

LONG-TERM FINANCIAL STRATEGIES TO ADDRESS RISING PENSION COSTS

Targeted Funded Percentage

Our projections for targeted funded percentages (percent difference between assets available to pay pension costs and the total pension liability) through 2026 are as follows:

Valuation Date	6/30/19	6/30/20	6/30/21	6/30/22	6/30/23	6/30/24	6/30/25	6/30/26
Miscellaneous	81.9%	81.8%	83.2%	83.8%	83.9%	84.1%	85.0%	85.5%
Police	71.0%	70.5%	71.4%	71.9%	72.0%	72.8%	72.8%	73.8%
Fire	72.7%	72.1%	73.1%	73.6%	73.6%	74.5%	74.5%	75.5%

The ultimate target fund percentage is 100% funded. However, this would require funding resources beyond the city's current means. As of June 30, 2017, the additional funding necessary to bring these percentages to 100% would be \$47.0M or 68% of the City's total 2019-20 Adopted budget. As a pension mitigation strategy, and as measure to possibly increase the funded percentage, the City's 2019-20 Adopted Operating and Capital Budget authorized \$200,000 to begin investing in a Section 115 Trust to address future pension liabilities. This gives the City flexibility to use these funds to address current pension cost or directly address the unfunded percentage.

Payroll percentage of pension costs

The payroll percentage of General Fund pension costs will average 22% percent of General Fund payroll over the next ten years. Our goal is to ensure that pension cost, as well as other projected expenses, are addressed during the development of the City's annual budget. More specifically, we will review measures to reduce this percentage as additional resources become available and as necessity dictates (such as the future changes in CalPERS actuarial assumptions such as further reductions in CalPERS discount rate) on an annual basis.

Other Mitigation Measures

In addition, to the Section 115 trust authorized by the 2019-20 Adopted Operating and Capital Budget, the city also has a number of Fund Balance Commitment (Reserve) Allocations that are available if need arises driven by unforeseen pension costs or other unforeseen expenditure needs. The commitments are as follows:

2019-20 Fund Balance Commitments (General Fund)

- General Fund \$ 2,726,639
- Compensated Absences \$ 150,000
- Facility Maintenance and Replacement \$ 205,000