

Agenda Report

DATE: May 1, 2000
TO: City Council Thru Finance Committee
FROM: City Manager
SUBJECT: Annual progress report on City's funding of the Fire and Police Retirement System

RECOMMENDATION:

It is recommended that the City Council receive and file this report.

BACKGROUND:

Under the terms of Senate Bill 481, the City is required to prepare an annual report on the status of the Fire and Police Retirement Fund and demonstrate its progress toward maintaining a full funded status of the Retirement System. This report complies with the SB 481 requirement. On November 21, 1989, the City Council approved in concept staff's recommendation of assigning assets to the Fire and Police Retirement System to fund an actuarially valued deficit of \$133 million as of June 30, 1989. The recommended assets for assignment were:

1. Reimbursement of indebtedness under the amended and restated reimbursement agreement of public improvements and public facilities within the Pasadena Downtown Redevelopment Project Area dated July 7, 1986 between the City and its Community Development Commission.
2. Supplemental City Contribution of \$3 Million per year of cash and/or income producing assets until the pension system no longer requires this level of contribution.
3. Annual debt payments made to the Conference Center Corporation Leasehold Mortgage Bond Series A, B and C, after final payment date of the bonds in 1998.
4. Annual debt payments made to the High Pressure Sodium Loan Amortization.

The City Council also authorized the City Attorney to draft a resolution, and a "Contribution Agreement" between the City and the Fire and Police Retirement System, assigning to the Fire and Police Retirement System the recommended assets.

On June 12, 1990, the City Council adopted Resolution No. 6379 which formally assigned the recommended cash assets to the Fire and Police Retirement System. The City Council also approved a "Contribution Agreement" between the City of Pasadena and its Fire and Police Retirement System.

On March 18, 1999, a new contribution agreement was entered into (Contribution Agreement No. 16,900). The new agreement proposed the issuance of Pension Obligation Bonds sufficient to generate \$100 million net proceeds and the assignment of those proceeds to the Fire and Police Retirement System. Upon receipts of the \$100 million by the FPRS, the prior agreement shall be of no further force and effect and the City shall stop all contributions to the System except for the employer and employee COLA contributions. This will remain in effect as long as the System maintains annually a certain funding level as described in Section 4 of the new agreement. Supplemental payments by the City shall be required if the annual required funding level drops below the minimum levels as outlined in Section 4 of Contribution Agreement No. 16,900.

On July 29, 1999, the City issued its Taxable Pension Funding Bonds, Series 1999, and transferred \$100 million net proceeds to the Fire and Police Retirement System.

Status of the Fire and Police Retirement Fund as of 6/30/1999.

As of June 30, 1999, the Fire and Police Retirement System had 340 pensioners and 38 active members. Total benefits paid to pensioners in Fiscal Year 1999 were \$11,714,000 compared to \$11,410,000 paid in Fiscal Year 1998. This represents a 2.66% increase. The market value of plan's applicable assets held in the system as of June 30, 1999 was \$68,194,229. The present value of all future benefit payouts as of 6/30/99 was \$216,455,283 a decrease by 0.73% compared to 1998. Based on the System's actuarial valuation as of 6/30/99, the total assets of the system were \$168,497,582 and the total liabilities of \$216,455,283. This represents a funding percentage of 77.84%. The actuarial assumption used to arrive at the present value figure for the City's liability and contribution are 4.5% COLA to benefit payments and a 7.5% rate of return on investments.

Actuarial Balance Sheet as of 6/30/1999

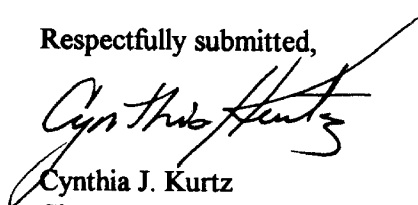
	4.5% COLA
	<u>7.5% Disc. Rate</u>
Present value of Total Liabilities	(216,455,283)
<u>Less:</u>	
Net applicable assets held in trust at market value	68,194,229
Present Value of future member contributions	506,090
Balance	(147,754,964)
<u>Present Value of City Contributions</u>	
(a) Funded Basic benefits	0
(b) Unfunded Basic including 1919 benefits	0
(c) Statutory 5% COLA	506,090
(d) Pension Obligation Bond Proceeds	99,291,173
(e) General Fund (Supplemental)	0
(f) Conference Center Debt Service (Supplemental)	0
(g) Hi Pressure Sodium Loan (Supplemental)	0
Total PV of City Contributions	99,797,263
Surplus (deficit)	<u>(47,957,701)</u>
Percentage Funded	77.84%

FISCAL IMPACT

The Development Commission paid the City \$2,174,400 of tax increment revenues in Fiscal 1999 under the terms of the reimbursement agreement. The City contributed the same amount in cash to the Fire and Police Retirement System along with \$4.786 million supplemental General Fund contribution in accordance with the old Contribution Agreement between the City and the Fire and Police Retirement System.

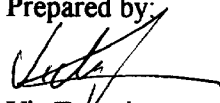
The assumptions used in the valuation of the System as of 6/30/99 were: 7.5% interest rate, a salary increase assumption of 5.5%, and cost of living increase of 4.5%. Under this set of assumptions, it is estimated that the City will have to make supplemental contributions starting in fiscal year 2004 (table 1). Beginning fiscal year 2000, the assumptions will change to reflect the assumptions agreed upon in Section 4(c) of the new Contribution Agreement No. 16,900 and will result in a more favorable valuation of the system's liabilities and investment returns. Historically, over the past 14 years, the actual average investment return of the FPRS portfolio has outperformed the actuarial assumption. If this trend continues in the future, although there are no guarantees or assurances, there will be no need for the City to made additional contributions to the FPRS system for the next five years. For this same reason, the City's five year financial plan does not include any supplemental contributions to the Fire and Police Retirement System.

Respectfully submitted,



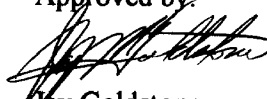
Cynthia J. Kurtz
City Manager

Prepared by:



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Approved by:



Jay Goldstone
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