Staff Report

TO: City Council

FROM: Jennifer Ustation, Finance Director

DATE   February 20, 2024

SUBJECT: Pension Funding Policy

Description Proposed pension funding policy sets funding guidelines and policy parameters as a tool for maintaining an adequate funded status of the City's pension obligations.

Background and Analysis:

On October 23, 2023, the Financial and Audit Committee received a pension status update by GovInvest. At this meeting it was explained that in FY2022, CalPERS experienced a 14.3% investment experience loss which results in the City's unfunded liability increasing and the City's pension funded goal below its target of 85%. The early estimates for FY2023 are reported at an investment experience loss of 1%. Amortization of the CalPERS investment losses results in an increased annual unfunded liability payment beginning in FY25 with a maximum negative effect to the budget of up to $1.5M annually.

City staff have been working with GovInvest to review the current funding policy on whether that policy needs to be updated or changed to address the status, and possible options to manage the results of the negative investment returns from CalPERS now and in the future. GovInvest has provided a recommended written funding policy with direction provided by the Financial and Audit Committee comments from the October meeting and staff. Staff has reviewed the policy and believes it will provide an essential framework for the City Council and staff regarding funding the City's pension obligations.

The funding policy aids the City Council's decision-making, balancing the funding objectives of the City's pension plan with the City's ongoing responsibilities to its citizens. The City recognizes that a fiscally prudent Policy should:
- Maintain the City's sound financial position;
- Align with City's long-term financial plan;
- Provide guidance in making annual budget decisions;

- Ensure the City has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenditures;
- Ensure that all pension funding decisions are structured to protect both current and future taxpayers, ratepayers, and residents of the City; and
- Protect the City's ability to provide employees with the pension benefits promised.

Below is the illustration of funding guidelines and policy parameters within the proposed policy.

ILLUSTRATION OF FUNDING GUIDELINES AND POLICY PARAMETERS

Recommended Funded Status Guidelines	Recommended Policy % (AL)		Recommended Targets based On Current (AL) $120M ($ For Illustration Purposes)	
	Target Min.	Target Max	Target Min.	Target Max
Pension Reserve (115 Trust)	3%	20%	$ 3,600,000	$ 24,000,000
Assets with CalPERS	70%	90%	$ 84,000,000	$ 108,000,000
Combined Funded Status	**90%**	**110%**	$ 108,000,000	$ 132,000,000

Funding Guidelines*	Minimum Contribution Policy	Minimum Contribution Guidelines ($ For Illustration Purposes)
If greater than 90% funded status	ADC + .25% AL	$300,000
If Less than 90% but greater than 75%	ADC + .50% of AL	$600,000
If less than 75% but greater than 65%	ADC + .75% of AL	$900,000
If less than 65% of funded status	ADC + 1% of AL	$1,200,000

* Actuarial Determined Contribution (ADC) is the minimum required employer contribution. Additional contribution may be directed to increase to the City's 115 Pension Trust or to direct contribution to CalPERS provided the contribution would not foreseeably result in a funded status greater than 90% at CalPERS.

** Funds in excess of combined funded status guidelines shall be used to make the minimum required employer contributions (ADC).

The Financial and Audit Committee reviewed this policy at the January 22, 2024, meeting and approved to move forward to the City Council for approval.

Fiscal Impact:

The estimated cost to prepare this report is $175.

Recommended Action:

Review proposed pension funding policy and provide any recommended changes or approve the policy.

Attachments:

A. Draft Pension Funding Policy
B. Presentation