the Golden Hub of Innovation

The Association of California Cities of Orange County (ACCOC) recognized the Police and Finance Departments by awarding each department the Golden Hub of Innovation in the categories of Public Safety and Budgeting and Finance.

While the City had deployed many strategies to mitigate its pension liabilities, quantifying the merits of paying down our unfunded liability sooner had always been a challenge since the expected payment schedule had been difficult to replicate and analyze. CalPERS's "rate smoothing" methodologies utilize multiple amortization bases, each with different terms and amortization methods. With no out-of-pocket costs, City staff was able to work with CalPERS' actuaries to understand and replicate the precise amortization methods used in the actuarial valuation. City staff was then able to develop an analytical framework that allowed for accurate and quantifiable savings associated with various alternative payment options when comparing each to the default payment schedule. In order to achieve some level of rate smoothing, the 30-year CalPERS payment schedule negatively amortizes for the first 10 years. This means that the first 10 years of the amortization payment is less than the annual interest on the unfunded liability. This produces negative amortization, and without offsetting gains, would increase the unfunded liability. City staff was able to identify and recommend a new funding schedule, adopted by the City Council that will save the City $129 million over 30 years. This represents a savings of $47 million (in today's dollars) when discounted at 3%.

The new funding schedule adopted by the City Council will improve the funded status of the plans faster than the default schedule and avoided negative amortization. If all actuarial assumptions are met going forward, the unfunded obligation will be paid off over 19 years, 11 years or 37% faster than the previous schedule.