

RESOLUTION NO. 108-20

A RESOLUTION OF THE CITY OF EL CAJON
ADOPTING A PENSION FUNDING POLICY

WHEREAS, a Pension Funding Policy has been developed for the City of El Cajon (the "City") to provide guidance in the management of the City's employee defined benefit pension plans established for sworn public safety ("Safety") and non-sworn ("Miscellaneous") personnel and administered by the California Public Employees' Retirement System ("CalPERS"); and

WHEREAS, as a result of historically low returns on investments by CalPERS, the funding of these plans has been a significant fiscal challenge for the City for many years and on January 14, 2020, the City Council hired Urban Futures, Inc., to provide pension advisory services to assist City staff in evaluating potential funding solutions and developing recommendations to address the City's rising pension costs and its unfunded accrued liabilities; and

WHEREAS, on February 25, 2020, the City Council (1) directed staff to commence judicial validation proceedings in order to obtain authority to issue Pension Obligation Bonds; (2) directed the City Manager to hire Stradling, Yocca, Carlson & Rauth under a professional services agreement to file the judicial validation proceedings; (3) directed staff to establish a Section 115 Trust with Public Agency Retirement Services to pre-fund retiree obligations and serve as a pension stabilization fund; and (4) directed staff to draft pension funding policies to document a long-term financing plan to address unfunded retirement costs; and

WHEREAS, City staff hereby recommends that the City Council approves and adopts the Pension Funding Policy attached hereto as Exhibit "A," which will provide conservative and assertive guidance to employee defined benefit pension plans.

NOW THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF EL CAJON AS FOLLOWS:

1. The foregoing recitals are true and correct and are the findings of the City Council.
2. The City Council hereby adopts the Pension Funding Policy attached hereto as Exhibit "A."
3. This Resolution shall take effect immediately upon adoption.

PASSED AND ADOPTED by the City Council of the City of El Cajon, California, at an Adjourned Regular Joint City Council/Housing Authority/Successor Agency to the El Cajon Redevelopment Agency Meeting held this 27th day of October 2020, by the following vote to wit:

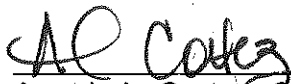
AYES	:	Goble, Kendrick, McClellan, Ortiz
NOES	:	None
ABSENT	:	Wells
DISQUALIFY:	:	None

PHIL ORTIZ
Deputy Mayor of the City of El Cajon

ATTEST:

ANGELA L. CORTEZ, CMC
City Clerk

I hereby certify that the above and foregoing is a full and true copy of Resolution No. 108-20 of the Resolutions of the City of El Cajon, California, as adopted by the City Council at an Adjourned Regular Joint Meeting of the City Council/Housing Authority/Successor Agency to the Redevelopment Agency on the 27th day of October 2020.


Angela L. Cortez, CMC, City Clerk

10/27/20 CC Agenda
Reso – Adopt Pension Funding Policy 102020

**CITY OF EL CAJON
CITY COUNCIL POLICY**

SUBJECT: PENSION FUNDING POLICY

POLICY

REFERENCE:

EFFECTIVE

PAGE

This policy is intended to provide guidance and strategies to current and future City Councils for addressing the City's retirement liabilities. The policy includes policy directives and financing mechanisms.

Background

The City has a history of being fiscally conservative and maintaining fiscally responsible management practices. The City recognizes the unfunded CalPERS liability can continue to cause financial stress in the organization and redirect precious resources away from programs and services necessary for the City's operations and service to the public. As such, the City seeks to stabilize its unfunded CalPERS liability in the most cost-efficient manner possible.

CalPERS Normal Costs represent the cost of pension benefits earned by current employees in the current fiscal year. Normal Costs are paid as a percentage of the City's payroll. Unfunded Accrued Liability ("UAL") represents unfunded benefits earned for employees' prior years' service, and amounts due to changes in investment performance, employee/retiree events, benefit levels, and actuarial assumptions. UAL payments are fixed dollar amounts adjusted annually by CalPERS.

Required Contributions

The City shall make all Actuarially Determined Contributions each year as prescribed by plan actuaries.

Target Funding Level

The City shall seek to maintain its pension funding level at **90%** funded for each of its plans.

Annual Pension Review

Addressing retirement costs is a dynamic process. CalPERS makes adjustments annually to a City's Normal Cost and Unfunded Accrued Liability (UAL). These changes require multi-year financial planning and for the City to make corresponding budgetary adjustments. The City shall therefore evaluate its pension liabilities each year.

After the release of the most current CalPERS actuarial report, staff shall present a summary of each plan's funding status. New amortization levels shall be specifically addressed. This information shall be presented during a public City Council meeting, which shall include a

EXHIBIT "A"

**CITY OF EL CAJON
CITY COUNCIL POLICY**

SUBJECT: PENSION FUNDING POLICY

POLICY

REFERENCE:

EFFECTIVE

PAGE

summary of funding status, funding progress compared to prior years, as well as any recommended actions and/or budget adjustments to address areas of concern.

Allocation of Additional Resources

The City seeks to maintain adequate levels of reserves in accordance with its stated reserve goals and adopted reserve policies. To the extent that the City has excess reserves, generates an operating surplus, generates savings from other pension related strategies, or receives significant one-time revenues, the City shall endeavor to apply a portion of such monies toward its unfunded retirement costs in the form of either Additional Discretionary Payments to CalPERS directly, or deposit funds in either a designated reserve or in its PARS Sec 115 Trust.

PARS Sec 115 Trust

The City shall maintain a PARS Sec 115 Trust for the purpose of pension rate stabilization. This resource is critical for providing security from rapid changes to required contributions. These funds can be used for the purpose of making Additional Discretionary Payments at any time; however, for the purpose of providing rate stabilization and budgetary relief, shall only be allocated in conjunction with the Annual Pension Review.

Pension Obligation Bonds (POBs)

The City may issue POBs to "refinance" a portion of its CalPERS UAL. After thorough analysis, POBs may be issued in order to reduce the annual payment obligations and stabilize UAL payments so the City can plan for its future liabilities to CalPERS.

To address risks related to the issuance of POBs, the City shall ensure that:

1. POBs shall not be structured to defer payments or extend the final maturity date.
2. POBs shall be structured with standard 10-year call provisions.
3. POBs shall not finance Normal Costs.
4. Bonds shall only be used to refinance unfunded pension liabilities.
5. Interest rate shall be at least 2.0% less than the current CalPERS discount rate.
6. POBs should provide significant demonstrated cash flow savings.
7. To maximize the benefit of POBs, the City shall seek the reinvestment of cash flow savings into other liability reduction strategies, such as additional payments to a PARS Sec 115 Trust.

**CITY OF EL CAJON
CITY COUNCIL POLICY**

SUBJECT: PENSION FUNDING POLICY

POLICY

REFERENCE:

EFFECTIVE

PAGE

Superfunding

In the event that either City plan achieves superfunded status, where funding exceeds 100%, excess amounts shall not be used for contribution holidays or to grant new benefits. Amounts in excess shall be viewed similarly as reserves: maintained in order to protect from downturns and negative events.

The City's Pension Funding Policy shall be adopted by Resolution during a Public Hearing. The Policy is intended to serve as a living document, which will require periodic review and updates to take into account changes in the City's financial position. Any amendments to this Policy shall be made by Resolution during a Public Hearing to provide transparency to the public and the opportunity for input.