



## City Council Agenda Report

**Meeting Date:** May 27, 2025

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**Approved By:** Gabe Engeland

### Subject: City of Los Altos Pension Obligations

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#### COUNCIL PRIORITY AREA

- ☐ Public Safety
- ☐ Business Communities
- ☐ Circulation Safety and Efficiency
- ☐ Environmental Sustainability
- ☐ Housing
- ☒ General Government

#### RECOMMENDATION

Receive information regarding the City's pension obligations. No action is recommended at this time. This item and presentation are for the information of the City Council

#### FISCAL IMPACT

There is no fiscal impact associated with this report. There are ongoing fiscal impacts related to the City's pension obligations.

#### ENVIRONMENTAL REVIEW

Not Applicable.

#### PREVIOUS COUNCIL CONSIDERATION

March 25, 2025 (as part of the Fiscal Year 2024/25 Mid-Year Budget Update)

#### BACKGROUND

The City of Los Altos participates in the California Public Employees Retirement System (CalPERS or PERS) for employee retirement pension plans. Each year, the City pays into PERS to provide retirement benefits for qualifying employees. Pension costs have risen over the last number of years and will continue to do so in the coming years.

At the March 25, 2025 City Council meeting, Council requested a presentation from staff regarding the City's pension obligations and various ways for the City to offset future pension costs.

#### ANALYSIS

The City's annual contribution to PERS is made up of two main components: normal cost and the amortization of the City's Unfunded Accrued Liability (UAL). The normal cost is based on the

City's active payroll and depends on the plan each employee is enrolled in. The City currently has six separate plans with CalPERS and each plan requires a different percentage of an employee's salary be paid to PERS. The normal cost to the City is relatively predictable from year to year.

The second portion of the City's annual cost to PERS is UAL. The UAL is based on the amount PERS estimates the City's plans are short in covering benefits for future retirees. Staff will further explain what UAL is and how it is calculated as part of the City's annual payment to PERS at the May 27, 2025 Council meeting.

The City's normal cost is paid throughout the year while the UAL payment is paid in one lump sum at the beginning of the year. Paying UAL in one payment rather than throughout the year provides for savings to the City as the cost for installment payments is higher.

For reference, the City paid the following amounts to PERS over the last few years:

	FY 2021/22	FY 2022/23	FY 2023/24
Total Contribution	\$11,630,145.25	\$6,597,424.66	\$6,897,201.28
Normal Cost	\$3,384,142.25	\$3,270,469.66	\$3,803,681.28
UAL Payment	\$3,246,003.00	\$3,326,955.00	\$3,093,520.00
ADP Payment	\$5,000,000.00	\$0	\$0

## **DISCUSSION**

The City's PERS costs are projected to climb over the next few years, in particular related to UAL as PERS attempts to make up for pension plans shortfalls. According to PERS actuarial data, it is estimated that by FY 2032 the City's UAL payment will be over \$6.5 million per year. This figure assumes that nothing will change in the future.

The City does have options for potentially offsetting future costs related to PERS. There are two prominent options that staff and the Financial Commission have considered. The first is to make additional discretionary payments (ADP) to "pay down" portions of the City's UAL. This will theoretically lower the City's obligation, thereby reducing the amount of UAL the City must pay each year. The second is to establish a Section 115 Trust. This is a special type of trust that can be created under State law. Earnings from the trust can only be used for payments related to the City's pension obligations. The City currently has a 115 Trust for Other Post-Employment Benefits (OPEB) obligations.

The City has taken steps to offset rising costs related to PERS. In 2016, the City established a "PERS Reserve" fund as part of the General Fund and has routinely made contributions to this reserve. In 2021, the City sent \$5 million from the PERS Reserve as an ADP. This action has saved the City an estimated \$1.5 million in payments to PERS over the last three fiscal years and will continue to provide additional savings in future years.

The City has continued to fund the PERS Reserve and at the March 25, 2025 Council meeting, City Council authorized the use of the PERS Reserve for another ADP to help further offset future costs. Staff is currently working with PERS on how best to distribute this ADP over the various plans to maximize future savings for the City.

The Financial Commission has received presentations on both the City's UAL and potentially establishing a Section 115 Trust. The Commission has recommended that the City have an aspirational goal to work over the next five years to achieve an 80% funded level across all six PERS plans. The City is currently funded at approximately 70%. The Commission recognizes that there are many competing priorities for City funds and therefore has recommended that this goal be aspirational rather than a set policy.

Staff will provide further explanation of the City's pension obligations, various factors that go into the City's annual pension costs and plans to offset rising costs at the May 27, 2025 Council meeting.

#### **ATTACHMENTS**

1. None