



City of
TORRANCE
California

TORRANCE IN ACTION:

HIGHLIGHTS AND UPDATES

PANELISTS



GEORGE K. CHEN
MAYOR



ARAM CHAPARYAN
CITY MANAGER



MICHELLE RAMIREZ
COMMUNITY DEVELOPMENT
DIRECTOR



CHIEF JAY HART
TORRANCE POLICE



SHEILA POISSON
FINANCE DIRECTOR



NHA
ADVISORS

MAYOR'S UPDATES

- Sister City & Friendship City Relations & Events
- Veterans Day Celebration

COMMUNITY DEVELOPMENT



RETAIL CANNABIS OPERATIONS



State of California

- Proposition 64, the Adult Use of Marijuana Act (AUMA)
- Voted into law on Nov. 9, 2016
 - Passed 57% voter approval
- Legalized the nonmedical use of cannabis by adults 21 and older
- Legalized recreational cannabis sales across the state starting in January 2018

RETAIL CANNABIS OPERATIONS



Torrance

- Passed 52% voter approval
- All cannabis businesses and activities are prohibited
- Enforcement
 - Cannabis Task Force – Department of Cannabis Control, Torrance PD, Community Development Department (Building & Safety & Code Enforcement)

SIDEWALK VENDING



State of California

- Senate Bill (SB) 946, Safe Sidewalk Vending Act
- Signed into law on September 17, 2018
 - Effective date January 1, 2019
- Ended the criminalization of sidewalk vending in California and barred any jurisdiction from prohibiting sidewalk vending
- Allows local jurisdictions to adopt non-criminal laws to protect public health, safety, and welfare

SIDEWALK VENDING



Torrance

- Sidewalk Vendor Ordinance
- Enforcement
 - Sidewalk Vending Compliance Team– LA County Dept of Public Health, Torrance PD, Torrance Fire Department and Community Development Department (Code Enforcement)

TORRANCE AIRPORT – NOISE ABATEMENT PROGRAM



- Noise Monitoring System – Casper Noise Lab
- Noise Limits
 - 82 dB (A) Maximum Sound Level & 88 dB (A) SENEL
 - 7:00 am - 10:00 pm, Monday – Friday
 - 8:00 am - 10:00 pm, Saturday, Sunday & Holiday
- Curfew Departures
 - No departures without authorization:
 - 10:00 pm – 7:00 am, Monday - Friday
 - 10:00 pm – 8:00 am, Saturday, Sunday &

TORRANCE AIRPORT – NOISE ABATEMENT PROGRAM



- Training

- Touch and go, stop and go, taxi-back and low approaches permitted:
 - 8:00 am - 10:00 pm, Monday - Friday (Taxi-backs until 10:00 pm)
 - 10:00 am - 5:00 pm Saturday
 - PROHIBITED SUNDAYS, HOLIDAYS, AND ALL OTHER HOURS

- Enforcement

- Administrative Hearing Board

SMALL CELL AND WIRELESS FACILITIES



What are Small Cell Facilities?

- Small Cell facilities are low-powered antennas that provide cellular and data coverage to smaller geographic areas, supplementing the larger cellular network.
- Small Cell equipment is located on poles, wires, or buildings.
- Small Cell equipment is allowed on private property and in the public right-of-way per Federal and State Law just like other utilities.

SMALL CELL AND WIRELESS FACILITIES



Role of the City

- Enforce the City of Torrance Wireless Policy
 - Review applications for Small Cell equipment in the public right-of-way or on private property.
 - Regulate wireless facilities consistent with the limitations under federal and state law.
 - Review proposed design, location, planned compliance with FCC guidelines, etc.
 - Inspects installations for consistency with approved plans and permits.

SMALL CELL AND WIRELESS FACILITIES



Can the City prohibit wireless facilities?

No. Federal law provides that local governments may not prohibit or effectively prohibit the provision of personal wireless services.

What about health concerns?

The FCC preempts cities from denying any small cell permit based on health concerns or the environmental effects of radio frequencies if the site meets the FCC requirements.

MAJOR DEVELOPMENTS

Residential



Del Amo Circle Residential Project

- Northeast corner of Carson Street and Del Amo Circle Drive
- Five-story, 200 dwelling unit apartment complex

Acoya of Torrance, LLC

- Northeast corner of Carson Street and Del Amo Circle Drive Market Rate Age Restricted Development for Seniors
- 159 Units (of which 22 are assisted living units)

MAJOR DEVELOPMENTS

Mixed-Use

Gable House Project

- Hawthorne Blvd close to Sepulveda where the current Gable House Bowling Alley is located.
- Feature 12,000 square feet of commercial space and 218 for apartment units, of which 17 will be affordable at the very low-income level.



MAJOR DEVELOPMENTS

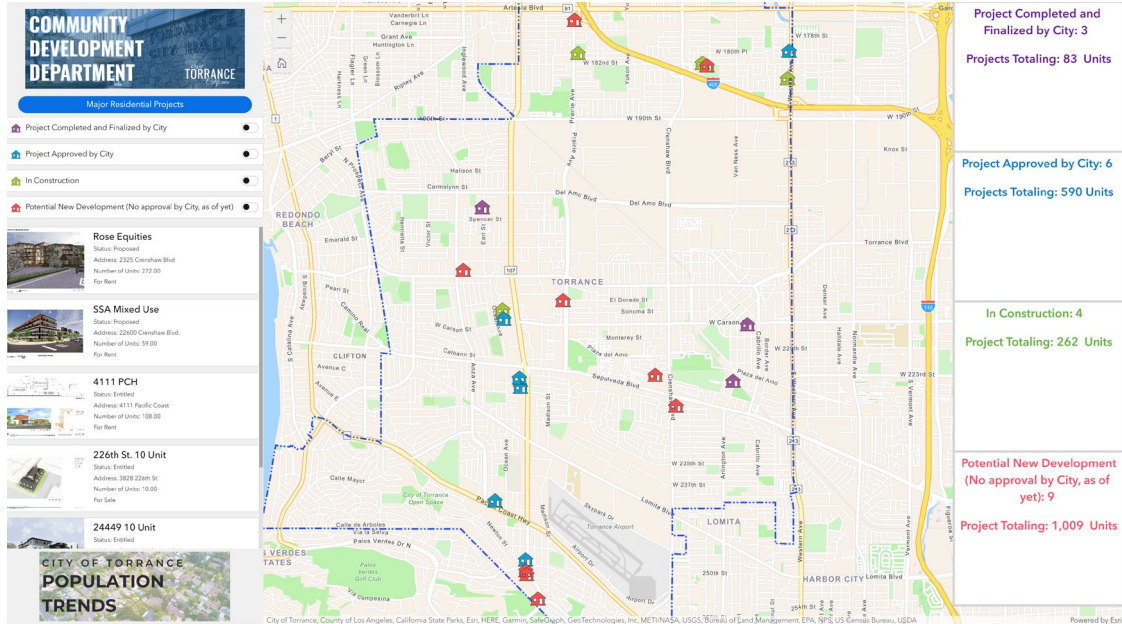
Industrial



Torrance Industrial Exchange (former Torrance Toyota Campus)

- SWC of 190th Street & Western Avenue
- 12 buildings on the southside of 190th Street
 - ✓ 3 buildings completed and occupied (Phase 1)
 - ✓ 4 buildings completed and occupied (Phase 2)
 - 5 buildings approved with 3 beginning construction (Phase 3)
- Potentially two additional buildings on the north side of 190th Street (Phase 4)

MAJOR RESIDENTIAL DEVELOPMENT MAP



www.TorranceCA.Gov/CDD



TORRANCE POLICE DEPARTMENT



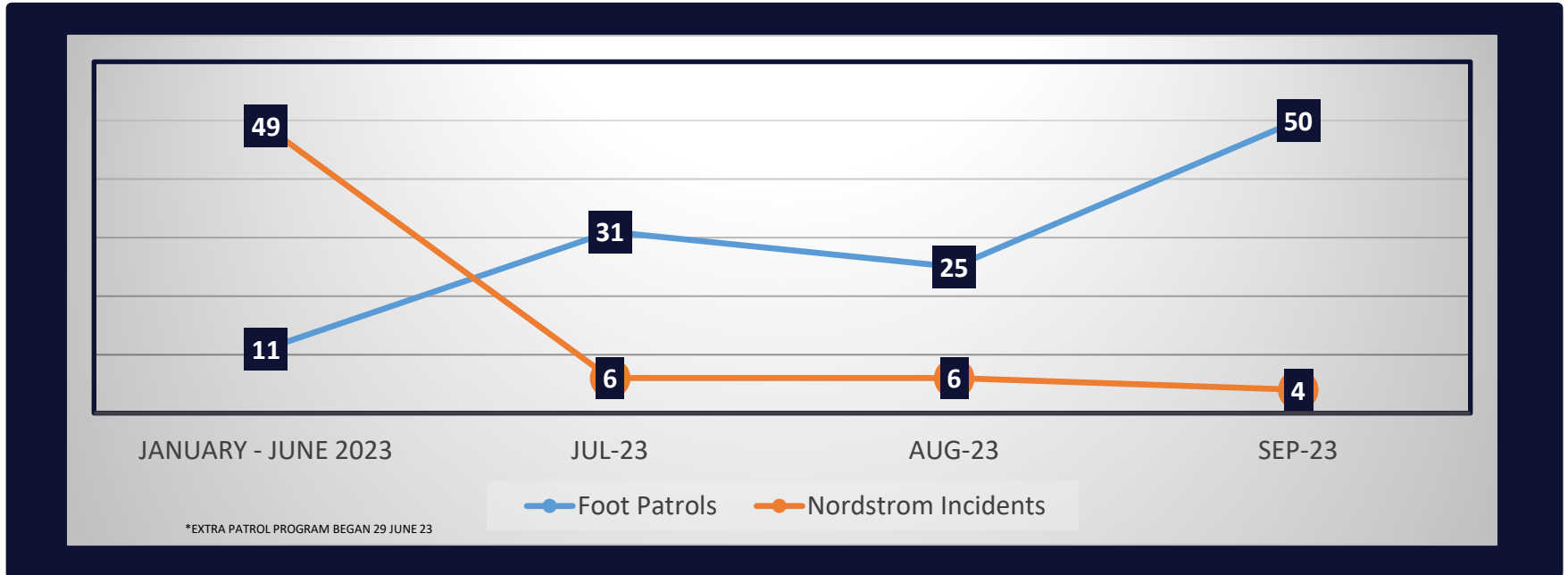
Del Amo Fashion Center

Public Safety Update
Police Chief J. Hart





HIGH VISIBILITY FOOT PATROL & COMMUNITY OUTREACH





PERSONNEL DEPLOYMENT

June 2023

2 Officers (Thurs – Sat)

1200 - 2000

September 2023

4 Officers (Thurs – Sun)

+ 2 Motors on Sunday

1200 - 2000

Thanksgiving – 2023

4 Officers (Mon - Sun)

2 Motors (Mon - Sun)

1 Sergeant (Fri – Sun)

UAS (TBD)

Bike Patrol (TBD)

1 Parking Enforcement (TBD)

ENHANCED SAFETY STRATEGIES

- Organized Retail Crimes Task Force
- UAS (Drone) Team
- Information sharing with DAFC Security
- Effective use of Technology
- Social Media Strategies
- Dedicated DAFC Personnel



TORRANCE POLICE DEPARTMENT



ORC Task Force



TORRANCE POLICE DEPARTMENT

This Task Force began on August 21, 2023, as a result of increased “Flash Mob” style retail thefts throughout Los Angeles County.



Torrance officially joined on October 3, 2023.

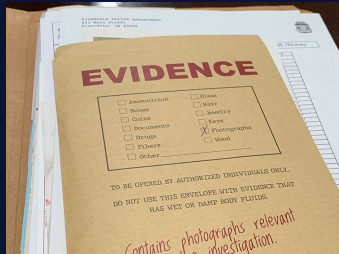


TORRANCE POLICE DEPARTMENT

ORC Task Force

As of October 1, 2023, ORC has:

- 22 open cases
- 118 assumed cases
- 111 arrests
- 66 search warrants

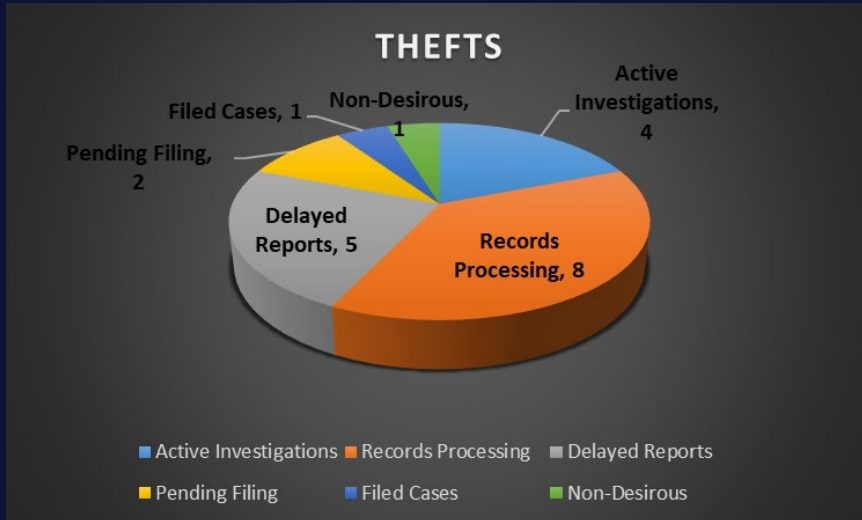


- Consider robbery charges when applicable.
- Obtain good statements from victims during the preliminary investigation.
- Continue to partner with businesses and share information with the TF.

ORC Task Force



TORRANCE POLICE DEPARTMENT



TIMELINE

- Cite-outs / bond-outs – 90 days
- Investigative follow-up / Case filings
- Court proceedings – 90 days
- Case Disposition

DAFC Statistics October 1st – 17th

UAS Program

Drone as First Responder - DFR

- Established in 2017
- UAS / Drone as First Responder (DFR)
- Deploy during special events and during holidays
- Augment / support DAFC patrol units
- Provide real-time information to responding units
- Provide over-watch for resource management



TORRANCE POLICE DEPARTMENT



Real-Time Response Center



TORRANCE POLICE DEPARTMENT

- Scheduled to be complete/operational for 2023 holiday season
- UAS / DFR live feed into RTRC
- Increases TPD's situational awareness and enhance public safety response



TRAFFIC DIVISION DEPLOYMENT

- Strategic deployment of motorcycle officers
- Advanced training and community engagement
- Visibility as a deterrent
- Targeted operations in high impact areas
- Parking enforcement integration
- Management of traffic flow



TORRANCE POLICE DEPARTMENT





TORRANCE POLICE DEPARTMENT

THANK YOU



MEASURE SST UPDATES:



- **April 11, 2023:** City Council appoints 7 members to the SST Oversight Committee
- **August 29, 2023:** SST Oversight Committee meets to take the following action:
 - Appoint Chairperson & Vice Chairperson
 - Approve and Adopt Committee Rules of Order and Receive Training on the Brown Act
 - Accept and File Fiscal Year 2023-24 Committee Work Plan
 - Accept and File Fiscal Year 2023-24 Measure SST Fund Budget Report

Quality of Life	FY2023 - 24
Restore/Maintain Public Safety	\$ 10,655,265
Homelessness Response Efforts	\$ 1,000,000
Fiscal Sustainability	FY2023 - 24
CEPPT Contribution	\$ 2,500,000
Reserve Contribution	\$ 4,802,423
Self-Insurance Rebuild Offset Contribution	\$ 1,000,000
Deferred Maintenance & Community Services/Programs	FY2023 - 24
Capital Contribution	\$ 1,984,600
Emergency Responsiveness	FY2023 - 24
Cyber Security Upgrades	\$ 1,000,000
General Fund – Measure SST	\$ 22,942,288

CAPITAL IMPROVEMENT PLAN MEASURE SST



Project Title	FY 2023-24 Proposed CIP	FY 2024-25 Proposed CIP	FY 2025-26 Proposed CIP	FY 2026-27 Proposed CIP	FY 2027-28 Proposed CIP
Audio Visual Improvements at Libraries	-	30,000	-	-	-
Bartlett Senior Center Improvements	40,000	-	-	-	-
Bathroom Renovations at various Parks	-	1,380,000	-	-	-
Citywide Tree Planting Program	341,600	341,600	341,600	341,600	341,600
Columbia Park Bocce Courts Replace Court Turf Surface	25,000	-	-	-	-
Cultural Arts Center Security Improvements	-	-	230,000	-	-
Cybersecurity & Compliance Implementation Services	70,000	30,000	-	-	-
Disaster Recovery Implementation Services	50,000	-	-	-	-
Exterior & Wood Repairs at Park Buildings	120,000	-	200,000	-	-
Floor Covering & Carpet Replacement at various City Facilities	100,000	100,000	-	100,000	200,00
HVAC Major Maintenance and Replacements	-	172,500	-	-	-
Irrigation Sensors at Parks	-	-	-	350,000	350,000
Lighting Upgrade to LED at libraries	-	250,000	-	-	-
Madrona Marsh Pump & Sump Repair	60,000	15,000	-	-	-
Open Space Corridors Property/Easement Acquisitions & Development	-	-	-	500,000	8,629,609
Painting of City Facilities	-	-	360,000	-	-
Painting of City Facilities	-	-	360,000	-	-
Pathway Lighting at Parks	-	100,000	100,000	90,000	-
Playground Equipment Replacement	287,500	402,500	287,500	250,000	-
Plumbing Improvements at various libraries	-	-	-	100,000	100,000

Project Title	FY 2023-24 Proposed CIP	FY 2024-25 Proposed CIP	FY 2025-26 Proposed CIP	FY 2026-27 Proposed CIP	FY 2027-28 Proposed CIP
Replace 60 park outdoor BBQ units	22,500	22,500	-	-	-
Replace park water fountains with bottle filling/water fountain stations	12,500	12,500	12,500	12,500	12,500
Replace park wood/metal tables with concrete	4,500	4,500	4,500	4,500	4,500
Replacement and Repair of Roofs at various City Buildings	-	-	-	100,000	100,000
Ruben C. Ordaz Community Center Improvements at Pueblo Park	161,000	-	-	-	-
Shelving Replacement at various libraries	-	50,000	50,000	300,000	300,000
Theatre Seating at 1316 Cabrillo Ave. property	-	-	-	50,000	50,000
Torrance Park Adult Fitness Equipment	-	138,000	-	-	-
Toyota Meeting Hall Lighting	180,000	-	-	-	-
Upgrade Downtown Torrance Lights to LED	200,000	500,000	317,000	-	-
Upgrade Exterior Lighting – Civic Center and Parks	-	150,000	-	-	-
Victor Park Rehabilitation of picnic shelter area	50,000	-	-	-	-
Walteria Park Parking lot Expansion	-	75,000	75,000	-	-
Wilson Park Building 8 Project	100,000	100,000	625,000	625,000	-
Wilson Park Improvements	160,000	-	-	-	-
Total	\$ 1,984,600	\$ 3,874,100	\$ 2,603,100	\$ 2,823,600	\$ 10,088,209

UPCOMING BUDGET UPDATES



- **December 5, 2023** – Measure SST Citizens’ Oversight First Quarter Update
- **December 12, 2023** - Finance and Governmental Operations Committee First Quarter Budget Review
- **February 27, 2024** – Finance and Governmental Operations Committee Mid-Year Budget Review
- **March 2024 (Date TBD)** – Measure SST Citizens’ Oversight Committee id-Year Budget Review
- **May 2024 (Date TBD)** – Fiscal Year 2024-2025 Budget Public Hearings

SEE WHAT TORRANCE IS DOING

WE HAVE AN APP!

Download the myTorranceCA app on your smartphone. Submit a request, make a payment, peruse City services and more.

WHY TORRANCE?

Discover why so many businesses choose to partner with Torrance and explore the locations, activities, and opportunities that set Torrance apart.

YEAR IN REVIEW

Browse the City's Year In Review, highlighting City services and accomplishments from the prior calendar year.

HOMELESS SERVICES

Read through Torrance's plan to prevent and combat homelessness. Discover ways you can help.

TORRANCECA.GOV

Find a host of information on our website, including debunked Rumors that circulate the City.

TORRANCEALERTS

Register for TorranceAlerts. When there is an emergency, get the information first on the City's early warning notification system.

TRENDING IN TORRANCE

Get an overview of some of the most pressing topics within the City of Torrance. See what's trending!

DISCOVER TORRANCE

Torrance is home to a variety of breweries, eateries, shopping centers, and hotels. Discover what our City had to offer!

CONNECT WITH US



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GET NOTIFIED OF SPECIAL EVENTS

When signing up for TorranceAlerts, make sure to select "Special Events"

CITY OF TORRANCE

2020 LRB & CALPERS UAL UPDATE



NOVEMBER 2, 2023

Presentation Objectives

- ▶ Introduction to CalPERS Costs
- ▶ Impact of Recent CalPERS Investment Returns and Assumption Changes
- ▶ Recap of City's 2020 LRB
- ▶ Strategies to Consider for Continued CalPERS UAL Cost Management

Executive Summary

- ▶ City of Torrance has a projected \$240M CalPERS Unfunded Accrued Liability (“UAL”), as of the latest CalPERS valuation estimates for 6/30/2022
 - ▶ Increased from approximately -\$14M (overfunded) due to CalPERS weak investment returns of -7.5% in FY 2021-22
 - ▶ The underperformance offset the benefits of strong 21.3% investment returns in FY 2020-21
- ▶ CalPERS FY 2022-23 Investment Returns: 5.8%
 - ▶ UAL projected to increase to \$259M (as of 6/30/2023)
 - ▶ City’s UAL payments will not be impacted by this change until FY 2025-26
- ▶ The City issued a \$350M Lease Revenue Bond (“LRB”) in October 2020 to refinance/restructure most of its \$527M CalPERS UAL at the time
 - ▶ Objectives included cash flow savings and smoothing pension payments to enhance fiscal sustainability
- ▶ Continuing to manage ongoing debt liabilities (i.e., UAL + LRB) will help maintain the City’s fiscal health
 - ▶ Resources: City has a \$3.6M Section 115 Trust balance for CalPERS costs with additional contributions being considered to continue addressing pension challenge



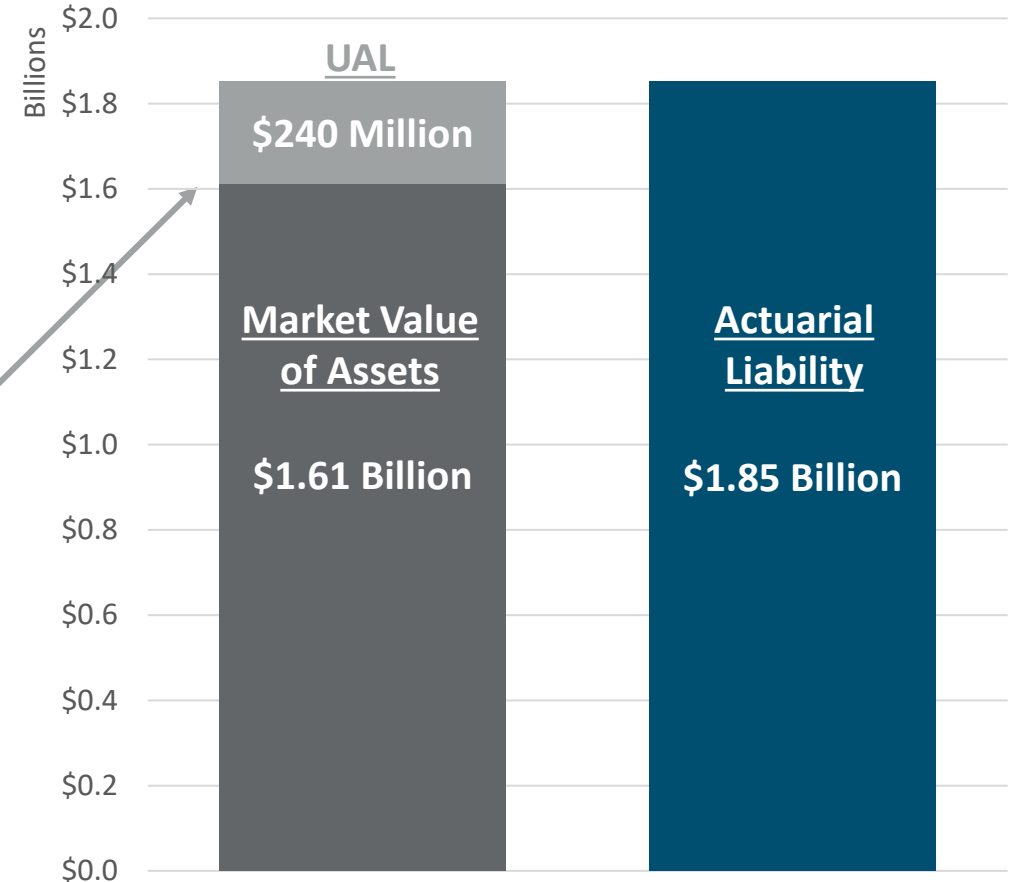
INTRODUCTION TO CALPERS COSTS

Recap 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
 - ▶ CalPERS calculates how much the City needs to have in its account to pay benefits to City’s retirees over the next 30-40 years (Actuarial Liability)
 - ▶ CalPERS annually calculates the City’s Market Value of Assets held on account with them; Most public agencies have *less assets than required* to meet Actuarial Liability
 - ▶ This shortfall (the UAL) is amortized over time with the City paying down a portion each year (principal and interest)
 - CalPERS uses a “discount (i.e., interest) rate” of 6.80%
 - CalPERS annually adjusts this repayment schedule by adding to (in bad investment years) or lowering (good investment years) the overall repayment schedule

City of Torrance
CalPERS Pension Funded Status



Source: CalPERS 6/30/2022 Actuarial Valuation

Historical PERS Returns

5-Year: 6.1%
10-Year: 7.1%
20-Year: 7.0%
30-Year: 7.5%

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 ...

- ▶ Sluggish investment returns (not meeting assumptions)
- ▶ Assumptions have changed/grown more conservative
 - ▶ Discount Rate: 8.25% → 7.00% → 6.80%
 - ▶ Inflation rate (prices going up)
 - ▶ Mortality rates (people living longer)
 - ▶ Shorter, more conservative amortizations

How Retirement Benefits Get Funded

Money Going In vs. Money Going Out

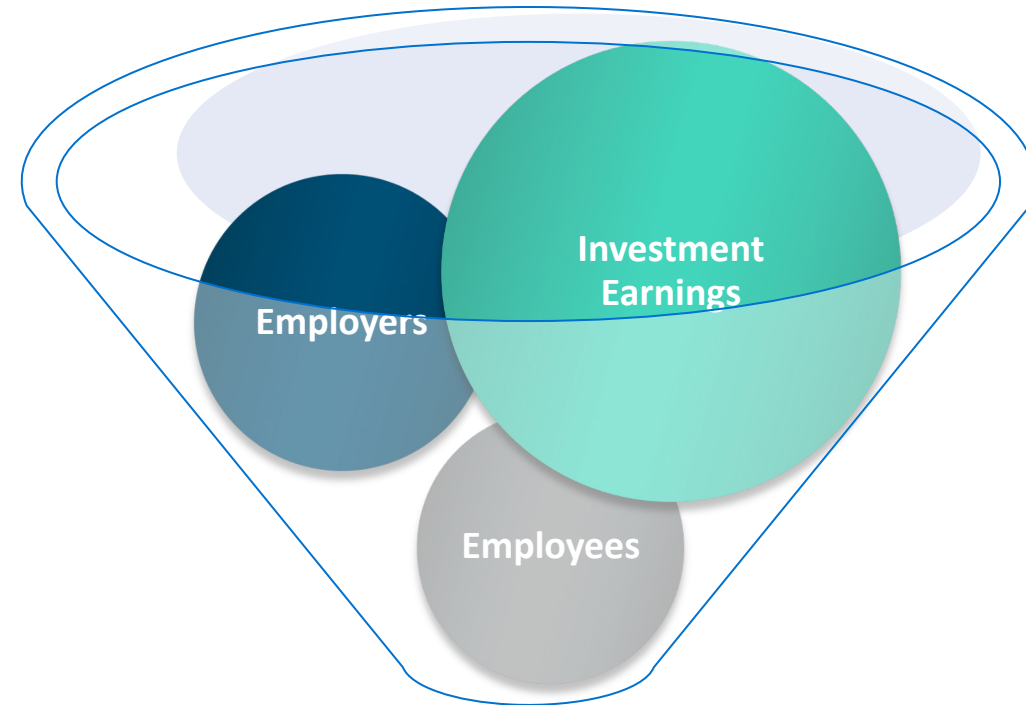
Employee Contributions: ≈11-13%

Employer Contributions: ≈29-32%

- Normal Cost: Payments to keep up with current employees
- UAL: Payments to amortize the Unfunded Accrued Liability

Investment Earnings: ≈55-60%

- 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



**Retirement Benefits
& Plan Expenses**

Classic vs. PEPRA

- ▶ 3 Main CalPERS plans
 - ▶ Miscellaneous: 3,453 covered members
 - ▶ Safety Fire: 404 covered members
 - ▶ Safety Police: 706 covered members
- ▶ PEPRA (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, over 99% of current UAL is estimated to come from Classic plans and not reduced by PEPRA

MISCELLANEOUS PLANS			
Benefit Group	# of Actives	Benefit Formula	Employee Contribution ²
Miscellaneous (Classic)	448	2% @ 55	7.00%
Miscellaneous PEPRA Level	442	2% @ 62	8.00%
Total Active Members	890	-	-
Total Covered Members¹	3,453	-	-

SAFETY FIRE PLANS			
Benefit Group	# of Actives	Benefit Formula	Employee Contribution ²
Safety Fire First Level	86	3% @ 50	9.00%
Safety Fire PEPRA First Level	1	2.7% @ 57	12.00%
Safety Fire PEPRA Second Level	45	2.7% @ 57	11.25%
Total Active Members	132	-	-
Total Covered Members¹	404	-	-

SAFETY POLICE PLANS			
Benefit Group	# of Actives	Benefit Formula	Employee Contribution ²
Safety Police First Level	128	3% @ 50	9.00%
Safety Police PEPRA First Level	2	2.7% @ 57	15.50%
Safety Police PEPRA Second Level	57	2.7% @ 57	13.00%
Total Active Members	187	-	-
Total Covered Members¹	706	-	-

¹Includes active members, transferred members, separated members, and retired members and beneficiaries.

Source: 6/30/2022 CalPERS Actuarial Valuation.

²Employee contribution amounts for Classic/First Level benefit groups are covered by employer.

Classic vs. PEPRA Pension Example Comparison

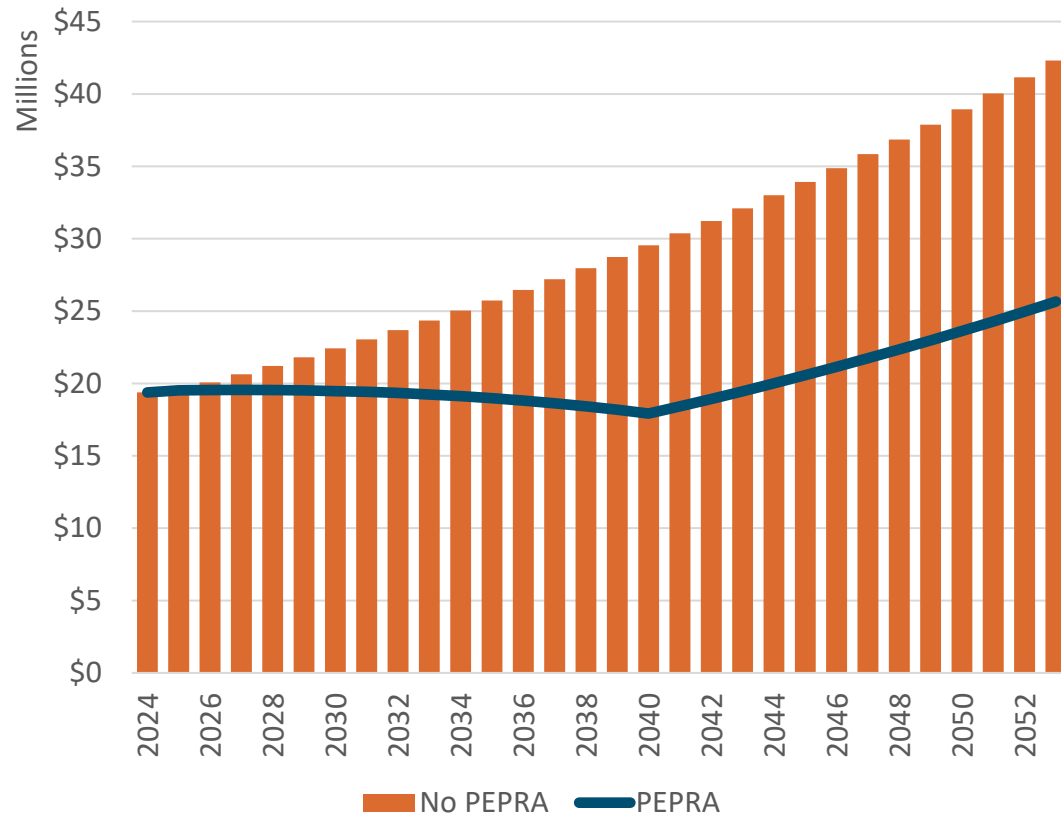
- ▶ Employee #1 is a Classic member and Employee #2 is a PEPRA member – both have served for 25 years and have a final average compensation of \$125K
- ▶ Employee #2 will have a lower pension than Employee #1 due to a lower benefit factor, and will also retire at 57 years old instead of 50 years old 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
 - ▶ Classic members do not make normal cost contributions as active employees; current PEPRA contribution rates are at least 8%
- ▶ 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

Service Credit	×	Benefit Factor	×	Final Compensation	=	Annual Pension
Employee #1 (Classic)						
25 Years	x	3.0% @ 50	x	\$125,000	=	\$93,750
Employee #2 (PEPRA)						
25 Years	x	2.7% @ 57	x	\$125,000	=	\$84,375

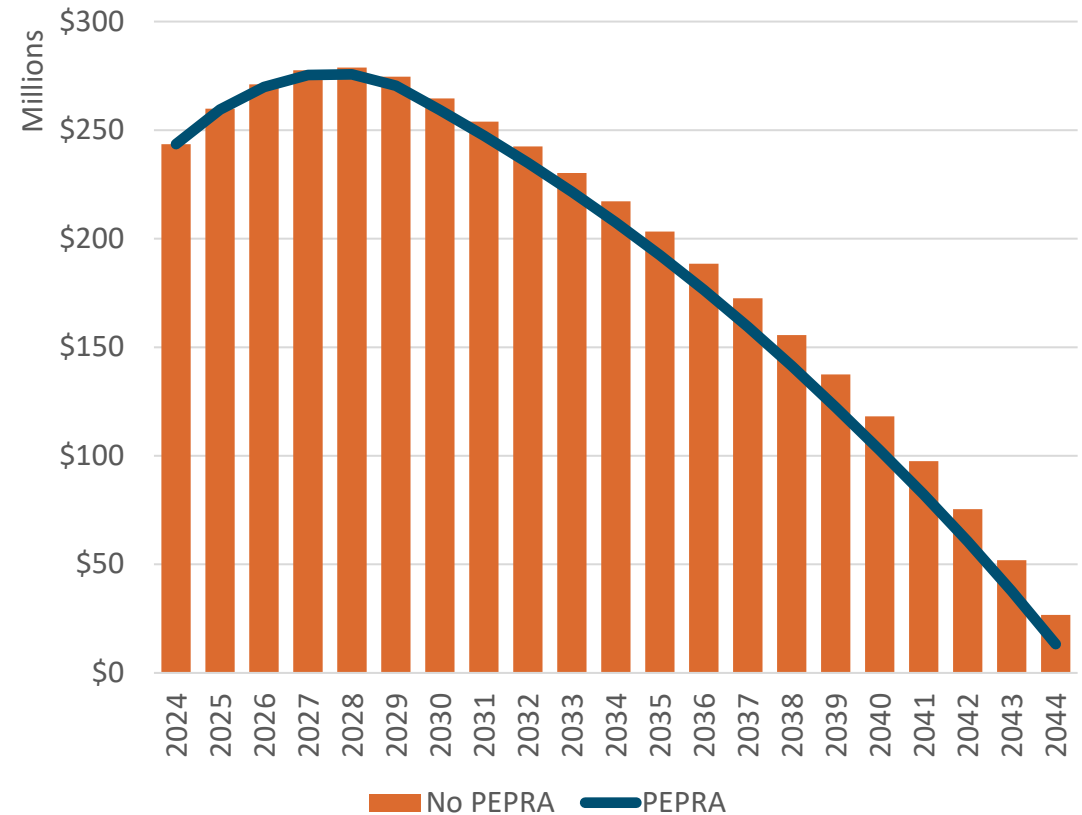
Cost of PEPRA vs. No PEPRA

- ▶ PEPRA is projected to lower Normal Cost and UAL costs for the City

Projected Normal Cost

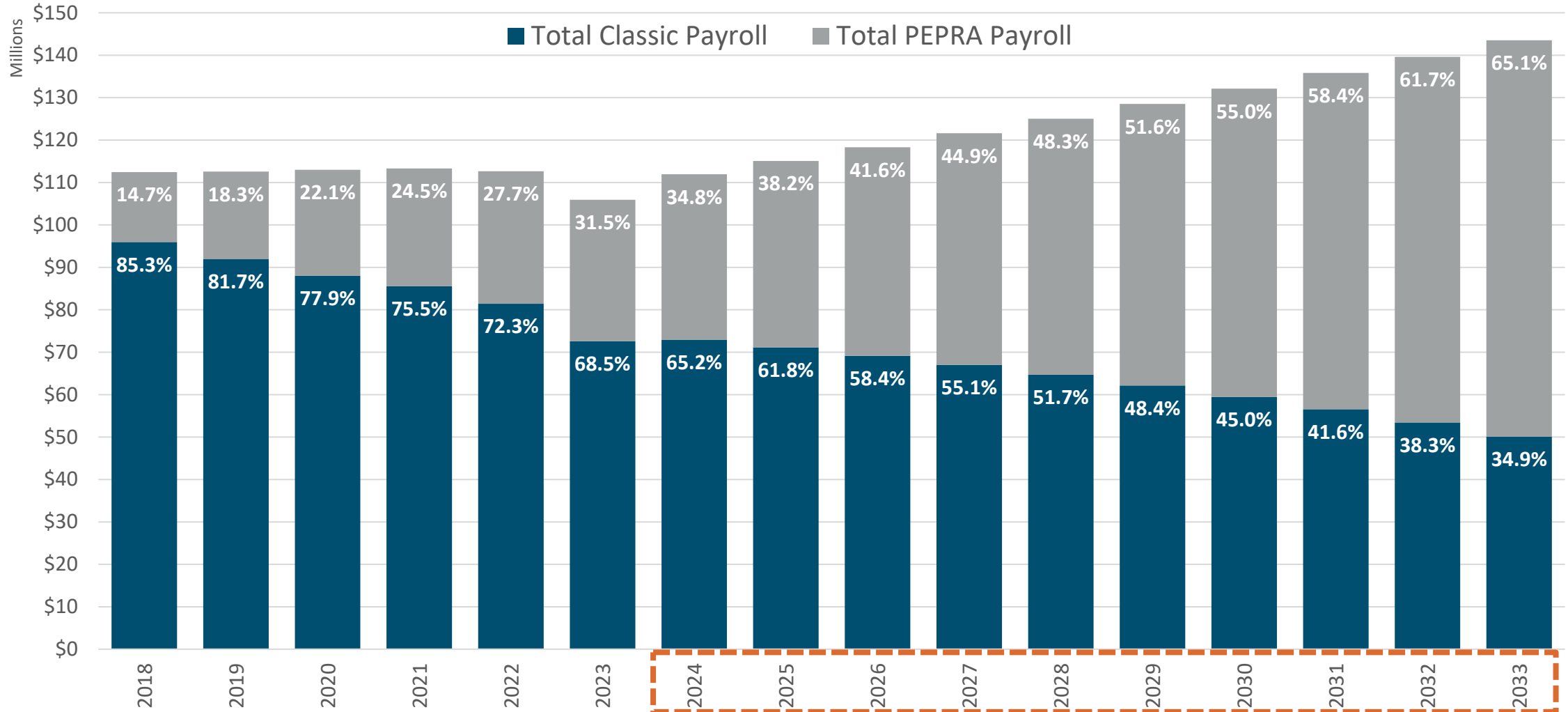


Projected UAL Balance

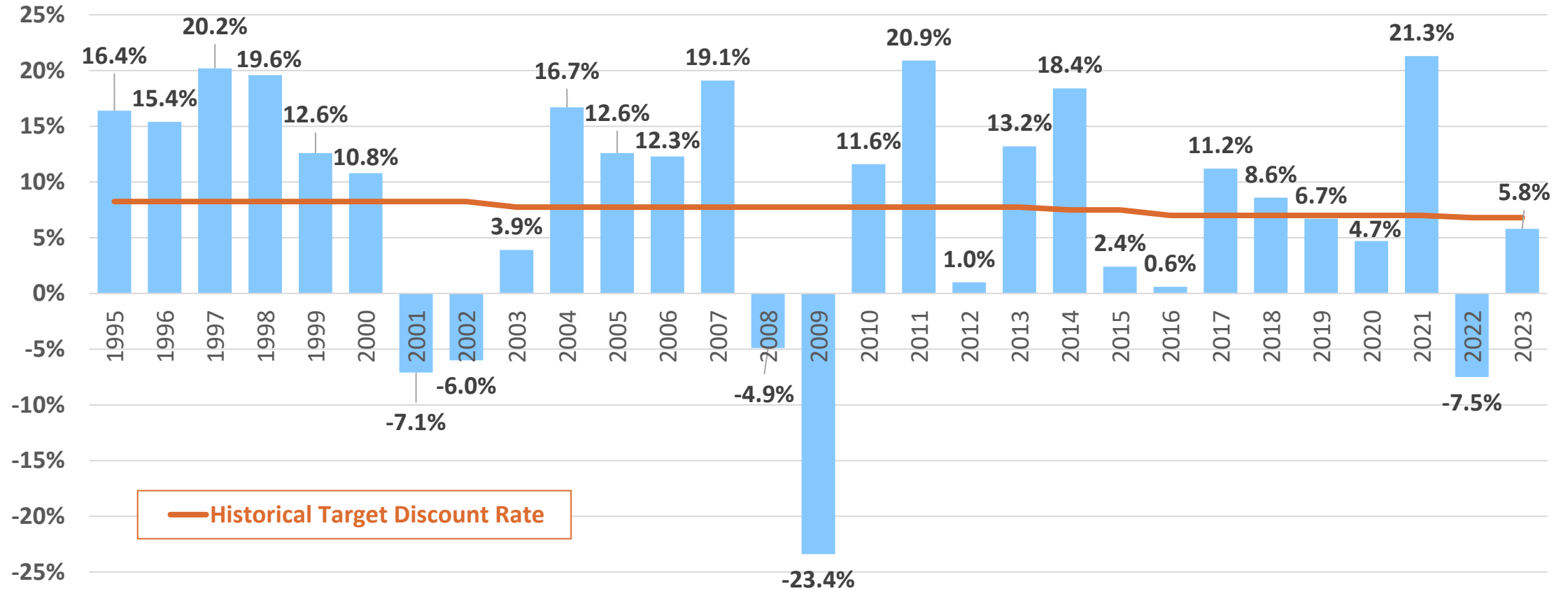


Historical & Projected PEPRAs Transition

Classic vs. PEPRAs % of Payroll



CalPERS Historical Investment Returns

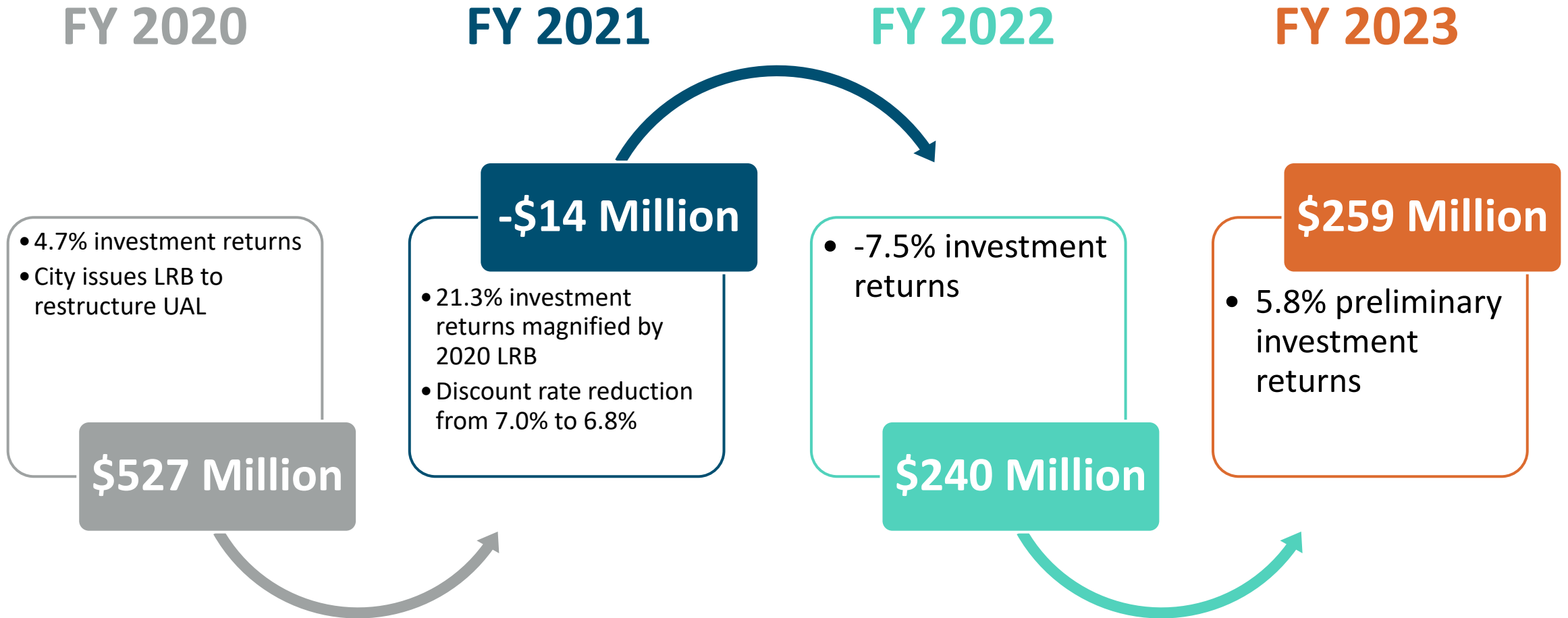


Current Discount Rate	5-Year Average	10-Year Average	20-Year Average	30-Year Average
6.8%	6.1%	7.1%	7.0%	7.5%



IMPACT OF RECENT CALPERS INVESTMENT RETURNS AND ASSUMPTION CHANGES

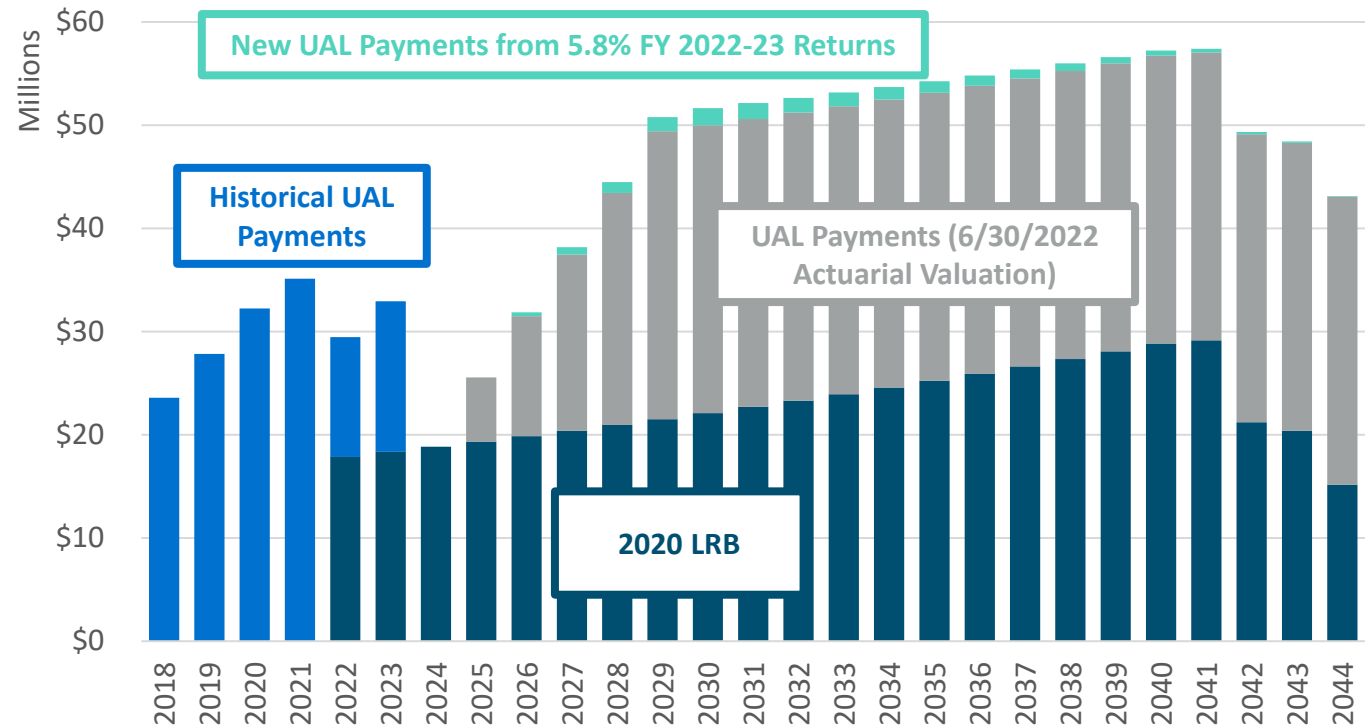
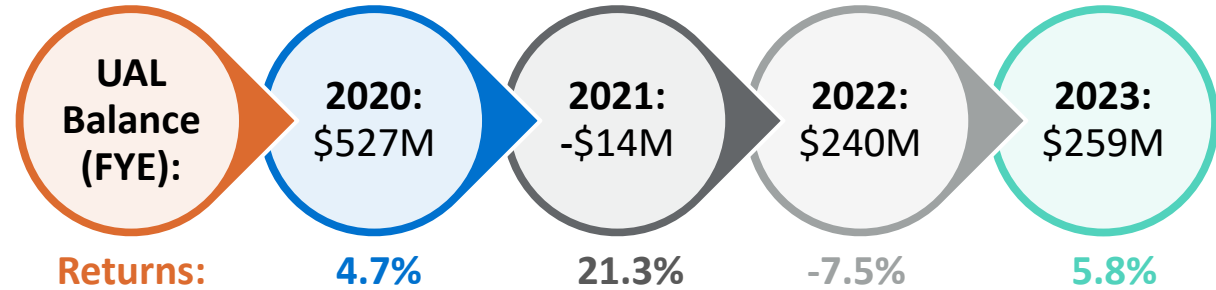
History of the City's UAL Balance



Historical and Projected UAL & LRB Payment Schedule

CalPERS earned -7.5% in FY 2021-22 and 5.8% for FY 2022-23

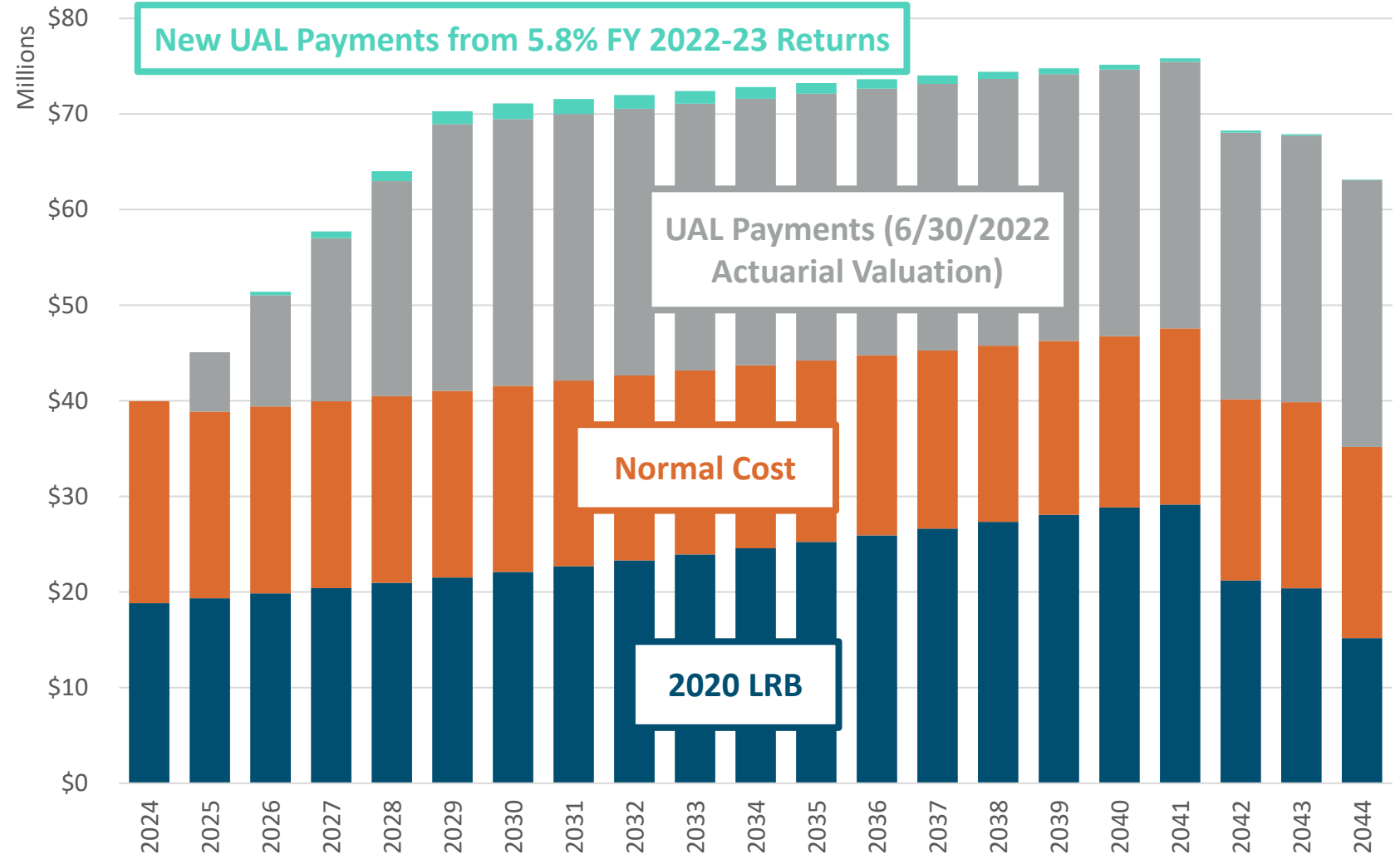
- ▶ The City’s CalPERS liability was overfunded after CalPERS’ 21.3% returns in FY 2021 and the 2020 LRB issuance
- ▶ However, the UAL has increased back to \$240M as of 6/30/2022
 - ▶ Based on -7.5% CalPERS returns in FY 2022
 - ▶ The City’s funded ratio is still at a strong 87%
 - ▶ The UAL balance is projected to increase to \$259M based on FY 2023 returns of 5.8%
- ▶ City’s UAL + LRB payments, post FY 2024, are projected to reach \$50M-\$60M by the end of the decade
 - ▶ City’s lower payments in the next few years could be an opportunity to build further savings for future pension costs



Total Projected Pension Payments (CalPERS + LRB)

Includes Annual Normal Cost Payments

- ▶ Annual Normal Cost averages about \$19M for the next 20 years
- ▶ Total pension payments (UAL + Normal Cost + LRB) are projected to reach \$70M in 2029, and increase to \$76M by 2041 before decreasing
- ▶ The 2024 pension payment (UAL + Normal Cost + LRB) accounts for 13.5% of the FY 2023-24 General Fund budget and is expected to be a larger % as the pension payment increases



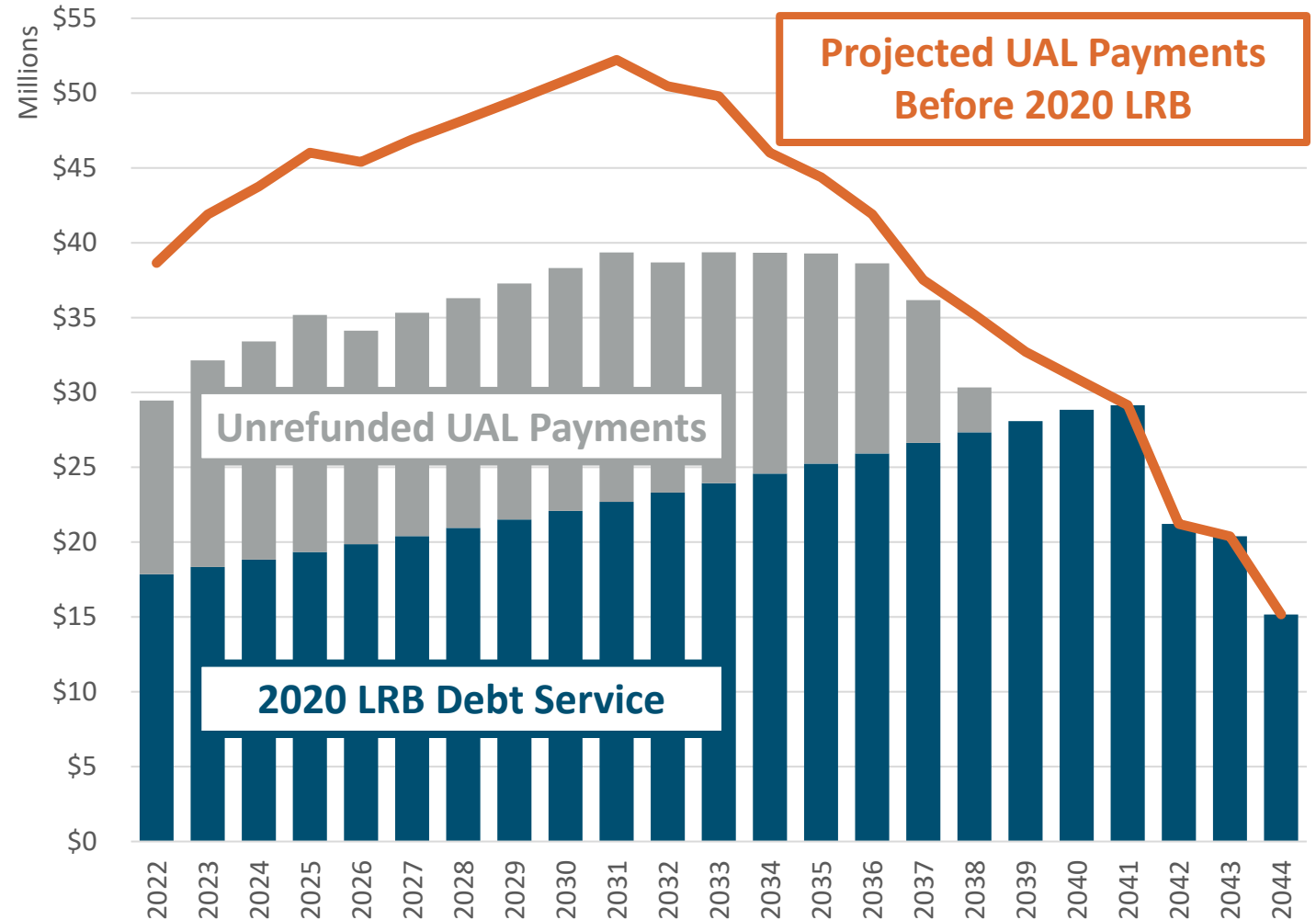


RECAP OF CITY'S 2020 LRB

2020 Lease Revenue Bond (“LRB”)

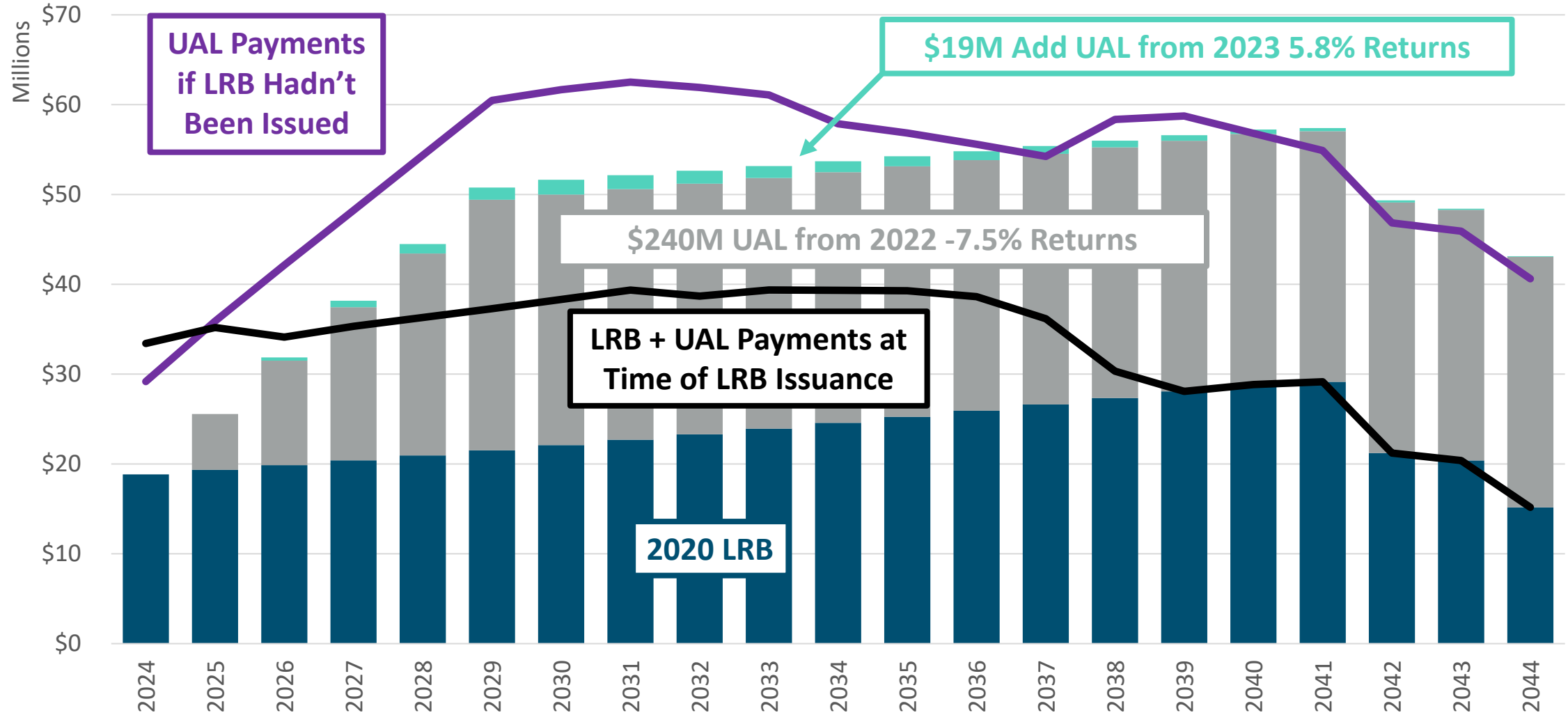
Sizing and Smoothing Strategy

- ▶ **Strategy:** 23-year term; Restructure/refinance 71% of UAL at the time using the LRB; Design LRB debt service payments to annually ascend at 2.7%
- ▶ **Stats:** 3.44% all-in interest rate; \$134 million of estimated present value savings
- ▶ **Goals:** Enhanced fiscal sustainability and resiliency to future economic “shocks” (like CalPERS underperformance); generate cash flow savings without maturity extension



What Happened With CalPERS After the 2020 LRB?

-7.5% Investment Returns in 2022 and 5.8% in 2023



Source: CalPERS Actuarial Valuation Reports and CalPERS Pension Outlook Tool. Pension Outlook Tool assumes FY 2022-23 returns of 5.8% and 6.80% returns from FY 2023-24 onward.



**STRATEGIES TO CONSIDER FOR CONTINUED
CALPERS UAL COST MANAGEMENT**

Termination from CalPERS System

- ▶ The City’s CalPERS actuary annually calculates the City’s cost to terminate from CalPERS
- ▶ As of the latest CalPERS actuarial valuation, the cost to terminate all plans is at least \$839 million, and could be as high as \$2+ billion, depending on interest rates
- ▶ The termination cost is calculated based on U.S. Treasury rates. Higher rates = lower termination cost. Even with CalPERS assuming 4.50%, the termination cost is \$839 million.
- ▶ Given that the City does not have this much available, it would need to issue debt to fund the costs
 - ▶ Annual debt service on a 30-year bond could range from \$55M - \$141M* depending on the termination cost

Termination Cost: \$839M - \$2.17B

Plan	Unfunded Termination Liability (High End) ¹	Unfunded Termination Liability (Low End) ²
Miscellaneous	\$828,366,505	\$318,252,407
Safety Fire	\$503,679,465	\$205,205,867
Safety Police	\$833,136,546	\$315,232,667
Total	\$2,165,182,516	\$838,690,941

¹Assumes a discount rate of 1.75% and price inflation of 2.50%

²Assumes a discount rate of 4.50% and price inflation of 2.75%

Source: 6/30/2022 CalPERS Actuarial Valuation

*\$55 million annual debt service assumes \$838,690,941 is amortized over a 30-year, level term at a 5.00% interest rate.

\$141 million annual debt service assumes \$2,165,182,516 is amortized over a 30-year, level term at a 5.00% interest rate.

Pension Strategies to Consider Moving Forward

- ▶ The City has been proactive in managing its UAL by bolstering its Section 115 Trust, issuing a LRB to restructure UAL during a historically low interest rate period, and regularly prepaying its annual UAL payment
- ▶ The City can continue to evaluate multiple strategies to manage its UAL + LRB obligations – these strategies are not mutually exclusive and can be utilized together

Continue to Prepay Annual UAL

- Pay entire fiscal year UAL upfront in July instead of making monthly payments to receive a discount of approximately 3.24%
- At higher investment rates, the relative net prepayment benefit will decrease, but there is still estimated benefit until investment rates reach materially above 6%

Build Up and Utilize Section 115 Trust

- City has built up a \$3.6M balance in its Section 115 Trust as of FYE 2023 and is planning to make large contributions in 2024 and 2025 and smaller contributions annually thereafter
- The City could withdraw from the Trust in future years to smooth out the peak in pension payments

Evaluate Additional Discretionary Payments (“ADPs”) to CalPERS

- City can use surplus or Section 115 Trust funds to reduce UAL through a direct lump sum payment to CalPERS
- City would see interest savings at CalPERS discount rate (currently 6.8%), but ability to restructure UAL repayment shape optimally is more limited

Evaluate a CalPERS Fresh Start

- City can evaluate the pros and cons of entering into a Fresh Start with CalPERS and paying off the UAL with level payments and a shorter amortization
- There will be higher UAL payments in the near term, but savings in the later years
- There is no flexibility to “undo” the fresh start

Section 115 Trust

- ▶ **What is it?** Dedicated (restricted to pension/OPEB) account managed by 3rd party
- ▶ **Pros:**
 - ▶ Potential for increased investment returns vs. General Fund reserves that are restricted by CA Govt Code
 - ▶ Longer-Term: Trust funds can grow over time and pay off a large % of UAL in the future
 - ▶ Shorter-Term: Apply during challenging budget years or to “*smooth*” payment spikes in UAL and/or Normal Cost
 - ▶ Flexibility – more investment options than CalPERS and the City can decide when and how to use
 - ▶ Diversify asset management away from CalPERS
 - ▶ Potential shock absorber for volatility from CalPERS investment performance & assumption changes
- ▶ **Cons:**
 - ▶ Doesn't directly reduce UAL until funds are transferred to CalPERS
 - ▶ Requires reserves / surplus to fund
 - ▶ Investment risk (dependent on type of investment portfolio)
 - ▶ Potential for lower returns than CalPERS if shorter time horizon for investments

Additional Discretionary Payment (“ADP”)

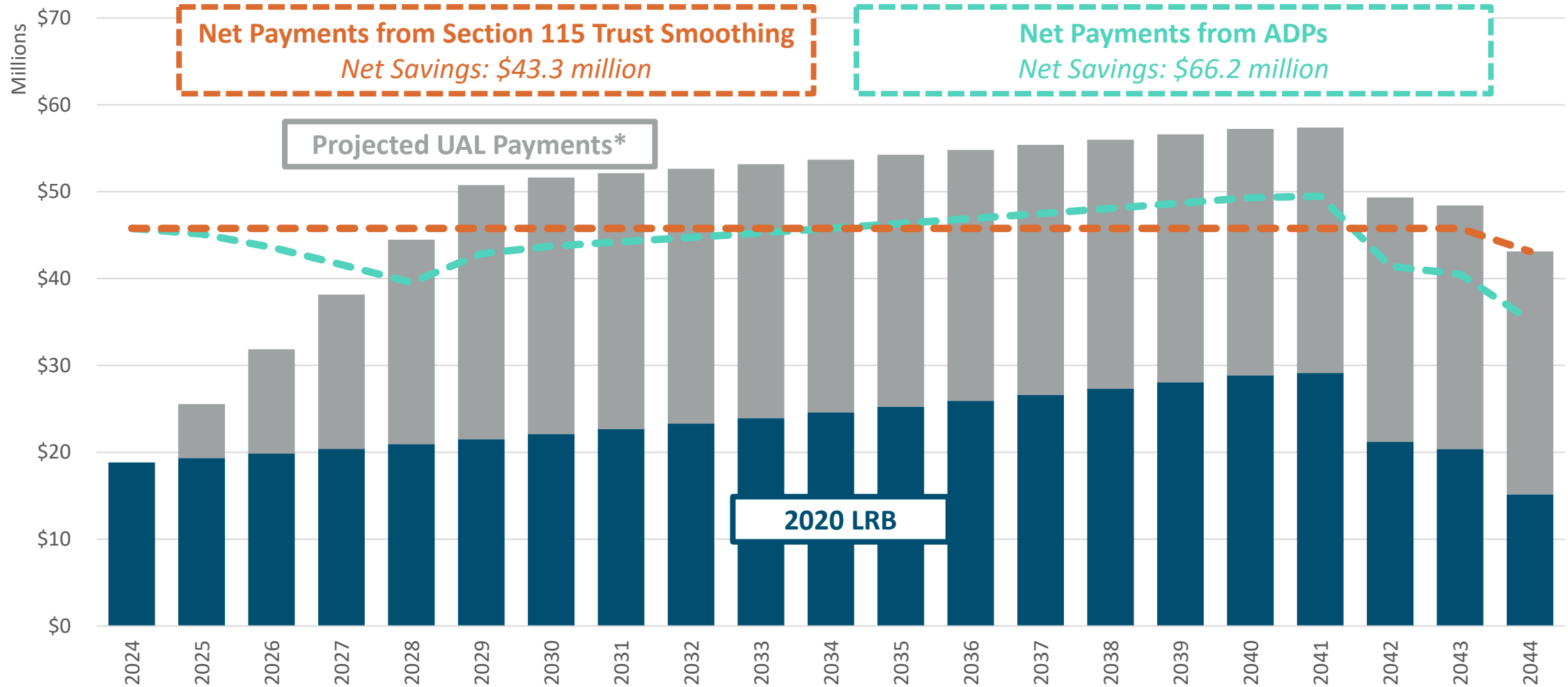
- ▶ **What is it?** City makes ADP directly to CalPERS and CalPERS eliminates payments associated with the portion of the UAL paid off, essentially giving the City credit at the discount/interest rate (currently 6.8%)
- ▶ Pros:
 - ▶ Reduced UAL / higher CalPERS funding ratio
 - ▶ Reduced future payments
 - ▶ Broader, less restrictive CalPERS investment portfolio has potential for higher returns
- ▶ Cons:
 - ▶ Requires reserves / surplus to fund
 - ▶ Re-investment and market timing risk with ADP funds
 - ▶ Less budgetary flexibility and investment control (vs. Section 115 Trust option)

Comparison of Section 115 Trust & ADP

OPTION	Section 115 Trust	CalPERS ADP
Reduced UAL & UAL Payments with CalPERS	No	Yes
Reduced Pension Liability in ACFR	No (but the Trust will show up as an asset on the City's financial statements)	Yes
Control of Investment Strategy	Yes	No
Funds Managed By	Trust Administrator (<i>e.g., CalPERS for the City's Trust</i>)	CalPERS
Flexibility in Uses	Yes (annual pension or OPEB expense, ADP, OPEB, etc.)	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 (City's amortization bases are currently all 20 years)
Enhanced Budgetary Flexibility	Yes	Limited
How Many Agencies in CA Have Used?	Hundreds of CA agencies maintain Section 115 Trusts	Historically, hundreds of ADPs made by CA agencies annually

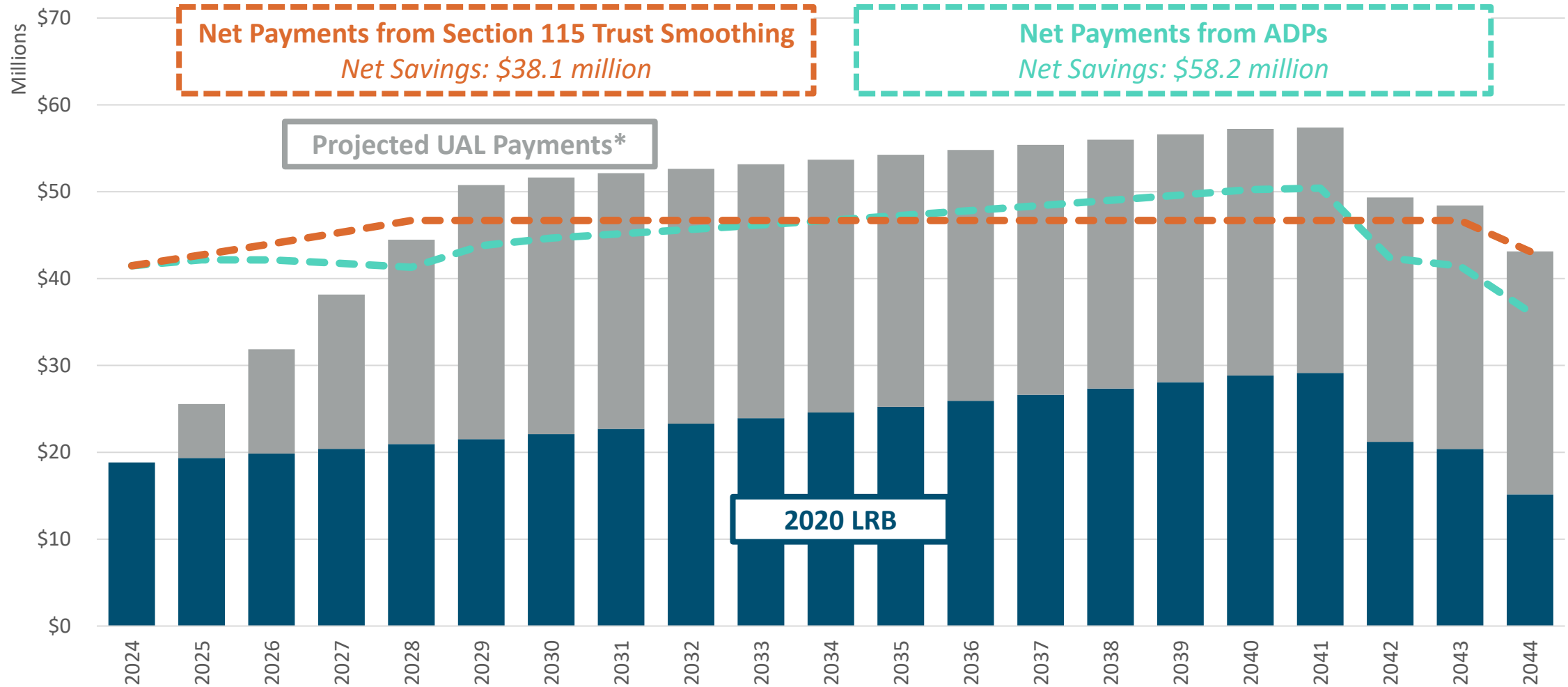
Comparison of Section 115 Trust & ADP

Scenario #1: Level Smoothing



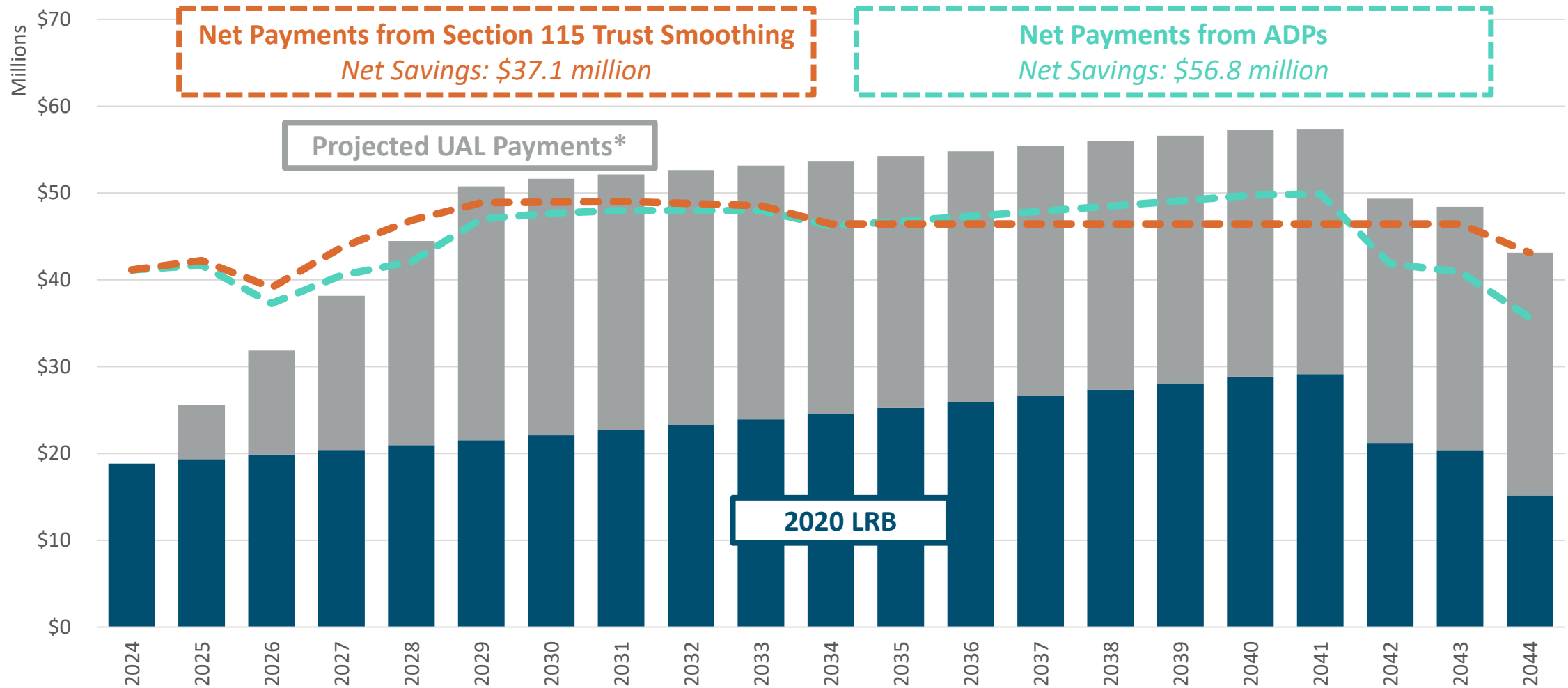
Comparison of Section 115 Trust & ADP

Scenario #2: Ramp Up



Comparison of Section 115 Trust & ADP

Scenario #3: Match City's Projected CEPPT Transfers



CalPERS Fresh Start

- ▶ New level payment amortization for the current UAL balance
- ▶ Constraints:
 - ▶ Total payments must be lower than current amortization
 - ▶ Most often (not always), this requires a shorter final term than current
 - ▶ Couple of shorter-term options are shown in CalPERS reports, though many others are available if within constraints
 - ▶ Must fresh start all UAL for entire plan (all amortization bases for that plan collapsed into one)
- ▶ Voluntary fresh starts are not common; less than 15 over recent 1-2 years estimated by CalPERS

PROS

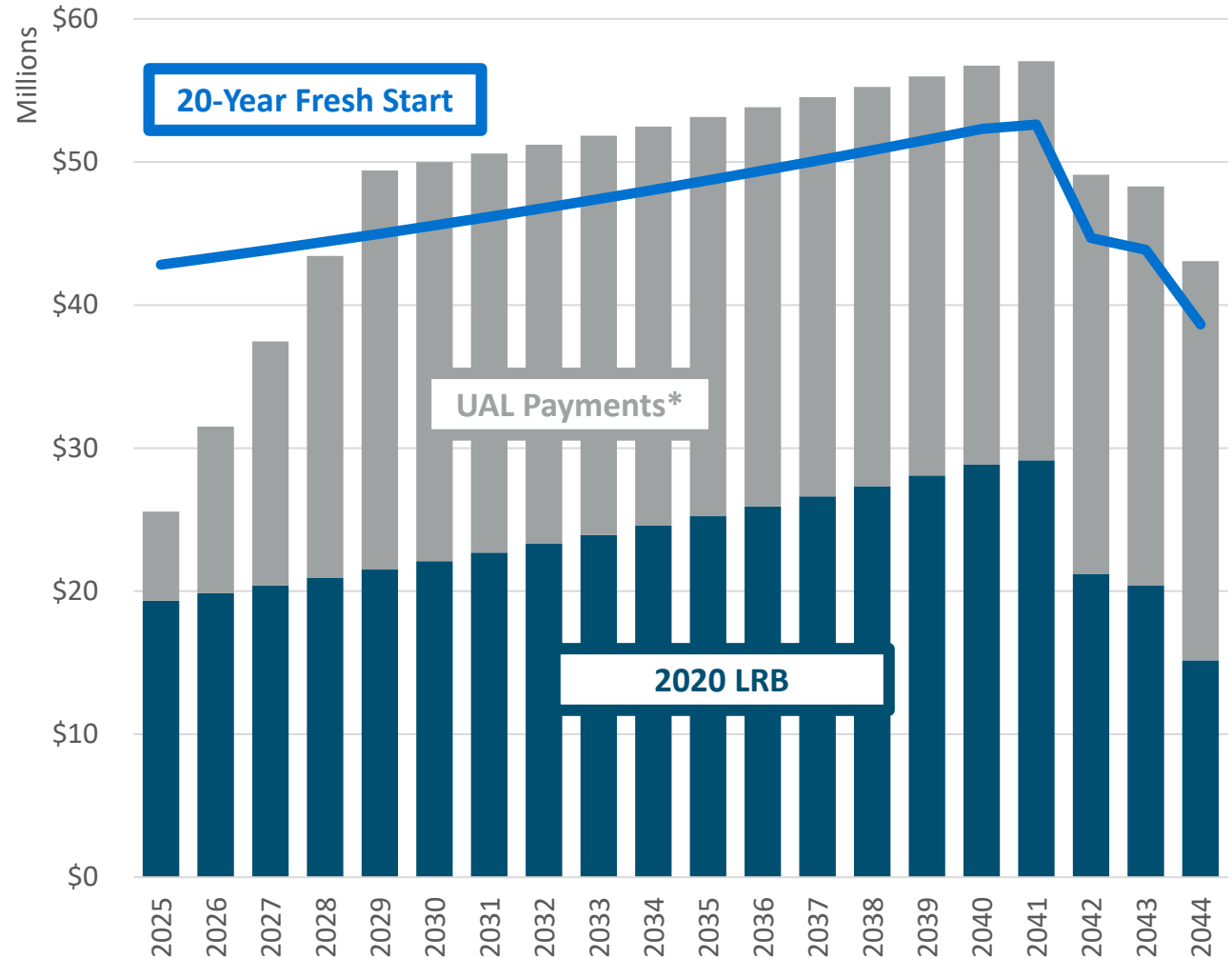
- Lower cumulative payments
- Faster UAL amortization
- More level payments
- “Autopilot” may be easier vs. higher discretionary contribution decisions

CONS

- Typically, higher payments in the near term
- No flexibility to “undo” the fresh start

Fresh Start Analysis

- ▶ 20-year Fresh Start on the City’s Miscellaneous Plan, Safety Fire Plan, and Safety Police Plan
- ▶ \$36.5M total higher payments in 2025-2028, but \$70.8M total savings in 2029-2044
- ▶ If the City liked the idea of a Fresh Start, but wanted to avoid locking it in with CalPERS, the City could do a “soft” Fresh Start where you budget the Fresh Start payments, but technically still maintain the original UAL payment schedule



*Source: CalPERS 6/30/2022 Actuarial Valuation

Takeaways

- ▶ Rising pension costs are a challenge facing most public agencies, and Torrance has tackled the challenge with strategies like utilizing a LRB in a low interest rate environment and building up its Section 115 Trust
- ▶ However, the UAL challenge has returned due to recent poor CalPERS investment returns, potentially increasing to \$259M
- ▶ While CalPERS' investment returns and assumptions have altered the size and shape of the City's UAL, the City is still currently seeing benefit from issuing the 2020 LRB, and should continue to monitor CalPERS cost trends in its long-term planning
- ▶ Looking forward, the City has options for proactively managing pension costs through its Section 115 Trust
 - ▶ Section 115 Trust funds can be leveraged to make direct ADPs or flexible withdrawals to manage future cost trends
 - ▶ Additional future deposits to the Trust can allow greater flexibility to smooth and manage higher UAL payments in the future



APPENDIX: DETAIL FOR SCENARIOS #1-3

Comparison of Section 115 Trust & ADP

Summary of Scenario #1

Strategy:	Section 115 Trust	ADPs
Assumed Interest Rate Benefit:	4.50%*	6.80%
Net Savings:	\$43.3 Million	\$66.2 Million
Budgetary Flexibility:	Equal to assets in Trust	\$0 (ADP deposited cannot be retrieved from CalPERS)
Smoothing Level:	\$45.8 Million	Net payments fluctuate
Deposits By Fiscal Year:		
Existing Trust Balance	\$3.6 million	--
FY 2023-24	\$26.9 million	\$30.5 million ¹
FY 2024-25	\$20.2 million	\$20.2 million
FY 2025-26	\$13.9 million	\$13.9 million
FY 2026-27	\$7.6 million	\$7.6 million
<u>FY 2027-28</u>	<u>\$1.3 million</u>	<u>\$1.3 million</u>
Total Deposits to Section 115 Trust²:	\$73.6 million	\$73.6 million

Comparison of Section 115 Trust & ADP

Summary of Scenario #2

Strategy:	Section 115 Trust	ADPs
Assumed Interest Rate Benefit:	4.50%*	6.80%
Net Savings:	\$38.1 Million	\$58.2 Million
Budgetary Flexibility:	Equal to assets in Trust	\$0 (ADP deposited cannot be retrieved from CalPERS)
Smoothing Level:	\$46.7 Million	Net payments fluctuate
Deposits By Fiscal Year:		
Existing Trust Balance	\$3.6 million	--
FY 2023-24	\$22.7 million	\$26.3 million ¹
FY 2024-25	\$17.2 million	\$17.2 million
FY 2025-26	\$12.2 million	\$12.2 million
FY 2026-27	\$7.2 million	\$7.2 million
<u>FY 2027-28</u>	<u>\$2.2 million</u>	<u>\$2.2 million</u>
Total Deposits to Section 115 Trust²:	\$65.0 million	\$65.0 million

Comparison of Section 115 Trust & ADP

Summary of Scenario #3

Strategy:	Section 115 Trust	ADPs
Assumed Interest Rate Benefit:	4.50%*	6.80%
Net Savings:	\$37.1 Million	\$56.8 Million
Budgetary Flexibility:	Equal to assets in Trust	\$0 (ADP deposited cannot be retrieved from CalPERS)
Smoothing Level:	\$46.4 Million	Net payments fluctuate
Deposits By Fiscal Year:		
Existing Trust Balance	\$3.6 million	--
FY 2023-24	\$22.3 million	\$25.9 million ¹
FY 2024-25	\$16.7 million	\$16.7 million
FY 2025-26	\$7.3 million	\$7.3 million
FY 2026-27	\$5.6 million	\$5.6 million
FY 2027-28	\$2.4 million	\$2.4 million
<u>FY 2029-2033</u>	<u>\$12.0 million</u>	<u>\$12.0 million</u>
Total Deposits to Section 115 Trust²:	\$69.8 million	\$69.8 million

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