



PENSION & OPEB RESERVE POLICY

Current Reserve Policies

- General Fund Operating Reserve - equal to 15% of operating expenditures (approximately \$30 million currently, does not include Measure A & P or transfers, current status – fully funded)
- Economic Contingency Reserves – equal to 5% of operating expenditures (nearly fully funded).
- Catastrophic Event Reserves – equal to 3% of operating expenditures (not currently funded)

Proposed New Reserve Policies

- Pension Reserve Fund (No POB) – 15% of operating expenditures. Funding allocation is equal to 75% of surplus funds at year end. Remaining 25% is allocated towards existing reserve funds
- Pension Reserve Fund (Including POB, 115 Trust) – Funding allocation is equal to 75% of calculated POB savings plus 75% of surplus funds at year end.
- OPEB Reserve Fund – Funding allocation is equal to 50% of calculated POB savings plus 50% of surplus funds at year end upon fully funding of the Pension Reserve Fund.
- POB Bond Call Fund - Funding allocation is equal to 50% of calculated POB savings plus 50% of surplus funds at year end upon fully funding of the Pension Reserve Fund.

Recent Actions

- In July 2020, City Council approved an agreement with NHA Advisors to represent the City as Financial Advisor for a potential pension obligation bond.
- Also in July 2020, City Council approved an agreement with Stifel to represent the City as Underwriter.
- In August 2020, City Council approved an agreement with Stradling, Yocca, Carlson, & Rauth to represent the City as Bond & Disclosure Counsel.
- In September 2020, City Council approved the validation actions necessary to begin the judicial process to allow for the issuance of Pension Obligation Bonds.

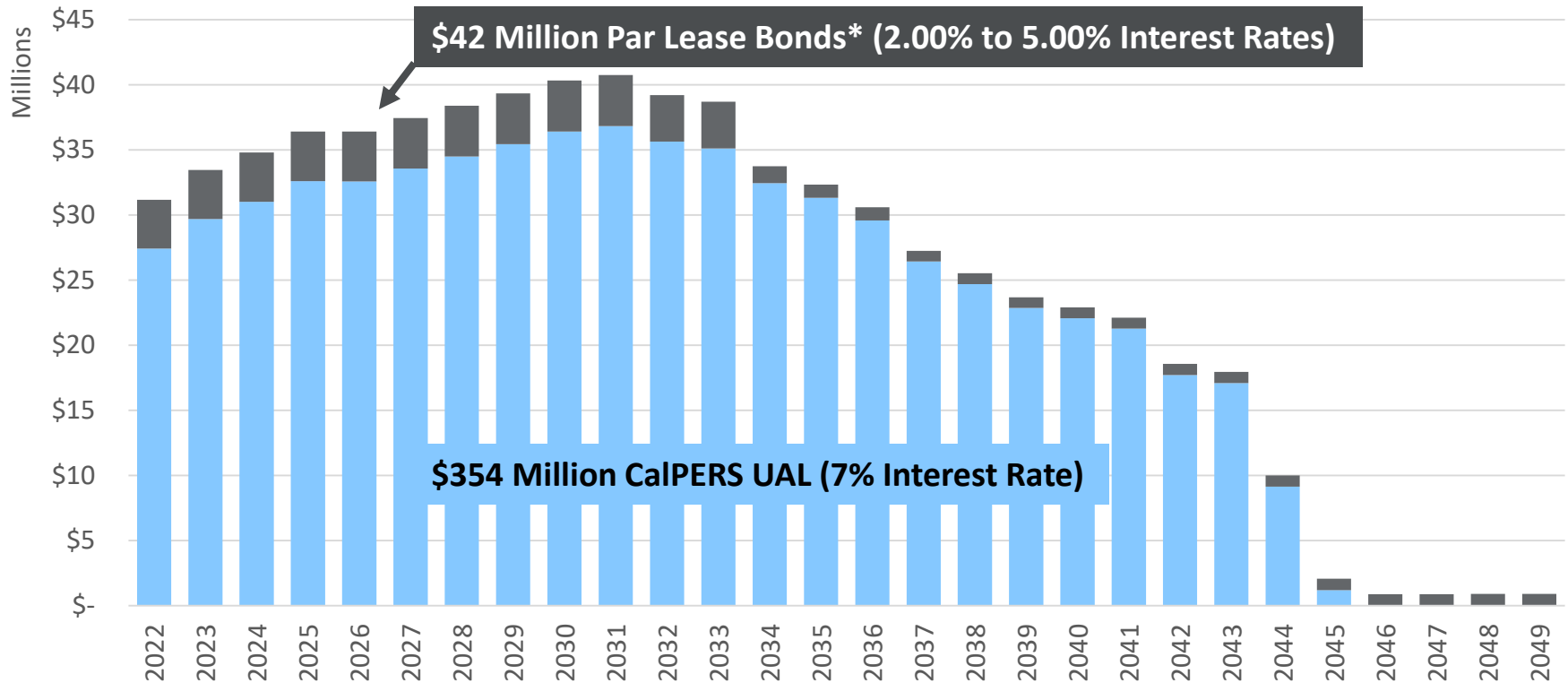


Pension Obligation Bonds

- Current unfunded pension liability of \$355 million
- The City is required to pay CalPERS 7% interest on that debt annually (~\$25 Million)
- Current Pension Obligation Bond interest rates are around 3.5-4%
- Pros and Cons of POB's

Current General Fund Liabilities

CalPERS UAL + Lease Revenue Bonds

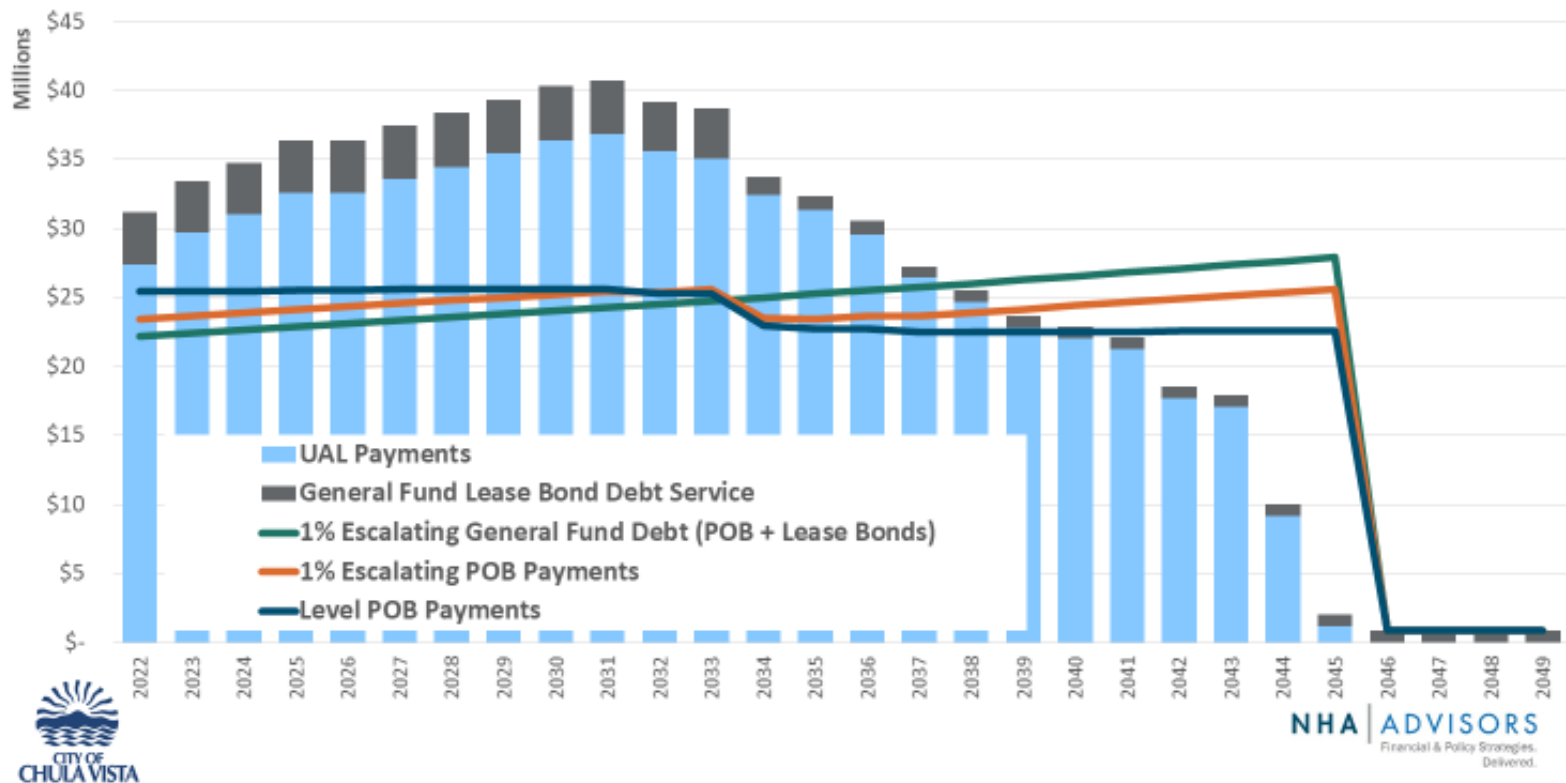


** Estimated General Fund-allocable portion of lease debt*

POB Options

Preliminary POB Options

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Preliminary POB Options - Savings Summary

Metrics	Level POB Payments	1% Escalating POB Payments	1% Escalating General Fund Debt (POB + Lease Bonds)
UAL Funded (\$)	\$354,668,810	\$354,668,810	\$354,668,810
UAL Funded (%)	100%	100%	100%
Funded Ratio	100%	100%	100%
Final Maturity	24 Years (2045)	24 Years (2045)	24 Years (2045)
Average Life	14.0 Years	14.8 Years	15.5 Years
POB All-In Interest Rate	3.65%	3.68%	3.72%
PV Savings (% Refunded UAL)	31.84%	31.45%	31.04%
PV Savings (\$)	\$112,936,319	\$111,550,953	\$110,078,567
Cumulative Savings thru Maturity	\$135,653,284	\$124,876,454	\$114,136,878
Avg. Annual Savings Through 2033	\$11,693,927	\$12,566,395	\$13,732,137
Cash Flow Savings Through 2033	\$140,327,125	\$150,796,735	\$164,785,650



Pension Obligation Bond Goals

- Create sustainable pension debt repayment schedule
- Create short- and medium-term savings
- Reduce interest paid towards pensions
- Create pension funding policies that support setting aside funds to weather future CalPERS investment shortfalls



CalPERS/Market Conditions

- CalPERS finished FY 2020 with investment returns of 4.7%. This will result in an additional \$22 million in unfunded liability for the City.
- Although the stock market is near all time highs now, valuations are extreme, increasing the likelihood of a market correction.
- Each CalPERS shortfall will result in new, 20-year amortization schedules (larger payments).
- COVID-19 adds to market volatility.



LONG-TERM FINANCIAL PLAN (LTFP) FISCAL YEAR 2022 TO 2031

Long-Term Financial Plan FY 2022 – 2031 (without Pension Obligation Bonds)

Description	Forecast FY 2022		Forecast FY 2023		Forecast FY 2024		Forecast FY 2025		Forecast FY 2026	
TOTAL REVENUES (in millions)	\$	210.80	\$	217.85	\$	221.27	\$	224.78	\$	228.36
TOTAL EXPENDITURES (in millions)	\$	214.14	\$	220.21	\$	226.42	\$	231.52	\$	235.62
TOTAL GF SURPLUS/(DEFICIT)	\$	(3.34)	\$	(2.36)	\$	(5.15)	\$	(6.75)	\$	(7.26)
Peace Officer Funding¹	\$	0.53	\$	1.06	\$	1.68	\$	2.34	\$	3.03
TOTAL GF SURPLUS/(DEFICIT)	\$	(3.87)	\$	(3.43)	\$	(6.83)	\$	(9.09)	\$	(10.29)

(1) Figure represents City's goal of adding three additional peace officer positions each year to address anticipated growth in City's population. Positions not incorporated in the Intended Public Safety Expenditure Plan for Measure A Sale Tax Measure.

Long-Term Financial Plan FY 2022 – 2031 (without Pension Obligation Bonds)

Description	Forecast FY 2027	Forecast FY 2028	Forecast FY 2029	Forecast FY 2030	Forecast FY 2031
TOTAL REVENUES (in millions)	\$ 226.43	\$ 213.14	\$ 216.76	\$ 220.46	\$ 224.25
TOTAL EXPENDITURES (in millions)	\$ 234.97	\$ 223.65	\$ 229.32	\$ 235.17	\$ 240.70
TOTAL GF SURPLUS/(DEFICIT)	\$ (8.55)	\$ (10.51)	\$ (12.56)	\$ (14.71)	\$ (16.45)
Peace Officer Funding¹	\$ 3.76	\$ 4.54	\$ 5.36	\$ 6.23	\$ 7.12
TOTAL GF SURPLUS/(DEFICIT)	\$ (12.31)	\$ (15.05)	\$ (17.93)	\$ (20.95)	\$ (23.58)

(1) Figure represents City's goal of adding three additional peace officer positions each year to address anticipated growth in City's population. Positions not incorporated in the Intended Public Safety Expenditure Plan for Measure A Sale Tax Measure.



Long-Term Financial Plan FY 2022 – 2031 (with Pension Obligation Bonds)

Description	Forecast FY 2022	Forecast FY 2023	Forecast FY 2024	Forecast FY 2025	Forecast FY 2026
TOTAL REVENUES (in millions)	\$ 210.80	\$ 220.33	\$ 223.78	\$ 227.31	\$ 230.92
PERSONNEL SERVICES EXPENDITURES	\$ 119.50	\$ 122.23	\$ 125.21	\$ 128.20	\$ 131.34
OTHER & NEW DEVELOPMENT EXP	72.89	75.59	77.68	78.43	79.35
Transfer POB Debt Service	15.38	15.56	15.73	15.89	16.07
Transfer - Pension Reserve Fund	5.56	6.92	7.67	8.60	8.52
TOTAL EXPENDITURES (in millions)	\$ 213.34	\$ 220.30	\$ 226.29	\$ 231.12	\$ 235.28
TOTAL GF SURPLUS/(DEFICIT)	\$ (2.53)	\$ 0.03	\$ (2.51)	\$ (3.81)	\$ (4.36)
Peace Officer Funding¹	\$ 0.53	\$ 1.06	\$ 1.68	\$ 2.34	\$ 3.03
TOTAL GF SURPLUS/(DEFICIT)	\$ (3.07)	\$ (1.03)	\$ (4.19)	\$ (6.15)	\$ (7.39)

(1) Figure represents City's goal of adding three additional peace officer positions each year to address anticipated growth in City's population. Positions not incorporated in the Intended Public Safety Expenditure Plan for Measure A Sale Tax Measure.



Long-Term Financial Plan FY 2022 – 2031 (with Pension Obligation Bonds)

Description	Forecast FY 2027	Forecast FY 2028	Forecast FY 2029	Forecast FY 2030	Forecast FY 2031
TOTAL REVENUES (in millions)	\$ 228.84	\$ 215.06	\$ 218.69	\$ 222.41	\$ 226.22
PERSONNEL SERVICES EXPENDITURES	\$ 134.59	\$ 138.30	\$ 142.15	\$ 146.15	\$ 150.31
OTHER & NEW DEVELOPMENT EXP	74.49	58.20	59.26	60.33	61.39
Transfer POB Debt Service	16.23	16.41	16.60	16.79	16.98
Transfer - Pension Reserve Fund	9.02	9.46	9.91	10.38	10.50
TOTAL EXPENDITURES (in millions)	\$ 234.33	\$ 222.38	\$ 227.93	\$ 233.65	\$ 239.18
TOTAL GF SURPLUS/(DEFICIT)	\$ (5.49)	\$ (7.32)	\$ (9.23)	\$ (11.24)	\$ (12.95)
Peace Officer Funding¹	\$ 3.76	\$ 4.54	\$ 5.36	\$ 6.23	\$ 7.12
TOTAL GF SURPLUS/(DEFICIT)	\$ (9.26)	\$ (11.86)	\$ (14.60)	\$ (17.47)	\$ (20.07)

(1) Figure represents City's goal of adding three additional peace officer positions each year to address anticipated growth in City's population. Positions not incorporated in the Intended Public Safety Expenditure Plan for Measure A Sale Tax Measure.



Pension Reserve Fund Balance Projections (PERS 7% Returns)

	FY2022	FY2023	FY2024	FY2025	FY2026
Pension Reserve Fund Contribution (Year 1 - 10)	6,670,946	8,294,652	9,197,993	10,308,965	10,214,931
Prior Year Interest Earnings		133,419	301,980	491,980	707,999
Total Annual Pension Stabilization Fund Balance*	6,670,946	8,428,071	9,499,973	10,800,945	10,922,930
Pension Stabilization Fd - Year-over-Year Balance	6,670,946	15,099,017	24,598,990	35,399,935	46,322,865
Est. Pension Stabilization Fund Interest Earnings	133,419	301,980	491,980	707,999	926,457
Est. Total Pension Stabilization Fund Balance	6,804,365	15,400,997	25,090,970	36,107,934	47,249,322

* Pension Stabilization Fund includes the Pension Reserve Fund, OPEB Reserve Fund, and the Pension Bond Call Fund.
Contribution for all funds which the General Fund represents approximately (83%).



Pension Reserve Fund Balance Projections (PERS 7% Returns)

	FY2027	FY2028	FY2029	FY2030	FY2031
Pension Reserve Fund Contribution (Year 1 - 10)	10,815,197	11,341,485	11,881,722	12,449,595	12,586,780
Prior Year Interest Earnings	926,457	1,161,290	1,411,346	1,677,207	1,959,743
Total Annual Pension Stabilization Fund Balance*	11,741,654	12,502,775	13,293,068	14,126,803	14,546,523
Pension Stabilization Fd - Year-over-Year Balance	58,064,519	70,567,294	83,860,362	97,987,165	112,533,688
Est. Pension Stabilization Fund Interest Earnings	1,161,290	1,411,346	1,677,207	1,959,743	2,250,674
Est. Total Pension Stabilization Fund Balance	59,225,810	71,978,640	85,537,569	99,946,908	114,784,362

* Pension Stabilization Fund includes the Pension Reserve Fund, OPEB Reserve Fund, and the Pension Bond Call Fund. Contribution for all funds which the General Fund represents approximately (83%).



Pension Reserve Fund Balance Projections (PERS 6% Returns)

	FY2022	FY2023	FY2024	FY2025	FY2026
Pension Reserve Fund Contribution (Year 1 - 10)	6,670,946	8,294,652	9,197,993	10,308,965	10,214,931
Prior Year Interest Earnings		133,419	292,372	458,900	633,034
Est. Cost of 6% ROI for 10 years - UAL Obligation	-	(480,432)	(1,163,965)	(2,061,160)	(3,183,366)
Total Annual Pension Stabilization Fund Balance*	6,670,946	7,947,639	8,326,400	8,706,705	7,664,599
Pension Stabilization Fd - Year-over-Year Balance	6,670,946	14,618,585	22,944,985	31,651,690	39,316,289
Est. Pension Stabilization Fund Interest Earnings	133,419	292,372	458,900	633,034	786,326
Est. Total Pension Stabilization Fund Balance	6,804,365	14,910,957	23,403,885	32,284,723	40,102,615

* Pension Stabilization Fund includes the Pension Reserve Fund, OPEB Reserve Fund, and the Pension Bond Call Fund.

Contribution for all funds which the General Fund represents approximately (83%).



Pension Reserve Fund Balance Projections (PERS 6% Returns)

	FY2027	FY2028	FY2029	FY2030	FY2031
Pension Reserve Fund Contribution (Year 1 - 10)	10,815,197	11,341,485	11,881,722	12,449,595	12,586,780
Prior Year Interest Earnings	786,326	927,501	1,059,443	1,181,033	1,291,327
Est. Cost of 6% ROI for 10 years - UAL Obligation	(4,542,780)	(5,671,866)	(6,861,684)	(8,115,910)	(9,438,232)
Total Annual Pension Stabilization Fund Balance*	7,058,743	6,597,120	6,079,480	5,514,718	4,439,875
Pension Stabilization Fd - Year-over-Year Balance	46,375,031	52,972,151	59,051,632	64,566,350	69,006,225
Est. Pension Stabilization Fund Interest Earnings	927,501	1,059,443	1,181,033	1,291,327	1,380,124
Est. Total Pension Stabilization Fund Balance	47,302,532	54,031,594	60,232,664	65,857,677	70,386,349

* Pension Stabilization Fund includes the Pension Reserve Fund, OPEB Reserve Fund, and the Pension Bond Call Fund. Contribution for all funds which the General Fund represents approximately (83%).



CalPERS UAL Payment Schedule vs Est. Annual Pension Obligation Bonds (POB)

Description	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	FY2031
MISC UAL	15,471,416	16,509,620	17,090,774	17,912,141	17,535,351	18,096,588	18,580,780	19,078,288	19,589,477	19,640,894
SAFETY UAL	11,865,939	13,204,470	14,037,084	14,891,355	15,355,708	15,782,863	16,221,764	16,672,735	17,136,107	17,496,576
Total UAL*	27,337,355	29,714,090	31,127,858	32,803,496	32,891,059	33,879,450	34,802,544	35,751,023	36,725,585	37,137,470
POB Debt Service**	(18,442,760)	(18,654,555)	(18,863,867)	(19,058,209)	(19,271,151)	(19,459,188)	(19,680,564)	(19,908,727)	(20,126,124)	(20,355,097)
Est. Annual Savings	8,894,595	11,059,535	12,263,991	13,745,287	13,619,908	14,420,262	15,121,980	15,842,296	16,599,461	16,782,373

* Source: CalPERS Unfunded Actuarial Liability (UAL) amounts from the June 30, 2019 Valuation Report

** Estimated Pension Obligation Bonds Debt Service, which final debt service amounts will be determined at the time of issuance.



Staff Recommendation

- Approve Resolution for the Pension & OPEB Reserve Fund Policy and Amending the General Fund Reserve Policy

Next Steps

- Return to Council by January 2021 with proposed pension obligation bond structure.
- Bring preliminary Official Statement to Council for approval by February 2021



City Council

Comments/Feedback