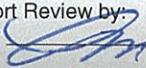


**CITY OF SEBASTOPOL
CITY COUNCIL
STAFF REPORT**

Agenda Report Review by:
City Manager 

Meeting Date: December 20, 2016
To: Honorable Mayor and City Councilmembers
From: Budget Subcommittee
Subject: Approval of Bartel & Associates Consultant and Increase Additional Appropriation by \$12,000 for the Study of the City’s CalPERS Unfunded Liability
Recommendation: That the City Council Approve a Request of Bartel & Associates Consultant and Increase Additional Appropriation by \$12,000 for the Study of the City’s CalPERS Unfunded Liability
Funding: Currently Budgeted: (YES) (NO) (N/A)
Net General Fund Cost: \$ 9,840
If Cost to Other Fund(s): \$2,160

INTRODUCTION:

This item is to request the City Council Approve a Recommendation of Bartel & Associates Consultant and Increase Additional Appropriation by \$12,000 for the Study of the City’s CalPERS Unfunded Liability.

BACKGROUND:

One of the goals of the City of Sebastopol’s Strategic Plan is to “improve long-term financial stability and sustainability thus enhancing Fiscal responsibility in the city’s operations”. To help meet this goal, the Finance Department directed to obtain proposals from consultants who are experts in this field to help the City address unfunded liability. The value of the City’s unfunded liabilities is escalating annually; however, despite the national economic recovery and healthy gains in the stock market, our City’s unfunded liabilities continue to climb.

DISCUSSION:

The calculation of pension funding requirements, the annual accounting, and the studies are complex tasks that require a team of experts to perform. There are very few consultant firms that do pension liability studies. Staff has reached out and requested for a proposal to the following firms after completing a listserv through California Society Municipal Officers organization:

<u>Consultant Firms</u>	<u>Amount Proposed</u>
1. Bartel & Associates	\$12,000
2. The Weist Law Firm & NHA Advisors	\$137,500*

- | | |
|-----------------------|---------|
| 3. KNN Public Finance | N/A |
| 4. North Bay Pensions | \$6,000 |

*The proposed bid was a combined effort from the two firms to serve as a municipal advisor and bond counsel as a vehicle to develop a new, creative financing structure to help enhance budget predictability and cash flow savings which is outside the frame-work of the study.

Based on review of the proposals received, staff is recommending Bartel & Associates, LLC as the preferred consultant. Bartel and Associates has been and is currently working to assist several agencies, such as the City of Cotati, City of Santa Rosa, and the City of Rohnert Park in projecting the anticipated impact of CalPERS changes on contribution rates, develop a model to address how such a supplemental pension trust can pay down the unfunded liability, and mitigate contribution rate fluctuation. The firm was established in 2003 to provide quality and cost-effective actuarial consulting services to many public agencies. Their proposed project fee estimate is not to exceed \$12,000. The group will provide a comprehensive review and summary of historical CalPERS actuarial information for our Miscellaneous and Safety plans including:

- Review historical actuarial valuation reports;
- Review Contract Amendment Cost Analysis for each group
- Review of the options the City has to pay down the unfunded liability and to establish a rate stabilization fund
- Pension supplemental analysis if the City is interested: modeling a supplemental pension trust that pays down unfunded liability and mitigates contribution rate fluctuation
 - Guide the City to select target contribution rates
 - Help the City to determine the initial contribution and/or subsequent contribution
 - Analyze the likelihood of the supplemental pension trust being successful over a certain period by using a stochastic investment return model
- 2 meetings – one with City staff and one with Council to discuss results.

RECOMMENDATION:

Staff recommends that the City Council Approve an Agreement with Bartel & Associates Consultant and increase additional appropriation by \$12,000 for the study of the City’s CalPERS unfunded liability. Funds have not been budgeted for this unanticipated study, therefore, an increase in additional appropriation of \$12,000 is needed to conduct it. If approved, staff will show the increase of appropriation during the mid-year budget amendment process.

Attachment:

Bartel & Associates proposal



October 14, 2016

Ana Kwong
Finance Director
City of Sebastopol
7120 Bodega Avenue
Sebastopol, CA 95472

Re: City of Sebastopol – CalPERS Actuarial Review

Dear Ms. Kwong,

Bartel Associates would be happy to provide the City of Sebastopol actuarial consulting services.

Background

The City participates in CalPERS, providing:

- Miscellaneous employees
 - Hired before January 1, 2013 and classic employees hired on or after January 1, 2013 the 2%@55 benefit formula
 - For new members hired on or after January 1, 2013, the PEPRA 2%@62 benefit formula.
- Safety Police employees:
 - Hired before January 1, 2013 and classic employees hired on or after January 1, 2013 the 3%@50 benefit formula
 - For new members hired on or after January 1, 2013, the PEPRA 2.7%@57 benefit formula.
- Safety Fire employees:
 - Hired before January 1, 2013 and classic employees hired on or after January 1, 2013 the 3%@50 benefit formula
 - For new members hired on or after January 1, 2013, the PEPRA 2.7%@57 benefit formula.

All 3 plans are in CalPERS risk pools.

In April 2013, the CalPERS Board approved funding policy changes, including new amortization and smoothing methods. These changes will result in higher City contribution rates phased-in over 5 years starting with 2015/16. They are expected to result in greater contribution rate volatility in most years but smaller fluctuations in years with extreme market events. CalPERS completed a new experience study in February 2014 and adopted demographic assumption changes for June 30, 2014 valuations which will further increase employer contribution rates phased-in over 5 years period starting with 2016/17. Finally, CalPERS Board adopted a risk mitigation strategy in November 2015. This new strategy will result in gradually higher employer contribution rates over the next 20 years or so.

We believe the City would like to understand the impact of CalPERS upcoming changes. CalPERS June 30, 2015 actuarial valuation reports were released in August and provide estimated contribution projections through 2022/23 including the impact of funding policy changes and assumption changes. Our analysis will provide City contribution rate projections based on more current investment returns than CalPERS reports and sensitivity analysis for all of these CalPERS changes, including the impact of additional pension tiers, enabling the City to better understand the cost increases and their volatility. We will explain projected City contribution rates in easily understood terms.



If the City is interested in establishing a Section 115 supplemental pension trust to address the City's CalPERS unfunded liability, we can develop a model showing the City how such a supplemental pension trust can pay down the unfunded liability and mitigate contribution rate fluctuation.

Project Scope and Fees

Bartel Associates will project CalPERS contribution rates, including asset return sensitivity, for each fiscal year through 2026/27 showing the impact of:

- PEPRAs changes,
- CalPERS new contribution policy,
- Assumption changes,
- Risk mitigation strategy.

We will provide a comprehensive review and summary of historical CalPERS actuarial information for Miscellaneous and Safety plans including:

- Review historical actuarial valuation reports;
- Review Contract Amendment Cost Analysis for each group
- Review of the options the City has to pay down the unfunded liability and to establish a rate stabilization fund
- Pension supplemental analysis if the City is interested: modeling a supplemental pension trust that pays down unfunded liability and mitigates contribution rate fluctuation
 - Guide the City to select target contribution rates
 - Help the City to determine the initial contribution and/or subsequent contribution
 - Analyze the likelihood of the supplemental pension trust being successful over a certain period by using a stochastic investment return model
- 2 meetings – one with City staff and one with Council to discuss results.

The following table summarizes the project options and fee estimates:

Project Options	Estimated Fees	Not To Exceed
■ CalPERS review and contribution projections	\$6,500	\$7,500
■ Pension supplemental trust analysis	\$2,000	\$2,000

Please note:

- We will bill the City at the following hourly rates (however, much of the time for the above project would be at the Partner level):

Partner	\$260 - \$310
Assistant Vice President	\$230
Associate Actuary	\$180
Senior Actuarial Analyst	\$160
Actuarial Analyst	\$130
- The above time is estimated and does not include time for:
 - **Executive Summary.** The project includes a discussion outline with significant detail. This document is not meant to be a stand-alone explanation of results that the City should give to the Board. An Executive Summary is a stand-alone report summarizing results. Our fees to prepare an Executive Summary will be approximately \$2,000.



- **More than 2 meetings.** Additional meetings (e.g. Council and/or bargaining group meetings) will increase the above time by actual meeting and preparation time. If no additional work is necessary, then fees will be \$1,000 to \$1,500 for an additional meeting.
- Hourly rates include provision for miscellaneous expenses.

Data

- We have downloaded the June 30, 2013, 2014 and 2015 actuarial valuation reports from CalPERS website. Please provide us the June 30, 1994 through June 30, 2012 reports.
- Contract Amendment Cost Analysis from CalPERS for Miscellaneous, Police and Fire.

We are prepared to begin this project immediately and can set a meeting date as soon as we receive the above information. Initial meeting dates are usually set approximately 3-4 weeks after we receive the actuarial information. We look forward to working with you and the City.

Sincerely,

Bianca Lin

Bianca Lin, FSA
Assistant Vice President and Actuary

c: John Bartel, Bartel Associates, LLC

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