



Administrative Report

J.1., File # BF21-1926

Meeting Date: 1/14/2021

To: BUDGET AND FINANCE COMMISSION
From: MARNI RUHLAND, FINANCE DIRECTOR

TITLE

DISCUSSION AND POSSIBLE ACTION REGARDING REFINANCING THE CITY'S CALPERS UNFUNDED ACCRUED LIABILITY WITH BONDS

EXECUTIVE SUMMARY

Representatives from Kosmont Transaction Services will be making a presentation to the Commission regarding refinancing the City's CalPERS unfunded accrued liability with bonds.

BACKGROUND

The City contracts with the California Public Employees Retirement System (CalPERS) for employee retirement benefits. The City's total FY 2020-21 budgeted cost for this benefit is \$20,535,257, a net increase of over \$1.8 million from FY 2019-20. Of this increase, the General Fund is responsible for over \$1.3 million (bringing the General Fund budgeted total from \$15,517,270 to \$16,879,660) and enterprise/other funds will be allocated \$500,000 (bringing their total from \$3,150,811 to \$3,655,597). Additionally, the percentage of the General Fund operating budget dedicated to pension costs grew from 16.2% in FY 2019-20 to 17.5% in FY 2020-21. There are two components of the CalPERS employer rates contributing to the increase.

1. The normal cost portion of the employer rates is defined by CalPERS as the annual cost of service accrual for the fiscal year for active employees, or the long-term contribution rate. It is paid as a percentage of payroll. The rates for miscellaneous employees increased from 9.152% to 9.342%, and the rates for safety employees increased from 22.230% to 23.353%.
2. The unfunded liability portion is defined by CalPERS as the difference between the plan's value of assets and the total dollars needed as of the valuation date to fund all benefits earned in the past for the plan's members. It is paid as a flat dollar amount and is the major contributor to the cost increase. The amounts (after a prepayment discount) increased for miscellaneous employees from \$3,989,379 to \$4,511,145 and for safety employees from \$7,751,682 to \$8,730,646.

One option the City has for reducing its rising pension costs is to issue bonds. The bonds can be issued to refinance all or a portion of the City's unfunded accrued liability (UAL) balance. The mechanics and possible cost savings from such a refinance will be detailed in a presentation at the meeting by Kosmont Transaction Services.

Additionally, attached is further information regarding the City's UAL. At the Commission subcommittee's request, staff has used the CalPERS Pension Outlook tool to estimate the impact of a change in the discount rate. The spreadsheets display the tool's results of discount rate changes from a baseline of 7.00% to scenarios of 6.00%, 6.25%, 6.50% and 6.75%.

COORDINATION

This evening's presentation was coordinated with Kosmont Transaction Services, the City Manager's Office, and the Financial Services Department.

FISCAL IMPACT

Potential cost savings resulting from a refinancing of the City's CalPERS UAL with bonds is dependent on the interest rate, sizing, and amortization schedule of the bond issue as well as the performance of the CalPERS portfolio and any possible actuarial assumption changes that may be implemented.

ATTACHMENTS

Refinancing CalPERS UAL with Bonds Presentation (to be provided via blue folder)
CalPERS Pension Outlook Results