

City of Cupertino
Audit Committee Regular Meeting
Minutes
October 27, 2020

1. CALL TO ORDER

At 4:02 p.m., Chairman Eno Schmidt called the Audit Committee meeting to order. This was a teleconference meeting with no physical location.

2. ROLL CALL

Committee Members Present: Chair Eno Schmidt, Vice Mayor Paul, Councilmember Sinks, Vice Chair Daisy Liang, Angela Chen

City Staff Present: Kristina Alfaro, Thomas Leung, Mariela Vargas, Deborah Feng

Guests: Chris McCarry and Carlos Oblites (Chandler via conference call), Rick Rosenthal, Carolyn Cox

(USBank via conference call), and Mitch Barker (PARS), Mark Steranka (Moss Adams via conference call),

1. APPROVAL OF MINUTES

Councilmember Paul moved to approve July 28, 2020, regular meeting minutes subject to the corrections of OPEB rate of return on section four and agenda item numbering, Angela Chen seconded; motion passed unanimously.

ORAL COMMUNICATIONS

OLD BUSINESS

NEW BUSINESS

2. Treasurer's Investment Report for period ending June 30, 2020 – 30 minutes

Leung began the presentation by prefacing last quarter's treasurer's report that was prepared by Chandler asset management to show on the more internal components of treasury reporting, Liquidity, Cash Flow - Coverage, Cash Flow - Forecasting.

Chris McCarry from Chandler began the review of the economic update.

McCarry mentioned the economy is moving in a positive direction toward recovery, but that it continues to be dependent on the path of the virus and timeline for vaccine and timing of stimulus payments. Vice Chair Liang inquired about unemployment rate and if it has been dropping due to the paycheck protection program and if it will increase if and when the program ceases. McCarry mentioned that it certainly could but will vary based on industry. He mentioned that the unemployment claim trends are moving downward; however, if that shifts, the government will feel pressure to continue similar programs.

Carlos Oblites began reviewing the portfolio and mentioned that the report complies with code. Carlos reviewed the portfolio statistics, sector, quality, duration distribution, and investment performance.

Angela Chen motioned to approve the treasurer's report. Vice Chair Liang seconded. The motion passed unanimously.

3. OPEB & Pension Section 115 Trust Performance Report - US Bank - 15 minutes

Carolyn Cox from USBank began by thanking the committee and invited Rick Rosenthal to begin the presentation.

Rosenthal began reviewing the OPEB portfolio and period performance. Rosenthal provided an overview on the OPEB account balance and its growth since inception. Chair Schmidt inquired about the benchmark asset class ranges and a discrepancy between the proposed draft policies and US Bank's performance report. Rosenthal mentioned the benchmarks in US Bank's performance report agree with the currently adopted policy and what US Bank has been following. Rosenthal continued discussing the performance of the various asset classes against the benchmarks. He expanded on the performance benchmarks and that he and Korach had a discussion about the current selected benchmarks and that no proposed changes resulted. Chairman Schmidt suggested that we revisit the benchmarks and their applicability to the actual investments to the portfolio. He suggested a brief presentation be provided at a future meeting regarding index benchmarks and their variable. Rosenthal agreed that there could be benchmarks that are more applicable to the portfolio now and in the future. Rosenthal continued onto the pension performance and noted similarity between the two portfolios and the only notable change is the timeframe for which the respective portfolios were established. Chair Schmidt called attention to the net of fees versus the gross of fees and that it was determined a 20 basis point reduction is reasonable to be applied to the OPEB portfolio inception to date to determine a net of fee estimated figure.

Vice Mayor Paul requested comparative performance for other jurisdictions' OPEB and Pension Section 115 Trusts. Chair Schmidt inquired to Mitch Barker (PARS) if that was a reasonable request that could be accommodated. Barker confirmed this was something that could be included. Carolyn Cox (US Bank) mentioned that asset allocations are important to consider when assessing performance. She mentioned that the City selected a more aggressive asset allocation that wouldn't necessarily align with other jurisdictions strategies and to be considerate of that when analyzing.

4. OPEB and Pension Investment Policies – Leung – 20 minutes

Leung provided the staff report which included an overview of each of the Section 115 Trusts, their purpose, the investment strategy and a recommendation to maintain discount rates as currently set. Leung discussed CalPERS historical performance and their assumed discount rates and the challenges in the future.

Vice Mayor Paul inquired about the timing of the contributions and Director Alfaro stated that the majority of funding went to fund capital projects in FY 18-19 and the \$4 million contributions in FY 19-20 served to catch up in accordance with the funding strategy.

Chair Schmidt requested the estimated net of fee figures be used when presenting performance data.

Vice Mayor Paul requested to look at comparative performance data with neighboring jurisdictions' Section 115 Trust to assist in evaluating the City's performance and investment allocation. Specifically, despite an "apple to oranges" comparison, there could still be value in discovering how other agencies are investing similar funds and the City could benefit from potentially alternative strategies.

Vice Chair Liang inquired and confirmed the net and gross fee amounts between the OPEB and pension accounts.

Rosenthal cautioned the 8.52% rate of return for pension is over 1.5 years and would not recommend assuming that rate over a longer time horizon.

Angela Chen stated that the targets were reasonable and appears to be a great plan.

Councilmember Sinks motioned to approve the staff report. Vice Mayor Paul seconded. The motion passed unanimously.

5. Internal Audit Report - Moss Adams - 20 minutes

Mark Steranka from Moss Adams briefed the committee on the status of the enterprise risk assessment and components of the procedures involved. He stated that the final issued report will be available for the January 2021 Audit Committee meeting.

6. CAFR and AUP – draft review/update - Alfaro - 5 minutes

Director Alfaro provided an update on the CAFR and mentioned that the PARS financial statements were still outstanding. She stated that providing the CAFR draft in January will allow the Committee to review a more "final" draft.

8. Embezzlement Update - Alfaro - 5 minutes

Item 8 was moved before item 7. Director Alfaro provided an update on the embezzlement case and stated that the defense's attempt to dismiss charges was denied. A potentially future settlement and/or final ruling has yet to be made and will be carried forward to a later date.

7. Budget Format Review - Leung - 20 minutes

Leung explained the City's efforts to "bridge the intellectual gap" and its use of Opengov's "Stories," resident tax calculator, interactive CIP document, and important initiatives such as COVID-19 spending.

Chair Schmidt recommended this item be carried forward to the next meeting.

Vice Mayor Paul inquired about a central location for all pertinent budget information and if that could be included in the next meeting.

10. ADJOURNMENT

The meeting adjourned at 6:15 p.m.

Mariela Vargas

Recording Secretary
Mariela Vargas