

CITY OF SANTA ROSA

CALPERS PENSION PROGRAM REVIEW & COST MANAGEMENT STRATEGY ASSESSMENT



Santa Rosa City Council Meeting

APRIL 21, 2026

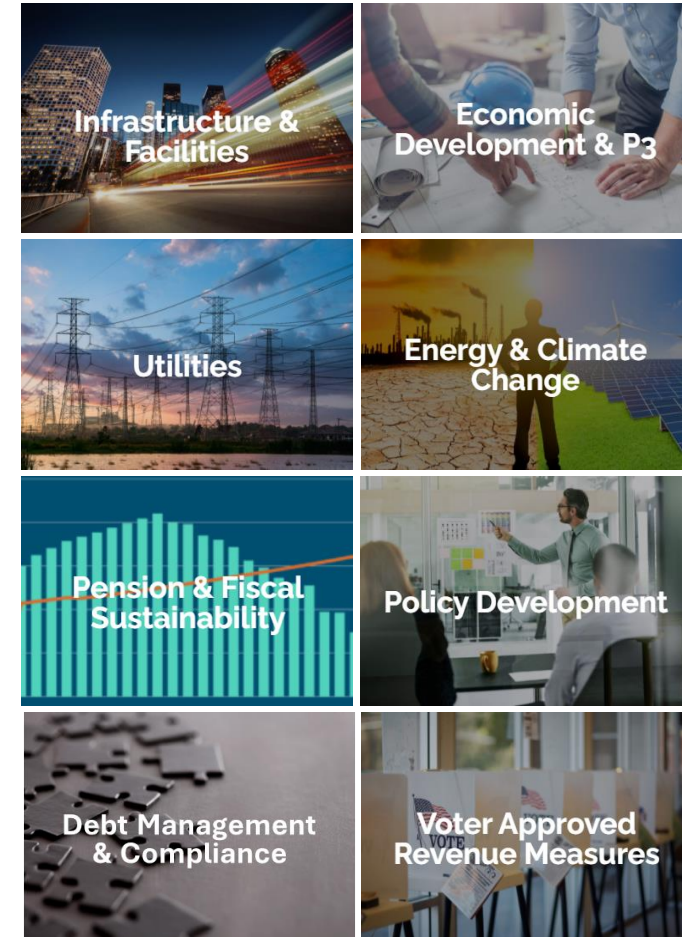


OVERVIEW

Brief Introduction to NHA Advisors

- ▶ Based in San Rafael, California, NHA Advisors provides Municipal Advisory and Consulting services to Cities throughout the State
 - ▶ 9 Registered Municipal Advisors and 8 consulting Practice Groups
- ▶ **NHA's Pension & Fiscal Sustainability Practice Group was established in 2014 and has served over 100 CalPERS members**
 - ▶ **Education** – NHA Summary Reports, White Papers, Newsletters, Workshops, Labor Groups
 - ▶ **Financial Planning** – CalPERS Sensitivity Analysis & Projection Modeling
 - ▶ **Cost Management Strategies** – Section 115 Trusts, Strategic Additional Discretionary Payments (ADPs), POBs/UAL Restructurings, Hard and Soft Fresh Starts, Hybrid Strategies
 - ▶ **Section 115 Trust Optimization Models**
 - ▶ **Stress Testing and Risk Assessment**
 - ▶ **Pension Funding Policy Development**

Consulting Practice Groups



Today's Discussion

- I. Background on CalPERS Costs
- II. Historical and Projected CalPERS Costs (General Fund)
- III. Cost Management Strategy Overview
- IV. Cost Management Strategy Analysis (General Fund)
- V. Conclusion

Appendix A – Pension Obligation Bond (POB) Considerations

Appendix B – Additional Resources



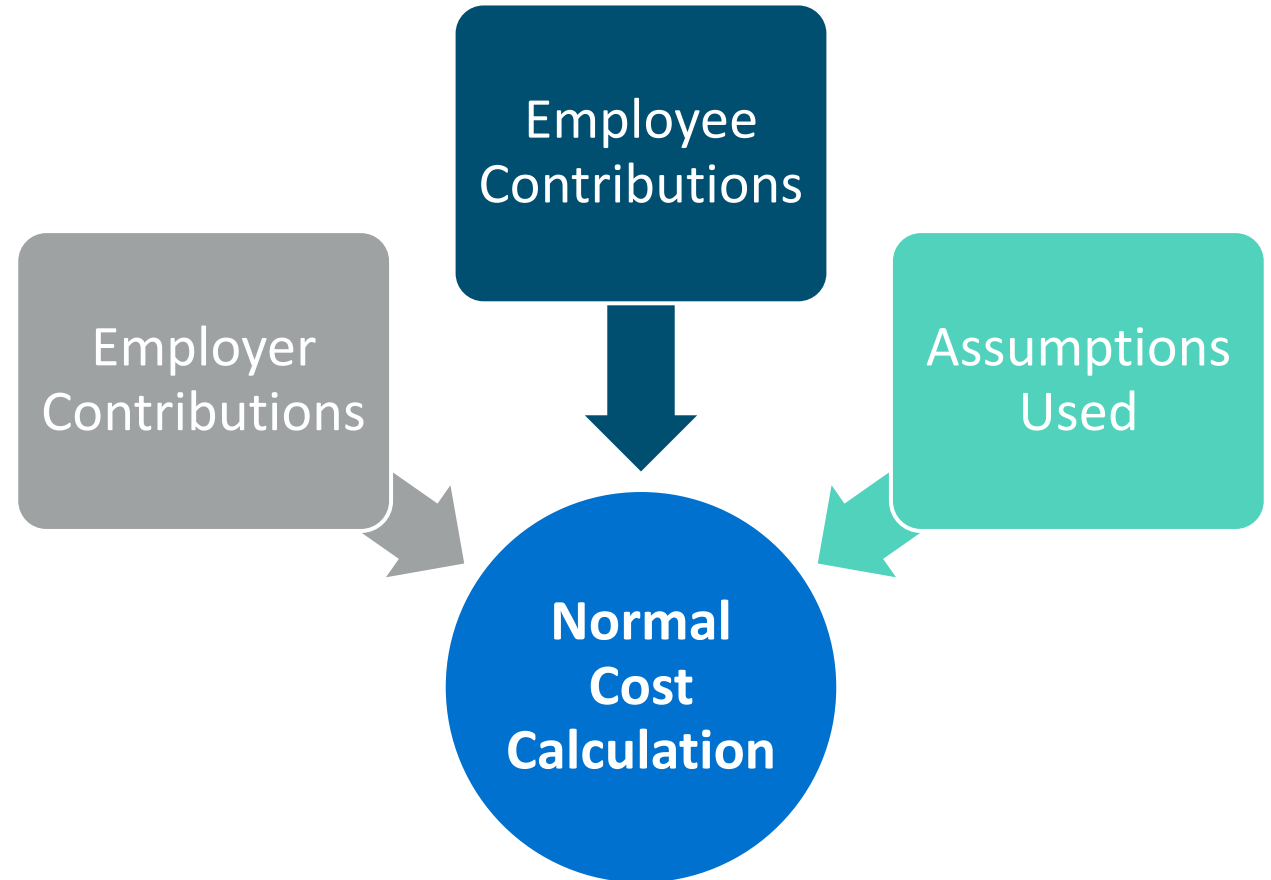
BACKGROUND ON CALPERS COSTS

City of Santa Rosa CalPERS Summary

- ▶ City of Santa Rosa has a Citywide **\$482M CalPERS Unfunded Accrued Liability (“UAL”)**, as of the latest CalPERS valuation for 6/30/2024
 - ▶ Miscellaneous Plan: \$235M | Safety Plans: \$247M
- ▶ 47.6% of Miscellaneous, 82.5% of Safety Fire, and 93.1% of Safety Police is attributable to the General Fund → **\$331M General Fund UAL**
- ▶ CalPERS FY 2024-25 Final Investment Returns: 12.1%*
 - ▶ Projected to decrease Citywide UAL to \$413M (as of 6/30/2025); General Fund UAL to \$287M
 - ▶ Projected benefit may be partially offset by CalPERS’ non-investment adjustments resulting from CalPERS’ 2025 Asset Liability Management (ALM) Study
- ▶ City’s Section 115 Pension Trust has a **~\$14.5M General Fund** balance
 - ▶ Additional \$11.5M in internal General Fund pension reserve
- ▶ Strategies to leverage these \$26M of pension assets - together with other UAL management strategies - for near-term General Fund budgetary relief, are analyzed in this presentation

Normal Cost = Annual Cost for Current Employees

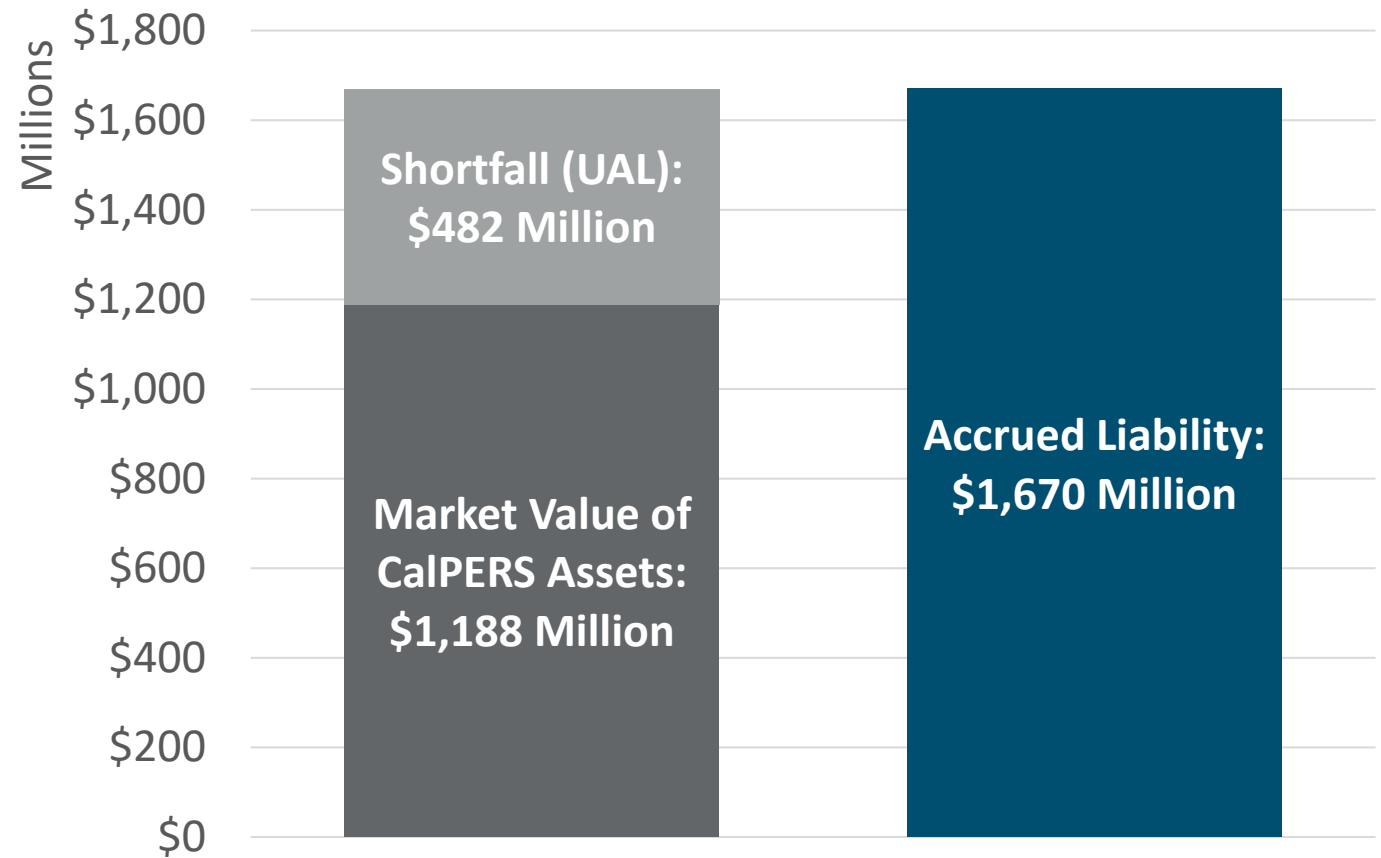
- ▶ Amount needed to fund future retirement benefits based on actuarial calculations (life expectancy, payroll increases, etc.)
- ▶ Benefits are funded as they are earned
- ▶ Maintains the long-term stability of the pension system



Unfunded Accrued Liability (UAL) – Citywide

- ▶ Shortfall between the promised pension benefits and the funds currently available in the CalPERS system to pay for those benefits
- ▶ Increases or decreases based on CalPERS investment returns
 - ▶ **Impacts amortized over 20 years**
 - ▶ Irregular payment shape as UAL comprised of over 30 layers; each with its own term/shape
 - ▶ Santa Rosa has 101 layers (amortization bases) between 5 years and 24 years
- ▶ **Funded Ratio**
 - ▶ $\frac{\text{Market Value of Assets}}{\text{Accrued Liability}} = 71.1\%$

City of Santa Rosa
CalPERS Pension Funded Status



Source: CalPERS Actuarial Valuation as of June 30, 2024

Historical PERS Returns	
5-Year:	8.0%
10-Year:	7.1%
20-Year:	6.7%
30-Year:	7.6%

Why CalPERS Costs Have Trended Higher

Then (late 1990s)...

- ▶ Robust investment returns (10%+)
 - ▶ Retirement plans were “Super-Funded” through the late 1990s
 - ▶ Earnings on funds were more than adequate to cover retirement costs
- ▶ Super-funded status induced widespread retirement benefits enhancements
- ▶ Past funding policies led to contribution holidays and “free” benefit improvements

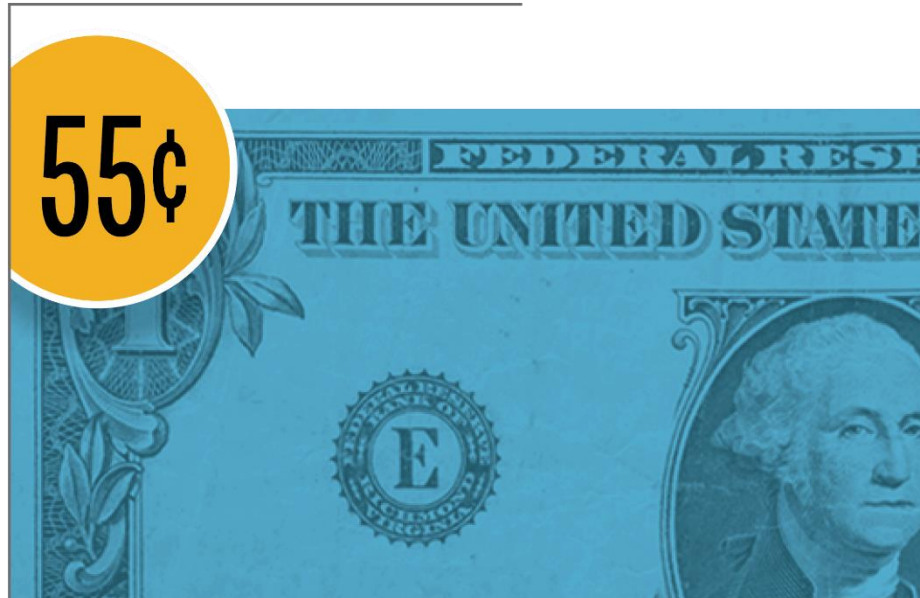
Now...

- ▶ Assumptions have changed/grown more conservative
 - ▶ Discount Rate (assumed rate of investment returns): 8.25% → 7.00% → 6.80%
 - ▶ Inflation rate (prices going up) – *Increasing per 2025 ALM Study (see Slide 11)*
 - ▶ Mortality rates (people living longer)
 - ▶ Shorter, more conservative amortizations
- ▶ Investment returns not meeting original expectations

How CalPERS Benefits Get Funded

- ▶ Investment earnings used to make up a higher percentage (65%-70%+) of total contributions (pre-2008)

CalPERS investment earnings



CalPERS employers



CalPERS members



CalPERS Pension Buck: a 20-year Average (as of June 30, 2025)

- ▶ As investments underperform assumptions, employers must make up the difference

City's CalPERS Retirement Plans – Citywide

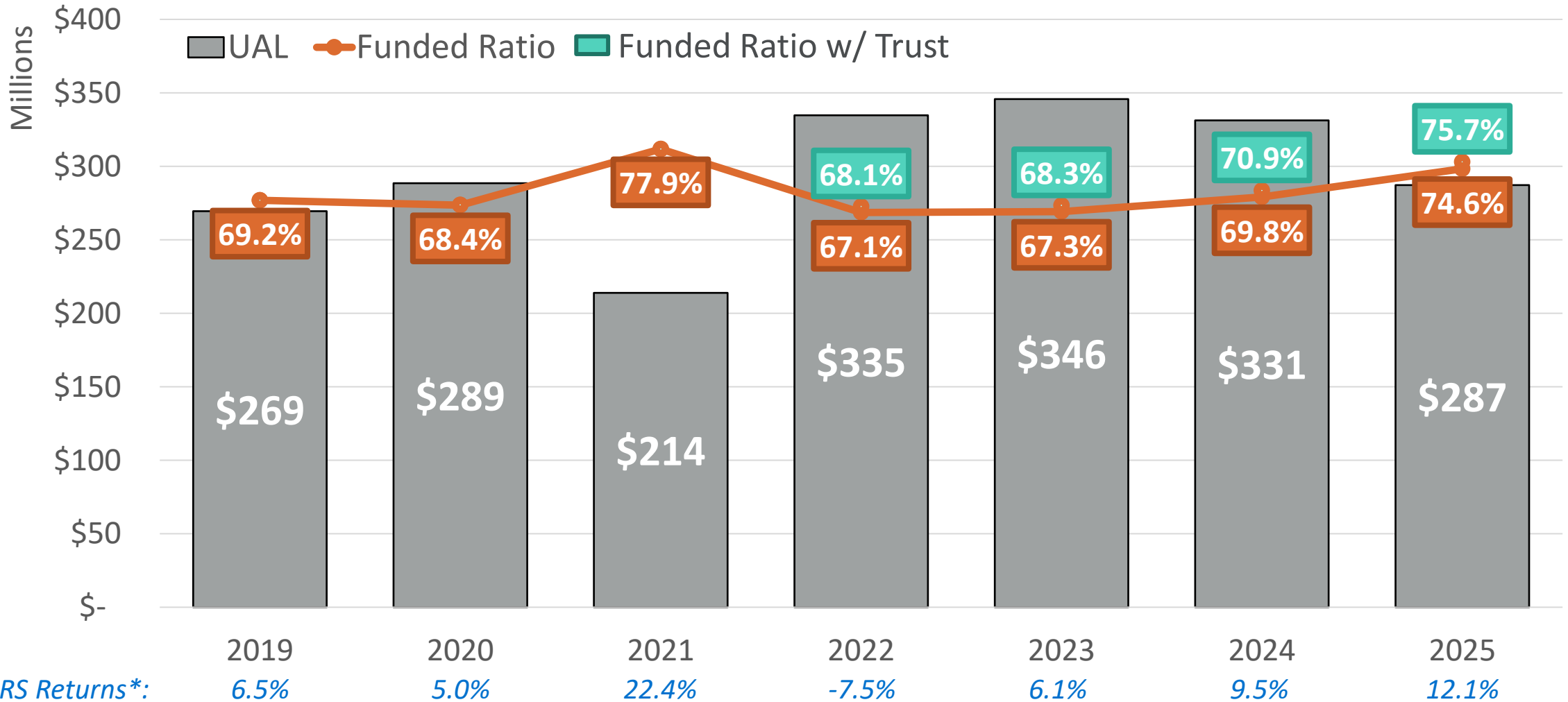
- ▶ 2 Main CalPERS plans: Miscellaneous & Safety
 - ▶ **Miscellaneous:** 3,137 covered members; \$235M UAL
 - ▶ **Safety:** 934 covered members; \$247M UAL
- ▶ PEPRRA (effective 2013) helpful to manage long term pension costs for new employees
 - ▶ Enacted revised benefit levels for new plan members
 - ▶ Higher employee contribution rates mean more normal cost is being paid by the employee
- ▶ **However, 99% of current UAL comes from Classic plans and is not impacted by PEPRRA**



HISTORICAL AND PROJECTED CALPERS COSTS (GENERAL FUND)

History of General Fund UAL Balance & Funded Ratio

Funded Ratio With and Without General Fund Section 115 Trust



CalPERS Returns*:

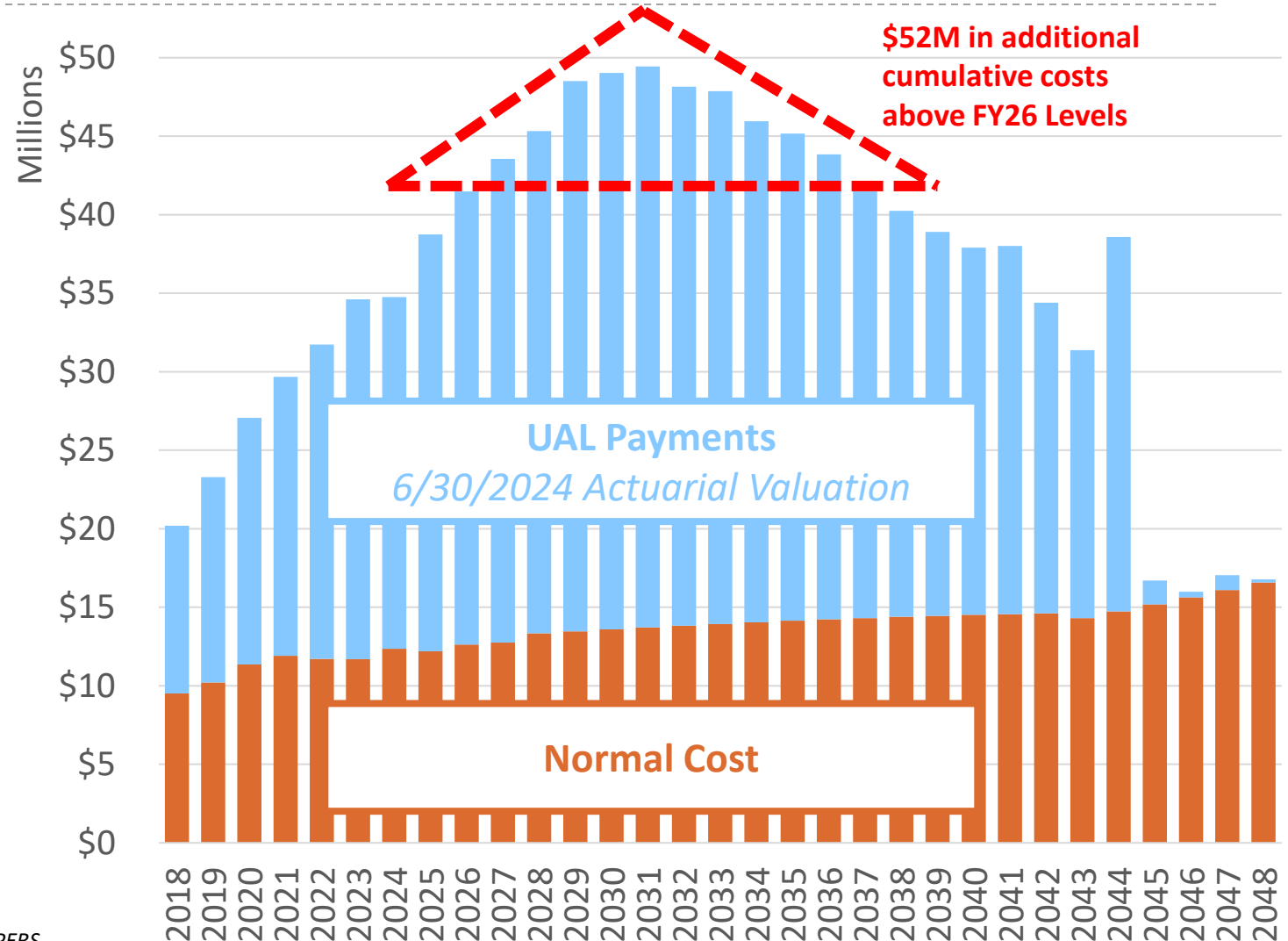


Source: CalPERS Actuarial Valuation Reports & CalPERS Pension Outlook Tool
 *CalPERS' Money-Weighted Rate of Return, as reported by CalPERS in its ACFRs

Historical & Projected General Fund CalPERS Payments

UAL + Normal Cost

- ▶ UAL + Normal Cost **General Fund** payments projected to rise to \$49M by FY 2031
 - ▶ UAL portion rising the fastest
 - ▶ \$11M in FY 2018 → \$27M in FY 2025 → \$36M in FY 2031
- ▶ CalPERS' 12.1% investment return in FY 2025 could potentially reduce future General Fund UAL payments by \$5M per year*
 - ▶ \$5M annual benefit may be partially offset by CalPERS' non-investment adjustments (e.g., inflation)
 - ▶ Won't be known until July 2026 – ***all analysis based on June 30, 2024 to be conservative***





COST MANAGEMENT STRATEGY OVERVIEW

Pension Cost-Containment Strategies – Not Mutually Exclusive

Prepay UAL early in Fiscal Year ($\approx 3.3\%$ discount) → *City Does This*

Negotiate Cost Sharing With Employees → *City Does This*

- New employees already governed by lower cost/benefit PEPPA plans
- Negotiated cost sharing of the City's share

Fresh Start Amortization offered by CalPERS

- Pros: Smooths payment, shortens repayment period; reduces overall interest paid from shorter amortization period
- Cons: New structure "locked-in" + increased annual payments in near term; still amortized at discount rate

Use Cash Reserves to Pay Extra (two options) → *City's Section 115 Pension Trust has a \$14.5M General Fund balance*

- Section 115 Trust – Separate trust solely dedicated to pension/OPEB
 - City's annual UAL cost and Normal Cost can be supplemented with the Trust
- ADP – direct payments to CalPERS to reduce UAL
 - Choose optimal amortization bases to pay off

Restructure All or Portion of Remaining UAL → *City issued Pension Obligation Bonds in 2003 (ref. in 2013)*

- Restructure portion of UAL at lower bond interest rate and "smooth out" payments for enhanced budget predictability, near and mid-term potential savings, and preservation of cash for other critical projects. Reinvestment risk associated with POBs should be evaluated.

Analysis Provided on
Following Slides

Analysis and Considerations
Provided in Appendix



COST MANAGEMENT STRATEGY ANALYSIS (GENERAL FUND)

Strategic Goals

- ▶ More predictable budgeting that matches expense growth with revenue growth
- ▶ Decrease total amount paid
- ▶ Pay off unfunded liability quicker
- ▶ Maintain local control over local funds
- ▶ Provide maximum cost avoidance and budgetary relief in the near term

Usage of Section 115 Pension Stability Trust

- ▶ Created by City with \$10 million in proceeds from PG&E settlement funds resulting from 2017 Tubbs Fire
 - ▶ Funds can be more broadly invested versus the investment portfolio of the City
 - ▶ Through positive investment returns the trust has grown to approximately \$14.5 million
 - ▶ At adoption, City Council directed savings from paying off Pension Obligation Bonds to be directed to the Trust
 - ▶ This directed savings resulted in \$11.5 million in additional funding being assigned in the Pension Internal Service Fund
 - ▶ This additional funding ended with the budget reductions over the past 2 years

Cost Management Strategy Options

Goal: Smooth “Peak” Payments and Achieve Budget Predictability

Option 1 (FS/115)

Execute a CalPERS Fresh Start (FS) and leverage the Section 115 Trust over 9 Years to offset General Fund CalPERS costs; Ramp-up payments for better budget alignment

Option 2 (115 Trust)

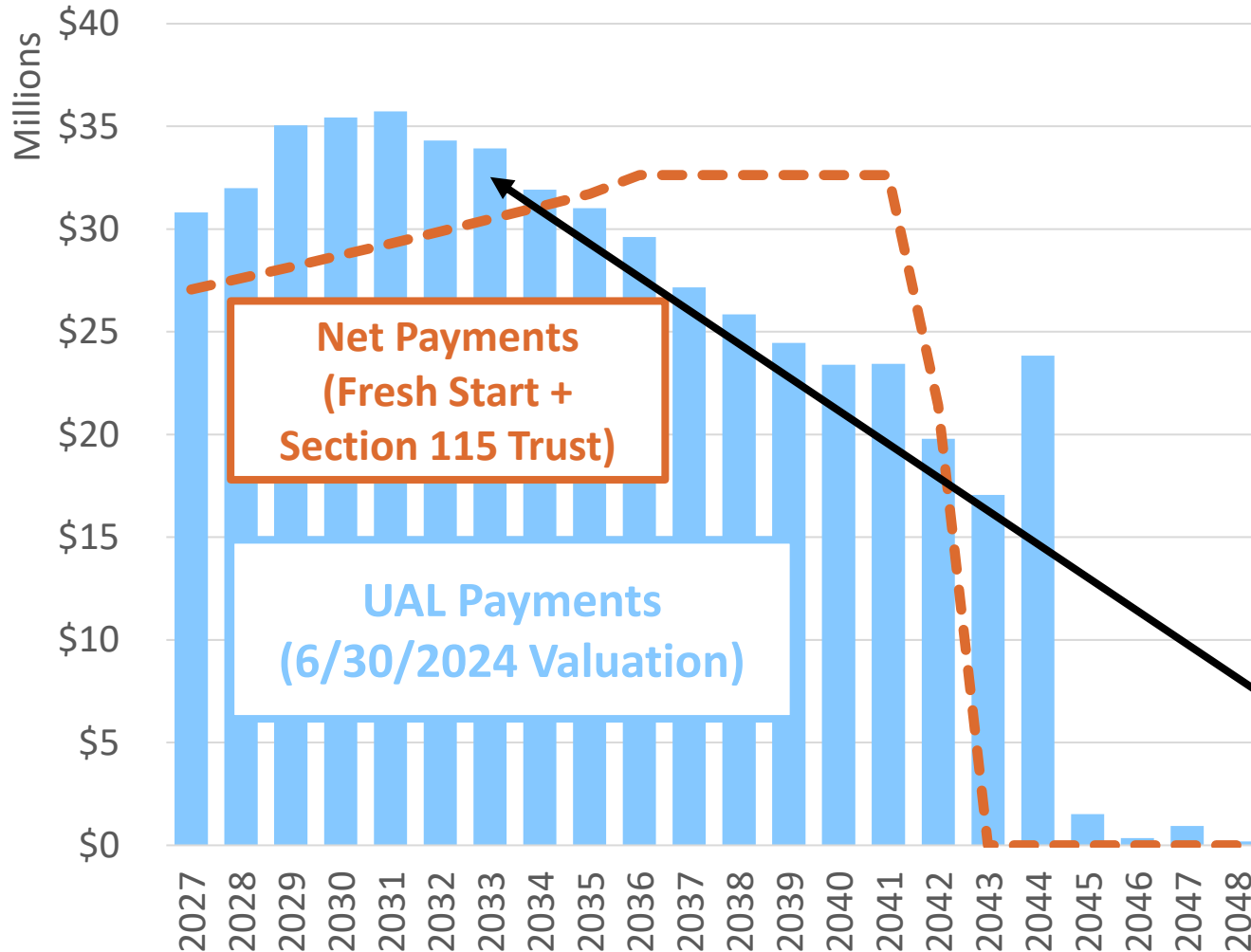
No Fresh Start; Use Section 115 Trust to offset General Fund CalPERS costs; Ramp-up payments for better budget alignment

Option 3 (ADP)

Liquidate the Section 115 Pension Trust by FYE 2026 by making an Additional Discretionary Payment (ADP) to CalPERS to directly pay down the General Fund’s UAL to generate near term cost avoidance

Option 1: Fresh Start + Section 115 Trust Ramp-Up

Net General Fund UAL Payments



- ▶ Fresh Start (16-Year Safety & 15-Year Misc) + Section 115 Trust Ramp Up
- ▶ Assumes \$26M of Section 115 Trust assets, growing @ 5% per year, is exhausted over the next 9 years (2027 – 2035)
- ▶ Annual net General Fund payment growing 2% a year – from \$27M to \$32M – to provide near-term budget relief
- ▶ **\$36.9M of General Fund cost avoidance over next 8 years (2027 – 2034)**

Option 1: Fresh Start + Section 115 Trust Ramp-Up

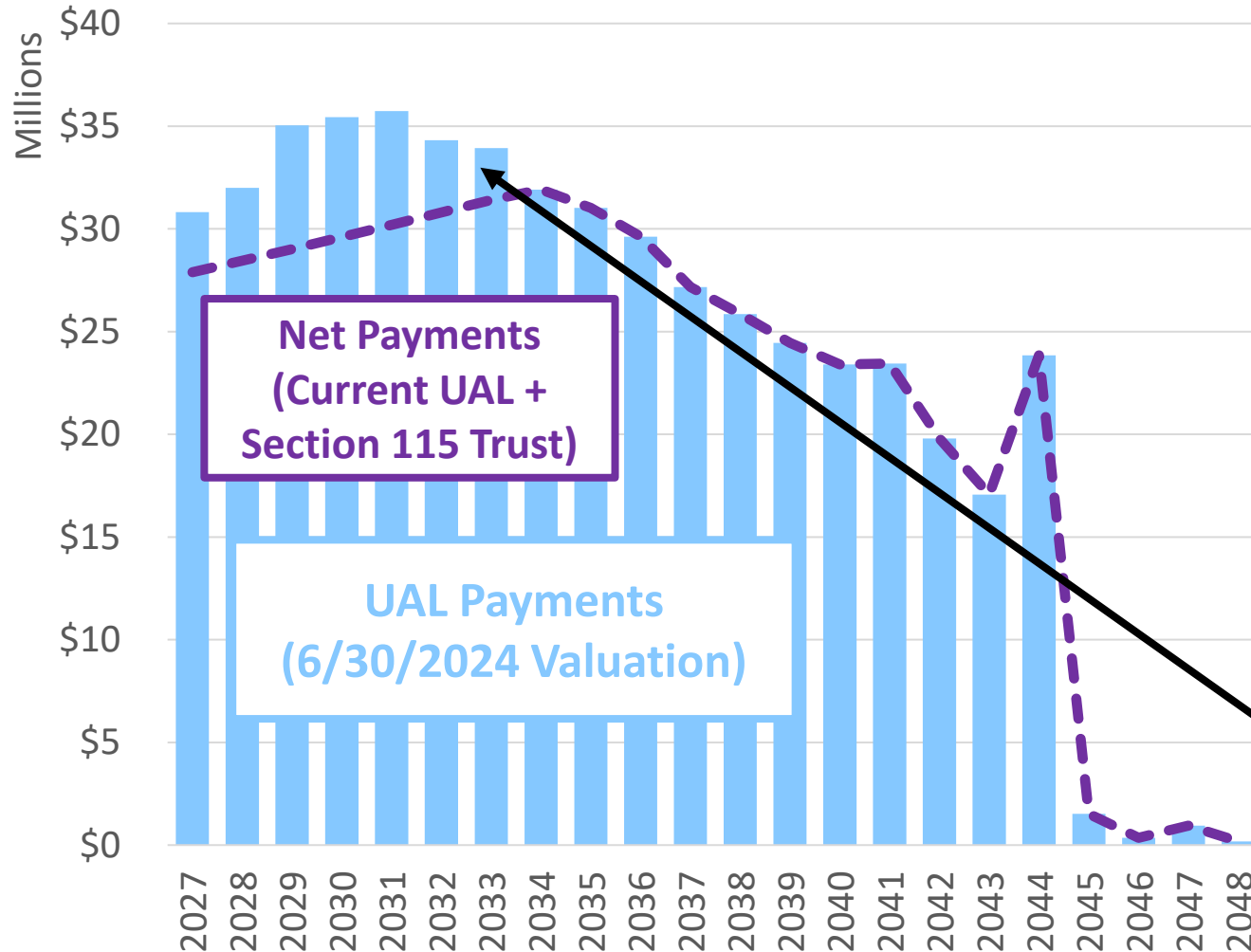
Net General Fund UAL Payments

Option 1 (Fresh Start + Section 115 Trust)

Fiscal Year	UAL Payments (6/30/2024 Actuarial Valuation)	Fresh Start UAL Payments	Difference: Fresh Start vs. Current UAL Payments	Section 115 Trust Withdrawals	Net General Fund UAL Payment	Difference vs. Current UAL Payments
2027	\$30,813,335	\$32,630,319	(\$1,816,985)	\$5,565,413	\$27,064,907	\$3,748,428
2028	\$31,993,256	\$32,630,319	(\$637,063)	\$5,024,115	\$27,606,205	\$4,387,052
2029	\$35,044,465	\$32,630,319	\$2,414,146	\$4,471,991	\$28,158,329	\$6,886,136
2030	\$35,440,302	\$32,630,319	\$2,809,982	\$3,908,824	\$28,721,495	\$6,718,806
2031	\$35,732,564	\$32,630,319	\$3,102,245	\$3,334,394	\$29,295,925	\$6,436,639
2032	\$34,318,182	\$32,630,319	\$1,687,863	\$2,748,476	\$29,881,844	\$4,436,338
2033	\$33,929,358	\$32,630,319	\$1,299,038	\$2,150,839	\$30,479,481	\$3,449,877
2034	\$31,914,745	\$32,630,319	(\$715,574)	\$1,541,249	\$31,089,070	\$825,675
2035	\$31,017,597	\$32,630,319	(\$1,612,722)	\$919,468	\$31,710,852	(\$693,255)
2036	\$29,612,502	\$32,630,319	(\$3,017,817)	\$0	\$32,630,319	(\$3,017,817)
2037	\$27,161,309	\$32,630,319	(\$5,469,011)	\$0	\$32,630,319	(\$5,469,011)
2038	\$25,851,260	\$32,630,319	(\$6,779,059)	\$0	\$32,630,319	(\$6,779,059)
2039	\$24,452,749	\$32,630,319	(\$8,177,571)	\$0	\$32,630,319	(\$8,177,571)
2040	\$23,394,621	\$32,630,319	(\$9,235,698)	\$0	\$32,630,319	(\$9,235,698)
2041	\$23,444,642	\$32,630,319	(\$9,185,677)	\$0	\$32,630,319	(\$9,185,677)
2042	\$19,790,688	\$21,415,432	(\$1,624,744)	\$0	\$21,415,432	(\$1,624,744)
2043	\$17,062,562	\$0	\$17,062,562	\$0	\$0	\$17,062,562
2044	\$23,843,011	\$0	\$23,843,011	\$0	\$0	\$23,843,011
2045	\$1,523,824	\$0	\$1,523,824	\$0	\$0	\$1,523,824
2046	\$352,199	\$0	\$352,199	\$0	\$0	\$352,199
2047	\$940,209	\$0	\$940,209	\$0	\$0	\$940,209
2048	\$181,853	\$0	\$181,853	\$0	\$0	\$181,853
Total	\$517,815,233	\$510,870,221	\$6,945,012	\$29,664,767	\$481,205,454	\$36,609,779

Option 2: Current UAL Payments + Section 115 Trust Ramp-Up

Net General Fund UAL Payments



- ▶ No Fresh Start, but execute a 7 Year Section 115 Ramp Up
- ▶ Assumes \$26M of Section 115 Trust assets, growing @ 5% per year, is exhausted over the next 7 years (2027 – 2033)
- ▶ Annual net General Fund payment growing 2% a year – from \$28M to \$32M – to provide near-term budget relief
- ▶ **\$29.9M of General Fund cost avoidance over next 7 years (2027 – 2033)**

Option 2: Current UAL Payments + Section 115 Trust Ramp-Up

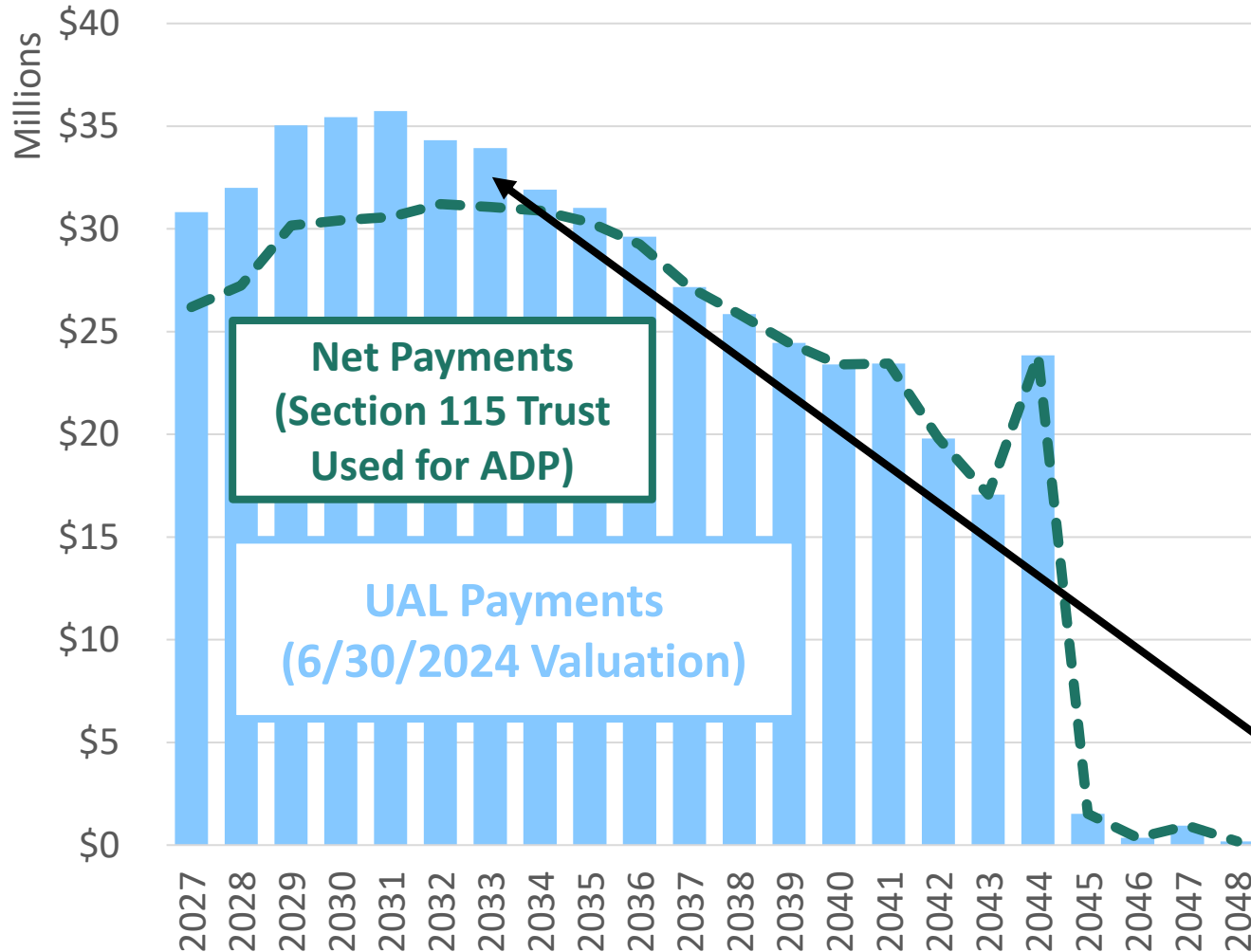
Net General Fund UAL Payments

Option 2 (Current UAL Payments + Section 115 Trust)

Fiscal Year	UAL Payments (6/30/2024 Actuarial Valuation)	Section 115 Trust Withdrawals	Net General Fund UAL Payment	Difference vs. Current UAL Payments
2027	\$30,813,335	\$2,920,859	\$27,892,475	\$2,920,859
2028	\$31,993,256	\$3,542,932	\$28,450,325	\$3,542,932
2029	\$35,044,465	\$6,025,134	\$29,019,331	\$6,025,134
2030	\$35,440,302	\$5,840,584	\$29,599,718	\$5,840,584
2031	\$35,732,564	\$5,540,852	\$30,191,712	\$5,540,852
2032	\$34,318,182	\$3,522,636	\$30,795,546	\$3,522,636
2033	\$33,929,358	\$2,517,900	\$31,411,457	\$2,517,900
2034	\$31,914,745	\$0	\$31,914,745	\$0
2035	\$31,017,597	\$0	\$31,017,597	\$0
2036	\$29,612,502	\$0	\$29,612,502	\$0
2037	\$27,161,309	\$0	\$27,161,309	\$0
2038	\$25,851,260	\$0	\$25,851,260	\$0
2039	\$24,452,749	\$0	\$24,452,749	\$0
2040	\$23,394,621	\$0	\$23,394,621	\$0
2041	\$23,444,642	\$0	\$23,444,642	\$0
2042	\$19,790,688	\$0	\$19,790,688	\$0
2043	\$17,062,562	\$0	\$17,062,562	\$0
2044	\$23,843,011	\$0	\$23,843,011	\$0
2045	\$1,523,824	\$0	\$1,523,824	\$0
2046	\$352,199	\$0	\$352,199	\$0
2047	\$940,209	\$0	\$940,209	\$0
2048	\$181,853	\$0	\$181,853	\$0
Total	\$517,815,233	\$29,910,897	\$487,904,337	\$29,910,897

Option 3: CalPERS Additional Discretionary Payment (ADP)

Net General Fund UAL Payments



- ▶ Assumes \$26M of Section 115 Trust assets is exhausted at FYE 2026 by making a \$26M ADP to CalPERS
- ▶ ADP pays off UAL amortization bases of 5-10 years that contribute to the near-term peak
- ▶ Annual net General Fund payments would result in a “ramp-up” structure to provide near-term budget relief, but not as linear as Option 1 or Option 2
- ▶ **\$32.5M of General Fund cost avoidance over next 10 years (2027 – 2036)**

Option 3: CalPERS Additional Discretionary Payment (ADP)

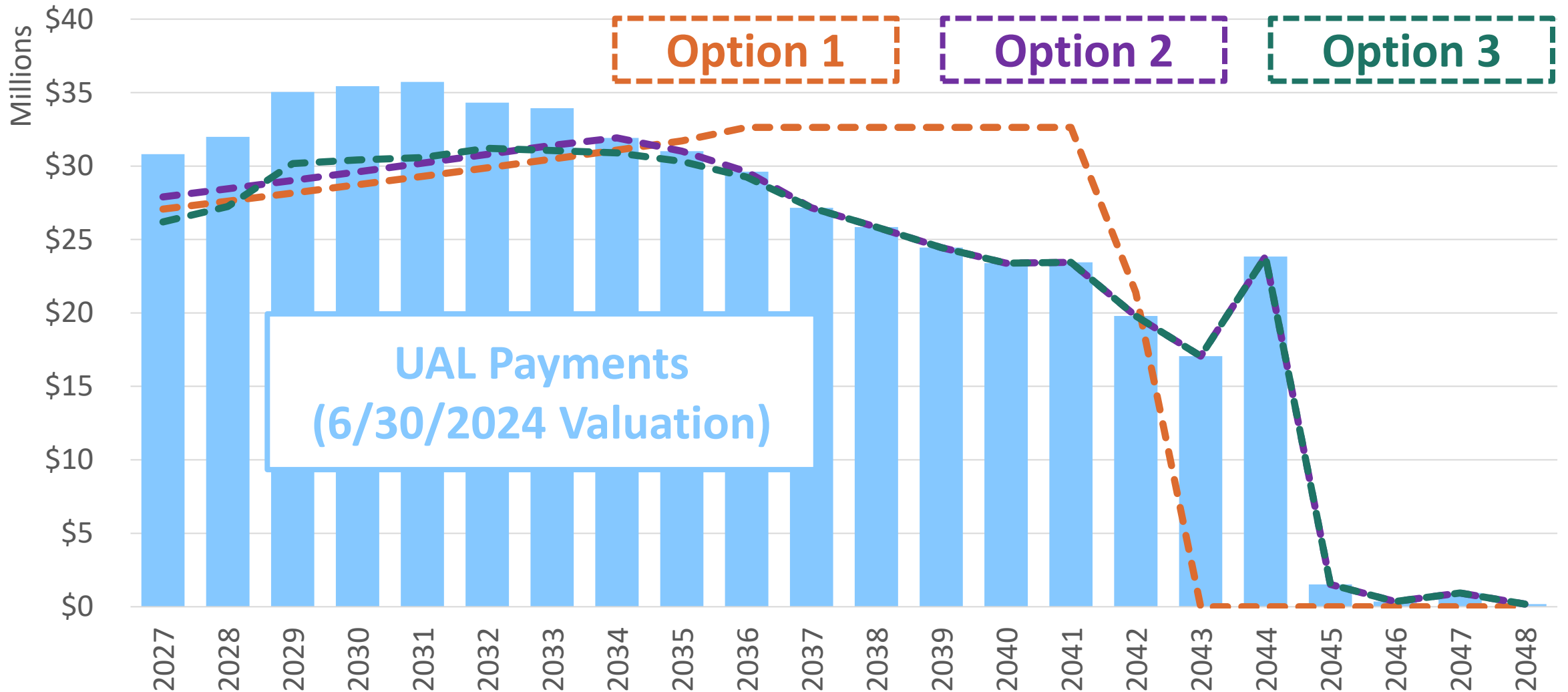
Net General Fund UAL Payments

Option 3 (Section 115 Trust Used for ADP)

Fiscal Year	UAL Payments (6/30/2024 Actuarial Valuation)	Reduction in UAL Payments from ADP	Net General Fund UAL Payment	Difference vs. Current UAL Payments
2027	\$30,813,335	\$4,621,147	\$26,192,187	\$4,621,147
2028	\$31,993,256	\$4,750,539	\$27,242,717	\$4,750,539
2029	\$35,044,465	\$4,883,554	\$30,160,911	\$4,883,554
2030	\$35,440,302	\$5,020,294	\$30,420,008	\$5,020,294
2031	\$35,732,564	\$5,160,862	\$30,571,702	\$5,160,862
2032	\$34,318,182	\$3,111,852	\$31,206,330	\$3,111,852
2033	\$33,929,358	\$2,867,224	\$31,062,134	\$2,867,224
2034	\$31,914,745	\$1,023,150	\$30,891,596	\$1,023,150
2035	\$31,017,597	\$701,199	\$30,316,399	\$701,199
2036	\$29,612,502	\$360,416	\$29,252,086	\$360,416
2037	\$27,161,309	\$0	\$27,161,309	\$0
2038	\$25,851,260	\$0	\$25,851,260	\$0
2039	\$24,452,749	\$0	\$24,452,749	\$0
2040	\$23,394,621	\$0	\$23,394,621	\$0
2041	\$23,444,642	\$0	\$23,444,642	\$0
2042	\$19,790,688	\$0	\$19,790,688	\$0
2043	\$17,062,562	\$0	\$17,062,562	\$0
2044	\$23,843,011	\$0	\$23,843,011	\$0
2045	\$1,523,824	\$0	\$1,523,824	\$0
2046	\$352,199	\$0	\$352,199	\$0
2047	\$940,209	\$0	\$940,209	\$0
2048	\$181,853	\$0	\$181,853	\$0
Total	\$517,815,233	\$32,500,237	\$485,314,996	\$32,500,237

Comparison of Option 1 / Option 2 / Option 3

Net General Fund UAL Payments



Comparison of Option 1 / Option 2 / Option 3

Net General Fund UAL Payments and Cost Avoidance

Fiscal Year	Current Situation	Option 1 (Fresh Start + Section 115 Trust)				Option 2 (Current UAL Payments + Section 115 Trust)			Option 3 (Section 115 Trust Used for ADP)		
	UAL Payments (6/30/2024 Valuation)	Fresh Start UAL Payments	Section 115 Trust Withdrawals	Net General Fund UAL Payment	Difference vs. Current UAL Payments	Section 115 Trust Withdrawals	Net General Fund UAL Payment	Difference vs. Current UAL Payments	Reduction in UAL Payments from ADP	Net General Fund UAL Payment	Difference vs. Current UAL Payments
2027	\$30,813,335	\$32,630,319	\$5,565,413	\$27,064,907	\$3,748,428	\$2,920,859	\$27,892,475	\$2,920,859	\$4,621,147	\$26,192,187	\$4,621,147
2028	\$31,993,256	\$32,630,319	\$5,024,115	\$27,606,205	\$4,387,052	\$3,542,932	\$28,450,325	\$3,542,932	\$4,750,539	\$27,242,717	\$4,750,539
2029	\$35,044,465	\$32,630,319	\$4,471,991	\$28,158,329	\$6,886,136	\$6,025,134	\$29,019,331	\$6,025,134	\$4,883,554	\$30,160,911	\$4,883,554
2030	\$35,440,302	\$32,630,319	\$3,908,824	\$28,721,495	\$6,718,806	\$5,840,584	\$29,599,718	\$5,840,584	\$5,020,294	\$30,420,008	\$5,020,294
2031	\$35,732,564	\$32,630,319	\$3,334,394	\$29,295,925	\$6,436,639	\$5,540,852	\$30,191,712	\$5,540,852	\$5,160,862	\$30,571,702	\$5,160,862
2032	\$34,318,182	\$32,630,319	\$2,748,476	\$29,881,844	\$4,436,338	\$3,522,636	\$30,795,546	\$3,522,636	\$3,111,852	\$31,206,330	\$3,111,852
2033	\$33,929,358	\$32,630,319	\$2,150,839	\$30,479,481	\$3,449,877	\$2,517,900	\$31,411,457	\$2,517,900	\$2,867,224	\$31,062,134	\$2,867,224
2034	\$31,914,745	\$32,630,319	\$1,541,249	\$31,089,070	\$825,675	\$0	\$31,914,745	\$0	\$1,023,150	\$30,891,596	\$1,023,150
2035	\$31,017,597	\$32,630,319	\$919,468	\$31,710,852	(\$693,255)	\$0	\$31,017,597	\$0	\$701,199	\$30,316,399	\$701,199
2036	\$29,612,502	\$32,630,319	\$0	\$32,630,319	(\$3,017,817)	\$0	\$29,612,502	\$0	\$360,416	\$29,252,086	\$360,416
2037	\$27,161,309	\$32,630,319	\$0	\$32,630,319	(\$5,469,011)	\$0	\$27,161,309	\$0	\$0	\$27,161,309	\$0
2038	\$25,851,260	\$32,630,319	\$0	\$32,630,319	(\$6,779,059)	\$0	\$25,851,260	\$0	\$0	\$25,851,260	\$0
2039	\$24,452,749	\$32,630,319	\$0	\$32,630,319	(\$8,177,571)	\$0	\$24,452,749	\$0	\$0	\$24,452,749	\$0
2040	\$23,394,621	\$32,630,319	\$0	\$32,630,319	(\$9,235,698)	\$0	\$23,394,621	\$0	\$0	\$23,394,621	\$0
2041	\$23,444,642	\$32,630,319	\$0	\$32,630,319	(\$9,185,677)	\$0	\$23,444,642	\$0	\$0	\$23,444,642	\$0
2042	\$19,790,688	\$21,415,432	\$0	\$21,415,432	(\$1,624,744)	\$0	\$19,790,688	\$0	\$0	\$19,790,688	\$0
2043	\$17,062,562	\$0	\$0	\$0	\$17,062,562	\$0	\$17,062,562	\$0	\$0	\$17,062,562	\$0
2044	\$23,843,011	\$0	\$0	\$0	\$23,843,011	\$0	\$23,843,011	\$0	\$0	\$23,843,011	\$0
2045	\$1,523,824	\$0	\$0	\$0	\$1,523,824	\$0	\$1,523,824	\$0	\$0	\$1,523,824	\$0
2046	\$352,199	\$0	\$0	\$0	\$352,199	\$0	\$352,199	\$0	\$0	\$352,199	\$0
2047	\$940,209	\$0	\$0	\$0	\$940,209	\$0	\$940,209	\$0	\$0	\$940,209	\$0
2048	\$181,853	\$0	\$0	\$0	\$181,853	\$0	\$181,853	\$0	\$0	\$181,853	\$0
Total	\$517,815,233	\$510,870,221	\$29,664,767	\$481,205,454	\$36,609,779	\$29,910,897	\$487,904,337	\$29,910,897	\$32,500,237	\$485,314,996	\$32,500,237

Comparison of Option 1 / Option 2 / Option 3

Summary of Key Differences

	Option 1 (Fresh Start + 115 Trust)	OPTION 2 (100% Section 115 Trust)	Option 3 (100% ADP)
Cost Avoidance (First 5 Years)	\$28M	\$24M	\$24M
Cost Avoidance (Total)	\$37M	\$30M	\$33M
Local Investment Control, Budget Flex & Section 115 Liquidity	Yes	Yes	No
Budget Predictability	2% Linear Payment, then Level (<u>16 Years</u>)	2% Linear Payment for <u>8 Years</u>	Escalating payment for <u>7 years</u>
Retirement of UAL Debt Early	Yes (6 Years Earlier)	No	No

RECOMMENDED



CONCLUSION

Conclusion/Recommendation

▶ Recommendation: Option 1 – Fresh Start + 115 Trust Combo

- ▶ Maximum Cost Avoidance in Short-Term, and Overall
- ▶ Budgetary Flexibility, Liquidity and Local Investment Control
- ▶ More Optimized Payment for Budget Predictability
- ▶ Early Retirement of UAL Debt

▶ Future Considerations/Follow Up

▶ Pension Funding Policy

- ▶ One-Time \$: How will unanticipated funds or year-end surplus get allocated towards pension?

▶ POBs: When would City consider? What would evaluation process consist of?

- ▶ Establishing guardrails and required evaluation process through policy could strategically position City if opportunity arises in future



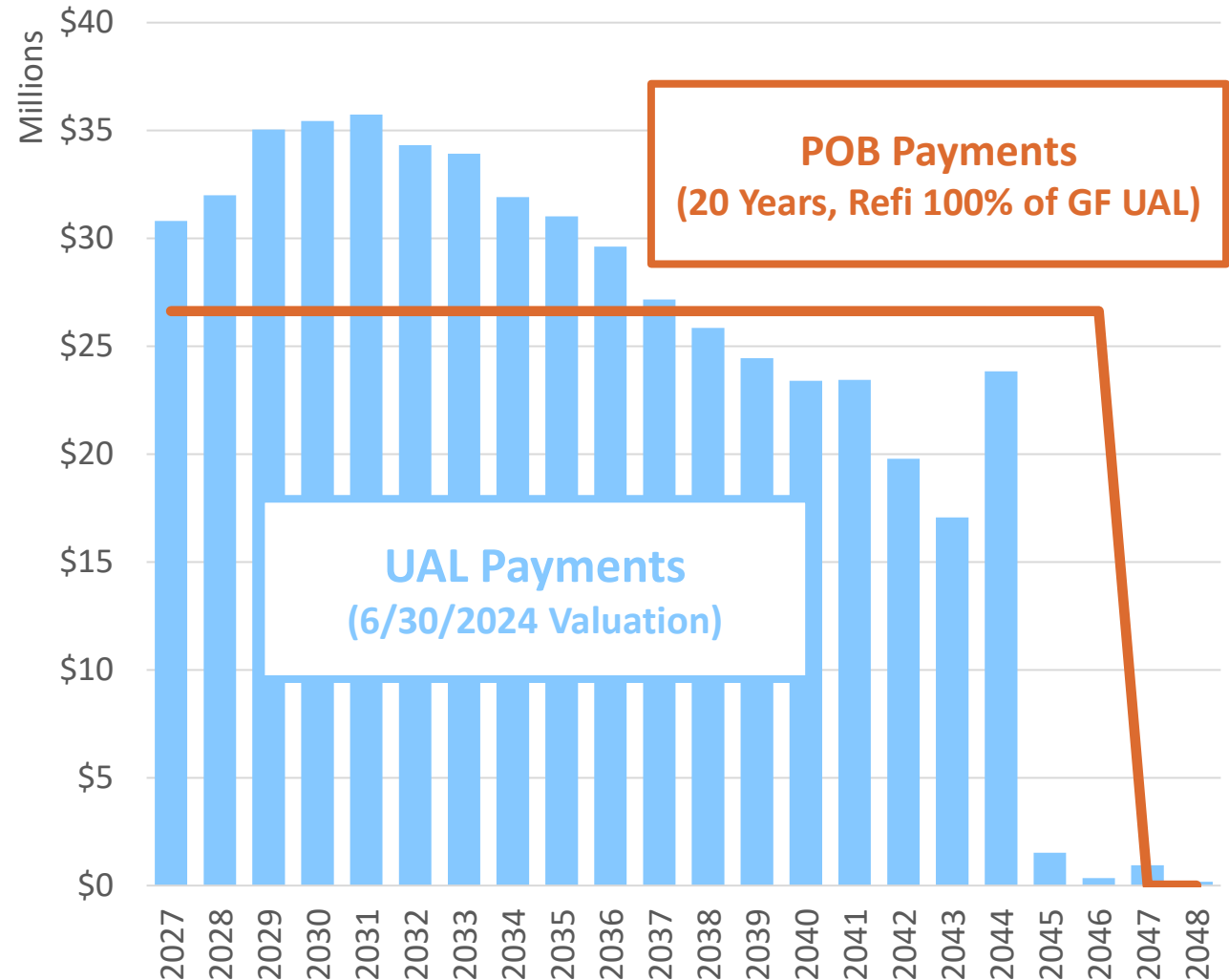
APPENDIX A – POB CONSIDERATIONS

UAL Restructuring/Pension Bond – High Level Analysis

Refinancing 100% of City’s General Fund UAL

Metrics	20-Year POB (Refi 100% of GF UAL)
UAL Funded (\$)	\$318,774,850
% of General Fund UAL Funded	100%
Maturity	20 Years (FY 2046)
All-In Interest Rate	5.48%
Est. PV Savings (%)	5.89%
Est. PV Savings (\$)	\$18,779,350
Est. Cumulative Savings	(\$14,681,939)
Savings (2027-2037)	\$64,102,734
Average Annual Savings (2027-2037)	\$5,827,521
Stress Test (market crash first year before PV savings are negative)*	-3.5% to 0% (est.)

* Estimated range for preliminary discussion purposes



UAL Restructuring/Pension Bond

Benefits and Risks

Primary Benefits

- Fiscal Sustainability Tool: Ability to “re-shape” pension debt payments
- Near-Term Budgetary Savings
- Interest Rate Savings “Arbitrage”: Potential to borrow at lower rates than retirement plan discount rate (projected earnings)
- Increase Funding Ratio
- Flexibility to Modify Maturity
- Create resiliency to absorb future shocks

Primary Risk: Reinvestment & Market Timing Risk

- Savings is ultimately dependent on future plan returns, which are unknown at time of issuance (primary concern of GFOA)
- Present value savings occur if plan earns greater returns than pension bond interest rate
- Near-term losses exacerbate this risk given large lump sum deposit into the market

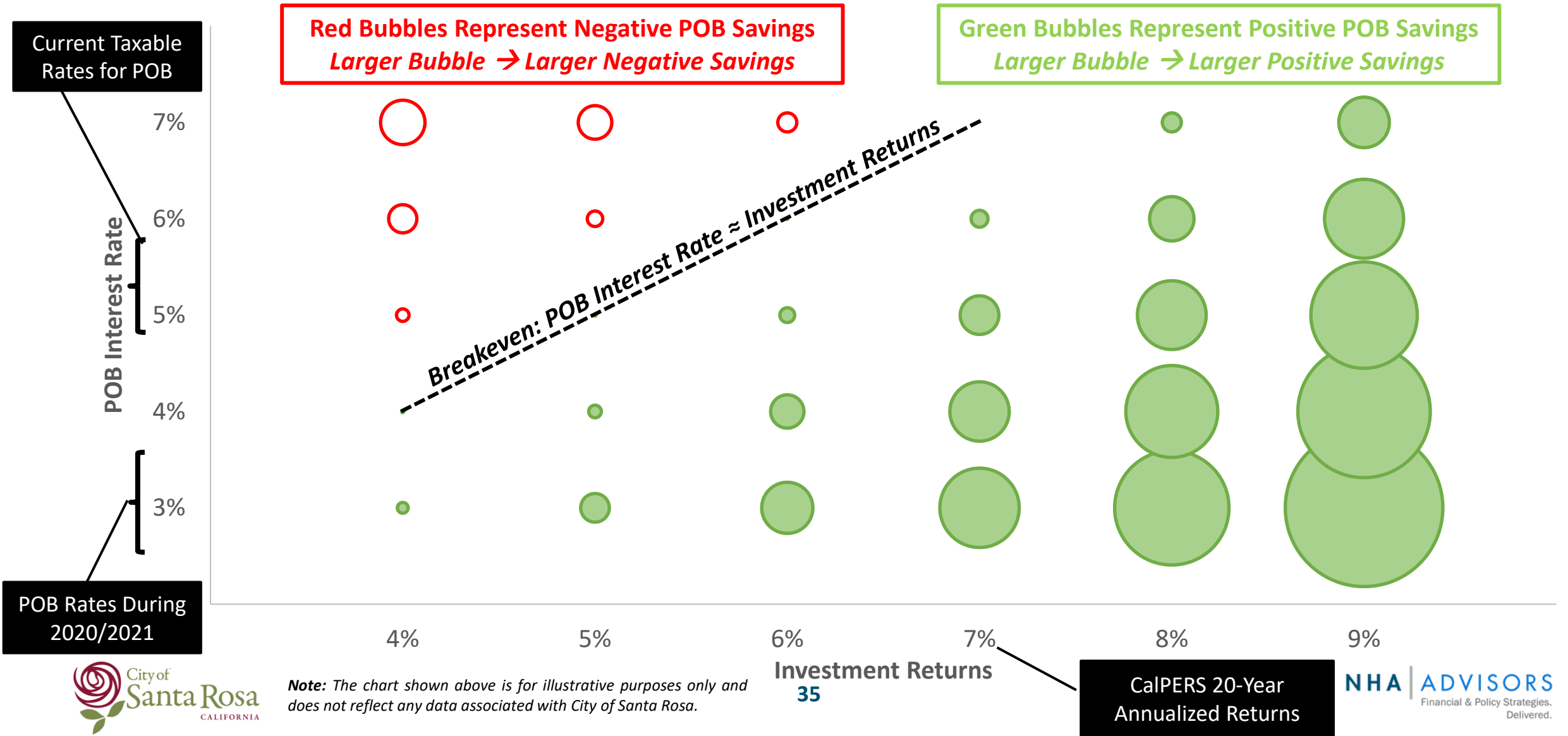
These risks should be quantified through a **stress testing process** to better understand the **PV and CASH FLOW impacts** of potential poor investment performance by CalPERS

What if the plan only earns 4% or 5%?

What if there is another 2008-like recession?

UAL Restructuring/Pension Bond

Actual PV Savings Based on POB Interest Rate and Future Investment Returns



UAL Restructuring/Pension Bond

Evaluation Process Recommendations

Given the complexity and risks associated with a UAL restructuring, a thorough evaluation process would be recommended

Policy Development (“Guardrails”)	At what rates would the City consider a POB? 2% below CalPERS discount rate? 2.5%?
Stakeholder Education	Significant education recommended (public workshops, CC meetings, etc.) Important that risks are quantified and decisions made eyes wide open
Options Evaluation	Term; Repayment shape (level, ramp, tailored?); Size (25% of UAL? 100%?) Which part of UAL to Pay Off (safety vs. miscellaneous, short bases vs. long bases...)
Risk Assessment / Stress Testing	Important to model out “downside” scenarios to understand future cash flows with or without the pension bond
Risk Mitigation Strategies	Dollar cost averaging (phased issuances), utilizing near-term savings towards pension (115 Trust, ADPs), tailored payment shape to withstand future economic shocks



APPENDIX B – ADDITIONAL RESOURCES

CalPERS 2025 Asset-Liability Management (ALM) Study Results

How Does it Impact Santa Rosa (Citywide)?

▶ **UAL: No material impact projected for Santa Rosa**

- ▶ Note, some agencies with larger COLA's (5-7%) seeing >10% jumps in UAL just from ALM assumption adjustments

▶ **Normal Cost: Annual increase of ~4.0% (\$510K) starting in FY 2028**

▶ Little support/guidance from CalPERS for further discount rate reductions

Asset Liability Management



Four Year Cycle with a Mid-Cycle Review



Public Employees Retirement Fund and Affiliate Funds

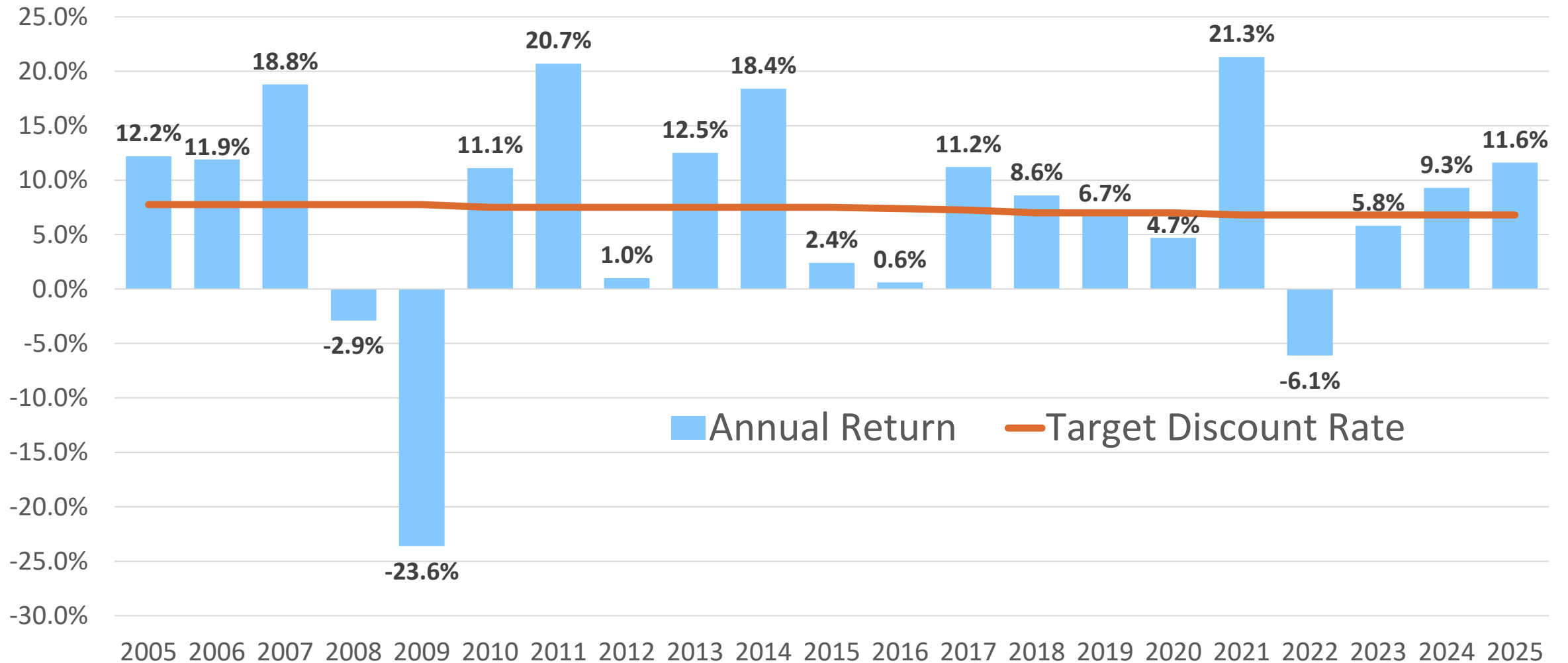
Connecting How We Invest With What We Owe
in Pension Liabilities

Notable Assumptions*

- **Discount Rate:** No change; remains at 6.8%
- **Price Inflation:** Increase from 2.3% to 2.5%
- **Wage Growth Assumption:** Increase from 2.8% to 3.0%
- **Salary Scale:** Moderate to higher merit increases for most plans

*Source: CalPERS Asset Liability Management Stakeholder Webinar
(December 4, 2025)

CalPERS Historical Preliminary Investment Returns (Time-Weighted)*



Classic vs. PEPRA Pension Example Comparison

- ▶ Employee #1 is a Classic member and Employee #2 is a PEPRA member – both have served for 25 years and have a final average compensation of \$125K
- ▶ Employee #2 will have a lower pension than Employee #1 due to a lower benefit factor, and will also retire at 57 years old instead of 50 years old like the Classic member
- ▶ The City will save money from PEPRA’s lower pension amount and because PEPRA’s pension may be paid out for a shorter amount of time due to retirement occurring 7 years later compared to Classic
- ▶ The difference in pension between Classic and PEPRA is even more apparent at higher compensation levels, as there is a pensionable compensation limit of approximately \$175K for PEPRA and \$330K for Classic



Employee #1 (Classic)

25 Years	x	3.0% @ 50	x	\$125,000	=	\$93,750
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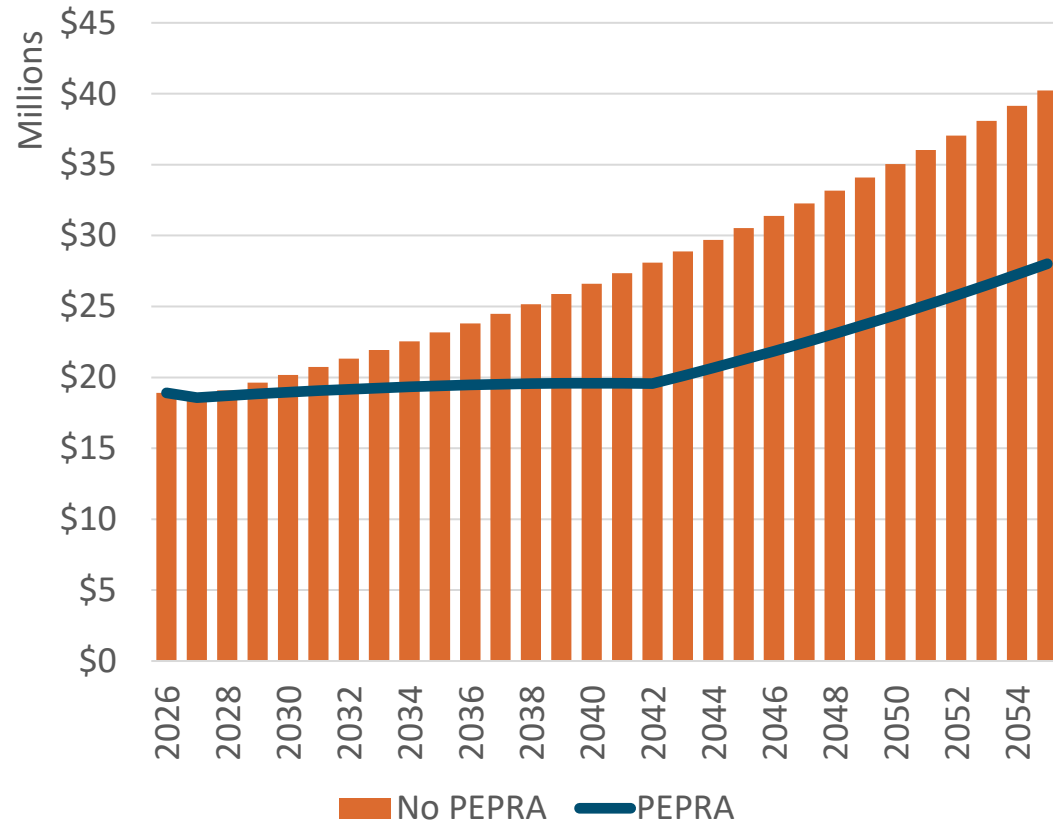
Employee #2 (PEPRA)

25 Years	x	2.7% @ 57	x	\$125,000	=	\$84,375
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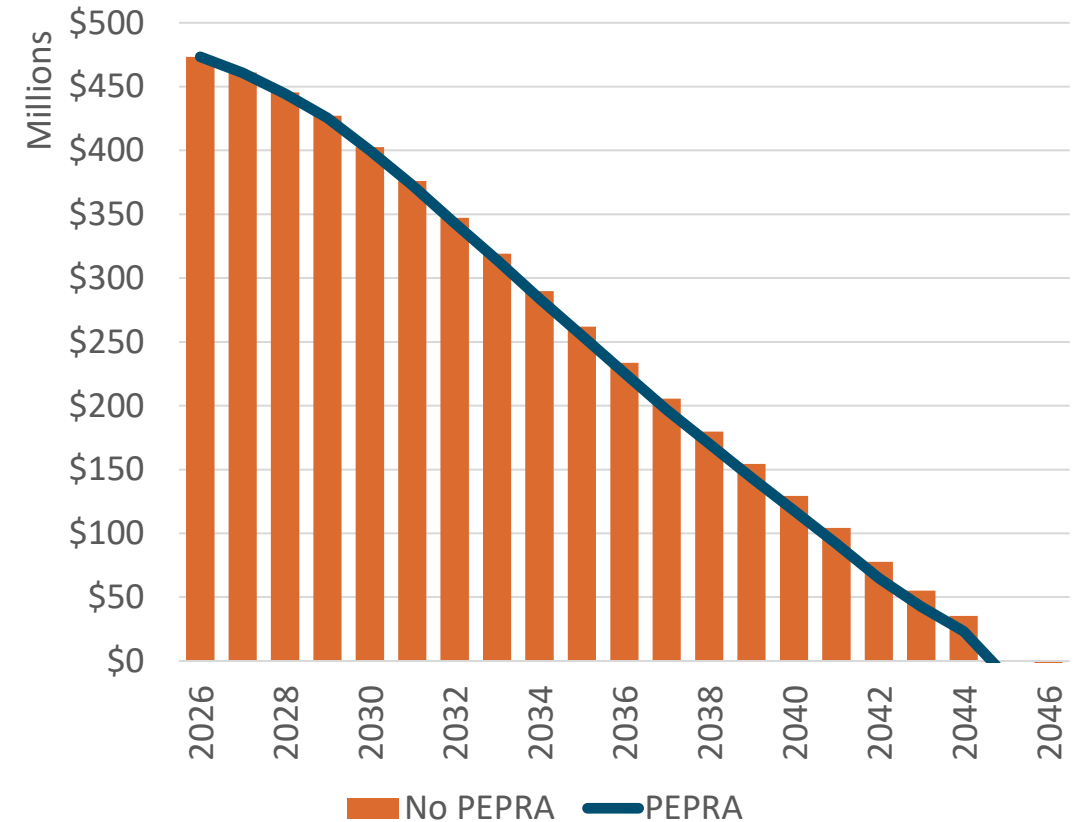
Cost of PEPRA vs. No PEPRA – Citywide

- ▶ PEPRA is projected to lower Normal Cost; UAL balance is mostly unaffected

Projected Normal Cost



Projected UAL Balance



Section 115 Trust – Overview

Funds Earmarked for Pension and OPEB

- ▶ **What is it?** Restricted Account for pension and/or OPEB
- ▶ **Advantages:**
 - ▶ Potential Higher Investment Returns in Managed Account
 - ▶ *In FY 2025, Moderate Risk Section 115 Trust portfolios (40-50% Equity / 50-60% Fixed Income) had investment returns of 8.5-11.0%*
 - ▶ Longer-Term Benefit: Trust funds can grow over time and pay off a large % of UAL or OPEB liability in the future
 - ▶ Shorter-Term Benefit: Apply funds to “*smooth*” payment spikes in UAL, Normal Cost, or OPEB; can reimburse City for pensions costs made if severe budgetary challenges
 - ▶ Flexibility – more investment options than CalPERS and the City can decide when and how to use
- ▶ **Disadvantages:**
 - ▶ Doesn't directly reduce UAL until funds are transferred to CalPERS
 - ▶ Requires reserves/surplus contributions to build account balance
 - ▶ Investment risk (dependent on type of investment portfolio)

Additional Discretionary Payment (“ADP”)

- ▶ **What is it?** City makes ADP directly to CalPERS and CalPERS eliminates payments associated with the portion of the UAL paid off, essentially giving the City credit at the discount/interest rate (currently 6.8%)
 - ▶ **Advantages:**
 - ▶ Reduced UAL / higher CalPERS funding ratio
 - ▶ Reduced future payments
 - ▶ Broader, less restrictive CalPERS investment portfolio has potential for higher returns
 - ▶ **Disadvantages:**
 - ▶ Requires reserves / surplus to fund
 - ▶ Re-investment and market timing risk with ADP funds
 - ▶ Less budgetary flexibility and investment control (vs. Section 115 Trust option)

Section 115 Trust vs. CalPERS ADP Comparison

OPTION	Section 115 Trust	CalPERS ADP
Reduced UAL & UAL Payments with CalPERS	No	Yes
Reduced Pension Liability in Financial Report (ACFR)	No (Show up as an asset on the City's financial statements)	Yes
Control of Investment Strategy	Yes	No
Funds Managed By	Trust Administrator	CalPERS
Flexibility in Uses	Yes	No
Enhanced Budgetary Flexibility	Yes	No
Cost Avoidance	Varies; Depends on when City utilizes funds to pay liabilities	Immediate; Length of time varies based on which amortization component is paid off