



# INDIAN WELLS CITY COUNCIL

## September 5, 2024

**To:** City Council  
**From:** Finance Department  
**Prepared by:** Kevin McCarthy, City Finance Director  
**Subject:** **Implementation of a City Pension Policy**

### RECOMMENDED ACTIONS:

Council **DISCUSSES** and **APPROVES** the Implementation of a Pension Policy; and

**FINDS** the project to be exempt from the provisions of the California Environmental Quality Act (CEQA) pursuant to Section 15060.

### DISCUSSION:

In 2015, the City Council prioritized the development of a financial strategy to enhance the City's long-term financial position, including reducing ongoing pension costs. By 2017, the City successfully eliminated its unfunded pension liabilities, saving taxpayers \$6.0 million in future pension obligations. This achievement enabled the City to redirect funds from annual pension payments to resident needs, such as increased police services and new community events aimed at improving residents' quality of life.

Since 2017, the City's pension liabilities have remained fully funded. Committed to "best financial practices," the Finance Committee conducts an annual review of pension funding during the budget development process and the auditors' presentation of the City's financial statements. Additionally, an internal pension reserve fund, financed annually through the City's budgeting process, ensures the pension fund remains fully funded by mitigating potential shortfalls in CalPERS performance.

The Council's dedication to developing exceptional fiscal policies under the "Best Cities - Best Practices" program aims to foster economic stability, growth, and sustainability.

#### The City's Pension Policy

The City of Indian Wells has established a strong tradition of financial prudence, exemplified by its achievement of fully funded pension status. This milestone has become integral to the City's economic culture, reinforcing its commitment to fiscal responsibility and sustainable governance. Under the guidance of the Finance Committee, pension matters are consistently prioritized and discussed at strategic planning and budget

meetings, ensuring transparent communication with the public through various communications, including the "Budget at a Glance" and the "Financial Primer" mailers.

Developing a City Pension Policy is the next logical step under the "Best Cities - Best Practices" program. Adopting a fully funded pension fund policy is critical for the Council, ensuring sustainable governance and robust public service delivery.

The proposed City Pension Policy represents a state-of-the-art, self-funding, sustainable management approach designed to address Unfunded Accrued Liability (UAL) and Normal Cost. Central to this approach is the utilization of the City's 115 Trust Pension Reserve Fund, aimed at achieving a sustainable financial model.

This policy demonstrates fiscal responsibility by proactively managing future liabilities, preventing budgetary crises, and maintaining the City's financial integrity. It builds public trust by showcasing the Council's commitment to safeguarding the City's economic future, fostering transparency and accountability.

Financial health, closely scrutinized by credit rating agencies, is another significant benefit, as a fully funded pension plan indicates fiscal stability and can enhance the City's credit rating. Higher credit ratings reduce borrowing costs, allowing the City to invest more in infrastructure, public services, and community development projects.

Furthermore, this policy helps avoid future financial strain by preventing significant unfunded liabilities that could necessitate tax increases or cuts to essential services. Ensuring pensions are fully funded maintains stable and predictable fiscal policies, promoting intergenerational equity by preventing current taxpayers from being overburdened by future liabilities, thereby maintaining social harmony and political stability.

Adopting a fully funded pension fund policy is not merely prudent but a cornerstone of fiscal responsibility for any city. Below are compelling reasons underpinning the financial acumen of this strategy:

1. Long-term Fiscal Stability

A fully funded pension fund ensures the City can meet its long-term obligations without resorting to emergency measures such as tax hikes or budget cuts. This stability is crucial for maintaining the City's financial health and allows for more predictable financial planning.

2. Credit Rating Enhancement

Cities with well-funded pension plans typically enjoy higher credit ratings. These improved ratings lower the cost of borrowing, as they signify lower risk to bondholders and other

investors. This translates into significant savings on interest payments over time, freeing up resources for other critical municipal needs.

### 3. Avoidance of Pension Crisis

Underfunded pension plans can lead to a crisis requiring drastic remedial actions. By ensuring that pension funds are fully funded, Indian Wells can avoid the scenarios witnessed in some jurisdictions, where pension deficits have led to severe financial distress and even insolvency.

### 4. Economic Predictability

Stable and predictable pension funding contributes to overall economic predictability within the City. This fosters favorable business operations and investment environment, as businesses thrive where fiscal policies and obligations are transparent and manageable.

### 5. Budgetary Flexibility

With a fully funded pension, Indian Wells allocates resources more flexibly. The absence of significant, unfunded pension liabilities reduces the need for stringent budget constraints, allowing for more effective and strategic use of public funds in infrastructure, community events, and public safety.

### 6. Public Trust and Confidence

A fully funded pension plan enhances public trust and confidence in the City's governance. It demonstrates fiscal prudence and a commitment to fulfilling promises made to public employees, which are essential for maintaining public support for city policies and initiatives.

## **FISCAL IMPACT:**

### Strategic Funding Objectives:

The proposed Pension Policy sets a strategic goal to maintain a Funding Level Objective of 95% within the CalPERS pension plans. It aims to accumulate an additional 25% of Total Accrued Liability within the 115 Trust Reserve Fund, targeting 120% of Total Accrued Liability. This robust funding strategy and an assumed 6.8% growth rate position the pension management program as a self-sustaining model. Once fully funded, the projected pension plan and reserve earnings are anticipated to sufficiently cover all future UAL and Normal Costs, minimizing reliance on budget allocations.

### Key Fiscal Features of the Pension Policy:

115 Trust Reserve Fund: The policy sets a conservative 115 Trust Reserve Ceiling at 120% of Total Accrued Liability. This strategic threshold is projected to generate approximately \$495,000 annually at a 6.8% return rate, effectively covering the City's Normal Cost contributions. This self-sustaining model reduces reliance on annual budget allocations for pension obligations, ensuring financial stability.

Annual Contribution Strategy: The initiation of the 115 Trust Reserve Fund includes an annual contribution goal that ranges from 5% to 10% of the payroll. Contributions at 5% of payroll amount to approximately \$168,750 annually, while contributions at 10% of payroll amount to around \$337,500 annually. These contributions are calculated to fully fund the 115 Trust Reserve within approximately 13 to 20 years, assuming consistent annual growth and prudent financial management.

### **CALIFORNIA ENVIRONMENTAL QUALITY ACT (CEQA):**

This action has been reviewed per the authority and criteria contained in the California Environmental Quality Act (CEQA), the State and local CEQA Guidelines, and the City's environmental regulations. The City, acting as the Lead Agency, determined that this resolution is not subject to CEQA pursuant to Sections 15060(c)(2), 15060(c)(3), and 15061(b)(3) of the State CEQA Guidelines, because it will not result in a direct or reasonably foreseeable indirect physical change to the environment as there is no possibility that the action would result in a significant environmental impact, and because it does not constitute a "project" as defined in Section 15378 of the State CEQA Guidelines, California Code of Regulations, Title 14, Chapter 3.

### **ATTACHMENTS:**

1. The City's Pension Policy