



**Town of Atherton  
FINANCE COMMITTEE  
FINAL MINUTES  
September 12, 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, Cary Weist

**Present: Polito, Lee, Walker, Patil, Weist**

**Excused: Lempres**

**Absent: Amle**

**2. PUBLIC COMMENT**

**No Public Comments**

**REGULAR AGENDA**

3. Review and Approve Draft Minutes of July 11, 2017 Finance Committee  
**Motion by chair Polito, seconded by Mrs. Walker; All in Favor**
  
4. Review and Discuss Presentation by PARS on OPEB investment and PARS  
June 30 Statement  
**Staff opened the item as a review and discuss of the Town OPEB pre-  
funding trust program yearly review along with a pension rate  
stabilization presentation by PARS and High Market Capital investment  
of funds. Staff commented if appropriate make recommendation on  
investment strategy. A brief history was given that the Town established  
an OPEB trust for the prefunding of Other Post-Employment Benefits.  
Majority of the post employee benefits are retiree health costs for those  
employees that received them and are applicable through their collective  
bargaining agreements that these retiree health costs are paid by  
municipalities. The Town participates in the PARS (Public Agency**

**Retirement Service) Post-Retirement Health Care Plan Trust Program.**

**Staff communicated that the Town OPEB Trust Ream consists of PARS, US Bank, and High Mark Capital Management. PARS is the trust administrator and consultant. They provide recordkeeping/sub-trust accounting, trustee and actuarial coordination. PARS also monitors contributions and plan compliance while also serving as ongoing client liaison. U.S. Bank serves as the OPEB plan trustee for the Town. They safeguard the plan assets; provide oversight protection, serves as the plans fiduciary and custodian of assets. High Mark Capital Management is the investment manager of the Trust as they work with US Bank to invest the funds and also work with PARS, the Town Trust Adminstrator.**

**The Trust is used to prefund future liability payments of retiree health care costs. There is an accrued actuarial liability that the Town owes based on benefits earned by active and retired. The Council has taken significant steps to reduce the Town's OPEB Liability. As of July 1, 2016 the Town has an Accrued Actuarial Liability (AAL). This amount is \$8,908,412 and includes the actual amount of health care liability of what is earned between active and retiree employees. The Town made an initial contribution to the Trust of \$1,299,316 in FY 2012-13 and has contributed over approximately \$5.1 Million to the Trust by this FY 2017-18. We are contributing to this Trust for the future payments of this OPEB program for retirees. Over the years the Town has taken steps to eliminate this benefit so current employees and future employees will not receive the benefit of retiree health insurance. However, we still have benefit obligations to those employees that retired and also received this benefit prior to the Town making the changes. With our current contributions to the Trust, the Town has an estimated Unfunded Actuarial Accrued Liability of \$3,816,924.**

**It was communicated that what we wanted to get through the presentation is where we are at with our funding and if it is appropriate as an investment strategy, there is a flexibility on the investment strategy, we can look at our strategy as a long term return on investment component. One of the items we may want to discuss is our current strategy of Moderate Passive Index strategy. High Market is here to discuss our investments and PARs is here to discuss the Trust. At the end of the meeting if it is appropriate, we can discuss if we want to change our investment approach and make a recommendation to the Council on a different strategy. Staff's recommendation is that we maintain our current investment approach. We have accumulated over \$900,000 of interest in the Trust. Staff turned over to presentation of High Market Capital and PARS.**

**Jennifer Meza opened up the presentation that PAR is the main administrator of the plan. Track our contributions and assist us with the reimbursements on the accounts for our retirees. They provide us with statements, trust audits and any administration on the asset trust. They don't hold the assets and they do not invest the assets. US Bank holds the assets and High Mark Capital is the investor of the assets, sub advisor to US Bank. We can always customize the plans. Chair Polito had a question about the disbursements from the Trust and who triggers those. Staff communicated that the Town triggers those disbursements as they are the health insurance payments to the retirees. We use PARS to make the disbursement to the retirees. CalPERS deducts the retiree health from the retiree pension payment. We submit a total sum to PARs with individual amounts to be paid to retirees and PARS takes the contribution from the Town and distributes accordingly to the retirees for their health care payment. PARS disburses about 30 payments a month to retirees. A question was posed by member Patil if they were similar amounts. Staff communicated that the amounts differ based on the health plans allowance they received when they retired. Different bargaining groups had different health plans and some received a percentage stipend toward health insurance. Clarification question that they is a CalPERS retirement pension and there is a CalPERS retiree health benefit that most cities offer.**

**Jennifer Meza continued to discuss the summary of the OPEB plan assets from their inception on June 2013 with a contribution of \$1,299,316. Discussed that contributions and distributions from the trust were for the retiree health payments from the Town to the retirees. The investment earnings over the years have totaled approximately \$1,025,795 in the Trust. Total balance in the trust account is \$5,925,282. Chair Polito asked a question that the \$1,302,234 in disbursement is the amount the Town contributed toward the Trust for retiree health payments and that the actual OPEB Trust contributions principle that Town has made for future OPEB payments has not been touched. Staff communicated that yes it is correct. This is what the staff terms the pay as you go health component. It was communicated that 36 retirees were receiving health benefits and a graphical information was given of the age distribution of retirees. It was communicated that the long term rate of return is still 6 percent and this is the investment return that High Mark Capital is using for investments. Current unfunded liability is approximately \$3.8 Million. This could change as mortality and health care rates could also change. We are approximately 75 percent funded with our OPEB assets on Trust account.**

**Andrew Brown, senior portfolio manager with High Market Capital began discussion of the investment highlights of the plan. It was communicated that the asset allocation is 50 percent stocks, 46.5 percent**

bonds, 3.5% cash. Within the Equity portion, 25 percent is large cap domestic S&P 500, mid-cap 3.5%, small cap 7.5%, international 12.5% and real estate 1.5%. The performance trend of the investments is approximately targeted at 6.4% within our current investment strategy. Absent the fees, forecast is 5.9 percent expected rate of return is at the range of possibilities over the long term investment. Andrew Brown communicated that Town staff did not make a recommendation for the change in investment strategy, and so does he not make a recommendation that the Town change the current investment strategy.

It was communicated that inception to date the performance is 6.68%. discussion ensued around the period performance of the investments compared to benchmark. The stocks had a strong 17.06 percent for the year. It has been a strong equity period in the last 12 months in the market. International investment is at 18.57 percent. As of period ending 7/31/07 the total managed portfolio was at 7.81 percent or 7.3 percent net of fees. Mr. Brown reviewed the asset allocation percentages of the investments vehicles within the equity, fixed income, cash investments. Discussion ensued about being in pooled index or an individual index, we could explore but currently the investments are at or above benchmark indexes.

Jennifer Meza assumed discussion and presented the Pension rate Stabilization Program. Similar to OPEB trust, but this is for Pensions. Serves as a savings account for managing pension rate increases. Can access funds at anytime, for pension purposes. No cost to set up, no fees until assets are added. PARS started this program couple years ago and a list of agencies that have joined the PARS PRSP were listed. There was discussions illustration on projected future employer contributions. The pension plan is similar to OPEB trust that you can select and investment strategy plan. The Town has full control of this plan similar to OPEB. This was information purposes. The Committee decided to stay with the same investment strategy plan Moderate Passive Index for the OPEB trust as we will continue work with High Mark capital to get breakdown performance of other investment strategies. For OPEB most clients are in the Balanced investment strategy in order to obtain their 7 percent discount rate. The Town's current moderate passive index is a favorable plan for other jurisdictions.

5. Brief Review and discussion CalPERS actuarial reports as of June 30, 2016; to provide future analysis for City Council review and consideration.

Staff did a brief review and discussion of this item. Staff communicated that at July Finance Committee meeting staff presented for review and discussion the CalPERS actuarial reports as of June 30, 2015. This was done to illustrate the projected employer contribution rates through FY

**2022/23 and begin discussions on new discount rate assumptions. The Town recently received new actuarial reports and provided for Finance Committee review are the recently released actuarial reports as of July 30, 2016. These new reports begin to illustrate the changes in the discount rate from 7.5% to 7% in phases. Staff discussed that these reports are handed out as over the next couple meetings will dissect these reports in more detail. It was discussed that the FY 2018/19 Miscellaneous Unfunded Liability payment is \$237,450 and the Public Safety Unfunded liability payment is \$627,361 for a total of \$864,762. Staff mentioned that is an increase of \$185,064 over the FY 2017/18 unfunded liability payments. In these reports are now three years forecast of UAL payments rather than two years.**

**The CalPERS contribution rate for FY 2018/19 for Miscellaneous employees is 9.635% an increase of about .5 percent. Public Safety rate for FY 2018/19 is 22.346%, an increase of .928%. Member Lee stated that these increases to UAL payment are related to CalPERS discount rate changing from 7.5% to 7.375%. Staffed communicated that yes it is. Staff communicated that the investment return for FY 16/17 was 11.2%, however the actuarial used 7.35% for the actuarial report. So the valuation reports next year will include the update of the FY 16/17 true investment return. Staff mentioned that we will have further discussions in the year and go over the reports in detail.**

6. Discussion to set meeting date to meet with Katherine Yuen, Auditor, Maze & Associates of Fiscal Year 2016-2017 Audit – Preliminary Audit & Scope

**Staff discussed setting up a meeting with the Town independent auditor Maze & Associates to discuss the FY 2016/17 year-end audit regarding the preliminary audit work, scope, and SAS communication. Staff presented several dates for the meeting to choose to have a special meeting of the Finance Committee with the Auditor Maze & Associates. The committee selected Monday 09/18 at 10 am to meet with the auditor.**

7. Next Meeting Date, Future Agenda Items and Time- Tuesday November 14, 2017
8. **Adjourn Motion by Mr. Lee, seconded by Mrs. Walker; All in Favor  
3:21 pm**

 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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