



Minutes Redondo Beach
Budget & Finance Commission, December 14, 2023
Regular Meeting 6:30 p.m.

REGULAR MEETING OF THE BUDGET AND FINANCE COMMISSION – 6:30 PM

A. CALL MEETING TO ORDER

A Regular Meeting of the Redondo Beach Budget and Finance Commission was called to order at 6:30 p.m. by Chair Castle, in the City Hall Council Chambers, 415 Diamond Street, Redondo Beach, California.

B. ROLL CALL

Commissioners Present: Allen, Jeste, Marin, Samples, Sherbin, Woodham,
Chair Castle

Commissioners Absent: None

Officials Present: Wendy Collazo, Finance Director
Stephanie Meyer, Assistant Financial Services Director
Doug Kaku, Grants Financial Administrator

C. SALUTE TO THE FLAG

Chair Castle led in the salute to the flag.

D. APPROVE ORDER OF AGENDA

The Budget and Finance Commission concurred to approve the Order of the Agenda.

E. BLUE FOLDER ITEMS – ADDITIONAL BACK UP MATERIALS

E.1. For Blue Folder Documents Approved at the Budget and Finance Commission Meeting

CONTACT: WENDY COLLAZO, FINANCE DIRECTOR

Grants Financial Administrator Kaku confirmed there were no Blue Folder Items for tonight's meeting.

F. CONSENT CALENDAR

F.1. APPROVAL OF AFFIDAVIT OF POSTING FOR THE SPECIAL BUDGET AND FINANCE COMMISSION MEETING OF DECEMBER 14, 2023.

CONTACT: WENDY COLLAZO, FINANCE DIRECTOR

There were no public comments on the Consent Calendar.

Motion by Commissioner Samples, seconded by Commissioner Marin, to approve the Consent Calendar, as presented. There being no objections, Chair Castle so ordered.

G. EXCLUDED CONSENT CALENDAR ITEMS - None

H. PUBLIC PARTICIPATION ON NON-AGENDA ITEMS

H.1 For eComments and Emails Received from the Public

There were no public comments on non-agenda items.

I. ITEMS CONTINUED FROM PREVIOUS AGENDAS – None

J. ITEMS FOR DISCUSSION PRIOR TO ACTION

J.1. CalPERS Investment Overview-Presentation to the City of Redondo Beach

CONTACT: STEPHANIE MEYER, ASSISTANT FINANCIAL SERVICES DIRECTOR

Assistant Financial Services Director Meyer introduced CalPERS representatives and deferred to them for a presentation.

Kelly Fox, CalPERS, via Zoom, introduced Sterling Gunn and Christine Reese narrated a PowerPoint presentation with an overview of CalPERS investments and discussed investment objectives, their harvesting strategy, the benefits of being a long-time investor, risk of loss and risk appetite and maximizing returns and minimizing losses.

Discussion followed regarding whether the risk of loss affects asset allocation.

Commissioner Samples expressed concerns with the chart on Slide 5 in that the black line is left of the mean distribution and shows as a gain.

Mr. Gunn stated they are regarding anything above zero to be a gain and that it might not be sufficient for their needs.

In reply to Commissioner Samples' question in terms of what CalPERS needs to achieve so that the City does not have sudden and unexpected additional contributions to a defined benefit program, Mr. Gunn stated that the long-term, actuarial target is 6.8 which is the projected return CalPERS needs to make the plan work.

Mr. Gunn continued with the presentation addressing the role of included asset classes, allocation of current assets, understanding the relationship between asset classes, the percentage of total assets in fixed income, public and private equity, the length of the ALM cycle and looking for better opportunities to better increase diversification.

Discussion followed regarding returns for public equity, over time and CalPERS quarterly trust statements available on the CalPERS website.

Christine Reese, CalPERS, proceeded with the presentation addressing capital market assumptions and a survey of fifteen providers.

Commissioner Woodham stated it would be helpful to include specific return values on the Chart on Slide 7.

Sterling Gunn noted the importance of not getting caught up on quarter-by-quarter changes but rather having a good understanding of where the middle ground is, for the long run and focusing on that. He added that for any particular portfolio there has been a range of projected returns from 6 to 8, over a ten year period and reported it is an equity centric portfolio.

Discussion followed regarding differences between private and public equity, minimizing exposure to funds, diversifying the private equity portfolio, expected returns for private and public equity, the benefits of diversification and the importance of the weight in the portfolio.

Mr. Gunn continued responding to questions from the Commission; noted they are hoping to increase the allocation to private equity; mentioned the need to balance the desire for returns against the desire for liquidity; spoke about different aspects to liquidity and reported they have more than sufficient liquidity to pay their bills now and in the future. Additionally, he spoke about making sure they do not have to unwind strategies to provide liquidity and noted there are always tradeoffs between the return and the different kinds of risks in the portfolio.

Commissioner Jeste referenced an article in the Wall Street Journal claiming that CalPERS missed \$11 billion in gains by not committing enough money to private equity.

Mr. Gunn reported that statement was made at CalPERS September 2023 Board meeting; pointed out they increased their allocation to private equity in 2021 and are discussing doing the same, now and noted the important thing is consistency and CalPERS was not consistent during that ten year period.

Discussion followed regarding the frequency of balancing the portfolio using the asset classes, restrictions in terms of capacity limits, the intent to design a diversified portfolio, co-investments, fund relationships and the status of hiring a new CIO.

Mr. Gunn spoke about the importance of a mid-cycle review to be able to adjust appropriately; addressed the expected range of returns; discussed the value of diversification, the drawdown risk measure during a three year period and provided a summary of the PERF performance.

Discussion followed regarding historical returns, performance of other pension funds compared to CalPERS, the median return for the last five years and setting a risk level to meet a projected return.

Commissioner Samples felt that the CalPERS investment horizon is far too long and therefore, far too volatile and wondered whether it would make sense to create a fund in the background, in the City's budget, to accommodate the shortfalls or rely on the performance of the CalPERS portfolio.

In reply to Commissioner Woodham's question, Christine Reese, CalPERS, provided information regarding CalPERS affiliates and their performance summary.

City Treasure Solomon asked whether CalPERS rebalances the portfolio after the mid-cycle review or wait until the quarter ends and Mr. Gunn reported rebalancing is a contrarian strategy which over time, evens out the portfolio and adds to its value; stated the expected return is the expected net return and mentioned impacts of turnover in CalPERS in terms of investment strategies and asset allocation.

City Treasurer Solomon spoke about the City being funded in miscellaneous and safety over 90%; mentioned the City issues lease revenue bonds and made a substantial payment into CalPERS and asked whether there is a sweet spot for being funded at 70 or 80 percentile.

Mr. Gunn spoke about a wide range of the degree of funding; reported the target level is a preference; discussed risk and affordability; noted those are choices specific to the plan and stated circumstances vary from one plan to the next.

Commissioner Allen asked about the cap for private equity and Mr. Gunn reported there is no cap, and the amount is constrained by the Board.

In reply to Commissioner Samples about whether other funding is necessary in order to meet the City's future requirements, Mr. Gunn suggested the actuary has the answer to that question.

Commissioner Allen felt that CalPERS will have challenges in reaching the 6.8 return.

Mr. Gunn reiterated the importance of consistency.

Ms. Reese reported that all Actuarial reports are on their website.

There were no public comments on this item.

Motion by Commissioner Woodham, seconded by Commissioner Samples, and approved by roll call vote, to receive and file the report.

The motion carried with the following roll call vote:

AYES: Allen, Jeste, Marin, Samples, Sherbin, Woodham, Chair Castle
NOES: None
ABSENT: None
ABSTAIN: None

The motion carried 7-0-0.

J.2. DISCUSSION OF PARTICIPATION IN THE INDEPENDENT AUDITOR SELECTION PROCESS

CONTACT: STEPHANIE MEYER, ASSISTANT FINANCIAL SERVICES DIRECTOR

Finance Director Collazo presented details of the Administrative Report; discussed plans to issue an RFP with a January 2024 schedule; reported it has been customary for the Chair of the Budget and Finance Commission to be on the interview panel.

There were no public comments on this item.

Motion by Commissioner Samples, seconded by Commissioner Marin, to appoint Chair Castle to be the Budget and Finance Commission representative on the auditor selection interview panel. There being no objections, Chair Castle so ordered.

Commissioner Samples thanked Financial Services staff for addressing this item earlier in the process than previously.

Motion by Commissioner Samples, seconded by Commissioner Marin, and approved by roll call vote, to receive and file the report.

The motion carried with the following roll call vote:

AYES: Allen, Jeste, Marin, Samples, Sherbin, Woodham, Chair Castle
NOES: None
ABSENT: None
ABSTAIN: None

The motion carried 7-0-0.

K. MEMBER ITEMS AND REFERRALS TO STAFF

Commissioner Allen expressed her wishes for a Merry Christmas and Happy New Year.

Commissioner Woodham talked about being critical of CalPERS reporting and not their performance; requested information regarding how to access their quarterly return reports and questioned the reason they stated they would not provide information regarding the difference in the premium from private equity compared to public equity and discussed the volatility of the portfolio since 2014.

Commissioner Samples spoke about the market being volatile in the last few years; noted it is impossible to time the highs and lows, but the mid-range can be captured and be much more stable and suggested reviewing the actuarial reports for future planning.

Finance Director Collazo reported this is a two-part presentation with the investment side presented today and then the actuarial side; spoke about the Financial Services staff being able to jump on this and get educated to answer questions that have been lingering for years; stated staff has found useful tools to help in forecasting and add the customization needed for the City's demographics and noted staff will provide the reports requested by the Commission.

L. ADJOURNMENT – 8:20 p.m.

There being no further business to come before the Budget and Finance Commission, motion by Commissioner Samples, seconded by Commissioner Woodham, to adjourn the meeting at 8:20

p.m., to a Regular meeting to be held at 6:30 p.m. on January 11, 2024, in the Redondo Beach City Hall Council Chambers, 415 Diamond Street, Redondo Beach, California. There being no objections, Chair Castle so ordered.

All written comments submitted via eComment are included in the record and available for public review on the City website.

Respectfully submitted:

Wendy Collazo
Finance Director