

STAFF REPORT

Consent Agenda Item

DATE: August 17, 2026

TO: Honorable Mayor and Council Members

FROM: Aaron Felmlee, Finance Director

THROUGH: Amy Nilsen, City Manager

SUBJECT: Finance Department Monthly Report

STAFF RECOMMENDATION:

Receive report as an informational item.

EXECUTIVE SUMMARY:

CalPERS Investment Returns:

California Public Employees' Retirement System (CalPERS) recently reported preliminary investment returns for fiscal year 2025-26 at a positive 14.8%. This news is encouraging and a further improvement from the prior fiscal years positive 11.6% return and CalPERS expected rate of return of 6.8%.

What this means to the City is that preliminary investment returns beat CalPERS expected return rate by 8%. This will reduce the City's existing unfunded pension liability which is the difference between the assets currently held by the City's pension plans and the amount projected to be required to pay out benefits to current and future retirees. Under CalPERS' actuarial methodology, investment earnings more than the assumed rate of return are amortized over a 20-year period. As a result, the City is expected to benefit from reduced future unfunded liability payments as these excess investment earnings are reflected in the plans' actuarial valuations.

It is also important to note that the Additional Discretionary Payment (ADP) authorized by the City Council in 2025 earned an investment return of approximately 14.8% over the past year. This favorable investment performance further increased the impact of the ADP and reduced the City's unfunded liability by more than originally anticipated.

Based on current estimates, staff anticipates that the funded ratio across all of the City's pension plans will exceed 90%. This represents a significant improvement from the approximately 70% funded status of the plans in 2016. The City Council's strategy of making consistent ADPs, when financially feasible, has contributed to this improvement by reducing the City's unfunded liability and strengthening the plans' funded status. Staff will continue to monitor investment performance, actuarial valuations, and the City's financial position and will continue to evaluate opportunities to make additional discretionary payments, as appropriate, with the long-term goal of achieving a 100% funded status.

S&P Global Ratings Review:

The City is currently undergoing a periodic credit rating review by S&P Global Ratings. As part of this process, S&P Global Ratings evaluates the City's overall financial position, including financial performance, reserves, debt obligations, pension liabilities, and the financial strength of its utility operations.

As part of the review, S&P Global Ratings staff met with City staff and conducted an in-depth review of the City's financial position, including its recent financial performance and actions taken to strengthen its long-term financial position. Based on the review meeting and the City's recent financial improvements, staff is preliminarily anticipating a favorable outcome. In particular, the recently approved water and wastewater rate increases have strengthened the financial position of the City's utility operations by improving operating revenues, supporting ongoing infrastructure needs, and enhancing the utilities' ability to meet their financial obligations.

Achieving compliance with the City's stated minimum debt service coverage ratio of 1.25 was one of the key objectives of the water and wastewater rate study. Meeting this target strengthens the City's financial position and may support an improvement in the City's bond rating. A higher credit rating can reduce future borrowing costs, improve access to capital markets, and provide the City with greater financial flexibility when issuing debt.

While S&P Global Ratings has not yet issued its final determination, staff believes the City's recent financial actions and improved utility financial performance position the City favorably for a potential positive rating action. Staff will provide the City Council with an update once S&P Global Ratings completes its review and formally communicates its determination.

Measure E Update:

The Measure E committee's next regularly scheduled meeting is set for October 14, 2026, at 5:30pm. The primary purpose of this meeting will be for Staff to review with the Committee the list of Measure E funded projects that were included in the Council Adopted Budget for fiscal year 2026-27.

List of Measure E items funded this month:

- (2) Police Detective Positions
- Police Community Services Officer Position
- Police Records Clerk Position
- Parks and Recreation Director Position
- Recreation Program Supervisor Position
- Transit Trips to Eureka for Seniors
- K-9 Program
- Encampment Outreach and Cleanup Services
- Storm Drain Maintenance Projects
- Street Maintenance Projects

An activity log displaying important Finance data is attached for informational purposes.

RECOMMENDED COUNCIL ACTION:

Receive Finance Department Monthly Report. Consent Agenda vote.

ATTACHMENTS:

- Finance Staff Activity Log for July 2026
- Sales Tax Newsletter January – March 2026