Administrative Report

N.4., **File #** 21-2050 **Meeting Date:** 2/16/2021

To: **MAYOR AND CITY COUNCIL**

From: MARNI RUHLAND, FINANCE DIRECTOR

TITLE

DISCUSSION AND POSSIBLE ACTION REGARDING REFINANCING OPTIONS AVAILABLE TO THE CITY TO REDUCE CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM (CALPERS) UNFUNDED ACCRUED LIABILITY (UAL) PENSION COSTS

DISCUSSION AND POSSIBLE ACTION ON THE PRESENTATION PROVIDED BY KOSMONT TRANSACTIONS SERVICES, INC. (KTS) ON CALPERS UAL REFINANCING

DISCUSSION AND POSSIBLE ACTION REGARDING THE PROCESS TO OBTAIN ALL PROFESSIONAL SERVICES NEEDED TO ASSIST THE CITY WITH EXECUTION OF CALPERS UAL REFINANCING, IF PURSUED

DISCUSSION AND POSSIBLE ACTION RELATED TO THE CONTRACT WITH KTS FOR MUNICIPAL ADVISORY ACTIVITIES ASSOCIATED WITH ANALYZING AND SECURING CALPERS UAL REFINANCING

EXECUTIVE SUMMARY

Representatives from KTS will be making a presentation to the Mayor and City Council regarding refinancing the City's CalPERS UAL. This presentation was previously made to the City's Budget and Finance Commission. As discussed at the February 9, 2021 City Council meeting, the City is in the initial stages of evaluating the desirability of refinancing the City's unfunded accrued liability pension costs and all options remain available to the City Council for determining a path forward.

BACKGROUND

The City contracts with 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 a 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 UAL balance. The mechanics and possible cost savings from such a refinance will be detailed in the presentation at the meeting by KTS.

In addition to any possible action the City Council may take in regards to the presentation, direction may be provided to staff regarding the process to obtain professional services needed to assist the City with execution of a CalPERS UAL refinancing, if pursued. Further, direction may be provided related to the contract with KTS for municipal advisory activities associated with analyzing and securing CalPERS refinancing.

COORDINATION

This evening's presentation was coordinated with KTS, 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.

APPROVED BY:
Joe Hoefgen, City Manager

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