

Agenda Report

December 15, 2025

TO: Honorable Mayor and City Council

THROUGH: Finance Committee (December 8, 2025)

FROM: Department of Finance

SUBJECT: APPROVE OPTIONS FOR UTILIZING THE SECTION 115 PENSION TRUST AND INITIATING A FRESH START WITH CALPERS

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the proposed action is not a project subject to the California Environmental Quality Act (CEQA) as defined in Section 21065 of CEQA and Section 15378 of the State CEQA Guidelines and, as such, no environmental document pursuant to CEQA is required for the project; and
2. Direct the City Manager or designee to execute the necessary documents with CalPERS and the City's Section 115 Trust to make an additional discretionary payment (ADP) of \$7 million to CalPERS in order to pay down the Unfunded Accrued Liability (UAL) of the City's Safety plan and initiate a Fresh Start for the Safety Plan as outlined in the report.

EXECUTIVE SUMMARY:

The City established a Section 115 Trust (Trust) in 2017 with \$10.5 million from the General Fund to assist with funding future pension obligations. The Trust has grown to approximately \$14.9 million as of October 31, 2025, from investment earnings. There was an initial plan proposed in Fiscal Year (FY) 2020 to utilize these funds; however, that plan was placed on hold due to the economic uncertainty of the COVID pandemic. The current Five-Year Forecast for the General Fund projects ongoing shortfalls, with annual pension obligations to CalPERS being a key contributor to rising expenditures. The proposed action is to utilize the Trust to make an ADP towards the City's UAL and initiate a Fresh Start to shorten the repayment duration, reduce total interest payments, and smooth out annual payment volatility.

BACKGROUND:

The City contracts with CalPERS to provide retirement benefits for eligible employees. Each year, the CalPERS actuarial staff perform a valuation of the City's two pension plans (Safety and Miscellaneous (non-safety)) to review the funding status of the plans and establish future contribution requirements. The valuation generally focuses on two primary cost components: the unfunded accrued liability for benefits earned but not yet paid, and the normal cost of benefits being earned in the next year.

In June 2017, the City Council approved the establishment of a Trust to set aside funds to help offset future pension obligations. At that time, the City Council authorized a deposit of \$10.0 million from the General Fund and later in 2017 authorized another contribution of about \$500,000. As of December 31, 2019, the Trust balance had increased to \$11.65 million through investment returns. The funds in the Trust can only be used to offset pension obligations and may be drawn down through City Council action, at any time.

On February 10, 2020, the City Council's Finance Committee reviewed multiple options for utilization of the Trust towards current and future pension costs that were the most feasible and focus on the UAL of the City's pension obligations. The focus was and still is on the UAL, because that balance accrues interest, at that time it was at a rate of seven percent, so prepayment of this debt provides the greatest cost benefit. Based upon the valuations for the year ended June 30, 2018, the combined UAL of the Safety and Miscellaneous plans was \$511 million.

The Finance Committee directed staff, to provide to the City Council, an option to utilize the Trust to buy down the Safety UAL through ADPs over the course of several years. This action would accelerate the payoff of the Safety UAL from 24 to 19-years, along with smoothing out future payment increases. The City Council was set to act on this in March 2020, but the plan was put on hold due to COVID and the economic uncertainty that it brought. Since that time, the Trust has remained invested and has grown to approximately \$14.9 million. Due to market volatility and plan losses since 2020 in the two CalPERS pension plans, the combined UAL has increased to \$595 million, despite the City continuing to make annual payments.

While the UAL is referenced as a lump sum value when presented to the City Council, the UAL is comprised of dozens of individual outstanding amounts related to gains, losses, and assumption changes accumulated over a period of up to 30-years. The Miscellaneous UAL is comprised of 38 individual amounts while the Safety UAL is comprised of 36 individual amounts. These individual amounts are important to understand collectively and individually when evaluating options for utilizing the Trust.

Additionally, since the General Fund provides about 31 percent of the funding for the Miscellaneous Plan, the recommended use of the Trust is for the Safety Plan, where the General Fund supports more than 90 percent of the funding.

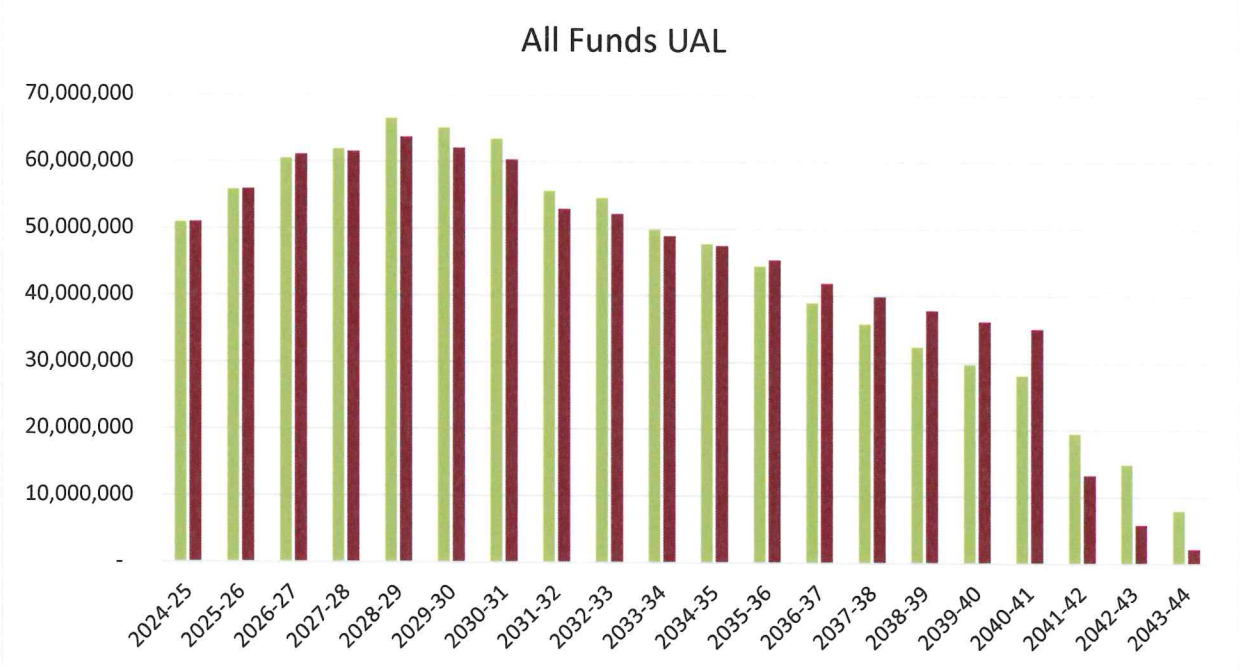
As the City Council is aware, while the General Fund Operating Budget has been balanced each year, it has been challenging, with many projects unfunded or under-funded, and the near-term horizon of the five-year forecast continues to show expenditure growth outpacing revenue growth. Personnel and pension costs are the largest portions of the General Fund and play a significant role in expenditure growth until FY 2031 due to increasing UAL payments. Staff have been reviewing ways to help maintain a balanced General Fund Operating Budget for the long-term and the prudent use of the Trust to provide stability, long-term savings, and minimize the need for reductions.

Fresh Start and ADP

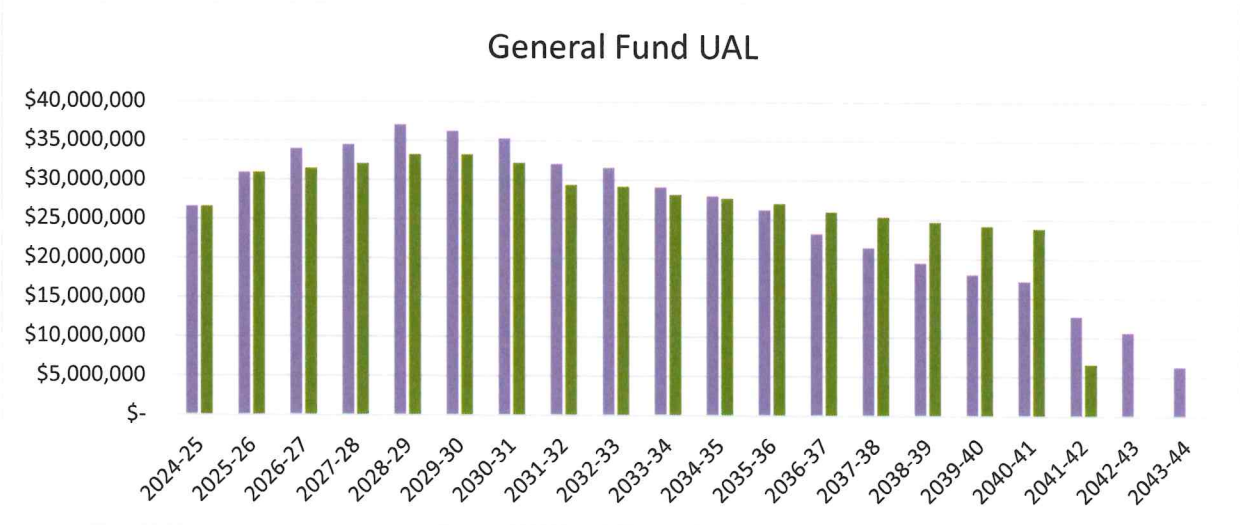
The annual CalPERS valuations provided each year serve as the basis for calculating an ADP or Fresh Start. However, since the data in these valuations are 12-24 months outdated, additional financial modeling is needed to project the future impact of an ADP or Fresh Start on future payments. The modeling and forecasts in these recommendations has been done in coordination with CalPERS actuarial staff to ensure that it was done as accurately as possible.

CalPERS provides a refinance option called a “Fresh Start” where the current individual UAL amounts can be refinanced into one lump sum amount over a duration of time that yields a net savings. This option is similar to consolidating various outstanding debts into one loan with a fixed interest rate and repayment term. A Fresh Start by itself generally comes at a higher annual cost due to the reduced payoff period; however, when combined with an ADP from the Trust, can yield lower overall annual payments as well as a shorter duration and long-term savings. The proposed action includes implementing a Fresh Start for the Safety plan and using the Trust for an ADP to buy down overall future payments. For the Safety Plan, a 16-year Fresh Start with an ADP of \$7 million in FY 2026 and utilizing the remainder of the Trust, \$7.5 million, from FY 2027 through 2029 towards UAL payments reduces the payoff by 2-years. Through utilizing these two methods, the City would realize a total General Fund savings of \$10.4 million over the repayment period. More importantly, over the five-year forecast, the restructuring plan will reduce total City General Fund payments by \$14.8 million. Targeting FY 2029 is critical as that is the peak of future UAL payments under the current repayment schedule.

The chart below is a representation of total UAL payments on an annual basis. The green bars represent the current funding requirements, and the brown bars represent the proposed restructuring.



The following chart covers the same period but is focused on the General Fund. For the General Fund, the current year payment is \$30.9 million, and the goal is minimizing annual increases or reduce that payment over time. In the proposed scenario, the FY 2027 to 2037 payments will peak at approximately \$32.3 million instead of \$37.0 million. Attachment B provides the detailed amounts.



Impact on the General Fund Forecast

As previously shared with the City Council, the General Fund Five-Year Forecast, projects challenging years ahead with traditional tax revenue growth having slowed significantly in the past two-years and expenditures continuing to increase. The table below represents the current forecast, which includes what has been approved by the City Council since the original FY 2026 Operating Budget adoption in June 2025. This forecast reflects a projected shortfall of \$7.6 million for FY 2027 and a deficit each year after.

General Fund Five-Year Forecast							
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
	Final	Draft Final	Revised Budget	Forecast	Forecast	Forecast	Forecast
Beginning Amount Available for Appropriations	18,086,075	16,215,712	2,501,993	313,526	(7,324,506)	(13,895,334)	(23,170,072)
Revenues							
Tax Revenues	262,958,941	270,710,303	274,625,007	283,775,540	294,851,749	305,997,986	317,615,437
Other Revenues	66,399,883	63,166,719	58,070,513	58,953,162	60,387,510	61,858,374	63,366,702
Contributions/Svs. From Other Funds	20,140,438	30,272,305	30,640,438	34,601,061	37,043,365	39,617,879	42,325,266
Total Revenues	349,499,262	364,149,327	363,335,958	377,329,764	392,282,624	407,474,239	423,307,405
Expenses							
Personnel	206,097,494	232,834,943	233,456,605	249,170,618	260,514,602	274,716,716	286,135,287
Debt Service	11,619,669	12,315,758	12,323,128	12,317,139	11,290,184	11,288,643	11,287,860
Contributions To Other Funds	25,269,239	16,618,230	14,780,375	15,483,983	15,793,662	16,109,535	16,431,726
Other Expenses	112,156,731	109,049,693	104,964,317	107,996,056	111,255,004	114,634,082	118,138,441
Total Expenses	355,143,133	370,818,624	365,524,425	384,967,795	398,853,452	416,748,977	431,993,314
Operating Income/(Loss)	(5,643,871)	(6,669,297)	(2,188,467)	(7,638,032)	(6,570,828)	(9,274,738)	(8,685,910)
Ending Amount Available for Appropriations	12,442,204	9,546,416	313,526	(7,324,506)	(13,895,334)	(23,170,072)	(31,855,982)

The following table represents the forecast with the use of the Trust to implement the Fresh Start and ADP strategy.

General Fund Five-Year Forecast with Fresh Start and ADP							
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
	Final	Draft Final	Revised Budget	Forecast	Forecast	Forecast	Forecast
Beginning Amount Available for Appropriations	18,086,075	16,215,712	1,490,347	(698,120)	(5,817,763)	(11,094,972)	(17,710,711)
Revenues							
Tax Revenues	262,958,941	270,710,303	274,625,007	283,775,540	294,851,749	305,997,986	317,615,437
Other Revenues	66,399,883	63,166,719	58,070,513	58,953,162	60,387,510	61,858,374	63,366,702
Contributions/Svs. From Other Funds	20,140,438	30,272,305	30,640,438	34,601,061	37,043,365	39,617,879	42,325,266
Total Revenues	349,499,262	364,149,327	363,335,958	377,329,764	392,282,624	407,474,239	423,307,405
Expenses							
Personnel	206,097,494	232,834,943	233,456,605	246,652,229	259,220,983	272,057,717	284,345,448
Debt Service	11,619,669	12,315,758	12,323,128	12,317,139	11,290,184	11,288,643	11,287,860
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Other Expenses	112,156,731	109,049,693	104,964,317	107,996,056	111,255,004	114,634,082	118,138,441
Total Expenses	355,143,133	370,818,624	365,524,425	382,449,406	397,559,833	414,089,978	430,203,475
Operating Income/(Loss)	(5,643,871)	(6,669,297)	(2,188,467)	(5,119,643)	(5,277,209)	(6,615,739)	(6,896,071)
Ending Amount Available for Appropriations	12,442,204	9,546,415	(698,120)	(5,817,763)	(11,094,972)	(17,710,711)	(24,606,782)

Utilization of the funding strategy reduces the projected shortfall to \$5.1 million in FY 2027 and the out-year forecast to shortfalls of less than \$6.9 million annually. While this funding strategy does not solve for the total challenge, it reduced the projected cumulative shortfall through FY 2030 by \$7.75 million. Additionally, each fiscal year the total UAL and corresponding annual payment is impacted by the actual results from investment and non-investment factors. If CalPERS were to earn more than its 6.8 percent target investment return, the UAL would be reduced further and conversely, if CalPERS earns less than the 6.8 percent target, the UAL will increase. The General Fund Five-Year forecast is developed considering CalPERS' initially reported 11.6 percent investment return as of June 30, 2025, and future earnings of the assumed rate of 6.8 percent.

While there is no single remedy for the future budget challenges in the General Fund, the City has maximized internal means for fund transfers and support and has worked diligently over the last few years to ensure revenue collection is maximized. One example, is the increase in billing and collections for Emergency Medical Services, where revenue has increased from \$6.6 million in FY 2020 to a projected \$12.3 million in FY 2026. Staff will continue work on long-term strategies to stabilize and balance the budget.

COUNCIL POLICY CONSIDERATION:

The City Council's strategic planning goal of maintaining fiscal responsibility and stability will be advanced by the commitment of utilizing the Section 115 Trust funds to pay down pension obligations on a reduced repayment timeline and realizing long-term savings.

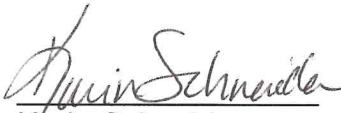
FISCAL IMPACT:

The Trust was established to assist the City with future pension obligations, and the proposed plan will reduce the General Fund's estimated cumulative budget deficit from FY 2027 to FY 2030 by \$8.26 million. Utilizing the Trust to pay down the UAL over an accelerated period, will provide the greatest amount of financial savings through reduced interest expenses. With the City facing shortfalls in the General Fund Five-Year Forecast, the use of the Trust to stabilize and reduce the shortfalls, will reduce the amount needed to balance the Operating Budget and provide long-term benefits.

Respectfully submitted,


MATTHEW E. HAWKESWORTH
Assistant City Manager

Concurred by:


Karin Schnaider
Director of Finance

Approved by:


MIGUEL MÁRQUEZ
City Manager

Attachments:

- A – Fresh Start with ADP for All Funds
- B – Fresh start with ADP for the General Fund