City of Riverside – Pension Update

CalPERS UAL, POB Performance, and Ongoing Cost management Strategies

NHA | ADVISORS
Financial & Policy Strategies. Delivered.

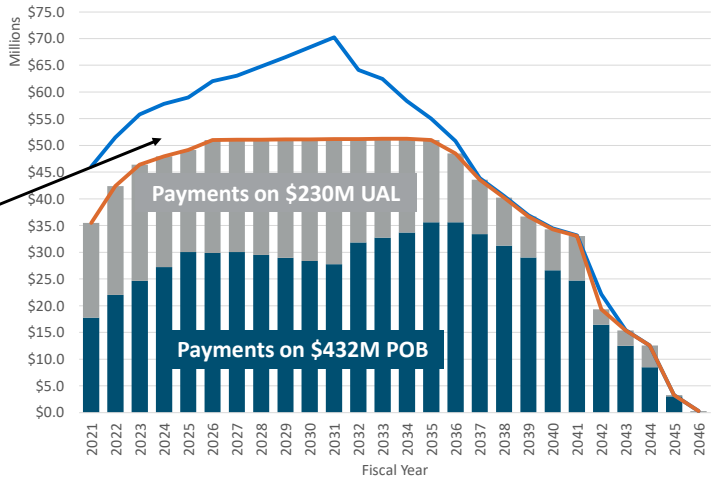
MAY 14, 2025

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

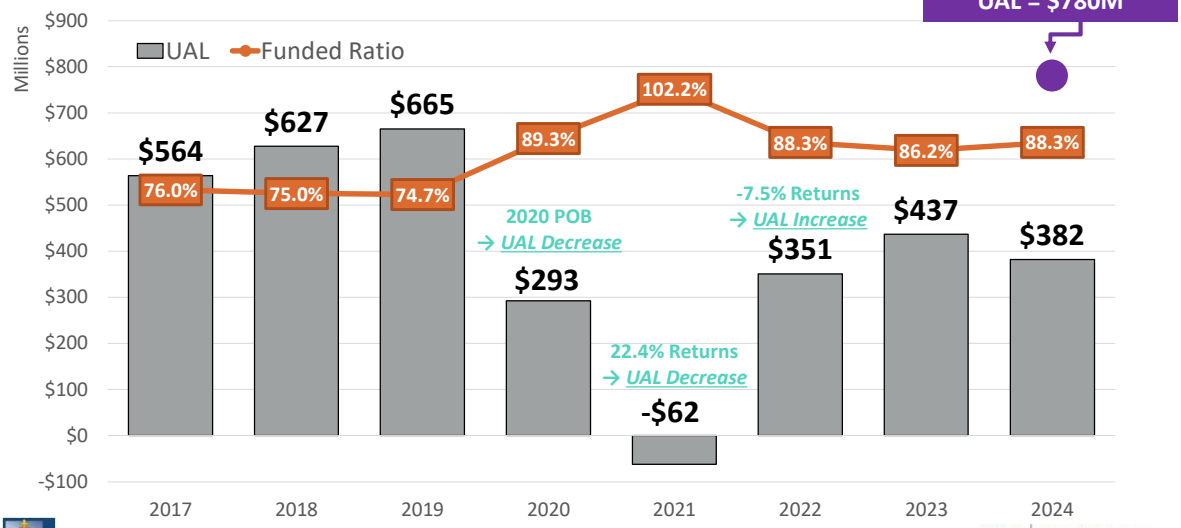
- In the Spring of 2020, the City issued $432M of POBs to pay off approximately 67% of its then current UAL
  - $230M of UAL remained outstanding
- City locked in a **3.69% interest rate** and achieved multiple objectives
  - $140M of present value savings (32.5% of refunded UAL + Total Cash flow savings 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)



Note: Savings assumed CalPERS earned 7% returns

History of the City's UAL Balance & Funded Ratio

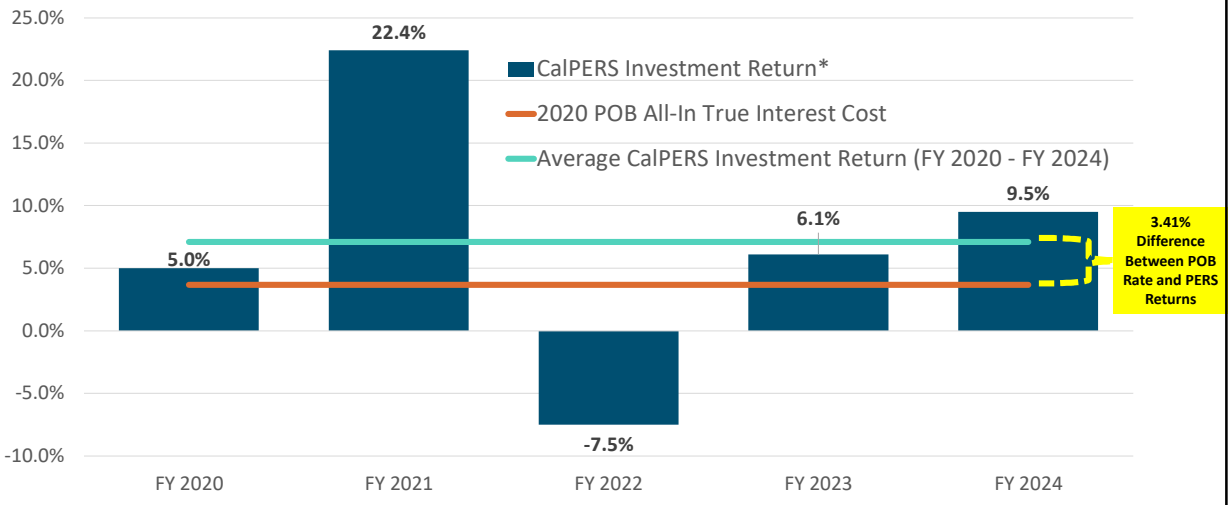
If No 2020 POB:
Funded Ratio = 79%
UAL = $780M



Source: *CalPERS Actuarial Valuation Reports and CalPERS Pension Outlook Tool. Pension Outlook Tool assumes FY 2023-24 returns of 9.5% and 6.80% returns from FY 2024-25 onward.*

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.*

NHA ADVISORS Financial & Policy Strategies. Delivered.

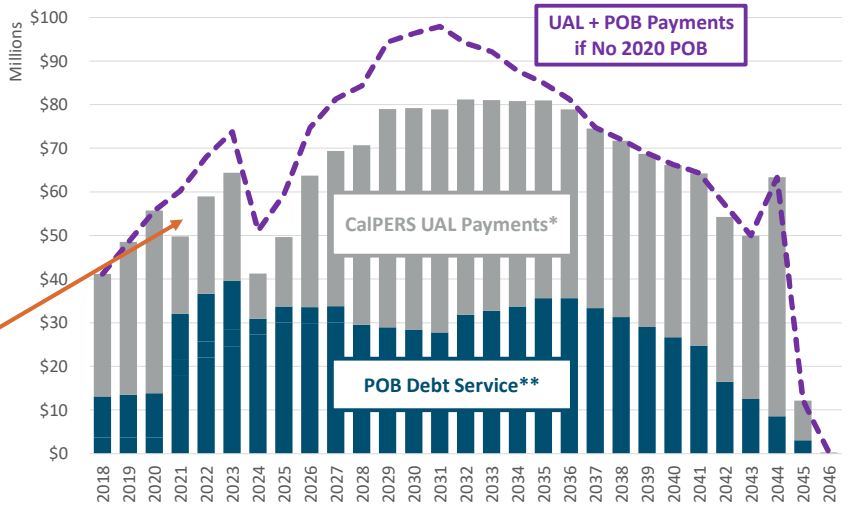
POB Performance - Summary

- 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."*

NHA ADVISORS Financial & Policy Strategies. Delivered.

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

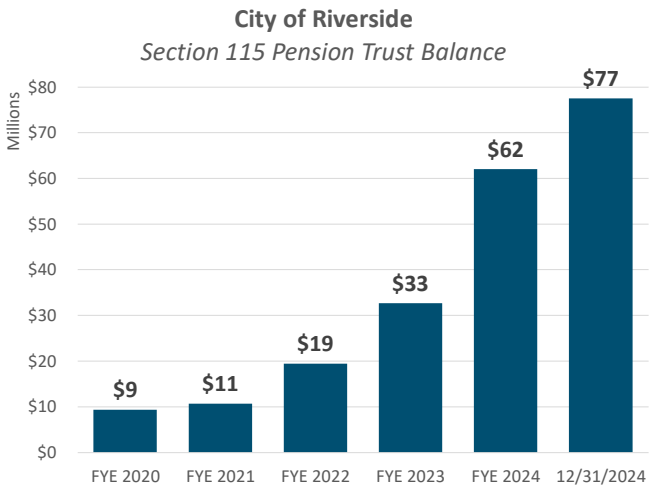


*CalPERS UAL Payments as of the 6/30/2023 Actuarial Valuation.
Source: CalPERS Actuarial Valuation Reports.
**Includes debt service for the 2020 POB, 2017 POB, and 2004 POB.

NHA ADVISORS Financial & Policy Strategies. Delivered.

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

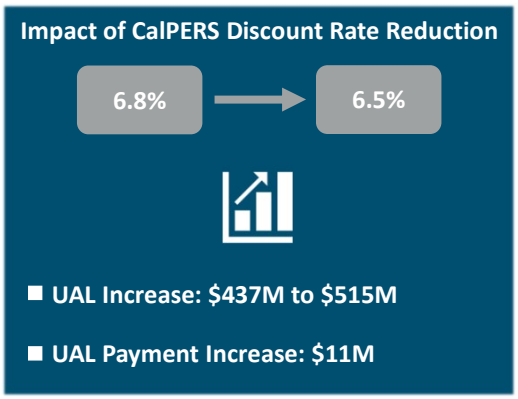


NHA ADVISORS Financial & Policy Strategies. Delivered.

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*

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

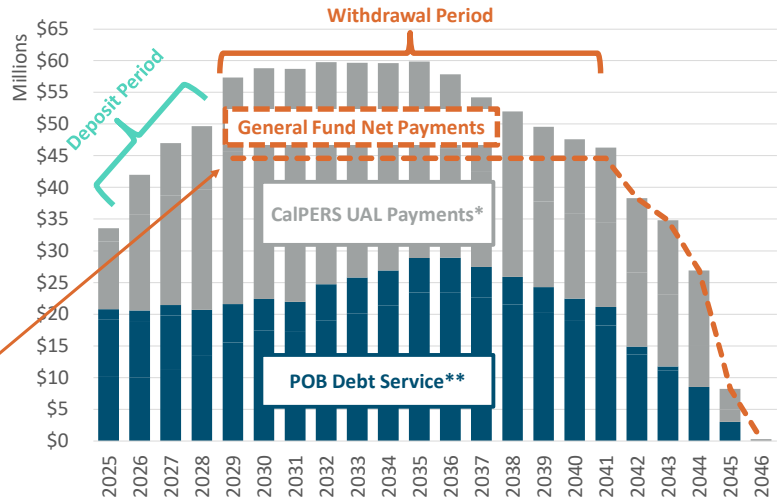
CalPERS Assumptions

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

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.

NHA ADVISORS Financial & Policy Strategies. Delivered.

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

NHA ADVISORS Financial & Policy Strategies. Delivered.

APPENDIX

NHA ADVISORS Financial & Policy Strategies. Delivered.

Section 115 Trust Smoothing – General Fund Only

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

	Safety			*Miscellaneous (Assumes 45% is General Fund Allocable)*				*Section 115 Trust (96% GF Share)*			
Fiscal Year	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)**	Net General Fund Payments (Incl. Deposits & Withdrawals)
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%.*

NHA ADVISORS Financial & Policy Strategies. Delivered.