

**CITY OF LOS ALTOS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

**NOTE 12 – OTHER POST EMPLOYMENT BENEFITS (OPEB)**

**B. Net OPEB Liability**

*Actuarial Methods and Assumptions* – The City net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation dated January 1, 2017 that was rolled forward using standard update procedures to determine the total OPEB liability as of June 30, 2017, based on the following actuarial methods and assumptions:

Actuarial Assumptions	June 30, 2017 Measurement Date
Valuation Date	• January 1, 2017
Actuarial Cost Method	• Entry Age Normal, Level Percentage of Payroll
Contribution Policy	• City contributes full Actuarial Determined Contribution through CERBT #1
Discount Rate and Long Term Expected Rate of Return on Assets	• 6.75% at June 30, 2017
	• 6.75% at June 30, 2016
	• Expected City contributions projected to keep sufficient plan assets to pay all benefits from trust
General Inflation	• 2.75% per annum
Mortality, Retirement, Disability, Termination	• CalPERS 1997-2011 Experience Study
Mortality Improvement	• Mortality Improvement Scale MP-16
Salary Increases	• Aggregate - 3%
	• Merit - CalPERS 1997-2011 Experience Study
Medical Trend	• Non-Medicare - 7.5% for 2018, decreasing to an ultimate rate of 4.0% in 2076 and later years
	• Medicare - 6.5% for 2018, decreasing to an ultimate rate of 4.0% in 2076 and later years
PEMHCA Minimum Increases	• 4.25% for 2019+
Healthcare participation	• 60%

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global equity	57.0%	4.9%
Fixed income	27.0%	1.5%
TIPS	5.0%	1.3%
Commodities	3.0%	0.8%
REITs	8.0%	3.8%
Total	100.0%	

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**NOTE 12 – OTHER POST EMPLOYMENT BENEFITS (OPEB)**

**Discount Rate** – The discount rate used to measure the total OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that City contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

**C. Changes in Net OPEB Liability**

The changes in the net OPEB liability follows:

	Amounts in 000's		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (a) - (b)
Balance at June 30, 2016 Measurement Date	\$2,987	\$1,515	\$1,472
Changes Recognized for the Measurement Period:			
Service Cost	154		154
Interest on the total OPEB liability	207		207
Changes in benefit terms			0
Differences between expected and actual experience			0
Changes of assumptions			0
Contributions from the employer		135	(135)
Net investment income		160	(160)
Benefit payments	(134)	(134)	0
Administrative expenses		(2)	2
Net changes	227	159	68
Balance at June 30, 2017 Measurement Date	<u>\$3,214</u>	<u>\$1,674</u>	<u>\$1,540</u>

The City paid \$135,000 for retiree healthcare plan benefits, including \$57,000 in premium payments for retirees, \$77,000 for implied subsidies, and \$1,000 for administrative costs. The plan does not issue separate financial statements.

**D. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates**

The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current discount rate:

Net OPEB Liability/(Asset) (Amounts in 000's)		
Discount Rate -1% (5.75%)	Current Discount Rate (6.75%)	Discount Rate +1% (7.75%)
\$1,985	\$1,540	\$1,172

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**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**NOTE 12– OTHER POST EMPLOYMENT BENEFITS (OPEB) (Continued)**

The following table presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point or 1-percentage-point higher than the current healthcare cost trend rates.

The healthcare cost trend are as follows:

- Non-Medicare: 7.5% for 2018, decreasing to an ultimate rate of 4.0% in 2026 and later years.
- Medicare: 6.5% for 2018, decreasing to an ultimate rate of 4.0% in 2026 and later years.
- 

Net OPEB Liability/(Asset) (Amounts in 000's)		
1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
\$1,133	\$1,540	\$2,042

**E. OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB**

For the year ended June 30, 2018, the City recognized OPEB expense of \$249,000. At June 30, 2018, the City reported deferred outflows and inflows of resources related to OPEB from the following sources:

	Amounts in 000's	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made subsequent to the measurement date	\$143	
Differences between actual and expected experience		
Changes of assumptions		
Net differences between projected and actual earnings on plan investments		(\$46)
Total	\$143	(\$46)

\$143,000 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as part of OPEB expense as follows:

Year Ended June 30	Annual Amortization
2019	(\$12)
2020	(12)
2021	(12)
2022	(10)
Total	(\$46)

**CITY OF LOS ALTOS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**For the Year Ended June 30, 2018**

**NOTE 13 – CONTINGENCIES**

The City is presently involved in certain matters of litigation that have arisen in the normal course of conducting City business. City management believes, based upon consultation with the City Attorney, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the City. Additionally, City management believes that the City's insurance programs are reasonably sufficient to cover any potential losses should an unfavorable outcome materialize.

The City participates in several Federal and State grant programs. These programs are subject to the audits by the City's independent accountants in accordance with the provisions of the Federal Single Audit Act as amended and applicable State requirements. In addition, these programs are subject to further examination by the grantors and the amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. The City expects such amounts, if any, to be immaterial.

**NOTE 14 – OTHER INFORMATION**

**A. *Joint Powers Agreements***

The City participates in joint ventures through Joint Powers Authorities (JPAs) established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these JPAs exercise full powers and authorities within the scope of the related Joint Powers Agreement, including the preparation of annual budgets, accountability for all funds, the power to make and execute contracts and the right to sue and be sued. Obligations and liabilities of the JPAs are not those of the City.

Each JPA is governed by a board consisting of representatives from each member agency. Each board controls the operations of its respective JPA, including selection of management and approval of operating budgets, independent of any influence of member agencies beyond their representation of the board.

**City of Palo Alto Regional Water Quality Control Plant:** The City has an agreement with the City of Palo Alto to purchase treatment capacity at the Palo Alto Regional Water Quality Control Plant. It was formed in 1968 by a joint exercise of powers among the cities of Palo Alto, Mountain View, and Los Altos, constructed, maintains and operates sewage treatment facilities serving its member cities. The agreement provides that the City will purchase capacity for 50 years. The City of Palo Alto acts as administrator and bills each member its share of the operating costs. The audited financial statements can be obtained by contacting the City of Palo Alto at P.O. Box 10250, Palo Alto, CA 94303.

**North County Library Authority (NCLA):** The NCLA, formed in 1985 by a joint exercise of powers agreement between the City and the Town of Los Altos Hills, provides library services for member residents. The NCLA was created to provide financing for capital improvements and additional services by the public libraries serving the area. Although the City owns the libraries and their sites, the County of Santa Clara (County) is responsible for all library operations. However, since 1985, the NCLA has levied a voter approved special parcel tax to compensate for service reductions due to cutbacks by the County. The special tax has been collected by the County, transferred to the City, on behalf of NCLA, and then transferred back to the County for the specifically requested services provided by the libraries within the NCLA's service area. The City performs administrative and accounting services for NCLA. In 1991, the NCLA issued Special Tax Bonds in the amount of \$3,645,000. The Special Tax Bonds were repaid off as of June 30, 2012. In 2010, NCLA successfully passed an updated twenty year parcel tax extending the assessment term to 2030. No new debt was issued in association with this election. The audited financial statements can be obtained by contacting the NCLA at One North San Antonio Road, Los Altos, CA 94022.

**CITY OF LOS ALTOS**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**NOTE 14 – OTHER INFORMATION (Continued)**

**Community Health Awareness Council (CHAC):** CHAC was organized as a joint powers agency between the City of Los Altos, City of Mountain View, Town of Los Altos Hills, Los Altos School District, Mountain View Whisman School District, and Mountain View-Los Altos High School District. CHAC provides prevention and intervention services concentrating on positive alternatives to health abuse and self-destructive behaviors within the communities served. The audited financial statements can be obtained by contacting CHAC at P.O. Box 335, Mountain View, California, 94042.

**Silicon Valley Clean Energy Authority:** The Silicon Valley Clean Energy Authority (SVCEA) was established in 2016 by 12 agencies in Santa Clara County including the City of Los Altos. The purpose of SVCEA is to enable the member agencies to pool the electricity demand within their jurisdictions to directly procure or generate electrical power supplies on behalf of the residents and businesses in their communities, thus allowing those agencies to provide a clean energy option for residents at a competitive price with traditional energy sources. As part of the implementation of SVCEA, the City of Los Altos paid \$100,000 for its portion of the start-up costs. These funds are to be reimbursed to the City once the Authority has achieved financial sustainability.

**NOTE 15 – OTHER COMMITMENTS**

A summary of remaining authorized CIP project balances at June 30, 2018 for all City funds by service area are as follows:

Construction in progress:	
Streets and Roadways	\$2,116,124
Pedestrian Safety	6,916,275
Infrastructure and Facilities	3,073,693
Parks	1,820,463
Sewer	4,414,498
Technology	1,208,924
Community Development	<u>803,636</u>
Total	<u><u>\$20,353,613</u></u>



**REQUIRED SUPPLEMENTARY INFORMATION**





**CITY OF LOS ALTOS**  
**Note to Required Supplementary Information**  
**For the Year Ended June 30, 2018**

**COST-SHARING EMPLOYER DEFINED PENSION PLAN:**

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND RELATED RATIO**

This schedule reports the proportion (percentage) of the collective net pension liability, the proportionate share (amount) of the collective net pension liability, the employer's covered employee payroll, the proportionate share (amount of the collective net pension liability as a percentage of the employer's covered employee payroll and the pension plan's fiduciary net position as a percentage of the total pension liability.

**SCHEDULE OF CONTRIBUTIONS**

This schedule reports the cost sharing employer's contributions to the plan which are actuarially determined, the employer's actual contributions, the difference between the actual and actuarially determined contributions, and a ratio of the actual contributions divided by covered employee payroll.

**CITY OF LOS ALTOS**  
**Note to Required Supplementary Information**  
**For the Year Ended June 30, 2018**

Schedule of Proportionate Share of the  
Net Pension Liability and Related Ratio as of the Measurement Date

Cost-Sharing Multiple-Employer Defined Pension Plan  
Last 10 Years\*

	Miscellaneous Pool			
	6/30/2014	6/30/2015	6/30/2016	6/30/2017
Plan's proportion of the Net Pension Liability (Asset)	0.42907%	0.50595%	0.20298%	0.51409%
Plan's proportion share of the Net Pension Liability (Asset)	\$10,604,408	\$13,880,661	\$17,564,072	\$20,265,838
Plan's Covered Payroll	7,736,180	7,806,721	8,434,058	8,337,461
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	137.08%	177.80%	208.25%	243.07%
Plan's Fiduciary Net Position as a Percentage of the Total Pension Liability	83.03%	78.28%	73.20%	75.39%
	Safety Pool			
	6/30/2014	6/30/2015	6/30/2016	6/30/2017
Plan's proportion of the Net Pension Liability (Asset)	0.24026%	0.25820%	0.16023%	0.26642%
Plan's proportion share of the Net Pension Liability (Asset)	\$9,011,972	\$10,639,010	\$13,864,825	\$15,919,233
Plan's Covered Payroll	3,607,754	3,645,893	3,885,679	3,686,478
Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered Payroll	249.79%	291.81%	356.82%	431.83%
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability	81.46%	78.52%	73.96%	71.74%

\* Fiscal year 2015 was the 1st year of implementation.

**CITY OF LOS ALTOS**  
**Note to Required Supplementary Information**  
**For the Year Ended June 30, 2018**

Schedule of Contributions  
Cost-Sharing Multiple-Employer Defined Pension Plan  
Last 10 Years\*

	Miscellaneous Pool			
	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018
Actuarially determined contribution	\$1,081,811	\$1,456,475	\$1,544,680	\$1,769,644
Contributions in relation to the actuarially determined contributions	<u>(1,081,811)</u>	<u>(1,456,475)</u>	<u>(1,544,680)</u>	<u>(1,769,644)</u>
Contribution deficiency (excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Covered payroll	\$7,806,721	\$8,434,058	\$8,337,461	\$9,734,936
Contributions as a percentage of covered payroll	13.86%	17.27%	18.53%	18.18%
<b>Notes to Schedule</b>				
Valuation date:	6/30/2013	6/30/2014	6/30/2015	6/30/2016

	Safety Pool			
	Fiscal Year 2015	Fiscal Year 2016	Fiscal Year 2017	Fiscal Year 2018
Actuarially determined contribution	\$924,466	\$1,134,277	\$1,205,365	\$1,390,429
Contributions in relation to the actuarially determined contributions	<u>(1,076,741)</u>	<u>(1,134,277)</u>	<u>(1,205,365)</u>	<u>(1,390,429)</u>
Contribution deficiency (excess)	<u>(\$152,275)</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
Covered payroll	\$3,645,893	\$3,885,679	\$3,686,478	\$4,233,297
Contributions as a percentage of covered payroll	29.53%	29.19%	32.70%	32.85%
<b>Notes to Schedule</b>				
Valuation date:	6/30/2013	6/30/2014	6/30/2015	6/30/2016

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	(1)
Investment rate of return	7.15% (2)
Mortality	Derived using CalPERS Membership Data
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

- (1) Depending on age, service and type of employment  
(2) Net of pension plan investment expenses, including inflation

\* Fiscal year 2015 was the 1st year of implementation.

**CITY OF LOS ALTOS**  
**Note to Required Supplementary Information**  
**For the Year Ended June 30, 2018**

Schedule of Changes in the Net Other Post-Employment Benefits Liability and Related Ratios  
Retiree Healthcare OPEB Plan – Agent Multiple Employer  
Last 10 fiscal years\*  
(Amounts in 000's)

<b>Measurement Date</b>	<b>6/30/17</b>
<b>Total OPEB Liability</b>	
Service Cost	\$154
Interest	207
Changes in benefit terms	
Differences between expected and actual experience	
Changes of assumptions	
Benefit payments	(134)
<b>Net change in total OPEB liability</b>	<b>227</b>
<b>Total OPEB liability - beginning</b>	<b>2,987</b>
<b>Total OPEB liability - ending (a)</b>	<b>\$3,214</b>
<b>Plan fiduciary net position</b>	
Contributions - employer	\$135
Contributions - employee	
Net investment income	160
Administrative expense	(2)
Benefit payments	(134)
<b>Net change in plan fiduciary net position</b>	<b>159</b>
<b>Plan fiduciary net position - beginning</b>	<b>1,515</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$1,674</b>
Net OPEB liability - ending (a)-(b)	<b>\$1,540</b>
Plan fiduciary net position as a percentage of the total OPEB liability	52.08%
Covered-employee payroll	<b>\$12,546</b>
Net OPEB liability as a percentage of covered-employee payroll	<b>12.27%</b>

\* Fiscal year 2018 was the first year of implementation.