TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: CAROLYNN PETRU, INTERIM CITY MANAGER /s/

SUBJECT: UPDATE AND DISCUSSION OF THE ACTIVITIES OF THE PENSION AD HOC COMMITTEE AND THE POLICE AD HOC COMMITTEE

DATE: NOVEMBER 5, 2019

ISSUE

Shall the City Council receive updates from the Pension Ad Hoc Committee and the Police Operational Review Ad Hoc Committee, and provide any direction to them on their work going forward?

BACKGROUND

On July 9, 2019, the City Council formed two Ad Hoc Committees: 1. Pension (Councilmembers Kemps and Lozzi) and 2. Police Operational Review (Mayor Kao and Mayor Pro Tem McGowan). Beginning on October 22, 2019, a recurring item was added to the Council agenda to receive updates from the two Ad Hoc Committees and to provide an opportunity for the Council to provide direction to the Ad Hoc Committees regarding their work going forward.

DISCUSSION

An update from the Police Ad Hoc Committee is attached to this report (Attachment A). In addition, the Committee has recently met with and requested a proposal from a potential police consultant. Depending on further developments, the Police Ad Hoc Committee can provide additional information at this evening’s meeting.

The Pension Ad Hoc Committee’s next stakeholders meeting on Monday, November 4, 2019 has been cancelled due to scheduling conflicts. Depending on further developments, the Pension Ad Hoc Committee can provide additional information at this evening’s meeting.

There is public correspondence attached to this report at the request of Pete Constant, RSI (Attachment B), and Rose Ramsey, PVrkg (Attachment C).
**FISCAL IMPACT**

There is no fiscal impact associated with the adoption of this Policy.

**NOTIFICATION**

The agenda for this meeting and for this item have been posted in the customary locations and in compliance with the Municipal Code.

**ALTERNATIVES**

The following alternatives are available to the City Council:

1. Receive and file the updates from the Ad Hoc Committees.
2. Provide direction to the Ad Hoc Committee(s)
3. Request further information.

**RECOMMENDATION**

It is recommended the City Council receive updates from the Council Ad Hoc Committees, discuss the status of their work, and provide any direction Council deems appropriate.

**ATTACHMENTS:**

A. Update from Police Operational Review Ad Hoc Committee
B. Letter dated October 30, 2019 from Pete Constant, Retirement Security Initiative (RSI)
C. Letter dated September 5, 2019 from Palos Verdes Residents for Responsible Government (PVrrg)
Dispatch Services

On October 31, 2019, Interim City Manager Petru received an update from SBRPCA Executive Director Lee regarding the status of the quote for services. Mr. Lee indicated that all required information was received in a responsive and timely manner from City Staff. As a result, SBRPCA is still on track to provide a response to the City by the end of November 2019.

Organization Review Consultant

On November 1, 2019, the Ad Hoc Committee and the Interim City Manager met with potential police consultant Mr. Kim Raney, who is the retired Police Chief of Covina. Mr. Raney is preparing a proposal and plans to attend the November 5th City Council meeting.
Pension Policy Advocacy

Mission & Principles

The Retirement Security Initiative (RSI) is a national, bipartisan advocacy organization focused on protecting and ensuring the fairness and solvency of public sector retirement plans. Our mission is to inform and educate policy leaders and the public regarding the importance of fair and sustainable public sector retirement plans and organize and support policy development and advocacy efforts at the federal, state and local levels.

We believe that
State and local governments have a responsibility to provide essential services that protect the safety, health, welfare and quality of life for all Americans;
State and local governments have an obligation to ensure that their retirement plans are sustainable, fiscally sound and responsibly managed so that all retirees and employees get paid what they have earned; and
Solutions to the funding and cost crises need to be developed with input from employees, retirees, labor, management, taxpayers and fiscal experts.

Our Reform Principles
All workers deserve safe and secure retirements.
Retirement plans should place employees on a path to a secure retirement, regardless of tenure.
Retirement benefits and costs should be fair, sustainable and predictable.
State and local governments should fully fund employee benefits, as they are earned, and incentives to underfund commitments should be eliminated.
Unfunded liabilities should be paid down over a reasonable time period.
Decision-making and management of retirement plans should be open, transparent and non-political.
Solutions should be designed around the specific problems and financial resources of each jurisdiction and there is no single solution that will work everywhere.

Policy Advocacy

RSI and our 501(c)(3) partners engage and support policy development and advocacy efforts throughout the public policymaking process:

Problem identification - Before we can solve a problem, we need to know exactly what the problem is, and we invest significant amounts of thinking and resources into understanding it. Given that today’s pension systems are so complex and the factors affecting their solvency are so varied, we know these issues can’t be solved with a one size fits all solution.

RSI, together with our various 501(c)(3) partners, identify pension systems that can benefit from reform efforts based on a wide range of inputs, using broad, sweeping horizon-scanning activities, alongside secondary research, monitoring media coverage and public statements by public officials, expert interviews, and the work we have completed to date. Through this process, we often find connections and inter-relations among several trends that surface across problem spaces.
During this stage we begin to “sell the problem,” and convey the scale of pension solvency problems, illustrate fiscal tradeoffs and the threat of inaction, and explain, and often demystify, potential solutions. This phase relies on the effective use of communications and public relations to simplify the pension issue and counter “stay the course” messaging by explaining why continued inaction is not a viable option. We spend significant amounts of time to identify legislative champions with the political clout and commitment to see a reform process through to completion.

Throughout these activities we identify stakeholders (employees, union leadership, retirees, taxpayers, local business leaders, chambers of commerce, etc.) and invite them to participate in the policy formation stage.

Policy Formulation – As we explore a multitude of options or alternative courses of action available for addressing the problem, we rely heavily on the technical assistance provided by our 501(c)(3) partners and pension plan actuaries, as well as legislative scoring of bill impacts.

RSI actively works throughout the policy formation stage to engage identified stakeholders in constructive conversations and collaboration to jointly evaluate and develop policy options.

Policy options generally fall into three categories:

**Funding Policies**
- Adopting more realistic assumed rate of return and discount rate
- Adopting shorter-duration amortization schedules in order to pay off existing pension debt faster and minimize interest costs
- Adopting short duration, layered amortization schedules for any new unfunded liabilities
- Adopting level-dollar amortization methods
- Adopting more prudent assumptions related to payroll growth, headcount growth, inflation, mortality, etc. to ensure intergenerational equity and consistency with the recommendations of the Society of Actuaries (SOA) Blue Ribbon Panel on Pension Funding
- Requiring full ADEC funding, including:
  - Eliminating any statutory caps on employee or employer contribution rates
  - Prohibiting credits against normal costs to ensure the plan sponsor pays the full cost of benefits in the year in which they are earned
- Requiring sensitivity analysis of the impacts of key variables and assumptions upon unfunded liabilities and contribution rates and the publication of the results in a manner that is easily digestible by members of the public
- Ensuring that defined benefit plans have a funding target of at least 100% for the prefunding of pension and COLA benefits

**Plan Design Changes**
- Adjustments to current benefit design (e.g., COLAs, contribution rates, retirement age, etc.) for current employees necessary to make the budgetary cost of paying down the accrued pension debt manageable (subject to state-specific legal constraints based on pension-related case law)
- Provide alternative retirement plan designs for current workers to voluntarily opt into (e.g., defined contribution retirement plans, hybrid DB/DC systems, cash balance, guaranteed return, choice-based constructs)
- Offer alternative retirement plan designs to newly hired employees (e.g., defined contribution retirement plans, hybrid DB/DC systems, cash balance, guaranteed return, choice-based constructs)
- Ensuring that retirement plan design places all workers, regardless of tenure or when they were hired, on a path to a secure retirement.
• Governance and Reporting
  o Pension board composition that balances taxpayer interests with labor interests and generally mirrors the risk profile in the plan
  o Adopting standardized training and setting minimum experience requirements for pension board trustees
  o Improving investment management:
    ▪ Written investment policies
    ▪ Reducing fees
    ▪ Prohibiting politically motivated divestment policies
  o Improving transparency and financial reporting, including requirements for machine readable portable document files and uniform reporting standards
  o Requiring pension boards to have written conflict of interest policies
  o Consolidation of small pension funds for more efficient fund management
  o Implementation of pension fund oversight through state boards/commissions
  o Ensuring municipalities/special districts have the ability to reorganize through bankruptcy

Decision-making – Once legislative leadership decides on an ultimate course of action, RSI actively engages in advocacy activities. Utilizing both in-house staff and contract government affairs firms, RSI engages to provide political support and advocacy in order to move pension reform legislation that has been informed by the work of the various 501(c)(3) partners through the legislative and executive branches of state government. Specifically, RSI engages in direct advocacy around the pension issue, working with lawmakers, both directly by RSI employees and through experienced, lobbyists, professional contract government affairs and public relations professionals, to:

  • create dedicated, jurisdiction-specific project teams, including local government affairs professionals, to advocate for reform and drive the policy change strategy at the ground level,
  • build person-to-person support amongst strategic elected official determined by philosophical alignment, membership on relevant committees, and willingness to meet with RSI staff, government affairs representatives, and coalition members,
  • implement effective legislative PR and advocacy efforts to directly persuade legislators to support pension reform legislation,
  • educate legislators on how to strategically advocate and campaign for needed pension reform,
  • provide direct advocacy and persuasion to ensure necessary legislative amendments are incorporated in proposed bills at drafting, committee hearings, or legislative floor votes,
  • implement effective legislative PR strategies and advocate/persuasion to directly persuade legislators to support pension reform legislation, and
  • resolve any political concerns about pension reform issues.

RSI also organizes and directs public relations campaigns centered on building grassroots support for pension reform by:

  • partnering with local and national organizations, including taxpayer organizations, to mobilize citizens on the issue,
  • engaging grassroots activists/organizations, assisting them in formulating their messaging to engage educators, community members, and stakeholders, which may include components such as statewide events, facilitating constituents contacting their elected representatives, paid promotions, collecting and delivering petitions, and/or facilitating calls,
  • engaging in state-wide supportive messaging PR campaigns—the timing and content of which will be informed by polling and discussions with local organizations and stakeholders—to support and advance the
pension reform issue. This may include paid and earned media, targeted advertising, editorial roundtables in coordination with stakeholders and coalition members, live calls, paid promotions, an educator newsletter, creating and disseminating press releases and materials, state-specific pension microsites, and email/social media campaigns, and

• neutralizing the anti-reform/status quo messaging from opponents that want to keep the current failing system in place, including teacher unions, professional actuaries that provide services to public pension systems, pension board trustees and administrators, and center-left political advocacy organizations.

Implementation – Having successfully established our teams as pension policy experts throughout the process, RSI and our 501(c)(3) partners make our collective knowledge available to pension systems as they implement reforms. This helps to ensure that legislation is implemented as legislatively intended and helps to identify areas of legislation that need clarification or improvement. We also use the implementation stage to identify incremental policy changes that can build upon the success of the reforms or deal with unintended consequences.

Evaluation - Assessing the effectiveness of pension reform legislation in terms of its perceived intentions and results is critically important. RSI and our 501(c)(3) partners monitor the impacts of pension reform and evaluate if the reforms are on track to achieve the intended goals of the legislation.
October 30, 2019

Honorable Mayor and City Council
City of Palos Verdes Estates
340 Palos Verdes Dr West
Palos Verdes Estates, CA 90274

Re: Item 16 - Update and Discussion of the Activities of the Pension Ad Hoc Committee and the Police Operational Ad Hoc Committee, October 22, 2019 Meeting

Honorable Mayor and City Council,

After watching the video of the October 22, 2019 city council meeting, I find it necessary to clarify a number of issues, including several clear misstatements of facts.

The first issue is Mayor Kao’s concerns about our organization’s interest and motivation in assisting the city as it confronts ongoing fiscal challenges, particularly related to the impacts of rising pension obligations, as well as his concerns associated with the lack of a contract between RSI and the City of Palos Verdes Estates. I have personally addressed each of these issues directly with Mayor Kao via emails on June 18, 2019 and July 2, 2019 (email exchanges attached as Appendix B and C for reference).

Regarding RSI’s motivation to participate, Retirement Security Initiative is an IRS approved, tax exempt nonprofit organization that was created to promote social welfare as described in Internal Revenue Code (IRC) section 501(c)(4). RSI is focused on protecting and ensuring the fairness and sustainability of public sector retirement plans. We raise money from individuals and foundations to further our mission at all levels of government.

According to the National Center for Charitable Statistics (NCCS), more than 1.5 million nonprofit organizations are registered in the U.S. This number includes public charities, private foundations, and other types of nonprofit organizations, including chambers of commerce, fraternal organizations and civic leagues.

Frankly, as with virtually all nonprofits, what’s in it for us, is the pursuit of our primary mission to inform and educate policy leaders and the public regarding the importance of fair and sustainable public sector retirement plans, and organizing and supporting policy development and advocacy efforts at the federal, state and local levels. The members of our team are recognized expert. We offer our expertise to any person or organization that is interested in engaging in conversations related to public pension policy. Our articles of incorporation and tax status require us to exist exclusively to promote social welfare. Our work is free because we are a nonprofit dedicated to our mission.

As for the lack of a contract, while an agreement is not necessary (nor have we utilized one in any of our engagements across the nation), I have offered both via email and in person Mayor Kao the opportunity to enter into a written agreement.

1430 Blue Oaks Boulevard #230
Roseville, CA 95747
1-916-680-9601

Of particular concern are a number of clear misstatements of facts made by members of the public when they addressed the council. I would like to set the public record straight in regard to the following statements:

A resident quoted the following statement made by the Vice President of the San Jose police union: “We as an association have an obligation to not allow Pete Constant to do to any other city what he did to San Jose.”

As I shared with this council, I was an elected city councilmember in the City of San Jose for eight years. Faced with persistent budget deficits of over $100 million annually the city council, with an 8-3 super-majority, voted to place a pension reform ballot measure before the voters in 2012. The voters of San Jose approved this measure overwhelmingly (69.02% Yes, see https://ballotpedia.org/San_Jose_Pension_Reform,_Measure_B_(June_2012)).

The city council tried to engage the unions on both the fiscal reform plan and the pension reform ballot measure. Through the process the City, at the direction of the city council, made numerous and significant changes to the ballot measure and provided the following revised drafts to the unions. Despite a total of approximately 20 meetings, an agreement was not reached with any of the unions.

A resident claimed that RSI is funded by ALEC and FreedomWorks/Koch Brothers. This is simply untrue. RSI has not received any money from ALEC, FreedomWorks or the Koch network. The person who reviewed our organizations IRS 990 forms (see: https://www.guidestar.org/profile/47-4093255) did not read them correctly. These forms clearly indicate that RSI provided grants to these organizations.

When needed, RSI marshals and organizes a broad range of resources to help policymakers learn about pension issues and explore policy options, while building strategies and organizing support for fair and sustainable retirement plans. In past years we have sponsored ALEC events in order to provide pension policy presentations to newly elected state legislators and engaged FreedomWorks to organize grassroots advocacy for efforts in other states. We also work with a variety of nonprofit partners, such as Urban Institute, Equable Institute, Pew Charitable Trusts, and the Reason Foundation.

A resident claimed that RSI as a “partisan company.” Once again, this is simply untrue. In my presentation to the city council I discussed the bipartisan nature of our nonprofit organization and discussed our bipartisan founding board and leadership (see Appendix A). We have a clear record of bipartisan legislative accomplishments in Arizona, Colorado, Michigan, Pennsylvania, and South Carolina.

A resident claimed that the City of San Jose and the Police Union spent millions of dollars fighting RSI and the Supreme Court and the city won. This is false. RSI has not been involved in any litigation with the City of San Jose or the police union.

In actuality this is what happened: after the passage of San Jose’s Charter pension reform ballot measure the city sought validation through actions of Declaratory Relief in both state and
federal court. The unions filed suit against the City of San Jose in state court. All actions were consolidated into one case in state court.

During the trial a large number of issues were litigated. The trial court ruled in favor of the city on many of the issues and in favor of the unions on others. Both sides appealed the decision. As the case awaited the appeals process the city and the unions attempted to negotiate a settlement. The city and the unions came to a behind-closed-doors settlement that would have had the effect of erasing the ballot measure as if it had never appeared before the voters. The case never went to the Supreme Court.

At this point I was no longer a councilmember, having term ended in December 2014. The Silicon Valley Taxpayers Association, San Jose resident Steven Haug and I, as a former City Councilman and pension plan beneficiary, intervened in the case. We believed – and continue to believe – that the initiative process enshrined in our state’s constitution is a fundamental right of the people’s self-governance. Once voters approve an initiative the only way to change the result is through a subsequent initiative. We also believed the city had a duty to defend the initiative until and unless the voters act upon changes.

I took these actions as a former City Councilman and pension plan beneficiary, not through or with the authority of RSI. In fact, Chuck Reed, chairman of RSI supported the city and the union actions. Due to our internal conflict of viewpoints, my board and I agreed to not have RSI involved in any capacity or take any position on the issue.

Due to our intervention, rather than fully repealing the pension reform the city was forced to take a replacement ballot initiative to the voters, Measure F, in November of 2016. Measure F was estimated to preserve many of Measure B’s provisions, including approximately 60% of Measure B’s fiscal savings. (61.14% yes, see: https://ballotpedia.org/San_Jose,_California,_PensionModification_Agreement,_Measure_F_(November_2016))

A resident claimed that as a councilmember I received a higher salary than my peers, commented on my salary as an executive officer of RSI, and references to retirement benefits I receive. The salaries of San Jose city councilmembers are reviewed and recommended by an independent Salary Setting Commission, and subsequently established by ordinance. Each of the ten district councilmembers receive an identical salary. Councilmembers have the option of selecting various benefit and retirement packages, some of which included “in lieu” compensation and/or different retirement contributions. This causes each member to have different reportable total compensation even when they received the same salary.

During my council and stakeholder presentations I clearly disclosed that I am a public pension benefit recipient. I receive a pension from the San Jose Police and Fire Retirement Plan which is based on 50% of my final pay for my employment covered in the system. I also receive a CalPERS pension which is based on 16% of my final pay for my employment covered in the system. I am proud of my long dedication to public service and am not ashamed that I receive the benefits associated with that service. In fact, this is what inspires me to remain so steadfastly committed to RSI’s reform principles that:
• All workers deserve safe and secure retirements.
• Retirement plans should place employees on a path to a secure retirement, regardless of tenure.
• Retirement benefits and costs should be fair, sustainable and predictable.
• State and local governments should fully fund employee benefits, as they are earned, and incentives to underfund commitments should be eliminated.
• Unfunded liabilities should be paid down over a reasonable time period.
• Decision making and management of retirement plans should be open, transparent and non-political.
• Solutions should be designed around the specific problems and financial resources of each jurisdiction and there is no single solution that will work everywhere.

My salary as an executive officer of RSI is based on my unique qualifications, education, expertise, and established track record of accomplishments. This information is publicly disclosed and available to any interested party, including actual and potential donors.

I hope this explanation and supporting documents adequately address the concerns expressed at the council meeting on October 22, 2019 and corrects the clear misstatements made at the podium by residents. I request that this letter and appendices be placed in the public record the next time an Update and Discussion of the Activities of the Pension Ad Hoc Committee and the Police Operational Ad Hoc Committee is on the council agenda.

As always, I am available to each of you via phone call, video conference, or an in-person meeting.

Respectfully,

Pete Constant, CEO
Retirement Security Initiative
Appendix A

Retirement Security Initiative Executive Leadership

Chuck Reed, Chairman

Chuck Reed (D) served as the 64th Mayor of San Jose, California, from 2007 to 2014. During his tenure as mayor of America’s 10th largest city, he introduced and passed more than 80 fiscal and open government reforms, including a comprehensive pension reform bill that was approved by the voters in 2012. Chuck’s work on pension reform has paved the way for many other cities to tackle their own fiscal retirement planning.

James Spiotto, President

James Spiotto (R) is Managing Director of Chapman Strategic Advisors LLC, a consultancy providing educational and strategic insight to market participants on municipal finance. A recognized thought leader in municipal bonds, Jim’s work has been published in a range of publications, including The Law of State and Local Government Debt Financing, The Handbook of Municipal Bonds and the Oxford Handbook of State and Local Government Finance. He is co-owner and co-publisher of MuniNetGuide.com, an online resource for state and local government-related research and information.

Lois Scott, Treasurer

Lois Scott (D) served as Chief Financial Officer for the City of Chicago under Mayor Rahm Emanuel from 2011 to 2015, where she was entrusted to dig the city out of a $600 million budget hole and tackle its $20 billion pension funding challenge. With input from more than 30 collective bargaining units, her efforts resulted in passage of one of the most sweeping pension reform laws in U.S. history. Lois has been called one of the most creative and smart public finance thinkers in the country.

Dan Liljenquist, Secretary

Dan Liljenquist (R) served as Utah State Senator from 2009 to 2011, during which time he championed groundbreaking state pension reforms. A nationally recognized expert on sustainable public retirement reform, Dan’s diligent work has helped to ensure that Utah will be able to meet its retirement commitments to current public workers and retirees, while providing retirement security for future employees.

Dick Ravitch, Director

Richard Ravitch (D) served as Lieutenant Governor of New York from 2009 to 2010. Prior to his appointment, he was a partner in the law firm Ravitch, Rice & Co., and served as Chairman of the Commission on New York Metropolitan Transit Authority Financing. Widely recognized for his ability to help reform financially distressed entities, he currently serves as a senior advisor to Detroit’s Financial Review Commission.

Pete Constant, CEO

Pete Constant (R) brings a wealth of pension reform experience to his position as Chief Executive Officer of the Retirement Security Initiative. In this role, Pete designs and implements strategic plans in collaboration, leads the organization in its advocacy efforts, and manages day-to-day operations. Prior to his work at RSI, Pete was Director of the Pension Integrity Project at the Reason Foundation. There he led the team that designed, drafted and negotiated the successful public safety pension reform plan for the state of Arizona. Prior to that, he served as Council Member for the City of San Jose from 2007-2014, where he served as trustee on the city’s two pension plans. Pete began his career in law enforcement as a police officer for the City of San Jose, where he served for 11 years until an on-duty injury forced his early retirement.

Rachael Heisler, Director of Communications & Government Affairs

Rachael Heisler (D) has extensive experience in government and political advocacy. Rachael started her political career in 2005 on the campaign staff of now-U.S. Senator Bob Casey (D-PA). She then served on the staff of U.S. Congressman Jason Altmire (D-PA) for six years in various capacities including fundraiser, political adviser, and as communications director. The Morning Call newspaper named her one of the top 10 most effective legislative and campaign staffers in Pennsylvania and Politics PA named her one of Pennsylvania's Rising Stars: 30 Under 30. In 2013, she pivoted to public policy and joined the Committee for a Responsible Federal Budget, where she led coalitions efforts and state engagement. Rachael continues to be an active member of the Blue Dog PAC Steering Committee.
Hi Carolynn - Please share Pete's responses to my questions with the rest of Council. Thank you.

Kenneth J. Kao
Mayor

City of Palos Verdes Estates
340 Palos Verdes Drive West
Palos Verdes Estates, CA 90274
Phone: 310.378.0383
Fax: 310.378.7820

www.pvestates.org

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From: Pete Constant <pete@peteconstant.com>
Sent: Tuesday, June 18, 2019 10:10:32 AM
To: Kenny Kao
Cc: Carolynn Petru; Michael Kemps
Subject: Re: meeting follow-up

Mayor Kao,
Thank you for your patience on my response. After heavy work travel last week and taking a couple days off to be with my family, I’m back at my desk today.

If you have time in the next week or two, I’d love to come down and talk through all of these questions in greater depth on-on-one with you. Let me know if you have time to get together – perhaps over lunch or dinner.

Here are my responses to your questions:

(1) How is RSI compensated as a consultant and would that framework apply to our City? Putting it bluntly, what's in it for you? I believe we discussed grants - which agencies/organizations and would RSI need to obtain one first in order to work with our City? Please send me your form retainer agreement, assuming there is one.

RSI is an IRS tax exempt nonprofit organization that was created to promote social welfare. Specifically, we are focused on protecting and ensuring the fairness and sustainability of public sector retirement plans. We raise money from individuals and foundations to further our mission at all levels of government.

Frankly, what’s in in for us is pursuit of our primary mission to inform and educate policy leaders and the public regarding the importance of fair and sustainable public sector retirement plans, and organize and support policy development and advocacy efforts at the federal, state and local levels.

RSI does not seek any compensation from the government agencies we work with. Our annual operating budget ($1.35 M) provides for our time and travel to engage in efforts like those proposed in Palos Verdes Estates. If there are additional needs identified that will require outside resources, then we would seek necessary funding from our donors. I do not anticipate that need at this point.

We do not have a retainer agreement given there is no financial transaction proposed.

(2) With the different types of pensions out there (ours being a Defined Benefits plan), is it possible to change from one to another? Assuming it’s possible, is it often advisable? What’s the upside?

Given PVE’s contract with CalPERS, it would be difficult to change retirement systems or plan designs. Currently, CalPERS charges and onerous and excessive exit fees to leave the system. I don’t believe that would be financially prudent for PVE at this point.

There have been both citizens initiative and draft legislation aimed to change these dynamics, but none have gained traction yet. There is also the possibility of the courts dictating changes – there are several cases working they way to CA Supreme Court review that may provide for this option – on a go forward basis – but it will be quite some time before there is clarity in case law.

(3) Given this is a national pandemic affecting most every federal, state and local agency, what is the likelihood of meaningful federal or state intervention? I know there's some proposed legislation out there and read the "air time" Cal Supreme case; over and above those efforts, would it be unreasonable to expect that some sort of "bailout" must occur?

While I personally believe there is a role for the federal government to play in the oversight of public pension systems, similar to the ERISA standards that guide private sector pension plans, this too is a long way off in the future – if at all. Representative Devin Nunes has proposed
legislation a number of times in the past, but it has never gained traction.

In regards to the state, at the time PEPRA was enacted Gov. Brown made it clear that the legislation, while significant, was just one step in the right direction and that more would need to be done. However, since PEPRA’s passage in 2013 there has not been any other significant legislative changes – but there has been a number of court cases working their way through the system in an attempt to clarify all of the provisions of PEPRA.

In addition to the Cal Fire case (airtime provisions) there are the Marin County, Contra Costa County, Alameda County cases, plus a case involving judges in the Los Angeles area (I can’t remember the case name right now).

Finally, I do not believe there is any possibility of the state providing “bailout” money to local jurisdictions. This is for a couple of reasons: First, the state has a very large amount of pension debt as well related to all of the state employees. With over $250 Billion in total pension debt for the state (estimated to be $1 Trillion by a Stanford study,) if any money becomes available to pay pension debt, it is likely they would pay their own bills first. Even with the California’s record $20 Billion surplus (https://lao.ca.gov/Publications/Report/4003) this year, that pales in comparison to the total pension debt.

(4) Related to (3), where does our City stand compared to others in terms of how bad things are? This is a hard question to answer. While most CalPERS agencies have very similar contribution rates and funded status, there is a large variance in revenue sources, budget surplus/deficits, and total payroll. Additionally, cities range from full service utility providers, full service, full/contract service, and contract services only.

There are ways to compare: pension debt to covered payroll; total contributions as a percentage of total budget; net fiscal position; etc. I can reach out to some of our academic, research, and think tank partners to see if any of them have done recent rerankings.

(5) Have you used and would you recommend alternative strategies in addition to those six recommended (and not) by the League - i.e., pay down UAL, taxes, a Section 115 Trust Fund, reducing service levels, greater employee contributions, and issuing a pension obligation bond (POB)?

**Pay Down UAL** – This should be the #1 goal. It may take a variety of the other strategies to accomplish.

**Taxes** – This depends on the political climate in PVE and the tolerance of the voters. The most important issue to be aware of is how will taxes be used once approved. Unfortunately, many jurisdictions that pass new revenue measures lack the discipline to use the tax revenue to address the root problem of pension debt. Many councils have initiated new programs, restored previously reduced services and given salary increases (my home town of Roseville has done all three of these since passing a sales tax last November). This happens due to two primary reasons: 1) general taxes are easier to pass than specific taxes dedicated to solving the problem; 2) most often during tax measure campaigns city officials promise new and restored services in order to entice people to vote yes. I believe if a city is clear and honest with the voters, restrict the tax to a debt management plan, and make the tax of limited duration to correct the issue the likelihood of passing a specific tax is greatly increased.
**Section 115 Trust Fund** – There a couple of issues to be aware of before committing to a section 115 trust. First, the 115 trusts usually gain lower returns than CalPERS so money placed in the trust may not earn enough return to cover the interest being charged by CalPERS on your debt – almost like the opposite of arbitrage. Second, while the 115 trust funds are restricted to pension uses, many jurisdictions are putting money in the 115 trust to offset future contribution rates. This would be similar to opening up a personal savings account not to save for a future purpose, but to have to make the minimum payment on a future credit card bill.

Both of these shortcomings can be eliminated by using the money that would be placed in a 155 trust to pay down the CalPERS debt directly.

**Reducing service levels** – As you are aware, this is the default option if increasing pension contribution rates are not addressed in a meaningful way. With pension debt payments scheduled to nearly double to $1.76M in the next decade (assuming all actuarial assumption come to fruition), service reductions will be likely.

That aside, there is value performance auditing, service consolidation, regional service delivery options, contracting out, refocusing on core service delivery, etc. Saving derived from these strategies and be used to manage the existing pension debt.

**Greater employee contributions** – PEPRA employees now share in50% of the normal cost. Increasing that to include pension debt would be a big step forward. For classic employees, ensuring that the employees are making there full required contribution without PVE pick-up has already been done. A number of jurisdictions across the US have increased the employee contributions a bit higher as well. This strategy is good only if the city contribution remains at the level in the CalPERS valuation and the employee increases are dedicated to pay down the debt. Simply offsetting the city contribution would not be good.

**Pension obligation bond (POB)** – POB’s don’t truly pay down debt, they move it to another position on the balance sheet. POB’s introduce a new risk into the pension funding. Specifically, timing of the issuance and the resulting bond rate. When issuing POBs the city enters into a situation of arbitrage. Will the interest on the POB be equal to, greater than, or less than CalPERS returns on their investments? You won’t know the success of POBs until they are paid off and you compare them to CalPERS performance. There has not been a lot of study in this area yet, but there are a number of jurisdictions that issued POBs to pay off pension debt, then accumulated more debt because they didn’t deal with the underlying issues that created the debt in the first place. POBs combined with a fresh start and proactive and accurate funding of normal costs can be part of a larger solution, but as a solo strategy it can be too risky.

Pete

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**Pete Constant, CEO**
Hi Pete - Thank you again for coming down to SoCal and delivering an excellent presentation on pensions. As many times as I've heard the issue discussed generally as a national pandemic, it was helpful for me to hear more specifics about our own City. I only wish we had more time for you to answer additional and substantive questions, some of which I'll take the opportunity to ask now:

(1) How is RSI compensated as a consultant and would that framework apply to our City? Putting it bluntly, what's in it for you? I believe we discussed grants - which agencies/organizations and would RSI need to obtain one first in order to work with our City? Please send me your form retainer agreement, assuming there is one.

(2) With the different types of pensions out there (ours being a Defined Benefits plan), is it possible to change from one to another? Assuming it's possible, is it often advisable? What's the upside?

(3) Given this is a national pandemic affecting most every federal, state and local agency, what is the likelihood of meaningful federal or state intervention? I know there's some proposed legislation out there and read the "air time" Cal Supreme case; over and above those efforts, would it be unreasonable to expect that some sort of "bailout" must occur?

(4) Related to (3), where does our City stand compared to others in terms of how bad things are?

(5) Have you used and would you recommend alternative strategies in addition to those six recommended (and not) by the League - i.e., pay down UAL, taxes, a Section 115 Trust Fund, reducing service levels, greater employee contributions, and issuing a pension obligation bond (POB)?

http://www.cacities.org/Resources-Documents/Policy-Advocacy-Section/Hot-Issues/Retirement-System-Sustainability/League-Pension-Survey-(web)-FINAL.aspx

League of California Cities Retirement System Sustainability Study and Findings

www.cacities.org
(6) In paying down the UAL, do cities face a "pool risk" of not achieving a dollar-for-dollar reduction in the total UAL amount?

I'd appreciate your response to these questions when your time permits. THANK YOU, Pete.

Kenneth J. Kao
Mayor
City of Palos Verdes Estates
340 Palos Verdes Drive West
Palos Verdes Estates, CA 90274
Phone: 310.378.0383
Fax: 310.378.7820

www.pvestates.org

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From: Michael Kemps
Pete,

We were all grateful for your presentation – beginning to help set our City on the course for success with pension reform. Carolynn did a great job of introducing her recommendations around a go forward process. Unfortunately we are having to accept some version of our current budget at our next council meeting to keep the lights on; but then we have goal setting and two ad hocs (police and pension) pending to start working on reality. Carolynn recommended including a consultant to assist us with pension issues in her plan; while we don’t yet have consensus on that, I’m going to simply acknowledge that would likely be RSI – and that we will be in a position to proceed when the ad hocs are in place post July 9. Could you tentatively look at your schedule and propose a set of recurring meetings that might work and send those to Carolynn?

I’m blind copying Council in order that they may directly connect with you and ask any questions, etc. Thank you so much for all of your preparation and willingness to support our efforts.

Michael Kemps
City Council Member
City of Palos Verdes Estates
340 Palos Verdes Drive West
Palos Verdes Estates, CA 90274
310.378.0383  Cell: 310.920.4334  www.pvestates.org

Hi Michael – Just checking in to see if there was any feedback on the presentation from others after the meeting last night? Also, thought you might like to see this editorial that just was published by the comptroller in South Carolina:
SC can no longer hide from pension obligation

The little-known number at the root of S.C.’s biggest problem: Seven and a quarter percent.

That’s the official “assumed rate of return” for South Carolina’s retiree pension system. In other words, state officials tell us the system should expect to earn 7.25 percent on its assets for decades to come.

It’s a safe bet that most folks have never given a thought to this number and what it means. But while obscure to most people, it’s at the heart of our state’s most serious financial problem. I’ll explain.

Most state retirees’ pension benefits are paid from a plan operated by the South Carolina Retirement System. This plan is funded by three revenue sources: Employees contribute 9 percent of each paycheck to it, and the state, i.e. the taxpayers, kick in an amount equal to 14.5 percent of that same paycheck.

That money is invested by an eight-member commission, and the investment earnings are the third revenue source.

State lawmakers adopt an official assumption of investment earnings, ostensibly to calculate how much money will eventually be on hand to cover the benefits promised to retirees.

Their assumption affects the rates that employees and taxpayers contribute to the plan.

Unfortunately, few things in government escape the tinge of political calculation, and the assumed rate of return is no exception to the rule. Thus, this projection has historically been kept unrealistically high. Why? Because, in general, politicians like to pretend they’ve got more money than they do. It lets them spend more freely — in this case, to bestow retirees with benefit increases without setting aside money to cover them. The downside, of course, is that it causes us to shortchange the system. Our actual investment returns have been far short of projected returns — with the five-year average being less than six percent — yet we haven’t done anything to make up the difference.

Today, the pension system faces a whopping $24 billion shortfall. It’s a big problem. If we’re to honor our commitments to past and current employees, somebody will have to pay up. There are no painless options.

This problem isn’t unique to South Carolina. Other public pension plans across the country are caught in similar crises, largely for the same reasons. Yet the folks who oversee these plans often revise their projections downward only reluctantly and modestly, knowing a change of even a quarter of a percent can reveal billions in previously concealed “unfunded liabilities” — the gap between how much is owed in benefit payouts and how much real money is likely to be
available to cover the payouts.

In South Carolina, the assumed rate of return has been gradually reduced from 8 percent a decade ago to today’s 7.25 percent. Still, many experts believe it’s unreasonable to count on plan assets earning an average of 7.25 percent annually going forward, and that a 4-5 percent return is more realistic.

In 2016, a noted public pension expert advised S.C. legislators they should reduce their inflated assumption significantly.

That advice apparently fell on deaf ears. That’s a shame. Given the terrible consequences associated with using inflated revenue assumptions, adjusting to a more conservative rate would much better serve the state’s interests.

Again, the price of failing to address the crisis directly could be a steep one.

Consider some of the harsh measures taken by states and local governments who were forced to play catch-up after years of ignoring their pension woes: tax hikes costing property owners hundreds of dollars a year indefinitely; layoffs of employees, including those in public safety; and cuts in services, including even reducing the school week to four days.

Legislators must accept reality and adopt a more reasonable forecast for the state’s investments.

While they’re at it, they should put future projections entirely in the hands of actuarial professionals, removing themselves — i.e. removing politics — from the process. And they must start paying down our unfunded liability now, rather than allowing it to continue to swell.

But first things first: It’s time to pull our heads out of the sand and acknowledge the problem and its magnitude.

Politicians hate to discuss unfunded pension liabilities; it’s not a well-understood issue to them, nor are there any simple fixes. But it’s our most critical challenge, and the consequences of allowing it to grow like an untreated disease will be severe and long-lasting. Lawmakers who have the state’s best interests at heart will put the pension system’s deficit front and center.

Pete Constant, CEO

Retirement Security Initiative™
(916) 571-6002 Office | (408) 649-9500 Cell  
Pete@Retirement-Security.org  
www.RetirementSecurityInitiative.org  
Pete@PeteConstant.com  @PeteConstant

Senior Fellow, Reason Foundation  
Sacramento, CA  
Sacramento | Silicon Valley | Los Angeles | Washington DC

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Subject: Re: RSI and this evenings council meeting
Date: Tuesday, July 9, 2019 at 11:55:06 AM Pacific Daylight Time
From: Kenny Kao
To: Pete Constant

Thanks for touching base, Pete. It’s the lawyer in me - sorry. Let’s discuss later. Thanks for making the trip down and see you soon.

Kenneth J. Kao
Mayor
City of Palos Verdes Estates
340 Palos Verdes Drive West
Palos Verdes Estates, CA 90274
Phone: 310.379.0383
Fax: 310.378.7820

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On Jul 9, 2019, at 11:48 AM, Pete Constant <pete@retirement-security.org> wrote:

Good morning Mayor Kao,

Michael Kemps and I spoke this morning confirming that I will be in town and attending the council meeting tonight to show my support for your efforts. During the call he mentioned that you may still be a bit uneasy with the fact that RSI does not enter into written agreements with government agencies that we work with.

While we don’t accept compensation for work that furthers our mission of informing and educating policy leaders and the public regarding the importance of fair and sustainable public sector retirement plans, we are not opposed to entering into an agreement if that would ease any concerns. An agreement could be utilized to clarify our role and set expectations.

Let me know if you’d like to discuss that. I could be available a few minutes before the council meeting, or afterwards. I won’t be flying out until tomorrow morning.

Pete
408-649-9500 cell/text
Palos Verdes Residents for Responsible Government (PVrrg)
Police Department Study Considerations Discussion Summary

September 5, 2019

Statement of Purpose:
We are writing this document because we want to support a City Council approach that reflects a sense of urgency, is complete and is driven by finding meaningful changes to our police department that are affordable, effective in keeping our residents safe, and sustainable in the long-term.

In establishing the Ad Hoc Committee to study the Palos Verdes Estates Police Department (PVPED), we urge the City Council to adopt a scope that studies and seeks cost estimates for the full range of all possible options so that the Council and the community can make a fully informed decision regarding the steps to be taken.

Background:
In the 1980’s after the passage of Proposition 13, Palos Verdes Estates passed a parcel tax to make up for the resulting budget shortfall. Among other things, this tax allowed PVE to keep its own police force, the only one of four cities on the hill to have one. Versions of this parcel tax were routinely approved by voters over the years until 2017 when Measure D was defeated. Its defeat was in part due to increasing concerns regarding the City’s budget/expenditures coupled with increasing distrust of city government and its lack of transparency. While Measure D was described as a “Fire Tax” because it was roughly the magnitude of PVE’s fire safety budget, once it was voted down, the only expenditure that was untouchable was the fee due to the LA County Fire Department.

The City responded by making some minor cuts in various department budgets and hiring a consultant (Lewis McCrary Partners) to review the PVE police department which was over half of the remaining budget. This consultant was tasked with increasing the efficiency and cost effectiveness of our current police department. The consultant’s final report identified approximately $800K in savings out of an operating budget in excess of $7 million. These savings
would come mostly from a recommended restructuring/outsourcing of certain department functions and reducing staff. The City Council in office at the time declined to implement many of the consultant’s cost savings recommendations, for example, outsourcing the jail.

In 2018, the City Council put another referendum on the ballot, Measure E. The purpose of this Measure was to levy a parcel tax that would raise $5 million annually and would be earmarked specifically for LOCAL police. This measure narrowly won in April 2018, surpassing the 2/3 requirement by only 130 votes.

PVrrg conducted a survey following the passage of Measure E to gain a better understanding of why residents voted the way they did, either for or against. Please note that, while we recognize that nearly 70% of our resident voters signaled their support of this measure, we found that some of these voters were voting in favor of a tax to fill a big budget gap rather than for the PVEPD per se. Also, we found that there was much misinformation disbursed by various sources during the Measure E election. Voters did not have accurate information about the cost and service level comparisons between PVEPD and Los Angeles Sheriff Department (LASD). Our survey showed that support for an internal PD diminished as the cost differential increased, and only 23% of Measure E supporters were still supportive if the differential were 400%. This happens to be the difference in cost per household and cost per person relative to RPV and the other Peninsula cities. The summary results of that survey can be found on the PVrrg website: https://www.pvrrg.org/polls-current and the cost comparisons at https://www.pvrrg.org/issue-finance-measure-e/#anchor-link-premium.

At this point in 2019, our basic concerns remain. The $5 million in funds generated through the new Measure E parcel tax will fail to cover the fully allocated police department costs for the current fiscal year by a wide margin; the shortfall is estimated to be several million dollars. In addition, there is no escalation clause in Measure E, which means that as costs increase, that number will grow each year, while Measure E tax revenues will not. We have heard no meaningful discussion at Council meetings regarding cutting or restructuring the police force, nor of any other potential cost savings measures. In fact, the Council just approved 3 new, un-budgeted, police hires!

In addition to the challenges in front of us related to meeting current and ongoing operating expenses for our police, we are faced with the considerable financial demands of repaying our significant (and growing) accumulated pension liability, or “UAL.” This amount is rapidly approaching the total annual revenues of Palos Verdes Estates.

We were very encouraged when, in April of this year, City Council elections brought in a majority of new Council members committed to effectively managing the City’s costs, including costs associated with the police. Our encouragement was validated by the Council’s appointment of Mayor Kenneth Kao and Mayor-Pro-Tem David McGowan to an Ad Hoc Committee tasked with identifying cost reduction opportunities for police services.

We applaud the Council’s efforts in this regard. As a show of our support, PVrrg has developed the following suggestions regarding the goals, scope, process elements and options for this committee to consider. We hope that this document will be useful to you and that you will be mindful of our suggestions as you conduct your work.

**Goals, Scope, Process Elements, and Options:**
Obviously, the appointment of an ad hoc committee to study this issue is a very serious effort, focusing on meaningful changes that save the city money while keeping its residents safe. In
approaching this task, one could take a holistic “big picture” approach, which might require a different and more complex structure for this committee.

Alternatively, one could focus more on incremental issues within the scope of a more informal “ad hoc” structure, which is what we understand the Council has chosen to do. Nevertheless, we believe that the committee should consider what the overall cost reduction strategy would include over time, so that its incremental approach can fit into an overall roadmap for the future.

**We recommend that the following be among the overall goals and scope of the current committee:**
1. Maintenance of and improvement in police service quality based on identifying the services and service levels important to the community

2. Cost reduction and efficiencies

   A benchmarking comparison of police costs for other cities with similar characteristics to PVE should be part of this work. This benchmarking study needs to include comparisons to the other three Peninsula cities in the form of a full feasibility study from the LASD tailored to PVE needs.

3. Improve accountability

   • Create quality service level agreements (SLA’s) which are independently measured and publicly reported
   • Align SLAs with employee goals and reviews linked to merit increases/bonuses
   • Ensure costs and services levels are regularly reported to the Council and the public

**We recommend the following as deliverables from the committee:**
1. Various alternatives for the Council to consider that address the goals described above

   For example we would advise exploring outsourcing options including with Torrance, Redondo Beach and with our sister cities on the Hill in the form of a combined, Peninsula-wide police force. This step is, in our opinion, an important fiduciary responsibility of the Council and the only way in which we can ensure a level playing field as we enter into contract negotiations with the Police Union. (See “Options” below for further discussion.)

2. Financial models of each alternative

3. An “apples to apples” comparison (both in terms of service levels and fully allocated costs) between our existing operating model and other alternatives. (See item 2 above and Options below for further discussion.)

   To ensure we obtain “apples to apples” comparisons, the benchmarking study should begin with identifying and publishing all direct and indirect costs associated with PVEPD, as well as all SAFETY services and service levels provided by PVEPD. For example, it would be important to exclude costs associated with programs like PVE Cares from any comparison because this is not a core public safety service provided by other police forces. Another example is that we would need to know what portion of our current liability insurance is attributable to our police department, especially workers compensation, since insurance is embedded in
the LASD quote. This could be easily determined by asking our insurance carrier to provide a cost quote with and without our police department. Finally, the finance department would likely be down-sized because more than 50% of the personnel and transactions are linked to the PVEPD.

4. Conclusions and recommendations that are not predetermined by personal or political preference; the facts should speak for themselves.

Options:
Up until now, a great deal of the public safety conversation within PVE has been of the “either/or” variety - either PVEPD or LASD. We recommend that the ad hoc committee go beyond this either/or mentality and think outside the box. We believe that the committee will need to be creative to come up with a cost effective solution that works for our city. While the LASD is ONE option to consider, it is certainly not the only one. Things to consider:

- Given that a majority of residents favor local policing, are there hybrid solutions, like outsourcing some of PVEPD’s tasks to Redondo Beach or Torrance (some of these possibilities were identified in the McCrary Report)?
- Can we create cooperative programs with other cities on the Hill for cost/services sharing?
- Are there alternative ways to staff certain jobs? For example, anyone who has had to negotiate the stop signs in Malaga Cove Plaza at rush hour knows what a nightmare it can be. The Council recently made a judicious decision to contract with a private security company, at a cost far lower than if the same service were provided by PVEPD, to provide traffic-control personnel for this busy intersection at rush hours.

Conclusions:
We know that all of us are concerned citizens who love our City. We applaud the City Council’s willingness to take on this difficult issue, and have created this document in the spirit of supporting this important effort. We stand ready to assist in any way possible.
Hi,

Please include the following on the dais. Thanks in advance.

Arif Haji

My name is Arif Haji and I would like to thank the council for allowing this correspondence to be included in the dais. For the past few months, I have served on the Finance Advisory Committee and would like to thank my colleagues for their support. I would also like to thank my predecessor for her guidance and knowledge sharing on our city’s pension condition, specifically the Unfunded Accrued Liability (“UAL”).

During the past few months, I have also spoken to and heard many professionals with in-depth content knowledge on CalPERS, UAL, funded ratio, discount rate, rate of return and other pertinent factors and drivers of our city’s pension obligations. There is no question that city leaders need to act with urgency, just not desperation, to enact workable, prudent and thoughtful solutions in place. It is my suggestion, one which I have shared with key members, that perhaps the city ought to bifurcate the UAL conundrum. A two bites at the apple approach. First, find a way to stem the growth of the current UAL, estimated to be about $17 million. In other words, make additional discretionary payment to freeze the debt at the current level. (The trajectory of the debt will overwhelm our city resources in a few short years.) Second, deal with current approximately $17 million UAL obligation with a separate set of longer term strategies. Strategies for both pathways will require employees to partner with the city in making solutions work.

In my discovery process, I was happy to learn that may other municipalities have started to deal, to different degrees, with their respective UAL obligations. For
example, I have spoken to one in particular, the City of Newport Beach, and its finance director has indicated a willingness to share that city’s experience. When examining trends reports show that CalPERS agencies are improving their funded ratios, meaning cities are reducing their UAL. Much learning can be had. To this end, I would like to ask the city council if it would consider adding a resource to the Pension Ad How Stakeholder Committee to augment the current group with a member who can add these experiences to the discussion. For example, a resource from the League of California Cities would add depth and bring contacts and resources we are currently not tapping.

Thank you for the opportunity and I hope the council will consider the suggestion.

Best,
Arif Haji