INTRODUCTIONS

• **LIZETTE NAVARETTE**  
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  *Senior Vice President at Public Agency Retirement Services (PARS)*

• **JOSE TORRES**  
  *Executive Vice Chancellor at San Bernardino Community College District*

• **DAN TROY**  
  *Assistant Superintendent/Vice President Administrative Services at Cuesta College*
Strategies for Addressing Long Term Benefits and Pension Obligations

Lizette Navarette, Vice President
Community College League of California
Questions To Frame This Session

• What long-term structural problems are within my control to address?

• What policy advice do elected officials and administrators need to address pressure by public employees and their unions to continue often-unsustainable benefits?

• How can public employers balance the dilemma of unsustainable long-term costs and short-term demands for public services and stable employment relations?
### STRS & PERS Future Rates

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>STRS – Employer Rates</th>
<th>STRS – Employee Rates (Pre/Post PEPRA)</th>
<th>PERS – Employer Rates</th>
<th>PERS – Employee Rates (Pre/Post PEPRA)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013-14</td>
<td>8.25%</td>
<td>8.00%</td>
<td>11.44%</td>
<td>7.00%/6.00%</td>
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<tr>
<td>2014-15</td>
<td>8.88%</td>
<td>8.15%</td>
<td>11.77%</td>
<td>7.00%/6.00%</td>
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<tr>
<td>2015-16</td>
<td>10.73%</td>
<td>9.20%/8.56%</td>
<td>11.85%</td>
<td>7.00%/6.00%</td>
</tr>
<tr>
<td>2016-17</td>
<td>12.58%</td>
<td>10.25%/9.205%</td>
<td>13.89%</td>
<td>7.00%/6.00%</td>
</tr>
<tr>
<td>2017-18</td>
<td>14.43%</td>
<td>10.25%/9.205%</td>
<td>15.53%*</td>
<td>7.00%/6.50%*</td>
</tr>
<tr>
<td>2018-19</td>
<td>16.28%</td>
<td>10.25%/10.205%</td>
<td>18.10%*</td>
<td>7.00%/6.50%</td>
</tr>
<tr>
<td>2019-20</td>
<td>18.13%</td>
<td>10.25%/10.205%</td>
<td>20.80%*</td>
<td>7.00%/6.50%</td>
</tr>
<tr>
<td>2020-21</td>
<td>19.10%</td>
<td>10.25%/10.205%</td>
<td>23.80%*</td>
<td>7.00%/6.50%</td>
</tr>
<tr>
<td>2021-22</td>
<td>18.6%</td>
<td>10.25%/10.205%</td>
<td>24.6%*</td>
<td>7.00%/6.50%</td>
</tr>
</tbody>
</table>

* Revised per 4/18/17
CalPERS Finance and Administration Committee agenda due to change in discount rate
Education makes up half of state spending.

General Fund: $200 B

- K-12 Education: $55.9 B
- CCCs: $9.5 B
- Higher Education
- Criminal Justice and the Courts
- Other
- Health and Social Services

Cost Pressures Throughout the Budget
Political Dynamics

What Problem?

- Due to term-limits, mistakes of the past are vaguely understood by elected officials.
- Many assumed the problem would resolve itself once the economy began recovering.
- Without an intimate understanding of local budgets, leaders don’t see the depth of the problem.

We Gave You Resources...

- Legislator Perspectives
  - Base increase should be used to cover obligations
- Legislators reluctant to allocate general operating costs above pension increase
- Belief that we did this to ourselves.
- Concern with making new investment but getting nothing new in return.

Political choice - pay more into state pension and potentially crowding out other spending in the budget, or let funding levels drop and pushing costs into the future.
Limited Revenue Sources

PENSION COSTS & APPORTIONMENTS

- New Pension Costs
- New Apportionment

<table>
<thead>
<tr>
<th>Year</th>
<th>New Pension Costs</th>
<th>New Apportionment</th>
</tr>
</thead>
<tbody>
<tr>
<td>14-15</td>
<td>$29</td>
<td>$192</td>
</tr>
<tr>
<td>15-16</td>
<td>$72</td>
<td>$544</td>
</tr>
<tr>
<td>16-17</td>
<td>$108</td>
<td>$87</td>
</tr>
<tr>
<td>17-18</td>
<td>$110</td>
<td>$188</td>
</tr>
<tr>
<td>18-19</td>
<td>$90</td>
<td>$348</td>
</tr>
</tbody>
</table>
Long-Term vs. Short-Term Strategies

Short-Term

- Get the Costs and Make Them Visible in Public
  - Evaluate actual revenue with ALL ongoing expenses

- Provide Visual Representations
  - Continue to make the case for base increase

- Solve for the Long Term First
  - Monitor the long-term fiscal health of districts
  - Annual Financial Report requires a plan
Long-Term vs. Short-Term Strategies

Long-Term

- **Establish a Defined-Contribution OPEB Benefit**
  - A tool available to public employers seeking to restructure their OPEB benefits is a defined contribution retiree health savings plan.

- **Pension Rate Stabilization Programs**
  - Irrevocable trust designed to prefund pension costs and help districts get ahead of rising STRS/PERS rate increases.

- **Consider Labor Relations**
  - Employees and their labor representatives must first be informed of the long-term true-cost trajectory.
OPTIONS TO ADDRESS RISING PENSION LIABILITIES

Maureen Toal
Senior Vice President, PARS
THREE OPTIONS TO ADDRESS PENSION LIABILITIES

1. Pay-as-you-go
2. Set aside reserve funds
3. Set up and prefund into trust
# PENSION PREFUNDING VS RESERVE ACCOUNT

<table>
<thead>
<tr>
<th>RESERVE ACCOUNT</th>
<th>TRUST</th>
</tr>
</thead>
<tbody>
<tr>
<td>General fund investing restrictions</td>
<td>Govt. Code Section 53216</td>
</tr>
<tr>
<td>Fixed income investing only</td>
<td>Fixed Income or diversified investing</td>
</tr>
<tr>
<td>Investments not tailored for long term</td>
<td>Can be tailored for short or long term</td>
</tr>
<tr>
<td>Revocable</td>
<td>Irrevocable</td>
</tr>
<tr>
<td>Can be accessed for other uses</td>
<td>Dedicated solely to pension costs</td>
</tr>
<tr>
<td>Not free from creditors</td>
<td>Exclusive benefit/free from creditors</td>
</tr>
<tr>
<td>No corporate trustee</td>
<td>Corporate trustee to mitigate fiduciary risk</td>
</tr>
</tbody>
</table>
BEST PRACTICE - PREFUNDING

- PARS/CCLC offers the largest and fastest growing Section 115 trust for pension prefunding in CA and the nation

- IRS Private Letter Ruling now enables public agencies to reduce their unfunded pension liabilities by setting aside contributions for pension obligations into their own locally controlled Section 115 retirement trust

- Previously, the only way to reduce unfunded pension liability was to send additional contributions in excess of annual required contribution to PERS/STRS

- Since 2015, over 200 CA agencies (including approximately 16 CCD’s) are prefunding pension liabilities, with many more entities considering adoption
## Benefits of Prefunding Pension Obligations

<table>
<thead>
<tr>
<th></th>
<th>Benefits</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Addresses Long-Term Liability</td>
</tr>
<tr>
<td>2</td>
<td>Addresses GASB 68 Liability</td>
</tr>
<tr>
<td>3</td>
<td>Protects Assets from Diversion</td>
</tr>
<tr>
<td>4</td>
<td>Serves as a Rainy Day Fund</td>
</tr>
<tr>
<td>5</td>
<td>Stabilizes Pension Costs</td>
</tr>
<tr>
<td>6</td>
<td>Helps to Achieve Better Returns</td>
</tr>
<tr>
<td>7</td>
<td>Beneficial in Credit Rating &amp; Accreditation</td>
</tr>
</tbody>
</table>
San Bernardino Community College District

Jose Torres
Executive Vice Chancellor
SBCCD Agenda

1. Expected annual retirement costs for SBCCD
2. Why did SBCCD invest in Pension Rate Stabilization Trust (PRST) ?
3. Is it safe to invest in PRST?
4. PRST at SBCCD
5. Process at SBCCD to establish PRST
6. Questions to ask vendors
Expected Annual Retirement Costs for SBCCD

Annual Pension Costs at SBCCD

- FY 18-19
- FY 19-20
- FY 20-21
- FY 21-22
- FY 22-23

Costs:
- $2,000,000
- $4,000,000
- $6,000,000
- $8,000,000
- $10,000,000
- $12,000,000
- $14,000,000
Why did SBCCD invest in Pension Rate Stabilization Trust (PRST)?

- To address increasing retirement benefit costs
- Found a way to invest excess funds with a higher than expected annual return rate
- Restricted investment policies
- Fixed income interest rate is low
- Flexibility
  - We can withdraw up to 2 years of retirement costs ($22m)
  - Then afterward, we can withdraw up to 1 year of retirement costs ($13m)
- Easy to track multiple sub-accounts
- Restricted for retirement costs?
  - Yes
  - Use General Fund and Other Funds for various purposes
Is it safe to invest in PRST?

- There are risks and investment is subject to market conditions
- PARS offers 4 different investment portfolios
  - Fixed Income (100% Fixed Income & 0% Equity)
  - Conservative (42% Fixed Income & 58% Equity)
  - Balance (60% Fixed Income & 40% Equity)
  - Growth (75% Fixed Income & 25% Equity)
- What’s the tolerance level of your board?
- Alternative is your County Treasurer or investment firm
PRST at SBCCD

SBCCD Investment
- $75 million
  - 4 separate sub-accounts
    - $25 million - General Fund
    - $5 million - SBVC
    - $21 million - KVCR
    - $24 million - FCC

Annual Expected Rates of Return
- Conservative Portfolio
  - 3 years = 4.17%
    - $3.1 million based on $75 million
  - 5 years = 5.20%
    - $3.9 million based on $75 million
  - 10 years = 5.65%
    - $4.2 million based on $75 million
Process to Establish PRST at SBCCD

Discussion at Chancellor's Cabinet
Staff to Meet with PARS
Discuss & Recommend at District Budget Committee
Chancellor's Cabinet Approval
Discussion at Board Budget Committee with PARS
Approval and Resolution by Board of Trustees with PARS
Staff to Execute Documents
Staff to Fund Trust
Staff to Monitor Trust
Staff to Provide Regular Updates to Board of Trustees
Questions to Ask Vendors

1. Who manages/administers the investments?
2. What are the investment options for the District?
3. What is the expected rate of return for each investment option?
4. How do these investment options compare with County Treasury Pool and/or LAIF?
5. Why is it that we can have different investment options from our own Investment Policies?
6. What are the fees?
7. Can we easily track various investments (subaccounts)?
8. How often do we receive statements? Please provide example of statement.
9. How often can the Board get a presentation on the investments?
10. How much can the District withdraw from the trust on an annual basis?
11. How often can the District withdraw funds from the trust?
12. What is the turnaround on withdrawals?
Cuesta College’s Process

Dan Troy
Assistant Superintendent/Vice President
Administrative Services, Cuesta College
How did we get here?

- 2014 – CalSTRS unfunded liability of $74 billion and CalPERS unfunded liability of $62 Billion

- AB 1469 enacted increases both employee and employer contribution rates - employer rates would grow from 8.25% to 19.1% in 2020-21

- Meanwhile the CalPERS Board has also implemented large increases - from 11.442% in 2013-14 to an estimated 25.7% in 2024-25

- These increased rates act like a negative cost-of-living-adjustment for districts, consuming larger amounts of budget expenditures
Cuesta College
Unrestricted GF Pension Costs

- 2013-14: $2.9 M
- 2018-19: $6.2M

- Pension costs have grown from 6.2% to 11.4% of GF expenditures
State Response

- State has provided resources to help
  - Unrestricted increases
  - One-time mandate reimbursement funds
- But...
  - This follows significant downturns in funding
  - Low or no COLAs
  - Direct funding reductions
  - Declining FTES
Addressing Pensions

- Communication
- Budget Assumptions
- Multi-year Projections
- Actions
Pension Rate Stabilization Program (PRSP)

- Board meeting information item
  - August 2017

- Participatory Governance
  - Committee Initiative

- Identify Resources
  - One-time funds

- Community buy-in
  - Unanimous recommendation from workgroup and full committee
Pension Rate Stabilization Program (PRSP)

- Recommendation to Board of Trustees -
  - Invest $3M of 1-time funds
  - Conservative Fund (4% target)
  - Review 1-time funds annually to consider additional investment
For Consideration

- PRSP alone will not solve problem
  - District has taken many other significant actions (Faculty SIP, hiring frost, etc.)

- Not like OPEB
  - Ongoing vs One-time cost

- Make right choice for your district