

DISCUSSION:

As discussed during the City’s FY 2018-2020 Budget presentations, the City is facing rising CalPERS costs that are presenting significant financial challenges. Staff from the Finance Department, Human Resources Department and the City Manager’s Office meet regularly to discuss the CalPERS Challenge.

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. The City will not engage in activity that may be seen to run counter to the ability of the City and the Unions to communicate openly and honestly during the collective bargaining process, to find solutions that will ultimately benefit the City of Riverside. For simplicity, the City colloquially refers to this commitment as performing in “good faith” with the Unions and unrepresented employees alike.

CalPERS Cost Management Options

The cost management ideas, separate from any ideas that may be subject to collective bargaining, have resulted in the below summarized options:

CalPERS Cost Management Options	
1. Section 115 trust	Establishing and placing funds in an irrevocable pension supplemental Section 115 Trust would be restricted to use solely for pension obligations.
2. Cash pool borrowing	Utilizing available cash on hand from different funds to help pay down the UAL and repay the funds overtime at a low interest rate.
3. CalPERS Fresh Start Program	Accelerate pension payments for the UAL to minimize interest costs. This would result in higher annual payments for the City.
4. Prepayment of Amortization Bases	Selecting 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.
5. 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.
6. Borrowing (POBs)	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.

7. Use of cash reserves	Establish a policy that may lower cash reserves requirements and utilize more cash to pay down the UAL.
8. 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. The services and needs identified at the time have been restored and funded. In the absence of other viable options or in concert with other options, uncommitted Measure Z funding could contribute toward the paydown of the City’s UAL.
9. One-time revenue set asides	On occasion, the City will receive unexpected one-time revenues. We recommend adopting a policy of allocating one-time revenues in excess of \$50,000 toward payment of the UAL.
10. Sell City assets	The City owns a number of properties and capital assets. We recommend 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.
11. Revenue Generation/Enhancements	City staff will create a Revenue Generation Team to research new non-tax revenue sources, and study and enhance existing revenues. We recommend allocating new net revenues toward payment of the UAL.
12. 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 costs by increasing the current recovery rate.
13. 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.
14. 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.
15. Reduce Operational Budget	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.

Develop a Panel of Professional Resources for CalPERS Related Needs

The staff recommendation is to use current and additional City contracted professional services as outside advisors for the CalPERS Challenge. For example, the City has the following subject matter experts already on contract:

- Financial Analysis/Pension – Retirement Finance
 1. NHA Advisors, website <http://nhaadvisors.com/>
 2. PFM Financial Advisors, website <https://www.pfm.com/>
 3. Bartel Associates, LLC, website <http://bartel-associates.com>
- Pension Actuarial Consulting services related to our self-insurance funds and our Other Post-Employment Benefits
 1. Nyhart, website <https://www.nyhart.com/>
 2. Bickmore, website <https://www.bickmore.net/>

Additional subject matter experts will be procured through Request for Proposals/Qualifications (RFP/Q). Current staff requests are to issue RFP/Qs for:

- RFP/Q for a Professional Labor Negotiator to assist staff and the City Council with all bargaining groups as each contract approaches the negotiation stages.
- RFP/Q for a software to assist with detailed costing for options for addressing CalPERS Challenge

Path Forward

- November 14, 2018 CalPERS Challenge website <https://www.riversideca.gov/citymanager/calperschallenge> with current information, educational material, and videos. This website includes a contact link for anyone to submit comments, concerns, suggestions, ideas related to the CalPERS Challenge directly to the City Manager’s Office.
- November 29, 2018 Budget Engagement Committee presentation and discussion
- December 18, 2018 City Council Workshop
- 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

FISCAL IMPACT:

There is no direct fiscal impact associated with presentation of this report. The City’s five-year projections on CalPERS costs have been included in the City’s Adopted FY 2018-2020 Two-Year Budget and FY 2018-2023 Five-Year Plan assumptions.

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- Attachments:
1. CalPERS 101: How Does it Work
 2. Historic Rates of Return

3. CalPERS Actuarial Circular Letter 042618
4. CalPERS Summary of Valuation 063017
5. League of California Cities Retirement System Sustainability Study and Findings January 2018
6. Presentation