

KENSINGTON POLICE PROTECTION AND COMMUNITY SERVICES DISTRICT
FINANCE COMMITTEE MEETING MINUTES

Via Teleconference
Tuesday, May 5, 2020
1:00 p.m.

1. Call to Order/Roll Call

Finance Committee Chair Chris Deppe called to order the Finance Committee meeting at 1:22 p.m. Committee Members present at roll call included: Director Rachelle Sherris-Watt, Jim Watt, and Mike Logan. Finance Committee members Karl Kruger and Rob Firmin were absent.

Staff present included: Interim General Manager Bill Lindsay, Interim Chief of Police Steve Simpkins, District Finance and Business Manager Katherine Korsak, and District Clerk of the Board Lynelle M. Lewis.

2. Public Comment

- Lynn Wolters asked if a quorum of the Committee had been met. Committee Chair Deppe responded that four members were present.

3. Approve Meeting Minutes of January 21, 2020.

Committee Chair Deppe announced that the January 21, 2020 Finance Committee Meeting Minutes were presented for consideration and approval.

- Motion by Director Sherris-Watt, seconded by Committee Member Jim Watt, to approve the Finance Committee Minutes of January 21, 2020 as presented, carried (4-0) by the following roll call vote: AYES – Mike Logan, Jim Watt, Rachelle Sherris-Watt, and Chris Deppe; NOES – None; and ABSENT – Karl Kruger and Rob Firmin.

4. Receive a Presentation by Kosmont Transactions Services Regarding Use of Pension Obligation Bonds to Fund the Current PERS Unfunded Liability and Determine a Recommendation to the Board of Directors.

Interim General Manager Bill Lindsay reported that staff had received a presentation by Kosmont Transactions Services to explore the use of pension obligation bonds (POBs) to restructure the District's CalPERS unfunded accrued liability (UAL). He said the opportunity offers potential cost savings to the District. Mr. Lindsay said staff was seeking a recommendation from the Finance Committee to present to the full Board at its Regular Meeting of May 14th.

The Kosmont Transactions Services team (Larry Kosmont, Dan Massiello, and Jeff Land) presented an overview of a private placement opportunity for issuing POBs to refinance all or a portion of the District's UAL with Capital One Public Funding. They reported that the Kensington Police Protection and Community Services District's (KPPCSD) current CalPERS Classic Safety Plan has a substantial unfunded accrued liability (UAL) projected at \$4,434,254 by June 30, 2020. The POB is offered at 3.85% interest rate versus the 7.00% CalPERS amortization which would achieve \$1.8 million in gross savings, \$1.2 million in net present value savings, or net present value savings of 26.4%. The approximate cost of issuance is \$120,000 and would be wrapped into the financing. It was noted that the cost savings could be used for current expenditures or projects, budget reserves, and/or to fund an investment portfolio to further reduce future pension costs. The next steps are to engage the finance team, present the proposal to the full Board for consideration, draft legal documents, finalize transaction details, and payoff the UAL with CalPERS. Closing must occur by June 18, 2020 in order to get the 3.85% interest rate.

There was discussion about an email from a member of Government Finance Officers Association (GFOA) staff to Committee Member Jim Watt, recommending that KPPCSD retain an experienced municipal advisor to assist in analyzing the proposed POB transaction. Interim General Manager Lindsay said he would contact the GFOA member to obtain their analysis on the proposed POB structure, and he would make the information available for the Board's review. The Kosmont team responded to some of the objections of the GFOA to municipalities using POBs. They pointed out that potential advantages for use of POBs by KPPCSD include: all bond proceeds, less of costs of issuance, are provided to CalPERS to reduce KPPCSD's UAL to zero; lower interest charged by CalPERS from 7% to 3.85%; the proposed POB financing terms shorten the repayment period for the UAL debt by six years (from 26 years to 20 years); the proposed POB structure does not incorporate guaranteed investment contracts, swaps, or derivatives that might introduce risk; and the current POB proposal has a call option at 10 years, which will allow for refunding or restructuring this debt if financial conditions make it favorable to do so. The Committee also discussed other local agencies' use of POBs to refinance their UAL debt to CalPERS.

The Committee voted to send the proposal, without a recommendation, to the full Board and asked that Mr. Lindsay provide information received from the GFOA to the Board.

- Motion by Director Sherris-Watt, seconded by Committee Member Logan, that the Board hear a presentation from Kosmont on the use of pension obligation bonds on May 14th, carried (3-0-1) by the following roll call vote: AYES—Mike Logan, Rachelle Sherris-Watt, and Chris Deppe; NOES—None; ABSENT—Firmin and Kruger; and ABSTAINED—Jim Watt.

5. Receive an Update on CalPERS Analysis and Provide Direction to Staff as Appropriate.

District Finance and Business Manager Katherine Korsak reported that the following reports were presented for informational purposes: Classic PERS June 30, 2017 for fiscal year 2019-2020; Classic PERS June 30, 2018 for fiscal year 2020-2021; PEPRAs PERS June 30, 2017 for fiscal year 2019-2020; and PEPRAs PERS June 30, 2018 for fiscal year 2020-2020. She noted that she and Committee Member Watt would have a conversation with the CalPERS actuary to get clarity on how the numbers are calculated.

6. Receive a Presentation by Mike Logan Concerning Possible Issuance of Request for Proposals to Establish a Section 115 Trust and Determine a Recommendation to the Board of Directors.

Committee Member Mike Logan reported that he had obtained information on establishing a Section 115 Trust from CalPERS and PARS. He said that the use of this type of fund could provide higher rates of return on investments from 4 to 6 percent. He said both firms would be available to provide a presentation to the Committee. The Committee decided to postpone presentations on this issue until after adoption of the Fiscal Year 2020/21 Budget in June.

7. Receive Mid-Year Financial Status Report and Provide Direction to Staff, and Recommendations to the Board of Directors, as Appropriate.

District Finance and Business Manager Katherine Korsak summarized the unaudited Fiscal Year 2019-20 General Fund Revenue and Expense Report through March 31, 2020. She noted that a "new" document had been placed on the website to reflect some editorial changes. The District has received 98.3% of its revenue and overall expenses equaled 76.4% of budget. Most fund categories were on target; however, it was noted that District administrative expenses were slightly higher than budget. Ms. Korsak pointed out that the newly hired staff had not been included in the 2019-20 budget. She also pointed out that capital outlay expenses included new computers and body worn cameras. Ms. Korsak stated that she would be exploring a grant opportunity to get reimbursement for some of the recently purchased body worn cameras.

The Committee asked clarifying questions about some categories and congratulated staff for keeping the budget on target. It was suggested that the 2020-21 budget include prior year actuals versus current year actuals.

- Addressing the Committee was Lynn Wolter who suggested adding a column to show current month expenses.

Next, Ms. Korsak summarized information from the following financial reports: Cash Flow Projections; Balance Sheet (unaudited); Administrative, Parks and Police Salaries Budget; Parks Budget Review; and the Police Salary Resolution (for future Board consideration). The Committee asked when the final audit would be presented, and Ms. Korsak said that completion is projected for mid-May. Interim General Manager Bill Lindsay reported that the Kensington Park Assessment levy would be presented at the May 14th Board meeting. He pointed out that the park assessment doesn't fully cover costs for park maintenance and the Board would need to make a future policy decision to either subsidize the shortfall from the general fund or go to the public for increasing the levy.

8. Receive an Update on the Community Center Renovation Project and Provide Direction to Staff as Appropriate.

District Finance and Business Manager Katherine Korsak reported that the Community Center is near completion and summarized the financial transactions for the project.

9. Discuss and Determine Date and Time for the Next Finance Committee Meeting.

The next Finance Committee meeting was scheduled for Tuesday, May 26, 2020.

Adjournment

Chair Deppe adjourned the meeting at 3:49 p.m.

SUBMITTED BY:

Lynelle M. Lewis
District Clerk of the Board

APPROVED: June 2, 2020

Bill Lindsay, Interim General Manager

Chris Deppe, President of the Board