



AGENDA REPORT

TO: Jestin D. Johnson
City Administrator

FROM: Erin Roseman
Finance Director

SUBJECT: Informational Report on the
Background of the Oakland PFRS

DATE: 11/28/2023

City Administrator Approval


Jestin Johnson (Nov 30, 2023 21:20 PST)

Date: **Nov 30, 2023**

RECOMMENDATION

Staff Recommends that the City Council Finance Committee Receive an Informational Report on the Oakland Police and Fire Retirement System's ("PFRS", or "System") as of June 30, 2023.

EXECUTIVE SUMMARY

The Oakland Police and Fire Retirement System is a closed defined benefit plan established by the City of Oakland's (the "City") Charter. PFRS is governed by a board of seven trustees (the "PFRS Board"). PFRS covers the City's sworn police and fire employees hired prior to July 1, 1976. PFRS was closed to new members on June 30, 1976. As of June 30, 2023, PFRS had 654 retired members and no active members. The City is required to fund all liabilities for future benefits for all PFRS members for as long as there is an outstanding liability. The City may levy the property tax override at least through 2026.

BACKGROUND / LEGISLATIVE HISTORY

The City currently internally maintains one closed pension system, the Police and Fire Retirement System ("PFRS"). PFRS is a closed defined benefit pension plan that provides retirement, disability and survivor benefits to all Police and Fire uniformed employees hired prior to July 1, 1976, who chose not to transfer to CalPERS. PFRS provides for the payment of retirement allowances, disability and death benefits to its members and their beneficiaries. The [City of Oakland City Charter Article XXVI](#), established the System in 1951 and requires the City of Oakland to provide for its funding.

The PFRS System is governed by a board of seven trustees (the "PFRS Board"): the Mayor or his/her designee, three Mayoral appointees approved by the City Council, an elected active or retired member of the Police Department, an elected active or retired member from the Fire Department, and an elected member position which alternates between the Police Department and Fire Department membership. Trustees receive no compensation.

On June 8, 1976, the voters of the City approved Measure R, a Charter amendment to the Retirement Law, which (as later amended) modified the City Charter to close the System.

Finance and Management Committee
December 12, 2023

On August 4, 1981, the Council passed Resolution 59916 C.M.S. authorizing a property tax within the City of Oakland, and designating 0.1530 percent for a "1981 Pension Liability Fund" for the purpose of funding the City's obligations to the System. By resolution passed March 2, 1982, the Council created the 1981 Pension Liability Fund.

In 1985, the Redevelopment Agency of the City of Oakland, (the "Agency") issued Certificates of Participation, 1985 Series A (the "1985 COPs") to provide financing for a portion of PFRS. The City entered into an Annuity Deposit Agreement with PFRS and purchased an annuity with New York Life (the "Annuity") to be used to pay a portion of the City's obligation to retired City employees, as set forth in Article XXVI of the City Charter.

On June 7, 1988, CMS 65500, more than two-thirds of the qualified voters of the City approved Measure O to provide for an extension of the contribution period for funding Police/Fire retirement liabilities from year 2016 to the year 2026.

In July 2012, the City issued \$212.5 million of Taxable Pension Obligation Bonds, Series 2012 ("2012 POBs"). The City subsequently deposited \$210 million into the System and entered a funding agreement with the PFRS Board.

Tax Override Revenues

In accordance with voter-approved measures adopting the City Charter provisions that govern PFRS, the City annually levies an ad valorem tax (the "property tax override" or "TOR") on all property within the City subject to taxation by the City to help fund its pension obligations to PFRS. State law limits the City's tax rate for this purpose at the rate of 0.1575%, the level at which the City has levied the tax since 1983. The City may levy the property tax override at least through 2026. In 1988, voters passed ballot Measure O, which revised the City Charter to extend the City's funding deadline of PFRS from 2016 to 2026. Per Article XXVI of the current Oakland Charter, the City is required to actuarially fund all liabilities for future benefits for all PFRS members by July 1, 2026. However, whether the City may levy the property tax override beyond 2026 without a ballot measure and 2/3rds voter approval is an open question that the City Council in consultation with the City Attorney must determine, regardless of the source of funds, whether from the General Purpose Fund or the property tax override.

The property tax override (TOR) levy provides funds solely for the purpose of funding the PFRS liability. The TOR is levied annually and is included in the annual tax statements from the County. A portion of the revenues are used to pay the debt service on the 2012 Pension Obligation Bonds debt service. A portion of the revenues are used to pay the City's contribution of the monthly retirement payments. The remainder of the TOR revenues remain in trust in the City Treasury.

As of June 30, 2023, the property tax override fund had a balance of approximately \$300.2 million. The outstanding debt service on the 2012 Pension Obligation bonds was \$162,211,645 as of 6/30/23. The City's required plan contribution for Fiscal Year 2022-23 was \$32.7 million. The City's required contributions are at rates established by consulting actuaries based upon plan valuations. Further detail on the obligations of the proceeds is shown in the tables on the following page.

City of Oakland Pension Bond Debt Service	
Payment Date	City of Oakland Pension Obligation Bonds Series 2012
12/15/2023	50,842,035
6/15/2024	2,431,520
12/15/2024	52,826,520
6/15/2025	1,253,285
12/15/2025	54,858,285
TOTAL	\$162,211,645

Projected Employer Contributions Police and Fire Retirement System (in millions)	
Fiscal Year Ending	Employer Contribution
2024	\$40.8
2025	44.0
2026	48.8
TOTAL	\$133.6

PFRS Investment Portfolio

As of June 30, 2023, the PFRS’ portfolio had an aggregate value of \$420.17 million. The System’s investment portfolio is governed by the PFRS Board. The PFRS Board sets an investment policy that authorizes investments in a variety of domestic and international equity and fixed income securities. Eleven external investment managers currently manage the System’s portfolio. Most of the portfolio is held in custody at Northern Trust. In accordance with the City Charter, the PFRS Board makes investment decisions in accordance with the prudent person standard as defined by applicable court decisions and as required by the California Constitution. As of June 30, 2023, the System had a one-year return of 8.8%, compared to an Actuarial Assumed rate of return of 6.0%.

New York Life Annuity and Associated Pension Obligation Bonds

In 1985, the Redevelopment Agency of the City of Oakland, (the “Agency”) issued Certificates of Participation, 1985 Series A (the “1985 COPs”) to provide financing for a portion of PFRS. The City entered into an Annuity Deposit Agreement with PFRS and purchased an annuity with New York Life (the “Annuity”) to be used to pay a portion of the City’s obligation to retired City employees, as set forth in Article XXVI of the City Charter.

In 1988, the City and PFRS amended the Annuity Deposit Agreement and pledged and assigned Pension Credits to the payment of principal of and interest on the City of Oakland Special Refunding Revenue Bonds (Pension Financing) 1988 Series A (the “1988 Series A Bonds”), which refunded the 1985 COPs. The City restructured these bonds three more times in 1998, 2005 and 2008 (the latter being the “2008 Bonds”). The Annuity was being used to repay the 2008 Bonds which matured in 2017, after which the remaining Annuity proceeds will go to offset the payments of PFRS unfunded liability.

In March 1997, the City issued Taxable Pension Obligation Bonds, Series 1997 (“1997 POBs”) and as a result deposited \$417 million into the System to pay the City’s contributions through June 2011. As a result of the funding agreement entered at the time the 1997 POBs were issued, City payments to PFRS were suspended from February 25, 1997 to June 30, 2011. The City of Oakland resumed contributing to PFRS effective July 1, 2011 and contributed \$45.5 million for the fiscal year (FY) ended June 30, 2012.

On October 17, 2001, the City issued \$195.6 million of Taxable Pension Obligation Bonds (“2001 POBs”). The 2001 POBs refunded the 1997 POBs in order to reduce average annual debt service payments to a level at or below the anticipated TOR received by the City and to minimize the need for the City to use other revenues beside the Tax Override Revenues to pay for such debt service. The restructuring extended the final maturity of the POBs from FY 2010 to FY 2023. The 2001 POBs matured on December 15, 2022.

In July 2012, the City issued \$212.5 million of Taxable Pension Obligation Bonds, Series 2012 (“2012 POBs”). The City subsequently deposited \$210 million into the System and entered a funding agreement with the PFRS Board. Thus, no additional contributions were required until July 1, 2017.

PFRS Unfunded Actuarial Liability

As of the most recent actuary study dated July 1, 2022, the System’s Unfunded Actuarial Liability is approximately \$130.2 million, and the System had a Funded Ratio of 76.5 percent on an Actuarial Value of Assets (AVA) basis. The City of Oakland’s payments to the Plan, required contributions, are factored into the remaining outstanding calculated liability. Based on the current projections for employer contributions and the bond debt service payments schedule, the balance of the property tax override appears to have sufficient funds to cover the projected employer contribution without drawing from the General Purpose Fund. However, many factors influence these projections, and the balance of the property tax override could be insufficient if for example, market conditions change and the actuarial valuations determine that the employer contributions need to increase to properly meet the City’s funding obligation for the system.

ANALYSIS AND POLICY ALTERNATIVES

The City is required to fund all liabilities for future benefits for all PFRS members for as long as there is an outstanding liability. The City may levy the property tax override at least through 2026. Measure O changed the full funding date to June 30, 2026. To assess the likelihood of achieving that goal, we must further evaluate the plan, all of its resources, and analyze the legal requirements and implications.

Next Steps:

The PFRS Board and their Investment consultant (Meketa) are currently working on an Asset/Liability Study. This study takes into account the forward-looking asset allocation of the portfolio in conjunction with the expected long-term liabilities and risk. Given the upcoming 2026 funding date, PFRS and Meketa are focusing on ways to de-risk the portfolio to better preserve assets and reduce portfolio volatility. Education on various asset classes and their long-term portfolio impact is crucial to a plan such as PFRS. This study is expected to take a couple of months to complete with a new portfolio allocation expected sometime in the first quarter of 2024.

The Plan's Actuary (Cheiron) is currently working on the Actuarial Valuation Study as of July 1, 2023, as well as an Experience Study, which is an in-depth review of the Plan's actuarial assumptions used to measure the plan's liabilities and determine the contributions. The Actuary is planning to make recommendations to the Plan's mortality assumptions used to project the member's lifespans. Upon finalization of the Plan's actuarial assumption and Asset/ Liability Study, Cheiron will produce the actuarial valuation report as of July 1, 2023. This report will provide an update to the System's funding status and City contributions required to actuarially fund the Plan by 2026.

Staff expects the results of the multiple analyses to provide insight into an updated unfunded liability amount based on updated assumptions for plan participants and an updated long term portfolio valuation. City staff will assess remaining balances of the pension obligation bonds and historical collection and future collection projections of the property tax override levy. The outcome of these current analyses will inform future near-term financial decisions to ensure the City continues to meet the requirement for funding the retirement system liabilities. The City must consider the next steps in relation to meeting that obligation as we approach the July 30, 2026, full funding date. Staff will return to Council with the results and full analysis on the status of the funding of the Police Fire Pension liability obligations.

FISCAL IMPACT

This is an informational report. There are no budget implications associated with this report

PUBLIC OUTREACH / INTEREST

This item did not require public outreach other than the required posting on the City's website.

COORDINATIONSUSTAINABLE OPPORTUNITIES

Economic: Whenever possible, the PFRS Board seeks to benefit the local Oakland based economy. In 2006, the PFRS Board, along with staff, created the PFRS Local Broker provision. This provision mandates that the PFRS Investment Managers consider using Oakland based brokers for all trades conducted on behalf of the fund based on best execution. This program aims to regenerate some of the commissions generated by the System into the Oakland economy.

Environmental: The PFRS Board supports a sustainable environment. On June 29, 2016, the PFRS Board passed Resolution No. 6927 prohibiting PFRS investment managers from investing PFRS funds in any publicly traded company which derives at least 50 percent of its revenue from the mining and extracting of thermal coal.

Race & Equity: There are no race and equity opportunities associated with this report.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the Council receive this informational report regarding the background of the Oakland Police and Fire Retirement System (“PFRS”) as of June 30, 2023.

For questions regarding this report, please contact Erin Roseman, Director of Finance, at (510) 238-2026.

Respectfully submitted,



Erin Roseman (Nov 29, 2023 15:55 PST)

ERIN ROSEMAN
Director of Finance, Finance Department