

# Agenda Report

December 9, 2013

**TO:** Honorable Mayor and City Council

**THROUGH:** Finance Committee

**FROM:** Director of Finance

**SUBJECT: APPROVAL OF A JOURNAL VOUCHER TRANSFERRING \$1,164,000 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 No. 20,823 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 \$1,164,000 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 No. 20,823 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 an Amended and Restated Contribution Agreement No. 20,823 in October 2011. 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, 2013 is 76.5 percent. The actual funding percentage based on the System's Actuarial Valuation Report for the period ending June 30, 2013 was 75.83 percent. The difference between these two percentages results in a minimum funding deficiency of \$1,131,000.

The Contribution Agreement requires the City to contribute based on the following calculations:

|   |               |
|---|---------------|
| (1) Actuarial Accrued Liability                   | \$168,781,000 |
| (2) Actuarial Value of Assets                     | 127,985,000   |
| (3) Funded Percentage (2)/(1)                     | 75.83%        |
| (4) Minimum Funding Percentage                    | 76.50%        |
| (5) Additional Funding Percentage (4)-(3)         | .67%          |
| (6) Funding Deficiency (1)x(5)                    | \$ 1,131,000  |
| (7) Required Contribution if made January 1, 2014 | \$ 1,164,000  |

The Fire and Police Retirement System's actuary determines the required supplemental contribution as of July 1 each year using June 30 data. For June 30, 2013 this amounted to \$1,131,000. The actuary then increased this by the assumed interest rate of 6 percent for six months to arrive at the required contribution of \$1,164,000 to be paid by the City on or before January 1, 2014.

The actual and required supplemental contributions for this and the prior six years were:

| <b>Fiscal Year Ended</b> | <b>Actual</b>       | <b>Required</b>     | <b>Pension</b>    |
|--------------------------|---------------------|---------------------|-------------------|
| <b>June 30</b>           | <b>Contribution</b> | <b>Contribution</b> | <b>Obligation</b> |
|                          |                     |                     | <b>Bond</b>       |
| 2014                     | \$ 1,164,000        | \$ 1,164,000        |                   |
| 2013                     | 0                   | 0                   |                   |
| 2012                     | 46,600,000          | 0                   | 46,600,000        |
| 2011                     | 8,036,000           | 8,036,000           |                   |
| 2010                     | 4,981,700           | 4,981,700           |                   |
| 2009                     | 956,100             | 956,100             |                   |
| 2008                     | \$ 3,193,600        | \$ 3,193,600        |                   |

The Amended and Restated Contribution Agreement No. 20823 approved the issuance of a pension obligation bond in an amount determined to achieve a funding level of 85 percent based on the June 30, 2011 estimated actuarial accrued liability. These bonds were issued in March 2012 and the proceeds contributed to the Fire and Police Retirement System. This agreement also made changes to the actuarial calculations by replacing references to the County Employees Retirement Law of 1937 with more conservative actuarial assumptions. These changes reduced the subsequent funding level below the 85% level. The use of more conservative actuarial assumptions is prudent given the characteristics of the System and minimizes the volatility and the risk of creating future unfunded liabilities. This, however, does not eliminate market risk or inflation risk, and future significant declines in the equity markets or significant increases in the inflation rate could potentially create future unfunded liabilities.

The System continued the assignment of incremental property taxes from the Downtown Redevelopment Project Area to the City to provide a cash flow to cover debt service on pension obligation bonds issued by the City. With the dissolution of redevelopment, this revenue stream remains tied to the pending litigation surrounding SB 481. 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, 2013, the excess reserve balance being held by the City is \$29.57 million. Whatever remains of this excess reserve balance will be used to reduce the amount of bonds necessary when the mandatory tender on the current pension obligation bonds becomes due in 2015.

**COUNCIL POLICY CONSIDERATION:**

The City Council's strategic planning goal of maintaining fiscal responsibility and stability will be advanced through the review and approval of this transfer.

**FISCAL IMPACT:**

This transfer of \$1,164,000 from the 1999 Pension Obligation Debt Service Fund to the Fire and Police Retirement System is less than the amount anticipated in the prior year actuarial. There is no net impact to the General Fund. As of June 30, 2013, there was \$29.57 million available in the 1999 Pension Obligation Debt Service Fund.

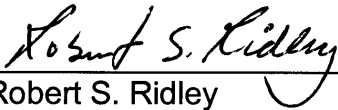
Respectfully submitted,



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Prepared by:



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