

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: Nguyen, Samples, Solomon, Woodham, Chair Conroy
Commissioners Absent: Johnson, Marin
Officials Present: Marni Ruhland, Finance Director
 Doug Kaku, Grants Administrator

SALUTE TO THE FLAG

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

APPROVAL OF ORDER OF AGENDA

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

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

BLUE FOLDER ITEMS

Motion by Commissioner Solomon, seconded by Commissioner Woodham, to receive and file the presentation for Item J.1. Motion carried unanimously, with the following roll call vote:

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

CONSENT CALENDAR

F.1. APPROVAL OF AFFIDAVIT OF POSTING for the Regular Budget and Finance Commission Meeting of January 14, 2021.

F.2. APPROVAL OF THE MINUTES for the Regular Budget and Finance Commission Meeting of December 10, 2020.

F.3. RECEIVE AND FILE the Budget and Finance Commission's Tentative Calendar for 2020/2021.

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

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

EXCLUDED CONSENT CALENDAR – NONE

PUBLIC PARTICIPATION ON NON-AGENDA ITEMS – NONE

ITEMS CONTINUED FROM PREVIOUS AGENDAS (OLD BUSINESS)

Chair Conroy commented on Item J.1., the CalPERS presentation from the last meeting. He said that while private equities make up 8 percent of the investment portfolio, they account for nearly 50 percent of associated administrative costs. He added that with plans to increase private equities to 12 percent, the fees will end up being 50 percent of the total associated costs and become insurmountable. He recommended that equity management fees be part of any negotiations by the City.

In response to Commissioner Woodham regarding his recommendation, Chair Conroy explained the fees related to the private equities make up a considerable portion of fees, therefore, the City is paying a lot more for those investments than other investments in the portfolio.

Finance Director Ruhland said the City does not negotiate with CalPERS.

In response to Commissioner Solomon regarding a board, or group of stakeholders who meet and/or weigh in on policies and procedures of CalPERS, Finance Director said CalPERS has a board, comprised of elected and appointed members. She said the only way to weigh in is to speak before the board when they are discussing that topic, during the public participation portion of their agenda.

Commissioner Woodham commented that private equity and private real estate have higher fees than regular equity, however, what should be of concern is the after-fee returns. He said on a historic basis and a projected basis, private equity should return between 2 percent and 4 percent more than public equities and as long as CalPERS can continue to show higher after-fee returns, it is not something to recommend doing away with.

ITEMS FOR DISCUSSION PRIOR TO ACTION (NEW BUSINESS)

J.1. DISCUSSION AND POSSIBLE ACTION REGARDING REFINANCING THE CITY'S CALPERS UNFUNDED ACCRUED LIABILITY WITH BONDS

Finance Director Ruhland introduced Larry Kosmont and Dan Massiello, of Kosmont Transactions Services.

Mr. Kosmont and Mr. Masiello provided the following report:

- City pension costs have been rising due to requirements to repay Unfunded Accrued Liability (UAL) to the California Public Employees' Retirement System (CalPERS)
- UAL is driven by historical changes in actuarial assumptions and lackluster investment performance
- City's aggregate UAL owed to CalPERS is projected to be \$211,769,876 by 6/30/2021
- Exploration of refinancing UAL with market-based solution could better align pension payments with current revenues
- Unfunded pension liabilities are existing debts being repaid at 7% interest
- Muni bond market interest rates are currently substantially lower than CalPERS rate
 - City's strong credit rating of AA+ should command interest rates in the 3.25% - 3.75% range
- City can issue its own municipal bonds to refinance UAL repayments to significantly lower levels
- City can refinance the UAL by selling securities in the capital markets
- Two (2) primary types of obligations are available:
 - Pension Obligation Bonds (POBs)
 - Lease Revenue Bonds (LRBs)

- Pension Obligation Bonds (POBs) are General Obligation Bonds once validated by the Court and do not require any “collateral”
- Lease Revenue Bonds (LRBs) do not require court validation. LRBs do require encumbering certain City assets with a lease/leaseback structure
- City should be able to use its streets as lease collateral
- Bond Investors generally prefer Lease Revenue Bond Structure over POB structure
- POBs are General Obligations of the City
 - “Debt” as defined by CA Constitution
 - Required to repay
- POBs require Court Validation before they can be issued
 - Process is slow (validation can take 120 or more days)
- Lease Revenue Bonds (LRBs) do not require court validation, therefore are quicker to complete
- LRBs would be sold by the City’s Community Financing Authority and secured by rental payments to be made by the City to the Authority for use of certain real property
- 2019 LRBs rated “AA”; would expect POBs to be rated “AA+”
- Investors generally prefer Lease Revenue Bond Structure over POB structure due to existence of underlying assets
- Actuarial data for Miscellaneous and Safety Retirement Plans as of 6/30/2019:
 - Required Combined Balance: \$612,790,806
 - Market Value of Assets: \$404,075,277
 - Amount Underfunded (UAL): \$208,715,529
- City made \$13,697,415 UAL payment in FY21, in FY22 it will be \$15,552,745, a 13.6% increase; FY31 will be 58.6% greater than FY21
- Potential budgetary savings of \$50 million to almost \$90 million in long-term pension cost reductions, depending on structure
- Options for Refinancing Approach:
 - Refinance 100% of current UAL
 - With LRB approach, option to refinance more than 100% of 6/30/2021 UAL
 - Refinance less than 100% of UAL
- City can custom tailor the payment structure
- Savings can be put into Section 115 Trust or used for economic development, operations, etc.
- Ability to manage the predictability of the payment, unlike current UAL repayments amount which change every year

In response to Commissioner Samples regarding either option requiring the vote of the residents, Mr. Massiello said with the POB, the courts will allow another type of debt to refinance that. He said a Lease Revenue Bond is a lease and no vote is required to finance with general fund revenue.

In response to Chair Conroy regarding the expediency of the LRB, Mr. Kosmont said there is an intuitive motivation to get it done and with the timing, expediency, and background experience they have with the City with LRBs, that seems like the best avenue. He said while they may be leaning that way, they are not making that recommendation now, it is subject to further due diligence.

Mr. Massiello noted that there are pros and cons to each approach, and an evaluation would need to take place.

In response to Commissioner Woodham regarding the necessity of obtaining an investment banker, Mr. Massiello said they would be the municipal advisor, and they would help manage the process with the investment banker(s).

In response to Commissioner Woodham regarding the total interest costs, Mr. Massiello said the numbers they have been using is known as the all-in true interest costs, which includes underwriting deeds.

In response to Commissioner Samples regarding refinancing the debt or paying it early, Mr. Massiello said these are callable at ten years with no penalty. He said these would be sold with a call option that the City could exercise.

Grants Administrator Kaku stated that Commissioner Johnson has been in attendance, however, he is experiencing technical difficulties which are preventing him from providing comments.

Commissioner Woodham indicated he would like to go forward with it.

Commissioner Solomon suggested making a recommendation to get this onto a City Council agenda, or provide correspondence to City Council recommending some of the options that were presented by Mr. Kosmont and Mr. Massiello.

Finance Director Ruhland offered to relay to City management that the Commission would like to proceed and work towards getting the presentation onto a City Council agenda and at that time, the Commission could weigh in and say that as a Commission they agree with doing it.

Commissioner Samples suggested getting a presentation onto the agenda as soon as possible.

Commissioner Woodham suggested having City Council watch tonight's presentation.

Chair Conroy agreed with Finance Director Ruhland's suggestion to notify staff to have it agendized.

Chair Conroy suggested writing a letter as a Commission, saying that they had a fantastic presentation and encourage them to review it, and highlight points such as the potential savings.

Commissioner Solomon suggested one or no greater than three of them doing something like that.

Chair Conroy asked for a motion to establish a subcommittee to prepare a letter by next Monday that could be sent to City Council.

Finance Director Ruhland suggested using their existing subcommittee.

Subcommittee members Solomon and Woodham were in agreement; Chair Conroy said he would initiate the letter and forward it to them.

Motion by Commissioner Samples, seconded by Commissioner Solomon, to approve the CalPERS subcommittee write a letter to City Council, on behalf of the Commission, related to their impression of the pension obligation bond presentation. Motion carried, with the following roll call vote:

AYES:	Nguyen, Samples, Solomon, Woodham, Chair Conroy
NOES:	Johnson
ABSENT:	Marin

Commissioner Solomon clarified that this would be in addition to Finance Director Ruhland's recommendation to approach City management to get it on a City Council agenda.

In response to Chair Conroy regarding his no vote, Commissioner Johnson said without being able to see and participate, he couldn't give a full answer to that, however, he said the cavaliness to these decisions with such limited information is shocking to him.

Commissioner Johnson said he will publicly, and in the press resign if he does not have access to the meeting next month.

In response to Commissioner Samples' request for a resolution to Commissioner Johnson's inability to participate, Finance Director Ruhland said it needs to be resolved with the City Clerk, however, a test will be performed before the next meeting.

Motion by Commissioner Solomon, seconded by Commissioner Nguyen, to receive and file the Discussion and Possible Action Regarding Refinancing the City's CalPERS Unfunded Accrued Liability with Bonds. Motion carried unanimously, with the following roll call vote:

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

J.2. DISCUSSION AND POSSIBLE ACTION REGARDING THE SELF-INSURANCE PROGRAM FUND

Finance Director Ruhland said the City's third-party claims administrator provided the summarization of a loss run for the period that the Commission requested. She said it is summarized by department and claims type.

In response to Commissioner Solomon regarding the years the report was based on, Finance Director Ruhland said it was based on policy period.

Commissioner Solomon noted that there is sub-text showing where some of the incidents took place. He asked if there was an analysis done to help guide them beyond what the consultant does, for example, identifying a higher loss ratio in certain areas due to the streets not being slurry sealed, or repaved in a number of years. He said Public Works could then ask City Council to prioritize a slurry seal or sidewalk repair, or other capital improvement as necessary, in that particular area.

Finance Director Ruhland said Public Works does a study once a year, and a more comprehensive study every three years on the streets, giving their conditions which is what they use for the repaving. She said that is a separate perspective than from a risk management perspective.

A number of Commissioners agreed that the presented report did not provide usable information for them to review. They said it would be helpful if they could see the report broken down by department, or if possible, areas where there have been multiple complaints, or problematic areas due to root structure issues or torn up sidewalks.

Chair Conroy asked if the Commission would be able to receive the file in an Excel format.

Motion by Commissioner Solomon, seconded by Commissioner Woodham, to receive and file the Discussion and Possible Action regarding the Self-Insurance Program Fund, and requested, if available, the report in a different format. Motion carried unanimously, with the following roll call vote:

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

J.3. DISCUSSION AND POSSIBLE ACTION REGARDING CALPERS AND WORKERS' COMPENSATION SUBCOMMITTEE REPORT

Chair Conroy said they did not meet as a subcommittee this month, however, Commissioner Woodham emailed Finance Director Ruhland and requested staff use the CalPERS website and calculator to run scenarios that were

presented at the last meeting, based on different discount rates, or return assumption rates of 6 percent, 6.5 percent, and 6.75 percent.

In explaining the spreadsheets from the CalPERS Pension Outlook tool, Finance Director Ruhland said the default in the pension outlook tool is the 7 percent discount rate with actual earnings matching the discount rate. She said the discount rate was then changed to the various scenarios. The 7 percent discount rate is displayed on the spreadsheets as the baseline and is compared with the various scenarios with a calculated impact on the cost and the unfunded liability balance.

In response to Commissioner Solomon regarding a referral at a December City Council meeting, to discuss the appropriation to dive deeper into the Firefighters numbers, Finance Director Ruhland said it will be on the agenda for the January 19, 2021 meeting.

Motion by Commissioner Solomon, seconded by Commissioner Nguyen, to receive and file the Discussion and Possible Action Regarding CalPERS and Workers' Compensation Subcommittee Report. Motion carried unanimously, with the following roll call vote:

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

K. MEMBER ITEMS AND REFERRALS TO STAFF

In response to Commissioner Solomon regarding representation of the CalPERS Board, Finance Director Ruhland said she will send to the Commissioners information on the make-up of the CalPERS board.

Commissioner Nguyen requested Commissioner Johnson's access to the meetings be resolved.

ADJOURNMENT OF BUDGET & FINANCE COMMISSION – 9:15 P.M.

There being no further business to come before the Commission, Commissioner Woodham moved, seconded by Commissioner Solomon, to adjourn the meeting at 9:15 p.m., to a Regular Meeting to be held at 6:30 p.m., on February 11, 2021, in the Redondo Beach Council Chambers at 415 Diamond Street, Redondo Beach, California.

Motion carried unanimously, with the following roll call vote:

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

Respectfully submitted,

Marni Ruhland
Finance Director