TOWN OF LOS GATOS

TOWN PENSION AND OPEB TRUSTS OVERSIGHT COMMITTEE REPORT

MEETING DATE: 09/01/2026

ITEM NO: 3

DATE: August 27, 2026

TO: Town Pension and OPEB Trusts Oversight Committee

FROM: Chris Constantin, Town Manager

SUBJECT: **Receive the California Employer's Pension Prefunding Trust (CEPPT) Strategy Market Value Summary Report for the Period Ending June 30, 2026, and Performance as of July 31, 2026**

RECOMMENDATION: Receive the California Employer's Pension Prefunding Trust (CEPPT) Strategy 2 Market Value Summary Report for the period ending June 30, 2026, and performance as of July 31, 2026.

FISCAL IMPACT:

There is no fiscal impact associated with receiving this report.

BACKGROUND:

On November 5, 2019, the Town Council authorized the Town Manager to enter into an agreement with CalPERS for participation in the California Employers' Pension Prefunding Trust (CEPPT) program.

The CEPPT Fund is a Section 115 trust fund dedicated to prefunding employer contributions to defined benefit pension systems for eligible California public agencies. On March 3, 2020, the Town Pension and OPEB Trusts Oversight Committee adopted CEPPT Strategy 2 as the asset allocation for the Town's Section 115 Trust pension assets.

DISCUSSION:

Effective Fiscal Year (FY) 2015-16, Council determined that sufficient General Fund year-end savings are available and targeted reserve levels for the Catastrophic Reserve and Budget

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Finance Division Manager

Reviewed by: Town Manager, Town Attorney, and Administrative Services Director

Stabilization Reserve have been met, upon the final close of the fiscal year, a minimum of $300,000 annually shall be deposited into the Pension/OPEB Reserve Fund. In 2018, the Council updated the General Fund Reserve Policy to provide for additional discretionary payments Strategy 2 (ADPs) of $390,000 per year to address the unfunded pension liability. Under the updated Policy, a 20-year amortization equivalence will be achieved.

The ending CEPPT 115 Trust account balance as of June 30, 2026, was $4,055,601.39 (Attachment 1). As of July 31, 2026, the CEPPT Strategy 2 fund had a net return of -0.69% for the month and -0.69% for the Fiscal Year to Date (FYTD) (Attachment 2).

The Town Finance Commission will receive this report at its regular meeting on September 14, 2026.

A joint Study Session was held between the Town Pension and OPEB Trust Oversight Committee and the Finance Commission, led by a Financial Advisor, to review the Pension and OPEB Trusts.

The Finance Commission reiterated its prior recommendation to the Oversight Committee on March 10, 2025, to transfer the balance of the Pension IRS 115 Trust to CalPERS and pay off the Longest Base in the Safety Plan to maximize the interest savings. The Finance Commission also recommended that the Town move from Strategy 2 to Strategy 1.

According to the December 2, 2025, Pension/OPEB Oversight Committee action, the Town will retain the funds in the CEPPT Trust until the Town concludes its Fiscal Condition Analysis and Asset Liability Management studies. After receiving and considering the studies, staff plans to explore alternative providers and investment options through an RFP process. The information presented at the study session highlighted that several public sector trust providers offer varied investment structures, account configurations, reporting tools, and fiduciary support models. Alternative trust platforms may include daily valuation, customized portfolios, broader asset classes, and individualized reporting. These features differ from the structure offered through CalPERS and could provide the Town with expanded flexibility or different oversight mechanisms. An RFP would allow the Town to obtain comparable information on investment flexibility, fiduciary services, reporting features, trust governance, and account structure across interested providers. It would also allow the Town to evaluate costs and implementation requirements in a standardized manner. An RFP would not commit the Town to change providers but would ensure that any future decision is made with a full understanding of available alternatives.

As part of the Finance Commission's review of the FY 2026-27 Proposed Budget on May 11, 2026, the Commission recommended that Council transfer the balance of the 115 Trust, and an additional $390,000 for FY 2026-27 as an additional discretionary payment (ADP).

At the May 19, 2026, FY 2026-27 Proposed Budget Study Session, the Council did not approve this recommendation. Instead, the Council will wait until all NHA Advisor studies are finalized before considering the transfer. The NHA Advisor studies are expected to come before Council in October.

Attachments:
1. CEPPT Market Value Summary Report as of June 30, 2026
2. CEPPT Strategy 2 Performance as of July 31, 2026