

**RESOLUTION NO. 2024-167**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ELK GROVE  
ADOPTING THE PENSION FUNDING POLICY**

**WHEREAS**, the City of Elk Grove (City) provides pension benefits to employees and retirees through the California Public Employees' Retirement System (CalPERS) and shares the costs of these benefits with its employees and CalPERS; and

**WHEREAS**, the City makes Normal Cost payments each month to CalPERS, which pre-funds pension benefits promised to employees through CalPERS; and

**WHEREAS**, the City must also fund its Unfunded Accrued Liability (UAL) each year, which is the difference between the estimated cost of future benefits and the assets set aside to pay for those benefits; and

**WHEREAS**, the annual UAL is dependent on CalPERS' investment earnings, which can vary widely from year to year, creating uncertainty about the amount needed to be set aside each year by the City to fund this liability; and

**WHEREAS**, in order to address this volatility and to maintain its funded status, the City has made over \$13.5 million in additional payments to CalPERS over the last several years and has pre-paid its annual UAL obligation; and

**WHEREAS**, the City Council proposed setting a pension funding goal in order to reduce uncertainty in managing the City's CalPERS' pension costs.

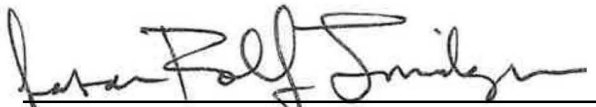
**NOW, THEREFORE, BE IT RESOLVED** that the City Council of the City of Elk Grove hereby adopts the Pension Funding Policy, attached as Exhibit A and incorporated by reference.

**PASSED AND ADOPTED** by the City Council of the City of Elk Grove this 11<sup>th</sup> day of September 2024



BOBBIE SINGH-ALLEN, MAYOR of the  
CITY OF ELK GROVE

ATTEST:



JASON LINDGREN, CITY CLERK

APPROVED AS TO FORM:



JONATHAN P. HOBBS,  
CITY ATTORNEY



# City of Elk Grove Pension Funding Policy

<b>Date:</b> 9/11/24	<b>Department:</b> Finance <b>Division:</b> Treasury	<b>Authority:</b> Resolution No.2024-167
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## PURPOSE

The purpose of this policy is to outline the City’s goals and approaches to addressing its California Public Employees’ Retirement System (CalPERS) pension costs. The City provides pension benefits to employees and retirees through CalPERS.

The amount the City has to pay to CalPERS largely depends on CalPERS’ investment earnings, which can be very volatile. For instance, CalPERS’ investment returns were 21.3% in FY 2020-21 but -6.1% in FY 2021-22. To address this volatility, the City has made over \$13.5 million in additional payments to CalPERS and prepaid its annual Unfunded Accrued Liability (UAL) payments.

The City also established a Section 115 Irrevocable Pension Trust to help prefund its pension liabilities and have more control over when and how prepayment funds are used. Although the City’s pension plans are approximately 86% funded, the City’s unfunded liability is approximately \$32.4 million as of June 30, 2023.

## DEFINITIONS

**Additional Discretionary Payments:** Payments to CalPERS that are above and beyond what is invoiced by CalPERS.

**Normal Cost:** The contribution necessary, when added to investment income, to pay for benefits earned each year. The normal cost “prefunds” or “pays in advance” for promised pension benefits.

**Unfunded Accrued Liability:** The difference between the estimated cost of future benefits and the assets set aside to pay for those benefits. An agency’s Unfunded Accrued Liability is essentially pension debt.

**Section 115 Irrevocable Pension Trust:** An account used to set aside monies to meet future pension contributions or liabilities. Funds placed in a Trust are irrevocably committed to pension obligations once deposited.

## **POLICY**

It is the policy of the City to fulfill its obligation to maintain fiscally responsible management practices and to ensure that promised pension benefits are funded. It is the goal of the City to achieve and maintain a funded ratio for each of its pension plans of 90%. A funded ratio of 100% signifies that the City's assets held with CalPERS, in addition to assets held in other pension-restricted reserves, match its accrued liabilities for pensions.

It is also the City's goal to accumulate an amount in its Section 115 Irrevocable Pension Trust (Trust) sufficient to generate investment earnings that can cover the City's annual Unfunded Accrued Liability (UAL).

## **SCOPE**

This policy applies to all City funds and departments.

## **PROCEDURES**

There are three ways that the City can manage its CalPERS pension costs:

**Pay its entire Unfunded Accrued Liability payment in July.** CalPERS offers the option to make monthly payments on the UAL or prepay the entire annual UAL amount at a discounted level by the end of July. Paying the entire amount saves the City the approximately 3.5% interest CalPERS charges for the ability to pay that amount monthly.

The City should continue to prepay its UAL payment as long as it is cost-effective and the City's fiscal condition allows it. The annual Budget Resolution gives the City Manager the authority to make these payments.

**Make deposits into the City's Trust.** The City established its Trust in 2024 to help prefund its pension liabilities and have more control over when and how prepayment funds are invested and used. In spirit with these goals, the City shall prioritize making payments into its Trust over Additional Discretionary Payments to CalPERS. The City shall apply any budgeted pension prepayment amount toward the Trust until it generates annual investment earnings sufficient to make its UAL annual payment. In addition, if the City identifies revenues above estimates or expenditures below estimates during the Mid-Year and Year-End budget update processes, the City shall consider applying a portion of those monies toward the Trust via resolution.

When the Trust generates annual earnings sufficient to pay its annual UAL payment, the City shall draw from the Trust to make that payment. The Annual Budget shall include the payment to realize savings from using the Trust rather than City funds.

The funds in the Trust may also be used for any of the following purposes at the City's discretion: (1) the City's annual Normal Cost payment to CalPERS, (2) Reimbursement to the City for CalPERS pension costs, and (3) Additional Discretionary Payments to CalPERS.

As stated above, the City is targeting a funded ratio of 90% for each of its pension plans. When measuring its funded ratio, the City shall incorporate assets in the Trust and those under CalPERS' management. The City may consider foregoing contributions to the Trust if its funded ratio is determined to be too high, the current assets on deposit in the Trust are projected to be sufficient to cover budgetary fluctuations in the future, or the City's financial condition precludes making a contribution.

If CalPERS' earnings have increased the City's funding level above 100% for some or all of its pension plans and there is no UAL payment, the City shall consider continuing additional payments into the Trust or Additional Discretionary Payments to CalPERS towards those plans that still have a UAL payment. If there are no UAL payments required in a given year, Trust earnings should be used towards the City's Normal Cost payment obligations.

**Make Additional Discretionary Payments to CalPERS.** Additional Discretionary Payments are payments above and beyond the monthly Normal Cost payments. If the City decides to make such payments, prioritization should be made towards (1) amortizations that are in the "Ramp Up" stage and (2) amortizations with the longest amortization period(s) as identified in the annual CalPERS actuarial reports.

The City will review this policy periodically to determine if changes are necessary to ensure progress is being made toward funding the City's CalPERS pension costs and mitigating the impact of the costs associated with future UAL.

**CERTIFICATION**  
**ELK GROVE CITY COUNCIL RESOLUTION NO. 2024-167**

STATE OF CALIFORNIA       )  
COUNTY OF SACRAMENTO    )       ss  
CITY OF ELK GROVE         )

*I, Jason Lindgren, City Clerk of the City of Elk Grove, California, do hereby certify that the foregoing resolution was duly introduced, approved, and adopted by the City Council of the City of Elk Grove at a regular meeting of said Council held on September 11, 2024 by the following vote:*

**AYES:**       **COUNCILMEMBERS:**       *Singh-Allen, Brewer, Robles, Spease*

**NOES:**       **COUNCILMEMBERS:**       *None*

**ABSTAIN:**   **COUNCILMEMBERS:**       *None*

**ABSENT:**   **COUNCILMEMBERS:**       *Suen*

  
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**Jason Lindgren, City Clerk**  
**City of Elk Grove, California**