

**AGENDA
BELVEDERE TIBURON LIBRARY FINANCE COMMITTEE**

Meeting of Thursday, September 5, 2024, 1:30pm

Belvedere Tiburon Library
1501 Tiburon Blvd, Tiburon, California

PUBLIC NOTICE

This meeting will be held in person in the Library.

CALL TO ORDER AND ROLL CALL

PUBLIC COMMENT

This is an opportunity for any citizen to briefly address the BTLA Finance Committee on any matter that does not appear on this agenda. Upon being recognized by the Treasurer, please state your name, address, and limit your oral statement to no more than three minutes. Matters that appear to warrant a lengthier presentation or Committee consideration may be placed on the agenda for further discussion at a later meeting.

DISCUSSION ITEMS – Finance Committee – Trustees Goldman, Slavitz, and Weil

1. Revisions to Investment Policy
2. Bank Account Holdings and Consolidations
3. Establishing a 115 Trust

THIS MEETING WAS PROPERLY NOTICED AND POSTED AT THE FOLLOWING LOCATIONS IN
ACCORDANCE WITH THE NOTICING STANDARD REQUIREMENTS

Belvedere-Tiburon Library Website – www.beltibrary.org
Belvedere-Tiburon Library, 1501 Tiburon Boulevard, Tiburon CA

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DATE: September 5, 2024

TO: Finance Committee

FROM: Crystal Duran, Library Director

SUBJECT: September Finance Committee Discussion

Revisions to the Investment Policy

BTLA's Investment Policy was adopted in September 2013. The Finance Committee should review the policy and discuss any necessary changes. Some considerations include:

- Updating the Delegation of Authority section to include the Library Director and revising for appropriate job titles
- Review the reporting requirements
- Expanding the policy to diversify investment mechanisms such as money market funds and JPA pools

The investment policies of the Town of Tiburon and the City of Belvedere are attached for reference. Any policy changes require board approval.

Bank Account Holdings and Consolidations

See the attached memo from Kristin Johnson.

Establishing a 115 Trust

Annual actuarial valuations determine CalPERS employer contributions and the minimum required employer contribution includes both:

1. Normal Cost (NC) Rate represents the annual cost of service accrual for the upcoming fiscal year for active employees. Normal cost is shown as a percentage of payroll and paid as part of the payroll reporting process.
2. Annual payment on the Unfunded Accrued Liability (UAL) is the amortized dollar amount needed to fund past service credit earned (or accrued) for members who are currently receiving benefits, active members, and for members entitled to deferred benefits, as of the valuation date.

As of June 2023, BTLA is funded 73.97% with a pension liability of \$1.6M and an OPEB (Other Post-Employment Benefits) liability of \$357K based on a 6.9% discount rate. While the goal is

100% funded, a funded ratio of 80% or higher is often considered a benchmark for a healthy pension system.

Public agencies can use an IRS Section 115 trust to set aside funds for future liabilities, like pension obligations or retiree healthcare costs. Investment earnings in a 115 trust grow tax-free and can typically be invested more aggressively. CalPERS administers the California Employers' Benefit Trust (CERBT) and California Employers' Pension Prefunding Trust (CEPPT), a 115-trust dedicated to pre-funding OPEB and pension for California public agencies.

In FY23-24, BTLA budgeted \$25K for an additional payment to address OPEB liability. In the FY24-25 budget, staff added an expenditure line for a 115 Trust with a \$25K contribution. To date, payments have yet to be made. The Finance Committee should discuss whether additional OPEB and UAL payments should be made into a 115 trust or as additional discretionary payments (ADP). Slides from a recent webinar hosted by CalPERS and other pertinent information are included for reference. The Committee should also consider addressing the UAL while drafting a reserve policy in the near future.

From: Kristin Johnson

BTLA Summary of Cash Management Strategy Options

As advised by Dave Wissinger, Mechanics Bank Wealth Management

August, 2024

Current Library Cash Accounts:	Balance	Rate	Suggested Bal
Mechanics Operations Checking	\$40-\$60K	N/A	\$40-60K
Mechanics Expansion Checking	\$6K	N/A	\$0
Mechanics Money Market	\$148K	4.7%	\$0
USBank Fiscal Agent (Reserved for Bond Payment)	\$110K	4.8% (N/A)	\$110K
LAIF	\$80K	4.6%	\$250-375K
Mechanics Wealth Management Goldman Fund	\$1.6 Million	5.17%	Low of \$400K
Total Cash	<u>\$2 Million</u>		
Annual Low Point Estimate	<u>\$900K</u>		
Monthly Operations Draw	\$250K		

Possible Additions:

Insured Cash Sweep (ICS) CDs – All or 50-50 with Goldman Fund? 4.97% 8/15/24.... trending lower

Wealth Management Options for “idle” cash:

1. Current Wealth Management Goldman Fund

Managed by Mechanics Wealth Management staff

Federal Securities (our investment policy allows 100% of investments)

Current Yield: 5.17%

Insured in full by the US Treasury

Requires a phone call to Wealth Management before 10 am for same day transfer to checking.

2. Insured Cash Sweep (ICS)

Managed by a third-party allocator, consists of CDs

CD's very short term (less than the 2-year max per our investment policy, which allows max of 50% of investments)

Current Rates: 10- and 1-month at 5% APY

Insured by the FDIC. Limit \$250,000 per bank. Managed by a 3rd party allocator. No more than the \$250,000 limit in each bank.

Requires a phone call to Wealth Management before 10am for same day transfer to checking.

Dave Wissinger at Mechanics Wealth Management maintains that either or both of these options are viable for us. Currently, interest rates on both are similar. If there is a rate reduction (probably not until December 2024 at this point), the CD's may be more advantageous for a short time after that.

Otherwise, either option would be equally "safe" for us. **The only issue is that our current investment policy only allows for only 50% of investments in CD's. We could update the policy at the September meeting or resolve to keep both the Goldman Fund (50%) and the ICS (50%) to hedge our bets.**

I recommend that we also continue to keep 1-2 months of cash in LAIF. I think it's good to keep that account open for times when it ends up being more stable than other options, and not having to re-open it later.

The Expansion Checking can certainly be closed at this point, keeping in mind that approximately \$50,000 is reserved for remaining expenditures on project follow-up.

The Money Market provides a quick and easy online transfer to checking without a phone call to either LAIF or Mechanics Wealth Management. Current rate is 4.7%. We might want to consider keeping it for that purpose.

Otherwise, having just Checking, LAIF, and one or two of the Wealth Management Accounts would simplify.

BTLA Investment Policy Guidelines (last updated September 2013).

V INVESTMENT GUIDELINES

Investments are to be made in securities or instruments as permitted by the Government Code and subject to the Limitations of this Investment Policy.

- A. Eligible securities for investment shall include the following:
 1. U.S. Treasury Securities. United States Treasury notes, bonds, strips, bills or certificates of indebtedness, or obligations for which the full faith and credit of the U.S. Government are pledged for the timely payment of principal and interest.
 2. Certificates of Deposit. Certificates of deposit, insured by the FDIC, issued by a nationally or state-chartered bank or savings association, or federal association.
 3. State Local Agency Investment Fund (LAIF). The BTLA may invest all or a portion of its investments, up to the State-mandated maximum, in LAIF pursuant to California Government Section 16429.1.
- B. Diversity and Maturity Guidelines:
 1. U.S. Treasury Securities Up to **100%** of investments with a maximum maturity of 5 years.
 2. Certificates of Deposit Up to **50%** of investments with a maximum maturity of 2 years.
 3. State Local Agency Investment Fund (LAIF) Up to **100%** of investments.

BELVEDERE-TIBURON LIBRARY AGENCY INVESTMENT POLICY

Adopted by the Belvedere-Tiburon Library Agency on September 16, 2013

I PURPOSE

This Policy sets forth the investment guidelines for the prudent management of all surplus funds of the Belvedere-Tiburon Library Agency (BTLA).

II OBJECTIVES

Surplus funds shall be invested in accordance with sound treasury management principles, State of California Government Code Sections 53600 et. seq, and this Policy. When investing, reinvesting, acquiring, selling and managing BTLA funds, objectives for selecting investments in order of priority, are:

1. Safety. The primary objective shall be to safeguard the principal of the funds.
2. Liquidity. The secondary objective shall be to meet the liquidity needs of the BTLA. It is important that the portfolio contain investments that provide flexibility and may easily be sold with minimal risk of loss of principal or interest.
3. Yield. The third objective shall be to achieve a reasonable rate of return on the portfolio, consistent with the prior two objectives.

III PRUDENCE

BTLA Trustees and BTLA Treasurer, and any persons authorized to make investment decisions on behalf of the BTLA, are trustees and therefore fiduciaries subject to the prudent investor standard. When investing, reinvesting, acquiring, selling and managing BTLA funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims to safeguard the principal and to maintain the liquidity needs of the BTLA (Government Code Section 53600.3).

The Prudent Investor Standard shall be applied in managing an overall portfolio. Investment officers acting in accordance with written procedures and the Investment Policy and exercising due diligence shall be relieved of personal responsibility for a particular security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control developments.

IV DELEGATION OF AUTHORITY

Authority to manage the BTLA's investment program is derived from approval of the BTLA Board. Management responsibility for the BTLA's investments is delegated to the Executive Assistant to the Director and the Treasurer. No person may engage in an investment transaction except as provided under the terms of this Investment Policy statement and procedures established by the BTLA Board.

V INVESTMENT GUIDELINES

Investments are to be made in securities or instruments as permitted by the Government Code and subject to the Limitations of this Investment Policy.

- A. Eligible securities for investment shall include the following:
 1. U.S. Treasury Securities. United States Treasury notes, bonds, strips, bills or certificates of indebtedness, or obligations for which the full faith and credit of the U.S. Government are pledged for the timely payment of principal and interest.
 2. Certificates of Deposit. Certificates of deposit, insured by the FDIC, issued by a nationally or state-chartered bank or savings association, or federal association.
 3. State Local Agency Investment Fund (LAIF). The BTLA may invest all or a portion of its investments, up to the State-mandated maximum, in LAIF pursuant to California Government Section 16429.1.
- B. Diversity and Maturity Guidelines:
 1. U.S. Treasury Securities Up to 100% of investments with a maximum maturity of 5 years.
 2. Certificates of Deposit Up to 50% of investments with a maximum maturity of 2 years.
 3. State Local Agency Investment Fund (LAIF) Up to 100% of investments.

VI REPORTING

Within thirty (30) days following the end of each quarter Staff shall render a report to the BTLA Board, which shall include the following information:

1. The type of investment, issuer, date of maturity, par value, cost basis and purchase date for all securities and investments of the BTLA.
2. The current market value, as of the report date, of all investments, as well as the source of this same valuation.

For investments placed in LAIF, a bank, or savings and loan association, the most recent statements received by the BTLA from the institution will suffice in lieu of the requirements listed above.

I. PURPOSE

This Annual Investment Policy (“Policy”) sets forth the investment guidelines for the prudent management of all surplus funds of the Town of Tiburon and the Tiburon Public Facilities Financing Authority (together “Tiburon”). It is the goal of this Policy to establish investment objectives in accordance with the provisions of the State of California Government Code (“Code”) Sections 53600 et seq., and investment policy guidelines to ensure that funds under its purview are prudently invested to preserve capital, provide necessary liquidity and to achieve a rate of return consistent with Tiburon’s needs and objectives. Investments may only be made as authorized by this Annual Investment Policy and subsequent revisions. Irrespective of these Policy provisions, should the provisions of the Code be or become more restrictive than those contained herein, such provisions will be considered immediately incorporated into this Policy.

II. OBJECTIVES

³ Surplus funds, including available reserve funds not required for expenditures within the next six months, shall be invested to the fullest extent possible in accordance with sound treasury management principles, State of California Government Code Sections 53600 et seq. and this Policy.

The objective of this Policy is to ensure that Tiburon’s funds not required for the immediate needs of Tiburon are prudently invested to ensure in order of priority:

1. Preservation of Capital. The primary objective shall be to safeguard the principal of the funds.
2. Maintenance of sufficient liquidity. The secondary objective shall be to meet the liquidity and operating requirements of Tiburon.
3. A market-average rate of return through economic cycles consistent with the

objectives 1 and 2.

4. ¹ Diversification. Tiburon shall diversify its portfolio to avoid incurring unreasonable market risks and remain consistent with Objectives 1 -3.

III. PRUDENCE

Tiburon Town Council Members, the Town Manager, Director of Administrative Services and the Town Treasurer, ² and any persons authorized to make investment decisions on behalf of Tiburon, are trustees and fiduciaries subject to the Prudent Investor Standard. “When investing, reinvesting, acquiring, selling and managing Tiburon funds, a trustee shall act with care, skill, prudence and diligence under the circumstances then prevailing, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims to safeguard the principal and to maintain the liquidity needs of the [Town] (Government Code Section 53600.3)

The Prudent Investor Standard shall be applied in managing an overall portfolio. Persons authorized to make investments for Tiburon and acting in accordance with written procedures and this Investment Policy and exercising due diligence shall be relieved of personal responsibility for a particular security’s credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control developments.


It is the intention of Tiburon’s investment strategy to buy and hold investments to maturity. However, there may be exceptions which may dictate exchanging one security for another or selling a security before maturity. This fine tuning of the investment portfolio is considered part of prudent investment management.


Investment in securities other than those permitted by this Policy, but permitted under

Summary of Comments on Town of Tiburon Investment Policy 2018-9-5_CD Comments.pdf

Page: 1

 Number: 1 Author: cduran Subject: Highlight Date: 8/27/2024 9:24:04 AM

 Number: 2 Author: cduran Subject: Highlight Date: 8/27/2024 9:24:31 AM
Add to BTLA's policy

 Number: 3 Author: cduran Subject: Highlight Date: 8/27/2024 9:24:45 AM
Consider adding to BTLA's policy

Section 53601, shall first be considered and authorized by the Council prior to investment. The Policy will be amended to reflect this authorization upon approval.

IV. DELEGATION OF AUTHORITY

The Town Council is responsible for establishing this Policy and the authority to manage Tiburon's investment program. This Policy shall be reviewed annually and approve any changes to the Policy at a public meeting. ¹ The day-to-day managing, reporting and oversight of the Tiburon's investment program is delegated to the Town Manager and Director of Administrative Services. No person may engage in an investment transaction except as provided under the terms of this Investment Policy and procedures established by the Town Council. ² The Finance Committee of the Town Council will be responsible for reviewing and monitoring Tiburon's investment activities and report to the full Council on a quarterly basis. A report of investment activity will be presented to the Town Council on a monthly basis.

V. ETHICS AND CONFLICTS OF INTEREST

The Town's Council, and those authorized to act on Tiburon's behalf for the investment of Tiburon's surplus funds shall refrain from personal and professional business activities that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Those authorized to act on Tiburon's behalf are not permitted to have any material financial interests in financial institutions, including state or federal credit unions, that conduct business with Tiburon, and they are not permitted to have any personal financial or investment holdings that could be materially related to the performance of Tiburon's investments.

Council members and authorized staff shall not accept honoraria, gifts, and/or gratuities, which are in violation of state law, from advisors,

brokers, dealers, bankers, or other persons with whom Tiburon conducts business.

VI. INVESTMENT GUIDELINES

Investments are to be made in high quality securities or instruments as permitted by the Government Code Section 53630 and subject to the limitations of this Investment Policy. Purchasing certain allowable securities with a maturity of greater than five years requires the approval of the Town Council which shall have been apprised of the risk and possible volatility associated with longer-term investments.

A. Eligible securities for investment shall include the following:

1. U.S. Treasury Securities

United States Treasury notes, bonds, strips, bills or certificates of indebtedness, or obligations for which the full faith and credit of the U.S. Government are pledged for the timely payment of principle and interest.


2. Federal Agencies and U.S. Government Sponsored Enterprises

Obligations, participations, or other instruments of or issued by a federal agency or federal government sponsored enterprise. This includes, and is not restricted to, obligations of the: Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Federal Farm Credit Bank (FFCB), Government National Mortgage Association (GNMA), Small Business Administration (SBA), Export-Import Bank of the United States, and the U.S. Department of Housing and Urban Development.

3. State of California and Local Agency Obligations

Registered State warrants, Treasury notes, or bonds of the State of California, and bonds, notes, warrants or other evidence of indebtedness of any local agency of the State (including bonds payable solely out of revenues

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 Number: 1 Author: cduran Subject: Highlight Date: 8/27/2024 9:25:59 AM
Should add to BTLA's

 Number: 2 Author: cduran Subject: Highlight Date: 8/27/2024 9:26:37 AM

from a revenue producing property or asset owned, controlled, or operated by the State or local agency, or by a department, board, agency or authority of the State or local agency.) Such obligations must be rated A1, SP-1, its equivalent or higher short term, or AA or higher long term, by a nationally recognized rating agency.

4. Commercial Paper

Commercial paper of “prime” quality rated A1/P1 or higher by Moody’s Investor Services, Inc. or Standard & Poor’s Corporation. Eligible paper is further limited to issuing corporations that: (a) are organized within the United States, (b) have total assets in excess of five hundred million dollars (\$500,000,000), and have a long-term debt rating of AA or higher. Purchases of eligible commercial paper may not exceed 270 days in maturity, may not exceed 15% of the Town’s eligible investment funds and no more than 5% invested in any one issuer.

5. Negotiable Certificates of Deposit

Negotiable certificates of deposit issued by a nationally or state-chartered bank or savings association, or federal association, or a state or federal credit union, or by a state-licensed branch of a foreign bank carrying an individual rating of at least B/C by the Thompson Bank Watch or IBCA rating services, a short-term debt rating of A1/P1 or higher, and a long-term debt rating of AA or higher.

6. Money Market Funds

Shares of beneficial interest issued by diversified management companies as authorized by California Government Code Section 53635(j).

7. California Local Agency Investment Fund (LAIF) operated by the Office of the State Treasurer. Tiburon may invest all or a portion of its investments, up to the State-mandated maximum, in LAIF pursuant to California Government Section 16429.1.

8. Shares of beneficial interest in a joint

1 powers authority pool organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in Section 53601 subdivisions (a) to (o) inclusive, and meets the following criteria: 1) the adviser is registered with the Securities and Exchange Commission; 2) the adviser has not less than five years of experience investing in the securities and obligations authorized in said subdivisions; and (3) the adviser has assets under management in excess of \$500 million.

B. Diversity and Maturity Guidelines:


Type of Investment	Maximum % of Portfolio	Maximum % of one issuer	Maximum Maturity
U.S. Treasury Securities	100	100	5 years
Federal Agencies and U.S. GSEs	65	20	5 years
Commercial Paper	15	5	270 days
Negotiable Certificates of Deposit	25	5	3 years
Money Market Funds	15	15	N/A
State LAIF	100		N/A
Joint Powers Authority Pool	100	N/A	N/A

VII. REPORTING

Within thirty (30) days following the end of each quarter, Staff shall render a report to the Town Council, which shall include the following information:

1. A portfolio appraisal that includes the type of investment, issuer, date of maturity, par and dollar amount invested for all securities and investments of the Town, and shall additionally include a description of any Town monies that are under the management of any outside

Page: 3

 Number: 1	Author: cduran	Subject: Highlight	Date: 8/27/2024 9:29:18 AM
Should consider adding this -- applicable to Cal CLASS			
 Number: 2	Author: cduran	Subject: Highlight	Date: 8/27/2024 9:27:50 AM
Include in BTLA's			

parties.

2. The current market value, as of the report date, of all investments, as well as the source of this same valuation.

3. A statement of the status of the compliance (or non-compliance) of the portfolio to this Investment Policy Statement.

4. A statement denoting the ability of Tiburon to meet its expenditure requirements for the next six (6) months.

For investments placed in LAIF, a bank, or savings and loan association, the most recent statements received by the Town from the institution may suffice in lieu of the requirements listed above.

VIII. SAFEKEEPING AND DELIVERY OF SECURITIES

All transactions shall be executed on a Deliver versus Payment (DVP) basis. To protect against potential fraud or embezzlement, the assets of the Tiburon shall be held in safekeeping by Tiburon's safe keeping agent, or secured through third-party custody and safekeeping procedures pursuant to the limitations set forth in Government Code Section 53608. No security shall be held in safekeeping by the broker/dealer from whom it was purchased. Settlement payment in a securities transaction will be against delivery only, and a Due Bill or other substitution will not be acceptable. These procedures will be reviewed annually by an external auditor. All investments are to be held in the name of the Town of Tiburon.

IX. BOND PROCEEDS

Bond proceeds resulting from the Town's capital project debt financing programs will be invested in accordance with the provisions of their specific trust indenture. Debt service reserve funds of bond issues will be invested in accordance with the maturity provision and

eligible investments definition of the specific trust indenture.

X. PENSION FUNDS

This Policy does not apply to the investment of the Town's pension funds.

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Number: 1

Author: cduran

Subject: Highlight

Date: 8/27/2024 9:30:01 AM

City Hall will be closed Monday, September 2nd in observance of Labor Day.



Finance (<https://www.cityofbelvedere.org/departments/finance/>) / Policies ()

Budget (https://www.cityofbelvedere.org/budget/)
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Pensions (https://www.cityofbelvedere.org/pension-obligations/)
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Business Licenses (https://www.cityofbelvedere.org/business-licenses/)
Request for Proposals (https://www.cityofbelvedere.org/request-for-proposals/)

Financial Policies

Reserve Policy

The City’s reserve policy is to maintain a General Fund Reserve equal to not less than 50% of projected General Fund Expenditures + Fire Fund Transfers + Pension Related Debt Service Payments. The goal of the policy is to have sufficient funds to continue to operate for six months in the event of an external shock.

Investment Policy

The City invests its reserve funds and current-year operating balances in a manner that prioritizes safety, liquidity, and yield. All our investments are very safe and consistent with Government Code Sections 53600 to 53610. The City maintains a small balance with our FDIC-

insured banking partner, with all remaining funds invested through LAIF (<https://www.treasurer.ca.gov/pmia-laif/laif/index.asp>) and CalTRUST (<https://caltrust.org/>).

Pension Funding Policy

The City’s pension funding policy aims to have assets to cover 100% of accrued pension liabilities valued at a prudential discount rate by 2040. Each year, we set aside funds into a Section 115 Trust to meet this goal, above and beyond our required payments to CalPERS. The current assumed discount rate is 5.8% versus a CalPERS rate of 6.8%.

To learn more about the policy, please click [here](https://www.cityofbelvedere.org/documents/belvedere-pension-funding-policy/) (<https://www.cityofbelvedere.org/documents/belvedere-pension-funding-policy/>).

To view the latest pension funding review, please click [here](https://storage.googleapis.com/proudcity/belvedereca/uploads/2023/12/Item-1.pdf) (<https://storage.googleapis.com/proudcity/belvedereca/uploads/2023/12/Item-1.pdf>).

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**BELVEDERE TIBURON LIBRARY AGENCY
LONG-TERM DEBT ESTIMATE
YEAR ENDED
JUNE 30, 2024**

LONG-TERM LIABILITIES				
Compensated Absences (Accrued Vacation Balances)	6/30/2023	\$	110,000	
CFD 1995-1 BONDS				
Original Bonds CFD 1995-1 thru Sept 2026	6/30/2024	\$	315,000	
Future interest to be paid thru Sept 2026	6/30/2024		28,950	
Total Bond CFD 1995-1 Liability (5 payments remaining)		\$	343,950	
Payments are made on 9/1 and 3/1, Last Payment will be 9/1/2026				
PENSION AND OPEB LIABILITIES				
Actuarially Determined Net Pension Liability per Audit	6/30/2023		1,636,951	
Actuarially Determined Net OPEB Liability Per Audit	6/30/2022		357,355	
Total Post-Employment Liability ESTIMATE	6/30/2023	\$	1,994,306	
TOTAL LONG-TERM LIABILITIES				
NOTES				
PENSION AND OPEB LIABILITIES BASED ON 6/30/2023 AUDIT ACTUARIALS with changes based on discount rate				
			1% Decrease	@ 6/30/2023
				1% Increase
Discount Rate		5.90%	6.90%	7.90%
Pension Liability		\$ 2,655,675	\$ 1,636,951	\$ 798,793
				@ 6/30/2022
Discount Rate		2.54%	3.54%	4.54%
OPEB Liability		\$ 418,813	\$ 357,355	\$ 311,380
TOTAL Pension & OPEB		\$ 3,074,488	\$ 1,994,306	\$1,110,173

CalPERS Prefunding Programs Workshop

California Employers' Pension Prefunding Trust (CEPPT)

Outline for Discussion

- Why Prefund?
 - CalPERS Pension Cost Components
- Pension Cost Management Tools
- CalPERS Prefunding Trust Fund
 - Investments
 - Funding Approaches
 - Administration
- Next Steps

CalPERS Pension Prefunding Model



July 1, 2003 - June 30, 2023

- More than half of CalPERS pension benefits are paid by investment earnings
- Prefunding provides employers with a greater likelihood of saving money over the long-term

Pension Cost Considerations & Outlook

Cost Considerations

- **Normal Cost**
 - Ongoing perpetual cost
 - Naturally rises due to payroll and/or headcount
- **Unfunded Accrued Liability (UAL)**
 - Exists for most agencies
 - Will reoccur if plan is negative
 - 6.8% interest

Outlook

- Likely to increase in the future
- Fluctuating volatile costs
- Employers will need to budget more

Impact of Prefunding

Increase investment income

- Outperform County Treasury & LAIF
- Build a larger base of assets to increase earnings

Prudent financial management

- Improves financial reporting outcomes
- Contributes to preserving positive credit ratings

Higher Yielding Investment Potential

Hypothetical 10 Year Compounding Interest Scenario

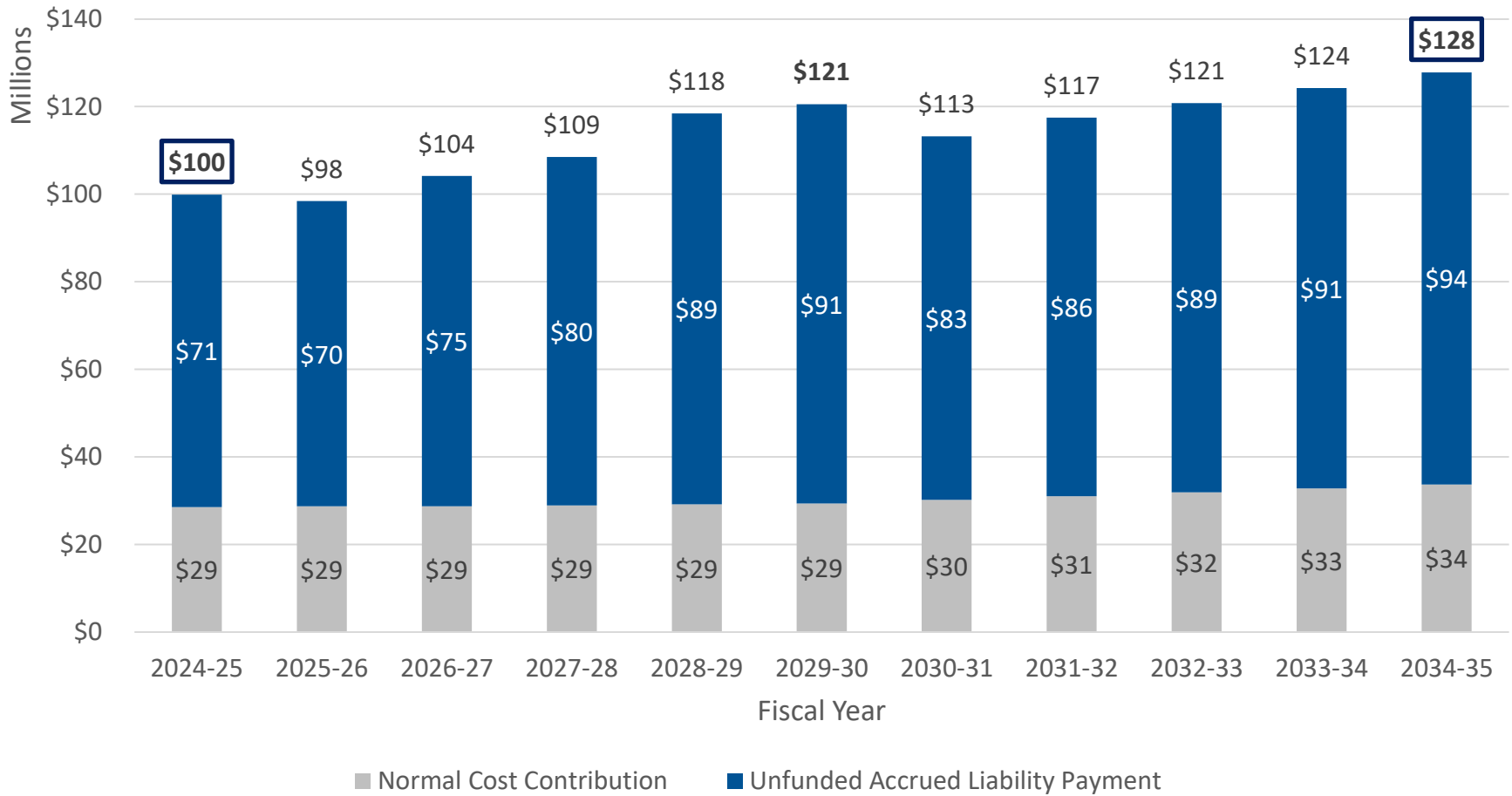
Investment Duration (Years)	1	2	3	4	5	6	7	8	9	10
Expected Compounded Annualized Rate of Investment Return	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%	5.4%
Cumulative Expected Compounded Rate of Investment Return	5%	11%	17%	23%	30%	37%	45%	52%	61%	69%
Future Value of \$1	\$1.05	\$1.11	\$1.17	\$1.23	\$1.30	\$1.37	\$1.45	\$1.52	\$1.61	\$1.69
Required Investment Principal Contribution Needed to Generate \$1M	\$949K	\$900K	\$854K	\$810K	\$769K	\$729K	\$692K	\$657K	\$623K	\$591K

Prefunding Pension Contributions

CalPERS Pension Fund Returns

Period	Assets	Return
30-year at 6/30/2023	\$440B	7.5%
20-year at 6/30/2023	\$440B	7.0%
10-year at 6/30/2023	\$440B	7.1%
5-year at 6/30/2023	\$440B	6.1%
2018 – 19	\$370B	6.7%
2019 – 20	\$389B	4.7%
2020 – 21	\$469B	21.3%
2021 – 22	\$440B	-7.5%
2022 – 23	\$462B	5.8%

Large Special District Pension Contribution Increases



City Employer CalPERS Pension Plans Debt (UAL) Summary

Plan	Funded Status (6/30/2022)	Unfunded Liability (6.8% Interest)	UAL Payment 2024-25	UAL Payment 2028-29	UAL Payment Increase
Miscellaneous	90.2%	\$47,252,994	\$1,470,627	\$5,774,000	\$4,303,373
Safety Police	88.1%	\$45,104,691	\$1,228,001	\$7,388,000	\$6,159,999
Safety Fire	88.3%	\$61,195,815	\$1,936,800	\$5,458,000	\$3,521,200
Totals	88.9%	\$153,553,500	\$4,635,428	\$18,620,000	\$13,984,572

July UAL Prepayment

Required Contributions

	Fiscal Year
Required Employer Contributions	2024-25
Employer Normal Cost Rate	22.90%
<i>Plus</i>	
Required Payment on Amortization Bases	\$1,936,800
<i>Paid either as</i>	
1) Monthly Payment	\$161,400
<i>Or</i>	
2) Annual Prepayment Option*	\$1,874,128
Required PEPRAs Member Contribution Rate	13.25%
<p><i>The total minimum required employer contribution is the sum of the Plan's Employer Normal Cost Rate (expressed as a percentage of payroll and paid as payroll is reported) plus the Employer Unfunded Accrued Liability (UAL) Contribution Amount (billed monthly (1) or prepaid annually (2) in dollars).</i></p> <p><i>* Only the UAL portion of the employer contribution can be prepaid (which must be received in full no later than July 31).</i></p> <p><i>For additional detail regarding the determination of the required contribution for PEPRAs members, see "PEPRAs Member Contribution Rates" in the "Liabilities and Contributions" section. Required member contributions for Classic members can be found in Appendix B.</i></p>	

UAL Fresh Start Program

Date	<u>Current Amortization Schedule</u>		<u>Alternative Schedules</u>			
	Balance	Payment	15 Year Amortization		10 Year Amortization	
			Balance	Payment	Balance	Payment
6/30/2024	28,675,432	2,486,425	28,675,432	3,008,158	28,675,432	3,914,180
6/30/2025	28,055,791	2,490,715	27,516,608	3,008,158	26,580,288	3,914,180
6/30/2026	27,389,578	2,606,888	26,278,984	3,008,158	24,342,674	3,914,180
6/30/2027	26,558,005	2,766,315	24,957,202	3,008,158	21,952,902	3,914,180
6/30/2028	25,505,126	3,130,719	23,545,538	3,008,158	19,400,626	3,914,180
6/30/2029	24,004,059	3,191,469	22,037,881	3,008,158	16,674,795	3,914,180
6/30/2030	22,338,141	3,253,916	20,427,704	3,008,158	13,763,608	3,914,180
6/30/2031	20,494,402	3,125,367	18,708,034	3,008,158	10,654,460	3,914,180
6/30/2032	18,658,136	3,013,332	16,871,427	3,008,158	7,333,890	3,914,179
6/30/2033	16,812,791	2,832,347	14,909,931	3,008,158	3,787,522	3,914,180
6/30/2034	15,028,999	2,761,956	12,815,053	3,008,158		
6/30/2035	13,196,653	2,625,814	10,577,723	3,008,158		
6/30/2036	11,380,400	2,371,724	8,188,255	3,008,158		
6/30/2037	9,703,230	2,191,090	5,636,303	3,008,158		
6/30/2038	8,098,688	1,999,227	2,910,818	3,008,158		
6/30/2039	6,583,318	1,842,588				
6/30/2040	5,126,778	1,745,640				
6/30/2041	3,671,383	1,290,817				
6/30/2042	2,587,056	1,028,388				
6/30/2043	1,700,200	1,757,056				
6/30/2044						
6/30/2045						
6/30/2046						
6/30/2047						
6/30/2048						
6/30/2049						
Total		48,511,793		45,122,370		39,141,799
Interest Paid		19,836,361		16,446,938		10,466,367
Estimated Savings				3,389,423		9,369,994

Pay Down City Safety Police Pension Debt Faster and Save

Amortization Schedule (Page 18 of Valuation)	Total Paid Over Amortization Schedule	Interest Paid Over Amortization Schedule	Payment Increase Due to Shorter Amortization	Total Interest Savings Over Amortization Schedule
Variable Payment 20 Years	\$134,140,230	\$64,351,175	\$0	\$0
Level Payment 20 Years	\$125,513,600	\$55,724,545	\$2,975,963	\$8,626,630
Level Payment 15 Years	\$109,816,918	\$40,027,863	\$4,021,411	\$24,323,312

Tools to Proactively Manage Pension Costs

ADP (Additional Discretionary Payment)

- Makes up past underperformance
- Reduces pension UAL
- Liquidity consideration

Sec 115 Trust

- Stabilizes future cash flow
- Improves future capacity to pay

Pension Contribution Investment Tools

Portfolios	CalPERS Pension	CEPPT Strategy 1	CEPPT Strategy 2	LAIF
Expected Return	6.8%	5.4%	4.9%	~1%
Risk	11.4%	8.4%	5.9%	Lowest
Time Horizon	Longest Term	Employer Determined		Shortest Term
Liquidity	No	Yes		Yes

Grow Pension Assets

Prefund future pension costs in advance

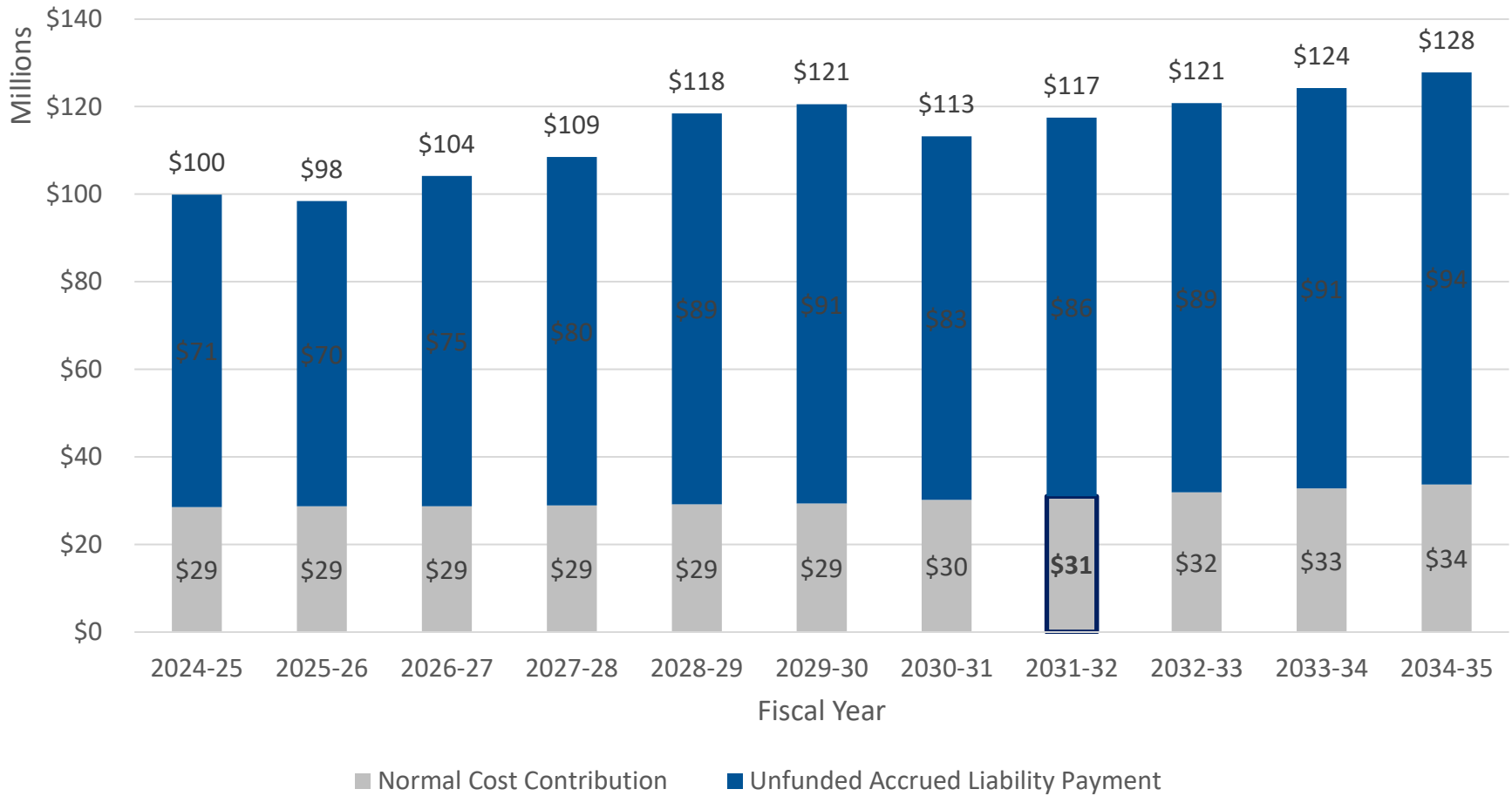
- Normal Costs, UAL Payments, Additional Discretionary Payments

Take advantage of time and compounding interest

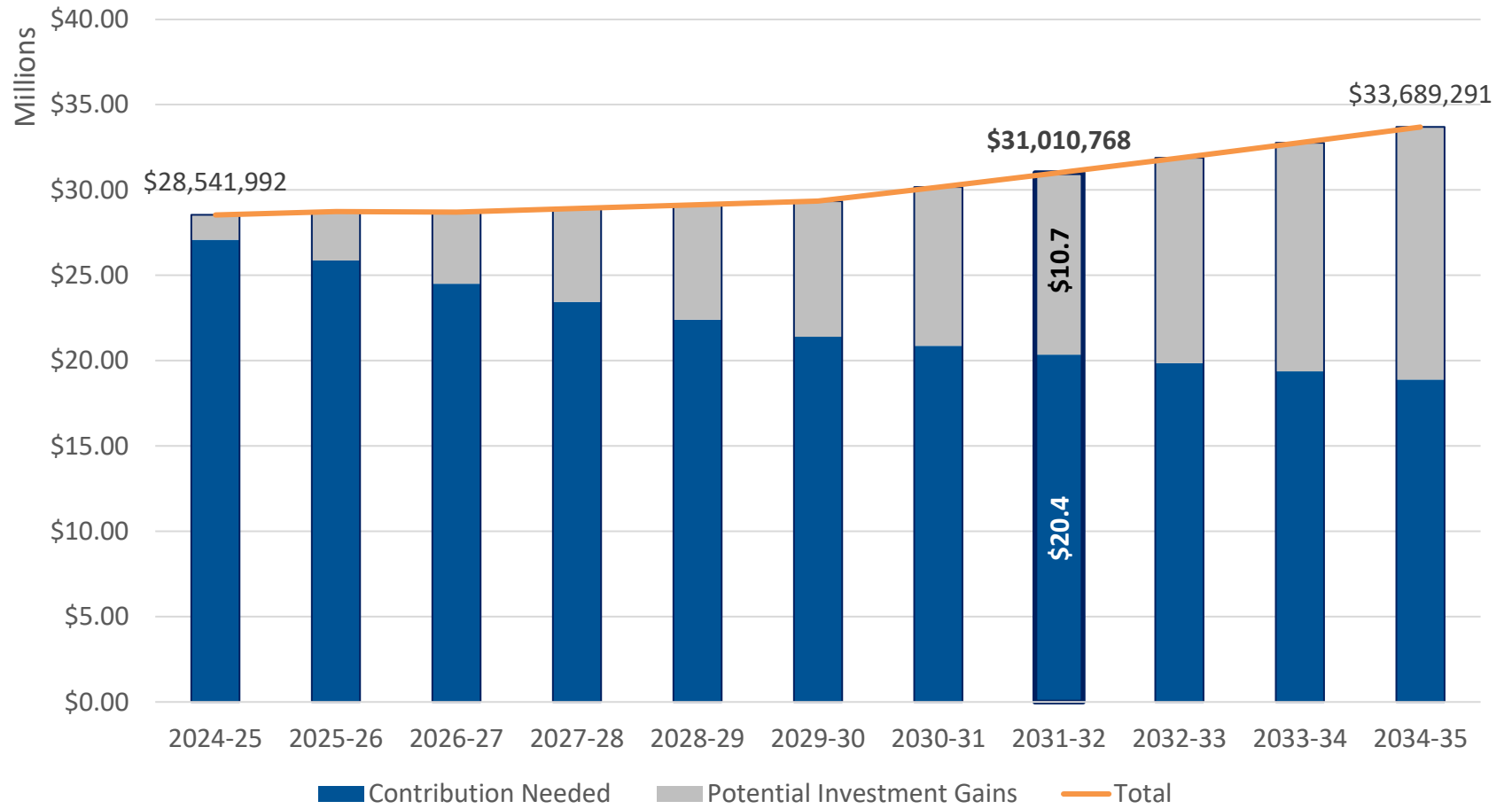
Use this approach to dollar cost average ADPs

- Mitigate market timing and large single contribution risks

Large Special District Pension Contribution Increases



Hypothetical Contribution Prefunding Scenario



Rainy Day Fund

- Section 115 Trusts are geared towards higher yields and will likely outperform LAIF and earn more interest
- Will provide additional income source and allow for greater budgetary stability

Plan	Hypothetical 3 Months Pension Cost
Miscellaneous	\$146,085
PEPRA Miscellaneous	\$33,964
Safety Police	\$150,346
Safety Fire	\$3,662
PEPRA Safety Police	\$17,024
Total	\$351,081

Prefunding Pension (CEPPT)

CalPERS IRC Section 115 Trust Funds

California Employers' Retiree Benefit Trust (CERBT - OPEB)

- Voluntarily prefund non-pension, other post-employment benefits (OPEB)
- Established 2007
- 602 employer participants
- ~\$21.7B assets

California Employers' Pension Prefunding Trust (CEPPT - Pension)

- Voluntarily prefund required pension contributions
- Established 2019
- 97 employer participants
- ~\$285M assets

Prefunding Program Employers

629 contracting employers (602 CERBT and 97 CEPPT)



State of California



155 Cities or Towns



9 Counties

83 School Employers



33 Courts



348 Special Districts & Public Agencies



CEPPT Portfolio Options

Portfolios	CEPPT Strategy 1	CEPPT Strategy 2
Expected Return	5.4%	4.9%
Standard Deviation	8.4%	5.9%

CEPPT Portfolio Details

Asset Classification	Benchmark	CEPPT Pension Strategy 1	CEPPT Pension Strategy 2	Target Range
Global Equity	MSCI All Country World Index IMI (Net)	37%	21%	±5%
Fixed Income	Bloomberg US Aggregate Bond Index	44%	61%	±5%
Real Estate Investment Trusts ("REITs")	FTSE EPRA/NAREIT Developed Index (Net)	14%	9%	±5%
Treasury Inflation Protected Securities (TIPS)	Bloomberg US TIPS Index, Series L	5%	9%	±3%
Cash	91-Day Treasury Bill	-	-	+2%

CEPPT Time-weighted Investment Returns

Periods Ended July 31, 2024

CEPPT PENSION	Assets	1 Month	3 Months	FYTD	1 Year	3 Years	5 Years	10 Years	ITD
CEPPT Strategy 1 (Inception October 1, 2019)	\$224,033,365	2.69%	6.80%	2.69%	9.60%	0.59%	-	-	4.86%
Benchmark		2.72%	6.86%	2.72%	9.50%	0.42%	-	-	4.76%
CEPPT Strategy 2 (Inception January 1, 2020)	\$61,323,697	2.57%	6.06%	2.57%	7.66%	-0.67%	-	-	2.14%
Benchmark		2.56%	6.08%	2.56%	7.57%	-0.74%	-	-	2.04%
CEPPT Total	\$285,357,062								

Time weighted return reports the performance of the investment vehicle, not of the employer assets. Returns are gross. Historical performance is not necessarily indicative of actual future investment performance or of future total program cost. Current and future performance may be lower or higher than the historical performance data reported here. Investment return and principal value may fluctuate so that your investment, when redeemed, may be worth more or less than the original cost. The value of an employer's fund shares will go up and down based on the performance of the underlying funds in which the assets are invested. The value of the underlying funds' assets will, in turn, fluctuate based on the performance and other factors generally affecting the securities market.

CEPPT Investment Policies

CalPERS Board accepts investment fiduciary responsibility

- GC 21710-21715

CalPERS Board approves investment policy

Policies managed compliantly by CalPERS Investment Office - AIP

- External asset class management by SSGA

Policies are monitored, reviewed and revised regularly for ongoing optimization

Investment Risk Management

Investment policy compliance

Broad diversification of assets

Performance measured against established benchmarks

- Consistently low tracking error

Internal and external oversight

- Independent external investment consultant, CFO and Office of Enterprise Risk Management

Funding Policies

You Control Your Participation

Investment portfolio

- Select from different investment options
- Sub-account creation

Voluntary contributions

- Never required
- Full control of amount and schedule

Reimbursement/Liquidity

- Reimburse current year total pension expense (Normal cost + UAL + ADP)

Pension Funding Policy Examples

Send in pension reserves

Initial contributions but future contributions undetermined

Additional Discretionary Payments + 115 trust contributions

Ad-hoc, undetermined, future budget cycle

Trust Participation Costs

Total Participation Cost Fee Rate

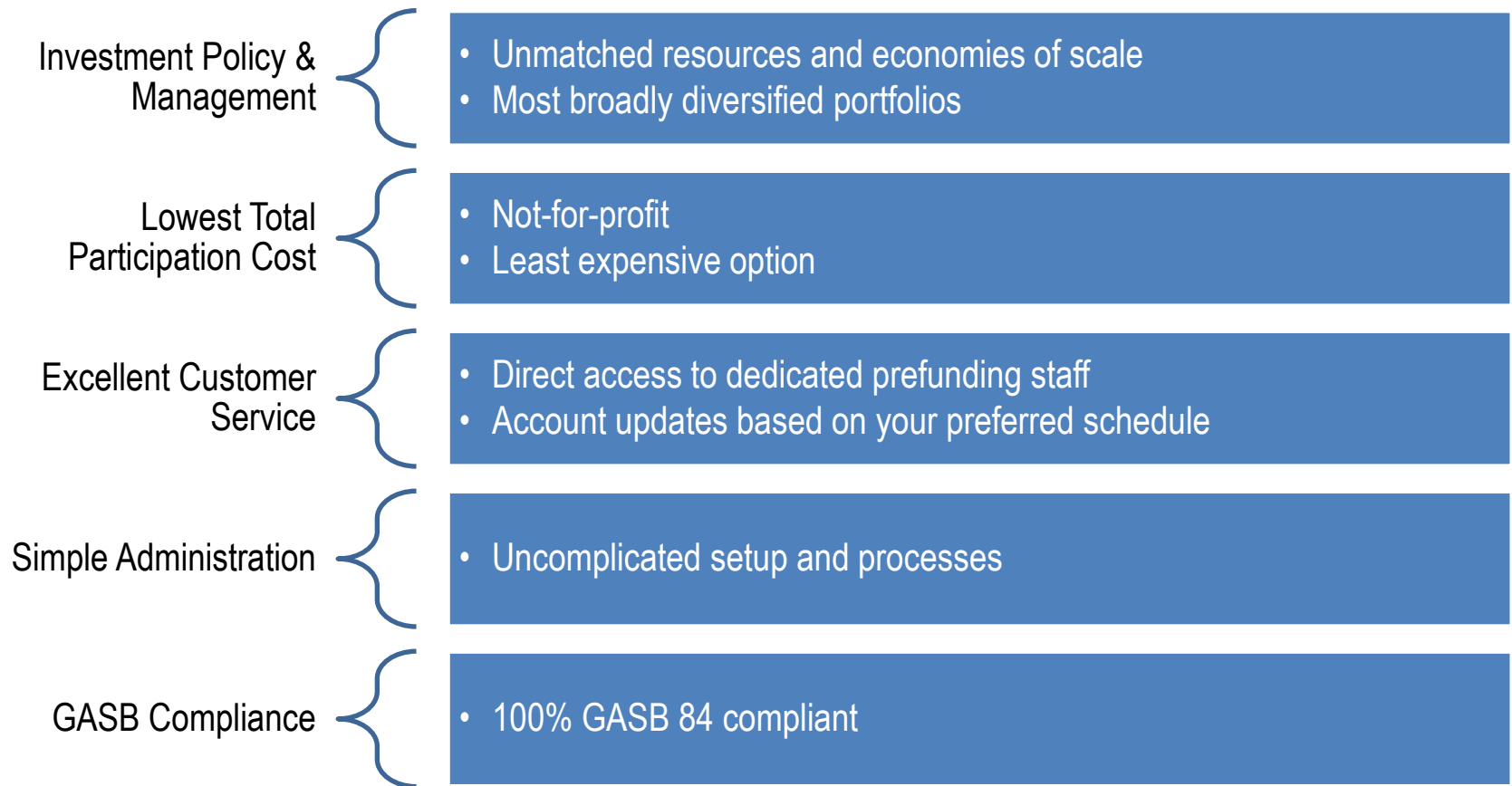
- All-inclusive cost of participation
 - 25 basis points (bps) fee on asset balance
 - Combines administrative, custodial, and investment fees
 - Self-funded and not-for-profit
 - Zero cost to join

Asset Value on Deposit*	All-Inclusive Fee Rate	Annual Cost
\$1,000,000	25 Basis Points (0.25%)	\$2,500

*Asset values shown assume the amount is deposited on the first day of a 12-month calendar year and remains constant the entire 12 months ending on the last day with the exact same amount. No investment gains/losses, or contribution additions/withdrawals are experienced at any time during the 12 months. There are **no** additional fees of any kind. No set-up, joining, renewal, contribution, disbursement, termination fees. No minimum contribution amount.

Advantages of the CEPPT

Advantages of the CEPPT



Trust Support Services

Contributions

Disbursements

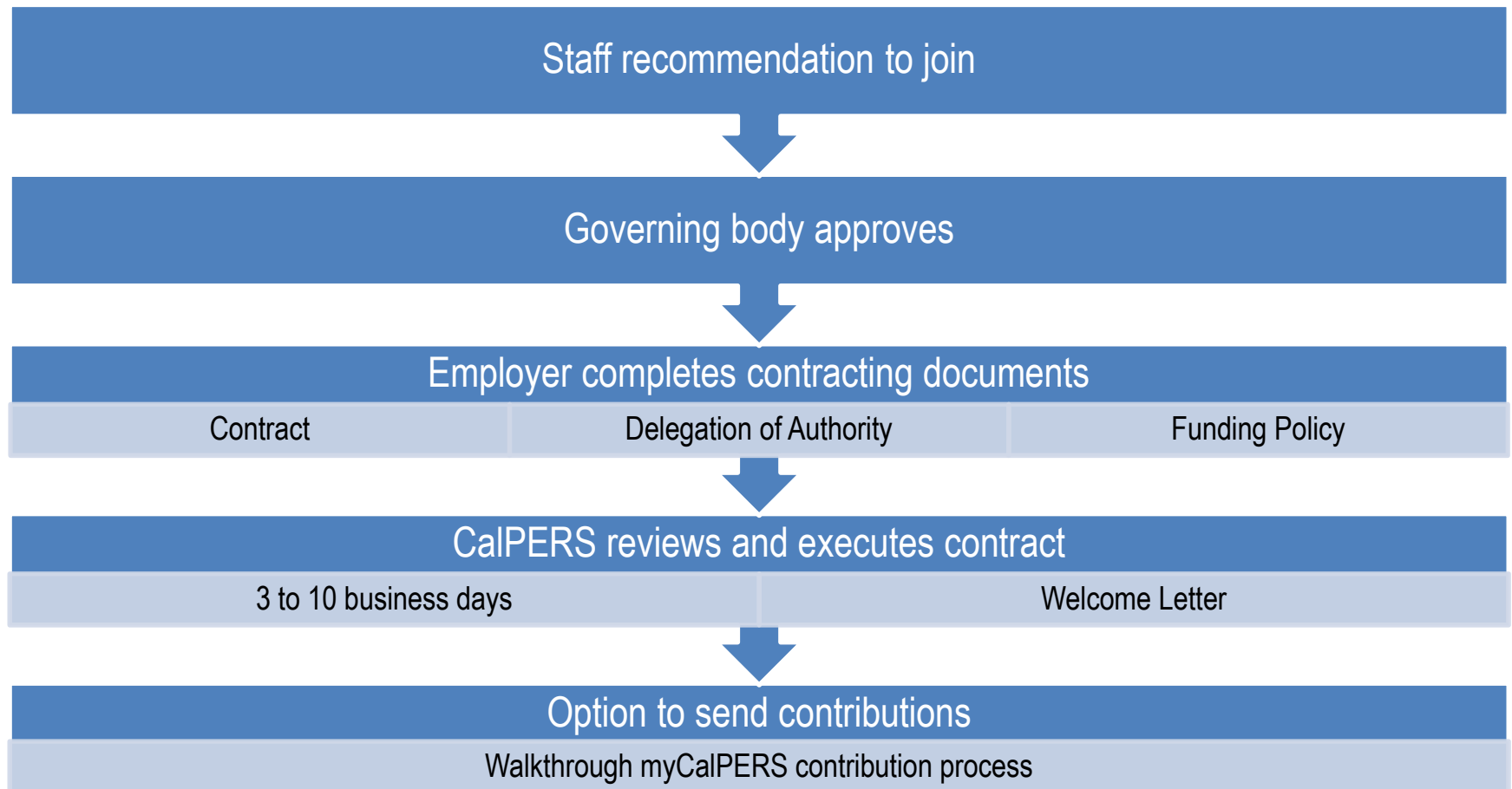
Online Record Keeping Portal

Account Updates

In-person Workshops and Webinars

Statements

Uncomplicated Contracting Process



Next Steps

Continue Pay-As-You-Go Option

- Most expensive approach
- Rely 100% on current & future operating budget
- Increasing pension costs may stress future budget

Setup 115 Trust Account Option

- ✓ Higher investment income than LAIF/Treasury
- ✓ Stabilize future cash flow & reduce budget dependency
- ✓ Rainy day fund
- ✓ Voluntary contributions & retain liquidity

Questions? Where to Get Trust Fund Information?

Name	Title	E-mail	Desk	Mobile
Darren Lathrop	Outreach & Support Manager	Darren.Lathrop@calpers.ca.gov	(916) 795-0751	(916) 291-0391
Lee Lo	Section 115 Trust and 457 Outreach Manager	Lee.Lo@calpers.ca.gov	(916) 795-4034	(916) 612-4128
Therese Luo	Outreach & Support Analyst	Therese.Luo@calpers.ca.gov	(916) 795-2983	(916) 213-2879
Danny Kaufman	Outreach & Support Analyst	Daniel.Kaufman@calpers.ca.gov	(916) 795-8278	(916) 440-3821
Katie Nguyen	Outreach & Support Analyst	Katie.Nguyen@calpers.ca.gov	(916) 795-8248	(916) 715-1911
Colleen Cain-Herrback	Program Manager	Colleen.Cain-Herrback@calpers.ca.gov	(916) 795-2474	(916) 505-2506
Robert Sharp	Assistant Division Chief	Robert.Sharp@calpers.ca.gov	(916) 795-3878	(916) 397-0756

Program E-mail Addresses	Prefunding Programs Webpages
CEPPT4U@calpers.ca.gov – Questions & Document Submittal	www.calpers.ca.gov/ceppt
CERBT4U@calpers.ca.gov - Questions & Document Submittal	www.calpers.ca.gov/cerbt
CERBTACCOUNT@calpers.ca.gov – Access to Online Record Keeping System	www.your-fundaccount.com/calpers/ - Online Record Keeping System

The California Employers' Pension Prefunding Trust

Prefund future pension costs with a CalPERS trust fund

The CEPPT is designed to give public agencies who offer defined benefit pensions the opportunity to save money by investing now for their future pension contributions.



89

Participating Employers



493% Growth

In Employer Participation From Inception to FY 2022-23



140.1 million

Assets Under Management

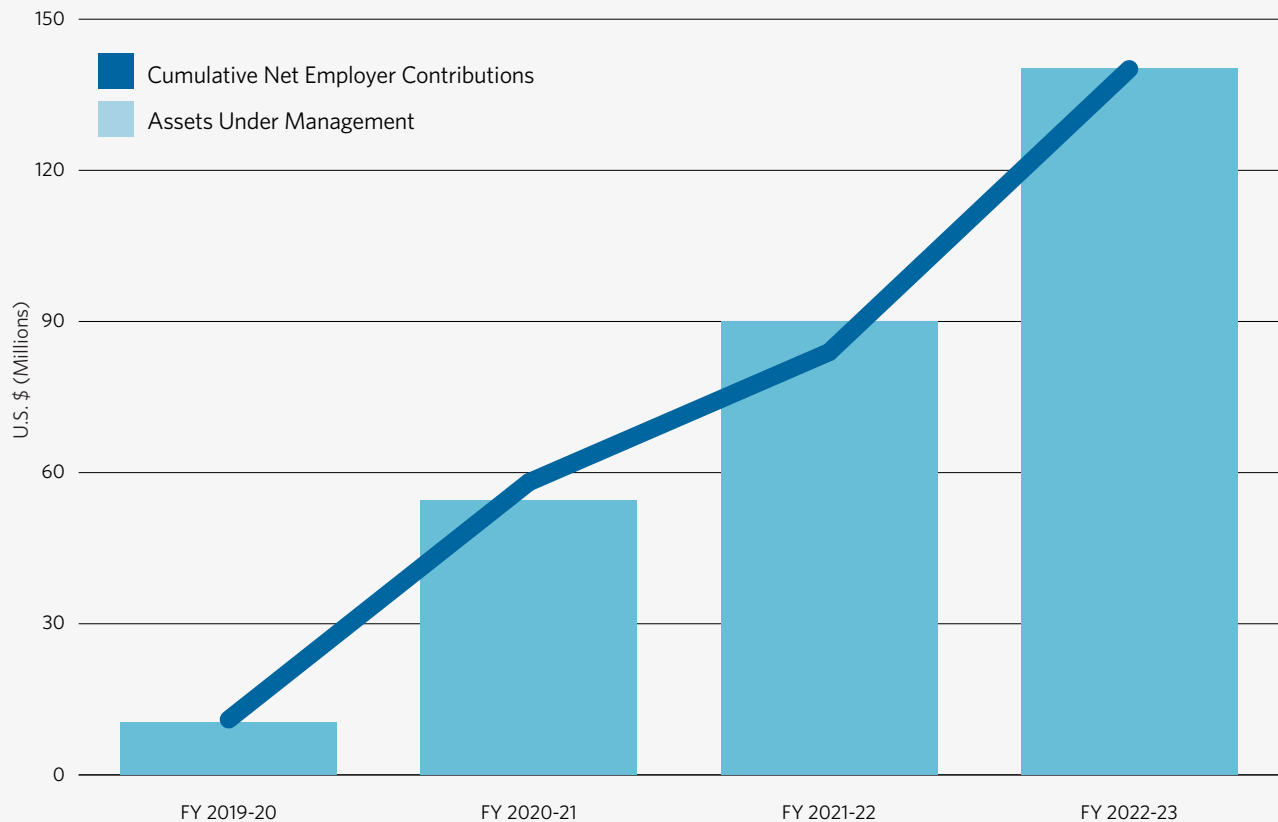
“ The CEPPT program gives us a powerful tool to help ensure the stabilization and sustainability of our long-term retirement benefits. With its low fees, flexibility, risk diversification, and professional staff, it is the perfect program to save money for our agency and the ratepayers we serve. ”

- Robert Housley, General Manager
Finance and Human Resources,
Midway City Sanitary District, Orange

Choice of Asset Allocation Strategies

	Expected Rate of Return	Standard Deviation	Risk Level Less Conservative → More Conservative
Strategy 1	4.5%	8.8%	
Strategy 2	3.5%	6.1%	

Consistent Growth of CEPPT Fund Assets Since Inception



How can you use the CEPPT?

- Prefund normal cost contributions and unfunded liability payments
- Make additional discretionary payments
- As a contingency fund for future volatility

Advantages of Participating in CEPPT

The CEPPT is designed to save you money and stabilize your budget by offering:

- CalPERS investment management
- Low total participation costs
- Efficient and effective customer outreach and support
- Simple and streamlined account transactions

Portfolio Managed by CalPERS

- Fiduciary responsibility assumed by the CalPERS Board
- Investment management by experts at CalPERS and internationally renowned consultants
- Two investment strategy options with varying risk levels
- All public market securities

Learn more at www.calpers.ca.gov/ceppt

Contact us at ceppt4u@calpers.ca.gov

The California Employers' Retiree Benefit Trust Fund at CalPERS

The California Employers' Retiree Benefit Trust (CERBT) Fund is a multiple-employer Other Post-Employment Benefits (OPEB) trust fund administered by CalPERS, a California state agency. More than 600 California public employers participate in the CERBT program to pre-fund OPEB liabilities, such as retiree health benefits. **More employers choose us because we deliver excellent investment management, uncomplicated trust administration, financial reporting compliant with governmental accounting standards, and personal direct service, at the lowest cost to participating employers.**



606

Participating Employers



\$14.7 billion

Employer Net Contributions



847,067

Plan Members



\$18.2 billion

Assets Under Management



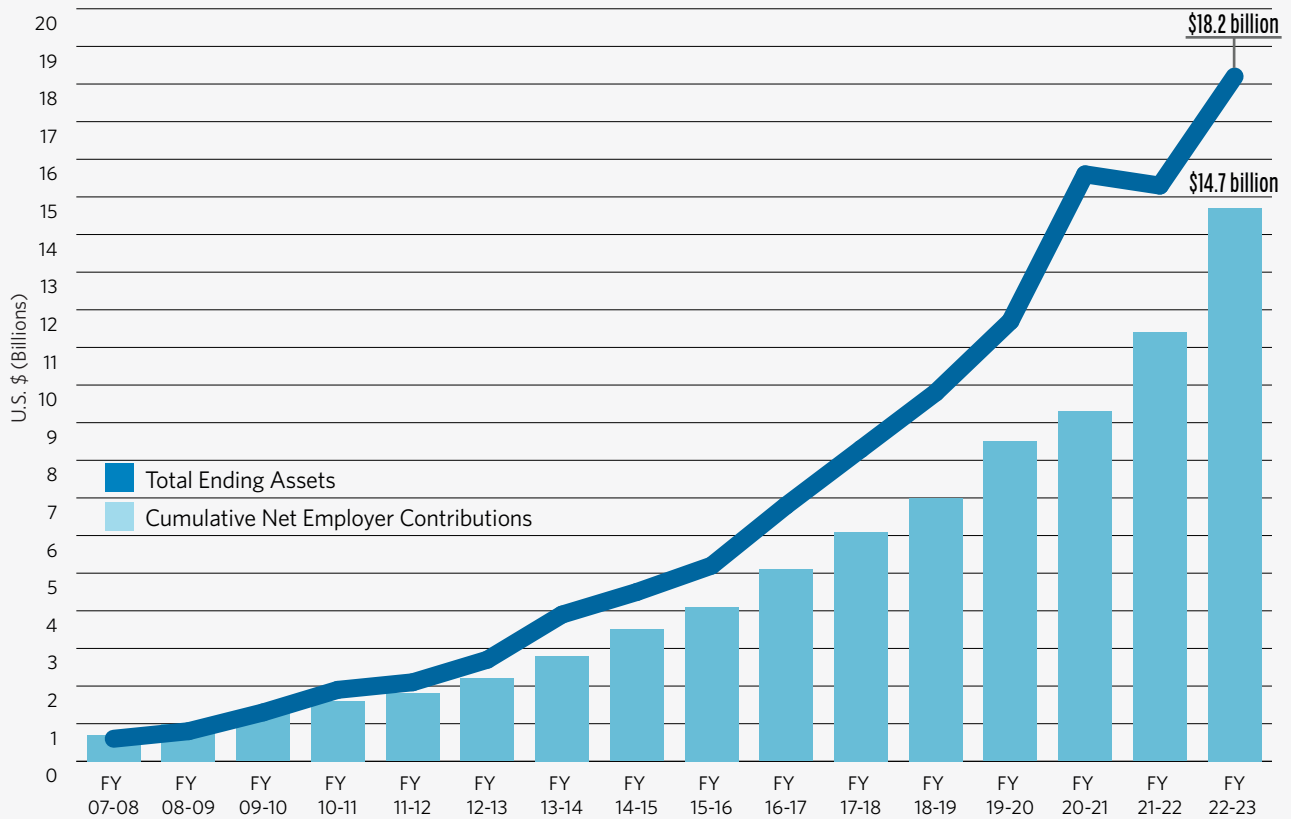
We joined the CERBT in 2009 and could not be happier. Not only does the CERBT provide a simple and straightforward process to prefund our OPEB liabilities, but they do so at an unbeatable cost. We've received exceptional support and they have delivered rates of return that have more than doubled our investments. ”

- Christopher Bonvenuto, Vice President, Business and Administration, Santa Monica College District

Choice of Asset Allocation Strategies

	Expected Rate of Return	Standard Deviation	Risk Level Less Conservative → More Conservative
Strategy 1	6.0%	12.1%	
Strategy 2	5.5%	9.9%	
Strategy 3	5.0%	8.4%	

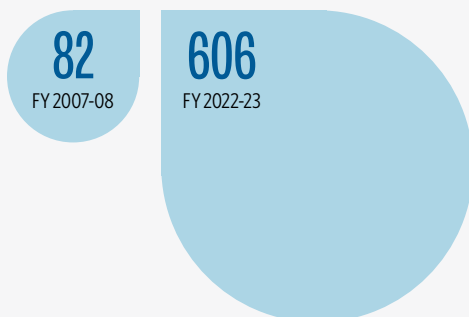
Consistent Growth of CERBT Fund Assets Since Inception



Participating Employers

Cities	155
Counties	10
Courts	29
Special Districts	328
Schools	83
State of California	1
Total Number of Employers	606

637% Growth in Employer Participation



Advantages of Participating in CERBT

- All services provided at a single low cost (10 basis points)
- Simple and straightforward administrative procedures
- Financial reporting compliant with governmental accounting standards
- Personal, high-quality service and support
- California’s largest public employer OPEB trust fund

Portfolio Managed by CalPERS

- Fiduciary responsibility assumed by the CalPERS Board
- Investment management by experts at CalPERS and internationally renowned consultants
- Multiple investment strategy options with varying risk levels
- All public market securities

Learn more at www.calpers.ca.gov/cerbt
 Contact us at cerbt4u@calpers.ca.gov