

Agenda Report

TO: City Council
THROUGH: Finance Committee

DATE: December 15, 2008

FROM: City Manager

SUBJECT: APPROVAL OF A JOURNAL VOUCHER TRANSFERRING \$947,693 FROM THE 1999 PENSION OBLIGATION DEBT SERVICE FUND TO THE GENERAL FUND NON-DEPARTMENTAL BUDGET TO COVER THE REQUIRED SUPPLEMENTAL CONTRIBUTION TO THE FIRE AND POLICE RETIREMENT SYSTEM PURSUANT TO CONTRIBUTION AGREEMENT #16,900 BETWEEN THE CITY OF PASADENA AND THE FIRE AND POLICE RETIREMENT SYSTEM.

RECOMMENDATION

It is recommended that the City Council approve a journal voucher transferring \$947,693 from the 1999 Pension Obligation Debt Service Fund to the General Fund Non-Departmental budget and appropriating said amount to Account 8043-101-952100 to cover the required supplemental contribution to the Fire and Police Retirement System pursuant to Contribution Agreement #16,900 between the City of Pasadena and the Fire and Police Retirement System.

BACKGROUND

The City of Pasadena and the Fire and Police Retirement System (System) entered into Contribution Agreement #16,900 in August 1999. The Agreement requires the City to provide supplemental contribution payments to the System if the System's unfunded liability falls below a pre-determined funding percentage. Under the Agreement, the required funding percentage for June 30, 2008 is 74%. The actual funding percentage based on the System's Actuarial Valuation Report for the period ending June 30, 2008 was 73.5%. In order to bring the funding level to required 74% level, the City must make a \$947,693 supplemental contribution.

Under the Contribution Agreement, the System conditionally assigned a series of revenue streams to the City to provide a cashflow to cover debt service on pension obligation bonds issued by the City. The only restricted cashflow that was assigned to the City was the incremental property taxes from the Downtown Redevelopment Project Area. To the extent that the annual cashflow to the City from this source exceeds the

annual debt service on the pension obligation bonds, the City is required to set these funds aside to cover future debt service, future supplemental contributions and/or some other qualified payment to the System. As of June 30, 2008, the excess reserve balance being held by the City is \$29.47 million. This will be the source for the supplemental contribution and will not have an immediate affect on the City's General Fund.

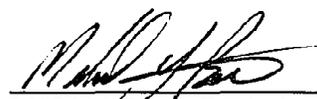
During the twelve month period (June 2007 through June 2008) covered by the Actuarial Valuation, investment returns in a number of asset classes turned negative resulting in a loss of approximately 7.6%. However, the System uses an asset smoothing method to spread market gains/losses over a five year period for actuarial purposes. This method coupled with prior year gains resulted in an actuarial gain of approximately \$1.8 million. Nevertheless, a supplemental contribution of \$947,693 is necessary to bring the System to an Actuarial Funded Percentage of 74%, consistent with the terms of the Contribution Agreement.

The required supplemental contribution is based on data as of June 30, 2008. Since that time the markets have experienced a significant drop in value. By way of example, as of June 30th the System's investment portfolio had a market value of \$122.48 million. By November 30th the portfolio had been reduced to \$84.57 million. The System's oversight board continues to manage the portfolio prudently; however, a rebound is unlikely for some time and the System continues to pay benefits of approximately \$15 million per year. Consequently, future supplemental contributions are likely to range into the multimillions of dollars for many years to come. The cashflow generated from the Downtown Project Area should be sufficient to cover the City's obligation to the System for the next few years, during which a plan to fund the System over the long term, while limiting the exposure of the General Fund, can be developed.

FISCAL IMPACT

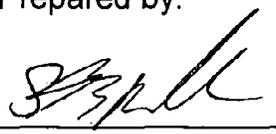
By way of this action the City Council is requested to transfer \$947,693 from the 1999 Pension Obligation Debt Service Fund to the Fire and Police Retirement System. As of June 30, 2008, there was \$29.47 million available in the 1999 Pension Obligation Debt Service Fund.

Respectfully submitted,



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City Manager

Prepared by:



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