



Town of Atherton
FINANCE COMMITTEE
DRAFT MINUTES
November 15, 2016
2:00 PM
TOWN COUNCIL CHAMBERS
94 Ashfield Road
Atherton, California

PLEASE NOTE: *Times listed on the Agenda are approximate; items may be taken up out of order.*

1. ROLL CALL

Bob Polito, Jim Massey, Jeffrey Lee, Kenneth Hausman, Yogesh Amle,
Elizabeth Lewis, Michael Lempres

Present: Polito, Massey, Lee, Hausman, Lewis,

Excused: Lempres

Absent: Yogesh

2. PUBLIC COMMENT

(This portion of the meeting is reserved for persons wishing to address the Committee on any matter not on the Agenda that is within the subject matter jurisdiction of the Committee. State law prohibits the Committee from acting on items not listed on the Agenda in most circumstances. Each speaker is limited to three minutes.)

REGULAR AGENDA

3. Review and Approve Draft Minutes of September 13, 2016 Finance Committee

There were brief clarification to the minutes. Chair Polito mention that since he made a motion to adjourn the September 13, 2016 meeting then it means he was there part of the time and missed part of the time. So it should be corrected that he was at the meeting. Roll call will be changed to Chair Polito as Present. Vice Chair Massey made a comment that he didn't know who cleaned up his initial comments regarding the Fire District, but that he did mean to challenge Carpenter and the Fire Board, but that it was nicely done.

Motion by Massey; Seconded by Hausman; All in Favor

4. Selection of Chair and/or Vice Chair of the Audit/Finance Committee for FY 2016/17

Nominations for Chair Selection; nominated motion by Hausman for current Chair Polito to be Chair of the Committee. Seconded by Vice Chair Massey; All in Favor

Nominations for Vice Chair; nominated motion by Hausman for current Vice Chair Massey to be Vice Chair of the Committee. Seconded by Vice Chair Massey; All in Favor

5. Review presentation of Atherton Property Taxes for Fiscal Year 2016/17 by Paula Cone of HDL Companies.
This item was moved from Item 6 to Item 5 for time constraint. Ms. Cone began presentation stating this was her 6 year significant growth and this happens to be the same time frame she has worked with the Town. HDL was hired because there was concern of property taxes revenues due to the recession. It was communicated that the Town was having another good year in property taxes. A lot of the growth in property taxes in Atherton is due to a lot of properties being sold and being demolished and new properties being rebuilt. There is a lot growth and there seems to not be a let up of this development. In 2016/17, The CPI growth is 1.525%, the October to August is 1.9% growth almost the allowed CPI growth of Prop 13 of 2%. According to Ms. Cone, for projection purposes it is not unlikely that we could see 7 to 8 percent growth. Mayor Lewis posed a question of what we project in our budget for property taxes. It was discussed that we budget from 3 to 5 percent increase in property tax revenues. Prop 8 reductions are now back up to the correct levels. Atherton has outpaced the growth of San Mateo County the past 4 years. The residential growth for the Town of increase \$678.7 Million setting the trend of overall growth of 8.2 percent. This increase is related to properties that have been held over time and are now selling for greater values. Vacant properties grew \$18.4 million as formerly developed homes were cleared for new development. Ms. Cone communicated that the highest value sale was for a property that sold for \$35.3 million. Proposition 8 included \$41,709,319 in recaptured value which means properties in Atherton are being fully restored to their Prop 13 taxable values. The recapture amount is approximately \$76 Million, so we are close to full recapture of Prop 8 values. Properties that have change of ownership are selling for more than original value and selling higher which is significantly impacting the property value growth in Atherton. Questions posed were regarding change in value of ownership and capital gains tax. We have older residents that are now leaving that are selling their homes higher than the original value. Usually properties are left in trust. In order to move up 1% in property Tax value we need \$91 million. CPI next year will be about 2 percent plus an additional 2.4 percent for a total estimated 4.4 to 4.7 percent approximate growth in property tax revenues.
6. Presentation by Nicolay Consulting; Review and Discuss Town of

Atherton 2016 Actuarial Valuation of Postemployment Healthcare Program; if appropriate recommend to council to adopt the OPEB Valuation report.

Gary Cline of Nicolay Consultant was in attendance to present the Atherton valuation Postemployment Healthcare program (OPEB). Mr. Cline discussed that the valuation report now included an executive summary. Doug Tokerude was our consultant that was handling the OPEB actuarial for the Town. Gary has experience with retiree medical and pension with public companies Clorox and Chevron, now works with all governmental components of retiree medical. Mr. Cline began discussion of the present value of future benefits and the accrued actuarial value. Discussion include that the Present Value of future benefits is the liability for retiree benefits earned for the rest of career and life time. For active employees the amount is less for Actuarial accrued liability as this is the amount they accrued to date. For funding purposes we want to fund the Actuarial Accrued liability at a 100 percent funded. The Town has taken action to cut back benefits for future retirees. The Actuarial value of assets is \$12.1 Million as of 07/1/16. The implicit subsidy added approximately \$3.25 million to the Actuarial Accrued liability. It was discussed during the presentation that the Actuarial Accrued liability increased \$4.69 Million from the \$7.4 Million as of July 1, 2014 to \$12.15 Million as of July 1, 2016; this is 63% change. Listed in Table 1-2 of the actuarial report was the estimated sources of the liability change. The most important impact to valuations is the prohibition of using “community rated accounting” for health care plans. The biggest change was due to the recognition of the Age-related Implicit subsidy, which was 44 percent of the total liability change. Effective 03/31/15 there was a new requirement ASOP 6 was introduced which required the implementation of implicit subsidies in the accounting liabilities. This implemented that valuation plans reflect the impact of aging claims for community rated plans. CalPERS for the purposes GASB 45 (Accounting & Financial Reporting for OPEB) indicated that’s its medical program is a “Community rated” plan. This means all participating employers located in the same region pay the same premium rates, even though older employees and early retirees generally have higher medical costs than younger employees. GASB 45 allowed liabilities to be based on flat premiums for community rated plans. Implementation of ASOP 6, this eliminates the community rated plan exemption. Mr. Cline discussed further the implicit subsidy; premiums paid for active and retiree benefits are calculated by CalPERS and PORAC. They calculate a single flat premium rate unadjusted for age or gender. Older participants cost more than younger and males cost differently from females. It was further discussed that employer actual retiree cash costs are based on flat premiums (i.e., explicit costs) Prior to change, GASB allowed accounting liabilities to be based on flat

premiums for community rated plans such as those offered by CalPERS and PORAC. Switching to age/gender-adjusted premiums raises the accounting costs, but not the cash costs. This means that the flat-rate premiums are lower than the calculated participants age-adjusted claims cost of coverage. Healthcare costs tend to increase with age, therefore results in an implicit subsidy. This is a result of the difference between the flat-rate premiums plan participants are charged, and the estimated age-related claims costs. There was confusion regarding the implicit subsidy and the new increase in the accrued liability. Staff and committee felt there would need to be additional review and additional meeting with Nicolay Consulting regarding the Actuarial Valuation report. Staff would set up meeting to include the Chair Polito and come back to the Finance Committee for further discussion.

7. Next Meeting Date, Future Agenda Items and Time- January 10 or 17, 2017
Next meeting set for Tuesday January 10

10. **Adjourn**
Motion to adjourn Massey, seconded Polito; All in Favor

 Please contact the City Clerk's office at (650) 752-0500 with any questions

Pursuant to the Americans with Disabilities Act, if you need special assistance in this meeting, please contact the Park Program Manager at (650) 752-0534. Notification of 48 hours prior to the meeting will enable the Town to make reasonable arrangements to ensure accessibility to this meeting. (29 CRF 35.104 ADA Title II)

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