INTRODUCED: May 8, 2017

AN ORDINANCE No. 2017-095

To create a new reservation of fund balance called the Richmond Retirement System Unfunded Liability Reduction Reserve intended to be categorized as a committed fund balance and used for the reduction of the unfunded liability of the Richmond Retirement System.

Patron – Mr. Agelasto

Approved as to form and legality
by the City Attorney

PUBLIC HEARING: MAY 22 2017 AT 6 P.M.

THE CITY OF RICHMOND HEREBY ORDAINS:

§ 1. That:

(a) A new reservation of fund balance called the Richmond Retirement System Unfunded Liability Reduction Reserve (the "Reserve") is hereby created.

(b) It is the intent of this ordinance that (i) all amounts committed to the Reserve be appropriated for the reduction of the unfunded liability of the Richmond Retirement System until such unfunded liability is eliminated and (ii) the Reserve be categorized as a committed fund balance for purposes of generally accepted accounting principles.

AYES:	9	NOES:	0	ABSTAIN:	
ADOPTED:	MAY 22 2017	REJECTED:		STRICKEN:	

(c) Up to the first $2,000,000 of any year-end General Fund surplus remaining after the Unassigned General Fund Balance for the fiscal year commencing July 1, 2016, and ending June 30, 2017, reaches an amount equal to ten percent of Total Budget Expenditures as defined in the Unassigned Fund Balance Policy of the City of Richmond adopted by Resolution No. 2012-R42-72, adopted April 23, 2012, shall be committed to the Reserve.

§ 2. This ordinance shall be in force and effect upon adoption.

Richmond City Council

The Voice of the People Richmond, Virginia

Office of the Council Chief of Staff

Ordinance/Resolution Request

TO **Allen Jackson, Richmond City Attorney**
Richmond Office of the City Attorney

THROUGH Lou Brown Ali
Council Chief of Staff

FROM William E. Echelberger, Jr. Council Budget Analyst

COPY Parker C. Agelasto, 5th District Representative
Haskell Brown, Deputy City Attorney
Meghan K. Brown, Deputy Council Chief of Staff MKB
Amy E. Robins, 5th District Liaison

RECEIVED
MAY 04 2017
OFFICE OF CITY ATTORNEY

DATE April 27, 2017

PAGE/s 1 of 2

TITLE **Year End General Fund Surplus**

This is a request for the drafting of an **Ordinance** ☒ **Resolution** ☐

REQUESTING COUNCILMEMBER/PATRON

Parker C. Agelasto, 5th District Representative

SUGGESTED STANDING COMMITTEE

Committee Waived

ORDINANCE/RESOLUTION SUMMARY

The Patron requests an ordinance to require that:

1. Upon achieving an Unassigned General Fund Balance equal to ten percent (10.00%) of the Total Budget Expenditure, as defined in in Resolution No. 2012-R042,
2. The first $2,000,000 of any remaining General Fund Surplus on June 30 of each fiscal year shall be allocated as an amount committed by Richmond City Council, the governing body, for reduction of the unfunded liability of the Richmond Retirement System, until such unfunded liabilities are eliminated.

BACKGROUND

Summary:

- Resolution No. 2012-R042, a copy of which is attached, established the policy that the City of Richmond will set aside at least 10.0% of Total Budget Expenditures in its Unassigned Fund Balance.
    - Total Budget Expenditures, are defined in the resolution as General Fund Budgeted Expenditures plus Richmond Public School Budgeted Expenditures, less the budgeted transfer to Schools from the General Fund.

- Unassigned fund balances are often used by local governments as a buffer against unforeseen budget, revenue, or economic circumstances.
- Maintenance of such an unassigned fund balance is one way in which a government can provide what is often termed a Budget Stabilization Reserve, or an Economic Stabilization Reserve.
- Maintenance of some form of a stabilization reserve, at a material level, is viewed favorably by the bond rating agencies.
- As of June 30, 2016, the Richmond Retirement System reported a Net Pension Liability of $339,621,404. This resulted in a decline in the funded level to 60.3% of liabilities.
  - This is a decline from 63.8% in FY14, and 63.5%. Such downward trends are viewed unfavorably.

Richmond Retirement System Net Pension Liability			
	2016	**2015**	**Notes**
Total pension liability	$854,875,197	$850,911,445	
Plan fiduciary net position	-515,253,793	-540,060,865	Assets available to pay pensions
Net pension liability	**$339,621,404**	**$310,850,580**	This is the amount owed for pensions, but not covered by assets.
Plan fiduciary net position as a percentage of the total pension liability	60.3%	63.5%	
Net Unfunded Pension Liability	**39.7%**	**36.5%**	
Total pension liability	100.0%	100.0%	

  - 60.3% is an exceptionally low funding level for a defined benefit retirement system, where funding levels of 80% or more, when combined with an upward funding trend, are usually viewed as healthy.
  - Under the accounting standards promulgated by the Governmental Accounting Standards Board (GASB) in GASB 54, allocation of a portion of the year end surplus by the governing body is to be recorded in the financial statements as a Committed Fund Balance. In their presentation to City Council on April 24, 2017, the City's external auditor, Clifton Larson Allen, defined Committed Fund Balance as:

    "**Committed** – Amounts constrained to specific purposes by formal action (adoption of an ordinance) by the government's highest level of decision-making authority (City Council). Committed amounts do not lapse nor can they be used for any other purpose unless the government takes the same level of action (adoption of another ordinance) to remove or change the constraint."

FISCAL IMPACT STATEMENT

Fiscal Impact Yes ☒ No ☐

Budget Amendment Required Yes ☐ No ☒

Estimated Cost or Revenue Impact

In years where the Unassigned fund balance is 10.0% or more of Total Budget Expenditure, the first $2.0 million of any General Fund Surplus will be set aside as Committed Fund Balance for reduction of the Richmond Retirement System's Unfunded Liability.

Attachment/s Yes ☒ No ☐

The City Code requires that contributions to the RRS consist of a normal contribution plus an accrued liability contribution, which, combined, equal the actuarially determined contribution.

Contributions totaling $46,902,065, including $1,976,022 in member contributions, were made from July 1, 2015 to June 30, 2016 in accordance with the actuarially determined contribution requirements stated above. Contributions made during fiscal year ended 2015 were $48,884,032, including $2,347,163 in member contributions.

Funding Policy

The Richmond City Code of 1993, as amended, requires the City to contribute to the RRS, annually, an amount as determined by the actuary equal to the sum of the "normal contribution" and the "actuarial liability contribution."

The actuarial liability contribution is the amount necessary to amortize the unfunded actuarial liability and any increase or decrease in the unfunded actuarial liability in future years due to changes in actuarial assumptions, changes in RRS provisions, including the granting of ad hoc COLA increases, or actuarial gains or losses amortized over a closed period not to exceed 30 years.

Net Pension Liability

The components of the Employer's net pension liability at June 30, 2016 and 2015 were as follows:

	2016	2015
Total pension liability	$854,875,197	850,911,445
Plan fiduciary net position	(515,253,793)	(540,060,865)
Net pension liability	339,621,404	310,850,580
Plan fiduciary net position as a percentage of the total pension liability	60.3%	63.5%

Actuarial Assumptions

The July 1, 2014 valuation developed contribution rates for the fiscal year ending June 30, 2016, using the Entry Age Actuarial Cost Method. The actuarial method used to determine net pension liability for FY15 is also the Entry Age Actuarial Cost Method.

The amortization method used for general employees is a level dollar method over a closed period of 20 years. The amortization method used for police and fire employees is a level percent of pay method over a closed period of 20 years.

For purposes of determining contribution rates, the difference between actual investment earnings and expected investment earnings is recognized over a five-year period, with the restriction that the actuarial asset value cannot be less than 90% or more than 110% of market value. This smoothing method is utilized in order to smooth the impact of short-term market fluctuations on the RRS's contribution rates.

For the purposes of determining net pension liability, fair market value of investments was used.

Significant actuarial assumptions used in determining the actuarial liability include: (a) a 7.5% investment rate of return; (b) projected salary increases of 3% to 4% for general employees and 3% to 4.5% for police and fire employees; (c) the assumption that benefits will not increase after retirement.

See Schedule of Changes in Employer's Net Pension Liability on page 34.

Long-Term Expected Rate of Return

The long-term expected rate of return on RRS investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 are summarized in the following table on page 32: