

NOTICE OF REGULAR MEETING

Pursuant to Section 54956 of the Government Code of the State of California, a Regular meeting of the Tracy **Finance Committee** is hereby called for:

**Date/Time:** **Wednesday, April 19<sup>th</sup>, 2023, at 7:00 p.m.**  
(or as soon thereafter as possible)

**Location:** **City Hall Conference Room 203**  
**333 Civic Center Plaza, Tracy, CA and a member will attend remotely at the**  
**Following location:**  
**Omni Shoreham Hotel, 2500 Calvert St NW, Washington District of**  
**Colombia 20008**

**THIS MEETING WILL BE OPEN TO THE PUBLIC FOR IN-PERSON AND REMOTE PARTICIPATION PURSUANT TO GOVERNMENT CODE SECTION 54953(e).**

**MEMBERS OF THE PUBLIC MAY PARTICIPATE REMOTELY IN THE MEETING VIA THE FOLLOWING METHOD:**

**For Remote Public Comment:**

*During the upcoming Tracy Finance Committee meeting, public comment will be accepted via the options listed below. If you would like to comment remotely, please follow the protocols below:*

Microsoft Teams meeting

- **Join on your computer, mobile app or room device**

[Click here to join the meeting](#)

Meeting ID: 250 010 763 272

Passcode: 8s4RUB

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- **Or call in (audio only)**

[+1 209-425-4338,301841252#](#) United States, Stockton

Phone Conference ID: 301 841 252#

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**Protocols for submitting comments:**

- Comments received for the “items from the Audience/Public Comment” portion of the agenda must be received by the time the Tracy Finance Committee Member opens that portion of the agenda for discussion.
  - Comments received on each “Agendized Item” will be accepted until the Tracy Finance Committee Member announces that public comment for that item is closed.
  - Comments for the “Items from the Audience/Public Comment” will be accepted until the public comment period is closed.
- The total allotted time for public comment under “Items from the Audience/Public Comment” will be 15 minutes:

Government Code Section 54954.3 states that every public meeting shall provide an opportunity for the public to address the Tracy Finance Committee on any item, before or during consideration of the item, however no action shall be taken on any item not on the agenda.

Full copies of the agenda are available on the City's website: [www.cityoftracy.org](http://www.cityoftracy.org)

## CALL TO ORDER

### ROLL CALL

1. Items from the Audience – In accordance with Council Meeting Protocols and Rules of Procedure, adopted by Resolution 2019-240, and last amended by Resolution No. 2021-049, a five-minute maximum time limit per speaker will apply to all individuals speaking during “Items from the Audience/Public Comment.” For non-agendized items, Committee Members may briefly respond to statements made or questions posed by individuals during public comment; ask questions for clarification; direct the individual to the appropriate staff member; or request that the matter be placed on a future agenda or that staff provide additional information to the Tracy Finance Committee.
2. REGULAR AGENDA
  - 2.A Committee selection of a chairperson.
  - 2.B STAFF RECOMMENDS THAT THE TRACY FINANCE COMMITTEE RECEIVE AN INFORMATIONAL REPORT AND UPDATE REGARDING THE PRELIMINARY FY2023-24 OPERATING BUDGET.
  - 2.C STAFF RECOMMENDS THAT THE TRACY FINANCE COMMITTEE RECEIVE AN INFORMATIONAL REPORT RELATED TO PARTICIPATION IN THE CALIFORNIA EMPLOYERS' PENSION PREFUNDING TRUST (CEPPT) PROGRAM, FOR THE PREFUNDING OF THE CITY'S ACCURED PENSION COSTS.
3. STAFF ITEMS
4. COMMITTEE ITEMS
5. ADJOURNMENT

### **Posting Date: April 14th, 2023**

The City of Tracy complies with the Americans with Disabilities Act and makes all reasonable accommodations for the disabled to participate in public meetings. Persons requiring assistance or auxiliary aids in order to participate should call City Hall (209-831-6000), at least 24 hours prior to the meeting.

Agenda Item 2.B

RECOMMENDATION

**Staff recommends that the Tracy Finance Committee receive an informational report and update regarding the preliminary FY2023-24 operating budget.**

EXECUTIVE SUMMARY

The Tracy Municipal Code requires that the City Council adopt a budget no later than the close of the fiscal year, June 30<sup>th</sup>. As part of the budget development process, staff will present the preliminary FY2023-24 operating budget, including proposed budget augmentations to the Finance Committee.

BACKGROUND AND LEGISLATIVE HISTORY

As part of the FY2023-24 operating and capital budget development process, staff presented the five-year General Fund forecast, 5-year CIP workplan, and Measure V update to Council on March 21, 2023.

The preliminary FY2023-24 operating budget, including proposed budget augmentations are being presented to the Finance Committee tonight and staff will return to Council on June 6, 2023, with the proposed FY2023-24 budget for Council's approval.

ANALYSIS

The preliminary FY2023-24 operating budget reflects the City Council's desire to enhance City services while strengthening the City's fiscal resiliency. The proposed budget continues the fiscal sustainability policies established in FY2022-23 and supports enhanced services that align with Council's Strategic Priorities.

The preliminary FY2023-24 operating budget appropriations total approximately \$248 million citywide with \$107 million attributed to the General fund

**SUMMARY OF PROPOSED REVENUES AND EXPENDITURES FOR THE GENERAL FUND**

	<u>FY 21/22</u>	<u>FY 22/23</u>	<u>FY 23/24</u>	<u>FY 24/25</u>	<u>FY 25/26</u>
<u>REVENUES (in thousands)</u>	<u>Actuals</u>	<u>Projected</u>	<u>Proposed</u>	<u>Forecasted</u>	<u>Forecasted</u>
Property Tax	\$ 28,972	\$ 31,090	\$ 32,751	\$ 34,350	\$ 36,438
Sales Tax	62,095	69,680	65,951	68,161	70,303
Sales Tax (MEASURE V)	13,017	14,770	12,647	12,933	13,230
Other Taxes	3,300	2,870	6,300	6,490	6,590
Other Revenues	18,474	20,179	22,941	23,400	23,868
<b>TOTAL REVENUES</b>	<b>\$ 125,858</b>	<b>\$ 138,589</b>	<b>\$ 140,590</b>	<b>\$ 145,334</b>	<b>\$ 150,429</b>
<u>EXPENDITURES (in thousands)</u>					
Personnel	\$ 50,115	\$ 55,032	\$ 55,421	\$ 57,766	\$ 58,845
Purchased Services and Supplies	32,555	43,460	45,776	40,596	41,814
Utilities	2,236	2,396	2,515	2,317	2,386
Capital	379	677	688	255	263
Debt	1,121	2,672	2,677	2,687	2,696
<b>TOTAL EXPENDITURES</b>	<b>\$ 86,406</b>	<b>\$ 104,237</b>	<b>\$ 107,077</b>	<b>\$ 103,621</b>	<b>\$ 106,004</b>
Transfers In	\$ 70	\$ 72	\$ 70	\$ 70	\$ 70
Transfers Out	(30,712)	(21,900)	(19,582)	(27,055)	(29,183)
Transfers Out: Measure V Capital	(12,653)	(12,524)	(10,349)	(10,599)	(10,888)
<b>TOTAL NET TRANSFERS IN/(OUT)</b>	<b>(43,295)</b>	<b>(34,352)</b>	<b>(29,861)</b>	<b>(37,584)</b>	<b>(40,001)</b>
<b>Total Change in Net Position</b>	<b>\$ (3,843)</b>	<b>\$ -</b>	<b>\$ 3,652</b>	<b>\$ 4,129</b>	<b>\$ 4,424</b>
Prior Year Reserves	34,030	36,877	36,877	40,529	44,658
<u>Use of Reserves</u>					
Restricted	3,198	62	62	62	62
Contingency/Emergency Reserves (17%)*	14,505	17,720	18,203	17,616	18,021
Economic/Budget Stability Reserves (13%)*	11,092	13,551	13,920	13,471	13,781
Prior Year Carryover	321				
Unassigned	7,761	5,544	8,344	13,510	17,219
<b>Year End Reserves</b>	<b>\$36,877</b>	<b>36,877</b>	<b>40,529</b>	<b>44,658</b>	<b>49,082</b>

With the adoption of the FY2022-23 budget, Council adopted a set of fiscal sustainability strategies aimed to pay down future liabilities and enhance City services. In the preliminary FY2023-24, those strategies are proposed to continue.

	Estimated % of Revenue	FY2022-23	FY2023-24
General Fund Revenues*		\$123	\$124
Cal PERS Pre-funding	2%	\$2	\$2
Retiree Medical Pre-funding	2%	\$2	\$2
Road Improvements - Deferred Mtc.	3%	\$3	\$4
Parks - Deferred Mtc.	2%	\$2	\$2
City Services and Program Increase	3%	\$3	\$4
<b>Total</b>		<b>\$12</b>	<b>\$14</b>

\*Revenues defined as total General Fund revenues less Measure-V Sales tax and Transfers in

FY2023-24 preliminary augmentation requests from all funding sources total \$6.7M, with \$5.8M in ongoing expenses and \$0.9M in one-time expenses. The ongoing impact to the General Fund related to the augmentation requests is \$1.5M.

Department	Total Request Amount	Other Fund On-Going	Other Fund One-Time	General Fund Ongoing	General Fund One-Time	Total General Fund
City Attorney	280,000	154,000	-	126,000	-	126,000
City Manager	70,000	22,550	-	47,450	-	47,450
City Manager - Cultural Arts	95,500	67,695	-	27,805	-	27,805
Development Services	149,794	147,054	2,740	-	-	-
Mobility & Housing	172,000	-	-	22,000	150,000	172,000
Human Resources	30,000	16,500	-	13,500	-	13,500
Innovation & Technology	951,000	703,620	-	247,380	-	247,380
Operations & Utilities	4,141,459	2,933,782	53,590	526,974	627,113	1,154,087
Parks & Recreation	157,930	154,376	-	3,555	-	3,555
Police	737,894	-	-	548,336	189,558	737,894
<b>Totals</b>	<b>\$ 6,785,577</b>	<b>\$ 4,199,577</b>	<b>\$ 56,330</b>	<b>\$ 1,563,000</b>	<b>\$ 966,671</b>	<b>\$ 2,529,671</b>

Included in the augmentation requests are 11 staffing requests, including two positions with no fiscal impact, as the funds are being converted from contract services to personnel.

Staffing Requests	
Development Services	Assistant Planner (1)
Innovation and Technology	Security Officer (1)*
Innovation and Technology	GIS Technician (1)*
Innovation and Technology	Senior Information Systems Technician (1)
Operations and Utilities	Senior Maintenance Worker (1) - Streets
Operations and Utilities	Maintenance Worker I/II (1) - Streets
Operations and Utilities	Maintenance Worker I/II (1) - Electrical
Parks & Recreation	Maintenance Worker I/II (1) - Parks Maintenance
Parks & Recreation	Reallocation of Senior Maintenance Worker to Supervisor
Police	Police Officer (2) - Traffic Safety Unit

\*Contract Services budget reallocated to personnel

**FISCAL IMPACT**

The preliminary FY2023-24 operating budget appropriations total approximately \$248 million with \$107 million attributed to the General fund.

**STRATEGIC PLAN**

This agenda item supports the Governance strategic priority, goal two, ensure short and long-term fiscal health.

**ACTION REQUESTED OF THE CITY COUNCIL**

Staff recommends that the Tracy Finance Committee receive an informational report and update regarding the preliminary FY2023-24 operating budget.

Prepared by: Sara Cowell, Director of Finance



# Finance Committee

Preliminary FY2023-24 Budget Review

April 19, 2023

# Budget Development

April 4, 2023

Presented 5-year forecast  
Presented 5-year CIP Workplan and Measure V project update

April-May 2023

Staff meets with Finance Committee to review Preliminary budget development

June 6, 2023

Proposed budget presented to City Council for consideration





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# Economic Trends

- Statewide trends indicate slowing of discretionary spending by consumers as a result of rising inflation and interest rates.
- General fund revenues from property tax and sales tax are expected to remain relatively flat in the upcoming fiscal year.
- The General fund continues to diversify its sources of revenue from sources such as Business tax and TOT (hotel tax) to remain fiscally sustainable.



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# Preliminary General Fund Budget

## SUMMARY OF PROPOSED REVENUES AND EXPENDITURES FOR THE GENERAL FUND

<u>REVENUES (in thousands)</u>	<u>FY 21/22 Actuals</u>	<u>FY 22/23 Projected</u>	<u>FY 23/24 Proposed</u>	<u>FY 24/25 Forecasted</u>	<u>FY 25/26 Forecasted</u>
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<b>Year End Reserves</b>	<b>\$36,877</b>	<b>36,877</b>	<b>40,529</b>	<b>44,658</b>	<b>49,082</b>

# Council Adopted Fiscal Sustainability Strategies

	Estimated % of Revenue	FY2022-23	FY2023-24
General Fund Revenues*		\$123	\$124
Cal PERS Pre-funding	2%	\$2	\$2
Retiree Medical Pre-funding	2%	\$2	\$2
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<b>Total</b>		<b>\$12</b>	<b>\$14</b>

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# Preliminary FY2023-24 Budget Augmentations

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City Attorney	280,000	154,000	-	126,000	-	126,000
City Manager	70,000	22,550	-	47,450	-	47,450
City Manager - Cultural Arts	95,500	67,695	-	27,805	-	27,805
Development Services	149,794	147,054	2,740	-	-	-
Mobility & Housing	172,000	-	-	22,000	150,000	172,000
Human Resources	30,000	16,500	-	13,500	-	13,500
Innovation & Technology	951,000	703,620	-	247,380	-	247,380
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Parks & Recreation	157,930	154,376	-	3,555	-	3,555
Police	737,894	-	-	548,336	189,558	737,894
<b>Totals</b>	<b>\$ 6,785,577</b>	<b>\$ 4,199,577</b>	<b>\$ 56,330</b>	<b>\$ 1,563,000</b>	<b>\$ 966,671</b>	<b>\$ 2,529,671</b>



# Staffing Requests Included in Department Augmentation Requests

Staffing Requests	
Development Services	Assistant Planner (1)
Innovation and Technology	Security Officer (1)*
Innovation and Technology	GIS Technician (1)*
Innovation and Technology	Senior Information Systems Technician (1)
Operations and Utilities	Senior Maintenance Worker (1) - Streets
Operations and Utilities	Maintenance Worker I/II (1) - Streets
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Parks & Recreation	Maintenance Worker I/II (1) - Parks Maintenance
Parks & Recreation	Reallocation of Senior Maintenance Worker to Supervisor
Police	Police Officer (2) - Traffic Safety Unit

\*Contract Services budget reallocated to personnel



# Sales Tax Update

- The California Department of Tax and Fee Administration (CDTFA) recently released data on a study conducted related to sales tax allocations related to ecommerce.
- Staff continues to monitor this situation closely and plans to attend a meeting with the League of California Cities on Friday, April 21, 2023 to obtain more information on the timeline around potential changes to allocation methods.

April 19, 2023



# Next Steps

May 24, 2023

CIP Chapter of budget presented to Planning Commission

June 6, 2023:

Proposed budget to City Council for consideration

April 19, 2023



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AGENDA ITEM 2.C

RECOMMENDATION

**Staff recommends that the Tracy Finance Committee receive an informational report related to participation in the California Employers' Pension Prefunding Trust (CEPPT) program, for the prefunding of the City's accrued pension costs**

EXECUTIVE SUMMARY

The fiscal year 2022-2023 adopted budget included a Fiscal Sustainability policy that included \$2 million for establishing an Internal Revenue Code Section 115 trust to prefund pension contributions. Prefunding pension contributions is a flexible methodology to begin reducing future pension costs. Staff is recommending participation in the §115 California Employers' Pension Prefunding Trust (CEPPT) Fund through CalPERS.

BACKGROUND AND LEGISLATIVE HISTORY

CalPERS established the CEPPT, which is an IRS Section 115 Trust set up for the sole purpose of receiving employer contributions that will pay for pension costs. This program has been around since 2019, with \$120 million in assets under management as of December 27, 2022, with 83 participants including cities, counties, school districts, and special districts. Section 115 Trusts are used by cities and counties to reserve funds against pension liabilities. Funds can be transferred from a Section 115 Trust to pay for pension costs; they cannot be used for other purposes.

While the City's investment policy keeps the City's cash and investments safe and liquid, the return on investments is limited. Opening a CEPPT Section 115 Trust with CalPERS provides additional leverage to increase the City's return on investments, while maintaining safety and liquidity. Another benefit is that the City's overall finances will improve, as pre-funding the pension costs will lower the overall pension liability, improving the City's overall balance sheet.

As of June 30, 2021, CalPERS has computed the City's unfunded accrued pension liability at \$78 million across both the Miscellaneous and Safety plans. This valuation is based on estimates and is likely to change over time given its long-term nature. The unfunded accrued pension liability is separate from the City's normal pension contributions, which for Fiscal Year 2022-2023 were \$4,120,362 for all City employees. To help ensure that there are sufficient funds available to fund future pension benefits, the City included a Fiscal Sustainability policy in the Fiscal Year 2022-23 Adopted Budget which included \$2 million to contribute for pension prefunding. These funds can be used to fund both normal pension contributions and the unfunded liability.

ANALYSIS

The funds will be held in an IRS §115 trust and will be invested through the CEPPT program via one, or both, of its investment strategies. These strategies invest in four common asset classes: Global Equity, Fixed Income, Global Real Estate (REITs) and Treasury Inflation Protected Securities (TIPS).



The main distinction between the two is asset allocation among these four categories, with Strategy 1 having more assets in equities and Strategy 2 being more conservative with more assets in fixed income.

<b>CEPPT Portfolios</b>	<b>Strategy 1</b>	<b>Strategy 2</b>
Expected Net Rate of Return	4.5%	3.5%
Standard Deviation of Expected Return	8.8%	6.1 %

Approximately 71% of the total funds invested in the CEPPT are invested in Strategy 1. Given the higher expected return, staff recommends initially allocating the entire investment in CEPPT to Strategy 1 but should also allow funds to be moved between strategies as needed.

Advantages of CalPERS' Section 115 CEPPT Fund:

- City has control over the contribution and its funding.
- Earnings on assets would reduce future contributions
- Reducing the pension liability would improve City's overall fiscal condition
- Low administrative fee of 25 basis points on asset balances. For each \$1,000,000 invested, an annual fee of \$2,500 is paid from earnings. There are no additional costs to join or withdraw funds from CEPPT.

CEPPT does come with risk in that it would be more prone to market and economic volatility compared to the City's current investments. The expected returns in either strategy are not guaranteed. Furthermore, the IRS Section 115 Trust is irrevocable, meaning the investment can be only utilized for pension-related costs. Payment of other unforeseen costs is not allowed. Additionally, funds cannot be withdrawn from the trust, with the exception of the pension costs detailed above.

Pursuant to the terms of the Agreement, the City must delegate certain City officials with the authority to request on behalf of the city, disbursements from the fund, and to certify the purpose for which those funds will be used.

Establishing a §115 Trust arrangement and depositing the \$2 million included in the FY2022-23 adopted budget are the first steps to managing the City's long-term pension costs. Staff will present this item for Council approval at the May 2, 2023, regular Council meeting. Staff also plans to return in the Fall to present a more comprehensive, long-term strategy to lower the City's long-term pension costs.

### FISCAL IMPACT

The \$2 million contribution is included in the FY2022-23 adopted budget and would be paid from City's General Fund. The annual investment fee is paid from earnings on the funds. Prefunding the City's accrued pension costs lowers the overall pension liability, which improves the City's long-term fiscal health.

### STRATEGIC PLAN

This agenda item supports the Governance strategic priority, goal 2.10, ensure short-and long-term fiscal health through the continued implementation of the fiscal sustainability plan.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the Tracy Finance Committee receive an informational report related to participation in the California Employers' Pension Prefunding Trust (CEPPT) program, for the prefunding of the City's accrued pension costs.

Prepared by: Robert Harmon, Accounting Manager

Reviewed by: Sara Cowell, Finance Director  
Riana Daniel, Deputy City Attorney

Approved by: Midori Lichtwardt, Acting City Manager

Attachments:

Attachment A – CalPERS CEPPT Prefunding Program

# California Employers' Pension Prefunding Trust (CEPPT) Program Workshop

# Discussion Overview

- CalPERS Prefunding Programs Information
- CalPERS Pension Cost Components
- Impact of Prefunding
- Current Pension Cost Challenges
- Pension Cost Management Tools
- Prefunding Pension Costs in 115 Trusts
- CEPPT Investment Policy
- CEPPT Participation Costs
- Advantages of the CEPPT
- Contacts and Communication

# CalPERS Prefunding Programs Information

# CalPERS Prefunding Programs

<b>California Employers' Retiree Benefit Trust (CERBT)</b>	<b>California Employers' Pension Prefunding Trust (CEPPT)</b>
<ul style="list-style-type: none"><li>• Section 115 of Internal Revenue Code</li><li>• Other Post-Employment Benefits (OPEB)</li><li>• Established 2007</li><li>• 602 employers</li><li>• ~\$16.3B assets</li><li>• 3 investment options</li></ul>	<ul style="list-style-type: none"><li>• Section 115 of Internal Revenue Code</li><li>• Pension Costs (NC, UAL, ADP)</li><li>• Established 2019</li><li>• 83 employers</li><li>• ~\$120M assets</li><li>• 2 investment options</li></ul>

# Prefunding Program Employers

**624 employers (602 CERBT and 83 CEPPT)**



State of California



157 Cities or Towns



10 Counties

81 School Employers



32 Courts



342 Special Districts & Public Agencies



# What is a “Section 115 Trust”?

- Section 115 of the Internal Revenue Code (IRC)
- Interest earnings are not taxed
- Capable of investing more aggressively than you can
  - GC Section 53620-22
- Assets might reduce liabilities
- Irrevocable
  - Which is a good thing
- Dedicated for a specific purpose
  - OPEB or Pension



# CalPERS Pension Cost Components

# CalPERS Pension Cost Components

- Normal cost
  - **Ongoing** principal cost to prefund retirements
  - Active employees only
  - Increases with payroll
- Unfunded accrued liabilities (UAL)
  - Created when plan experience is negative
    - Investment losses
    - Actuarial assumption changes
  - Currently exist for most agencies
  - Will reoccur again when plan experience is negative

# Impact of Prefunding

# CalPERS Pension Prefunding Model



July 1, 2002 - June 30, 2022

- More than half of CalPERS pension benefits are paid by investment earnings
- Prefunding provides employers with a greater likelihood of saving money over the long-term

# Impact of Prefunding

## Increase investment income

- Outperform County Treasury & LAIF
- Build a larger base of assets to increase earnings

## Reduce unfunded liabilities and contributions

- Trust assets may reduce liabilities
- Higher discount rates reduce liabilities and contributions

## Prudent financial management

- Improves financial reporting outcomes
- Contributes to preserving positive credit ratings

# Current Pension Cost Challenges

# Pension Plan Costs Short Term Future

- Capital market assumptions are less optimistic
  - Expected returns are lower
    - Decreases discount rates
    - Increases normal cost and UAL payments
  - Expected volatility is higher
    - Increases UAL payment volatility
    - Budget forecasting is more challenging
- Asset balances are lower
  - Market volatility
  - Both stocks and bonds
- Funded statuses are down

# CalPERS Annual Review of Funding Levels and Risks

- Discount rate down to 6.8%
- General inflation rate assumption down to 2.3%
- Payroll growth assumption up to 2.8%
- Recent increases in Consumer Price Index (CPI)
  - 5-12% increase in payroll due to COLA and salary increases
- Funded status down from 81% to 72%
- Termination funded status of 40-45% if 70% funded
  - Discount rate reduces from 6.8% to around 4%
- Probability of dropping below 50% funded in next 30 years is ~25% for some plans



# CalPERS Pension Fund Returns

Period	Assets	Return
30-year at 6/30/2022	\$440B	7.7%
20-year at 6/30/2022	\$440B	6.9%
10-year at 6/30/2022	\$440B	7.7%
5-year at 6/30/2022	\$440B	6.7%
2017 – 18	\$352B	8.6%
2018 – 19	\$370B	6.7%
2019 – 20	\$389B	4.7%
2020 – 21	\$469B	21.3%
2021 – 22	\$440B	-7.4%
7/1/22 – 12/31/22	\$442B	0.1%

# CalPERS Annual Return Probability

- Expected return is 6.8%
- 1 standard deviation (1SD) of expected returns is 12.0%
- Range of probable outcomes at 1SD is -5.2% to +18.8%
  - 68% chance within -5.2% - +18.8%
  - 16% chance above +18.8%
  - 16% chance below range -5.2%
- Range of probable outcomes at 2SD is -17.2% to +30.8%
  - 95% chance within -17.2% - +30.8%
  - 2.5% chance above +30.8%
  - 2.5% chance below -17.2%

## CalPERS Pension Plans UAL Summary

Plan	Funded Status (6/30/2021)	Unfunded Liability (6.8% Interest)	UAL Payment 2022-23	UAL Payment 2027-28	UAL Payment Increase
Miscellaneous	97.0%	\$12,754,077	\$382,828	\$1,557,000	\$1,174,172
Safety Police	95.7%	\$19,455,546	\$1,010,253	\$2,225,000	\$1,214,747
Safety Fire	95.3%	\$15,371,848	\$852,614	\$1,744,000	\$891,386
Totals	96.0%	<b>\$47,581,470</b>	\$2,245,695	\$5,526,000	\$3,280,305

# Pension Contribution Increases

Fiscal Year	Payroll	Normal Cost Contribution (% of Payroll)	Normal Cost Contribution	Unfunded Accrued Liability Payment	Total Contribution
2022-23	\$252,168,084	9.7%	\$24,334,220	\$65,787,464	<b>\$90,121,684</b>
2023-24	\$259,102,707	9.4%	\$24,355,654	\$69,734,522	\$94,090,176
2024-25	\$266,228,031	9.2%	\$24,492,979	\$74,370,875	\$98,863,854
2025-26	\$273,549,302	9.0%	\$24,619,437	\$70,354,925	\$94,974,362
2026-27	\$281,071,908	8.9%	\$25,015,400	\$73,862,511	\$98,877,911
2027-28	\$288,801,385	8.7%	\$25,125,720	\$75,662,356	\$100,788,076
2028-29	\$296,021,420	8.7%	\$25,753,864	\$77,511,696	\$103,265,560
2029-30	\$303,421,955	8.7%	\$26,397,710	\$79,411,896	\$105,809,606
2030-31	\$311,007,504	8.7%	\$27,057,653	\$81,364,351	<b>\$108,422,004</b>

# Pension Cost Management Tools

# Pension Cost Management Tools

- Pay-as-you-go
  - Most expensive option
    - LAIF or County treasury return rates on less principal
  - Least financially stable and consistent option
- Increase reserves
  - Still more expensive than other options
    - LAIF or County treasury return rates on more principal
  - Earmarked in general fund account
    - Non-irrevocably dedicated
- Re-amortize UAL
  - Pension costs increase now to save money later
  - Hard vs. soft fresh starts

# Pension Cost Management Tools (continued)

- Additional Discretionary Payments (ADP's) of UAL
  - Save money by paying UAL faster than required
    - Strategically choose which amortization bases
  - Voluntary amount and timing determined by employer
  - UAL only
    - Does not address normal cost
  - Illiquid investment
  - Market timing risk
  - Large lump sum single contribution risk
  - Not all years are equal when making ADP's
    - 2020-21 (21.3%) vs. 2021-22 (-7.4%)

# Pay Down Pension Debt Faster and Save

Amortization Schedule (Page 18 of Valuation)	Total Paid Over Amortization Schedule	Interest Paid Over Amortization Schedule	Payment Increase Due to Shorter Amortization	Total Interest Savings Over Amortization Schedule
Variable Payment 21 Years	\$40,556,223	\$19,134,330	\$0	\$0
Level Payment 20 Years	\$39,096,275	\$17,674,382	\$944,561	\$1,459,948
Level Payment 15 Years	\$34,106,590	\$12,684,697	\$1,263,520	<b>\$6,449,633</b>



# Pension Cost Management Tools (continued)

- Pension Obligation Bonds (POB's)
  - Bond proceeds fund an ADP
  - Margins have to be right
  - Market timing risk
  - Large lump sum single contribution risk
  
- Section 115 trust funds
  - CEPPT
  - Other providers
  - Using 2 asset allocation strategies
    - Shorter term
    - Longer term

# Prefunding Pension Costs in 115 Trusts

# CEPPT Purposes

- Grow assets for future pension contributions
- Invest over different time horizons than pension fund
- Invest with different risk exposures than pension fund
- Earn higher yields than LAIF and County Treasury
- Retain liquidity on your assets
- Stabilize and subsidize future budgets
- Save overall costs by prefunding them in advance
- Create a contingency reserve for difficult times ahead
- Pay down UAL in an optimally prudent manner

# The question we get the most

# Simultaneous Pension Tool Utilization

Portfolios	CalPERS Pension	CEPPT Strategy 1	CEPPT Strategy 2	LAIF
Expected Return	6.8%	4.5%	3.5%	~1%
Risk	12.0%	8.8%	6.1%	Lowest
Time Horizon	Longest Term	Employer Determined		Shortest Term
Liquidity	No	Yes		Yes

# CEPPT Purpose #1 – Reserve Fund

- Higher returns than LAIF
- Retain asset liquidity
- Stabilize budget
- Subsidize budget

Plan	# Months of Pension Cost
Miscellaneous	X
Safety	Y
<b>Total</b>	<b>Z</b>

## CEPPT Purpose #2 – Prefund Future Costs

- Prefund future pension costs in advance
  - Normal cost
  - Amortized UAL payments
- Take advantage of
  - Time
  - Compounding interest

# 10 Year Compounding Interest Scenario

Investment Duration (Years)	1	2	3	4	5	6	7	8	9	10
Expected Compounded Annualized Rate of Investment Return	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Cumulative Expected Compounded Rate of Investment Return	4%	9%	14%	19%	25%	30%	36%	42%	49%	55%
Future Value of \$1	\$1.04	\$1.09	\$1.14	\$1.19	\$1.25	\$1.30	\$1.36	\$1.42	\$1.49	\$1.55
Required Investment Principal Contribution Needed to Generate \$1M	\$957K	\$916K	\$876K	\$839K	\$802K	\$768K	\$735K	\$703K	\$673K	\$644K



# Normal Cost Prefunding Scenario

Fiscal Year	Normal Cost Contribution	Investment Duration (Years)											
		1	2	3	4	5	6	7	8	9	10	11	
2022-23	\$24.3M	\$23.3M											
2023-24	\$24.4M	\$23.3M	\$22.3M										
2024-25	\$24.5M	\$23.4M	\$22.4M	\$21.5M									
2025-26	\$24.6M	\$23.5M	\$22.5M	\$21.6M	\$20.6M								
2026-27	\$25.0M	\$23.9M	\$22.9M	\$21.9M	\$21.0M	\$20.1M							
2027-28	\$25.1M	\$24.0M	\$23.0M	\$22.0M	\$21.0M	\$20.1M	\$19.3M						
2028-29	\$25.8M	\$24.7M	\$23.6M	\$22.6M	\$21.6M	\$20.7M	\$19.8M	\$19.0M					
2029-30	\$26.4M	\$25.3M	\$24.2M	\$23.1M	\$22.1M	\$21.2M	\$20.3M	\$19.4M	\$18.6M				
2030-31	\$27.1M	\$25.9M	\$24.8M	\$23.7M	\$22.7M	\$21.7M	\$20.8M	\$19.9M	\$19.1M	\$18.2M			
2031-32	\$27.7M	\$26.5M	\$25.4M	\$24.3M	\$23.2M	\$22.2M	\$21.3M	\$20.4M	\$19.5M	\$18.6M	\$17.8M		
2032-33	\$28.4M	\$27.2M	\$26.0M	\$24.9M	\$23.8M	\$22.8M	\$21.8M	\$20.9M	\$20.0M	\$19.1M	\$18.3M	\$17.5M	

## CEPPT Purpose #3 – Spread out ADP's

- Spread out ADPs over time
  - Once per year for 2-5 years
  - Longer horizon reduces probable cost savings
  - Assets held increase future options
- Dollar cost averaging can help mitigate
  - Market timing risk
  - Large lump sum single contribution risk
- Not all years are equal when making ADP's
  - 2020-21 (21.3%) vs. 2021-22 (-7.4%)

## CEPPT Purpose #4 – Combination

- Prefund future pension costs in advance
  - Normal cost & amortized UAL payments
  - Take advantage of time & compounding interest
- Create a reserve fund to stabilize & subsidize budget
  - Higher returns than LAIF
  - Liquidity retention
- Spread out ADP's over 2-5 years
  - Dollar cost averaging can mitigate risk

# CEPPT Investment Policy

# CEPPT Investment Portfolios

2022 Capital Market Assumptions	CEPPT Strategy 1	CEPPT Strategy 2
Expected Return	4.5%	3.5%
Risk	8.8%	6.1%

# CEPPT Portfolio Details

Asset Classification	Benchmark	Strategy 1	Strategy 2	Target Range
Global Equity	MSCI All Country World Index IMI (Net)	37%	21%	±5%
Fixed Income	Bloomberg US Aggregate Bond Index (CEPPT)	44%	61%	±5%
Global Real Estate (REITs)	FTSE EPRA/NAREIT Developed Index (Net)	14%	9%	±5%
Treasury Inflation Protected Securities (TIPS)	Bloomberg US TIPS Index, Series L	5%	9%	±3%
Commodities	S&P GSCI Total Return Index	N/A	N/A	±3%
Cash	91-Day Treasury Bill	0%	0%	+2%
Expected Return	N/A	4.5%	3.5%	N/A
Standard Deviation	N/A	8.8%	6.1%	N/A

# CEPPT Time-Weighted Investment Returns

Periods Ended February 28, 2023

CEPPT	Assets	1 Month	3 Months	FYTD	1 Year	3 Years	5 Years	10 Years	ITD
Strategy 1 (Inception October 1, 2019)	\$77,038,010	-2.84%	0.30%	1.62%	-8.90%	2.38%	-	-	2.48%
Benchmark		-2.86%	0.22%	1.51%	-9.15%	2.26%	-	-	2.39%
Strategy 2 (Inception January 1, 2020)	\$35,447,938	-2.68%	0.02%	-0.24%	-8.92%	-0.82%	-	-	-0.46%
Benchmark		-2.69%	0.07%	-0.24%	-8.97%	-0.92%	-	-	0.56%
<b>CEPPT Total</b>	<b>\$112,485,948</b>								

Time weighted return reports the performance of the investment vehicle, not of the employer assets. Returns are gross. Historical performance is not necessarily indicative of actual future investment performance or of future total program cost. Current and future performance may be lower or higher than the historical performance data reported here. Investment return and principal value may fluctuate so that your investment, when redeemed, may be worth more or less than the original cost. The value of an employer's fund shares will go up and down based on the performance of the underlying funds in which the assets are invested. The value of the underlying funds' assets will, in turn, fluctuate based on the performance and other factors generally affecting the securities market.

# CEPPT Participation Costs



# CEPPT Total Participation Cost Fee Rate

- All-inclusive cost of participation
  - 25 basis points (bps) of assets under management
  - Combines administrative, custodial, recordkeeping, and investment fees
  - Self-funded, not-for-profit, fee rate may change in the future
- Zero cost to join and setup account(s)

## Fee Rate Illustration

Asset Value on Deposit*	All-Inclusive Fee Rate	Annual Cost
\$1,000,000	25 Basis Points (0.25%)	\$2,500

\*Asset values shown assume the amount is deposited on the first day of a 12-month calendar year and remains constant the entire 12 months ending on the last day with the exact same amount. No investment gains/losses, or contribution additions/withdrawals are experienced at any time during the 12 months.

There are **no** additional fees of any kind. No set-up, joining, renewal, contribution, disbursement, termination fees. No minimum contribution amount.

# CERBT & CEPPT Fee Rate History

Fiscal Year	CERBT	CEPPT
2007-2008	2.00 basis points	-
2008-2009	6.00 basis points	-
2009-2010	9.00 basis points	-
2010-2011	12.00 basis points	-
2011-2012	12.00 basis points	-
2012-2013	15.00 basis points	-
2013-2014	14.00 basis points	-
2014-2015	10.00 basis points	-
2015-2016	10.00 basis points	-
2016-2017	10.00 basis points	-
2017-2018	10.00 basis points	-
2018-2019	10.00 basis points	-
2019-2020	10.00 basis points	25.00 basis points
2020-2021	10.00 basis points	25.00 basis points
2021-2022	10.00 basis points	25.00 basis points
2022-2023	10.00 basis points	25.00 basis points

# Advantages of the CEPPT

# Advantages of the CEPPT

- Investment management services by CalPERS
  - Unmatched economies of scale
  - We manage the investment policy for you
- Lowest total participation cost
  - All-inclusive 25bps of assets under management
  - ~\$2500 annually per \$1M invested
- Excellent customer service
  - Dedicated team available 24/7/365
- Simple administration
- GASB compliance

# You Control the CEPPT Funding Policy

- Choose your preferred portfolio or use both
- Contributions are voluntary and never required
  - Open a free account and use it once you're ready
- Decide if and when to liquidate trust assets
  - Reimbursement checks mailed monthly
  - Normal costs, UAL payments, ADP's

# Customer Outreach & Support

Contributions

Disbursements

Online Record Keeping Portal

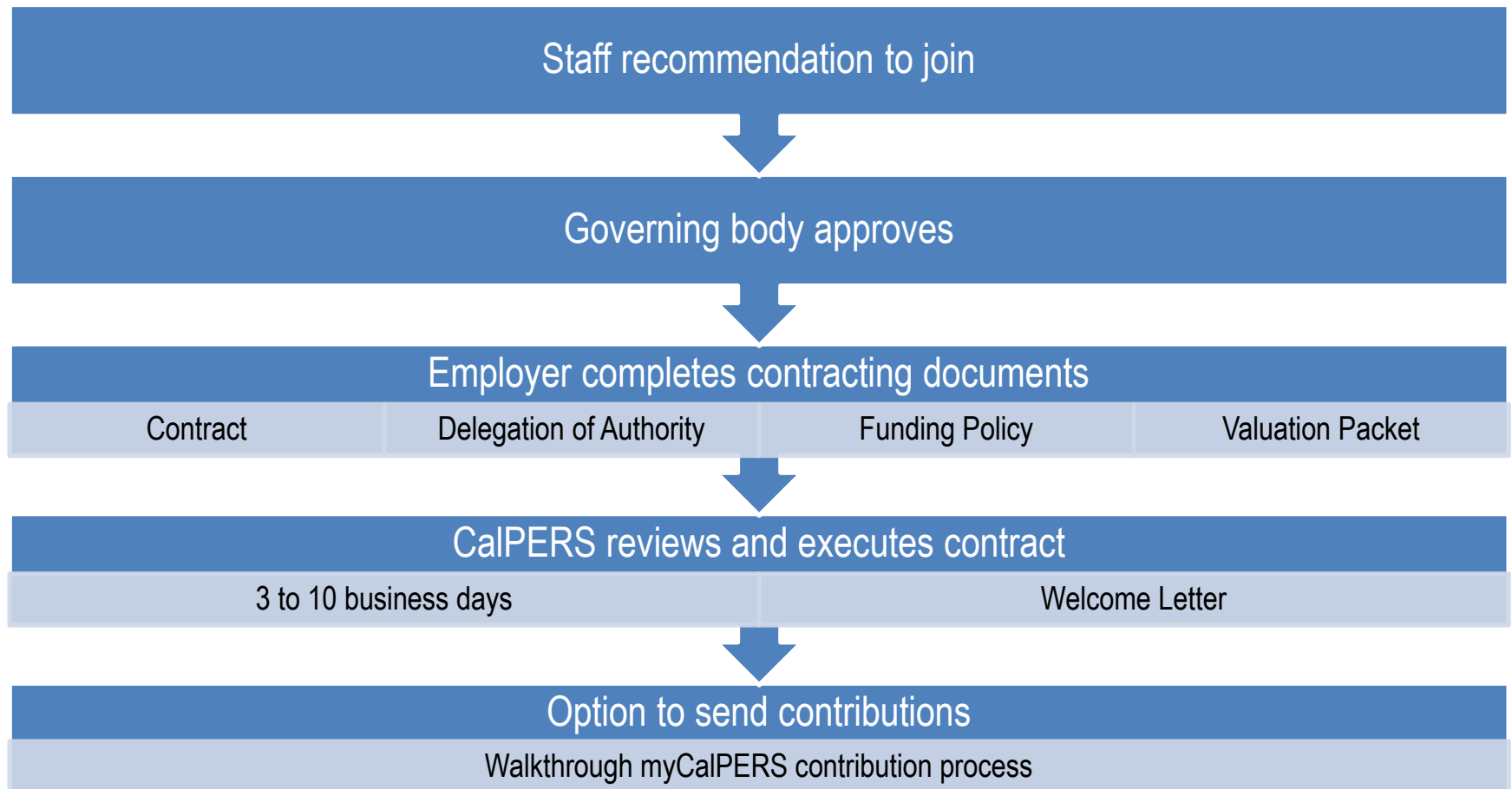
Account Updates

In-Person Workshops and Webinars

Statements and Reporting

Strategy Change

# Uncomplicated Contracting Process



# Questions? Where to Get Trust Fund Information?

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Program E-mail Addresses	Prefunding Programs Webpages
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<a href="mailto:CERBTACCOUNT@calpers.ca.gov">CERBTACCOUNT@calpers.ca.gov</a> – Online Record Keeping System	