



# City Council Memorandum

*City of Arts & Innovation*

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**TO: HONORABLE MAYOR AND CITY COUNCIL      DATE: DECEMBER 4, 2018**

**FROM: CITY MANAGER'S OFFICE      WARDS: ALL**

**SUBJECT: WORKSHOP ON THE LONG TERM FISCAL MANAGEMENT OF THE CITY'S CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM TO MITIGATE THE IMPACT ON CITY SERVICES**

**ISSUE:**

Receive information on the long-term fiscal management of the City's California Public Employees Retirement System unfunded pension obligations.

**RECOMMENDATIONS:**

That the City Council receive information on the long-term fiscal management of the City's California Public Employees Retirement System unfunded pension obligations.

**BACKGROUND:**

On October 10, 2018, the Finance Committee received an update, the California Public Employees Retirement System (CalPERS) Challenge Statement "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", and provided feedback on the Long-Term Management of CalPERS costs. Staff was directed to provide monthly updates to the City Council and Finance Committee regarding CalPERS cost management options, establish a panel of professional resources for CalPERS related needs, and provide a CalPERS workshop for a future City Council meeting. The next scheduled Finance Committee meeting is Wednesday, December 12, 2018.

**DISCUSSION:**

As discussed during the City's FY 2018-2020 Budget presentations, the City is facing rising CalPERS costs that are presenting significant long-term financial challenges. During a recent brainstorming session, staff on the CalPERS Challenge team and the Executive team identified several cost management options for City Council consideration. Each option includes a variety of variables that will require additional in-depth analysis to provide potential results and long term implications of the options available to us. Unless otherwise directed, these options will be provided to the Finance Committee for discussion and 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. 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.

### CalPERS Cost Management Options

Staff from the Finance Department, Human Resources Department and the City Manager’s Office meet weekly to discuss the CalPERS Challenge. These meetings generate innumerable ideas, including those to address cost management dimensions of the CalPERS Challenge. The cost management ideas, separate from any ideas that may be subject to collective bargaining, have resulted in the high-level options summarized in Table 1. Please note that all of these options have pros and cons.

Table 1

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 Unfunded Accrued Liability (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	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.
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. 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.
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. Additional analysis is needed to ensure the ongoing personnel costs associated with Measure Z funded personnel are sufficient. In the absence of other

	<p>viable options or in concert with other options, uncommitted Measure Z funding could contribute toward paying down the City’s UAL.</p>
9. One-time Revenue Set Asides	<p>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.</p>
10. Sell City Assets	<p>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.</p>
11. Revenue Generation/Enhancements	<p>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.</p>
12. True up Market Based Fees to Current	<p>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.</p>
13. Subsidy programs	<p>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.</p>
14. Lobbying efforts	<p>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.</p>
15. Reduce Operational Budget	<p>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.</p>

*What we are/will be Doing:*

Staff from the Finance and Human Resources Departments meet at least once per week with the City Manager’s Office to collaboratively discuss potential mitigation solutions for the CalPERS Challenge for City Council consideration. The Executive Leadership Team is meeting once a month to consider additional measures for the same purpose. Additionally, we engaged the actuarial firm of Bartell Associates, LLC to provide pension consulting services related to the CalPERS issue.

Table 2

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 Options to be presented to the Finance Committee for recommendation to City Council
On-going	CalPERS Challenge website <a href="https://riversideca.gov/calpers-challenge">https://riversideca.gov/calpers-challenge</a> 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

**FISCAL IMPACT:**

There is no direct fiscal impact associated with presentation of this report. Upon direction from City Council to move forward with any of the CalPERS Cost Management Options, those costs and the associated long-term savings of the options will be provided as part of the recommendations to the 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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 Approved as to form: Gary G. Geuss, City Attorney

- Attachments:
1. CalPERS 101: How Does it Work
  2. Presentation