

BUDGET AND FISCAL POLICIES

XIV. DEBT/LIABILITY PAYDOWN STRATEGY POLICY

At their meeting December 13, 2022, the Council adopted the City's Debt/Liability Paydown Strategy, which provides for a 7-year paydown schedule for the City's outstanding facility debt, the unfunded pension liability and the unfunded Other Post-Employment Benefits (OPEB) liability. As the economic conditions change, it will be necessary to reevaluate the Paydown Strategy to ensure adequate funding exists to maintain the paydown schedule and reach the goal of a 7-year paydown.

The Paydown Strategy consists of a 15-year Financial Plan and includes the use of Available General Fund Balance and available resources in the IRC Section 115 Irrevocable Pension Trust to pay off the City's outstanding debt/liabilities in accordance with the table below:

Year #	Fiscal Year	Funding Sources		Payoff Schedule			
		Pension Trust	Available Fund Balance	OPEB Liability	Pension Liability	Civic Center Loan	MRC Loan
1	2022-23	5,000,000	19,913,606		7,250,000	12,624,607	5,038,999
2	2023-24	5,000,000	10,982,828	5,361,000	10,538,003		
3	2024-25	5,000,000	3,223,220		8,234,950		
4	2025-26	2,000,000	5,498,008		6,819,012		
5	2026-27		2,680,009		2,178,158		
6	2027-28		10,788,263		10,204,668		
7	2028-29		8,330,579		7,430,035		
8	2029-30						
9	2030-31						
10	2031-32						
		17,000,000	61,416,513	5,361,000	52,654,826	12,624,607	5,038,999
Total Interest Savings				n/a	30,756,231	2,187,894	1,036,267

The OPEB and Pension liability amounts were determined as of June 30, 2020 valuation reports and are subject to change as CalPERS investment returns fluctuate each year. Annual Budgetary Savings generated by the payoff of a specific debt/liability is redirected back into Available Fund Balance and applied to the payoff of future unfunded liabilities until all obligations are paid off.

The CalPERS Pension Unfunded Liability will be considered "paid off" when the City Pension Plan's Funded Status, as defined by CalPERS, is equal to or greater than 100%. To achieve this Funded Status within the 7-year target, annual Additional Discretionary Payments (ADPs) will be made directly to CalPERS, as noted in the above schedule.

Any deviations from the Paydown Strategy's 15-Year Financial Plan that trigger less than \$4 million in Available Fund Balance in any year of the forecast is cause for reevaluating the paydown timeline. Economic impacts that could trigger the reevaluation include:

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- (1) Economic conditions, including recession or potential recession,
- (2) Decrease in General Fund revenue,
- (3) Increase in General Fund expenditures,
- (4) Declining interest earnings in CalPERS' Public Employees' Retirement Fund (PERF) portfolio,
- (5) Declining investment earnings in the City's IRC Section 115 Irrevocable Pension Trust

Each year, as part of the Annual Operating Budget process and the Mid-Year Budget process, the 15-Year Financial Plan shall be updated and reevaluated to ensure adequate Available General Fund Balance and Pension Trust balances exist to make the Pension Liability payments, or ADPs, as outlined in the table above. If the funding sources are not adequate to maintain Available Fund Balance in excess of \$4 million each year of the forecast, an alternative paydown schedule shall be presented for City Council consideration.

An Operating Budget Surplus is defined as the excess amount over the budgeted Revenue over Expenditures calculation. In the event of any remaining Operating Budget Surplus after contributions are made to the City's IRC Section 115 Irrevocable Pension Trust in accordance with Budget Policy XI, additional ADPs may be made from the remaining surplus, up to \$2 million per fiscal year. Additional ADPs may be programmed through the Annual Operating Budget process each year, as approved by Council.