



TOWN OF LOS GATOS
TOWN PENSION AND OPEB TRUSTS
OVERSIGHT COMMITTEE REPORT

MEETING DATE: 03/30/2021

ITEM NO: 6

DATE: March 23, 2021

TO: Town Pension and OPEB Trusts Oversight Committee

FROM: Laurel Prevetti, Town Manager

SUBJECT: Direct the Available Balance in the California Employers' Pension Prefunding Trust (CEPPT) (\$708,807.33), \$952,135 from the Town's Pension/OPEB Reserve, and the General Fund Policy \$390,000 scheduled payment to shorten the amortization period from 30 to 20 years as an Additional Discretionary Payment to CalPERS toward the 2013 Investment Loss Amortization Base

RECOMMENDATION:

Direct the available balance in the California Employers' Pension Prefunding Trust (CEPPT) (\$708,807.33), \$952,135 from the Town's Pension/OPEB Reserve, and the General Fund Policy \$390,000 scheduled payment to shorten the amortization period from 30 to 20 years as an Additional Discretionary Payment to CalPERS toward the 2013 investment loss amortization base.

BACKGROUND:

Based on prior guidance, the Town Pension and OPEB Trusts Oversight Committee (Oversight Committee) has directed staff to utilize existing surplus funds budgeted for additional discretionary payments (ADPs) to go directly to CalPERS toward existing long-term amortization bases. Per the previous Oversight Committee direction, the first additional discretionary payment (ADP) of \$4,753,965 for the 2016 gain/loss amortization base was transferred to CalPERS on October 11, 2019. Under the same direction, the second ADP of \$3,580,365 for the 2015 gain/loss amortization base was transferred to CalPERS on July 8, 2020.

On June 8, 2020, the prior Finance Committee discussed various methodologies for deploying additional discretionary payments to CalPERS. In addition to other scenarios, the Committee discussed that the Town's budget cycle of July 1st aligns well with annual ADPs receiving the

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Assistant Town Manager

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

SUBJECT: Additional Discretionary Payment to CalPERS

DATE: March 23, 2021

BACKGROUND (continued):

benefit of a full year of returns from CalPERS. A July payment cycle also ensures that ADPs get credited in the development of the annual actuarial valuation performed by CalPERS.

For an ADP to affect the development of FY 2021/22 Unfunded Actuarial Liability (UAL) payment calculation, it must be received by CalPERS by April 15, 2021. After that time, any ADP will not take effect until development of the FY 2022/23 UAL payment calculation. The Town currently has \$708,807.33 in the CalPERS CEPPT account, \$952,135 in the Town's Pension/Other Post-Employment Benefits (OPEB) Reserve, and the General Fund Policy \$390,000 scheduled payment to shorten the amortization period from 30 to 20 years for a total of \$2,050,942. It should be noted that per IRS rules monies deposited into the CEPPT account can only be used toward pension payments.

DISCUSSION:

ADPs allocated directly to CalPERS can achieve several outcomes which help to reduce the Town's outstanding unfunded pension obligation. Lump sum payments to CalPERS can either be in the form of generic additional contributions or targeted at specific amortization bases. To date and consistent with the Oversight Committee's direction, staff has targeted specific amortization bases in consultation with Bartel and Associates. Benefits associated with direct payments to CalPERS include: point in time reductions in the UAL, interest savings, increased funding status, and reduced contributions.

The following table from Bartel and Associates illustrates the savings associated with a million-dollar ADP directed toward two different amortization bases. The first base is a 2003 assumption change base with 4 years remaining. The second base is 2013 investment loss base with 24 years remaining. As the data reflect, payments toward shorter bases provide less interest savings but a larger short-term contribution impact. Conversely, payments targeted toward longer amortization bases provide the greatest long-term interest savings and less of a short-term contribution impact.

Target Bases	Estimated Savings	2021/22 Contribution Impact
Shortest Bases	\$1 million	
\$ Savings (000's)	\$144	\$(275)
PV Savings @ 3% (000's)	78	
Longest Bases	\$1 million	
\$ Savings (000's)	\$1,042	\$(70)
PV Savings @ 3% (000's)	464	

SUBJECT: Additional Discretionary Payment to CalPERS

DATE: March 23, 2021

DISCUSSION (continued):

Previously the Oversight Committee opted for longer term amortization bases to achieve the greatest interest savings while also receiving some contribution relief. The table below illustrates the estimated savings associated with ADPs to date.

Target Bases	Estimated Savings	2021/22 Contribution Impact
October 18, 2019 ADP	\$4.8 million	
\$ Savings (000's)	\$6,299	\$(268)
PV Savings @ 3% (000's)	2,583	
July 7, 2020 ADP	\$3.6 million	
\$ Savings (000's)	\$4,382	\$(253)
PV Savings @ 3% (000's)	1,919	

CONCLUSION AND NEXT STEPS:

Based on prior guidance from the Oversight Committee and Finance Committee, staff recommends directing the available balance in the CEPPT (\$707,807.33), \$952,135 from the Town's Pension/OPEB Reserve, and the General Fund Policy \$390,000 scheduled payment to shorten the amortization period from 30 to 20 years as an ADP to CalPERS toward the 2013 investment loss amortization base. If the Committee implements this recommendation, this payment would be made prior to the April 15th deadline as discussed above.

COORDINATION:

This staff report was coordinated with the Town Manager, Town Attorney, and Director of Finance.