

REQUEST FOR COUNCIL ACTION



CITY COUNCIL MEETING DATE:

JUNE 5, 2018

TITLE:

**APPROVE PRE-PAYMENT FOR THE CITY'S
ANNUAL UNFUNDED ACTUARIAL
LIABILITY TO CALIFORNIA PUBLIC
RETIREMENT SYSTEM – SAFETY PLAN
FOR FY 2018-19
{STRATEGIC PLAN NO. 4, 2D}**

A handwritten signature in black ink, appearing to read "R. Garcia", is written over a horizontal line.

CITY MANAGER

CLERK OF COUNCIL USE ONLY:

APPROVED

- ☐ As Recommended
- ☐ As Amended
- ☐ Ordinance on 1st Reading
- ☐ Ordinance on 2nd Reading
- ☐ Implementing Resolution
- ☐ Set Public Hearing For _____

CONTINUED TO

JUN 19 2018

FILE NUMBER

RECOMMENDED ACTION

Approve the pre-payment for the City's annual Unfunded Actuarial Liability to California Public Employees Retirement System (CalPERS) – Safety Plan for fiscal year 2018-19 in the amount of \$18,690,264.

DISCUSSION

Due to rising pension obligations, municipalities are tasked with identifying cost-effective mechanisms in addressing retirement costs. An element identified was pre-paying the City's annual Unfunded Actuarial Liability (UAL) obligations. The UAL amount is traditionally paid on a monthly basis (12 payments) during the fiscal year. After discussion and confirmation between City Staff and its CalPERS Actuary the following UAL amount(s) is owed for FY 2018-19:

<u>Unfunded Actuarial Liability</u>	<u>Annual Amount*</u>	<u>Pre-Payment Amount**</u>	<u>Savings</u>
FY 2018-19 (Safety Plan)***	\$19,367,208	\$18,690,264	\$676,944

*amount owed by the City if paid over twelve monthly payments

**amount is due by 7/31/18 per July 2017 CalPERS Actuarial Valuation Report (Safety Plan)

***Safety Plan consists of unfunded actuarial obligations related to both the Police and Fire Department

CalPERS staff has confirmed if the City submits the pre-payment in the amount of \$18,690,264 by July 31, 2018, the UAL obligation for FY 2018-19 will be met and would result in a savings of \$676,944. Specifically, the savings will be allocated in the proposed FY 2018-19 budget as follows:

- Police Department Retirement Costs - \$259,023
- Fire Department Retirement Costs - \$240,977
- Investment Income (offset) - \$176,944

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Funding the Pre-Payment

As noted, CalPERS has afforded the City two alternatives (monthly or pre-payment) in satisfying its UAL obligations related to the Safety Plan for FY 2018-19. As a means in funding the pre-payment initiative, the City maintains sufficient available Cash to satisfy the proposed obligations in addition to the normal and customary expenditures incurred by the City during the fiscal year. However, as a result in making the pre-payment to CalPERS the City is projected to incur a reduction in its Earnings on Investment in the amount of \$176,944. The reduction in income is offset by the savings projected to be realized by the City's General Fund in the amount of \$500,000.

Retirement Strategies

On December 2016, the City Council approved the establishment of the City's Pension Stability fund in the amount of \$500,000. The Fund was created to offset future increases in retirement obligations. Pre-paying the UAL for the City's Safety Plan is an additional strategy recommended to be implemented as a means to address rising CalPERS costs.

STRATEGIC PLAN ALIGNMENT

Approval of this item assists the City in meeting Goal #4 – City Financial Stability, Objective #2 (provide a reliable five-year financial forecast that ensures financial stability in accordance with the strategic plan), Strategy D (conduct an assessment of the City's debt and refinancing options to achieve savings).

FISCAL IMPACT

Pre-payment to CalPERS:

The payment in the amount of \$18,690,264 will be made during FY 2018-19 (prior to July 31, 2018) as follows:

<u>Accounting Unit</u>	<u>Amount</u>
PD-Field Operations (no. 01114420-61100)	\$9,597,149
FD-Fire Suppression & EMS (no. 01115330-61100)	\$9,093,115

Projected Savings:

Savings in the amount of \$676,944 are projected to be incurred and included in the proposed fiscal year 2018-19 budget as follows:

<u>Accounting Unit</u>	<u>Amount</u>
PD-Field Operations (no. 01114420-61100)	\$240,000
FD-Fire Suppression & EMS (no. 01115330-61100)	\$260,000
Earnings of Investments (reduction) (01102002-58000)	\$176,944

APPROVED AS TO FUNDS AND ACCOUNTS:



Francisco Gutierrez

Executive Director

Finance and Management Services Agency

SV

75A-3-2