



City of San Leandro

Meeting Date: September 8, 2015

Minutes

File Number: 15-489 **Agenda Section:** CONSENT CALENDAR

Agenda Number: 8.E.

TO: City Council

FROM: Chris Zapata
City Manager

BY: David Baum
Finance Director

FINANCE REVIEW: David Baum
Finance Director

TITLE: Finance Committee Meeting Highlights of June 16, 2015

CITY OF SAN LEANDRO

FINANCE COMMITTEE

June 16, 2015

San Leandro City Hall
835 East 14th Street
San Leandro, California
(Sister Cities Gallery)

1. CALL TO ORDER

Meeting was called to order at 5:00 p.m.

1.A. Attendance

Committee Members: Pauline Russo Cutter, Mayor; Jim Prola, Vice Mayor; Benny Lee, Council Member

City Staff: Chris Zapata, City Manager; David Baum, Finance Director; Will Fuentes, Assistant Finance Director; Mary Ann Perini, Budget & Compliance Manager

1.B. Announcements

2. DISCUSSION ITEMS

2.A. Discussion Regarding Retirement Liabilities and Policy

Unfunded Retirement Liabilities

With \$157 million in Unfunded Liabilities and growing, staff is seeking to achieve council's goal to place the City on a firm foundation to reach long term financial stability.

Over the past 23 years, data leading up to the current status of the City's pension funds at CalPERS shows how pension contribution rates dramatically decreased and then increased for both Public Safety and Miscellaneous employees in years 1995 - 1999 with a period of declining investment returns during years 1998 - 2002 and began to rise again substantially with an average rate of return of 7.4% which is just under the assumed 7.5% - 7.75% for the past 10 years.

California State's pension reform law, which took effect on January 1, 2013, will likely mitigate PERS liability growth rates. The new law lengthens the retirement age to 62 for Miscellaneous Employees with an employee contribution rate of 6.75% and age 57 for Public Safety Employees with an employee contribution rate of 12.25%.

New Pension Challenge and Restructuring Options

San Leandro teamed up with Union City and Newark to request some relief from CalPERS in order to minimize a \$1.15 million surcharge to Public Safety pension Unfunded Liabilities. With testimony provided by Finance Director David Baum on May 19, 2015, CalPERS offered a reduced payment for Public Safety pensions beginning fiscal year 2015-16 allowing San Leandro the option to pay off the Unfunded Liabilities over the next 15 years rather than the next 30 years which would assume a savings of \$24.4 million using a 7.5% discount rate the City would make lower payments over the next 3 years and increasing payments over years 4 - 15.

Current Employees' Pension Retirement Tiers - CalPERS Formulas

The following pension tiers seek to reduce the City's obligations by requiring employees to work longer careers and minimize benefits for newer employees starting employment after May 2010:

Misc (Non-sworn) SLCEA, SLMO, Confidential and Unrepresented Employees

Tier 1: Employees hired prior to May 6, 2010:

- 2.5% at age 55 (2% early retirement at age 50, 2.5% max benefit at age 55)

Tier 2: Employees hired May 6, 2010 through December 31, 2012:

- 2% at age 55 (1.426% early retirement at age 50, 2.418% max benefit at age 63)

Tier 3: Employees hired January 1, 2013 and after:

- 2% at age 62 (1% early retirement at age 52, 2.5% max benefit at age 67)

Safety (Sworn), SLPMA and SLPOA Employees

Tier 1: Employees hired prior to January 1, 2013

- 3% at age 50 (no early retirement age, 3% max benefit at age 50)

Tier 2: Employees hired after January 1, 2013

- 2.7% at age 57 (2% early retirement at age 50, 2.7% max benefit at age 57)

Retirees are eligible for a max benefit of \$4,320 in annual reimbursements. The majority of Alco Fire recipients are eligible for as much as \$1,559/month for a total of \$18,700 in 2014.

Due to the rise in Unfunded Liabilities, San Leandro will fully fund the Alameda County Fire Department Other Post-Employment Benefits annual required contributions (ACFD OPEB ARC) over the next 2 years and pay 125% of the City Miscellaneous Employees ARC.

Policy Discussion and Considerations:

Chris Zapata suggested that a policy be put in writing stating that San Leandro will commit to paying a minimum of 100% ARC and review the reserves to see if 16.7% is agreed upon then take a portion of excess reserves and apply it to the Unfunded Liabilities.

In terms of carry over usage and major property sales, using up to 50% of those funds and applying it to pay down the debt.

3. PUBLIC COMMENTS

4. COMMITTEE MEMBER COMMENTS

5. ADJOURN

Meeting adjourned at 6:30 p.m.

Unfunded Retirement Liabilities and Policy Discussion



Finance Committee
June 16, 2015



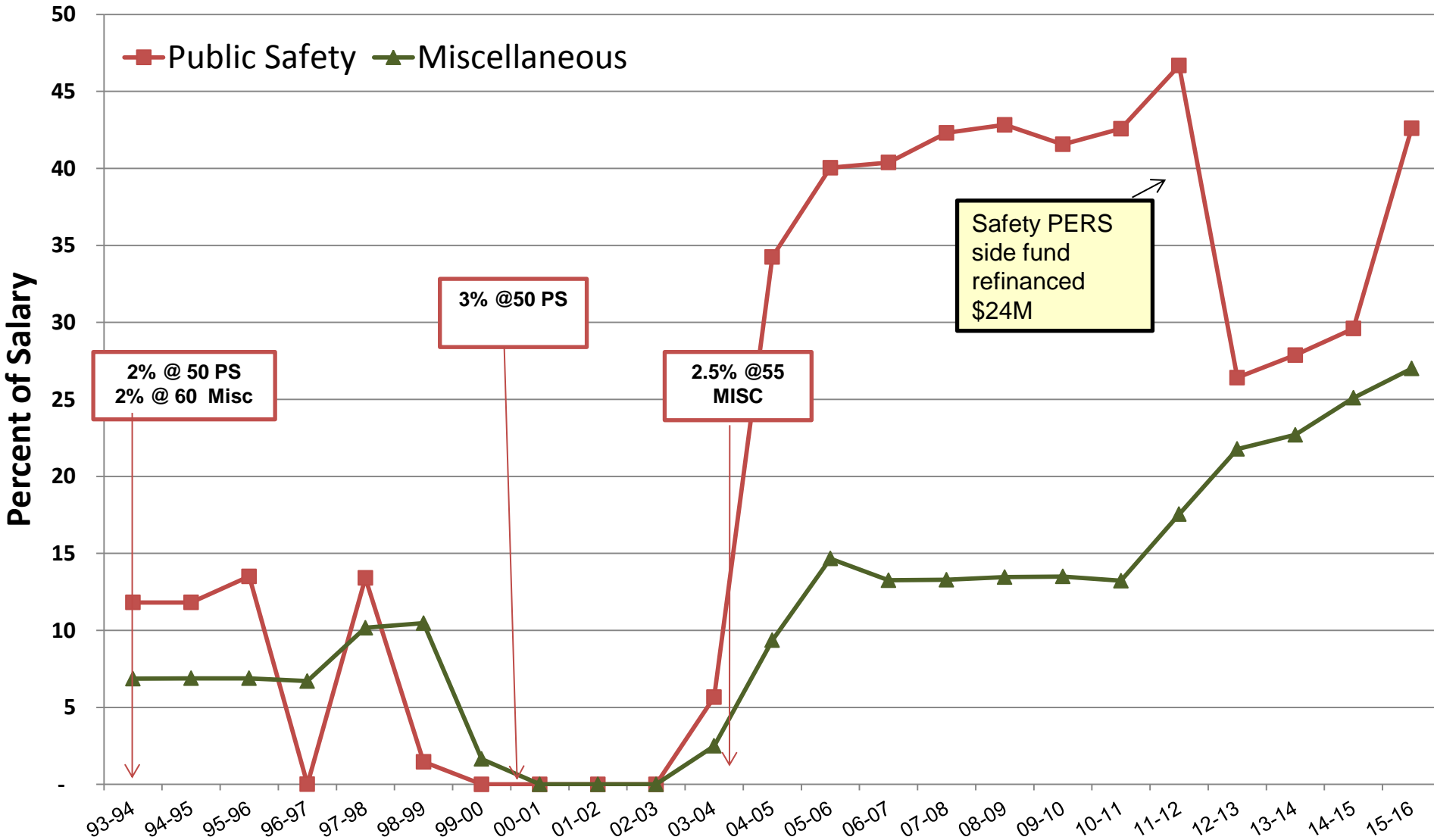
Unfunded Retirement Liabilities City Council Goal

- Place San Leandro on a firm foundation for long-term fiscal sustainability



Public Employees Retirement System (PERS) Rates

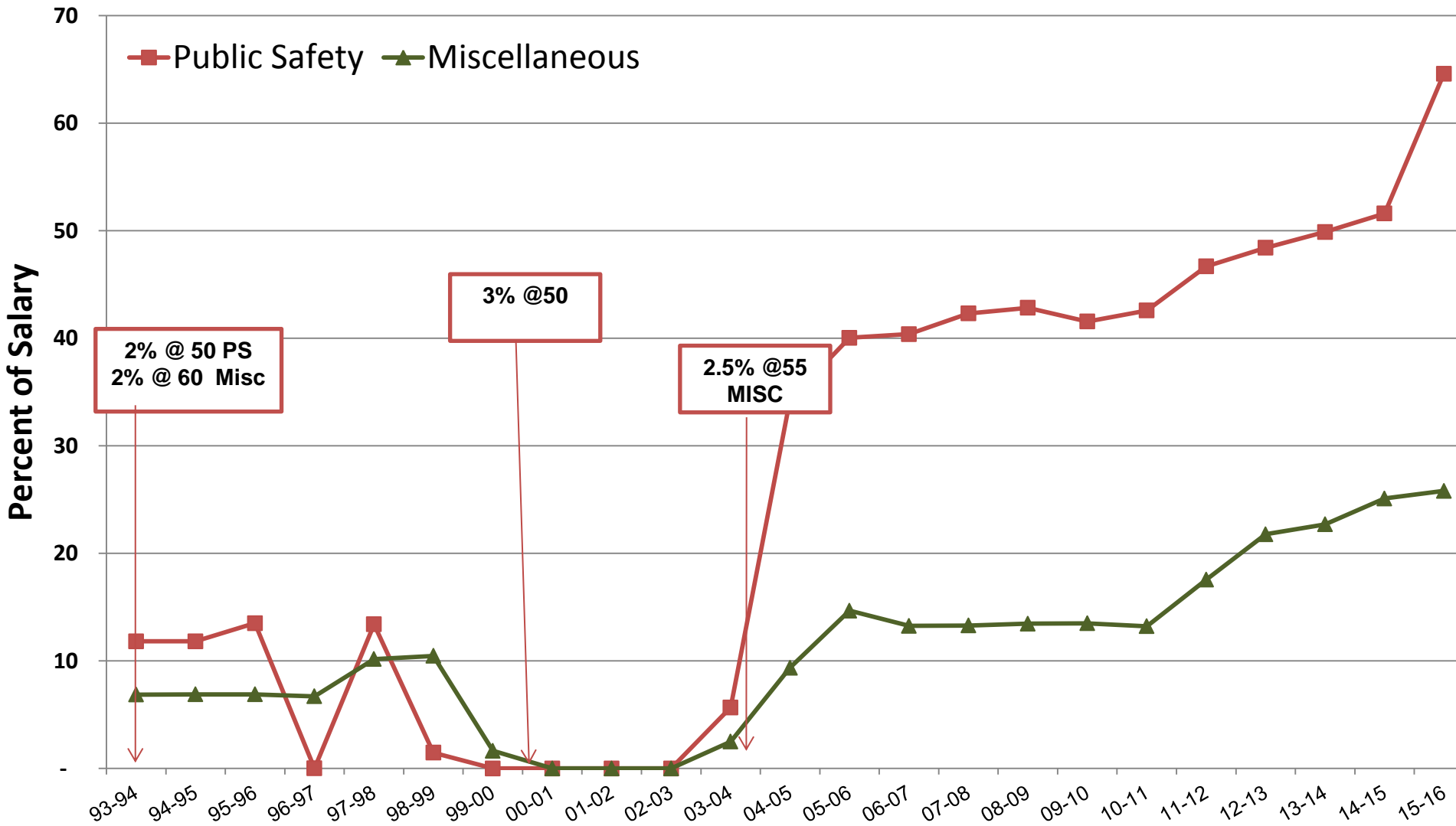
Historical Data, 1993-94 Thru 2015-16





Public Employees Retirement System Effective Rates

Historical Data, 1993-94 Thru 2015-16





New Pension Challenge

- March 2012 – POB paid unfunded liability
- Public Safety pool comprised of Police and Fire
- May 2014 – PERS announced “pension surcharge” beginning in 2015-16
- Surcharge adds \$1.15 million/year for the City’s Public Safety Plan; a 44% increase in ARC
- Surcharge due to relatively high ratio (3:1) of retirees to active public safety participants
- One of 26 cities charged > \$250,000 surcharge and San Leandro #1 dollar impact
- Numerous conversations with CalPERS Actuary Alan Milligan and his staff regarding hardship relief

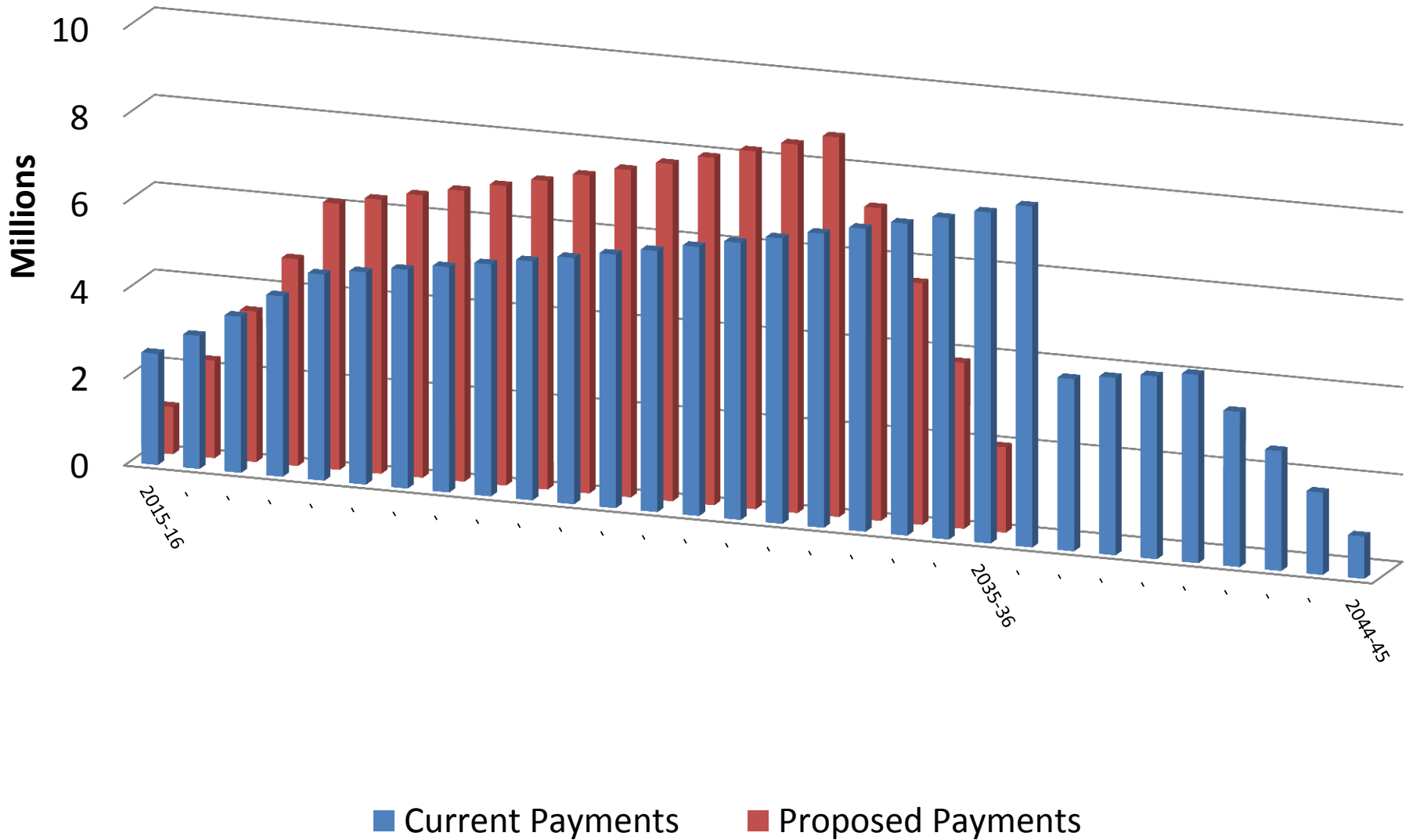


Public Safety Pool Restructuring Option

- On May 19, 2015 CalPERS approved restructuring of CSL Pool; Finance Director provided testimony
- Requires lower payments in next 3 years; higher payments in years 4-15
- Assumes unfunded liability extinguished after 15 years instead of 30 years
- Assumes interest savings are \$24.4 million using a 7.5% discount rate



Public Safety Pool Structuring Options





New Pension Reporting GASB 68

- New pension financial reporting requires governments providing defined benefit pensions to:
 1. Recognize long-term obligation as liabilities on balance sheet for the first time
 2. Measure annual pension benefit costs more comprehensively and comparably
 3. Enhance pension plans disclosures and required supplementary information
- GASB 68 implementation in 2014-15
- Financial reporting cost unfunded mandate



Post-Public Employees' Pension Reform Act Retirement Tiers

- **Miscellaneous (Non-sworn) SLCEA, SLMO, Confidential, and Unrepresented:**
- **CalPERS Formula**
- **Tier 1** – Hired prior to May 6, 2010
- 2.5% at 55 (2% early retirement at 50, 2.5% maximum benefit at 55)
- **Tier 2** – Hired May 6, 2010 through December 31, 2012
- 2% at 55 (1.426% early retirement at 50, 2.418% maximum benefit at 63)
- **Tier 3** – Hired January 1, 2013 and After
- 2% at 62 (1% early retirement at 52, 2.5% maximum benefit at 67)



Post-Public Employees' Pension Reform Act Retirement Tiers (cont.)

- **Safety (Sworn), SLPMA, and SLPOA:**
- **CalPERS Formula**
- **Tier 1** – Prior to January 1, 2013
- 3% at 50 (no early retirement age, 3% maximum benefit at 50)
- **Tier 2** – January 1, 2013 and After
- 2.7% at 57 (2% early retirement at age 50, 2.7% maximum benefit at 57)

Unfunded Liabilities

	<u>Description</u>	<u>% of ARC</u>	<u>2015-16</u>	<u>Overall</u>
1	Miscellaneous unfunded CalPERS (ARC = \$5.3M)	100%	\$5.3M	\$70.3M
2	Safety unfunded CalPERS (ARC = \$3.1M)	100%	3.1M	53.1M
3	Miscellaneous/Safety unfunded OPEB (ARC = \$1.4M)	125%	1.75M	14.6M
4	Fire department unfunded OPEB (ARC = \$1.8M)	100%	1.8M	19.8M
	Total	103%	\$11.95M	\$157.8M



Funding Strategies

- POB financing saved \$1.48 million on PV basis
- Budget forecast assumes increase in City's OPEB and PERS contributions
- Future new employees will have lower benefits due to Public Employees' Pension Reform Act of 2013 (PEPRA)
- City will continue payment of ARC for CalPERS and endeavor to pay ARC for OPEB
- Strengthening our revenue streams
- Future bargaining unit agreements to continue employee contributions toward CalPERS



Policy Discussion

- City Council directed minimum 100% ARC in budget
- Reserve 20% vs. 15% and use a portion to pay down unfunded liabilities
- Carryover usage – up to 50% (?) to apply to unfunded liability in net positive year
- Major property/other sales apply to 50% to unfunded liabilities
- Prioritization of unfunded liability debts (1-4)

Questions