



TECHNICAL MEMORANDUM

To: Ms. Angela Courter, *City of Cotati*
Mr. Damien O'Bid, *City of Cotati*

From: Dmitry Semenov, *Ridgeline Municipal Strategies, LLC*

Date: November 21, 2024

Re: 2024 Pension Liability Review; Ridgeline #23035

INTRODUCTION

Per your request, Ridgeline Municipal Strategies, LLC (Ridgeline) has performed a review of the Unfunded Accrued Liability (UAL) that the City of Cotati (City) has outstanding with the California Public Employees' Retirement System (CalPERS). This technical memorandum documents the results of the review and suggested actions that the City could take to reduce its future UAL costs.

Recommended for Implementation:

- Elimination of negative amortization for the 2023 UAL (estimated to save the City approximately \$77,000).

Recommended for Consideration Based on Overall Budget Outlook:

- Reamortize the remaining balance on the 2022 UAL from ramp-up to level payments (savings will vary depending on the selected option).
- Additional discretionary payments to repay the 2023 UAL faster to generate additional savings on the UAL interest.

CITY'S PENSION PLANS AND UNFUNDED ACCRUED LIABILITY



City provides pension benefits to its employees and retirees through six pension plans with CalPERS. As of 06/30/2023 (the most recent official information available as of the date of this memorandum), the plans had a total actuarial accrued liability (the estimated amount necessary, as of the valuation date, to fund all earned pension benefits for current employees, retirees, and beneficiaries) of approximately \$45.5 million, held approximately \$37.8 million in assets, and its plans were underfunded by approximately \$7.7 million. The pension plans were 83.1% funded, as summarized in **Table 1** below.

Table 1
City of Cotati
Pension Plans Summary

Pension Plan	Total Accrued Liability	Market Value of Assets	Unfunded Accrued Liability	% Funded
Miscellaneous	\$21,890,933	\$18,174,505	\$3,716,428	83.0%
Safety	\$17,385,012	\$14,246,820	\$3,138,192	81.9%
Safety 2nd Tier	\$1,158,739	\$999,177	\$159,562	86.2%
Misc 2nd Tier	\$1,568,922	\$1,347,802	\$221,120	85.9%
PEPRA Safety	\$1,825,557	\$1,564,410	\$261,147	85.7%
PEPRA Misc	\$1,688,177	\$1,476,552	\$211,625	87.5%
TOTAL	\$45,517,340	\$37,809,266	\$7,708,074	83.1%

Source: CalPERS' Actuarial Valuation Report as of June 30, 2023

All six pension plans are underfunded, but the Classic Miscellaneous Tier 1 and Classic Safety Tier 1 represent 89% of the underfunded amount.

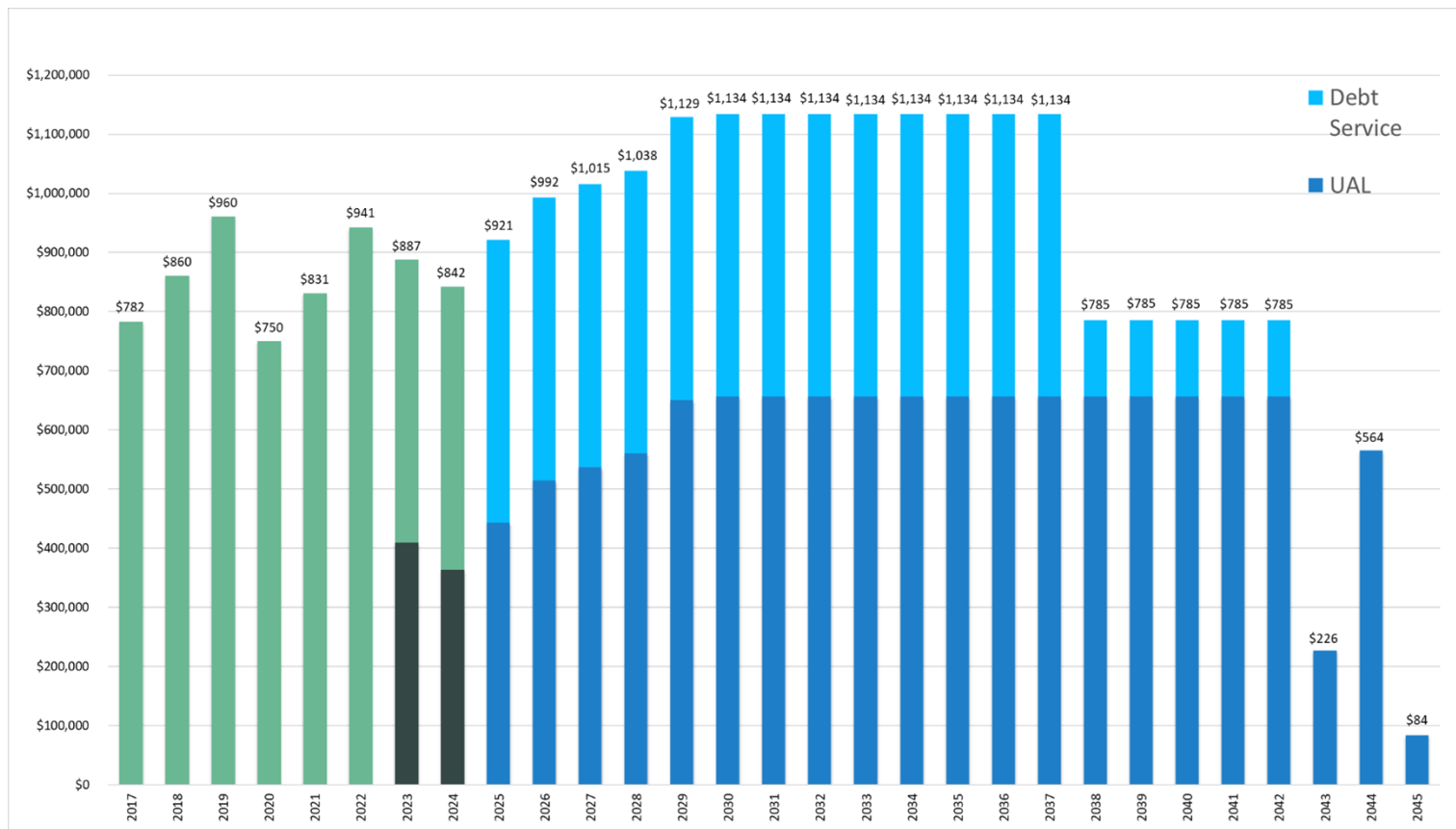
In January 2021, the City issued a pension obligation refunding loan and a street improvements financing loan (UAL Refunding Loans) that allowed it to pay down the UAL by \$6,000,000. After the UAL refunding, the City had to make relatively small UAL payments to CalPERS on the UAL that remained outstanding after the refunding at the time, as well as payments on the two loans. Since the loan interest rates are significantly lower than the interest rate charged by CalPERS, the refunding allowed the City to generate approximately \$2.25 million in cash flow savings.

Subsequently, CalPERS' investment underperformance and reconciliation adjustments in FYEs 2022 and 2023 resulted in new UAL increases.

Following the CalPERS investment loss of 2022, the City made two Additional Discretionary Payments ("ADP") in March and July of 2024 in the combined amount of approximately \$670,000 to reduce negative amortization on the 2022 actuarial bases.

Graph 1 shows the recent and future UAL and UAL refunding loan amortization schedule. This schedule DOES NOT include the ADPs made by the City, as it illustrates the official CalPERS 2023 amortization schedule generated before the ADPs were made.

Graph 1
City of Cotati
Current UAL and UAL Refunding Loan Amortization Schedule (\$000s)



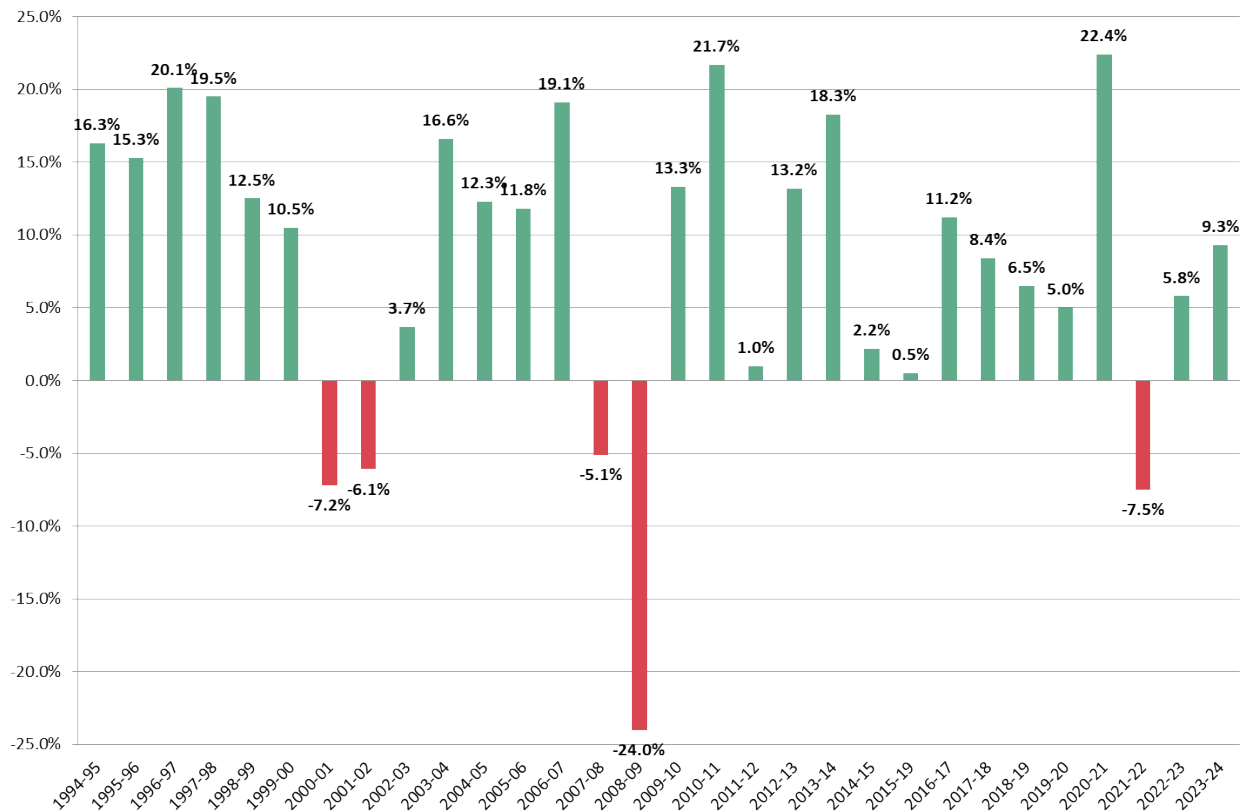
Source: CalPERS' Actuarial Valuation Report as of June 30, 2023 and UAL Refunding Loans Amortization Schedule

CALPERS INVESTMENT PERFORMANCE FOR FYE 2023 and FYE 2024

For FYE 2023, CalPERS generated an investment return of 5.8%, which fell below the target of 6.8%. This resulted in a small UAL increase.

CalPERS recently announced its FYE 2024 investment earnings estimate of 9.3%, which exceeds the 6.8% target. This will result in a welcomed UAL reduction. **Graph 2** below shows the history of CalPERS' annual investment returns.

Graph 2
City of Cotati
History of CalPERS' Annual Investment Returns, FYE 1993-2024



Source: CalPERS

The average annual investment returns as reported by CalPERS are as follows:

- 5 years: 6.6%
- 10 years: 6.2%
- 20 years: 6.7%

- 30 years: 7.7%

The average returns indicate that historically CalPERS has been able to achieve the long-term investment target rate of 6.8% (the current discount rate). CalPERS has been lowering the target rate over the last decades. It appears that the current target rate favorably corresponds to the past performance. However, past performance is not a guarantee of future results.

SUMMARY OF FYE 2023 UAL INCREASES

For FYE 2023, CalPERS added two new actuarial bases to each of the City's six pension plans:

- The Investment Loss base increased the UAL to account for the investment underperformance of 1.0%, compared to the 6.8% discount rate.
- The Non-Investment Loss base is the annual reconciliation to account for the differences between the actuarial assumptions and the actual plan experience for the year. This base increased the UAL reportedly due to the larger than expected salary increases and pension COLA increases within the pension pool.

Table 2 summarizes the impacts of these two bases on the City's UAL.

Table 2
City of Cotati
FYE 2023 UAL Increase Factors

Pension Plan	Investment Loss	Non-Investment Loss	Total UAL Increase
Miscellaneous	\$118,075	\$337,615	\$455,690
Safety	\$93,413	\$227,877	\$321,290
Safety 2nd Tier [1]	\$30,677	\$0	\$30,677
Misc 2nd Tier	\$8,751	\$24,197	\$32,948
PEPRA Safety	\$10,250	\$23,929	\$34,179
PEPRA Misc	\$9,584	\$26,036	\$35,620
TOTAL	\$270,750	\$639,654	\$910,404

[1] Investment Loss includes total net UAL increase.

Source: CalPERS

While prior experience indicates that investment market downturns similar to what took place in FYE 2022 are followed by market recoveries, the FYE 2023 investment performance and the CalPERS' historical investment returns suggest that a quick elimination of the 2022 UAL is unlikely and the City may want to consider additional steps to reduce the long-term interest costs associated with the new UAL. Recommended pension cost reduction strategies are discussed below.

IMPACT OF FYE 2024 CALPERS' INVESTMENT PERFORMANCE ON THE CITY

To assess the impact of CalPERS' FYE 2024 investment performance on the funded status of pension plans, it is important to remember that to maintain an unchanged funded ratio, among other things, CalPERS needs to achieve an investment gain equal to the discount rate, which is currently 6.8%. Any time that the investment returns are below the discount rate, the funded level of the pension plans decreases and an additional UAL is created. Conversely, whenever the investment returns are above the discount rate, the funded level increases and the UAL amount is reduced.

The 9.3% investment return translates into a 2.5% funding surplus (the difference between the 6.8% discount rate and the 9.3% estimated investment return). This surplus is estimated to reduce the City's UAL by approximately \$945,000.

Table 3 below shows the 2024 investment performance impact estimates for each of the City's pension plans.

Table 3
City of Cotati
Estimated 2024 Investment Performance Impact

Pension Plan	Estimated 2024 UAL Credit
Miscellaneous	(\$454,000)
Safety	(\$356,000)
Safety 2nd Tier	(\$25,000)
Misc 2nd Tier	(\$34,000)
PEPRA Safety	(\$39,000)
PEPRA Misc	(\$37,000)
TOTAL	(\$945,000)

Source: Ridgeline

The investment underperformance impact is estimated based on the FYE 2022 market value of assets within each pension plan multiplied by 2.5%. CalPERS may make additional adjustments and reconciliations to account for actual vs. projected plan experience and any methodology changes.

CITY'S NORMAL COST RATES

In addition to the new UAL, the City should also be aware that its Normal Costs are increasing as follows for the fiscal year 2025-26:

- *Classic Miscellaneous Tier 1 Plan*: by 0.07% of salaries (from 16.02% to 16.09%) for the City, while remaining unchanged for the employees;
- *Classic Miscellaneous Tier 2 Plan*: by 0.05% of salaries (from 10.71% to 10.76%) for the City, and by 0.01% of salaries (from 6.93% to 6.94%) for the employees;
- *PEPRA Miscellaneous Plan*: by 0.09% of salaries (from 7.87% to 7.96%) for the City, while remaining unchanged for the employees;
- *Classic Safety Tier 1 Plan*: by 0.05% of salaries (from 25.86% to 25.91%) for the City, while remaining unchanged for the employees;
- *Classic Safety Tier 2 Plan*: by 0.06% of salaries (from 20.09% to 20.15%) for the City, while remaining unchanged for the employees;

- *PEPRA Safety Plan*: by 0.23% of salaries (from 13.76% to 13.99%) for the City, while remaining unchanged for the employees.

CITY'S ESTIMATED FYE 2024 PENSION PLAN FUNDED LEVELS

CalPERS will publish the 06/30/2024 actuarial reports for the City in or around August 2025. The reports will reflect any changes that have taken place during the fiscal year, including the investment performance, the City's and its employees' contributions, including the ADPs made by the City to reduce negative amortization, benefit payments to plan beneficiaries, and any adjustments made by CalPERS to reconcile the actual vs. projected plan experience and to account for any actuarial methodology changes.

While the reconciliation and methodology adjustments are unknown at this time, Ridgeline has developed an estimate of the other changes, including the FYE 2024 ADPs, which are summarized in **Table 4** below.

Table 4
City of Cotati
2024 Pension Plan Funded Level Estimate
Rounded to '000s

Description	Misc Plan	Safety Plan	Total
Market Value of Assets			
2023 Balance	\$18,175,000	\$14,247,000	\$32,422,000
Normal Cost Contribution	\$139,000	\$81,000	\$220,000
UAL Payment	\$193,000	\$171,000	\$364,000
ADP	\$159,000	\$131,000	\$290,000
Investment Gain / (Loss)	\$1,690,000	\$1,325,000	\$3,015,000
Benefit Payments	(\$1,310,000)	(\$1,050,000)	(\$2,360,000)
Estimated 2024 Balance	\$19,046,000	\$14,905,000	\$33,951,000
Unfunded Accrued Liability			
2023 Balance	\$3,716,000	\$3,138,000	\$6,854,000
UAL Payment	(\$193,000)	(\$171,000)	(\$364,000)
Interest	\$253,000	\$213,000	\$466,000
ADP	(\$159,000)	(\$131,000)	(\$290,000)
Investment (Gain) / Loss	(\$454,000)	(\$356,000)	(\$810,000)
Estimated 2024 Balance	\$3,163,000	\$2,693,000	\$5,856,000
Pension Plan 2024 Funded Level	85.8%	84.7%	85.3%

Sources: CalPERS, Ridgeline

Due to the relatively small current UAL balances of the Tier 2 and PEPRAs, they have been omitted from the calculations.

It should be emphasized that the amounts calculated in Table 4 are estimates only and can only be finalized once CalPERS publishes the 06/30/2024 actuarial reports in August 2025.

The Normal Cost contributions, UAL payments (including the ADPs), and benefit payments estimates were generated by CalPERS. The investment gain / loss and UAL interest estimates were generated by Ridgeline.

It is estimated that the City's Classic Miscellaneous and Safety Tier 1 plans were approximately 85% funded as of 06/30/2024, before any additional adjustments that could be made by CalPERS.

Concurrently with the issuance of the UAL Refunding Loans, the City adopted an Unfunded Accrued Liability Management Policy, which calls for the City to maintain a target pension plan funded level objective of 90%. The City is below this threshold.

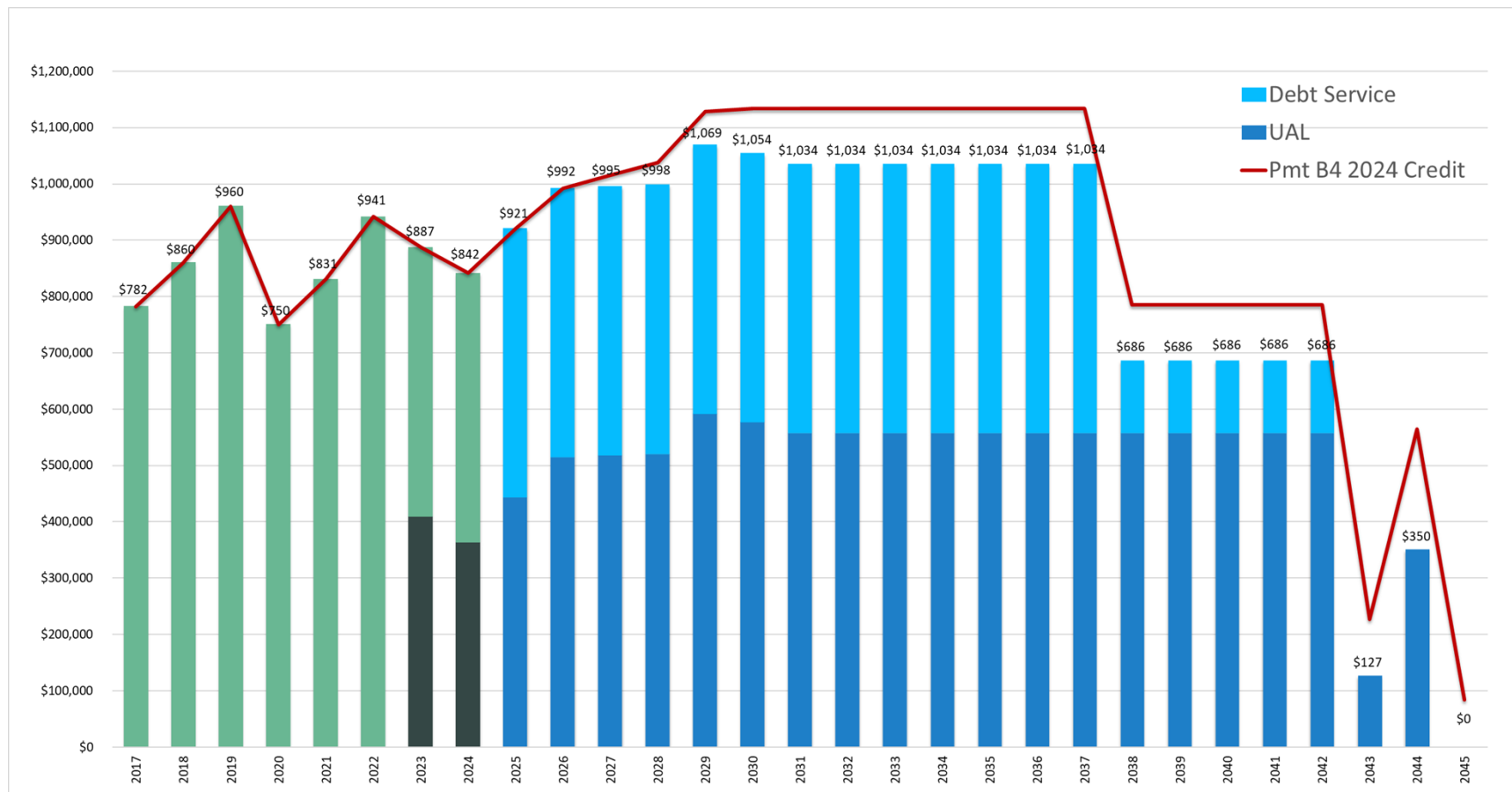
AMORTIZATION OF UAL CREDIT

The 2024 UAL credit will be amortized over a 20-year period with a 5-year ramp-up. The first application of the credit will take place in FYE 2027 (July 2026).

The amortization schedule is based on the estimated 2024 UAL base balances shown in **Table 3** above.

Graph 3 illustrates how the UAL credit will impact the City's UAL repayment structure for the two Classic Tier 1 plans.

Graph 3
City of Cotati
UAL Repayment with 2024 Projected Base Amortization (\$000s)



Source: CalPERS' Actuarial Valuation Report as of June 30, 2023, UAL Refunding Loans Amortization Schedule, Ridgeline

Table 5 provides the annual detailed estimate of the existing UAL amortization, the UAL Refunding Loans repayments, and the new UAL amortization schedule.

Table 5
City of Cotati
Estimated UAL Amortization Schedule - CalPERS

FYE	Miscellaneous Plan					Safety Plan					Total		
	Debt Service		UAL		Total	Debt Service		UAL		Total	Debt Service	UAL	Total
	POB	Street Loan	Existing UAL	2024 UAL		POB	Street Loan	Existing UAL	2024 UAL				
2023	\$197,540	\$73,354	\$218,709	\$0	\$489,603	\$150,855	\$56,018	\$190,922	\$0	\$397,796	\$477,768	\$409,631	\$887,399
2024	\$197,539	\$73,354	\$192,898	\$0	\$463,791	\$150,855	\$56,018	\$170,871	\$0	\$377,744	\$477,766	\$363,769	\$841,535
2025	\$197,541	\$73,354	\$235,892	\$0	\$506,787	\$150,856	\$56,018	\$207,336	\$0	\$414,210	\$477,769	\$443,228	\$920,997
2026	\$197,542	\$73,354	\$278,121	\$0	\$549,018	\$150,857	\$56,018	\$236,464	(\$8,728)	\$434,611	\$477,772	\$505,857	\$983,628
2027	\$197,540	\$73,354	\$290,822	(\$11,131)	\$550,585	\$150,855	\$56,018	\$246,497	(\$17,456)	\$435,914	\$477,767	\$508,732	\$986,499
2028	\$197,539	\$73,354	\$303,525	(\$22,262)	\$552,156	\$150,854	\$56,018	\$256,532	(\$26,185)	\$437,220	\$477,766	\$511,611	\$989,376
2029	\$197,541	\$73,354	\$353,487	(\$33,393)	\$590,989	\$150,856	\$56,018	\$297,340	(\$34,913)	\$469,301	\$477,769	\$582,522	\$1,060,291
2030	\$197,540	\$73,354	\$356,383	(\$44,524)	\$582,754	\$150,855	\$56,018	\$299,630	(\$43,641)	\$462,863	\$477,768	\$567,848	\$1,045,616
2031	\$197,543	\$73,354	\$356,383	(\$55,654)	\$571,625	\$150,857	\$56,018	\$299,630	(\$43,641)	\$462,864	\$477,772	\$556,718	\$1,034,490
2032	\$197,537	\$73,354	\$356,382	(\$55,654)	\$571,619	\$150,853	\$56,018	\$299,630	(\$43,641)	\$462,860	\$477,763	\$556,717	\$1,034,480
2033	\$197,541	\$73,354	\$356,383	(\$55,654)	\$571,624	\$150,856	\$56,018	\$299,628	(\$43,641)	\$462,861	\$477,769	\$556,716	\$1,034,485
2034	\$197,542	\$73,354	\$356,382	(\$55,654)	\$571,623	\$150,856	\$56,018	\$299,632	(\$43,641)	\$462,866	\$477,771	\$556,719	\$1,034,489
2035	\$197,539	\$73,354	\$356,381	(\$55,654)	\$571,620	\$150,855	\$56,018	\$299,631	(\$43,641)	\$462,863	\$477,766	\$556,717	\$1,034,483
2036	\$197,539	\$73,354	\$356,384	(\$55,654)	\$571,622	\$150,854	\$56,018	\$299,630	(\$43,641)	\$462,861	\$477,765	\$556,719	\$1,034,484
2037	\$197,540	\$73,354	\$356,383	(\$55,654)	\$571,623	\$150,855	\$56,018	\$299,630	(\$43,641)	\$462,863	\$477,768	\$556,718	\$1,034,486
2038	\$0	\$73,354	\$356,381	(\$55,654)	\$374,081	\$0	\$56,018	\$299,631	(\$43,641)	\$312,008	\$129,372	\$556,717	\$686,089
2039	\$0	\$73,354	\$356,383	(\$55,654)	\$374,083	\$0	\$56,018	\$299,632	(\$43,641)	\$312,009	\$129,372	\$556,720	\$686,092
2040	\$0	\$73,354	\$356,380	(\$55,654)	\$374,080	\$0	\$56,018	\$299,628	(\$43,641)	\$312,005	\$129,372	\$556,713	\$686,085
2041	\$0	\$73,354	\$356,381	(\$55,654)	\$374,081	\$0	\$56,018	\$299,633	(\$43,641)	\$312,010	\$129,372	\$556,719	\$686,091
2042	\$0	\$73,354	\$356,382	(\$55,654)	\$374,082	\$0	\$56,018	\$299,629	(\$43,641)	\$312,006	\$129,372	\$556,716	\$686,088
2043	\$0	\$0	\$125,050	(\$55,654)	\$69,396	\$0	\$0	\$101,217	(\$43,641)	\$57,576	\$0	\$126,972	\$126,972
2044	\$0	\$0	\$361,627	(\$166,963)	\$194,664	\$0	\$0	\$286,680	(\$130,923)	\$155,757	\$0	\$350,421	\$350,421
TOTAL	\$2,963,105	\$1,467,082	\$6,993,099	(\$1,001,781)	\$10,421,505	\$2,262,830	\$1,120,365	\$5,889,053	(\$829,178)	\$8,443,069	\$7,813,381	\$11,051,193	\$18,864,574

Source: UAL Refunding Loans Amortization Schedule, Ridgeline

The debt service allocation to the Miscellaneous and Safety plans is made based on the UAL balances that were paid down through the issuance of the UAL Refunding Loans (see **Table 6** below).

Table 6
City of Cotati
Debt Service Allocation

Description	UAL Paydown	%
Miscellaneous Plan UAL Payoff	\$3,402,000	56.70%
Safety Plan UAL Payoff	\$2,598,000	43.30%
Total	\$6,000,000	100.00%

Source: UAL Refunding Loans Amortization Schedule

The 2024 UAL credit amortization is estimated based on the net UAL balance for each plan.

PENSION COST OPTIMIZATION STRATEGIES

Concurrently with the issuance of the UAL Refunding Loans, the City adopted the UAL Management Policy, which provides guidance on how the City should approach managing future UAL.

In addition to following the historical practice of prepaying the UAL payments by July 31 of each year, in FYEs 2024 and 2025, the City made ADPs to address negative amortization.

If the City wants to accelerate achieving the target funded level stated in the UAL Management Policy, it may want to consider the following additional actions:

- **Strategy A:** Eliminate negative amortization on the 2023 actuarial bases.
- **Strategy B:** Convert the 2022 actuarial bases from ramp-up to level repayment structure.
- **Strategy C:** Make additional discretionary contributions in excess of those necessary to cover the negative amortization.

Since the 2024 investment performance resulted in a UAL credit, no ADP is necessary for the investment performance base. Once the 2024 actuarial report is published in August of 2025, the City may want to consider an ADP if there are UAL increases due to other adjustments made by CalPERS.

Strategy A: Eliminate Negative Amortization on 2023 Bases

One of the key factors that contributed to the historical growth of UAL and associated pension costs for agencies covered by CalPERS was the negative amortization within pension plans.

The standard CalPERS practice does not require agencies to make any payments on new UAL for the first two years. After that the new UAL is amortized over a 20-year term with a 5-year ramp-up period to the full payment amount.

During the ramp-up period, the payments increase by 20% of the full payment amount each year. In other words, the first year's payment amount is only 20% of the full payment, the second year's payment amount is 40% of the full payment, etc.

However, the new UAL starts accruing interest at 6.8% (the discount rate) as soon as it is added to the plan.

Thus, the CalPERS standard UAL amortization practice results in negative amortization for each pension plan that does not take proactive steps.

Negative amortization occurs whenever the debt payment for any period is less than the interest charged over that period so that the outstanding balance of the debt increases.

In each year when the City's UAL payments on any given actuarial UAL base are less than the interest accrued on that base, the base's balance increases. In the following year, the interest is accrued on the higher balance.

Under the current CalPERS amortization rules, each agency finds itself in the negative amortization situation for the first four years after new UAL is incurred. In year 5, the required payment amount is just slightly higher than the interest amount for the year, which translates into essentially an interest-only payment. It is only in year 6 that the UAL starts being paid down.

This leads to significantly higher interest costs for the CalPERS member agencies.

Elimination of negative amortization is a recommended practice. It is achieved in two steps.

1. *Additional discretionary payments (ADPs) in the two years following the creation of new UAL to cover accrued interest.*

The ADP amount is calculated by multiplying the new UAL amount by 6.8%. These payments can be made as early as in the 13th and 25th months following the end of the fiscal year in which the new UAL was created. For the 2023 actuarial UAL bases, such ADPs can be made as early as July 2024 and July 2025.

To make these payments, you have to contact your CalPERS actuary 2-3 weeks prior to making the payments. You need to inform the actuary that you would like to make an ADP to cover the interest on the 2023 Investment Loss base and to instruct the actuary to apply the ADP to the 2023 Investment Loss base.

The actuary will then set up a receivable in the system that will allow you to make the payment through the City's MyCalPERS portal.

These actions should be taken after July 1, 2024 (for the 2023 UAL bases), after the fiscal year is closed, and need to be repeated the next year as well.

With the City's 2023 UAL additions of approximately \$456,000 for the Miscellaneous Plan and \$321,000 for the Safety Plan, the ADPs are estimated to be as following:

- Miscellaneous Plan: \$31,000 in each FYE 2025 and 2026
- Safety Plan: \$22,000 in each FYE 2025 and 2026

2. *Convert new UAL bases from ramp-up to level amortization schedule.*

This request should be made to the City's CalPERS actuary after the negative amortization ADPs have been made. As a result of the request, the City's UAL payments will be recalculated from the ramp-up to level repayment schedule. The first payment will still be due in FYE 2026 (July 2025) for the 2023 bases.

Table 7 illustrates the implementation of this strategy. The estimated savings from the elimination of the negative amortization on the 2023 actuarial bases is approximately \$77,000.

Table 7
City of Cotati
2023 Negative Amortization Elimination Analysis

FYE	Safety Tier 1 Investment Loss Base		Safety Tier 1 Non-Investment Loss Base		Miscellaneous Tier 1 Investment Loss Base		Miscellaneous Tier 1 Non-Investment Loss Base		Total Savings
	Original Ramp-Up	Level	Original Ramp-Up	Level	Original Ramp-Up	Level	Original Ramp-Up	Level	
2023	\$0	\$6,400	\$0	\$15,500	\$0	\$8,000	\$0	\$23,000	
2024	\$0	\$6,400	\$0	\$15,500	\$0	\$8,000	\$0	\$23,000	
2025	\$2,290	\$8,672	\$23,373	\$21,176	\$2,895	\$10,978	\$34,629	\$31,367	
2026	\$4,580	\$8,672	\$23,373	\$21,176	\$5,790	\$10,978	\$34,629	\$31,367	
2027	\$6,870	\$8,672	\$23,373	\$21,176	\$8,685	\$10,978	\$34,629	\$31,367	
2028	\$9,160	\$8,672	\$23,373	\$21,176	\$11,580	\$10,978	\$34,629	\$31,367	
2029	\$11,450	\$8,672	\$23,373	\$21,176	\$14,475	\$10,978	\$34,629	\$31,367	
2030	\$11,450	\$8,672	\$23,373	\$21,176	\$14,475	\$10,978	\$34,629	\$31,367	
2031	\$11,450	\$8,672	\$23,373	\$21,176	\$14,475	\$10,978	\$34,629	\$31,367	
2032	\$11,450	\$8,672	\$23,373	\$21,176	\$14,475	\$10,978	\$34,629	\$31,367	
2033	\$11,450	\$8,672	\$23,373	\$21,176	\$14,475	\$10,978	\$34,629	\$31,367	
2034	\$11,450	\$8,672	\$23,373	\$21,176	\$14,475	\$10,978	\$34,629	\$31,367	
2035	\$11,450	\$8,672	\$23,373	\$21,176	\$14,475	\$10,978	\$34,629	\$31,367	
2036	\$11,450	\$8,672	\$23,373	\$21,176	\$14,475	\$10,978	\$34,629	\$31,367	
2037	\$11,450	\$8,672	\$23,373	\$21,176	\$14,475	\$10,978	\$34,629	\$31,367	
2038	\$11,450	\$8,672	\$23,373	\$21,176	\$14,475	\$10,978	\$34,629	\$31,367	
2039	\$11,450	\$8,672	\$23,373	\$21,176	\$14,475	\$10,978	\$34,629	\$31,367	
2040	\$11,450	\$8,672	\$23,373	\$21,176	\$14,475	\$10,978	\$34,629	\$31,367	
2041	\$11,450	\$8,672	\$23,373	\$21,176	\$14,475	\$10,978	\$34,629	\$31,367	
2042	\$11,450	\$8,672	\$23,373	\$21,176	\$14,475	\$10,978	\$34,629	\$31,367	
2043	\$11,450	\$8,672	\$23,373	\$21,176	\$14,475	\$10,978	\$34,629	\$31,367	
2044	\$11,450	\$8,672	\$23,373	\$21,176	\$14,475	\$10,978	\$34,629	\$31,367	
Total Pmts	\$206,100	\$186,234	\$467,460	\$454,518	\$260,550	\$235,568	\$692,580	\$673,334	
Interest	\$112,687	\$92,821	\$349,385	\$336,443	\$142,475	\$117,493	\$574,505	\$555,259	
Savings		\$19,866		\$12,942		\$24,982		\$19,246	\$77,036

Source: CalPERS and Ridgeline

Strategy B: Convert 2022 Bases from Ramp-up to Level Repayment

The City can ask CalPERS to convert the 2022 Investment Loss actuarial bases from the ramp-up to a level repayment schedule.

There are two scenarios that the City can request:

- a. **No Negative Amortization** – Under this scenario, the City can request to make lower payments in FYEs 2026, 2027, and 2028, before converting to a level payment. The lower payments in the first three years are sufficient to cover the interest amount accrued during the year and also contribute some funds for the repayment of the principal amount. CalPERS usually does not allow revised payments that are below the original amortization schedule.

Under this scenario, the City will be able to save approximately \$285,000 for the Safety Tier 1 plan and \$347,000 for the Miscellaneous Tier 1 plan over the 20-year repayment period of the bases, compared to the original amortization schedule.

- b. **Level Payment** – Under this scenario, the City can request to make the same payment throughout the remaining term of the amortization schedule.

Under this scenario, the City will be able to save approximately \$354,000 for the Safety Tier 1 plan and \$433,000 for the Miscellaneous Tier 1 plan over the 20-year repayment period of the bases, compared to the original amortization schedule.

Table 8 compares the payment amounts under the original amortization schedule, the current amortization schedule after factoring in the ADPs and the FYE 2025 UAL payments that have already been made, and the two scenarios described above.

Table 8
City of Cotati
2022 Investment Loss Base Reamortization Scenarios

FYE	Safety Tier 1 Repayment Scenarios				Miscellaneous Tier 1 Repayment Scenarios			
	Original Ramp-Up	Revised Ramp-Up	No Negative Am	Level	Original Ramp-Up	Revised Ramp-Up	No Negative Am	Level
2023	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
2024	\$0	\$113,880	\$113,880	\$113,880	\$0	\$139,160	\$139,160	\$139,160
2025	\$41,059	\$154,939	\$154,939	\$154,939	\$50,174	\$189,334	\$189,334	\$189,334
2026	\$82,118	\$72,240	\$116,000	\$161,700	\$100,348	\$88,280	\$141,000	\$197,600
2027	\$123,177	\$108,360	\$124,000	\$161,700	\$150,522	\$132,420	\$151,000	\$197,600
2028	\$164,236	\$144,480	\$165,000	\$161,700	\$200,696	\$176,560	\$201,000	\$197,600
2029	\$205,295	\$180,600	\$171,000	\$161,700	\$250,870	\$220,700	\$209,200	\$197,600
2030	\$205,295	\$180,600	\$171,000	\$161,700	\$250,870	\$220,700	\$209,200	\$197,600
2031	\$205,295	\$180,600	\$171,000	\$161,700	\$250,870	\$220,700	\$209,200	\$197,600
2032	\$205,295	\$180,600	\$171,000	\$161,700	\$250,870	\$220,700	\$209,200	\$197,600
2033	\$205,295	\$180,600	\$171,000	\$161,700	\$250,870	\$220,700	\$209,200	\$197,600
2034	\$205,295	\$180,600	\$171,000	\$161,700	\$250,870	\$220,700	\$209,200	\$197,600
2035	\$205,295	\$180,600	\$171,000	\$161,700	\$250,870	\$220,700	\$209,200	\$197,600
2036	\$205,295	\$180,600	\$171,000	\$161,700	\$250,870	\$220,700	\$209,200	\$197,600
2037	\$205,295	\$180,600	\$171,000	\$161,700	\$250,870	\$220,700	\$209,200	\$197,600
2038	\$205,295	\$180,600	\$171,000	\$161,700	\$250,870	\$220,700	\$209,200	\$197,600
2039	\$205,295	\$180,600	\$171,000	\$161,700	\$250,870	\$220,700	\$209,200	\$197,600
2040	\$205,295	\$180,600	\$171,000	\$161,700	\$250,870	\$220,700	\$209,200	\$197,600
2041	\$205,295	\$180,600	\$171,000	\$161,700	\$250,870	\$220,700	\$209,200	\$197,600
2042	\$205,295	\$180,600	\$171,000	\$161,700	\$250,870	\$220,700	\$209,200	\$197,600
2043	\$205,295	\$180,600	\$171,000	\$161,700	\$250,870	\$220,700	\$209,200	\$197,600
2044	\$205,295	\$180,600	\$171,000	\$161,700	\$250,870	\$220,700	\$209,200	\$197,600
Total Pmts	\$3,695,310	\$3,483,499	\$3,409,819	\$3,341,119	\$4,515,660	\$4,256,954	\$4,168,694	\$4,082,894
Interest	\$2,020,601	\$1,808,790	\$1,735,110	\$1,666,410	\$2,469,190	\$2,210,484	\$2,122,224	\$2,036,424
Savings		\$211,811	\$285,491	\$354,191		\$258,706	\$346,966	\$432,766

Source: CalPERS and Ridgeline

Strategy C: Additional Discretionary Contributions

To further lower the UAL interest costs, the City may want to consider making additional ADPs to reduce its UAL balances. This decision should be made in light of the overall City's fiscal situation, including reserve balances, capital improvement projects, cash flow management, City Council's vision and direction, etc.

The additional ADPs would also allow the City to quicker achieve its target 90% pension plan funded ratio, as documented in the UAL Management Policy. **Table 8** shows that to achieve the target funded ratio, the City would need to make an ADP of approximately \$1.6 million (after the FYE 2025 ADP that has already been made). Given the recent investment market volatility and the prior history of market recoveries that follow market downturns, the City may want to postpone making additional ADPs to see if market gains transpire to further offset a portion of the 2022 UAL.

Table 9
City of Cotati
Funded Ratio Target Estimate

Description	Amount	Comments
Estimated 2024 MVA	\$33,951,000	See Table 4
Estimated 2024 UAL	\$5,856,000	See Table 4
Estimated 2024 Total Accrued Liability	\$39,807,000	
Estimated 2023 Funded Level	85.3%	See Table 4
90% Funded Level Amount	\$35,826,000	
ADP Required to Achieve 90% Funded Level	\$1,875,000	
Less: FYE 2025 ADPs Already Made	(\$290,000)	
Remaining ADP to Achieve 90% Funded Level	\$1,585,000	

Source: Ridgeline

CONCLUSION and RECOMMENDATIONS

Proactive pension liability management practices are essential for keeping the City's future UAL balances and the associated interest costs under control.

Recommended for Implementation: Strategy A

Strategy A is a low-hanging fruit and does not require a significant investment of City funds. It is recommended that it is implemented to achieve long-term cash flow savings. To cover the interest on the FYE 2023 actuarial bases, the following ADPs are recommended:

Table 10
City of Cotati
Summary of Current Interest ADPs

Pension Plan	FYE 2024 Interest	FYE 2025 Interest	FYE 2026 Interest
Miscellaneous	\$31,000	\$31,000	\$0
Safety	\$21,900	\$21,900	\$0
Safety 2nd Tier	\$2,100	\$2,100	\$0
Misc 2nd Tier	\$2,200	\$2,200	\$0
PEPRA Safety	\$2,300	\$2,300	\$0
PEPRA Misc	\$2,500	\$2,500	\$0
<hr/>			
TOTAL	\$62,000	\$62,000	\$0

Source: Ridgeline

To make these ADPs, the City should request the following receivables to be set up by CalPERS:

**City of Cotati
FYE 2025 CalPERS ADP Receivables**

Pension Plan	2023 Investment Loss Base	2023 Non- Investment Loss Base	Total
Miscellaneous	\$8,000	\$23,000	\$31,000
Safety	\$6,400	\$15,500	\$21,900
Safety 2nd Tier	\$2,100	n/ a	\$2,100
Misc 2nd Tier	\$600	\$1,600	\$2,200
PEPRA Safety	\$700	\$1,600	\$2,300
PEPRA Misc	\$700	\$1,800	\$2,500
TOTAL	\$18,500	\$43,500	\$62,000

Recommended for Consideration Based on Overall Budget Outlook

Strategies B and C require a much larger commitment of the City's funds. It is recommended that these strategies be considered in the context of the overall budget outlook to balance the goal of achieving long-term cash flow savings with the on-going fiscal resiliency of the City's reserves.

If you have any questions about this technical memorandum or suggested strategies, do not hesitate to contact us.