



**Town of Atherton
FINANCE COMMITTEE
DRAFT MINUTES**

July 11, 2017

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, Jeffrey Lee, Yogesh Amle, Ann Yvonne Walker, Devika Patil, Michael Lempres-(will be calling into the meeting), Cary Weist
Present: Polito, Lee, Walker, Lempres-Called 2:17pm, Weist
Excused: Patil
Absent: Amle

2. PUBLIC COMMENT

No Public Comments

REGULAR AGENDA

3. Review and Approve Draft Minutes of March 21, 2017 Finance Committee
Chair Polito commented that he believes he is the only one that can approve the minutes. He looked at them and said they fairly depict the meeting. Committee member Massey at the time thought they looked correct. There was no quorum at the May meeting to approve the minutes. Motion Lee, Seconded by Polito; Walker-Recused (new member;abstained) In Favor
4. Selection of Chair and/or Vice Chair of the Audit/Finance Committee for FY 2017/18
Mr Polito opened the discussion that we have a Chair and Vice Chair whose only difference between everyone else that is on the committee, the two positions are in charge of running the meetings when one of the two are not here. Mr Polito has been chair for the past couple of years and Mr. Massey was the Vice Chair. Mr. Massey has termed out. Mr. Polito mentioned he is perfectly happy to relinquish the position or maintain it, whatever the committee wants. Or we could defer the decision to the next

meeting until we have all five members. Committee member Walker nominated Bob Polito as chair of the committee. Mr. Lee had a comment of are we questioning or have to talk about Chair Polito's position. It was clarified that this is a process we go through every year, normally in July to elect new Chair and Vice Chair. It is not mandatory that the positions change, we just bring it up once a year for those that wish to become chair and vice chair of the committee. Member Mr. Lee seconded the nomination and mentioned that he believes Chair Polito has done a great job since Mr. Lee has been on the committed. Commented that Mr. Polito has been a great wealth of wisdom and experience and thanks him very much. It was echoed if Mr. Polito would accept that would be awesome. Mr. Polito is happy to continue as Chair. It was communicated that we would need a Vice Chair and that Mr. Lee is the next most senior person on the committee, that Mr. Lee would consider to be Vice Chair. Mr. Lee mentioned he did not expect this to happen this quickly, but that he would be honored to serve as Vice Chair of the committee for this next year. Motioned by Chair Polito to nominate Mr. Lee to Vice Chair. Seconded by member Walker

5. Review and discuss CalPERS actuarial reports and new pension discount rate assumptions for discussion of paying down long term liabilities; if appropriate make recommendations of options for council consideration. Staff opened up the item with explanation that these reports were handed out in March to the committee and now we are going to go through the report. It is a mixture of news, perceive as good or bad. Staff mentioned that it wanted to relay the information that are in the reports. A couple years ago CalPERS changed the format of the reports, to include risk analysis assessments and tools. It was communicated that couple years ago CalPERS implemented a rate smoothing and risk mitigation policies. Staff wanted to review this reports to discuss what is coming done the pike, such as changes in the discount rate changes. Mayor Lempres called into the meeting, staff recapped happenings of the meeting and staff proceeded to discuss the CalPERS actuarial reports and new pension discount rate assumptions for discussion of paying down long term liabilities. Starting in FY 18/19 the discount rate is going to change to 7.375%. Staff discussed since the last couple years the Finance Committee and Council were looking for ways to understand what if CalPERS does not meet its discount rate assumptions. We were looking for what if analysis scenarios. Now in the reports we have some of these tools. It was discussed that the contribution rates are affected by the rates of return on investment. These reports are of valuation date of June 30, 2015. Question posed on the lag of valuations dates. Staff mentioned that the two year lag, is because they have to get the real time date of what took place in the year on the investments. Validate the investment returns and the contributions from the agencies from the payroll side. The assumption for the 2015 valuation was that investment

returns of 0.0% in FY 2015/16 and 7.5% every year after is as follows. The actual investment return was .61% with future years of 7.5% Returns. Staff communicated the current FY 17/18 Employer contribution rate for Miscellaneous employees is 9.096% and the unfunded liability payment (UAL) is \$183,236. The FY 18/19 contribution is 9.1% for Miscellaneous. This is the projected rate going forward. The normal cost employer public safety contribution rate as a percentage of payroll is 21.418% for FY 17/18. The Town's employer payment of the unfunded liability for Public Safety is \$496,462. The projected Public Safety contribution rates are 21.4% for FY 18/19 and going forward. The projected FY 18/19 UAL payments for Miscellaneous and Public Safety are \$237,748 and \$629,363 respectively. These are at the projected assumed discount rate of 7.5%. Starting in FY 18/19, the June 30, 2016 reports will include the discount rate reduction to 7.375% The Plan's funded status as of June 30, 2015 for Miscellaneous Employees is currently at 79.5% with an unfunded liability of \$3,234,914. Safety Employees Plan's funded status as of June 30, 2015 is currently at 76.6% with an unfunded liability of \$8,627,686. As of June 30, 2015 the MVA for Miscellaneous Employees is \$12,571,337 and the unfunded liability is \$3,234,914. For Public Safety Employees the MVA is \$28,263,430 with an unfunded liability of \$8,627,686. This calculates to a total unfunded liability of \$11,862,600. Questions was posed on why does the unfunded liability payment goes as much as it does. Staff communicated that page 8 of each actuarial report shows the unfunded liability component and it is rolled forward each year to account for payment on the UAL and adjusting for interest. This amount is amortized over 30 years for each corresponding fiscal year. Page 10 and 11 report shows the schedules at 30, 20, and 15 years of amortization. The biggest driver of pensions is the rate of return. The problem was the prolonged rate of low interest rate of returns on the plans in recent years. For most part over the past 20 years the average is approximately 7.8%. CalPERS had a delay in responding to the rate of return. Now we will be seeing the adjustment of the discount rate to 7.375% from 7.5%. Staff discussed the previous rates of return by CalPERS to the pension over the last 15 years. There was continued discussion of the paying down of the unfunded liability over the last 30 years. Three factors came into play of changing the unfunded portion from a percentage cost to an actual dollar amount, then the ramp up of the normal contribution rates to a 5 year increase ramp up and then a ramp down at the end of the 30 year amortization. Then there was the change of the asset mix allocation within the investments and the realization that the discount rate would need to be changed and as well as the mortality changes. What is occurring is that all these assumptions are now coming to fruition in the actuaries. There was continued discussions on the CalPERS Board of Administration approved discount rate assumptions over the next three years begins in FY 2018/19. Staff began to discuss the CalPERS Board of

Administration approved discount rate assumptions over the next three years begins in FY 2018/19. In the short term costs will go up because you are changing the discount rate. There is anticipation that lowering the discount rate means agency plans will see increases in the normal cost required contribution and the accrued liabilities. A result of the change will be higher required employer contributions. It is a staggered effect, where after the third assumption change, it will all be in effect in year 7. Discussions ensued if there is any benefit to prepay early or not. Staff commented that this is where a funding plan comes into play, for example set money aside separately and or set up a separate trust to be used for pension liabilities. Staff discussed the pension defined benefit plan and how they are set up. Taking the projected impact of the reduction of the discount rates above, the Town can project the increase in the normal cost and the UAL payments in the next couple fiscal years. The CalPERS actuarial reports and the GovInvest calculation tool provide tools that can help us create a plan to set aside funds to pay down unfunded liabilities and mitigate increase in discount rate costs. Staff mentioned that these tools and assumptions should be considered as we work over the year to provide opportunities the City Council can consider to pay down pension liabilities and mitigate investment volatility. Staff will proceed to provide the actuarial reports as of June 30, 2016 once they are available. This was a receive and file.

6. Discuss and set Finance Meeting dates for Fiscal Year 2017/18
Staff provided a calendar of meeting dates for the upcoming fiscal year. If there is a need to change the dates of the meetings they will be discussed prior to the meeting dates. Any time the committee meets other than a regular scheduled meeting, they will be listed as a special meeting of the Finance Committee. This was a receive and file for coordinating calendars of committee members.
7. Next Meeting Date, Future Agenda Items and Time- Tuesday September 12, 2017
8. **Adjourn – Motion by Chair Polito, seconded by Mr. Lee. All in Favor.
4:05pm**

 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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