



City of Pacifica 2020-30 Budget Issue



Impact of CalPERS Reduction in Discount Rate

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City of Pacifica

2020-30 Budget Issue

Pension Plan Defined:

- An agreement to provide a defined retirement benefit in exchange for services.
- Funded in a trust which is an investment portfolio structured to provide enough funds to pay retiree benefits.
- Benefits are paid from the trust to retired employees on a monthly basis.
- The City contracts with California Public Employees' Retirement System (CalPERS) defined benefit plan for the majority of our employees.



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Pension Plan Defined:

The plan's funded status is the relationship between the liability associated with employee retirement and the assets needed to pay this liability.

Typical pension liability include amounts owed for:

- 1) Active employees
- 2) Retired employees
- 3) Inactive employees



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2020-30 Budget Issue

Pension Plan Defined:

- Pension assets are accumulated through:
 - employer contributions,
 - active employee contributions, and
 - investment earnings.
- The expected investments earnings rate of return is referred to as a discount rate. The investment return and accumulated contributions, offset by benefits and expenses paid, creates the market asset value of the pension.
- The difference between the pension liability and the market asset value represents an unfunded liability.



City of Pacifica 2020-30 Budget Issue

Pension Formula:

Pension Liability:

- Active Employees
- Retired Employees
- Inactive Employees

Less: Market Asset Value

= Unfunded Liability



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Relationship between the City and CalPERS:

- City contracts with CalPERS for most of our employees.
- As of 2017, the City paid retirement benefits to 331 retirees and has to accrue pension liability for an additional 175 employees.
- The City contributes a share of pension contributions and the employees contribute a share of pension contributions. Additionally, the City has bargained with the labor units so that the employees also pay a small share of the City's pension costs.



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2020-30 Budget Issue

Relationship between the City and CalPERS:

- CalPERS manages our City contributions and have historically projected a 7.5% rate of return (discount rate) on the contributions of the City and its employees.
- However, for the last 5 years the CalPERS actual rate of return was 5.8%.
- In part because our rate of return has been below the discount rate, the City has an unfunded liability. The City annually budgets and pays the required contributions (which includes the payback necessary to alleviate the unfunded liability) as determined by CalPERS.



City of Pacifica

2020-30 Budget Issue

Discount Rate of Return Adjusted

- On December 21, 2016, CalPERS lowered their discount rate from 7.5% to 7.0% over the three subsequent years. The approved Discount Rate Reduction Phase-In is as follows:

Valuation Date	FY Required Contribution	Discount Rate
June 30, 2016	2018-19	7.375%
June 30, 2017	2019-20	7.25%
June 30, 2018	2020-21	7.00%



City of Pacifica 2020-30 Budget Issue

Fiscal Impact

	2020-2021 Projected	2021-2022 Projected	2022-2023 Projected	2023-2024 Projected	2024-2025 Projected	2025-2026 Projected	2026-2027 Projected	2027-2028 Projected	2028-2029 Projected	2029-2030 Projected
Pension Expense - Normal	\$1,772,380	\$ 2,001,160	\$ 2,038,740	\$2,093,720	\$ 2,131,300	\$2,158,420	\$ 2,186,400	\$ 2,220,400	\$ 2,250,400	\$ 2,272,400
Pension Expense - PARS	55,790	57,464	59,188	59,188	60,963	62,792	64,676	66,616	68,615	70,673
Pension Expense - POB	199,874	835,156	866,832	897,305	929,838	959,677	998,896	1,030,908	1,064,633	954,474
Pension Expense - CalPERS UAL	3,573,600	4,142,600	4,607,600	4,874,600	5,169,400	5,305,400	5,762,400	5,943,400	6,184,400	6,454,400
Total	\$5,601,644	\$ 7,036,380	\$ 7,572,359	\$7,924,813	\$ 8,291,501	\$8,486,289	\$ 9,012,372	\$ 9,261,324	\$ 9,568,048	\$ 9,751,947
Year over Change	\$ 598,520	\$ 797,780	\$ 502,580	\$ 321,980	\$ 332,380	\$ 163,120	\$ 484,980	\$ 215,000	\$ 271,000	\$ 292,000



City of Pacifica 2020-30 Budget Issue

Fiscal Impact

	in \$000's	2020-2021 Projected	2021-2022 Projected	2022-2023 Projected	2023-2024 Projected	2024-2025 Projected	2025-2026 Projected	2026-2027 Projected	2027-2028 Projected	2028-2029 Projected	2029-2030 Projected
Safety Police	Normal	\$ 682	\$ 881	\$ 906	\$ 946	\$ 970	\$ 994	\$ 1,018	\$ 1,043	\$ 1,065	\$ 1,083
	UAL	1,532	1,751	1,933	2,046	2,161	2,220	2,489	2,601	2,754	2,919
Safety Fire	Normal	535	612	630	659	677	695	713	731	748	762
	UAL	872	1,007	1,118	1,186	1,254	1,288	1,433	1,502	1,590	1,695
Misc.	Normal	1,160	1,160	1,170	1,170	1,180	1,180	1,180	1,180	1,180	1,180
	UAL	1,360	1,610	1,810	1,910	2,040	2,090	2,140	2,140	2,140	2,140
*These amounts do not reflect employee contributions toward the City's pension costs											



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2020-30 Budget Issue

Fiscal Impact

- As a result of the CalPERS policy change staff estimates that the City will incur addition pension expenses averaging \$510K annually for the next five years, dropping to \$285K in the successive five years. In addition, this growth in expenditures is expected to continue, albeit at a lower rate until FY 2031/2032. The City will incorporate these estimates into the long-term forecasts and the 2020-2021 budget development process.



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2020-30 Budget Issue

Fiscal Impact

- Tools to Address rising pension costs:
 - Bargaining Units are Contributing to the City's Pension liability
 - Section 115 – The Adopted 2019-20 Budget provides \$200,000 to establish a Section 115 trust for the purpose of address future pension costs
 - Refunded (refinanced) debt to free up revenues that would have otherwise been used for debt
 - Budget management – The City Manager and staff will deliver a balanced budget annually that reflects increasing pension costs