


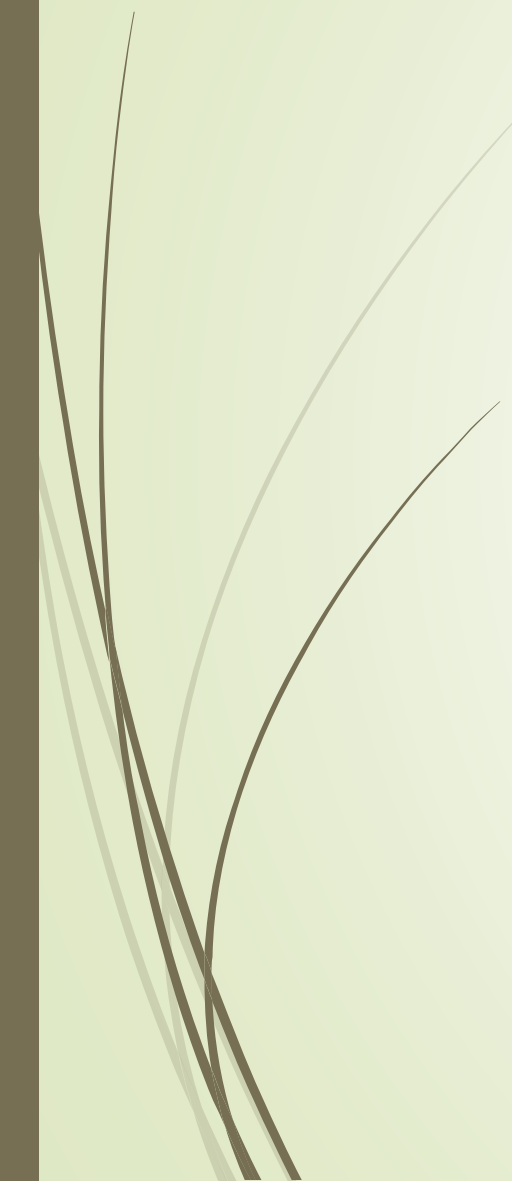


CalPERS Pension Funding Workshop

September 27, 2017

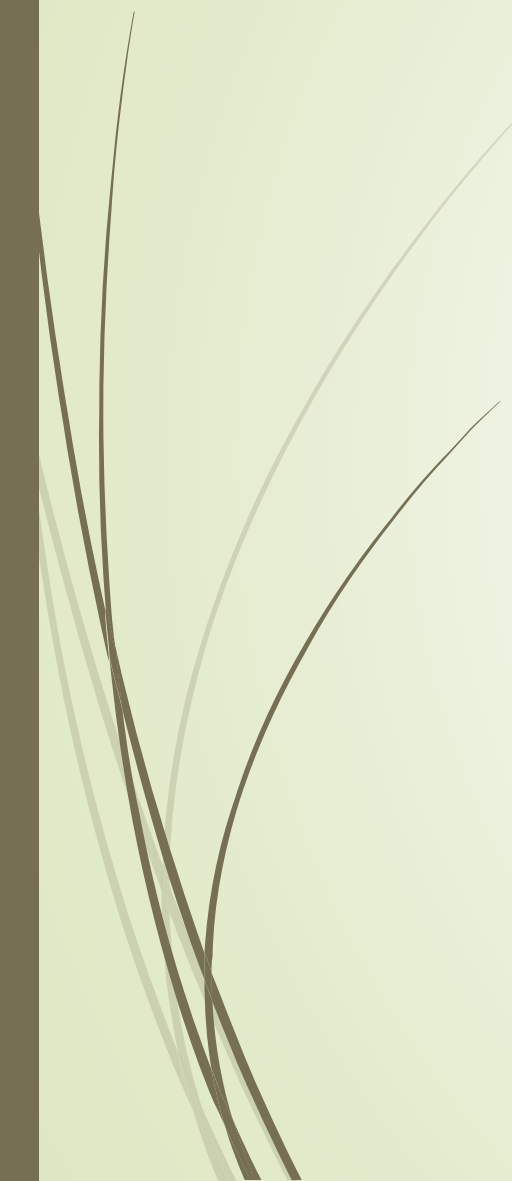


Agenda

- ▶ 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
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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
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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 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