



Long-term Management of CalPERS Costs Workshop

City Manager's Office

Human Resources Board
March 4, 2019

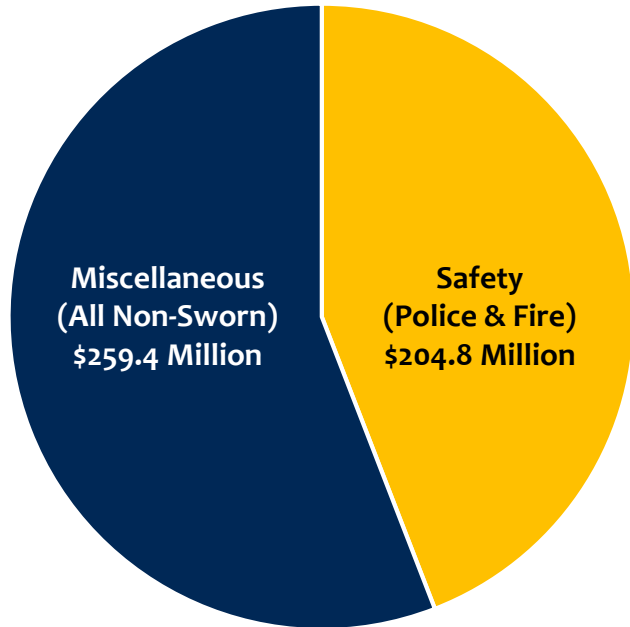
THE CALPERS CHALLENGE

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

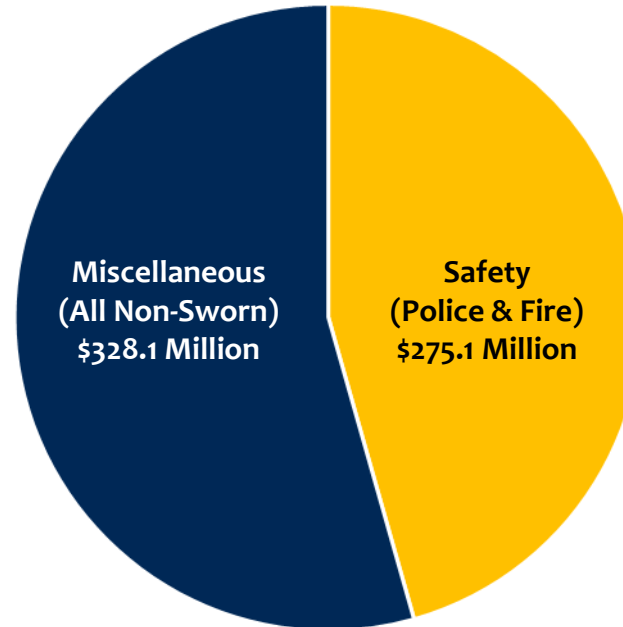
WHAT IS THE CITY'S UNFUNDED ACCRUED LIABILITY (UAL)?

Total UAL: \$464.2 Million
Actuarial Report as of June 30, 2015



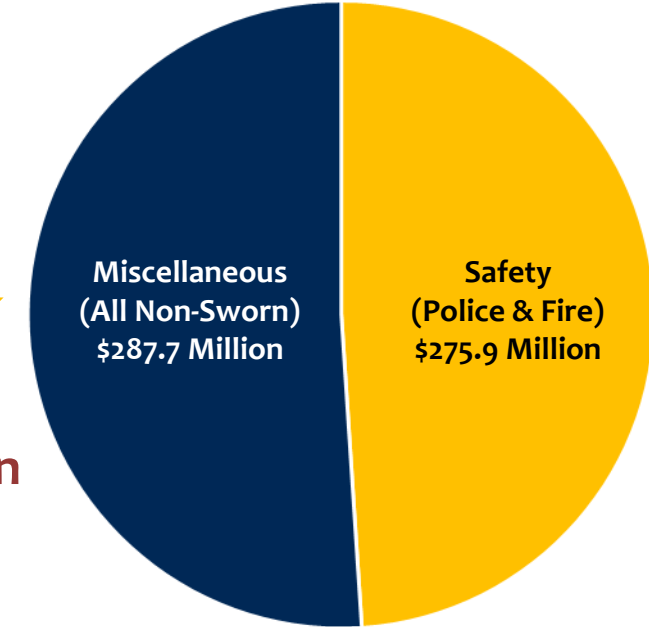
29.9%
\$139 Million

Total UAL: \$603.2 Million
Actuarial Report as of June 30, 2016



6.6%
\$39.6 Million

Total UAL: \$563.6 Million
Actuarial Report as of June 30, 2017



Source: CalPERS Actuarial Valuation Reports for the City of Riverside, as of June 30, 2015, 2016 and 2017

RIVERSIDE FUNDED RATIOS

The City's CalPERS Funded Ratios represent the percentage of assets available today to pay all of the pension benefits promised to City employees.



MISCELLANEOUS
EMPLOYEES

78.2%

General Fund &
Non-General Fund

CITY CalPERS FUNDED RATIOS

Represents the percentage of assets
available today to pay all of the pension
benefits promised to City employees.



SAFETY
EMPLOYEES

73.2%

General Fund



Source: CalPERS Actuarial Valuation Reports dated July 2018 for the City of Riverside, as of June 30, 2017

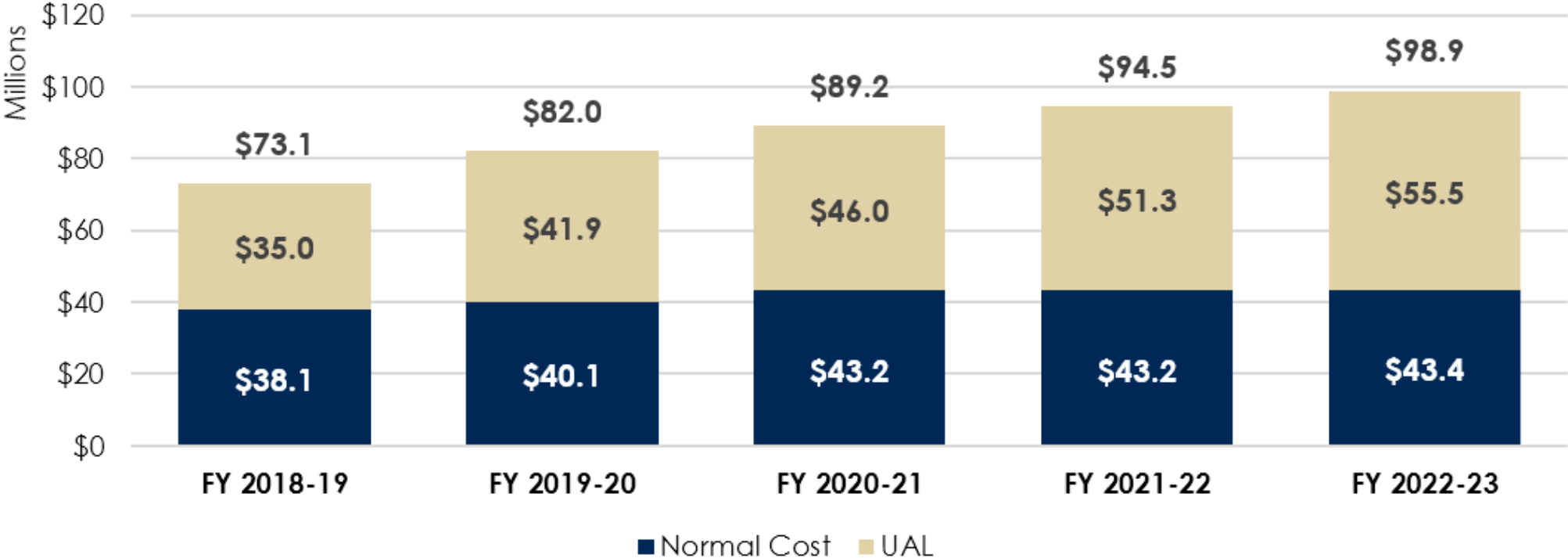
RIVERSIDE'S DEFINED BENEFIT PENSION PLANS (DBP)

1. The City has five CalPERS DBP formulas depending on PERS entry date and employee group.
2. Tier 1 and 2 DBP formulas are set by the City through employee negotiations.
3. Tier 3 DBP formula is set by the Public Employees' Pension Reform Act of 2013 (PEPRA).

	Classic CalPERS Members (Hired before January 1, 2013)		New CalPERS Members (Entered on or after January 1, 2013)
Safety	Tier 1	Tier 2	Tier 3
Police	3% @ 50	3% @ 50	2.7% @ 57
Fire	3% @ 50	3% @ 55	2.7% @ 57
Miscellaneous			
All Non-Sworn	2.7% @ 55	2.7% @ 55	2% @ 62

CITYWIDE ESTIMATED CALPERS COSTS

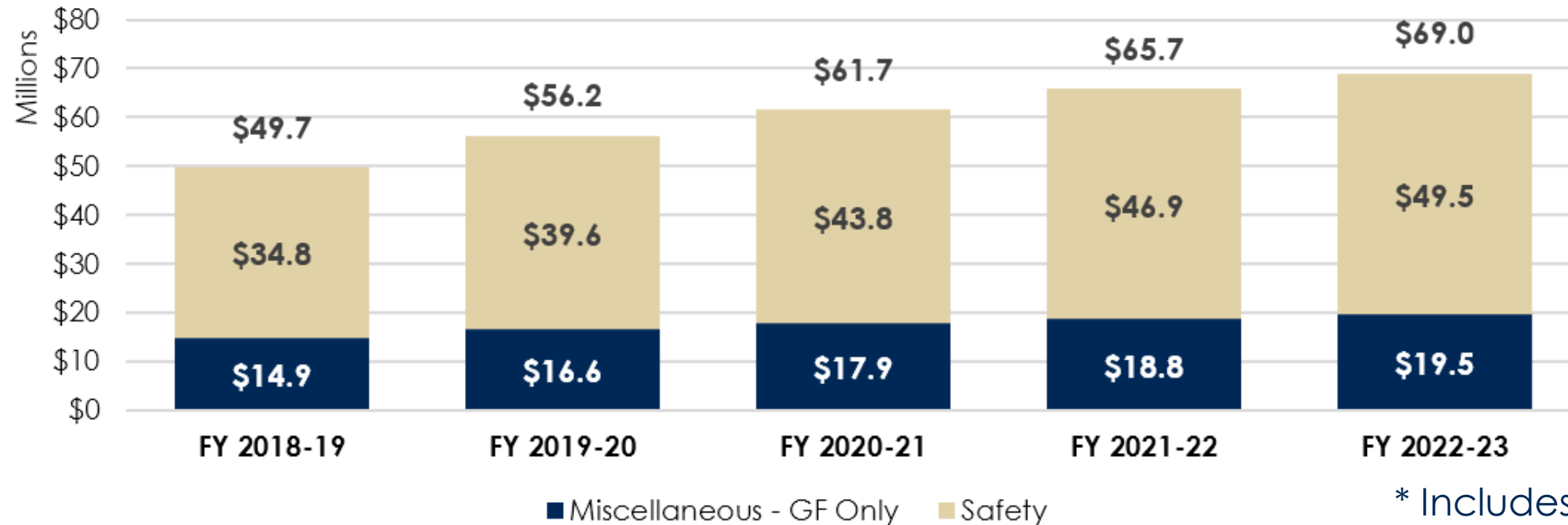
Since the Great Recession (2007-2009), the City's annual payment to CalPERS have increased significantly and will continue to grow (General Fund & Non-General Funds).



Sources: UAL - Actuarial reports dated July 2018, reporting data as of June 30, 2017;
Normal Cost projections – City' FY 2018-20 Budget and underlying five-year cost projections



GENERAL FUND ESTIMATED CALPERS COSTS*



1. The increase to Normal Cost/Contributions are a result of CalPERS trying to lower its UAL.
2. This is an important fiscal challenge impacting the State and most California cities.

Sources: UAL - Actuarial reports dated July 2018, reporting data as of June 30, 2017; Normal Cost projections – City' FY 2018-20 Budget and underlying five-year cost projections



GENERAL FUND OVERVIEW: 5-YEAR FORECAST

	Estimated FY 2017/18	Adopted FY 2018/19	Adopted FY 2019/20	Projected FY 2020/21	Projected FY 2021/22	Projected FY 2022/23
Beginning General Fund Reserve	\$41,497,820	\$59,043,375	\$59,043,425	\$59,043,425	\$44,088,223	\$26,039,944
Total Revenues/Transfers In	271,966,343	270,070,216	280,999,016	279,123,664	284,635,159	291,414,344
Total Expenditures/Transfers Out	(254,420,788)	(268,834,151)	(282,235,031)	(294,078,866)	(302,683,438)	(308,919,547)
Five-Year Financial Plan Surplus/(Deficit)	\$17,545,555	\$1,236,065	\$(1,236,015)	\$(14,955,202)	\$(18,048,279)	\$(17,505,203)
Designated Fund Balance (Reserved) / Used for Future Operations	-	(1,236,065)	1,236,015	-	-	-
Ending General Fund Reserve	\$59,043,375	\$59,043,425	\$59,043,425	\$44,088,223	\$26,039,944	\$8,534,741
<i>Fund Balance to Spending Percentage</i>	23.20%	22.40%	21.00%	15.00%	8.60%	2.80%



*Source: City's adopted Fy18/19 – 19/20 Budget with the 5 year projection

CITY ACTIONS IMPACTING COSTS

Year	Description	CalPERS Cost Impact	City Net Financial Impact
2003-04	City issued Pension Obligation Bonds to extinguish UAL at that time and reduce payments	↓	↓
2011-12	All new employees begin paying the employee portion of PERS pension cost	↓	↓
2013	Established lower pension benefits for employees new to CalPERS (PEPRA)	↓	↓
2016	Tier 1 Employee groups agree to contribute more to CalPERS over several years as part of Partnership Compensation Model (PCM)	↑	↑*
2018-20	Pre-pay UAL at the beginning of the Fiscal Year to save 3.5% (~\$1.2 million/yr)	↓	↓
Every Year	Implement operational efficiencies to minimize costs and impact to services - more to go	↓	↓

* Tied to salary increases, which require corresponding CalPERS contributions. Net effect undetermined, but possibly negative.

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 information session to talk to the City Manager about the CalPERS Challenge

CALPERS COST MANAGEMENT OPTIONS

1. Staff has 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
CalPERS Fresh Start Program	Accelerate pension payments for the UAL to minimize interest costs. This would result in higher annual payments for the City.
Section 115 Trust	Establish and place funds in an irrevocable pension supplemental Section 115 Trust which would be restricted to use solely for pension obligations.
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.

CALPERS COST MANAGEMENT OPTIONS

Option	Description
Cash Pool Borrowing	Utilize 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.
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.
Use of Cash Reserves	Establish a policy that may lower cash reserves requirements and utilize more cash to pay down the UAL.

CALPERS COST MANAGEMENT OPTIONS

Option	Description
One-time Revenue Set Asides	On occasion, the City will receive unexpected one-time revenues. Consideration for a policy to allocate one-time revenues toward payment of the UAL.
Sell City Assets	The City owns a number of properties and capital assets. Consideration for 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	Create a Revenue Generation Team from existing staff to research new non-tax revenue sources, and study and enhance existing revenues with a policy to allocate new net revenues toward payment of the UAL.

CALPERS COST MANAGEMENT OPTIONS

Option	Description
Subsidy programs	The City provides significant support to community programs, organizations, and events. As financial constraints become more difficult, these subsidies may be reviewed for conformity to the City's strategic priorities.
Lobbying efforts	Engage with elected State representatives and 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 the current 2-year budget to re-allocate funds to pay down the UAL.

RECOMMENDATIONS

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