

Approved at the September 14,  
2020 Special FIC Meeting

## Finance and Investment Committee Meeting (July 7, 2020)

**Members Present** Allan Epstein, Stan Mok, Medha Rish, Roddy Sloos, Cheryl Evans, Nathan Blair, Chris Nam (joined at 2:30p).

**Members Absent** Chris Welborn, Susan Mason.

**Associate Members Present** Kjell Karlsson. **Associate Member Absent** Jim Lai, Frank Lloyd.

**Council Present** Michelle Wu, Mayor. Kavita Tankha, Vice Mayor.

**Staff Present** Carl Cahill, City Manager. Sarina Revillar, Administrative Services Dir. Cody Einfalt, Management Analyst (Zoom host).

**Guests Present** Doug Pryor, Bartel & Associates.

**Public Present:** None.

**NOTE: This meeting was held via a Zoom online meeting session: <https://vimeo.com/436445895>.**

Mr. Sloss, Chairman, called the meeting to order at 2:05 pm and introduced new member Nathan Blair and guest, Doug Pryor. Approval of minutes - Mr. Epstein - moved. The May 12, 2020 meeting minutes were approved by members in attendance.

### Agenda Items

1. **New FIC member:** Nathan Blair was introduced and he provided background information..
2. **CalPERS Pension Plan Report on unfunded liability: Doug Pryor, Bartel & Associates.** Prior to the meeting a Unfunded Pension Liability memo by Mr. Sloss was distributed to the Committee.
  - a. Mr. Sloss provided background information on the CalPERS plan, valuation, timing and discount rate and the potential benefit of prefunding due the large difference between Town cash earnings interest rate and the seven percent discount rate used by CalPERS.
  - b. Mr. Pryor noted that at 84% funded, the Town's liability is better funded than 94% of the other agencies' plans in the state. Bartel & Associates believe the 7% discount rate used by CalPERS may be overly optimistic and difficult to achieve over the long term. Approximately \$1 million would be added to the Town's unfunded liability if a more conservative 6.5% rate was used. Not advisable to be overfunded; credits not given against normal payments due and excess may not be recoverable. If close to overfunding, advisable to put prepayments in PARS with greater flexibility. [Note: June 30, 2019 CAFR, the Unfunded Liability is \$1.9 million offset by \$0.5 million in the PARS Pension Trust leaving approximately \$1.4 million net outstanding.].
  - c. The CalPERS annual actuarial report as of June 30, 2019 should be available in the middle of next month with updates of the unfunded liability, assumption changes, and a sensitivity analysis of underlying assumptions such as the discount rate, mortality, and inflation all of which have a significant impact on the unfunded liability calculation. Major actuarial assumption changes in the new report are not expected. CalPERS investment return for fiscal 2019 was 6.7% and estimates for fiscal year ended June 30, 2020 are between 4% - 4.5%, which is surprisingly good given Covid 19 uncertainties affecting market returns. Mr. Pryor expects the report to show an unfunded liability between \$2- \$3 million. Based on higher CalPERS investment returns and likely need for additional payments, earlier CalPERS payment will reduce long-term cost.
  - d. Ms. Revillar's favored waiting for the next CalPERS actuarial report and reviewing an updated property tax forecast before reconsidering prepaying the unfunded liability. She also noted that the PARS May statement balance is \$542,202.

- e. Mr. Sloss stated CalPERS actuarial assumptions from which the liabilities are derived are hard to estimate and volatile, which could cause overfunding. As discussed, overfunding should be avoided. Town can protect against assumption uncertainty by maintaining a reserve, which reduces the unassigned general fund balance. General Fund Pension Reserve is about \$2.6M. This figure should be re-visited during the review of the Reserve Policy before any updated recommendations are offered to the Staff/Council.
- f. Mr. Epstein stated there is a discrepancy between the reserve policy attached to this agenda and what was presented to the FIC previously. This discrepancy needs to be resolved and the reserve amounts recalculated utilizing the most recent financial figures.
- g. Mr. Mok expects long term bond interest rates to remain near zero for several years which will drive CalPERS investments into equity to achieve expected goals which in turn will add more volatility. Believes rates of return will likely be lower.
- h. In the event of market losses, liabilities are adjusted with the next valuation, however CalPERS smooths out the annual payments to make up those losses over as much as twenty years.
- i. Employees are protected by receiving inflation adjusted benefits, however, the impact of increased inflation is complex but may increase the overall pension cost to the Town,
- j. The FIC plans to follow-up with an updated summary for Mr. Pryor's review after the new CalPERS reports have been issued.

**Council and Staff Reports on Recent Activity:**

**3. Report on Finance matters: Staff**

- a. Ms. Revillar noted the final portion of the audit field work is scheduled for the end of September. And that Staff have addressed internal control issues which arose primarily from the prior staff.
- b. Additional refundable deposits are scheduled to be released between May and June. Since the last report the Town had issued \$421,000 in refunds with 450 permits left to be resolved. An update will be provided at the next Council meeting. Upon questioning, Ms. Revillar stated that most of the deposits were not staff work and would be refunded. To date only \$121,000 has been recorded as revenue for staff time. Largest deposits are Landscape deposits ~~for~~ \$5,000 and range to deposits under \$1000. The largest long standing unreconciled deposit is on a Bassit Lane subdivision for \$300,000 that remains in process. At present, there is \$368,000 of unapplied deposits that are not yet dispositioned.
- c. A discussion regarding the Budget process requested by Ms. Tankha resulting is a request for Staff and the FIC to meet for the purpose of identifying practical ideas for streamlining the process. Meeting participants noted matters they would like to discuss.

**4. Proposed new Unclaimed Checks Policy and Procedures: Staff**

- a. The purpose of the draft Unclaimed Check Policy is limited to outstanding checks. Currently these items total approximately \$25,000 over three years old from \$67 to \$8,000, and \$87,000 greater than six months old. A new procedure is being proposed and is awaiting legal review.
  - i. Mr. Sloss noted an outstanding deposit is different than an outstanding check and requires different handling. Mr. Epstein suggested for clarity that the policy be renamed to specify "Unclaimed Checks" instead of "Checks and Funds" and suggested staff pick a particular time of year when this work is to be performed..
  - ii. A second policy is needed for deposit refunds. Transparency would be improved if the Town issued statements or provided a means for depositors to check their deposit balance.

- iii. Mayor Wu requested the FIC send additional comments to Staff before the policy is presented to Council on July 16, 2020.

**5. City Council Activities of Interest:**

- a. Mayor Wu requested the FIC consider other approaches to fund infrastructure improvement. Mr. Sloss indicated he would further consider potential FIC contributions.
- b. Vice Mayor Tankha noted that a small pilot undergrounding project is planned and those results would guide Council on the feasibility of proceeding.
- c. Greenwaste: Vice Mayor Tankha updated the FIC on the Town's approach toward resolution of Greenwaste contract issues and the Council's request that the City Manager form a small resident sub-committee.
  - i. Mr. Cahill offered his perspective on the issues and felt efforts should be focused on customer service. The Town has asked Greenwaste to defer some of this year's planned increase due to Covid-19. Portola Valley and Woodside are asking for similar relief. Mr. Cahill clarified that Town Cleanup Day situation with Foothill.
  - ii. Mr. Epstein presented comparative figures on Greenwaste revenue for the first calendar quarter 2019 vs. 2020. Due to changes in service policy, revenue increased 25.3% and net revenue increased 39.2% with the elimination of the franchise fee. Mr. Epstein explained why he believed the economic provisions of the contract could be revisited.
  - iii. Mr. Cahill thinks Greenwaste will have a different position but is willing to explore the issue.
  - iv. Mayor Wu stated the Council direction was to form a subcommittee and she suggested asking Greenwaste to respond to Mr. Epstein's findings.

**6. Other topics:**

- a. Review of previously approved FIC Reserve Policy: Council did not approve policy but did approve adjusting entries in January 2019. Policy needs updating and Mr. Sloss will work with Staff on those corrections. Ms. Revillar said the adjustment could occur at mid-year.
- b. Election of FIC officers is deferred to the next meeting.
- c. Excess Sewer Fund Overhead Cost Allocation - Mr. Epstein provided background on the cost allocation study, and due to the multi-year delay in its completion, the commitment by Council to refund any past excess overhead charges to the Sewer Fund. Staff indicated that they would prefer to do the analysis and submit their results to the FIC. Mr. Epstein estimated the amount to be \$80K per year over the last four years. Past amounts due could be taken as credits off of future years' allocation.

**Future Meeting Topics**

- a. Deborah Padovan, Town Clerk, clarified that Annual Committee reports to the Council have been indefinitely deferred due to Covid 19 issues.
- b. The next meeting date is tentatively Sept 14, 2020 with the following tentative non recurring items: Officer election, PARS report, CERBIT presentation, Reserve policy review and Pension Prepayment.

**Adjournment** At approximately 4:14 pm, there were no further matters to be discussed and the meeting adjourned.

*Respectfully submitted: Medha Nicky Rishi, Committee Secretary*