CITY OF BELVEDERE

FINANCE SUB-COMMITTEE: Taskforce on Pensions & OPEBs

AGENDA

February 9, 2021
Via Zoom
12:00 p.m.

Join Zoom Meeting
https://us02web.zoom.us/j/87121735080?pwd=ZEluZDdxOEdhZGZYUVM3SDkyRVlIUT09

Meeting ID: 871 2173 5080
Passcode: Belvedere

Dial by your location
833 548 0282 US Toll-free
877 853 5247 US Toll-free
888 788 0099 US Toll-free
833 548 0276 US Toll-free

Meeting ID: 871 2173 5080
Passcode: 748066599

1. Approve minutes from January 21, 2021 and January 26, 2021 meetings.
2. Briefings/Discussion of the City's pension position and potential strategies for managing pension liabilities.
3. Briefings/Discussion of the City's OPEB position and potential strategies for managing OPEB liabilities.
4. Adjourn.

Attachments:

1. Memo to the Taskforce and associated attachments.

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Date posted: February 6, 2021.

SPECIAL MEETING
FINANCE SUB-COMMITTEE
Taskforce on Pensions and OPEBs
Thursday, January 21, 2021
10:00 AM
on Zoom remote platform

MINUTES

COMMITTEE PRESENT:	Steve Block, Bob McCaskill, David Walker, Sally Wilkinson
COMMITTEE ABSENT:	N/A
OTHERS PRESENT:	City Manager – Craig Middleton, Admin. Services Manager – Amber Johnson

CALL TO ORDER OF SPECIAL MEETING

The meeting was called to order at 10:00 a.m.

SCHEDULED ITEMS

1. The Committee discussed the background and relevant issues around the City's pension liabilities. After much discussion, follow-up tasks were assigned to various members of the Committee to be presented at a future meeting for analysis.

ADJOURN

The meeting was adjourned at 12:30 p.m.

THE FOREGOING MINUTES were approved at a regular meeting of the Finance Committee on _, 2021 by the following vote:

AYES: _
NOES: _
ABSENT: _
ABSTAIN: _

APPROVED ____________________
Sally Wilkinson, Chair

ATTEST ________________________________
Amber Johnson, Admin. Services Manager

SPECIAL MEETING
FINANCE SUB-COMMITTEE
Taskforce on Pensions and OPEBs
Tuesday, January 26, 2021
1:00 PM
on Zoom remote platform

MINUTES

COMMITTEE PRESENT: Steve Block, Bob McCaskill, David Walker, Sally Wilkinson

COMMITTEE ABSENT: N/A

OTHERS PRESENT: City Manager – Craig Middleton,
Admin. Services Manager – Amber Johnson

CALL TO ORDER OF SPECIAL MEETING

The meeting was called to order at 1:00 p.m.

SCHEDULED ITEMS

1. The Committee discussed the background and relevant issues around the City's OPEB liabilities. After much discussion, follow-up tasks were assigned to various members of the Committee to be presented at a future meeting for analysis.

ADJOURN

The meeting was adjourned at 2:00 p.m.

THE FOREGOING MINUTES were approved at a regular meeting of the Finance Committee on _, 2021 by the following vote:

AYES: _
NOES: _
ABSENT: _
ABSTAIN: _

APPROVED ____________________
Sally Wilkinson, Chair

ATTEST ________________________________
Amber Johnson, Admin. Services Manager

CITY OF BELVEDERE
Memorandum

February 6, 2021

TO: Taskforce on Pensions and OPEBs

FROM: Amber Johnson, Administrative Services Manager

SUBJECT: Status of Tasks Assigned to Committee Members

At the end of the prior two meetings of the Taskforce on January 21st and 26th, various Committee members were assigned follow-up tasks to be shared with the entire Committee at its February 9th meeting. These tasks are listed below with responses from the responsible parties as of the writing of this memo.

PENSIONS

1. **Research employee contribution rates of neighboring municipalities – Sally**
   Response: Local (Marin) CalPERS-contracting municipalities all apply the same employee contribution rates i.e., 7% or 8% for Miscellaneous Tier 1, 7% for Miscellaneous Tier 2, and 9% for Safety. Note that the City of Belvedere has only one Classic Miscellaneous Tier, which is the equivalent of Tier 2 in terms of benefits. No agency has negotiated with employees to pick up a share of the employer NCR.

   Reform efforts:

   No local agency has adopted a long-range pension strategy. Efforts have focused on pension obligation bond issuance, ad hoc payments to CalPERS, pension reserve or Section 115 funding, service consolidation (e.g., Central Marin Police Authority), new taxes for paramedic, fire, and public safety, and greater transparency about employee costs for financial reporting purposes.

   Larger agencies in the East Bay/Peninsula have adopted more progressive plans. A standout is Palo Alto, which has spent several years developing a long-range pension strategy and funding policy. Key elements of the strategy include:
   - Using a 6.2% discount rate to calculate NCR.
   - Amending the City Council's General Fund Reserves Policy to channel excess funds into CalPERS or Section 115 Account.

- Transmitting savings from lower-than-expected employer normal costs to either CalPERS or Section 115.
- Establishing funding guidelines for its Section 115 Trust.
- Negotiating an increase in employee contributions.

Details of its policy development can be found here:
https://www.cityofpaloalto.org/civicax/filebank/documents/77075

It would be helpful to meet with the Palo Alto team to learn more about its policy development process.

2. **Research discount rate selection methodologies – Steve & Sally**
Response: See Attachment A.

3. **Provide examples of pension funding policies – David**
Response: See Attachment B.

4. **Research Section 115 Trusts (cost, flexibility, relative performance, portfolio mix, ALM etc.,) – Bob**
Response: See Attachment C.

5. **Assess pensionable and non-pensionable components of employee comp (current and prospective) – Amber and Craig**
Response: Two charts are attached as Attachment D. The first chart shows each of the current components of employee compensation. The second chart shows the annual cost of each type. In terms of non-pensionable prospective compensation types that we are not already offering, our options are limited:
   - Longevity pay that is also tied to employee performance. Longevity is only pensionable when the length of service is the only criteria required by the City to earn the pay.
   - Bonus pay that is provided to employees when the pay is NOT available to an entire class, or, based on a criteria other than superior performance.
   - Any pay type not on PERS' list of pensionable items, which is quite exhaustive.

6. **Prepare list of questions to clarify understanding of share of CalPERS' pool, deferred inflows/outflows etc. – David**
Response:
CalPERS actuary:
   - Walk through full calculation / method described in highlighted paragraph in the Attachment D.
   - Cost allocations associated with prorated pensions (3 or 4 examples).

   Belvedere actuary:
   - Determine Normal Cost and UAL funding costs with interest assumptions of: 5.50, 5.75, 6.00 and 6.25... using 10, 15 & 20 year amortization periods.
   - Review and comment on funding plan and policy.
   - Back test [and project] proposed policy contributions for at least 5 years.

7. **Ask CalPERS if it can run alternative discount rate scenarios – Amber**
Response: CalPERS provides at tool with which to model any discount rate between 6% and 8%:
- Tool: https://www.calpers.ca.gov/page/employers/actuarial-resources/pension-outlook-overview
- User Manual: https://www.calpers.ca.gov/docs/mycalpers-pension-outlook-user-manual.pdf

OPEBS

8. **Seek non-CalPERS' health insurance quotes – Amber & David**
Response: Our existing broker (Arrow) advises against leaving CalPERS health since we have an older workforce and are receiving the benefit of CalPERS' bargaining power and lower average age workers. Arrow did provide a quote to demonstrate that the costs of contracting on our own would be much higher, and we would not have an option to keep existing retirees in our plan. I checked with Mill Valley who eliminated retiree benefits prospectively in 2013. Mill Valley has never been in CalPERS health, preferring instead to contract directly with Kaiser and Western Health Advantage. They recommended their broker (Keenan). Keenan is in the process of preparing a quote and CalPERS breakaway analysis. Additionally, I am speaking with the County of Marin HR department today (February 5) about the feasibility of joining their plan. I hope to have further updates on this effort when we meet on Tuesday.

9. **Confirm the City's OPEBs are indeed a reportable liability under GASB and why – Amber**
Response: Our auditor confirmed that net OPEB liability must be recorded on the City's financial statements if the City offers OPEB. She further stated that implementation of GASB 75 impacts any entity that provides OPEBs, not only those that contract with CalPERS. She provided the following quote from the GASB 75 Statement: *"The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers."*

10. **Confirm how the increase in reported OPEB liability that occurred with the implementation of GASB 74 and 75 was/will be expensed – Amber**
Response: Our Auditor said that when the City implemented GASB 75, a prior period adjustment was recorded to record the beginning balance of the Net OPEB Liability, as this GASB Pronouncement was recorded retroactively. Every year, the net change of the Net OPEB Liability hits Salaries and Benefits at full accrual level – so it will not be recorded in your GL as it is not a current year expenditure. It is recorded as a GASB 34 full accrual entry to be reported only in the full accrual statements (Statement of Net Position and Statement of Activities). This expense is not a cash transaction in the current year. It is an accrual entry.

11. Consult with counsel to ascertain the legal status of the City's OPEB commitments, based on MOUs, staff handbook, employment contract and HRA contracts – Craig

Response: Craig has contacted our HR counsel Liebert Cassidy Whitmore. They are reviewing various issues for us. We will received information next week.

12. Determine if the City can reenter CalPERS Health at a later date if it exits for a period – Amber

Response: There is a 5-year waiting period to rejoin CalPERS health if the City exits.

13. Understand the discount rate and funding rules for OPEB trusts – Amber

Response: Bartels previously gave us an estimated Actuarially Determined Contribution (ADC) on a potential OPEB 115 trust plan using the 6/30/17 valuation as a basis, and the assumption that we would join the CalPERS CERBT2 115 Trust, resulting in an assumed discount rate of 6.25%. At that time, our ADC was calculated at $118,700, with $57,200 in benefit payments (including implied subsidy), and a trust contribution of $61,400. As soon as a trust is created and a funding policy is established, the actuaries would use this higher discount rate immediately when performing the valuation and calculating the ADC. There would be a delayed effect on our financial statements, since we have a one-year lag between the measurement date (of the valuation report) and reporting date (of the financial statements).

14. Look into OPEB Section 115 Trusts: costs, performance, flexibility etc., – Bob

Response: Defer this item for now.

15. Confirm whether the implied subsidy associated with City's retiree pool is calculated vis a vis the City's active pool or the CalPERS' active pool – Amber

Response: Bartels' answer to this question is as follows:
The implied subsidy is the difference between anticipated claims paid for retirees and their premiums. If premiums charged for retirees and employees are the same, as is the case for CalPERS premiums, there exists an implied subsidy of a portion of retirees' claims by active employees' premiums.

Anticipated claims are calculated using age/gender-based claims tables. For employees and retirees not eligible for Medicare (i.e. Basic Plans) these tables are developed separately for each CalPERS medical plan using combined statewide data for employees and pre-Medicare retirees that are covered by the medical plan. The statewide data is used in this calculation because CalPERS does not establish separate premiums for each public agency based solely on its data.

When the City's OPEB valuation is performed, we project claims for each medical plan member for each year of retirement based on the age/gender claims tables and the member's medical plan, age, and gender. (General increases in medical costs, not related to aging, are also taken into account.)

16. **Review OPEB promises and reforms of neighboring municipalities – Sally**
Response: Defer this item for now.

In Search of an Appropriate Pension Fund Discount Rate

Question

What discount rate should the City of Belvedere use to discount its pension liabilities?

Background

The selection of an appropriate discount rate for discounting projected future benefits to their present value is critical in determining the reported size of an agency's total and net pension liability. The City of Belvedere currently uses CalPERS' 7.0% expected return on plan assets as its discount rate for both financial reporting purposes[1], as well as budgeting and planning purposes. The premise is that employee and employer contributions, invested and producing a return at this rate, will be sufficient to cover the pensions the City will eventually owe. There are key reasons to believe this approach is flawed:

1. First, CalPERS' investment performance has regularly undershot target. Its 20-year compounded rate of return as of June 30, 2020 was 5.5%, well below the 7.6% average discount rate that prevailed over the period, creating a large pension deficit for most CalPERS' contracting agencies. The 30-year return slightly exceeded target.

Table 1: CalPERS' Investment Returns vs Target (June 30, 2020)

Year	Compounded Rate of Return	Compounded Discount Rate	Under/Over Performance
1 year	4.7%	7.0%	-2.3% pts
5 years	6.3%	7.1%	-0.8% pts
10 years	8.5%	7.3%	+1.2% pts
20 years	5.5%	7.6%	-2.1% pts
30 years	8.0%	7.9%	0.2% pts

Source: CalPERS

2. Second, investment returns are volatile by nature and CalPERS' expected investment return is its <u>average</u> expected return for its chosen investment portfolio (which itself is balanced according to CalPERS' risk tolerance). CalPERS does not impute a safety margin into its target to increase the probability that its target is met. The risk to the City of sustained CalPERS investment underperformance is more worrisome than the impact of investment outperformance. Rising costs associated with the required amortization[2] of a large and growing unfunded accrued liability (UAL) crowd out other forms of public spending. If the burden is too high, vital services could be put at risk. Charts 1, 2 and 3 show the 10-year, 20-year and 30-year rolling average of <u>real</u> returns i.e., subtracting inflation, for different U.S. asset classes going back to 1927 to demonstrate the inherent volatility of financial markets.

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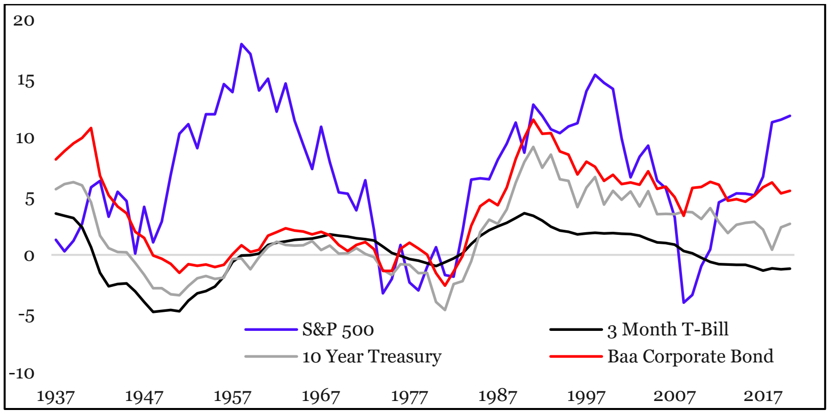
[1]The discount rate used for financial reporting (CAFR) purposes is gross of administrative expenses i.e., 7.15% instead of 7.0% presently.

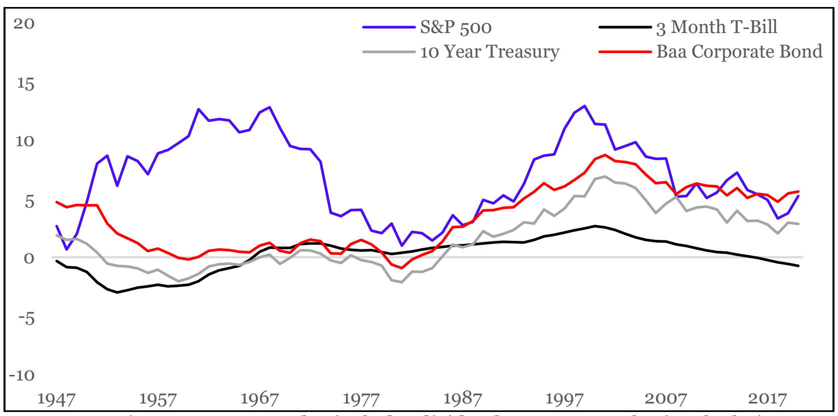
[2]CalPERS requires contracting agencies to amortize each year's investment loss/gain ("amortization base") over a closed 20-year period, commencing two years after the base is created. If CalPERS consistently undershoots its investment target, these bases will stack, rather than offset, leading to an acceleration in amortization costs over time.

Chart 1: Real Investment Returns by Asset Class, 10-Year Rolling Average



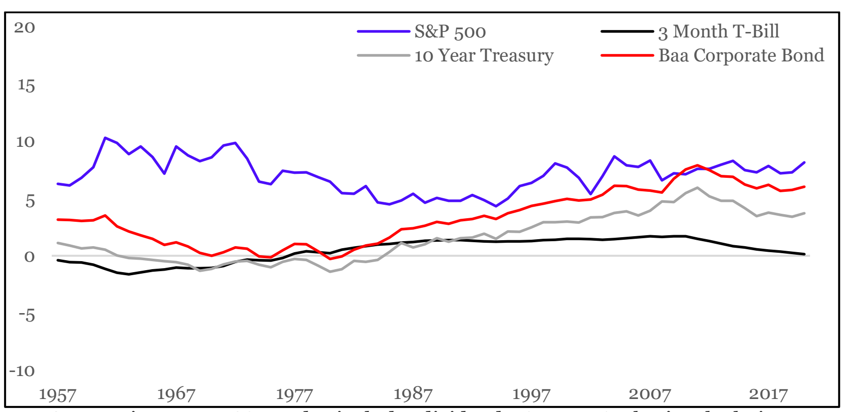
Geometric returns. S&P Index includes dividends. Source: Author's calculations

Chart 2: Real Investment Returns by Asset Class, 20-Year Rolling Average



Geometric returns. S&P Index includes dividends. Source: Author's calculations

Chart 3: Real Investment Returns by Asset Class, 30-Year Rolling Average



Geometric returns. S&P Index includes dividends. Source: Author's calculations

3. Third, CalPERS asset allocation decisions are guided by the maturity profile of contracting agencies' aggregate liabilities. Inevitably, individual agency's demographics do not mirror the broader pool. The City of Belvedere has a very mature profile vis-à-vis the CalPERS' average, with a low and declining share of active workers to retirees. In an ideal world, the City would invest in lower risk

assets to avoid potential liquidity issues as benefits become due. Instead, it is forced to weather the large swings in CalPERS' investment performance dictated by its more risk-facing investment strategy, with large potential impacts on the City's annual required contributions (measured as a share of payroll) as investment losses/gains are amortized. Adopting a lower discount rate to better reflect the City's liability profile, and setting aside additional funding to weather these swings, would be prudent. These funds could either be invested with CalPERS or in a Section 115 trust.

Table 3: Maturity Measures for Belvedere's Classic Plans

As of June 30, 2019	Assets to Payroll Ratio	Active Employee to Retiree Ratio	Retiree Liabilities/Total Liabilities, %
Non-Safety Classic	15.1	0.31	67%
Safety Classic	25.2	0.11	66%

Source: CalPERS

Table 4: Belvedere's CalPERS Pool: June 30, 2019

Membership Type	Active Members	Retired Members
Non-Safety Classic	8	26
Non-Safety PEPRA	5	0
Safety Classic	3	27
Safety PEPRA	2	0
Total	18	53

Data excludes survivors of retired members. Source: CalPERS

The question, then, is what discount rate assumption might be more appropriate.

1. In the world of economists, the correct way to calculate the present value of a very-low risk liability (i.e., a guaranteed pension) is to use a very-low risk discount rate, for example a "risk-free" government bond or high-quality corporate bond, ideally using the full yield curve to match the timing of projected future benefit payments. The counterargument is that a risk-free discount rate overstates the true liability given that a mixed portfolio of assets (as CalPERS maintains) will likely achieve a higher, albeit more volatile, return. One solution would be to discount the liability associated with retirees using a risk-free rate, and the liability associated with active workers using a high-risk (equity) rate. Given the maturity of the City's pool and the current low level of bond yields, this strategy would likely result in a dramatic reduction in the recommended discount rate.

2. A second option is to survey economists to ascertain market expectations of investment returns. Horizon Actuarial Services conducts such a survey, its *Annual Survey of Capital Market Assumptions*, with inputs from 39 investment advisors. Various public pension funds use this survey to help determine their discount rate. In truth, there is no reason to believe these forecasts will be more accurate than those of CalPERS' investment office, which also consults with outside advisors. The reality is that markets are inherently unpredictable.

Table 5: 2020 Horizon Survey of Capital Market Assumptions

Geometric Annual Return	10-Year Horizon	20-Year Horizon
Nominal Return	**5.84%**	**6.66%**
75^{th} Percentile	8.08%	8.29%
25^{th} Percentile	3.60%	5.04%
Inflation	1.97%	2.16%

Based on a hypothetical pension plan with a benchmark return of 7% per year, with a commensurate weighting of portfolio assets. 10-year return includes all 39 survey participants. 20-year return includes subset of 18 participants who provide long-term assumptions. Source: Horizon Actuarial Services, LLC

Table 6: CalPERS Current Capital Market Assumptions

Asset Class	Assumed Asset Allocation	Real Return (Years 1-10)	Real Return (Years 11+)	Real Return (All Periods)
Global Equity	50%	4.80%	5.98%	-
Fixed Income	28%	1.00%	2.62%	-
Private Equity	8%	6.30%	7.23%	-
Real Assets	13%	3.75%	4.93%	-
Liquidity	1%	0%	-0.92%	-
Real Return	100%	3.67%	4.93%	4.50%
Inflation	-	2.00%	2.92%	2.50%
Nominal Return	**-**	**5.67%**	**7.85%**	**7.00%**

Source: CalPERS

3. A third option is to use CalPERS' expected investment return *minus* a specific margin, reflecting the City's risk aversion and plan maturity, for example **CalPERS minus 100 basis points, or CalPERS minus 75 basis points**. This may sound less scientific than the prior options, but it is simple, reasonable, and replicable. Using the "CalPERS minus 100 bp" example, the selected discount rate would currently stand at 6.0%. If CalPERS reduces its discount rate, which it may do in coming years (see Annex), the City's discount rate would move down accordingly.

At the end of the day, for as long as discount rates are linked to expected investment returns, there will be material unforeseen pension expenses (and revenues), as investment returns fall below (above) expectations. When developing a strategic pension funding strategy, it is important that the policy framework be dynamic, to flex and bend depending on the pressure/release on the budget created by investment returns falling short, or exceeding, the City's adopted discount rate. This can be achieved by creating smoothing rules around a central path towards the ultimate funding target.

Table 7: Impact on Belvedere's UAL of Reduction in Discount Rate to 6.0%

Discount Rate	UAL (as of June 30, 2019)
7.0%	$1.6 million
6.0%	$4.5 million
Change	+$2.9 million
10-Year Amortization	+$290,000 p.a.

Refers to the City of Belvedere's UAL with CalPERS only. The City also has a small UAL on its PARS account. Source: CalPERS

Recommendation

1. Adopt a discount rate for budgeting purposes, including calculating annual service accrual costs and pension debt amortization, equal to <u>CalPERS' expected return on assets minus 100 basis points, or minus 75 basis points</u>. The policy should be reviewed every three to five years.
2. Continue to use CalPERS discount rate for financial reporting purposes, to prevent a deterioration in *perceived* credit quality caused by a higher reported UAL.

Next Steps

The next step is to develop the City's funding policy, incorporating assumptions about desired funding target, amortization rate and smoothing rules, and to stress test the policy to understand potential budgetary impacts.

It will also be important to establish a more precise maturity profile for the City's pension liabilities vis-à-vis the CalPERS average, to help guide investment decisions should the City decide to invest funds through a Section 115 trust.

ANNEX

CalPERS' Discount Rate Adjustment Mechanisms

Two different mechanisms may drive a lowering of CalPERS' discount rate in coming years. The first is CalPERS' new *Funding Risk Mitigation Strategy*, which took effect in FY20-21. This dictates that whenever investment returns significantly outperform expectations in any given year, the discount rate/expected investment return will be trimmed the following year, and the asset mix will be rejigged in favor of lower risk assets. The goal is to "reduce the volatility of investment returns and increase the long-term sustainability of pension benefits", driven by concerns about the overall aging of CalPERS' risk pools and a desire to ensure full and timely payment of pension benefits in all time periods. The structure of the policy ensures that contracting agencies get hit with a lower discount rate whilst experiencing investment gains, resulting in largely synchronous, countervailing amortization impacts.

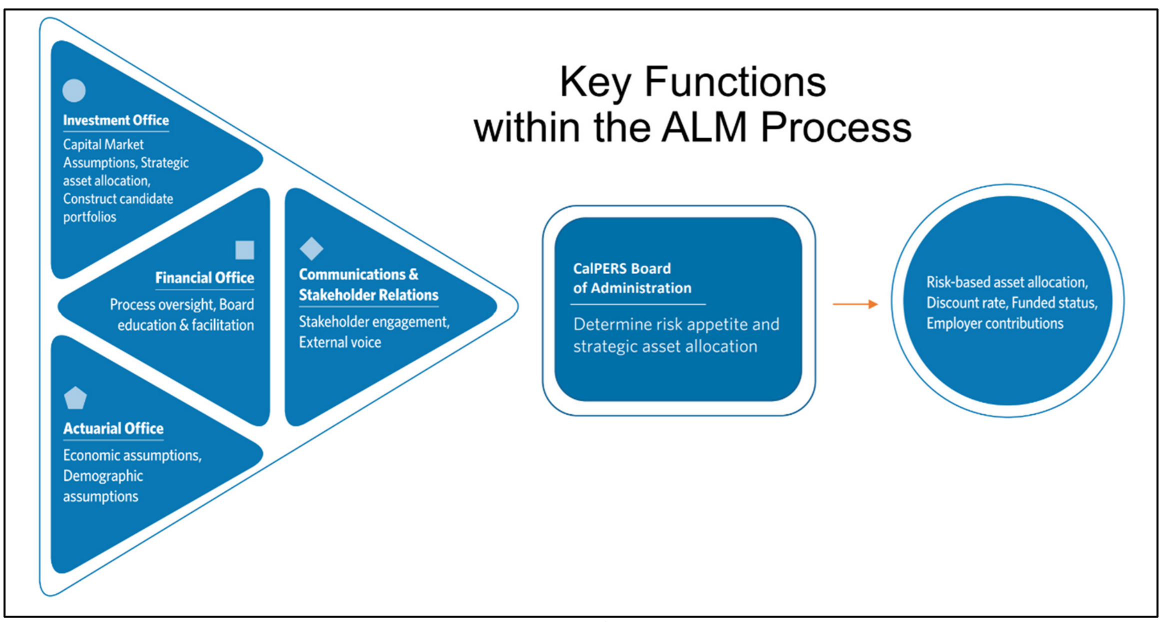
Table 8: Funding Risk Mitigation Event Thresholds and Impacts

Excess Investment Return	Reduction in Expected Return	Reduction in Discount Rate
2.0%	0.05%	0.05%
7.0%	0.10%	0.10%
10.0%	0.15%	0.15%
13.0%	0.20%	0.20%
17.0%	0.25%	0.25%

Source: CalPERS

The second mechanism that could result in a more substantive discount rate cut is CalPERS' *Asset Liability Management Cycle*. Every four years, CalPERS reviews all its inputs, including capital market, economic and demographic assumptions, and risk appetite, with the goal of balancing expected future pension costs with expected future investment returns. If CalPERS does decide to adopt a new discount rate, the new rate will be voted on by the board in November 2021 and will take effect as of July 1, 2022. During the current cycle (FY18-19 to FY21-22), CalPERS cut its discount rate in three steps from 7.5% to 7.0%.

Chart 4: CalPERS Asset Liability Management Process



Source: CalPERS

Plan Funding [discussion]

February 2021

Benefits [and plan experience] determine actual plan costs, and contributions and investments provide the funding. Both benefits and contributions impact funding, and for reference below are categories of DB plans and the options available for managing funding through benefit and contribution adjustments:

Plan Type	**Control over Benefits and/or Contributions**	**Notes**
Social Security	None	Neither ER nor EE has control
Corporate DB Plans	Both	The plan sponsor (company) controls both prospective benefits and contributions
Taft-Hartley Trusts	Benefits	Typically, a CBA sets contributions, and the Board of Trustees controls benefits
Cal PERS	Contributions	Benefits are set, other than the current *Classic* and *PEPRA*, which are established by EE work history.

As shown in the table above, for corporate plans and Taft-Hartley plans the plan sponsor can adjust prospective benefits. The Cal PERS sponsor is limited to contribution levels.

Two aspects of the City pension funding can be addressed: A) a methodology that produces more consistent annual costs B) recognition that the Cal PERS discount rate may not be strong enough.

For a Cal PERS sponsor, the funding is determined annually by Cal PERS. The annual funding requirements can and do have material adjustments in any year. Furthermore, the amounts tend to increase. Assumptions could potentially be made that lead to smoother and more stable funding.

As has been discussed, if more realistic or stronger assumptions are employed, additional contribution stability might be achieved. Cal PERS funding level requirements could remain the *plan level* annual contribution.

If a different interest rate is utilized, then that will drive a different Normal Cost level and a different Unfunded Actuarial Liability [UAL]. A new annual funding contribution will be developed covering normal cost and amortization of the new UAL. The amortization period of the UAL, *if maintained*, will lead to the level of overall funding desired.

Thus, the task at hand is to establish an *ongoing* funding policy. Initially a plan is in place, but annually actual experience is valued, and a new projection is prepared. What policy will guide prospective adjustments in contributions?

When plan costs change, what does the funding policy suggest for the annual contribution? A stronger interest assumption may provide a *smoother* annual contribution than the annual plan level requirement from Cal PERS. Nonetheless, the amortization period will change in the absence of adjustments to contributions.

A form of *average* from prior year to a new forecasted cost [holding the amortization period on schedule] will track funding towards the desired level.

A separate fund with an initial base established, when combined with averaging the annual contribution to track towards a current projection based on a stronger interest rate, could improve overall stability and increase potential for a more consistent budgeted contribution cost.

The combination of interest rate, UAL amortization period, established fund corpus, and the averaging (or smoothing technique) could be analyzed together with resulting expected contributions as a reference point for the policy.

For further consideration.

- Comments from the actuary.
- A back testing study [and perhaps projections] as to how annual contributions would have developed [or shall progress] will be informative.
- What other funding policies [if any] might be in place for sponsors utilizing 115 trusts?

Options for Increased Pension Funding

Bob McCaskill 2/5/21

Belvedere's City Council has taken the following actions to reduce its long-term pension obligations:

- In 2013-14 the City paid off the $853,000 "side fund" CalPERS liability from its General Reserve.
- In 2016-17 the City paid down an additional $300,000 of its UAL.
- In 2017-18 the City made an additional $3.6 million paydown on its CalPERS UAL by using $1 million from its General Fund Reserve and $2.6 million of the proceeds from a lease-leaseback of the City's Corporation Yard property (which incurs a 4.46% interest rate).
- In 2018-19 the Council agreed to continue setting aside $100,000 per year to a Pension Reserve Fund to help cover its unfunded pension liability. This fund balance will be $300,000 at 6/30/21.

The compelling reason for the City to address this issue is an intent to fund the past service costs of the City, and not defer these costs to future generations (when the City's resources my be insufficient to afford these past period costs without undermining other critical City services.)

There are 3 primary avenues by which the City can set aside additional funds to pay down its unfunded pension liabilities:

- Continue to set aside additional reserves for pensions on its balance sheet.
- Make additional payments to CalPERS to reduce its UAL.
- Make payments to a Section 115 Plan established to fund future pension liabilities.

The pros and cons of each avenue are summarized in the following tables:

Continuing to Increase the Reserve for Pensions on its Balance Sheet

PROS	CONS
• Complete flexibility in how funds are used	• Costs of an investment advisor if invested
• No constraints on timing and amounts	• Restrictions on types of investments
	• Does not reduce UAL in financials

Additional Payments to CalPERS

PROS	**CONS**
• Total annual costs of only 0.25 % of assets	• No investment diversification from CalPERS
• Does reduce UAL on balance sheet	• CalPERS will not refund overfunding
	• Risk of govt relief just for underfunded cities

Payments to a Section 115 Plan

PROS	**CONS**
• Maximum flexibility on types of investments	• Funds must be used for pension payments
• Does not reduce UAL on balance sheet, but it is disclosed in pension footnotes	• Annual investment and plan oversight costs
• Investment diversification from CalPERS	• Potential risk of ill-advised changes in plan administration by future City Councils
• Rate stabilization tool (in lean budget years)	

Details of Setting Aside Added Reserves on City's Balance Sheet

For the past two years the City has put $100k per year into a Pension Reserve on its balance sheet, resulting in a $200k pension reserve as of 6/30/20. The City's current year budget calls for that amount to be increased to $300k as of 6/30/21.

The annual increase to the Pension Reserve has been accomplished by transfers from the City's unassigned General Fund. Thus, the annual increases are not recorded as an expense each year, but merely as a transfer from accumulated surpluses from prior years. At year-end this "reserve" is simply part of the General Fund ending balance.

The only place in the 6/30/20 financial statements that shows the $200k Pension Reserve amount is in Note 7 on page 42. It is not separately discussed or included in Note 8 which provides details of the City's pension liabilities. Although we may view this Pension Reserve as a reduction in our unfunded pension liability, it cannot be used to reduce the UAL determined by CalPERS and reflected in our City's financial statements.

The City Council may decide at any time to use funds in the Pension Reserve for any other purpose.

Funds held by the City in its General Fund (including the amounts in the Pension Reserve) are subject to State restrictions as to how such funds can be invested by the City. These state rules restrict such investments to very conservative investments (U.S. Treasuries and Agency obligations, state obligations, LAIF, CDs, etc.) with limited maturities (normally 5 years or less). A copy of the City's Policy 2.5 on Investments is attached, along with a detailed list of allowable investments per the State guidelines. The City normally keeps its excess cash invested with the California State Local Agency Investment Fund (LAIF).

Details of Additional Payments to CalPERS

The City can make voluntary payments to CalPERS at any time to reduce its UAL. Such payments will reduce the year-end UAL of the City as of the year-end of the fiscal year in which such payments are made.

Payments to CalPERS to pay down the UAL will be credited with a pro rata portion of the ultimate actual CalPERS investment return for that year.

If the City were to reach a fully funded level (due to voluntary UAL payments and investment returns in excess of the CalPERS projections), the City cannot obtain a refund of the amount of overfunded. Any such surplus would be amortized over 20 years and be used as a credit to reduce future losses. The amount of overfunding will be allocated a proportionate share of future investment gains and losses.

Although it seems unlikely (due to equity considerations), there might be a remote risk that fully or almost fully funded municipalities could suffer in the event that the State were to decide to provide some sort of relief to municipalities that are underfunded.

Use of a Section 115 Rate Stabilization Plan

A Section 115 trust (named after Internal Revenue Code Section 115) is a trust that can be used to set aside funds to meet future pension contributions and liabilities. Historically, Section 115 trusts have primarily been used by municipalities to prefund OPEBs. Once assets are placed in such a trust, the assets may only be used for the designated purpose of the trust. In 2015 the IRS ruled that Section 115 trusts can also be used for prefunding pension obligations.

> Investment Options: Section 115 Plans are not subject to the investment restrictions governing assets held directly by California public agencies.
>
> Financial Reporting: GASB reporting guidelines for our financial statements does not allow for funds in a Section 115 pension trust to reduce the UAL of the City on its balance sheet. However, the amount of secured pension funding in a Section 115 plan can be disclosed in the footnotes describing the City's pension obligations. (Strangely enough, Section 115 assets for OPEB liabilities can reduce the amount of OPEB obligations shown on the balance sheet under current GASB rules.)
>
> Major Providers: The two major private providers of Section 115 trusts are PFM and PARS. CalPERS also now offers a Section 115 trust. Information on each of these alternative providers is summarized below.

PFM

Investment management is the primary business of PFM. It offers a multi-employer Section 115 trust (based on an IRS private letter ruling). It recommends using a former retirement division of Wells Fargo (recently purchased by the Principle Financial Group) as the trust custodian. The PFM fees and custodial fees would be as follows:

- PFM admin fee of 0.3% of assets on balances up to $25M, with a minimum of $25k per year.
- PFM underlying investment fees of between 0.35% and 0.6%.
- Bank custodian fees of about $5k per year (for trusts of $5 to $10M)

PFM offers the ability to have a customizable portfolio.

PFM is not the least expensive provider; it is primarily intended for Section 115 trusts of $5 million or more. It has a very small number of clients using its Section 115 plan (only about 10 clients). Thus, PFM may not be a good fit for Belvedere's needs.

PARS (Public Agency Retirement Services)

Retirement plan administration is the primary business of PARS. Belvedere's supplemental pension plan is administered by PARS.

The PARS Section 115 Trust is also a multi-employer plan (based on an IRS private letter ruling). It is a combined pension and OPEB trust, although separate accounts must be obtained for a municipality's pension and OPEB contributions. U.S. Bank is the custodian of the plan assets; Highmark Capital Management is the investment manager. The plan currently includes 131 cities and towns and 30 counties in California (including Tiburon, Sausalito, Ross, Fairfax, and San Anselmo).

The PARS plan offers 5 active and 5 passive investment portfolio options. The active portfolio options and their respective investment returns (before fees) for 1, 5 and 10 years as of 12/31/20 are as follows:

Strategy	% Equities	-	1 Year	5 Years	10 Years
Capital Appreciation	65-85%		14.50%	10.92%	9.15%
Balanced	50-70%		14.06%	9.90%	8.24%
Moderate	40-60%		12.92%	8.98%	7.49%
Moderately Conservative	20-40%		10.76%	7.12%	5.99%
Conservative	5-20%		9.03%	5.84%	4.75%

There are no plan set-up fees for the PARS Section 115 plan. The annual fees are as follows:

Trust administration	0.25% for assets up to $10M (with a sliding scale for higher amounts)
Investment management	0.35% for assets up to $5M (with a sliding scale for higher amounts)

It is unlikely that we would have assets in excess of $5M in our plan.

CalPERS

In 2019 CalPERS established a Section 115 Trust for public employers to prefund their required pension contributions. The name of the Trust is the California Employers' Pension Prefunding Trust ("CEPPT").

The CEPPT Plan offers the choice between two investments portfolios (Strategy 1 and Strategy 2). Both portfolios are invested in various asset classes that are passively managed to an index. Strategy 1 has a higher allocation to equities than bonds, while Strategy 2 has a lower allocation to equities and a higher allocation to bonds. The target allocations for each portfolio are as follows:

Target Allocations

Asset Class	Strategy 1	Strategy 2
Global Equity	40%	14%
Fixed Income	47%	73%
TIPS	5%	5%
REITs	8%	8%

The 10-year average return target for the Strategy 1 portfolio is 5%, and the target for the Strategy 2 portfolio is 4%. The one-year performance of each portfolio as of 12/31/20 and since inception is as follows:

	Strategy 1		Strategy 2	
	1 Year	Since 10/1/19	1 Year	Since 1/1/20
Gross Return	11.49%	12.37%	8.79%	8.79%
Net Return	11.24%	12.12%	8.54%	8.54%
Benchmark Returns	11.47%	12.43%	8.66%	8.66%

CalPERS currently charges an annual fee of 0.25% to cover all admin, management and investment fees. The fee may vary from year to year.

The CalPERS CEPPT investments are managed by the CalPERS investment group; thus, only limited diversification from the CalPERS pension program is achieved. We believe that there are only about 20 municipalities that are using the CalPERS CEPPT program.

Attached Exhibits

1. City of Belvedere Investment Policy
2. Allowable Investments per State Government Code
3. Article: “Using a Section 115 Trust to Help Manage Pension Obligations”

	CITY OF BELVEDERE – ADMINISTRATIVE POLICY MANUAL **POLICY 2.5** **INVESTMENTS**

Adoption Date:	9/7/2004	**Adopted by:**	City Council Resolution No. 2004-33
Revised Date:	11/13/2018	**Revised by:**	City Council Resolution No. 2018-32
Authority:	City Council		

2.5.1 PURPOSE

The Investment Policy provides guidelines for the prudent investment of temporary idle cash, and outlines policies for maximizing the efficiency of the cash management system. Its purpose is to enhance the economic status of the City while protecting its pooled cash.

2.5.2 OBJECTIVE

A. The investment objective is to ensure fund safety, preserve a significant amount of liquidity and achieve yields on City funds that are idle.

B. The cash management system is designed to accurately monitor and forecast expenditures and revenues, thus enabling the City to identify those funds that could be invested without adversely affecting City operations.

2.5.4 POLICY

In order to maximize interest earnings, the City pools the cash from all funds, except those funds held in trust for the City by various financial institutions in accordance with applicable trust agreements related to debt issues. Interest revenue derived from pooled cash is allocated monthly to the participating funds based on the relative cash balance of each fund.

2.5.5 INVESTMENT CRITERIA

Criteria for selecting investments and the order of priority are:

- Safety: The safety and risk associated with an investment refers to the potential loss of principal, interest or a combination of these amounts. The City only operates in those investments that are considered very safe and are allowable under Government Code Sections 53600 to 53610.

- Liquidity: This refers to the ability to "cash in" at any moment in time with a minimal chance of losing some portion of principal or interest. Liquidity is an important investment quality especially when the need for unexpected funds occasionally occurs.

- Yield: This is the dollar earnings an investment can provide, and sometimes is described as the rate of return.

2.5.6 INVESTMENT APPROACH

It is the practice of the City to invest primarily in the Local Agency Investment Fund or in similar low-risk instruments. Longer-term investments of reserve funds or bond proceeds in other instruments may be considered and recommended by the Finance Committee to the City Manager. Any such investments should only be undertaken if the likelihood of the City needing to deploy these funds in the near term is low.

2.5.7 OVERSIGHT

The Finance Committee shall review investments and investment performance on an annual basis. The Committee's findings shall be reported to the City Council through the Mayor and Vice Mayor, who serve on the Committee. The Finance Committee shall also review this Investment Policy every three years and report any recommendations to the City Council through the Mayor and Vice Mayor.

FIGURE 1

ALLOWABLE INVESTMENT INSTRUMENTS PER STATE GOVERNMENT CODE (AS OF JANUARY 1, 2020)[A] APPLICABLE TO ALL LOCAL AGENCIES[B]

See "Table of Notes for Figure 1" on the next page for footnotes related to this figure.

INVESTMENT TYPE	MAXIMUM MATURITY[C]	MAXIMUM SPECIFIED % OF PORTFOLIO[D]	MINIMUM QUALITY REQUIREMENTS	GOV'T CODE SECTIONS
Local Agency Bonds	5 years	None	None	53601(a)
U.S. Treasury Obligations	5 years	None	None	53601(b)
State Obligations—CA And Others	5 years	None	None	53601(d)
CA Local Agency Obligations	5 years	None	None	53601(e)
U.S Agency Obligations	5 years	None	None	53601(f)
Bankers' Acceptances	180 days	40%[E]	None	53601(g)
Commercial Paper—Non-Pooled Funds[F]	270 days or less	25% of the agency's money[G]	Highest letter and number rating by an NRSRO[H]	53601(h)(2)(C)
Commercial Paper—Pooled Funds[I]	270 days or less	40% of the agency's money[G]	Highest letter and number rating by an NRSRO[H]	53635(a)(1)
Negotiable Certificates of Deposit	5 years	30%[J]	None	53601(i)
Non-negotiable Certificates of Deposit	5 years	None	None	53630 et seq.
Placement Service Deposits	5 years	50%[K]	None	53601.8 and 53635.8
Placement Service Certificates of Deposit	5 years	50%[K]	None	53601.8 and 53635.8
Repurchase Agreements	1 year	None	None	53601(j)
Reverse Repurchase Agreements and Securities Lending Agreements	92 days[L]	20% of the base value of the portfolio	None[M]	53601(j)
Medium-Term Notes[N]	5 years or less	30%	"A" rating category or its equivalent or better	53601(k)
Mutual Funds And Money Market Mutual Funds	N/A	20%	Multiple[P,Q]	53601(l) and 53601.6(b)
Collateralized Bank Deposits[R]	5 years	None	None	53630 et seq. and 53601(n)
Mortgage Pass-Through and Asset-Backed Securities	5 years or less	20%	"AA" rating category or its equivalent or better	53601(o)
County Pooled Investment Funds	N/A	None	None	27133
Joint Powers Authority Pool	N/A	None	Multiple[S]	53601(p)
Local Agency Investment Fund (LAIF)	N/A	None	None	16429.1
Voluntary Investment Program Fund[T]	N/A	None	None	16340
Supranational Obligations[U]	5 years or less	30%	"AA" rating category or its equivalent or better	53601(q)
Public Bank Obligations	5 years	None	None	53601(r), 53635(c) and 57603

Using a Section 115 Trust to Help Manage Pension Obligations

focusonpublicbenefits.com/using-a-section-115-trust-to-help-manage-pension-obligations/

By Jeff Chang September 13, 2017

By Jeff Chang

An increasing number of cities, public agencies and special districts are investigating the use of an Internal Revenue Code section 115 trust to help them better manage the short-term costs and long-term liabilities associated with pensions. What is a 115 trust and how does it work?

A 115 trust is a vehicle for segregating agency funds from general assets for the purpose of funding essential governmental functions. For example, a 115 trust can be used to set aside monies to meet future pension contributions or liabilities. Funds placed in a 115 trust are irrevocably committed for the essential government function(s) specified in the applicable trust agreement (e.g., pension obligations). Therefore, the monies held in such trusts can be invested in accordance with the rules governing such special purpose accounts. For example, 115 trust funds dedicated to satisfy pension obligations can be invested in the same manner as funds in a typical pension fund rather than as part of the agency's general fund. Thus, by setting aside funds in a 115 trust, agencies can potentially earn a higher rate of return on monies set aside for future pension obligations.

A 115 trust can also be used as a rate stabilization fund. Recent changes in rate smoothing strategies by CalPERS have increased volatility in employer contribution rates. Monies set aside in a 115 trust can be used to ease budgetary pressures resulting from unanticipated spikes in employer contribution rates. For example, a CalPERS employer that has extra money after making its current CalPERS contribution might set aside some or all of the surplus to use in future years when the required contribution is less affordable. Why not simply pay the extra money to CalPERS? This is, of course, an option, and the monies will be applied to that agency's overall liabilities. But many CalPERS employers are not entirely comfortable surrendering their surplus funds to the vagaries of CalPERS investments and funding policies.

In addition, funds in a 115 trust can be applied to pay down specific portions of an agency's CalPERS liabilities. For example, with the permission of CalPERS, it is possible to use 115 trust funds to pay down the agency's unfunded actuarial accrued liability – that is, the typically large portion of CalPERS liability that represents unfunded benefits for past service that has consistently increased due to improvements in mortality and underperformance of investments. This may make sense if an agency's projected cost of paying off such liability is much larger than its normal cost (i.e., the cost for the current year's benefit accruals). An agency wishing to pay down specific portions of its overall CalPERS liability should obtain help from an outside actuary and may want the advice of outside benefits counsel.

A number of providers offer a "pre-packaged" 115 trust for these purposes. You should carefully evaluate what you're getting and what you're paying. At a basic level, most such providers will give you a template 115 trust along with an IRS private letter ruling that was obtained for another taxpayer. Although a PLR is a valuable assurance that the language of the trust will work for this purpose, it is important to note that any PLR issued can only be relied upon by the taxpayer(s) who originally applied for and received the PLR. Your fee arrangement is also important. Many 115 trust providers will charge an ongoing fee (typically, a percentage of trust assets) for use of their documents and arrangement. Much of this is to reimburse them for their upfront cost of drafting the trust and obtaining the PLR. Obtaining your own PLR and trust can be expensive (likely in excess of $25,000). However, if your provider is charging a number of basis points on trust assets as its fee, you need to analyze whether you may be overpaying (over time) for the services provided. You can do the math.

Jeff Chang is a partner at Best Best & Krieger LLP. He has four decades of experience skillfully evaluating benefit and retirement plan compliance to achieve maximum outcomes for public agency clients throughout California. He can be reached at jeff.chang@bbklaw.com or (916) 329-3685.

CHART 1 **Components of Compensation Other than Base Pay**

MISCELLANEOUS (NON-REPRESENTED, INCLUDES POLICE CHIEF) From MOU's					
Name	**Rate**	**Recipients**	**History**	**Pensionable?**	**Required by Law?**
Auto Allowance - Standard	$300/mo.	Certain exempt employees	Began prior to 2010	No	No
Boot Allowance	$200/yr.	Maintenance Workers and Maintenance Supervisor	Began prior to 2010	CLASSIC - Yes PEPRA - No	No
Deferred Comp Match	$150/mo.	Employees who elect to defer at least $150/month of their own funds	Began prior to 2010	No	No
Education Incentive - Advanced	5% over base salary	Police Chief only - must have earned an Bachelor's Degree or Advanced POST Certificate	Began 8/1/2015*	Yes	No
Longevity	5+ yrs. of service = 2.5% over base salary 10+ y = 5%	Employees hired before July 1, 2016	Began prior to 2010	Yes	No
Medical Stipend	$250/mo. for employee +1 $175/mo. for single employee	Employees who provide evidence of medical coverage through other source	Began prior to 2010	No	No
Mobile Phone Allowance - Regular	$50/mo.	Exempt employees who are not on the City's cell phone plan	Began 1/1/2010	No	No
Mobile Phone Allowance - Maint.	$25/mo.	Maintenance Workers and Maintenance Supervisor	Began 1/1/2010	No	No
Overtime	1.5 times regular hourly rate	Non-exempt employees who work in excess of the daily/weekly hours of a 9/80 shift	Began prior to 2010	No	Yes
Uniform Allowance	$75/mo.	Police Chief only	Began 8/1/2015*	CLASSIC - Yes PEPRA - No	No

** First mention of these benefits is in the offer letter for Chief Seyler. It is unclear if this benefit was offered to former Police Chiefs, as it is unclear if the Chief has always been covered by the Miscellaneous MOU.*

<u>Definitions:</u>

Exempt = Exempt from overtime, typically management or executive level employees
Non-exempt = Overtime eligible
Classic Employees = enrolled in the CalPERS system prior to January 1, 2013
PEPRA Employees = enrolled in the CalPERS system on or after January 1, 2013

CHART 1 **Components of Compensation Other than Base Pay**

SAFETY EMPLOYEES (REPRESENTED = POLICE OFFICERS AND SERGEANTS ONLY) From MOU's					
Name	**Rate**	**Recipients**	**History**	**Pensionable?**	**Required by Law?**
Auto Allowance - Safety	$200/mo.	Employees hired before 7/1/2016	Began prior to 2010: $200/month Beginning 7/1/2016: Not available to employees hired after this date.	No	No
Deferred Comp Match	$150/mo.	Only employees who elect to defer at least $150/month of their own funds	Began prior to 2010: $100/month Beginning 7/1/2011: $150/month	No	No
Education Incentive - Intermediate	2.5% over base salary	Sworn Officers who have earned an Associate Degree or Intermediate POST Certificate	Began prior to 2010: flat $125/month Beginning 7/1/2011: 2.5%	Yes	No
Education Incentive - Advanced	5% over base salary	Sworn Officers who have earned an Bachelor's Degree or Advanced POST Certificate	Began prior to 2010: flat $200/month Beginning 7/1/2011: 5%	Yes	No
Equipment Allowance	$200/yr.	Police Officers and Sergeants	Began prior to 2010	Classic - Yes PEPRA - No	No
Field Training Officer - Regular	5% over base salary	Police Officers who are conducting a field-training program	Began prior to 2010	Yes	No
Field Training Officer - Sergeant	3% over base salary	Police Sergeants who are supervising a field-training program	Beginning 7/1/2010	Yes	No
Holiday Pay	12 hour shift paid in addition to regular pay - regardless if employee works on the holiday	Police Officers and Sergeants	Began prior to 2010: paid annually, some officers only received 8 hours pay; some received 10 or 12 Beginning 7/1/2016: paid 12 hours per holiday at time of holiday	Yes	No
Longevity - Safety Employees	2+ yrs. of service = 1% over base salary 3+ y = 1.5% 4+ y = 2% 5+ y = 2.5% 6+ y = 3% 7+ y = 3.5% 8+ y = 4% 9+ y = 4.5% 10+ y = 5%	Police Officers and Sergeants hired before July 1, 2018	Began prior to 2010	Yes	No

CHART 1 Components of Compensation Other than Base Pay

SAFETY EMPLOYEES - Continued					
Name	**Rate**	**Recipients**	**History**	**Pensionable?**	**Required by Law?**
Medical Stipend	\$250/mo. for employee +1 \$175/mo. for single employee	Employees who provide evidence of medical coverage through other source	Began prior to 2010	No	No
Mobile Phone Allowance - Safety			Began 1/1/2010: \$50/month Beginning 7/1/2018: Discontinued	No	
Overtime - Safety Employees	1.5 times regular hourly rate	Police Officers or Sergeants who work in excess of 84 hours in 14 day work cycle	Began prior to 2010	No	Yes
Shift Differential - Night	5% over base salary	Police Officers assigned to the "night shift" 7:00pm to 7:00am	Began prior to 2010	Yes	No
Shift Differential - Cover	2.5% over base salary	Police Officers assigned to the "cover" shift, which is a shift outside of the normal shifts, or, to cover vacancies	Began prior to 2010	Yes	No
Uniform Allowance - Regular	\$60/mo.	Police Officers and Sergeants	Began prior to 2010	Classic - Yes PEPRA - No	No
Watch Commander	3% over base salary	Police Sergeants who are engaged as Watch Commander for the Police Department	Beginning 7/1/2010	No	No

Classic Employees = enrolled in the CalPERS system prior to January 1, 2013
PEPRA Employees = enrolled in the CalPERS system on or after January 1, 2013

CHART 1

Components of Compensation Other than Base Pay

OTHER VARIABLE PAY ITEMS From Administrative Policy Manual					
Name	**Rate**	**Recipients**	**History**	**Pensionable?**	**Required by Law?**
Sick Leave Incentive/"Attendance Recognition Program"	Level 1: 60 hours Level 2: 24 hours Level 3: 15 hours	Employees who use no more than a specified amount of sick leave during the year may "buy back" sick leave in exchange for compensation or compensatory time off.	Began prior to 2010 Designed to incentivize employees not to call in sick.	No	No
Time-limited Increase	Up to 10% base pay for duration of 9m or less	To compensate employee for time-limited extra duties	Adopted into policy 12/10/2018	No	No
Vacation Cash Out	Hours accumulated over 2x employees accrual rate	Employees who accrue more than double their vacation accrual rate are paid out the excess at year-end.	Began prior to 20210 Designed to keep the City's vacation liability exposure low	No	No

City of Belvedere
Special Compensation and Other Benefits
Estimated Amounts Per Year

	Special Compensation											Other Compensation		Retirement Normal Cost		
TITLE	Auto Allow	Boot/Equip Allowance	Deferred Comp	Education Incentive	FTO	Holiday	Longevity	Mobile Phone	Shift Differential	Uniform Allowance	Watch Commander	SL Conversion	Vacation Payout	PERS Normal Cost	PARS	PORAC
Non-Represented	14,400	600	21,600	-	-	-	22,285	1,800	-	-	-	21,970	24,853	228,604	11,090	-
Represented	4,800	1,000	12,600	31,248	500	39,661	10,705	-	16,151	5,240	6,423	1,274	16,657	200,262	5,546	10,800
	19,200	**1,600**	**34,200**	**31,248**	**500**	**39,661**	**32,990**	**1,800**	**16,151**	**5,240**	**6,423**	**23,244**	**41,510**	**428,866**	**16,636**	**10,800**

Attachment E

CITY OF BELVEDERE, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
For The Year Ended June 30, 2020

NOTE 8 – PENSION PLANS (Continued)

Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions - As of June 30, 2020, the City reported net pension liabilities for its proportionate shares of the net pension liability of each Plan as follows:

	Proportionate Share of Net Pension Liability
Miscellaneous	$501,791
Safety	382,318
Total Net Pension Liability	$884,109

The City's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2019, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The City's proportionate share of the net pension liability for each Plan as of June 30, 2018 and 2019 was as follows:

up ≈ 50%

	Miscellaneous
Proportion - June 30, 2018	0.00851%
Proportion - June 30, 2019	0.01253%
Change - Increase (Decrease)	0.00402%

1 YR

D/O
MISC 335,530 A
SAFETY 492,775 P.46
PARS 36,653 P.52
864,958 P.14

D/I
MISC 1,566,677 B
SAFETY 761,234 P.46
PARS 4,340 P.52
2,332,251 P.14

	Safety
Proportion - June 30, 2018	0.00448%
Proportion - June 30, 2019	0.00612%
Change - Increase (Decrease)	0.00164%

For the year ended June 30, 2020, the City recognized pension expense of $192,774 including amounts contributed to the REP plan.

At June 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to the Miscellaneous Plan from the following sources:

	Miscellaneous	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$173,606	
Differences between actual and expected experience	34,851	($2,700)
Changes in assumptions	23,928	(8,482)
Net differences between projected and actual earnings on plan investments		(8,773)
Net difference in actual contribution and proportion contributions		(482,961)
Adjustment due to differences in proportions	103,145	(1,063,761)
Total	$335,530 A	($1,566,677) B