$42 million, and the total operational savings of the Master Plan would be \$180 million. He asked Ms. DeBry if there were any saving or benefits from the retrofit plan. Ms. DeBry replied that the retrofit plan would result in higher operating costs because of the need to operate two shifts.

The City Council discussed various financing options. Councilmember Benton stated that he spent three to four hours with the SBWMA and is comfortable that there is a need to finance the Shoreway Master Plan improvements. He added that the SBWMA should be able to get a bond for a reasonable price and that the SBWMA was looking at various options.

Ms. DeBry stated that the SBWMA is to present the Shoreway Master Plan by May 2009. She explained that the final plan of finance and total project funding needs will not be known until late April 2009, after the bid responses for the construction of the Master Plan improvements are received. She added that the City Council Subcommittee recommended that the City Council's approval be contingent on the final plan of finance being presented to the City Council for approval.

Mayor Krolik thanked Ms. DeBry.

On motion of Councilmember Fannon, seconded by Councilmember Regan, and unanimous on voice vote, the resolution authorizing the South Bayside Waste Management Authority to sell bonds in an amount not to exceed \$65,455,000 to finance the Shoreway Master Plan improvements was adopted, subject to the City Council's approval of the final financing plan.

15. RESOLUTION DIRECTING THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY (SBWMA) REPRESENTATIVE TO VOTE IN FAVOR OF SOUTH BAY RECYCLING RECEIVING THE AWARD OF THE OPERATIONS CONTRACT FOR THE SHOREWAY ENVIRONMENTAL FACILITY

Public Works Director Martha DeBry provided a Power Point presentation on the selection of the operator for the Shoreway Recycling and Disposal Center. She reviewed the operator responsibilities, which includes the operation of the Materials Recycling Facility (MRF) producing high quality commodities for sale and the transfer of the materials to landfill and recycling and composting facilities.

Ms. DeBry explained the Request for Proposal (RFP) process, where seven vendor responses were evaluated, South Bay and Hudson Baylor were short listed in July 2008, and the Selection committee recommended South Bay Recycling in February 2009. She stated that Hudson Baylor submitted the best MRF design and the highest commodity guarantee. She stated that South Bay Recycling had the lowest costs, has material marketing experience, and has more environmental enhancements.

Ms. DeBry stated that some of the outstanding issues include Hudson Baylor's ability to guarantee revenue and South Bay Recycling's compliance with regulatory issues and their explanation of cost increases. She stated that another issue is that the union is opposed to South Bay Recycling, as the union is claiming unfair labor practices elsewhere, and the teamsters will not sign off on a modified Memorandum of Understanding (MOU).

Ms. DeBry stated that member agencies have been asked to provide clear direction to its representatives on the appropriate selection process. She added that she is the Town's representative and Chair of the SBWMA.

Ms. DeBry recommended that the City Council delegate authority to the City Council Subcommittee, which will be provided with additional information from Hudson Baylor and South Bay Recycling prior to the SBWMA Board Meeting on March 26, 2009.

Councilmember Benton stated that there was not enough information provided to make a decision on how to give direction on voting for the award of the operations contract.

City Attorney Norm Book stated that it was questionable whether the City Council could delegate a matter of this significance to the Subcommittee.

Councilmember Regan asked Ms. DeBry how many agencies belong to the SBWMA. Ms. DeBry stated that there are twelve agencies in the SBWMA and that two-thirds majority, or eight agencies, must vote in favor of the award of the operations contract for it to proceed.

Councilmember Fannon asked who was serving on the City Council Subcommittee. Councilmember Regan replied that both he and Councilmember Benton were serving on the City Council Subcommittee to review refuse related issues.

Councilmember Regan stated that the contract is for approximately \$45 million annually for the next ten years. He asked Ms. DeBry if she thought it would be possible for eight agencies to vote in favor of the award to South Bay Recycling. Ms. DeBry replied that she thought it would be possible for eight agencies to vote in favor of South Bay Recycling receiving the award of the operations contract.

City Manager Tony Constantouros asked Ms. DeBry what would happen if the SBWMA does not make a decision this month. Ms. DeBry replied that if the SBWMA does not make a decision this month, they would reconsider it at the following meeting.

Councilmember Benton asked Ms. DeBry how San Mateo County voted. Ms. DeBry replied that the San Mateo County Board of Supervisors voted for Hudson Baylor. She added that both contractors were very qualified, but the SBWMA Selection Committee recommended South Bay Recycling because they offer an alternative that is \$1 million less costly on an annual basis than Hudson Baylor.

Vice Mayor Kasten stated that Hudson Baylor showed a 7.5% interest rate assumption and South Bay Recycling showed a 5.0% interest rate assumption for the facility equipment costs in the Proposer Cost Proposal Summary. Vice Mayor Kasten asked Ms. DeBry why there was a significant difference in interest rate assumptions. Ms. DeBry introduced Hilary Gans, Facility Operations Contract Manager for the SBWMA, to answer the question. Mr. Gans stated that he was not certain why there was a significant difference in the interest rate assumptions in the Proposer Cost Proposal

Summary in the SBWMA Selection Committee Report; however, it was likely due to Hudson Baylor's lack of familiarity with the California Integrated Waste Management's programs for financing equipment.

Councilmember Benton asked Mr. Gans what type of equipment was included in the facility equipment costs. Mr. Gans replied that the facility equipment costs include the rolling stock and sorting equipment.

Vice Mayor Kasten asked if any of the costs qualify for the stimulus plan. Kevin McCarthy, Executive Director of the SBWMA, replied that the SBWMA was seeking a grant for recyclables. He stated that the SBWMA would register as a vendor and send the appropriate request to Congresswoman Jackie Speier's office. Vice Mayor Kasten stated that the grant might reduce the size of the bond.

Mr. Constantourous stated that Ms. DeBry raised some questions and issues and stated that the City Council could hold off on making a decision until the next City Council meeting.

Councilmember Benton stated that he did not sense that a decision could be made this month on how to give direction on voting for the award of the operations contract.

Mayor Krolik asked Ms. DeBry what additional information would be available at the next City Council meeting. Ms. DeBry replied that she is waiting for information in writing from the vendors in regards to what cost changes are based on. She explained that there are thousands of hours on the RFP, but there are still many moving parts. She added that she can abstain from voting at the SBWMA Board Meeting on March 26, 2009.

Mayor Krolik asked if anyone from the public wished to speak.

Dan Domonoske of South Bay Recycling stated that South Bay Recycling will be holding an Open House to answer questions and discuss issues at the Belmont Holiday Inn on Thursday, March 12, 2009, from 5:30 p.m. to 7:00 p.m. He added that South Bay Recycling would support the union and comply with the collective bargaining agreement.

Councilmember Regan stated that the City Council may need to hold a Special Meeting to make a decision on how to give direction on voting for the award of the operations contract.

On motion of Councilmember Benton, seconded by Councilmember Fannon, and unanimous on voice vote, the City Council recommended holding a Special Meeting to give direction to the SBWMA representative on how she should vote in regards to South Bay Recycling receiving the award of the operations contract for the Shoreway Environmental Facility, or defer the decision to a future City Council meeting.

16. ACCEPTANCE OF THE STRATEGY TO PLACE THE TOWN OF HILLSBOROUGH'S INVESTMENT PORTFOLIO IN TREASURY BILLS

Finance Director Edna Masbad stated that the agenda item refers to the Town's investment strategy for its portfolio. She stated that the Town pools the cash accounts of all its funds, including the General, Water and Sewer Funds.

Ms. Masbad explained that as reported at the January 12, 2009 City Council meeting, of the \$46.6 million the Town had in the pool as of December 31, 2008, \$40 million of the regular funds and another \$3.3 million of the remaining bond proceeds were invested in Local Agency Investment Fund (LAIF) because it currently offers the best yield.

Ms. Masbad stated that the Financial Advisory Committee (FAC) at its meeting held on February 24, 2009, discussed the relative safety of the Town's portfolio. She added

that, specifically, the FAC is concerned about the State Pool's investments in AB55 and the State's General Fund (GF) loans.

Ms. Masbad explained that LAIF, which the Town invests in, is a voluntary program that offers local governments an investment alternative to participate in a major portfolio using the investment expertise of the State Treasurer's Office. She explained that it is part of the Pooled Money Investment Account (PMIA) administered by the Treasurer's Office. She added that the PMIA has three primary sources of funds: the State's General Fund, State Agencies' special funds and the LAIF funds (moneys voluntarily deposited by cities, counties and other districts).

Ms. Masbad reported that as of the end of January 2009, the PMIA account has \$61.5 billion with an average yield of 2.046% and an average investment life of 215 days. She added that of the \$61.5 billion, LAIF has \$24.8 billion or 40% belonging to approximately 2,700 participating agencies.

Ms. Masbad stated that the concern raised by the FAC stems from the PMIA investments in AB55 and GF loans and referred to pages 256 and 257 of the agenda packet, where she noted that as of December 31, 2008, out of the \$63.6 billion portfolio of the PMIA, one-third (\$21.3 billion) is invested in AB55 and GF loans. She stated that back on November 30, 2007, the investments in those instruments were only \$10.2 billion. She added that investments in AB55 and GF loans rose from 17% to 33% in the last thirteen months.

Ms. Masbad stated that page 263 of the agenda packet includes information and comments about the AB55 loans. She explained that AB55 loans are lines of credit extended by the PMIA to State agencies or departments to provide funds for startup costs or progress payments on authorized bond projects, and that all lines of credit are granted for a period of 364 days. She stated that since the program started more than twenty years ago, PMIA has been able to facilitate AB55 loans and still provide sufficient liquidity for all PMIA participants. Ms. Masbad stated, however, that because of the increased utilization of the program, which one can safely guess is a result of the State's financial condition, the PMIA Board on December 17, 2008, limited the further servicing of the program citing that their primary responsibility is to provide appropriate ongoing liquidity to all pool participants.

Ms. Masbad explained that in response to the questions posed to LAIF and the Treasurer's Office, staff was advised that LAIF monies are protected by statute as fully discussed on pages 261 and 262 of the agenda packet, and that, specifically, the Treasurer declares that the LAIF monies are voluntarily commingled within the PMIA. She added that the State's fiscal crisis has an impact on the PMIA, but only to the extent of determining the pro rata participation of the State in the commingled funds. She explained that if the cash reserves of the State of California are exhausted, then the participation by the State's General Fund in the PMIA is zero. She added that the Treasurer further declares that there is no correlation between the State's cash reserves and LAIF.

Ms. Masbad pointed out that on page 262 of the agenda packet, the Treasurer specifically said that California Government Code 16429.3 states that LAIF deposits shall not be subject to either a) transfer or loan pursuant to Sections 16310, 16312, or 16313 (AB55 loans are those authorized pursuant to 16312), or b) impoundment or seizure by any State official or State agency.

Ms. Masbad stated to further illustrate the declarations, that the PMIA official said that if on December 31, 2008, PMIA has \$61.5 billion and out of that amount, LAIF had \$24.8 billion, \$36.7 billion would be included in the State's General Fund and other State agencies. She explained that only this latter portion can be utilized to do the AB55 loans; hence, when the AB55 loans reached \$21.3 billion, PMIA decided to significantly restrict further servicing of AB55 loans as further investments could encroach on the prudent level of liquidity for PMIA participants.

Ms. Masbad stated that the FAC's concern about the security of the Town's funds remains because all the funds are commingled. She reported that at their last meeting, the FAC passed a resolution to recommend to the City Council that in the current financial market and with their focus on safety, the Town's investment objectives will be better achieved by investing in treasury bills considered as more secured investment vehicles.

Ms. Masbad explained that there will, however, be a major fiscal impact for this change of strategy. She stated from the latest information available, 13-week treasuries currently pay .27%, and 26-week treasuries are paying around .4%, and that longer maturities are not paying much more. She stated that as indicated in the agenda report, the latest yield from LAIF was 2.35%. She added that the current information available today reveals that LAIF is paying 1.869% and the treasuries pay .24%. She explained that on \$40 million, the lost revenues are still approximately \$650,000, instead of the \$780,000 to \$830,000 stated in the agenda summary using the last quarter's yield the Town got from LAIF. She stated that about one-third of the lost revenue or \$215,000 would be from the General Fund, and that adding that to our previous projected shortfall of \$750,000 for fiscal year 2009/2010, or \$1.5 million if the OPEB funding is taken into account, the Town would be in a worse position than it was from the presentation made to the City Council in January 2009.

Ms. Masbad stated that Mr. John Lockton, who is the FAC Chair, was available to answer questions that the City Council might have of the FAC and that she will also be happy to answer any questions.

Vice Mayor Kasten asked what the term would be on the treasury bills. Ms. Masbad replied that she plans on mixing the terms of the treasury bills. Vice Mayor Kasten asked Ms. Masbad if she would go for terms longer than six months. Ms. Masbad replied that she was looking at treasury bills with a maturity of one to three years. Councilmember Regan stated that two-year treasury bills were earning 1.12% and five-year treasury bills were earning 1.88%, but that five years was too long a term.

Councilmember Regan asked if AB55 is not invested in LAIF money. City Attorney Norm Book replied that on page 258 of the agenda packet Bill Lockyer's program description on PMIA states that LAIF does not invest in AB55.

Mr. Lockton stated that really the question is trust and that the Chief Information Officer of the State's pooled fund has not given the FAC much confidence. He stated that the Town's investment goal is safety, liquidity, and return. Mr. Lockton read verbatim the response that he received from the LAIF official when asked about their investments. He stated that after asking questions to the LAIF official, the FAC was concerned about the great risk to the Town's investments.

Councilmember Regan stated that the funds need to be withdrawn from LAIF and that the FAC should look at the Town's investment policy in regards to shorter term investments, like two-year maturities rather than five-year maturities.

Councilmember Fannon stated that a lot of good reasons have been brought up to withdraw the Town's investment in LAIF.

Vice Mayor Kasten stated that he thought the FAC was right in that safety is number one for the Town's investment. He stated that he was concerned about the funds in LAIF, if LAIF is not forthcoming to questions asked by the FAC. He asked Ms. Masbad if there were other options besides treasury bills. Ms. Masbad replied that she was looking into interest bearing accounts as there were a number of vehicles available.

The City Council discussed various investment options.

City Manager Tony Constantouros asked if there was any benefit to leaving some funds in LAIF. Councilmember Regan replied that LAIF works well as a money market

fund for short-term cash needs. Councilmember Fannon stated that the Town should be concerned about safety first and should get out of LAIF completely.

Councilmember Regan stated that a FAC meeting should be held as soon as possible. He stated that the loss of \$800,000 from investment earnings on the \$40 million invested in LAIF is very important to the Town, but that he wanted to minimize the Town's loss. He added that safety was first and yield second in importance.

Mayor Krolik thanked Ms. Masbad and Mr. Lockton.

Mayor Krolik made the motion, which was seconded by Councilmember Fannon, to accept the investment strategy to place the Town's investment portfolio in treasury bills.

Councilmember Regan stated that the FAC should review the Town's investment policy and invest the Town's funds in accordance with the investment policy.

Councilmember Benton stated that he did not want to restrict investing the proceeds in treasury bills. City Attorney Book stated that the FAC could be directed to invest the proceeds within the investment policy guidelines.

The motion made by Mayor Krolik and seconded by Councilmember Fannon was withdrawn.

On motion of Councilmember Regan, seconded by Councilmember Fannon, and unanimous on voice vote, the FAC recommendation to withdraw the Town's investment in LAIF was approved and the Finance Director and FAC were directed to invest the funds in accordance with the Town's investment policy.

**PUBLIC COMMENT:**

There were no public comments.

**CITY COUNCIL ITEMS:**

Mayor Krolik announced a letter received from Central County Fire Department Firefighter Herman Barahona thanking the Town for helping out with the 2008 Toys for Tots Holiday Toy Drive.

Mayor Krolik announced a letter and Certificate of Appreciation received from Second Harvest Food Bank for the Town's participation in their 2008 Holiday Food & Fund Drive.

Mayor Krolik announced that the NIMS/ICS Training for the Councilmembers will be held on Tuesday, March 10, 2009, from 6:30 p.m. to 8:30 p.m. at the Burlingame Corporation Yard.

Mayor Krolik announced that the San Mateo County Children's Receiving Home Open House will be held in San Mateo on Wednesday, March 11, 2009, from 2:30 p.m. to 5:00 p.m.

Mayor Krolik announced that the South Bay Recycling Open House will be held at the Belmont Holiday Inn on Thursday, March 12, 2009, at 5:30 p.m. to 7:00 p.m.

Mayor Krolik announced that the Peninsula Family YMCA Heroes Breakfast will be held at the Foster City Crowne Plaza on Friday, March 13, 2009, from 7:30 a.m. to 9:00 a.m.

Mayor Krolik announced that the Employee Luncheon will be held on Tuesday, March 17, 2009, from 12:00 p.m. to 1:30 p.m.

Mayor Krolik announced that the San Mateo County Women's Hall of Fame Dinner will be held on Friday, March 20, 2009.

Mayor Krolik announced that the final Solar Workshop will be held on Saturday, March 21, 2009, from 12:00 p.m. to 1:30 p.m. at Town Hall.

Mayor Krolik announced that the Council of Cities Dinner/Meeting will be held in San Mateo on Friday, March 27, 2009, and Mayor Krolik and Councilmember Benton stated that they would be attending. Vice Mayor Kasten stated that he would not be able to attend. Councilmember Fannon and Councilmember Regan stated that they may be attending.

Mayor Krolik announced that the ABAG Spring General Assembly will be held at the Palace Hotel in San Francisco on Thursday, April 23, 2009, and that she would be attending.

Mayor Krolik announced that the San Mateo County Grand Jury is looking for citizens to serve on the Grand Jury.

Mayor Krolik thanked the Police Department for their outreach to Crocker Middle School students for dealing with the recent teen suicides.

Mayor Krolik announced that Police Lieutenant Caroline Serrato and Chief Building Official John Mullins both celebrated birthdays recently.

**ADJOURN:**

Mayor Krolik adjourned the meeting at 8:26 p.m.