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California Cities' Pension Bills May Rise With Calpers Move.

- **Calpers to review shortening amortization to 20 years**
- **“Death knell” for some cities in down markets, official says**

California cities may see their annual pension costs rise under a new policy from the state’s retirement system, threatening to foist added financial pressure on those already struggling to pay for promises to public employees.

The California Public Employees’ Retirement System is advancing a staff recommendation that would shorten the amortization period for new pension liabilities from 30 years to 20. That would boost the system’s funded ratio, require localities to pay off the debt sooner and allow the pension to recover faster from market downturns, according to a staff report. Approved by a Calpers committee Tuesday, the full board is set to vote on the changes Wednesday.

The ramped up schedule, while positive for the solvency of the pension system by letting it book gains faster, would make market losses felt more swiftly by local governments and require them to pay more into the retirement fund in at least the first few years.

The shorter period reduces the possibility that the system, which currently has about 68 cents for every dollar in liabilities, falls below 50 percent funding, board member Bill Slaton said during the meeting.

“That is not a great position to be in,” said Slaton. “All it takes is another movement or two, and we could find ourselves in a position where we cannot recover.”

The shorter amortization period would be effective in June 2019 and would affect contributions by local governments in fiscal 2022.

While many cities would welcome paying off the debt more quickly to rack up less interest, others that are already struggling with high fixed costs would find it difficult to meet the stepped-up pace, said Dane Hutchings, lobbyist for the League of California Cities. And in the event of poor market performance, municipal contributions to make up the difference would be even higher than projected, compounding the burden.

Such an outcome, when combined with other pressure facing cities, could push a few into bankruptcy, Hutchings said. “It would be their death knell” for some, he said.

California municipalities are already absorbing the effect of the board’s decision in December 2016 to lower the assumed rate of return to 7 percent from 7.50 percent by fiscal 2020, which will also require them to increase their contributions to cover the gap.

The system’s 3,000 cities, counties, school districts and other public agencies have also seen costs rise from several factors, including investment losses and perks granted in boom times. A report this month by the League of California Cities found that under current assumptions, cities in fiscal 2025 would pay Calpers more than 50 percent the amount expected to pay in fiscal 2019.

“Cities are struggling to keep up,” Mike Futrell, city manager for South San Francisco, told the committee before the vote Tuesday in a request to delay changes. The municipality had already been considering whether to ask voters in November to approve a tax increase to help pay its obligations, he said.

Calpers’s review comes as the system is likely to experience more market volatility in 2018 than it had over the past couple of years, Chief Investment Officer Ted Eliopoulos told the board Monday. Meanwhile, the fund’s 20-year return is lagging at 6.7 percent, according to a Calpers’s estimate.

A survey of 164 public pensions by the National Conference on Public Employee Retirement Systems, a trade association, showed that the average amortization period in 2017 was 23.8 years.

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By Romy Varghese

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— With assistance by John Gittelsohn