

Finance and Investment Committee Meeting, Dec 7 2020

Members Present Allan Epstein, Medha Rishi, Roddy Sloss, Susan Mason, Chris Welborn, Cheryl Evans, Nathan Blair, Chris Nam, Stan Mok.

Members Absent None.

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

Council Present None.

Staff Present Sarina Revillar, Administrative Services Dir.

Guests Present Doug Pryor, Bartel and Associates.

Public Present: None.

NOTE: This meeting was held via a Zoom online meeting session on Dec 7, 2020. Meeting Recording:
<https://us02web.zoom.us/j/84811280123>
https://us02web.zoom.us/rec/share/liG2cDfsDCWcqwwCfBkwFiOczR7OkpXpJj71GIsmFAXW2cNFAtrGdjxY-Y_M1e5.Yhx_iX2pTWIW_1vl

Ms. Mason, Chairperson, called the meeting to order at 4:10 pm. Minutes for Nov 12, 2020 were reviewed. Ms. Mason requested minutes' date to be clarified.

Agenda Items

1. Sewer Allocation Overheads Adjustment: Allan Epstein

- a. Mr. Epstein provided background on FIC suspicion that excess overhead was charged to the Sewer Fund over the last four years. Cost allocation study was requested in 2015 but due to turnover and priorities completion was delayed until 2019. Completed study supports supposition the SewerFund was overcharged in the past. Agenda attachment provided prior to the meeting was reviewed..
- b. 2021 Budget utilizing new CAP study supports approx \$176k Sewer Fund overhead/direct cost allocation vs. the approx \$303K charged in FY'20.
- c. While CAP study was delayed, Staff and Council had indicated willingness to reimburse Sewer Fund, if study indicated Sewer Fund was overcharged. Based on analysis, the Committee is being asked to recommend the Council give direction to Staff to confirm Epstein Analysis or determine the amount and reimburse Sewer Fund for excess charge.
 - i. Mr. Epstein recommended that if the Sewer Fund be reimbursed approx \$438K via a 4-year pro-rated credit.
- d. Allocation of common direct cost, Town Center, Yard, Vehicle and EE Benefits were also discussed, were not covered by the recent Matrix study and need to be studied and determined.
- e. Staff expressed no position on the amounts proposed in Mr. Epstein's analysis and advised that the FIC should make its recommendation to the Council. However, Ms. Revillar expressed concern about the precedent that might be set by retroactively changing the results of prior studies and the impact it might have in the future.
- f. Discussion ensued and additional questions asked and answered.
- g. Chair Mason suggested that there appeared to be extenuating circumstances justifying a new study shortly after Wildan study was completed in 2014, a new study was directed by the Council and was delayed until MS. Revilar's team completed the study. Chair Mason suggested reconciling the concern by agreeing that going forward we would not look back.

- h. Mr. Epstein proposed a motion to request the Council to direct staff to determine if the Sewer Fund was overcharged during the period FY'17-20, to confirm with the FIC on their findings, and recommend that the Council instruct staff to return any excess amount so determined to the Sewer Fund.:
- i. Ms. Revillar recommended that to avoid the back and forth if the FIC votes on this it should present it to Council with Mr. Epstein's analysis. Let the Council decide.
- j. Chair Mason stated she did not hear objection from staff to the amounts proposed and that staff would prefer the FIC present its findings directly to the Council. Mr. Mok asked if there was a compromise. Mr. Blair stated that it appeared the compromise was to wait until the new study was completed, there is general agreement on the number and it should go to Council. Ms. Evans suggested the number has been quantified and a compromise might be the time period over which the funds are paid back. There is no controversy on the current CAP Study.
- k. Chair proposed motion to present analysis to Town Council for their decision to reimburse and when and confirmed with Ms. Revilar that staff was comfortable with the analysis.
 - i. All members with the exception of Mr. Mok voted. yes; Mr. Mok abstained.
- l. On a separate sewer related matter. Mr. Sloss raised the issue of Town payments for past use of the sewer system.. Ms. Revillar confirmed that a transfer was made for three prior years charges in FY'20 and going forward the Town would be transferring its share to the Sewer Fund. Ms. Revillar confirmed that the transfer was not done but will be done when NBS provides the billing.

2. CalPERS Pension Review: Doug Pryor, Bartel and Associates

- a. Mr. Sloss introduced the matter, explained how CalPER accounts for pension and the history of Town prepayments for unfunded liability. Town has approx \$2.5M in unfunded actuarial liability, and discussions ensued as to whether a recommendation to Council should be made to make additional prepayments, and if so, how much and to which custodian, CalPERS or PARS. A presentation he prepared was provided prior to the meeting and was attached to the agenda.
- b. Mr. Pryor explained that the \$2.6 M liability was predicated on CalPERS' assumed 7% return. A 6.5% rate of return would result in an additional approximate \$1 million. Financial advisors believe a 7% percent return to be optimistic. It is unlikely the liability will be eliminated by a substantially higher earning rate and therefore a higher future unfunded liability is likely..
 - i. Disadvantages of a prepayment to CalPERS: Reduces future annually required "payoff" amounts, which postpones reduction in liability; CAIPERS requires annual Normal payment, even if one were to be overfunded; and concentrated investment risk with one advisor.
 - ii. Advantage of separate 115 trust: More control and investment options, no risk of overfunding since funds can be used to pay normal costs, investment diversification.. However, trust amounts are not sown as reducing pension liabilities on the balance sheet.
 - iii. Without providing specific investment advice, Town will likely need to pay more in time, if funds are available it makes sense to prepay, almost assuredly will earn more with PARS or CalPERS, than other restricted investment options available to Town.

- c. Discussions ensued around potential future returns, CalPERS risk mitigation policy, flexibility, overpayment risk, relative returns at CalPERS vs PARS, support for the proposed \$1 million prepayment amount and how to allocate the funds.
- d. Chair Mason requested the decision be taken in three votes.
 - i. Mr. Sloss moved that Town make a pre-payment on the unfunded actuarial liability:
Second Mr. Blair
 - 1. All members with the exception of Mr. Mok voted yes; Mr. Mok abstained.
 - ii. Mr. Sloss moved that the prepayment amount be \$1M: Second Ms. Evans
 - 1. All members with the exception of Mr. Mok voted yes; Mr. Mok abstained.
 - iii. Mr. Epstein moved 50/50 split into PARS and CalPERS
 - 1. All members with the exception of Mr. Mok voted yes. Mr. Mok abstained. Mr. Lai would prefer 100% to PARS..

Council and Staff Reports on Recent Activity:

3. Report on Finance matters: Ms. Revillar

- a. Unresolved deposits project has been completed. Revenue total expected at approx \$192k.
- b. The town received the GFOA Budget Award for its 2021 budget.

Future Meeting Topics

- a. Next meeting scheduled for Feb 8, 2021
 - i. Agenda: Insurance reviews and TBD on the Mid-Year review.

Adjournment At approximately 6:02 pm, there being no further matters to be discussed the meeting adjourned.

Respectfully submitted: Medha Nicky Rishi, Committee Secretary