



# CITY COUNCIL AGENDA REPORT



**DEPARTMENT:** City Manager's Office

**MEETING DATE:** November 7, 2017

**PREPARED BY:** Oliver Chi, City Manager /  
Buffy Bullis, Administrative Services Director

**AGENDA LOCATION:** AR-1

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**TITLE:** Approval of CalPERS Response Plan to Address Pending Unfunded Accrued Liability Pension Cost Increases, Resolution Nos. 2017-37 through 2017-40

**OBJECTIVE:** To approve the City's overall CalPERS Response (CPR) Plan for addressing pending Unfunded Accrued Liability (UAL) cost increases, which includes (1) approval of Side Letters of Agreement with all employee units to increase employee contributions toward pension costs; (2) approval of Resolution No. 2017-37 authorizing the issuance of Pension Obligation Bonds (POB) to refinance existing UAL and pension liability balances; (3) adoption of Resolution No. 2017-38, thereby establishing a new UAL Funding Policy to address any new future pension liabilities; (4) adoption of Resolution No. 2017-39, directing staff to move forward with establishing a ballot measure to increase the City's Transient Occupancy Tax (TOT) Rate from 10% to 12%; and (5) adoption of Resolution No. 2017-40, directing staff to move forward with the creation of Community Facility Districts (CFDs) on significant new residential development projects in the City

**BACKGROUND:** During the past five years, the California Public Employee Retirement System (CalPERS) has systematically implemented a series of significant rate adjustments to address rising Unfunded Accrued Liability (UAL) levels associated with California's public sector pension system. The most recent of those rate increases was approved on December 21, 2016, and dramatic annual increases in the City's required UAL payments will be instituted beginning July 1, 2018. This is an issue that will impact nearly every government agency in California in the coming years.

As staff has assessed the updated UAL payment schedules, it is clear that the increased payment amounts have created a pension cost structure that will become unsustainable within the next few years. Our overall UAL costs and pension liability payments will increase by around 80% during the next five year period, growing from a current cost of \$4.9 million in FY 2017/18 to \$8.9 million in FY 2022/23. From that point, our pension costs will continue to grow, albeit at a slightly slower rate, through FY 2030/31, when our overall UAL costs will be around \$11 million.

This means that during the next 13 year period, the City's UAL costs will increase by 123% over its current level of \$4.9 million per year, to around \$11 million annually. Concurrently, the City also has other unfunded pension liability costs that will add an average of around \$1.4 million / year in additional costs through FY 2025/26. Without instituting a thoughtful response to this particular issue, the current CalPERS pension cost structure will result in an extremely serious and incredibly significant erosion in the City's operational capacity. In fact, if we do nothing, current financial modeling indicates that the costs associated with the pending CalPERS UAL repayment schedule will strain our General Fund to the point of rendering the City insolvent in either FY 2021/22 or FY 2022/23.

As staff has assessed this overall pension cost issue, we have developed various options for addressing the situation today in order to avoid having to make significant Citywide organizational adjustments in the

# AR-1

future. To that end, a CalPERS Response (CPR) Plan involving five (5) initial actions has been developed for City Council consideration. The 5-point CPR Plan involves the following components:

1. Adoption of Side Letters of Agreement with all employee units to increase employee contributions toward pension related costs, thereby saving the City around \$300,000 annually.
2. Adoption of Resolution No. 2017-37 to authorize the issuance of a Pension Obligation Bond (POB) to refinance all of the City's existing UAL and pension liability debt, thereby stabilizing our pension liability payments at a uniform and level annual amount.
3. Adoption of Resolution No. 2017-38 to establish a new UAL Funding Policy in the City to address any new future pension liabilities.
4. Adoption of Resolution No. 2017-39 to direct staff to proceed with establishing a ballot measure in 2018 to increase the City's Transient Occupancy Tax (TOT) Rate from 10% to 12%, which if approved would increase TOT revenues by around \$400,000 annually.
5. Adoption of Resolution No. 2017-40 to direct staff to move forward with the creation of Community Facility Districts (CFDs) on significant new residential development projects in the City, which, depending on development patterns during the next several years, could increase property tax related revenues by around \$300,000 annually.

If approved, the proposed CPR Plan will result in a stabilization of our overall pension costs, and based on our most current modeling, would allow the City to avoid having to make any drastic operational adjustments in the future.

**ANALYSIS:** Like most public sector agencies in California, the City provides its employees with a defined benefit pension plan through the California Public Employee Retirement System (CalPERS). The overall CalPERS system currently serves more than 1.8 million members and has 3,021 employers enrolled as part of its pension program.

### **CalPERS Funding Status Drops To Dangerous Levels**

Historically, the costs associated with providing a CalPERS retirement were modest and affordable. However, that all began to change in September 1999 when then Governor Gray Davis signed SB 400 into law, which authorized enhanced retirement benefits for California public sector employees. Subsequently, CalPERS endured a series of lackluster investment return years during the first two decades of the 2000s, which when coupled with the enhanced retirement benefits caused the overall CalPERS pension system to begin grappling with ways to manage a deteriorating financial position. In fact, in 2009, the CalPERS retirement system dropped to being only 61% funded (meaning that the system only had \$0.61 for every \$1.00 in promised retirement benefits). Based on the most recent financial documents available (as of June 30, 2016), CalPERS is today funded at a rate of around 64%.

### **Three Pension Rate Increases Instituted By CalPERS From 2012 – 2014**

There is broad consensus among finance and pensions experts that when a multi-agency pension program drops to around or below 50% funded status, it will enter a death spiral whereby associated cost impacts create a situation such that the fund will never again be able to achieve financial sustainability. To avert that situation, during the past five years, CalPERS has instituted a number of significant pension cost increases. The initial cost adjustments were instituted from 2012 – 2014, and prior to this current fiscal year, the City had already devised and implemented mechanisms to address those escalating pension costs, which included the following components:

- March 16, 2012 – Change in Discount Rate From 7.75% - 7.50%
  - Designed to more accurately reflect investment return earnings
  - Impacted employer rates beginning in FY 2013/14
  - 2-year phase in of cost increases (2% to 3% total increase)
- April 17, 2013 – Change in Amortization & Rate Smoothing Policy
  - Designed to pay down unfunded liabilities faster

- Impacted employer rates beginning in FY 2015/16
- 10-year phase in of cost increases (6% percent to 13.5% total increase)
- February 18, 2014 – Change in Actuarial Assumptions & Asset Allocations
  - Designed to account for demographic and mortality adjustments
  - Impacted employer rates beginning in FY 2016/17
  - 5-year phase in of cost increases (5% to 7% total increase)

### **UAL Costs Are The Largest Portion Of Our Current City Pension Expenditures**

During the past few years, staff has been working to reorient internal City operations to absorb the pension cost increases instituted by CalPERS from 2012 – 2014. By making sound fiscal decisions, the City's current two-year budget for FY 2017/19 is structurally balanced and accounts for all pension related cost increases as instituted by CalPERS during the past several years. Overall, there are three different cost components associated with annual pension related costs, the largest portion of which is associated with our UAL and pension liability related costs. For our current FY 2017/18, those cost areas include:

- **Employer Normal Cost (FY 2017/18 - \$3.28 million)**
  - The Employer Normal Cost is set on an annual basis by CalPERS, and constitutes the annual payment amount needed to fund the pension benefit offered to existing employees.
    - Misc. employer costs are currently 11.2% of payroll
    - Safety employer costs are currently 23.5% of payroll
- **Employee Normal Cost (FY 2017/18 - \$2.0 million)**
  - Employees also contribute towards pension related costs, and the Employee Normal Cost is the employee-paid portion of pension related costs.
    - Misc. employees contribute 8% of payroll costs
    - Safety employees contribute 9% of payroll costs
- **UAL & Pension Liability Costs (FY 2017/18 - \$6.14 million)**
  - The largest component of our annual pension obligation is associated with paying for our UAL and pension liability costs.
  - These are additional costs that must be paid by the employer to make up for lost value in our pension fund from the following items:
    - Lower than projected investment returns
    - Changes in actuarial assumptions

The overview above outlines that the primary driver of our pension cost increases are related to the City's current UAL and pension liability costs. To that end, the City currently has around \$189 million in retirement fund assets being managed by CalPERS. However, between our existing UAL and other pension liability costs, the City has over \$301 million in pension related liabilities. Therefore, when comparing our pension assets against our pension liabilities, the City has a projected unfunded pension liability of around \$112 million. Furthermore, it is important to note that the City's unfunded pension liability costs do not constitute a unique situation, as the overall CalPERS portfolio has an estimated unfunded liability of around \$139 billion.

### **CalPERS Enacts Additional Rate Increase That Will Go Into Effect July 1, 2018**

If our current pension cost levels remained relatively constant into the future, the City could effectively manage the overall situation without needing to institute drastic operational adjustments. However, given the unfunded status of the overall CalPERS pension portfolio, the agency recently made an additional plan change that will, without significant operational adjustments, result in an unsustainable pension cost structure for the City, and for nearly all CalPERS member employers.

This most recent change was approved by the CalPERS Board on December 21, 2016, and an overview of the changes that were instituted are outlined below:

1. Lowering the discount rate (assumed investment earnings ratio) from 7.5% to 7.0%
  - The lesser discount rate is designed to more accurately reflect investment return earnings.

- The change will impact employer pension costs beginning July 1, 2018, and the increases will be phased in over a 3-year period.
  - Overall, the impact of this change will increase pension plan costs by between 1% - 5%
2. Enacting an accelerated payback schedule for all UAL costs
- The cost impacts for this change are substantial, as UAL payments will increase at an accelerated rate during a five (5) year period beginning July 1, 2018.
  - UAL related payments to CalPERS will increase by up to 20% per year during the initial 5-year cost ramp-up period.

While much of the attention surrounding this most recent CalPERS changes has been focused on the discount rate reduction, the more financially impactful component of the change is attributable to an accelerated payback schedule for all UAL costs.

**Impact Of The Most Recent CalPERS Rate Increase On The City**

For Monrovia, the changes instituted by CalPERS will cause our overall UAL payments to increase by an average of 12.6% per year during the next five year period, as our UAL costs will increase from its current level of \$4.9 million / year in FY 2017/18, to a cost of nearly \$8.9 million / year in FY 2022/23. This constitutes an 80% cost increase.

From that point moving forward, our UAL costs are projected to increase an average of 2.7% annually each year through FY 2030/31, when our overall UAL costs will be \$11 million.

This means that in FY 2030/31, when the City’s UAL costs will be around \$11 million / year, our overall UAL costs will have increased by 123% over our current FY 2017/18 UAL cost of \$4.9 million. This constitutes a more than \$6 million / year increase in expenditures, and to put that CalPERS cost increase into proper perspective, consider the following.

- It currently costs the City around \$4 million / year to operate both our Recreation and Library operations
- The City’s Monrovia Fire & Rescue Department costs around \$11.25 million / year to operate

The overall projected CalPERS UAL payment scheduled through FY 2032/33 is outlined below.

Fiscal Year	Total Projected CalPERS UAL Payment	Dollar Increase / Decrease	Percent Increase / Decrease
FY 17/18	4,922,252	-	-
FY 18/19	5,883,413	961,161	19.5%
FY 19/20	6,962,637	1,079,224	18.3%
FY 20/21	7,606,096	643,459	9.2%
FY 21/22	8,299,755	693,659	9.1%
FY 22/23	8,856,736	556,981	6.7%
FY 23/24	9,122,439	265,703	3.0%
FY 24/25	9,396,106	273,667	3.0%
FY 25/26	9,429,603	33,497	0.4%
FY 26/27	9,741,781	312,178	3.3%
FY 27/28	10,034,036	292,255	3.0%
FY 28/29	10,335,057	301,021	3.0%
FY 29/30	10,645,110	310,053	3.0%
FY 30/31	10,964,459	319,349	3.0%
FY 31/32	10,757,036	(207,423)	-1.9%
FY 32/33	10,541,267	(215,769)	-2.0%

Concurrent to the UAL cost increase, the City also has other unfunded pension liability costs that are associated with a POB issued in 2010 that requires an annualized debt service payment which averages around \$1.4 million annually through FY 2025/26.

When taken together, the City's annual UAL and pension liability costs will increase from \$6.1 million this current fiscal year to \$11.0 million in FY 2025/26, as illustrated in the chart below.

Fiscal Year	TOTAL UAL & Pension Liability Costs
2017/18	\$ 6,141,827
2018/19	\$ 7,146,788
2019/20	\$ 8,270,312
2020/21	\$ 8,958,271
2021/22	\$ 9,696,330
2022/23	\$ 10,302,311
2023/24	\$ 10,621,014
2024/25	\$ 10,944,456
2025/26	\$ 11,034,778

Given the City's existing revenue structure, the dramatic increase in UAL and pension liability costs will have to be paid for out of General Fund dollars. And based on our most recent analysis, if we do not institute a significant response plan to this overall situation, the City is projected to run out of cash and will be rendered insolvent in either FY 2021/22 or FY 2022/23.

**CalPERS Response Plan Developed**

Given the scale of the overall problem associated with increasing pension costs, staff has been working during the past several months to develop for City Council consideration an overall CalPERS Response (CPR) Plan. We have considered numerous options and held detail discussions in a variety of Study Session formats with the City Council that occurred in June 2017, August 2017, and September 2017. Additionally, staff has met with and discussed these issues with every City commission and board in September / October 2017.

After considerable analysis of the options available to address this pending CalPERS pension cost tsunami, staff is recommending that the City Council approve an initial suite of five actions associated with our CPR Plan. Those five actions are further outlined below.

**1. Employee CPR Giveback Plan**

Monrovia is fortunate to have a terrific group of dedicated public servants working for the community. And as part of the plan to address our pending pension cost increases, staff has worked with all employee units to develop an overall Employee CPR Giveback Plan whereby all members of our team would contribute more towards pension related costs. It is important to note that this overall program would be instituted in addition to the costs that employees are currently paying towards pension related expenses, and the overall Employee CPR Giveback Plan will result in an approximate \$300,000 / year cost savings for the City. The overall program includes the following components:

- Giveback Level 1 – City Manager
  - Start Date: October 1, 2017
  - Monthly Giveback Amount: \$325
  
- Giveback Level 2 – Department Heads
  - Start Date: January 1, 2018
  - Monthly Giveback Amount: \$225

- Giveback Level 3 – Division Managers
  - Start Date: April 1, 2018
  - Monthly Giveback Amount: \$125
- Giveback Level 4 – MFA / MPOA / MMEA Employees
  - Start Date: July 1, 2018
  - Monthly Giveback Amount: \$85

To formalize the Employee CPR Giveback Plan, Side Letters of Agreement with all employee units have been developed for City Council consideration (Attachment A).

## **2. Restructure Existing UAL Pension Debt Through Issuance Of A POB**

Currently, between existing CalPERS UAL debt (approximately \$100 million) and other pension liabilities accrued through a POB issued in 2010 (approximately \$12.4 million), the City has around \$112 million in total pension liabilities. Under the current situation, during the course of the next 30 years, our pension related liabilities will subject the City to the following cost factors:

- ***Current Scenario – Pension Liability Cost Overview***
  - Annual Costs
    - Our annual costs will increase from \$6.1 million / year (current FY 2017/18) to a high of \$11 million / year (FY 2025/26)
  - Total Costs
    - \$240.7 million is the total amount that the City will pay over the next 30 years
  - Total Interest Costs
    - Of the total amount paid, \$127.2 million will be allocated towards interest costs

As outlined above, the City’s current pension related liabilities will require a substantial funding outlay, which is made more expensive given that CalPERS assesses a 7.37% interest rate on payments made towards UAL related costs.

In contrast, the current municipal bond market is trading near the lowest levels ever recorded in history, and a taxable municipal bond issuance is currently trading at between 1.7% - 4.5%. By taking advantage of the favorable current municipal bond environment, the City can restructure its existing pension liabilities at a lower interest rate than what is currently being assessed by CalPERS. Furthermore, it is possible to structure the payback on the refinanced pension liability costs as a fixed annual payment over 30 years to avoid the pending dramatic increase in annual UAL and pension liability costs. In that manner, refinancing our existing pension liabilities through a pension obligation bond (POB) issuance would be similar to transitioning a variable adjustable rate mortgage loan into a 30-year fixed loan. To that end, an overview of what our pension cost structure would look like through a refinancing of our existing liabilities is outlined below:

- ***Refinance Scenario – Pension Liability Cost Overview***
  - Annual Costs
    - Fixed at \$6.7 million / year
  - Total Costs
    - \$197.5 million is the total amount that the City will pay over the next 30 years
  - Total Interest Costs
    - Of the total amount paid, \$82.2 million will be allocated towards interest costs

When comparing the current cost scenario with the proposed refinancing scenario, the City could reduce our annual payments by \$4.3 million per year, save \$43.2 million in total pension liability costs, and reduce interest costs by around \$45.0 million. The table below outlines the overall cost comparison.

	<b>CURRENT</b> CalPERS / Pension Liability Cost Structure	<b>PROPOSED</b> 2017 Pension Liability Restructure	<b>SAVINGS</b> Pension Liability Restructure
<b>Annual Cost</b>	\$11.0 million	\$6.7 million	<b>\$4.3 million / year</b>
<b>Total Payments</b>	\$240.7 million	\$197.5 million	<b>\$43.2 million over 30 years</b>
<b>Total Interest</b>	\$127.2 million	\$82.2 million	<b>\$45.0 million over 30 years</b>

Additionally, as staff has assessed the overall risks associated with refinancing our pension liabilities, we have compared private market financing rates with the historical rate of return that CalPERS has achieved on its investment portfolio. Current market conditions indicate that our POB will likely be issued with an overall interest rate of between 1.7% - 4.5%. If CalPERS can earn an average investment return over a 30 year period of greater than our borrowing costs, then the refinancing of our pension liabilities will work in the City's favor.

Given that factor, we have assessed CalPERS actual investment return performance for the fiscal year ending June 30, 2016, which are as follows:

- Last 3 years – 6.9%
- Last 5 years – 6.8%
- Last 10 years – 5.1%
- Last 20 years – 7.0%
- Since inception (1988) – 8.3%

Based on our overall assessment, including our analysis of the current interest rate environment, staff recommends that the City Council authorize the refinancing of our existing pension liabilities via a POB (Attachment B).

### **3. Adopt A New UAL Funding Policy**

If the City Council authorizes the issuance of a POB to pay off 100% of our UAL and pension liabilities, our overall CalPERS pension fund will become fully funded. However, each year, the possibility exists that CalPERS will accrue new pension liabilities due to the following factors:

- Changes in actuarial assumptions and experience changes (e.g., changes in the discount rate, changes in demographic experience, etc.).
- Changes in actuarial gains and losses due to asset returns being higher or lower than expected.
- Changes in plan benefits.

Given that factor, every June 30 of each year, CALPERS completes a new actuarial valuation that will provide the City with a calculation of our total pension liability as of the new valuation date. Based on that annual report, the City will then know if we have developed any new UAL at that point in time.

In an effort to ensure that any future pension liabilities do not grow to an unmanageable size, staff has developed a proposed UAL Funding Policy for City Council consideration. If approved, the policy would require that any new increase or decrease in the liability resulting from the annual CalPERS actuarial valuation be explicitly identified each year during our budget cycle, and that the City set aside additional funds to pay off new UAL costs pursuant to the following schedule:

Unfunded Accrued Amount (Separate Amortization Base From CALPERS Report)	Payoff Time Period
\$0 to \$5,000,000	Between 3 and 5 years
\$5,000,001 to \$10,000,000	Between 5 and 7 years
\$10,000,001 to \$15,000,000	Between 7 and 9 years
\$15,000,001 to \$20,000,000	Between 9 and 10 years
\$20,000,001 or more	Between 10 and 15 years

This overall UAL Funding Policy will help to ensure that the City sets aside the funds needed to fully pay for any future pension liabilities, and is a fiscally responsible mechanism to ensure that we contain any future pension liability growth. To that end, staff is recommending that the City Council adopt Resolution No. 2017-\_\_\_ (Attachment C), thereby instituting the new UAL Payoff Policy.

**4. Increase The City’s Transient Occupancy Tax (TOT) Rate From 10% to 12%**

As staff has assessed ways of addressing the pending pension cost increase, one area of revenue enhancement that we have identified for consideration involves increasing the City’s Transient Occupancy Tax (TOT) by 2%, from 10% to 12%. As staff has assessed this option, we have identified that the increase could generate around \$400,000 in additional revenues, and should not impact the competitiveness of our existing hotel base here in Monrovia. It is important to note that the TOT rate adjustment is an item that must be placed before the voters for consideration.

In analyzing the TOT assessment in the communities located west of the City, staff was able to determine that Pasadena, Burbank, and Glendale all have effective TOT rates that are set at 12% or higher. In addition, each of those three communities also charges a tourism tax on top of the TOT assessment, which creates an effective TOT rate for those three jurisdictions of between 15% - 16%.

Of the jurisdictions located west of the City, only Arcadia currently assess a TOT rate as low as the 10% rate assessed in Monrovia. However, based on discussions with representatives from Arcadia, they are looking to institute a significant revenue enhancement measure in 2018. Given that factor, staff would recommend that the City Council approve Resolution No. 2017-\_\_\_ (Attachment D), thereby authorizing and directing that staff submit for voter consideration in 2018 an increase in our TOT rate from 10% to 12%.

**5. Begin Creation Of CFDs On Significant New Residential Development Projects**

Monrovia is currently experiencing significant development interest, with around 1,700 units of housing proposed throughout the City. With new housing related projects come increased service demand requests, and to help offset the costs of providing those additional services, staff has analyzed the possibility of creating Community Facility Districts (CFD) as overlays on the new development initiatives.

CFDs are authorized through the Mello-Roos Community Facilities Act of 1982, and provides a mechanism to fund public improvements and services. Through the establishment of a CFD, an additional property tax overlay can be assessed to fund authorized improvements and services. Based on the scale of development projects that have been proposed, forming CFDs to overlay the new proposed projects could generate an additional \$300,000 / year in additional property tax revenues to pay for service delivery related costs.

To that end, staff would recommend that the City Council approve Resolution No. 2017-\_\_\_ (Attachment E), thereby directing that staff explore the possibility of creating CFDs on significant new development projects in Monrovia.

**FISCAL IMPACT:** Taken together, the recommended actions associated with the City's initial CalPERS Response Plan are projected to have the following fiscal impact:

- Approval of the proposed Side Letters of Agreement with employee units will save the City around \$300,000 / year.
- Issuing a POB to refinance the City's existing UAL and pension liability debt is projected to save the City \$43.2 million over the next 30 year period.
- If voters approve an increase of the City's TOT rate from 10% to 12%, it is estimated that the City will receive around \$400,000 / year in additional revenues.
- By establishing CFDs on significant development projects that have been proposed in Monrovia, the City could generate an additional \$300,000 / year in additional property tax revenues.

**ENVIRONMENTAL IMPACT:** There is no environmental impact associated with approving the City's CalPERS Response Plan.

**OPTIONS:** The following options are presented for City Council consideration:

1. Approve the City's overall CalPERS Response Plan for addressing pending Unfunded Accrued Liability cost increases through the following actions:
  - a. Approve the Side Letters of Agreement with all employee units to increase employee contributions toward pension costs.
  - b. Adopt Resolution No. 2017-37 and approve the issuance of Pension Obligation Bonds to refinance existing UAL and pension liability balances.
  - c. Adopt Resolution No. 2017-38, thereby establishing a new UAL Funding Policy to address any new future pension liabilities.
  - d. Adopt Resolution No. 2017-39, thereby directing staff to move forward with establishing a ballot measure in 2018 to increase the City's Transient Occupancy Tax (TOT) Rate from 10% to 12%.
  - e. Adopt Resolution No. 2017-40, thereby directing staff to move forward with the creation of Community Facility Districts (CFDs) on significant new residential development projects in the City.
2. Do not approve the City's CalPERS Response Plan and provide staff with additional direction.

**RECOMMENDATION:** Staff recommends that the City Council select Option 1.

**COUNCIL ACTION REQUIRED:** If the City Council concurs, the appropriate action would be a motion to approve the City's overall CalPERS Response Plan for addressing pending Unfunded Accrued Liability cost increases by approving the Side Letters of Agreement with all employee units to increase employee contributions toward pension costs and adopting Resolution Nos. 2017-37 through 2017-40.

**SIDE LETTER OF AGREEMENT  
BETWEEN  
THE CITY OF MONROVIA  
AND THE  
MONROVIA FIREFIGHTERS' ASSOCIATION (APPENDIX A)**

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Representatives of the City of Monrovia and the Monrovia Firefighters' Association (MFA) have met and conferred and reached agreement on this *Side Letter of Agreement* to the MFA's Memorandum of Understanding (MOU) dated July 1, 2017, through June 30, 2022.

This *Side Letter of Agreement* will modify the following section of the MFA MOU dated July 1, 2017, through June 30, 2022, with regard to offsets to CalPERS Unfunded Accrued Liability costs and related employee giveback contribution amounts:

- *Section XV. Retirement Benefits*

The parties agree that the following language shall be added to *Section XV. Retirement Benefits*.

**SECTION XV. RETIREMENT BENEFITS**

C. Employee CalPERS Response Giveback Plan.

Effective the first pay period on or after July 1, 2018, all employees represented by the Association will contribute the equivalent of \$85 per month to offset CalPERS Unfunded Accrued Liability costs. All contributions made pursuant to this Employee CalPERS Response Giveback Plan will be deducted from each employee's paycheck in equal amounts every pay period. Also, the employee contributions made pursuant to this Employee CalPERS Response Giveback Plan will be coordinated as a pre-tax contribution. Finally, the employee contributions made pursuant to this Employee CalPERS Response Giveback Plan will be considered part of the employee contribution towards CalPERS retirement system costs.

**MONROVIA FIREFIGHTERS'  
ASSOCIATION:**

**CITY OF MONROVIA:**

\_\_\_\_\_  
Dave Rapp, President

\_\_\_\_\_  
Oliver Chi, City Manager

\_\_\_\_\_  
Mike Cate, Vice President

\_\_\_\_\_  
Lauren Vasquez, Deputy City Manager

**SIDE LETTER OF AGREEMENT  
BETWEEN  
THE CITY OF MONROVIA  
AND THE  
MONROVIA MUNICIPAL EMPLOYEES' ASSOCIATION (APPENDIX B)**

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Representatives of the City of Monrovia and the Monrovia Municipal Employees' Association (MMEA) have met and conferred and reached agreement on this *Side Letter of Agreement* to the MMEA's Memorandum of Understanding (MOU) dated July 1, 2017, through June 30, 2022.

This *Side Letter of Agreement* will modify the following section of the MMEA MOU dated July 1, 2017, through June 30, 2022, with regard to offsets to CalPERS Unfunded Accrued Liability costs and related employee giveback contribution amounts:

- *Section XV. Retirement Benefits*

The parties agree that the following language shall be added to *Section XV. Retirement Benefits*.

**SECTION XV. RETIREMENT BENEFITS**

**B. Employee CalPERS Response Giveback Plan.**

Effective the first pay period on or after July 1, 2018, all employees represented by the Association will contribute the equivalent of \$85 per month to offset CalPERS Unfunded Accrued Liability costs. All contributions made pursuant to this Employee CalPERS Response Giveback Plan will be deducted from each employee's paycheck in equal amounts every pay period. Also, the employee contributions made pursuant to this Employee CalPERS Response Giveback Plan will be coordinated as a pre-tax contribution. Finally, the employee contributions made pursuant to this Employee CalPERS Response Giveback Plan will be considered part of the employee contribution towards CalPERS retirement system costs.

**MONROVIA MUNICIPAL  
EMPLOYEES' ASSOCIATION:**

**CITY OF MONROVIA:**

\_\_\_\_\_  
Teresa Santilena, President

\_\_\_\_\_  
Oliver Chi, City Manager

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Ariel Tolefree-Williams, Vice President

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Lauren Vasquez, Deputy City Manager

**SIDE LETTER OF AGREEMENT  
BETWEEN  
THE CITY OF MONROVIA  
AND THE  
MONROVIA MANAGEMENT EMPLOYEES (APPENDIX C)**

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Representatives of the City of Monrovia and the Monrovia Management Employees (Management), have met and conferred and reached agreement on this *Side Letter of Agreement* to the Management Memorandum of Understanding (MOU) dated July 1, 2017, through June 30, 2022.

This *Side Letter of Agreement* will add the following section to the Management MOU dated July 1, 2017, through June 30, 2022, with regard to offsets to CalPERS Unfunded Accrued Liability costs and related employee giveback contribution amounts:

- *Section VIII.F. Employee CalPERS Response Giveback Plan*

The parties agree that the following language shall be added to *Section VIII. Retirement Benefits*.

**SECTION VIII. RETIREMENT BENEFITS**

**F. Employee CalPERS Response Giveback Plan.**

Effective the first pay period on or after January 1, 2018, all employees in positions designated as Management will contribute the equivalent of \$225 per month to offset CalPERS Unfunded Accrued Liability costs. All contributions made pursuant to this Employee CalPERS Response Giveback Plan will be deducted from each employee's paycheck in equal amounts every pay period. Also, the employee contributions made pursuant to this Employee CalPERS Response Giveback Plan will be coordinated as a pre-tax contribution. Finally, the employee contributions made pursuant to this Employee CalPERS Response Giveback Plan will be considered part of the employee contribution towards CalPERS retirement system costs.

**SIDE LETTER OF AGREEMENT  
BETWEEN  
THE CITY OF MONROVIA  
AND THE  
MONROVIA POLICE OFFICERS' ASSOCIATION (APPENDIX G)**

---

Representatives of the City of Monrovia and the Monrovia Police Officers' Association (MPOA) have met and conferred and reached agreement on this *Side Letter of Agreement* to the MPOA's Memorandum of Understanding (MOU) dated July 1, 2017, through June 30, 2022.

This *Side Letter of Agreement* will modify the following section of the MPOA MOU dated July 1, 2017, through June 30, 2022, with regard to offsets to CalPERS Unfunded Accrued Liability costs and related employee giveback contribution amounts:

- *Section XIV. Retirement Benefits*

The parties agree that the following language shall be added to *Section XIV. Retirement Benefits*.

**SECTION XIV. RETIREMENT BENEFITS**

C. Employee CalPERS Response Giveback Plan.

Effective the first pay period on or after July 1, 2018, all employees represented by the Association will contribute the equivalent of \$85 per month to offset CalPERS Unfunded Accrued Liability costs. All contributions made pursuant to this Employee CalPERS Response Giveback Plan will be deducted from each employee's paycheck in equal amounts every pay period. Also, the employee contributions made pursuant to this Employee CalPERS Response Giveback Plan will be coordinated as a pre-tax contribution. Finally, the employee contributions made pursuant to this Employee CalPERS Response Giveback Plan will be considered part of the employee contribution towards CalPERS retirement system costs.

**MONROVIA POLICE OFFICERS'  
ASSOCIATION:**

**CITY OF MONROVIA:**

\_\_\_\_\_  
Seth Hermes, President

\_\_\_\_\_  
Oliver Chi, City Manager

\_\_\_\_\_  
John Donchig, Vice President

\_\_\_\_\_  
Lauren Vasquez, Deputy City Manager

**SIDE LETTER OF AGREEMENT  
BETWEEN  
THE CITY OF MONROVIA  
AND THE  
MONROVIA MID-MANAGEMENT EMPLOYEES (APPENDIX H)**

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Representatives of the City of Monrovia and the Monrovia Mid-Management Employees (Mid-Management), have met and conferred and reached agreement on this *Side Letter of Agreement* to the Mid-Management Memorandum of Understanding (MOU) dated July 1, 2017, through June 30, 2022.

This *Side Letter of Agreement* will modify the following section of the Mid-Management MOU dated July 1, 2017, through June 30, 2022, with regard to offsets to CalPERS Unfunded Accrued Liability costs and related employee giveback contribution amounts:

- *Section IX. Retirement*

The parties agree that the following language shall be added to *Section IX. Retirement*.

**SECTION IX. RETIREMENT**

F. Employee CalPERS Response Giveback Plan.

Effective the first pay period on or after April 1, 2018, all employees in positions designated as Mid-Management will contribute the equivalent of \$125 per month to offset CalPERS Unfunded Accrued Liability costs. All contributions made pursuant to this Employee CalPERS Response Giveback Plan will be deducted from each employee's paycheck in equal amounts every pay period. Also, the employee contributions made pursuant to this Employee CalPERS Response Giveback Plan will be coordinated as a pre-tax contribution. Finally, the employee contributions made pursuant to this Employee CalPERS Response Giveback Plan will be considered part of the employee contribution towards CalPERS retirement system costs.

## RESOLUTION NO. 2017-37

### A SUPPLEMENTAL RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MONROVIA, CALIFORNIA, APPROVING AS TO FORM AND AUTHORIZING THE EXECUTION AND DELIVERY OF CERTAIN DOCUMENTS IN CONNECTION WITH THE SALE AND ISSUANCE OF A SERIES OF ADDITIONAL BONDS AUTHORIZED PURSUANT TO RESOLUTION NO. 2008-49 TO REFUND CERTAIN PENSION OBLIGATIONS OF THE CITY, AND AUTHORIZING CERTAIN OTHER RELATED ACTIONS

#### RECITALS:

**WHEREAS**, the City of Monrovia (the "City") is a member of the California Public Employees' Retirement System ("PERS") and, as such, is obligated by the Public Employees' Retirement Law, constituting Part 3 of Division 5 of Title 2 of the California Government Code (the "Retirement Law"), and the contract between the Board of Administration of PERS and the City Council of the City, effective September 1, 1950 (as amended, the "PERS Contract"), to make contributions to PERS to (a) fund pension benefits for its employees who are members of PERS, (b) amortize the unfunded actuarial liability with respect to such pension benefits, and (c) appropriate funds for the purposes described in (a) and (b); and

**WHEREAS**, the City is authorized pursuant to Articles 10 and 11 (commencing with Section 53570) of Chapter 3 of Part 1 of Division 2 of Title 5 of the California Government Code (the "Refunding Law") to issue bonds for the purpose of refunding certain obligations of the City, including the obligations evidenced by the PERS Contract; and

**WHEREAS**, for the purpose of refunding the City's obligations to PERS evidenced by the PERS Contract, to pay the City's unamortized, unfunded accrued actuarial liability with respect to pension benefits under the Retirement Law (the "Unfunded Pension Liability"), and to pay the costs of issuance, including underwriter's discount and any original issue discount, and pursuant to its Resolution No. 2008-49 adopted on August 5, 2008, the City Council of the City (the "City Council") authorized and approved a Trust Agreement, dated as of June 1, 2010 (the "Master Trust Agreement"), by and between the City and U.S. Bank National Association, as Trustee, and the issuance of bonds in one or more series to refund the Unfunded Pension Liability or such portion thereof as the City Council shall determine from time to time; and

**WHEREAS**, pursuant to Resolution No. 2008-49, California Code of Civil Procedure Section 860 *et seq.*, and California Government Code Section 53511, the City Attorney filed a judicial validation proceeding in the Superior Court of the State of California, and on December 17, 2008, the court in the validation proceeding entered a judgment in the City's favor to the effect, among other things, that Resolution No. 2008-49 is in all respects lawful, valid, and proper and is not subject to further legal challenge; that the City has the authority under California law to issue bonds in one or more series to refund the Unfunded Pension Liability or such portion thereof as the City Council shall determine from time to time as authorized by Resolution No. 2008-49; and that any such bonds, the Master Trust Agreement, and all contracts and agreements enacted pursuant thereto, including supplemental trust agreements relating to additional series of such bonds, are valid, legal and binding obligations of the City under California law; and

**WHEREAS**, on July 29, 2010 and pursuant to the Master Trust Agreement and Resolution No. 2008-49, the City issued its Taxable Pension Obligation Bonds, Series 2010 (the "Series 2010 Bonds"), in the initial aggregate principal amount of \$12,750,000 to refund a portion of the Unfunded Pension Liability consisting of the side fund unfunded liability for the sole pension plan for the City's safety employees then in effect; and

**WHEREAS**, as authorized by Section 4 of Resolution No. 2008-49, the Master Trust Agreement, and the Refunding Law, the City desires to issue additional refunding bonds designated as the "City of Monrovia Taxable Pension Obligation Bonds, Series 2017" (the "Series 2017 Bonds"), pursuant to and secured by the Master Trust Agreement, as amended and supplemented by the First Supplemental Trust Agreement (collectively, the "Trust Agreement"), for the purposes of refunding the present Unfunded Pension Liability for all or a portion of the City's current pension plans established with PERS under the PERS Contract, advance refunding the Series 2010 Bonds, and to pay the costs of issuance, including underwriter's discount and any original issue discount, with respect to the Series 2017 Bonds; and

**WHEREAS**, pursuant to Section 4 of Resolution No. 2008-49, the City Manager has certified to the City Council in writing that the issuance of the Series 2017 Bonds subject to, and in accordance with, the parameters set forth in Section 4 of Resolution No. 2008-49 will result in cost savings to the City; and

**WHEREAS**, in furtherance of Section 8855(i) of the California Government Code, as amended by SB 1029, enacted as Chapter 307, Statutes of 2016, the City Council on January 17, 2017 pursuant to its Resolution No. 2017-02 approved a debt management policy, which the City Council has amended on this same date for clarifying changes by adoption of Resolution No. 2017-37 (as amended, the "Debt Management Policy"); and

**WHEREAS**, in order to effect the issuance of the Series 2017 Bonds, the City Council, desires to approve the form of a Preliminary Official Statement for the Series 2017 Bonds and to approve the forms of, and authorize the execution and delivery of, a First Supplemental Trust Agreement, an Escrow Agreement, a Bond Purchase Agreement, and a Continuing Disclosure Certificate for the Series 2017 Bonds, the forms of which are on file with the City Clerk;

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF MONROVIA DOES HEREBY RESOLVE, DETERMINE AND ORDER AS FOLLOWS:**

**Section 1.** Recitals. The above recitals, and each of them, are true and correct.

**Section 2.** Debt Management Policy. The City Council hereby determines that (a) the Debt Management Policy is consistent with the requirements of Government Code Section 8855(i), and (b) the proposed Series 2017 Bonds to be issued in accordance with the parameters set forth in Resolution No. 2008-49 and this Resolution are consistent with the Debt Management Policy.

**Section 3.** First Supplemental Trust Agreement. The City Council hereby affirms its approval of the issuance of the Series 2017 Bonds pursuant to Resolution No. 2008-49, subject to, and in accordance with, the parameters set forth in Resolution No. 2008-49, including without limitation Section 4 thereof. The First Supplemental Trust Agreement (the "First Supplemental Trust Agreement"), proposed to be entered into by and between the City and the Trustee (defined in Section 4 below), in the form presented and on file in the office of the City

Clerk, is hereby approved. Each of the Mayor (or in his absence, the Mayor Pro Tem) and the City Manager (or in his absence, the Deputy City Manager) (each, an "Authorized Officer"), acting singly, is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the First Supplemental Trust Agreement in substantially said form, with such changes therein as the Authorized Officer executing the same may approve (such approval to be conclusively evidenced by such Authorized Officer's execution and delivery thereof).

**Section 4.** Appointment of Trustee. The appointment of U.S. Bank National Association as trustee (the "Trustee") under the First Supplemental Trust Agreement is hereby confirmed.

**Section 5.** Continuing Disclosure Certificate. The Continuing Disclosure Certificate (the "Continuing Disclosure Certificate"), proposed to be executed by the City and appointing U.S. Bank National Association as the initial Dissemination Agent, in the form appended to the Preliminary Official Statement (defined in Section 7 below) on file in the office of the City Clerk, is hereby approved. Each Authorized Officer, acting singly, is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Continuing Disclosure Certificate in substantially said form, with such changes therein as the Authorized Officer executing the same may approve (such approval to be conclusively evidenced by such Authorized Officer's execution and delivery thereof).

**Section 6.** Bond Purchase Agreement. The form of the Bond Purchase Agreement by and between the City and Hilltop Securities Inc. (the "Underwriter"), presented at this meeting, on file in the office of the City Clerk and incorporated herein by reference (the "Bond Purchase Agreement"), is hereby approved, and any one of the Authorized Officers, acting singly, is hereby authorized to execute the Bond Purchase Agreement in substantially the form hereby approved, with such additions thereto and changes therein as may be approved by such officer upon consultation with Bond Counsel. Approval of such additions and changes shall be conclusively evidenced by the execution and delivery of the Bond Purchase Agreement; provided, however, that the Bond Purchase Agreement shall be signed only if the terms of the agreement meet the parameters set forth in Section 4 of Resolution No. 2008-49.

Each of the Authorized Officers is authorized, on behalf of the City, to establish and determine (i) the final principal amount of the Series 2017 Bonds, provided the aggregate initial principal amount of the Series 2017 Bonds shall not be greater than the sum of the City's remaining unpaid obligation to PERS for fiscal year 2017-18, as evidenced by the PERS Contract, and the Unfunded Pension Liability as calculated by PERS or other actuary selected by the Authorized Officer, together with the costs of issuing the Series 2017 Bonds (including original issue discount) as approved by such Authorized Officer; (ii) the final interest rates on various maturities of the Series 2017 Bonds, provided that the net present value savings achieved through refunding the Unfunded Pension Liability and the Series 2010 Bonds by issuing the Series 2017 Bonds shall be at least 3%, expressed as a percentage of the Unfunded Pension Liability or as a percentage of the aggregate principal amount of Series 2010 Bonds, as applicable, and that the maturity date of the Series 2017 Bonds shall not be later than the last date through which PERS currently amortizes of the Unfunded Pension Liability of the City (i.e., June 30, 2047); and (iii) the Underwriter's discount for the purchase of the Bonds, not to exceed 0.75% of the principal amount of the Bonds. The net present value savings with respect to the Unfunded Pension Liability shall be calculated by comparing present value of the payments required to amortize the Pension Liability at the actuarial rate assumed by PERS to the present

value of the principal and interest payments on the Series 2017 Bonds at the same actuarial rate.

**Section 7. Preliminary Official Statement.** The Preliminary Official Statement relating to the Series 2017 Bonds (the “Preliminary Official Statement”), in the form on file with the City Clerk, is hereby approved. Each Authorized Officer, acting singly, is hereby authorized and directed, for and in the name and on behalf of the City, to cause the Preliminary Official Statement in substantially said form, with such additions or changes therein as such Authorized Officer may approve, to be deemed final for the purposes of Rule 15c2-12, promulgated pursuant to the Securities and Exchange Act of 1934, as amended (“Rule 15c2-12”). The Underwriter is hereby authorized to distribute the Preliminary Official Statement to prospective purchasers of the Series 2017 Bonds in substantially the form hereby approved, together with such additions thereto and changes therein as are determined necessary by any one of the Authorized Officers to make the Preliminary Official Statement final as of its date for purposes of Rule 15c2-12, including, but not limited to, such additions and changes as are necessary to make all information set forth therein accurate and not misleading.

**Section 8. Official Statement.** Each Authorized Officer, acting singly, is hereby authorized and directed, for and in the name and on behalf of the City, to cause the Preliminary Official Statement to be brought into the form of a final Official Statement (the “Official Statement”), and to execute the same for and in the name and on behalf of the City, with such additions or changes therein as such Authorized Officer may approve (such approval to be conclusively evidenced by such Authorized Officer’s execution and delivery thereof). The Underwriter is further authorized to distribute the final Official Statement for the Series 2017 Bonds and any supplement thereto to the purchasers thereof upon its execution on behalf of the City as described above.

**Section 9. Escrow Agreement.** The Escrow Agreement (the “Escrow Agreement”), proposed to be entered into by and between the City and U.S. Bank National Association, as Escrow Agent, in the form on file in the office of the City Clerk, is hereby approved. Each Authorized Officer, acting singly, is hereby authorized and directed, for and in the name and on behalf of the City, to execute and deliver the Escrow Agreement in substantially said form, with such changes therein as the Authorized Officer executing the same may approve (such approval to be conclusively evidenced by such Authorized Officer’s execution and delivery thereof).

**Section 10. Appointments of Financing Team.** The appointments of Richards, Watson & Gershon, A Professional Corporation, as Bond Counsel, Stradling, Yocca, Carlson & Rauth, a Professional Corporation, as Disclosure Counsel, and Urban Futures, Inc., as Municipal Advisor, in connection with the issuance of the Series 2017 Bonds are hereby approved and affirmed.

**Section 11. Other Acts.** The Mayor, the Mayor Pro Tem, the City Manager, the Deputy City Manager, the Administrative Services Director, and other officers of the City are hereby authorized and directed, jointly and severally, to do any and all things (including negotiating with respect to obtaining a municipal bond insurance policy or debt service reserve surety bond), to execute and deliver any and all documents that they may deem necessary or advisable in order to consummate the sale, issuance and delivery of the Series 2017 Bonds, or otherwise to effectuate the purposes of this Resolution and Resolution No. 2008-49, and any such actions previously taken by such officers are hereby ratified and confirmed.

**Section 12.** Effective Date. This Resolution shall take effect immediately upon adoption.

**PASSED, APPROVED AND ADOPTED** this 7th day of November, 2017.

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Tom Adams, Mayor  
City of Monrovia

ATTEST:

APPROVED AS TO FORM:

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Alice D. Atkins, CMC, City Clerk  
City of Monrovia

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Craig A. Steele, City Attorney  
City of Monrovia

**RESOLUTION NO. 2017-38**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF  
MONROVIA, CALIFORNIA, ADOPTING AN UNFUNDED  
ACCRUED LIABILITY FUNDING POLICY**

**THE CITY COUNCIL OF THE CITY OF MONROVIA, CALIFORNIA, DOES** hereby resolve as follows:

**WHEREAS**, CalPERS has during the past five years instituted a series of pension cost increases that have dramatically altered the public pension cost structure in California; and

**WHEREAS**, the changes instituted by CalPERS will require all California governmental agencies to reevaluate their operations or risk facing insolvency; and

**WHEREAS**, as part of the Fiscal Year 2017/19 Budget approval process, the City Council directed staff to develop and execute an overall CalPERS Response Plan to address the pending budget crisis related to rising pension costs; and

**WHEREAS**, the City identified multiple strategies needed to effectively address rising pension costs; and

**WHEREAS**, the Unfunded Accrued Liability (“UAL”) is the difference between the total value of pension benefits owed to current and retired employees or dependents and the total assets on hand; and

**WHEREAS**, an identified expenditure control strategy to address rising pension costs is to accelerate current and future UAL payments to CalPERS to reduce the City’s total pension liability; and

**WHEREAS**, the City is in the process of issuing a pension obligation bond that will generate bond proceeds to pay off 100% of the City’s current estimated UAL owed to CalPERS; and

**WHEREAS**, CalPERS provides the City with new actuarial valuations on an annual basis that calculates the City’s total pension liability as of the new valuation date; and

**WHEREAS**, on an annualize basis, it is possible that the City will incur new UAL costs if the City’s funded assets are not equivalent to the actuarially determined liability amounts; and

**WHEREAS**, the City desires to establish a framework for funding new UAL costs that may arise in the future with the objective of funding the CalPERS pension plan at a level of 100% of the total accrued liability, whenever possible; and

**WHEREAS**, to facilitate payment of future UAL costs in a timely manner and to reduce the risk that future UAL costs pose to the City’s financial position, the City desires to adopt the Unfunded Accrued Liability Funding Policy, as set forth in Administrative Policy 2.93 attached hereto;

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF MONROVIA DOES HEREBY RESOLVE, DETERMINE AND ORDER AS FOLLOWS:**

**SECTION 1.** The City Council finds that all of the facts set forth in the Recitals of this Resolution are true and correct.

**SECTION 2.** The Unfunded Accrued Liability Funding Policy, as set forth in Administrative Policy 2.93, is hereby approved and adopted and shall be applicable to any new pension liabilities, or amortization bases, that arise.

**SECTION 3.** The City Manager, the City Treasurer, the Administrative Services Director, and all other officers of the City are hereby authorized and directed, jointly and severally, to do any and all things to effectuate the purposes of this Resolution and to implement the Policy.

**SECTION 4.** This Resolution shall take effect immediately upon adoption.

**PASSED, APPROVED AND ADOPTED** on this 7<sup>th</sup> day of November, 2017.

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Tom Adams, Mayor  
City of Monrovia

ATTEST:

APPROVED AS TO FORM:

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Alice D. Atkins, CMC, City Clerk  
City of Monrovia

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Craig A. Steele, City Attorney  
City of Monrovia

**ADMINISTRATIVE POLICY**

SUBJECT: Unfunded Accrued Liability Funding Policy

EFFECTIVE DATE: November 7, 2017

I. Policy Objective:

This policy is intended to provide guidance on the development and adoption of a funding plan for new Unfunded Accrued Liabilities (“UAL”) that are calculated annually by CALPERS. This funding policy should support the decision making process of the City Council and should be consistent with the overall purpose and goals of the City of Monrovia’s pension plan.

As used in this Policy, “City” shall mean the City and/or the City and its related entities, as the context may require.

II. Authority

City Council Resolution No. 2017-38 (Adopted November 7, 2017)

III. Assigned Responsibility

City Manager and the Administrative Services Director

IV. Applicability:

City Manager, Administrative Services Director, and Administrative Services Department staff

V. General Policy

Background:

The primary goal of funding defined benefit pension plans is to ensure that sufficient assets will be accumulated to deliver promised benefits when they come due and to protect pension benefits in situations that involve employer insolvency or bankruptcy. Establishing sound funding guidelines promotes pension benefit security.

The City’s overall objective is to fund the CALPERS pension plan to a level of 100% of the total accrued liability, whenever possible.

Analysis:

The purpose of this funding policy is to establish a framework for funding the City of Monrovia's defined benefit pension plan, taking into account factors that are relevant to the plan and the City. These factors include:

- The financial position of the City.
- Stability of the plan and / or the affordability of the annual contributions.
- Benefit security.
- The terms of the CALPERS contract for Monrovia, along with any related collective bargaining agreements.
- Minimum funding requirements under State law.

There are a number of advantages to developing a funding policy to address an unfunded accrued liability. These advantages include the following:

- Establishing a funding policy provides the framework to ensure proper management of future liabilities. The adoption of a funding policy will ensure a disciplined decision making process, which will contribute to better predictability in funding.
- Having a written summary of the funding policy that is accessible to the members will help improve the transparency of funding decisions and increase the members' understanding of pension funding issues.
- The exercise of developing this funding policy improves the identification, understanding, and management of the risk factors that affect the variability of funding requirements and the security of benefits to the members.

### Funding Options

The City is in the process of issuing a pension obligation bond that will generate bond proceeds to pay CALPERS approximately 100% of the UAL as of Nov. 1, 2017 (based on the latest actuarial valuation performed through June 30, 2016). After the payment of the UAL, the City is not expected to have any unfunded accrued liability owed to CALPERS. However, every June 30th, CALPERS will complete a new actuarial valuation and will calculate the City of Monrovia's total pension liability as of the new valuation date. If the City's funded assets are not equivalent to this new liability amount, the City will incur a new unfunded accrued liability at that point in time. The pension liability may increase or decrease from year to year, due to the following factors:

- Changes in actuarial assumptions and experience changes (e.g., changes in the discount rate, changes in demographic experience, etc.).
- Changes in actuarial gains and losses due to asset returns being higher or lower than expected.
- Changes in plan benefits.

Any new increase or decrease in the liability resulting from the annual actuarial valuation is identified as a separate line item, or amortization base, on the annual CALPERS actuarial valuation report.

Due to the possibility of a new pension liability developing, the City of Monrovia desires to create an Unfunded Accrued Liability (“UAL”) Funding Policy in order to immediately address any new pension liabilities, or amortization bases, that arise. This policy lays out the parameters for paying off the UAL in a designated amount of time, based on the amount of the UAL, as follows.

Unfunded Accrued Amount (Separate Amortization Base From CALPERS Report)	Payoff Time Period
\$0 to \$5,000,000	Between 1 and 5 years
\$5,000,001 to \$10,000,000	Between 5 and 7 years
\$10,000,001 to \$15,000,000	Between 7 and 9 years
\$15,000,001 to \$20,000,000	Between 9 and 10 years
\$20,000,001 or more	Between 10 and 15 years

Each year, when the City is provided with the annual valuation report from CALPERS, staff will present to the City Council, as part of the next budgetary cycle, the following:

- The dollar amount of the new liability (new amortization base).
- The number of years that staff is recommending to pay off the liability.
- The dollar amount of the annual contribution to be made.
- The funding source(s) of the payments.
- The short-term and long-term financial impacts on the City’s Retirement Fund reserve balance.

When an amortization base results in a credit balance, the credit will be applied, first, to any negative bases during the same period and, secondly, against any prior year bases until the credit is fully exhausted. The remaining outstanding liability will then be recalculated and a new payoff schedule and annual contribution will be determined based on the payoff schedule above.

DATED: \_\_\_\_\_

BY: \_\_\_\_\_  
Oliver Chi  
City Manager

APPROVED AS TO FORM:

ATTEST:

\_\_\_\_\_  
Craig A. Steele  
City Attorney

BY: \_\_\_\_\_  
Alice D. Atkins  
City Clerk

**RESOLUTION NO. 2017-39**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MONROVIA, CALIFORNIA, DIRECTING STAFF TO MOVE FORWARD WITH DEVELOPING A BALLOT MEASURE IN 2018 TO INCREASE THE CITY'S TRANSIENT OCCUPANCY TAX RATE ("HOTEL BED TAX") FROM 10% TO 12%.**

**THE CITY COUNCIL OF THE CITY OF MONROVIA, CALIFORNIA, DOES** hereby resolve as follows:

**WHEREAS**, recent changes to the California Public Employees' Retirement System (CalPERS) have created a pension cost structure that requires all California governmental agencies to reevaluate their operations or risk facing insolvency; and

**WHEREAS**, as part of the Fiscal Year 2017/19 Budget approval process, the City Council directed staff to develop and execute an overall CalPERS Response Plan to address the pending budget crisis related to rising pension costs; and

**WHEREAS**, the City identified multiple strategies needed to effectively address rising pension costs; and

**WHEREAS**, the City currently imposes a Transient Occupancy Tax at the rate of ten percent (10%) upon the guests of hotels and other transient accommodations located throughout the City; and

**WHEREAS**, an identified strategy to address rising pension costs is to increase the rate of the Transient Occupancy Tax by two percent (2%) to a total of twelve percent (12%) to be imposed upon the guests of hotels and other transient accommodations throughout the City pursuant to the Monrovia Municipal Code; and

**WHEREAS**, pursuant to Article XIII C, Section 2(b) of the California Constitution and California Government Code section 53723, no local government may impose, extend, or increase any general tax unless and until that tax is submitted to the electorate and approved by a majority vote of the qualified electors voting in the election; and

**WHEREAS**, the increased pension costs related to the cost structure changes in CalPERS will begin taking effect on July 1, 2018; and

**WHEREAS**, the City Council desires to hold an election in 2018 for the purpose of submitting a ballot measure to the voters related to an increase in the existing Transient Occupancy Tax rate to help address rising operational costs.

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF MONROVIA DOES** resolve as follows:

**SECTION 1.** The City Council finds that all of the facts set forth in the Recitals of this Resolution are true and correct.

**SECTION 2.** The City Council directs staff to proceed with developing a measure to increase the Transient Occupancy Tax from ten percent (10%) to twelve percent (12%).

**SECTION 3.** The City Council further directs that staff proceed with placing the measure to increase the Transient Occupancy Tax before the voters in a municipal election to be held in 2018.

**PASSED, APPROVED AND ADOPTED** on this 7<sup>th</sup> day of November, 2017.

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Tom Adams, Mayor  
City of Monrovia

ATTEST:

APPROVED AS TO FORM:

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Alice D. Atkins, CMC, City Clerk  
City of Monrovia

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Craig A. Steele, City Attorney  
City of Monrovia

**RESOLUTION NO. 2017-40**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MONROVIA, CALIFORNIA, AUTHORIZING STAFF TO MOVE FORWARD WITH CREATING COMMUNITY FACILITIES DISTRICTS ON NEW RESIDENTIAL DEVELOPMENT PROJECTS GREATER THAN FIVE (5) DWELLING UNITS PURSUANT TO THE MELLO-ROOS COMMUNITY FACILITIES ACT OF 1982**

**THE CITY COUNCIL OF THE CITY OF MONROVIA, CALIFORNIA, DOES** hereby resolve as follows:

**WHEREAS**, recent changes to the California Public Employees' Retirement System (CalPERS) have created a pension cost structure that requires all California governmental agencies to reevaluate their operations or risk facing insolvency; and

**WHEREAS**, as part of the Fiscal Year 2017/19 Budget approval process, the City Council directed staff to develop and execute an overall CalPERS Response Plan to address the pending budget crisis related to rising pension costs; and

**WHEREAS**, the City identified multiple strategies needed to effectively address rising pension costs; and

**WHEREAS**, the Mello-Roos Community Facilities Act of 1982, as amended, commencing with Section 53311 of the California Government Code (the "Act") provides a mechanism to fund public improvements and services; and

**WHEREAS**, the Act allows the City to undertake proceedings to form a community facilities district in a geographic area where a Special Tax Lien is then levied on the parcels within that area to fund authorized improvements and services; and

**WHEREAS**, the City currently imposes a Fire Service Impact Fee assessed on new construction based on square footage in order to meet emergency and non-emergency service demands associated with new development; and

**WHEREAS**, the City currently imposes an Art in Public Places Fee assessed on new construction based on one percent (1%) of the project valuation for development projects having a project cost in excess of \$1 million and residential developments involving five or more dwelling units; and for which development project applicants have a choice of providing artwork valued at the amount or paying an in lieu fee to the City to be used for public artwork; and

**WHEREAS**, an identified revenue growth strategy to address rising operational costs is to establish community facilities districts on new residential development projects greater than five (5) dwelling units; and

**WHEREAS**, Section 53312.7(a) of the California Government Code provides that a local agency may initiate proceedings to establish a community facilities district pursuant to the Act only if it has first considered and adopted local goals and policies concerning the use of the Act; and

**WHEREAS**, the City Council desires to adopt goals and policies concerning the use of the Act for the purpose of forming community facilities districts on new residential development projects greater than five (5) dwelling units to help address rising pension costs and increased demand on public infrastructure and services.

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF MONROVIA DOES** resolve as follows:

**SECTION 1.** The City Council finds that all of the facts set forth in the Recitals of this Resolution are true and correct.

**SECTION 2.** The City Council directs staff to proceed with developing goals and policies regarding the use of the Mello-Roos Community Facilities Act of 1892.

**PASSED, APPROVED AND ADOPTED** on this 7<sup>th</sup> day of November, 2017.

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Tom Adams, Mayor  
City of Monrovia

ATTEST:

APPROVED AS TO FORM:

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Alice D. Atkins, CMC, City Clerk  
City of Monrovia

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Craig A. Steele, City Attorney  
City of Monrovia