TO: Financial Commission

FROM: Russell J. Morreale, Staff Liaison

SUBJECT: Commission Minutes

RECOMMENDATION:

Approve minutes of the meeting of December 17, 2012

DISCUSSION

Attached are the draft action minutes for the meeting of December 17, 2012 for review and approval.

Attachments:

A. Minutes for the Regular Meeting of December 17, 2012

Attachment A

Minutes for the Regular Meeting of December 17, 2012

FINANCIAL COMMISSION
REGULAR MEETING MINUTES

5:30 P.M., Wednesday, December 17, 2012
Neutra House
181 Hillview Avenue, Los Altos, California

Call to Order

The meeting was called to order at 5:35 P.M.

Roll Call

Commissioners present:	Chair David Byrne, Vice Chair Donald Korn, Robin Dickson, Harold Guthart, Les Poltrack, Roger Sievers and Kevin Thompson.
Commissioners absent:	None
Also Present:	Russell Morreale, Los Altos Finance Director and Staff Liaison
	Marcia Somers, Los Altos City Manager
	J. Logan, Assistant City Manager
	Megan Satterlee, Los Altos Mayor Pro Tem
	Jan Pepper, Los Altos Council member

Pledge of Allegiance

The Pledge to the Flag was conducted

Public Comment

None

Consent Items

1. Approval of Minutes

With a first motion from Commissioner Guthart and as second from Commissioner Dickson, the minutes of December 5, 2012 were approved with unanimous agreement.

Discussion

2. Pension Reform Special Speaker Presentation –Former CalPERS member Mr. Tom Oliveira

Vice Chair Korn introduced a distinguished speaker, Mr. Tony Oliveira, to speak on the matter of pension reform. Mr. Oliveira provided his presentation entitled "The Relationship between Pension Sustainability and Retirement Security", included as Attachment A, for general information on a topic of much interest to the public at large and local government administrators. His presentation was timely given the Financial Commissions study of pension options currently underway. Mr. Oliveira accepted questions from the audience and Commissioners with no action required.

Commission Reports:
None

Adjournment
The meeting was adjourned at approximately 8:00P.M. with general consensus

Respectfully Submitted,
Russell J. Morreale
Staff Liaison to the Financial Commission

Attachment A: "The Relationship between Pension Sustainability and Retirement Security"

The Relationship of Pension Sustainability and Retirement Security

Professor Anthony T Oliveira

Los Altos December 17, 2012

How I got Here- A Thirty Two Year Journey
Can I Yet Comprehend How to Plan and Keep 60 Year Promises?

- November 1980 Elected to first local position
- November 1990 Finished graduate degree and became practicing economist
- January1998 Ran for board of supervisors
- January1999 Took office and appointed to CSAC board of directors
- September 1999 SB 400 passed state legislature
- August 2000 Became a professor of economics
- February 2002 Voted to enhance Kings County pensions (conflict)
- November 2003 Became an officer at CSAC
- September 2005 Appointed to CalPERS (represent all local agencies)
- February of 2007 Started PhD program (public policy)
- February 2008 Elected chair of finance at CalPERS
- February 2009 Elected chair of risk at CalPERS
- November 2009 Elected President of CSAC
- August 2011 Finished PhD program (dissertation-sustainability DB pensions)
- January 2011Left public office and CSAC
- January 2012 Left CalPERS
- 2012: The Year of Putting it all together

Can There Be Balance?

Retirement Security

Sustainability

Will Risk Always Tip the Scales?

Retirement Security

Sustainability

Why Public Pension Sponsors Face a Different Challenge than the Private Sector

"We find that public employers face a different organizational context than private employers, and consequently have pursued different labor market strategies. By and large, state and local policy makers have evaluated plans with an eye to affordability, sustainability, and human resource goals and have generally found that a wholesale shift to defined contribution (DC) plans for new hires is not optimal. We also highlight key implications of switching to DC-only plans for worker retirement security and public sector relations that warrant public consideration."

Reference: Rhee, N. & Oakley, D. (2012). On the right track? Public pension reform in the wake of the financial crisis. National Institute of Retirement Security.

Who Can Make 60 Year Promises?

Who Can keep 60 Year Promises?

What Does It require to Understand a 60 Year Defined Benefit Promise?

- 1. Accounting
- 2. Financial Analysis
- 2. Domestic and International Economic Trends
- 3. Risk
- 4. Assumed Rates of Returns
- 5. Investment Asset Classes
- 6. General Law
- 7. Fiduciary Law
- 8. Life Expectancy Actuarial Trends
- 9. Vesting Rights
- 10. Many Facets of Public Policy

Who is Responsible to Know and Understand the Information to Make the Ultimate Decision?

- 1. The elected officials?
- 2. The City Manager, CEO or CAO of the local government agency?
- 3. The citizens of the community?
- 4. Experts?
- 5. Labor?
- 6. All the above.

What We Have Believed

"...Government of the people, by the people, for the people, shall not perish from the Earth."

-- **Abraham Lincoln**

What We Must Live By

"Government of the people, by the people, for the people, and In front of the people, shall not perish the earth"

Transparency!

Examples of Variations in the Challenges

- **City of Hanford Safety**
- 2012/2013 31.532%
- 2013/2014 31.9% (projected)

- City of Los Altos Safety
- 2012/2013 25.86%
- 2013/2014 26.3 (projected)

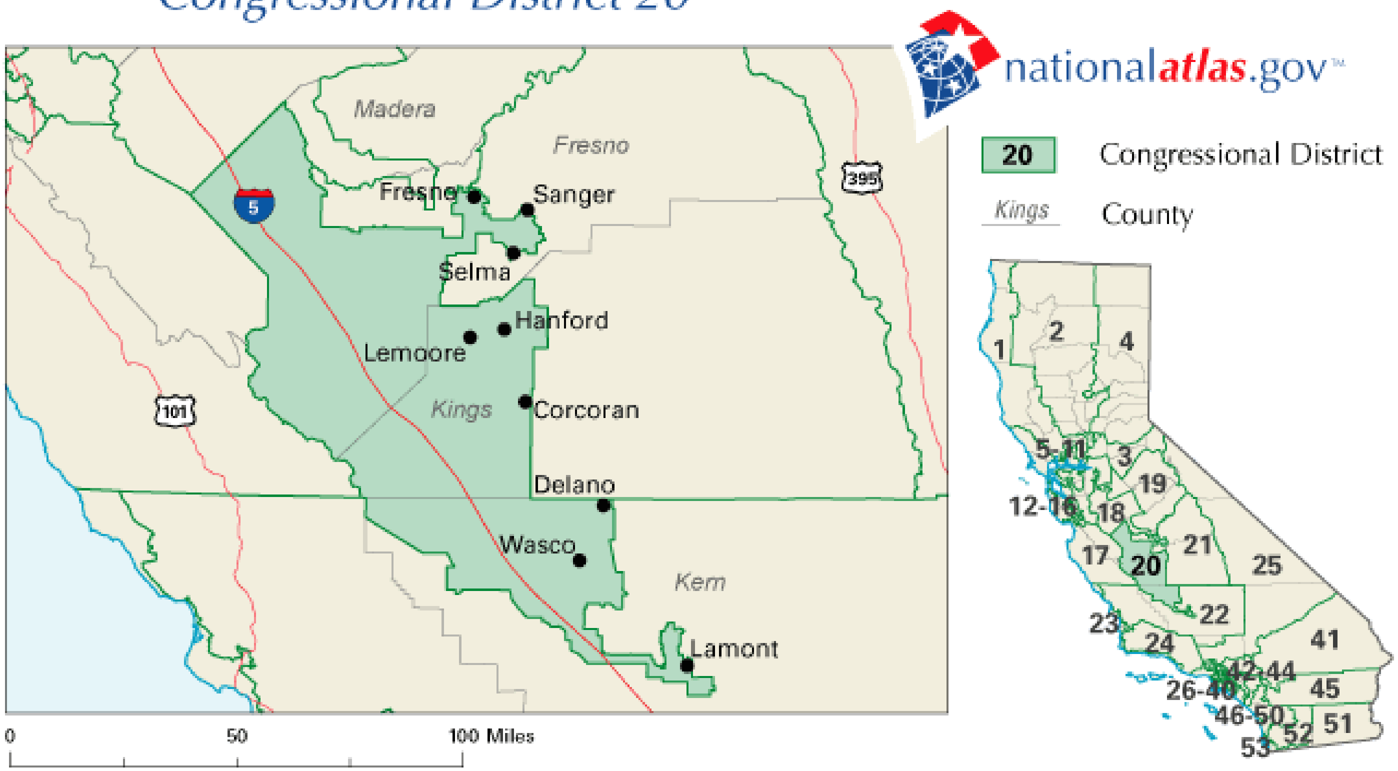
- **City of Bell Safety**
- 2012/2013 26.711%
- 2013/2014 27.2% (projected)

- **Kings County Safety** (Volatility Index 3.8)
- 2012/2013 16.226%
- 2013/2014 16.6% (projected)

Source: CalPERS Actuarial Report (2012)

The Lowest Human Development Index Congressional District in the U.S.

Congressional District 20



California (53 Districts)

Source: Lewis, K., & Burd-Sharps, S. (2010). The Measure of America.

Difficult Reform Questions?

- 1. How much risk should tax payers be responsible for promises in the future?
- 2. Would DC plans that are pooled and utilize the expertise that is available in organizations like CalPERS achieve retirement security?
- 3. Do pension funds that manage DB plans unjustly leverage the fall back to employers in making investment decisions?
- 4. Do younger and future new employees into the government workforce value the DB plan over DC as did their predecessors?
- 5 Will the proposed changes of AB 340 do enough?
- 6. Can some local governments be saved without judicial intervention?

Public Pension Reform Act of 2013 AB 340

“Overall, this legislation suggests that the limits of the legislative process have been reached. While increased employee contributions would have been very helpful, in the end, the real challenge is to address the rising cost of future benefits for existing employees. Of course, this raises complex vesting issues; still, a citizen initiative taking a run at these issues now seems all but inevitable”.

Source: Public Law E-Alert (2012). Municipal Law News.

Possible Pension Reform Actions
Beyond AB 340

- 1. Eliminate conflicts of interest.
- 2. Absolute transparency including full public hearings on wages and benefits.
- 3. Required third party expertise in benefit decisions.
- 4. Full disclosure in financial statements and public documents available online.
- 5. Agency financial study to evaluate if agency can withstand existing financial condition and possible risk without further modification of retirement and benefit plans.
- 6. Judicial decision if active formulas can be modified.
- 7. Agency by agency operational efficiency analysis of how best to deliver public services.

Importance of Managing Pension Risk

Table 1: Importance Rankings (2009–2012)

Risk Item	2012	2011	2010	2009
Underfunding of Liabilities	1	1	2	3
Asset & Liability Mismatch	2	2	6	4
Asset Allocation	3	3	4	1
Meeting Return Goals	4	4	14	2
Accounting Impact	5	6	15	5
Liability Measurement	5	7	1	6
Ability to Measure Risk	7	5	8	7
Plan Governance	8	8	3	9
Investment Management Style	9	12	16	8
Fiduciary Risk & Litigation Exposure	10	9	9	10
Investment Valuation	11	11	13	11
Decision Process Quality	12	10	10	12
Longevity Risk	13	13	10	16
Advisor Risk	14	14	5	13
Quality of Participant Data	15	16	17	15
Mortality Risk	16	17	17	17
Early Retirement Risk	16	18	10	18
Inappropriate Trading	18	14	7	14

Reference: MetLife U.S Pension Risk Behavior Index (2012).

Recognizing Risk Factors

Chart 3: Consistency of "Importance" and "Success" Rankings (2012)

Risk items with the same importance and success rankings would lie along the diagonal blue line

The Challenges of Measuring Sustainability While Keeping our Eyes on Retirement Security

- 1. Quantitative Issues
  - A. General economics
  - B. Regional economics
  - C. Agency economics
  - D. Formularies
  - E. Competitive Labor Pool
  - F. Risk Management
- 2. Qualitative Issues
  - A. Agency relationships
  - B. Agency expertise
  - C. External expertise
  - D. Public sentiment
  - E. Government intervention
  - F. Regional and national trends

Sustainability Indexing (Quantitative)

- 1. Payroll to Assets (volatility index)
- 2. Asset to Liabilities (matching)
- 3. Employer Contribution to Payroll (ratios)
- 4. Contribution to Budget (ratios)

The Contrasting Picture of Retirement Security

"With continuing volatility in the financial markets and interest rates hovering at unprecedented lows, preparing for retirement

has become a conundrum for Americans today. The big question: how can you protect your money from market downturns,

but also provide adequate growth to reach your retirement goals"(Prudential, 2012)?

"Many private sector employees in Kings County will retire into poverty, with a retirement of less than $1,000 a month, will not own a home, will have no savings, and the only source of medical will be the minimum coverage under Medicare" (Oliveira, 2012).

References:

Prudential (2012). Should Americans be insuring their retirement income?.

Oliveira (2012). Retiring into poverty in the land of fruit and honey.

Essential Next Steps for All Agencies

- 1. Establish Strategic Analysis plan
  - A. Internal, external, or combination of experts
  - B. Review of general and fiduciary responsibilities and policies
  - C. Governance (knowledge and training)
  - D. Risk Management
  - E. Transparency policies
  - F. Financial policies and financial position
  - G. Accounting Standards (GASB)
  - H. Retirement Security

- 2. Action Plan
  - A. Scope
  - B. TimeLine
  - C. Cost
  - D. Stakeholders
  - E. Measured Outcomes

TO: Financial Commission

FROM: Russell J. Morreale, Staff Liaison

SUBJECT: Investment Portfolio Update

RECOMMENDATION:

Accept the presentation of Investment Performance through December 31, 2012

BACKGROUND

The Financial Commission periodically reviews quarterly updates of the City's investment portfolio performance as a precursor to its delivery to City Council.

DISCUSSION

The attached report presents an update through December 31, 2012 bringing the Commission up to date on the latest quarter of reporting. The portfolio presentation will be provided by the City's investment consultant, Carlos Oblites of PFM as a basis for discussion and questions. In this presentation PFM will provide a market update and illustrate the investments in place and made to date as well as a discussion of a forward looking posture.

Attachments:

A. Fourth Quarter 2012 Review of Portfolio

Attachment A

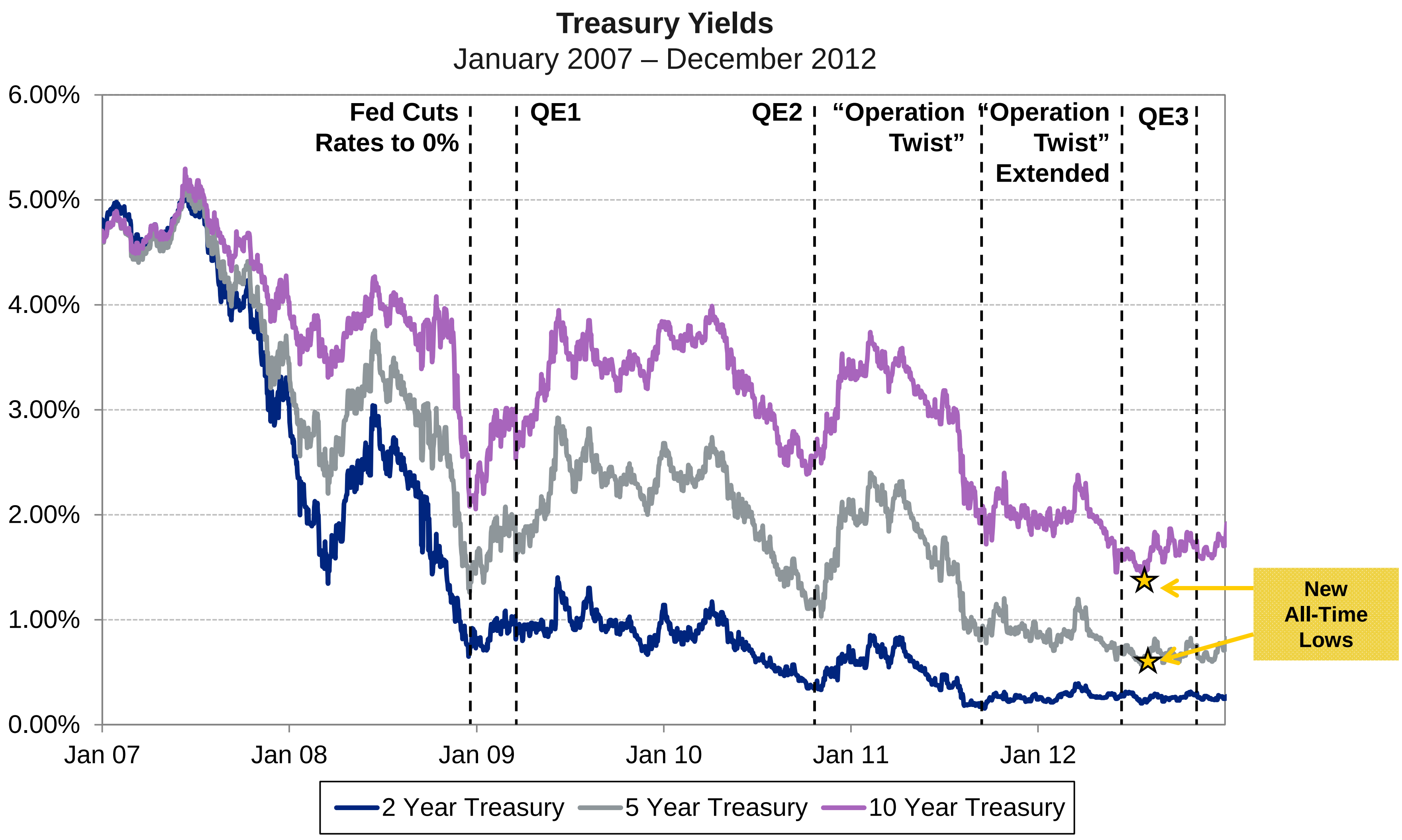
Fourth Quarter 2012 Review of Portfolio

City of Los Altos

Fourth Quarter 2012 Review of Portfolio
January 28, 2013

PFM Asset Management LLC
50 California Street, Suite 2300
San Francisco, CA 94111
415-982-5544

U.S. Treasury Yields Remain Very Low

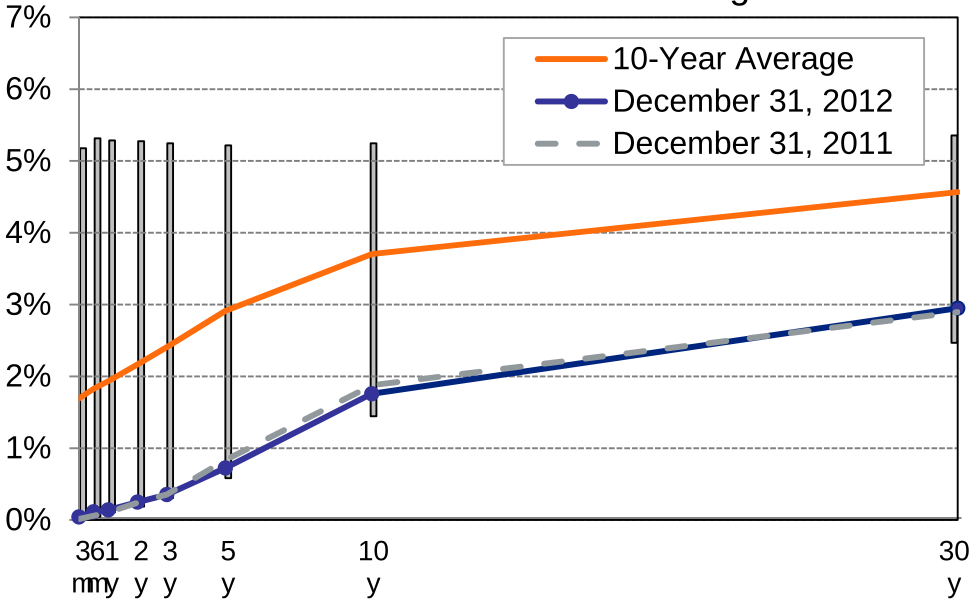


Source: Bloomberg

Low Rates, Low Spreads

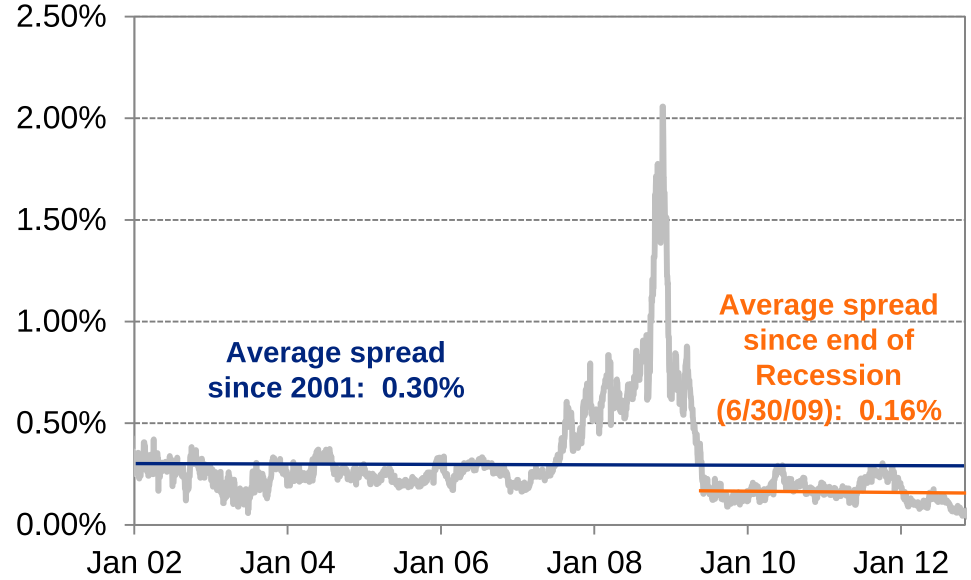
- Interest rates near all time lows:
  - Target rate at 0.00%-0.25 until mid-2015.
  - Stimulus measures (QE3, “Operation Twist”).
- Yield difference (spread) between fixed-income sectors is very compressed.
- Extraordinary demand for high-quality debt.

U.S. Treasury Yield Curve
Current Yields vs. 10-Year Ranges



Source: Bloomberg

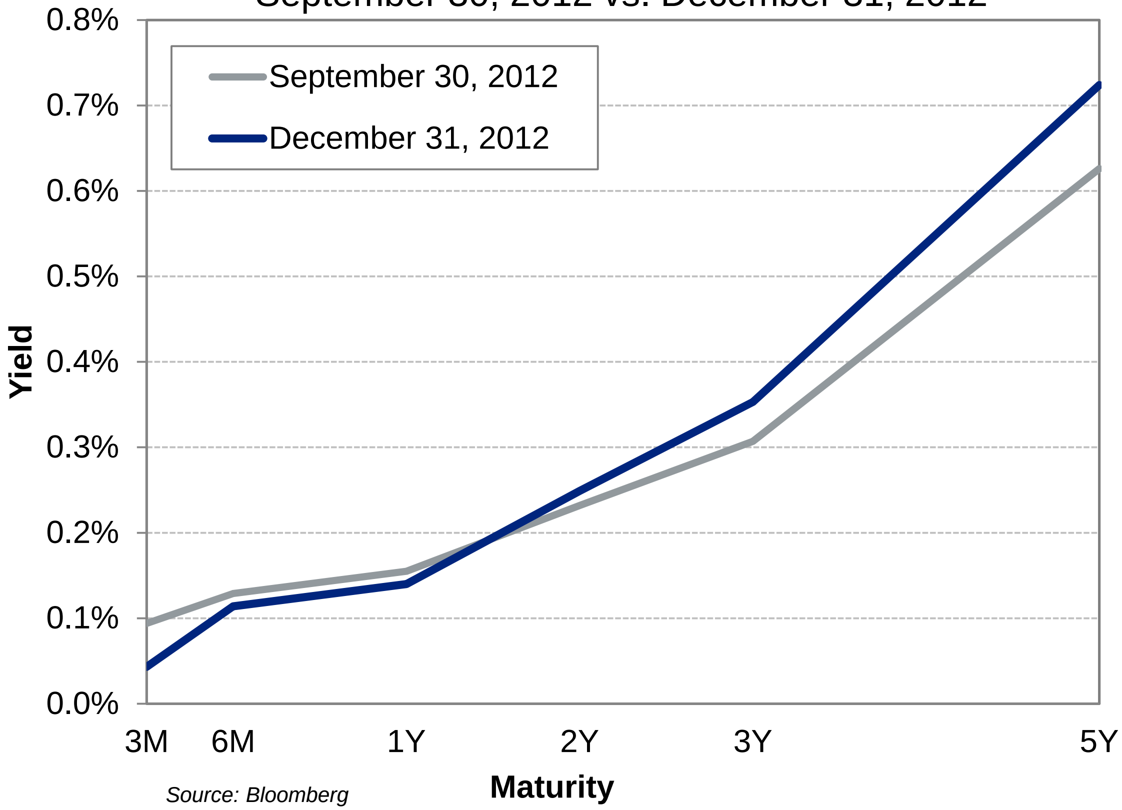
2-Year Federal Agency Spreads Over U.S. Treasuries
2002 – 2012



Yield Curve as of 2012 Year-End

- On December 12, the Federal Reserve announced that it implement further stimulus at year end in the form of additional treasury purchases and longer maturities. These will total approximately 45 billion per month in addition to the $40 billion of mortgage-backed securities already pledged.
- Though intermediate-term Treasury yields have risen recently, this policy is expected to keep interest rates within their current ranges for the near future.

U.S. Treasury Yield Curve
September 30, 2012 vs. December 31, 2012

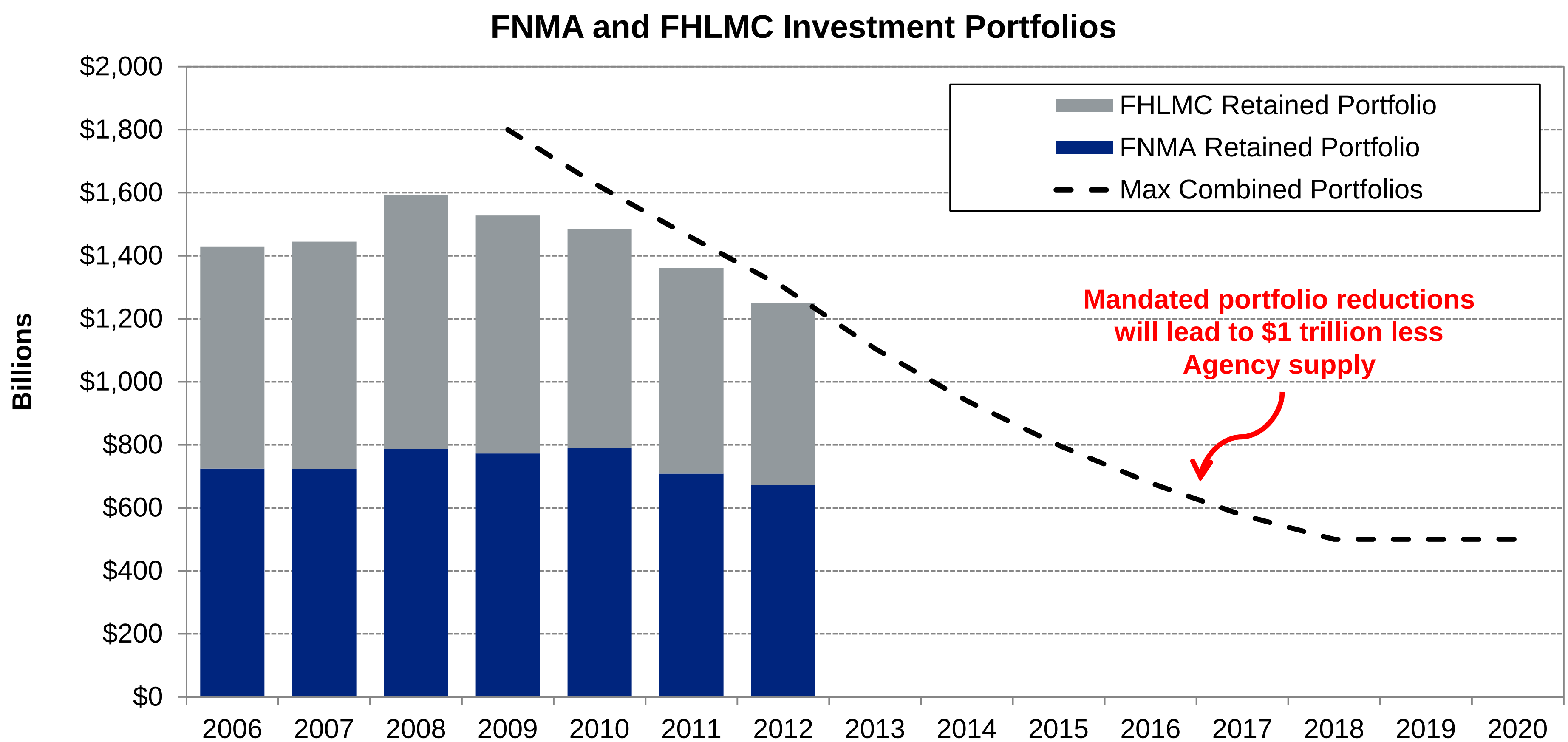


Source: Bloomberg

	9/30/12	12/31/12	Change
3 Month	0.09%	0.04%	(0.05%)
6 Month	0.13%	0.11%	(0.02%)
1 Year	0.16%	0.14%	(0.02%)
2 Year	0.23%	0.25%	0.02%
3 Year	0.31%	0.35%	0.04%
5 Year	0.63%	0.72%	0.09%

Agency Supply Set To Decline Further

- Treasury Department taking “further steps to expedite the wind down of Fannie Mae and Freddie Mac:”
  - Accelerate annual reduction of investment portfolios from 10%-15%.
  - Replace 10% preferred stock dividends with quarterly sweep of all profits.



Source: Treasury Department announcement August 17, 2012; Fannie Mae, and Freddie Mac

Returns as of December 31st

- Portfolio returns have been historically similar to a 1-Year and an 1-3 Year benchmark, as the duration of the portfolio has been between the duration of these benchmarks.
- In the fourth quarter, the portfolio return exceeded that of the 1 Year Index by 4 basis points (0.04%) and the 1-3 Year Index by 3 basis points (0.03%).
- In 2012, the portfolio had a total return of 0.62%, outperforming the benchmark by 0.19%. This performance is strong given the interest rate environment. 2012 was a year of record lows for bond yields.

Total Returns
for Periods ending December 31, 2012

	Duration (years)	Past Quarter	Past Year	Past 2 Years	Since Inception
City of Los Altos	**1.48**	**0.10%**	0.62%	0.95%	0.91%
Merrill Lynch 1 Year U.S. Treasury Index	0.91	0.06%	0.24%	0.40%	0.45%
Merrill Lynch 1-3 Year U.S. Treasury Index	1.80	0.07%	0.43%	0.99%	0.98%

Notes:
- *Performance on trade-date basis, gross (i.e., before fees) in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).*
- *Merrill Lynch Indices provided by Bloomberg Financial Markets.*
- *Inception date is third quarter 2010.*
- *Return calculation excludes LAIF*

Returns as of September 30th

Total Returns
for Periods ending September 30, 2012

	Duration (years)	Past Quarter	Past Year	Past 2 Years	Since Inception
City of Los Altos	**1.35**	**0.21%**	**0.65%**	**0.91%**	**0.97%**
Merrill Lynch 1 Year U.S. Treasury Index	0.91	0.14%	0.26%	0.41%	0.47%
Merrill Lynch 1-3 Year U.S. Treasury Index	1.82	0.26%	0.56%	0.88%	1.06%

Notes:
- *Performance on trade-date basis, gross (i.e., before fees) in accordance with the CFA Institute's Global Investment Performance Standards (GIPS).*
- *Merrill Lynch Indices provided by Bloomberg Financial Markets.*
- *Inception date is third quarter 2010.*
- *Return calculation excludes LAIF*

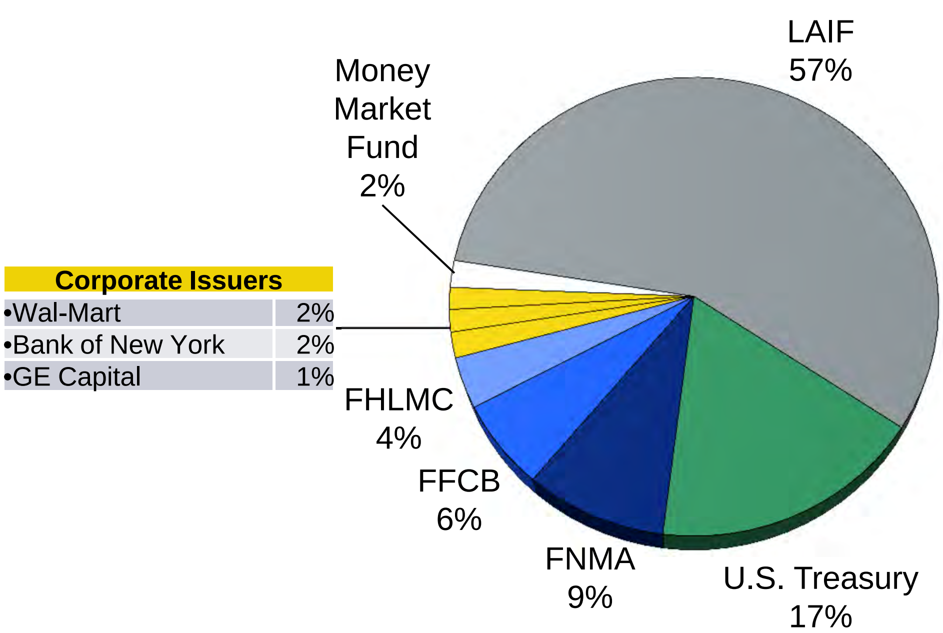
Portfolio Holdings in Compliance with California Code and City's Investment Policy

Security Type	Market Value as of December 31, 2012	Percent of Portfolio	Permitted by Policy	In Compliance
U.S. Treasury	$7,399,135	17%	100%	✓
Federal Agencies	$7,933,274	19%	100%	✓
Corporate Notes	$2,082,590	5%	30%	✓
LAIF	$24,062,894	57%	100%	✓
Money Market Fund	$803,936	2%	20%	✓
Total	$42,281,829	100%		

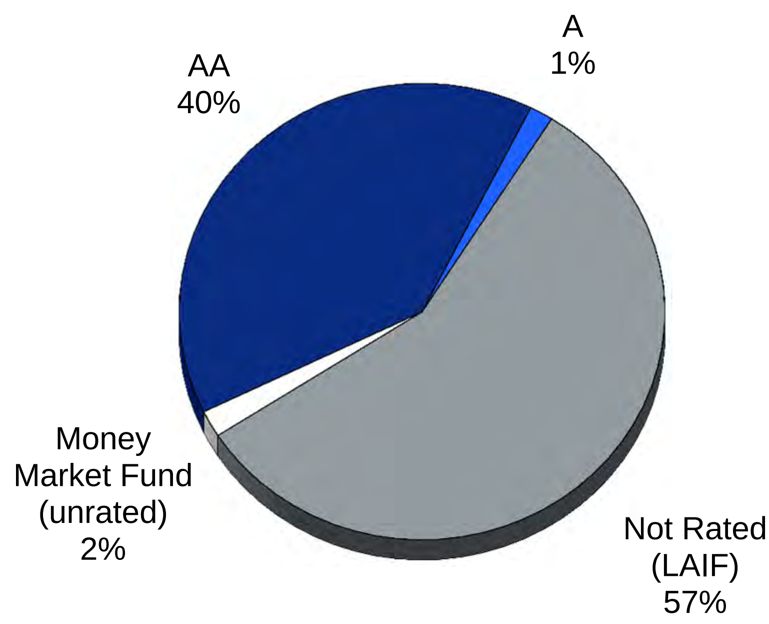
City's Holdings Maintain Highest Credit Quality

- The portfolio has excellent credit quality: 93% of the portfolio (excluding LAIF) is invested in securities rated in S&P's second highest ratings category, AA.
- The City's portfolio is well diversified by both sector and issuer.

Issuer Distribution



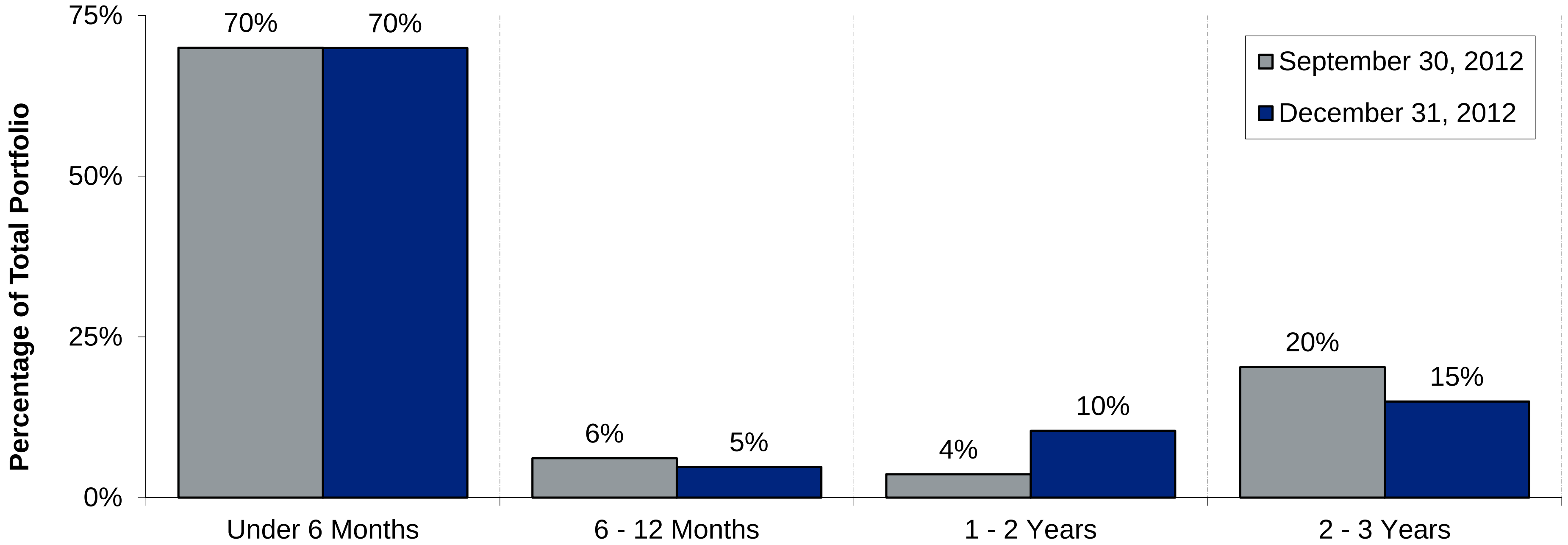
Credit Quality



Notes:
- *As of December 31, 2012*
- *Standard & Poor's Ratings*

Portfolio Holdings Are Diversified by Maturity

- Excluding LAIF, the portfolio is concentrated in the 1- to 3-year maturity range, consistent with the City's performance benchmark.
- We have continued to selectively invest in the two- and three-year range to capture higher yields and modestly extend the portfolio's duration.



Note: Callable securities in portfolio are included in the maturity distribution analysis to their stated maturity date, although they may be called prior to maturity.

First Quarter 2013 Investment Strategy

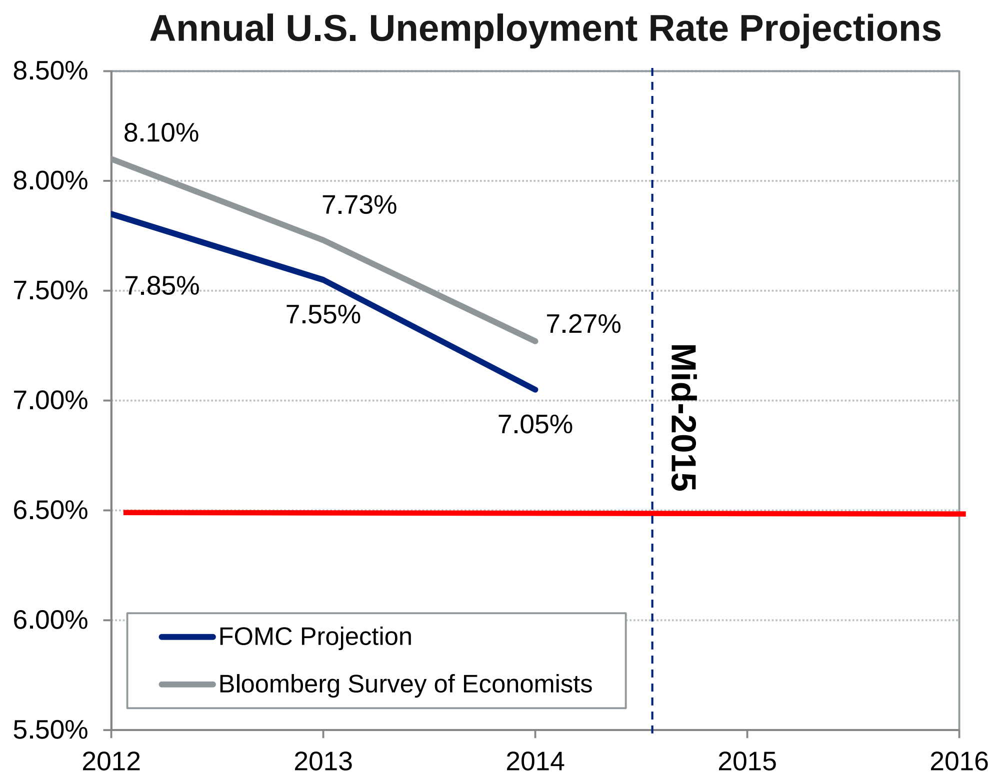
- Continued problems caused by political standoffs will be a focus for investors.

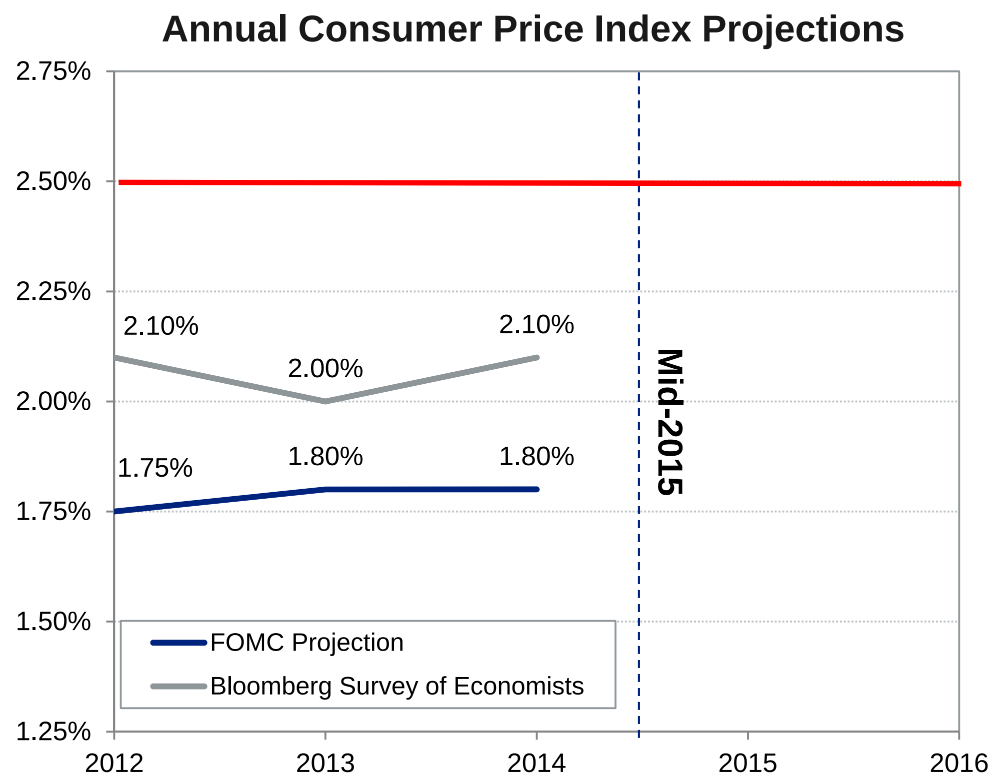
- Macro-economic considerations remain the same:
  - Fed is holding interest rates low.
  - Growth is expected to be sluggish: employment and housing remain as headwinds.

- First Quarter strategies:
  - Target a duration near that of the benchmark duration.
  - Monitor yield relationship between sectors for inefficiencies.
  - Focus on a “Bottom up” security analysis selection.
  - Invest in specific callable issues that offer value.

Fed Ties Interest Rate Changes to Unemployment and Inflation Rates

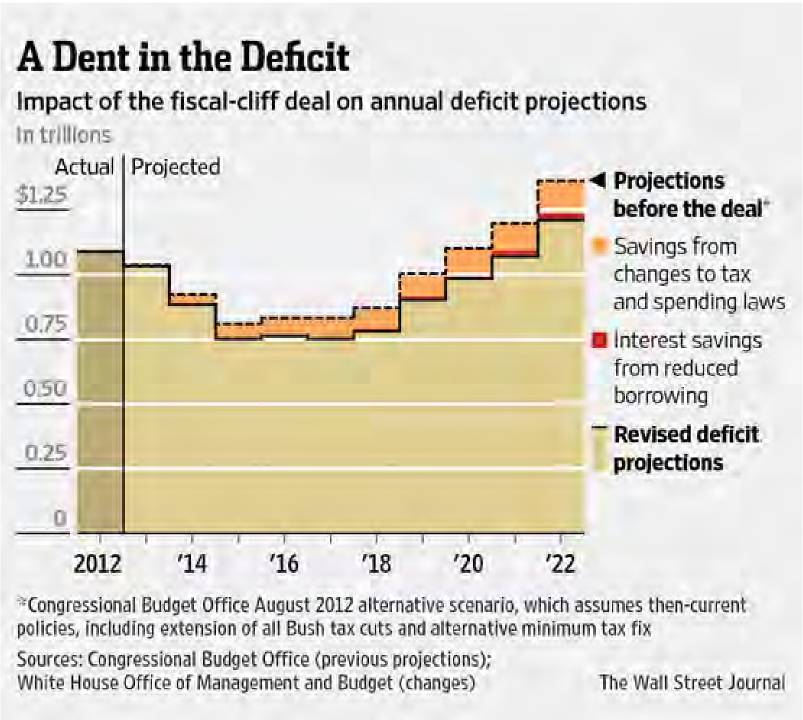
- December 12: The Fed decided that it will hold its target rate at between 0.00%-0.25% as long as the unemployment rate remains above 6.5% and 1-2 year projected inflation rates remain no more than 0.5% above their 2% target.
- Rate Changes are no longer tied to an explicit date range.





Source: Federal Reserve (Mid-point of published ranges) and Bloomberg December Survey of Economists (Median)

Details of the "Fiscal Cliff" Deal



Kicked the Can:

- Delayed the sequester, a series of automatic cuts in federal spending, for two months
- Did not rise in the debt ceiling. Treasury Department says that it can continue to pay outstanding debt obligations and other bills for another two months

Increased Revenue:

- Higher tax rates for individuals earning over $400,000 and families earning more than $450,000
- Taxes on dividends and capital gains increase from 15% to 20%
- Additional limits on personal exemptions and deductions for couples earning more than $300,000 and singles earning in excess $250,000
- Payroll taxes will rise by 2% for all wage earners as those cuts have expired
- Estate taxes will rise from 35% to 40% for estates valued at over $5 million dollars

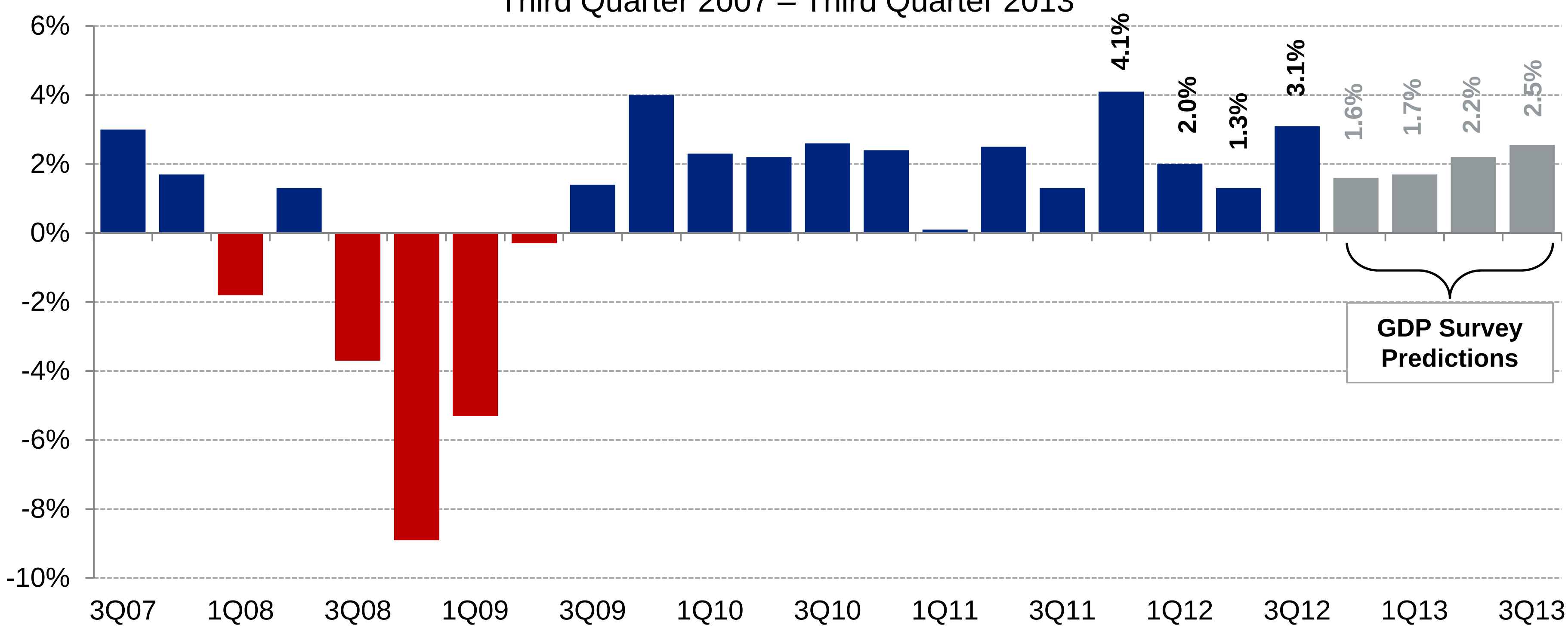
Extended benefits:

- Nine month extension of the farm bill
- Unemployment benefits extended for an additional year
- Tax credits for college tuition are extended for five year
- The "doctor fix" is included—Medicare providers will not face a serious cut in pay
- The Alternative Minimum Tax problem is permanently fixed removing a potential tax danger for middle class families
- A number of existing business tax benefits will remain in place for another year

Economic Growth Expectations Are Moderate

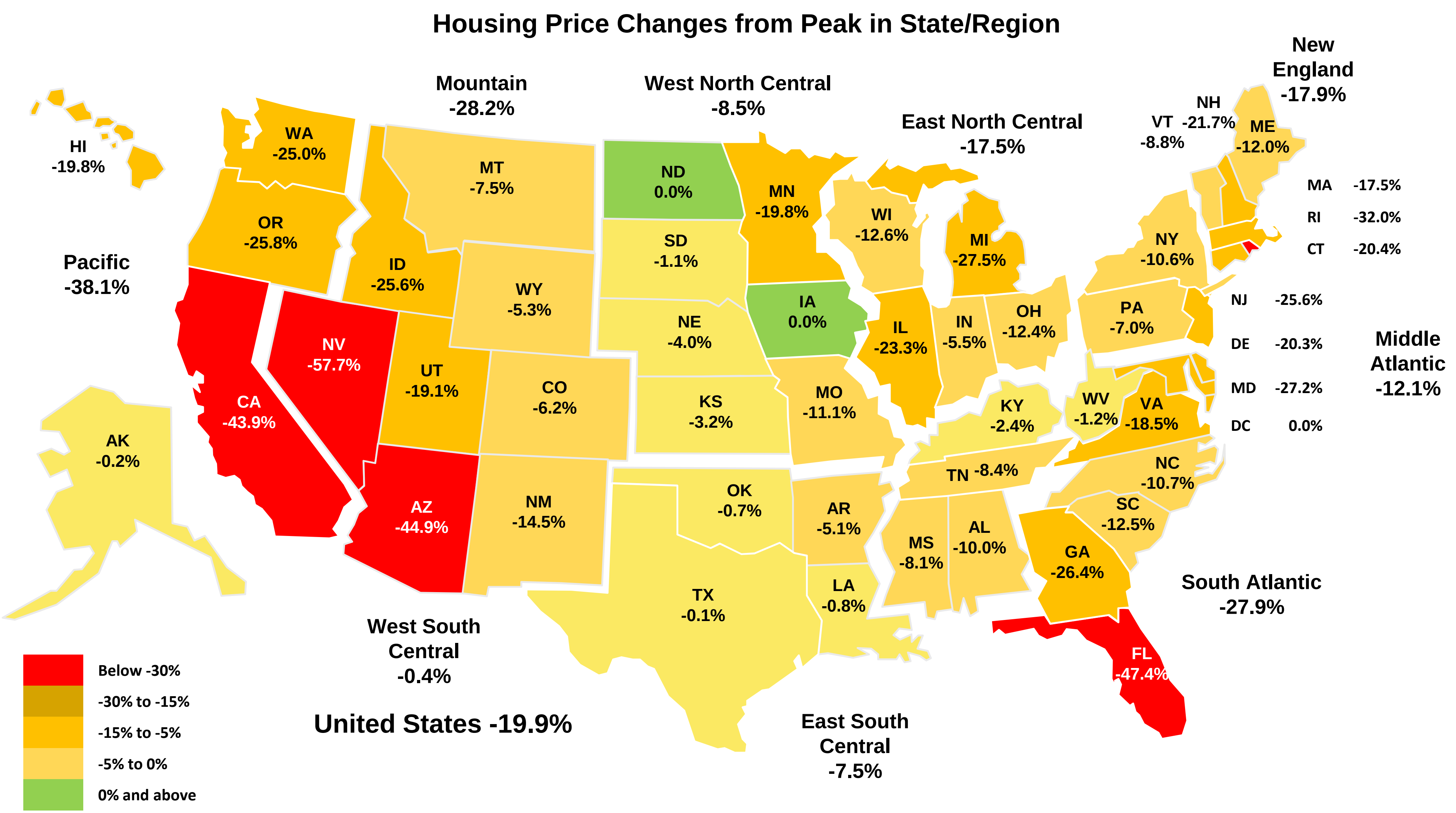
- The U.S. economy grew at 3.1 percent in the third quarter. This was revised upwards 1.1% in November and December from the initial estimate of 2.0% in October. This increase in growth from the 2nd quarter 1.3% came from a pickup in consumer spending, government outlays, and residential construction.
- Despite the 1.8% increase over the second quarter, GDP growth is expected to slow for the next six months with consensus estimates for the fourth quarter and first quarter of 2013 being 1.6% and 1.7% respectively.

Gross Domestic Product (Quarter on Quarter)
Third Quarter 2007 – Third Quarter 2013



Source: Bloomberg

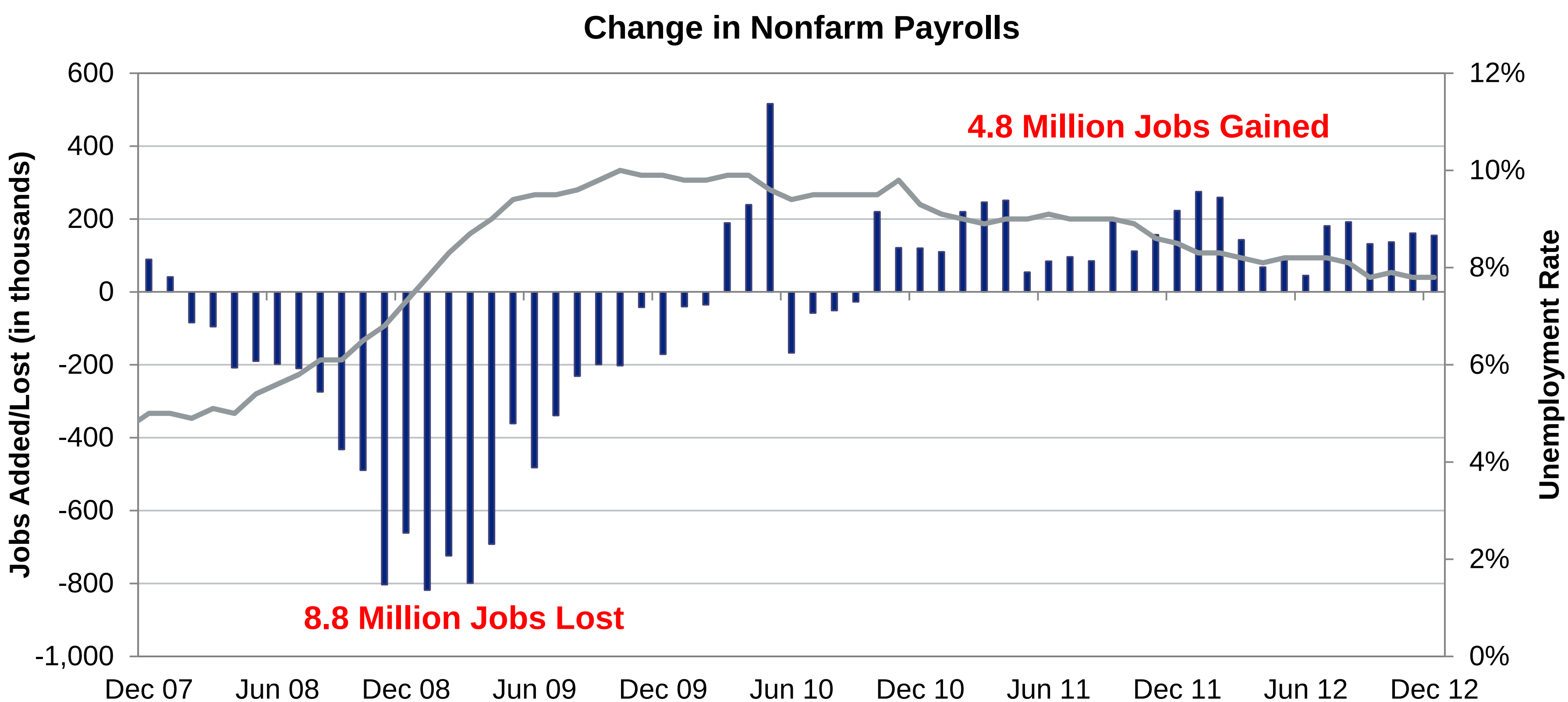
Housing Values Higher But Far From Pre-Bubble Levels



State/Region Home Price Growth Rate percentage from applicable peak in that state/region through September 30, 2012.
Note: Regional home price decline percentages are a housing stock unit-weighted average of home price decline percentages of states within each region.
**Source: Fannie Mae. Estimates based on purchase transactions in Fannie-Freddie acquisition and public deed data available through the end of September 2012. Including subsequent data may lead to materially different results.*

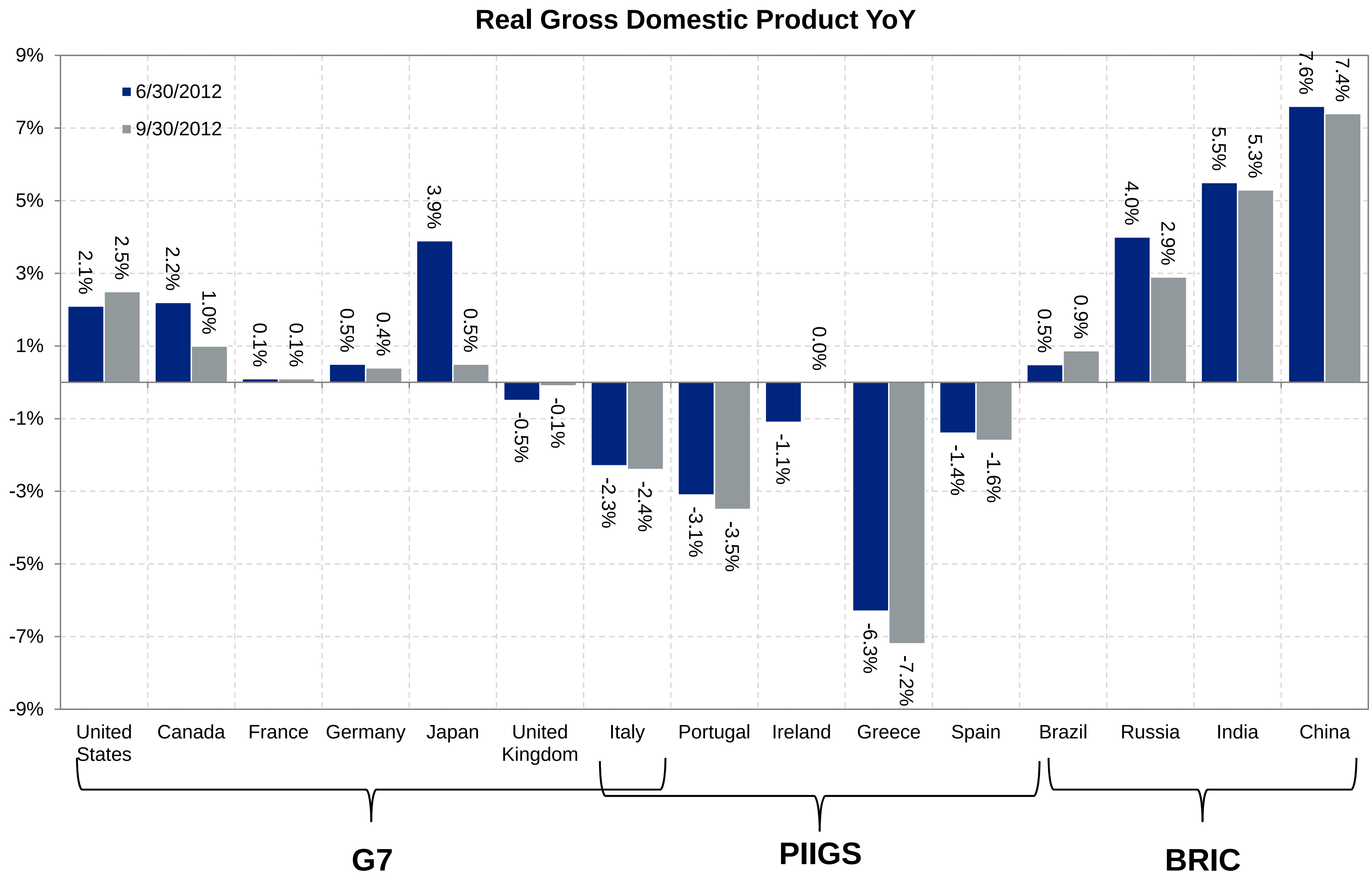
Unemployment Rate Unchanged

- Employment gains for October were 155,000 versus the consensus of 152,000 predicted by economists. September gains were also revised upward from the initial release of 114,000 to 148,000.
- Despite these gains in jobs, the unemployment rate stayed unchanged from the November value of 7.8%. In 2012, unemployment fell a total of 0.7% from the December 2011, rate of 8.5%.
- This slow decline, and the Fed's new policy to keep interest rates low until it reaches 6.5% indicates that there may not be a policy shift for several more years.



Source: Bureau of Labor Statistics

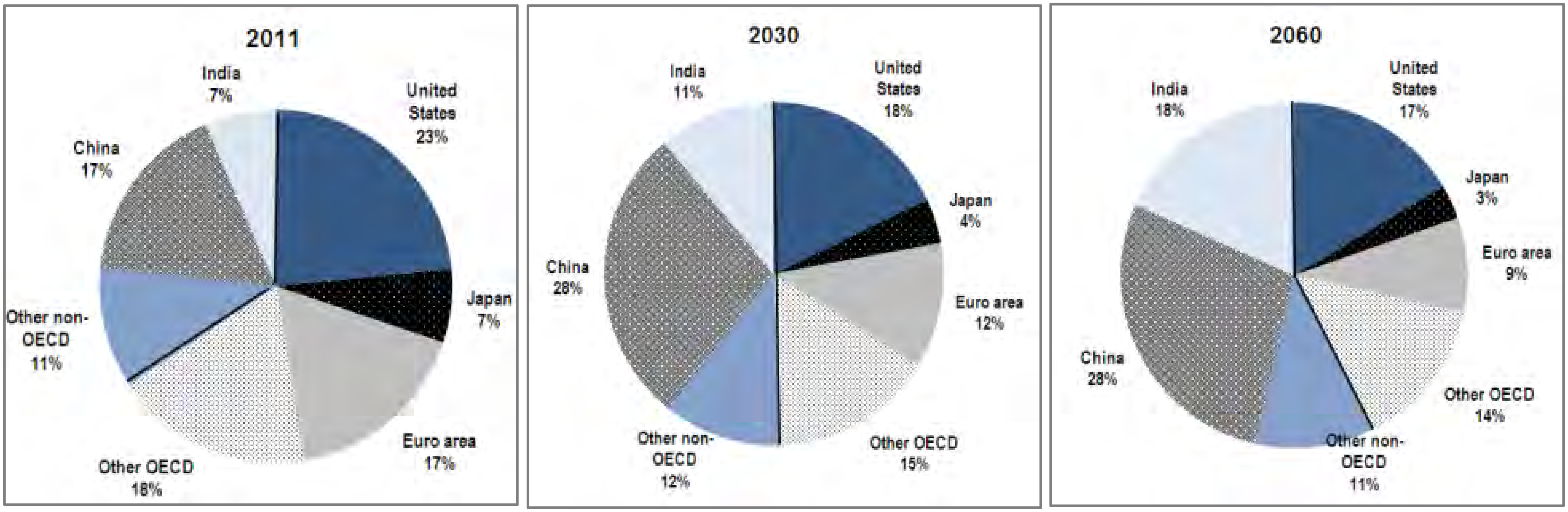
World GDP Growth is Slowing



Asia and Emerging Markets Expected to Eclipse Advanced Economies by 2060

- OECD model projects growth for 34 OECD members and 8 major non-OECD G20 economies over the next 50 years
- Forecasts global economic growth of 3% annually; sharp difference between the emerging-market economies (accelerated growth) and the advanced countries (gradual decline)

Shifts in Share of World GDP to 2060



Source*: Organization of Economic Cooperation and Development*
OECD Countries: Australia, Austria, Belgium, Canada, Chile ,Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.
Non-OECD Countries: Argentina, Brazil, Egypt, Latvia, Lithuania, Morocco, Peru, Romania.

TO: Financial Commission

FROM: Russell J. Morreale, Staff Liaison

SUBJECT: Pension Alternatives and Options Study

RECOMMENDATION:

a. Discuss a presentation of recently released CalPERS actuarial materials
b. Receive an update of the ad hoc pension Subcommittee status

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BACKGROUND

The Financial Commission, at the request of Council, created an ad hoc subcommittee to evaluate local government pension plans from a fiscal perspective and provide an analysis of alternatives and issues for City Council to consider as they set policy. This agenda item affords a continuing discussion of the progress of that subcommittee and also provides a basis for sharing information gathered to date in a public setting.

DISCUSSION

In the course of the pension analysis referred to above, the Financial Commission and the ad hoc subcommittee has been awaiting the issuance of enhanced actuarial reports by CalPERS. These valuations, issued for the year ended June 30, 2011, were just released and are now available on the CalPERS website. They will be discussed and presented as part of this item of discussion.

City staff has prepared and issued a summarizing report to City Council, included herein as attachment A. This summary report provides a link to the full actuarial reports now available on-line at CalPERS for general access and review. The release of this information is important in that it presented new information issued in anticipation of emerging accounting standards that call for increased financial reporting and disclosures. In particular, these valuations now present two very substantive financial data sets namely, the Unfunded Actuarial Liability of each City plan and an estimate of the cost of buying out of the CalPERS pension system, or what is called the Hypothetical Termination Amount. The summary report attached also provides other key information including employer and employee rates, normal costs and a definition of benefit levels relevant to Los Altos.

No action need be taken beyond the acceptance and discussion of this critical new release of data by CalPERS, certainly long awaited information that will prove to be valuable to the ad hoc subcommittee and its pension special project.

Attachments:

A. NEWLY RELEASED CALPERS VALUATION REPORTS – Memorandum

Attachment A

NEWLY RELEASED CALPERS VALUATION REPORTS –
Memorandum

M E M O R A N D U M

DATE: January 24, 2013

TO: Mayor and City Council

FROM: Marcia Somers, City Manager
Russell J. Morreale, Finance Director

SUBJECT: NEWLY RELEASED CALPERS VALUATION REPORTS

Upcoming changes in pension accounting requirements will necessitate substantial modifications in future reporting and disclosures. These Government Accounting Standards Board requirements, known as GASB 67 and 68, call for the recording of existing unfunded pension liabilities in the City's government-wide financial statements. For Los Altos, these changes will be effective in fiscal year 2014/15. An estimate of this liability is noted in the CalPERS Actuarial Valuation Report (AVR).

To comply with the new accounting standards, CalPERS continues to make adjustments to its reporting model and systems. Although this new valuation information was included in the City's most recent AVR, it is not intended for use, nor is it sufficient to implement the new GASB standards. Nonetheless, it is significant that for the first time the AVR does provide an estimate of unfunded liabilities specific to Los Altos, and an approximation of the cost to exit the current CalPERS retirement plans.

A series of tables below provide a summary of key valuation information extracted from the CalPERS AVRs that is now available on the CalPERS website.

Existing and Projected Pension Rates: The following two tables identify the current benefit levels and employer contributions for the two City employee groups (Miscellaneous and Safety) and enrollment categories, defined below, as well as the portion of the employee member contribution rates paid for by both the City (EPMC) and employees:

- **Existing members** - employee hires prior to January 1, 2013 in City-adopted tiers
- **Classic members** - employee hires who previously participated in reciprocating California employer pension systems and were hired on or after January 1, 2013
- **New members** - hires on or after January 1, 2013 who do not fit the 'existing' or 'classic' member criteria

Employer Contribution Rates					
Group	*Member*	*Benefit Level*	*2012/13*	*2013/14*	*2014/15*
Misc.	Existing	2.7% @ 55	15.178%	15.685%	16.60%
		2.0% @ 60	7.846%	8.049%	-
Misc.	Classic	2.0% @ 60	7.846%	8.049%	-
Misc.	New	2.0 %@ 62	6.250%	6.250%	6.250%
Safety	Existing	3.0 %@ 50	25.137%	26.582%	28.40%
		3.0 %@ 55	20.057%	20.774%	-
Safety	Classic	3.0 %@ 55	20.057%	20.774%	-
Safety	New	2.7% @ 57	11.500%	11.500%	11.500%

The 2012/13 rates noted above have been reduced over recent years with periodic side fund pre-payments made by the City. It is also important to note that the 2014/15 rates listed above are projections at this time and subject to change by CalPERS.

Employer Paid Member Contribution Rates					
Group	*Member*	*Benefit Level*	*2012/13*	*2013/14*	*2014/15*
Misc.	Existing	2.7% @ 55	6.00%	-	-
		2.0% @ 60	0.00%	-	-
Misc.	Classic	2.0% @ 60	0.00%	-	-
Misc.	New	2.0 %@ 62	0.00%	0.00%	0.00%
Safety	Existing	3.0 %@ 50	7.00%	6.00%	-
		3.0 %@ 55	0.00%	0.00%	-
Safety	Classic	3.0 %@ 55	0.00%	0.00%	-
Safety	New	2.7% @ 57	0.00%	0.00%	0.00%

Employee Paid Member Contribution Rates					
Group	*Member*	*Benefit Level*	*2012/13*	*2013/14*	*2014/15*
Misc.	Existing	2.7% @ 55	2.00%	-	-
		2.0% @ 60	7.00%	-	-
Misc.	Classic	2.0% @ 60	7.00%	-	-
Misc.	New	2.0 %@ 62	6.25%	6.25%	6.25%
Safety	Existing	3.0 %@ 50	2.00%	3.00%	-
		3.0 %@ 55	9.00%	9.00%	-
Safety	Classic	3.0 %@ 55	9.00%	9.00%	-
Safety	New	2.7% @ 57	11.50%	11.50%	11.50%

Employer and Employee paid member contribution rates are subject to change based on future labor contract expiration dates. Furthermore, the new state laws effective January 1, 2013 prohibit the provision of Employer Paid Member Contributions for new members.

Normal Costs: As part of this new AVR, CalPERS has quantified normal cost, or annual service cost, for each City plan. These rates are listed below. Under the newly adopted California State pension reform laws, new members will be required to contribute at least 50% of the normal cost for their defined plan.

Normal Costs				
Group	*Member*	*Benefit Level*	*2013/14*	*2014/15*
Misc.	Existing	2.7% @ 55	18.789%	-
Misc.	Classic	2.0% @ 60	13.786%	-
Misc.	New	2.0 %@ 62	13.000%	-
Safety	Existing	3.0 %@ 50	27.767%	-
Safety	Classic	3.0 %@ 55	24.811%	-
Safety	New	2.7% @ 57	23.000%	-

Preliminary estimates of Pension Liabilities: The following two tables identify initial estimates, as provided by CalPERS, of the City's unfunded liabilities as of the latest AVR date – **June 30, 2011.** They also present the projected cost of "buying out of the system." The following definitions are important to note as you consider this information:

- **Unfunded Actuarial Liability** - an estimated amount that would be recorded on the City's financial statements per the new accounting standards
- **Hypothetical Termination Amount (HTA)** - an estimate of what the City would owe if it were to separate from CalPERS as of the date of the AVR. The HTA is calculated by using a 30-year U.S. Treasury discounting rate, a model adopted by CalPERS to limit its funding risk for terminating agencies. It is important to note that the HTA is based upon a June 30, 2011 discount rate of 4.82%. ***Considering that the corresponding U.S. Treasury discount rate for June 30, 2012 is 2.87%, it is very likely that the calculated HTA presented in the June 30, 2012 AVR will be substantially greater.***

Actuarial Liability				
Group	*Actuarial Liability*	*Market Value of Assets*	*Unfunded Actuarial Liability*	*Funded Ratio*
Misc.	$50,089,152	$37,821,669	$12,267,483	75.51%
Safety	$40,241,911	$31,417,591	$ 8,824,320	78.07%
Total	$90,331,063	$69,239,260	$21,091,803	76.65%

Agency Termination Liability				
Group	*Hypothetical Termination Liability*	*Market Value of Assets*	*Unfunded Hypothetical Termination Value*	*Termination Funded Ratio*
Misc.	$ 70,012,089	$37,821,669	$32,190,420	54.03%
Safety	$ 60,864,508	$31,417,591	$29,446,917	51.63%
Total	$130,876,597	$69,239,260	$61,637,337	52.91%

Over the past three years the City has pre-paid its CalPERS "side-Fund" liability reducing that value to $152,591, or near payoff, at June 30, 2011.

The full CalPERS AVR is available at the web site address below:

http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/actuarial-reports.xml

This memo will be provided to the Financial Commission, which will consider the information as it evaluates the matter and drafts a report to City Council regarding pension-related issues and alternatives. Furthermore, this memorandum will be posted on the City's website.

If you have any questions regarding the information provided in this report, don't hesitate to contact us for further clarification.

TO: Financial Commission

FROM: Russell J. Morreale, Staff Liaison

SUBJECT: 2013 Meeting Calendar

RECOMMENDATION:

Approve the 2013 regular meeting calendar

BACKGROUND

Each City Commission shall adopt a regular meeting schedule each calendar year as a basis for setting such dates, scheduling meeting facilities, and facilitating public meeting act protocol.

DISCUSSION

The proposed dates below are submitted for review and acceptance by the Financial Commission

Next Meeting Dates:
Regular scheduled meetings are the third Monday of every month, except for holiday scheduling, as follows:

Monday – Jan 28 (Holiday schedule)
Tuesday – Feb 19 (Holiday schedule)
Monday – Mar 18
Monday – Apr 15
Monday – May 20
Monday – Jun 17
Monday – Jul 15
Monday – Aug 19
Monday – Sep 16
Monday – Oct 21
Monday – Nov 18
Monday – Dec 16

Attachments:

None