



Agenda Date: 3/2/2021

TO:

Honorable Mayor and Members of the City Council

THROUGH:

Bruce Moe, City Manager

FROM:

Steve S. Charelian, Finance Director
Julie Bondarchuk, Acting Controller
Libby Bretthauer, Senior Financial Analyst

SUBJECT:

Consideration of Pension Obligation Bonds Financing Structure Options and Pension Policy (Finance Director Charelian).

APPROVE

RECOMMENDATION:

Staff recommends that the City Council approve Pension Obligation Bond (POB) Financing Structure Option #2, with 100% UAL Funding and all plans maturing in 2043, and approve the Unfunded Pension Liability Policy.

FISCAL IMPLICATIONS:

As of June 30, 2019, the most current actuarial valuation available from CalPERS, the City's Unfunded Accrued Liabilities (UAL) for all citywide employees and retirees is approximately \$91.5 million. Approximately 69% of the UAL is related to sworn Police and Fire Department ("Public Safety") employees, and 31% is related to non-safety ("Miscellaneous") employees.

The City's required annual UAL payments to CalPERS were projected to range from approximately \$6.7 million in fiscal year (FY) 2021-2022, up to approximately \$10.0 million in the peak year of FY 2031-2032. To prevent these variable rising costs from impacting future balanced budgets and essential service levels, staff explored various long-term options to reduce the UAL that would: (1) preserve the City's fiscal integrity; (2) take advantage of current historically low interest rates; and (3) create fixed costs with level-debt payments.

The issuance of Pension Obligation Bonds (POBs) will achieve these goals for the City. When the concept was first introduced last November, a present value savings of \$31.8 million was

estimated based on interest rates at the time. Since then, interest rates have continued to drop to the City's benefit. At current rates, POBs could potentially save the City over \$33.8 million (present value) in pension costs over the next 25 years.

Savings generated by the issuance of POBs may be deposited to the City's Pension Rate Stabilization Trust Fund to achieve better returns on our investments. Beginning in FY 2017-2018, the City has been transferring \$250,000 from the General Fund to the Pension Rate Stabilization Trust Fund. The annual \$250,000 transfer may come to an end with the adoption of the new pension policy. The current balance of the Trust Fund is about \$1.76 million, including principal of \$1.5 million and accumulated interest. These funds are available to fund any pension-related payments to CalPERS at the City Council's discretion.

The projected budgetary savings over the next ten years ranges from \$1.1 million to \$4.4 million annually. The estimated savings would be as follows: approximately 60% of the savings will be used to offset future UAL costs and approximately 40% of the savings will be used for future capital improvements, infrastructure needs and/or debt service

Fiscal implications of the POB financing structure options and allocation of savings are discussed throughout the body of this report.

BACKGROUND:

On October 6, 2020, the City Council considered the issuance of POBs for long-term CalPERS pension liabilities, and an Unfunded Pension Liability Policy (Pension Policy). To allow additional time for questions, City Council requested staff bring back the item to the October 20, 2020 meeting. After additional discussion and questions, City Council continued this item to the November 4, 2020, City Council meeting.

The City Council approved the recommendation in regards to the issuance of POBs at the November 4, 2020, meeting and directed staff to initiate the process. On December 15, 2020, the City Council adopted Resolution No. 20-0149 authorizing the issuance and sale of pension obligation bonds. Judicial validation proceedings are in progress and expected to be finalized in March. Once finalized, the pricing and sale of the bonds will commence.

The Finance Subcommittee discussed the following options during its February 19, 2021, meeting and recommended that all options be presented to the City Council for further discussion and consideration.

DISCUSSION:

With City Council's authorization to commence with the issuance of POBs, the City's municipal advisor, KNN Public Finance, began conducting scenario analysis to help determine the most beneficial terms for the bond issuance.

PENSION OBLIGATION BONDS FINANCING STRUCTURE OPTIONS

The two most beneficial options and the "Base Case" scenario for comparison are discussed below and attached to this report.

Option 1: "Base Case" POB Structure - 100% UAL Funding, Maturity of 2045 for Public

Safety, and Maturity of 2043 for Miscellaneous, all level debt service.

The Base Case POB structure mimics the amortization schedule of the City's current UAL payback terms with CalPERS, with the Police and Fire plans maturing in 2045, and the Miscellaneous plan maturing in 2043. Over the next ten years, potential annual budgetary savings would range from \$1.3 million to \$4.6 million.

With this structure, the overall true interest cost (TIC) of the POBs would be 2.91% and the present value savings is estimated at \$33.8 million over the term of the bonds.

Option 2: 100% UAL Funding, Maturity of 2043 for Public Safety and Miscellaneous, all level debt service.

Option 2 reduces the amortization schedule for the Police and Fire plans to align with the schedule for Miscellaneous employees. Over the next ten years, potential annual budgetary savings would range from \$1.1 million to \$4.4 million.

All plans would be fully amortized in 2043, which increases the City's initial payments but saves in overall interest costs (2.86%). With this financing structure, the present value savings is estimated at \$34.5 million over the term of the bonds.

Option 3: 100% UAL Funding, Maturity of 2041 for Public Safety and Miscellaneous, all level debt service.

Option 3 reduces the amortization schedule for both Public Safety and Miscellaneous plans to twenty years. Over the next ten years, potential annual budgetary savings would range from \$0.8 million to \$4.0 million.

All plans would be fully amortized in 2041, which further increases the City's initial payments but saves even more in overall interest costs (2.75%). With this financing structure, the present value savings is estimated at \$35.7 million over the term of the bonds.

Staff recommends Option 2, with all plans maturing in 2043, to take advantage of lower overall interest costs and higher budgetary savings over the near term. Although shortening the terms to 20 years would generate additional long-term savings, having lower debt service payments over the next few years will provide the City greater flexibility during this period of economic recovery after the COVID-19 Pandemic.

This recommendation also takes into account the maturity of the City's Certificates of Participation for Marine Avenue Sports Fields in Fiscal Year 2032-2033, which will free up nearly \$500,000 in General Fund dollars that could be allocated to other debt service payments or ongoing operations.

UNFUNDED PENSION LIABILITY POLICY

If the City Council selects "Option 2" above, the projected budgetary savings over the next ten years ranges from \$1.1 million to \$4.4 million annually. The attached Unfunded Pension Liability

Policy aims to memorialize how the City plans to utilize this projected budgetary savings.

Staff recommends using an allocation as follows: approximately 60% of the savings will be used to offset future UAL costs and approximately 40% of the savings will be used for future capital improvements, infrastructure needs and/or debt service. In addition to the proposed Fire Station No. 2 Certificates of Participation, the City has other major capital projects in need of financing, including: Joslyn Center, the Senior & Scout House, Downtown Sidewalk Expansion, Historical Documents Repository, Begg Pool/Aquatics Center, etc.

Each year during the Budget process, a recommendation for the precise savings allocation for the next fiscal year will be determined based on CalPERS' latest year-end investment return. For example, if CalPERS' fiscal year-end investment return is below its benchmark, the City Council may choose to allocate a higher portion of savings to fund future UAL costs. Alternatively, if CalPERS' fiscal year-end investment return is higher than its benchmark, then the City Council may choose to allocate more of the budgetary savings to fund capital improvements and/or pay down debt service ahead of schedule.

CONCLUSION:

Staff recommends the City Council approve "Option 2" for the POB Financing Structure, with all plans maturing in 2043, and approval of the attached Unfunded Pension Liability Policy.

PUBLIC OUTREACH:

The Finance Subcommittee discussed the following options during its February 19, 2021, meeting and recommended that all options be presented to the City Council for further discussion and consideration.

ENVIRONMENTAL REVIEW:

The City has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that there is no possibility that the activity may have a significant effect on the environment; therefore, pursuant to Section 15061(b)(3) of the State CEQA Guidelines the activity is not subject to CEQA. Thus, no environmental review is necessary.

LEGAL REVIEW:

Bond Counsel has reviewed this report and determined that no additional legal analysis is necessary.

ATTACHMENTS:

1. Option 1: "Base Case" POB Structure
2. Option 2: POB Structure with Maturity of 2043 for Public Safety and Miscellaneous
3. Option 3: POB Structure with Maturity of 2041 for Public Safety and Miscellaneous
4. Unfunded Pension Liability Policy

MANHATTAN BEACH
PENSION OBLIGATION BOND SCENARIOS

BASE CASE POB STRUCTURE

Required Contribution In	100% Fire UAL			100% Police UAL			100% Misc. UAL			100% Total UAL									
	Payment	POB Debt Service	Savings	PV Savings	TIC	2.91%	Payment	POB Debt Service	Savings	PV Savings	TIC	2.91%	Payment	POB Debt Service	Savings	PV Savings	TIC	2.91%	
6/30/2022	1,455,513	1,161,971	293,542	285,231	3,146,788	2,492,203	654,585	636,053	2,152,306	1,765,566	386,740	375,791	6,754,607	5,419,741	1,334,866	1,297,075	1,334,866	1,297,075	
6/30/2023	1,623,787	1,158,480	465,307	439,333	3,488,182	2,490,839	997,344	941,671	2,401,557	1,766,647	634,910	599,469	7,513,526	5,415,966	2,097,561	1,980,477	2,097,561	1,980,477	
6/30/2024	1,728,325	1,159,190	569,135	522,152	3,707,817	2,491,609	1,216,200	1,115,808	2,569,628	1,764,660	804,969	738,517	8,005,770	5,415,458	2,590,312	2,376,477	2,590,312	2,376,477	
6/30/2025	1,833,254	1,162,008	671,246	598,398	3,927,876	2,491,165	1,436,712	1,280,791	2,746,690	1,767,996	978,695	872,481	8,507,820	5,421,168	3,086,652	2,751,670	3,086,652	2,751,670	
6/30/2026	1,888,281	1,159,718	728,563	631,107	4,045,461	2,490,559	1,554,903	1,346,911	2,831,629	1,766,170	1,065,460	922,939	8,765,371	5,416,446	3,348,925	2,900,957	3,348,925	2,900,957	
6/30/2027	1,936,747	1,158,634	778,113	654,946	4,153,200	2,491,761	1,661,440	1,398,452	2,907,340	1,768,158	1,139,182	958,862	8,997,287	5,418,553	3,578,735	3,102,260	3,578,735	3,102,260	
6/30/2028	1,988,314	1,157,387	830,927	679,600	4,263,904	2,487,555	1,776,349	1,452,842	2,985,128	1,764,821	1,220,308	998,067	9,237,346	5,409,763	3,827,584	3,130,508	3,827,584	3,130,508	
6/30/2029	2,041,300	1,157,057	884,243	702,731	4,377,647	2,489,596	1,888,052	1,500,483	3,065,060	1,764,855	1,300,206	1,033,307	9,484,007	5,411,507	4,072,500	3,236,521	4,072,500	3,236,521	
6/30/2030	2,095,740	1,157,471	938,269	724,556	4,494,520	2,488,180	2,006,341	1,549,349	3,147,186	1,766,089	1,381,098	1,066,520	9,737,446	5,411,739	4,325,707	3,340,424	4,325,707	3,340,424	
6/30/2031	2,151,679	1,161,849	989,830	742,732	4,614,615	2,489,582	2,125,034	1,594,548	3,231,573	1,765,623	1,465,951	1,099,996	9,997,867	5,417,053	4,580,814	3,437,276	4,580,814	3,437,276	
6/30/2032	2,209,155	1,160,049	1,049,106	764,924	4,738,006	2,488,630	2,249,377	1,640,065	3,099,143	1,768,407	1,330,737	970,266	10,046,304	5,417,085	4,629,219	3,375,255	4,629,219	3,375,255	
6/30/2033	2,180,785	1,157,148	1,023,637	725,224	4,692,888	2,490,254	2,202,635	1,560,517	3,056,143	1,764,274	1,291,870	915,261	9,929,816	5,411,675	4,518,141	3,201,001	4,518,141	3,201,001	
6/30/2034	2,149,231	1,158,116	991,115	682,303	4,641,801	2,489,262	2,152,540	1,481,850	2,796,720	1,763,286	1,033,435	711,437	9,587,752	5,410,663	4,177,089	2,875,590	4,177,089	2,875,590	
6/30/2035	2,081,873	1,157,796	924,077	618,142	4,520,361	2,490,574	2,029,788	1,357,785	2,685,440	1,765,266	920,175	615,532	9,287,674	5,413,635	3,874,039	2,591,459	3,874,039	2,591,459	
6/30/2036	1,966,194	1,161,148	805,046	523,273	4,302,809	2,488,978	1,813,832	1,178,975	2,494,058	1,765,022	729,037	473,867	8,763,061	5,415,147	3,347,914	2,176,115	3,347,914	2,176,115	
6/30/2037	1,763,276	1,159,446	603,830	381,373	3,907,144	2,491,782	1,415,363	893,928	2,161,929	1,766,730	395,200	249,604	7,832,349	5,417,957	2,414,392	1,524,904	2,414,392	1,524,904	
6/30/2038	1,040,998	1,161,954	-120,956	-74,232	2,180,588	2,487,690	-307,097	-188,468	1,954,090	1,767,016	187,075	114,809	5,175,681	5,416,659	-240,978	-147,890	5,416,659	-240,978	
6/30/2039	901,291	1,158,514	-257,223	-153,391	1,899,588	2,491,860	-592,272	-353,191	1,733,242	1,765,880	-32,638	-19,463	4,534,121	5,416,253	-882,132	-526,045	5,416,253	-882,132	
6/30/2040	790,335	1,159,284	-368,949	-213,788	1,675,204	2,488,976	-813,772	-471,540	1,200,615	1,763,322	-562,707	-326,061	3,666,154	5,411,581	-1,745,427	-1,011,388	5,411,581	-1,745,427	
6/30/2041	721,935	1,159,106	-437,171	-246,147	1,537,394	2,489,196	-951,802	-535,908	1,088,522	1,764,342	-675,820	-380,517	3,347,851	5,412,643	-2,064,792	-1,162,572	5,412,643	-2,064,792	
6/30/2042	521,190	1,161,503	-640,313	-350,318	1,113,305	2,489,189	-1,375,884	-752,753	537,816	1,766,382	-1,228,566	-672,154	2,172,311	5,417,073	-3,244,762	-1,775,225	5,417,073	-3,244,762	
6/30/2043	498,899	1,157,741	-658,842	-350,250	1,036,551	2,491,866	-1,455,315	-773,668	225,725	1,766,601	-1,540,876	-819,154	1,761,175	5,416,207	-3,655,032	-1,943,072	5,416,207	-3,655,032	
6/30/2044	396,160	1,157,986	-761,826	-393,532	805,680	2,492,060	-1,686,380	-871,125	0	0	0	0	1,201,840	3,650,045	-2,448,205	-1,264,657	3,650,045	-2,448,205	
6/30/2045	203,438	1,157,072	-953,634	-478,667	391,190	2,489,771	-2,098,581	-1,053,363	0	0	0	0	594,628	3,646,843	-3,052,215	-1,532,030	3,646,843	-3,052,215	
6/30/2046	19,518	0	19,518	9,520	0	0	0	0	0	0	0	0	19,518	0	19,518	9,520	0	19,518	
6/30/2047																			
6/30/2048																			
6/30/2049																			
6/30/2050																			
6/30/2051																			
TOTAL	36,187,218	27,820,627	8,366,591	7,425,219	77,662,524	59,763,127	17,899,397	15,930,014	51,071,540	38,847,104	12,224,436	10,499,374	164,921,282	126,430,858	38,490,424	33,854,607	38,490,424	33,854,607	

Source: Calpers, July 2020, Annual Valuation Reports as of June 30, 2019.



Required Contribution In	100% Fire UAL			100% Police UAL			100% Misc. UAL			100% Total UAL								
	Payment	POB Debt Service	Savings	PV Savings	TIC	2.86%	Payment	POB Debt Service	Savings	PV Savings	TIC	2.86%	Payment	POB Debt Service	Savings	PV Savings	TIC	2.86%
6/30/2022	1,455,513	1,220,841	234,672	228,157	518,622	504,225	2,152,306	1,765,566	386,740	376,004	6,754,607	5,614,574	1,140,033	1,108,385				
6/30/2023	1,623,787	1,223,952	399,835	377,944	864,564	817,228	2,401,557	1,766,647	634,910	600,148	7,513,526	5,614,218	1,899,309	1,795,320				
6/30/2024	1,728,325	1,224,110	504,216	463,378	1,079,566	992,131	2,569,628	1,764,660	804,969	739,773	8,005,770	5,617,020	2,388,750	2,195,282				
6/30/2025	1,833,254	1,221,010	612,245	547,038	1,302,013	1,163,344	2,746,690	1,767,996	978,695	874,460	8,507,820	5,614,868	2,892,952	2,584,842				
6/30/2026	1,888,281	1,222,856	665,426	578,050	1,417,148	1,231,066	2,831,629	1,766,170	1,065,460	925,557	8,765,371	5,617,338	3,148,033	2,734,673				
6/30/2027	1,936,747	1,225,386	711,361	600,799	1,526,701	1,289,416	2,907,340	1,768,158	1,139,182	962,127	8,997,287	5,620,044	3,377,244	2,852,342				
6/30/2028	1,988,314	1,222,672	765,642	628,692	1,639,626	1,346,347	2,985,128	1,764,821	1,220,308	1,002,032	9,237,346	5,611,771	3,625,575	2,977,072				
6/30/2029	2,041,300	1,220,371	820,929	655,377	1,750,489	1,397,478	3,065,060	1,764,855	1,300,206	1,038,001	9,484,007	5,612,384	3,871,624	3,090,856				
6/30/2030	2,095,740	1,223,949	871,791	676,661	1,867,756	1,449,703	3,147,186	1,766,089	1,381,098	1,071,971	9,737,446	5,616,802	4,120,645	3,198,336				
6/30/2031	2,151,679	1,221,294	930,385	702,093	1,990,729	1,502,257	3,231,573	1,765,623	1,465,951	1,106,245	9,997,867	5,610,803	4,387,065	3,310,596				
6/30/2032	2,209,155	1,222,478	986,677	723,903	2,114,552	1,551,400	3,099,143	1,768,407	1,330,737	976,332	10,046,304	5,614,339	4,431,966	3,251,634				
6/30/2033	2,180,785	1,222,354	958,431	683,659	2,067,607	1,474,845	3,056,143	1,764,274	1,291,870	921,504	9,929,816	5,611,909	4,317,908	3,080,008				
6/30/2034	2,149,231	1,220,882	928,349	643,818	2,017,636	1,399,248	2,796,720	1,763,286	1,033,435	716,696	9,587,752	5,608,333	3,979,420	2,759,761				
6/30/2035	2,081,873	1,223,022	858,851	579,086	1,895,345	1,277,948	2,685,440	1,765,022	920,175	620,433	9,287,674	5,613,304	3,674,371	2,477,467				
6/30/2036	1,966,194	1,223,602	742,592	486,798	1,675,197	1,098,156	2,494,058	1,765,022	729,037	477,911	8,763,061	5,616,236	3,146,826	2,062,865				
6/30/2037	1,763,276	1,223,582	539,694	343,969	1,278,996	815,156	2,161,929	1,766,730	395,200	251,877	7,832,349	5,618,460	2,213,890	1,411,001				
6/30/2038	1,040,998	1,222,614	-181,616	-112,538	-446,037	-276,386	1,954,090	1,767,016	187,075	115,920	5,175,681	5,616,260	-440,579	-273,003				
6/30/2039	901,291	1,220,698	-319,407	-192,425	-728,470	-438,863	1,733,242	1,765,880	-32,638	-19,662	4,534,121	5,614,636	-1,080,515	-650,951				
6/30/2040	790,335	1,222,834	-432,499	-253,324	-952,070	-557,648	1,200,615	1,763,322	-562,707	-329,589	3,666,154	5,613,430	-1,947,276	-1,140,561				
6/30/2041	721,935	1,223,864	-501,929	-285,829	-1,086,884	-618,938	1,088,522	1,764,342	-675,820	-384,853	3,347,851	5,612,484	-2,264,633	-1,289,621				
6/30/2042	521,190	1,222,123	-700,933	-388,073	-1,113,305	-837,231	537,816	1,766,382	-1,228,566	-680,199	2,172,311	5,614,005	-3,441,694	-1,905,503				
6/30/2043	498,899	1,224,224	-725,325	-390,430	-1,587,523	-854,537	225,725	1,766,601	-1,540,876	-829,427	1,761,175	5,614,899	-3,853,724	-2,074,394				
6/30/2044	396,160	0	396,160	207,326	805,680	421,644	0	0	0	0	1,201,840	0	1,201,840	628,971				
6/30/2045	203,438	0	203,438	103,512	391,190	199,042	0	0	0	0	594,628	0	594,628	302,554				
6/30/2046	19,518	0	19,518	9,655	0	0	0	0	0	0	19,518	0	19,518	9,655				
6/30/2048																		
6/30/2049																		
6/30/2050																		
6/30/2051																		
TOTAL	36,187,218	26,898,716	9,288,502	7,617,296	19,890,237	16,347,032	51,071,540	38,847,104	12,224,436	10,533,261	164,921,282	123,518,108	41,403,174	34,497,588				

Source: Calpers, July 2020, Annual Valuation Reports as of June 30, 2019.



MANHATTAN BEACH
PENSION OBLIGATION BOND SCENARIOS

MATURITY of 2041 FOR PUBLIC SAFETY AND MISCELLANEOUS

Required Contribution In	100% Fire UAL			100% Police UAL			100% Misc. UAL			100% Total UAL								
	Payment	POB Debt Service	Savings	PV Savings	TIC	2.75%	Payment	POB Debt Service	Savings	PV Savings	TIC	2.75%	Payment	POB Debt Service	Savings	PV Savings	TIC	2.75%
6/30/2022	1,455,513	1,297,475	158,038	153,815	3,146,788	2,789,495	357,293	347,746	2,152,306	1,876,353	275,953	268,579	6,754,607	5,963,323	791,284	770,140		
6/30/2023	1,623,787	1,300,469	323,318	306,270	3,488,182	2,788,265	699,918	663,013	2,401,557	1,872,890	528,668	500,792	7,513,526	5,961,623	1,551,903	1,470,075		
6/30/2024	1,728,325	1,299,977	428,349	394,920	3,707,817	2,791,500	916,318	844,809	2,569,628	1,874,992	694,636	640,427	8,005,770	5,966,468	2,039,302	1,880,156		
6/30/2025	1,833,254	1,295,977	537,458	482,274	3,927,876	2,786,790	1,141,087	1,023,925	2,746,690	1,876,762	869,928	780,608	8,507,820	5,959,348	2,548,472	2,286,808		
6/30/2026	1,888,281	1,296,563	591,719	516,776	4,045,461	2,786,918	1,258,544	1,099,146	2,831,629	1,873,370	958,259	836,893	8,765,371	5,956,850	2,808,521	2,452,816		
6/30/2027	1,936,747	1,297,463	639,284	543,399	4,153,200	2,786,600	1,366,601	1,161,626	2,907,340	1,872,995	1,034,345	879,205	8,997,287	5,957,058	3,040,230	2,584,229		
6/30/2028	1,988,314	1,298,119	690,195	570,997	4,263,904	2,790,793	1,473,112	1,218,703	2,985,128	1,871,294	1,107,834	916,509	9,237,346	5,966,206	3,271,141	2,706,209		
6/30/2029	2,041,300	1,298,519	742,782	598,082	4,377,647	2,788,635	1,589,012	1,279,460	3,065,060	1,873,934	1,191,127	959,086	9,484,007	5,961,087	3,522,920	2,836,628		
6/30/2030	2,095,740	1,299,853	795,888	623,719	4,494,520	2,788,549	1,705,971	1,336,930	3,147,186	1,871,006	1,270,181	995,411	9,737,446	5,965,407	3,772,039	2,956,059		
6/30/2031	2,151,679	1,299,844	851,836	649,726	4,614,615	2,790,642	1,823,973	1,391,210	3,231,573	1,873,116	1,358,458	1,036,145	9,997,867	5,963,601	4,034,266	3,077,081		
6/30/2032	2,209,155	1,298,452	910,704	676,066	4,738,006	2,789,722	1,948,284	1,446,319	3,099,143	1,871,316	1,221,828	907,030	10,046,304	5,965,489	4,080,815	3,029,415		
6/30/2033	2,180,785	1,300,637	880,149	635,924	4,692,888	2,790,699	1,902,189	1,374,368	3,056,143	1,874,322	1,181,822	853,889	9,929,816	5,965,657	3,964,159	2,864,181		
6/30/2034	2,149,231	1,296,237	852,995	599,837	4,641,801	2,788,361	1,853,440	1,303,363	2,796,720	1,874,186	922,535	648,738	9,587,752	5,958,783	3,628,969	2,551,937		
6/30/2035	2,081,873	1,300,329	781,545	534,907	4,520,361	2,787,608	1,732,753	1,185,935	2,685,440	1,876,721	808,720	553,506	9,287,674	5,964,657	3,323,017	2,274,347		
6/30/2036	1,966,194	1,297,609	668,586	445,368	4,302,809	2,782,208	1,514,601	1,008,927	2,494,058	1,876,725	617,334	411,227	8,763,061	5,962,541	2,800,520	1,865,522		
6/30/2037	1,763,276	1,298,639	464,638	301,240	3,907,144	2,790,212	1,116,932	724,145	2,161,929	1,877,587	284,343	184,349	7,832,349	5,966,437	1,865,912	1,209,735		
6/30/2038	1,040,998	1,298,563	-257,565	-162,526	2,180,593	2,789,846	-609,253	-384,445	1,954,090	1,876,869	77,222	48,728	5,175,681	5,965,277	-789,596	-498,743		
6/30/2039	901,291	1,297,381	-396,090	-243,258	1,899,588	2,787,110	-887,522	-545,071	1,733,242	1,874,571	-141,329	-86,797	4,534,121	5,959,061	-1,424,940	-875,126		
6/30/2040	790,335	1,300,093	-509,758	-304,702	1,675,204	2,787,004	-1,111,800	-664,566	1,200,615	1,875,693	-675,078	-403,520	3,666,154	5,962,789	-2,296,635	-1,372,788		
6/30/2041	721,935	1,296,541	-574,606	-334,286	1,537,394	2,789,370	-1,251,976	-728,358	1,088,322	1,875,077	-786,555	-457,591	3,347,851	5,960,987	-2,613,136	-1,520,236		
6/30/2042	521,190	0	521,190	295,109	1,113,305	0	1,113,305	630,377	537,816	0	537,816	304,523	2,172,311	0	2,172,311	1,230,009		
6/30/2043	498,899	0	498,899	274,939	1,036,551	0	1,036,551	571,234	225,725	0	225,725	124,395	1,761,175	0	1,761,175	970,569		
6/30/2044	396,160	0	396,160	212,487	805,680	0	805,680	432,139	0	0	0	0	1,201,840	0	1,201,840	644,626		
6/30/2045	203,438	0	203,438	106,202	391,190	0	391,190	204,214	0	0	0	0	594,628	0	594,628	310,416		
6/30/2046	19,518	0	19,518	9,917	0	0	0	0	0	0	0	0	19,518	0	19,518	9,917		
6/30/2048																		
6/30/2049																		
6/30/2050																		
6/30/2051																		
TOTAL	36,187,218	25,968,552	10,218,666	7,887,200	77,662,524	55,776,324	21,886,200	16,925,150	51,071,540	37,507,772	13,563,768	10,902,132	164,921,282	119,252,648	45,668,634	35,714,482		

Source: Calpers, July 2020, Annual Valuation Reports as of June 30, 2019.





City of Manhattan Beach Unfunded Pension Liability Policy - Draft

PURPOSE

The purpose of this Unfunded Pension Liability Policy (“Policy”) is to provide guidance on the development and adoption of a funding plan for any Unfunded Accrued Liabilities (“UAL”) that are calculated annually by CALPERS, or for any unfunded accrued liabilities remaining immediately after the issuance of a Pension Obligation Bond (POB). This funding Policy should also support the decision making process of the City Council and should be consistent with the overall purpose and goals of the City of Manhattan Beach’s pension plan. As used in this Policy, “City” shall mean the City of Manhattan Beach and/or the City and its related entities, as the context may require.

The City recognizes that a fiscally prudent Policy should:

- Maintain the City’s sound financial position
- Ensure the City has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenditures
- Protect the City’s creditworthiness
- Ensure that all pension funding decisions are structured to protect both current and future taxpayers, ratepayers and residents of the City, and
- Ensure that the City’s debt is consistent with the City’s strategic planning goals, objectives, capital improvement program, and/or budget.

BACKGROUND

The primary goal of funding defined benefit pension plans is to ensure that sufficient assets will be accumulated to deliver promised benefits when they come due and to protect pension benefits in situations that involve employer insolvency or bankruptcy. Establishing sound funding guidelines promotes pension benefit security. The City’s overall objective is to fund the CALPERS pension plan 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 is intended to make all relevant information readily available to decision-makers and the public to improve the quality of decisions, identify policy goals, and to 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.

The purpose of this funding policy is to establish a framework for funding the City of Manhattan Beach’s defined benefit pension plan, taking into account factors that are relevant to the plan and the City. These factors include:

- The financial position of the City

- Stability of the plan and / or the affordability of the annual contributions
- Benefit security
- The terms of the CALPERS contract for Manhattan Beach, along with any related collective bargaining agreements
- Minimum funding requirements under State law

There are a number of advantages to developing a funding policy to address an unfunded accrued liability. These advantages include the following:

- Provides the framework to ensure the proper management of future liabilities and to minimize the effects on operations. The adoption of a funding policy will ensure a disciplined decision making process, which will contribute to better predictability in funding.
- Having a written summary of the funding policy that is accessible to the employees and the public will help improve the transparency of funding decisions and increase the understanding of pension funding issues.
- The exercise of developing this funding policy 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.

REMAINING UNFUNDED ACCRUED LIABILITY

The City is in the process of considering a POB that would generate bond proceeds to deposit with CALPERS up to an amount equal to 100% of the UAL as of _____ date _____ (based on the latest actuarial valuation information available to the City). After the deposit of bond proceeds to CALPERS, the City may or may not have a remaining unfunded accrued liability still owed to CALPERS.

If the City issue's a POB for less than the full 100% of the UAL, any remaining unfunded liability will be accounted for separately, for the purposes of this Policy, from any new increase in the accrued unfunded liability resulting from the annual actuarial valuation report changes.

The City will create a payoff / funding plan that will address this remaining unfunded liability immediately after the issuance of the POB. The remaining unfunded liability will be paid off or fully funded within a twenty (20) year period.

NEW UNFUNDED ACCRUED LIABILITY

Every year, CALPERS completes a new actuarial valuation report and recalculates the City of Manhattan Beach's pension liability as of the new valuation date. If the value of the funded assets is not equivalent to this new liability amount, the City will incur a new unfunded accrued liability at that point in time. The unfunded accrued liability may increase or decrease from year to year, due to the following factors:

- Changes in actuarial assumptions and experience changes (e.g., changes in the discount rate, changes in demographic experience, etc.)
- Changes in actuarial gains and losses due to asset returns being higher or lower than expected
- Changes in plan benefits

Due to the possibility of a new pension liability developing, the City of Manhattan Beach desires to create a policy in order to immediately address any new pension liabilities, or amortization bases, that arise. (Any new increase or decrease in the liability resulting from the annual actuarial valuation is identified as a separate line item, or amortization base, on the annual CALPERS actuarial valuation report.) The table below lays out the parameters for paying off / funding the UAL in a designated amount of time, based on the amount of the UAL, as follows:

New Unfunded Accrued Liability (Any new liability incurred after the June 30, 2019 valuation report)	Payoff / Funding Time Period
\$0 to \$5,000,000	Within 1 to 6 years
\$5,000,001 to \$10,000,000	Within 7 to 11 years
\$10,000,001 to \$15,000,000	Within 12 to 16 years
Over \$15,000,001	Within 17 to 20 years

Each year, when the City is provided with the annual valuation report from CALPERS, staff will present to the City Council, as part of the Mid-Year Budget Report, the following:

- The dollar amount of the new liability (new amortization base)
- The number of years that staff is recommending to pay off/fund the 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 reserve balance

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 recalculated and a new payoff schedule and annual contribution will be determined based on the payoff schedule above. New amortization repayment schedules will be kept within 20 years to help maximize long-term savings.

PREPAYMENT OPTIONS

At the beginning of each fiscal year, the City analyzes the cost / benefits of prepaying amounts due CALPERS during that fiscal year. The City strives to continue taking advantage of any prepayment discount that is afforded by CALPERS.

FUNDING LEVELS

The City's target funding level will be near 100% of the accrued liability. The City will strive to achieve this funding level through debt refinancing, allocation of 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.

FUNDING OPTIONS

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

Section 115 Trust

A Section 115 Trust was established in 2017 to transfer funds to a trust to ensure that these funds 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 discretion of the City Council, 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 monies on deposit with CalPERS.

ADDITIONAL DISCRETIONARY PAYMENTS

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 best interest of the City to use any available reserves or one-time savings from the prior fiscal year to make ADP's. ADP's should not adversely affect the general operations of the City. ADP's could be deposited with CalPERS, or invested in the City's Section 115 trust.

Any savings realized from the issuance of the 2021 POB, as determined by comparing the POB level debt service and fiscal year 2020-2021 CalPERS actuarial determined contributions, will be allocated as follows: approximately 60% of the savings will be used to offset future UAL costs and approximately 40% of the savings will be used for future capital improvements, infrastructure needs and/or debt service.

Each year during the Budget process, a recommendation for the precise savings allocation for the next fiscal year will be determined based on CalPERS' latest year-end investment return. If CalPERS' fiscal year-end investment return is *below* its benchmark, the City will allocate a higher portion of savings to fund future UAL costs. Alternatively, if CalPERS'

fiscal year-end investment return is *higher* than its benchmark, then the City may allocate more of the budgetary savings to offset General Fund operational costs.

CONSIDERATION OF FUTURE PENSION BENEFITS

The issuance of a POB 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 bonds. These payments are in lieu of annual UAL payments that the City would have made to CalPERS.

To the extent that the City is making any annual debt service payments on an issued POB, it is fiscally responsible for the City to 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 the bondholders and / or CalPERS.