

**Finance and Investment Committee Special Meeting Town
of Los Altos Hills
Town Hall, Tuesday, January 11, 2016**

The meeting was called to order at 4:40 pm by Chairman Epstein.

Members present: Allan Epstein, Kjell Karlsson, Susan Mason, Roddy Sloss and Chris Welborn.

Member absent: Betty Kayton, Stan Mok and Bill Silver

Associate members present: Jim Lai and Frank Lloyd

Council present: John Harpootlian and Gary Waldeck

Staff present: Pak Lin, Finance & Administration Services Director and Karen Hwang, Finance Manager

Public present: None

Guests present: From PFM Asset Management LLC, Monique Spyke, Director and Charlie Cooke, Senior Analyst.

Approval of minutes

December 7, 2015 meeting minutes were approved as amended by members who attended the prior meeting.

Presentation of Fourth Quarter Investment Performance Report by PFM

Ms. Lin introduced the Town's new PFM representatives: Ms. Spyke, who has been with PFM for thirteen years and Mr. Cook, who has been with PFM for four years. (The Town's long time prior representative, Carlos Obiltes, has left the firm.) Ms. Spyke will be taking family leave in the next few months. Mr. Cook presented a twenty page meeting handout reviewing fourth quarter 2015 Town investment performance and both Ms. Spike and Mr. Cook responded to questions. The portfolio average maturity is three to four years up from two to three years in response to rising interest rates. The \$9.8 million portfolio has unrealized mark to market losses in the fourth quarter of \$55,870 attributable to rising interest rates. Other than average maturity, the portfolio is substantially unchanged with AA quality securities of which 80% were issued by the Federal Government, 19% were domestic based corporations and 1% is the CAMP money market fund. Questions and discussion related to strategy, risk of realized losses, and credit quality.

Investment Portfolio Cash Flow Analysis by Monique Spyke

A seven page meeting handout was presented stratifying the portfolio between long term and short term investments over the past five years. During the five year period, the portfolio has grown at an average rate of two percent with balances fluctuating between approximately \$11 million and \$18 million and intra year balances fluctuating from a December low to a June high an average of 16%. For short term cash requirements, PFM requests two to four weeks advance notice. Ms. Lin is studying Town based cash flows which she will present with a minimum balance requirement recommendation in the next few months. At December 31, 2015, the Town's balances are approximately \$16 million with \$3 million at Wells Fargo Bank, \$3 million in LAIF and the balance managed by PFM.

Pension Prepayment Investment Opportunities – telephone presentation

Ms. Spyke introduced Ellen Clark with PFM who presented by telephone an eleven page meeting handout describing PFM's new Supplemental Pension Trust product. The FIC expressed interest in this subject when CalPERS recently made it possible to prepay the Town's pension liability as part of changes arising from new accounting rules requiring unfunded pension liability balance sheet reporting. PFM is offering a managed equity investment fund using a significant amount of index funds with five year average returns expected to be in the six to seven percent range before deduction of PFM fees (greater of \$10,000 per year or 45 basis points on average invested funds.) Fund withdrawals may only be used for CalPERS pension plan costs. PFM also offers a more flexible Trust for OPEB plans similar to what the Town presently has with CalPERS. Ms. Lin will gather more information from CalPERS on its related products before the Committee further considers this subject.

Report on Council Activities of interest by Mayor Harpootlian

Mayor Harpootlian asked for suggestions on an initiative to provide a recurring source of funds to address Town infrastructure projects such as private roads becoming public roads and undergrounding electrical lines. For example, Mr. Harpootlian said ideas mentioned are an Air BnB hotel tax and an incremental utility based tax. Mr. Harpootlian estimates the requirement is approximately \$1 million per year.

Report on Finance Department activities of interest by Pak Lin

Ms. Lin introduced Karen Hwang, the town's new Finance Manager and presented the November 2015 CalPERS annual pension plan report along with a summary of key figures. Ms. Lin also described work to date on replacing the Bank of America as the town's bank and handed out a summary noting attributes of Wells Fargo and Bank of the West who currently appear to be the finalists. On site interviews, in depth analysis of products and references will be completed before a recommendation is presented to the Committee. In response to a question posed by the Committee in a prior meeting regarding changes to Tier 1 retiree health benefits, Ms. Lin cited the Town's employee handbook which addresses the matter. Ms. Lin reported that South San Francisco has announced it plans to leave ABAG (the Town's insurance broker/provider) which is a concern because ABAG's administrative fees will have to be paid by a smaller base. The Town will consider its alternatives including using a new brokerage/provider arrangement. Work on a new permitting system and website improvements is proceeding. Finally, Ms Lin stated that the midyear budget update will be an analysis of budget to actual as opposed to a complete re budgeting similar to last year. This presentation is expected to be available for review by the Committee at its next meeting.

Presentations from the Floor

None.

Proposed topics and dates for future meetings

The next FIC meeting date is Monday, February 1, 2016 at 4:30 pm. Topics will be the selection of a new bank and the midyear budget analysis. Other topics planned for future meetings are: Cash Flow Analysis; New procedures for permitting and license fees; Prepayment of OPEB and Pension liabilities; Financial policy and procedures review; and Review of FIC Monthly Project Summary Report.

Adjournment The meeting adjourned at 6:45 pm

Respectfully submitted by Roddy Sloss, Committee Secretary