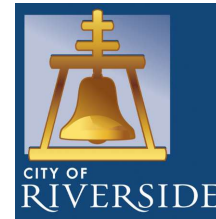


# CITY OF RIVERSIDE – PENSION UPDATE

CALPERS UAL, POB PERFORMANCE, AND ONGOING COST  
MANAGEMENT STRATEGIES



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MAY 14, 2025

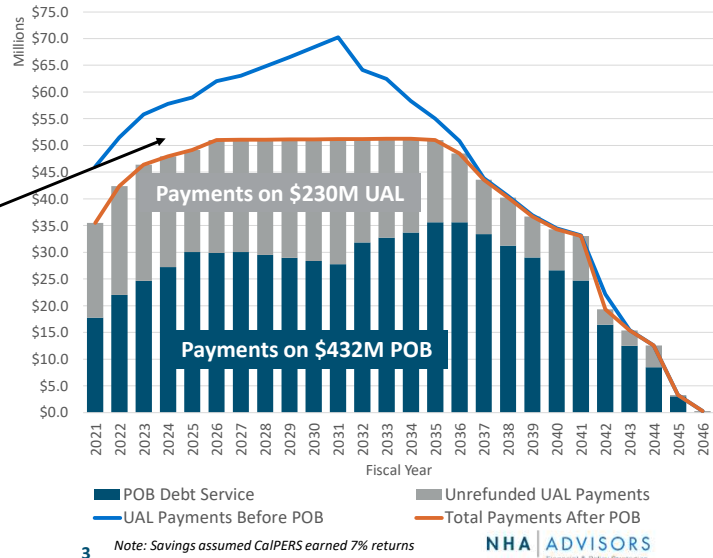
## Executive Summary

- ▶ City of Riverside (the “City”) has a \$436.6M CalPERS Unfunded Accrued Liability (“UAL”), as of the latest CalPERS valuation for June 30, 2023
  - ▶ Miscellaneous Plan: \$235.4M | Safety Plan: \$201.2M
- ▶ CalPERS FY 2023-24 Investment Returns: 9.5%
  - ▶ Projected to decrease UAL to \$381.9M (as of 6/30/2024); annual budgetary impact from this change will be seen in FY 2026-27
- ▶ City’s 2020 Pension Obligation Bond (“POB”) has \$399M of outstanding principal as of 6/30/2024
  - ▶ Issued June 2020 to restructure \$430M of UAL at a 3.69% interest rate
- ▶ Per adopted policy, City has prudently set-aside savings created from POB to bolster its Section 115 Trust (\$77M balance as of 12/31/2024)
- ▶ Continuing to monitor and manage ongoing debt liabilities (i.e., UAL + POB) will be critical for fiscal resiliency; especially amid potential assumption changes this year by CalPERS

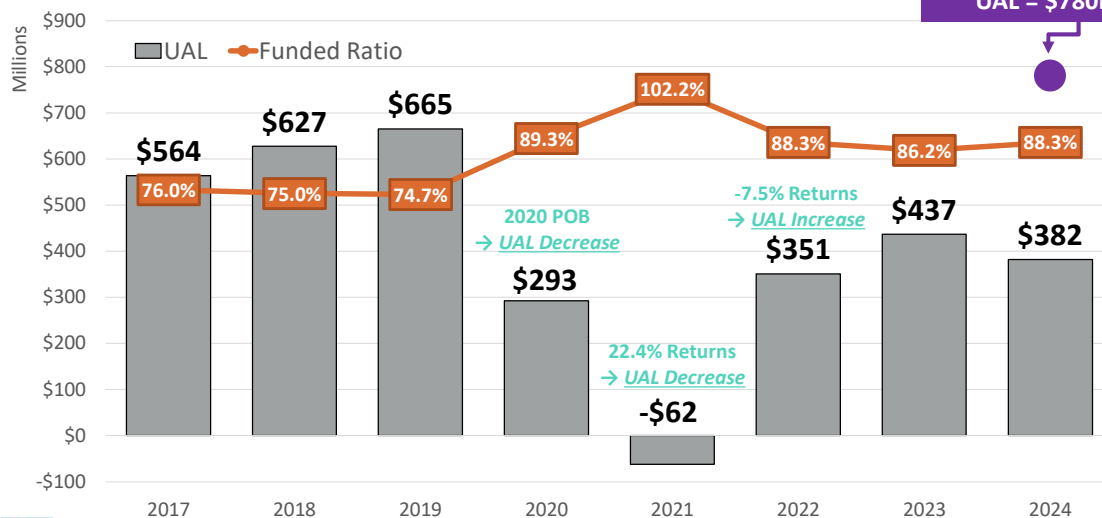


## Rewind to Spring 2020 – Pension Obligation Bond Recap

- ▶ In the Spring of 2020, the City issued \$432M of POBs to pay off approximately 67% of its then current UAL
  - ▶ \$230M of UAL remained outstanding
- ▶ City locked in a **3.69% interest rate** and achieved multiple objectives
  - ▶ \$140M of present value savings (32.5% of refunded UAL + Total Cash flow savings of >\$175M (assumes CalPERS earns 7% returns)
  - ▶ Equitable funding of both Miscellaneous and Safety Plans (targeted 92% funding ratio)
  - ▶ Smoothed out payments to enhance budget predictability/flexibility and fiscal sustainability/resiliency
  - ▶ No extension of payments to ensure savings in every single year
  - ▶ Maintained flexibility to pay off debt early (10-year call feature)

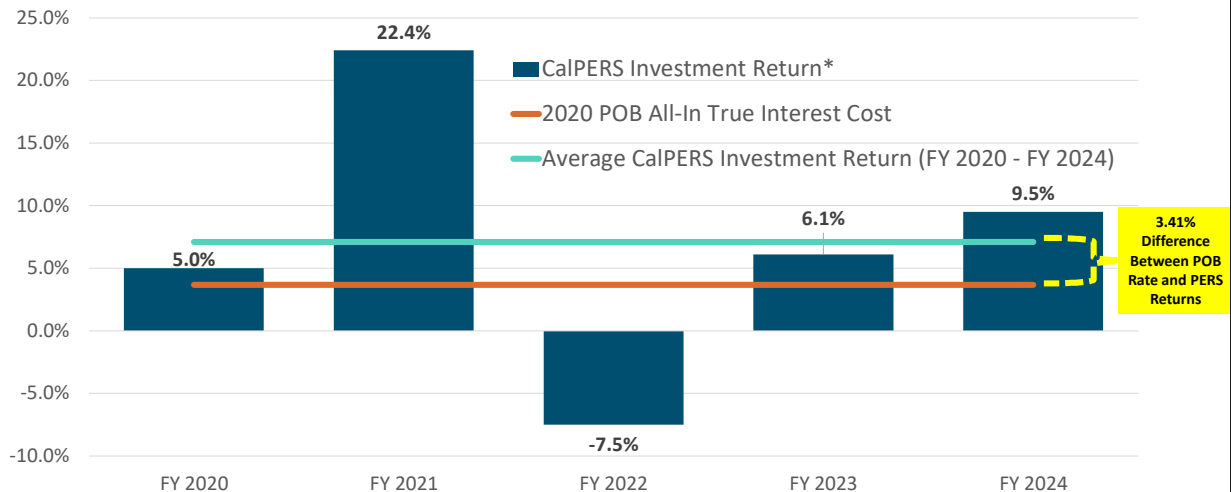


## History of the City's UAL Balance & Funded Ratio



## 2020 POB Performance: CalPERS Returns vs. 2020 POB Interest Rate

**7.1% Avg. CalPERS Investment Return vs. 3.69% POB Rate**



\*FY 2020 - FY 2024 CalPERS investment return represents the Money-Weighted Rate of Return, used in CalPERS' ACFR and actuarial valuation reports.

5

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## POB Performance - Summary

- ▶ City has benefitted tremendously from Finance Committee and City Council's decisions to issue POBs at an opportune time in Spring of 2020
  - ▶ **\$45 Million** – Already saved by the City since issuance, allowing the City to grow its Section 115 Trust to very strong levels
  - ▶ **\$175 Million** – Projected savings through the life of the POB, given that CalPERS investment return performance is in line with expectations at time of issuance
- ▶ Benefits from the City's POB/pension funding strategy recently acknowledged by S&P in the City's 2024A LRBs Credit Rating Report:
  - ▶ *"We expect the city's pension and OPEB profile to remain affordable and manageable over the outlook period."*

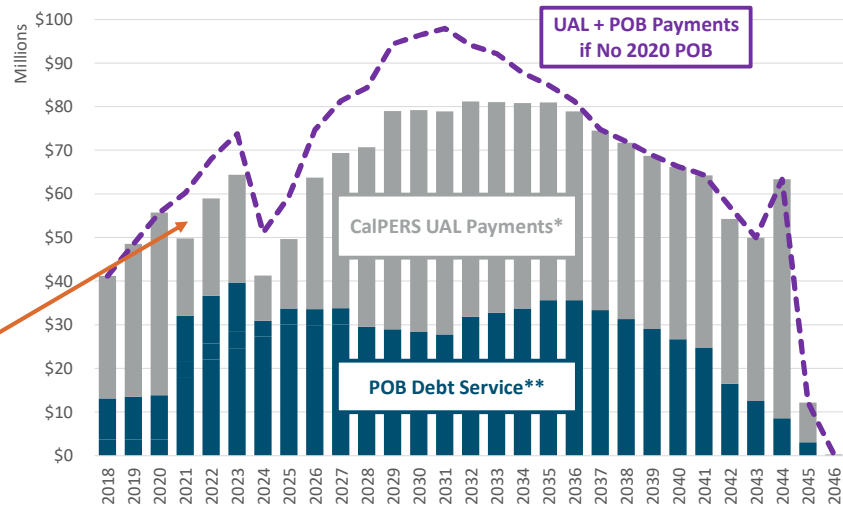


6

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## Historical and Projected UAL + POB Payment Schedule

- ▶ City's UAL + POB payments are rising due to CalPERS underperformance
- ▶ Payments rising to ~\$80M by FY 2029
  - ▶ 64% higher than FY 2025 payment (\$49M)
- ▶ City has taken advantage of the savings from the 2020 POB to fund its Section 115 Trust
- ▶ \$77M balance as of 12/31/2024



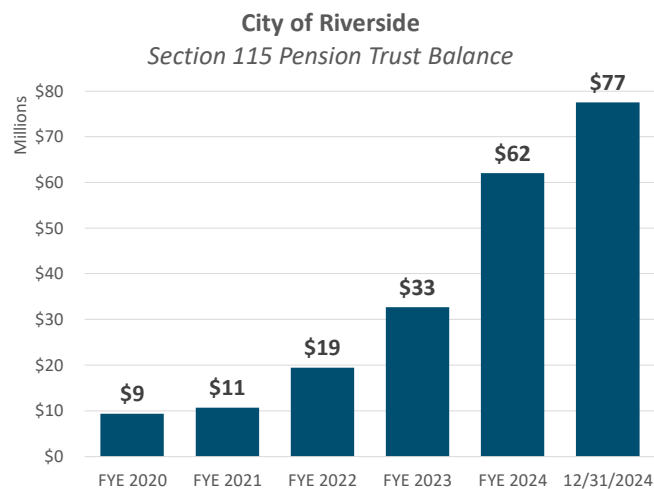
7

\*CalPERS UAL Payments as of the 6/30/2023 Actuarial Valuation.  
 Source: CalPERS Actuarial Valuation Reports.  
 \*\*Includes debt service for the 2020 POB, 2017 POB, and 2004 POB.

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## Section 115 Pension Trust – Background

- ▶ Trust was established in FY 2019-20
- ▶ Per the City's Pension Funding Policy, 50% of unanticipated one-time revenues are to be prioritized to make payments towards the City's UAL
- ▶ Trust balance has grown from \$9.4M (FYE 2020) to \$77M (as of 12/31/2024), due to City contributions and Trust investment earnings



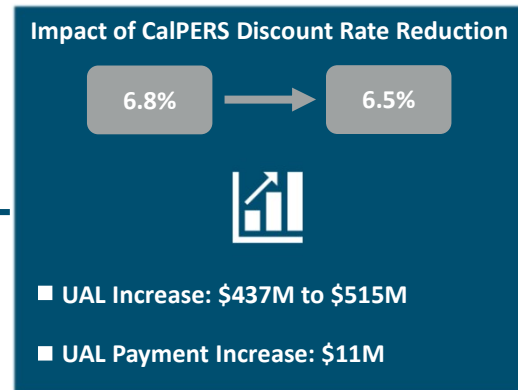
8

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## Continued Cost Management

### Sensitivity Analysis Given CalPERS ALM Study

- ▶ CalPERS is currently underway with its Asset Liability Management (“ALM”) Study
  - ▶ Potential assumption changes include CalPERS’ discount rate (i.e., expected investment earnings)
- ▶ The UAL is highly sensitive to assumption changes and any future investment underperformance by CalPERS



Source: CalPERS Pension Outlook Tool



9

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## Section 115 Trust Modeling Assumptions

### Section 115 Trust Assumptions

- ▶ **Beginning Trust Balance (as of 12/31/24):** \$77M
- ▶ **General Fund’s Share of Trust:** 96%
  - ▶ GF modeling assumes \$74M beginning Trust balance (as of 12/31/24)
- ▶ **Trust Deposits:**
  - ▶ FY 2024-25: \$9.3M
  - ▶ FY 2025-26: \$9.0M (per GF 5-Year Financial Plan)
  - ▶ FY 2026-27: \$8.0M (per GF 5-Year Financial Plan)
  - ▶ FY 2027-28: \$6.0M (per GF 5-Year Financial Plan)
- ▶ **Annual Investment Return:** 5.0%
- ▶ Assumes the entire Trust balance is used

### CalPERS Assumptions

- ▶ **Discount Rate:** 6.8% (no change)
- ▶ **Annual Investment Returns:** 6.8%
- ▶ **General Fund Cost Allocation:** 100% Safety Plan + 45% Miscellaneous Plan



10

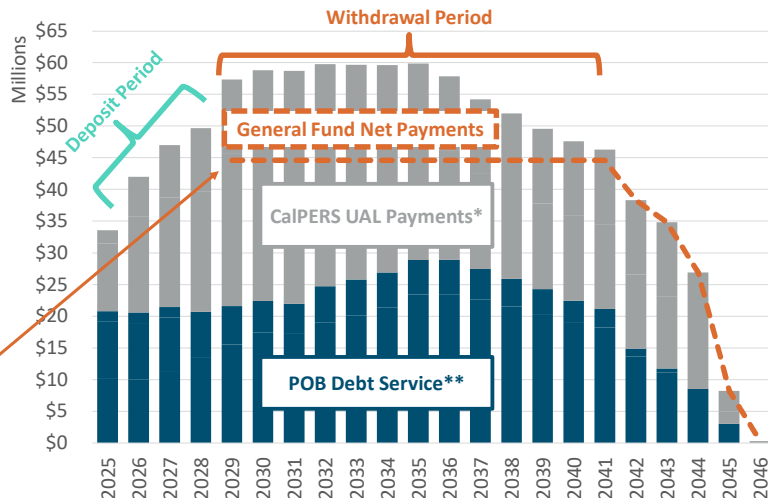
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## Continued Cost Management

### Leveraging Section 115 Trust to Smooth General Fund Pension Payments

- ▶ Orange dashed line shows the General Fund's net payments, based on withdrawals from the Trust beginning in FY 2028-29

- ▶ **Net Payments Smoothing Level:**  
\$44.6 million



\*Source: June 30, 2023 CalPERS Actuarial Valuation.

\*\*Includes the General Fund's portion of debt service for the 2020 POB and 2017 POB.

11

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## Conclusion and Recommendations

- ▶ Strategic measures taken by the City over the past several years have strengthened its financial position and enhanced financial resiliency
  - ▶ City must stay vigilant in combatting rising pension costs given steep increases in upcoming UAL payments and sensitivity to CalPERS investment underperformance and/or assumption changes
- ▶ **Recommendations**
  - ▶ Continue setting aside additional funds towards pension costs over the next 2-3 years
    - ▶ Consider increasing deposits from those listed in 5-year financial plan if possible
  - ▶ City and NHA will continue to analyze options this Spring to identify most optimal strategy given current market conditions, City resources, and CalPERS' ALM Study impacts
    - ▶ Fresh Start amortization and/or Additional Discretionary Payment (ADP) options in conjunction with Section 115 Trust smoothing strategy



12

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## APPENDIX

### Section 115 Trust Smoothing – General Fund Only

#### City's Forecasted Deposits per General Fund Five-Year Financial Plan

Fiscal Year	Safety			Miscellaneous (Assumes 45% is General Fund Allocable)				Section 115 Trust (96% GF Share)			Net General Fund Payments (Incl. Deposits & Withdrawals)
	Total UAL Payments*	2020 POB (Safety)	POB + Projected UAL Payments	Total UAL Payments*	2017 POB	2020 POB (Miscellaneous)	POB + Projected UAL Payments	Deposits to Trust (GF Share)	Withdrawals from Trust (GF Share)	Ending Balance of Trust (GF Share)**	
2025	\$10,644,777	\$10,219,317	\$20,864,094	\$2,146,069	\$1,661,569	\$8,909,404	\$12,717,042	\$9,297,597	\$0	\$76,246,278	\$42,878,734
2026	\$15,062,608	\$9,988,674	\$25,051,282	\$6,337,834	\$1,661,006	\$8,952,728	\$16,951,568	\$9,000,000	\$0	\$89,508,591	\$51,002,850
2027	\$17,287,326	\$11,373,316	\$28,660,642	\$8,246,267	\$1,661,344	\$8,413,105	\$18,320,715	\$8,000,000	\$0	\$102,384,021	\$54,981,358
2028	\$19,041,829	\$13,428,340	\$32,470,169	\$9,942,756	\$0	\$7,243,529	\$17,186,286	\$6,000,000	\$0	\$113,818,069	\$55,656,455
2029	\$24,121,740	\$15,540,522	\$39,662,262	\$11,639,246	\$0	\$6,041,840	\$17,681,086	\$0	\$12,724,079	\$106,148,690	\$44,619,269
2030	\$24,643,025	\$17,481,702	\$42,124,727	\$11,760,857	\$0	\$4,907,905	\$16,668,762	\$0	\$14,174,219	\$96,573,194	\$44,619,269
2031	\$24,958,814	\$17,187,645	\$42,146,459	\$11,760,857	\$0	\$4,770,866	\$16,531,723	\$0	\$14,058,913	\$86,639,996	\$44,619,269
2032	\$23,233,809	\$18,952,401	\$42,186,210	\$11,760,857	\$0	\$5,792,898	\$17,553,755	\$0	\$15,120,696	\$75,105,062	\$44,619,269
2033	\$22,129,185	\$20,095,196	\$42,224,381	\$11,760,857	\$0	\$5,686,431	\$17,447,288	\$0	\$15,052,400	\$63,055,295	\$44,619,269
2034	\$20,954,971	\$21,321,858	\$42,276,829	\$11,760,858	\$0	\$5,568,794	\$17,329,651	\$0	\$14,987,211	\$50,471,489	\$44,619,269
2035	\$19,187,242	\$23,391,793	\$42,579,035	\$11,760,858	\$0	\$5,494,335	\$17,255,192	\$0	\$15,214,958	\$37,019,357	\$44,619,269
2036	\$17,145,046	\$23,444,904	\$40,589,950	\$11,760,857	\$0	\$5,483,817	\$17,244,674	\$0	\$13,215,355	\$24,997,463	\$44,619,269
2037	\$14,983,924	\$22,625,051	\$37,608,975	\$11,760,858	\$0	\$4,834,889	\$16,595,746	\$0	\$9,585,452	\$16,182,612	\$44,619,269
2038	\$14,284,228	\$21,529,827	\$35,814,055	\$11,760,857	\$0	\$4,384,184	\$16,145,041	\$0	\$7,339,827	\$9,284,925	\$44,619,269
2039	\$13,544,091	\$20,350,031	\$33,894,122	\$11,760,858	\$0	\$3,902,011	\$15,662,869	\$0	\$4,937,721	\$4,564,564	\$44,619,269
2040	\$13,359,786	\$19,089,519	\$32,449,305	\$11,760,857	\$0	\$3,392,269	\$15,153,126	\$0	\$2,983,162	\$1,660,688	\$44,619,269
2041	\$13,359,647	\$18,237,150	\$31,596,797	\$11,760,858	\$0	\$2,919,520	\$14,680,377	\$0	\$1,657,905	\$2,922	\$44,619,269
2042	\$11,669,489	\$13,628,073	\$25,297,562	\$11,760,858	\$0	\$1,270,145	\$13,031,003	\$0	\$0	\$3,068	\$38,328,565
2043	\$11,314,540	\$11,142,505	\$22,457,045	\$11,760,857	\$0	\$600,553	\$12,361,410	\$0	\$0	\$3,222	\$34,818,455
2044	\$6,619,914	\$8,509,463	\$15,129,376	\$11,760,858	\$0	\$0	\$11,760,858	\$0	\$0	\$3,383	\$26,890,234
2045	\$1,925,287	\$3,032,624	\$4,957,911	\$3,243,505	\$0	\$0	\$3,243,505	\$0	\$0	\$3,552	\$8,201,416
2046	\$284,857	\$0	\$284,857	\$0	\$0	\$0	\$0	\$0	\$0	\$3,730	\$284,857

\*Uses assumptions from June 30, 2023 CalPERS Actuarial Valuation

\*\*The Ending Balance of Trust includes the annual interest earnings of the Trust, which are assumed to be 5.00%.

