CalPERS Pension Funding Workshop

September 27, 2017
Agenda

- John Bartel’s Review of Current City Valuation dated 6/30/16
- Staff Overview of Pension Funding Source Ideas
- Staff Review of Options to Utilize Pension Funding Sources
- City Council Questions & Feedback
Overview of Pension Funding Sources

1. Payments from sources of one-time money
2. Ongoing budgetary changes that result in savings
3. Cuts in services which the City provides
4. Employees paying a higher share of the pension cost
5. Sales tax increase or other ongoing revenue increases
6. Borrow from excess reserves of the General Fund or other City funds
Funding Source Option 1
Payments from Sources of One-Time Money

- City Council resolution to use all or a portion of one-time money (below is one option for consideration)
  - 1/3 to one-time projects
  - 1/3 to replenish reserves
  - 1/3 to pay down unfunded pension liability
Funding Source Option 2
Ongoing Budgetary Changes that Result in Savings

- Redirect cost savings from outsourcing or changes in workforce
  - Pros
    - Payments would reduce the unfunded liabilities without increased taxes
  - Cons
    - A reduction in the workforce will not reduce the annual unfunded portion of the PERS payment
Funding Source Option 3
Cuts in Services that City Provides

- Redirect General Fund revenue to CalPERS at the expense of other city services
  - Pros
    - Payments would reduce the unfunded liabilities from existing revenue without increased taxes
  - Cons
    - Need to identify what services would be reduced based upon current revenues and expenditures
Funding Source Option 4
Employees Paying a Higher Share of Pension Cost

- Employees to pay a higher percentage of the total normal cost/employer portion
  - Pros
    - Payments would reduce the unfunded liabilities or provide rate stabilization
  - Cons
    - This must be agreed upon through collective bargaining
    - Potential incentives to gain employee participation would decrease savings
Funding Source Option 5
Sales Tax Increase or Ongoing Revenue Increases

- Increase the City Sales Tax and use Proceeds to Pay Down the Unfunded Liability
  - Pros
    - The unfunded liability with CalPERS would be reduced with large interest savings
  - Cons
    - Tax increases need to be approved by a majority of the voters in the City
Funding Source Option 6
Borrow from Accumulated City Reserves

- Use accumulated City Reserves to prepay annual CalPERS contribution
  - Pros
    - Estimated savings in pension contributions of approximately $566,000 per year
    - Accumulated savings could be used to pay down unfunded liability
  - Cons
    - Assumes the City has adequate cash flow to fund the prepayment of approximately $15.6 million in the current year
    - Annual prepayment amount will increase each year
Review Options to Utilize Pension Funding Sources

1. Establish a Section 115 Pension Trust
2. Make one-time payments directly to CalPERS and payoff shorter amortization bases
3. Make one-time payments directly to CalPERS and payoff longer amortization bases
4. Set-up a City Internal Service Fund
Use of Pension Funding Option 1
Establish a Section 115 Pension Trust (Staff Recommends)

- Set aside funds in an irrevocable Section 115 Pension Trust
  - Advantages
    - Assets can be accessed any time to offset a PERS rate increase or during an economic downturn to make PERS payments
    - Investments held in a trust are significantly less restricted than General Fund investments to yield a higher return
    - More local control and oversight of investment fund management
    - Investment security with the Trust compared to CalPERS investment return fluctuations
  - Disadvantages
    - Assets can only be used to pay the City’s pension obligations
Use of Pension Funding Option 2
One-Time Payment to CalPERS (Short-Term Solution)

- One-time payments directly to CalPERS unfunded liability to pay off shorter amortization bases
  - Advantages
    - Lowers required unfunded pension liability contribution in the short-term
  - Disadvantages
    - Less budget flexibility
Use of Pension Funding Option 3
One-Time Payment to CalPERS (Long-Term Solution)

- One-time payments directly to CalPERS unfunded liability to pay off longer amortization bases
  - Advantages
    - More interest savings in the long-term
  - Disadvantages
    - Less budget flexibility
Use of Pension Funding Option 4
Set-up a City Internal Service Fund (Staff Does Not Recommend)

- Set aside funds in a City Internal Service Fund
  - Advantages
    - Funds can be accessed any time to offset a PERS rate increase or during an economic downturn to make PERS payments
    - Assets can be used by City Council for other purposes
  - Disadvantages
    - Restricted investments
    - Assets do not reduce pension liability reported on City’s financial statements
City Council Questions and Feedback

- Request City Council Feedback on Possible Pension Funding Source Ideas
- Request City Council Policy Direction on the Use of Pension Funding Sources