

COUNCIL MEETING

6/16/20

Received Before Meeting

3

Pension Funding Policy and Contract with Bartel Associates

June 16, 2020

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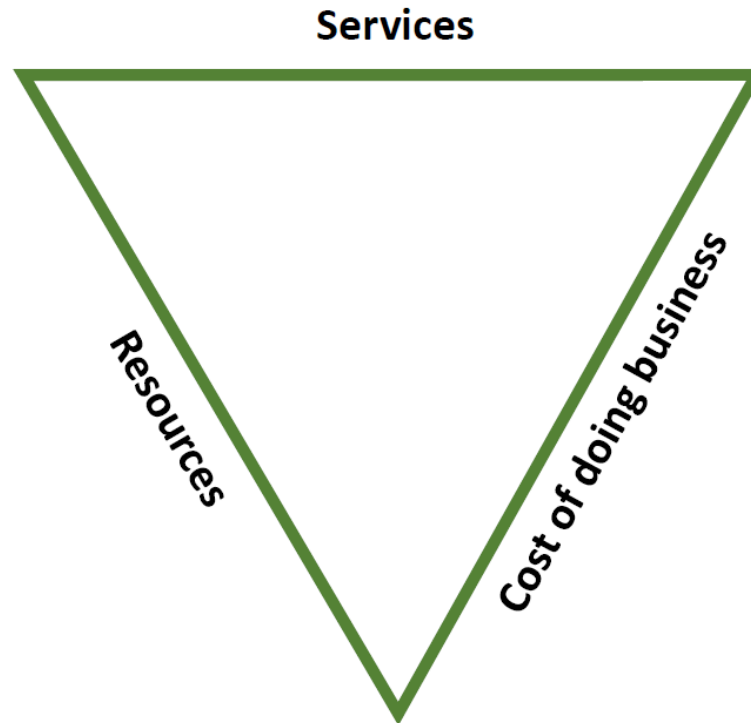
PENSION FUNDING POLICY – INPUT AND GUIDANCE

1. Seeking input and guidance from the City Council on elements of a Pension Funding Policy, which will proactively address the City's long-term pension obligations
 - Staff will incorporate input and return to City Council in Fall 2020 for final adoption of a policy
2. Approve Contract & Amendment with Bartel Associates to continue work on this important topic



SERVICE DELIVERY ECOSYSTEM

- Overarching goal of a Pension Funding Policy is to avoid service delivery reductions from escalating pension costs; requires balancing the near-term with long-term



PENSION FUNDING POLICY – KEY PRINCIPLES

- What is the desired funding target and corresponding timeline to achieve it?
- The Pension Funding Policy should be “evergreen,” guiding staff and Council when certain parameters are met but providing flexibility and adaptability
- What can the City afford? What is the most efficient use of its funding? What payment options and tools best align with those considerations?
- Important to keep in mind that this is a state-wide issue; CalPERS invests over a very long-term timeframe.



ELEMENTS OF A PENSION FUNDING POLICY

- Funding Goal and Timeframe
- Funding Components
- Allowable Uses of Funding
- Service Delivery Outcomes
- Fiscal Impacts

Pension Funding Policy Examples

Pension Policy Elements	Example 1: CalPERS (Baseline)	Example 2: Lower Funding Target (Current Practice)	Example 3: Medium Funding Target	Example 4: Higher Funding Target
% Funded Goal	100%; no lower element of range	80% - 100%; Target of 85%	80% min - 100%; Target of 95%	90% - 100%+; Target of 100%+
Timeframe	30 years	Within 10 years	Within 10 years	Within 10 years
Funding Components	Normal Cost (NC) calculated at 7.0% Discount Rate	(+) Cost-sharing with employees (see table above for specific rates)	(+) Additional cost-sharing with employees	(+) Recalculate the UAL with the same lower DR (phase-in)
	Changes in actuarial assumptions amortized over 20 years	(+) Using a more conservative discount rate (DR) for calculation of normal cost	(+) Identify funding for the pension obligation through Budget	(+) Amend existing BSR policy, 100% excess BSR allocated for pension costs (all funds contribute a commensurate amount)
	UAL amortized over 30 years for gains/ losses; calculated at 7.0% Discount Rate (20 years beginning 6/30/2019)	(+) Amend existing BSR policy, 50% excess BSR can be allocated for pension costs (all funds contribute a commensurate amount)		
		(+) Reach one-year of funding for CalPERS ADC in 115 Trust Fund (invest moderately conservatively); subsequent proactive funding to CalPERS as ADP		
Allowable Uses of Funding Component	NC covers pay-go portion; UAL portion pays off unfunded liability in 30 years if CalPERS investment returns met	(+) Use of 115 Trust Fund funding to be addressed through annual budget process or separate City Council approved action. Pension Rate Stabilization Program	(+) Fresh start in concept for the Safety group, beginning in a target year	(-) Contractual Partial Fresh Start for the Safety group beginning in a target year in-lieu of fresh start in concept
Service Delivery Outcomes	Continue services throughout the City including the ability to keep up with the cost of doing business as well as limited strategic investments.	Continue current constraints and limitations on service delivery including an inability to keep up with the cost of doing business. Prioritization would continue to be necessary annually through the budget process.	(+) City Manager to identify plan to address additional contributions to pension as part of annual budget process	(+) Significant adverse impacts on service delivery levels; additional revenue
			(+) Impacts on Service Delivery and/or structural additional revenue	

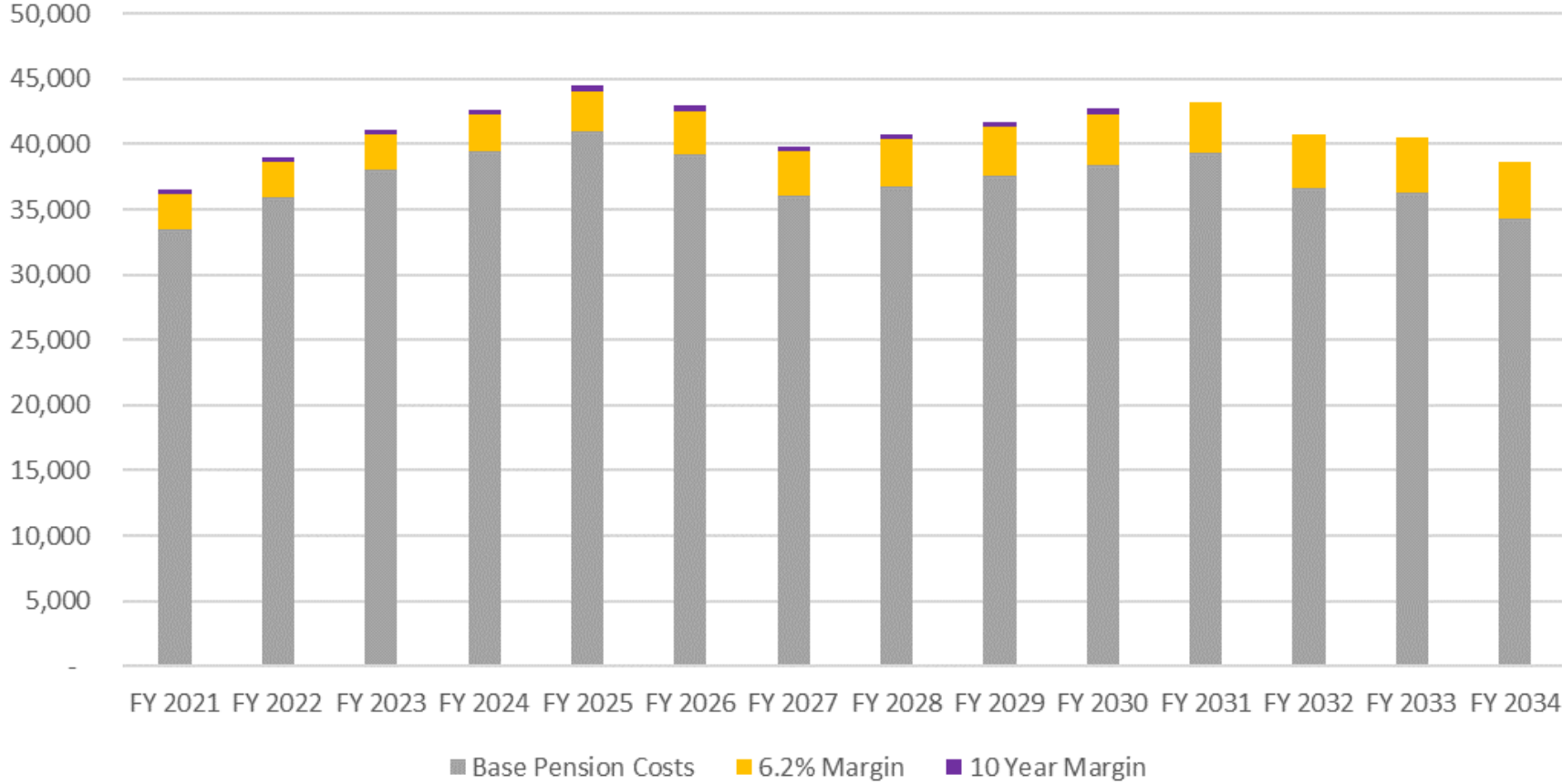
(+) Indicates that this is in addition to the step to the left while (-) indicates that this is instead of the step to the left.

FINANCE COMMITTEE DISCUSSION – OCTOBER 15, 2019

- Funding Goal and Timeframe: evaluate & determine timeframe considering fiscal impacts
- Funding Components:
 - Continue paying the CalPERS Actuarial Determined Contribution (ADC) + using a lower Discount Rate to calculate the Normal Cost (NC) for 115 Trust contribution annually
 - Amend existing BSR policy, 50% excess BSR can be allocated for pension costs (all funds contribute a commensurate amount)
 - Reach one-year of funding for CalPERS ADC in 115 Trust Fund (invest moderately conservatively); subsequent proactive funding to CalPERS as ADP
- Allowable Use of Funding: use of 115 Trust Fund funds to be authorized through Council action and the budget process,
- Service Delivery Outcomes: continue current prioritization & City Manager to identify plan to address additional contributions as part of annual budget process

FISCAL IMPACTS - MISCELLANEOUS

6.2% DISCOUNT RATE NC + 90% FUNDED IN 10 YRS



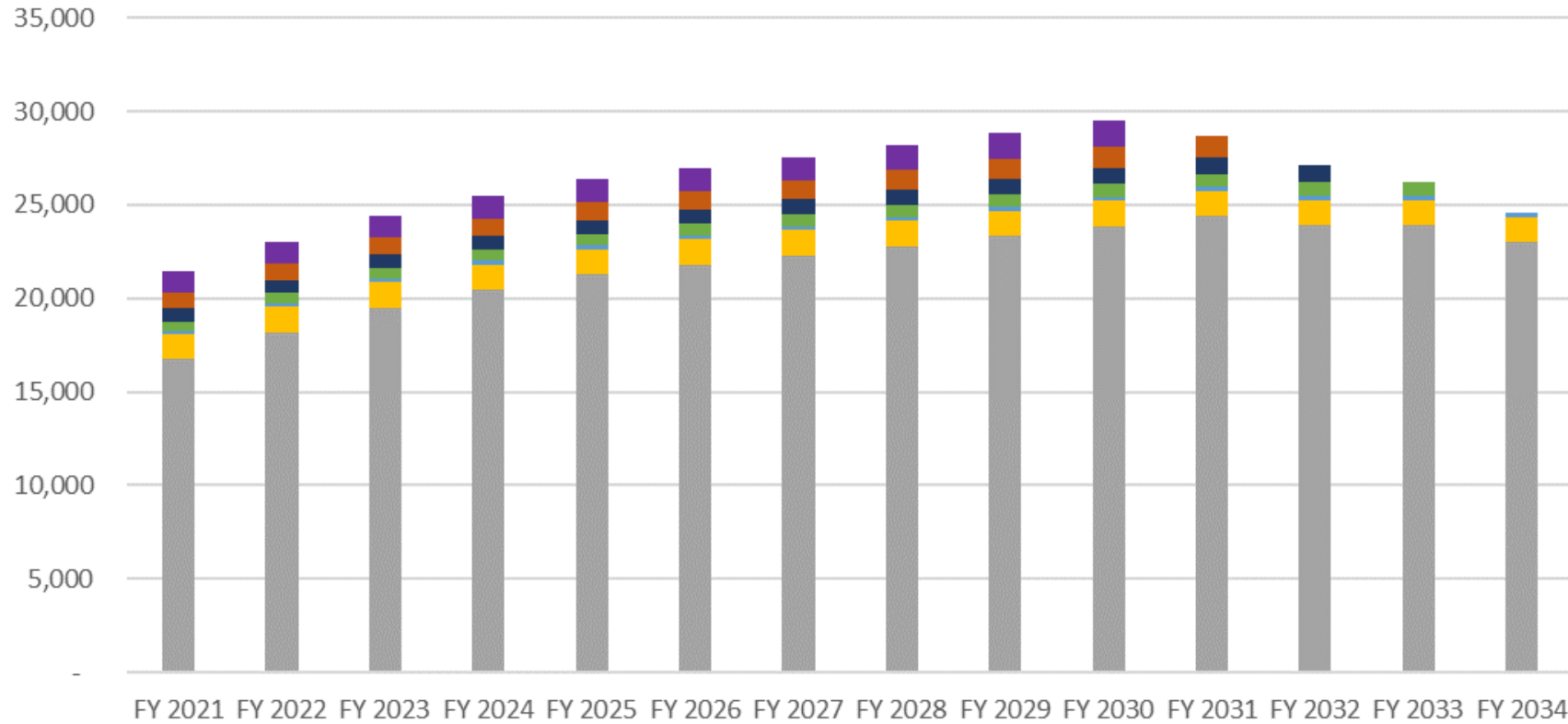
	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034
6.2% DR NC Margin	2,729	2,686	2,668	2,648	2,624	2,603	2,583	2,566	2,550	2,535	2,520	2,505	2,490	2,476
14 Years	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13 Years	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12 Years	-	-	-	-	-	-	-	-	-	-	-	-	-	-
11 Years	-	-	-	-	-	-	-	-	-	-	-	-	-	-
10 Years	368	378	389	399	410	421	433	445	457	470				



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FISCAL IMPACTS - SAFETY

6.2% DISCOUNT RATE NC + 90% FUNDED IN 10 YRS



■ Baseline Cost ■ 6.2% Margin ■ 14 Year Margin ■ 13 Year Margin ■ 12 Year Margin ■ 11 Year Margin ■ 10 Year Margin

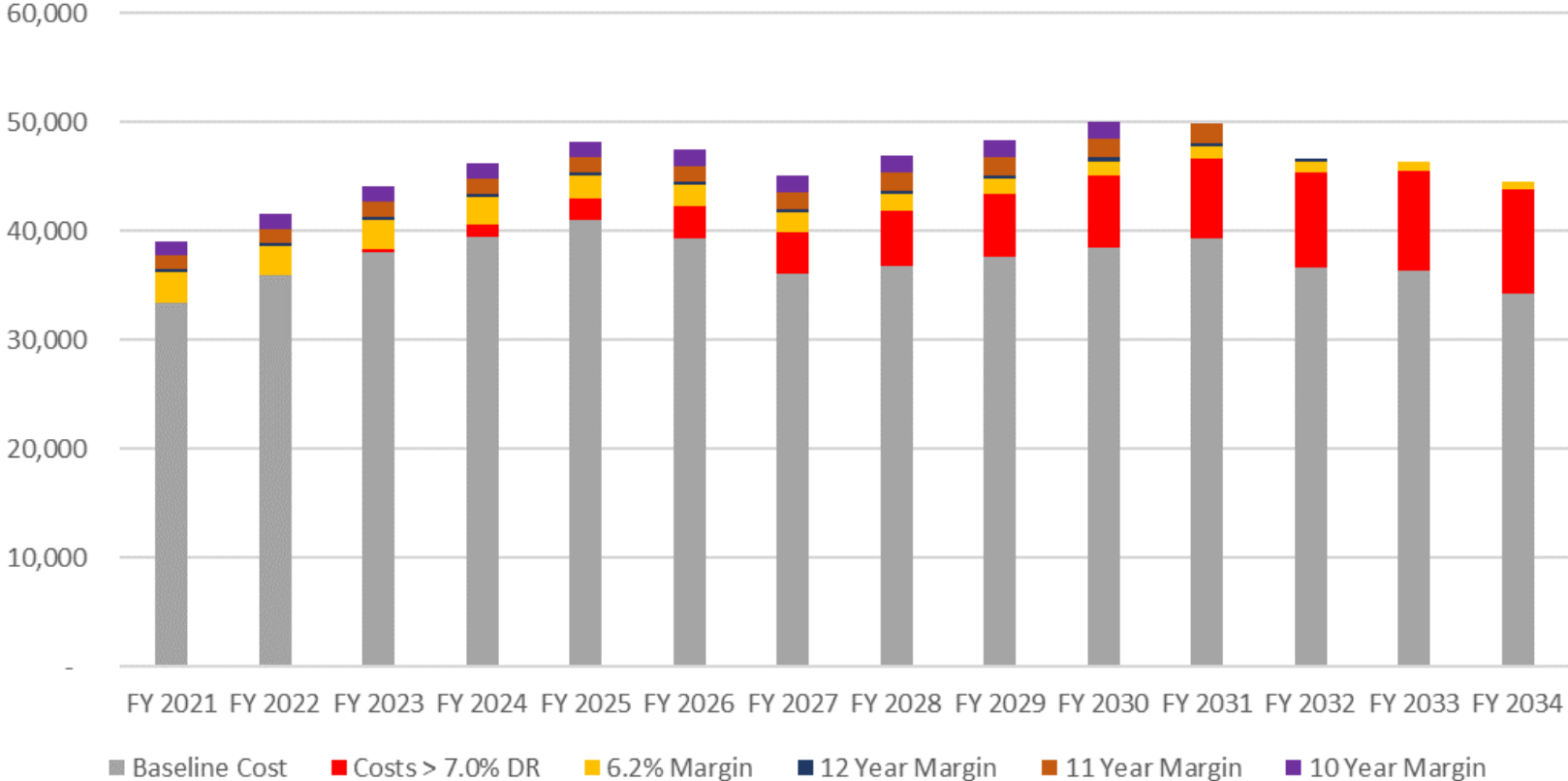


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	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034
6.2% DR NC Margin	1,337	1,369	1,365	1,363	1,361	1,359	1,357	1,356	1,354	1,348	1,334	1,322	1,308	1,291
14 Years	165	170	174	179	184	189	194	200	205	211	216	222	228	235
13 Years	539	554	569	585	601	617	634	652	670	688	707	726	746	
12 Years	695	714	734	754	775	796	818	840	863	887	912	937		
11 Years	854	877	902	926	952	978	1,005	1,033	1,061	1,090	1,120			
10 Years	1,088	1,118	1,149	1,180	1,213	1,246	1,280	1,316	1,352	1,389				

FISCAL IMPACTS – MISCELLANEOUS RISK MITIGATION STRATEGY

6.2% DISCOUNT RATE NC + 90% FUNDED IN 10 YRS

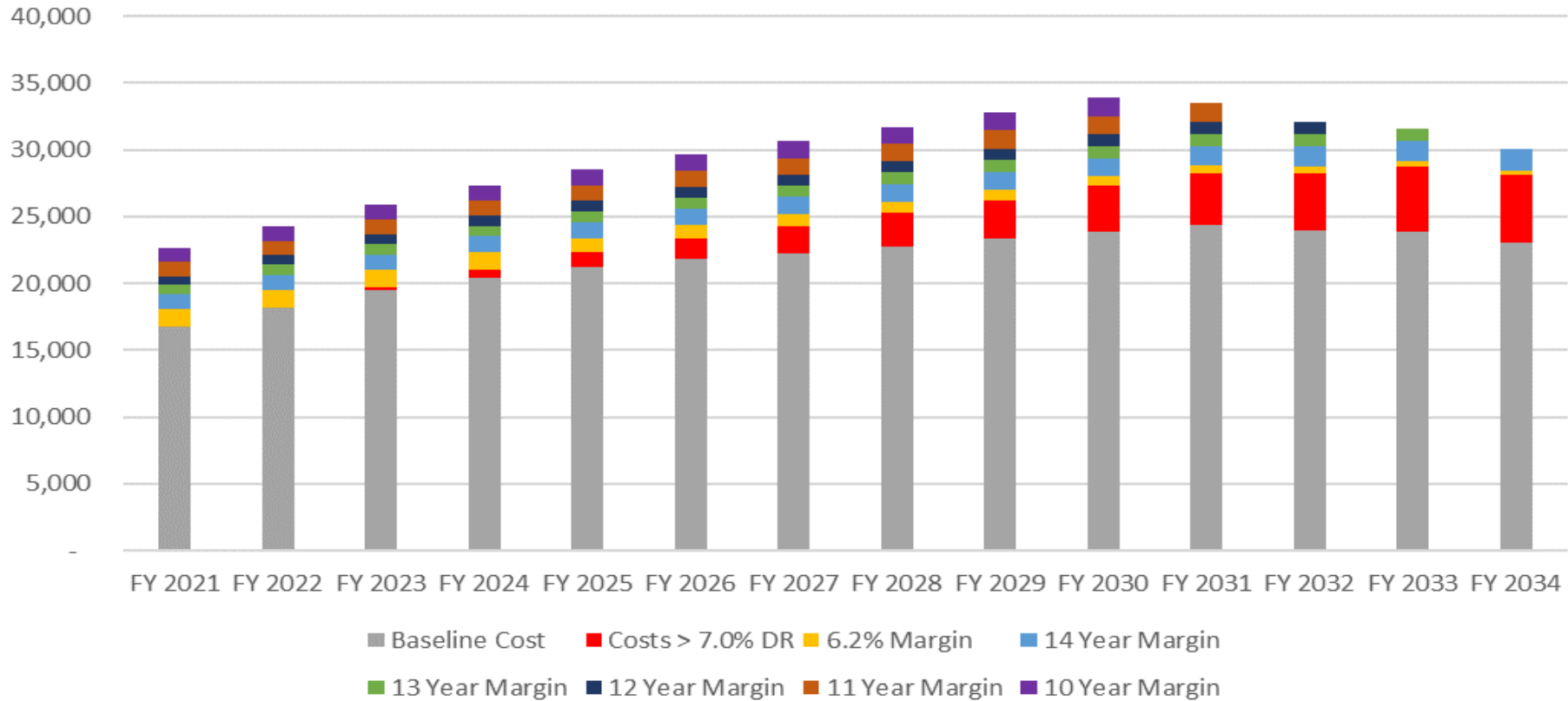


	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034
Costs > 7.0% DR	-	-	331	1,167	1,964	2,967	3,831	4,987	5,735	6,678	7,377	8,703	9,268	9,564
6.2% DR NC Margin	2,729	2,686	2,668	2,482	2,132	1,952	1,776	1,604	1,435	1,268	1,102	939	778	619
14 Years	-	-	-	-	-	-	-	-	-	-	-	-	-	-
13 Years	-	-	-	-	-	-	-	-	-	-	-	-	-	-
12 Years	255	121	121	121	121	121	121	121	121	121	121	121	-	-
11 Years	1,320	649	670	692	714	737	761	785	810	836	862	-	-	-
10 Years	1,286	629	646	664	682	701	720	740	761	781	-	-	-	-



FISCAL IMPACTS – SAFETY RISK MITIGATION STRATEGY

6.2% DISCOUNT RATE NC + 90% FUNDED IN 10 YRS

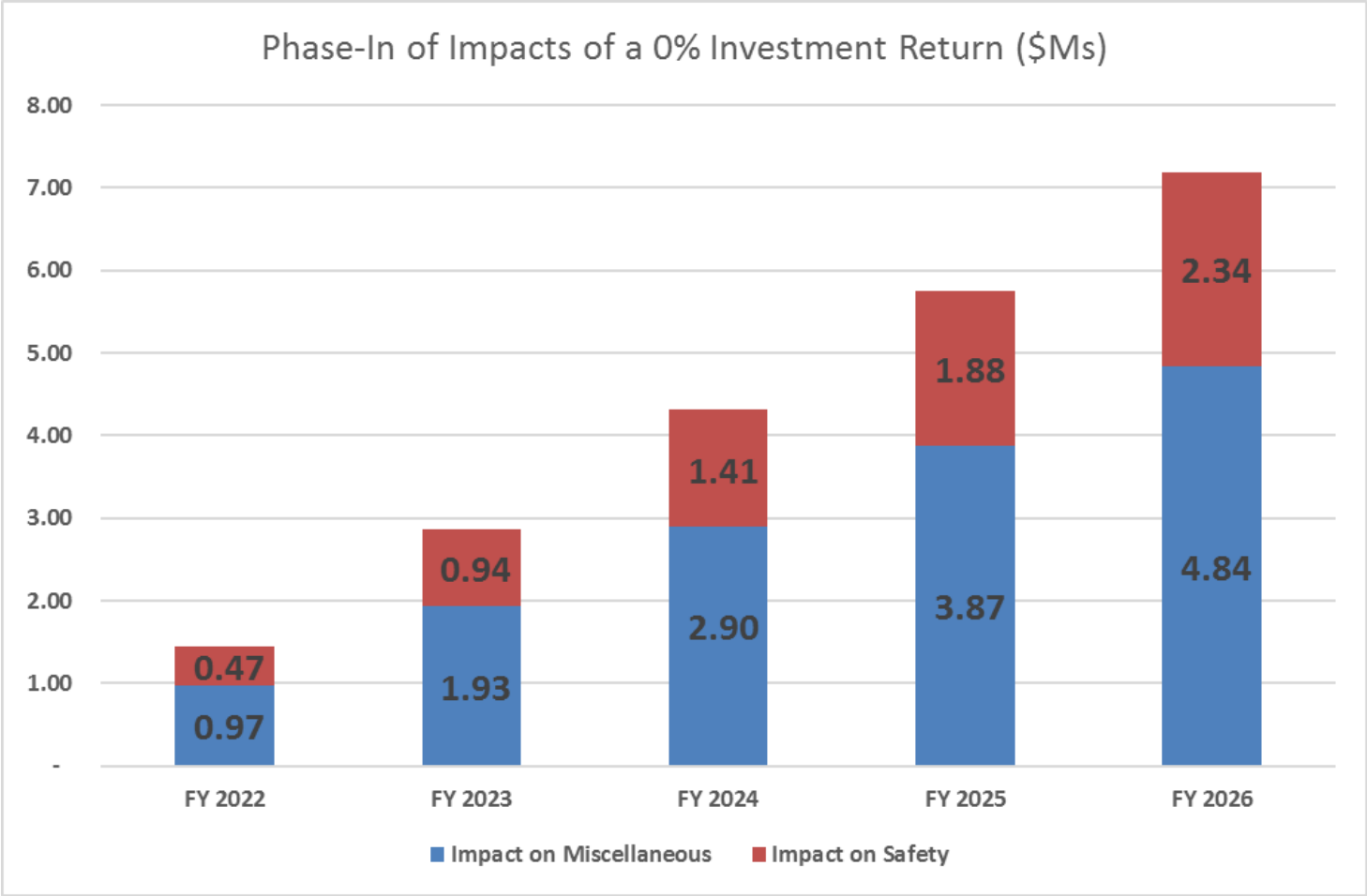


	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034
Costs > 7.0% DR	-	-	186	612	1,021	1,536	1,995	2,482	2,929	3,467	3,825	4,324	4,807	5,094
6.2% DR NC Margin	1,337	1,369	1,365	1,278	1,106	1,019	933	847	762	674	584	496	409	323
14 Years	1,088	1,118	1,149	1,180	1,213	1,246	1,280	1,316	1,352	1,389	1,427	1,466	1,507	1,548
13 Years	710	730	750	770	791	813	836	858	882	906	931	957	983	
12 Years	694	713	733	753	774	795	817	839	862	886	910	935		
11 Years	1,066	1,095	1,125	1,156	1,188	1,221	1,254	1,289	1,324	1,361	1,398			
10 Years	1,068	1,097	1,128	1,159	1,190	1,223	1,257	1,291	1,327	1,363				



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IMPACT OF AN FY 2020 CALPERS 0% INVESTMENT RETURN



EXAMPLE PENSION FUNDING POLICY

Funding Goal and
Timeframe:

90% funded level of CalPERS liabilities within 10 years

Funding
Components:

- Calculate NC at 6.2%, transmit to 115 Trust Fund
- Excess BSR > 18.5% at City Manager’s discretion to 115 Trust Fund
- 115 Trust Fund to reach 1-year full ADC funding, subsequent funding to CalPERS as ADP
- Other options may be pursued

Allowable Uses of
Funding:

Use of 115 Trust Fund \$’s sent to CalPERS to be addressed as part of annual budget process

Service Delivery
Outcomes &
Fiscal Impacts:

If maintaining contributions impact service delivery levels, City Manager to identify impact on funding goal and timeframe with potential actions to mitigate those outcomes and impacts

PENSION FUNDING POLICY – INPUT AND GUIDANCE

- Seeking input and direction on the elements to be included in the Pension Funding Policy
 - Use the EXAMPLE policy as a starting point; any necessary clarifications?
 - Additional dimensions of any of the elements to include in final policy
 - Balance flexibility and adaptability with long-term strategy for addressing pension obligations
- Direction from City Council will be incorporated into a final Pension Funding Policy for adoption; target fall 2020
- Approve Contract & Amendment with Bartel Associates to continue work





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