



City of Rialto

Pension Ad Hoc Committee Report

City Council Meeting

April 9, 2019



Pension Ad Hoc Committee Overview

Purpose: Develop an implementation strategy to address the City's

- Pension Unfunded Accrued Liability
- Other Post Employment Benefit Unfunded Accrued Liability
- General Fund Reserve Policy



Pension – City CalPERS Membership

Total Members	
Type	Total
Active	329
Transferred	272
Terminated	121
Retired	609
Total	1,331

Active Members:

Classic Members

- Misc – 2.7% @ 55 (104 participants)
- Safety – 3.0% @ 50 (127 participants)

PEPRA Members

- Misc – 2.0% @ 62 (67 participants)
- Safety – 2.7% @ 57 (31 participants)



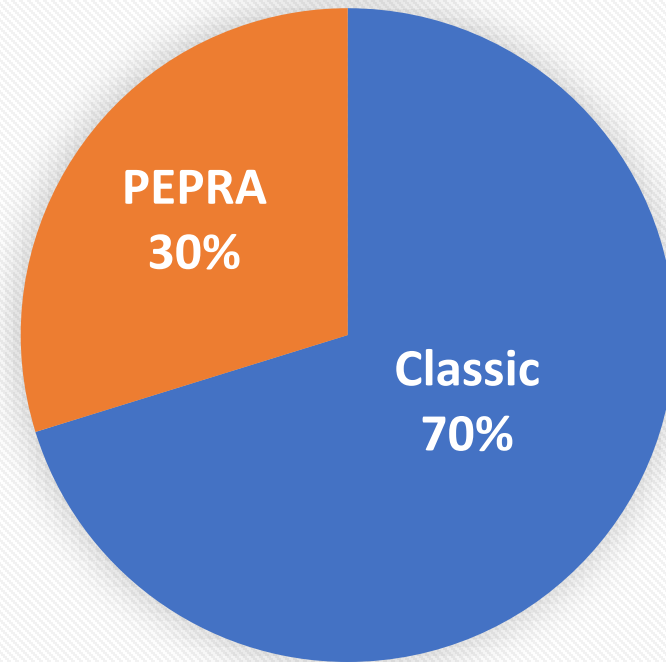
Pension – City Active Participant Data History

389 Active Members
As Of 6/30/2007



■ Classic

329 Active Members
As Of 6/30/2017



■ Classic ■ PEPPRA



Pension – City Plan Components

Fiscal Year	Discount Rate	Miscellaneous Plan			Safety Plan		
		Employer %	UAL Balance	UAL Payment	Employer %	UAL Balance	UAL Payment
2016-17	7.5%	11.071%	\$33.2	\$2.3	22.199%	\$75.1	\$4.5
2017-18	7.5%	10.535%	37.9	2.2	22.586%	83.8	4.8
2018-19	7.375%	10.902%	38.3	2.7	23.140%	84.8	5.8
2019-20	7.25%	11.471%	38.4	3.1	23.369%	85.1	6.6
2020-21	7.0%	12.3%	38.0	3.2	24.4%	84.4	7.0

*Estimated UAL Balance and Payments in millions. Employee cost sharing is not reflected.



Pension – City Overall Funding Status

Current Funded Status and UAL			
	Miscellaneous	Safety	Total
Accrued Total Liability	\$126,797,971	\$272,660,856	\$399,458,827
Market Value of Assets (MVA)	<u>88,911,120</u>	<u>188,878,646</u>	<u>277,789,766</u>
Unfunded Accrued Liability (UAL)	37,886,851	83,782,210	121,669,061
Funded Ratio	70.1%	69.3%	69.5%

2018-19 City Pension Contributions			
	Miscellaneous	Safety	Total
Est. Normal Cost	1,160,652	3,810,673	4,971,325
UAL	<u>2,607,465</u>	<u>5,647,786</u>	<u>8,255,251</u>
Total	3,789,117	9,458,459	13,226,576



Pension – City UAL Current Funding Plan

- Funding UAL on a 30-year amortization schedule
- Exercise annual UAL prepayment option

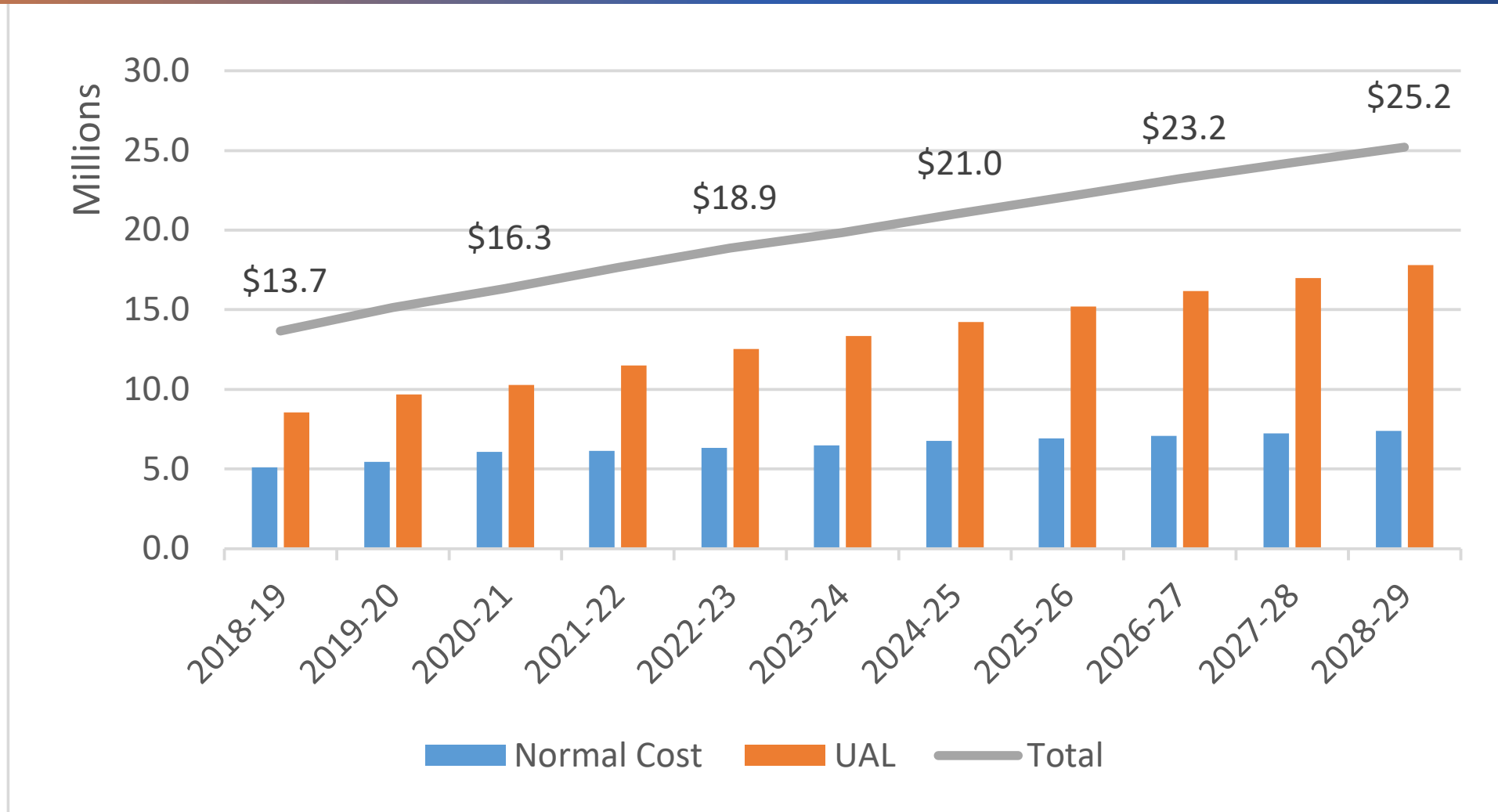
UAL 30 Year Amortization Schedule

UAL Balance 6/30/2019	\$122.0 Mil
Total Principal*	\$123.5 Mil
Total Interest*	\$114.5 Mil
Total Payments*	\$238.0 Mil

*Est. amounts to be paid if the current 30-year amortization schedule is maintained

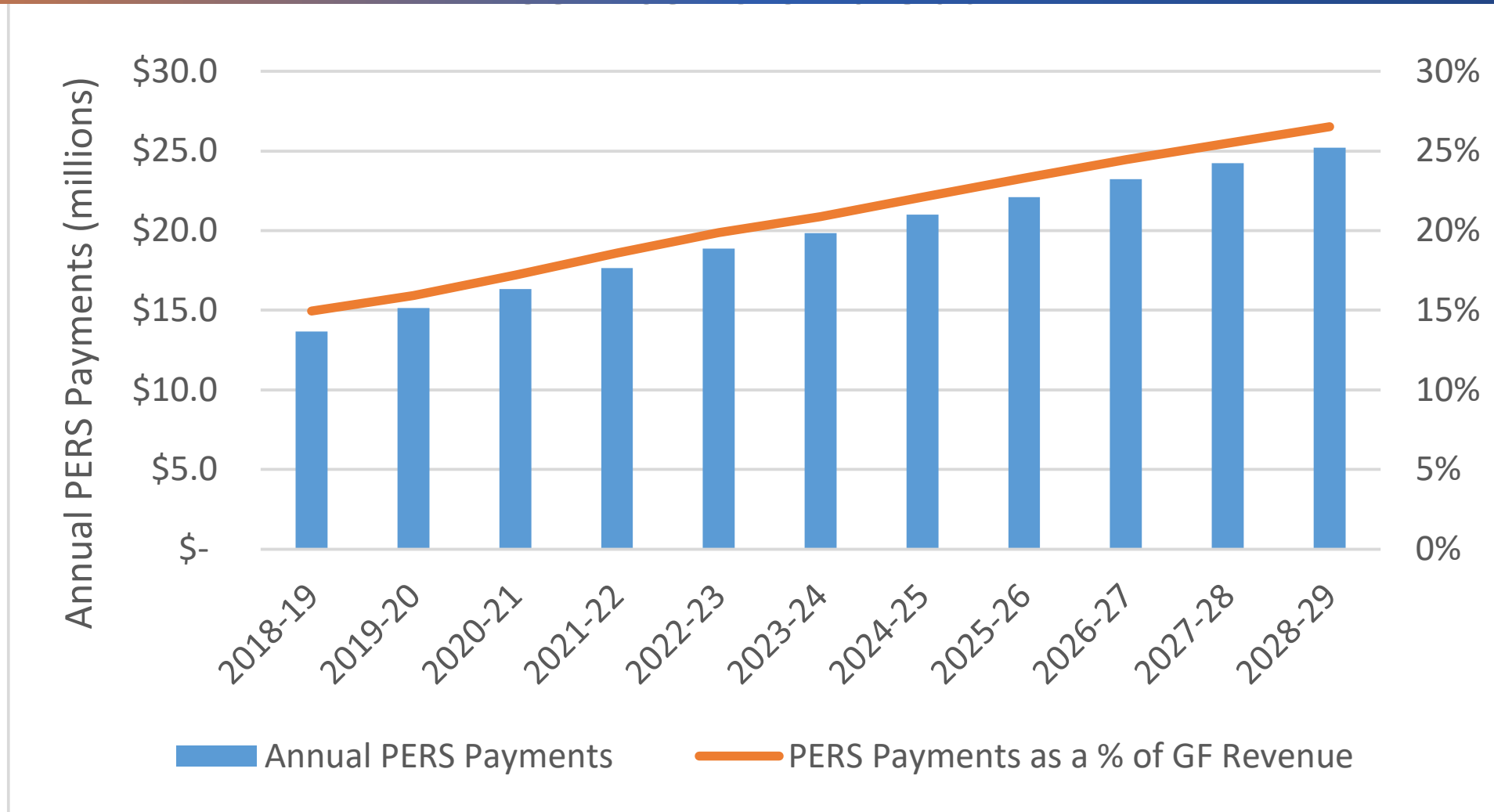


Pension – Future Contributions





Pension – Service “Crowd Out”





Pension – Internal Funding Options

- Reduced Expenditures
- Revenue Based Solutions
 - PERS Property Tax Override
 - Establish a Fire Protection District
 - Measure U
 - Sale/Lease of City Assets
 - Other Taxes
 - Rialto Utility Authority Lease Payments
- Section 115 Trust



Pension – Borrowing Strategies

- Pension Obligation Bonds
 - Issue Bonds and use the proceeds to reduce the UAL
 - Decision to send money to CalPERS is irrevocable
 - If there is a future bailout or restructuring for CalPERS agencies, the City would still have to pay debt service on the bonds
 - City's primary creditors change from the employees to bondholders
- Internal Note



Pension – City UAL Comparisons

- City of Rialto had the highest payroll burden in the County
- 47% of payroll was devoted to retirement costs

CITY	Payroll	2017-18					
		PAYMENTS TO CALPERS					
		Total	%	Normal	%	Catch-Up	%
Rialto	\$ 26.2	\$ 12.2	47%	4.7	18%	7.5	29%
Montclair	\$ 12.5	\$ 5.1	41%	1.7	14%	3.3	27%
San Bernardino	\$ 82.2	\$ 31.6	38%	11.5	14%	20.1	24%
Upland	\$ 21.2	\$ 9.0	42%	3.1	14%	5.9	28%
Redlands	\$ 35.6	\$ 10.5	29%	5.1	14%	5.4	15%
Ontario	\$ 87.2	\$ 24.5	28%	11.9	14%	12.6	14%
Loma Linda	\$ 6.2	\$ 1.6	25%	0.8	12%	0.8	13%
Chino	\$ 30.3	\$ 7.9	26%	3.7	12%	4.2	14%
Fontana	\$ 52.5	\$ 14.2	27%	6.3	12%	7.9	15%
Barstow	\$ 10.6	\$ 2.6	24%	1.5	14%	1.1	10%



Pension – City UAL Comparisons

City of Rialto had the 14th highest payroll burden in the State

	CITY	Payroll	2017-18					
			PAYMENTS TO CALPERS					
			Total	%	Normal	%	Catch-Up	%
1	Martinez	3.9	2.6	67%	0.7	18%	1.9	49%
2	Atwater	5.2	3.1	60%	0.8	16%	2.3	44%
3	Millbrae	6.3	3.7	59%	0.8	13%	2.9	46%
4	El Monte	24.1	13.5	56%	4.1	17%	9.4	39%
5	Emeryville	4.5	2.4	53%	0.8	19%	1.5	34%
6	Santa Fe Springs	17.2	8.7	51%	2.5	14%	6.3	37%
7	Vallejo	45.6	22.7	50%	6.9	15%	15.8	35%
8	Placentia	8.0	4.0	50%	1.1	14%	2.8	36%
9	Costa Mesa	47.2	23.2	49%	7.1	15%	16.1	34%
10	Norco	3.0	1.5	48%	0.3	10%	1.2	38%
11	Hermosa Beach	12.2	5.9	48%	1.7	14%	4.2	34%
12	San Carlos	6.9	3.3	48%	0.7	10%	2.6	37%
13	El Cajon	32.2	15.1	47%	4.8	15%	10.4	32%
14	Rialto	26.2	12.2	47%	4.7	18%	7.5	29%
15	West Covina	28.3	13.1	46%	4.3	15%	8.8	31%
16	Compton	21.8	10.0	46%	2.9	13%	7.1	33%
17	Willows	1.6	0.7	46%	0.2	15%	0.5	31%



Pension – City UAL Comparisons

City	Population (July 1, 2017)	2018-19 GF Op. Exp.	2019-20 Total UAL Payment	UAL/Resident
Moreno Valley	206,750	104,746,641	5,302,082	26
Escondido	151,492	102,630,230	18,859,307	124
Fontana	212,786	97,800,310	10,683,621	50
Fullerton	142,234	95,752,055	16,064,396	113
Indio	88,718	88,175,682	4,945,067	56
Rialto	106,528	87,138,921	9,650,719	91
Chino	88,026	86,645,425	3,249,267	37
El Segundo	16,717	75,932,784	9,478,403	567
Manhattan Beach	35,488	75,689,871	4,998,554	141
Hawthorne	87,662	69,580,987	7,982,749	91
Buena Park	83,884	66,740,930	7,572,967	90



Pension – City UAL Comparisons

City	Number of City Employees	2018-19 GF Op. Exp.	2019-20 Total UAL Payment	UAL/EE
Moreno Valley	535	104,746,641	5,302,082	9,910
Escondido	1,245	102,630,230	18,859,307	15,148
Fontana	1,460	97,800,310	10,683,621	7,318
Fullerton	936	95,752,055	16,064,396	17,163
Indio	284	88,175,682	4,945,067	17,412
Rialto	497	87,138,921	9,650,719	19,418
Chino	675	86,645,425	3,249,267	4,814
El Segundo	564	75,932,784	9,478,403	16,806
Manhattan Beach	574	75,689,871	4,998,554	8,708
Hawthorne	392	69,580,987	7,982,749	20,364
Buena Park	534	66,740,930	7,572,967	14,182



Other Post Employment Benefits

- OPEB unfunded accrued liability is approximately \$40 million
- OPEB Section 115 Trust is established with a balance of \$19 million
- Funding level is determined by City and is currently funded at 48%
- OPEB does not have the same vesting protection as pension



General Fund Reserve Policy

- Reserve policy is currently set at 50% of operating expenditures
- Reserve analysis is still in process to determine actual reserve amount
- Completed analysis will determine available reserves for a 50% versus 25% funding policy for the Council to consider



Pension Ad Hoc Committee Recommendations

1. Establish a target funding rate for the City's pension liability
2. Establish Pension Section 115 Trust
3. Explore funding options/policies for the OPEB and Pension 115 Trusts during the 2019-20 budget cycle
4. Conduct a feasibility study for the formation of a Fire Protection District
5. Salary and Benefit Containment
6. General Fund Reserve Policy analysis



Recommendations – Pension Target Funding Rate

- Minimum acceptable funding rate for a viable pension plan is 80%
- City's current funding rate is 69.5%
- The funding required to meet the 80% level is \$42 million



Recommendations – Pension Section 115 Trust

- Alternative to sending the money to CalPERS
- City keeps the money but its use is restricted and can be used only for pension costs
- Investment rules are less restrictive than for funds invested in the City's general portfolio
- City takes the risk of managing the investment
- Funding options explored during the 2019-20 budget cycle



Budget Advisory Committee Recommendations – Pension Section 115 Trust

- Establish a Section 115 Trust to offset the City's pension liability
- Consider funding the trust with one or all of the following:
 - Future discretionary non-operating revenue
 - Annual contribution equal to 5% of payroll
 - Measure U revenues



Budget Advisory Committee Recommendations – OPEB Section 115 Trust

- Seek modifications to the City's retiree medical care obligations through labor negotiations
- Continue to contribute at a minimum an amount annually to the Section 115 Trust equal to the normal cost contribution
- Continue to direct pay the annual obligation to retirees



Recommendations – Fire Protection District Formation

- Fire Department costs are covered under a separate levy on residents
- Can fund up to 100% of the Fire Department's cost
- Requires a LAFCO process and a vote of the City's residents or property owners
- Feasibility study would be conducted by a consultant



Budget Advisory Committee Recommendations – Fire Protection District Formation

- Conduct further research on the formation of a fire protection district
- Initiate a feasibility study



Recommendations – Salary & Benefit Cost Containment

Contain future salary and benefit costs via negotiations.



Budget Advisory Committee Recommendations – Salary & Benefit Cost Containment

- Establish tiered benefits for paid time off for new employees
- Possible negotiated lower benefits for current employees
- Evaluate and “normalize” specialty pay and educational incentives
- Evaluate take home vehicle assignments and possibly offer a vehicle allowance in lieu of



Recommendations – General Fund Reserve Policy

- Complete the General Fund Reserve analysis
- Additional recommendations will be presented Council at a future Council meeting



Budget Advisory Committee Recommendations – General Fund Reserve Policy

- Maintain the 50% reserve policy
- Use any current or future surplus (in excess of the 50% standard) to address the PERS unfunded liabilities



Questions?