



Long-term Management of CalPERS Costs

City Manager's Office

Finance Committee
December 12, 2018

THE CALPERS CHALLENGE

Given Unfunded Pension Obligations, Our Collective Challenge (aka The CalPERS Challenge) is:

How to Effectively Secure the Solvent Financial Future of the City, Its Employees, & Its Retirees While Ensuring the Delivery of Public Services & Stewardship of Public Resources

WHAT WE ARE/WILL BE DOING

Frequency	Description
Weekly	Since August 30, 2018, CalPERS Challenge team has had weekly meetings to provide suggestions and solutions with executive team updates every three weeks.
Monthly	Executive Leadership Team workshops to discuss how to ensure the delivery of public services given the pending fiscal challenges.
Monthly	Long-term Management of CalPERS Costs to be presented to the Finance Committee for recommendations to City Council
On-going	CalPERS Challenge website https://riversideca.gov/calpers-challenge with current information, educational material, and videos with a contact link for anyone to submit comments, concerns, suggestions, ideas.
Jan. to Dec. 2019	Citywide invitation for all staff members to attend a monthly brown bag lunch session to talk to the City Manager about the CalPERS Challenge



CALPERS COST MANAGEMENT OPTIONS

1. During a recent brainstorming session, the CalPERS Challenge team and the Executive team identified several cost management options for City Council consideration.
2. Each option includes a variety of variables that require additional analysis to provide an estimate of the value of making each decision.
3. Unless otherwise directed, these options will be provided to the Finance Committee for recommendation to the City Council



COLLECTIVE BARGAINING AND REPRESENTATION OF EMPLOYEES

The City maintains a strict commitment to collective bargaining which includes the requirement to meet and confer on any changes affecting wages, hours, promotions, benefits, and other employment terms.

Any cost saving recommendations related to these items would be discussed during the collective bargaining process.



CALPERS COST MANAGEMENT OPTIONS

Option	Description
Section 115 Trust	Establishing and placing funds in an irrevocable pension supplemental Section 115 Trust would be restricted to use solely for pension obligations.
Cash Pool Borrowing	Utilizing available cash on hand from different funds to help pay down the Unfunded Accrued Liability (UAL) and repay the funds overtime at a low interest rate.
CalPERS Fresh Start Program	Accelerate pension payments for the UAL to minimize interest costs. This would result in higher annual payments for the City.



CALPERS COST MANAGEMENT OPTIONS

Option	Description
Prepayment of Amortization Bases	Select certain bases to pay off: paying down the shortest bases will have the largest immediate impact on the City's future contribution requirements, while paying down the longest bases will save the most interest over the long term.
Debt Restructuring	Evaluate existing debt and analyze the possibility of refunding certain issuances that would benefit the City and result in savings to the General Fund.
Pension Obligation Bonds	Issue taxable bonds to pay for the UAL. The use of POBs rests on the assumption that the bond proceeds, when invested with pension assets in higher-yielding asset classes, would have to achieve a rate of return that is greater than the interest rate owed over the term of the bonds.



CALPERS COST MANAGEMENT OPTIONS

Option	Description
Use of Cash Reserves	Establish a policy that may lower cash reserves requirements and utilize more cash to pay down the UAL.
Measure Z – Strategic Use	Measure Z was passed by the City’s voter’s to restore critical services eliminated in June 2016 and address other critical needs. Additional analysis is needed to ensure the ongoing personnel costs associated with Measure Z funded personnel are sufficient. In the absence of other viable options or in concert with other options, uncommitted Measure Z funding could contribute toward paying down the City’s UAL.
One-time Revenue Set Asides	On occasion, the City will receive unexpected one-time revenues. We recommend a policy of allocating one-time revenues in excess of \$50,000 toward payment of the UAL.



CALPERS COST MANAGEMENT OPTIONS

Option	Description
Sell City Assets	The City owns a number of properties and capital assets. Staff recommends adopting a policy of allocating revenues from the sale of capital assets toward payment of the UAL. Exceptions would include the sale of assets intended to fund replacement capital assets.
Revenue Generation/ Enhancements	City staff could create a Revenue Generation Team to research new non-tax revenue sources, and study and enhance existing revenues. Staff recommends allocating new net revenues toward payment of the UAL.
True up Market Based Fees to Current	Many of the City's existing fees are established at a rate less than 100% of the cost to provide the related service. The City will begin a comprehensive, three-year fee study in FY 2018/19, during which the actual cost of service will be updated. The City can offset some costs by increasing the current recovery rate.



CALPERS COST MANAGEMENT OPTIONS

Option	Description
Subsidy programs	The City provides significant support to community programs, organizations, and events. As we enter a new era of financial constraints, these subsidies should be reviewed for conformity to the City’s strategic priorities and potential opportunities for cost savings.
Lobbying efforts	Engage with our State Elected representatives as well as CalPERS Board Members for implementation of cost saving legislation and avoid additional measures that worsen the fiscal impact to California agencies.
Reduce Operational Budgets	The City could require departments to review their current 2-year budgets to re-allocate budgeted funds towards an account to pay down the UAL.



PROFESSIONAL RESOURCES PANEL

1. The staff recommendation is to use current and additional City contracted professional services as outside advisors for the CalPERS Challenge.
2. Current contracts include services for Financial Analysis/Pension – Retirement Finance & Pension Actuarial Consulting services related to our self-insurance funds and our Other Post-Employment Benefits.
3. Additional subject matter experts will be procured through Request for Proposals/Qualifications (RFP/Q) for a Riverside specific actuarial and another for a Professional Labor Negotiator to assist City staff and the City Council.



RECOMMENDATIONS

That the Finance Committee:

1. Receive a monthly update on the Long-Term Management of California Public Employees Retirement System costs;
2. Receive and provide direction regarding the California Public Employees Retirement System Cost Management Options; and
3. Receive and provide direction on the use of City contracted subject matter experts as a professional resources panel to provide assistance to bring forward recommendations for California Public Employees Retirement System Cost Management Options.

