FIRST 5 LA
SUMMARY MEETING NOTES
Executive Committee Meeting
June 2, 2014

APPROVED: 08/14/14

COMMITTEE MEMBERS PRESENT:
Nancy Au (Chair)
Duane Dennis
Neal Kaufman (Vice-Chair)
Sandra Figueroa-Villa

STAFF PRESENT:
Kim Belshé, Executive Director
Gala Collins, Human Resources Manager
Maggie Martinez, Human Resources Director
Raoul Ortega, Finance Manager
Linda Vo, Executive Assistant
John Wagner, Chief Operating Officer

RECORDING SECRETARY:
Linda Vo, Executive Assistant

LEGAL COUNSEL:
Craig Steele, Attorney

1. Call to Order/Roll Call

The meeting was called to order by Committee Chair Au at 11:03 am. Committee Chair Au welcomed everyone in attendance. Roll call is completed.

2. Review of Executive Committee Meeting Notes –May 13, 2014

THE ITEM WAS RECEIVED AND FILED

Note: Committee Vice Chair Kaufman is running behind so the decision is made to proceed to Item 5 - Proposed Amendments to the Bylaws before Item 4- Compensation and Benefits Study: Staff Recommendations.

3. Standing Updates

1. Review of Annual Operating Budget
2. Annual Audit
3. Review of Annual Report to the State Commission
4. Fiscal
5. Contract Compliance
6. Quality Assurance
7. Evaluation
8. Policy and Advocacy
9. Personnel and Compensation

There is nothing presented for standing updates.

4. Compensation and Benefits Study

This Item is not presented until after Item 5– Proposed Amendments to the Bylaws.

5. Proposed Amendments to Bylaws

Mr. Steele proceeds with highlighting some proposed changes that were covered at the last Executive Committee meeting.

Mr. Steele says that there are three categories of the bylaw amendments, ranging from the easiest to the more substantive.

The easiest, he says, is on page 2 of his bylaws document and this is just the change of the composition of the Commission and the rotation of the Commissioners that the Board of Supervisors put into effect December 2013. Mr. Steele indicates that he has mirrored exactly the language from the County Ordinance except for the chart of the rotation that would take place amongst the Commissioners. Instead, he has referenced the section of the County Ordinance instead of placing the chart, given that there could be many changes to the rotation and if there are, then this would require us updating our bylaws again as well. This seemed like the simpler and more strategic way of updating this section in our bylaws.

The second section starts on page 5, which are the duties of the Commission, reminding the Executive Committee meeting that this is already language that this Committee has already seen. The only section Mr. Steele notes is the Governance section of this page is a slight change to the language, per the Executive Committee's direction. Specifically, Vice-Chair Kaufman wanted the word "tools" to be taken out or replaced because it seemed unclear to him what "tools" was referring to.

Commissioner Dennis expresses a concern under the governance section for the duties of a Commission, to oversee the performance of the Commission. He is not sure if it needs to be more explicit that the Commission also has fiduciary responsibilities as a body as well as an individual Commissioner. He feels that the Commission should be supportive to the Executive Director in order to further the goals of First 5 LA but feels that this clause should be in another section. He does not feel that the performance of the Executive Director is connected with the performance of First 5 LA and is the responsibility of the Commission to support. He would like this section broken up a bit to distinguish the difference between them.

Commissioner Dennis further explains that the Commission is not mandated to provide support to the Executive Director. He would like this clause separated under the governance section. Commissioners do not get kicked off the Commission if he/she does not provide support to the Executive Director with regards to the Executive Director's performance.

Commissioner Dennis reminds the Committee that it is not that he disagrees with the clause in section b of the governance section. He thinks that the Commission should oversee the Executive Director and that the Commission should support the Executive Director but does not feel that being supportive to the Executive Director is connected with the Executive Director's performance.

Current proposed language that will be changed:

A. **Governance**

a. Select the Executive Director and define his or her responsibilities, goals and objectives, and terms and conditions of employment;

b. Evaluate the Executive Director's performance and provide the supports necessary to further the goals of First 5 LA;

c. Engage in Commission development, training and periodic, comprehensive self-evaluation to maintain the strength and effectiveness of the Commission;

Mr. Steele indicates that he will work to change the language to address the concerns of this Committee with regards to small b in the governance section.

Vice Chair Kaufman would like to know if there needs to be a stronger statement regarding the Commission's responsibilities. He would like there to be a sentence that indicates one of the responsibility is to play a governance role.

Commissioner Dennis adds that separating the sentence is not enough and that there needs to be more content.

Mr. Steele makes the following suggested change:

a. Maintain effective governance and oversight, and provide the supports necessary in compliance with Proposition 10 and the Los Angeles County Code to promote the goals and objectives of the organization.

b. Select the Executive Director and define his or her responsibilities, goals and objectives;

The Executive Committee are in consensus that this is better than what was originally being proposed.

Mr. Steele asks the Executive Committee to look at item g in the governance section. He wants to make sure that we are not being repetitive in having this item.

Vice Chair Kaufman says it is not repetitive because he feels that this last item is more of a philosophy and the ones that preceded it were more like tactics.

Finally, Mr. Steele goes over those changes that were prompted by approving the governance guidelines:

The below are those changes:

ARTICLE II
Section II

The Commission further intends that its activities and services will make clear and measurable contributions to outcomes and goals specified in the Commission's Strategic Plan ("Plan"), as amended and refreshed from time to time. The Commission's compliance with these Bylaws will:

a. Promote transparency and consistency in Commission decision-making;

b. Promote coordination, coherence and integration of First 5 LA investments;

c. Ensure accountability for First 5 LA's declining revenues, and

d. Maintain Commission flexibility to respond to significantly changed circumstances and emergencies by authorizing limited exceptions to specified governance guidelines by the affirmative vote of seven (7) of the nine (9) voting members of the Commission.

ARTICLE III
Section III

F. Approval of more significant items ~~requires~~, otherwise in compliance with the Commission's Governance Guidelines, shall require an affirmative vote of an absolute majority of the entire voting membership of the Commission at a meeting of the Commission. The items requiring this absolute majority vote for approval are:

- ~~Expenditure recommendations~~Expenditures in excess of $100,000;
- Final adoption or amendment of the Strategic Plan, and
- Election or removal of Commission officers.

G. The waiver or amendment of any element of the Commission's Governance Guidelines adopted March 13, 2014, as the same may be amended from time to time, where necessary to respond to significantly changed circumstances or emergencies shall require the affirmative vote of seven (7) of the nine (9) voting members of the Commission.

ARTICLE XI
Amendments

Notice of a proposed amendment to these Bylaws shall be given to each member of the Commission at least 21 days prior to the meeting at which it will be considered. Approval of amendments requires an affirmative vote of ~~two-thirds~~seven (7) of the nine (9) voting members of the Commission.

Commissioner Dennis says that it is not only the responsibility of the Commissioners to only ensure accountability of revenues when it is declining. He says that it is always the duty of the Commission to provide oversight of revenue regardless if it is declining or not.

Ms. Belshé would like to know, per the proposed changes to the bylaws, if it made sense require a 7/9 vote to make amendments to the bylaws.

There is not a disagreement on this proposed change to the bylaws.

Mr. Steele informs the Committee that if there aren't any objections to the proposed changes to bylaws then this item will be brought to the full Commission at the June 12 Commission meeting, where the 21 day notice will also come into play. This item will then go for action at the July Commission.

There is no further discussion on this item.

The discussion now goes back to the Compensation and Benefits Study Item #4.

4. Compensation and Benefits Study

Mr. Wagner now walks through the staff analysis of the Compensation and Benefits study that includes some discussion around some options that staff could recommend.

Mr. Wagner says that in the board book there is an amendment of the compensation philosophy framework per the Executive Committee's suggestions.

Over the next two months, it is the intent of staff to work with the Executive Committee and get the staff recommendations endorsed before bringing before the full Commission for its review in August.

With regards to the Hay recommendation for the salary structure, Mr. Wagner presents a chart that show where positions fall within in this structure. He indicates that most staff already fall within the range and that there are some who don't fall even within the minimum and a few who fall above the max range.

Mr. Wagner reminds the Committee that this information is only brought forth to the Committee only as information to show them where staff currently fall within this salary range that Hay has proposed. He now hands the presentation over to Ms. Martinez.

Ms. Martinez goes over a brief summary of what the Hay Group is recommending for First 5 LA's benefits based on their findings.

First 5 LA's current 403b requires that employees wait one year before the employer will match a percentage of the employee contribution. This match goes up gradually based on how many years the employee has been with the organization and then becomes capped at 6%.

Vice Chair Kaufman would like to know if this is common practice compared to the market place.

Ms. Martinez informs the Committee that this is not common in the market place and that it is usually immediately that the employee would get a match from the employer. In addition, with regards to vesting, First 5 LA has 100% vesting after 3 years of employment which is not comparable to the market.

However, Hay did find that First 5 LA's match up to 6% is very competitive compared to the market place.
Over all, the Hay Group has identified that First 5 LA provides a full range of benefit programs to its employees that varies in market competitiveness depending on salary:

- The benefits program for employees earning up to $100,000 is above the market median, due in large part to the competitive health care program
- The benefits program for higher paid employees approximately falls below the market median due to the less competitive retirement program and caps on death and disability benefits

- A general market comparator group was used for this benefits analysis. There are 785 organizations in Hay Group's current benefits database and include organizations from all industries, both public and private sector

Ms. Martinez gives a brief overview of the Benefits Market Analysis that the Hay Group put together.

Hay Groups findings for total benefits for those earning less than $100,000 /year were in the 50-75 percentile of the market place. For those making more than $100,000/year, they were just below the 50 percentile compared to the market. Hay Group found that total benefits position varies based on salary with employees at lower salary levels more competitive than higher paid employees.

With regards to the total retirement, Ms. Martinez presents the following key findings:

- First 5 LA provides a 403(b) retirement plan that matches employee deferrals based on service - 1% after 1 year of service up to 6% at 6 years of service – subject to 3 year vesting.
- First 5 LA's match schedule is not prevalent in the market; however, the level of match is competitive when compared to defined contribution programs.
- When considered on a total retirement basis, which includes the 32% of the market that provides a defined benefit plan, First 5 LA's market position decreases to below median.

With regards to healthcare, Ms. Martinez presents the following key findings:

- First 5 LA requires NO employee premium contributions for medical (HMO only), dental or vision coverage. The PPO medical plan does require employee premium contributions; however, most employees are not enrolled in the PPO
- Prevalent market practice requires contributions of 20% to 25% premium contributions for single and family coverage
- The HMO is the most prevalent plan for First 5 LA employees, which maintains low out of pocket costs – no deductibles or coinsurance, low copayments (office visits and prescriptions)
- Prevalent plans in the market are PPOs that include deductibles, coinsurance (percentage paid by employer/employee, typically 80/20 or 90/10) and higher out of pocket maximums
- Dental coverage is typically cost shared in the market and requires more employee out of pocket costs, including a deductible and annual maximum
- Vision coverage is typically employee paid in the market

Finally, with regards to First 5 LA's death benefit, the following are key findings Ms. Martinez presents:

- First 5 LA's basic benefit of 2 times base salary up to a $200,000 maximum is at P75 of the market, as a benefit of 1 times base salary is most prevalent in the market.
- The $200,000 maximum diminishes the market position, as salary increases

Ms. Martinez informs the Committee that the mix of First 5 LA's benefits is not aligned with the market and relies heavily on the strength of its health care program for its market position. Hay Group recommends that First 5 LA consider the following changes to improve market alignment, increase market competitiveness, and enhance recruitment and retention of employees:

- Healthcare – Cost sharing in the form of employee premium contributions or deductibles and coinsurance should be introduced. The health care program provides significant value to First 5 LA's compensation package, especially for employees at lower salary levels. Any changes should be considered in conjunction with health care reform, as First 5 LA's rich plan design may be considered a Cadillac plan if not reduced.
- Retirement – While the level of contribution is competitive, the program design is not aligned with the market. In order to better compete with public sector programs, a 2 prong approach to retirement contributions is recommended – 403(b) match and non-elective employer contribution – along with changes to plan eligibility. Introducing a defined benefit program to address issues related to the attraction and retention of talent from the County is an option
- Disability – Introduce an employer paid STD benefit or enhance the sick leave accrual to ensure employees have adequate income replacement in the event of disability. The State disability program provides good income replacement, so adding employer paid STD may not be not critical for First 5 LA, given the current sick leave and LTD. First 5 LA may want to consider increasing the LTD maximum to ensure benefits are not capped.
- Death – First 5 LA may consider decreasing the basic death benefit to 1 times salary, as it exceeds market median practice. Alternatively, if First 5 LA maintains the 2 times salary benefit, it should consider increasing the maximum to ensure the benefit is not capped for higher paid employees
- Tuition Reimbursement – First 5 LA should consider implementing a tuition reimbursement policy to be aligned with typical market practice and improve its ability to retain employees.

Ms. Martinez also presents various options for changes to First 5 LA's retirement program as illustrated on the next page.

Option	403(b) Match	Non-Elective Service Based Contribution	Vesting Schedule
#1 Modification of Current Plan Option (eligibility rules)	1% to 6% of pay based on service **6% total**	**N/A**	100% in 3 years
#2 Median Option	1% to 8% of pay based on service **8% total**	**N/A**	100% in 3 years
#3 Enhanced Option	50% of 6% of pay OR 100% of 3% of pay **3% total**	**4.5% average total** contribution 3% first 5 years 4.5% 6 to 10 years 6% 11 to 15 years 7.5% 15+ years	100% vesting in 3 years for the match 100% vesting in 5 years (cliff or graded schedule) for the non-elective service-based contribution

Ms. Martinez indicates that Hay Group recommends First 5 LA consider changing the 1 year eligibility waiting period and allow employees to start receiving match and service based contributions immediately, subject to vesting. Accordingly, Hay Group says that First 5 LA should maintain vesting for the match and any new retirement contribution. Hay Group notes that the 3-year cliff vesting currently in place for the match is fine to continue and that a 5-year cliff or graded schedule should be implemented for any service-based contribution to achieve the desired result of retaining employees without placing an extremely long vesting period.

Ms. Martinez says that the increased costs for retirement program changes may be offset by recommended healthcare program changes.

Vice Chair Kaufman says that the new options of matching is an extreme transition of where First 5 LA is at right now.

Commissioner Dennis would like to know what the cost is for benefits per employee?

Ms. Martinez responds by indicating that Mr. Ortega would cover the cost in the next part of the presentation.

Committee Chair Au would like to know if staff have looked into a cafeteria plan for employees so that employees can decide for themselves which benefits are important to them and purchase them accordingly, within the cost limits established by the employer.

Mr. Wagner says that staff are looking into options of implementing a cafeteria plan but that given the small size of First 5 LA, it may not be the most cost effective in designing the benefits this way.

Mr. Wagner says that First 5 LA also plans on doing a staff survey to see what employees value the most with regards to benefits to be fully informed of which option would be in the best interest of the employees to implement.

Vice Chair Dennis would like to know what happens if an employee decides to opt out of using the health insurance that is offered by First 5 LA? For example, if the employee decides to go on his/her spouses work health insurance.

Ms. Martinez informs the committee that those employees whom decide not to use First 5 LA health insurance receive the HMO premium cost that would have been paid for this insurance.

Mr. Ortega begins by explaining the annual cost of these proposed benefits depends on how the benefits design. Staff is recommending three options for proposed changes to the retirement plan and Health care options that would implement cost sharing given the current model does not require any out of pocket from employees as well as implementing a match to all employees for their retirement.

Below are those options:

FY 2014-15 through FY 2015-16		Option # 1, Current Offering			
No. EEs Enrolled		Total Monthly Premium Cost	Annualized F5LA Cost	Premium Cost for F5LA	Current Employee Monthly Cost
	AETNA HMO				
24	EE Only	$433.40	$124,819.20	$433.40	$0.00
9	EE + Children	$784.45	$84,720.60	$784.45	$0.00
18	EE + Spouse	$866.80	$187,228.80	$866.80	$0.00
25	EE + Family	$1,300.19	$390,057.00	$1,300.19	$0.00
76			$786,825.60		
	AETNA PPO				
8	EE Only	$553.80	$41,606.40	$433.40	$120.40
2	EE + Children	$1,002.37	$18,826.80	$784.45	$217.92
2	EE + Spouse	$1,107.60	$20,803.20	$866.80	$240.80
9	EE + Family	$1,661.40	$140,420.52	$1,300.19	$361.21
21			$221,656.92		
			$ 1,008,482.52		
	AETNA Dental				
29	EE Only	$39.50	$13,746.00	$39.50	$0.00
11	EE + Children	$90.70	$11,972.40	$90.70	$0.00
26	EE + Spouse	$77.70	$24,242.40	$77.70	$0.00
35	EE + Family	$129.00	$54,180.00	$129.00	$0.00
101			**$104,140.80**		
	VSP Vision				
32	EE Only	$9.04	$3,471.36	$9.04	$0.00
35	EE + 1	$14.05	$5,901.00	$14.05	$0.00
36	EE + 2 or more	$22.29	$9,629.28	$22.29	$0.00
103			**$19,001.64**		
Total Health Benefit			**$ 1,131,624.96**		

Option # 2, 3% EE Cost Sharing and No Plan Design Plan						
Current Plan Design Premium Cost	97% Cost for F5LA	Annualized F5LA Cost	3% Contribution Cost to Employee	Employee Annualized Cost	Out of Pocket	Total Annualized
$433.40	$420.40	$121,074.62	$13.00	$156.02	$170.00	$326.02
$784.45	$760.92	$82,178.98	$23.53	$282.40		
$866.80	$840.80	$181,611.94	$26.00	$312.05		
$1,300.19	$1,261.18	$378,355.29	$39.01	$468.07	$300.00	$768.07
		$763,220.83				
$553.80	$420.40	$40,358.40	$133.40	$1,600.80	$1,792.00	$3,392.80
$1,002.37	$760.92	$18,262.08	$241.45	$2,897.40		
$1,107.60	$840.80	$20,179.20	$266.80	$3,201.60		
$1,661.40	$1,261.18	$136,207.44	$400.22	$4,802.64	$2,723.00	$7,525.64
		$215,007.12				
		$978,227.95	-3%			
$39.50	$38.32	$13,333.62	$1.19	$14.22		
$90.70	$87.98	$11,613.23	$2.72	$32.65		
$77.70	$75.37	$23,515.13	$2.33	$27.97		
$129.00	$125.13	$52,554.60	$3.87	$46.44		
		$101,016.58				
$9.04	$8.77	$3,367.22	$0.27	$3.25		
$14.05	$13.63	$5,723.97	$0.42	$5.06		
$22.29	$21.62	$9,340.40	$0.67	$8.02		
		$18,431.59				
		$1,097,676.12				

Option 3, Plan Design Change & No EE Contribution			
Plan Design = Lower Premium Cost	Annualized F5LA Cost	Premium Cost for F5LA	Contribution Cost for EE
$412.54	$118,811.52	$412.54	0.00
$746.70	$80,643.60	$746.70	0.00
$825.08	$178,217.28	$825.08	0.00
$1,237.61	$371,283.00	$1,237.61	0.00
	$748,955.40		
$519.77	$39,603.84	$412.54	107.23
$940.77	$17,920.80	$746.70	194.07
$1,039.54	$19,801.92	$825.08	214.46
$1,559.30	$133,661.88	$1,237.61	321.69
	$210,988.44		
	$959,943.84	-5%	
$39.50	$13,746.00	$39.50	$0.00
$90.70	$11,972.40	$90.70	$0.00
$77.70	$24,242.40	$77.70	$0.00
$129.00	$54,180.00	$129.00	$0.00
	$104,140.80		
$9.04	$3,471.36	$9.04	$0.00
$14.05	$5,901.00	$14.05	$0.00
$22.29	$9,629.28	$22.29	$0.00

Option # 4 (Hay Group), Plan Design Plan & 3% EE Cost Sharing Plan						
Plan Design = Lower Premium Cost	97% Cost for F5LA	Annualized F5LA Cost	3% Contribution Cost to Employee	Employee Annualize Cost	Out of Pocket	Total Annualized
$412.54	$400.16	$115,247.17	$12.38	$148.51	$740.00	$888.51
$746.70	$724.30	$78,224.29	$22.40	$268.81		
$825.08	$800.33	$172,870.76	$24.75	$297.03		
$1,237.61	$1,200.48	$360,144.51	$37.13	$445.54	$940.00	$1,385.54
		$726,486.74				
$519.77	$400.16	$38,415.72	$119.61	$1,435.27	$3,000.00	$4,435.27
$940.77	$724.30	$17,383.18	$216.47	$2,597.65		
$1,039.54	$800.33	$19,207.86	$239.21	$2,870.55		
$1,559.30	$1,200.48	$129,652.02	$358.82	$4,305.82	$5,187.00	$9,492.82
		$204,658.79				
		$931,145.52	-8%			
$39.50	$38.32	$13,333.62	$1.19	$14.22		
$90.70	$87.98	$11,613.23	$2.72	$32.65		
$77.70	$75.37	$23,515.13	$2.33	$27.97		
$129.00	$125.13	$52,554.60	$3.87	$46.44		
		$101,016.58				
$9.04	$8.77	$3,367.22	$0.27	$3.25		
$14.05	$13.63	$5,723.97	$0.42	$5.06		
$22.29	$21.62	$9,340.40	$0.67	$8.02		
		$18,431.59				
		$1,050,593.69				

Internal Option # 5 No Plan Design Change & Increase EE cost sharing to 7.67% to equal Option #4 F5LA Premium Cost					
Current Plan Design Premium Cost	**Premium Cost for F5LA**	Contribution Cost to Employee	EE Annualized	Out of Pocket	Total Annualized
$433.40	**$400.16**	$33.24	398.83	170.00	$568.83
$784.45	**$724.30**	$60.15	721.81		
$866.80	**$800.33**	$66.47	797.67		
$1,300.19	**$1,200.48**	$99.71	1,196.50	300.00	$1,496.50
$553.80	**$400.16**	$124.62	1,495.49	1,792.00	$3,287.49
$1,002.37	**$724.30**	$241.86	2,902.27		
$1,107.60	**$800.33**	$267.26	3,207.07		
$1,661.40	**$1,200.48**	$400.89	4,810.73	2,723.00	$7,533.73
Annualized Cost to F5LA will equal Option # 4					

Commissioner Figueroa-Villa comments that Option #5 is something similar to what her organization had to implement and that this was more acceptable to employees, given there was no change to the actual health insurance plan and instead required staff to pay a higher out of pocket of the health insurance premium.

Ms. Belshé comments that no matter what option First 5 LA implements, staff will be impacted by the change. Nonetheless, staff is trying to propose changes to the health care plan that would have the least impact on staff, which is why staff will also be holding benefits forum for staff to attend to address the proposed changes to see which benefits are valued the most by staff.

Ms. Belshé also acknowledges that there will be an initial investment on First 5 LA's part and that it is something necessary worth the investment to deal with some of the issues of being able to retain employees. Ms. Belshé says that these recommendations regarding benefits and compensation are necessary in order to make First 5 LA's compensation package competitive with other organizations that First 5 LA tends to lose its employees to.

Vice Chair Kaufman staff that he is not concerned with which options First 5 LA will end up implementing. What the Committee is concerned with is the final dollar amount it will cost First 5 LA to implement these proposed changes to the current compensation and benefits structure.

To reiterate, Ms. Belshé informs the committee that staff plans on coming back to the Executive Committee with further information regarding staff recommendations on the compensation and benefits package that First 5 LA would like to implement. Then in September, staff plans on bringing these recommendations before the full Commission for action.

Commissioner Dennis somewhat agrees with Vice Chair Kaufman's comments that he is primarily concerned with the financial impact will be on First 5 LA once these changes are implemented. He is also concerned with those people whom are below the minimum and above the max and what is the rationale for not reducing their salary and keeping them there. He wants to know what the PR piece would be to address these issues.

Chair Au also agrees with Commissioner Dennis and feels that the extent that the Executive Committee is involved with this compensation and benefits study is similar to that of a consultant. As long as staff stays with the broad parameters that have been set forth by the Commission and or policies, then that's what is most important to the Committee.

Mr. Wagner says that staff will take everything discussed today and be sure to come back with further information that the Committee has requested.

There is no further discussion on this item.

ADJOURNMENT:

The meeting was adjourned at 1:14 pm.

NEXT MEETING:

The next scheduled meeting will take place as follows:

Thursday, August 14, 2014
10:00 am – 12:00 pm

First 5 LA
Conference Room B
750 N. Alameda Street
Los Angeles, CA 90012

Meeting minutes were recorded by Linda Vo, Secretary, Board of Commissioners.