



## STAFF REPORT

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**MEETING DATE:** April 12, 2023

**PRESENTER:** John Jansons, City Manager

**SUBJECT:** Consideration of Pension Management Policy, Enrollment in CalPERS Pension Pre-Funding Program and Year One Payment to Manage CalPERS Unfunded Accrued Liabilities (JAJ)

**RECOMMENDATION:** Council by motion adopt resolution to:

1. Approve Pension Management Policy, and
2. Approve enrollment and payments to CalPERS Pension Pre-Funding Program to manage unfunded accrued CalPERS Pension Program Liabilities.

**EXECUTIVE SUMMARY:** Adoption of the resolution) will approve proactive and effective management of the City's CalPERS Unfunded Accrued Liability (UAL) recommended to ensure and continue responsible stewardship of public assets, resources and liabilities.

Professional analysis of the City's CalPERS Unfunded Accrued Liability and the development of a Pension Management Policy were discussed with Council during the FY 21/22 Mid-Year Budget update, and again in budget hearings as a priority work project for the current FY 22/23 Fiscal Year. In August of 2022, the City hired Cal Muni Advisors (CMA) to assist with developing effective UAL reduction strategies.

The advisory services of CMA yielded a draft Pension Management Policy which provided various strategies and a potential financing plan(s) to reduce and retire the City's unfunded CalPERS unfunded liabilities over time.

Since that time, CalPERS released their new direct Pre-funding Program designed to assist members with UAL reduction with less rigidity and without the transaction fees associated with establishing traditional trust funds or other refinancing or borrowing schemes to address UAL.

After throughout review and consultation with Cal PERS representatives, staff now recommends participation in the CalPERS Pre-funding program utilizing the "Pay As You Go" track which provides Kerman greater flexibility, lower risk and a more affordable path to UAL reduction and eventual elimination.

Attached to the resolution are the Pension Management Policy (Exhibit 'A'), which has been revised to include the CalPERS Pre-funding Program (Exhibit 'B'), as Kerman's preferred approach to addressing UAL (Summary as Exhibit 'C').

**DISCUSSION:** The City has long desired to develop strategies that deliberately, and in a meaningful way, address the Unfunded Accrued Liability with its CalPERS Pension plans.

In year's past, a voluntary set-aside program was established to create an "internal trust fund", setting aside \$100,000 or more per year toward paying-down the UAL. That effort has been intermittent due to financial uncertainties and other financial spending priorities.

Development of a Pension Management Policy was discussed with Council during the FY 21/22 Mid-Year Budget update, and again in budget hearings as a priority work project for the current FY 22/23 Fiscal Year.

In the current FY 22/23 budget adopted by Council, a \$100,000 allocation to that internal trust fund was restored.

The intermittent nature of funding this effort, along with the realities of re-allocating potential UAL reduction payments to more immediate and pressing expenditure plans gave rise to the recommendation to adopt a Pension Management Policy to address these liabilities in a more proactive and deliberate fashion.

The advisory services of CMA yielded a draft Pension Management Policy which provided various strategies and a potential financing plan(s) to reduce and retire the City's unfunded CalPERS unfunded liabilities over time.

Since that time, CalPERS released their new direct Pre-funding Program designed to assist members with UAL reduction with less rigidity and without the transaction fees associated with establishing trust funds or other financing or borrowing schemes to address UAL.

After thorough review and consultation with CalPERS representatives and other financial advisors staff now recommends participation in the Cal PERS Pre-funding Program utilizing the "Pay As You Go" track which provide Kerman greater flexibility, lower risk and a more affordable path to UAL reduction and eventual elimination.

Currently, the City has approximately \$300,000 that could be paid in FY 22/23 to CalPERS to begin the City's pre-payment / pay-down effort to reduce the current UAL and reduce debt service (interest cost of carrying a higher UAL balance). As a Five Year Pension UAL Management Plan, future year payment(s) will be determined each fiscal year during the budget development process.

Implementing this flexible pension cost mitigation technique and strategy in relation to the UAL associated with the City's respective CalPERS pension plans is prudent, wise and manageable.

**FISCAL IMPACT:** The City is prepared to make an approximate \$300,000 payment in Fiscal Year 22/23 to initiate meaningful UAL reduction.

**ATTACHMENTS:**

A. Resolution w/Exhibits

**RESOLUTION NO. 23-\_\_**

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KERMAN APPROVING CITY PENSION MANAGEMENT POLICY, ENROLLMENT IN CAL-PERS PRE-FUNDING PROGRAM, AND REMITTANCE OF YEAR ONE PAYMENT AS RELATED TO UNFUNDED ACCRUED LIABILITY OF CITY CAL-PERS PENSION PLANS**

WHEREAS, the City has long sought to establish a Pension Management Policy and to address its Unfunded Accrued Liability (UAL) in a consistent, deliberate and effective manner; and

WHEREAS, the City contracted with Cal Muni Advisors in 2022 to assist the City with development of a draft Pension Management Policy; and

WHEREAS, through the course of that work, CalPERS released a direct Pre-funding Program that provides greater flexibility with less rigidity and without the transaction fees associated with establishing trust funds or other financing or borrowing schemes to address UAL; and

WHEREAS, the City's Pension Management Policy (Exhibit 'A') has been revised to now include the preferred option of enrolling in the CalPERS Pre-funding program.

NOW, THEREFORE, the City Council of the City of Kerman resolves as follows:

1. The foregoing recitals are true and correct.
2. The City adopts the attached Pension Management Policy (Exhibit 'A').
3. The City Council approves enrolling in the CalPERS Pre-funding Program (Exhibit 'B') to reduce the City's Unfunded Accrued Liability (UAL) for City pension programs.
4. The City Manager is authorized to execute the enrollment in CalPERS Pre-funding Program.
5. The Director of Finance is authorized to make annual or semi-annual payments to CalPERS in accordance with approved budget authority (Estimated for FY 23/24 to be \$300,000.) to pre-fund and pay down pension(s) plan UAL (UAL Summary, Exhibit "C") and to make future payments to CalPERS consistent with each fiscal year's budget.
6. This resolution shall be effective immediately.

The foregoing resolution was considered by the City Council to the City of Kerman at a regular meeting of said Council held on the 12<sup>th</sup> day of April 2023, adopted by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

The foregoing resolution is hereby approved.

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Maria Pacheco  
Mayor

ATTEST:

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Marci Reyes  
City Clerk