

# Agenda Report

March 28, 2011

**TO:** Honorable Mayor and City Council  
**FROM:** City Manager  
**SUBJECT:** Plan to Address Funding Challenges Associated with the Fire and Police Retirement System

**RECOMMENDATION:**

It is recommended that the City Council direct staff to:

- 1) Initiate the issuance of not to exceed \$65 million in pension obligation bonds to fund the Fire and Police Retirement System at 85% of its Actuarially Accrued Liability provided such issuance can be achieved at a maximum "all in" interest rate on the bonds not to exceed 7.5%;
- 2) Approve in concept the future refinancing of approximately \$81 million of existing pension obligation bonds, 1999 and 2004 issues;
- 3) Negotiate changes to Contribution Agreement 16,900 and Settlement and Release Agreement 18,550 between the City of Pasadena and the Fire and Police Retirement System including:
  - a. removing references to other pension systems operating under the County Employees Retirement Law of 1937;
  - b. providing for annual investment return and inflation rate assumptions for the Fire and Police Retirement System to be set annually by mutual agreement between the City and the System's Board;
- 4) Return to City Council for all required subsequent approvals.

**EXECUTIVE SUMMARY:**

The City has an obligation to fund the Fire and Police Retirement System. In 1999 and 2004 the City issued \$100 million and \$40 million of pension obligation bonds, respectively, in order to fund the System. Combined annual debt service on these bonds is currently \$13 million. The source of funds to pay the debt service will expire in

2015, at roughly the same time a mandatory tender (i.e. balloon payment) of \$81 million is due on the bonds.

Despite the issuance of pension bonds, supplemental contributions from the City to the System are still required on an annual basis in order to fund the System in accordance with prior agreements. These supplemental contributions are expected to be as high as \$9-10 million per year over the next seven years.

Additionally, the Contribution Agreement between the City and the System established investment earnings and inflation rate assumptions which no longer appear realistic and should be modified. While such action is prudent, the result will be an increase in the actuarial liability to the City.

All of this comes at a particularly difficult time for the City as it works to meet the challenges brought on/exacerbated by the recent economic downturn. The following report outlines these issues in greater detail and sets forth staff's recommendation to address them.

## **BACKGROUND**

### ***The System***

The Fire and Police Retirement System (System) was established by Article XV of the City Charter. The System provides benefits to former Pasadena police and firefighters hired before 1977, when the System was closed to new entrants, and their beneficiaries. Those hired since that time as well as those who elected to transfer, are part of the California Public Employee Retirement System, CalPERS.

The last active member of the System retired in June 2009 and as of June 30, 2010 there were a total of 275 participants as follows:

FPRS	#	Average Age	Average Monthly Benefit
Service Retirees	118	73.7	\$ 5,288
Disability Retirees	105	71.2	\$ 4,075
Beneficiaries	52	80.8	\$ 3,027
<b>Total</b>	<b>275</b>	<b>74.1</b>	<b>\$ 4,398</b>

The System is overseen by a board consisting of five members: One member from the City Council, two members who are retired members of the System – one from Police and one from Fire, and two qualified electors of the City not otherwise connected with the City's government. Pursuant to Section 1502 of the City Charter, the Board has exclusive control of the administration and investment of the retirement fund.

The Board has a fiduciary responsibility to the members of the System and meets monthly to review the performance of investments and take other actions associated with the proper functioning of a retirement system. The System is supported by a staff

of two part-time staff members and contracts for professional services including investment advisory and actuarial services.

As of June 30, 2010 the value of assets in the System was as follows:

	Amounts in 000's \$
Actuarial Accrued Liability (AAL)	166,096
Actuarial Value of Assets (AVA)	109,740
AVA Unfunded AAL	56,356
AVA Funded Percent	66.10%
Market Value of Assets (MVA)	91,915
MVA Unfunded AAL	74,181
MVA Funded Percent	55.30%

**A Historical Perspective**

The System has been in operation since the mid-1930's. It appears that the System operated well and without issue prior to 1960. However, in that year the City Charter was amended to provide for a Cost of Living Adjustment (COLA) in addition to the basic monthly benefit for members of the System. The COLA was calculated to adjust the basic monthly benefit by the annual percentage change in the consumer price index. The COLA benefit contained no cap or limit; it was fully adjustable based on changes in the consumer price index.

After dramatic increases in the COLA, and through an agreement with the fire and police unions, the System was modified to: (1) Increase contribution rates for both the City and System members; (2) close the System to new employees – those hired after 1977, and (3) give existing participants an option to remain in the System or to join CalPERS. Few existing participants elected to join CalPERS and the modifications proved inadequate to address the continuing rise in the COLA benefit.

In 1981 a citizen's committee suggested changes to the System including capping future COLA increases and/or decreases at 2%. In June, 1981, the voters approved amendments to the Charter limiting the COLA benefits.

The Pasadena Police Officers Association filed suit claiming the 1981 amendments impaired the vested rights of its members. The City argued that the changes were imposed on a prospective basis and on a pro rata basis only. Under the changed plan, an employee that retired after 20 years of service, working for 10 years with no cap on the COLA benefit and the other 10 years with the cap on COLA benefits would get 50% of his benefits with no COLA cap and 50% with the COLA cap.

The Appellate Court, in ruling on the case (*Pasadena Police Officers Association v. City of Pasadena* (1984) 147 Cal.App.3d 695), restated the long standing rule in California which established that a public employee's pension constitutes an element of compensation and that the right to pension benefits vests upon the acceptance of employment even though the right to immediate payment of a full pension may not

mature until certain conditions are satisfied. Such a pension right may not be destroyed, once vested, without impairing a contractual obligation of the employing public entity.

The Appellate Court then invalidated the modifications and ruled that the imposition of the COLA cap was a substantial impairment of the vested contractual right on which the employees and retirees had relied and for which they had worked. Because the City had not provided "a comparable new advantage" to the affected employees and retirees, any substantial modification of the COLA benefit was invalid.

By the late 1990s the uncapped COLA and the failure to properly fund the System at an actuarially appropriate level, resulted in an actuarial funding level, i.e., the value of assets compared to the then present value of future benefits, of approximately 30%. Although participants continued to receive their full benefit payments, this low level of funding called into question the future solvency of the System and was well below what would be considered adequately funded.

In 1999, as a result of negotiations between the City and the System, a Contribution Agreement was entered into whereby the City agreed to issue \$100 million in pension obligations bonds and transfer the proceeds to the System, in order to increase the actuarial funding level to 70%. The City also agreed to increase this funding level by ½% each year for twenty years, in order to reach a funding level of 80%, and to make supplemental contributions to the System in the event the System's actuarial funding level fell short of the annual target.

The formula for supplemental contributions requires the City to pay the first \$3 million of any deficit plus 20% of any remainder no later than January following the fiscal year for which the deficit was determined. The balance of the supplemental payment, if any, is made up over the next few years and added to any additional supplemental contributions that may be required.

The bursting of the Tech Bubble in the year 2000 significantly reduced the value of the System's investment portfolio and a widening gap was created between the actuarial value of the System's assets, which uses a multi-year smoothing formula, and the actual market value of those assets. This led to a dispute between the City and the System as to the amount of supplemental contributions necessary to keep the System funded consistent with the terms of the Contribution Agreement. In 2004, the dispute was settled by way of a Settlement and Release Agreement pursuant to which the City issued an additional \$40 million in pension obligation bonds, again providing the proceeds to the System.

### ***The Funding Challenge***

The annual debt service on the 1999 and 2004 pension bonds is currently \$13 million. Although a General Fund obligation, the source of funding for the debt service payments as well as any required supplemental contributions to the System has been tax increment dollars from the City's Downtown redevelopment project area. This was

made possible as a result of special legislation, Senate Bill 481, passed on behalf of the City in 1987 which authorized the City's redevelopment agency to repay prior General Fund advances that were made to the Downtown Project Area for the purpose of supporting the System.

The funding mechanism established by SB 481 has worked well in that the continued growth of assessed value in the Downtown Project Area has been more than sufficient to cover the City's obligations and generate a reserve fund, which as of June 30<sup>th</sup> totaled \$38,434,465. However, SB 481 will expire on December 31<sup>st</sup> 2014 and even if the legislation could somehow be extended, which is virtually impossible given Sacramento's actions to eliminate redevelopment, the actual debt between the City and the Downtown Project Area will be extinguished at roughly the same point. As a result, the flow of funds used to support the City's obligation to the System will cease.

After the expiration of SB 481 the General Fund will be required to make the debt service payments on the existing pension bonds as well as provide as needed supplemental contributions to the System. Based on the most recent actuarial analysis these supplemental contributions are expected to be in the \$9-10 million range for the foreseeable future and then trailing off as the number of participants in the System declines:

Fiscal Year	Benefit Payments	AAL	AVA	Projected Funded %	Target Funded %	Supplemental Payment
2010	14.3	166	110	66.1	75.0	7.7
2011	14.5	164	103	63.2	75.5	8.8
2012	14.6	162	96	59.4	76.0	9.1
2013	14.7	159	93	58.5	76.5	9.3
2014	14.8	157	97	62.0	77.0	9.5
2015	14.8	154	100	64.9	77.5	9.7
2016	14.8	151	103	68.3	78.0	9.8
2017	14.8	148	107	72.3	78.5	9.2
2018	14.7	144	110	76.3	79.0	3.2
2019	14.6	140	107	76.3	79.5	3.6

NOTE: Dollar Amounts in Millions

In addition, the 1999 and 2004 pension bonds were structured each with a mandatory tender (i.e., balloon payment), which in combination totals \$81 million, due in May 2015. It will be necessary to refinance these bonds in order to avoid the significant budgetary impact.

### ***The FPRS Taskforce***

It was against this backdrop that in the spring of 2009, the City Manager established a Taskforce to examine issues related to the System and to consider how the City may meet its obligations to System participants after the expiration of SB481. Membership of the Taskforce consisted of: Margaret McAustin, Councilmember; Sid Tyler, former Councilmember and member of the FPRS Board; David Goodrich, Vice President of Human Resources for Parsons Corporation and member of the City's Deferred Compensation Oversight Committee; Jaynie Miller Studenmund, whose broad experience includes financial services, as well as serving as CEO, COO and board member for a number of private and public companies including several prominent internet-based firms, and Dennis Murphy, Principal in an accounting and management consulting firm providing tax, auditing, strategic planning, forensic analysis, business management, financial planning, and litigation support services and member of the 1981 citizens committee discussed previously in this report. The Taskforce was supported by staff from the City Manager's Office and Department of Finance.

The group met numerous times over a period of months including meetings with representatives of the System and the System's actuary, in order to fully understand the workings of the System, its benefits structure, management and investment strategy. In April 2010, the Taskforce submitted its report to the City Manager (Attached). The report included the following recommendations. Additionally, the Taskforce met on March 24<sup>th</sup> to review the staff recommendation. The Taskforce reiterated the sense of urgency in addressing the challenges associated with the System.

#### **1. Establish a much closer working relationship with the FPRS Board.**

##### **Status: In process.**

The City and the System have common interests; specifically ensuring retirees and their beneficiaries receive the benefits they are entitled to. Unfortunately, the past relationship appears to have been rather acrimonious, which has benefited neither party. Recent discussions have resulted in a new spirit of cooperation. As evidenced, recently the System's Board was called upon to consider implementing "corridors" (a means of bringing the market value of assets in line with their actuarial value by requiring an additional supplemental contribution from the City). Such action would have increased the City's supplemental contribution in calendar year 2009 from \$4.9 million to roughly \$8.9 million. It is believed that the ultimate decision of the Board to not invoke corridors was, in part, influenced by discussions with the City.

#### **2. Request that the System undertake a new selection process for Financial Advisor and that this process be repeated at least every three to five years.**

##### **Status: Completed.**

Recently the System, with participation from the City, completed the selection process for a new Actuary as well as Financial Advisor.

**3. Consolidate administrative functions of the System within the City's Finance Department.**

**Status: Future work item for the City and the System.**

The Taskforce felt strongly that every effort should be made to reduce administrative overhead costs, as they have a direct impact on the net return of the System.

**4. Consider "buy-outs" of System participants.**

**Status: Determined to be impractical.**

The most likely option would be to purchase annuities, however, given the uncapped COLA provision these would be difficult to structure and are unlikely to be cost-effective.

**5. Pursue new revenue sources to provide for the System while shielding the General Fund.**

**Status: Unlikely.**

The concept behind this recommendation is that through the strategic use of Redevelopment funding, the City may be able to identify a project(s) such as a new office building or parking garage that would generate new revenues for the General Fund which could in turn offset the obligation to the System. Given the Governor's proposal to eliminate Redevelopment Agencies, this recommendation may not be viable. In the event Redevelopment is preserved, staff intends to pursue this recommendation.

**6. Consider utilizing existing SB481 reserve funds to increase plan assets and reduce volatility of the System's investment portfolio.**

**Status: Not recommended.**

Staff analyzed this option, with assistance of the System's actuary. Ultimately, it was determined that the current staff recommendation provided greater benefit to the General Fund.

**7. Amend the Contribution Agreement to decouple from the '37 Act Counties and allow for periodic mutually agreed upon changes in target investment return and inflation factors.**

**Status: Recommended by this report.**

**8. Reconsider investment strategy.**

**Status: Recommended by this report.**

In regard to the final two Taskforce recommendations, pursuant to the Contribution Agreement, the economic assumptions for investment return and inflation for the System's portfolio (8% and 3.8% respectively) are based on the average of those used by the county retirement systems in California covered under the County Employees Retirement Law of 1937. These include the counties of:

Alameda	Orange
Contra Costa	Sacramento
San Bernardino	San Diego
Fresno	San Joaquin
Imperial	San Mateo
Kern	Santa Barbara
Los Angeles	Sonoma
Marin	Stanislaus
Mendocino	Tulare
Merced	Ventura

These '37 Act Systems as well as CalPERS are distinguished from FPRS in that they are "open" systems with active members; whereas FPRS is a closed system with no active members and an average participant age of 74 years old. Open systems, with longer time horizons, have a greater ability to absorb investment losses as they can be spread over longer periods. CalPERS, for example uses a 15 year asset smoothing method and spreads investment gains and losses over a rolling 30-year period while FPRS employs a five year approach. And even with the shorter smoothing period, there have been concerns regarding the gap between the System's actuarial value of assets and its market value.

Since entering into the Contribution Agreement the System's investment portfolio has been designed with an asset allocation intended to achieve the expected 8% return. Over the last decade, despite a strong performance in some years, the System's performance has fallen short of the goal. It is worth noting that CalPERS has fared no better as indicated by the following chart.

Fiscal Year	Retirement System Net Annual Returns		S&P 500 - calendar year
	FPRS	CalPERS	
2010	17.9%	13.3%	15.06%
2009	-20.2%	-24.0%	26.46%
2008	-7.6%	-5.1%	-37.00%
2007	16.5%	19.1%	5.49%
2006	10.4%	11.8%	15.79%
2005	11.1%	12.3%	4.91%
2004	14.7%	16.6%	10.88%
2003	1.9%	3.7%	28.63%
2002	-7.8%	-6.1%	-22.10%
2001	-1.8%	-7.2%	-11.89%
Average 10 Year Return	3.51%	3.44%	3.62%



Recently, the rate of return, also known as the discount rate, applied to defined benefit pension systems has received considerable attention as interested parties attempt to calculate the “true” liability of these programs. A reduction in the applied discount rate has the effect of increasing any unfunded liabilities whereas an overly optimistic rate of return will understate the true liability. On March 15<sup>th</sup> CalPERS, citing a 7.9% return over a 20 year period decided to leave its discount rate at the current 7.75%.

Given the characteristics of the FPRS an 8% rate of return assumption is unrealistic and the 3.8% annual inflation rate appears high given recent conditions. CalPERS currently uses a long-term inflation assumption of 3% and the System’s investment consultant expected inflation to be 2.6% over the next 20 years at the time of the most recent valuation, June 30, 2010. The System’s actual COLA adjustment effective July 1, 2011 was only 1% and last fiscal year it was actually reduced by 1%. Finally, as indicated in the table below, over the past ten years inflation has been below the 3.8% assumed rate in all but one year.

Historic Inflation Rate

Calendar Year	Inflation Rate %
2010	1.64
2009	-0.34
2008	3.85
2007	2.85
2006	3.24
2005	3.39
2004	2.68
2003	2.27
2002	1.59
2001	2.83
2000	3.38
Average	2.49

Further, it may not be prudent for the System to structure its portfolio asset mix to attempt to achieve a net 8% return given the maturity of the System and its diminishing ability to withstand investment volatility as the System winds down.

The System’s actuary has proposed an assumed 6.5% earnings rate and a 3.0% inflation rate for the purpose of determining the System’s funded status and future contribution requirements. If adopted, these would be the presumed rate of return and inflation, actual rates will fluctuate yearly.

The actuary arrived at the 6.5% rate through a series of steps. First, a weighted average expected real rate of return above inflation for the asset classes in the System’s portfolio was calculated, 5.1%. The recommended inflation assumption of 3.0% was added to this figure, 8.1%. Then 1.6% was subtracted to account for long-

term investment and administrative expenses as well as adjust for the long-term rate of return.

Modifying assumptions in this manner would increase the actuarial accrued liability of the System by roughly \$11 million; nevertheless staff recommends modifying the Contribution Agreement to decouple from the '37 Act Systems and established a method whereby the City and the System, with support from the actuary, agree annually on the assumed rate of return, inflation rate and investment mix. Staff believes this approach would be more appropriate for several reasons. Such an approach would take into consideration the unique nature of the System, is less likely to result in taking excessive market risk with the System's portfolio and by being more realistic the true liabilities associated with the funding the System will be known and thus managed.

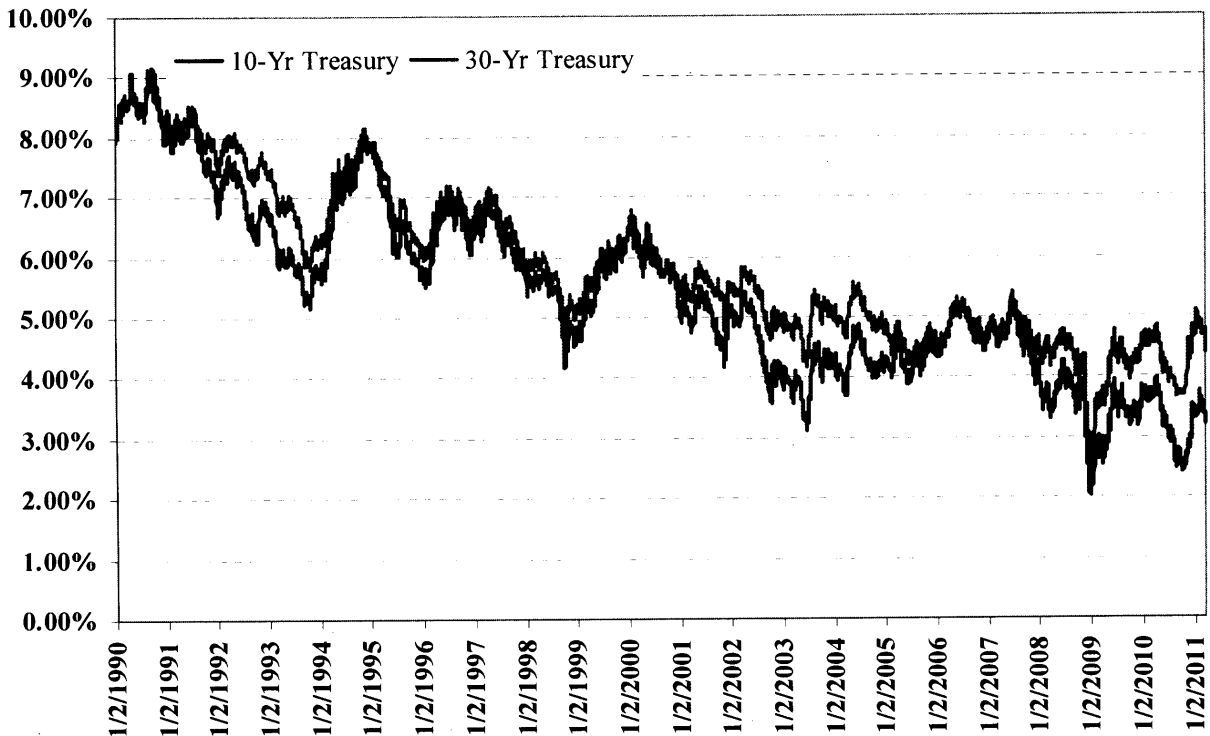
### ***Funding Plan***

Since submission of the Taskforce report, staff has been working closely with financial advisors to develop a recommended course of action to address the issues identified and further explore the recommendations provided. To assist in this effort the FPRS Board has made the System's actuary available for ongoing consultation. Staff considered a number of approaches including pay as you go, analyzing how best to use the existing \$38.4 million SB481 reserve, restructuring the mandatory tender and issuing a new pension bond to increase the System's assets.

Based on this analysis, staff recommends issuing a new 30 year pension obligation bond at this time, transferring the proceeds to the System and refinancing the \$81 million mandatory tender in 2015. Consistent with the Taskforce recommendations, staff also recommends negotiating changes to the Contribution and Settlement Agreements between the City and the System.

The new bond issue, in an amount not to exceed \$65 million, would fund the System at 85% of its actuarial accrued liability. For the purpose of this report, it is anticipated that such financing would carry an interest rate of 7.5%, however, this is conservative. Overall, interest rates are generally favorable as indicated by the graph on the following page; however, the municipal bond market has been reacting to a number of issues such as the influx of Build America Bonds and activity by redevelopment agencies seeking to commit funding in light of the state's threat to their existence. Staff anticipates that over the course of the next few months, rates may drop. Should the staff recommendation be approved, staff will work closely with financial advisors to determine when best to issue the bonds.

**Historical 10-Yr and 30Yr US-Treasury Rates**  
(January 1990 to Present)

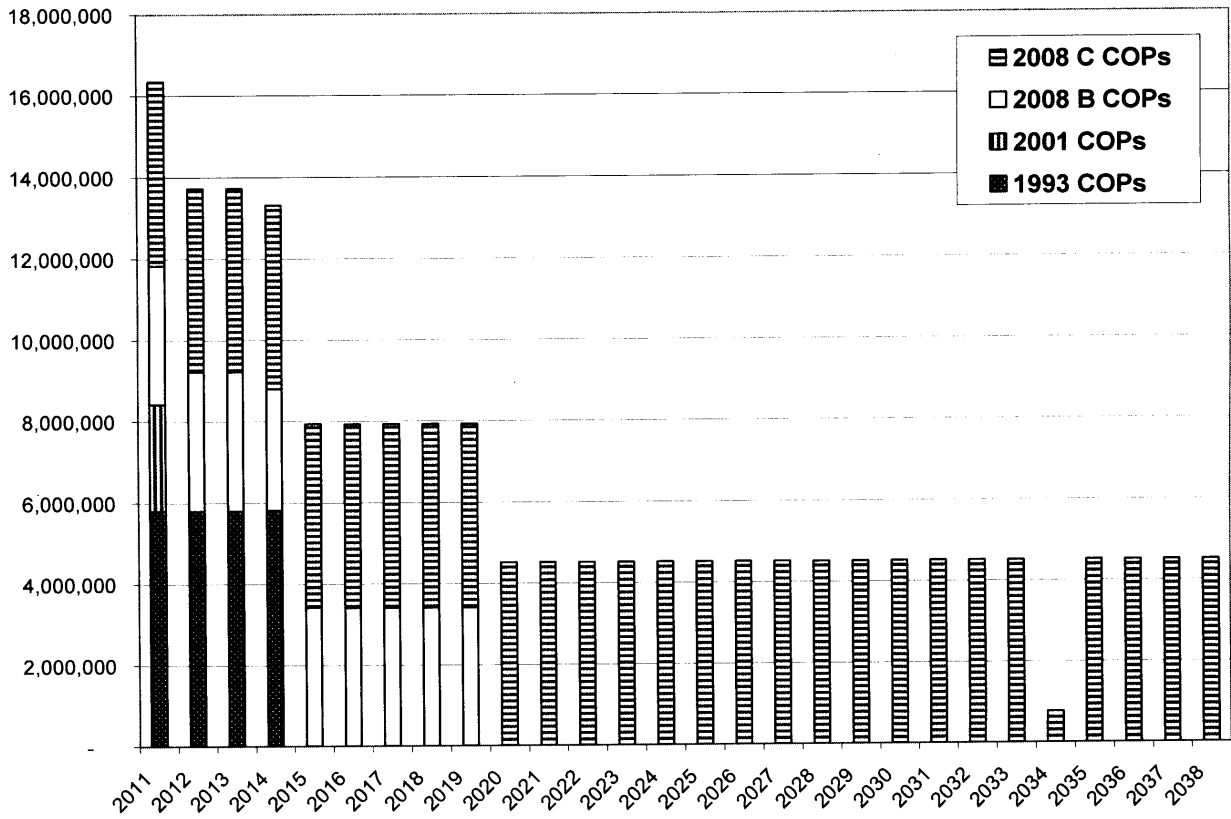


The 1999 and 2004 pension bonds are non-callable and refunding at this time would be uneconomical given the interest rates of those bonds. Consequently, with Council's authorization, staff would plan to refund those bonds when the mandatory tender becomes due in 2015. The bulk of the \$38.4 million SB481 reserve would be applied to reduce the overall size of the refunding with potentially some portion remaining in the reserve to manage debt service.

Although the General Fund is legally obligated for all debt it has issued, some debt such as bonds issued to support the renovation of Rose Bowl and Conference Center are self-supporting, meaning that non-General Fund revenues are available to pay the debt service. As long as those sources of revenue are available, there is no direct impact on the General Fund. Conversely, non-self supporting debt has a direct impact on the General Fund. In the current fiscal year the General Fund's non-self supporting debt obligation is \$16.3 million. Over the course of the next few years, a number of prior debt obligations will be paid off, thus freeing up debt capacity. The proposed financing structure would take advantage of this freed up capacity and fix total General Fund non-self supporting debt service at roughly \$16.5 million dollars over the life of the proposed financing.

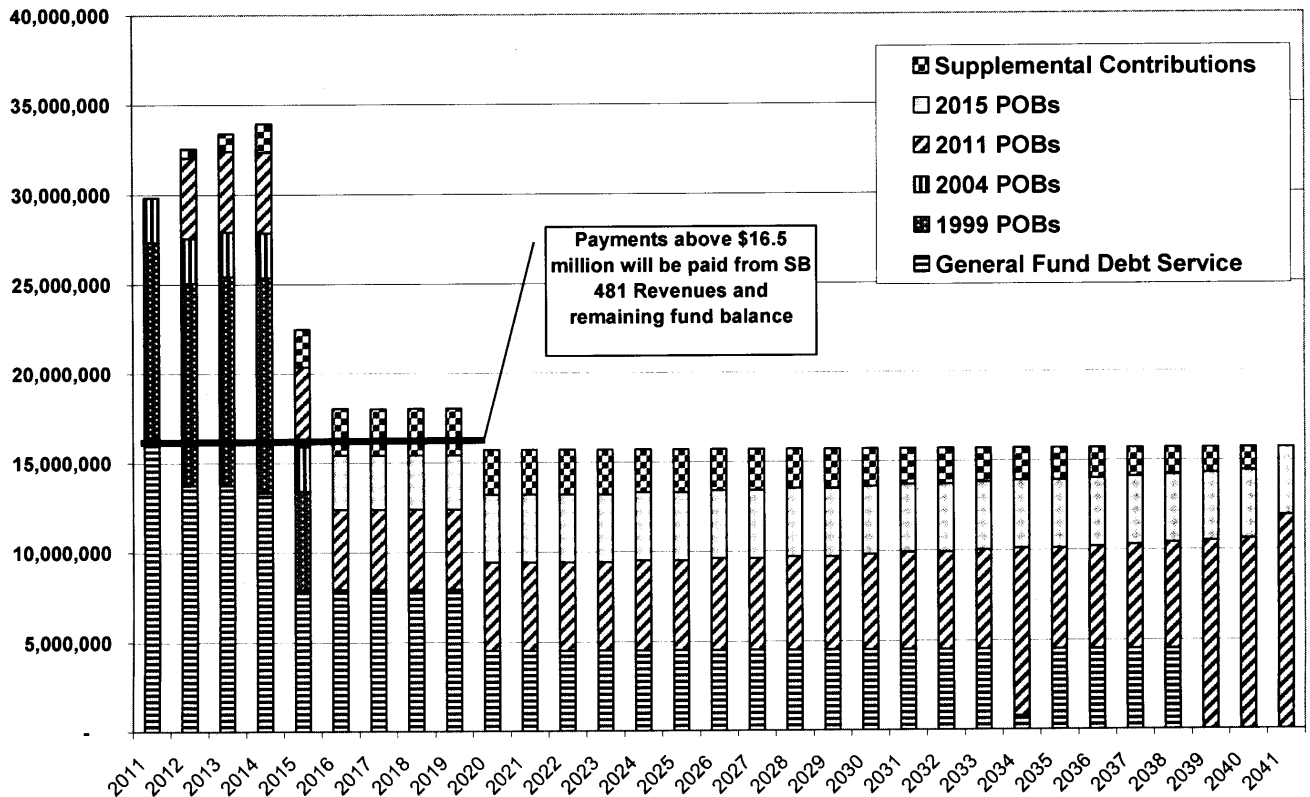
As illustrated in the following chart, starting in 2012 total non-self supporting debt service will be reduced to \$13.7 million annually. In 2015 this will drop to just under \$8 million and then to approximately \$4.5 million starting in 2020.

### Non-Self Supporting General Fund Debt Service (Excludes POBs)



The following chart illustrates General Fund non-self supporting debt service after the issuance of the \$65 million pension obligation bond and refinancing of the \$81 million mandatory tender in 2015. This analysis assumes an interest rate of 7.5% for the \$65 million pension obligation bond and the refinancing of the mandatory tender through 2041. The debts service above \$16.5 million from 2012 - 2019 will be paid from SB481 revenues and the reserve fund balance.

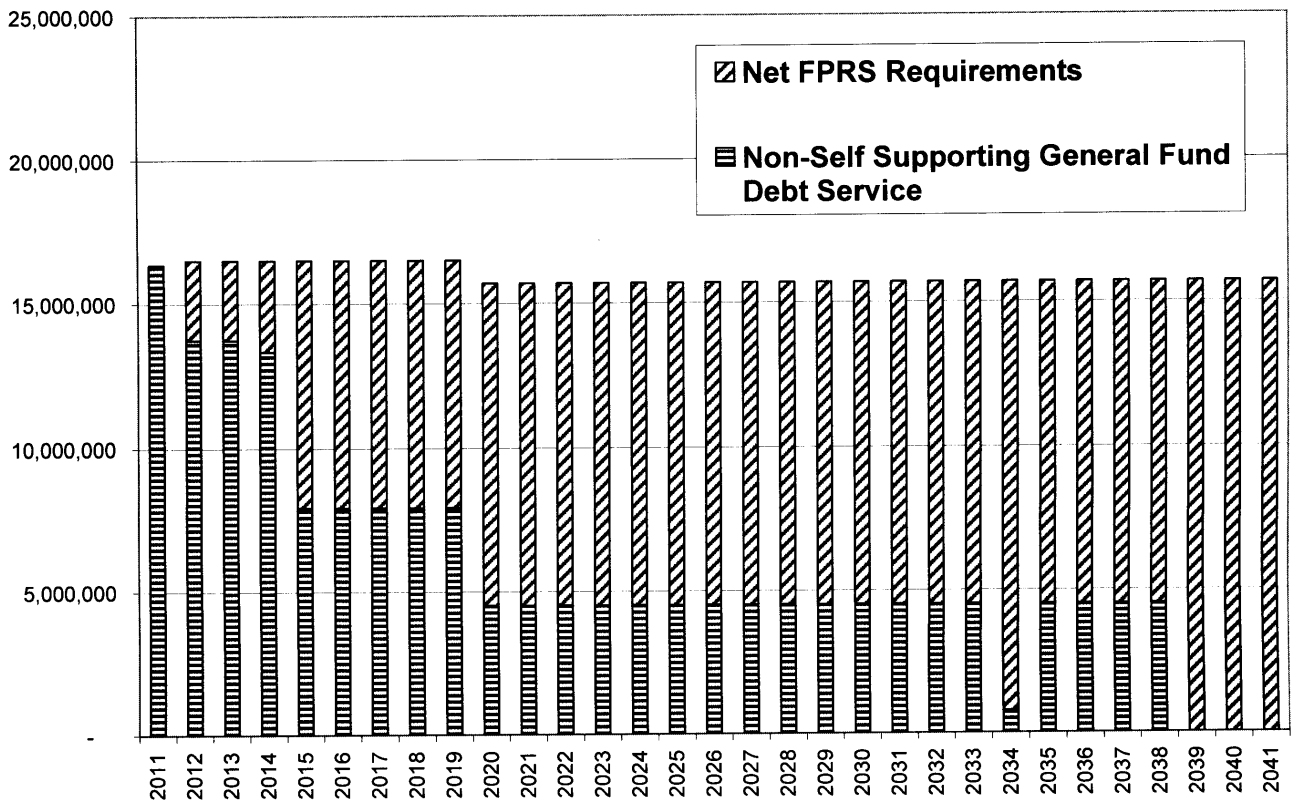
**Impact to General Fund of Alternative Funding Plan:  
FPRS Requirements and Non-Self Supporting General Fund Debt Service**



As indicated in the chart, using the recommended actuarial assumptions of 6.5% net investment return and 3.0% inflation, some level of supplemental contributions to the System will be required ranging from \$500,000 to \$2.6 million. As discussed above, staff recommends using a portion of the SB481 reserve to manage these payments rather than increase the size of the proposed bond issue.

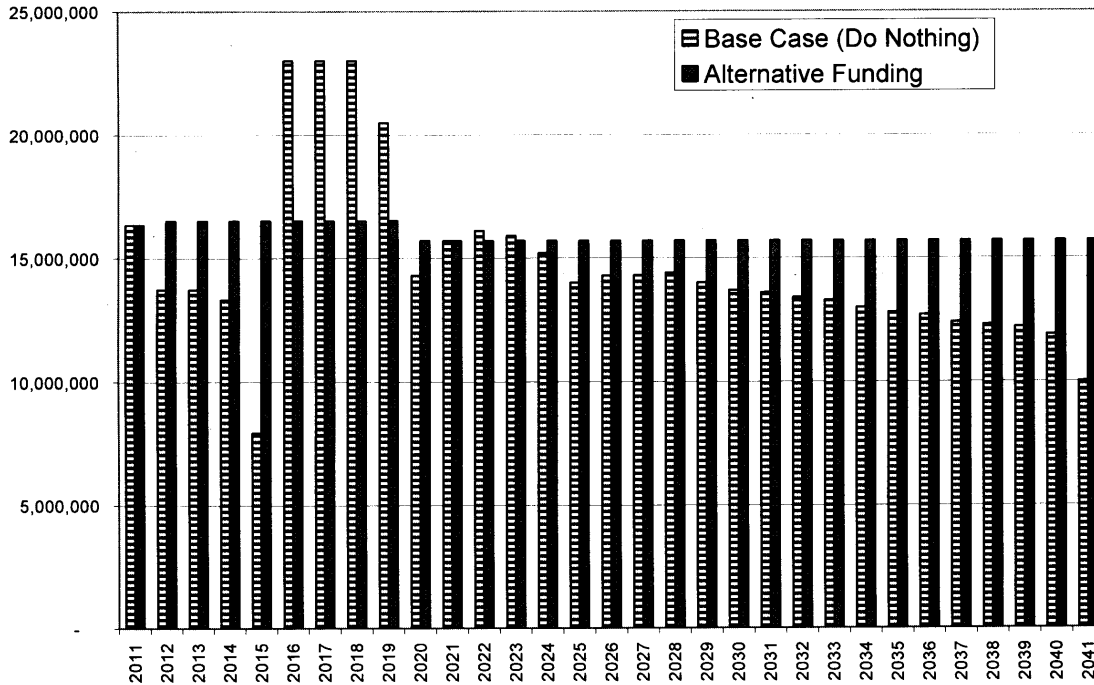
The following chart illustrates the General Fund non-self supporting debt service (including all pension bonds and supplemental contributions) net of SB481 revenues and remaining reserve fund balance.

**Net Impact to General Fund of Alternative Funding:  
Net FRPS Requirements and General Fund Debt Service**



Although there is a carrying cost associated with staff's recommended approach, it is preferred to a pay as you go method which would require annual supplemental contributions over the next several years at much higher levels than the City can absorb. The following bar chart and data table illustrate the differences between the base case, which is to not issue a new pension obligation bond and the proposed funding plan. This analysis does assume that the mandatory tender will be refinanced in 2015.

### Comparison of Net Impact to General Fund: Base Case vs. Alternative Funding



Fiscal Year	Base Case (Do Nothing)			Alternative Funding			Savings/ (Costs)	Present Value at 7.50%
	Net FPRS Requirements	Gen Fund Debt Non-Self Supporting)	Total	Net FPRS Requirements	Gen Fund Debt Non-Self Supporting)	Total		
2011	-	16,346,815	16,346,815	-	16,346,815	16,346,815	-	-
2012	-	13,728,515	13,728,515	2,771,485	13,728,515	16,500,000	(2,771,485)	(2,578,126)
2013	-	13,729,155	13,729,155	2,770,845	13,729,155	16,500,000	(2,770,845)	(2,397,703)
2014	-	13,314,418	13,314,418	3,185,583	13,314,418	16,500,000	(3,185,583)	(2,564,268)
2015	-	7,933,590	7,933,590	8,566,410	7,933,590	16,500,000	(8,566,410)	(6,414,532)
2016	15,057,870	7,931,565	22,989,435	8,568,435	7,931,565	16,500,000	6,489,435	4,520,272
2017	15,057,870	7,929,665	22,987,535	8,570,335	7,929,665	16,500,000	6,487,535	4,203,673
2018	15,057,870	7,931,265	22,989,135	8,568,735	7,931,265	16,500,000	6,489,135	3,911,358
2019	12,557,870	7,931,265	20,489,135	8,568,735	7,931,265	16,500,000	3,989,135	2,236,717
2020	9,782,870	4,512,365	14,295,235	11,180,891	4,512,365	15,693,256	(1,398,021)	(729,185)
2021	11,179,420	4,515,365	15,694,785	11,176,139	4,515,365	15,691,504	3,281	1,592
2022	11,579,360	4,513,365	16,092,725	11,175,109	4,513,365	15,688,474	404,251	182,456
2023	11,385,250	4,512,415	15,897,665	11,177,061	4,512,415	15,689,476	208,189	87,409
2024	10,682,070	4,516,525	15,198,595	11,176,256	4,516,525	15,692,781	(494,186)	(193,010)
2025	9,479,990	4,515,025	13,995,015	11,174,926	4,515,025	15,689,951	(1,694,936)	(615,793)
2026	9,776,950	4,515,000	14,291,950	11,174,361	4,515,000	15,689,361	(1,397,411)	(472,277)
2027	9,781,340	4,514,800	14,296,140	11,176,423	4,514,800	15,691,223	(1,395,083)	(438,596)
2028	9,880,740	4,511,750	14,392,490	11,182,033	4,511,750	15,693,783	(1,301,293)	(380,567)
2029	9,482,380	4,512,000	13,994,380	11,177,683	4,512,000	15,689,683	(1,695,303)	(461,206)
2030	9,176,980	4,515,250	13,692,230	11,175,033	4,515,250	15,690,283	(1,998,053)	(505,646)
2031	9,077,880	4,516,000	13,593,880	11,175,575	4,516,000	15,691,575	(2,097,695)	(493,825)
2032	8,881,940	4,514,000	13,395,940	11,177,461	4,514,000	15,691,461	(2,295,521)	(502,694)
2033	8,780,450	4,514,000	13,294,450	11,176,242	4,514,000	15,690,242	(2,395,792)	(488,048)
2034	12,226,010	765,500	12,991,510	14,923,410	765,500	15,688,910	(2,697,400)	(511,153)
2035	8,282,780	4,515,500	12,798,280	11,174,618	4,515,500	15,690,118	(2,891,838)	(509,766)
2036	8,178,930	4,512,200	12,691,130	11,179,327	4,512,200	15,691,527	(3,000,397)	(492,002)
2037	7,878,800	4,515,575	12,394,375	11,174,661	4,515,575	15,690,236	(3,295,861)	(502,746)
2038	7,783,310	4,514,925	12,298,235	11,173,771	4,514,925	15,688,696	(3,390,461)	(481,094)
2039	12,198,950	-	12,198,950	15,693,699	-	15,693,699	(3,494,749)	(461,295)
2040	11,895,500	-	11,895,500	15,692,010	-	15,692,010	(3,796,510)	(466,164)
2041	9,993,570	-	9,993,570	15,690,436	-	15,690,436	(5,696,866)	(650,702)
<b>TOTAL</b>	<b>275,096,950</b>	<b>178,797,813</b>	<b>453,894,763</b>	<b>314,747,688</b>	<b>178,797,813</b>	<b>493,545,500</b>	<b>(39,650,738)</b>	<b>(8,166,922)</b>

As indicated in the data table, the anticipated cost of financing vs. a pay as you go approach to the supplemental contributions is \$8.17 million on a present value basis.

**Council Policy Consideration**

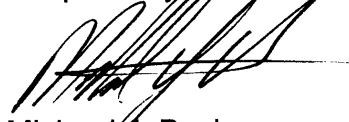
As part of its Strategic Plan Goal to Maintain Fiscal Responsibility and Stability the City Council established as an objective development of a plan to address the challenges associated with funding the Fire and Police Retirement System. This report and the recommendations contained herein are intended to fulfill that objective.

**FISCAL IMPACT:**

The estimated annual debt service impact of the proposed action on the General Fund is approximately \$3 million per year from 2012 to 2014, then rising to \$10 million on average over the balance of the 30 year financing period.

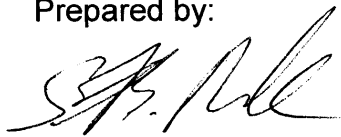
While the proposed actions are intended to address the issue of funding the Fire and Police Retirement System, there is no guarantee that additional actions won't be necessary; however, by adopting realistic investment assumptions and working closely with the System, it is anticipated that future challenges will be avoided. The ultimate cost to the City of providing pensions to members of the System will be dependent on the actual investment earnings of the System's portfolio, annual increases in the cost-of-living, and the life expectancy of System members.

Respectfully submitted,



Michael J. Beck  
City Manager

Prepared by:



Steve Mermell  
Assistant City Manager

Concurrence:



Andrew Green  
Director of Finance

Attachment: FPRS Taskforce report to City Manager, April 2010