



Date: August 15, 2017

To: Patrick H. West, City Manager *PW*

From: John Gross, Director of Financial Management *JG*

For: Mayor and Members of the City Council

Subject: **CalPERS Stabilization Fund Usage for FY 18 Budget**

In 2014, the City prudently led the way in creating and funding a CalPERS Stabilization Fund to address the changes CalPERS was making to the smoothing methodology and to address the potential fluctuations that might result from varying rate of returns, among other factors. The Stabilization Fund, however, can no longer function as it was originally intended due to the risk mitigation strategy adopted by CalPERS in 2015 and the CalPERS 2016 decision to lower the assumed investment rate, also known as the discount rate, from the current 7.5 percent to 7.0 percent over the next three years.

Currently, the CalPERS Stabilization Fund has a balance of \$9,553,620. In FY 18, the City is proposing to use \$2,715,423 to fund the impact of CalPERS changing the fiscal year time frame that was the basis of the City's employer contribution rates from an October to September fiscal year to a July to June fiscal year. This change began impacting our FY 18 rates. Additionally, \$6,777,627 is being proposed to fund various strategic one-time investments (outlined in Table 2). The total proposed use of the fund is \$9,493,050, with \$60,570 remaining in the fund. Table 1 summarizes the balance and proposed uses of the Stabilization Fund.

Table 1: Summary of Uses of CalPERS Stabilization Fund

Starting Balance of CalPERS Stabilization Fund as of FY 17	\$9,553,620
FY 18 Uses	
Fund CalPERS fiscal year change	\$2,715,423
One-time Uses (see below for details)	\$6,777,627
Total Uses	\$9,493,050
Remaining Amount in Stabilization Fund	\$60,570

Table 2 provides details on the one-time uses.

Table 2: Details of One-Time Uses

General Fund Strategic Investments - Non Measure A	\$ 5,274,207
Overtime to Impact Violent Crime Activity	\$ 900,000
Be SAFE Program	\$ 192,000
Sunday Library Hours	\$ 268,000
Proactive Homeless Response	\$ 255,000
Language Access Plan	\$ 80,000
Election Expense	\$ 2,792,000
Watershed Monitoring and Compliance	\$ 692,207
Facility Safety Issue Mitigation Plan	\$ 95,000
Capital Improvement Budget	\$ 1,000,000
Emergency Facility Repair	\$ 1,000,000
Miscellaneous Department One-Times	\$ 503,420
Office of Aging	\$ 110,000
Park Pilot Programs and Security System	\$ 101,420
Vehicles (HEART, Fire Captain, License Inspector)	\$ 192,000
Property Maintenance and Property Management System	\$ 100,000
Total One-time Uses	\$ 6,777,627

While the City is discontinuing the use of the CalPERS Stabilization Fund, staff will continue to diligently evaluate ways to manage its pension costs. One action taken to help mitigate costs in FY 18 was to make an early payment of the unfunded liability portion for FY 18. This action will save approximately \$1.1 million to the General Fund, which has been incorporated into the budget.

If you have any questions, please contact Assistant Finance Director Lea Eriksen at (562) 570-6533.

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