



TO: Financial Commission

FROM: Jon Maginot, Staff Liaison

SUBJECT: City of Los Altos PERS Reserve

RECOMMENDATION:

Receive an informational report related to the City's pension obligations and plan to manage expected future increases in pension costs

BACKGROUND

The City participates in CalPERS for employee retirement pension plans. Each year, the City pays into PERS to provide retirement benefits for qualifying employees. Over the last number of years, the City has seen rising costs related to PERS and will continue to do so.

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 a percentage of the City's active payroll and depends on the plan each employee is enrolled in. The UAL is based on the amount PERS estimates the City is short in covering benefits for future retirees. Staff will further explain this relationship and subsequent cost at the September Commission meeting. For reference, the City contributed 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 |

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 additional discretionary payment (ADP) to "pay down" the City's UAL. This action 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 transfer funds to the PERS Reserve. The fund currently has \$5 million and the City has planned a transfer of an additional \$1 million for the end of the current fiscal year.

At the September Commission meeting, staff will present further information on this item and explain the City's plan to offset future rising costs related to PERS payments.