



# AGENDA REPORT

## SAN CLEMENTE CITY COUNCIL MEETING

Meeting Date: June 21, 2016

Agenda Item 9B  
**Approvals:**  
 City Manager MM  
 Dept. Head ES  
 Attorney ML  
 Finance AV

**Department:** Finance and Administrative Services  
**Prepared By:** Judi Vincent, Deputy Administrative Service Director

**Subject:** *CITY PENSION PLANS - PAYMENT RECOMMENDATIONS*

**Fiscal Impact:** Yes, a supplemental appropriation of \$500,000 is being requested from the General Fund - Pension Reserve to provide funds for a one-time payment of the Marine Safety Plan unfunded liability.

**Summary:** Pursuant to the LTFP Workshop on February 25, 2016 where Council approved the one-time use of \$500,000 of pension reserves to pay an unfunded liability. This agenda report requests the appropriation to make the payment.

**Background:** In FY 2015, the City reserved \$500,000 of fund balance in the General Fund to provide funding to offset any increase in the rates identified from the transition of the Miscellaneous Plan from Great West (now Empower) to CalPERS. CalPERS maintained the same contribution rate for almost two years as part of the transition. This reserve was to offset a contribution rate increase as a result of the extended flat contribution rate until the new actuarial study was completed. Due to a decrease in the contribution rate from the previous fixed rate, this reserve is no longer required. As part of the LTFP, a recommendation was made to use this General Fund reserve to pay down the Marine Safety Plan unfunded liability, which is a General Fund liability.

**Discussion:** The City of San Clemente has multiple retirement plans with most of these plans administered by CalPERS. The City's Legacy Plan (for retired and inactive members prior to the June 9, 2014 transition to CalPERS) is administered by Empower (formerly Great West). The funding level as of June 30, 2014 is listed below:

	CalPERS			Empower
	Marine Safety	Safety Plan	Miscellaneous Plan	San Clemente (Legacy Plan)
Actuarial Liability	\$5,323,351	\$41,253,857	\$36,241,435	\$29,289,000
Assets-Market Value	4,512,175	32,729,496	32,646,938	19,594,000
Unfunded Liability	811,176	8,524,361	3,594,497	9,695,000
Funded Ratio	84.8%	79.3%	90.1%	66.9%

Based on a 2011 Standard and Poor's report, a funded ratio of greater than 90% is considered strong. The goal of pension funding is to achieve 100%. The plans shown above have various levels of funding. Annual contributions reduce the unfunded amounts over a set amortization period. Shorter amortization periods require larger payments in the earlier years, but are more cost effective in the long-term. Longer amortization periods reduce short-term costs, but are less cost effective in the long-

term. Once assets are placed into a retirement plans trust fund they are not transferable to other plans and cannot be used for other purposes.

A \$500,000 one-time payment from the Pension reserve to the Marine Safety plan achieves funding 94% of that plan's liability and achieves a funding ratio of more than 90% for a second City pension plan. It is also recommended that the City shorten the amortization period, to pay off prior year losses and assumptions changes, from 30 years to 20 years to achieve long-term savings for this plan. The one-time \$500,000 contribution would allow the City to shorten the amortization period by 10 years with only a slight increase of \$9,896 in the FY 2017 annual contribution. This process would result in net long-term savings to the City of approximately \$932,000.

The City's CalPERS Miscellaneous Plan was at a 90.1% funding ratio as of the last actuarial report with the unfunded liability amortized over a mixed 20 to 30 year period. The Safety plan and the Legacy Plan with Empower are below a 90% funded ratio. The unfunded liability on these two plans are being amortized over a blend of between 20 and 30 years for the Safety Plan and a fixed 20 years at a level dollar amount for the City's Legacy Plan.

As part of future Long Term Financial Plans, staff will provide updated funded ratios for the City's various pension plans and will bring forward options for improving these funded ratios and possibly allowing for shorter amortization periods. Shorter amortization periods would need to be considered in conjunction with the City's operating positions projected for future years. In addition, one-time contributions from one-time revenues may be considered to pay down liabilities. These one-time contributions could be provided from excess Bellota proceeds, other real property sales, or other one-time revenues. The use of one-time resources would need to be balanced with the City's other obligations, including capital and infrastructure maintenance and replacement needs.

**Recommended**

**Action:**

STAFF RECOMMENDS THAT the City Council

- 1) Approve a FY 2016 supplemental appropriation of \$500,000 to account number 001-641-41971 from the General Fund Pension Reserve Fund Balance.
- 2) Authorize staff to request a change of amortization from 30 years to 20 years on the CalPERS Marine Safety and Miscellaneous retirement plans.

**Attachments:** None

**Notification:** None