



Item No. 9 Town of Atherton

CITY COUNCIL STAFF REPORT – CONSENT AGENDA

**TO: HONORABLE MAYOR AND CITY COUNCIL
GEORGE RODERICKS, CITY MANAGER**

FROM: ROBERT BARRON III, FINANCE DIRECTOR

DATE: APRIL 20, 2022

SUBJECT: RECOMMEND AND APPROVE A \$5 MILLION ADDITIONAL DISCRETIONARY PAYMENT (ADP) ALLOCATION TO CALPERS PENSION TOWARDS THE TOWN'S PUBLIC SAFETY CLASSIC PLAN UNFUNDED ACCRUED LIABILITY (UAL); ADOPT THE ATTACHED RESOLUTION AUTHORIZING THE CONTRIBUTION TOWARD PENSION LIABILITIES

RECOMMENDATION

Approve a \$5 million Additional Discretionary Payment (ADP) towards the Town's Public Safety Classic plan unfunded accrued liability and adopt the attached resolution authorizing the contribution toward pension liabilities.

BACKGROUND

One of the Town's core strategies is financial stability. The Town's financial stability rests with the Town's guiding value of fiscal stewardship. It is a core value that is used to address priorities such as long-term liabilities, capital project needs, and maintaining healthy reserves. The City Council has set policy level goals and Goal Area A is maintain fiscal responsibility. This goal includes maintaining a balanced budget with adequate reserves; and address long-term liabilities.

Each year the Audit & Finance Committee reviews the CalPERS actuary reports to develop an understanding of potential funding mechanisms for the Town pension liability. Some notable changes over the years included CalPERS implementing a rate smoothing policy, changes in actuary assumptions due to demographics, investment risk volatility with new asset allocations, and most notably changes in the discount rate. The CalPERS actuarial reports encompass these changes above and the effects on the Town pension liabilities. The Committee over the years reviews these reports as an understanding in helping the Town review strategies for reducing the Town's long-term liabilities.

Strategies included efforts to reduce future pension payments by paying down unfunded liabilities and managing future increases by creating reserves. In the past several years there have been increased discussion regarding public pension costs and how much these costs are impacting

ADDITIONAL DISCRETIONARY PAYMENT ALLOCATION TO CALPERS ATHERTON PUBLIC SAFETY PLAN

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annual budgets. In FY 2021/22 the Finance Committee presented a letter reporting on Pension Liability funding. It included recommendations for the City Council to consider on addressing pension liabilities.

ANALYSIS

During the City Council March 2, 2022 Study Session, staff presented the Town Master Plan and Financial Planning Model. The Council discussed the possibility of contributing an Additional Discretionary Payment (ADP) to CalPERS toward the Town’s Unfunded Actuarial Liability (UAL). It was discussed the Town could contribute funds toward its own Section 115 Trust or it could contribute directly to CalPERS. The option of contributing directly to CalPERS would have immediate impact reducing the Town’s UAL, and therefore also reducing the Town’s operational budget. Using the Town’s Section 115 Trust would not reduce the UAL until funds are remitted to CalPERS.

CalPERS allows employers to make ADP’s at any time and any amount. Optional ADP payments serve to reduce the Town’s UAL and future required contributions. This can result in significant long-term savings. Every year the Town pays its required UAL payment, and it goes to the schedule of amortizations within the UAL for each retirement plan. Presented to the Council were scenarios of \$3m, \$4m, and \$5m. Illustrated was if the Town made a significant ADP to CalPERS, the UAL payment would reduce going forward.

Based on discussions, the City Council directed staff to allocate \$5 million toward the Town’s Unfunded Accrued Liability (UAL) for the Public Safety Classic Plan. The current minimum required employer contribution towards the UAL for this plan for FY 2022/23 is \$1,172,082. Staff has been in communication with its CalPERS senior actuary regarding making an ADP of \$5 million towards the Safety Plan. The attached Resolution authorizes the \$5 million ADP. The intention is to make the contribution by the April 29 deadline for our contribution to be calculated in the Town June 30, 2021 CalPERS valuation reports. CalPERS has provided the following projection of the effects of the \$5 million ADP to the Public Safety UAL.

CalPERS UAL Contribution	UAL FY 2022/23	UAL FY 2023/24	UAL FY 2024/25	UAL FY 2025/26	UAL FY 2026/27
Public Safety UAL	\$1,172,082	\$1,235,697	\$1,323,634	\$1,380,442	\$1,434,332
Public Safety UAL w/\$5m	\$830,635	\$898,986	\$974,878	\$1,021,921	\$1,065,772
Difference – Savings	\$341,447	\$336,711	\$348,756	\$358,521	\$368,560

With a \$5 million ADP contribution as illustrated above, the Town UAL Safety Plan would provide savings of \$341,447 in the FY 2022/23. The new UAL payment for the Classic Safety Plan would go from \$1,172,082 to \$830,635 in FY 2022/23. Over the next five (5) fiscal years this would net savings of approximately \$1.75 million in Public Safety UAL pension expense. CalPERS actuary also provided information on the FY 2022/23 employer contribution requirement following our \$5 million ADP lump sum payment. The current projected 06/30/2022 Total Unfunded Liability for the Public Safety plan is \$14,861,560, and with the \$5 million contribution, the revised Unfunded Liability is \$9,801,767.

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It is recommended that when paying our ADP that we follow the strategy of applying it to the longest amortized periods first as this will provide the most interest savings to the Town. This assumes the payment will be made by April 25, 2022 and discusses the payment will be applied to the Investment (Gain)/Loss 6/30/2013, Non-Investment (Gain)/Loss 06/30/2014, Investment (Gain)/Loss 06/30/2015, Investment (Gain)/Loss 06/30/2016, Non-Investment (Gain)/Loss 06/30/2017, and Non-Investment (Gain)/Loss 06/30/2018. The below table highlights in yellow the bases that will be fully paid off when we make the \$5million payment. Any additional amounts left over will be applied to the base highlighted in blue, Investment (Gain)/Loss 06/30/13.

Schedule of Amortization Bases

Reason for Base	Date Est.	Ramp Level 2022-23	Ramp Shape	Escalation Rate	Amort. Period	Balance 6/30/20	Expected Payment 2020-21	Balance 6/30/21	Expected Payment 2021-22	Balance 6/30/22	Minimum Required Payment 2022-23
SHARE OF PRE-2013 POOL UAL	06/30/13	No Ramp		2.75%	15	3,844,622	317,238	3,785,592	325,962	3,706,150	334,926
NON-INVESTMENT (GAIN)/LOSS	06/30/13	100%	Up/Down	2.75%	23	(52,950)	(3,592)	(52,941)	(3,691)	(52,727)	(3,792)
INVESTMENT (GAIN)/LOSS	06/30/13	100%	Up/Down	2.75%	23	4,664,341	316,415	4,663,543	468,441	4,496,558	316,012
NON-INVESTMENT (GAIN)/LOSS	06/30/14	100%	Up/Down	2.75%	24	41,743	2,760	41,810	43,208	0	0
INVESTMENT (GAIN)/LOSS	06/30/14	100%	Up/Down	2.75%	24	(3,344,227)	(221,143)	(3,349,571)	(227,225)	(3,342,518)	(233,473)
ASSUMPTION CHANGE	06/30/14	100%	Up/Down	2.75%	14	2,157,319	205,138	2,096,135	210,779	2,020,845	216,575
NON-INVESTMENT (GAIN)/LOSS	06/30/15	100%	Up/Down	2.75%	25	(7,497)	(392)	(7,616)	(504)	(7,613)	(517)
INVESTMENT (GAIN)/LOSS	06/30/15	100%	Up/Down	2.75%	25	2,024,790	105,905	2,056,976	2,125,763	0	0
NON-INVESTMENT (GAIN)/LOSS	06/30/16	100%	Up/Down	2.75%	26	(412,922)	(16,227)	(425,041)	(22,231)	(430,969)	(28,553)
INVESTMENT (GAIN)/LOSS	06/30/16	100%	Up/Down	2.75%	26	2,477,261	97,353	2,549,967	2,635,240	0	0
ASSUMPTION CHANGE	06/30/16	100%	Up/Down	2.75%	16	773,029	42,087	783,606	57,660	777,303	74,057
NON-INVESTMENT (GAIN)/LOSS	06/30/17	80%	Up/Down	2.75%	27	31,603	840	32,946	34,048	0	0
INVESTMENT (GAIN)/LOSS	06/30/17	80%	Up/Down	2.75%	27	(1,231,442)	(32,734)	(1,283,783)	(50,451)	(1,318,942)	(69,118)
ASSUMPTION CHANGE	06/30/17	80%	Up/Down	2.75%	17	971,501	35,426	1,002,861	54,601	1,014,629	74,803
NON-INVESTMENT (GAIN)/LOSS	06/30/18	60%	Up/Down	2.75%	28	176,844	2,415	186,725	192,969	0	0
INVESTMENT (GAIN)/LOSS	06/30/18	60%	Up/Down	2.75%	28	(364,808)	(4,982)	(385,191)	(10,239)	(400,803)	(15,781)
ASSUMPTION CHANGE	06/30/18	60%	Up/Down	2.75%	18	1,427,732	26,620	1,500,137	54,703	1,545,614	84,311
METHOD CHANGE	06/30/18	60%	Up/Down	2.75%	18	325,767	6,074	342,288	12,482	352,664	19,237
NON-INVESTMENT (GAIN)/LOSS	06/30/19	No Ramp		0.00%	19	206,260	0	220,698	20,139	214,893	20,139
INVESTMENT (GAIN)/LOSS	06/30/19	40%	Up Only	0.00%	19	168,558	0	180,357	3,943	188,546	7,887
NON-INVESTMENT (GAIN)/LOSS	06/30/20	No Ramp		0.00%	20	140,753	0	150,606	0	160,847	14,705
INVESTMENT (GAIN)/LOSS	06/30/20	20%	Up Only	0.00%	20	767,694	0	821,433	0	877,290	19,217
TOTAL						14,785,971	879,201	14,911,537	5,925,597	9,801,767	830,635

This schedule assumes an additional discretionary payment is made in the amount and by the date stated on page 1 of this letter.

POLICY FOCUS

Pension Obligations are long term liabilities that are earned by Town employees. Fiscal Stability is one of the core values of the Town of Atherton. One of the objectives of financial stability is to ensure the paying down of the Town’s Long-term liabilities. This is an opportunity to reduce the Town UAL and future required contributions. It can result in significant long-term savings, and ensures we address these pension liabilities.

GOAL ALIGNMENT

This Report and its contents are in alignment with the following Council Policy Goals:

- Goal A – Maintain Fiscal Transparency
- Goal F – Be Forward-Thinking, Well-Managed and Well-Planned

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PUBLIC NOTICE

Public notification was achieved by posting the agenda, with this agenda item being listed, at least 72 hours prior to the meeting in print and electronically. Information about the project is also disseminated via the Town's electronic News Flash and Atherton Online. There are approximately 1,200 subscribers to the Town's electronic News Flash publications. Subscribers include residents as well as stakeholders – to include, but be not limited to, media outlets, school districts, Menlo Park Fire District, service providers (water, power, and sewer), and regional elected officials.

ATTACHMENTS

1. CalPERS Lump Sum Payment to reduce the Safety Plan Unfunded Accrued Liability
2. Resolution Authorizing a budget amendment for ADP contribution to CalPERS



California Public Employees' Retirement System

Actuarial Office

400 Q Street, Sacramento, CA 95811 | Phone: (916) 795-3000 | Fax: (916) 795-2744

888 CalPERS (or 888-225-7377) | TTY: (877) 249-7442 | www.calpers.ca.gov

April 12, 2022

CalPERS ID: 1382390535
 Employer Name: TOWN OF ATHERTON
 Rate Plan: SAFETY PLAN [65]

Re: Lump Sum Payment to reduce the Unfunded Accrued Liability

Dear Requestor:

As requested, information on the fiscal year 2022-23 employer contribution requirement following your lump sum payment is shown below.

If you are aware of others interested in this information (e.g., payroll staff, county court employees, port districts), please inform them.

The information is based on the most recent annual valuation and assumes payment by *April 25, 2022* and no further contractual or financing changes taking effect before June 30, 2022. The Unfunded Accrued Liability (UAL) will be reduced or eliminated by a lump sum payment in the amount of **\$5,000,000**. The payment will be applied to the Investment (Gain)/Loss 06/30/2013, Non-Investment (Gain)/Loss 06/30/2014, Investment (Gain)/Loss 06/30/2015, Investment (Gain)/Loss 06/30/2016, Non-Investment (Gain)/Loss 06/30/2017 and Non-Investment (Gain)/Loss 06/30/2018 base(s).

There will be no change to your FY 2021-22 contributions.

Valuation as of June 30, 2020	Pre-Payment	Post-Payment
Projected 6/30/2022 Total Unfunded Liability ¹	\$14,861,560	
Payment on April 25, 2022	\$5,000,000	
Revised 6/30/2022 Total Unfunded Liability¹		\$9,801,767
FY 2022-23 Employer Contributions		
Base Total Normal Cost for Formula	31.46%	31.46%
Surcharges for Class 1 Benefit		
a) FAC 1	1.28%	1.28%
b) PRSA 50%	1.89%	1.89%
Phase out of Normal Cost Difference	<u>0.00%</u>	<u>0.00%</u>
Plan's Total Normal Cost	34.63%	34.63%
Formula's Expected Employee Contribution Rate	<u>8.99%</u>	<u>8.99%</u>
Employer Normal Cost Rate	25.64%	25.64%
Payment on Investment (Gain)/Loss 06/30/2013	\$334,057	\$316,012
Payment on Investment (Gain)/Loss 06/30/2015	\$139,762	\$0
Payment on Investment (Gain)/Loss 06/30/2016	\$171,302	\$0
Payment on Non-Investment (Gain)/Loss 06/30/2014	\$2,914	\$0
Payment on Non-Investment (Gain)/Loss 06/30/2017	\$1,774	\$0
Payment on Non-Investment (Gain)/Loss 06/30/2018	\$7,650	\$0
Payment on all other bases	<u>\$514,623</u>	<u>\$514,623</u>
Employer Unfunded Liability Payment	\$1,172,082	\$830,635

The attached schedule of the plan's amortization bases includes the additional discretionary payment(s) listed above.

ATTACHMENT 1

¹Calculated amounts were projected from June 30, 2021 to June 30, 2022 based on a discount rate of 6.80% which will be used in the June 30, 2021 valuation, rather than the 7.00% used in the June 30, 2020 valuation.

	Fiscal Year
Required Employer Contribution	2022-23
Employer Normal Cost Rate	25.64%
<i>Plus</i>	
Required Payment on Amortization Bases	
<i>Paid either as</i>	
1) Monthly Payment	\$69,219.58
<i>Or</i>	
2) Annual Prepayment Option*	\$803,005
<p><i>The total minimum required employer contribution is the sum of the Plan's Employer Normal Cost Rate (expressed as a percentage of payroll) plus the Employer Unfunded Accrued Liability (UAL) Contribution Amount (billed monthly (1) or prepaid annually (2) in dollars).</i></p> <p><i>* Only the UAL portion of the employer contribution can be prepaid (which must be received in full no later than July 31).</i></p>	

To initiate this payment, the enclosed Lump Sum Payment Request must be completed and returned to the CalPERS Fiscal Services Division with payment by Electronic Funds Transfer (EFT) or wire transfer by April 25, 2022. A copy should be sent to us.

If you have questions, please call 888 CalPERS (or 888-225-7377).



JULIAN ROBINSON, FSA, EA, MAAA
Senior Pension Actuary, CalPERS

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TOTAL						14,785,971	879,201	14,911,537	5,925,597	9,801,767	830,635

This schedule assumes an additional discretionary payment is made in the amount and by the date stated on page 1 of this letter.

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Additional UAL Payment Request

Please complete and return this form by either mail or e-mail.

Mail	CalPERS – FRAS Cash and Payments Processing Unit P.O. Box 942703 Sacramento, CA 94229-2703
E-mail	FCSD_public_agency_wires@calpers.ca.gov

Payment may be made by EFT or wire transfer.

Payments may be made by Electronic Funds Transfer (EFT) through myCalPERS or by wire transfer through the State Treasurer's Office.

Visit [Managing the Unfunded Accrued Liability](#) for payment instructions which are located on our website www.calpers.ca.gov under the **Employers** tab and **Actuarial Resources** section.

Employer Name: TOWN OF ATHERTON
CalPERS ID: 1382390535
Member Group or Plan: SAFETY PLAN
Rate Plan ID: 65

Amount: **\$5,000,000**

Purpose:	Pay Down Unfunded Liability
Base(s) to which payment is applied:	Investment (Gain)/Loss 06/30/2013, Non-Investment (Gain)/Loss 06/30/2014, Investment (Gain)/Loss 06/30/2015, Investment (Gain)/Loss 06/30/2016, Non-Investment (Gain)/Loss 06/30/2017 and Non-Investment (Gain)/Loss 06/30/2018

In recognition of our payment please revise our required employer contribution effective July 1, 2022:

Name and Title (Please Print): _____

Signature: _____ Date: _____

Mailing Address: _____

City/State/Zip: _____

Telephone Number: _____ Fax Number: _____

E-mail Address: _____

RESOLUTION NO.

**A RESOLUTION OF THE CITY COUNCIL OF THE TOWN OF
ATHERTON AUTHORIZING A BUDGET AMENDMENT FOR
ADDITIONAL DISCRETIONARY PAYMENT CONTRIBUTIONS TOWARD
CALPERS PUBLIC SAFETY PLAN PENSION LIABILITIES**

WHEREAS, the Town has identified paying down its long-term liabilities as a priority;
and

WHEREAS, pension liabilities have been identified as a long-term liability through the
required actuarial analysis; and

WHEREAS, the Town is contributing funds in an effort to paying down unfunded
pension liabilities and maintains sufficient funds within its Unallocated General Fund Balance to
contribute toward the long-term liability.

NOW, THEREFORE, BE IT RESOLVED, that the City Council of the Town of
Atherton does hereby approve an amendment to the FY 2021-22 Town Budget to enact the
changes specified in Exhibit A attached hereto.

PASSED AND ADOPTED at a meeting of the City Council of the Town of Atherton
held on the 20th day of April, 2022 by the following vote:

AYES: Council Members:
NOES: Council Members:
ABSENT: Council Members:

Rick DeGolia, MAYOR
Town of Atherton

ATTEST:

Anthony Suber, City Clerk

APPROVED AS TO FORM:

Mona G. Ebrahimi, City Attorney

Exhibit A

**Town of Atherton
Budget Amendment**

Transfer \$5,000,000.00 from:

**2021/22
Unappropriated General Fund Reserve**

To:

**2021/22
Transfer to CalPERS Unfunded Accrued Liability Public Safety Classic Pension Plan**