

OPENING SESSION

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

ROLL CALL

Commissioners Present: Johnson (arrived 6:39), Marin, Nguyen, Solomon, Woodham, Chair Conroy
Commissioners Absent: Samples
Officials Present: Marni Ruhland, Finance Director
Eleanor Manzano, City Clerk
Doug Kaku, Grant Administrator

SALUTE TO THE FLAG

Chair Conroy led the Commissioners in a Salute to the Flag.

APPROVAL OF ORDER OF AGENDA

Motion by Commissioner Solomon, seconded by Commissioner Marin, to approve the Order of Agenda as presented. Motion carried unanimously, with the following roll call vote:

AYES: Marin, Nguyen, Solomon, Woodham, Chair Conroy
NOES: None
ABSENT: Johnson, Samples

BLUE FOLDER ITEMS - NONE

CONSENT CALENDAR

- F.1. APPROVAL OF AFFIDAVIT OF POSTING** for the Regular Budget and Finance Commission Meeting of December 10, 2020.
- F.2. APPROVAL OF THE MINUTES** for the Regular Budget and Finance Commission Meeting of November 12, 2020.
- F.3. RECEIVE AND FILE** the Budget and Finance Commission's Tentative Calendar for 2020/2021.

Motion by Commissioner Solomon, seconded by Commissioner Woodham, to approve items F.1. – F.3. Motion carried, with the following roll call vote:

AYES: Marin, Nguyen, Solomon, Woodham, Chair Conroy
NOES: None
ABSENT: Johnson, Samples
ABSTENTION: Solomon (Item F.2.)

EXCLUDED CONSENT CALENDAR – NONE

PUBLIC PARTICIPATION ON NON-AGENDA ITEMS – NONE

ITEMS CONTINUED FROM PREVIOUS AGENDAS (OLD BUSINESS) – NONE

ITEMS FOR DISCUSSION PRIOR TO ACTION (NEW BUSINESS)

J.1. DISCUSSION AND POSSIBLE ACTION REGARDING CALPERS AND CITY OF REDONDO BEACH UPDATE

Finance Director Ruhland introduced David Teykaerts, with the Stakeholder Relations Division of CalPERS.

Mr. Teykaerts provided the following report:

- CalPERS Investment Performance (FY 2019-20)
 - Assets under management - \$389 million
 - Overall funded status – 70.8%
 - Investment returns – 4.7%; target rate of return – 7%
 - Long-term Investment Performance
 - Three Key Priorities at CalPERS – Investment risk, Employer affordability, Climate risk
- Challenges and Investment Strategy
 - Value of Being a Long-Term Investor – Recovery 3/24 – 6/30: +36.2%
 - Availability of Low-Risk Investment Opportunities Have Decreased Over the Years
 - Allocate More Funds to the Most Successful Strategies – Private equity, Private lending, Leverage
- Amortization of pension costs
 - Investment Gains/Losses Are Phased in Over Many Years
 - 20-year UAL Amortization – 5-year ramp, 15 years of full payments
 - Valuation as of June 30, 2019
 - 7% discount rate, 2.5% inflation assumption
 - 6.7% asset return gross of administrative expenses in FY 2018-19
 - 4.7% asset return gross of administrative expenses in FY 2019-20
 - Quadrennial experience study, may lead to changes in demographic assumptions in the June 30, 2021 valuation
 - Too early to know impact of COVID-19 on plan experience and cost
 - Amortization Policy Changes – shift from unfunded liabilities going from 30 to 20 years going forward; if there is unfunded liability generated the City will have 20 years to pay it off rather than 30 years.
- Snapshot of the City's current pension costs
 - Projected UAL Payments – Miscellaneous Plan and Safety Plan
 - Total Employer Contributions (Normal Cost + UAL Payment)
 - Miscellaneous Plan – Accrued Liability Funded Status
 - Safety Plan – Accrued Liability Funded Status
 - Plan Termination Cost (hypothetical):
 - Miscellaneous: \$196.5 million
 - Safety: \$377.5 million
 - Available Cost-Saving Tools:
 - Unfunded Liability Lump Sum Prepayment – Savings of 3.5% of UAL interest cost. Annual window of July 1 – July 31
 - Review Member Contribution Options
 - Employer Paid Member Contributions - Collectively bargained for Classic members; prohibited for PEPRA members
 - Member cost-sharing – Collectively bargained
 - Golden Handshake
 - Employer purchases an additional 2 years of service credit to induce early retirement
 - Potential for immediate staffing cost saving but increases long-term liability

- Only effective if vacated positions remain unfilled
- Pre-funding Trusts (Section 115 Trusts)
 - Employer-controlled contributions that generate investment income
 - Dedicated trust to reduce future pension obligations
 - CalPERS' offering – California Employers Pension Prefunding Trust (CEPPT)
- Major CalPERS decisions coming in 2021
 - Asset Liability Management
 - June – Capital Market Assumptions – CalPERS best estimation of what the overall investment returns will be for the next 10-30 years; currently 6.2% for 10-year period and 7.4% for 30-year period
 - November – Experience study results – Actuaries will look at how long members of the system are living, the inflation, the level of hiring at the agencies

In reply to Commissioner Woodham regarding the possibility of a pension obligation bond, Mr. Teykaerts said it is calculated at 7%. He said there are opinions for it and against it, and mentioned that GFOA recommends not doing it.

Commissioner Solomon noted the possible impact of stakeholder defaults or cities being unable to meet their obligations due to COVID. Mr. Teykaerts agreed, noting the impact being significant for cities that rely on tourism and sales tax. He said there is a limited amount of loosening they can do, however, they are focusing on supporting efforts to get financial relief for local governments in terms of stimulus.

In response to Commissioner Solomon regarding early buyouts and layoffs impacting payouts, and pension costs, Mr. Teykaerts said the actuaries will review the actuarial assumptions that go into the cost projections. He said due to layoffs, disability retirements, golden handshakes, death, and other changes to employment levels, the employers in the system will impact what the overall expected costs are.

In response to Commissioner Woodham regarding the 4.7% asset return gross of administrative expenses for FY 2019-20, Mr. Teykaerts said he will check into whether it is gross or net, and noted that it could possibly be a mistake on the slide. Commissioner Woodham said they need net returns.

In response to Commissioner Johnson regarding CalPERS being self-funded via investment returns, funded via state, or a combination of both, Mr. Teykaerts said it is both.

Mr. Teykaerts shared information on the Pension Outlook Tool, essentially a free “what-if” tool to try different variables in the equation to see what the costs and impacts to the City would be. It is available on myCalPERS and the CalPERS website.

Mr. Teykaerts said there are options, but they are limited. He said one option is if pension costs are paid upfront in one lump sum there is a savings.

In response to Commissioner Johnson regarding CalPERS' overall financial statements being audited by an external auditor, Mr. Teykaerts said they do have an external auditor.

In response to Commissioner Solomon regarding the member cost sharing that is negotiated through collective bargaining, Mr. Teykaerts said some cities have collectively bargained to have members pay more than the minimum current required contribution to their pensions.

Mr. Teykaerts mentioned that for PEPRA members, which are employees hired in 2013 and after, member contributions can go up if the investment performance is lower over time. He said it can be increased 1% per year, but this does not happen very often.

Mr. Teykaerts said 30% of all CalPERS members are PEPRAs members.

Mr. Teykaerts said he took notes and will provide the information the Commissioners requested, to Finance Director Ruhland.

Motion by Commissioner Woodham, seconded by Commissioner Solomon, to receive and file the Discussion and Possible Action Regarding CalPERS and City of Redondo Beach Update. Motion carried unanimously, with the following roll call vote:

AYES: Johnson, Marin, Nguyen, Solomon, Woodham, Chair Conroy
NOES: None
ABSENT: Samples

J.2. DISCUSSION AND POSSIBLE ACTION REGARDING ANNUAL FINANCIAL REPORTS FOR FISCAL YEAR ENDED JUNE 30, 2020.

Finance Director Ruhland said the audit has been completed for FY 2019-20, which include the following draft reports:

- Comprehensive Annual Financial Report (CAFR)
- Inmate Trust Fund Financial Statement
- Enterprise and Internal Service Funds Financial Statements
- Single Audit Report is not available yet – guidance has not been released yet from OMB

Finance Director Ruhland pointed out that the financial statements will be presented to the City Council at the December 15, 2020 meeting. They have an unmodified opinion, meaning the auditors had no findings.

Finance Director Ruhland introduced Bryan Gruber of Lance, Soll and Lunghard, LLP (LSL)

Mr. Gruber provided the following report:

- Conducted financial year-end audit, the purpose being to form an opinion on the financial statements; that they have been properly stated in accordance with generally accepted accounting principles and can be relied upon that they are accurately stated in all material respects.
- An unmodified opinion was rendered, meaning the financial statements can be relied upon.
- Provided separate audits on the Inmate Trust Fund, the City's Enterprise Fund, and the Internal Service Funds.
- Required to report to the governing board if they identify deficiencies in internal controls that rise to the level as a material weakness, or significant deficiency – no material weaknesses or significant deficiencies.
- Required to communicate to the governing board if they have difficulties in conducting their audit, or disagreements with management regarding accounting procedure and presentation - no matters there.
- Required to communicate significant corrections, or adjustments to the financial statements – nothing to report there.
- New accounting pronouncement implementations – GASB delayed guidance that was to be effective this year as a result of COVID. No new accounting procedures were adopted; they were postponed to future years.

In response to Commissioner Johnson regarding information in financial statements related to funding, or audit procedures the City received for COVID related benefits, Mr. Gruber replied that with the audit risk planning, they made sure that the procedures were followed consistently, and implemented effectively from a procedural perspective.

In response to Chair Conroy regarding credit worthiness of the City, Mr. Gruber said the City gets a credit rating from a rating agency regularly where they look through a variety of health factors. He said they are tasked in the area of “can the City continue as a going concern, is it in financial crisis and can continue for a period of greater than one year after the audit date”. He said they look at financial credit areas, but primarily the purpose is not designed to rate or evaluate those factors. In addition, they look at the City’s long-term debt, that they are in compliance with the debt covenants which might require ratios and they would re-calculate those ratios and make sure they are compliant with that.

In response to Commissioner Woodham regarding the City’s credit rating, Finance Director Ruhland said she will provide that to the Commissioners.

Motion by Commissioner Johnson, seconded by Commissioner Woodham, to receive and file the Discussion and Possible Action Regarding Annual Financial Reports for Fiscal Year Ended June 30, 2020. Motion carried unanimously, with the following roll call vote:

AYES: Johnson, Marin, Nguyen, Solomon, Woodham, Chair Conroy
NOES: None
ABSENT: Samples

J.3. DISCUSSION AND POSSIBLE ACTION REGARDING HISTORICAL FUND BALANCES OF THE SELF-INSURANCE PROGRAM FUND.

Finance Director Ruhland provided the following report:

- Actual revenue and expenditures and the difference year-over-year.
- The greatest fluctuations are from the claims line items, which include settlements and includes fighting and/or settling claims, medical expenses related to Workers’ Compensation claims, and the recording of outstanding claims.
- During earlier years, the general fund had sufficient balance to transfer funds to the self-insurance program fund to keep the balance from going negative.
- While the negative fund balance is growing the positive cash balance is also growing, indicating that most of the expenditures impacting fund balance are based on the actuarial calculation of outstanding claims and add to the liabilities but do not reduce cash.
- For a couple of years, Fire department constant manning expenses that were related to Workers’ Compensation leave time were recorded in the Self-Insurance Program Fund.
- Fiscal 07-08 determination of a policy by City Council for the discount rate and the confidence level, and once that was determined as opposed to going 100% for everything, that freed up some fund balance and it was transferred to the Capital Improvement fund, and \$1 million was used for construction of the North Branch Library.

In response to Chair Conroy regarding the inability to transfer any funds to the general fund, or Capital Improvement Fund for a number of years primarily due to increased costs over time, Finance Director Ruhland agreed.

Commissioner Solomon asked about the 07-08, \$3.6 million for the North Branch Library, and indicated that he thought some of it came out of the Harbor Enterprise. Finance Director Ruhland said it did have an impact to the Harbor Tidelands Fund, but it was from the self-insurance fund to the capital projects fund where the expenditure was made. She said he is recalling that the State Lands Commission looked at that transaction because the Harbor Tidelands Fund pays into the Self-Insurance Program Fund, so the State Lands Commission came back with their determination in a report saying they did approve of that, but they did not go so far as to say the money needed to

be returned. They said if it happens again where it is used for non-self-insurance purposes, it will need to be refunded.

In response to Commissioner Solomon regarding money in the self-insurance fund for other purposes, Finance Director Ruhland said it happens because of the large cash balance. She said except for the one transfer in 07-08, when the discount rate and confidence level were changed, the other transfers for items not related to insurance, were paid back. She explained where they are seeing employee compensation, those are transfers in (rather than out); part of the cost of administering the self-insurance program is having risk management staff, and that staff gets the same employee compensation as the rest of the staff.

Motion by Commissioner Solomon, seconded by Commissioner Woodham, to receive and file the Discussion and Possible Action Regarding Historical Fund Balances of the Self-Insurance Program Fund. Motion carried unanimously, with the following roll call vote:

AYES: Johnson, Marin, Nguyen, Solomon, Woodham, Chair Conroy
NOES: None
ABSENT: Samples

J.4. DISCUSSION AND POSSIBLE ACTION REGARDING CALPERS AND WORKERS' COMPENSATION SUBCOMMITTEE REPORT

Chair Conroy noted that Commissioner Woodham identified that the City of Manhattan Beach has approved \$90 million in pension obligation bonds.

Chair Conroy also noted that Finance Director Ruhland plans to have the City's financial advisor at the January meeting to make a presentation on pension obligation bonds, including a comparison of the bond debt service payments to the CalPERS amortized amounts. Finance Director Ruhland confirmed they will be here.

Finance Director Ruhland said she spoke to the City of Manhattan Beach's Finance Director and learned that they went to City Council three times, and the third time they approved going forward. They are beginning the process, with a validation process that has to be completed and they are headed towards that.

In response to Commissioner Johnson regarding the residents' approval of that, Finance Director Ruhland said pension obligation bonds do not have to go to a vote of the residents. She said the validation process takes 90 days and the Commission will learn more about that in January. She said following the validation process, Manhattan Beach will get ready to issue bonds, which will take a couple of months.

Commissioner Solomon asked about a letter that the Commission sent to City Council about the additional actuarial information on the Workers' Compensation costs, and if City Council addressed it.

Finance Director Ruhland said if they wanted to proceed, she would have received a referral to staff, and she has not. She said the Commissioners are welcome to contact the Mayor and their specific Councilperson to ask them about the letter.

IX. MEMBER ITEMS AND REFERRALS TO STAFF

Chair Conroy confirmed that there was no contact from staff or City Council regarding the letter that was written from the Budget and Finance Commission to the City Council.

Finance Director Ruhland reiterated that they could personally contact the Mayor and their specific Councilperson.

In response to Commissioner Solomon regarding them electing to spend the \$1,500, Finance Director Ruhland said it could be appropriated separately, or staff could be directed to find it in their budget.

ADJOURNMENT OF BUDGET & FINANCE COMMISSION – 9:03 P.M.

There being no further business to come before the Commission, Commissioner Woodham moved, seconded by Commissioner Solomon, to adjourn the meeting at 9:03 p.m., to a Regular Meeting to be held at 6:30 p.m., on January 14, 2021, in the Redondo Beach Council Chambers at 415 Diamond Street, Redondo Beach, California.

Motion carried unanimously, with the following roll call vote:

AYES:	Johnson, Marin, Nguyen, Solomon, Woodham, Chair Conroy
NOES:	None
ABSENT:	Samples

Respectfully submitted,

Marni Ruhland
Finance Director