

Agenda Report

TO: City Council

DATE: December 14, 2009

THROUGH: Finance Committee

FROM: Department of Finance

SUBJECT: APPROVAL OF A JOURNAL VOUCHER TRANSFERRING \$4,981,704 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 \$4,981,704 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, 2009 is 74.5%. The actual funding percentage based on the System's Actuarial Valuation Report for the period ending June 30, 2009 was 67.2%. The difference between these two percentages results in a Minimum Funding Deficiency of \$12.9 million. The Contribution Agreement requires the City to contribute based on the following calculation:

- | | |
|------------------------------------------------------------------|--------------------|
| • 100% of the first \$3,000,000 of the deficiency | \$3,000,000 |
| • 20% of the difference (\$12,908,502-\$3,000,000 = \$9,908,520) | |
| \$9,908,520 x 20% = | <u>\$1,981,704</u> |
| Required Supplemental Contribution | \$4,981,704 |

Under the Contribution Agreement, the System conditionally assigned a series of revenue streams to the City to provide a cash flow to cover debt service on pension obligation bonds issued by the City. The only restricted cash flow that was assigned to the City was the incremental property taxes from the Downtown Redevelopment Project Area. To the extent that the annual cash flow 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, 2009, the excess reserve balance being held by the City is \$35.97 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 past year, Plan investments had a negative return of approximately 20.2%. This return is less than the positive 8.0% return assumed. This resulted in an actuarial loss to FPRS due to investments of approximately \$33.3 million on a market-value basis. FPRS uses an asset smoothing method to determine contribution rate and the plan's funded position. This method spreads market gains (or losses) greater than the assumed rate (or less than the assumed rate) over a five year period. Using the asset smoothing method, Retirement Plan assets achieved a return for the fiscal year of approximately 1.7% due to the spreading of a portion of previous gains and losses into the current year and a portion of current losses into future years. This resulted in an actuarial loss (return less than expected) of approximately \$7.8 million. This results in a higher required contribution than the prior year.

The required supplemental contribution is based on data as of June 30, 2009. Since that time the markets have experienced modest recovery. The System's oversight board continues to manage the portfolio prudently; however, a significant rebound is unlikely for some time and the System continues to pay benefits of approximately \$15 million per year. Consequently, future supplemental contributions are projected to range into the multimillions of dollars for many years to come. The cash flow 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 brought forward.

FISCAL IMPACT

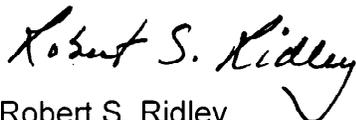
By way of this action the City Council is requested to transfer \$4,981,704 from the 1999 Pension Obligation Debt Service Fund to the Fire and Police Retirement System. This is consistent with the amount anticipated. As of June 30, 2009, there was \$35.97 million available in the 1999 Pension Obligation Debt Service Fund.

Respectfully submitted,



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Approved by:



for
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