



STAFF REPORT

DATE: 02/05/2025
TO: Honorable Mayor and City Council Members
FROM: Finance Department

2025-34

REQUEST FOR CITY COUNCIL ACTION

SUBJECT:

FISCAL YEAR 20205 PENSION STABILIZATION TRUST CONTRIBUTION

EXECUTIVE SUMMARY:

This staff report asks the City Council to approve a contribution of \$2,700,000 to the Pension Stabilization Trust.

RECOMMENDED ACTION:

That the City Council:

- a. Approve the annual contribution of \$2,000,000 from Measure X Reserves Fund 120 to the Pension Stabilization Trust Fund 485.
- b. Approve the Pension Stabilization Trustee Board's recommendation to contribute \$700,000 of the Fiscal Year 2024 General Fund 110 year-end surplus to the Pension Stabilization Trust Fund 485.
- c. Authorize the City Manager, or his designee, to make the necessary budget and accounting adjustments for the Fiscal Year 2025 contribution.

BACKGROUND & HISTORY:

The City of Corona Pension Stabilization Trust (Trust) was established pursuant to Section 115 of the Internal Revenue Code, as an entity to which funds for the City can be deposited, and through which a Board of Trustees can invest and manage funds for the exclusive purpose of funding contributions to the pension plan providing benefits for City employees and retirees.

In May 2021, the City Council approved the Pension Management Policy (Policy). In January 2022, the City Council approved the establishment of the Trust and the Trust Agreement (Agreement) and approved an initial investment of \$30,000,000 to the Trust. The funds may be used to address future CalPERS unfunded accrued liabilities as well as Pension Obligation Bond (POB) payments.

The Agreement details the rules and responsibilities of the Pension Stabilization Board of Trustees (Trustees) and the administration of the Trust. The Trustees consist of five members: the City Treasurer, City Manager, Assistant City Manager, Finance Director, and Accounting Manager. The Trustees serve as an advisory group to the City Council and conduct at least two (2) public meetings per year, as outlined in the Agreement. The Trustees held a meeting on October 29, 2024, to review the results of the Fiscal Year (FY) 2023 CalPERS actuarial reports (received in 2024), which included the new unfunded liabilities to be assessed starting in FY 2026. The combined unfunded accrued liability (UAL) for the City's four pension plans is \$108.3 million. CalPERS investment returns for FY 2023 were +5.8% which is a difference of -1.0% compared to their original estimate of +6.8%. This is a snapshot at a given point in time. The returns for FY 2024 (report anticipated in 2025) will reflect returns of +9.3%. With the returns beating the original estimate of +6.8% by +2.5%, there may be a positive impact on the UAL in the next report. Staff will continue to monitor and provide updates on this item annually. The Trustees will re-evaluate the Pension Management Policy over the next couple of years and provide the City Council with recommendations if policy adjustments are needed.

ANALYSIS:

The Trustees held a meeting on January 27, 2025, to discuss the FY 2024 General Fund year-end results after the completion of the annual audit and Annual Comprehensive Financial Report (ACFR). At the Trustee meeting, the discussion covered the FY 2024 General Fund surplus of \$6.4 million, the current unfunded liabilities, and the payment plan for the Pension Obligation Bonds.

Through the annual budget process, a total of \$2.0 million was set aside as a contribution for FY 2025. The target for paying off the POBs is after year 10 (2031), when the bonds become callable. To achieve that target, \$2.7 million will need to be added to the Trust each year, assuming a return on investment of 5%.

The City's total cash contributions to the Trust since inception are \$38.2 million. The Trust's market value as of December 31, 2024, was \$49.6 million, which means there has been an investment growth of \$11.4 million and 12% rate of return. Therefore, the investments have performed well since the City's significant contribution when the Trust began. It's a good example of the Time Value of Money principle: the earlier funds can

be contributed, the better. The Trustees will continue to discuss and evaluate contributing funds early in the process while balancing the current capital and operating needs.

During its January 27, 2025, meeting, the Trustees approved recommending a \$2.7 million contribution for FY 2025. The City's contributions to date, along with the recommended FY 2025 contribution, place the City on track to meet the funding goal of paying off the bonds after year 10.

FINANCIAL IMPACT:

Approval of the recommended actions will transfer a total of \$2,700,000 into the Pension Stabilization Trust Fund 485 for FY 2025. The funding breakdown is: \$2,000,000 from Measure X Fund 120 and \$700,000 from the General Fund 110. The funds will be added to the existing Trust balance. The Trust balance as of December 31, 2024, had a market value of \$49,552,706 and a book value of \$40,613,318. No expenditures from the Trust will be incurred at this time.

ENVIRONMENTAL ANALYSIS:

This action is exempt pursuant to Section 15061(b)(3) of the guidelines for the California Environmental Quality Act (CEQA), which states that a project is exempt from CEQA if the activity is covered by the common sense exemption that CEQA applies only to projects that have the potential for causing a significant effect on the environment. Where it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment, the action is not subject to CEQA. This action simply makes a recommendation for the FY 2025 contribution to the Pension Stabilization Trust, and there is no possibility that this action will have any effect on the environment. Therefore, no environmental analysis is required.

PREPARED BY: KIM SITTON, FINANCE DIRECTOR

REVIEWED BY: BRETT CHANNING, ASSISTANT CITY MANAGER