



CITY OF SEBASTOPOL CITY COUNCIL

AGENDA ITEM REPORT FOR MEETING OF: June 2, 2026

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To: Honorable Mayor and City Councilmembers
From: Ana Kwong – *Administrative Services Director*
Responsible Department: Administrative Services
Subject: Pension Update and Long Term Funding Considerations

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RECOMMENDATION:

It is recommended that the City Council receive and consider NHA’s pension funding analysis and provide direction to proceed with planning based on Scenarios 2 and 3, which reflect a more balanced and sustainable use of the Section 115 Pension Trust. These scenarios provide meaningful General Fund relief by smoothing Unfunded Accrued Liability (UAL) payments while preserving a significant trust balance to maintain flexibility for future uncertainties. Council direction should include guidance on the preferred level and timing of trust withdrawals, the balance between near-term General Fund relief and long-term flexibility, and whether updates to the City’s Pension Funding Policy should be developed and returned to Council as part of future budget development.

PROCESS OF AGENDA ITEM:

- a. Presentation of the agenda item by the Administrative Services Director
- b. Introduction of Consultant
- c. Questions and Discussion from Councilmembers
- d. Public Comment Period
- e. Council Deliberation and Motion

EXECUTIVE SUMMARY:

This staff report provides a high-level overview of the City of Sebastopol’s pension obligations, recent actuarial trends, and existing pension prefunding tools, including the City’s Section 115 Pension Stabilization Trust. The intent of this item is to provide context and information to support policy discussion and future budget deliberations, rather than to request immediate Council action.

The City participates in CalPERS for both safety and miscellaneous employees. Like many California public agencies, Sebastopol has experienced increasing employer contribution requirements over the past decade due to changes in actuarial assumptions, investment return volatility, and the amortization of unfunded accrued liabilities (UAL). These trends have ongoing budgetary implications for the City’s General Fund and enterprise operations.

In response, the City has previously taken steps to manage pension cost volatility, including the establishment of a Section 115 Trust to prefund a portion of future pension obligations. At the same time, the City continues to face a structural budget imbalance and competing long-term priorities, including infrastructure reinvestment and service sustainability. This report outlines the current pension landscape and summarizes key considerations that may inform future policy direction related to pension funding.

BACKGROUND:

The City of Sebastopol contracts with the California Public Employees’ Retirement System (CalPERS) to provide defined benefit retirement plans for its employees. Employer contribution rates are determined annually based on actuarial valuations prepared by CalPERS and approved by the CalPERS Board of Administration.

Employer contributions consist of two primary components:

- Normal Cost: The cost of benefits earned by employees in the current year.
- Amortization of Unfunded Accrued Liability (UAL): Payments to reduce the difference between plan assets and actuarially determined liabilities.



Over time, CalPERS has lowered its assumed rate of return and modified amortization policies, which has generally resulted in higher and more volatile employer contribution requirements for participating agencies.

NHA Advisors is a municipal advisory and consulting firm based in San Rafael, California, providing services to cities throughout the State. The firm includes registered municipal advisors and specialized consulting practice groups, including a Pension and Fiscal Sustainability practice established in 2014, with a focus on pension education, financial planning and modeling, pension cost management strategies, and risk assessment for CalPERS member agencies.

The firm has previously worked with the City of Sebastopol, assisting in 2023 with a comprehensive fiscal sustainability study as well as pension strategies surrounding the establishment of the City's Section 115 Pension Stabilization Trust. Through that engagement, the firm developed familiarity with the City's CalPERS plans, financial structure, and policy considerations.

DISCUSSION:

As reflected in the City's most recent actuarial valuations and Annual Comprehensive Financial Report (ACFR), key assumptions currently include a discount rate of approximately 6.8% (6.9% for purposes of ACFR accounting), along with updated mortality and payroll growth assumptions.

While CalPERS investment performance has generally improved since the market volatility experienced in earlier years, employer contribution rates remain sensitive to market fluctuations and assumption changes. Even in periods of strong investment returns, required contributions may continue to increase due to the long-term nature of Unfunded Accrued Liability (UAL) amortization. For example, the City is still paying off a significant portion of UAL related to the losses sustained during the 2008-09 Great Recession (-27% returns) and in FY 2022 (-7.5% returns), as well as from the 20-year amortization of UAL increases stemming from prior discount rate reductions (7.5% → 7.0% in 2016 and 7.0% → 6.8% in 2020). In positive news, CalPERS beat their targets in FY 2024 (9.5% returns) and FY 2025 (12.1% returns) and is currently at 12% year-to-date (through April 2026). Impacts of this will be discussed in the presentation, but ultimately will reduce the UAL from over \$17 million to under \$15 million.

Pension costs represent a significant and growing component of ongoing operating expenditures. As discussed in recent Budget Committee meetings and long-range financial forecasts, pension obligations contribute to the City's structural budget challenges, alongside other cost pressures such as inflation, labor agreements, and infrastructure needs and pension costs are expected to remain a material driver of General Fund expenditures over the long term.

STAFF ANALYSIS:

Purpose and History

To help manage pension cost volatility, the City previously established a Section 115 Pension Stabilization Trust. Funds contributed to the trust are legally restricted for the payment of pension-related costs and are invested separately from CalPERS assets. The City initial investment to fund the trust when financial conditions allowed, with the goal of smoothing future employer contributions during periods of rate increases or market volatility.

Current Role

The Section 115 Trust provides the City with an additional financial tool, but it does not eliminate pension obligations or replace required CalPERS contributions. Policy decisions regarding whether to build, maintain, or draw upon the trust must be balanced against competing fiscal priorities, including maintaining adequate reserves and addressing ongoing operating deficits and deferred capital needs.

Recent financial modeling and consultant analyses indicate that, under various long-term scenarios, some use of pension stabilization resources may be necessary to help manage projected shortfalls in future years, particularly if new ongoing revenues are not realized. While such use would not, on its own, maintain long-term budgetary balance, it could help moderate the deficit and avoid further deterioration. Specifically, the City's long-term forecast developed



by our forecast consultant assumed full depletion of the trust over 9 years, with annual withdrawals (starting in FY 2027) of around \$450,000 (on average).

However, if the City is able to maintain the trust (hold off from withdrawing funds) and/or continue making regular contributions to the trust and maintain a balanced, moderate investment allocation—such as a 50/50 mix of equities and fixed income—the trust can continue to grow over time. Under such approach, investment earnings may eventually be sufficient to help offset periods of higher pension costs, reducing the need for sharp adjustments in the operating budget. Achieving this outcome requires careful balancing between ongoing contributions, investment risk, budget capacity, and other competing City priorities.

Long-Term Considerations and Highlights from NHA's Pension Strategy Discussion

As the City looks ahead, several high-level considerations may inform future pension funding strategy discussions and policy:

- How much of the structural deficit should be addressed through use of the 115 Trust?
- Should it be fully depleted? Continue to be funded? Or a more balanced approach - using some of it but while still keeping enough for future “what-ifs”?
- How do the above actions impact City’s ability to address other priorities, like CIP and services?
- Should updates be made to the City’s Pension Funding Policy?

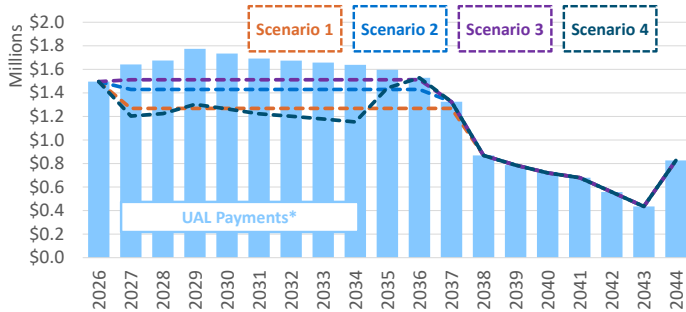
To help the Council understand the tradeoffs between using more or less of the trust, NHA’s presentation includes four scenarios for discussion purposes.

- Two of the scenarios (Scenarios 1 and 4) assume full depletion of the trust over the next decade.
- Scenarios 2 and 3 analyze a more balanced/judicious use of the trust.
- All options attempt to “smooth” the peak in UAL payments at a lower and smoother level, as demonstrated by the graphic below, to help alleviate the burden on the General Fund and enhance budget predictability.
- Scenarios 2 and 3 allow the City to maintain overall payments at roughly current (FY 2026) levels (purple and blue lines below). Scenarios 2 and 3 also ensure a strong balance is maintained over the next decade (between \$2.2M and \$3.3M remaining).
- Maintaining that balance would give the City flexibility to deal with future unknowns, such as CalPERS assumption changes, investment volatility, or other economic shocks.
- Notably, both Scenarios 2 and 3 call for a much lower withdrawal in FY 2027 (between \$129K and \$212K).
- Scenarios 1 and 4 assume much larger withdrawals in FY 2027 (approximately \$400K).
- Scenarios 1 and 4 create additional relief for the General Fund but are more aggressive and assume full depletion of the trust.

While NHA intends to keep the presentation short and focused, we do note that there is also detailed numeric analysis for each of these options in Appendix A of the presentation, as well as other information related to CalPERS pensions (Appendices B and C) that could serve as helpful reading/educational material.



Strategy for City’s Pension Reserves
Summary of Scenarios



Strategy for City’s Pension Reserves
Summary of Scenarios

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Annual Net Payment	\$1.3M	\$1.4M	\$1.5M	~\$1.2M
Cumulative Cost Reduction	\$4.0M	\$2.3M	\$1.5M	\$3.9M
Average Annual Cost Reduction	\$362K	\$232K	\$149K	\$433K
Remaining Balance (\$)	\$0	\$2.2M	\$3.3M	\$0
Remaining Balance (% of FY 2026 UAL + NC)	0%	100%	150%	0%
Last Year of Smoothing	FY 2037	FY 2036	FY 2036	FY 2035

BUDGET COMMITTEE REVIEW:

This item was reviewed by the Budget Committee on May 18, 2026. The Committee supported and discussed the considerations associated with using more or less of the trust as part of a broader funding strategy. The analysis serves as a planning tool similar to the City’s forecasting models to support near-term decision-making while maintaining an understanding of potential long-term impacts. The Committee also discussed the potential for establishing a target range, which could be incorporated into policy in the future.

CITY COUNCIL GOALS/PRIORITIES/ AND OR GENERAL PLAN CONSISTENCY:

This agenda item represents the City Council goals/priorities as follows:

Goal 5: Achieving Greater Fiscal Resilience and Long Term Fiscal Sustainability

This agenda item represents the City Council General Plan Consistency (if applicable): Not Applicable

FISCAL IMPACT:

The fiscal impact associated with this item includes a professional services fee to NHA Advisors, not to exceed \$12,500, for the preparation and presentation of pension and financial modeling scenarios. This cost was previously budgeted for financial advisory–related services. In addition, staff time was required to coordinate with the NHA team, prepare and review presentation materials, and develop and coordinate the associated staff report. No additional unbudgeted costs are anticipated beyond the approved consultant agreement and normal staff workload.

COMMUNITY OUTREACH:

This item has been noticed in accordance with the Ralph M. Brown Act and was available for public viewing and review at least 72 hours prior to schedule meeting date. The City has also used social media to promote and advertise the City Council Meeting Agenda Items.

As of the writing of this agenda item report, the City has not received any public comment. If staff receives public comment from interested parties following the publication and distribution of this agenda item report, such comments will be provided to the City Council as supplemental materials before or at the meeting and will be posted to the city website.

RESTATED RECOMMENDATION(S):

It is recommended that the City Council receive and consider NHA’s pension funding analysis and provide direction to proceed with planning based on Scenarios 2 and 3, which reflect a more balanced and sustainable use of the Section 115 Pension Trust. These scenarios provide meaningful General Fund relief by smoothing Unfunded Accrued Liability (UAL) payments while preserving a significant trust balance to maintain flexibility for future uncertainties. Council direction should include guidance on the preferred level and timing of trust withdrawals, the balance between



near-term General Fund relief and long-term flexibility, and whether updates to the City’s Pension Funding Policy should be developed and returned to Council as part of future budget development.

OPTIONS:

The City Council may consider the following options during the FY 2026-27 Budget Hearing:

- 1. Receive the pension update and direct staff to proceed with planning based on Scenarios 2 and 3, reflecting a balanced use of the Section 115 Pension Trust that provides General Fund relief while preserving long-term flexibility.
- 2. Receive the pension update and direct staff to further evaluate Scenarios 1 through 4, and return to Council during the FY 2026-27 budget process with additional analysis and recommendations.
- 3. Receive the pension update and provide alternative policy direction regarding the use of the Section 115 Pension Trust, including preferences on withdrawal levels, timing, and long-term trust balance targets.
- 4. Receive the report and presentation for informational purposes only, and defer policy direction on pension trust use to the FY 2026-27 Budget Hearings.

ATTACHMENTS:

NHA Comprehensive Powerpoint Materials

APPROVALS:

Department Head Approval: Approval Date: 5/14/26

CEQA Determination (Planning): Approval Date: N/A

The proposed action is not a project under the California Environmental Quality Act (CEQA).

Administrative Services (Financial) Approval Date: 5/21/26

Costs authorized in City Approved Budget: Yes No N/A

Account Code (f applicable) N/A

City Attorney Approval: Approval Date: 5/22/26

City Manager Approval: Approval Date: 5/22/26

CITY OF SEBASTOPOL

CALPERS PENSION UPDATE AND STRATEGY DISCUSSION



NHA | ADVISORS
Financial & Policy Strategies.
Delivered.

JUNE 2, 2026

Re-Introduction to NHA Advisors

- ▶ NHA Advisors’ 9 registered municipal advisors provide Municipal Advisory and Consulting services to Cities throughout California
- ▶ **Recent Work for City of Sebastopol**
 - ▶ Fiscal Sustainability Project in FY 2022-23
 - ▶ Section 115/Pension Strategy Project in FY 2023-24
- ▶ **Pension & Fiscal Sustainability Practice Group was established in 2014 and has served over 100 CalPERS members**
 - ▶ **Education** – Stakeholders, 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**
 - ▶ **Featured speaker for CSMFO, CDIAC, GovInvest, FDAC**

Consulting Practice Groups

Infrastructure & Facilities	Economic Development & P3
Utilities	Energy & Climate Change
Pension & Fiscal Sustainability	Policy Development
Debt Management & Compliance	Voter Approved Revenue Measures



Today's Discussion

- I. Background on CalPERS Costs
- II. Historical & Projected CalPERS Costs
- III. Cost Management Strategy Overview
- IV. Pension Reserve/115 Trust Smoothing Scenarios
- V. Observations and Recommendations

Appendix A – Detailed Back Up Analysis for Smoothing Scenarios

Appendix B – Sebastopol Pension Reserve/115 Trust Historical Trends & Considerations

Appendix C – Additional CalPERS Information



BACKGROUND ON CALPERS COSTS

City of Sebastopol CalPERS Summary

- ▶ City of Sebastopol has a **\$17.2M CalPERS Unfunded Accrued Liability (“UAL”)**, as of the latest CalPERS valuation for 6/30/2024
 - ▶ Miscellaneous Plan: \$8.3M | Safety Fire Plan: \$0.7M | Safety Police Plan: \$8.2M
- ▶ CalPERS FY 2024-25 Final Investment Returns: 12.1%*
 - ▶ Projected to decrease UAL to \$15.1M (as of 6/30/2025)
 - ▶ Projected benefit may be partially offset by CalPERS’ non-investment adjustments resulting from CalPERS’ 2025 Asset Liability Management (ALM) Study
- ▶ City has Pension Reserves totaling **\$3.2M** as of March 31, 2026
 - ▶ Discretionary Pension Account established in FY 2017 (Balance: \$1.1M)
 - ▶ Section 115 Pension Trust established in October 2023 (Balance: \$2.1M)
- ▶ City’s long-term forecast assumes full depletion of trust (~\$450K annual withdrawals) over the next 9 years
- ▶ **Included in this presentation are additional scenarios, including recommendations, related to how the City can leverage its Pension Reserves to achieve General Fund cost-avoidance & enhance budgetary predictability**

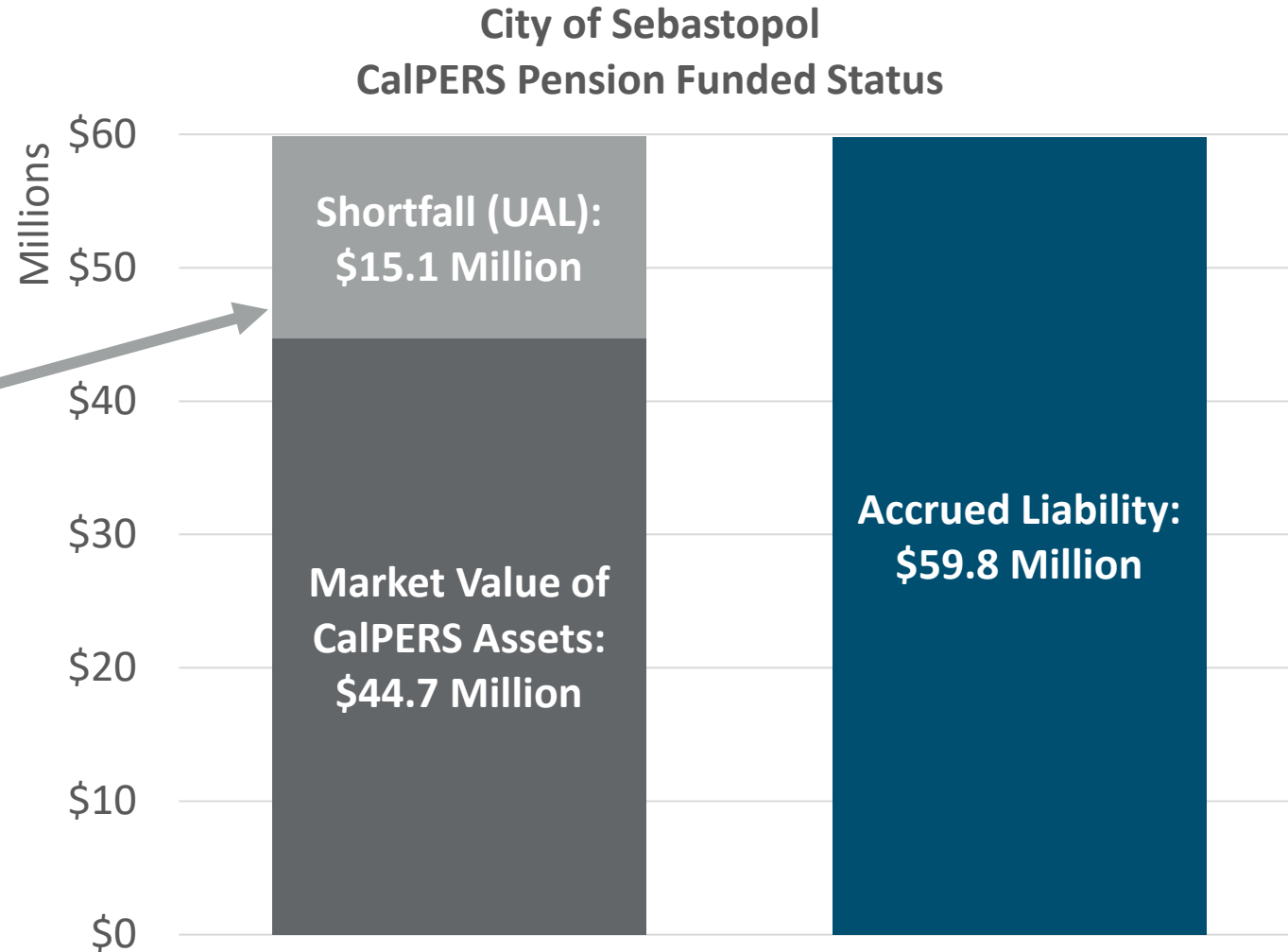


*CalPERS’ Money-Weighted Rate of Return, as reported by CalPERS

Background on How CalPERS Works

Two Payments Made to CalPERS Annually

- ▶ **(1) Normal Cost (“NC”)**: Annual cost for current employees
- ▶ **(2) Unfunded Accrued Liability (“UAL”)**: Annual payment to amortize the “debt” to CalPERS
 - ▶ Current UAL comprised of 68 layers (“amortization bases”), amortized over various terms from 3 to 24 years
 - ▶ Causes irregular repayment shape
 - ▶ New UAL is created when CalPERS investment returns <6.80%
 - ▶ New UAL is amortized over 20 years (2-year lag and 5-year payment ramp up)



Source: CalPERS Pension Outlook Tool. Assumes 6.80% Discount Rate, 12.1% FY 2024-25 Investment Returns + ALM, 6.80% Investment Returns from FY 2025-26 onward.



How CalPERS Benefits Get Funded

- ▶ Investment earnings used to make up a higher percentage (65%-70%+) of total contributions (pre-2008)
- ▶ As investments underperform assumptions, employers must make up the difference

CalPERS investment earnings

55¢

CalPERS employers

34¢

CalPERS members

11¢

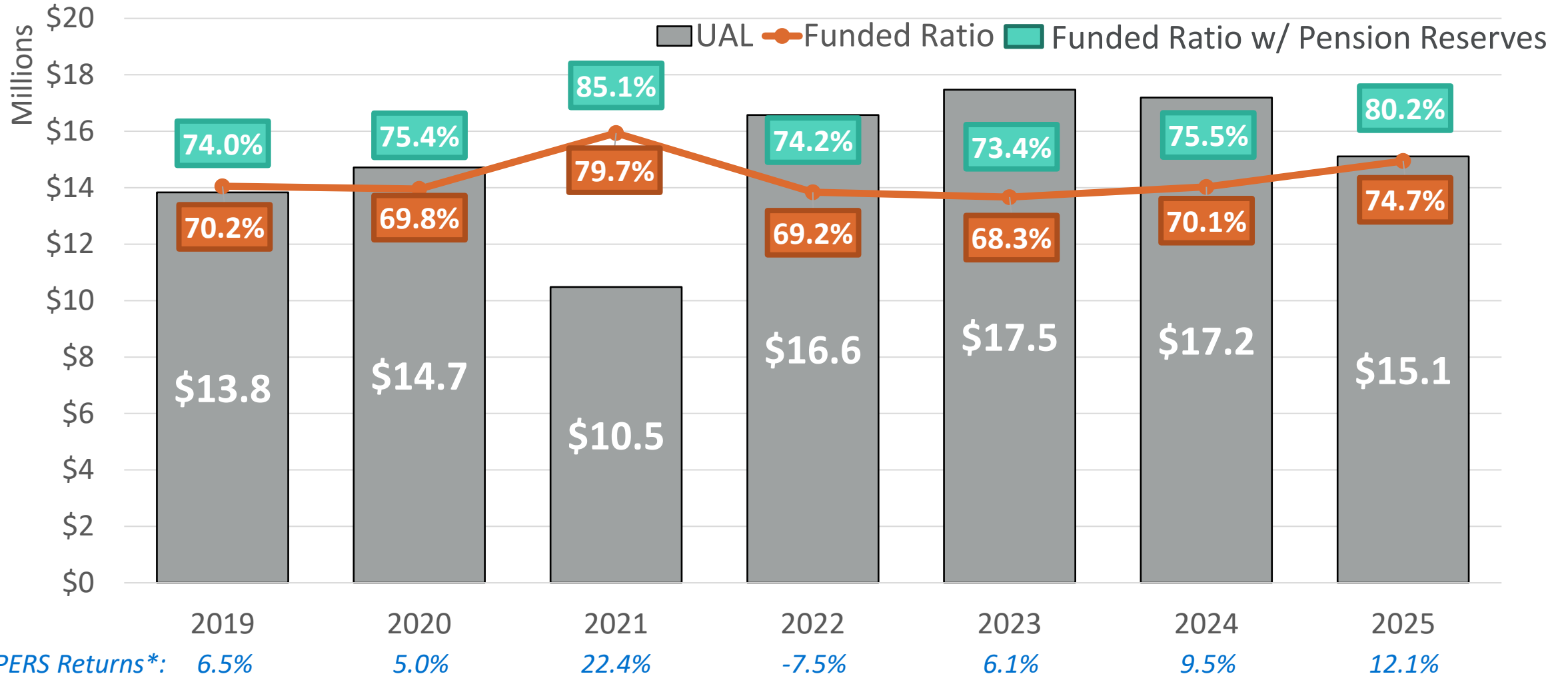
CalPERS Pension Buck: a 20-year Average (as of June 30, 2025)



HISTORICAL & PROJECTED CALPERS COSTS

History of the City's UAL Balance & Funded Ratio

Funded Ratio With and Without Pension Reserves



CalPERS Returns*:

2019

6.5%

2020

5.0%

2021

22.4%

2022

-7.5%

2023

6.1%

2024

9.5%

2025

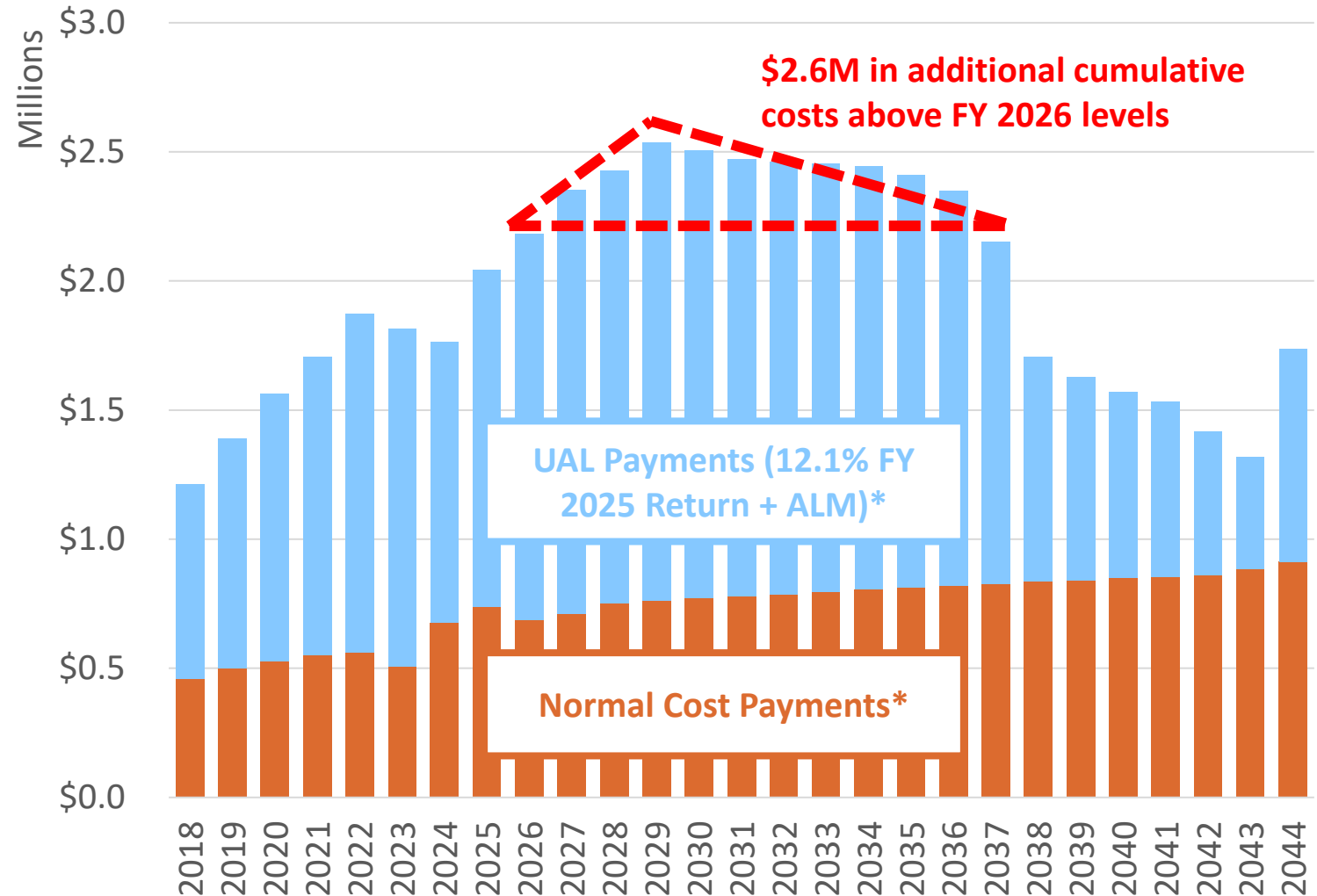
12.1%



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

Historical & Projected CalPERS Payments (UAL + Normal Cost)

- ▶ Projections are best estimates based on CalPERS' 12.1% FY 2025 Investment Return + ALM Assumptions
- ▶ City's UAL + NC payment is projected to rise to \$2.5M by FY 2029
 - ▶ UAL is the biggest contributor
 - ▶ \$750K in FY 2018 → \$1.3M in FY 2025 → \$1.8M in FY 2029
- ▶ **City's Pension Reserves (\$3.2M) are ~148% of FY 2026 pension costs (UAL + Normal Cost)**



Source: CalPERS Actuarial Valuation Reports & CalPERS Pension Outlook Tool.
 *Assumes FY 2024-25 investment returns of 12.1% and 6.8% investment returns thereafter. Projected UAL and Normal Cost assumes 2025 ALM impacts.

COST MANAGEMENT STRATEGY OVERVIEW

Pension Cost-Containment Strategies – Not Mutually Exclusive

Prepay UAL early in Fiscal Year (≈ 3.3% discount) → *City Does This When Feasible*

Use Cash Reserves to Pay Extra → *City has \$3.2M in Pension Reserves (Trust + Discretionary Account)*

1. Section 115 Trust – Separate trust solely dedicated to pension/OPEB
2. Additional Discretionary Payment (ADP) – Direct payments to CalPERS to reduce UAL
3. Discretionary Account – Internally held reserve earmarked for pension costs

Negotiate Cost Sharing With Employees

- New employees already governed by lower cost/benefit PEPRAs plans
- Some agencies have negotiated employee cost sharing of the employer share of costs

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

Restructure All or Portion of Remaining UAL

- Restructure portion of UAL at lower bond interest rate and “smooth out” payments for enhanced budget predictability and cash flow savings; **POBs NOT recommended at this time**



PENSION RESERVE/115 TRUST SMOOTHING SCENARIOS

Strategy for City's Pension Reserves

Preliminary Scenarios to "Smooth the Peak" in UAL Payments

Scenario 1: Full Exhaustion of Pension Reserves

- **\$0M** of Pension Reserves remain after withdrawal period

Scenario 2: Pension Reserves maintained at 100% of FY 2026 UAL + NC

- **\$2.2M** of Pension Reserves remain after withdrawal period

Scenario 3: Pension Reserves maintained at 150% of FY 2026 UAL + NC

- **\$3.3M** of Pension Reserves remain after withdrawal period

Scenario 4: City Forecast – Full Exhaustion of Pension Reserves

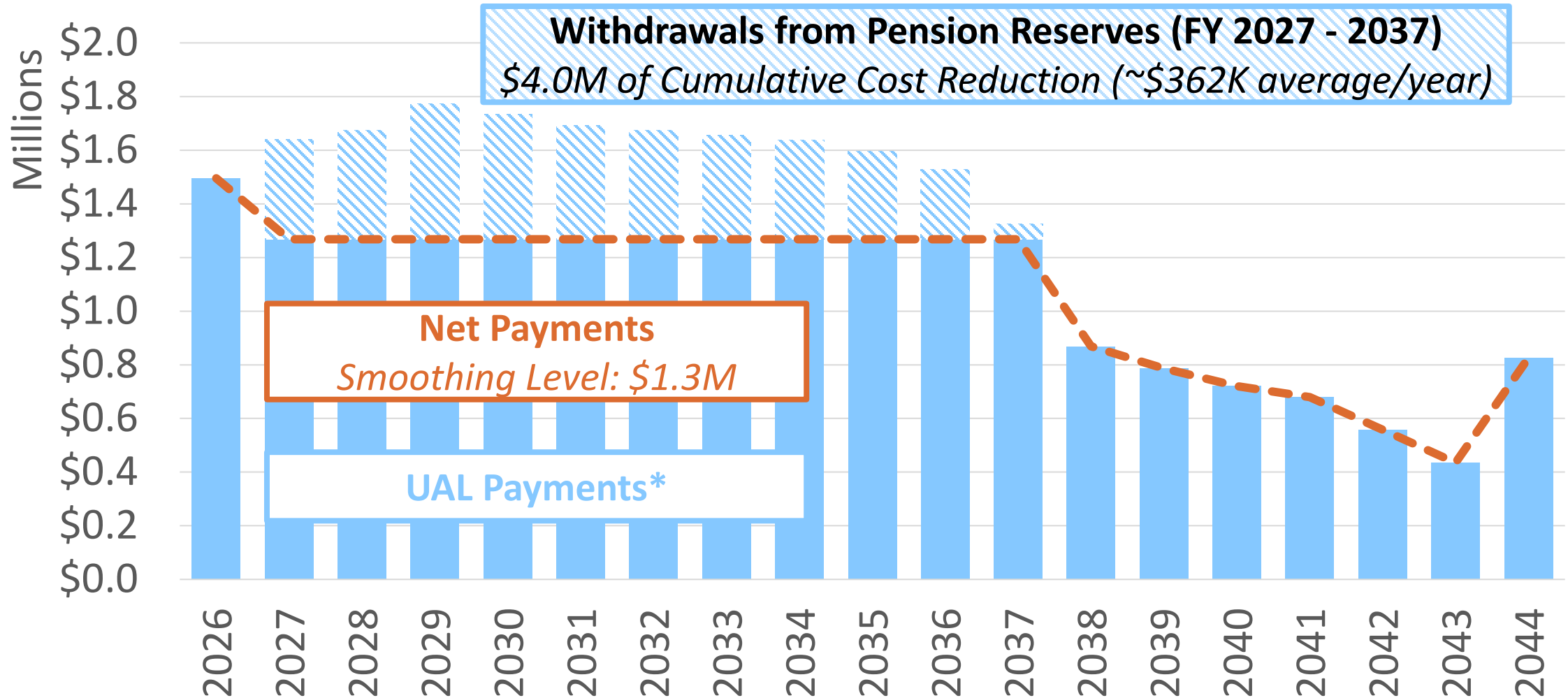
- Assumes Pension Reserves are exhausted over a 9-year withdrawal period, per City's forecast

All Scenarios assume the Pension Reserves achieve annual investment earnings of 5%



Scenario 1: Ending Pension Reserves of \$0M (FYE 2037)

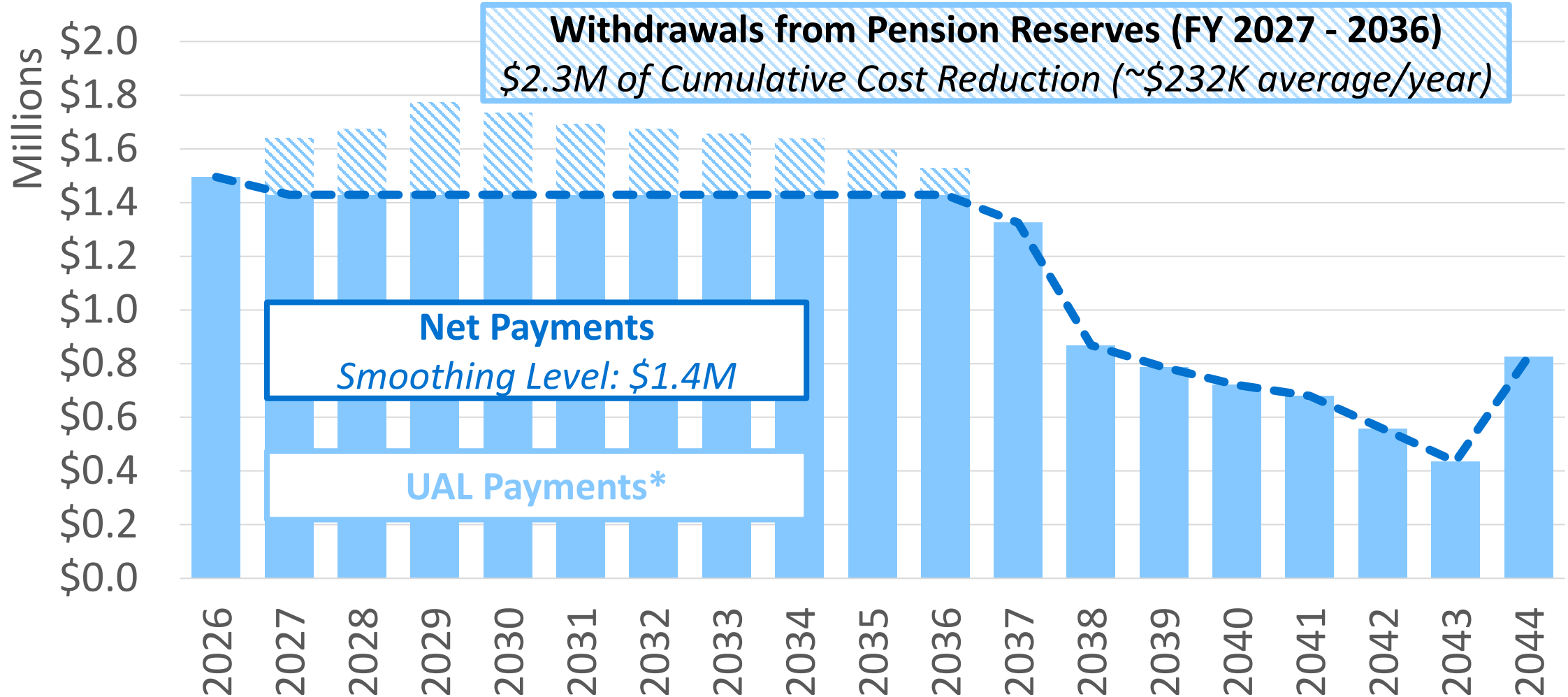
Full Exhaustion of Pension Reserves



*Source: CalPERS Actuarial Valuations and CalPERS Pension Outlook Tool. Assumes 6.80% Discount Rate, 12.1% FY 2024-25 Investment Returns + ALM, 6.80% Investment Returns from FY 2025-26 onward.

Scenario 2: Ending Pension Reserves of \$2.2M (FYE 2036)

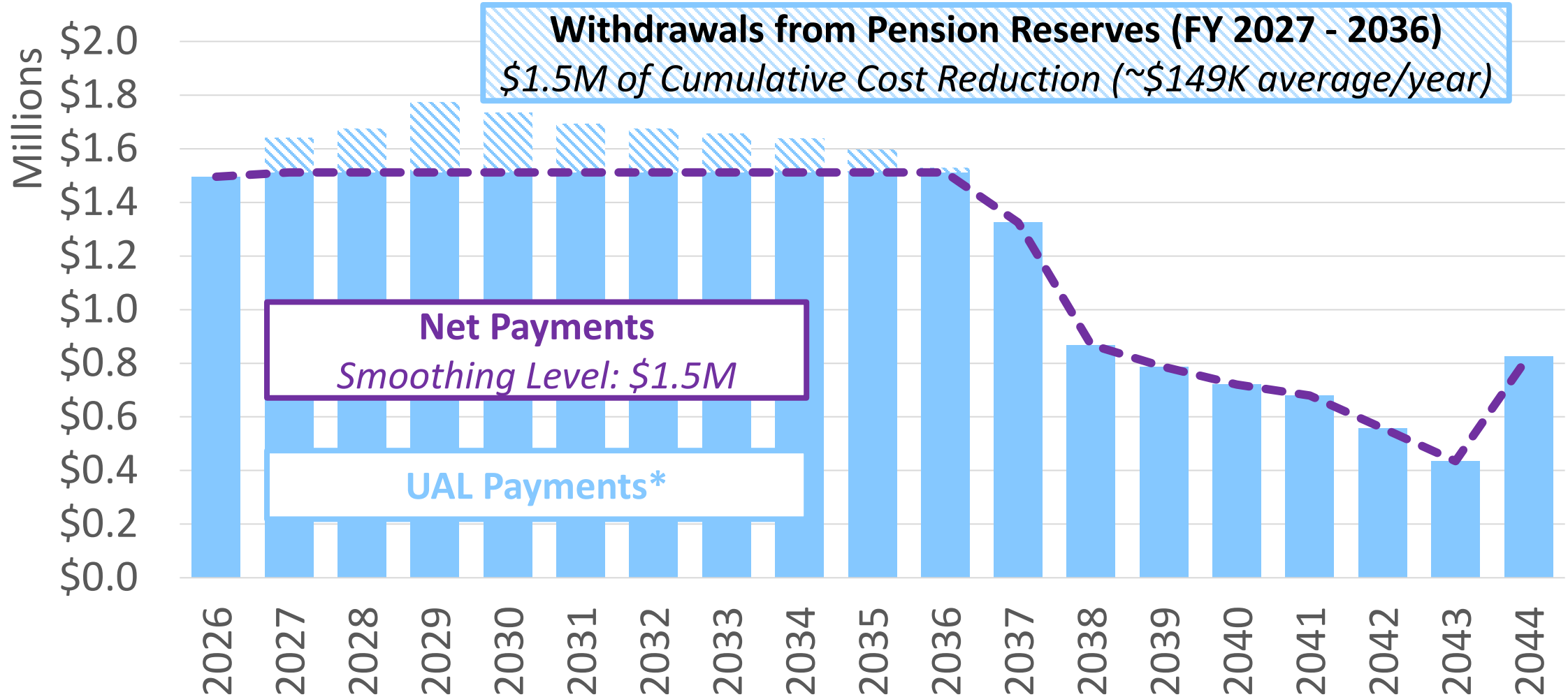
100% of FY 2026 UAL + Normal Cost



*Source: CalPERS Actuarial Valuations and CalPERS Pension Outlook Tool. Assumes 6.80% Discount Rate, 12.1% FY 2024-25 Investment Returns + ALM, 6.80% Investment Returns from FY 2025-26 onward.

Scenario 3: Ending Pension Reserves of \$3.3M (FYE 2036)

150% of FY 2026 UAL + Normal Cost

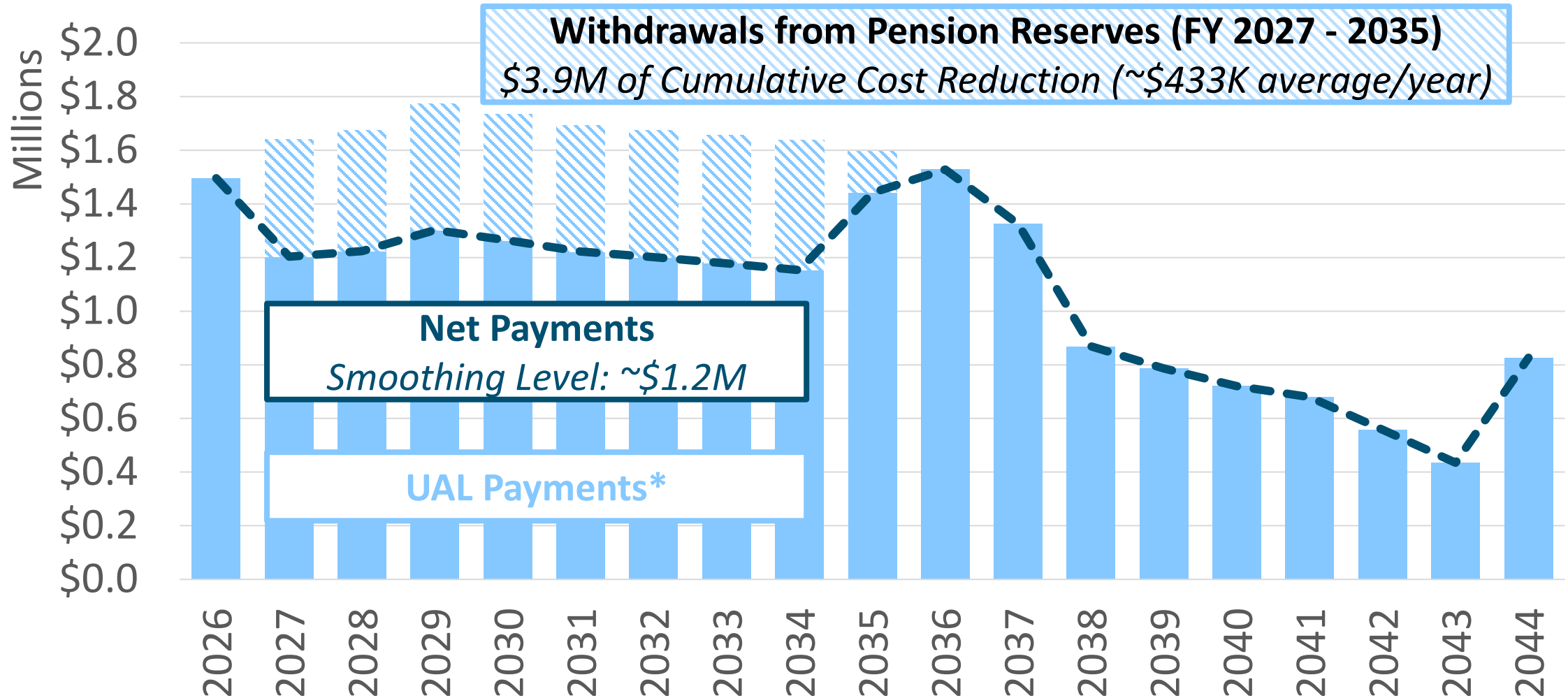


*Source: CalPERS Actuarial Valuations and CalPERS Pension Outlook Tool. Assumes 6.80% Discount Rate, 12.1% FY 2024-25 Investment Returns + ALM, 6.80% Investment Returns from FY 2025-26 onward.



Scenario 4: City Forecast - Ending Pension Reserves of \$0M (FY 2035) Agenda Item Number 6

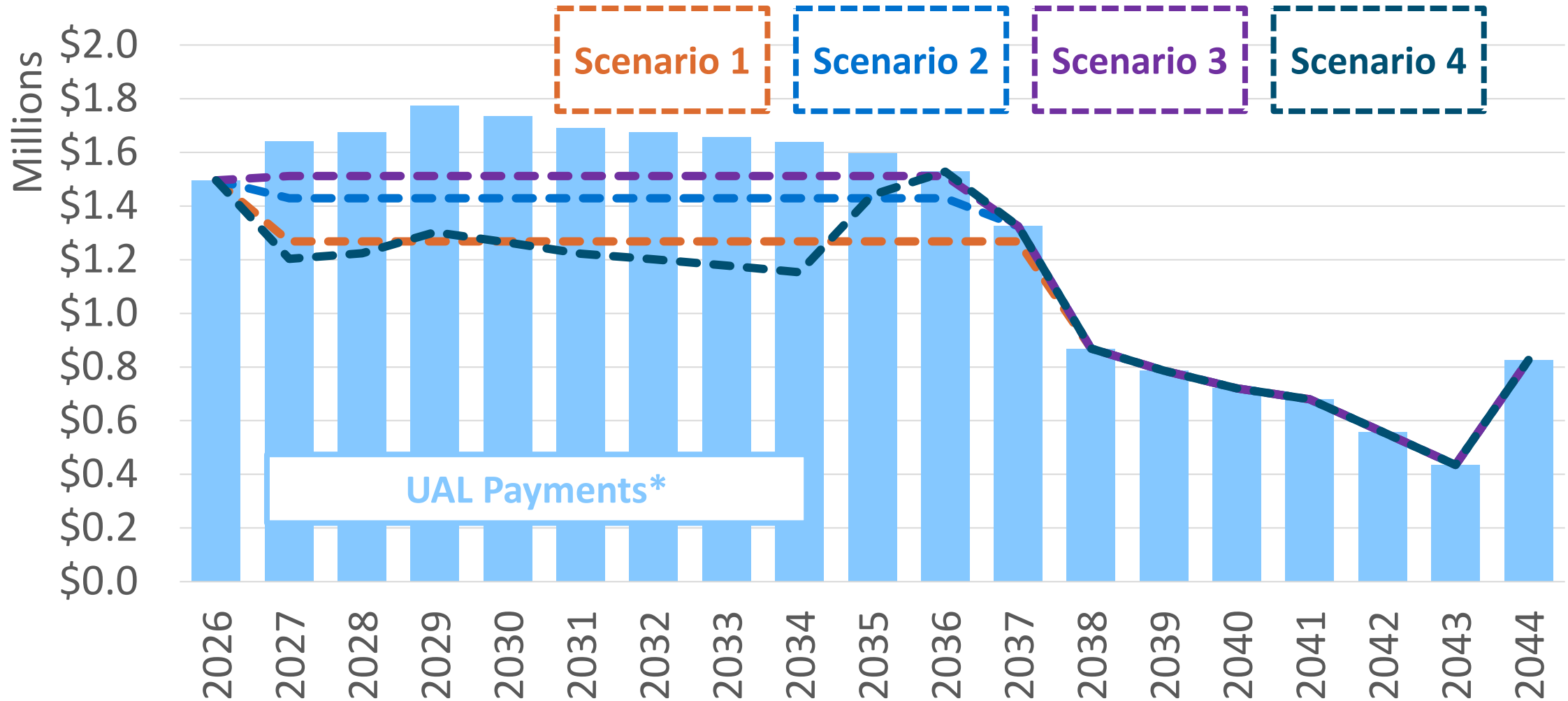
Full Exhaustion of Pension Reserves



*Source: CalPERS Actuarial Valuations and CalPERS Pension Outlook Tool. Assumes 6.80% Discount Rate, 12.1% FY 2024-25 Investment Returns + ALM, 6.80% Investment Returns from FY 2025-26 onward.

Strategy for City's Pension Reserves

Summary of Scenarios



*Source: CalPERS Actuarial Valuations and CalPERS Pension Outlook Tool. Assumes 6.80% Discount Rate, 12.1% FY 2024-25 Investment Returns + ALM, 6.80% Investment Returns from FY 2025-26 onward.



Strategy for City's Pension Reserves

Summary of Scenarios

	Scenario 1	Scenario 2	Scenario 3	Scenario 4
Annual Net Payment	\$1.3M	\$1.4M	\$1.5M	~\$1.2M
Cumulative Cost Reduction	\$4.0M	\$2.3M	\$1.5M	\$3.9M
Average Annual Cost Reduction	\$362K	\$232K	\$149K	\$433K
Remaining Balance (\$)	\$0	\$2.2M	\$3.3M	\$0
Remaining Balance (% of FY 2026 UAL + NC)	0%	100%	150%	0%
Last Year of Smoothing	FY 2037	FY 2036	FY 2036	FY 2035



OBSERVATIONS AND RECOMMENDATION

NHA Observations and Recommendations

- ▶ City has been proactive in managing rising pension costs
 - ▶ Prepayment discount (\$48K for FY 2026) and Strong Pension Reserves (148% of annual costs)
- ▶ Cautious/strategic leveraging (withdrawals) of the Pension Reserves is justified
 - ▶ How much, and when, is dependent on other City priorities and budgetary constraints
- ▶ Options 1 and 4 (full depletion of Pension Reserves over next decade) call for a sizeable FY 2027 withdrawal of around \$400K
- ▶ **However, City may want to consider taking a more balanced approach to withdrawing funds**
 - ▶ Given current economic/geopolitical volatility and unknown results of 2025 actuarial valuation/ALM impacts (new actuarial reports to be released August 2026), it may be prudent to **defer a FY 2027 withdrawal (if financially feasible)** and instead assess the timing/amount of a potential FY 2028 withdrawal at a future date
 - ▶ If withdrawal is needed in FY 2027, **Options 2 and 3 offer a more sustainable strategy** that provide cost reductions, while still maintaining strong Pension Reserves to handle future volatility and unknowns
 - ▶ Option 2: \$212K FY 2027 withdrawal | Option 3: \$129K FY 2027 withdrawal
- ▶ Pension Reserve/withdrawal strategy should be re-calibrated annually to adapt to changing CalPERS and other economic/budgetary conditions
 - ▶ City should work with its investment advisor (Shuster) to ensure Trust investment profile is in line with projected withdrawal schedule/risk tolerance (NHA is not an investment advisor)



APPENDIX A – DETAILED BACK UP ANALYSIS FOR SMOOTHING SCENARIOS

Scenario 1: Ending Pension Reserves of \$0M (FYE 2037)

Full Exhaustion of Pension Reserves

Fiscal Year	UAL Payments*	Beginning Pension Reserves Balance	Withdrawals from Pension Reserves	Interest Earnings of Pension Reserves**	Ending Pension Reserves Balance	Net UAL Payment	Difference vs. Current UAL Payments
2026	\$1,495,345	\$3,224,767	\$0	\$40,310	\$3,265,076	\$1,495,345	\$0
2027	\$1,641,189	\$3,265,076	\$373,102	\$144,599	\$3,036,573	\$1,268,087	\$373,102
2028	\$1,675,000	\$3,036,573	\$406,913	\$131,843	\$2,761,502	\$1,268,087	\$406,913
2029	\$1,774,000	\$2,761,502	\$505,913	\$112,779	\$2,368,368	\$1,268,087	\$505,913
2030	\$1,733,900	\$2,368,368	\$465,813	\$95,128	\$1,997,683	\$1,268,087	\$465,813
2031	\$1,691,100	\$1,997,683	\$423,013	\$78,733	\$1,653,403	\$1,268,087	\$423,013
2032	\$1,674,000	\$1,653,403	\$405,913	\$62,545	\$1,310,034	\$1,268,087	\$405,913
2033	\$1,657,000	\$1,310,034	\$388,913	\$46,056	\$967,177	\$1,268,087	\$388,913
2034	\$1,638,000	\$967,177	\$369,913	\$29,863	\$627,127	\$1,268,087	\$369,913
2035	\$1,596,700	\$627,127	\$328,613	\$14,926	\$313,439	\$1,268,087	\$328,613
2036	\$1,527,900	\$313,439	\$259,813	\$2,689	\$56,314	\$1,268,087	\$259,813
2037	\$1,324,400	\$56,314	\$56,313	\$0	\$0	\$1,268,087	\$56,313
2038	\$869,100	\$0	\$0	\$0	\$0	\$869,100	\$0
2039	\$785,900	\$0	\$0	\$0	\$1	\$785,900	\$0
2040	\$720,700	\$1	\$0	\$0	\$1	\$720,700	\$0
2041	\$679,300	\$1	\$0	\$0	\$1	\$679,300	\$0
2042	\$557,500	\$1	\$0	\$0	\$1	\$557,500	\$0
2043	\$435,000	\$1	\$0	\$0	\$1	\$435,000	\$0
2044	\$826,100	\$1	\$0	\$0	\$1	\$826,100	\$0
Total	\$24,302,134	--	\$3,984,237	\$759,471	--	\$20,317,897	\$3,984,237



*Source: CalPERS Actuarial Valuations and CalPERS Pension Outlook Tool. Assumes 6.80% Discount Rate, 12.1% FY 2024-25 Investment Returns + ALM, 6.80% Investment Returns from FY 2025-26 onward. **Assumes 5.00% annual investment return in FY 2026 – FY 2044. The investment return in FY 2026 is applied pro-rata for 3 months, as the starting Pension Reserves balance is as of 3/31/2026.

Scenario 2: Ending Pension Reserves of \$2.2M (FYE 2036)

100% of FY 2026 UAL + Normal Cost

Fiscal Year	UAL Payments*	Beginning Pension Reserves Balance	Withdrawals from Pension Reserves	Interest Earnings of Pension Reserves**	Ending Pension Reserves Balance	Net UAL Payment	Difference vs. Current UAL Payments
2026	\$1,495,345	\$3,224,767	\$0	\$40,310	\$3,265,076	\$1,495,345	\$0
2027	\$1,641,189	\$3,265,076	\$212,102	\$152,649	\$3,205,624	\$1,429,087	\$212,102
2028	\$1,675,000	\$3,205,624	\$245,913	\$148,391	\$3,108,102	\$1,429,087	\$245,913
2029	\$1,774,000	\$3,108,102	\$344,913	\$138,159	\$2,901,349	\$1,429,087	\$344,913
2030	\$1,733,900	\$2,901,349	\$304,813	\$129,827	\$2,726,363	\$1,429,087	\$304,813
2031	\$1,691,100	\$2,726,363	\$262,013	\$123,218	\$2,587,568	\$1,429,087	\$262,013
2032	\$1,674,000	\$2,587,568	\$244,913	\$117,454	\$2,460,109	\$1,429,087	\$244,913
2033	\$1,657,000	\$2,460,109	\$227,913	\$111,610	\$2,343,806	\$1,429,087	\$227,913
2034	\$1,638,000	\$2,343,806	\$208,913	\$106,745	\$2,241,638	\$1,429,087	\$208,913
2035	\$1,596,700	\$2,241,638	\$167,613	\$103,701	\$2,177,727	\$1,429,087	\$167,613
2036	\$1,527,900	\$2,177,727	\$98,813	\$104,231	\$2,183,145	\$1,429,087	\$98,813
2037	\$1,324,400	\$2,183,145	\$0	\$109,157	\$2,292,302	\$1,324,400	\$0
2038	\$869,100	\$2,292,302	\$0	\$114,615	\$2,406,917	\$869,100	\$0
2039	\$785,900	\$2,406,917	\$0	\$120,346	\$2,527,263	\$785,900	\$0
2040	\$720,700	\$2,527,263	\$0	\$126,709	\$2,653,973	\$720,700	\$0
2041	\$679,300	\$2,653,973	\$0	\$132,699	\$2,786,671	\$679,300	\$0
2042	\$557,500	\$2,786,671	\$0	\$139,334	\$2,926,005	\$557,500	\$0
2043	\$435,000	\$2,926,005	\$0	\$146,300	\$3,072,305	\$435,000	\$0
2044	\$826,100	\$3,072,305	\$0	\$154,036	\$3,226,341	\$826,100	\$0
Total	\$24,302,134	--	\$2,317,915	\$2,319,489	--	\$21,984,219	\$2,317,915



*Source: CalPERS Actuarial Valuations and CalPERS Pension Outlook Tool. Assumes 6.80% Discount Rate, 12.1% FY 2024-25 Investment Returns + ALM, 6.80% Investment Returns from FY 2025-26 onward. **Assumes 5.00% annual investment return in FY 2026 – FY 2044. The investment return in FY 2026 is applied pro-rata for 3 months, as the starting Pension Reserves balance is as of 3/31/2026.

Scenario 3: Ending Pension Reserves of \$3.3M (FYE 2036)

150% of FY 2026 UAL + Normal Cost

Fiscal Year	UAL Payments*	Beginning Pension Reserves Balance	Withdrawals from Pension Reserves	Interest Earnings of Pension Reserves**	Ending Pension Reserves Balance	Net UAL Payment	Difference vs. Current UAL Payments
2026	\$1,495,345	\$3,224,767	\$0	\$40,310	\$3,265,076	\$1,495,345	\$0
2027	\$1,641,189	\$3,265,076	\$129,470	\$156,780	\$3,292,387	\$1,511,719	\$129,470
2028	\$1,675,000	\$3,292,387	\$163,281	\$156,884	\$3,285,991	\$1,511,719	\$163,281
2029	\$1,774,000	\$3,285,991	\$262,281	\$151,185	\$3,174,895	\$1,511,719	\$262,281
2030	\$1,733,900	\$3,174,895	\$222,181	\$147,636	\$3,100,350	\$1,511,719	\$222,181
2031	\$1,691,100	\$3,100,350	\$179,381	\$146,048	\$3,067,018	\$1,511,719	\$179,381
2032	\$1,674,000	\$3,067,018	\$162,281	\$145,635	\$3,050,372	\$1,511,719	\$162,281
2033	\$1,657,000	\$3,050,372	\$145,281	\$145,255	\$3,050,346	\$1,511,719	\$145,281
2034	\$1,638,000	\$3,050,346	\$126,281	\$146,203	\$3,070,269	\$1,511,719	\$126,281
2035	\$1,596,700	\$3,070,269	\$84,981	\$149,264	\$3,134,553	\$1,511,719	\$84,981
2036	\$1,527,900	\$3,134,553	\$16,181	\$156,346	\$3,274,718	\$1,511,719	\$16,181
2037	\$1,324,400	\$3,274,718	\$0	\$163,736	\$3,438,454	\$1,324,400	\$0
2038	\$869,100	\$3,438,454	\$0	\$171,923	\$3,610,377	\$869,100	\$0
2039	\$785,900	\$3,610,377	\$0	\$180,519	\$3,790,895	\$785,900	\$0
2040	\$720,700	\$3,790,895	\$0	\$190,064	\$3,980,959	\$720,700	\$0
2041	\$679,300	\$3,980,959	\$0	\$199,048	\$4,180,007	\$679,300	\$0
2042	\$557,500	\$4,180,007	\$0	\$209,000	\$4,389,008	\$557,500	\$0
2043	\$435,000	\$4,389,008	\$0	\$219,450	\$4,608,458	\$435,000	\$0
2044	\$826,100	\$4,608,458	\$0	\$231,054	\$4,839,512	\$826,100	\$0
Total	\$24,302,134	--	\$1,491,595	\$3,106,341	--	\$22,810,539	\$1,491,595



*Source: CalPERS Actuarial Valuations and CalPERS Pension Outlook Tool. Assumes 6.80% Discount Rate, 12.1% FY 2024-25 Investment Returns + ALM, 6.80% Investment Returns from FY 2025-26 onward. **Assumes 5.00% annual investment return in FY 2026 – FY 2044. The investment return in FY 2026 is applied pro-rata for 3 months, as the starting Pension Reserves balance is as of 3/31/2026.

Scenario 4: City Forecast - Ending Pension Reserves of \$0M (FYE 2035)

Agenda Item Number 6

Full Exhaustion of Pension Reserves

Fiscal Year	UAL Payments*	Beginning Pension Reserves Balance	Withdrawals from Pension Reserves	Interest Earnings of Pension Reserves**	Ending Pension Reserves Balance	Net UAL Payment	Difference vs. Current UAL Payments
2026	\$1,495,345	\$3,224,767	\$0	\$40,310	\$3,265,076	\$1,495,345	\$0
2027	\$1,641,189	\$3,265,076	\$438,000	\$141,354	\$2,968,430	\$1,203,189	\$438,000
2028	\$1,675,000	\$2,968,430	\$451,000	\$126,216	\$2,643,647	\$1,224,000	\$451,000
2029	\$1,774,000	\$2,643,647	\$472,000	\$108,582	\$2,280,229	\$1,302,000	\$472,000
2030	\$1,733,900	\$2,280,229	\$470,000	\$90,511	\$1,900,740	\$1,263,900	\$470,000
2031	\$1,691,100	\$1,900,740	\$469,000	\$71,587	\$1,503,327	\$1,222,100	\$469,000
2032	\$1,674,000	\$1,503,327	\$473,000	\$51,658	\$1,081,985	\$1,201,000	\$473,000
2033	\$1,657,000	\$1,081,985	\$479,000	\$30,149	\$633,134	\$1,178,000	\$479,000
2034	\$1,638,000	\$633,134	\$485,000	\$7,407	\$155,541	\$1,153,000	\$485,000
2035	\$1,596,700	\$155,541	\$155,541	\$0	\$0	\$1,441,159	\$155,541
2036	\$1,527,900	\$0	\$0	\$0	\$0	\$1,527,900	\$0
2037	\$1,324,400	\$0	\$0	\$0	\$0	\$1,324,400	\$0
2038	\$869,100	\$0	\$0	\$0	\$0	\$869,100	\$0
2039	\$785,900	\$0	\$0	\$0	\$0	\$785,900	\$0
2040	\$720,700	\$0	\$0	\$0	\$0	\$720,700	\$0
2041	\$679,300	\$0	\$0	\$0	\$0	\$679,300	\$0
2042	\$557,500	\$0	\$0	\$0	\$0	\$557,500	\$0
2043	\$435,000	\$0	\$0	\$0	\$0	\$435,000	\$0
2044	\$826,100	\$0	\$0	\$0	\$0	\$826,100	\$0
Total	\$24,302,134	--	\$3,892,541	\$667,774	--	\$20,409,593	\$3,892,541

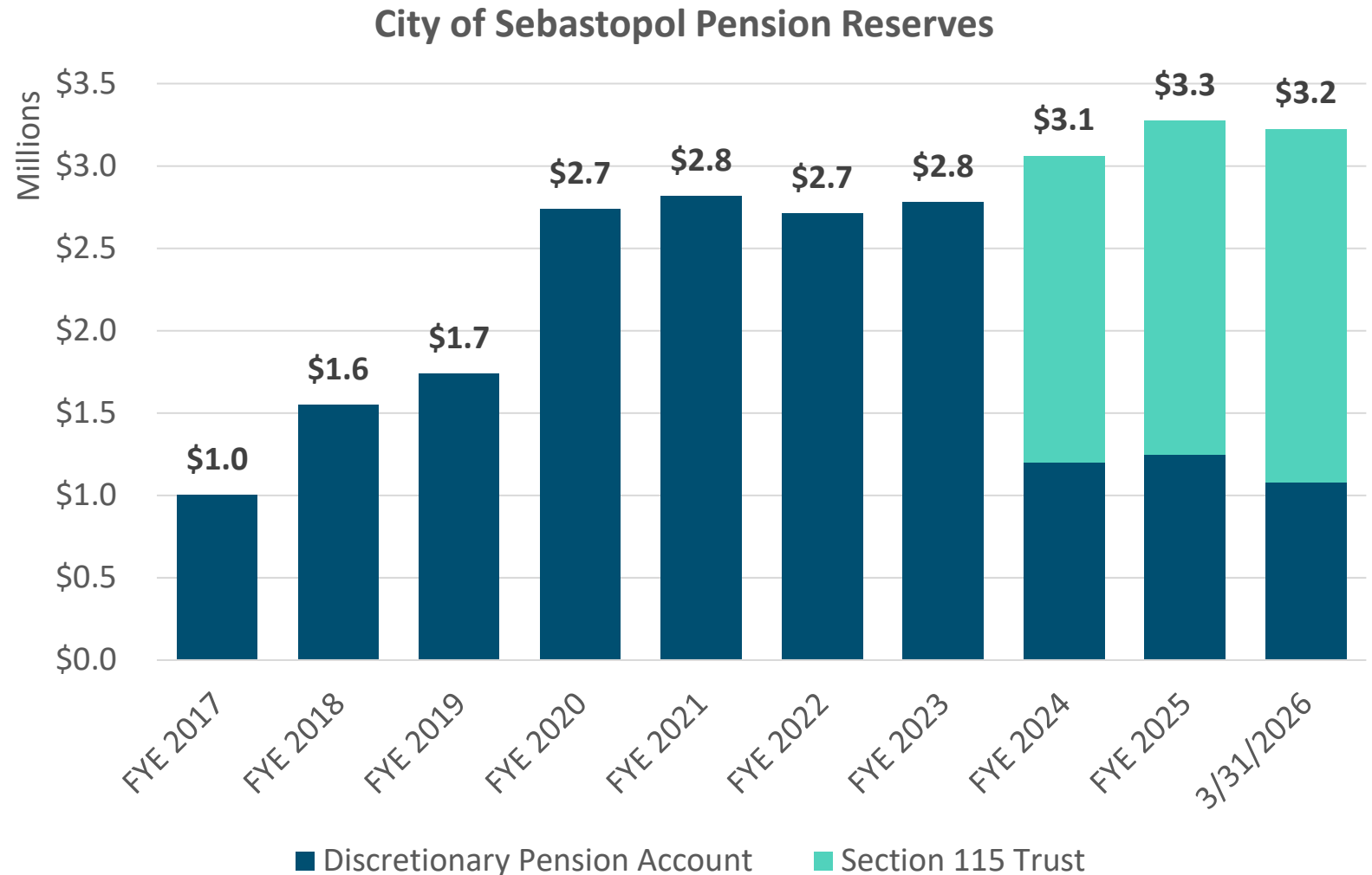


*Source: CalPERS Actuarial Valuations and CalPERS Pension Outlook Tool. Assumes 6.80% Discount Rate, 12.1% FY 2024-25 Investment Returns + ALM, 6.80% Investment Returns from FY 2025-26 onward. **Assumes 5.00% annual investment return in FY 2026 – FY 2044. The investment return in FY 2026 is applied pro-rata for 3 months, as the starting Pension Reserves balance is as of 3/31/2026.

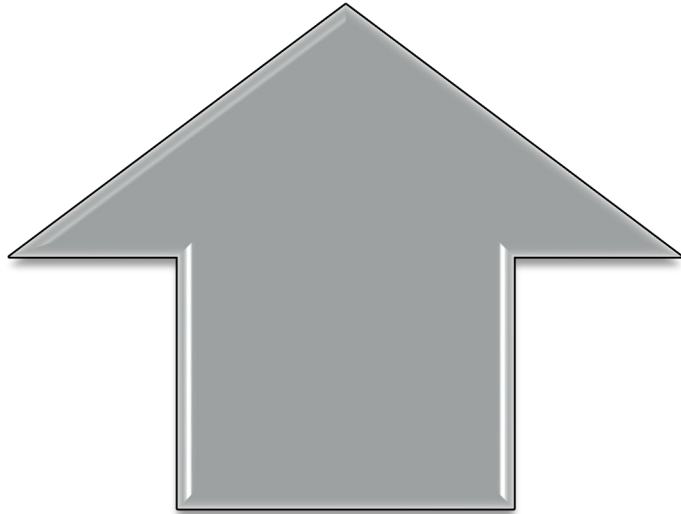
APPENDIX B – SEBASTOPOL PENSION RESERVE/115 TRUST HISTORICAL TRENDS & CONSIDERATIONS

Pension Reserves – Background

- ▶ City’s Discretionary Pension Account was established in FY 2017; Section 115 Pension Trust was established in FY 2024
- ▶ Combined Pension Reserves have grown from \$1M to \$3.2M due to contributions + investment earnings
- ▶ Section 115 Trust is invested in 40% Equity/60% Fixed Income portfolio
 - ▶ 10.45% annualized return since the Trust’s inception in October 2023
- ▶ The non-Trust pension reserve is invested in money market

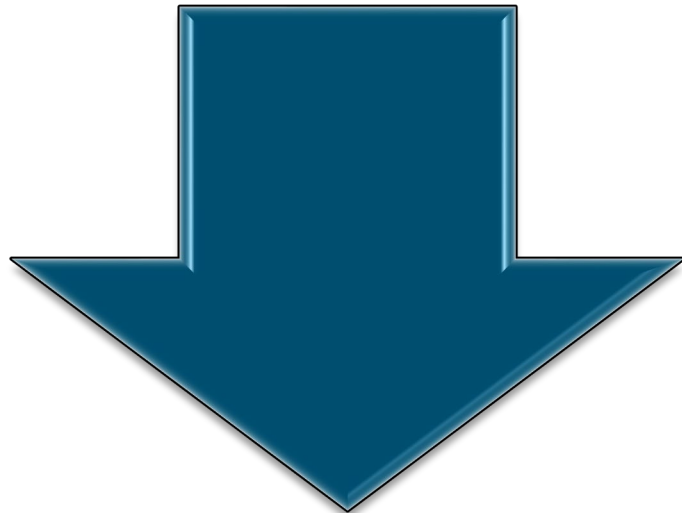


Pension Reserve Smoothing – Tradeoffs



Use More Pension Reserves

- Lower annual net payment for City
- More cost reduction and budgetary predictability
- More resources for other priorities (CIP, operations, etc.)
- Less dedicated resources for future pension costs



Use Less Pension Reserves

- Higher annual payment for City
- Less cost reduction
- Less resources for other City priorities
- More dedicated resources for future pension costs

APPENDIX C – ADDITIONAL CALPERS INFORMATION

Historical PERS Returns	
Agenda Item Number 6	
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)
 - ▶ Mortality rates (people living longer)
 - ▶ Shorter, more conservative amortizations
- ▶ Investment returns not meeting original expectations



City's CalPERS Retirement Plans

- ▶ 3 Main CalPERS plans: Miscellaneous, Safety Fire, Safety Police
 - ▶ **Miscellaneous:** 112 covered members; \$8.3M UAL as of 6/30/2024 Valuation
 - ▶ **Safety Fire:** 6 covered members; \$0.7M UAL as of 6/30/2024 Valuation
 - ▶ **Safety Police:** 63 covered members; \$8.2M UAL as of 6/30/2024 Valuation
- ▶ PEPPRA (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, 98% of current UAL comes from Classic plans and is not impacted by PEPPRA**



CalPERS 2025 Asset-Liability Management (ALM) Study Results

How Does it Impact the City?

▶ **UAL: No material impact projected for the City**

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

▶ **Normal Cost: Annual increase of ~4.9% (\$35K) 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 Pension Outlook Tool

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



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)



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
Savings	Varies; Depends on when City utilizes funds to pay liabilities	Immediate; Length of time varies based on which amortization component is paid off



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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