

# Finance and Audit Committee



## REGULAR MEETING AGENDA

**Date:** 4/20/2018

**Time:** 10:00 a.m.

**City Hall – “Sharon Heights” Conference Room, 2nd Fl  
701 Laurel St., Menlo Park, CA 94025**

**A. Call To Order**

**B. Roll Call**

**C. Public Comment**

Under “Public Comment,” the public may address the Committee on any subject not listed on the agenda. Each speaker may address the Committee once under Public Comment for a limit of three minutes. Please clearly state your name and address or political jurisdiction in which you live. The Committee cannot act on items not listed on the agenda and, therefore, the Committee cannot respond to non-agenda issues brought up under Public Comment other than to provide general information.

**D. Regular Business**

D1. Approve the March 5, 2018, Finance and Audit Committee Special Meeting minutes ([Attachment](#))

D2. Selection of a new Chair and Vice Chair

D3. Subcommittee reports ([Attachment](#))

**E. Director’s Report**

**F. Adjournment**

At every Regular Meeting of the Committee, in addition to the Public Comment period where the public shall have the right to address the Committee on any matters of public interest not listed on the agenda, members of the public have the right to directly address the Committee on any item listed on the agenda at a time designated by the Chair, either before or during the Committee members’ consideration of the item.

At every Special Meeting of the Committee, members of the public have the right to directly address the Committee on any item listed on the agenda at a time designated by the Chair, either before or during consideration of the item.

Any writing that is distributed to a majority of the Committee by any person in connection with an agenda item is a public record (subject to any exemption under the Public Records Act) and is available for inspection at the City Clerk’s Office, 701 Laurel St., Menlo Park, CA 94025 during regular business hours. Persons with disabilities, who require auxiliary aids or services in attending or participating in Committee meetings, may call the City Clerk’s Office at 650-330-6620.

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## SPECIAL MEETING MINUTES - DRAFT

**Date:** 3/5/2018  
**Time:** 2:00 p.m.  
**City Hall – “Sharon Heights” Conference Room, 2nd Fl**  
**701 Laurel St., Menlo Park, CA 94025**

**A.** Committee Chair Craib called the meeting to order at 2:04 p.m.

**B. Roll Call**

**Present:** Craib, Shepherd, Ohtaki, Tronson  
**Absent:** Mueller  
**Staff:** Dan Jacobson, Finance and Budget Manager  
Brandon Cortez, Management Analyst I

**C. Public Comment**

There was no public comment received.

**D. Regular Business**

**D1.** Approve the January 26, 2018, Finance and Audit Committee Special Meeting minutes

Shepherd asked that the minutes be amended to reflect that the committee has formed two subcommittees: Pension subcommittee led by Shepherd and an Asset Replacement subcommittee led by Ohtaki.

**ACTION:** Motion and second (Craib/Ohtaki) to approve minutes for the January 26, 2018, Finance and Audit Committee Special Meeting, as amended, passed 4-0-1 (Mueller absent).

**D2.** Review and discuss the Draft 2018-2020 Finance and Audit Committee two-year work plan goals and milestones

Committee members made various changes to the goals and subcommittees that were documented and will be reflected when the item returns to the subcommittee at a future date. Committee members will come up with the descriptor and milestones that will be brought to City Council.

- Julie Shanson spoke of the need for more information regarding the development agreements.
- Cecilia Taylor spoke in support of creation of a Community Fund, Pedestrian Safety Fund and a Public Safety Fund.

Ohtaki left the meeting at 3:11 p.m.

**ACTION:** Motion and second (Craib/Shepherd) to approve the amendments to the Draft 2018-2020 Finance and Audit Committee two-year work plan goals and milestones, passed 3-0-2 (Ohtaki and Mueller absent).

**E. Director's Report**

There was no report.

**F. Adjournment**

Chair Craib adjourned the meeting at 3:45 p.m.

**MEMORANDUM**

**Date:** 4/16/2018  
**To:** Members of the Finance and Audit Committee  
**From:** Dan Jacobson, Finance and Budget Manager  
**Re:** Update on the 10-Year Strategic Forecast

Following the Committee's decision to create sub-committees to investigate a number of areas of interest, the 10-Year Strategic Forecast subcommittee has made progress toward building a robust model for use in helping to make current and future financial decisions. On April 3, the subcommittee met with Administrative Services staff with the following results:

- Discussed inputs and source data for the model, including the decision to use fiscal impact analyses associated with development projects
- Provided feedback to staff regarding the structure of the forecast, recommending the following methods:
  - Use of baseline plus net growth plus net impact of discrete events, calculated on an annual fiscal year basis
  - Setting the fiscal year 2017-18 as the reference point for future identifiable changes and tracking these net changes separately from the baseline changes in fiscal position
  - Inclusion of functionality to include an economic downturn of arbitrary length and severity in order to test sensitivity
  - Inclusion of a cumulative net position metric in order to assist with timing potential projects or initiatives
- Conducted a review of the net growth assumptions for revenue sources including property tax, sales tax, transient occupancy tax, and charges for fees, in addition to major expenditure sources such as salary, unfunded pension liability, and contract services
- Discussed the areas of note with regards to potential introduction of errors, including fiscal impact analyses whose areas included overlap and

Staff continue to refine the model and work with the subcommittee to produce a model which can be used for years into the future to help inform the City Council, the Finance and Audit Committee, and members of the public about the many factors which affect the City's finances.



## MEMORANDUM

**Date:** 4/16/2018  
**To:** Finance & Audit Committee  
**From:** Brandon Cortez, Management Analyst I  
**Re:** Update on Finance Dashboard

Per the Committee's request, staff has updated the "dashboard". The "dashboard" is an at-a-glance document that is intended to provide the public with monthly insight into the City's General Fund. The dashboard was developed by the Finance & Audit Committee several years ago and maintenance of the dashboard was a time intensive process that has recently been revised to allow for more regular update.

It was noted by a member of the public that the website no longer receives updated payroll summaries and audit bills. Staff is aware of the matter and working to replicate what has been done in the past.

If the Committee is supportive of the new format, as will be presented on Friday, staff will upload the information to the department's webpage.





**MEMORANDUM**

**Date:** 4/16/2018  
**To:** Finance and Audit Committee  
**From:** Nick Pegueros, Administrative Services Director  
**Re:** Report from Pension subcommittee

The FAC's pension subcommittee met with staff on March 31<sup>st</sup> to discuss concerns raised at the FAC regarding CalPERS pension liabilities.

The attached memo was prepared by Committee member Shepherd who was present. Chair Craib was unable to attend the subcommittee meeting.

Attachment.

To: Members of the Menlo Park Finance and Audit Committee

From: Ronald Shepherd

Date : April 7, 2018

Subject: Pension Subcommittee Report

On March 31, 2018 I met with members of Menlo Park's Finance staff to discuss Menlo Park's pension liability and funding and have the following suggestions for items and suggestions to be included in a report to the City Council.

These items are based on my own biases and input from persons at the meeting.

My view is that the current pension scheme is not financially sustainable, that financial information used to determine pension liability is grossly understated and that California statutes prohibit members from taking proper corrective action.

The solutions to these issues can be resolved by Menlo Park Council taking action on two fronts, one, getting a better handle on the actual unfunded liability and the other by influencing legislation.

We suggest that the Council instruct their actuary to compute the pension liability using realistic assumptions. Currently CalPERS discounts the liability assuming an approximate 7% investment earnings factor (on the total liability). The pension liability is currently funded at about 70% of the liability. This means that the investment would have to earn 10% in order the generate income allow for a 7% return on the actual liability. A 10% return appears to be unattainable in today's investment market. We suggest that the actuary compute the actual liability using an investment earnings rate of 4%, 5% and 6%, assuming 70% of the liability is funded resulting in discount rates of 2.8%, 3.5% and 4.2%,

In our view CalPERS regulations are too restrictive and do not reflect what is best for its members and the member's employees. Specifically CalPERS does not allow retirees to work full time for a CalPERS member, does not offer a defined contribution plan and does not allow its members to participate in another retirement plan (all of a members eligible employees MUST participate in CalPERS). These restrictions are causing many to think that pension plans offered by CalPERS are financially not sustainable which will most likely result in employees not receiving the retirement benefits they are expecting. The legislative changes that we are proposing could help alleviate this catastrophe.

## PROPOSED LEGILATIVE CHANGES

### 1. CalPERS offer a defined contribution plan.

Offering a defined benefits plan where the employee is the owner of the plan would allow the employee to contribute to the plan, negotiate the employer contribution, and allow the employee to retire whenever they desire. An employee could then access the retirement funds, analyze their retirement financial needs and retire when they wish



2. CalPERS allow retirees to both collect their pension and continue to work on a full time basis for a CalPERS member.

The current regulations create the following situation. A police officer at age 50, earning \$150,000 per year, with 25 years in CalPERS is economically forced to retire. The retirement benefit under a 3% at 50 plan would have an annual retirement benefit of \$112,500. Staying on the job provides \$37,500 in income (\$150,000 earnings less \$137,500 retirement "give up") most officers continue to work FOR ANOTHER EMPLOYER.

The benefits of allowing a CalPERS retiree to continue to work are as follows. The employee continues to work and doesn't have to look for or learn a new job. The benefits to the employer are that they retain a knowledgeable employee at a reduced expense because the employer should not contribute to the retirement plan or to other benefits (medical insurance) as these are parts of the "retirement package". Estimated savings the employer 50% of payroll (\$75,000 annually).

3. Allow CalPERS members to participate in other pension plans

CalPERS will not allow an employer to provide retirement benefits to an employee using a different vendor. Employers should have this option.

In addition, Menlo Park City provides benefits insurance (medical, dental etc.) through CalPERS. CalPERS regulations severely restrict its members from "shopping" elsewhere for this insurance. In particular a member must give FIVE months notice if they do not wish to continue with CalPERS, once the notification is received and accepted the employer cannot apply to CalPERS for five years and those insurance carriers that contract with CalPERS are precluded from offering their services to anyone who is currently a member of CalPERS. This extreme political bullying severely restricts its members from being able to provide its employees with the best insurance coverage on a cost-effective basis. The above restrictions should be eliminated.

**MEMORANDUM**

**Date:** 4/16/2018  
**To:** Finance and Audit Committee  
**From:** Nick Pegueros, Administrative Services Director  
**Re:** Report from Purchasing Policy subcommittee

The FAC's purchasing policy subcommittee met with staff on March 31<sup>st</sup> to discuss staff's request to amend the City's purchasing policy. Committee member Shepherd was present, Chair Craib was unable to attend.

Staff identified the need for an amendment to the City's existing purchasing policies and procedures which were last substantively overhauled almost two decades ago. The goal is to develop a modernize and streamlined purchasing operation so that City staff can be responsive to the needs of the community while also maintaining internal control over City resources and working to procure operating goods and services at the lowest total cost to the taxpayer.

Committee member Shepherd has prepared the attached memo regarding recommendations to the Committee. If the Committee is generally in favor of Committee member Shepherd's thoughts, staff will move forward with the necessary action to update the purchasing rules and regulations. City Council approval is required to amend the purchasing rules and regulations and staff will prioritize the project following adoption of the 2018-19 budget.

Attachment.

To: Members of the Menlo Park Finance and Audit Committee

From: Ronald Shepherd

Date : April 7, 2018

Subject: Purchasing Subcommittee Report

On March 31, 2018 I met with members of Menlo Park's Finance staff to discuss Menlo Park's purchasing/authorization procedures and have the following suggestions for items and suggestions to be included in a report to the City Council.

These items are based on my own biases and input from persons at the meeting.

The overall policy should be based on providing Menlo Park citizens and tax payers goods and services at the lowest long-term cost. These goods/services, when expense is essentially equal, should favor purchases from Menlo Park taxpayers and goods manufactured in the United States.

Capital Public Contract Code regulations cover the purchase of capital items and are not considered in this memo.

Operating goods and services are approved by the City Council as part of the budget process. Department managers should be allowed to make and approve purchases for items included in the budget. Goods and services outside the budget should not be made unless approved by the City Council. Whenever it appears that budgeted amounts are inadequate the department manager should notify the city manager who should analyze how expenses may be reduced so that they are within the approved budget before approaching the City Council for an increase in that budget item

On the legislative side we recommend that the council oppose any action to eliminate "outsourcing". Such legislation has been passed by the state legislature but cities have been excluded. It is difficult to determine the benefits to taxpayers that result from the elimination of outsourcing.