



**TOWN OF LOS GATOS  
TOWN PENSION AND OPEB TRUSTS OVERSIGHT  
COMMITTEE AGENDA  
MARCH 03, 2020  
110 EAST MAIN STREET  
LOS GATOS, CA**

*Marcia Jensen, Mayor  
Barbara Spector, Vice Mayor  
Rob Rennie, Council Member  
Marico Sayoc, Council Member  
Vacant, Council Member*

**PARTICIPATION IN THE PUBLIC PROCESS**

**How to participate:** The Town of Los Gatos strongly encourages your active participation in the public process, which is the cornerstone of democracy. If you wish to speak to an item on the agenda, please complete a “speaker’s card” located on the back of the chamber benches and return it to the Town Clerk. If you wish to speak to an item NOT on the agenda, you may do so during the “Verbal Communications” period. The time allocated to speakers may change to better facilitate the Town Council meeting.

**Effective Proceedings:** The purpose of the Town Council meeting is to conduct the business of the community in an effective and efficient manner. For the benefit of the community, the Town of Los Gatos asks that you follow the Town’s meeting guidelines while attending Town Council meetings and treat everyone with respect and dignity. This is done by following meeting guidelines set forth in State law and in the Town Code. Disruptive conduct is not tolerated, including but not limited to: addressing the Town Council without first being recognized; interrupting speakers, Town Council or Town staff; continuing to speak after the allotted time has expired; failing to relinquish the podium when directed to do so; and repetitiously addressing the same subject.

**Deadlines for Public Comment and Presentations are as follows:**

- Persons wishing to make an audio/visual presentation on any agenda item must submit the presentation electronically, either in person or via email, to the Clerk’s Office no later than 3:00 p.m. on the day of the Council meeting.
- Persons wishing to submit written comments to be included in the materials provided to Town Council must provide the comments as follows:
  - For inclusion in the regular packet: by 11:00 a.m. the Thursday before the Council meeting
  - For inclusion in any Addendum: by 11:00 a.m. the Monday before the Council meeting
  - For inclusion in any Desk Item: by 11:00 a.m. on the day of the Council Meeting

***Town Council Meetings Broadcast Live on KCAT, Channel 15 (on Comcast) on the 1st and 3rd Tuesdays at 7:00 p.m.  
Rebroadcast of Town Council Meetings on the 2<sup>nd</sup> and 4<sup>th</sup> Mondays at 7:00 p.m.  
Live & Archived Council Meetings can be viewed by going to:  
[www.losgatosca.gov/Councilvideos](http://www.losgatosca.gov/Councilvideos)***

***IN COMPLIANCE WITH THE AMERICANS WITH DISABILITIES ACT, IF YOU NEED SPECIAL ASSISTANCE TO PARTICIPATE IN THIS MEETING, PLEASE CONTACT THE CLERK DEPARTMENT AT (408) 354-6834. NOTIFICATION 48 HOURS BEFORE THE MEETING WILL ENABLE THE TOWN TO MAKE REASONABLE ARRANGEMENTS TO ENSURE ACCESSIBILITY TO THIS MEETING [28 CFR §35.102-35.104]***

**TOWN OF LOS GATOS  
TOWN PENSION AND OPEB TRUSTS OVERSIGHT COMMITTEE AGENDA  
MARCH 03, 2020  
6:00 PM**

**MEETING CALLED TO ORDER**

**ROLL CALL**

**CONSENT ITEMS** (*Items appearing on the Consent Items are considered routine and may be approved by one motion. Any member of the Council or public may request to have an item removed from the Consent Items for comment and action. If an item is pulled, the Mayor has the sole discretion to determine when the item will be heard. Unless there are separate discussions and/or actions requested by Council, staff, or a member of the public, it is requested that items under the Consent Items be acted on simultaneously.*)

1. Approve the Town Pension and OPEB Trusts Oversight Committee Meeting Minutes of December 3, 2019.

**VERBAL COMMUNICATIONS** (*Members of the public are welcome to address the Town Council on any matter that is not listed on the agenda. To ensure all agenda items are heard and unless additional time is authorized by the Mayor, this portion of the agenda is limited to 30 minutes and no more than three (3) minutes per speaker. In the event additional speakers were not able to be heard during the initial Verbal Communications portion of the agenda, an additional Verbal Communications will be opened prior to adjournment.*)

**OTHER BUSINESS** (*Up to three minutes may be allotted to each speaker on any of the following items.*)

2. Adopt the Recommendation of the Council Finance Committee to Invest Additional Discretionary Payment Assets in the California Employers' Pension Prefunding Trust (CEPPT) Strategy 2, and Provide Direction on a Asset Transfer Methodology.

**ADJOURNMENT** (*Council policy is to adjourn no later than midnight unless a majority of Council votes for an extension of time*)

*Writings related to an item on the Town Council meeting agenda distributed to members of the Council within 72 hours of the meeting are available for public inspection at the front desk of the Los Gatos Town Library, located at 100 Villa Avenue, and are also available for review on the official Town of Los Gatos website. Copies of desk items distributed to members of the Council at the meeting are available for review in the Town Council Chambers*

*Note: The Town of Los Gatos has adopted the provisions of Code of Civil Procedure §1094.6; litigation challenging a decision of the Town Council must be brought within 90 days after the decision is announced unless a shorter time is required by State or Federal law.*



**TOWN OF LOS GATOS  
PENSION AND OPEB TRUST  
OVERSIGHT COMMITTEE  
REPORT**

MEETING DATE: 03/03/2020

ITEM NO: 1

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**DRAFT  
Minutes of the Pension and OPEB Trust Oversight Committee Meeting  
December 3, 2019**

The Pension and OPEB Trust Oversight Committee of the Town of Los Gatos conducted a regular Meeting on Tuesday, December 3, 2019, at 6:00 p.m.

**MEETING CALLED TO ORDER AT 6:00 P.M.**

**ROLL CALL**

Present: Mayor Marcia Jensen, Vice Mayor Barbara Spector, Council Member Steve Leonardis (arrived at 6:01 p.m.), Council Member Rob Rennie, Council Member Marico Sayoc.

Absent: None

**CONSENT ITEMS (TO BE ACTED UPON BY A SINGLE MOTION)**

1. Approve the Town Pension and OPEB Trusts Oversight Committee Meeting Minutes of September 3, 2019.
2. Receive Performance Report for the Period Ending October 31, 2019 and Fund Balance Report for the Period Ending September 30, 2019 for the California Employers' Retiree Benefit Trust (CERBT).
3. Receive Monthly Performance and Account Summary Reports for the Town of Los Gatos IRS Section 115 Pension Trust for the Periods Ending September 30, 2019 and October 31, 2019.

**MOTION: Motion by Council Member Sayoc to approve the Consent Items. Seconded by Council Member Rennie.**

**VOTE: Motion passed unanimously.**

**VERBAL COMMUNICATIONS**

None.

**OTHER BUSINESS**

4. Receive CalPERS Actuarial Valuations Reports as of June 30, 2018.

Arn Andrews, Assistant Town Manager, Presented the staff report.

Opened Public Comment.

PAGE 2 OF 3

SUBJECT: Draft Minutes of the Pension and OPEB Trust Oversight Committee Meeting of  
December 3, 2019

DATE: December 4, 2019

Other Business Item #4 – continued

Terry Duryea

- Commented the Committee should consider the results stated in the reports, the reliability of CalPERS information, the unfunded PEPRA obligation, and budget adjustments for staff salaries.

Closed Public Comment.

Council discussed the matter.

**MOTION: Motion by Vice Mayor Spector** to receive the CalPERS Actuarial Valuations report as of June 30, 2018. **Seconded by Council Member Rennie.**

**VOTE: Motion passed unanimously.**

5. Receive Bartel Associates, LLC OPEB Accounting Information Report as of the June 30, 2018.

Arn Andrews, Assistant Town Manager, Presented the staff report.

Opened and closed Public Comment.

Council discussed the matter.

**MOTION: Motion by Council Member Sayoc** to receive the Bartel Associates, LLC OPEB Accounting Information Report as of June 30, 2018. **Seconded by Vice Mayor Spector.**

**VOTE: Motion passed unanimously.**

6. Adopt Proposed Revisions to the Town of Los Gatos IRS Section 115 Pension Trust and California Employers' Retiree Benefit Trust (CERBT) Investment Policy.

Arn Andrews, Assistant Town Manager, Presented the staff report.

Opened and closed Public Comment.

Council discussed the matter.

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SUBJECT: Draft Minutes of the Pension and OPEB Trust Oversight Committee Meeting of  
December 3, 2019

DATE: December 4, 2019

Other Business Item #6 – continued

**MOTION:** Motion by Council Member Sayoc to adopt the proposed revisions the Town of Los Gatos IRS Section 115 Pension Trust and California Employers' Retiree Benefit Trust (CERBT) Investment Policy 4-04. **Seconded** by Council Member Rennie.

**VOTE:** Motion passed unanimously.

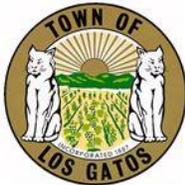
### **ADJOURNMENT**

The meeting adjourned at 6:25 p.m.

Attest:

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Shelley Neis, Town Clerk



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

MEETING DATE: 03/03/2020

ITEM NO: 2

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DATE: February 27, 2020  
TO: Town Pension and OPEB Trusts Oversight Committee  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Adopt the Recommendation of the Council Finance Committee to Invest Additional Discretionary Payment Assets in the California Employers' Pension Prefunding Trust (CEPPT) Strategy 2, and Provide Direction on a Asset Transfer Methodology

**RECOMMENDATION:**

Adopt the recommendation of the Council Finance Committee to invest additional discretionary payment (ADP) assets in the California Employers' Pension Prefunding Trust (CEPPT) Strategy 2, and provide direction on a asset transfer methodology.

**BACKGROUND:**

On September 3, 2019, the Town Pension and OPEB Trusts Oversight Committee directed staff to utilize the funds in the PARS account to make payments directly to CalPERS toward existing long-term amortization bases. Per the Oversight 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 will be used as an ADP to pay a 2015 gain/loss amortization base of approximately \$3,660,342 prior to September 2020.

On September 17, 2019, the Town Council directed staff to terminate the PARS agreement, consistent with the Town Pension and OPEB Trusts Oversight Committee recommendation, and to return to Council with an agreement to initiate participation in the California Employers' Pension Prefunding Trust (CEPPT). On November 5, 2019, the Town Council authorized the Town Manager to enter into an agreement with CalPERS for participation in the CEPPT program.

**PREPARED BY:** Arn Andrews  
Assistant Town Manager

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

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BACKGROUND (continued):

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 February 3, 2020, the Council Finance Committee reviewed the two CEPPT asset allocation options available through CalPERS and staff's recommendation that Strategy 2 be brought forward to the Town Pension/OPEB Oversight Committee.

DISCUSSION:

*Council Finance Committee Discussion*

The Council Finance Committee discussion regarding asset allocation options focused on two primary considerations: concerns about existing and future assets remaining idle in the CEPPT account regardless of which asset allocation was chosen, and the belief that a clearly defined methodology for allocating assets to pay off amortization bases should be employed. The Committee concluded that both those items should be presented to the Pension/OPEB Oversight Committee in tandem with the asset allocation recommendation. In addition, one resident Committee member expressed concerns that the current ADP payment approach adopted on September 3, 2019, wasn't fully understood by the Oversight Committee and not the optimum approach. The other resident members agreed. Provided below is a summary pertaining to each component of the Council Finance Committee discussion and other relevant information.

*CEPPT Asset Allocations*

The investment time horizon for employers in the CEPPT is estimated by CalPERS to be short-term to medium-term, as employers plan for increasing required pension contributions in future years. CalPERS also recognizes that employers currently have options for: 1) investing in very low risk, short term options through their operating portfolio investments and 2) contributing directly to CalPERS or PARS type vehicles at a higher risk, long-term investment horizon.

In response, CalPERS established two diversified strategic asset allocations with low and moderate risk levels that are expected to have a net rate of investment return of 4.0% and 5.0%, respectively. CEPPT Strategy 1 accommodates a medium-term time horizon and a medium risk tolerance with a 5.0% expected return and 8.2% expected volatility. CEPPT Strategy 2 provides a shorter time horizon and lower risk tolerance with a 4.0% expected return and 5.2% expected volatility.

DISCUSSION (continued):

As illustrated below each asset allocation has varying degrees of exposure to equity, fixed income, Treasury Inflation Protected Securities (TIPS), Real Estate Investment Trusts (REITs), and liquidity. Following are the two asset allocations:

Asset Allocation Targets	Benchmark	Strategy 1	Strategy 2
Global Equity	MSCI ACWI IMI (Net)	40% +/- 5%	14% +/- 5%
Fixed Income	Bloomberg Barclays U.S. Aggregate Bond Index	47% +/- 5%	73% +/- 5%
Global Real Estate (REITs)	FTSE EPRA/NAREIT Developed Liquid (net)	8% +/- 5%	8% +/- 5%
Treasury Inflation Protected Securities (TIPS)	Bloomberg Barclays U.S. TIPS Index (Series L)	5% +/- 3%	5% +/- 3%
Liquidity	91-Day Treasury Bill	0% +2%	0% +2%

The timing of asset withdrawal from the CEPPT will be predicated on future determination of additional amortization bases to target for payment as directed by the Town's Pension/OPEB Trusts Oversight Committee. Based on the unknown timing of withdrawals from the CEPPT, staff recommended the Finance Committee consider recommending CEPPT Strategy 2 for initial receipt of Town deposits. After discussion, the Finance Committee decided to forward this recommendation to the Oversight Committee.

*Asset Withdrawal Methodology*

As previously mentioned, the resident members of the Council Finance Committee expressed concern that assets accumulated for paying off amortization bases could remain idle without some form of automatic payment methodology. In order to ensure that assets are deployed on a continual basis from the CEPPT to selected amortization bases, the Committee ultimately suggested that a monthly transfer schedule be adopted similar to the dollar cost averaging that was utilized when the PARS account was first established. The methodology recommended was

DISCUSSION (continued):

for minimum monthly payments of \$300,000 or one-twelfth (1/12) of the total assets in the account. Staff concurs that a fixed payment methodology is warranted; however, after consultation with CalPERS, staff recommends a quarterly payment schedule (\$900,000 or ¼) if the Oversight Committee opts for this approach. Monthly payments would present both the Town and CalPERS with a significant administrative challenge. In addition, quarterly payments would achieve the same result by systematically gaining differing market exposures over time.

The Committee also discussed if the remaining PARS account balance in conjunction with the committed Pension/OPEB fund balance should be used as a single amortization base payment. Based on prior Oversight Committee direction, staff anticipated paying off the 2015 gain/loss amortization base of approximately \$3,660,342 in its entirety prior to September 2020. Staff anticipated paying the second amortization base off approximately six months after the first payment which would be in the April timeframe. In addition, a payment prior to May 1, 2020 would be acknowledged by CalPERS in development of the next actuarial valuation.

Following is an example for illustrative purposes of how payments to CalPERS will proceed if the Committee decides to use a systematic payment strategy for all current Pension/OPEB fund balances.

	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				

CONCLUSION:

Staff recommends approving the recommendation of the Council Finance Committee to invest additional discretionary payment (ADP) assets in the California Employers' Pension Prefunding Trust (CEPPT) Strategy 2 and provide direction on an asset transfer methodology.

COORDINATION:

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

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SUBJECT: CEPPT Asset Allocation and Payment Methodology

DATE: February 27, 2020

FISCAL IMPACT:

No impact is anticipated at this time given the all-inclusive fee rate of 25 basis points (0.25%) is lower than the fee structure previously paid to PARS.

ENVIRONMENTAL ASSESSMENT:

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



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

MEETING DATE: 03/03/2020

ITEM NO: 2

ADDENDUM

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DATE: February 27, 2020  
TO: Town Pension and OPEB Trusts Oversight Committee  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Adopt the Recommendation of the Council Finance Committee to Invest Additional Discretionary Payment Assets in the California Employers' Pension Prefunding Trust (CEPPT) Strategy 2, and Provide Direction on a Asset Transfer Methodology

REMARKS:

Attachment 1 contains public comment received between Friday, February 28, 2020, and 11:00 a.m. Monday, March 2, 2020.

Attachment received with this addendum:

1. Public comments received between the publication of the staff report, Friday, February 28, 2020, and 11:00 a.m. Monday, March 2, 2020.

PREPARED BY: Arn Andrews  
Assistant Town Manager

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

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Date: March 1, 2020

To: Committee Chairperson and committee members

Subject: March 3, 2020 Pension and OPEB Trusts Oversight Committee Meeting Item 2

I'd like to add to the Staff report on Item 2, that I'll call "the rest of the story".

The Finance Committee did recommend to invest additional discretionary payment (ADP) assets in the California Employers' Pension Prefunding Trust (CEEPT) Strategy 2 as stated in the Staff Report. But the Staff Report omitted the additional Finance Committee recommendation that the funds should stay in the CEEPT for no more than 1 year before being transferred to CALPERs. This was a key reason the Finance Committee recommended Strategy 2 even though it has a lower targeted return. The CEEPT alternative was presented as a short term place to park the funds with expected higher returns than if they stayed on the Town's balance sheet.

Therefore, I recommend the Town Council add a provision to the Staff Recommendation that "the intended use of the CEPPT Strategy 2 is as a temporary stop before transferring the funds to CALPERs or another preferable investment; and that no funds should be held in the CEEPT Strategy 2 for more than 1 year."

The Staff Report has offered a proposed Quarterly Payment Methodology for the \$3,660,342 still held by PARs. As the Staff Memo says, Council has already directed Staff to transfer the funds to CALPERs "prior to September 2020". Now the Staff is offering a proposal that defers that date until January 2021. There is no reason to wait!

In light of the recent decline in the stock market and the generally held belief by investment professionals that "one cannot time the market", I recommend you accept the Staff alternative that most closely approximates the initial implementation direction—invest the \$3,660,342 immediately with the \$539,658 invested in July 2020 as an approximation of dollar cost averaging. The Staff Memo provides a clear benefit of investing the \$3,660,342 with CALPERs prior to May 1, 2020.

On a second point, I would like to emphasize for Town Council based on my perception from the recent Finance Committee meeting that all 3 resident members were surprised to learn from Staff that they had not yet begun to dollar cost average the transfer of the \$3,660,342 from the PARS account to CALPERs. My understanding from an earlier Finance Committee meeting and a Pension and OPEB Trusts Oversight Committee meeting was that Staff was going to begin the dollar cost averaging soon after the \$4,753,965 was transferred to CALPERs, with the intent to have it completed by September 30, 2020.

Currently of the assets managed by PARS, 70% are invested in equities (in 8 different equity asset subclasses). CALPERs has a target equity allocation of 50%. With the recent large decline in the stock market, the Town could have avoided some losses on the PARs equities if it had begun the transfer of the assets from PARs to CALPERs following a dollar cost average methodology as the resident members of the Finance Committee believed had begun.

And now you know "the rest of the story" as perceived by,

Terry Duryea