COMMISSIONERS PRESENT:
Commissioners:
Nancy Au
Jane Boeckmann
Yvonne Burke (Chair)
Jonathan Fielding (Vice Chair)
Neal Kaufman
Evangelina Stockwell
Corina Villaraigosa
Carolyn Wilder

Ex-Officio Commissioners:
Jacquelyn McCroskey
Connie Russell
Deanne Tilton
Harriette Williams

COMMISSIONERS ABSENT:
Commissioners:
Marvin Southard (Excused)

STAFF PRESENT:
Evelyn V. Martinez, Executive Director
Carol Baker, Director of Public Affairs
Anthony Bellanca, Finance Director
Yolanda Bosch, Director of Grants Management & Legal Compliance
Armando Jimenez, Director of Research & Evaluation
Teresa Nuno, Director of Planning & Development
Maria Romero, Executive Assistant

LEGAL COUNSEL:
Craig Steele, Attorney-at-Law

CALL TO ORDER / ROLL CALL:
1. Vice Chair Fielding called the meeting to order at 12:53 pm.

CONSENT CALENDAR: (Items 2 – 3)

M/S (Nancy Au / Evangelina Stockwell)  APPROVED AS RECOMMENDED


M/S (Jonathan Fielding / Evangelina Stockwell)  APPROVED AS RECOMMENDED

COMMISSION: (Items 4 – 10)
4. Announcements by the Commission Chair

RECEIVED
In addition to the announcements made by the Chair, the following announcements were publicly noted:

- The action taken by the Commission with regard to LAUP last June called for LAUP and First 5 LA to appoint two members from each Board to meet regularly on issues of mutual concern. As such, Commissioners Nancy Au and Neal Kaufman were appointed to serve as First 5 LA's Commissioner Liaisons with LAUP. Both of them have previously served on the Sustainability Workgroup and are familiar with the fundraising and other challenges facing LAUP. LAUP's Liaisons will be Board Members Paul Hudson and Beth Lowe.

5. Executive Director's Report

**RECEIVED AND FILED**

In addition to the written report, the following items were highlighted:

- **State Budget Update:** A trailer bill that was signed by the Governor allows the state to borrow First 5 funds to stem future budgetary shortfalls in the general fund. The loans, which can also be made from Proposition 63 funds, are to be paid back with interest. The bill contained specific language barring borrowing that interferes with the carrying out of the object for which this fund or those accounts was created, which we assume to mean programs supported by First 5 funding.

The biggest concern about the trailer bill is that, while the intent may have been for short-term borrowing, the language is extremely general and broad. Because it contains so few borrowing restrictions, it is conceivable that the provision could be utilized under a variety of borrowing scenarios. The trailer bill seems to put First 5 California funds most at risk because, unlike local County Commission monies that flow to County coffers on a monthly basis, the State Commission funds sit in the Controller's accounts for longer periods.


The Independent Auditor's Report for FY 2007-2008 was presented to the Commission. The report includes an unqualified opinion stating that the financial statements fairly present, in all material respects, the financial position of the Commission as of June 30, 2008 and the changes in the financial position for the year ended June 30, 2008.

There were no identifiable deficiencies in internal control over financial reporting and its operation that could be considered to be material weaknesses.

M/S (Neal Kaufman / Jane Boeckmann) **APPROVED AS RECOMMENDED**

7. Approval of the 2007-08 Annual Report to First 5 California (State Commission)

Each year staff prepares two versions of the Annual Report: 1) a report to the State Commission that provides fiscal and programmatic information in response to a Commission-designated template, and 2) a "user-friendly" report that is distributed to
all First 5 LA stakeholders and includes the Commission’s annual financial report, as well as significant activities and accomplishments for the year. Staff requests approval for the annual report to be submitted to First 5 California (State Commission).

The final draft of the State Annual Report for Fiscal Year 2007-08 (July 1, 2007 – June 30, 2008), due to First 5 California by November 1, 2008; and is comprised of three sections: 1) County Demographic; 2) Fiscal and Service Data; 3) School Readiness Program Evaluation.

The complete report would be submitted via the web-based forms provided by the State Commission.

M/S  (Nancy Au / Evangelina Stockwell)  APPROVED AS RECOMMENDED

The Operations Committee is Recommending:

1. Approval to have the PFM Group-PFM Asset Management, LLC (PFM) and First Southwest Asset Management Inc. (FSAM) perform a risk assessment of investments in various securities permissible under the provisions of Government Code Section 53601 et. seq.

2. Increase the operating budget for consulting services by $58,000 to fund the cost of performing the analysis. This analysis will take place twice; a current review and when the stock market stabilizes.

Director Bellanca reported that on June 19, 2008, First 5 LA issued an RFQ seeking Investment Advisory Firms to perform an assessment of how to best allocate funds in the various securities permissible under the provisions of Government Code Section 53601 et. seq., and perhaps provide investment advisory services. An email notification was sent to 29 firms advising them that First 5 LA posted the RFQ on its web site. First 5 LA received three responses.

A panel of three individuals, two from outside of First 5 LA representing the Auditor-Controller’s Office and First 5 Orange County, and one from within First 5 LA, reviewed the proposals for service and on July 23, 2008 conducted interviews with each of the three firms. The panel concluded that one of the three proposals submitted was not responsive while the other two proposals showed that the firms were well qualified to perform the service requested.

The firms were evaluated based on the following criteria, as identified in the RFQ, and related points: Investment Advice (15), Investment Philosophy (15), Public Funds Expertise (15), Customer Service (25), Cost (30).

The panel ranked The PFM Group - PFM Asset Management, LLC (PFM), one of the firms, higher in the first four categories and ranked First Southwest Asset Management, Inc. (FSAM) higher in the cost category and, on the average, higher overall.

Director Bellanca also reported that First Southwest Company (FSC), an affiliate of First Southwest Asset Management, Inc. (FSAM) was identified in the Financial Industry Regulatory Authority (FINRA) report generated August 1, 2008 as having been involved in seven “Regulatory Events” and five “Arbitration Events”. FINRA is the
largest non-government regulator for all securities firms doing business in the United States.

A “Regulatory Event” is a regulatory action initiated by a regulatory authority (e.g., a state securities agency, a self-regulatory organization such as the National Association of Securities Dealers (NASD), a federal regulator such as the U.S. Securities and Exchange Commission (SEC) for a violation of investment-related rules or regulations. An “Arbitration Event” involves arbitration awards involving securities and commodities disputes between public and customers.

Director Bellanca commented that the Commissioners needed to take into consideration the current economic situation impacting the stock market. He further stated that if the Commissioners wished to move forward with the risk assessment, perhaps the final product would be better received at a more stable point in the economy.

Commissioner Au inquired as to why the Commission was entertaining these services since its investments were already being invested through the County’s Office of the Treasurer.

Commissioner Fielding responded that the Operations Committee wanted to obtain a comparison of advisory services between both firms given the disparity of fees in the schedules presented.

Commissioner Stockwell then questioned why these advisory services were being requested by the Operations Committee since the Commission’s investments were doing quite well in its current holdings.

Commissioner Kaufman commented that the risk assessment would address the issue of whether the Commission would retain its investments in the County pool or if it should make investments in other arenas.

Chair Burke suggested that the Commission consider a 30-day or a 60-day waiting period before initiating any advisory services.

Commissioner Stockwell proposed adding a 60-day waiting period to the motion regarding the risk assessment of the Commission’s investments. The contract process could move forward but the risk assessment would not take place until 60 days later, during mid-December, with a report to the Commission in early 2009.

**Commission Vote on Amended Motion: 7-1-0**

M/S (Jonathan Fielding / Carolyn Wilder) APPROVED AS AMENDED

9. UPDATE: LAUP Performance-Based Contracting

Altmayer Consulting has designed a collaborative process to identify First 5 LA’s priority performance targets and then work with LAUP to develop strategies for reporting key performance metrics. Consensus on performance priorities and related metrics are the essential underpinnings for a workable agreement between First 5 LA and LAUP.
Implementation of a performance-based contract will require both a change in focus and a change in process to evaluate the results achieved and not simply the activities involved in providing the services. Unlike traditional service contracts that have tended to focus on inputs (i.e. the tasks involved in performing the work), performance-based contracting focuses more on the desired outcome giving the contractor broad freedom to innovate and to find cost-effective ways of delivering services.

Altmayer Consulting has outlined a five step process to develop the agreement including:

- **Step 1: Define Performance Expectations** – Define specific statement of the targeted results to be achieved based on the population served and the prioritization of services.

- **Step 2: Define Performance Data and Reporting Strategy** – Define the processes for collection and management of key performance data.

- **Step 3: Define Performance Payments and Incentives** – Develop provisions for payment, including potential incentives and penalties as appropriate.

- **Step 4: Develop Evaluation Plan** – Define the frequency, format and structure for evaluating performance and applying contract tools.

- **Step 5: Develop Contractual Language** – Develop contract language that reflects incorporates the preceding steps.

The tasks performed to date have focused on developing an overall process for developing an agreement with LAUP and on identifying the key issues associated with defining the performance expectations.

- **Review of Background Materials** – Altmayer Consulting reviewed the current agreement between First 5 LA and LAUP, reviewed a series of evaluation materials associated with LAUP programs, including review and analysis of the preliminary evaluation results as reported in the Universal Preschool Child Outcomes Study (UPCOS).

- **Provide Overview of Performance-Based Contracting and Develop an Initial Process for Contract Development** -- Altmayer Consulting facilitated a series of meetings with First 5 LA staff to discuss the key elements of a performance-based contract, how those elements might be applied in the context of the renewal of the LAUP contract, and began to develop an initial framework for a performance-based contracting process. Meetings were conducted with First 5 LA and LAUP staff, as well as a subcommittee of First 5 LA Commissioners, to orient them to the process of developing a performance-based agreement. These meetings also assisted the consulting team in understanding the LAUP budget and program services.

- **Facilitate Joint Planning Committee Meeting** -- On September 25th, as part of the overall strategic planning process, Altmayer Consulting facilitated a public meeting of the Joint Planning Committee. At the meeting, Altmayer Consulting provided a review of the basic elements of performance-based contracting and
how it could be used in connection with the current strategic planning effort to pursue the Commission’s goals and objectives as it relates to its Early Learning investments. The meeting also included a discussion on how performance based contracting might be applied to current First 5 LA contracts and breakout sessions to discuss key policy questions related to developing a performance-based contract.

The critical next step in the process is to finalize the establishment of the Liaison Committee. Per the June action by the First 5 LA Commission, a standing Liaison Committee will be established consisting of two LAUP Board Members, two First 5 LA Commissioners, and the Executive Directors of both organizations. The Liaison Committee will oversee the development of the agreement and manage the development process.

Over the next two months, Altmayer Consulting will work with the Liaison Committee to:

- Design a process for the development of the performance-based agreement so that the resulting agreement reflects First 5 LA’s performance priorities, provides a workable framework for LAUP, links to First 5 LA’s Strategic Planning process, and incorporates public input.

- Identify and prioritize key performance areas in terms of (1) target population, and (2) outcomes to be achieved.

- Develop and present an analysis of the implications of the proposed priorities on the existing LAUP operations to the Liaison Committee and develop a recommended framework for the First 5 LA Commission consideration. This framework may include a series of recommendations and/or options for consideration.

- Develop and present proposed performance framework to First 5 LA Commission.

- Based on direction from First 5 LA Commission, begin to define specific performance metrics and related evaluation plan.

10. Public Comment

Carlos Oblites, PFM Asset Management

**ADJOURNMENT**

The Commission meeting adjourned at 2:40 pm.

The next regularly scheduled Commission meeting will be on:

November 13, 2008 at 1:30 p.m.
Multi-Purpose Room
750 N. Alameda Street
Los Angeles, CA  90012

Meeting minutes were recorded by Maria Romero.