



City of Fort Bragg CA Pension Funding Policy

PURPOSE:

The purpose of this policy is to define how the City's pension funding obligations will be met. As part of its overall compensation plan, the City provides a defined benefit pension to its employees. This benefit is administered by the California Public Employees Retirement System (CalPERS) and funded through contributions from the City and its employees and from investment earnings on those contributions. The CalPERS Board of Administration, under the California Public Employees' Retirement Law (PERL), is responsible for the administration and investment of the funds it receives and determines the amounts contributed by each of the governmental entities that participate in CalPERS. The PERL sets employee contribution rates.

POLICY:

It is the policy of the City to fulfill its obligation to its residents and employees to maintain fiscally responsible management practices and to its employees to ensure that promised retirement benefits are funded. To that end, the City will meet its pension funding obligations as follows:

1. **Actuarially Determined Contributions:** Each fiscal year, the City will contribute to CalPERS the amount determined by CalPERS actuaries to be the minimum required employer contribution for that year. The minimum contribution consists of two components, normal cost and unfunded accrued liability (UAL). The normal cost is expressed as a rate that is applied to pensionable payroll costs and reflects the cost of pension benefits earned by employees in the current fiscal year. The UAL payment is a flat dollar amount that represents a portion of the cost of past benefits earned by employees, but for which, because of deviations in actual experience and changes in assumptions about investment performance, the normal cost rates established for those prior years has been determined to be insufficient to provide the promised retirement benefit. The CalPERS actuaries recalculate the total UAL each year and an updated multi-year amortization schedule is provided to show the projected annual minimum payments.
2. **Annual UAL Prepayment:** CalPERS offers the option to make monthly payments on the UAL or prepay the entire annual amount at a discounted level by the end of July. The City will prepay its annual obligation each year to achieve budgetary savings.
3. **Section 115 Pension Trust:** The City will establish and maintain a pension stabilization fund in the form of a Section 115 Pension Trust. The targeted funding level for this fund is the City Council policy that fifty percent (50%) of any surplus in the General Fund at

year-end will be used to reduce the current UAL. Assets in the Section 115 Pension Trust may be used only for pension related costs and at the direction of the City Council. Once the targeted funding level is reached, the earnings on the assets in the Trust may be applied to offset a portion of the City's annual pension contributions to CalPERS or make additional discretionary payments to CalPERS.

4. **Targeted Funding Level:** The City's goal is to achieve and maintain a funded status for each of its plans of between 90% and 100%. A funded status of 100% signifies that the City's pension assets with CalPERS match its accrued liabilities.
5. **Additional Discretionary Payments:** CalPERS allows member agencies to make additional discretionary payments at any time and in any amount, which would serve to reduce the UAL and future required contributions. The City will consider this option in the context of its annual evaluation of reserve levels and budgetary requirements.
6. **Transparency and Reporting:** Funding of the City's pension plans should be transparent to vested parties including plan participants, annuitants, the City Council and Fort Bragg residents. In order to achieve this transparency, the following information shall be available:
 - a. Copies of the annual actuarial valuations for the City's CalPERS plans.
 - b. The City's Comprehensive Annual Financial Report shall be published on the City's website. This report includes information on the City's annual contributions to the pension system and their funded status.
 - c. The City's annual operating budget shall include the City's contributions to CalPERS.
7. **Pension Obligation Bonds (POBs):** POBs or a similar debt issuance such as Lease Revenue Bonds (LRBs) used to make payments towards the City's UAL are tools that can be used to provide an additional discretionary payment to CalPERS upon the determination that the cost to borrow the funds for the payment is less than continuing to make the projected prescribed UAL payments at the current discount rate. If the City issues POBs or LRBs, the following guidelines will apply:
 - a. Expert advice and analysis by actuaries and municipal advisors will be utilized to stress test the risk of a market crash and threshold at which the City would be worse off issuing POBs or LRBs versus not.
 - b. The interest rate on the POBs or LRBs shall be at least 2.5% less than the current CalPERS discount rate.
 - c. The final maturity date on the POBs or LRBs will be no more than the current term of the UAL.
 - d. The POBs or LRBs structure will contain an early call provision.
8. **Review of Funding Policy:** Funding a defined pension plan requires a long-term horizon. As such, the City will review this policy at least every five years to determine if changes to this policy are needed to ensure adequate resources are being funding the UAL.