



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

MEETING DATE: 04/21/2020

ITEM NO: 2

DATE: April 13, 2020
TO: Town Pension and OPEB Trusts Oversight Committee
FROM: Laurel Prevetti, Town Manager
SUBJECT: Provide Modified Direction to Staff Not to Make a Payment to CalPERS Prior to May 1, 2020 Given the CalPERS Methodology Explained in this Report and Instead, Direct Staff to Make a Payment After July 1, 2020 to Receive a Unique Market Exposure for the Additional Amortization Base Payment

RECOMMENDATION:

Provide modified direction to staff not to make a payment to CalPERS prior to May 1, 2020 given the CalPERS methodology explained in this report and instead, direct staff to make a payment after July 1, 2020 to receive a unique market exposure for the additional amortization base payment.

BACKGROUND:

On September 3, 2019, the Town Pension and OPEB Trusts Oversight Committee (Pension/OPEB Committee) directed staff to utilize the funds held in the existing PARS IRS 115 pension account to make payments directly to CalPERS toward existing long-term amortization bases. Per the Pension/OPEB Committee direction, the first additional discretionary payment (ADP) of \$4,753,965 for the 2016 gain/loss amortization base was transferred to CalPERS from PARS on October 11, 2019. Under the same direction, the remaining PARS account balance in conjunction with committed Pension/OPEB fund balance was to be used for an ADP to pay the 2015 gain/loss amortization base of approximately \$3,660,342 prior to September 2020.

On March 3, 2020, the Pension/OPEB Committee reexamined the previous guidance on the timing for making the second direct payment towards the 2015 gain/loss amortization base. At the meeting the Pension/OPEB Committee received additional input from the Town Finance Committee regarding the adoption of some form of automatic payment methodology for monies identified, and reserved, for ADP's.

PREPARED BY: Arn Andrews
Assistant Town Manager

Reviewed by: Town Manager and Finance Director

BACKGROUND (continued):

In order to help facilitate the discussion staff provided the following table.

	April 2020	July 2020	October 2020	January 2021
Quarterly Payment Methodology	\$1,050,000	\$1,050,000	\$1,050,000	\$1,050,000
Prior Implementation Guidance (on or before September 30, 2020)	\$3,660,342	\$539,658		
Example based on \$4.2 million in reserve per the Mid-year budget report				

At the conclusion of the discussion, and with the concurrence of staff, the Pension/OPEB Committee voted three to one to make the second amortization base payoff in full and prior to the closing of the CalPERS actuarial reporting period on May 1, 2020. In addition, the Pension/OPEB Committee referred the development of a future ADP payment methodology back to the Finance Committee.

DISCUSSION:

After extensive recent discussions with CalPERS representatives, staff has determined that any additional discretionary payments provided to CalPERS in the current fiscal year will not be treated as an additional unique market exposure. Staff's prior concurrence to make an additional payment in the April timeframe was predicated on the understanding that additional monies would receive market exposure based on the value of the CalPERS portfolio at time of payment. Instead CalPERS has further explained that in practice the methodology attributes a prorated proportional share of whatever the investment returns are for FY 2019/20 to additional payments.

This methodology could create a scenario where if the CalPERS portfolio were to perform better after payment of an additional amortization base but remain below the expected rate of return for the year, the Town's ADP would be allocated a proportionate investment loss as opposed to an investment gain since deposit.

CONCLUSION:

Based on the CalPERS methodology of proportioning a prorated amount of any Investment gain/loss to an additional payment of amortization bases, staff no longer recommends payment prior to May 1, 2020. Given the CalPERS methodology, staff recommends making payment

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SUBJECT: Modified Recommendation for Payment of CalPERS Amortization Base

DATE: April 14, 2020

CONCLUSION (continued):

after July 1, 2020 in order to receive a unique market exposure for the additional amortization base payment.

It should also be noted, that this methodology may determine that any additional payments to CalPERS should only occur once per fiscal year. Based on previous guidance from the Pension/OPEB Committee, the Finance Committee is scheduled to review and recommend an ADP methodology for future ADPs.

COORDINATION:

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

FISCAL IMPACT:

The funds to make the additional discretionary payment were previously budgeted resulting in no fiscal impact.

ENVIRONMENTAL ASSESSMENT:

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