


# AGENDA

## SPECIAL JOINT MEETING OF THE BOARD OF COMMISSIONERS AND THE BUDGET & FINANCE AND EXECUTIVE COMMITTEES

Budget & Finance Committee Chair: Robert Byrd

Monday, October 3, 2022  
10:00 AM

Meeting Location:  
VIRTUAL

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1. **ACTION**  
Call to Order/Roll Call
  2. **INFORMATION**  
Public Comment (for Items not on this Agenda)
  3. **INFORMATION** 3  
Review Meeting Minutes from Special Meeting of the Executive Committee on September 16, 2022
  4. **INFORMATION** 4  
Investment Strategy Update
  5. Public Employee Appointment/Employment  
Government Code Section 54957(b)(1)  
Executive Director
  6. **ACTION**  
Adjournment of Special Meeting and Closed Session

### COMMISSIONERS

Los Angeles County Supervisor	Judy Abdo	Summer McBride
Holly J. Mitchell	Robert Byrd, Psy.D	Maricela Ramirez
<i>Chair</i>	Astrid Heger, M.D.	Carol Sigala
Brandon Nichols	Yvette Martinez	
<i>Vice Chair</i>		

### EX OFFICIO MEMBERS

Barbara Ferrer, Ph.D.,  
M.P.H., M.Ed.  
Jacquelyn McCroskey, DSW  
Deanne Tilton

### EXECUTIVE DIRECTOR

Karla Pleitez Howell

### EXECUTIVE VICE PRESIDENT

John A. Wagner

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**SUMMARY MEETING NOTES**

**FIRST 5 LA  
SUMMARY MEETING NOTES  
Special Meeting of the Executive Committee  
(Open and Closed Sessions)  
September 16, 2022  
10:30 am – 12:00 pm**

**COMMITTEE MEMBERS PRESENT:**

Judy Abdo (Chair)  
Astrid Heger  
Yvette Martinez  
Frank Ramos

**STAFF PRESENT:**

Peter Barth, Chief of Staff  
Kim Belshé, Executive Director  
Linda Vo, Board Relations Manager  
John Wagner, Executive Vice President

**LEGAL COUNSEL:**

Craig Steele  
Serita Young

**OPEN SESSION**

**1. Call to Order/Roll Call**

The Special Meeting of the Executive Committee was called to order by Committee Chair Abdo at 10:30 am. Roll call completed.

**2. Public Comment (for items on the agenda)**

No public comments.

**3. Review Meeting Minutes from Executive Committee on August 26, 2022**

Notes were received and filed without any deletions, additions, or changes.

**4. Proposed Amendments to Bylaws and Governance Guidelines**

Peter B. and First 5 LA's legal counsel, Serita Young, presented proposed amendments to First 5 LA's Bylaws and Governance Guidelines. Most changes included clean-up language to align with First 5 LA's current strategic plan.

The Executive Committee was very supportive of the proposed changes and gave their endorsement to move this forward to the full Board at the October Board meeting as information.

**5. CLOSED SESSION**

Executive Committee members resumed the meeting in closed session.

There were no reportable actions or public comments.

Summary minutes were recorded by Linda Vo, Board Relations Manager.

# Memo

To: Executive Committee

From: Raoul Ortega, Director of Finance

Date: 10/03/2022

Copies To: Kim Belshe, John Wagner, JR Nino & Antoinette Andrews-Bush

Subject: **Investment Strategy Update (Information)**

**BACKGROUND:**

At the May and June Board meetings, staff provided an update to our Fiscal Imperative and the Long-Term financial plan. Staff discussed the potential to look at alternative forms of investing a portion of First 5 LA’s fund balance to help maximize returns. Since that conversation, the Finance team has been exploring options that help staff meet the goal of maximizing investment returns while meeting the organization’s obligation to taxpayers as a public agency. The attached memo and supporting document (Attachment A) reflect the recommendation that has been brought forward to the Executive Director.

**COMMISSIONERS**

Los Angeles County Supervisor Sheila Kuehl <i>Chair</i>	Barbara Ferrer, Ph.D., M.P.H., M.Ed. Astrid Heger, M.D. Yvette Martinez	Maricela Ramirez Frank Ramos Carol Sigala Romalis J. Taylor
Judy Abdo <i>Vice Chair</i>		

**EX OFFICIO MEMBERS**

Jacquelyn McCroskey, DSW  
Karla Pleitez Howell  
Robert Byrd, Psy.D  
Deanne Tilton

**EXECUTIVE DIRECTOR**

Kim Belshe

**EXECUTIVE VICE PRESIDENT**

John A. Wagner

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## Attachment A

# Memo

To: Kim Belshe, Executive Director

From: Raoul Ortega, Director of Finance

Date: 10/03/2022

Copies To: John Wagner, JR Nino & Antoinette Andrews-Bush

Subject: **FUNDS TRANSFER FROM THE LOS ANGELES COUNTY POOLED SURPLUS INVESTMENT FUND (GENERAL POOL) TO A SPECIFIC INVESTMENT IN ORDER TO INCREASE FIRST 5 LA REVENUE**

### **RECOMMENDATION:**

On behalf of the Los Angeles County Children and Families First – Prop 10 (FIRST 5 LA), the Executive Director authorizes the Los Angeles (LA) County Treasurer’s Office to transfer \$135,000,000 from the General Pool into a 3-year specific invested portfolio with an annual rate of return at 3.80%. This transfer will maximize FIRST 5 LA’s rate of return by 2.41% from the current 1.39% rate of return resulting in an increase in FIRST 5 LA revenues by an annualized estimated amount of \$5.4M per year over a 3-year period.

### **BACKGROUND:**

Staff has been identifying ways to help offset the fiscal reality of declining Tobacco Tax revenue. Revenue has been declining at approximately 3 to 5% per year since FY 2007/08. One way identified to modestly increase revenue is by taking a different strategy on how the FIRST 5 LA fund balance is invested. Under the current Investment Policy (and in compliance with the provisions of California Government Code Section 5360, Investment of Surplus), the Executive Director shall invest funds in the General Pool or into a specific investment portfolio.

According to the LA County Treasurer’s Office, the overall General Pool rate is increasing, reflecting the increases in rates by the Federal Reserve, however, their rate is lower than the rates on securities available on the open market.

As of July 2022, the rates of return are as follows:

- 1). General Pool = 1.39%
- 2). 3-year securities = 3.80%
- 3). 5-year securities = 3.60%

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4). 7-year securities = 3.53%

These rates of return are subject to change based on market fluctuations.

### **DISCUSSION**

Staff has worked closely with the LA County Treasurer's Office to review current investments under the General Pool and compare them to securities in the open market. Because the rates in the open market were higher than the General Pool, staff needed to perform an analysis to test if there were any viable options to invest outside of the General Pool that would increase revenue.

Staff conducted analysis of four scenarios (Attachment B) that compared four options:

1. Scenario 1 – 3 Year Investment @ 3.80%
2. Scenario 2 – 5 Year Investment @ 3.60%
3. Scenario 3 – 7 Year Investment @ 3.53%
4. Scenario 4 – General Pool @ 1.39% (FIRST 5 LA Current Investment)

To perform the analysis, staff calculated an initial investment amount of funds in each scenario required to cover FIRST 5 LA's short-term (1 to 3 years) to mid-term (4 to 5 years) operating needs. Additionally, staff assumed fidelity to the spending limits already established from the Board approved FY 19/20 to FY 27/28 Long Term Financial Plan and alignment to FIRST 5 LA Investment Policy.

In guiding our analysis and recommendation, staff's primary goal is to invest FIRST 5 LA'S fiscal resources strategically to maximize revenue and impact while ensuring FIRST 5 LA'S fiscal stewardship responsibilities are met.

Based on this analysis and our current Strategic Plan Review and Refinement efforts underway, staff recommends to the Executive Director a 3-year investment under Scenario 1 which will provide FIRST 5 LA the opportunity to maximize our investments to increase projected revenues estimated to be an annualized amount of \$5.4 million. The risks include the potential of a higher rate of return after the locking into a 3-year investment period and penalties for early withdraw prior to the 3-year maturity date. This scenario falls within the current restraints based on our current reserve policy and established spending caps allowing staff to act within its authority. This scenario also has the highest rate of return and annualized return on investment for the shortest investment period.

To execute this recommendation, staff will need to transfer \$135,000,000 from the General Pool, which had a balance of \$287,846,582 as of June 30, 2022, to a 3-year specific invested portfolio.

In parallel, staff is analyzing the current reserve policy against the current investment strategy to determine if the organization should consider decreasing our set reserve from 50% to 25%. Reducing the overall reserve would result in an increase to the overall investment amount which would further increase FIRST 5 LA revenues. At the same time, this analysis will be informed by FIRST 5 LA's historical use of the reserve and lessons learned from the Strategic Plan Review and

Refinement. If this analysis leads to a recommendation to change First 5 LA's current reserve policy, staff will present the analysis and recommendation to the Board at a later date.

### Attachment B - Three Fund Balance Investment Scenarios

Scenario 1 - 3 YR Investment @ 3.80%					Pro's	Con's
	Initial Investment Amount	Maturity FY 25/26	Total ROI	Annualize ROI		
a. Balance to invest w/50% Reserve and spending caps	135,900,000	151,988,776	16,088,776	5,362,925.33	<ol style="list-style-type: none"> <li>1. Highest return based on <u>current constraints</u>,</li> <li>2. Shortest investment period (lowest risk),</li> <li>3. For 1a: Able to take action right now on investing \$135.9M</li> <li>4. This scenario yields a 2.41% higher than the County surplus pool</li> </ol>	<ol style="list-style-type: none"> <li>1. For both 1a and 1b, our initial investments are higher than in the other 2 scenarios,</li> <li>2. Scenario 1b will require a change to our reserve policy (2 month process)</li> </ol>
b. Balance to invest w/25% Reserve and spending caps	161,300,000	180,395,802	19,095,802	6,365,267.33		

Scenario 2 - 5 YR Investment @ 3.60%					Pro's	Con's
	Initial Investment Amount	Maturity FY 27/28	Total ROI	Annualize ROI		
a. Balance to invest w/50% Reserve and spending caps	105,550,000	125,967,066	20,417,066	4,083,413.20	<ol style="list-style-type: none"> <li>1. Lower initial investment required compared to Scenario 1</li> <li>2. 2nd Highest Return based on <u>current constraint</u>,</li> <li>3. For 2a: Able to take action right now on investing \$105.5M</li> <li>4. This scenario yields a 2.21% higher than the County surplus pool</li> </ol>	<ol style="list-style-type: none"> <li>1. 2nd Lowest return on investment Your locked in for an additional two year</li> <li>3. Scenario 2b will require a change to our reserve policy (2 month process)</li> </ol>
Balance to invest w/25% Reserve and spending caps	124,400,000	148,463,316	24,063,316	4,812,663.20		

Scenario 3 - 7 YR Investment @ 3.53%					Pro's	Con's
	Initial Investment Amount	FY 29/30	Total ROI	Annualize ROI		
a. Balance to invest w/50% Reserve and spending caps	92,750,000	118,243,538	25,493,538	3,641,934.00	<ol style="list-style-type: none"> <li>1. Lowest initial investment required</li> <li>2. This scenario yields a 2.14% higher than the County surplus pool</li> </ol>	<ol style="list-style-type: none"> <li>1. Lowest rate of return for a longer period of time 2. This scenario has a lot of unknowns—e.g., our LTFP and Board-approved spending caps do not extend beyond FY 27/28 and our accountability dialogues and related work are not complete.</li> <li>3. An Addendum to our Investment Policy is re-quired to invest beyond 5 yrs.,</li> <li>4. Scenario 3b will require a change to our reserve policy (2 month process) ,</li> </ol>
b. Balance to invest w/25% Reserve and spending caps	109,300,000	139,342,520	30,042,520	4,291,788.57		

Scenario 4 - County Surplus @ 1.39% (Hold Steady)					Pro's	Con's
	Initial Investment Amount	FY 23/24	Total ROI	Annualize ROI		
a. Balance to invest w/50% Reserve and spending caps	135,900,000	-	(135,900,000)	(135,900,000.00)	1. No risk.	1. Lowest return on investment by 2.41%
b. Balance to invest w/25% Reserve and spending caps	161,300,000	-	(161,300,000)	(161,300,000.00)		

**Key Takeaways**

1. All scenarios will provide a \$3-5M annual ROI, but all scenarios will not fully offset the rate of decline in our revenues through FY 27/28. Put differently, under any of these scenarios, the fund balance totals we have to invest (after we fund our established spending caps through FY 27/28 and either of our projected reserve fund percentages) is not sufficient to stabilize revenues at FY 22-23 levels.
2. Changing the reserve back to 25% requires board approval

**Recommendation**

Given there is a lot of unknowns—e.g., our LTFP and Board-approved spending caps do not extend beyond FY 27/28 and our accountability dialogues and related work are not complete, Scenario 1 provides us the opportunity to maximize our investment by initially investing \$135,000,000 outside of the County General Pool. This scenario falls within the current restraints based on our current reserve policy and established spending caps. In parallel, consider a policy change to our reserve policy decreasing our reserve from 50% to 25% based on our historical use of the reserve and the lessons learned on the use of fund balance. Reducing the overall reserve will increase the overall initial investment amount which would then yield a higher ROI.