

**AGENDA
BUDGET AND FINANCE COMMITTEE
BANNING, CALIFORNIA**

October 20, 2020
8:30 a.m.

Banning Civic Center
Council Chambers
99 E. Ramsey Street
Banning, CA 92220

Due to the COVID-19 pandemic emergency, and to protect the health and safety of all participants, **this meeting is being held in person and via video/teleconference.** Pursuant to Governor Newsom’s Executive Orders, members of the Banning City Council, staff and public may observe and participate in this meeting electronically or telephonically as outlined below:

To observe and participate in the on-line video portion of the meeting through your personal computer or device enter the following or click on the link:
<https://us02web.zoom.us/j/81524360357?pwd=SFBqM2hWcmcrS3RzVUpSVWpFRnJQdz09>

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or on the Banning Government Channel on Cable Television

I. CALL TO ORDER

- Roll Call – Committee Chairman Welch, Committee Member McQuown, Committee Member Happe

II. PUBLIC COMMENT

- *This is the opportunity for members of the public to address the committee on matters within the Committee’s jurisdiction. Please limit comments to five (5) minutes or less. State law prohibits Committee members from discussing or taking action items not included on the agenda.*

III. AGENDA ITEMS

1. CalPERS Update-Receive and File CalPERS Investment Returns and Impacts on the City of Banning's Budget

IV. ADJOURNMENT

Any member of the public may address this meeting of the Budget and Finance Committee on any item appearing on the agenda by approaching the microphone in the Council Chamber and asking to be recognized, either before the item about which the member desires to speak is called, or at any time during consideration of the item. A five-minute limitation shall apply to each member of the public, unless such time is extended by the Chairperson. No member of the public shall be permitted to "share" his/her five minutes with any other member of the public.

Any member of the public may address this meeting of the Budget and Finance Committee on any item which does not appear on the agenda, but is of interest to the general public and is an item upon which the Committee Members may act. A five-minute limitation shall apply to each member of the public, unless such time is extended by the Mayor. No member of the public shall be permitted to "share" his/her five minutes with any other member of the public. The Chairperson and Committee Members will in most instances refer items of discussion which do not appear on the agenda to staff for appropriate action or direct that the item be placed on a future agenda of the Budget and Finance Committee. However, no other action shall be taken, nor discussion held by the Committee Members on any item which does not appear on the agenda, unless the action is otherwise authorized in accordance with the provisions of subdivision (b) of Section 54954.2 of the Government Code.

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the City Clerk's Office (951)-922-3100. **Notification 48 hours prior to the meeting** will enable the City to make reasonable arrangements to ensure accessibility to this meeting. [28 CFR 35.02-35.104 ADA Title II]

Pursuant to amended Government Code Section 54957.5(b) staff reports and other public records related to open session agenda items are available at City Hall, 99 E. Ramsey St., at the office of the City Clerk during regular business hours, Monday through Friday, 8 a.m. to 5 p.m.



CITY OF BANNING
AFFIDAVIT OF POSTING

I hereby certify under penalty of perjury under the laws of the State of California that I caused to be posted the Regular Agenda of the October 20, 2020 Budget & Finance Committee Meeting on the Banning City Hall Bulletin Board and the City's Website on October 15, 2020.

Signed: _____

Laurie Sampson, Executive Secretary

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**CITY OF BANNING
CITY COUNCIL REPORT**

TO: BUDGET AND FINANCE COMMITTEE

FROM: Douglas Schulze, City Manager

PREPARED BY: Jennifer Christensen, Administrative Services Director
Suzanne Cook, Deputy Finance Director

MEETING DATE: October 20, 2020

SUBJECT: CalPERS Investment Return for 6/30/2020 and Impacts on the City of Banning's Budget

RECOMMENDED ACTION:

Receive and file an update on CalPERS investment returns and impacts on the City of Banning's budget.

FISCAL IMPACT:

\$50,000 increased expenditures annually beginning fiscal year 2022-23 through 2026 and continuing at \$250,000 per year until fiscal year 2041-2042 based on the CalPERS current amortization policy.

ATTACHMENTS:

1. CalPERS Update Presentation

Approved by:

Douglas Schulze
City Manager

ATTACHMENT 1

Pension Funding Overview

Banning, CA



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Understanding Pension Funding



Basic funding principles



What are our funding targets?



How are we doing against our funding targets?



How much do I pay each year?

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Basic Funding Principle

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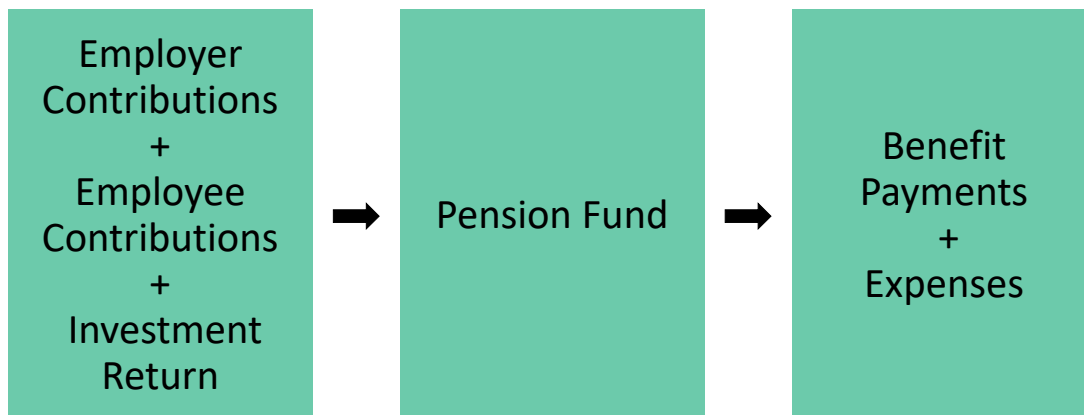
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Money In

=

Money Out



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Present Value

The amount of money needed today which, along with expected earnings, should be enough to be able to make expected payments in the future.

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Present Value of Projected Benefits

Long Term Funding Target

- The amount of money needed today which, along with expected earnings on that money, would be enough to pay expected benefits for all current and former plan members

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Assumptions Set Future Expectations



Economic

- Inflation
- Investment Return
- Salary Growth



Demographic

- Retirement
- Disability
- Death
- Termination

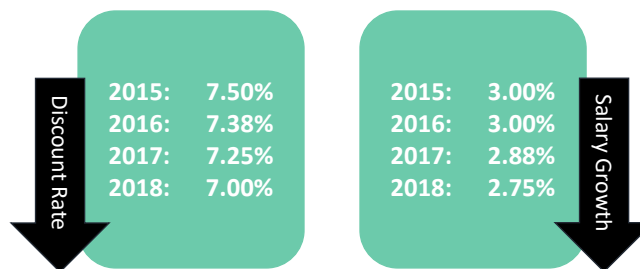
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CalPERS Assumption Changes



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Basic Funding Principle

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Pensions are Deferred Compensation



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Funding Concept 2

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Allocate Costs to Past/Present/Future

Past: Actuarial Liability

+

Present: Normal Cost

+

Future:

Present Value of Future Employer Normal Costs, and
Present Value of Future Employee Contributions

=

Present Value of Projected Benefits

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Actuarial Liability

Funding Target

- The assets that would be in the fund today, IF
 - The Normal Costs had always been paid into the fund,
 - Current plan benefits had never been changed,
 - Employee experience had always matched current assumptions,
 - Investment experience had always matched assumptions.

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Unfunded Actuarial Liability (UAL)

Progress Against Target

- Actuarial Liability minus Assets
- The amount that the current assets are behind (or ahead of) the funding target

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How Did We Get a UAL?

Experience	Change	Don't follow
<p>Experience different than expected</p> <ul style="list-style-type: none"> • Investment • Demographic 	<p>Change the target</p> <ul style="list-style-type: none"> • Benefit increase • Assumption change 	<p>Don't follow the plan.</p>

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Funding Concept 3

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Total Normal Cost

Benefits Attributed to Current Year of Service

- The percentage of payroll that would be sufficient to fully fund promised benefits for current active employees, IF
 - This percentage were paid each year from the time the employee is hired until the employee leaves,
 - Current plan benefits are not changed,
 - Employee experience matches assumptions, and
 - Investment experience matches assumptions.

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Employer Normal Cost

- Total Normal Cost
- Less
- Employees Contributions

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Employer Normal Cost

- Total Normal Cost
- Less
- Employees Contributions

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CalPERS New Amortization Method

Amortization of new UAL beginning in June 30, 2019 Valuations for FY 2021-2022 Contributions

- Assumption, method, benefit, or other change: level dollar over 20 years
- Investment (Gain) or Loss: 5-year ramp-up, no ramp-down. Level Dollar amortized over 20 years
- Golden Handshake: Level dollar over 5 years

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CalPERS FY 19-20 Investment Return Update

Investments & Returns

- What was the investment return for FY 19-20?
- How are assets allocated?
- How does the FY 19-20 return compare to historical averages?

Agency Impact

- How are actuarial investment losses amortized?
- What is your agency's projected impact on employer contributions, unfunded accrued liability, and funded percentage?

Options & Next Steps

- Agency options include:
 - Funding Policy
 - Additional Discretionary Payments
 - Fresh Start
 - Section 115 Trusts

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CalPERS Investment Return: **4.7%**

CalPERS assets earned **4.7%** for the 12-month fiscal year ending June 30, 2020.

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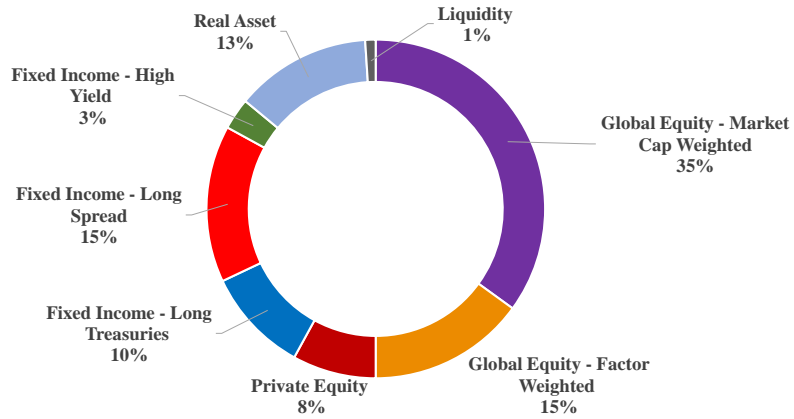


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CalPERS Asset Allocation as of June 30, 2020

Fixed income, global equity, and private equity comprise the primary investment returns for the year ending in June 30, 2020.

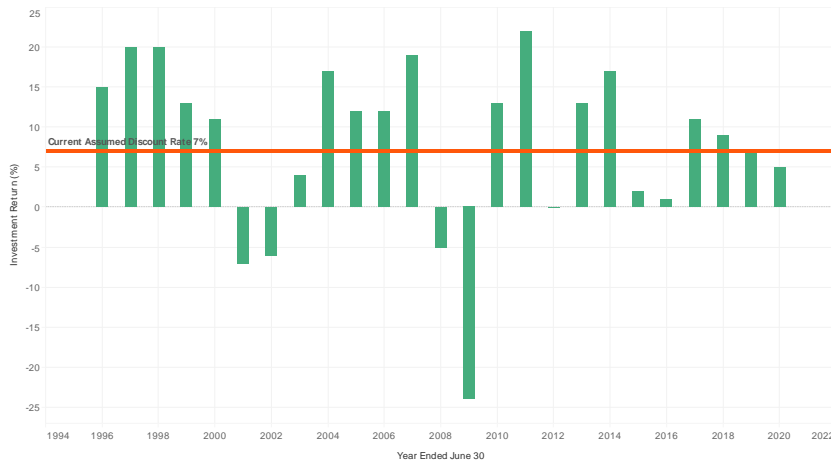


*Source: **CalPERS and Employers: Fiscal Year Returns, Cost Impacts and Our Path Forward", 7/21/2020

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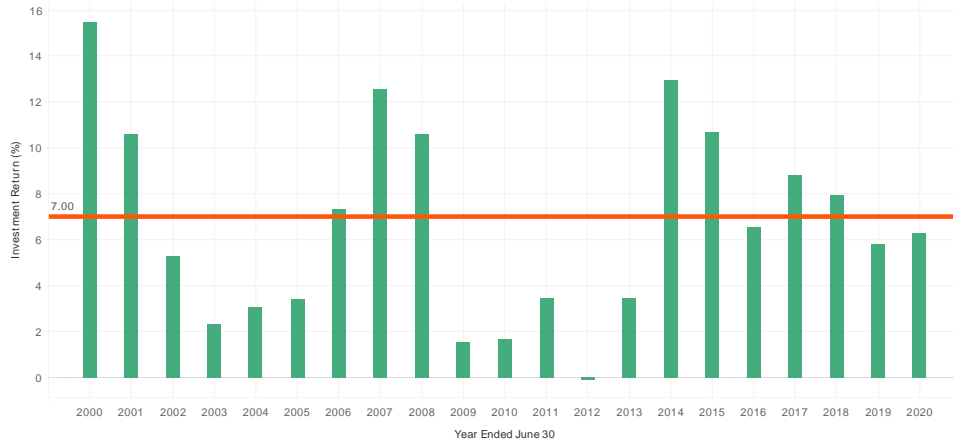
CalPERS Investment Returns Since 1996



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5 Year Rolling Average Returns



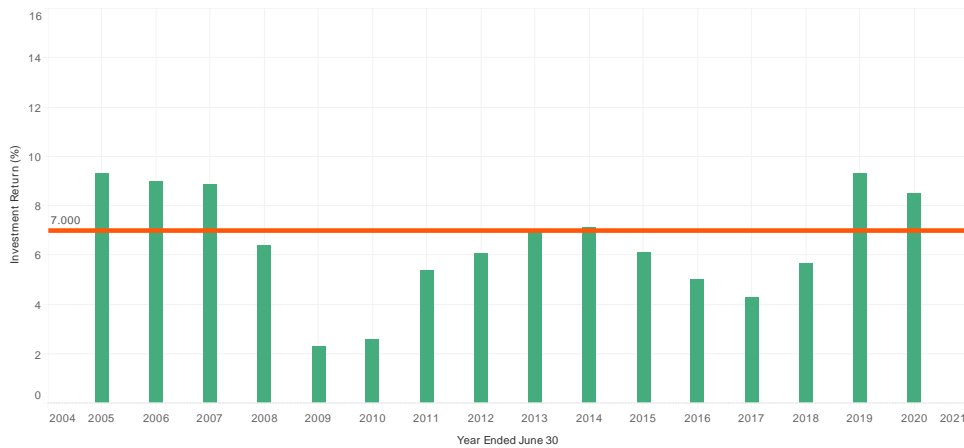
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10 Year Rolling Average Returns



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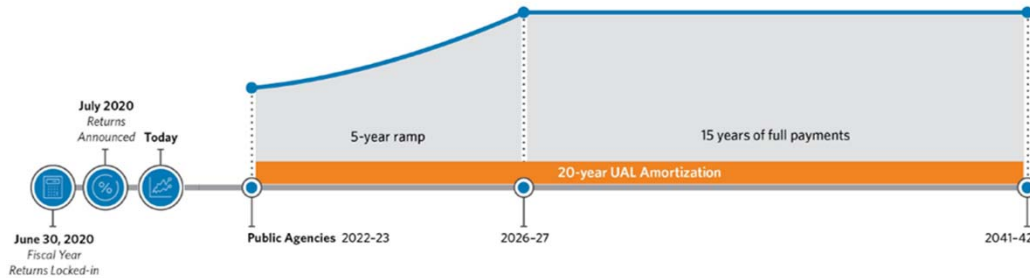


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How Actuarial Investment Gains/Losses Are Amortized

Public Agency Contributions



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Projected Employer Contributions

(\$ in Millions)

Year	Total Employer Contribution	Total Employer Contribution with	\$	%
	Assuming 7% Investment Return	Actual 4.7% Investment Return		
	FY 19-20	FY 19-20		
2020	\$4.98	\$4.98	\$0.00	0.00%
2021	\$5.41	\$5.41	\$0.00	0.00%
2022	\$5.36	\$5.42	\$0.05	0.98%
2023	\$5.68	\$5.78	\$0.10	1.84%
2024	\$6.03	\$6.19	\$0.16	2.60%
2025	\$6.11	\$6.32	\$0.21	3.43%
2026	\$6.37	\$6.63	\$0.26	4.11%
2027	\$6.46	\$6.72	\$0.26	4.05%
2028	\$6.54	\$6.80	\$0.26	4.00%
2029	\$6.63	\$6.90	\$0.26	3.95%
2030	\$6.73	\$6.99	\$0.26	3.89%
2031	\$6.49	\$6.75	\$0.26	4.03%
2032	\$6.40	\$6.67	\$0.26	4.09%
2033	\$6.18	\$6.44	\$0.26	4.24%
2034	\$6.03	\$6.29	\$0.26	4.34%
2035	\$5.82	\$6.08	\$0.26	4.50%
2036	\$5.43	\$5.69	\$0.26	4.82%
2037	\$4.63	\$4.89	\$0.26	5.65%
2038	\$4.38	\$4.65	\$0.26	5.97%
2039	\$4.21	\$4.47	\$0.26	6.22%
2040	\$4.09	\$4.35	\$0.26	6.41%
2041	\$3.66	\$3.93	\$0.26	7.14%
2042	\$3.47	\$3.47	\$0.00	0.00%

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Projected Unfunded Accrued Liability

(\$ in Millions)

Year	Total UAL Assuming 7% Investment Return	Total UAL with Actual 4.7% Investment Return	\$ Change
	FY 19-20	FY 19-20	
2020	\$45.59	\$47.68	\$2.09
2021	\$46.14	\$48.38	\$2.24
2022	\$46.69	\$49.08	\$2.39
2023	\$47.29	\$49.79	\$2.51
2024	\$47.59	\$50.16	\$2.57
2025	\$46.03	\$48.62	\$2.59
2026	\$44.26	\$46.81	\$2.56
2027	\$42.10	\$44.57	\$2.47
2028	\$39.71	\$42.08	\$2.37
2029	\$37.05	\$39.31	\$2.26
2030	\$34.11	\$36.26	\$2.15
2031	\$30.86	\$32.89	\$2.03
2032	\$27.63	\$29.54	\$1.90
2033	\$24.27	\$26.03	\$1.76
2034	\$20.93	\$22.54	\$1.62
2035	\$17.51	\$18.97	\$1.46
2036	\$14.09	\$15.38	\$1.29
2037	\$10.85	\$11.96	\$1.11
2038	\$8.22	\$9.14	\$0.92
2039	\$5.69	\$6.40	\$0.71
2040	\$3.20	\$3.69	\$0.49
2041	\$0.69	\$0.95	\$0.25
2042	-\$1.51	-\$1.51	\$0.00

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Projected Funded Percentage

Year	Total Funded Ratio Assuming 7% Investment Return	Total Funded Ratio with Actual 4.7% Investment Return	% Change
	FY 19-20	FY 19-20	
2020	67.82%	66.35%	-2.18%
2021	68.55%	67.02%	-2.23%
2022	69.30%	67.72%	-2.27%
2023	69.98%	68.39%	-2.28%
2024	70.79%	69.21%	-2.23%
2025	72.50%	70.95%	-2.14%
2026	74.23%	72.74%	-2.01%
2027	76.11%	74.71%	-1.84%
2028	78.03%	76.72%	-1.68%
2029	80.01%	78.79%	-1.53%
2030	82.05%	80.92%	-1.38%
2031	84.15%	83.11%	-1.24%
2032	86.14%	85.19%	-1.11%
2033	88.12%	87.25%	-0.98%
2034	89.99%	89.22%	-0.86%
2035	91.82%	91.14%	-0.74%
2036	93.57%	92.98%	-0.63%
2037	95.16%	94.67%	-0.52%
2038	96.42%	96.02%	-0.41%
2039	97.58%	97.27%	-0.31%
2040	98.67%	98.47%	-0.21%
2041	99.72%	99.62%	-0.10%
2042	100.60%	100.60%	0.00%

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Funding Policy 101

- Provides guidance in making annual budget decisions
- Demonstrates prudent financial management practices
- Reassures bond rating agencies
- Shows employees and the public how pensions will be funded



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Additional Discretionary Payments (ADP)

Advantages

- Offset GASB Net Pension Liability on CAFR
- Ability to pay off select amortization base(s)

Disadvantages

- Loss of flexibility with investment
- Contribution is irreversible

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Section 115 Trusts

- Section 115 Trusts are irrevocable and designed to prefund retirement plan obligations
- Once contributions are placed into a Section 115 Trust, assets may only be used for retirement plan purposes:
 - Reimburse agency for retirement system contributions
 - Assets can be transferred to the retirement system
- Any income derived from a Section 115 Trust is tax exempt



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Fresh Start

Full Fresh Start

This would re-amortize the entire UAL over a shortened time period. Once the payment schedule with CalPERS is implemented it cannot be reversed.

Partial Base Consolidation

This would re-amortize certain specified bases over a shorter time period.

Soft Fresh Start

Simulating an accelerated payment schedule without formally adopting a new payment schedule with CalPERS.

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Workforce Cost Management

Consider Consolidating Services

- Asses the potential for economies of scale by consolidating services regionally

Revisit Exiting Labor Agreements

- Collaboratively examine the impact of salary changes on future pension costs from a data-driven perspective

Evaluate Vacancies

- Examine impact of leaving vacancies open on future pension costs

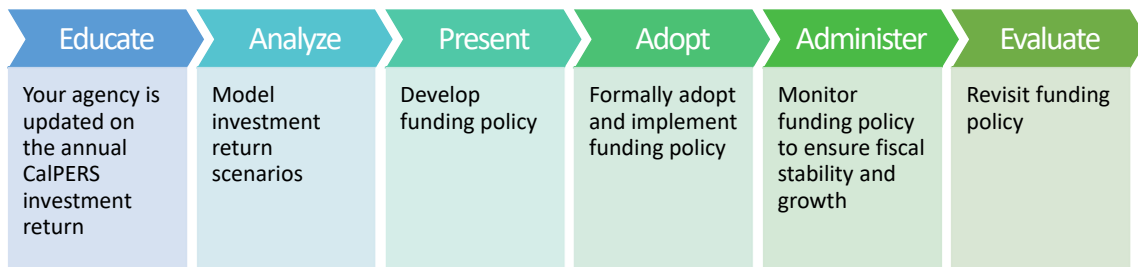
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Recommended Next Steps



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