

CITY OF YUBA CITY
STAFF REPORT

Date: February 4, 2020
To: Honorable Mayor & Members of the City Council
From: City Council CalPERS Unfunded Liability Ad Hoc Committee
Presentation by: Shon Harris, Mayor

Summary

Subject: California Public Employees' Retirement System (CalPERS) Unfunded Liability Committee Recommendations

Recommendation: Authorize the Mayor to prepare and sign a letter outlining proposed solutions to CalPERS Unfunded Liability issues

Fiscal Impact: Costs associated with staff time work with and promote the recommended action to local agencies and the State Legislature

Purpose:

To identify ways to address CalPERS Unfunded Liability issues to ensure long-term fiscal stability for Yuba City.

Background:

On April 16, 2019, the City Council authorized the formation of an Ad Hoc committee to coordinate with staff to solicit citizen involvement, facilitate the meetings, and coordinate the preparation of a report with recommendations as applicable to the entire City Council. Mayor Harris and Councilmember Shaw were designated as the members of the Ad Hoc Committee.

The following six community meetings were scheduled in the City Council Chambers in order to provide information on the status of Yuba City's Unfunded Pension Liability and current steps that the City has taken to address the issues. A guest speaker was scheduled to talk about how the Unfunded Pension Liability is impacting all the cities and counties within the state, and CalPERS provided senior personnel and experts on how CalPERS and Actuaries work and an insight of how CalPERS is also working to address the unfunded pension issues.

<u>July 18, 2019</u>	Overview of the schedule and setting expectations & objectives <ul style="list-style-type: none"> o Assignment of reading: Yuba City Actuaries; LOCC Pension Stability White Paper
<u>August 15</u>	Discussion of the City's Actuarial reports by City Staff <ul style="list-style-type: none"> o Representative from Senator Nielsen's Office in attendance
<u>September 19</u>	Guest speaker Dane Hutchings regarding League of California Cities' perspective and update of the City's Unfunded Liabilities
<u>October 10</u>	Guest speakers from CalPERS, David Teykaerts, Stakeholder Strategy Manager and Kurt Schneider Supervising Pension Actuary
<u>November 21</u>	Discussion: Recommendations and Solutions

Analysis:

At their meeting on December 19th, Mayor Harris and Councilmember Shaw reviewed all the information that was provided along with the feedback that was received from members of the community that attended the meetings.

City Actions to date to address the issue:

- Established Stabilization Trust Fund in June, 2016. Balance just under \$2.5 Million
- Prepaid annual UAL costs for past 4 years saving an estimated \$300,000
- Employees now pay employee share of PERS saving \$2 million annually (was not in exchange for a raise)
- PERS impacts always considered when negotiating employee contracts. One-time money given in conjunction with on-going raises to not further compound problem

Possible Short- term Actions:

- Pay additional contributions annually in excess of required contributions
- Additional Pension Reform (PEPRA)
 - Negotiate another lower tier (2% at 65) for Misc. and Safety
- Pay lump-sum, one-time payment to CalPERS and evaluate continuing on an annual basis if sufficient funds are available

Possible Long-term Actions:

- Change type of retirement plan from Defined Benefit Plan to Defined Contribution Plan
 - \$490 Million Termination Payment to CalPERS
 - Change would have to be negotiated with all employee unions and bargaining units

Other options discussed:

- Require more from the employees
 - Require employees to understand the cost of their CalPERS
 - Consider lowering salaries and wages
 - Union influence
 - Employees need to pay at least 50% of the CalPERS cost
- Pull out of CalPERS
 - Cost of approximately \$490 million
 - Consider 401k plan
 - California Rule
- File bankruptcy
- Do not pay anything more on our UAL
 - Not paying would be in violation of our contract

Recommended Option from Ad Hoc Committee:

- Prepare letter to be sent to State Leadership, FINRA, League of California Cities
 - Stabilize the fund by reducing fees / State cover the investment fees
 - Split losses incurred between investors (State) and constituents (public employees) if State orders to divest for political reasons
 - Board has a fiduciary responsibility to the members
 - Legislature needs to address how Board appointments are made
 - Provide independent oversight
 - Broaden the investment opportunities based upon meeting the needs of the retirees and not politically motivated
 - State to cover losses if it controls the investments by political motivation
- Assemble a unified group of local agencies to address the issue with State Leadership

Fiscal Impact:

Costs associated with staff time work with and promote the recommended action to local agencies and the State Legislature.

Alternatives:

Direct the Committee to recommend other options or a combination of options that arose during the workshop sessions.

Recommendation:

Authorize the Mayor to prepare and sign a letter outlining proposed solutions to CalPERS Unfunded Liability issues

Attachment:

- Copy of November 21, 2019 Workshop Presentation

Prepared by:

/s/ Terrel Locke

Terrel Locke
Assistant to the City Manager

Submitted by:

/s/ Michael Rock

Michael Rock
City Manager

Reviewed by:

Finance Director

SM

ATTACHMENT A



CalPERS Unfunded Liabilities What are our Options?



Dave Shaw, Councilmember
November 21, 2019

Topics Covered



- August 15
 - Review of City's Actuary Reports by Finance Director Robin Bertagna
- Guests:
 - Laura Nicholson, Senator Jim Nielsen's Office

Topics Covered



- September 19
 - Speaker Dane Hutchings regarding League of California Cities' perspective and update of the City's Unfunded Liability
- October 10
 - Actuary from CalPERS will attend for discussion and questions
 - David Teykaerts | Stakeholder Strategy Manager
 - Kurt Schneider | Supervising Pension Actuary

What's next



- November 21
 - Discussion: Recommendations and Solutions, led by Councilmember Shaw
- December 19
 - Wrap-up and Next Steps, led by Mayor Harris

Reading Material Online



Located on the City's Website: www.yubacity.net

1. City Manager Department Pension Sustainability Working Group White Paper
2. CalPERS Actuarial Reports as of June 30, 2017, including bargaining unit plans
3. August 10, 2018 Memorandum regarding CalPERS Unfunded Liabilities from 06/30/17 Actuary Reports including attached summary of Unfunded Actuarial Liabilities (UAL)

Reading Material



4. CalPERS Unfunded Liabilities and Funding Strategy Staff Report to City Council dated September 18, 2018
5. CalPERS Unfunded Liabilities and Funding Strategy Presentation with Talking Points to City Council dated September 18, 2018
6. CalPERS Prepayment Option Analysis after Additional Discretionary Payment in September 2018

Reading Material



7. CalPERS Prepayment Option Analysis from July/August 2018 Actuarial Reports
7. PERS cost Projection Analysis Using July 2018 Actuarial Reports
8. June 30, 2017 and June 30, 2018 Actuarial Report Analysis Comparing 30 Year, 20 Year, and 15 Year Amortization
9. Summary of Projected Hypothetical Termination Liability to Leave CalPERS

Two Locations for Handouts – Home Page Calendar:

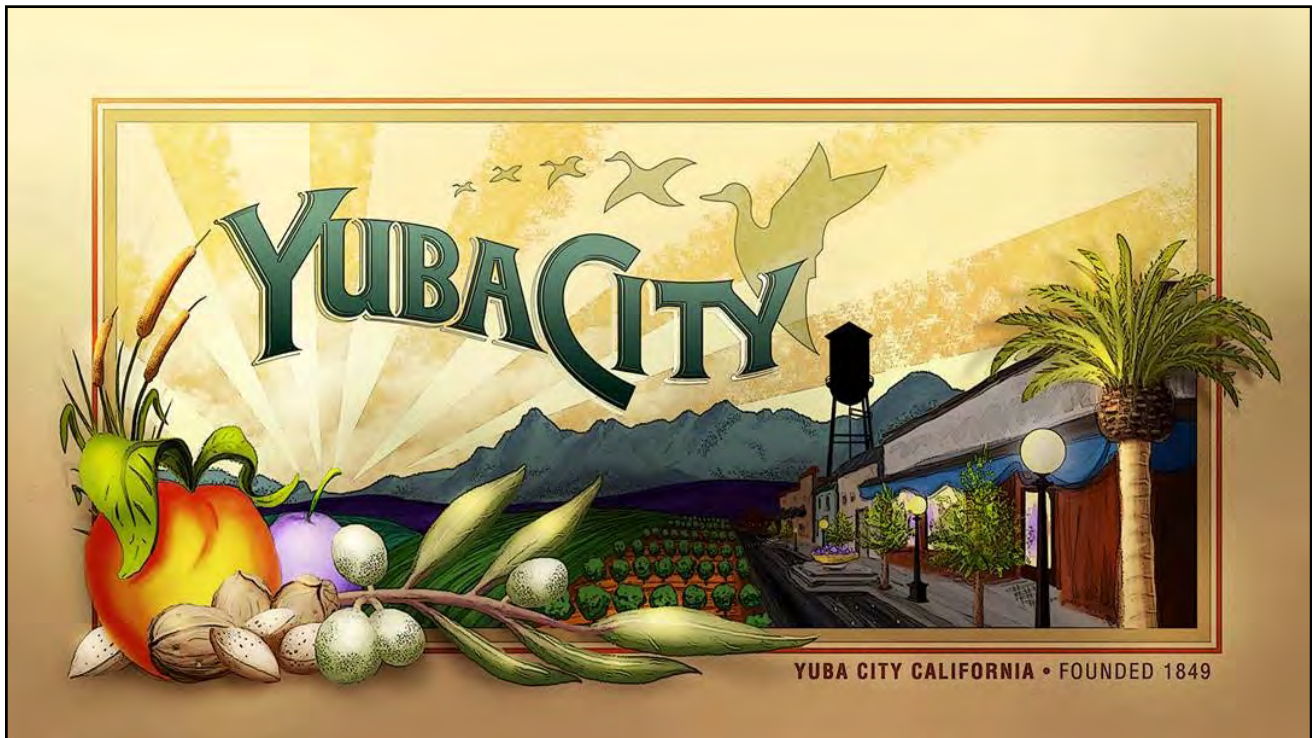


The screenshot displays the City of Yuba City website's calendar page. The main heading is "Calendar" with the subtitle "City of Yuba City / City Hall / Calendar". The event listed is "PERS COMMUNITY WORKSHOP" on July 18, 2019, from 6:00 PM to 7:00 PM. The location is "City Hall, Council Chambers, 1201 Civic Center Blvd, Yuba City". The description includes "PERS Community Workshop" and "City Hall, Council Chambers, 1201 Civic Center Blvd, Yuba City". Under the "ATTACHMENTS" section, there are two items: "PERS.7.2019.ppt" and "Yuba City PERS Workshop Hand-outs.pdf", which is circled in red. The page also features a navigation menu at the top, a sidebar with various services, and a footer with additional links.

The Video and Handouts are on Council Agenda and Minutes Page



Date	Downloads
07/16/2019	Agenda Packet Presentation Video
07/15/2019	Agenda Packet Download Cancelled
07/10/2019	Agenda Packet
07/01/2019	Agenda Packet

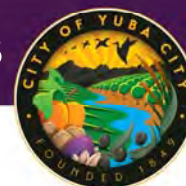


Unfunded Liabilities Update



	6/30/2016	6/30/2017	Change
Assets	\$ 171,871,161	\$ 187,910,092	\$ 16,038,931
Liabilities	\$ (245,205,988)	\$ (258,279,864)	\$ (13,073,876)
UAL	<u>\$ (73,334,827)</u>	<u>\$ (70,369,772)</u>	<u>\$ 2,965,055</u>

Options considered during the process



- Consider taking action against CalPERS
- Require more from the employees
- Pull out of CalPERS
- Assemble a unified group to address the issue with State Leadership

Unfunded Liabilities Update



Pension Liabilities FYE 6-30-17, Actuarials Dated August 2018

	Safety Tier 1	Safety Tier 2	Safety Tier 3-Fire	Safety Tier 3-Police	Safety PEPPA-Fire	Safety PEPPA-Police	Miscellaneous	Pension Stabilization Trust Fund	
Assets	\$ 49,509,910	\$ 31,597,742	\$ 426,883	\$ 795,991	\$ 272,242	\$ 326,658	\$ 84,981,856	\$ 2,619,858	
Liabilities	\$ 72,115,503	\$ 65,491,485	\$ 443,479	\$ 827,552	\$ 284,612	\$ 342,019	\$ 118,775,214		
Unfunded Liability	\$ (22,606,593)	\$ (33,903,743)	\$ (6,616)	\$ (31,561)	\$ (12,370)	\$ (15,331)	\$ (33,793,558)		
% Funded	68.7%	78.0%	98.0%	96.2%	95.7%	95.0%	71.5%		
Total Unfunded Pension Liabilities 6-30-17								\$ 70,669,772	

Pension Liabilities FYE 6-30-18, Actuarials Dated July 2019

	Safety Tier 1	Safety Tier 2	Safety Tier 3-Fire	Safety Tier 3-Police	Safety PEPPA-Fire	Safety PEPPA-Police	Miscellaneous	Pension Stabilization Trust Fund	
Assets	\$ 49,201,548	\$ 31,114,497	\$ 847,607	\$ 1,156,516	\$ 854,127	\$ 630,363	\$ 90,520,869	\$ 2,800,837	
Liabilities	\$ 74,084,257	\$ 72,773,713	\$ 683,905	\$ 1,243,749	\$ 699,078	\$ 683,672	\$ 127,371,922		
Unfunded Liability	\$ (25,492,709)	\$ (41,659,216)	\$ (36,278)	\$ (87,233)	\$ (44,951)	\$ (53,289)	\$ (36,851,053)		
% Funded	65.0%	77.4%	94.7%	93.0%	93.6%	92.2%	71.1%		
Total Unfunded Pension Liabilities 6-30-18								\$ 76,224,729	

Changes in Values 6-30-17 to 6-30-18 Valuation Reports

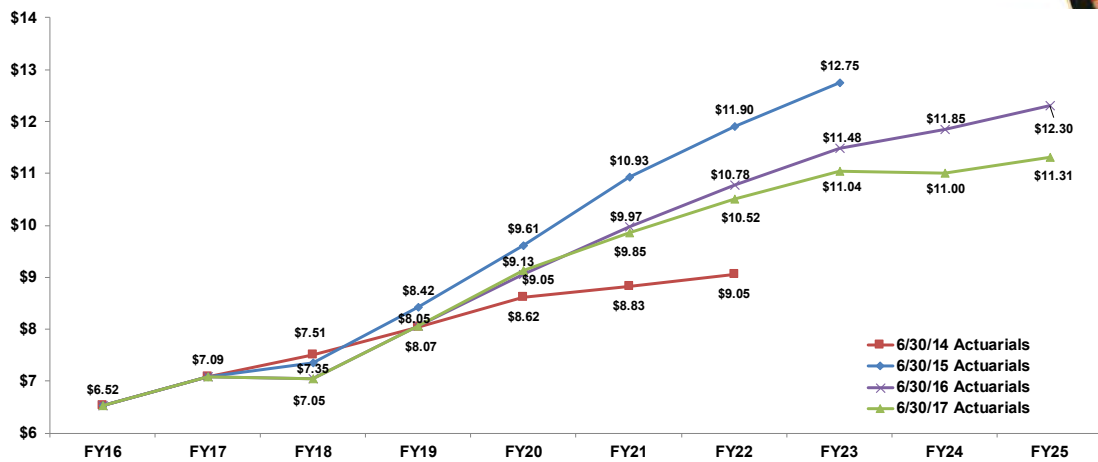
	Safety Tier 1	Safety Tier 2	Safety Tier 3-Fire	Safety Tier 3-Police	Safety PEPPA-Fire	Safety PEPPA-Police	Miscellaneous	Pension Stabilization Trust Fund	
Assets	\$ (107,362)	\$ 5,526,756	\$ 210,794	\$ 360,525	\$ 381,885	\$ 303,696	\$ 5,539,213	\$ 185,179	
Liabilities	\$ 2,578,764	\$ 8,282,228	\$ 240,456	\$ 416,197	\$ 414,466	\$ 341,693	\$ 8,066,708		
Unfunded Liability	\$ 2,886,118	\$ 2,755,473	\$ (29,662)	\$ 55,672	\$ 32,581	\$ 37,958	\$ 3,057,495		
% Funded	-2.6%	-1.4%	-3.0%	-3.2%	-2.1%	-3.3%	-8.6%		
Total Net Increase in Pension Liabilities Before Pension Trust Offset								\$ 8,854,957	
Total Net Increase in Pension Liabilities After Pension Trust Offset								\$ 8,469,778	

CalPERS - Summary of Funded Status as of 6-30-19

	Safety	Miscellaneous	Total
Assets	\$ 109.4	\$ 90.5	\$ 199.9
Liabilities	\$ (112.5)	\$ (127.4)	\$ (239.9)
Unfunded Liability	\$ (3.1)	\$ (36.9)	\$ (39.9)
Percentage Funded	71.8%	71.1%	71.4%
Less Pension Stabilization Trust Fund Available			\$ (2.8)
Net Unfunded Pension Liability			\$ 77.1

H:\Administrative Services\00-21 Budget\Person\PERG Projections-July 2019 Actuarial\Item 1-Unfunded PERG Liability Summary Aug 2019 8/13/2019 11:02 AM

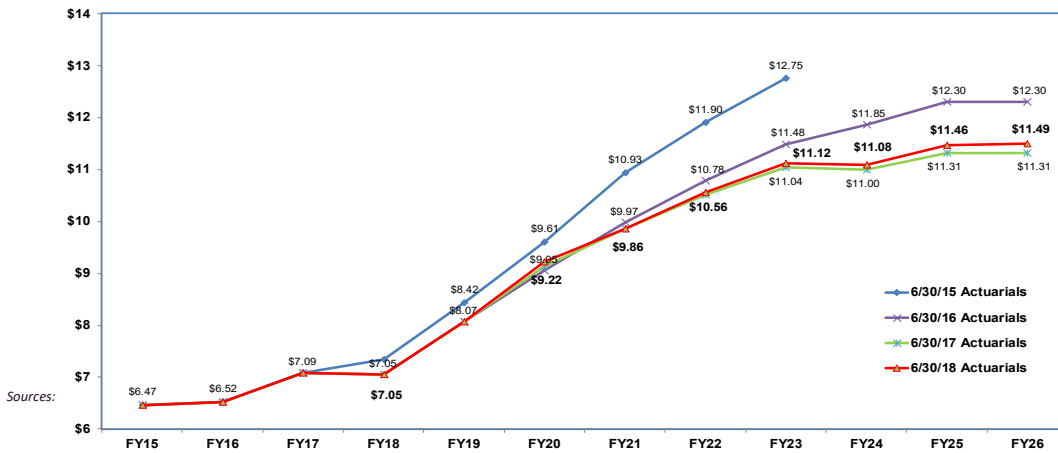
Comparison of Projected Retirement Costs by Actuarial Year



CalPERS Pension Expenses on the Rise Employer Cost in total dollars—Updated for FY 19-20



The CalPERS employer contribution is projected to increase by over 75% from FY16 to FY26



FY 2019/20 Interest on UAL



- Interest charged on UAL \$5.1 million
- UAL payment \$5.3

Hypothetical Termination Liability



- Assumed discount rate of 2.5%
 - \$469,148,144
- Assumed discount rate of 3.25%
 - \$425,593,748

Actions to Date



- Established Stabilization Trust Fund in June, 2016. Balance just under \$2.5 Million
- Prepaid annual UAL costs for past 4 years saving an estimated \$300,000
- Employees now pay employee share of PERS saving \$2 million annually (not in exchange for a raise)
- PERS impacts always considered when negotiating employee contracts. One-time money given in conjunction with on-going raises to not further compound problem

Short-Term Actions



- Pay additional contributions annually in excess of required contributions
- Negotiate a lower tier benefit to Classic employees who are new to the City
- Pay lump-sum, one-time payment to CalPERS and evaluate continuing on an annual basis if sufficient funds are available

Long-Term Actions



- Change type of retirement plan from Defined Benefit Plan to Defined Contribution Plan
 - \$490 Million Termination Payment to CalPERS
 - Change would have to be negotiated with all employee unions and bargaining units
 - California Rule

CalPERS Membership



38%
School members

31%
Public Agency members

31%
State members

Functions In Pension Decision-Making



CalPERS Board

- Fiduciary obligation
- Set risk tolerance
- Set investment asset allocation

Legislature

- Set menu of pension benefit formulas
- Make and change pension laws
- Benefit design changes

Employees

- Make contributions
- Select employer
- Collectively bargain salary and (optional) cost sharing

CalPERS Staff

- Administer pensions
- Calculate pension costs
- Effectuate investment strategy

Employers

- Select pension formulas
- Add optional provisions
- Set salaries
- Make contributions

Courts

- Rule on legal questions of pension law

CalPERS Recent & Historical Investment Performance



Current Fund Value \$380 billion~

6.7% 2018/19	8.1% 5-yr Annualized Return	5.6% 10-yr Annualized Return	6.1% 20-yr Annualized Return	8.4% 30-yr Annualized Return
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How are CalPERS Pensions Funded?



CalPERS Focus Going Forward



- Investment performance is paramount
 - growth assets are key
- Top quality leadership and investment team
- Streamlined investment strategies
- Capitalize on and weather financial market downturns
- Recognize that employers are essential to sustaining benefits
- One message to all stakeholders
- Provide access and information

Unfunded Accrued Liability (UAL)



$$\text{UAL} = \text{Accrued Liability} - \text{Market Value of Assets}$$

Required Contribution is the Minimum Payment



- Agencies are required to make minimum annual payments on the UAL
- Unfunded accrued liability is long-term debt
- Interest rate charged on UAL = Discount rate

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Options considered during the process



- Consider taking action against CalPERS
 - Sue CalPERS

Options considered during the process



- Require more from the employees
 - Require employees to understand the cost of their CalPERS
 - Consider lowering salaries and wages
 - Union influence
 - Employees need to pay at least 50% of the CalPERS cost

Options considered during the process



- Pull out of CalPERS
 - Consider 401k plan
 - California Rule
 - File bankruptcy
 - Financially we are strong
 - Walk away from CalPERS start new system
 - \$469,148,144
 - Do not pay any thing more on our UAL
 - Required by law

Options considered during the process



- Assemble a unified group to address the issue with State Leadership
 - Form a coalition to petition State for change
 - Non political based investments
 - Address how the Board is appointed
 - Invest in more investment choices

Thank you

