



May 18, 2021

To: Mayor Ezzy Ashcraft and Members of the Alameda City Council

From: Annie To, Finance Director

Re: Follow up and clarifications re: May 11, 2021 Regular Agenda Item 2-B (Budget Workshop for Fiscal Years 2021-22 and 2022-23 to Provide Direction that will be Incorporated into Budget Adoption Hearing Materials for City Council Consideration in June 2021)

Based on the discussion at the budget workshop on May 11, 2021, staff has incorporated the following changes into the proposed operating budget for fiscal years (FYs) 2021-22 and 2022-23. These changes will be reviewed by the City Council and determined whether to add any of the below items at the budget workshop on May 20, 2021. A final proposed budget will be presented for City Council consideration on June 15, 2021 with any additions from below or additions or reductions as determined by the City Council on May 20th.

Department	Request	Funding Source	FY 2021-22 Budget	FY 2022-23 Budget
City Attorney	Public Records Request Support	General Fund	\$100,000	\$100,000
City Manager	Civic Spark Fellow	General Fund	\$36,000	\$36,000
City Manager	Mailers and Language/Translation Services	General Fund	\$40,000	\$40,000
City Manager	Police Auditor/Police Reform Measures	General Fund	\$300,000	\$900,000
Comm Dev	AUSD Mental Health Support	General Fund	\$125,000	\$125,000
Comm Dev	Façade Grant Program	General Fund		\$125,000
		Total	\$601,000	\$1,326,000

ADDITIONAL DISCUSSION

Pension and Other Post-Employment Benefits (OPEB) Reserve Funding Policy

At the May 11, 2021 workshop, Councilmembers asked staff about the City's pension and OPEB reserve contributions to date. Per the City's Pension Rate Stabilization Program and OPEB Funding Policy (adopted March 21, 2017; revised June 6, 2017), **one-half of each fiscal year's General Fund surplus over the 25% available fund balance (operating reserve) shall be put into a Trust Fund or paid directly to CalPERS for advance pay down of unfunded liability for either pensions or post-employment benefits.** At the May 11 meeting, Ms. Tell attempted to locate the total amount contributed to pensions and OPEB. However,

to ensure all of the contributions were identified, those numbers were evaluated since the budget workshop. The total contribution to pensions is shown below.

According to the policy, the closed Police & Fire pension plans (1079/1082) also transfer any available funds due to passing of the participants in the closed plans to the Pension Stabilization Fund (721).

On November 7, 2017, City Council approved a 75/25 split for the pension reserves, whereby 75% of the committed reserves are used for advance pay down of unfunded liabilities with CalPERS and 25% are allocated to a Public Agency Retirement Services (PARS)-administered Section 115 Trust that may only be used for funding pension and OPEB payments. The City has three PARS-administered Section 115 Trust Funds:

1. Pension Stabilization Fund (721)
2. Miscellaneous and Pre-1/1/2019 Safety OPEB Trust Fund (810) ¹
3. Post-1/1/2019 Safety OPEB Trust Fund (811)

Since the adoption of the Pension and OPEB Funding Policy in 2017 (attached as Exhibit 1), the City has made a total of \$27.4 million in CalPERS advance payments and pension and OPEB trust contributions in accordance with the policy, as shown in the table below.

Fiscal Year	CalPERS Advance Payment	Pension (721) Trust Contributions*	OPEB (810 & 811) Trust Contributions	Total
2016-17		\$250,000	\$250,000	\$500,000
2017-18	\$10,695,052	\$3,325,016	\$3,000,000	\$17,020,068
2018-19	\$6,142,000	\$2,047,172	\$500,000	\$8,689,172
2019-20		\$733,998	\$250,000	\$983,998
2020-21 (YTD)			\$250,000	\$250,000
Total	\$16,837,052	\$6,356,186	\$4,250,000	\$27,443,238

* Net of the CalPERS Advance Payment.

If authorized by City Council on May 20, 2021, staff is prepared to make an advance payment to CalPERS of \$7,546,500 and contribute \$2,515,500 to the Pension Trust prior to the end of FY 2020-21, in accordance with the 75/25 split for the pension reserves that were set aside at the end of FY 2019-20. To contribute the above, the City Council would need to approve that contribution versus the policy which calls for a \$14 million contribution.

Based on the projected General Fund available fund balance at the end of FY 2020-21, the Pension/OPEB Reserve Payment in FY 2021-22 would be approximately **\$5.1 million, and based on the projected General Fund year-end balance in FY 2021-22, the payment in FY 2022-23 would be approximately \$2.2 million** (attached as Exhibit 2). Note that these estimates are subject to change based on actual General Fund year-end results as of June 30, 2021, and June 30, 2022, respectively. Staff will present these revised estimates based on actual fiscal year closing results at the mid-year budget updates in 2022 and 2023.

The unfunded accrued liability associated with pension and OPEB for the City is shown in Exhibit 3, which will be sent separately. The prefunding and pension trust approaches are designed to help smooth the

¹ Separate from the Pension and OPEB Funding Policy, Police and Fire personnel contribute to the OPEB Trust Fund (810) through payroll deductions, as required by labor agreements.

curve and limit the City's exposure in years where the liabilities are likely to impact other City services and/or staffing.

City Manager & City Attorney Staffing Allocations

During the meeting on May 11, 2021, the City Council had clarifying questions about changes in the staffing levels for the offices of the City Attorney and City Manager. The staffing levels over five years, across all program allocations, are shown below.

Department	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
City Attorney	8.0	11.5	11.5	11.5	11.5
City Manager	5.5	6.5	6.5	7.5	7.5
Total	13.5	18.0	18.0	19.0	19.0

Staffing in the City Attorney's Office increased from 8.0 full-time-equivalent (FTE) positions in FY 2018-19 to 11.5 FTEs in FY 2019-20 with the addition of the Chief Assistant City Attorney position, the addition of 1.5 FTEs Assistant City Attorney II positions, and the addition of 1.0 FTE Paralegal due to the establishment of the Prosecution Unit in FY 2019-20. Although staff have been reassigned to different program areas since FY 2019-20, resulting in a reduction in the General Fund budget for the City Attorney's Office, there has been no change in the overall staffing level since FY 2019-20.

In the City Manager's Office, the staffing level increased from 5.5 FTEs to 6.5 FTEs in FY 2019-20 with the addition of the Sustainability & Resilience Manager. If the City Council desires to move forward with a Police Auditor, the City Manager's proposed budget would increase by an additional position with the addition of a Police Auditor position in FY 2021-22, which would result in total staffing of 7.5 FTEs.

Parking Enforcement

Staff is evaluating options for unbundling parking enforcement from the Police Department. There are currently 2.0 Parking Technician FTEs allocated to the Police Department along with budget for part-time pay, citation management services, and equipment and supplies for parking enforcement. The total budget for the parking enforcement function is approximately \$493,000 in FY 2021-22 and \$513,000 in FY 2022-23.

Exhibits 1-3

1. Pension and OPEB Funding Policy
2. General Fund Budget Summary
3. Unfunded Accrued Liability Chart (Will be sent separately)



City of Alameda

Pension Rate Stabilization Program
(PRSP) and
Other Post-Employment Benefits
(OPEB)
Funding Policy

Purpose and Introduction

The purpose of this Pension Rate Stabilization Program (PRSP) and Other Post-Employment Benefits (OPEB) Funding Policy ("Policy") is to establish a methodology and a process for funding current and future costs associated with the City's contractual obligations to provide pension and retiree medical benefits as set forth in the City's labor agreements.

Adoption and Implementation

The City Council is responsible for adopting the Pension Rate Stabilization Program (PRSP) and Other Post-Employment Benefits (OPEB) Funding Policy and for approving any significant revision. The City Manager, or his/her designee, is responsible for developing administrative procedures, as needed, to implement the Policy. In this role, the City Manager, or his/her designee, is authorized to make minor administrative changes in the Policy as long as they are intended to carry out the purpose of this Policy and will not have any significant policy impact. The City Council will review and approve this policy via resolution, as needed, to ensure it meets the current and future needs of the City.

Initial Set Up

The City shall establish an Internal Revenue Service Code Section 115 approved irrevocable trust to achieve a higher rate of return on investments than that earned on the pooled investment portfolio or LAIF. Once the City transfers funds into such a trust, they can only be utilized for payment of employee pension or OPEB costs. After the trust is set up with PARS, money currently invested in the OPEB Trust will be transferred over to the new combination Pension/OPEB Trust and shall be allocated entirely to the PRSP OPEB account.

The following outlines the governance and administration of the proposed Trust:

City Council has the authority to establish the Trust and define policies for the administration of the Trust funds.

City Manager and staff have overall responsibility for the Trust funds and will develop and manage procedures in accordance with the City Council's adopted policies.

Trust Administrator, PARS, keeps plan documents current to ensure that they reflect the substantive plan and provides ongoing consulting, reporting and plan accounting records.

Trustee, currently US Bank, will be the plan's trustee and custodian and will safeguard the assets in the Trust, hold the investment securities for safekeeping and make disbursements on request.

Investment Manager, currently Highmark Capital Management, will recommend investment portfolio allocations based upon the Pension/OPEB Trust Funds' adopted investment policies and manage those assets accordingly.

Trust Administrator

Public Agency Retirement Services (PARS) has established a multiemployer irrevocable trust in compliance with the requirements of Section 115 of the Internal Revenue Code. While it is a multi-employer trust, each employer's contributions benefit only its own employees. There is no sharing of either liability or investment earnings, and separate employer accounts are maintained. PARS serves as the administrator of the Trust.

Trustee

Any contributions made to the program are held and invested by a trustee. The trustee duties include:

1. Safeguarding assets for the benefit of retirees;
2. Providing oversight protection of the investments;
3. Custodian of the assets; and
4. Disbursing funds to pay for pension costs and/or retiree healthcare premiums.

Investment Manager

Investment Manager assists the City with selecting investment strategy depending on what rate of return the City expects to earn and level of risk tolerance the City is willing to take. Investment Manager provides annual review of the investment portfolio and asset allocation as well as takes on fiduciary responsibility for the City's pension and OPEB assets management.

Asset Allocation Investment Strategy

PARS provides flexibility to the City in the selection of the investment strategy for its funds in the Trust, giving the City control on target yield and level of risk on its investments. Within the Trust, the City has the option of pre-funding either or both of the Pension and OPEB accounts. In either case, the City has the ability to select one of five Investment Options that best suits its desired or expected return on its investments in the Trust. Each Investment Option allocates the assets in varying investment combinations of equity, fixed income, and cash. With each Investment Option, as the expected rate of return increases so does the assumed risk.

The Asset Allocation Strategies and the corresponding Investment Options currently available are:

	Equity	Fixed Income	Cash
Conservative	5% - 20%	60% - 95%	0% - 20%
Moderately Conservative	20% - 40%	50% - 80%	0% - 20%
Moderate	40% - 60%	40% - 60%	0% - 20%
Balanced	50% - 70%	30% - 50%	0% - 20%
Capital Appreciation	65% - 80%	10% - 30%	0% - 20%

The City Manager, or his/her designee, in coordination with the City Treasurer and Investment Manager will select the most appropriate investment option for each account (Pension and OPEB) in the Trust.

This Policy recognizes that there will be investment market place volatility and that actual economic and demographic experience will differ from assumed experience. Accordingly, this Policy is intended to provide flexibility to smooth such volatility and experience in a reasonable, systematic and financially sound manner.

Annual Contributions

In order to establish realistic and appropriate thresholds for annual contributions, the City adopts the following requirement for contributions to be shared among all City Funds proportionate with the number of employees allocated to these funds in any given year:

	Minimum	Maximum
Pension	\$250,000	Unlimited
OPEB	\$100,000 or as required in the MOUs	Unlimited

Note: FY 2015-16 OPEB Annual Required Contribution (ARC) was \$10.987 million, as determined by the actuarial valuation report prepared in accordance with the Governmental Accounting Standards Board Statement No. 45. Per Bartel & Associates, if the City funds OPEB component of the Trust at the ARC level, the OPEB Trust would be fully funded by FY 2034-35.

Pension Plans 1079/1082 (closed pension plans) – starting FY 2016-17, the City shall transfer any unspent funds to the Pension component of the Trust. Each year thereafter, the City shall contribute at least as much as a year prior of the unspent funds plus any additional available funds. Available funds arise due to passing of participants in Plans.

Annual contributions from Successor Agency and Alameda Municipal Power shall be deposited to the OPEB Miscellaneous/Safety (Pre 1-1-2019) account of the Trust.

One-half of each fiscal year's General Fund surplus over the 25% available fund balance shall be put into a Trust Fund or directly into paying off the CalPERS unfunded liability for either pensions or post-employment benefits.

Annual Withdrawals

In order to establish realistic and appropriate thresholds for annual withdrawals, the City adopts the following limitations on the withdrawals:

	Minimum	Maximum
Pension	\$0	10% or less of CalPERS Annual Required Contribution
OPEB	\$0	Annual Required Contribution (ARC)

Actuarial Terms Definition:

Normal Cost

The City incurs an annual pension and OPEB retirement obligation for current employees. The ongoing cost for pension and OPEB earned by current employees during the current year is referred to as the “normal” cost.

Unfunded Actuarial Accrued Liability (UAAL)

The actuarial valuation calculates an unfunded actuarial accrued liability (UAAL) as of the valuation date. The UAAL represents the difference between assets available in the trust fund and the liability related to prior employment service for former and existing employees.

Annual Required Contributions (ARC)

The ARC to fund pension and OPEB, as determined by the actuarial valuation, reflect the normal cost plus amortization of the UAAL, until such time as the UAAL is fully amortized.

2021-23 General Fund Budget Summary

	2019-20 Actual	2020-21 Amended Budget	2021-22 Proposed Budget	2022-23 Proposed Budget
Revenues				
Property Tax	45,733,246	45,820,000	48,365,000	49,964,000
Sales Tax	17,601,219	15,732,000	18,680,000	19,049,900
Property Transfer Tax	15,195,899	12,000,000	12,000,000	12,000,000
Utility Users Tax	8,809,355	8,449,500	8,652,500	8,659,500
Franchise Taxes	3,894,723	4,265,000	3,996,000	3,949,000
Business License Tax	2,572,827	2,260,000	2,200,000	2,200,000
Transient Occupancy Tax	1,952,077	1,400,000	1,400,000	1,600,000
Other Taxes	1,210,667	1,277,000	1,300,000	1,300,000
Fees and Charges for Services	6,827,975	5,754,085	6,703,100	6,956,511
Transfers In	7,158,136	6,447,500	4,355,000	4,528,000
Investment and Property Income	2,971,609	2,084,779	2,273,311	2,414,903
Intergovernmental Revenue	746,267	2,065,070	1,108,000	1,108,000
Fines/Forfeiture/Penalty	705,562	762,100	590,100	590,100
Other Revenue	634,340	193,100	123,600	135,600
Licenses and Permits	1,498	151,400	850	850
	116,015,400	108,661,534	111,747,461	114,456,364
Carryforward FY 2019-20 Pension Reserve			1,700,000	2,300,000
	116,015,400	108,661,534	113,447,461	116,756,364
Expenditures				
Salaries and Employee Benefits	67,040,871	73,017,893	77,747,014	82,040,229
Operating Expenditures	10,947,080	15,319,848	14,197,036	14,533,751
Transfers Out	15,301,549	12,769,500	8,250,000	6,756,940
Cost Allocation	9,779,918	9,584,718	13,066,168	13,136,023
Debt Service	226,119	277,000	228,151	235,000
Capital Outlay	178,463	12,000	6,500	7,000
	103,474,000	110,980,959	113,494,869	116,708,943
Pension/OPEB Reserve Payment*		10,062,001	5,130,627	2,227,371
	103,474,000	121,042,960	118,625,496	118,936,314
Revenues Less Expenditures				
Baseline Operations	12,541,400	(2,319,425)	(1,747,408)	(2,252,579)
With Carryforward	12,541,400	(2,319,425)	(47,408)	47,421
With Pension/OPEB Reserve Payment	12,541,400	(12,381,426)	(5,178,035)	(2,179,950)
Available Fund Balance				
Beginning of Year	23,784,518	36,325,918	38,006,493	32,828,459
Release Pension Reserve		14,062,001		
Revenues Less Expenditures	12,541,400	(12,381,426)	(5,178,035)	(2,179,950)
Ending Balance	36,325,918	38,006,493	32,828,459	30,648,509
Pension/OPEB Reserve Calculations				
25% Operating Reserve	25,868,500	27,745,240	28,373,717	29,177,236
Ending Balance Above 25% Op Reserve		10,261,254	4,454,741	1,471,273
50% of Ending Balance Above Operating Reserve		5,130,627	2,227,371	735,637

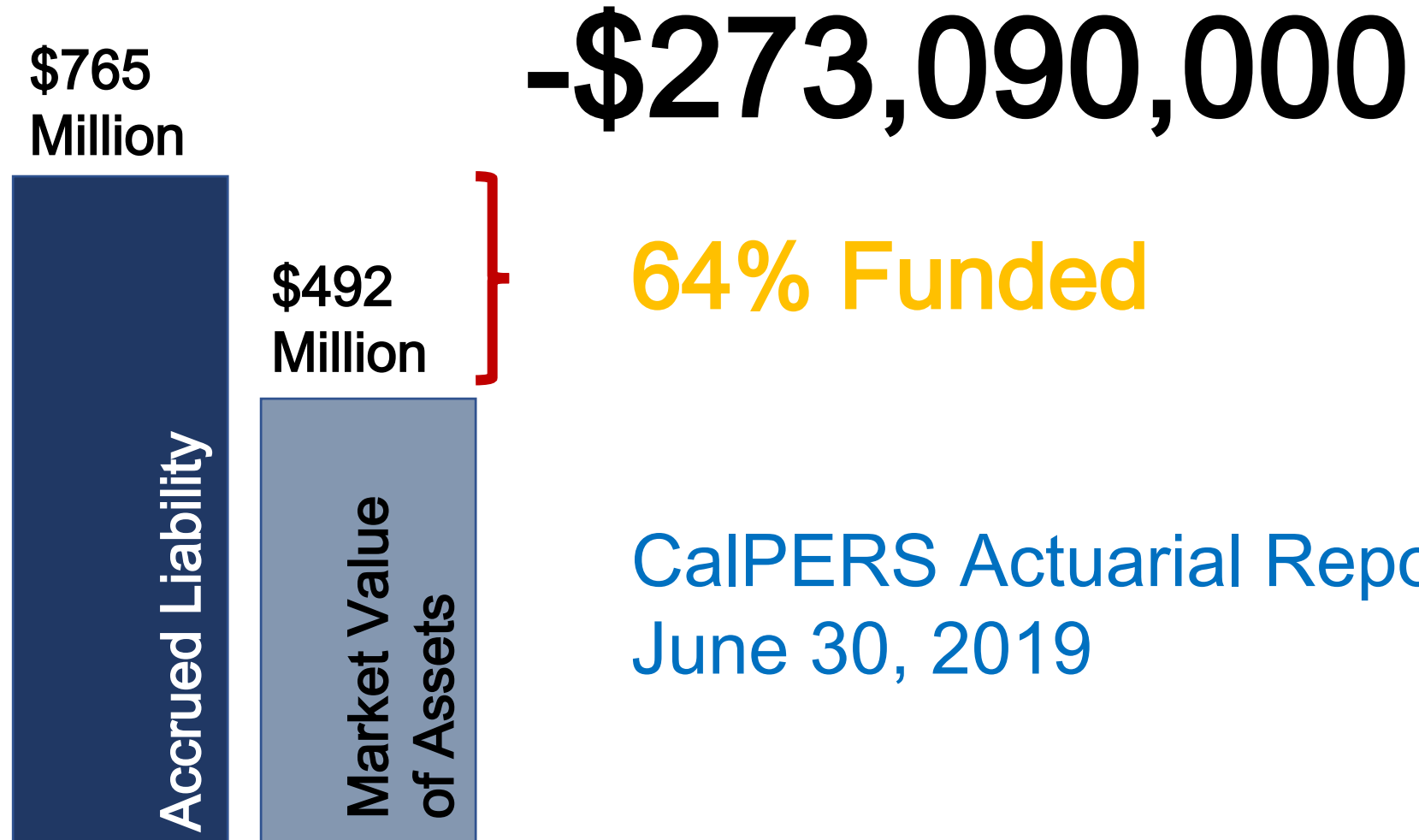
* Proposed budget includes \$4,000,000 carryforward of FY 2019-20 year-end pension reserve.

Amounts shown in *italics* are projections based on budgets. Staff will present the reserve payment amounts based on prior year-end actuals at the mid-year budget updates in FY 2021-22 and 2022-23.



Additional Discretionary Payment (ADP) Analysis

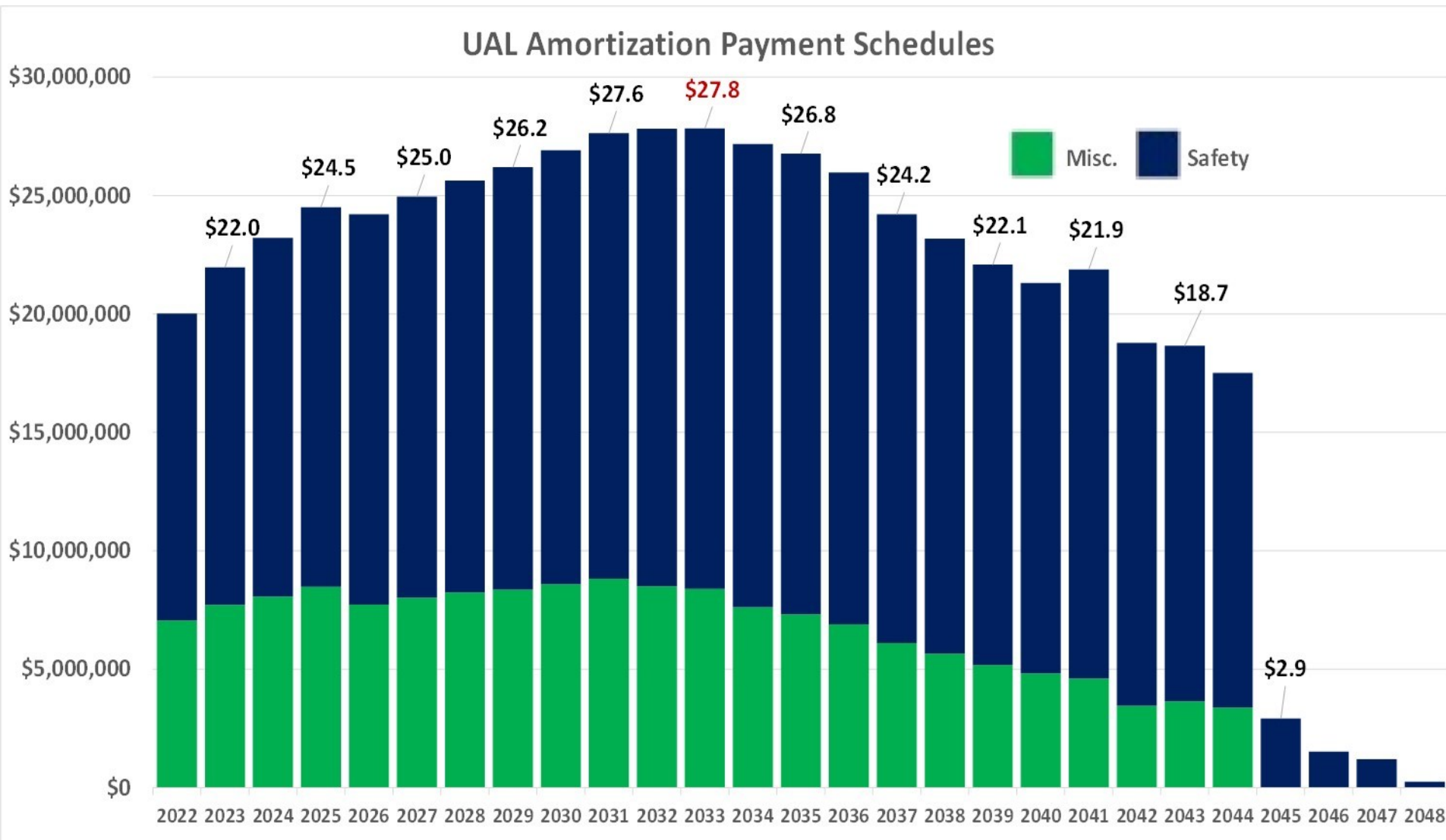
May 18, 2021



CalPERS Actuarial Report
June 30, 2019

Annual Payments UAL Liability

Exhibit 3



Baseline (Do Nothing)

UAL AMORTIZATION PAYMENTS

Exhibit 3

		Misc.	Safety	TOTAL
1	2022	7,053,314	12,963,710	20,017,024
2	2023	7,715,199	14,253,810	21,969,009
3	2024	8,063,666	15,149,409	23,213,076
4	2025	8,479,377	16,030,083	24,509,460
5	2026	7,723,068	16,493,201	24,216,269
6	2027	8,023,087	16,933,042	24,956,129
7	2028	8,244,899	17,384,979	25,629,878
8	2029	8,358,564	17,849,345	26,207,908
9	2030	8,589,601	18,326,480	26,916,081
10	2031	8,826,993	18,816,737	27,643,729
11	2032	8,501,618	19,320,475	27,822,093
12	2033	8,390,052	19,443,045	27,833,097
13	2034	7,616,016	19,558,122	27,174,137
14	2035	7,328,762	19,452,554	26,781,316
15	2036	6,891,087	19,079,359	25,970,445
16	2037	6,098,570	18,113,320	24,211,890
17	2038	5,654,102	17,532,505	23,186,607
18	2039	5,180,543	16,906,424	22,086,968
19	2040	4,827,821	16,476,567	21,304,389
20	2041	4,599,295	17,284,285	21,883,580
21	2042	3,451,645	15,335,527	18,787,172
22	2043	3,642,841	15,013,496	18,656,336
23	2044	3,378,942	14,132,379	17,511,321
24	2045	17,417	2,900,072	2,917,489
25	2046	-	1,515,150	1,515,150
26	2047	-	1,207,727	1,207,727
27	2048	-	252,989	252,989
		\$ 156,656,480	\$ 397,724,789	\$ 554,381,269
	UAL	\$ 85,795,545	\$ 196,768,638	\$ 282,564,183

Short Bases

Exhibit 3

		Original Misc.	Original Safety	Safety UAL After	
		UAL	UAL	ADPs	ADP Savings
1	2022	\$ 7,053,314	\$ 12,963,710	\$ 12,561,486	\$ 402,224
2	2023	7,715,199	14,253,810	13,412,686	841,124
3	2023	8,063,666	15,149,409	13,826,928	1,322,481
4	2024	8,479,377	16,030,083	14,212,133	1,817,950
5	2025	7,723,068	16,493,201	14,625,257	1,867,944
6	2026	8,023,087	16,933,042	15,013,730	1,919,312
7	2027	8,244,899	17,384,979	15,412,886	1,972,093
8	2028	8,358,564	17,849,345	15,823,019	2,026,326
9	2029	8,589,601	18,326,480	16,244,430	2,082,050
10	2030	8,826,993	18,816,737	16,677,431	2,139,306
11	2031	8,501,618	19,320,475	17,122,338	2,198,137
12	2032	8,390,052	19,443,045	17,579,481	1,863,564
13	2033	7,616,016	19,558,122	18,049,195	1,508,927
14	2034	7,328,762	19,452,554	18,379,035	1,073,519
15	2035	6,891,087	19,079,359	18,466,336	613,023
16	2036	6,098,570	18,113,320	17,986,932	126,387
17	2037	5,654,102	17,532,505	17,467,573	64,931
18	2038	5,180,543	16,906,424	16,906,424	-
19	2039	4,827,821	16,476,567	16,476,567	-
20	2040	4,599,295	17,284,285	17,284,285	-
21	2041	3,451,645	15,335,527	15,335,527	-
22	2042	3,642,841	15,013,496	15,013,496	-
23	2043	3,378,942	14,132,379	14,132,379	-
24	2044	17,417	2,900,072	2,900,072	-
25	2045	-	1,515,150	1,515,150	-
26	2046	-	1,207,727	1,207,727	-
27	2047	-	252,989	252,989	-
TOTAL		\$ 156,656,480	\$ 397,724,789	\$ 373,885,492	\$ 23,839,297

\$23.8 Million
less \$16 Million
=
\$8.8 Million Net
Savings

Long Bases

Exhibit 3

			Original Misc. UAL	Original Safety UAL	Safety UAL After ADPs	ADP Savings
1	2022	\$	7,053,314	\$ 12,963,710	\$ 12,748,263	\$ 215,447
2	2023		7,715,199	14,253,810	13,704,270	549,540
3	2023		8,063,666	15,149,409	14,404,824	744,585
4	2024		8,479,377	16,030,083	14,936,360	1,093,723
5	2025		7,723,068	16,493,201	15,369,400	1,123,800
6	2026		8,023,087	16,933,042	15,778,337	1,154,705
7	2027		8,244,899	17,384,979	16,198,520	1,186,459
8	2028		8,358,564	17,849,345	16,630,258	1,219,087
9	2029		8,589,601	18,326,480	17,073,868	1,252,612
10	2030		8,826,993	18,816,737	17,529,678	1,287,059
11	2031		8,501,618	19,320,475	17,998,022	1,322,453
12	2032		8,390,052	19,443,045	18,084,224	1,358,820
13	2033		7,616,016	19,558,122	18,161,934	1,396,188
14	2034		7,328,762	19,452,554	18,017,971	1,434,583
15	2035		6,891,087	19,079,359	17,605,325	1,474,034
16	2036		6,098,570	18,113,320	16,598,750	1,514,570
17	2037		5,654,102	17,532,505	15,976,284	1,556,221
18	2038		5,180,543	16,906,424	15,307,408	1,599,017
19	2039		4,827,821	16,476,567	14,833,578	1,642,990
20	2040		4,599,295	17,284,285	15,596,113	1,688,172
21	2041		3,451,645	15,335,527	13,643,041	1,692,486
22	2042		3,642,841	15,013,496	12,798,953	2,214,543
23	2043		3,378,942	14,132,379	11,870,859	2,261,519
24	2044		17,417	2,900,072	1,114,294	1,785,778
25	2045		-	1,515,150	-	1,515,150
26	2046		-	1,207,727	-	1,207,727
27	2047		-	252,989	-	252,989
TOTAL			\$ 156,656,480	\$ 397,724,789	\$ 361,980,534	\$ 35,744,256

**\$35.7 Million
less \$16 Million
=
\$19.7 Million
Net Savings**