
Subject: Agenda Item #4 - Finance Committee

From: Phil Koen <pkoen@monteropartners.com>

Date: January 31, 2020 at 5:58:07 PM PST

To: Laurel Prevetti <LPrevetti@logatosca.gov>

Cc: "jvannada@gmail.com" <jvannada@gmail.com>, Lee Fagot <leefagot@gmail.com>

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Dear Laurel,

Would you please be so kind as to distribute this email to the Finance Committee for their consideration. Thank you.

Dear Members of the Finance Committee:

The 2019 CAFR reported there was a total of \$9,247,816 in General Fund reserves set aside for unfunded pension liabilities. \$5,015,316 is in a General Fund **restricted reserve** and represents the funds that were previously held in the PARS and reported as part of the Fiduciary Funds statement. This was fully discussed in the CAFR. \$4,232,500 is in a General Fund **committed reserve** and represents the funds that were distributed as part of the general fund reserve policy after finalizing the 2019 audit. Staff has previously referred to this distribution process as the "waterfall" process.

It should also be pointed out that at the time the FY 2020 budget was adopted by Council, the 2020 budget had estimated the committed reserve to be \$690,000 before the waterfall process distributed an estimated "surplus" from FY 2019 results. The point here is that the actual committed reserve for unfunded pension liabilities is **far greater** than had been previously reported to the Council and the Finance Committee.

In reading the Staff report, it appears the Staff has committed to make ADPs to CALPERS totaling \$8,414,307 (\$4,753,965 plus \$3,660,342). This means that there is still \$833,509 available for an additional ADP to CALPERS.

My question is, why would the Town put \$833,509 in the CEPPT when financially it makes more sense to make an additional ADP of \$833,509 and further reduce the unfunded pension liabilities? This additional ADP would be consistent with the Council's stated priorities. Additionally, why would the Town wait to make the additional ADP's until September 2020? As I understand the facts, if the Town were to make an ADP now, CALPERS will adjust the 2020-2021 mandatory payment to reflect the pay down of amortization bases. By making the payment now, the Town would realize "FY 2021 budget savings" since the mandatory payment would be reduced to reflect these payments. Why wouldn't the Town want to take advantage of this?

Thank you.

Phil Koen

ATTACHMENT 1