Resolution No. 2020-71 - Exhibit A

CITY OF COACHELLA

Policies for Addressing Unfunded Retirement Costs

The City seeks to achieve a strong financial position by maintaining adequate levels of reserves and working capital necessary to provide financial flexibility to weather unexpected circumstances and economic downturns. The City also seeks to reduce its unfunded CalPERS and OPEB liabilities, collectively "unfunded retirement costs", in the most cost-efficient manner possible.

The City acknowledges that addressing unfunded retirement costs is a dynamic process. Unfunded liabilities change each year due to actual investment performance, changes in actuarial assumptions, changes in benefit levels or criteria, and annual contribution levels. As such, the City is committed to continually monitor its unfunded retirement costs.

These policies are designed to provide a framework for decision-making as well as general guidelines for the application of additional monies or "Additional Discretionary Payments" toward the City's unfunded retirement costs.

California Employers' Pension Prefunding Trust (CEPPT) or 115 Trust/Pension Stabilization Fund

Through the establishment of an irrevocable trust and/or pension stabilization fund, the City will maintain a Reserve for the funding of its long-term unfunded retirement costs, such as pension and other-post-employment costs. Rising pension and medical costs place a constraint on the City's annual budget. In order to mitigate the impacts on the City's future budgets due to rising retiree benefits costs, funds will be set aside to pay for increased pay-as-you go outlays, establish interest bearing trust accounts to meet future annual outlays for such benefits, or be utilized to establish programs that will reduce the City's long-term financial exposure for retiree benefits. The Trust or Stabilization Fund will be funded in part by savings from the refinance of existing unfunded pension liabilities with the City's 2020 pension obligation bonds (refinance savings) and/or budget savings identified through one or more of the funding strategies listed below. On an annual basis, the City will evaluate whether or not ADPs should be made to fund the Trust or Stabilization Fund depending on current trust or stabilization fund balances and projected unfunded retirement costs. The funding goal of the Trust or Stabilization Fund should be to match Trust or Stabilization Fund balances with projected unfunded retirement costs. Funds from the Trust or Stabilization Fund shall be allocated to address new CalPERS unfunded actuarial liabilities through refinance savings or additional discretionary payments (ADPs).

Allocation of Additional Resources or ADPs

The City seeks to maintain adequate levels of reserves in accordance with its stated reserve goals. To the extent that the City's unfunded retirement costs exceed trust or stabilization fund balances and budgeted appropriations and where the City has: excess reserves, unspent budget monies at year-end, unspent proceeds from capital projects, and/or one-time revenues, the City shall endeavor to apply **50%** of such monies toward its unfunded retirement costs.

The 50% target level is a stated policy goal; however, specific recommendations regarding how much monies to apply toward unfunded retirement costs shall be made by City staff.

All pre-funding decisions shall require a comprehensive analysis evaluating current and projected unfunded pension costs along with other City funding needs. Proper documentation of the analysis and decision-making process shall be retained by the Finance Department.

Funding Solutions

City staff has identified several budget and capital funding strategies to address unfunded retirement costs, which are a combination of internal budgeting and policy directives, as well as financing mechanisms:

1. **Allocation of liabilities among funds/projects** – establish internal budgeting policy to confirm the fair share or allocation of current pension/OPEB costs as well as unfunded retirement costs to each respective fund/project - per regulatory guidelines.

2. **Use of reserves and one-time monies –** to the extent that CalPERS discount rate (expected rate of return) exceeds the City's expected investment returns, and the City projects significant unfunded retirement costs the, City shall apply a portion of its excess reserves, above stated policy goals/objectives, to pay unfunded retirement costs.

3. **Cost Sharing & Contract/MOU Provisions –** CalPERS makes regular adjustments to its normal costs and UAL as a result of changes in investment performance, benefit levels, and actuarial assumptions. These changes typically impact both normal costs payments as well as unfunded accrued liability (UAL). The City shall incorporate a mechanism within the MOUs to revisit employee contribution levels in the event of significant or unexpected changes.

4. **Examine medical benefit levels and eligibility criteria –** the City shall periodically review its costs of medical benefits, eligibility age criteria (i.e., retiree medical benefits), and coverage levels to ensure long-term fiscal sustainability.

5. **Synthetic Fresh Start** – to the extent that the City has identified additional resources (one-time monies, budget surpluses, or excess reserves) to apply toward its unfunded retirement costs, the City shall apply these monies through a synthetic Fresh Start or "soft" Fresh Start mechanism when this option is beneficial.

6. **Refinance Savings –** the City is projecting savings from the difference between debt service payments on the City's 2020 pension obligation bonds and pre refinance CalPERS annual UAL payments. The City shall use this savings to pay any outstanding unfunded retirement costs and any remaining funds which will be used to fund the trust or stabilization fund for future unfunded retirement costs.

7. **Pension Obligation Bonds (POBs) –** the City may from time-to-time use bonds to "refinance" a portion of its unfunded pension or OPEB liability. Bonds should be issued as part of a comprehensive plan to address the City's unfunded liabilities. Since these bonds are issued on a taxable basis, they carry a higher interest rate than traditional municipal "tax-exempt" debt. The City shall adhere to the following general criteria to address GFOA concerns:
    - Prior to the issuance of bonds, a "Monte Carlo" or equivalent simulation analysis shall be completed and have a minimum success probability of 70%.
    - The bonds shall not be structured to defer payments or extend the final maturity date.

- Bonds shall be structured with standard call provisions (e.g., 100%-102% in 10 years)
- Bonds shall not finance current or normal costs; they shall only be used to refinance unfunded pension and OPEB liabilities.
- Bonds should provide demonstrated cash flow and NPV savings (except for refunding bonds) sufficient to justify the bond issuance.

These policies are intended to provide general guidelines. Each individual decision shall require analysis and review on a case-by-case basis. This policy document is intended to serve as a living document, which will require periodic review and updated to take into account changes in the City's financial position and funding status.