



**FINANCIAL COMMISSION
MEETING MINUTES**

5:30 P.M., March 23, 2009

The Neutra House
181 Hillview Ave, Los Altos, California 94022

Call to Order

The meeting was called to order at 5:35 P.M.

Roll Call

Commission members present: Chairperson Frank Emery, Vice-Chairperson Kevin Thompson, David Byrne John Dixon, Alan Hubbard, Donald Korn, Paul Van Buren

Commission members absent: None

Staff Present: Russell Morreale , Tracy Kwok

Pledge of Allegiance

The pledge of the flag was called for by Chairperson Emery

Public Comment

No members of the public attended.

Consent Items:

- Approval of the Minutes of February 23, 2009 were approved unanimously without exception as moved by Commissioner Korn and seconded by Commissioner Byrne.

Discussion

1. Status Update On Approval of New Auditors

Staff Liaison, Russell Morreale informed committee members that City Council approved their recommendation to award a contract to Caporicci & Larson as new city auditors for fiscal year 2009-2010. The item passed Council action without exception.

2. Status Update on Investment Advisors Staff Report to City Council

Vice Chairperson Thompson provided a thorough report on the subcommittee's review of investment services. He presented the subcommittee's recommendation that the City seek the services of investment advisors and move ahead with a request to City Council to issue a formal Request for Proposal (RFP) for such services. Thompson sited a variety of reasons leading up to the recommendation, the main reasons being: (1) The fact the City's portfolio currently exceeds the LAIF \$40 million limit (2) The advantage of being able to match duration to the City's cash flow which should result in better positioning and yield in the long run (3) The increase in risk diversification beyond investments primarily through one pool. Other factors sited included: enhanced reporting capabilities; maintaining continuity of the city's knowledge base; fortifying controls; diversifying the city's investment selection base; enhanced staff training and support. Commissioner Thompson indicated, in regards to implementation, that the City should proceed with patience given the condition of the market and consider setting policy guidelines underscoring the city's conservative investment philosophy. Key points to this end include: promoting a "Buy and Hold" trading model; avoiding speculative market timing; developing a contract on a non-discretionary basis; starting slowly and considering a \$5 to \$10 million investment range initially.

Thompson also emphasized the need to consider the intangible costs, including staff time and training when evaluating the ultimate cost of these services.

Thompson motioned to make a recommendation to City Council that an RFP be issued for the engagement of investment advisor services. Commissioner Hubbard seconded the motion which passed unanimously.

3. Status Update On PERS Side Fund Pay-Off

Staff Liaison, Russell Morreale made a presentation on the financial benefit of paying off all, or a portion of, the City's existing PERS side fund liability. Morreale provided a financial scenario that concluded that the City can save \$210,000 per year should it choose to use existing PERS reserves to pay down the \$5 million liability balance. Under current market conditions, the fixed PERS side fund rate of 7.75% represents almost a 600 basis point spread between the City's current interest earnings rate which is below 2%. Commissioner Byrne moved that we recommend the pay-off of the PERS side fund, Chairperson Emery seconded the motion which was approved unanimously.

4. Updated Work Plan and Discussion of Council Joint meeting April 28.

Chairperson Emery indicated a need to prepare for a joint meeting with City Council on the 28th of April. Emery recommended an interim meeting to do so and asked to include a discussion of the City's Capital Plan and the budget. All agreed to try to meet before the next meeting if at all possible.

Adjournment

Commissioner Van Buren moved adjournment of the meeting, with a second from Vice Chairperson Thompson. The motion passed unanimously. The meeting was adjourned at 6:53 P.M.

Respectfully Submitted,

Russell J. Morreale
Staff Liaison to the Financial Commission