



CITY COUNCIL AGENDA REPORT

Meeting Date: 6/20/2019

From: Stuart Schillinger, Administrative Services Director

Subject: Policy for Funding Pension and Other Post Employment Benefits (OPEB) Unfunded Liability

Community Goal/Result

Fiscally Prudent

Purpose

Ensure the City has a long-term funding strategy for its Pension and OPEB (Other Post-Employment Benefits) obligations while ensuring long-term financial viability, ability to meet current community needs, and provide for a well-qualified stable work force.

Recommendation

Set a goal of two-years of projected unfunded liability payments be available within the City's Pension 115 Trust Fund. In order to do this the City should budget \$500,000 in FY 2020/21 between \$750,000 and \$1,000,000 a year starting in FY 2021/2022. Additionally, set aside 50% of any available General Fund, Fund Balance in excess of needed reserves for Unexpected Events, Recession, or Annual Budget Fluctuations in the Pension 115 Trust.

Background

On November 3, 2016 the City Council created a 115 Trust to prefund the City's pension obligations including its Unfunded Liability. Since that time, the City Council has set aside approximately \$1,000,000 for that purpose. The City's current policy for funding the Trust is to allocate \$100,000 a year from the General Fund budget and 40% of any fund balance above what is required in the City's Fund Balance Policy.

During the City's mid year budget review City Council requested the Administrative and Policy Subcommittee to review the funding of the Trust and create a policy for future funding.

Discussion

The Subcommittee met on June 10, 2019 to review the City's Unfunded Pension and OPEB liabilities. Staff provided the Subcommittee a projection of the City's anticipated revenues and expenditures through 2033/34. This long-term projection used, the currently projected Sales Tax revenues (from our Sales Tax Auditor) assuming no recession (since the City has a recession reserve set aside for this purpose), increase in property tax based on new known development on Sierra Point (it does not include a new hotel), increase in revenues for cannabis, and the increase in the Transient Occupancy Tax going before the voters in November, and the

dissolution of the Successor Agency. On the expenditure side, there were decreases due to the paying off bonds.

The projected maximum Unfunded Liability for PERS is about \$24,500,000 in 2020/21 and the maximum payment is \$2,700,000 in FY 2030/31. After FY 2030/31 our anticipated payment for the Unfunded Liability will decrease.

Our current payment is approximately \$1,600,000. In order to ensure the City has the most flexibility to provide services to the community during a recession it would be prudent to have two year's worth of payments of the unfunded liability set aside in the 115 Trust. This would equate to approximately \$5,000,000. The subcommittee determined the City should reach the goal by 2023, which is the time of our largest surpluses. In order to do this the Committee recommends that the City set aside 50% of any fund balance above required reserves leaving 50% for other projects. Currently, 80% is being used to fund unfunded liabilities, and to set aside an additional \$500,000 in FY 2020/21 and then \$1,000,000 in FY 2021/22 and 2022/23 to reach this goal. Based on the long-term projections there would still be a \$100,000 to \$200,000 available for new capital projects plus 50% of any available Fund Balance.

The Subcommittee determined funding the Annual Required Contribution for OPEB would reduce the Unfunded Liability in a timely fashion without needing to commit additional resources. As long as the City continues to make its Annual Required Contribution (ARC) the Unfunded Liability will decrease to \$2,300,000 in FY 2033/34. The ARC increases from \$650,000 in FY 2019/29 to \$850,000 in 2033/34. This does not have as much of an impact on the City as the PERS Unfunded Liability. The reason for this is there are fewer employees who receive OPEB benefits than pension benefits and the City switched from a defined benefit plan to a defined contribution plan in 2013 whereas PERS continues to be a defined benefit plan.

Fiscal Impact

As stated in the report based on current projections the City should be able to have approximately \$5,000,000 set aside in its Pension 115 Trust by June 2023 while still having some funds available for new capital projects or City programs.

Measure of Success

The City has two years of its Unfunded Pension liability payment funded by June 2023.

Stuart Schillinger

Stuart Schillinger, Administrative Services Director



Clay Holstine, City Manager