

between the roles of City Council and SDCERS Board contemplated by the City Charter – with the Council granting benefits and the Board administering them – was thereby significantly compromised.

Although the SDCERS staff had participated over several months in fashioning the proposal, it was viewed skeptically by some members of the Board, and its complexities confused almost all, even after lengthy discussion. In promoting the proposal to the Board – as well as to its actuary and fiduciary counsel – City representatives emphasized two “safeguard” provisions intended to protect the System’s funded ratio. First, the City was required to resume paying the full PUC rate by no later than July 1, 2009, as described below. Second, a drop of 10% or more from the FY 1996 funding level would trigger an immediate adjustment in the City’s contributions. The level at June 30, 1996 was approximately 92.3%. Thus, the trigger level was 82.3%.¹⁵³

The pending changes in actuarial assumptions and methodology were recognized at June 30, 1996, increasing the UAAL by approximately \$25 million. This amount, with 8% interest compounded annually over the intervening years, has contributed significantly to SDCERS’ present UAAL. Ironically, at the time of MPI, the City was eager to have the revision of actuarial assumptions be as immediate and extensive as possible to create “breathing room from the 10% deal breaker.”¹⁵⁴

Several years later, when it became probable that the 82.3% threshold would be crossed, the potential consequences for the City’s contribution rate became a matter of controversy. The final version of Manager’s Proposal 1 provides:

The City will pay the agreed-to rates shown above for FY 96 through FY 2007.¹⁵⁵ In the event that the funded ratio of the System falls to a level 10% below the funded ratio calculated at the June 30, 1996 actuarial valuation which will include the impact of the benefit improvements included in this Proposal, the City-paid rate will be increased on July 1 of the year following the date of the actuarial valuation in which the shortfall in funded ratio is calculated. The increase in the City-paid rate will be the amount determined by the actuary necessary to restore a funded ratio no more than the level that is 10% below the funded ratio calculated at the June 30, 1996 actuarial valuation.

This would appear to require that the City make a lump sum payment in the amount necessary to restore the funding level to 82.3%. Nevertheless, individuals involved in negotiating this agreement insist that the intention was to “sunset” the proposal beginning the fiscal year after the

¹⁵³ Members of the City staff have contended that the actual ratio was 81.4%. Whatever the merits of this position, the 82.3% figure has been widely accepted and will be used for purposes of this Report.

¹⁵⁴ E-mail from Terri Webster to city_mgr.CTL, Re: Proposal (June 21, 1996).

¹⁵⁵ The reference is to the table provided above.