



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 01/15/2019

ITEM NO: 7

DATE: JANUARY 10, 2019
TO: TOWN COUNCIL
FROM: LAUREL PREVETTI, TOWN MANAGER
SUBJECT: RESCIND RESOLUTION 2017-008 AND ADOPT A REPLACEMENT RESOLUTION
ESTABLISHING THE TOWN COUNCIL FINANCE COMMITTEE

RECOMMENDATION:

Rescind Resolution 2017-008 and adopt a replacement resolution establishing the Town Council Finance Committee.

BACKGROUND:

For many years, the Council Finance Committee consisted of two Council Members who met annually with the Town's independent auditor to discuss the Comprehensive Annual Financial Report (CAFR) prior to its consideration by the full Town Council. During the January 2017 Strategic Priorities session, the Town Council directed staff to return with options for increased public participation in the Finance Committee.

On February 21, 2017, the Town Council considered several options for increasing public involvement on the Finance Committee (see Attachment 1) and directed staff to prepare an enabling resolution for the Finance Committee that would add three non-voting members of the public and clarify the scope of the Committee. On March 7, 2017, the Town Council adopted this enabling resolution for the Finance Committee (see Attachment 2).

Since that time, the Finance Committee has been primarily focused on addressing the Town's pension and Other Post-Employment Benefits (OPEB) obligations by recommending the formation of an IRS 115 Pension Trust, recommending initial investment strategies for both the Town's Pension and OPEB Trusts, and reviewing actuarial information and the Trusts' performance statements. Other activities included the annual review of the CAFR and the Town's Investment Policy among other items.

Reviewed by: Town Manager, Assistant Town Manager, Town Attorney, and Finance Director

BACKGROUND (continued):

With the establishment of the Pension Trust, the Town Council also established the Town Pension and OPEB Trusts Oversight Committee, appointed the Council Members as Oversight Committee members, and adopted its governing Investment Policy. The Oversight Committee has primary fiduciary responsibilities for managing the assets of both Trusts in the interest of current and former employees who do or will receive retirement and/or retiree health benefits.

During much of 2018, the Finance Committee expressed interest in reviewing the Town's budget to determine if additional resources might be available to be redeployed to unfunded pension and OPEB obligations. Based on the existing Finance Committee Resolution, staff explained that such a review is outside the scope of the Finance Committee's purview. In addition, budget decisions are an appropriation of public funds and are one of the key roles of the Town Council as the governing body authorized to expend funds on behalf of and accountable to the residents of Los Gatos. Given the continued interest by the Committee, staff did provide information to the Committee on the Town's funds, their purposes, and target levels as a courtesy prior to the Town Council's consideration of this same information. The Committee had robust discussions, questioning municipal financing practices and suggesting that the Town has too many Internal Service Funds and Reserves which has led to "excess cash" being reserved instead of being put towards a more productive use such as pension and OPEB liabilities.

On December 18, 2018, the Town Council discussed the Internal Service Funds and Reserves and made several motions, including a motion to return with analysis regarding a possible Internal Service Fund Policy and a motion to use the Finance Committee as the venue for public comment prior to returning to Council for the policy discussion. Given that the latter motion is not consistent with the current enabling resolution for the Committee, the Council also requested to re-evaluate the purpose and composition of the Council Finance Committee to determine if any changes are needed.

ANALYSIS:

As the Town Council considers the role of the Finance Committee in its advisory capacity to the Council, the Council may wish to consider the following items:

- The establishment of the Oversight Committee memorialized the fiduciary responsibilities inherent in the management of the Pension and OPEB Trusts within this governing body. As such, the Oversight Committee should be the only body discussing investment strategies, asset allocations, and actuarial assumptions.

ANALYSIS (continued):

- If the goal of the Town Council is to broaden public involvement in the Town's budget process, a larger community effort would be more appropriate rather than a single Committee. While welcome, financial expertise is not required for participation on the priorities and services of the Town. If this is an area that the Council would like to explore, staff is prepared to provide additional information.
- Given the interest of the Council to engage the public in the discussion regarding a potential Internal Service Fund Policy, staff recommends conducting outreach on this topic outside of any Council Committee. If the Town Council would prefer a Council Committee host the discussion, then the Council Policy Committee would be the appropriate venue given its wide scope to consider all matters of policy. Known interested residents would be invited to participate with either approach and the Council would receive the input as part of its consideration of the policy issue.

With these considerations in mind, staff recommends that the Town retain a Council Finance Committee to advise the Town Council on revenue enhancement recommendations as well as to conduct an annual review of the CAFR and the Town's Investment Policy.

The Town Council should decide if the current composition of the Finance Committee is meeting its goals for public participation. Options include:

- Return to the former composition of two Council Members
- Re-establish the Finance Committee as a Finance Commission with resident members only
- Maintain the current hybrid of voting Council Members and non-voting resident members

Staff recommends maintaining the current hybrid composition with the revised purpose described above (see Attachment 3).

COORDINATION:

The preparation of this report was coordinated between the Offices of the Town Manager and the Town Attorney and the Finance Department.

FISCAL IMPACT:

There is no fiscal impact associated with this item.

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ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.

Attachments:

1. February 21, 2017 Report on Public Participation Options for the Finance Committee
2. Resolution 2017-008 Establishing the Town Council Finance Committee
3. Draft Resolution