Palos Verdes Estates Ad-Hoc Committee Meeting

Malaga Cove Library - Community Room
October 15, 2019

Attendance

Committee members Lozzi, Kemps, and Constant were present.

Stakeholders Arif Haji (Resident, FAC member), Desiree Myers (Resident), George Kay (Resident), Robert Parke (Resident), Dawn Murdock (Resident), Luke Hellinga (Executive Staff representative), Charles Reed (POA Union representative), Steve Beard (PSE Union representative) were present.

Stakeholders Brianna Rindge (General Employee representative), was absent.

Staff members Karina Bañales and Sharon del Rosario were present.

Introductions

The meeting opened with opening remarks from Councilmembers Lozzi and Kemps.

Pete Constant (RSI) made brief introductory remarks, then asked all attendees to introduce themselves and identify which stakeholder group(s) the each belonged to. Pete then review open items form the previous meeting.

In response to previous questions regarding the cases pending before the state Supreme Court, Pete passed out an article published by Best Best & Keieger Attorneys at Law: 70 Years of Pension Precedent Could Soon Be Weakened by the California Supreme Court. Pete added that he will bring an additional summary document at the next meeting.

Committee Member Updates

Arif Haji shared with the questions that he asked CalPERS staff and the notes he took on their answers:

> Q. What are the fees charged by CalPERS?
> A. CalPERS charges its agencies 15 basis points or 0.15% as operating fees. This is exclusive of fees charged by various funds.
>
> Q. "PVE is a small employer and we are part of the risk pool. We would like to confirm that if PVE makes payments using the alternate amortization schedules (or many other additional UAL payments) to take advantage of accelerating unfunded liability payments in order to reduce long term costs that these payments will be applied only to PVE's UAL. In other words, does being part of the risk pool limit or impair in any manner our ability to make additional payments to retire our UAL "
> A. Yes. Additional payments made towards discharging our liability will be applied directly and fully to our account.

Q. Our total Unfunded Accrued Liability (UAL) as of 6/30/2018 was about $16.5M. If PVE were to pay off fully, does that mean the city will no longer have future UALs?
A. No. There are at least two key areas where future liabilities may accumulate. First, the CalPERS delta (gain)/loss in investment performance - pegged at 7% in determining payment calculations - from 7/1/2018 until 6/30/2019. The delta between the actual investment performance for future years and the estimate predicted by CalPERS. Last, the true payout to members in the risk pool relative to the actuarial estimate.

Q. What is the interest rate charged by CalPERS on the outstanding balance?
A. It calculates to 4.13% on the outstanding balance. The formula is as follows:
Discount rate (7%) divided by salary growth assumption (2.75%).

Q. We have four CalPERS plans (Safety Classic, Safety PEPRA, Miscellaneous Classic and Miscellaneous PEPRA). We want to payoff two of the of four UALs because they have small balances. Can we do that?
A. You are better off paying for the tier with the highest UAL balance to reduce the amount of interest accrued on the outstanding balance.

Q. Over what period of time are PVE's current liability payments amortized?
A. They are amortized over 30 years PVE has many tiers and the remaining terms vary based on each tier. Payments for new tiers starting in July 2020, for the valuation year ending June 2019, will be based on a 20-year amortization schedule. Thus, for planning purposes, PVE should budget appropriately in the Forecast (2020-2022).

Q. How is the UAL calculated?
A. There are many factors, but the fund's investment performance is the main driver. Certain actions, e.g. higher than assumed wage increase, by an agency also impact the UAL.

In relation to the question on the rate of interest charged on the outstanding balance, Pete provided a more nuanced, technical answer that he received as follow up from a discussion with an actuary and a pension analyst:

The interest on the debt is still 7%, not 4.13%. The 4.13% is the "equivalent discount rate" used to calculate the first amortization payment, not the interest on the UAAL.

Here's how it works. When actuaries calculate amortization payments, they rely on an "annuity factor" that equals the present value of a stream of annual $1. This annuity factor is straightforward when the amortization payments are fixed dollar payments like mortgage payments. However, since the amortization payments for CalPERS are based on a level % of payroll, the discount rate used to calculate the annuity factor needs to be modified to account for the payroll growth. That modified discount rate (or equivalent discount rate) equals (1+D)/(1+g) - 1 (with D being the original discount rate and g being the payroll growth rate). This modified DR is only a technique to help calculate the growing amortization payments, not the actual interest rate on the UAAL. The actual interest rate on the debt, again, is still 7%.

The committee received an extensive presentation from committee member Arif which focused on a review of the overall issue and his perspectives as a resident and a member of the FAC. Arif also shared with the group information he received directly from CalPERS on CalPERS fees for administration and investments, as well as how they calculate interest on outstanding pension debt. Pete Constant expressed concerns with some of the data and assumptions presented.

Committee Input

The committee discussed a desire to increase transparency of the committee's progress. It was suggested that a webpage on the City website be available to residents and employees to provide minutes, options, timeline, status, and members. Information should be simple, easily digestible, and clear around the problem and impact to the city, employees and residents. Numerous potential options were made by the stakeholders and are being assembled.

The committee members were asked to brainstorm possible solutions and were reminded that: no idea is off the table; brainstorming and collaboration are needed in order to come to a solution; consensus agreement can happen as long as all avenues are talked about. A number of ideas were offered and were recorded (see *Committee Brainstorming Ideas* document).

All ideas will be vetted and revisited by the committee.

Meeting Adjourned