




City of Sierra Madre Agenda Report

Denise Delmar, Mayor
John Harabedian, Mayor Pro Tem
Rachelle Arizmendi, Council Member
John Capoccia, Council Member
Gene Goss, Council Member

Sue Spears, City Clerk
Michael Amerio City Treasurer

TO: Honorable Mayor and Members of the City Council

FROM: Marcie Medina, Assistant City Manager

REVIEWED BY: Gabriel Engeland, City Manager 

DATE: July 24, 2018

SUBJECT: **PENSION RATE STABILIZATION PLAN**

STAFF RECOMMENDATION

Staff recommends the City Council approve the following:

1. Resolution No. 18-40 Approving a Fund Balance Policy for the General Fund.
2. Authorize the lump sum pre-payment to CalPERS for PERS UAL and the Budget Amendments necessary to fund the payment.
3. Authorize the establishment of a Pension Rate Stabilization (115) Trust Fund.

SUMMARY

City staff has researched options to stabilize pension costs which are projected to continue to increase over time. The City has two options to stabilize the CalPERS Pension Costs: 1) Prepay the UAL payments above the annual required payment; and 2) Set-up a 115 trust fund for pension rate stabilization.

Staff recommends the prepayment of \$5 million to CalPERS for UAL beyond the annual payment to occur by July 31, 2018 and the establishment of a 115 Trust Fund to be funded at a later date, with oversight as directed by City Council. Staff is also recommending to revise the General Fund Balance Policy from 50% of General Fund operating revenues to 25% of General Fund operating revenues.

The recommended funding for pension stabilization comes from one-time revenues, excess funding in City Funds accumulated over time, excess General Fund balance above the current Fund Balance Policy, and excess fund balance due to the revision in Fund Balance Policy.

ANALYSIS

General Fund Balance Policy

The current General Fund Balance policy sets the General Fund Unassigned Fund Balance at 50% of operating revenues. Staff recommends the 50% be changed to 25% of operating revenues. This would provide for working capital of an average three months and would provide for sufficient cash flow for operations. The reduction in General Fund Unassigned Fund Balance would free up monies to fund pension rate stabilization.

CalPERS UAL Lump Sum Prepayment

The City's CalPERS Pension costs are made of two components: The Employer Rate and the Unfunded Accrued Liability (UAL). The UAL portion is the portion of pension costs that the City could prepay. The annual required UAL payment has increased from \$754 thousand in FY16-17 to \$1 million for FY18-19 and is expected to increase by an additional 32% within the next five years. As of the most recent CalPERS Actuarial the UAL payment schedule reflects total payments of \$28.5 million due to CalPERS, including interest of \$14.9 million, for a net liability of \$13.6 million.

The lump sum prepayment of UAL of \$5 million would result in approximately \$6.9 million in savings for a total reduction in monies due to CalPERS of more than \$11.9 million. The annual required UAL payments would also be significantly reduced due to the recalculation of the UAL amortization schedule.

Funding of Prepayment of UAL

There are several sources of funding which may be used to as a prepayment of \$5M of the UAL:

- Apply current General Fund balance above 50% (\$1.8M)
- Apply sale of SCE underground credits (\$628,000)
- Apply funding from close out of accounts/transfers (\$800,000)
- Revise minimum General Fund balance from 50% to 25% (\$2.5M)

The City's current General Fund Balance Policy provides for a minimum unassigned balance of 50% of General Fund Revenues. For the June 30, 2017, the Comprehensive Annual Financial Report (CAFR) reflected excess funds over the City's Fund Balance Policy of \$1.8 million. This monies are available to cover a portion of the \$5M prepayment of the UAL.

On April 2017, the City transferred SCE undergrounding credits to Laguna Beach in exchange for \$628 thousand, one-time revenues.

The City established a Capital Projects Fund in FY15-16 funding over \$800 thousand in projects from the General Fund that have not been completed. Also, the facilities fund has accumulated a fund balance that can be used to fund such CIP projects. The CIP projects could be funded by the facilities fund, freeing up the over \$800 thousand to be transferred back to the General Fund to fund a portion of the proposed prepayment of \$5M of the UAL.

Revising the General Fund Balance Policy to provide for a minimum unassigned balance of 25% of General Fund Revenues would make approximately \$2.5 million available to fund Pension Rate Stabilization.

In total the above sources of funding are \$5,728,000. Staff is recommending \$5 million be applied as a prepayment and \$600,000 is earmarked for the eventual funding of a 115 plan. The remaining funds, along with any surplus from the 2017-18 budget will remain in General Fund balance, above the 25% minimum fund balance.

Establish a Pension Rate Stabilization Trust Fund (115 Plan)

Section 115 Trust Funds are a fairly new tool available to Local California Governments. The following are the potential benefits of an irrevocable Pension Rate Stabilization Fund:

- The City would maintain local control over assets.
- The trust would allow for greater investment flexibility compared to the City's general investments.
- The depositing of funds into the trust may have a positive impact on the City's credit rating.
- The trust assets may be accessed to offset pension costs. This may help to stabilize pension expenditures or to free up those monies for other uses.

The purpose of a 115 Trust is to allow the City to deposit fund into the account and invest in instruments that have the potential to earn greater returns than can be achieved under the City's current investment policy. These funds can then be used to offset pension costs.

These funds would also remain under local control and would be available if needed for an emergency response, providing additional security for the City Council should the minimum General Fund balance be reduced from 50% to 25%.

There are two agencies that have received the IRS Private Letter Ruling for Approved Section 115 Trust of local governments that are in compliance with California Government Code; Public Agency Retirement Services (PARS) and Public Financial Management (PFM). At this point staff is recommending the establishment of the 115 Trust and earmarking funding of \$600 thousand, one year's PERS Rate payment estimate, for deposit at a later date. Staff will provide additional information on the administration and funding of the trust at a later time.

FINANCIAL REVIEW

The prepayment of \$5 million if UAL would increase pension expense for the current fiscal year, but would result in about \$6.9 million in interest savings.

The establishing of the 115 Trust would not have a fiscal impact. At the time of funding the trust, it would result in restricting available cash by transferring such monies from the general account to a trust fund.

CEQA / ENVIRONMENTAL

N/A

PUBLIC NOTICE PROCESS

This item has been noticed through the regular agenda notification process. Copies of this report are available at the City Hall public counter, at the Sierra Madre Public Library, and can be accessed on the City's website at www.cityofsierramadre.com.

Attachment(s): Resolution No.18-40 Approving a Fund Balance Policy for the General

Fund

RESOLUTION NO. 18-40

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SIERRA MADRE
APPROVING A FUND BALANCE POLICY FOR THE GENERAL FUND.**

WHEREAS, the City of Sierra Madre (City) wishes to be proactive in its fiscal responsibilities; and

WHEREAS, the Government Finance Officers Association and the recognized national bond rating institutions recommend that government agencies adopt a Fund Balance Policy; and

WHEREAS, the City Council believes that a Fund Balance Policy is in the best interest of the City; and

NOW, THEREFORE, THE CITY OF SIERRA MADRE DOES RESOLVE AS FOLLOWS: That the following the attached Fund Balance Policy for the General Fund shall take effect immediately.

PASSED, APPROVED AND ADOPTED this 24th day of July, 2018.

Denise Delmar, Mayor
City of Sierra Madre, California

I hereby certify that the foregoing Resolution was adopted at a regular meeting of the City Council of the City of Sierra Madre held on the 24th day of July, 2018 by the following vote:

AYES:

NOES:

ABSENT:

Sue Spears, City Clerk
City of Sierra Madre, California

EXHIBIT A

CITY OF SIERRA MADRE FUND BALANCE POLICY FOR THE GENERAL FUND

1. PURPOSE

The City of Sierra Madre (City) has an important responsibility to its citizens to carefully account for public funds, to manage municipal finances wisely and to plan the adequate funding of services to the public.

The City of Sierra Madre is dedicated to maintaining a reasonable fund balances sufficient to mitigate current and future risks (i.e., sudden, unexpected increases in employee benefits and other budgetary expenses and revenue shortfalls), plan for future needs and to ensure sufficient working capital is available to meet cash flow needs.

By maintaining a sufficient level of Fund Balance the City:

- Exercises good fiscal management by permitting the development of a more responsible and responsive long-term financial plan.
- Maintains or improves a strong bond rating, thereby reducing future interest expenses.
- Eliminates the need for short-term borrowing to handle cash flow between the start of the fiscal year and the receipt of revenue from taxes.
- Maximizes investment earnings by maintaining adequate levels of cash and investments.

2. DEFINITION

Fund Balance is the difference between a Fund's current assets (cash, short-term investments, receivables) expected to be available to finance operations in the immediate future and its current liabilities. Since the Governmental Accounting Standards Board (GASB) issued GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, total Fund Balance is made up of five parts: non-spendable, restricted, committed, assigned and unassigned. The last three classifications comprise the unrestricted fund balance.

Non-spendable - Consists of the amounts that cannot be spent because they are in a non-spendable form. Examples include: prepaid insurance and inventory.

Restricted (Reserves) - Consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by certain creditors, grantors, contributors, or laws and regulations of other governments; or through constitutional provisions or enabling legislation. Examples include: capital reserves, tax stabilization reserves, debt reserves, repair reserves, insurance reserve and other reserves allowed by State statutes.

Committed (Unrestricted) – Consists of amounts constrained to specific purposes by a government itself using its highest level decision making authority (City Council). The

EXHIBIT A

City Council must take formal action before the end of the fiscal year to add or remove a constraint.

Assigned (Unrestricted) – Consists of amounts that are subject to purposes constraint by a government itself that represents an intended use established by the government's highest level decision making authority (City Council), or designee. The purpose of the assignment must be narrower than the purpose the General Fund. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Examples include: fund balance restricted by formal actions by the City Council (resolutions, ordinances and local laws) constitute a constraint of resources and will result in an assignment of resources, also, encumbrances will typically be considered an assignment of resources.

Unassigned (Unrestricted) - This consists of all balances remaining after considering the other four categories and could result in a surplus or a deficit. Use of these balances are least constrained in this category.

3. GUIDELINES

The City Council shall propose budgets that provide for an Unassigned Fund Balance of not less than 25 percent of the total operating general fund revenues. This reserve would provide for working capital of three months average operating expenditures. This amount would provide sufficient cash flow for on-going operations.

- 3.1 If, at the end of a fiscal year, the Fund Balance falls below 25 percent, the City Manager shall prepare and submit a plan for expenditure reductions and/or revenue increases to the City Council. The City Council shall take action necessary to restore the Unassigned Fund Balance through the budgetary process to acceptable levels within a one to three year period.
- 3.2 In the event the fund balance is greater than 25 percent at the end of any fiscal year, the excess may be used in one or a combination of the following ways:
 - One time expenditures and capital expenditures that do not increase recurring operating costs; or
 - Other one-time costs, or the establishment of or increase in legitimate reservations or designations of fund balance.
 - Used to fund the pension rate fund plan.
- 3.5 Annually, as part Budget Adoption, the City Council shall review the current status of fund balance for the General Fund to determine adherence to the policies outlined above and undertake a plan of action to correct any necessary deficiencies noted by the City Council as part of their budget review process.