

City of Calistoga

Staff Report

TO: Honorable Mayor and City Council Members
FROM: Dylan Feik, City Manager
DATE: May 16, 2017
SUBJECT: Consideration of a Resolution authorizing the City Manager to make a payment to CalPERS (California Public Employees' Retirement System) to be applied to the unfunded side fund liability and to approve a budget adjustment from the unappropriated fund balance of the Employee Future Benefits Fund in an amount not to exceed \$1,800,000

APPROVAL FOR FORWARDING:



Dylan Feik, City Manager

1 **ISSUE:** Consideration of a Resolution:
2

- 3 1. Authorizing the City Manager to make a payment to CalPERS (California
4 Public Employees' Retirement System) in an amount not to exceed
5 \$1,800,000 to be applied to the unfunded side fund liability
6 2. Approve a budget adjustment from the unappropriated fund balance of the
7 Employee Future Benefits Fund in an amount not to exceed \$1,800,000
8 from account 96-XXXX-4422
9

10 **RECOMMENDATION:** Adopt the resolution.
11

12 **BACKGROUND / DISCUSSION:** The City currently pays into the CalPERS
13 System for employees' retirement. City employees are eligible to participate in
14 pension plans offered by CalPERS, an agent multiple employer defined benefit
15 pension plan which acts as a common investment and administrative agent for its
16 participating member employers.

17

18 CalPERS provides retirement and disability benefits, annual cost of living
19 adjustments and death benefits to plan members, who must be public employees
20 and beneficiaries. The City's employees participate in the separate Safety
21 (Police and Fire) and Miscellaneous (all other) employee plans. Benefit
22 provisions under both plans are established by State statute and City resolution.
23 Benefits are based on years of credited service, equal to one year of full-time
24 employment.

25

26 Funding for CalPERS pension plans are calculated on PERSable pay (salaries
27 and other forms of compensation designated by law). There are two rates:
28 Employer Rates and Employee Rates. Each year, CalPERS creates actuarial
29 reports to determine the required Employer Rates for the upcoming Fiscal Year.
30 Because of the time it takes to create the actuarial reports for all CalPERS
31 agencies, data available on June 30th is used to set the Employer Rates two
32 years in the future. So the Employer Rates for FY 2017-18 are based on the
33 June 30th 2015 data.

34

35 CalPERS in November 18, 2014 published an article "Annual Review of
36 Funding Levels and Risks. Overall, the report highlights that employers are
37 exposed to a considerable amount of contribution rate volatility and a risk of
38 further changes in funded status. Contribution rates are expected to remain
39 high for an extended period unless there is a period of exceptional returns in
40 the markets.

41

42 Current contribution levels are high relative to historical levels and, for almost all
43 employers, scheduled to increase further as CalPERS amortization policies
44 phase in previous asset losses. For many plans, the contribution rates have
45 never been as high as they are now. Current contribution levels already exceed
46 30% of payroll for over 100 miscellaneous plans. Safety plans generally have
47 higher contribution levels with over 150 plans having contribution levels of more
48 than 40% of payroll. Employers are reporting that these contribution levels are
49 putting significant strain on their budgets and limiting their ability to provide
50 services to the people in their jurisdictions.

51

52 Current funding levels are generally between 65 and 85 percent funded as of
53 June 30, 2014, significantly below the ideal level of 100%. CalPERS current
54 amortization policies are expected to fully fund the plans over the next 30 years
55 but to do so require high contribution levels. On a hypothetical termination
56 basis, funded levels are even lower. This means that members will be exposed
57 to significant or even devastating benefit reductions should employers elect to
58 terminate their plans unless employers are able to make up the shortfall.

59

60 It is not unusual to have an unfunded liability; however it does cost the City in
61 the long run. The City is on a schedule to pay off the unfunded portion over the

62 next 30 years. If the City were to pay some of the unfunded liability, that
63 amount would be available to earn interest that would be applied to the
64 remaining unfunded portion and reduce the cost over the 30 years.

65

66 A portion of the unfunded liability is made up of a "Side Fund", a fund that was
67 set up to account for the amount that the City is underfunded in excess of the
68 risk pool in which we participate. The City is in a risk pool with all other
69 organizations of under 100 employees that provide the same retirement benefit
70 as we do (2.5% @ 55 for miscellaneous first tier and 3% @ 55 for Safety). Our
71 side fund is valued at \$2,475,023 for Miscellaneous and \$1,760,629 for Safety.

72

73 The City Manager and Administrative Services Director have met several times
74 over the past year with Councilmember Gary Kraus and Jim Barnes, members
75 of the Finance Subcommittee to evaluate solutions to reduce the outstanding
76 debt on pension liabilities. Several discussions have also taken place with the
77 City Council in March and May 2017 during the annual budget workshops.

78

79 Since Fiscal Year 2012-13 the City has been setting aside funds in an Employee
80 Future Benefits Fund to apply towards the unfunded CalPERS liability. As of
81 June 30, 2017 the Employee Future Benefits Fund will have \$1,862,277
82 available for the unfunded liability.

83

84 At a time where the City's contributions for CalPERS are projected to continue
85 escalating year over year, by making additional payments the City can help
86 stabilize rates in the future. The City's actuarial reports dated June 30, 2014,
87 included an unfunded liability of \$8.9 million. The most recent actuarial reports
88 received from GovInvest for the June 30, 2015, valuation date, include an
89 unfunded liability of \$9.7 million. It is important to recognize that although the
90 unfunded liability increased by \$.8 million during the one year period,
91 CalPERS actuarial reports have changed significantly in recent years with their
92 Board lowering the discount rate, changing demographic assumptions, and
93 implementing a smoothing feature, all of which cause the unfunded liabilities to
94 increase, which in turn drives our City's required contributions higher. Of the
95 \$9.7 million; \$4,235,652 is attributable to the side fund for all City plans.

96

97 CalPERS requires that any money to pay off the unfunded liability must first be
98 applied to the side fund. This is advantageous to pay off part of the side fund.
99 The reduction of \$1.8M towards the side fund will reduce the annual payment of
100 both Safety and Miscellaneous by \$168,000 annually.

101 Unfunded retirement liabilities are a serious problem that all public agencies
102 need to address, but it will not be solved in a short time. The City's pension
103 liabilities can be likened to a home mortgage; the principal amount owing is
104 paid off a little at a time over an extended time. Proactive agencies are
105 making additional annual contributions which will help reduce the total

Subject: CalPERS Unfunded Liability for Safety and Miscellaneous

Date: May 16, 2017 Regular City Council Meeting

Page 4 of 4

106 unfunded liability to buy down future cost increases with CalPERS. This can
107 help stabilize pension costs in future years.

108

109 The City Council considers its pension obligations very seriously, continually
110 examines all of its options to reduce pension obligations and annual pension
111 costs and when feasible and legally permissible implements fiscally responsive
112 measures that ensure the long-term fiscal viability of continuing to provide
113 excellent municipal services to its citizens.

114

115 Staff recommends the City Council authorize the payment of \$1.8M to be
116 applied to the side fund to CalPERS before May 30, 2017. By making the
117 payment before May 30, 2017, it would allow CalPERS to adjust the Fiscal Year
118 2017-18 employer rates.

119

120 **CONSISTENCY WITH CITY COUNCIL GOALS AND OBJECTIVES:**

121

122 Goal 1: Maintain and enhance the economic vitality of the community and the
123 financial stability of the City.

124

125 **FISCAL IMPACT:** Staff is recommending a budget adjustment of \$1,800,000 in
126 the Fiscal Year 2016-17 Budget from the unappropriated fund balance in account
127 96-4116-4422 in the amount of \$720,000 for Safety and the following accounts
128 for the Miscellaneous plan Account 96-4119-4422 in the amount of \$592,056;
129 account 96-4132-4422 in the amount of \$123,669; account 96-4132-4422
130 \$95,385; account 96-4135-4422 \$7,206; 96-4141-4422 \$110,867 and account
131 96-4142-4422 in the amount of \$150,817.

132

133 **ATTACHMENT:**

134

135 1. Draft Resolution

RESOLUTION NO. 2017-XXX

1 RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CALISTOGA, COUNTY OF
2 NAPA, STATE OF CALIFORNIA, AUTHORIZING THE CITY MANAGER TO MAKE A
3 PAYMENT TO CALPERS (CALIFORNIA PUBLIC EMPLOYEES RETIREMENT
4 SYSTEM) TO BE APPLIED TO THE UNFUNDED SIDE FUND LIABILITY AND TO
5 APPROVE A BUDGET ADJUSTMENT FROM THE UNAPPROPRIATED FUND
6 BALANCE OF THE EMPLOYEE FUTURE BENEFITS FUND IN AN AMOUNT NOT TO
7 EXCEED \$1,800,000

8 WHEREAS, the City currently pays into the CalPERS systems for employee's
9 retirement. City employees are eligible to participate in pension plans offered by
10 CalPERS, an agent multiple employer defined benefit pension plan; and

11 WHEREAS, City employees participate in the separate Safety (Police and Fire)
12 and Miscellaneous (all other) employee plans and

13 WHEREAS, a portion of the retirement unfunded liability is made up of a "Side
14 Fund", a fund that was set up to account for the amount that the City is underfunded in
15 excess of risk pool in which the City participates and

16 WHEREAS, staff recommends the City Council authorize the payment of
17 \$1,800,000 to CalPERS before May 30, 2017, to be applied to the "Side Fund."

18 NOW, THEREFORE, BE IT HEREBY RESOLVED by the City Council of the City
19 of Calistoga as follows:

- 20 1. The City Manager is authorized to make a payment to CalPERS in an amount
21 not to exceed \$1,800,000 to be applied to the unfunded side fund liability.
- 22 2. A budget adjustment is approved from the unappropriated fund balance of the
23 Employee Future Benefits Fund from account 96-4116-4422 in the amount of
24 \$720,000 for Safety and the following accounts for the Miscellaneous plan
25 Account 96-4119-4422 in the amount of \$592,056; account 96-4132-4422 in
26 the amount of \$123,669; account 96-4132-4422 \$95,385; account 96-4135-
27 4422 \$7,206; 96-4141-4422 \$110,867 and account 96-4142-4422 in the
28 amount of \$150,817
29 .

30 PASSED, APPROVED, AND ADOPTED by the City Council of the City of
31 Calistoga at a regular meeting held the 16th day of May 2017, by the following vote:

AYES:
NOES:
ABSTAIN:
ABSENT:

CHRIS CANNING, Mayor

ATTEST:

KATHY FLAMSON, City Clerk