

# Agenda Report

March 15, 1999

TO: CITY COUNCIL

FROM: City Manager

SUBJECT: Approval of Contribution Agreement Between the City of Pasadena And the Fire And Police Retirement System

## **RECOMMENDATION**

It is recommended that the City Council approve a Contribution Agreement between the City of Pasadena (City) and the Fire and Police Retirement System (FPRS or System).

## **BACKGROUND**

The City Charter established the Fire and Police Retirement System and prescribed certain benefits to police and fire employees who are members of the System. In 1977, the Charter was amended and the FPRS was closed to all new members. New public safety employees of the Police and Fire Departments were then covered under the State's Public Employee Retirement System. In 1977, the Charter was also amended to provide for a cost-of-living adjustment (COLA) for FPRS beneficiaries comparable to changes in the regional consumer price index.

Due to the uncapped COLA provision, System costs grew at a faster pace than the annual City's contribution and in 1991, the City and the System entered into a Contribution Agreement which called for the City to make annual supplemental financial contributions to the FPRS. These contributions included the annual net proceeds of tax increment received by the City from the Downtown Redevelopment Project Area and an annual fixed amount from the City's General Fund, beginning with \$3,118,343 and growing to \$4,786,458. Payments from the Downtown tax increment will cease in 2014, while the General Fund contributions are scheduled to be reduced by \$3 million per year in 2024.

## **DISCUSSION**

Based upon the FPRS Board's current actuarial assumptions, as of June 30, 1998, the System is approximately 30% funded. No beneficiary of the System is in jeopardy of not receiving retirement benefits; however, since the System is closed to new members and the fact that there are approximately 41 active members (members still employed with the City), the low funding percentage is not actuarially recommended. As such, the City has proposed to the FPRS to issue Pension Obligation Bonds (POB) in order to provide an infusion of cash to the System.

In order to make this financially feasible for the City, the City and the FPRS have negotiated a new contribution agreement which spells out a new funding arrangement between the City and the System once the POB have been issued. In addition, the new agreement specifies modifications to the current funding arrangement during an interim period between July 1, 1999 and whenever the bonds are ultimately issued.

Under the new agreement, the City will:

1. Issue up to \$100 million in Pension Obligation Bonds;
2. Guarantee a minimum funding of the System at 70% on the day the bonds are issued;
3. Guarantee a growth in the minimum funding percentage of ½% per year for twenty years. This will cap at 80%;
4. Guarantee supplemental payments to the System should the funding percentage drop below the minimum guarantee; and
5. Continue to make the Charter required 5% COLA payments to the System.

Under the new agreement, the FPRS will:

1. Conditionally assign to the City all cashflow specified under the existing contribution agreement;
2. Modify its actuarial assumptions for both earnings and COLA rates to be the mathematical average of those 1937 Retirement Act Counties throughout the State; and
3. Will not require any additional Charter required payments from the City, except for the 5% COLA contribution. This is because it will be expected that all benefits, except COLA benefits, will be funded once the \$100 million has been paid to the System. In addition, any funding shortfall will be covered by the supplement payments which the City will make should the funding of the System fall below the guaranteed minimum funding percentage.

If this agreement is approved by the City Council, it will be submitted to the Fire and Police Retirement Board for approval.

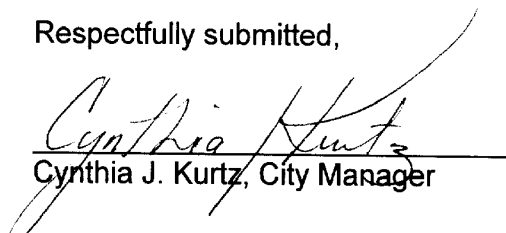
Staff is presently completing the preparation of all required bond documents and will return to the City Council for approval of these documents in April. Once approved, staff will ask the courts to validate the issuance of the Bonds and the City's right to utilize the cashflow from the Downtown tax increment for debt service. Once validated by the courts (minimum of 60 days), the City will proceed with the actual issuance of the bonds.

Should it take longer than 60 days, provisions have been included in the new contribution agreement to address the current funding status of the System. This includes potentially supplementing the City's annual contribution to the System. This will occur if the present value of future projected cash payments to the System from both the City and the System's active members, added to the market related value of the System's assets is less than the projected present value of future System liabilities. Any shortfall will be calculated annually and will be paid to the System over an amortized period ending in 2007.


### **FISCAL IMPACT**

It is projected that this new contribution agreement will provide the System with the necessary infusion of cash, while at the same time save the City money. It is projected that a \$100 million bond sale (plus funding for the cost of issuance) will cost the City \$8 to \$9 million annually in debt service. The projected cashflow being conditionally reassigned to the City by the System is projected to be adequate to cover this expense.

Respectfully submitted,

  
Cynthia J. Kurtz, City Manager

Approved:

  
Jay M. Goldstone, Director of Finance

## CONTRIBUTION AGREEMENT

This Contribution Agreement (the "Agreement") entered into as of the \_\_\_\_\_ day of \_\_\_\_\_, 1999, by and between the City of Pasadena (the "City") and the Pasadena Fire and Police Retirement System (the "System");

WHEREAS, the System was established pursuant to Article XV, Section 1501 of the Charter of the City; and

WHEREAS, the System is a closed retirement system which as of June 30, 1998, had assets of \$63,992,169 (at book value) and liabilities to beneficiaries of the System of \$218,056,672 all as reported in the System Actuarial Valuation as of June 30, 1998 of Buck Consultants, Inc. dated February, 1999, for the fiscal year 1998 (the "Actuarial Report"); and

WHEREAS, as of June 30, 1998, based upon the Actuarial Report, the City has unfunded future liabilities to the System of the sum of \$133,005,666; and

WHEREAS, as of May 23, 1991, the City and the System entered into an agreement entitled Fire and Police Retirement System Contribution Agreement (the "Prior Agreement") pursuant to which the City agreed to make certain payments to the System; and

WHEREAS, the City and the System desire to supercede the Prior Agreement with this Agreement; and

WHEREAS, the City and the System each has the power to enter into this Agreement and to perform the obligations required by it to be performed hereunder;

NOW, THEREFORE, the parties hereto agree as follows: