Administrative Policy

Title: Pension Management Policy					
Administered By: Finance Department					
Policy No.	Issue Date	Revision Date	Dept. Head Approved	City Manager Approved	Mayor Approved
01200.605	05/19/2021	N/A	DocuSigned by: Kim Sitton AE6AA49B0BD44E7...	DocuSigned by: Jacob Ellis 8CB6AE0895944B4...	DocuSigned by: Jacque Casillas BE1A25F945DF487...

ARTICLE I - PURPOSE

Section 1.1 General Purpose

The purpose of the Pension Management Policy ("the Policy") is to provide guidelines for managing Unfunded Accrued Liabilities ("UAL") that may be assessed to the City by CalPERS on an annual basis or for any unfunded accrued liabilities remaining after the issuance of Pension Obligation Bonds (POBs). This Policy should support the City Council's decision-making process and be consistent with the City of Corona's pension plan's purpose and goals. The City recognizes that a fiscally prudent policy should:

- Ensure that pension funding decisions protect both current and future taxpayers
- Strengthen the City's long and short-term financial position
- Ensure the City has the flexibility to respond to future service demands, revenue levels, and operating expenditures
- Safeguard the City's creditworthiness
- Ensure that debt management practices are consistent with the City's strategic planning goals, objectives, capital improvement program, and budget

Section 1.2 Superseded Policies

This policy supersedes and replaces the following policies, which are hereby eliminated in their entirety and are of no further force and effect:

None

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ARTICLE II - DEFINITIONS AND SCOPE

Section 2.1 Definitions

For purposes of this policy, the following definitions shall apply:

A. ADP. The term "ADP" means additional discretionary payments that may be deposited with CalPERS to be applied towards the City's UAL.

B. CalPERS. The term "CalPERS" refers to the California Public Employees' Retirement System.

C. Defined Benefit Pension Plan. The term "defined benefit pension plan" means a retirement plan where benefits are based on a formula, rather than contributions and earnings to a savings plan. Retirement benefits are calculated based on a member's years of service credit, age at retirement, and final compensation (average salary during a defined period of employment).

D. Pension Obligation Bonds. The term "pension obligation bonds" means taxable bonds that state and local governments have issued as a part of an overall strategy to fund the unfunded portion of their pension liabilities, or UAL.

E. POB. The term "POB" means pension obligation bonds.

F. Section 115 Trust. The term "Section 115 Trust" refers to an Internal Revenue Code Section 115 trust, established by a governing body to segregate funds for specific purpose, such as pensions.

G. UAL. The term "UAL" means Unfunded Accrued Liability assessed by the CalPERS annual actuarial valuation report for the City's defined benefit pension plans.

Section 2.2 General Scope

Unless otherwise stipulated herein, this policy applies to all City employees. All such employees shall comply with the provisions outlined in this policy. It is the responsibility of all supervision to ensure that the provisions outlined in this policy are enforced for those City employees under their authority.

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Section 2.3 Exemptions from Scope

None

ARTICLE III – BACKGROUND

The purpose of a defined benefit pension plan is to accumulate sufficient assets to deliver promised benefits when they come due and to protect pension benefits in situations that involve employer insolvency or bankruptcy. Establishing strong funding guidelines promotes pension benefit security. The City's overall objective is to fund the CalPERS pension plan at or near 100% of the total accrued liability and no less than 80%, whenever possible.

The City is committed to fiscal sustainability by employing long-term financial planning efforts, maintaining appropriate reserve levels, and employing prudent practices in governance, management, budget administration, and financial reporting. This Policy intends to make all relevant information readily available to decision-makers and the public to improve the quality of decisions, identify policy goals, and demonstrate a commitment to long-term financial planning. Adherence to this Policy signals to rating agencies and the capital markets that the City is well managed and able to meet its obligations in a timely manner.

This Policy establishes a highly responsible, fiscally conservative framework to guide the funding of the City's defined benefit pension plans and takes into account the following factors:

- The financial position of the City
- Stability of the plan
- Affordability of the annual contributions
- Benefit security
- The terms of the CalPERS contract for Corona, along with any related collective bargaining agreements
- Minimum funding requirements under State law

The advantages of a funding policy to address unfunded accrued liabilities include:

- Provides a framework to ensure disciplined decision-making and proper management of future liabilities
- Minimizes the effects of annual changes on operations and service levels
- Ensures predictable funding levels
- Improves the transparency of funding decisions and increases the understanding of pension funding issues

- Improves the identification, understanding, and management of the risk factors that affect the variability of funding requirements and the security of benefits to the employees and retirees

ARTICLE IV – NEW UNFUNDED ACCRUED LIABILITIES (UAL)

Any new increase in the City's pension liability resulting from the CalPERS annual actuarial valuation will be identified as a separate line item in the annual City budget. It is the stated goal of the City to pay off any newly assessed liabilities in the year. Subject to available funds, the City will endeavor to pay off these new liabilities consistent with the following parameters:

New Unfunded Accrued Liability (Incurred after June 30, 2021)	Payoff Schedule
$0 to $5,000,000	1 to 2 years
$5,000,001 to $10,000,000	1 to 4 years
$10,000,001 to $15,000,000	1 to 6 years
Over $15,000,001	1 to 8 years

Each year, when the City receives the annual valuation report from CalPERS, staff will present to the City Council, as part of the Mid-Year budget update, the following:

- The dollar amount of the new liability (new amortization base)
- The number of years that staff is recommending to pay-off the new liability
- The dollar amount of the annual contribution to be made
- The funding source(s) of the payments
- The short-term and long-term financial impacts on the City's General Fund reserves

When a new amortization base results in a credit balance, the credit will be applied, first, to any negative bases during the same period and, secondly, against any prior year bases until the credit is fully exhausted. The remaining outstanding liability will then be re-calculated. A new payoff schedule and annual contribution will be determined based on the payoff schedule above. New amortization repayment schedules will be kept within eight (8) years to help maximize long-term savings.

ARTICLE V – PREPAYMENT OF ANNUAL CALPERS CONTRIBUTION

The City will continue to take advantage of prepayment discounts by prepaying its annual CalPERS contribution at the beginning of each fiscal year.

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ARTICLE VI – FUNDING LEVELS

The City's target funding level will be at or near 100% of the accrued liability. The City will strive to achieve this funding level through debt refinancing, allocating reserves, and/or cost containment measures. The total funding amount will be a combination of the amount on deposit with CalPERS, the funds deposited in the City's Section 115 trust, and any funds reserved by the City that are designated for pension liabilities.

ARTICLE VII – FUNDING OPTIONS

Funding options for the remaining unfunded liability and/or any new unfunded accrued liabilities may include using a Section 115 Trust and/or allocating reserves from any allowable fund within the City.

<u>Section 115 Trust</u>
A Section 115 Trust will be established in 2021. Funds transferred to the trust will only be used for pension-related costs. The trust assets can be accessed to pay CalPERS at any time to reduce volatility and offset unexpected pension rate increases. The trust will have funds deposited into it at the City Council's discretion, based on recommendations made by City staff during the annual budget adoption process. For the calculation of funding levels, monies put in this trust will be treated the same as putting funds on deposit with CalPERS.

Each year, upon completion of the fiscal year-end audit, staff will provide a recommendation to City Council for the percentage of annual surplus that should be placed in the Section 115 Trust. In determining the recommended amount to contribute, staff will target paying off the Pension Obligation Bonds at year 10.

<u>Additional Discretionary Payments</u>
Additional Discretionary Payments ("ADP") may be deposited with CalPERS at any time. After completion of the annual audit, all discretionary fund reserve balances will be reviewed by City staff. Based on any budgetary constraints at that time, a determination may be made that it is in the City's best interest to use any available reserves or one--time savings from the prior fiscal year to make ADP's. ADPs should not adversely affect the general operations of the City. ADPs could be deposited with CalPERS or invested in the City's Section 115 trust.

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ARTICLE VIII – CONSIDERATION OF FUTURE PENSION BENEFITS

The issuance of POBs may result in the funding of the City's pension plan with CalPERS up to, and even in excess of, 100% of the plan assets necessary to pay all pension liabilities.

Even though this situation may occur, the City is still obligated to make annual debt service payments on the bond. These payments are in lieu of annual UAL payments that the City would have made to CalPERS.

While the City is making any annual debt service payments on an issued POB, the City will not offer any enhanced pension benefits to City employees. This will allow the City to focus its financial resources on the current pension obligations due to the bondholders and/or CalPERS.

PRIOR VERSIONS
ISSUED: 05/19/2021
REVISED: