



**FINANCIAL COMMISSION
MEETING MINUTES**

**5:30 P.M., September 19, 2011
Neutra House
181 Hillview Avenue Los Altos, California**

Call to Order

The meeting was called to order at 5:34 P.M.

Roll Call

Commissioners present: Chair Kevin Thompson, Vice Chair David Bryne, John Dixon, Frank Emery Donald Korn, and Paul Van Buren

Commissioners absent: Al Hubbard with prior notice

Staff Present: Russell Morreale, Staff Liaison
J. Logan, HR Director/Assistant City Manager

Pledge of Allegiance

Chair Thompson called for the Pledge to the Flag

Public Comment

None

Consent Items:

1. Commission Minutes

The minutes of July 18, 2011 were reviewed with a request by Chair Thompson and motioned for approve By Commissioner Emery with a second from Commissioner Korn. The motion was passed by all in attendance.

Discussion

2. Fire Services Update (Agenda item #4 taken out of order per general Agreement)

Commissioner Dixon presented the results of his inquiry into Fire Services, and the need to proceed with an analysis at the Commission level, to the group as a whole. Indicating that over the interim period since the last meeting he had met with both Liaison Morreale and H.R Director/Assistant City Manager J. Logan on this item, Dixon brought forth his informational review and recommendation. In essence, Dixon concluded that the City had already performed an extensive study involving an independent analysis of services based on his

review of the related materials. Satisfied that much has been done and conclusions attained reasonable and practical, Dixon recommended that the Commission simply use the existing materials as a basis for discussion, awareness and status reporting. After some discussion of the City's strategy as it moves to the next contracting period, Chair Thompson asked that all related materials be sent to all Commission members. Liaison Morreale commented that the Commission can plan to report on our inquiries and findings when we meet with Council in coming months.

3. Investment Portfolio Status Report

Liaison Morreale introduced Carlos Oblites of PFM who provided an overview of investment performance for the June 30, 2011 year – as an adjunct to a similar report provided to City Council. Morreale advised that a similar quarterly report will be sent to Council on a going forward basis with a preface meeting with the Commission. The report was received in good form with a question and answer session from the group. The Commission generally concurred that they would like to see a paced and planned movement to decrease LAIF holdings with an initial target of getting to 50% or below as soon as is practically possible.

4. Investment Policy Update

Liaison Morreale informed the group that he would be providing an updated investment policy to Council in the next few meetings and circulate a draft to the Commission for comments. Morreale expected changes to be minimal given, if any.

5. Debt Capacity Analysis

Chair Thompson provided an update of the status of the project. Thompson indicated that the subcommittee will be meeting soon as a basis for providing an initial report within the next few meetings. Liaison Morreale indicated that the timing of this project just received a boost of immediacy given recent discussions that a 2012 bond measure may be a possibility given a plan to conduct an early 2012 community survey.

6. PERS Review

Commissioner Korn provided the attached “PENSION PLAN ALTERNATIVE STUDY OUTLINE” (attachment 1) as a basis for defining project expectations. This prompted discussion and direction with all agreeing that the next step would involve the creation of a sub-committee to possibly include Commissioner Emery and Van Buren. Liaison Morreale also advised the group of the opportunity to have Commissioner Korn attend a state CalPERS conference, to be held in Long Beach the week of October 14th, as a basis for information gathering on this project. All concurred with this plan and supported attending such a session.

Commission Reports:

None

Adjournment

The meeting was adjourned with a motion from Commissioner Emery and a second from Commissioner Korn. All agreed and the meeting adjourned at agreement at approximately 7:41PM.

Respectfully Submitted,

Russell J. Morreale
Staff Liaison to the Financial Commission

Outline/Appendix:

Provided by D. Koon

9/19/11

PENSION PLAN ALTERNATIVES STUDY

OUTLINE

Basis: Working for City Council in advisory capacity

Scope: Perform objective study and analysis of pension plan alternatives

Objective: Based on sound analysis, make recommendations that will benefit City

Questions and answers to develop in scope of study:

1. Constituencies and contexts (Confirm Basis, Scope, and Objective above)

2. What's best for the City?

- a) Taxpayer's point of view—minimize pensions impact on Budget
- b) Employee's point of view
 - i) Organized group(s)—minimize payroll deductions, maximize retirement pay
 - ii) Exempt group—same

3. What do California laws, regs., and current employee contracts say about pensions?

- a) Who contributes what per period to CalPERS?
 - i) Firemen (Santa Clara county contract) vs. County
 - ii) Police vs. City
 - iii) Other employees vs. City

b) Legal basis and options for withdrawal from CalPERS (State Ret. Bd. System), and substituting another pension plan for City employees

- i) City/Organized employees
- ii) City/Exempt employees

4. CalPERS Annual Report(s)—Get and read!

- a) ROR assumptions, past versus future
- b) Unfunded status—Now vs. projected: 10yrs., 20 yrs., (30yrs.?)

- Provide

5. Sensitivity of funding (i.e., contributions) requirements over 10, 20, (30 yrs.?) to:

- a) ROR under- or over-performance
- b) Changes in demographics (e.g., ratio retirees/workers)

6. Portfolio Risk Assessment

- a) Current and planned Asset Allocation(cash, stocks, bonds, real estate, MBS, hedge funds, venture capital, private equity, commodities, derivatives, other)
- b) Historical vs. projected "beta"
- c) Sensitivity of funded status to changes in interest rates
- d) Year-by-year projected benefit pmts, vs. assets on hand

7. Financial Commission Assessment and Discussion of (conditional) probabilities

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9/19/11

- a) ROR equal to, greater than, or less than CalPERS assumption
- b) If most likely less, then probability of CalPERS funding requirements (City's share) increase over presently planned levels:
 - i) \$/year
 - ii) \$\$/year
 - iii) \$\$\$/year
- c) If realized ROR most likely less than CalPERS' assumption, and, in addition, demographics also turn unfavorable relative to Actuarial Assumptions, how much more would the impact likely be on City's budget?
- d) Probability that staying in CalPERS is best alternative

8. Other Considerations

9. Recommendations to Council

ORGANIZATION OF THE STUDY EFFORT

Consider Financial Commission Study work plan modalities in view of above Scope:
Is it better to proceed as full Commission with individual assignments from above list, or to set up a subcommittee for the effort?