

**MINUTES**  
**REGULAR CITY COUNCIL MEETING**  
**MONDAY, JULY 13, 2009**

Mayor Krolik called the regular meeting to order at 6:02 p.m. at the Hillsborough Town Hall, 1600 Floribunda Avenue, Hillsborough, California.

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

Mayor Krolik announced that during the Closed Session of the City Council, prior to the public meeting, the City Council approved a settlement with San Francisco Baykeeper that had been negotiated by the Town's attorneys. She reported that the settlement requires that Hillsborough undertake certain measures to reduce spills from the sanitary sewer system, make periodic reports, and pay attorney and monitoring fees. She stated that the vote of the City Council was 5-0 in favor of approving the settlement.

**MINUTES:** The minutes of the June 8, 2009 City Council meeting were approved as submitted.

**PRESENTATION:**

- Councilmember Fannon presented Charlie Barnett, who served as a member of the Architecture and Design Review Board from July 2006 through May 2009, and as a member of the Sustainable Hillsborough Task Force from March 2008 through May 2009, with a Certificate of Appreciation. Councilmember Regan thanked Mr. Barnett for his contributions and insights while serving on the Sustainable Hillsborough Task Force.

**CONSENT CALENDAR:**

Item 4 was removed for discussion by a member of the public, Steve Rosenthal. On motion of Councilmember Fannon, seconded by Vice Mayor Kasten, and unanimous on voice vote, Consent Calendar items 1 - 3 and 5 - 10 were approved.

1. MONTHLY CLAIMS: JUNE 1 THROUGH JUNE 30, 2009

The monthly claims for the month of June 2009 in the amount of \$2,197,558.71 were approved as submitted.

2. QUARTERLY TREASURER'S REPORT

The Treasurer's Report for the quarter ending June 30, 2009, was approved.

3. QUARTERLY INTEREST RATE PRODUCTS (SWAP) REPORT

The Interest Rate Products Report for the quarter ending June 30, 2009, was accepted.

4. REJECTION OF CLAIM: MRS. MARILYN OBERTI, 30 WARM CANYON WAY

Steve Rosenthal stated that his client is a senior citizen, who thinks that litigation is a nasty thing and that she does not want to sue the Town, but that Mrs. Oberti has a valid claim for \$100,000 in damages from a sewage back up. He stated that he presented a letter to the Town and he understands has not yet been reviewed by the City Attorney. He added that it will cost the Town more to litigate the claim than to negotiate a settlement. He asked the City Council not to reject the claim.

On motion of Vice Mayor Kasten, seconded by Councilmember Fannon, and unanimous on voice vote, the claim filed by Mrs. Marilyn Oberti of 30 Warm Canyon Way was rejected.

5. RECONSTRUCTION OF A NONCONFORMING GARAGE – 417 ROEHAMPTON ROAD

Based on the findings that the garage exception will allow the replacement of a deteriorated garage located at 417 Roehampton Road 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, for the reasons outlined in the report, the proposed garage reconstruction was approved.

6. ORDINANCE ADDING CHAPTER 15.21 TO THE HILLSBOROUGH MUNICIPAL CODE ADOPTING THE INTERNATIONAL WILDLAND-URBAN INTERFACE CODE, 2006 EDITION, AS AMENDED - INTRODUCTION

The ordinance adding Chapter 15.21 to the Hillsborough Municipal Code adopting the International Wildland-Urban Interface Code, 2006 edition, as amended, was introduced and the first reading was waived. August 10, 2009, was set as the public hearing date to consider adoption of the ordinance.

7. RESOLUTION AWARDED THE BID TO SAN FRANCISCO FORD FOR THE PURCHASE OF A 2009 FORD SUPER DUTY F350 CREW CAB TRUCK CHASSIS FOR THE PUBLIC WORKS DEPARTMENT

The resolution awarding the bid to San Francisco Ford for the purchase of the new truck chassis for the Public Works Department in the amount of \$23,251.59 was adopted.

8. RESOLUTION AWARDED THE BID TO SCELZI ENTERPRISES, INC. FOR THE PURCHASE OF A NEW TRUCK UTILITY/SERVICE BODY FOR A NEW 2009 FORD F350 CREW CAB TRUCK (SEWER HAND RODDING TRUCK #521)

The resolution awarding the bid to Scelzi Enterprises, Inc. for the purchase of one truck body and accessory equipment for one Public Works vehicle in the amount of \$16,334.20 was adopted.

9. RESOLUTION AUTHORIZING THE PUBLIC WORKS DIRECTOR TO ENTER INTO A FINANCING AGREEMENT WITH THE STATE WATER RESOURCES CONTROL BOARD

The resolution authorizing the Public Works Director to enter into a financing agreement with the State Water Resources Control Board for a \$4,000,000 Video Inspection and Cleaning Project, subject to final review of the terms by the Finance Director, was adopted.

10. RESOLUTION AUTHORIZING THE PUBLIC WORKS DIRECTOR TO EXECUTE AGREEMENTS FOR ROAD RECONSTRUCTION WITH THE CALIFORNIA DEPARTMENT OF TRANSPORTATION

The resolution authorizing the Public Works Director to execute agreements for road reconstruction with the California Department of Transportation, subject to review by the City Engineer and City Attorney, was adopted. The allocation of \$68,917 from Measure A or Gas Tax revenues was approved.

#### **PUBLIC HEARING:**

11. FUNDRAISING EVENT PERMIT APPLICATION 09-03 FOR THE SAN MATEO ARBORETUM SOCIETY'S HILLSBOROUGH/SAN MATEO GARDEN TOUR

City Clerk Miyuki Yokoyama announced that the San Mateo Arboretum Society submitted a fundraising application to conduct their Hillsborough/San Mateo Garden Tour on Saturday, September 12, 2009, from 10:00 a.m. to 4:00 p.m. at 1140 Bromfield Road, 801 Irwin Drive, 80 Del Monte Drive, 290 Richmond Road and 40 Homeplace Court in Hillsborough.

Ms. Yokoyama stated that public notices have been sent to homeowners located within a 500' radius and that no comments have been received. She added that an application for a sign, which will be placed at Hayne Road and Skyline Boulevard, was also submitted for City Council approval. She stated that staff recommends approval of the fundraising event application, subject to the conditions of the Police, Fire and Building Departments, and approval of the fundraising sign application.

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, the Fundraising Permit Application 09-03 for the San Mateo Arboretum Society's Hillsborough/San Mateo Garden Tour on Saturday, September 12, 2009, subject to the conditions recommended by staff, was approved. On motion of Councilmember Benton, seconded by Councilmember Regan, and unanimous on voice vote, the San Mateo Arboretum Society's Hillsborough Garden Tour sign was approved.

12. RESOLUTION AUTHORIZING THE PLACEMENT OF SEWER SERVICE AND STORM DRAINAGE CHARGES AND OF THE SPECIAL TAX FOR POLICE PROTECTION AND FIRE PROTECTION AND PREVENTION ON THE 2009-2010 COUNTY TAX ROLL AND AUTHORIZING THE COUNTY TAX COLLECTOR TO COLLECT SUCH CHARGES

Finance Director Edna Masbad stated that the Town's sewer service charges, storm drainage charges and the public safety special tax are collected by the San Mateo County Tax Collector in the same manner in which the County collects the property taxes. She added that the Hillsborough Municipal Code requires the Town to annually adopt a resolution authorizing the County Tax Collector to collect the charges.

Ms. Masbad reported that there are 3,878 households that will be assessed an annual residential sewer charge of \$1,610 for a total of \$6,243,580 to support the sewer operations. She explained that this represents a 3% increase from the \$1,563 annual charge last year. She added that commercial accounts, which include the Burlingame Country Club and Hillsborough City School District, will be manually assessed and billed with the water charges based on their water usage and relationship to an "equivalent dwelling unit".

Ms. Masbad stated that the annual storm drainage charge was first authorized in fiscal year 1994/1995 upon implementation of the National Pollutant Discharge Elimination System (NPDES) Stormwater Pollution Prevention Program. She explained that the authorizing ordinance, however, does not provide for adjustments to the annual charge to compensate changes to program costs; hence, the charge has remained the same. She stated that the annual charge of \$7.34 per parcel will be assessed on 4,013 parcels for a total of \$29,455.42 towards the program.

Ms. Masbad reported that the public safety tax of \$218 for 87 unimproved and \$570 for 3,891 improved parcels will bring in \$2,236,836 to partially pay for public safety operations. She explained that the special tax initially set at \$190 and \$496 in fiscal year 1998/1999 was increased by 2% each year, but could not exceed 115% of the initial amounts. She added that the maximum amounts have been the charges since fiscal year 2005/2006.

Ms. Masbad reported that collection charges will be assessed by the County in exchange for the service. She stated that the estimated total County fee for collecting the above charges will be \$11,930 and is made part of the operating budgets.

Councilmember Fannon asked Ms. Masbad if there are 4,013 parcels in Hillsborough, but only 3,878 households, is the difference due to vacant lots. Ms. Masbad replied that one reason for the difference is due to vacant lots; another reason is some houses are on several parcels. She explained that the Town collects one charge per household and not per parcel.

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, the resolution authorizing placement of sewer service and storm drainage charges and of the special tax for police protection and fire protection and prevention on the 2009-2010 County tax roll and authorizing the County Tax Collector to collect such charges was adopted.

### **OLD BUSINESS:**

#### 13. PUBLIC WORKS DEPARTMENT ORGANIZATIONAL AND MANAGEMENT ANALYSIS

Public Works Director Martha DeBry introduced Andy Belknap and Lynn Dantzker of Management Partners Inc. to present their Department of Public Works Organizational and Management Analysis.

Mr. Belknap provided a Power Point presentation and stated that Management Partners is a national consulting firm doing business since 1994 with over 300 local government clients in California. He explained the engagement for the Town, which included the Public Works assessment of the general organization, staffing levels and work management systems, identification of opportunities for improvement, and establishment of priorities.

Mr. Belknap stated that the major conclusions were that performance was satisfactory given the constrained resources, regulatory requirements (and penalties) are serious and a growing part of the utility business, and a low cost operation is difficult in Hillsborough due to the low population density and topography. He stated that there is a need to invest in new systems, technology and professional expertise. He added that engineering costs can be reduced, additional line maintenance staff is needed, and the capital improvement program should be based on Master Plans, not reactive assessments.

Mr. Belknap reported that contract engineering costs have doubled in five years from \$742,479 in fiscal year 2003/2004 to \$1,470,402 in fiscal year 2007/2008.

Mr. Belknap reviewed the peer agency information, but clarified that with peer comparisons (San Bruno, Millbrae and Burlingame) there is no such thing as an apple-to-apple comparison with the other cities in the area. He stated that Hillsborough has the same number of sewer lines as some of the larger jurisdictions, but the number of employees is lower in relation to the number of sewer lines. He explained that because Hillsborough is not densely populated it still must maintain the sewer, water and street systems covering an area associated with cities four times as large in population.

Mr. Belknap stated that utilities are highly regulated and monitored for compliance due to a significant increase in State and Federal compliance obligations, such as the National Pollutant Discharge Elimination System (NPDES), solid waste reduction, air and water quality standards, Americans with Disabilities Act (ADA), etc. He explained that there are serious consequences for violations; for example, in February 2008, the Sewer Agency of Southern Marin was fined \$1.6 million. He explained that Hillsborough is not maintaining 30% of its sewer system and that maintaining the system requires more employees. He stated that the Public Works Department has been increasing its reliance on part-time employees, which is equal to more than one full-time employee.

Mr. Belknap reviewed the organizational needs of the Public Works Department and the major recommendations, which included recruiting an in-house City Engineer, obtaining technical and major maintenance leadership with a Maintenance Manager for the Sewer and Water Master Plans, planning and operating based on ongoing, comprehensive data and systems with a Computerized Maintenance Management

System (CMMS), and implementing a 5-year Capital Improvement Plan to support good policy decision making and predictable resource allocation.

Mr. Belknap recommended combining the Street and Sewer Divisions to increase capacity and to allow flexibility in resource allocation, cross training, and better communication. He also recommended adding two additional maintenance workers to the Sewer Division, rebidding engineering contractual services to clearly define roles and responsibilities, developing a management information system to track and monitor services and expenses and adding the positions of Management Analyst and Maintenance Manager.

Mr. Belknap stated that Water and Sewer Master Plans are a Best Practice as they are a critical asset management tool and that most cities sustain them as they provide predictability, reduce fiscal uncertainty, and stabilize the rate structure. He recommended conducting Sewer and Water Master Plans to inventory and assess the current system and determine capacity issues and propose solutions. He stated that Water and Sewer Master Plans are expensive to generate, but reduce costs and improve efficiency over the long-term. He stated that the Master Plans would require \$300,000 to \$400,000 initially, and the plans would be good for 10 to 20 years.

Mr. Belknap closed by summing up that the estimated cost of \$1,010,446 for selected recommendations would be offset by the estimated savings from a reduction in engineering services and proposed elimination of two existing positions through attrition of \$506,557, which would result in a net cost of selected recommendations of \$503,889. He added that the net cost of the recommendations would only be 3.5% of the sewer and water rate base.

Vice Mayor Kasten thanked Mr. Belknap and Ms. Dantzker for the thorough report and asked if a table prioritizing and placing a price tag for each recommendation was available. Mr. Belknap replied that he didn't have a table like that, just a table with the major recommendations.

Vice Mayor Kasten stated that he recognized the interdependency between Hillsborough, Burlingame and San Mateo, but noticed that it was not in the report. Mr. Belknap replied that a consolidation analysis would require another feasibility study, but there would be potential gains with combining services. He explained that he would have to engage the other cities involved for a consolidation analysis, but he believes the other cities would most likely be interested in consolidating services.

Councilmember Fannon asked Ms. DeBry how she felt about the Public Works Organizational and Management Analysis. Ms. DeBry replied that she was generally in agreement with the recommendations as the department needs more maintenance staff and is evaluating having an in-house City Engineer and an analyst.

Councilmember Regan asked if funding was available for the CMMS. Ms. DeBry replied that the Public Works Department currently has the ICOMMM system so they may be able to augment their existing system and that she has made the request for funding from the Water and Sewer operating budgets.

Councilmember Regan asked Ms. DeBry if she was working with Burlingame on sharing services. Ms. DeBry replied that she has been speaking with the City of Burlingame, San Mateo County and the City of San Mateo, and that they are all open to sharing services and cutting costs. Councilmember Regan asked how long it would take to do a feasibility study on the consolidation of services. Mr. Belknap replied that it would take three to four months to complete a feasibility study to see if consolidation of services would be technically feasible. He added that the implementation phase of the consolidation of services would take a year or more.

Mayor Krolik asked what the approximate cost of a feasibility study on the consolidation of services with the other agencies would be. Mr. Belknap replied that a

feasibility analysis would cost approximately \$50,000 to \$100,000, but would depend on the scope of work.

Vice Mayor Kasten stated that there were 29 recommendations in the study and recognized that there were fiscal constraints to implementing all the recommendations and suggested deciding what recommendations would make the most sense for the short and long term.

Mayor Krolik stated that the report was very readable and that one recommendation really jumped out, which was the installation of the CMMS. She noted that the report states that due to the current state of the economy, Hillsborough could get the system for one third of the regular cost.

Councilmember Benton asked Ms. DeBry what specific things were included in the budget. Ms. DeBry replied that she included a computer management system, a Water Master Plan and a Sewer Study. She added that she is gathering information for engineering services to go out to bid. Ms. DeBry reported that she has already started engaging consultants to develop a Sewer Master Plan and transferred employees from Street to Sewer, but there is more to do.

Councilmember Benton stated that the Town should not hold up implementing some of the recommendations and should look at merging services with the Burlingame Corporation Yard, as it may take two years to implement. He thanked Ms. DeBry, Mr. Belknap and Ms. Dantzker for the analysis, which had a lot of important information.

On motion of Vice Mayor Kasten, seconded by Councilmember Benton, and unanimous on voice vote, the Public Works Department Organizational and Management Analysis as prepared by Management Partners, Inc. was accepted.

Councilmember Benton stated that he would like a report on the implementation of the recommendations of the Public Works Department Organizational and Management Analysis. Ms. DeBry replied that she will report back within the next six months. Mayor Krolik thanked Ms. DeBry.

14. RESOLUTION AWARDING THE CONTRACT TO IONIAN CONSTRUCTION, INC. FOR THE RECONSTRUCTION OF THE CAROLANDS GATEHOUSE PROJECT

Public Works Director Martha DeBry stated that Ionian Construction, Inc. was the lowest responsive bidder for the reconstruction of the Carolands Gatehouse Project at \$365,140. She stated that because the bid for the project is above budget that funding will come from the Gatehouse Fund in the amount of \$329,000 plus interest earned from the fund of \$20,253, and reprogramming of old projects in the amount of \$52,401 for a total construction budget of \$401,654.

Vice Mayor Kasten asked Ms. DeBry how much funding is available for the Carolands Gatehouse Project. Ms. DeBry replied that approximately \$329,000 in funds is available.

Ms. DeBry and the City Council discussed ways to reduce the cost for the project. Ms. DeBry stated that the project cost is for the building only and does not include landscaping or furniture, but that the Town could save money by having staff do some of the work (such as the catch basin and sewer lateral), changing building materials (such as a shake roof rather than a slate roof), and negotiating minor changes of approximately \$20,000 with the contractor without rebidding the project.

Vice Mayor Kasten recommended using the remainder of the funds raised of \$329,000 and the interest earned of \$20,253 to fund the Carolands Gatehouse Project.

On motion of Vice Mayor Kasten, seconded by Councilmember Fannon, and unanimous on voice vote, the resolution awarding the contract for the reconstruction of the Carolands Gatehouse Project to Ionian Construction, Inc. in an amount not to

exceed \$349,253, allocating \$329,000 from the Gatehouse Fund plus interest earned from the Gatehouse Fund of \$20,253, was adopted.

**NEW BUSINESS:**

15. RESOLUTION AUTHORIZING AN AMENDMENT TO THE TOWN OF HILLSBOROUGH'S INVESTMENT POLICY TO ALLOW CERTAIN BONDS AND OTHER INDEBTEDNESS

Finance Director Edna Masbad reported that investment of surplus funds by local agencies in the State of California is governed by certain sections of the Government Code. She explained that the Town, however, has historically further restricted authorized investment options to include only certain investments. She stated that in a recent action, due to turmoil in the current financial market, the Town revised its strategy for the time being, investing only in treasury bills and notes and FDIC-insured time certificates of deposits, opting for safety over higher yields.

Ms. Masbad stated that the City Council requested the Investments Sub-Committee of the Financial Advisory Committee (FAC), which advises the City Council on financial matters, to seek opportunities to enhance the Town's investment earnings without sacrificing the primary objective of safekeeping the Town's funds.

Ms. Masbad reported that the Town is now presented with an opportunity to invest in revenue bonds to be issued by the South Bayside Waste Management Authority (SBWMA), a Joint Powers Agreement, among twelve local districts and agencies in the County of San Mateo of which the Town is one.

Ms. Masbad stated that the Authority is undertaking improvements to the Shoreway Environmental Center and needed funding for approximately \$55.32 million. She explained that the Authority's Board has approved the issuance of solid waste enterprise revenue bonds comprised of fixed rate bonds or a combination of fixed rate bonds and loans from member agencies under a "Use of Funds Agreement". She reported that the Authority plans to borrow up to \$10 million from member agencies who are interested in investing in the bonds and will issue the remaining \$45.32 million as fixed rate bonds. She added that the \$10 million from member agencies will be subordinate to the \$45.32 million senior bonds.

Ms. Masbad stated that at the June 8, 2009 City Council meeting, while the City Council voted to oppose the proposed financing and requested that the SBWMA give further consideration to more cost-effective alternatives to finance the construction, the City Council directed staff to work with the Investments Sub-Committee and obtain a recommendation on whether the Town would be interested in extending a loan to the SBWMA through the purchase of the subordinate bonds in the interest of securing additional interest earning revenue opportunities.

Ms. Masbad reported that on June 24, 2009, the Investments Sub-Committee, consisting of three FAC members, met with Josh Cooperman (Town's Financial Advisor) to discuss the concept. She stated that on July 2, 2009, the Sub-Committee approved for recommendation to the City Council participation in the member loans structure, subject to inclusion of a proviso in the bond indenture that will require the Authority to increase tipping fees annually in an amount sufficient to pay interests and principal (upon maturity) on the subordinate bonds should there not be enough revenues to pay for both the senior and the subordinate bonds.

Ms. Masbad stated that supporting documents on the subordinate indenture for the member loans will be presented as a separate agenda item. She reported that to date, only Burlingame expressed interest in participating in the member loans, and has approved entering into the agreement in the amount of \$3 million for a period of five years. She stated that interest on the bonds is currently estimated at 5% and that interest will be paid semi-annually in September and March. She added that annual

interest income on \$3 million will be \$150,000. She reported that current 5-year Treasury notes pay 2.625% or an annual income of \$78,750 for the investment.

Ms. Masbad explained that should the City Council decide to approve investing in SBWMA revenue bonds, the Town's Investment Policy needs to be amended to include bonds, notes, warrants or other indebtedness of the local agency, or any local agency within this State, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled or operated by the local agency, or by a department, board, agency or authority of the local agency. Ms. Masbad stated that staff is recommending that such investments be subject to further restrictions, including requiring City Council approval on an individual basis and aggregate investments in such bonds not to exceed 5% to 7.5% of the Town's portfolio, which would be \$2 million to \$3 million of the Town's \$40 million portfolio.

Ms. Masbad stated that changes to the policy are as marked in Exhibit "A" of the proposed Investment Policy as amended in July 2009, and she referred to page 8 of the attachment, specifically paragraph 11.

Mayor Krolik asked Ms. Masbad if this item is simply amending the Investment Policy to allow a certain percentage of the Town's investments to be placed in bonds and other indebtedness. Ms. Masbad replied that was correct and that each investment would be subject to the City Council's approval.

Councilmember Regan asked if the percentage of the portfolio would be determined at the time of investment. Ms. Masbad replied that the current policy and procedure requires that it be determined at the time of investment. Mr. Regan directed staff that the policy be specifically included in the Investment Policy.

City Council discussed various percentages and decided on a maximum of 7.5% of the Town's portfolio with the percentage being determined at the time of purchase, subject to the City Council's approval on an individual basis.

On motion of Councilmember Benton, seconded by Councilmember Fannon, and unanimous on voice vote, the resolution authorizing the Town's Investment Policy to be amended to include bonds and other indebtedness of local agencies as an authorized investment instrument up to an aggregate 7.5% of the Town's portfolio and subject to the City Council's approval of each such investment was adopted.

16. RESOLUTION AUTHORIZING THE CITY MANAGER TO ENTER INTO A USE OF FUNDS AGREEMENT AND OTHER BOND DOCUMENTS RELATING TO THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY SOLID WASTE ENTERPRISE SUBORDINATE REVENUE BONDS (SHOREWAY ENVIRONMENTAL CENTER) SERIES 2009 B (TAXABLE) IN THE AMOUNT (TO BE DETERMINED) FOR A PERIOD OF FIVE YEARS

Finance Director Edna Masbad stated that the South Bayside Waste Management Authority (SBWMA) is undertaking improvements to its facilities and needs funding of approximately \$55.32 million and plans to issue fixed rate bonds of \$10 million in the form of member agency loans and the remaining \$45.32 million in fixed rate bonds.

Ms. Masbad explained that the Authority needs a two-thirds vote or eight out of the twelve member agencies to proceed with the recommended debt structure. She reported that East Palo Alto, Foster City, Burlingame, Redwood City, San Carlos, San Mateo County and the City of San Mateo have all approved the fixed bond indebtedness; Atherton, Belmont and Hillsborough voted no; Menlo Park is scheduled to vote on July 14, 2009; and West Bayside Sanitary District has not yet set a date to vote. She stated that the Authority plans to approve bond documents and bond issuance on July 23, 2009, and close the sale of bonds on August 19, 2009.

Ms. Masbad stated that the \$10 million loan from member agencies will be in the form of subordinate bonds that mature in five years instead of 25 years allowing SBWMA to

pay off that portion of the borrowing much quicker, thereby saving on long-term interest costs. She added that this portion of the debt will also produce savings in underwriters' fees and related borrowing costs. She reported that Standard & Poor's last affirmed an A- bond rating for the SBWMA bonds in December 2006. She stated that the subordinate bonds will be issued and administered in compliance with the Trust Indenture between SBWMA and a trustee bank.

Ms. Masbad reported that to date only the City of Burlingame has approved the member loan in the amount of \$3 million for a period of five years. She stated that in addition to considering investment in the bonds, the City Council is also requested to determine the amount of investment.

Ms. Masbad stated that as previously discussed, the Investments Sub-Committee has approved for recommendation to the City Council participation in the member loans structure, subject to inclusion of a proviso requiring the Authority to increase tipping fees annually in an amount sufficient to pay interest and principal (upon maturity) on the subordinate bonds should there not be enough revenues to pay both the senior and the subordinate bonds. She stated that specific language of the additional conditions will be provided by Josh Cooperman (serving as the Town's Financial Advisor) and that funds will be invested subject to the Financial Advisor's final review of the bond documents. She stated that related bond documents were provided for the City Council's review and have been reviewed by the City Attorney.

Ms. Masbad reported that the annual interest income at 5% on \$2 to \$3 million will be \$100,000 to \$150,000. She stated that current 5-year Treasury notes pay 2.625% or an annual income of \$78,750 for a \$3 million investment. She added that potential additional interest earnings are estimated at \$47,500 to \$71,250 per year on the \$2 to \$3 million investment for a period of five years.

City Attorney Norm Book announced that he reviewed the bond documents, but that he was not a bond attorney. He stated that since the member bonds will be subordinate to the senior bonds, if there was insufficient revenue to pay the debt service on both the subordinate and senior bonds, the gap would be borne by the holders of the subordinate bonds. He added that the subordinate bonds provided a debt service coverage ratio of one and there was no cushion as was typically provided in commercial real estate financing.

Mr. Book, Ms. Masbad, Public Works Director Martha DeBry and the City Council discussed the Use of Funds Agreement and the Indenture of Trust between the SBWMA and the Bank of New York Mellon Trust Company relating to the SBWMA Solid Waste Enterprise Subordinate Revenue Bonds (Shoreway Environmental Center) Series 2009B (Taxable).

Councilmember Regan stated that he would vote no as the bond structure for the subordinate bonds offered by SBWMA was not acceptable.

Councilmember Benton made the motion to approve the investment on member loans to South Bayside Waste Management Authority. Motion failed with no second.

17. RESOLUTION APPROVING AN AGREEMENT BETWEEN THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHORITY (SBWMA) AND THE CITY OF SAN CARLOS RELATED TO THE SHOREWAY RECYCLING AND DISPOSAL CENTER

Public Works Director Martha DeBry reported that the agreement between the SBWMA and the City of San Carlos related to the Shoreway Recycling and Disposal Center (SRDC) will provide payment to the City of San Carlos in the amount of 5% of the gate fee revenues earned at the SRDC. She added that the fee revenue will be approximately \$1.2 million.

Councilmember Regan stated that it was fair to compensate the City of San Carlos for lost revenues for having the SRDC, instead of an office complex or hotel, located in

San Carlos. Ms. DeBry replied that there was no data or backup information on what revenue the City of San Carlos is losing by having the SRDC located in San Carlos and that the area is zoned for industrial use.

Councilmember Regan stated that there were costs involved in having the SRDC in San Carlos, such as the wear and tear from trucks on the frontage road and the clean up of spills, but a basis of the compensation needs to be provided. He stated that he needed a realistic estimate of what San Carlos is not getting for the highest and best use of the property including property tax revenue. Ms. DeBry stated that she anticipates San Carlos receiving a windfall of \$200,000 to \$400,000 this year for the gate fee revenues. Councilmember Regan stated that he could not approve the \$1.2 million plus without seeing a methodology for determining the fee.

Mayor Krolik made the motion to adopt the resolution approving an agreement between the SBWMA and the City of San Carlos related to the Shoreway Recycling and Disposal Center. Motion failed with no second.

### **DISCUSSION:**

#### 18. STATUS OF THE RESPONSE TO THE SAN MATEO COUNTY GRAND JURY REPORT

Human Resources Specialist Kristin Armbruster provided a Power Point presentation on the update on the cost of wages and benefits and the Grand Jury Report. She stated that the Hillsborough retirement structure is 3% at 50 for Police, 3% at 55 for Fire and 3% at 60 for miscellaneous employees. She reported that Hillsborough is the only city in San Mateo County to have exchanged enhanced retirement for substantive savings to the Town, and approximately 30% of current employees receive a retiree health savings plan instead of retiree medical insurance. She added that Hillsborough has one of the strongest budgets in San Mateo County.

Ms. Armbruster reported that annual increases in wage and benefit costs are exceeding annual revenue increases for the region and State. She explained that the cost issues are largely related to retirement, health and retiree health benefits. She stated that meaningful changes will require regional and statewide efforts and that State support for reduced benefits will require that labor unions and cities come together in joint leadership.

Ms. Armbruster stated that the Municipal Employee Relations Committee (MERC) was created approximately one year ago by the San Mateo County City Managers Association to review and address employee wages and benefits. She reported that MERC conducted surveys, gathered data, and completed a data analysis in June 2009, to help make a case to reduce costs for the upcoming budgets. She stated that pension obligation bonds are artificially reducing some retirement cost accounting. She added that a regional effort is needed to avoid giving some cities/counties recruitment advantage when it comes to offering wages and benefits. She stated that the MERC is raising awareness of issues and is assembling data, and has recently set some uniform goals, such as a two-tier retirement plan and a Retirement Health Savings Plan, which Hillsborough has already accomplished for most of the labor groups.

Ms. Armbruster stated that there were errors in the Grand Jury Report as the retirement structure is 3% at 55 for Fire and that the total number of employees does include fire employees. She added that there were omissions in the Grand Jury Report including the role of the State government that created the current situation by requiring binding arbitration and imposing a 90% benefit level, PERS 0% costs and State labor laws. Ms. Armbruster reported that the Meyer Milias Brown Act (MMBA) was enacted into law by State legislation in 1968 and covers the legal requirements for negotiations, meet and confer laws, good faith bargaining and bad faith negotiations. She stated that the Grand Jury Report should have legal review as some recommendations may conflict with the MMBA.

Ms. Armbruster stated that there were problems with data and implementation issues, as the Bureau of Labor Statistics (BLS) study cited compares professional/administrative positions in the public sector to retail/food service workers in the private sector. She stated that the BLS data does not account for differences in education, occupation, or state of residence.

Ms. Armbruster reported that at the City Managers Association meeting on June 19, 2009, Assemblymember Jerry Hill stated that the only realistic way to effect changes in benefit costs are through joint city/union proposals to the State, but that no joint initiatives are currently under way.

Ms. Armbruster stated that cities have the responsibility to be competitive in wages, benefits and working conditions to attract high caliber employees; however, there can be distortions in the labor market, such as Vallejo paying 30% above the market rate, some cities like Santa Clara and San Francisco guaranteeing the highest salaries in the market, labor market definitions differing city to city, and the salaries not reflecting the labor supply.

Ms. Armbruster reported that the following has already occurred in Hillsborough, an employee meeting was held in February 2009 to discuss the upcoming budget, Tony Olivera from PERS discussed sustainability of retirement programs in April 2009, and Fire had a tentative agreement regarding concessions to their contract. She reported that the Town will be meeting with other labor groups to discuss concessions to their contract, and the Town has already moved to a tiered retirement health care plan with three of the five labor groups, and will be discussing that with the remaining two labor unions.

Ms. Armbruster stated that she will have a draft response to the Grand Jury Report prepared by next month.

Councilmember Fannon asked when the response to the Grand Jury report was due. Ms. Armbruster replied that the response was due no later than September 3, 2009.

Councilmember Benton commented that the State has to take a lead. He stated that Central County Fire Department and the Fire Board are currently negotiating concessions to their contract.

Mayor Krolik stated that Hillsborough should be a model for the County and State and should find a win-win solution.

Mayor Krolik thanked Ms. Armbruster.

#### **CITY COUNCIL ITEMS:**

Police Chief Matt O'Connor gave a report on the burglary that occurred on Crystal Springs Terrace and the capture and arrest of the two burglars as they were preparing to burglarize another home on Woodridge Road on Monday, June 29, 2009.

Mayor Krolik announced that she will be attending the Council of Cities "As Fresh as It Gets" Farm and Dock Tour on Friday, July 31, 2009.

Mayor Krolik wished Director of Building and Planning Liz Cullinan a happy birthday.

#### **ADJOURN:**

Mayor Krolik adjourned the meeting at 9:12 p.m.