CITY OF CHARLOTTESVILLE, VIRGINIA
CITY COUNCIL AGENDA

Agenda Date:	June 3, 2024
Action Required:	Approval of Resolution
Presenter:	Samuel Sanders, Jr., City Manager
Staff Contacts:	Jason Vandever, City Treasurer Krisy Hammill, Director of Budget
Title:	**Resolution to transfer $9,064,654 to the City's Retirement Fund (1 of 2 readings)**

Background

The Charlottesville Supplemental Retirement Fund, and the Post-Retirement Benefits Fund, together constitute the Pension Plan, which is designed to provide City employees with a valuable pension to supplement social security benefits upon retirement. Regular employees may enroll in the plan but are not vested until they have completed five years of service. The Pension Plan is a trust (fiduciary) fund supported by contributions paid by the City and plan members. The trust accumulates funds for the purpose of paying out future pension and post-retirement benefits accumulated by employees who participate in the plan.

Discussion

Under the current pension funding formula, the City's actuary assumes that the City's covered payroll costs will increase at a rate of approximately 3% annually. If the City's covered payroll exceeds an annual growth rate of 3%, an unfunded liability is created in the pension plan, because future pension benefits, which are based on projected final compensation, are growing at a rate faster than the City's underlying actuarial assumption. In FY25, implementation of the collective bargaining contracts and the class and compensation changes for unaffiliated employees will exceed the normal cost of the assumed 3% payroll growth at an additional one-time cost of $9,064,654. By pre-funding this cost (using year-end funds from the FY23 surplus), instead of amortizing the cost into future years, the City is ensuring that the pay changes implemented in FY 25 are fully funded at the time they are granted. This is best practice in pension plan management and ensures that the City is not increasing the unfunded liability in the plan.

Based on the estimates provided by the actuary, the one-time cost of $9,064,654 is broken down as follows:

Fire Contract - $3,241,449
Police Contract - $776,428
Transit Contract - $514,450
General Classification and Compensation (unaffiliated employees) - $4,532,327

Alignment with City Council's Vision and Strategic Plan

This change aligns with the City's vision to be a place where everyone thrives and reflects the City's strategic outcome area of organizational excellence by striving to compensate employees fairly and competitively.

Community Engagement

The City Council's approval of its collective bargaining ordinance and the compensation study have been discussed during mulitple pubic meetings. The need to add additional funds to the retirement fund was also discussed with the Council and the public during the FY 2025 budget development process.

Budgetary Impact

The transfer to the Retirement Fund will be made using the existing budget in the CIP contingency account. The CIP contingency account is funded with year-end surpluses as prescribed by the City's Fund Balance policy. On February 5th, 2024, City Council approved a resolution to appropriate $15,820,931 from the FY23 year-end surplus to the CIP contingency fund. This proposed allocation will use $9,064,654 of the FY23 year-end surplus, leaving $6,756,277 in the CIP contingency for further use.

Recommendation

Staff recommends approval of the resolution.

Alternatives

Council could choose not to approve the transfer which would cause the Retirement Fund to be under-funded. The balance would be amortized through the City’s contribution, with interest, over 15 years, adding approximately $1 Million a year to the City’s contribution.

Attachments

1. CIP Contingency Transfer - Retirement Fund Transfer