TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 11/06/2024
ITEM NO: 3
DESK ITEM

DATE: November 6, 2024

TO: Finance Commission

FROM: Gitta Ungvari, Finance Director

SUBJECT: Discuss the Unfunded Pension Liability/CalPERS Ad Hoc Subcommittee Work

RECOMMENDATION:

Discuss the Unfunded Pension Liability/CalPERS Ad Hoc Subcommittee work.

REMARKS:

Attachment 1 includes Commissioners communication received after publishing the Staff Report and before 11:00 a.m. on Wednesday November 6, 2024.

Attachment:

1. Commissioners Communication Received after Publishing the Staff Report and before 11:00 a.m. on Wednesday November 6, 2024

Reviewed by: Town Manager and Town Attorney

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From: Phil Koen
To: [redacted] Andrew Howard; Joe; Ashby Monk; Matthew Hudes; Rob Rennie
Cc: Gitta Ungvari; Wendy Wood; Chris Constantin; Katy Nomura
Subject: Pension Update from Ashby Monk
Date: Wednesday, November 6, 2024 10:58:38 AM
Attachments: Doc - Nov 6 2024 - 10-52 AM.pdf

[EXTERNAL SENDER]

All,

Attached is an email update I received from Ashby Monk in response to agenda item 3.

This is being distributed from information purposes only. Please do not discuss on this thread to avoid any Brown Act issues.

Thank you,

Phil Koen

From: Ashby Monk [redacted]
Subject: Re: FC Agenda for Nov 6 meeting
Date: Nov 3, 2024 at 1:00:54 PM
To: Phil Koen [redacted]

External (ashbymonk@gmail.com)

GUARDIAN

Hey Phil.

At the last finance commission (I think you were in Europe), I specifically asked the town auditor to provide examples of other towns that have done ALM studies or have ALM practices. My recollection is he said some do but didn't have ready examples. It would be great to chase this down.

In terms of next steps: Feel free to reiterate that we should use the $2.1m to pay down CalPERs, as those are excess reserves (per your statements at the meeting from the summer).

As I noted in the other email I just sent you, the town's goal should be to determine what we need fiscally (i.e., what is our "fiscal rule", which will determine whether reserves are linked to near term budgetary spending or not). And then we can start to label them as different types of reserves.

Once we can link assets to liabilities (explicit and implicit) and time horizons (short to long), we can more easily be confident in the recommendations we make for how the reserves should be invested (i.e., in cash, bonds, trust, or Calpers)...

Here are the types of reserves it would be wonderful to see, with the associated investment policies:

<u>1) ST Reserves:</u> Current Reserves that are set aside to fund short- and medium-term explicit liabilities. These would be maintained in town cash accounts and in the Bond portfolio.

<u>2) MT Reserves:</u> Reserves that are set aside to fund medium to long-term explicit liabilities. These would be invested in the Bond portfolio and some of this would be redeployed into the Trust account.

<u>3) Precautionary Reserves:</u> Reserves that are set aside as Precautionary Reserves intended for implicit liabilities (i.e., self insurance). Some of this would be invested in Bonds, some in the Trust, and some in CalPERS.

<u>4) Excess Reserves:</u> Money beyond any reasonable precautionary needs. This would be sent to Calpers.

Once we have agreed on the above categories of reserves, we can then debate how much we need in each category...which is how, in my experience, we can start to push money from the top (1 and 2) to the bottom (3 and 4).

But I don't think we can really make strong recommendations without a detailed ALM study.

Ashby