



STAFF REPORT – CITY COUNCIL MEETING

April 19, 2023

TO: Honorable Mayor and City Council Members

FROM: Tabatha Miller, Finance Director

PREPARER: Tabatha Miller, Finance Director

DATE: April 12, 2023

TITLE: **Receive a Presentation from GovInvest on Addressing Pension Unfunded Liability.**

RECOMMENDATION:

It is recommended that the Council receive a presentation on Addressing the City's Pension Unfunded Liability from GovInvest representatives and staff, and provide direction as appropriate.

INTRODUCTION:

On March 15, 2023, the City Council received a CalPERS Pension Update presentation from GovInvest representatives and directed staff to explore possible opportunities for addressing the Unfunded Pension Liability. This presentation presents some opportunities for Arcata to reduce the Unfunded Pension Liability and the estimated impact of those opportunities.

BACKGROUND:

The City participates in the California Public Employees' Retirement System (CalPERS). Like many municipalities in California and across the United States, Arcata's pension liability is its single largest debt and a significant ongoing expenditure. The Unfunded Accrued Liability (UAL) is the present value of future employer contributions for service that has already been earned. It is the shortfall between the City's pension assets and what is needed to fully pay off the benefits already promised to retirees. GovInvest estimates Arcata's UAL at \$29.61 million as of 6-30-22. This is in addition to the normal ongoing cost of contributions for employees.

The most current CalPERS actuarial reports, as of 6-30-21, reflect a City UAL or debt of \$18.85 million. However, these values were calculated based on the 21.3% rate of return on investments as of that date. For the year ending 6-30-22, CalPERS returned -6.1% investment earnings, which essentially wiped out the progress gained from the 21.3% return and reset UAL values to 6-30-20 levels plus more.

DISCUSSION:

Approximately two-thirds of the City's annual CalPERS Required Contribution is payment towards the \$29.61 million Unfunded Liability. This debt is not only the single largest debt of the City, it is

7X the total of all other City debt combined and because it is tied to CalPERS current discount rate of 6.8%- its highest interest rate.

The purpose of this agenda item and report is to explore potential approaches to addressing the City's Unfunded Liability and managing the increasing annual Required Contributions. Potential approaches include:

- Making one-time additional contributions to CalPERS to reduce the Unfunded Liability
- Increasing annual contributions to paydown the Unfunded Liability early
- Establishing a Voluntary IRC Section 115 Trust Fund to place funds in trust that can be used for pension payments at the discretion of the City
- Resetting the amortization schedule of the Unfunded Liability to shorten it and save interest or equalize annual payments over the repayment period
- Prepaying the annual Unfunded Liability Contribution

BUDGET/FISCAL IMPACT:

The City's FY 23-24 minimum required pension contribution is estimated at \$3.04 million but is estimated to jump to \$4.36 million in FY 24-25, as a result of the -6.1% investment earnings rate for the year ended 6-30-22. An increase of \$1.32 million will impact the City's budget and make it difficult to find ways to paydown the UAL to save future interest costs without impacting City services. Moreover, recent economic and investment volatility makes it challenging to predict future pension costs.

Depending on what direction the Council provides, there are opportunities, within the City's current fiscal means, to make additional payments that could save up to \$10 million in interest costs and/or to assist in leveling out the annual Required Contributions.

ATTACHMENTS:

- A. Arcata: Addressing Unfunded Actuarial Liability 4-10-23 (PPTX)