

TOWN OF PORTOLA VALLEY
Finance Committee
Tuesday, January 19, 2016 – 5:30pm
Town Hall Conference Room
765 Portola Road, Portola Valley, CA

Minutes – January 19, 2016 Meeting

Attendees:

Bill Urban – Chair

George Savage

Gary Nielsen

Ken Lavine, Acting Secretary

Michele Takei

Susan Cope – Admin Services

Craig Hughes – Council Liaison

Mark Wong, CPA, Maze & Associates

The meeting was called to order at 5:36pm

Oral Communications - None

Minutes of March 23, 2015 – Approved as written.

New Business:

1. Results of Audit as of 6-30-15

Mark Wong of Maze & Associates discussed the results of the recently completed audit of the town's finances for the year ending June 30, 2015.

The audit received an unmodified opinion, which is the cleanest opinion possible. It used to be called a "clean" opinion.

Of particular note this year is the initial adoption of GASB 68 and 71, which established new provisions for accounting and reporting of pension obligations. A \$957,322 net pension liability is now reflected on the town's books. In the past, it would've been mentioned on the audited statements as a footnote. It was noted that the pension payment the Town made to CALPERS on June 15, 2015 is shown on the 6-30-15 statements as an asset, included in the \$1,042,335 Deferred Outflows of Resources. A liability, Deferred Inflows of Resources related to pensions is also shown (\$322,771). These values are required because the most recent pension data available from CALPERS is as of June 30, 2014. Thus, our June 30, 2015 statements reflect a pension obligation measurement date of June 30, 2014. Note 7 explains these matters in detail.

With regard to fund balances established by the Town, Mark noted that the unassigned general fund balance of \$1,337,215 was 22% of annual expenditures which is "good". The Town's assigned general fund balances are "healthy", but not unusual.

Finally, it was pointed out that the OPEB Obligation of \$98,814 is an estimate. Mark recommends that the town go through a real calculation every five years to confirm the balance.

There were no findings to report regarding an evaluation of the town's internal accounting controls.

During the question and answer period, the following were discussed:

- There are two different UUT provisions. One credits revenues to the General Fund and the other to the Open Space Fund.
- Though a loan (current remaining balance \$87,363) made to the Wayside II Road Maintenance District does not comply with the town's current investment policy, it was made in September 2006, before the current policy was adopted.
- Mark indicated that it's not unusual for the presentation of the town's annual budget and audited statements to not align. It was noted that the audited statement do include a section that compares budgeted to actual revenues and expenditures by fund.
- It was noted that the overview discussion's reference to a stock donation was in error. The stock donation no longer exists.
- Susan Cope indicated that the town should consider relabeling the funds currently "assigned" to pensions (OPEB) as "committed", which is a higher level of intent.
- The annual audit does not include a review of dependents receiving medical insurance. However, it was noted that CalPERS now requires an annual self-audit of the medical coverage rolls.

The Committee unanimously approved a motion to approve the audit and forward it to the Town Council.

2. Handling of Town Cash Balances

Bill Urban updated the Committee on the status of his investigation into the best cash-management practice for town fund balances. Currently, funds are invested in LAIF which has a trivial return and trivial risk. One alternative is to use another pooled government fund, The San Mateo Pooled Investment, which has higher returns and higher risks. However, this is the fund that incurred a permanent loss of \$100 million in 2008 on their investment in Lehman Brothers bonds. In Bill's opinion, this is unforgiveable because they never should have had such a large concentration in any one security. Current thoughts are for the town to manage investable funds by allocating them to recommended low-cost funds and/or ETFs, and perhaps a ladder of CDs or T-bills. Further work is required to recommend how best for the town staff to implement such a program. It was agreed that after further investigation, the Committee would submit a formal proposal, including a proposed investment policy, to the Town Council for approval in late Spring or early Summer. Bill is responsible for preparing the proposal for consideration at the next meeting.

3. Utility Users Tax (UUT)

The town's cash balances have increased every year for a number of years. As previously discussed, one way to stop accumulating funds, that we then invest at rates less than inflation, would be to reduce revenues. After exploring various sources of revenue, Bill focused on the 5.5% UUT that supports the general fund. To make the impact of this tax more flexible, and still meet the town's needs, it is proposed to have a ballot measure giving the Town Council authority to annually set the UUT rate at their sole discretion within the statutory maximum of 5.5%. The rate for the current four year period was previously set by a ballot initiative to 4.5%.

After some discussion, and a review of Bill's draft proposal, the sense of the Committee is that it's a good idea for good government to not hoard cash beyond their needs. The Committee unanimously approved a motion authorizing Bill Urban to prepare a final proposal to the Town Council initiating a November, 2016 ballot measure providing the Town Council the flexibility to annually set the UUT tax rate up to the statutory cap of 5.5%.

A second tax that should be investigated in the future for flexible implementation is franchise fees collected by ATT, Comcast, Greenwaste and CalWater.

The meeting was adjourned at approximately 7:25 pm.

Ken Lavine, Acting Secretary