TO: CalPERS Board of Administration

FROM: Alicia Lewis, Legislative Representative
Chris McKenzie, Executive Director

RE: League Comments on Proposed Funding Risk and Mitigation Strategies

DATE: August 18, 2015

The League wants to express our sincere appreciation to the Board and staff for the extensive outreach and engagement program in connection with consideration of this complex and important matter. City officials have reported to us that the staff has done an excellent job of explaining the issue and the various options before the Board. This outreach effort included, as your staff has probably informed you, a special presentation to the League board of directors in mid-July for which we express special appreciation.

In late July and early August, the League conducted a survey of city managers and finance directors about the proposal before you. While the survey results should not be viewed as a formal “position” of the League, they represent the informed feedback of many city managers and finance directors who have invested the necessary time to understand the funding risks and mitigation strategies presented by the staff. These city professional are charged by their elected governing bodies with advising them on what is in the best long-term financial interest of their cities, and the League accords the survey results substantial weight.

The survey results have been reviewed by a committee of the League’s City Managers Department. It was the unanimous opinion of that committee that the survey results reasonably represent the views and priorities of the League membership, including strong support for reducing the volatility of CalPERS’ investments in order to reduce the risk of future employer contribution rate spikes. (See 2nd bullet below). The Committee also concluded that the survey does not indicate there is a consensus among respondents on the specific method that should be used to accomplish this goal, however. (See 3rd bullet below). The survey results appear below.

League Survey Results

- **No. Respondents:** 117 respondents from 115 cities. (All are city managers, assistant city managers, finance directors or treasurers) This represents about 25% of the League’s member cities.

- **Question:** Should the CalPERS Board begin taking steps to reduce volatility in its investments and the potential for future spikes in employer/employee contribution rates by lowering the discount rate and gradually raising employer/employee contribution rates in the next few decades in addition to already programmed increases?

  89 Yes (77%)  
  12 No (10%)  
  15 Not sure (13%)

(1 didn’t answer the question)
• **Question:** If you answered “Yes” above, which option do you favor? (Choose One)
  o **35** (30%) Flexible Glide Path Option
  o **48** (41%) Blended Glide Path Option
  o **12** (10%) Other (details omitted, but some indicated an inability to select an option or a specific suggestion such as that the discount rate be lowered at a slightly slower pace.)
  o **22** (19%) No answer

While these results indicate strong support among the respondents for action by CalPERS to mitigate its funding risks, it was by no means unanimous. Moreover, we are all aware of the precarious financial condition of certain cities that will find either incremental or large contribution rate increases painful because they will affect their capacity to provide basic services. Officials in those cities know they have to exercise rigid financial discipline or they may find themselves back in the same position in the future. While any additional rate increases will complicate an already daunting challenge, they share our desire for a sustainable and responsible defined benefit pension program. We trust the Board of Administration will keep such agencies in mind as it plots a course over the next few years to reduce funding risks for all participants in CalPERS.