

Agenda Report

DATE: June 15, 1998
TO: City Council
Through 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 towards funding 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.

DISCUSSION

Status of the Fire and Police Retirement Fund as of 6/30/1997.

As of June 30, 1997, the Fire and Police Retirement System had 345 pensioners, 46 active members. Total benefits paid to pensioners in Fiscal Year 1997 were \$11,170,000 compared to \$10,989,000 paid in Fiscal Year 1996. This represents a 1.65% increase. The market value of net plan assets held in the system as of June 30, 1997 was \$63,561,269 compared to \$58,917,083 in 1996. This represents a 7.88% increase. The present value of all future benefit payouts as of 6/30/97 was \$222,906,540, a decrease by 4.14% compared to 1996. The decrease in total liabilities of the system was due to the following changes in the actuarial assumptions: the investment earnings assumption was changed from 7% to 7.5% rate, the cost of living assumption decreased from 5.5% to 4.5%, and the mortality assumptions after service retirement was changed to the 1983 Group Annuity Mortality table with ages set back 2 years from the 1971 Group Annuity Mortality table, and the mortality assumption after disability retirement was changed to the 1981 Disabled mortality Table with ages set back 6 years from the 1973 Disabled Mortality table. Using the actuarial balance sheet method to determine the funding requirements of the pension system, the present value of additional future funding requirements is \$157.36 million as of 06/30/97. Under the current Contribution Agreement, the projected present value of the City's contributions is \$148.7 million. 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.

Status of the cash assets assigned to the pension fund as of 6/30/1997.

1. Reimbursement Agreement

Senate Bill 481 provides that reimbursement amounts under this agreement shall be allocated to the Fire and Police Retirement System. The present value of this revenue stream is estimated at \$70,719,862 as of June 30, 1997 (Table 1). In Fiscal Year 1997, the contribution from SB481 was \$709,811. This decline in tax increment revenues was the result of large property tax reimbursements made by the County to taxpayers due to assessment appeals for FY 1990 through 1997 in the Downtown redevelopment project area. Staff's tax increment revenue projection for fiscal year 1998 through fiscal year 2014 reflects this adjustment.

The analysis of the Reimbursement Agreement value is based on the following assumptions:

1. A 2% growth rate in tax increment receipts for fiscal years 1999 through 2001, a 4% growth rate for fiscal years 2002 through 2004, and a 3% growth rate for Fiscal years 2005 through 2014.
2. The tax increment available to the retirement fund is based on the projected tax increment receipts less the annual debt service obligation on the outstanding Downtown Tax Allocation Bonds, less \$800,000 housing set aside, and less \$800,000 administration fees to the Community Development Commission.
3. The analysis assumes a 7.5% discount rate in calculating present values, and assumes that contributions are made on April 30th of each year with any residual amounts received from the County after April 30th being transferred to the FPRS shortly following receipt by the City.
4. The analysis assumes that the provisions of SB481 and the flow of the tax increment revenues from Downtown Redevelopment project area to the FPRS will not be jeopardized by future legislation.

2. Supplemental City Contribution of annual \$3 million

Senate Bill 481 provides that the City shall undertake by ordinance to contribute additional monies from its General Fund to the Fire and Police Retirement System. The City has been continuing its current policy of contributing an annual \$3 million in cash or income producing assets to the Fire and Police Retirement System. Resolution #6379 and Section 2(i) of the Fire and Police Retirement System "Contribution Agreement" state that "the City shall annually contribute cash from the General Fund until fiscal year 2024 to the extent necessary". Section 3 of the Contribution Agreement further states that: "any additional cash flow that will be contributed in the future will reduce the cash requirements from the General Fund contribution, and therefore, change the term of the annual \$3 million City contribution".

The calculation of the present value of this contribution is based upon the following assumptions:

1. A discount rate of 7.5% is used to compute the present value.
2. The annual \$3 million contributions are made in January of each year until 2024.
3. All other necessary supplemental contributions will be made in July of each year so long as required to ensure all benefits are paid.

Given these assumptions and those included in the actuarial report, it is assumed that the annual \$3 million supplemental City contribution to the pension fund will be made until year 2024. The present value of this cash flow stream is valued at \$33,334,872 as of June 30, 1997 (Table 1).

Given the current assumptions used, the cash flow analysis indicates that the pension system's assets will deplete in year 2033 and the City will have to contribute additional General Fund revenues to the FPRS starting in year 2033 until year 2073 to meet all benefit payments to the system beneficiaries. These additional contributions are above and beyond the requirements in the "Contribution Agreement" and have a present value of \$8,641,202.

3. Conference Center Debt Service

The Conference Corporation Leasehold Mortgage Bonds Series A, B, & C were issued in the early 1970's in the amount of \$20,800,000 to finance the construction of the Conference Center in the downtown redevelopment area. The total debt service amount of \$1,668,115 on Series A, B, and C is paid annually, and the last payment on the obligation was due in January 1998. Once completed, this stream of cash has been assigned to the Fire and Police Retirement Fund until the actuarially valued assets match actuarially valued liabilities. Using the same actuarial assumptions described above, this cash flow stream is estimated to be made until 2042 (Table 1) and is valued at \$20,561,439 as of June 30, 1997. The analysis assumes a 7.5% discount rate, and assumes that contributions are made at year end. In later years, if this asset is no longer needed, it will be reduced as is appropriate.

4. High Pressure Sodium Loan

The City of Pasadena obtained a loan in the amount of \$700,000 from the State of California Energy Resources Conservation and Development Commission in order to convert the City Street Lighting system to energy-saving high pressure sodium. The last payment on the loan, in the amount of \$118,343, was due in 1992. This annual cash flow stream has been assigned to the Fire and Police Retirement System starting in 1993. This stream of cash is estimated to be made until 2042 and has a present value of \$1,572,854 as of June 30, 1997 (Table 1). The analysis assumes a 7.5% discount rate, and assumes the contributions are made at year end. In the later years, if this asset is no longer required, it will be reduced as is appropriate.

Actuarial Balance Sheet and Funding Requirements as of 6/30/1997

	4.5% COLA
	<u>7.5% Disc. Rate</u>
Present value of Total Liabilities	(222,906,540)
<u>Less:</u>	
Net applicable assets on hand at market value	63,561,269
Present Value of future member contributions	1,985,517
Balance	(157,359,754)
<u>Present Value of City Contributions</u>	
(a) Funded Basic benefits	2,874,604
(b) Unfunded Basic including 1919 benefits	18,968,396
(c) Statutory 5% COLA	686,525
(d) Reimbursement Agreement (Supplemental)	70,719,862
(e) General Fund (Supplemental)	33,334,872
(f) Conference Center Debt Service (Supplemental)	20,561,439
(g) Hi Pressure Sodium Loan (Supplemental)	1,572,854
Total PV of City Contributions	148,718,552
Additional General Fund required Contributions	(8,641,202)

FISCAL IMPACT

The Development Commission paid the City \$709,811 of tax increment revenues in Fiscal 1997 under the terms of the reimbursement agreement. The City contributed the same amount in cash to the Fire and Police Retirement System along with \$3.118 million supplemental General Fund contribution in accordance with the Contribution Agreement between the City and the Fire and Police Retirement System. These contributions, coupled with the investment earnings on the portfolio less the benefits paid to pensioners in Fiscal Year 1997 increased the net asset value (market value) of the Fire and Police Retirement System to \$63.56 million.

It is extremely important to note that the cash flow projections are based on certain fixed assumptions adopted by the Fire and Police Retirement Board (7.5% rate of return on the FPRS portfolio and a 4.5% annual COLA adjustment on future benefit payments). In reality, the FPRS portfolio has experienced an average annual rate of return of 14.4% over the last 12 years, while inflation averaged 3.23% for the twelve year period between 1986 to 1998. The pension funding is also affected by other variable factors such as salary increases to the Police and Fire employees, legislation affecting the amount of pension benefits, and regional and local real estate conditions and turnover rates. As a result, these projections will change annually depending upon the changes in those variable factors.

For purposes of illustration, if the actual return on the FPRS portfolio exceeds on average the assumed annual 7.5% rate, and everything else occurs according to the assumptions, the following will be the impact on the General Fund contributions:

Earnings Rate	Aggregate		Add'l G.F. Contributions		Difference in total required General Fund Contributions	Reduction in the G.F. Contributions Present Value	Year Contributions are no longer required
	G.F. Contributions	Present Value	over/above Agreement	Present Value			
7.50 %	156,623,187	55,469,164	180,862,031	8,630,626	-0-	-0-	2073
8.50 %	110,607,569	46,672,533	-0-	-0-	(226,877,649)	(17,427,257)	2022
9.00 %	78,062,363	39,289,077	-0-	-0-	(259,422,855)	(24,810,713)	2015

Impact of the State's budget cuts on the Fire and Police Retirement System

A single major feature in the State of California budget for FY 1993/94 was the shift of property taxes and redevelopment funds from local governments to schools. The total impact to redevelopment agencies in the 1993-94 budget was \$65 million. This shift, which was supposed to be a one time allocation in 1992 (\$380 million), has continued in subsequent years and became a permanent procedure by altering the Statement of Indebtedness (SOI) of redevelopment agencies. The State's current budget limits the amount of tax increment that would be claimed to a project area's current year debt service. In order to protect SB481 and its provisions and protect the flow of tax increment revenues to the pension system, the City lobbied and was successful in getting special legislation enacted (AB 1251 (Polanco), Chapter 902 statutes of 1993, approved by the Governor on October 7, 1993, and AB 1519 (Isenberg), Chapter 905 Statutes of 1993 approved by the Governor on October 7, 1993.

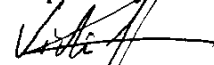
The analysis in this report assumes that there will be no legislative changes in the future that will negatively impact the City's ability to fund the Fire and Police Retirement System from the current assigned cash assets.

Respectfully submitted,



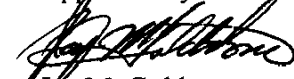
Cynthia J. Kurtz
Acting City Manager

Prepared by:



Vic Erganian
City Treasurer

Approved by:



Jay M. Goldstone
Director of Finance