APPEARANCES

COMMITTEE MEMBERS:
Ms. Theresa Taylor, Chairperson
Mr. David Miller, Vice Chairperson
Ms. Margaret Brown
Mr. Henry Jones
Ms. Fiona Ma, represented by Mr. Matthew Saha
Mr. Jason Perez
Ms. Betty Yee, represented by Ms. Lynn Paquin

BOARD MEMBERS:
Mr. Rob Feckner
Ms. Lisa Middleton
Ms. Stacie Olivares
Ms. Eraina Ortega
Mr. Ramon Rubalcava

STAFF:
Ms. Marcie Frost, Chief Executive Officer
Mr. Michael Cohen, Chief Financial Officer
Mr. Matthew Jacobs, General Counsel
Mr. Scott Terando, Chief Actuary
Mr. Dan Bienvenue, Interim Chief Operating Investment Officer
Mr. Randy Dziubek, Deputy Chief Actuary
APPEARANCES CONTINUED

STAFF:
Ms. Jennifer Harris, Chief, Financial Planning, Policy and Budgeting Division
Ms. Michele Nix, Controller
Ms. LaRiesha Simmons, Committee Secretary

ALSO PRESENT:
Ms. John Donlevy, City of Winters
Mr. Scott Dowell, City of Chico
Ms. Sara Lamnin, City of Hayward
Mr. Bijan Mehryar, League of California Cities
Ms. Leyne Milstein, City of Sacramento
Mr. Steve Schubauer, City of Lodi
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Adjournment 78

Reporter's Certificate 79
CHAIRPERSON TAYLOR: I'm going to call the Finance Administration Committee to order. And the first order of business is roll call, please.

COMMITTEE SECRETARY SIMMONS: Theresa Taylor?

CHAIRPERSON TAYLOR: Here.

COMMITTEE SECRETARY SIMMONS: David Miller?

VICE CHAIRPERSON MILLER: Here.

COMMITTEE SECRETARY SIMMONS: Margaret Brown?

COMMITTEE MEMBER BROWN: Here.

COMMITTEE SECRETARY SIMMONS: Henry Jones?

COMMITTEE MEMBER JONES: Here.

COMMITTEE SECRETARY SIMMONS: Matthew Saha for Fiona Ma.

ACTING COMMITTEE MEMBER SAHA: Here.

COMMITTEE SECRETARY SIMMONS: Jason Perez?

COMMITTEE MEMBER PEREZ: Here.

COMMITTEE SECRETARY SIMMONS: Lynn Paquin for Betty Yee?

ACTING COMMITTEE MEMBER PAQUIN: Here.

CHAIRPERSON TAYLOR: All right. Next is approval of the November 19th, 2019 Finance Administration Committee timed agenda.

What is --
COMMITTEE MEMBER BROWN: Move approval.

VICE CHAIRPERSON MILLER: Second.

CHAIRPERSON TAYLOR: It's been moved by Ms. Brown, seconded by Mr. Miller.

Any discussion?

All those in favor say aye?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

Motion carries.

Our next is the Executive Report. Mr. Cohen.

CHIEF FINANCIAL OFFICER COHEN: Thanks, Chair Taylor. Michael Cohen with CalPERS.

Just a few news and notes from the finance -- financial side of CalPERS. First of all, Item 5d, the reporting on participating employers, there was an update to the materials the middle to late last week, so the Board members should have those. There's copies in the back for anyone who didn't get those.

Second, last time we were here, I mentioned that we had our first employer join our new Pension Prefunding Trust Fund. I'm happy to report that we've had two additional employers join since the last time we met. So that program continues to gain momentum.

And third, and finally, CalPERS has signed its first cybersecurity insurance policy for $50 million of
coverage. So that's new for the organization and we're excited to have that in place at this point.

So with that, Chair, I'll turn it back to you for the consent items.

CHAIRPERSON TAYLOR: Great. Thank you very much.
I just want to bring to the attention of the court reporter that also attending is Mr. Feckner, Ms. Ortega, Mr. Rubalcava, and Ms. Middleton -- oh and Ms. -- I didn't see you there. Stacie. Yes, Stacie Olivares. Thank you.

All right. Our next is our action consent items.

What is the --

COMMITTEE MEMBER JONES: Move it.
VICE CHAIRPERSON MILLER: Move approval.
COMMITTEE MEMBER JONES: Second.
CHAIRPERSON TAYLOR: I've got it moved by Miller, second by Mr. Jones.

All those in favor say aye?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

Motion carries.

Our next is our information consent items. I don't -- I didn't get anything on pulling anything off.

So we're going to move on to our action agenda items.

(Thereupon an overhead presentation was presented as follows.)

CHIEF FINANCIAL OFFICER COHEN: Yes. Let me have Michele Nix, the CalPERS Controller, walk you through the presentation here on our financial statements.

CONTROLLER NIX: Good afternoon, Madam Chair, members of the Finance and Administration Committee. My name is Michele Nix, CalPERS Controller.

I'm pleased to present the basic financial statements for the year ending June 30th, 2019. These statements when they are approved by you will be included in the final CAFR for the year ending for the fiscal year.

I would also like to acknowledge the financial reporting and accounting team who worked hard to put these statements together and to get the statements ready for audit. Now, I'd like to go over a few of the highlights of the financials with you.

--o0o--

CONTROLLER NIX: So most importantly, we ended the year with net assets of $372.6 billion dollars. And our annual money weighted rate of return was 6.5 percent, so that's kind of important to know.

--o0o--

CONTROLLER NIX: On our next slide, we talk about the net position and why we got there. The PERF's net
position increased $18.6 billion or 5.3 percent. Last year, it was $354 billion and this year it's 372.6 billion as I said at the end of June. Over the ten-year period, we have increased our net position by $171 billion or 84.8 percent.

--o0o--

CONTROLLER NIX: So some of the things that contributed to this change, additions to the PERF's net position include investment income, employer and member contributions. Investment income is comprised of dividend income, interest income, and net appreciation or depreciation of the fair value of the net -- of the investments. Net investment income was 23 billion in fiscal career 2018-19. And that's compared to 27.4 billion at the end of last fiscal year, due to lower investment return experience this year than over last year.

Employer contributions decreased by $4.3 billion dollars or 21.6 percent. This is due to receiving additional payments for unfunded liabilities from employers, as well as a large State supplemental payment in the last fiscal year that we didn't receive this year.

Employer contribution rates increased 0.9 percent and up to 2.8 percent for the State, 2.5 percent for schools, and two percent -- 2.0 to 3.1 percent on average
for public agency, miscellaneous, and safety plans.

Member contributions increased $0.2 billion or 5.7 percent, because of an increase in total active member count.

Deductions from the PERF are comprised of benefit payments, refunds of contributions to members and beneficiaries, and costs of administering the PERF.

Benefit payments are the primary expense of the retirement system. In fiscal year 2018-19, retirement death and survivor benefit payments increased $1.6 billion, or 6.9 percent, primarily due to the cost of living increases in benefit payments and due to the increase in the number of retirees and beneficiaries.

--o0o--

CONTROLLER NIX: I'm going to move on to slide five. So as I said in slide four, investment income is made up of net appreciation or depreciation of investments, interest income, and dividend income. As the chart shows above, the global debt securities and the global equity securities had the largest gains, so they contributed the most to this.

--o0o--

CONTROLLER NIX: So in the PERF, the annual rates of return. We have two rates of return here on this slide. One is time-weighted and one is money weighted.
So you can see that they're comparable from year to year. The time-weighted return measures the compounded growth of rate over a period of time, while eliminating the distorting effects of inflows and outflows of cash.

The time-weighted rate of return is the standard for investment performance. However, the money-weighted rate of return expresses investment performance net of investment expenses based upon the amount of time that the money was actually invested. It's also the GASB reporting requirement. So that's why they're both up there, because GASB requires us to put in our CAFR, the money-weighted rate of return. But traditionally, the investment return is the time-weighted return.

CONTROLLER NIX: So the unfunded actuarial liability, as you all know, with the actuarial valuation is measured in arrears. So as of June 30th, 2018, it was 150.4 billion. So that's as of June 30th, 2018. The increase in the unfunded actuarial liability over the ten-year period is due to an increase in the actuarial accrued liability, which increased from 294 billion in 2009 to 505 billion at 2018. So it's kind of gradually increased over time.

CONTROLLER NIX: Next, the PERF benefits and
contribution income. In FY18-19, which is the current year, 20.3 billion was received in contributions, while 24.2 billion was paid in benefits. Contributions decreased 16.7 percent from prior year, primarily due to the additional payments that were made by the employers towards the unfunded liability that was paid in the prior year, and those are voluntary.

So with that, the next steps for this would be approval of the basic financial statements. And what will happen is once those are approved, after any questions, then they'll get finalized and put into the CAFR and we can wrap-up the audit.

So with that, I'd be happy to answer any questions you might have.


Hold on a second.

Go ahead.

COMMITTEE MEMBER BROWN: Thank you, Madam Chair. Thank you for the report. I actually read part of this. I'm not going to say I read all of it.

But I'd like to draw your attention to Attachment 1, page four of 79. It's called "Financial Highlights". It's in like in four point font, so I don't know if it's a highlight, more of a lowlight.

And this is where you talk about the PERF
realized the money-weighted rate of return of 6.5 percent.

CONTROLLER NIX: Okay.

COMMITTEE MEMBER BROWN: In -- are we there?

Yeah, we're going to get there.

CONTROLLER NIX: Oh, no, they didn't --

COMMITTEE MEMBER BROWN: I'll Wait for you to get there, or it's -- I don't know what page it is in your book. Or it's --

CONTROLLER NIX: At the very beginning.

CHAIRPERSON TAYLOR: Seventy-six of 490.

COMMITTEE MEMBER BROWN: Seventy-six of 490, if you've got that. I'm not sure where we're at.

CONTROLLER NIX: Maybe, it's that one.

CHIEF FINANCIAL OFFICER COHEN: We've got it here in front of us.

COMMITTEE MEMBER BROWN: We can look -- we can look at that one. And I'm reading --

CHAIRPERSON TAYLOR: They've got it.

COMMITTEE MEMBER BROWN: I'm reading the extra fine print, I want you to know.

CONTROLLER NIX: Okay.

COMMITTEE MEMBER BROWN: So on this little page, you talk about the money-weighted rate of return and -- versus the time-weighted rate of return. So my first question is what number gets compared to the seven percent
discount rate? What becomes the unfunded liability? Is it 0.3 that we missed, 6.7 to 7, or is it 0.5, the 6.5 to seven percent? What is the -- what is the shortfall?

CONTROLLER NIX: Okay. So the -- there isn't really a shortfall. It's a difference in the methodology for calculating the return.

So, for instance, the time-weighted rate of return is the return that's produced over time without the impact of the cash flows that come in and out of the calculation. So, for example, if you had invested a dollar for -- in S&P for a year, you could calculate the time-weighted rate of return, which is also what conventionally the investment managers use, like for the S&P, and the indices, and our benchmarks.

For the money-weighted rate of return, it cares also about when the cash flows come in. So, for instance, it gives more weight to the money in the -- how long the money has been in there. So for our dollar example, for -- I would care if -- when I was calculating the money rate of return -- rate -- money-weighted rate of return, I would care if I had $0.75 cents out of my dollar for three-quarters of the year and I earned more rate of return and then I added $0.25 for a lesser return -- that yielded lesser return, then I would have to calculate using those. And when we go and calculate the actuarial
question, I'm going to refer to Scott.

CHIEF ACTUARY TERANDO: Good afternoon. Scott Terando, CalPERS staff.

When we calculate the cost for the plan, we base it on assets at the end of the year that's allocated, so it's reflective of the -- everything, investment income and all expenses. And, you know, whether you want to take the 6.7 and subtract the expenses, or you -- and then you make a explicit allowance for expenses or you make it a net, as we do here, in terms of we take the expenses out before.

We are basing our contributions and the requirements on the final numbers coming from the Financial Office. So if -- to answer your question, technically we'd be using a 6.5 at the end of the day --

COMMITTEE MEMBER BROWN: Right and I see that.

CHIEF ACTUARY TERANDO: -- for the rates.

COMMITTEE MEMBER BROWN: I see that on that page 40 of 79 on that Attachment 1A, where talk about the rate of return being 6.5. And so what I'm trying to figure out, and I think you've answered it for me, the difference between the 6.7 and the 6.5 is all our net -- our operating costs. So this is our true net-net that we earned.

And so when we talk to our employers, they're
going to -- we're going to be calcu -- you're going to be calculating it, right, I assume, the actuarial office?

CHIEF ACTUARY TERANDO: Correct.

COMMITTEE MEMBER BROWN: The shortfall?

CHIEF ACTUARY TERANDO: Right. And when we do those calculations, those will be -- like, for example, the 6. -- the 6.5 would be reflected in the 2019 valuations, which will come out in 2020 for the public agencies.

COMMITTEE MEMBER BROWN: You know what's kind of interesting about the CAFR, because I was a little confused why it was -- why we've been reporting 6.7, but really the net number is 6.5. And, of course, I went back through a couple of CAFRs. Last year, we reported both time-weighted and money-weighted, but prior to that we didn't. We only reported --

CHAIRPERSON TAYLOR: All the way to 2014, we did.

COMMITTEE MEMBER BROWN: Well, I looked at 15-16, and 16-17 -- or 14-15, and it doesn't appear in the financial highlights. It looks like we only did money-weighted return. So I'm a little -- I just want to make sure that we are -- when we're saying what a good job we've done that we actually put the correct number out for the public. And so maybe you can explain -- someone can explain to me on that same slide though why there was no
difference between the money-weighted and time-weighted in 2017? Does anybody know?

CONTROLLER NIX: It's all about the cash flows, so the computations. I'll let Dan talk about cash flows.

INTERIM CHIEF OPERATING INVESTMENT OFFICER

BIENVENUE: Yeah, so the difference between -- Dan Bienvenue, Acting Chief Operating Officer, CalPERS staff.

The difference between time-weighted and money-weighted has to do with how cash flows are treated. So time-weighted is the way something would grow say if it we're in a mutual fund on a unitized value. It would grow in a time weighted way. But money-weighted, as Michele says, is what's consistent with GASB. Our time-weighted return is calculated with GIPS standards so it includes the expenses. So I would say the time-weighted is what pays the -- pays the benefits so to speak.

But to Scott's point on the actuarial, what the actuaries use because of the fact the CAFR is GASB compliant and uses money-weighted, that's what we use for, I believe, on the actuarial side.

COMMITTEE MEMBER BROWN: And is that required in GASB 67 or is it 74? Do we know what requires us to use that money-weighted one?

CONTROLLER NIX: GASB 67.

COMMITTEE MEMBER BROWN: Sixty-seven. All right.
Thank you.

CHAIRPERSON TAYLOR: All right. Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Madam Chair. Yeah. I just wanted to -- do you remember when the rules chained under GASB to require this differentiated reporting, because I know that GASB changed a lot. And even some institutions having to use a treasury note to talk about their potential deficits, when it's not real, but it's required by GASB. So could -- do you remember when GASB implemented?

CONTROLLER NIX: I believe it was 2015, but we could have implemented it early. I wasn't here. I can -- let me see if Taylor knows.

Okay. I can find out when we --

COMMITTEE MEMBER JONES: That's okay.

CONTROLLER NIX: -- when we implemented it.

COMMITTEE MEMBER JONES: I was just trying to highlight that many times the way we report information is because of a requirement, but so we have to use two numbers. And that's the bottom line I was trying to state.

CONTROLLER NIX: Yeah. And GASB did that to be more transparent and clear.

COMMITTEE MEMBER JONES: Yeah. Okay. Thank you.

CHAIRPERSON TAYLOR: So let me air clarify, if
I'm understanding this correctly, because I'm a little confused myself.

CONTROLLER NIX: Okay.

CHAIRPERSON TAYLOR: 6.5 is what we're going to do our annualized return on, not the 6.7, is that correct?

CHIEF ACTUARY TERANDO: When we do the -- when we do the Calculations, we're given an asset value and then, you know, we can calculate what the -- what the rate of return is, you know, based on the information. We don't go through and we don't calculate what the exact dollar-weighted rate of return is, because it would be technically different for each plan involved. We calculate like an average rate of return. And it will -- it tends to be closer to the dollar-weighted return than the time-weighted return. That's the only difference. Like you said, it varies --

CHAIRPERSON TAYLOR: 0.2 percent.

CHIEF ACTUARY TERANDO: -- by the expenses by about 10 basis points, 12 basis points, somewhere in there. But when we do the calculations, we don't -- we don't calculate assets based on the rate of return. We're given the asset number. We're given the plan has, you know, say $10 million in their account, and that's what we base the calculations on. We don't -- we don't calculate investment income. We don't allocate the investment
income. We're given those numbers by the Financial Office.

So from our point of view, we calculate with what we see as the rate of return, but we don't -- we're -- there's no calculations from our office involved with that -- those numbers.

CHAIRPERSON TAYLOR: Basically, that's a yes, 6.5 is what we're figuring our annual rate of return on?

CHIEF ACTUARY TERANDO: Yes.

CHAIRPERSON TAYLOR: Thank you. That's all I wanted to clarify. Go ahead. We can move on.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: I'm sorry, can I just --

CHAIRPERSON TAYLOR: Okay. So that's why I'm getting confused --

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: I just want to make sure that we're -- yes, I'm sorry to jump in here.

CHAIRPERSON TAYLOR: -- because that's what you just told Margaret.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: What I am hearing is that I think that the actuaries don't calculate the -- their contributions and all of that based on returns. They Calculate them based on assets. And those assets are inclusive of the
contributions and outflows. Because of those, it causes it to --

CHAIRPERSON TAYLOR: So they don't include the full expenses of the CAFR then?

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: Because it -- because of the fact that it's using assets, it looks like the money-weight return, but it's not based on returns, it's based on assets.

On the return side, the 6.7 is inclusive of the expenses. That is -- that's GIPS compliant calculation. They're just different calculation. And I think the way to think about it is to use an example. If a -- if a fund goes from 100, let's say, down to 50, and then there's a big inflow, and then back to 100, the money-weighted return will be zero, because it started at 100 and it ended at 100.

It ignores the cash flow. The time-weighted will actually look at the fact that something came in and out. So that's what causes it to look different. But now, both Will be calculated including the expenses or excluding the expenses. And in the case of CalPERS, ours include the expenses. But when it comes to what the employers --

CHAIRPERSON TAYLOR: It's clear as mud, guys.

CHIEF FINANCIAL OFFICER COHEN: I know, I'm sorry. I was trying --
CHIEF FINANCIAL OFFICER COHEN: And let me try one more thing. So both numbers are correct. It just is a matter of are you talking to an investment professional or are you talking to an accounting professional.

CHAIRPERSON TAYLOR: Okay.

CHIEF FINANCIAL OFFICER COHEN: And so the 6.7, if you were talking to Dan or some of his colleagues, that meets their professional standards. If you move over to an accountant, 6.5 percent is going to meet their standards.

CHAIRPERSON TAYLOR: Okay.

CONTROLLER NIX: That is correct.


Hold on.

Go ahead.

COMMITTEE MEMBER JONES: Thank you, Madam Chair. And if -- Dan, if you compare CalPERS rate of return, 6.7 percent, to other pension funds and institutions, what number would you use, 6.7 or 6.5?

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: We would use 6.7.

COMMITTEE MEMBER JONES: Thank you.
BIENVENUE: But candidly, I think it's worth mentioning, CalPERS was very early in the adoption of GIPS. Of asset owners, we're one of the very first. So even that 6.7 is -- we think is appropriate and we think it's appropriate for us to take a leadership position in this GIPS. But it is a more challenging way to measure ourselves, because we include all of the expenses. Most asset owners, especially U.S. pension funds do not include all their expenses.

COMMITTEE MEMBER JONES: Exactly. That's the important point.

INTERIM CHIEF OPERATING INVESTMENT OFFICER BIENVENUE: But 6.7 is the accurate number with all the expenses.

CHAIRPERSON TAYLOR: Okay. Does that help for everybody?

Okay. We can move on now. Thank you.

So we are on 6b, Mid-Year Budget Revision, First Reading.

CHIEF FINANCIAL OFFICER COHEN: So let me have Jennifer Harris, our Budget Division Chief, come up and walk you through the mid-year budget. As you'll recall, every year we go through this technical process to true-up the numbers with the most accurate information we have at this point, so -- and let me -- sorry. Michele just
reminded me that the last item is an action item, so --

CHAIRPERSON TAYLOR: Oh, I'm sorry. That's what everybody was whispering to me that I didn't hear.

(Laughter.)

CHIEF FINANCIAL OFFICER COHEN: Yes. And I happen to get the whisper.

CHAIRPERSON TAYLOR: You got the whisper too.

All right. So this is an action item. I need to know the desire of the Committee.

VICE CHAIRPERSON MILLER: So moved.

COMMITTEE MEMBER JONES: Second.

CHAIRPERSON TAYLOR: It's moved by Mr. Miller, seconded by Mr. Jones.

All those in favor of accepting the 18-19 basic financial statements say aye?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

Motion carries.

We will now move on to 6b.

CHAIRPERSON TAYLOR: I see that.

CHIEF FINANCIAL OFFICER COHEN: And let me turn it over to Jennifer.

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION
CHIEF HARRIS: Good afternoon, Madam Chair and members of the Committee. Jennifer Harris --

THE COURT REPORTER: Microphone.

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION

CHIEF HARRIS: Woops.

CHIEF FINANCIAL OFFICER COHEN: You're good.

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION

CHIEF HARRIS: It say it's on. Yeah.

Jennifer Harris with CalPERS Financial Office.

Agenda Item 6b is a action item, for which CalPERS requests your approval of the first reading of the mid-year revision to the 2019-20 budget. Included in this item is information on financial year-end expenditures for prior fiscal year 2018-19. For the current 2019-20 fiscal year, CalPERS proposes a net 700,000 increase to the authorized budget for a total revised budget of $1,898,000,000.

This net increase reflects adjustments in three expenditure categories, administrative operating costs, third-party administrator fees, and enterprise projects. There are no adjustments proposed to investment operating costs, external management fees, or headquarters building costs. Total authorized positions remain unchanged at 2,875.

For administrative operating costs, the mid-year
revision includes a 1.5 million decrease for revised salary and benefit calculations. When preparing the annual budget in the spring, CalPERS uses then current internal payroll data to estimate salary and benefit increases negotiated through the State's collective bargaining process.

These are commonly referred to as control section adjustments, because they are authorized by control sections included in the State Budget Act. At mid-year, we revised our estimates for the control section adjustments, based on direction from the Department of Finance and using final year-end payroll data per the State Controller's office.

This one $1.5 million decrease is 0.4 percent of budgeted personal services expenses and 0.3 percent of the administrative operating cost budget. Within the administrative operating cost budget is funding for temporary help, which includes funds for seasonal clerks. This past August the Board inquired about the number of seasonal clerks employed by CalPERS.

Page five of Attachment 1 displays information on the number of seasonal clerks employed over the last seven years. Since 2012-13, the number has decreased from 160 to 85. This is a 47 percent reduction.

CalPERS will continue to monitor and analyze the
use of seasonal clerks and will report updated figures to you in April when we present the 2020-21 annual budget.

The next expenditure category with an adjustment is third-party man -- third-party administrator fees. The mid-year revision includes a 2.4 million increase. This includes 1.8 million for health program fees based on more current health plan enrollment data and 600,000 for the Long-Term Care Program to fund additional investigations and a new fall prevention program. There are also some minor decreases in fees for the Retiree Benefit and Pension Prefunding Trust programs.

The last category with an adjustment is enterprise projects. And this includes a $236,000 decrease for the Human Resources Management Solutions Project. This was the second year of funding for a project that was to have begun in fiscal year 2018-19. However, CalPERS canceled the project this past spring because it was unable to successfully negotiate a contract for the work. As a result, none of the budgeted funds from either 2018-19 or the current 2019-20 year have been or will be expended.

These three adjustments, the 1.5 million decrease in administrative operating costs, the 2.4 million increase in third-party management fees, and the 236,000 decrease for enterprise projects comprise the net $700,000
increase in the authorized budget.

Moving on to Attachment 2, this is the final year-end expenditure report for fiscal year 2018-19. At year-end, CalPERS expended $1,637,000,000, or 96.4 percent of the authorized budget. This expenditure level is on target with the key performance indicator to forecast expenses at or below ten percent of the authorized budget.

At year-end, there was 61.6 million in unexpended funds. Nearly half of this was in the administrative operating cost budget with 21.2 unexpended in personal services costs for position vacancies and another 7.4 million unexpended across various OE&E line items.

There was also 16.4 million unspent in investment operating costs, 7.4 million for external management fees, and 5.8 million for third-party administrator fees.

Further, there was four million unspent for Enterprise projects, largely due to the cancellation of that Human Resources Management Solutions Project.

CalPERS recommends the Committee approve the mid-year revision as presented, and if no significant adjustments are directed, proposes to bring the second reading directly to the full Board in December. The 2018-19 year-end expenditure report is purely for information and does not require action.

Thank you. That concludes my presentation on
both the mid-year budget and the final 2018-19 year-end
expense.

    CHAIRPERSON TAYLOR: Thank you.
    So we do have a couple of questions.
    Mr. Jones.

    COMMITTEE MEMBER JONES: Thank you, Madam Chair.
    Yeah, thank you for the report. And what did you say the
increase of the -- in the mid-year budget?

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    CHIEF HARRIS: $700,000.

    CHAIRPERSON TAYLOR: Okay.

    COMMITTEE MEMBER JONES: And what was the purpose
again, I'm sorry, of the increase, 700,000?

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    CHIEF HARRIS: Oh, so at mid-year we do some additional
calculations. One of the traditional calculations that we
redo is to look at the control section adjustments. And
these are increases that are authorized for the
State-negotiated salary and benefit costs. So we do an
estimate in the spring and then we true that up in the
fall, based on direction from the Department of Finance,
and actual year-end payroll data per the State
Controller's office.

    COMMITTEE MEMBER JONES: And what is the running
estimated vacancy rate for personnel at this time?
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CHIEF HARRIS: Currently, we are at a 7.6 percent vacancy rate as of October 31st, 2019.

COMMITTEE MEMBER JONES: And that equates to about how much money, do you have any idea?

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CHIEF HARRIS: Oh, I don't have that number off the top of my head.

COMMITTEE MEMBER JONES: Okay. That's okay. So the reason I'm asking the question, because as you stated in the 2018-2019 budget, there -- in terms of administrative operating costs, those are -- you spent 94.3 percent of the budgets, which meant that you didn't use all the money.

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CHIEF HARRIS: Correct.

COMMITTEE MEMBER JONES: And so I've been advocating this for a long time, that we should use the vacancy monies rather than adding new money, because every penny we add to the budget, we're taking it away from the PERF that could be earning a return, so that's why I'm asking the question is whether or not there's enough vacancy that you could use, rather than pulling more money out of the PERF and putting it into the budget.

CHIEF FINANCIAL OFFICER COHEN: Right. And I
think you've seen us try to take that approach in not bringing you requests for additional positions. So as Jennifer mentioned, this year's mid-year budget keeps the authorized positions at 2,875, as you've seen for the last several years. And so we are kind of, in essence, as you've approved additional compensation packages for various staff, sort of used the savings to pay for those things, and we haven't, you know, come forward generally to ask for requests for additional funding, and we are able to sort of take on additional Board requests, and so forth, by redirecting resources, rather than coming in asking you for any additional resources.

COMMITTEE MEMBER JONES: Okay.

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: In addition, I'd like to note that the 61.6 million that was unexpended stayed in the pension fund for investment. Similar to our own personal checking accounts, we might set ourselves a monthly budget for groceries, and car payments and mortgages. But if in one month we don't spend it --

CHAIRPERSON TAYLOR: Right.

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: -- it stays in our checking account and earns interest, very little in your checking account. But in this case, all the money that is budgeted stays in the
pension fund until it is actually expended and paid out.

COMMITTEE MEMBER JONES: Oh, well, then that's --

I didn't understand that.

THE COURT REPORTER: Microphone.

CHAIRPERSON TAYLOR: Hold on.

Go ahead.

COMMITTEE MEMBER JONES: I didn't understand. So you're saying that until the expenditure is made, that's when you make the transfer out of the PERF into the expendable category --

CHAIRPERSON TAYLOR: Um-hmm.

COMMITTEE MEMBER JONES: -- to be charged.

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: It's kind of like a checking account. So once the expenditure is made -- let's say payroll, for the first month of payroll comes out of the pension funds to pay payroll --

COMMITTEE MEMBER JONES: Okay.

FINANCIAL PLANNING, POLICY & BUDGETING DIVISION CHIEF HARRIS: -- but the other 11 months stay in there and then each month it gets paid out.


OKAY. CHAIRPERSON TAYLOR: Yeah. All right. Thank you.
Ms. Brown.

COMMITTEE MEMBER BROWN: Thank you.

I had a question about Attachment 1, page 11 of 12.

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CHIEF HARRIS: Yes.

COMMITTEE MEMBER BROWN: And I do see a tiny little footnote there where it looks like the General Counsel's office increased by 10.1 percent and the little 4-point font footnote that says, "Redirection of the Information Security Office from Operations and Technology to General Counsel". So remind me when that happened or why that happened, why we chose to do that? Maybe that's a --

CHIEF FINANCIAL OFFICER COHEN: No, it was over the summer, basically, when Liana was appointed as the new Information Security Chief. And I think it -- my understanding it conforms more to best practices to have reporting relationships separated from the general Information Technology Division. And so largely it is just a display issue that we had an Information Security Office prior to that, but it is now sort of housed within the General Counsel's office to -- similar to the internal independent auditor is within the General Counsel's office as the sort of separation from the rest of the
organization. So it was over -- the direct answer is it was over the summer.

COMMITTEE MEMBER BROWN: Okay. And so -- so Liana reports to the General Counsel then, not to the CEO?

CHIEF EXECUTIVE OFFICER FROST: Correct.

COMMITTEE MEMBER BROWN: All right. Thank you.

CHAIRPERSON TAYLOR: So is this -- your info -- internal information security is that why?

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CHIEF HARRIS: Yes.

CHAIRPERSON TAYLOR: Okay. That makes sense to me.

Any other questions?

All right. So this was an action item as well.

COMMITTEE MEMBER JONES: Move it.

CHAIRPERSON TAYLOR: It's been moved by Mr. Jones.

VICE CHAIRPERSON MILLER: Second.

CHAIRPERSON TAYLOR: Second by Mr. Miller.

Any comments on it?

Okay. Any -- all those in favor say aye?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

All right. So we'll move on to 6c, Board Member Employer Reimbursement.
CHIEF FINANCIAL OFFICER COHEN: Thanks, Chair.

This is the last action item. This is a request from our Vice Chair Miller to slightly increase his reimbursement rate. I think the materials you have --

CHAIRPERSON TAYLOR: Explains that.

CHIEF FINANCIAL OFFICER COHEN: -- walk through the explanation.

CHAIRPERSON TAYLOR: Did anybody have any questions on that?

If not, what's the pleasure of the Committee?

COMMITTEE MEMBER PEREZ: Move it

CHAIRPERSON TAYLOR: Moved by Mr. Perez.

COMMITTEE MEMBER JONES: Second.

CHAIRPERSON TAYLOR: Second by Mr. Jones.

All those in favor?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

VICE CHAIRPERSON MILLER: Abstain.

CHAIRPERSON TAYLOR: One abstention, Mr. Miller.

All those opposed?

All right, motion carries.

And we will move on -- I just want to make sure that's all there.

All right. We will move on to Agenda Item 7a, Annual Review of Funding Levels and Risk Report.
Mr. Terando.

(Thereupon an overhead presentation was presented as follows.)

CHAIRPERSON TAYLOR: I think we're going to have the same...

CHIEF ACTUARY TERANDO: Good afternoon -- Good afternoon, Madam Chair, members of the Committee. Scott Terando from the Actuarial Office. I'm joined today by Randy Dziubek who will help me present the annual review of the funding levels and risk report.

This report was developed to help the Committee with its oversight of the financial soundness of the CalPERS system. Included in this report are various system level actuarial results and risk measures that the Board can use to help understand the risk inherent in the funding of the system.

When you look through the report, what you'll find is that while the funding position of the risk of falling to low funding levels, and the funding positions in the future have improved, risks still remain in the system.

Required employer contributions are projected to increase over the next few years and actual contribution increases could exceed expectations, if future experience is unfavorable.
Public pension plans, both CalPERS and more generally across the U.S., continue to mature. Retiree accrued liability to the ratio of the liability to the total accrued liability has increased, as well as the asset volatility, and these increases will contribute to contribution volatility in the future.

In addition, the concerns about the near-term investment horizon have increased. There's a continuing trend towards lower expected returns and we see this both across the nation and among other pension systems as they decrease their discount rate.

While recent modifications, such as the change in the Amortization Policy, has helped reduce the risk, employer contributions continue to rise.

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CHIEF ACTUARY TERANDO: And from our position, that seems to be the greatest risk on the employers and their ability to make contributions to the system. At this point, I'll let Randy add more context to these general summary comments and then we can discuss any questions you may have.

DEPUTY CHIEF ACTUARY DZIUBEK: Thank you, Scott. Randy Dziubek, CalPERS actuarial team.

Scott did a good job of hitting the key takeaways from this year's report. As he said, I'm going to go
through some slides that will provide a little bit more detail. One additional item I'd like to mention before we begin with the slides is that typically from year to year as we update this report, the key piece of additional information that we receive is the previous year's investment return. That's usually the biggest factor that might result in changes to these results.

Since last year's report to this year's report, we have no assumption changes. The data didn't change materially. No method changes. And our investment return, as we discussed at length, was about six and a half percent or 6.7, depending on how you measure it. And the bottom line is that was relatively close to our expected seven percent. So nothing in this report this year has changed materially from last year. We're seeing some of the same trends, just a continuation.

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DEPUTY CHIEF ACTUARY DZIUBEK: So let's talk about the current status of the system first with a few slides. Slide three shows the funded status of the PERF as of June 30, 2018, as well as some of the significant subgroups of the PERF. And what we can see is that the PERF, as a whole, was 69.7 percent funded based on a seven percent discount rate. That's an increase from last year, which was 67.9 percent, based on a seven percent discount
rate as well.

So we've seen a small improvement. And if we project this forward to 6-30-19 with our 6.5 percent return, we're at around 70.4 percent funded. And in addition, in July of this year, we did receive some additional contributions from the State, which would put us at about 71 percent funded overall as of June 30, 2019.

So what we're seeing is a slow but steady improvement in the funded status which is a good sign, even during a period where we're declining the discount rate.

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DEPUTY CHIEF ACTUARY DZIUBEK: Now, obviously, employer contributions are a big focus of the system. What we have here is a summary of employer contributions as a percentage of payroll broken down by some of the significant subgroups of the system. And these rates are all a little bit higher than last year. As Scott said, we've seen some contribution rates increase over the last few years. We project there will be a few years more of increases before we expect to level off and actually begin declining.

But we still have a few more years to go before we expect that to happen. And that's primarily a result of the discount rate lowering from seven and a half to
seven, and our five-year smoothing process for recognizing the full costs of those changes. So we're still in the middle of that phase-in.

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DEPUTY CHIEF ACTUARY DZIUBEK: Here we have a projection of employer contribution rates for the same groups we saw in the previous slide. And it shows what I basically said on the last slide, we have a few more years of small increases, generally a leveling off, and then we begin to decline as our classic members turnover and change into PEPRA members, which have lower costs than the classic folks.

Now, again, this is all based on actual experience in the future lining up with our actuarial assumptions. We will get to slides where we vary some of the future experience to see what that does to our results.

One thing I'll point out is that a couple of the lines might look a little flatter to you than the others, the State miscellaneous, the State police and fire. Those groups are being helped by the significant additional contributions that the State has been giving us over the last couple years.

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DEPUTY CHIEF ACTUARY DZIUBEK: Okay. Let's look
at a couple recent trends. Slide six shows the percentage of our agencies that have, what we call, negative amortization. And this is something we talked about with the Committee back -- a couple years ago when we talked about changes to our Amortization Policy. Negative amortization occurs when the required payment that an employer is making towards their unfunded liability is less than the interest on that unfunded liability. It results in an increase from one year to the next in the unfunded, even though a payment is being made towards it.

A negative amortization can occur and does occur in our system and other systems, particularly when you're using longer amortization periods or you're using an amortization approach that varies the year-by-year amortization payment starting at a lower rate and increasing it over time.

So we have now implemented a new Amortization Policy which the Board adopted, which will result in many fewer of our agencies being in a negative amortization position. And as this slide indicates, we're already seeing a decrease. And in the next few years, we expect that to continue to decline.

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DEPUTY CHIEF ACTUARY DZIUBEK: Another positive trend is our employers, first of all, realizing that they
can make additional contributions, if they choose, greater
than what we are requiring them to make in our actuarial
valuation, and also with their understanding of the
benefits that go along with that, not only immediate
improvements in their funded status, but also saving money
in the long run. Sort of like a mortgage on a house, if
you can pay more up front, you're going to save money in
the long run.

So with a lot of educational efforts on our part,
I think we've gotten that message across, and a lot more
of our employers are making use of that. You can see a
steady increase in the amount of extra money we've
received. The last bar for 2019-20 is only three months
worth.

We expect that to greatly exceed the prior year
by the time the year ends. And since we're on this slide,
one additional point I'll make, is that we're seeing a lot
of increase in discussions -- or actually implementations
of pension obligation bonds. A lot of our employers are
looking into this as a way of funding their unfunded
liability. If they call and talk to their actuary, we
don't recommend for or against that. We give them
information to help them make their decision.

They generally hire outside advisors to make that
decision. But we're hearing a lot more discussion among
our employers of making use of that, and in many cases, fully funding their unfunded liability through that process.

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DEPUTY CHIEF ACTUARY DZIUBEK: Okay. As promised, some projections where we don't hit our seven percent return. This chart illustrates projected funded status for the PERF on the left side and projected employer contributions on the right side for sample safety and miscellaneous plans. And we're using actual return expectations of between five and nine percent. So clearly, our assumption is seven. That's the solid blue line or green line, I guess, in the middle of these regions. And you can see the variability in the funded status ten years from now or employer contribution ten years from now, if we earn something other than our seven percent.

We've selected the scenarios of between five and nine percent. We expect over a ten-year period that our average will be close to our seven percent assumption, but very could easily be less or greater than that seven percent.

There's a very high chance that on average over the next ten years we will be between the five and the nine, but there's -- there's no guarantee of that either.
We could be outside of this range.

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DEPUTY CHIEF ACTUARY DZIUBEK: Now, as I said, it's likely over a ten-year period we're going to average something close to our seven percent return. But, of course, in any one year, investment returns is very volatile. We could easily get a return less than five percent or greater than nine percent. So the purpose of this slide is to again show you projected funded status and projected employer contributions with a one year of either extremely good or extremely bad investment return.

And you might look at the scenarios we've selected and wonder how did we come up with those? They look sort of random. They're actually one and two standard deviations away from our expected return of seven percent. That's why we selected those.

So what you can see in these charts is that in one single year, we could have a large change in our funded status due to extremely good or extremely bad investment year.

The positive side of this is that due to our five-year recognition of the costs of an investment loss, you don't see immediate extremely large changes in the employer contributions. They increase gradually over a five-year period. And the hope would be if we had one of
these major investment events that during that five-year smoothing period, we'd have a correction in the opposite direction, which would drive the rates in the other direction.

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DEPUTY CHIEF ACTUARY DZIUBEK: Okay. So the projections on the previous two slides were based on scenario -- scenarios selected by us. And another way of analyzing these results is to perform a stochastic analysis, which is basically looking at thousands of scenarios of future investment performance.

And what this slide -- what slide ten shows us is the probability of the system or subgroups of the system falling below various funded status threshold, 40 percent, 50 percent, and 60 percent.

Now, as this slide demonstrates, it's very unlikely that we would fall below 40 or 50 percent. Those numbers were quite a bit higher if we went back five years or so ago. We've been lucky to have some positive investment performance and also the new Amortization Policy protects us -- protects that funded status a little bit better than the prior policy.

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DEPUTY CHIEF ACTUARY DZIUBEK: Now, I want to talk about a few, what we call, maturity measures.
As everybody knows, the system is getting more mature as time goes on, meaning our number of retirees versus actives is increasing, the share of retiree benefit liability versus total liability is increasing. These are expected occurrences. This is not something we try to manage or stop from happening. But these are indications of certain risks that we need to consider going forward.

Now, slides 11 and 12 show the ratio of retiree liability to total liability. I'm not going to talk a lot about those. But as those increase, our duration for benefit liabilities shortens, and our cash flow can go negative, and those could affect our investment opportunities.

But what I want to talk about more is the asset-to-payroll ratio, which is continuing to increase. And it's simply just a plan's assets divided by the payroll of the active members.

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DEPUTY CHIEF ACTUARY DZIUBEK: And this is a really good direct measurement of the expected volatility in future contributions. The higher this number gets, the more likely that the contributions in the future are going to vary more significantly. Again, not something for us to manage, it's just a measure that indicates that we have to be aware that this risk is increasing. We want the
assets to continue growing certainly. But along with that as they do grow, we have a greater risk for contribution volatility.

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DEPUTY CHIEF ACTUARY DZIUBEK: And as Scott mentioned, you know, one of the bigger concerns with the system is the employer's ability to continue making their contributions. We're hearing that at current levels some of our employers are financially stressed. They've seen some increases and they're expecting to see some more increases going forward.

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DEPUTY CHIEF ACTUARY DZIUBEK: And slide 15 has some more stochastic analysis regarding the likelihood of contribution increases of certain levels. Again, this ties to the maturity ratio. They are what they are. Again, if we wanted to try to bring these down, the types of options we would look at would be either increasing the amortization period and spread those costs out over a longer period - but, of course, we would recommend against that - or possibly moving investments into less risky type investments, fixed income type investments. But there are downsides to that as well. So volatility is something we just have to manage and live with to a certain extent.

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DEPUTY CHIEF ACTUARY DZIUBEK: Well, it wouldn't be an actuarial discussion without some mention of the discount rate. I won't say a whole lot on it. We're using seven percent and we're comfortable with seven percent right now. But we will be doing our mid-cycle ALM review next year. There are a few reasons here listed on the slide that could result in that seven percent coming down. Some of them are in our control. Some of them are not. We will just wait and see when we do the analysis next year where we end up.

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DEPUTY CHIEF ACTUARY DZIUBEK: And then I'll just mention really quickly, this is just a nice pretty color slide of the State of California by region. And we show the average funded status of each of these regions for their miscellaneous versus their safety plans. The ranges are not that different. They're fairly tight. I'm not sure what this slide tells us, but this is the type of analysis I think we want to do a little bit more of going forward, maybe in an attempt to identify if any region or any county is behaving differently than the others. But for now, it's just an interesting graphic.

And with that, I guess I'll take any questions, and Scott will also help me answer those.

CHAIRPERSON TAYLOR: All right. It looks like I
have a question. Ms. Brown.

COMMITTEE MEMBER BROWN: Thank you. I want to go to page five of 17. I've got to get there. You like doing these graphs, all these little charts?

DEPUTY CHIEF ACTUARY DZIUBEK: Sure.

COMMITTEE MEMBER BROWN: Yeah, I thought so. I thought so.

(Laughter.)

COMMITTEE MEMBER BROWN: I like the ones that look like a tornado, by the way.

Okay. These recent trends. So is anybody going to be surprised by this number? Are we changing any of the numbers that we're telling like school officials and State that their contributions are going to go -- they'd love to hear that they're going down. I'm sure that's not what we're telling them, but I want to make sure that we're not surprising them with anything new.

DEPUTY CHIEF ACTUARY DZIUBEK: Yeah. There should be no surprises in these result. If you went back and looked at our projections from last year, they would be fairly similar.

COMMITTEE MEMBER BROWN: Love to see variances in the future, like last time. Tell me how good your projections were compared to these. All right. Thank you.
CHAIRPERSON TAYLOR: All right. Ms. Paquin.

ACTING COMMITTEE MEMBER PAQUIN: Thank you, Madam Chair. Thank you for the report.

I'm curious if we go back to slide 13, which I think shows potential volatility based on payroll, does this look at the potential for a decrease in payroll in the future, which would then increase the contribution rates?

DEPUTY CHIEF ACTUARY DZIUBEK: We do not. We're assuming that payroll will increase with our wage inflation assumption, which now is 2.75 percent. So we're basically assuming payroll increases at that standard level.

ACTING COMMITTEE MEMBER PAQUIN: Okay. And you have -- do you do any worst case scenarios or anything like that? I'm just thinking, you know, if we head into another recession, if there's more belt tightening at the local employer level?

CHIEF ACTUARY TERANDO: And another thing to keep in mind is when we do the am -- we moved away from amortizing as a percent of pay to level dollar --

ACTING COMMITTEE MEMBER PAQUIN: Um-hmm.

CHIEF ACTUARY TERANDO: -- so that's independent of the payroll.

ACTING COMMITTEE MEMBER PAQUIN: Okay.
CHIEF ACTUARY TERANDO: So your normal cost depends on your payroll. That will fluctuate up or down with member counts, and member -- and, you know, concerns about payroll going up or down.

But we eliminated the risk that if you had a drastic change in payroll, the unfunded would not be getting the correct amount of payments coming in. So the Amortization Policy change kind of addresses that concern.

ACTING COMMITTEE MEMBER PAQUIN: Okay. Great.

And then I guess another question about the impact of PEPRA members. So as the number of PEPRA members are increasing, do you have a chart that would show something like that?

DEPUTY CHIEF ACTUARY DZIUBEK: The only thing in this report that would illustrate that would be on slide five. I guess I control this, right?

Just the fact that these lines start dipping out towards the end of the period is purely an indication that the classic people are turning over and we're getting more PEPRA people. But, yeah, we're not showing any counts or any specific dollar impact of that.

ACTING COMMITTEE MEMBER PAQUIN: Do you know roughly what the breakdown is, at this point, by percentage of active --

DEPUTY CHIEF ACTUARY DZIUBEK: I think it varies
quite a bit by group. I want to say for schools it's actually fairly high. But I -- I don't have any of that in front of me.

CHIEF ACTUARY TERANDO: I want to say for the State plans we're, I want to guess, around 25 percent to 30 percent PEPRA. We're somewhere in that range. It's similar for agencies across the state. It varies. I mean, some safety agencies -- I know, for example, CHP was very -- on the low side. They have less turnover, and thus fewer PEPRA members are coming in.

ACTING COMMITTEE MEMBER PAQUIN: Okay.

CHIEF ACTUARY TERANDO: We could look at trying to generate some of those numbers for you, if you'd like.

ACTING COMMITTEE MEMBER PAQUIN: Just curious. I think it might be helpful to have that in next year's report.

CHIEF ACTUARY TERANDO: Okay.

ACTING COMMITTEE MEMBER PAQUIN: And then the last question is how do you plan to share some of this information with employers or did you share some of the highlights at the Employer Education Foundation -- Forum.

CHIEF ACTUARY TERANDO: Well, for -- in a number ways. I mean, for example, they can look through the report. But for each agency, we actually provide this type of analysis in their annual report. If you -- we
look at scenario analysis, and we also do sensitivity
analysis, in terms of the results for their particular
plans.

State and schools as well, you know, when we
present the items, there's a five year, six year
projection on the contribution rates. This -- most of
these results are just a summary to kind of show you
trends. But each plan has the ability to look at the
report and see their individual numbers. And if you
remember, we've recently released the pension outlook
tool, where agencies, at least non-pooled employers, right
now can go out and they can run their own scenario
analysis. And they can get, you know, similar numbers as
these for their particular plan over the next 10, 20, or
30 years. And so it's both in the report and they have
the ability to use our tool to get numbers as well.

DEPUTY CHIEF ACTUARY DZIUBEK: Yeah, and I'll
just add to that, a number of these slides were presented
at the Ed Forum last month, as well as a number of the
Division leaders at CalPERS travel around the state for
monthly, what we call, employer leadership dialogues,
where we invite employers to a particular location. We
close
travel down there and we give them about a four-hour
presentation, and this kind of information would
definitely be included.

    ACTING COMMITTEE MEMBER PAQUIN: Thank you. I
think that would be really helpful too, because I -- you
know, like you said, you can always look at the report,
but I think that you present it well and it's nice to have
back-and-forth dialogue.

    Thank you.

    CHAIRPERSON TAYLOR: Thank you, Ms. Paquin.

    I just wanted to know, before I go on to other
folks that want to ask questions too. So we're looking at
page five still. And I think what's interesting here is
we are seeing it, you know, level out, maybe go down a
little bit. It looks like one or two of the plans is
going down a little bit, maybe three.

    And you say that's because of PEPRA, but
shouldn't that also be because of our amortization period?

    DEPUTY CHIEF ACTUARY DZIUBEK: Yeah, that's a
great comment. And, in fact, if we extended this out
another 10, 15, 20 years, you'd see those lines much more
sharply decline as we payoff the 30 percent of unfunded
liability. Ultimately, once we get to 100 percent funded,
the contribution rate is just the employer portion of the
normal cost.

    So, for example, CHP, their total rate right now
is about 58 percent of payroll, but the normal cost is only about 20 percent. So we're trending down to those lower normal cost levels.

CHAIRPERSON TAYLOR: How long would -- see, that's what my next -- thank you for bringing that up, because my next question would be somebody like a CHP and these safety agencies, the safety programs, where they're so high, there's a risk. There's a huge risk there, as we all know. Are we -- and, yes, we're looking at this declining. But how long in the future is that and are we preparing for the risk that that could cause of these people wanting to leave the system possibly, or, you know -- I don't know what else they could do, but...

DEPUTY CHIEF ACTUARY DZIUBEK: Great question. I will say going back to Scott's comment about the Pension Outlook Tool, employers will have the ability -- do have the ability now, if they have a non-pooled plan, to do a 30-year projection on their plans, and see exactly what's expected, and see what will happen under lots of different scenarios. So folks have the ability to model those things.

In terms of, you know, how many years can they afford this level of contributions, you know, I guess every -- every employer is probably a little bit different in what they can afford and what they can't. I guess I
don't have a good answer to that.

CHAIRPERSON TAYLOR: Okay. All right. I appreciate it.

Ms. Ortega.

Oops, hold on. I didn't get you.

There you go.

BOARD MEMBER ORTEGA: Thank you. Before I ask my question, I'll make a comment to Ms. Taylor's point about the CHP. So representing the employer that is, in fact, if you look at the CHP contract that was approved this year, we made an effort to address that. And the level of their funding is exactly the reason why we had that conversation. And so through collective bargaining, we agreed to redirect one percent of what would have been their salary increase for the term of the contract to prepay pension liability, in addition to getting additional State contributions to pre-fund.

CHAIRPERSON TAYLOR: Thank you. I did not --

BOARD MEMBER ORTEGA: So I think --

CHAIRPERSON TAYLOR: I think I read that, but I'd forgotten about that, yeah.

BOARD MEMBER ORTEGA: Yeah. So it's -- having this information does allow the employer to sit down with the employees and consider those types of prefunding solutions.
My question is on Attachment 1, and it's -- there are two tables there, one on page 17 and one on page 19. And I'm having a hard time understanding the information that's being provided to me on the two slides there -- or the two tables. So if you could help me understand.

One talks about the probability of a contribution rate increase I think over a 30-year period and maybe the other one is at any one point in time. But I'm -- I'm just having a hard time what message I should take from those two tables.

DEPUTY CHIEF ACTUARY DZIUBEK: Sure. Can you say the page numbers again?

BOARD MEMBER ORTEGA: Sure. So it's page 17 of 16 and 19 of 60.

DEPUTY CHIEF ACTUARY DZIUBEK: Right. So on slide 17, this is the probability of a cumulative increase over the next 30 years of these levels. So what's the chance that -- and this could take a period of two or three years maybe that the rate would increase, let's say, five percent of payroll or ten percent of payroll. So it's a probability of a cumulative increase of these amounts regardless of how many years it takes for that to occur.

And then on slide 19, these are the -- this is the information that was in one of the slides in our
present. This is an increase in a single year of these magnitudes.

CHAIRPERSON TAYLOR: And these are what-ifs type scenarios?

DEPUTY CHIEF ACTUARY DZIUBEK: This is — right. So we have thousands and thousands of investment scenarios that go up or down that our Investment Office helps us prepare. We just run them all through and then count up how many times we —

CHAIRPERSON TAYLOR: You just love running the numbers. Come on.

(Laughter.)

CHAIRPERSON TAYLOR: All right.

DEPUTY CHIEF ACTUARY DZIUBEK: Did that answer your question?

BOARD MEMBER ORTEGA: Yeah, I think so.

DEPUTY CHIEF ACTUARY DZIUBEK: Okay.

BOARD MEMBER ORTEGA: I can follow you. Also, so I had one more question on slide 10 of the slide presentation. The probability of falling below 60 percent column. So, you know, there used to be perhaps a legend or a bit of mythology around once you get to a certain percentage, it's very hard to ever come back to being fully funded. And I wondered what your impression is of that kind of idea that's out there. I recall that going
much below 60 percent starts to approach the kind of
danger zone, so...

    DEPUTY CHIEF ACTUARY DZIUBEK: Yeah. I'll give a
quick response and let Scott chime in. I don't think
there's any agreed upon threshold that if you go below
that, you're in serious trouble. You're not going to
recover. It all goes to, again, our concern of the
employer being able to continue to make their
contributions. The lower that funded percent goes, the
higher the contributions go.

    It isn't necessarily that the funding process, if
we fall below 50, won't get us back up to something close
to 100. But the contributions that would be needed to do
that would be so severe, that we may employers that can't
afford that.

    BOARD MEMBER ORTEGA: Um-hmm.

    CHIEF ACTUARY TERANDO: Yeah. And to kind of key
in on the specifics. When we -- we generated these
calculations, these costs, we measured that the event
happened, like not necessarily you got out of it. So, for
example, when we ran through all the scenarios say for
dropping below 50 percent, if you drop below 50 -- if some
event happened and it dropped below 50 percent, that
counted as an event of one time. We didn't -- we
didn't -- we didn't subsequently say did you get back out
of 50 percent? It just -- it happened and you got to that
level. It's just basically kind of reflecting the
occurrence of the situation happening.

BOARD MEMBER ORTEGA: I see.

CHAIRPERSON TAYLOR: Okay.

BOARD MEMBER ORTEGA: Thanks.

CHAIRPERSON TAYLOR: Ms. Middleton.

BOARD MEMBER MIDDLETON: Okay. Thank you.

A couple of comments. First, thank you for all
of the effort that's going into making the future cost
known to our employers. I think it's incredibly
important. And as I look at the slide on page 18 of 60, I
would like to say to all members of city council in 2026,
please say thank you to those of us who did it for you.

(Laughter.)

BOARD MEMBER MIDDLETON: But with that, I want to
go back to a very simple question. The 2.75 percent
payroll assumption, what's that based on? How did you do
that calculation?

DEPUTY CHIEF ACTUARY DZIUBEK: So all of our
assumptions are reviewed on a four-year time frame.

BOARD MEMBER MIDDLETON: Um-hmm.

DEPUTY CHIEF ACTUARY DZIUBEK: Wage inflation or
payroll growth being just one of the many assumptions that
we look at.
BOARD MEMBER MIDDLETON: Right.

DEPUTY CHIEF ACTUARY DZIUBEK: It's generally made up of regular price inflation. And there are ways to estimate what that is by itself. And our assumption right now is two and a half percent. And then above that what do we think real wage inflation will be on top of price inflation?

And, Scott, you can maybe add some comments on the types of things that we look at.

CHIEF ACTUARY TERANDO: Sure. When we last did the study, we looked at inflation, inflation trends, both historical and projected. We looked at -- and a lot of information coming from the Fed Reserve in terms of their projections. And that generated the -- around the two and a half percent inflation assumption.

Then we look at productivity both for across the country as well as, you know, in California, and productivity is kind of hard, because we kind of try and level set where wages are increasing due to the productivity versus inflation and/or seniority or merit increases. And we kind of -- based on our analysis, we landed at around a quarter percent on that assumption.

BOARD MEMBER MIDDLETON: All right.

CHIEF ACTUARY TERANDO: There are -- our experience study that we did in December of 2017, I think,
outlines our process. And we can forward that to you. It kind of gives you, I think, a little bit more than specifics I think you're looking for in terms of --

BOARD MEMBER MIDDLETON: Okay.

CHIEF ACTUARY TERANDO: -- what we did, what were the -- the statistics we were looking at, and the sources on where we came up with the two and a half and the quarter percent.

BOARD MEMBER MIDDLETON: Right. Those --

DEPUTY CHIEF ACTUARY DZIUBEK: In addition, I just want to say --

BOARD MEMBER MIDDLETON: Sure.

DEPUTY CHIEF ACTUARY DZIUBEK: -- every four years when we do that experience study, we also have it reviewed by an outside actuarial firm --

BOARD MEMBER MIDDLETON: Okay.

DEPUTY CHIEF ACTUARY DZIUBEK: -- who also says whether they agree or disagree with our assumptions. And then they agreed with that one.

BOARD MEMBER MIDDLETON: So are these much more broad economic analysis that you're going through that takes employment across the spectrum or do you attempt to somehow or another weight it to the fact that we're dealing with public employment? And the trends in public employment can be different than those in the larger
DEPUTY CHIEF ACTUARY DZIUBEK: I would say in general, we are trying to identify any differences between our plan members and any other group of plan members. Mortality is probably the biggest example --

BOARD MEMBER MIDDLETON: Okay.

DEPUTY CHIEF ACTUARY DZIUBEK: -- where we know our folks tend to live longer than folks outside of California.

BOARD MEMBER MIDDLETON: Okay.

DEPUTY CHIEF ACTUARY DZIUBEK: And so we look at just our experience with regard to mortality. With regard to wage inflation, I don't know how much that factored into it. Probably not as much.

BOARD MEMBER MIDDLETON: Okay.

DEPUTY CHIEF ACTUARY DZIUBEK: But the idea is to project our population. So, yes, we would want to take that into account.

BOARD MEMBER MIDDLETON: And I'm sure I'm, along with a number of others, very sensitive to the fact that labor negotiations have been more difficult in the most recent past. And pent up demand for pay raises are definitely more apparent today than they were a few years ago.

And the demand for increased services, which
causes increases in number of employees are also -- there
is pent up demand there.

DEPUTY CHIEF ACTUARY DZIUBEK: That's a good
point.

BOARD MEMBER MIDDLETON: The nice part about the
Pension Outlook Calculator is we can choose whichever
number we want or think is appropriate and start to look
at our own individual.

So thank you.

CHAIRPERSON TAYLOR: Thank you.

Mr. Perez.

COMMITTEE MEMBER PEREZ: Mr. Dziubek, following
up on what Ms. Middleton just said. So as an employee --
let's say I'm the County of Riverside and I've got a group
of deputies negotiating right now, would it be safe to sat
that we can just figure a 2.75 percent increase moving
forward until your numbers change?

(Laughter.)

DEPUTY CHIEF ACTUARY DZIUBEK: I'm not sure I
completely understood the question. Can you -- can you
phrase it again.

COMMITTEE MEMBER PEREZ: Strike that from the
record.

CHIEF ACTUARY TERANDO: Well, I can think
about --
COMMITTEE MEMBER PEREZ: Strike that from the record. Sorry. No, go ahead.

CHAIRPERSON TAYLOR: He's putting you on the hook for a 2.7 percent rate.

CHIEF ACTUARY TERANDO: Yeah. 2.75 is our assumptions. Whether a particular agency has increases higher or lower than that will get reflected. Because, you know, if we assume 2.75, if you give everyone say a four percent, it's going to show up as a loss, as an actuarial loss and your contributions will increase. Vice versa, if you give everyone the one percent raise, it will show up as a gain, and those would be reflected as a reduction in your rate.

COMMITTEE MEMBER PEREZ: Okay. So that --

CHIEF ACTUARY TERANDO: So it is -- there's a balancing item. It's not like --

COMMITTEE MEMBER PEREZ: Okay.

CHIEF ACTUARY TERANDO: We're not setting the -- setting pay rate for people.

(Laughter.)

COMMITTEE MEMBER PEREZ: No. No, I know, but that answered my question. So it wouldn't be safe to say just give 2.75 until your numbers change?

Thank you.

DEPUTY CHIEF ACTUARY DZIUBEK: Yeah. And the
other point we should make is that these are meant to be
very long-term assumptions, you know, 20, 30 years. We're
not looking at the next five years or even the next ten
years. So while each individual agency is going to have a
slightly different experience with these things, we're
looking for long-term experience. If you -- if you're an
agency that tends to, you know, for right now giving some
higher pay increases, you know, you may end up giving
lower pay increases after that period. So we're looking
for an average over a very long time period.

COMMITTEE MEMBER PEREZ: Perfect.

What steps, Mr. Dziubek, you mentioned that we --
I'm assuming the organization - can take steps into
mitigating that potential of lowering the discount rate.

DEPUTY CHIEF ACTUARY DZIUBEK: Yeah. I think
what I said was of the three bullets that we listed, the
capital market assumptions going down was the first
bullet, and we don't really have any control over that.
Investment consultants will weigh in and they'll say this
asset class we think will earn this, and that asset class
will learn this, and if they lower those projections, that
forces us to take that into account and possibly lower the
discount rate.

The second two bullet points are just things that
are within our control. If we decide to move to less
volatile investments, like bonds, treasuries, that would most likely have the impact of lowering the discount rate, or if the Board decided that they wanted a discount rate that built in a margin, in other words, maybe we think we're going to earn seven, but let's assume 6.8, because it's a little safer to do that to build a little bit of a margin in. And again, those are not things we're recommending. We're just identifying items that might result in a decrease in the discount rate.

COMMITTEE MEMBER PEREZ: So none of this discussion is foreshadowing of things to come?

DEPUTY CHIEF ACTUARY DZIUBEK: No, not at all.

COMMITTEE MEMBER PEREZ: Okay. Thank you.

CHAIRPERSON TAYLOR: All right. Thank you, Mr. Perez.

That was an information item. Anything else to add, gentlemen?

I have no more questions from the Board.

All right. Thank you.

Mr. Cohen, we are on Summary of Committee Direction. Did you have any?

CHIEF FINANCIAL OFFICER COHEN: I do. Two items. One, which I can handle verbally now, and then we'll follow up on the second one.

MS. ORTEGA: Item 7a.
CHIEF FINANCIAL OFFICER COHEN. Oh, I think we go before public comment.

CHAIRPERSON TAYLOR: Yeah, they go before public comment.

MS. ORTEGA: It's on 7a.

CHIEF FINANCIAL OFFICER COHEN: Oh, on this -- on this particular item.

CHAIRPERSON TAYLOR: Oh, I'm sorry. I was just going to do public comment last, since we were at the bottom. All right. So let me call the first two up for public comment, 7a.

Bijan Mehryar, if I'm saying that correctly and Leyne Milstein.

Okay. Three minutes.

MR. MEHRYAR: Thank you, Madam Chair and members. Bijan Mehryar with the League of California Cities. I appreciate the opportunity to speak to you about Item 7a, the annual review of funding levels and risk report.

As is often said, the employers are the insurers of the State's public defined benefit plan. As you know, these retirement benefits are only as secure as an agency's ability to pay for them. In order for CalPERS to maintain its sustainability and viability for the next generation of public servants, we are committed to working with you and CalPERS staff to achieve that goal.
However, as the staff report notes, there are still significant ongoing challenges to achieving this shared goal. Primarily, we at the League are concerned about the prospect of increased employer contribution rates, especially in the context of shorter amortization period for investment gains and losses and a lower discount rate.

To highlight the challenges faced by cities, we have asked several of our members to come speak to you today, so they can share their stories. As you will hear, our members are doing all that they can to mitigate rapid contribution rate increases, but there is still more that must be done. We stand ready to partner with this Board, the State Legislature, and all impacted stakeholders on finding collaborative solutions to ensure a secure and sustainable retirement system for our active and retired employees.

Thank you.

CHAIRPERSON TAYLOR: Thank you.

Ms. Milstein.

MS. MILSTEIN: Good afternoon. Leyne Milstein.

I'm an Assistant City Manager here with the City of Sacramento.

You're going to hear from our other local government partners who are in the back of the room about
the ever increasing financial pressure as our PERS costs rise, and in many instances, force difficult choices between retaining employees, funding programs and services, and paying our pension costs. That is an undeniable reality that many cities will struggle to address.

However, I'm here today not just to share the doom and gloom - I'm good at that - but to thank you for the work that we've been able to do together already and to ask that we continue to expand our partnership to move forward. We need, and must develop, additional tools to help educate our employees and retirees and to have a chance to actually combat rising costs.

To ensure the sustainability of the system, we will need to work collaboratively to educate our stakeholders and find solution. Employers continue to be challenged to share the financial reality with our active employees and retirees. There is still substantial pressure for wage increases, as our Board Member Middleton just mentioned, because our employees don't understand the amount of increased funding necessary to sustain their pensions. And we know the employer is the only backstop for costs associated with the unfunded liability.

As you saw in Item 6a, I believe it was slide 7, that talked about the growth of the unfunded liability...
over time. Funding wage increases and keeping up with pension costs is an unsustainable level of expenditure growth. The money is finite.

So I'm here asking you for help to tell our story. Without easy-to-use tools and infographics, we end up with very complicated explanations that our employees just don't understand and/or recognize as pertaining to them.

And Board Member Paquin asked a question, she said -- asked how we find out about this information. And those of us who are steeped in this, we look at the reports. We use the financial tools. Board Member Ortega also asked. But our employees are not going to get to that level of sophistication. They're not going to read the 12-page report that was put out by our -- your public information staff on the situation. We published that same report in our budget at least five times over. And it doesn't ring true to them. And we need your help for them to understand how these costs affect us and our inability to combine both salary growth as well as paying pensions.

Without new tools to address cost increases, there will be cities that will have to make these difficult choices. And as I said earlier, to ensure the sustainability of the system, we need to work
collaboratively to identify the problems and find solutions.

Thank you.

CHAIRPERSON TAYLOR: Thank you for your comments. Sara Lamnin and John Donlevy.

MS. LAMNIN: Good afternoon.

CHAIRPERSON TAYLOR: Three minutes. Thank you.

MS. LAMNIN: Thank you.

So my name is Sara Lamnin. I'm a city council member for the City of Hayward and it's nice to see some of you again and to meet some of you new faces. I've testified with the League in the past in support of the discount rate and in support of decreasing the amortization rate. And frankly, it's time, as has been said, that we lower the bill.

Each of these approaches, even the trust, is about more money from cities. And we've stood with you to do those corrections. And there has been great progress and we appreciate all of that. But it's time that we start talking about additional approaches.

In Hayward, employees are sharing costs. We have raised taxes. We've continued to lower our expenses. And now, we have to talk, as a state, about how do we lower this overall bill. Any risk analysis, as I'm sure you're all aware, must include an analysis of why the bill is so
high and what can be done to mitigate that.

And, of course, your fiduciary role is looking long term. But as I'm sure you're aware, there are short-term implications. We cannot make it through that next 20 years of per -- of PEPRA sort of salvation at the current rates.

So, you know, each of you lives in somebody's jurisdiction and you feel exactly these impacts on yourself. You know, to pay for your streets, your roads, your libraries, your parks, your police, your fire. And you probably feel it again from your water bill, and your sewer bill, and so on.

And so, you know, you're paying for it -- for it perhaps twice and then half again, because as you saw in the slides, these costs are the person plus another 50 percent, plus another 50 plus percent.

And so to get at the next level of risk mitigation, we have to be able to talk about and have those really difficult, but collaborative, conversations, those collaborative dialogues that you mentioned to get at the root.

So investments that decrease the cost of housing have a ripple effect across all of our jurisdictions. Controlling retiree escalating costs could change our funded status by ten percent. Decreasing health care
costs throughout by preventative services and cost
controls impacts, of course, OPEB and other benefits
expenses.

And so we appreciate the work in the past. And
fortunately some of this stuff is in the works, but we
really need to get at it sooner and we need to get it
together.

Thank you.

MR. DONLEVY: Madam Chair and members of the
Board, thank you very much. My name is John Donlevy. I'm
the City Manager for the City of Winters. Kind of a
perspective, I'm here as kind of a rep for the small
towns. We have 38 full-time employees and about a $5
million general fund budget.

When it comes to pension, I like to tell people
that it's both difficult and complex decisions that we
need to make. And the most important thing is seeking
balance. As a small town, we are constantly reevaluating
our staff. We're looking at consultants versus employees.

Most of our new revenues is -- we have a strategy
on addressing pension is when we have new revenues coming
in, pensions are our number one priority. We want to stay
funded. We actually have a pretty good rate right now.
But our new revenues go into a pension track to make sure
that we keep our funding.
I will share with you that I think a lot of cities are trying to do the right things. We seek the find the tools and alternatives. And when you hear about the partnerships, I think it's the things that we as employers and you as members of the Board can help us with, pre-payments, extra payments that we're doing, 115 trust. With PEPRA, we're keeping our funding levels a hundred percent, so we don't have to deal with that.

We address things as we negotiate with our employees based on total compensation. As Board Member Ortega pointed out, the idea of prefunding solutions. You must have been at our meeting yesterday, because that was one of the things that we really stress with our employees and on educating them. Educating employees is not easy, because it is very complex. They may be really good at fixing water and sewer lines, but when it comes to crunching this stuff, it doesn't help so much.

The increasing of rates as a pure solution doesn't work for small cities like us, because it has a direct impact on services. In Winters, as an example, our police officers oftentimes are working by themselves. We work at a very bare level. Our firefighters run on trucks with only one paid staff member and the rest are volunteers.

As you look at funding levels and the approach,
the increase of purely looking at it from a contribution rates standpoint doesn't work. It actually serves as a pretty ominous wave for a community like ours.

I'd like to thank you for your time today. And I think the one thing I'd like to stress is just encourage that there's a balance and collaborative approach to all this.

I'd like to give a plug for your staff. They're stellar.

CHAIRPERSON TAYLOR: Um-hmm.

MR. DONLEVY: Oh, my goodness, they help cities.

They keep us balanced. And it -- in the end, it really is us collaborating and working together.

Thank you very much.

CHAIRPERSON TAYLOR: Thank you.

So our next two speakers are Steve Schuabauer and Scott Dowell.

Thank you gentlemen. You'll both have three minutes.

MR. SCHUABAUER: Good afternoon, Board and staff. Thank you for hearing from us today. I'm name is Steve Schuabauer.

CHAIRPERSON TAYLOR: Sorry.

MR. SCHUABAUER: No problem. I don't think anybody has ever been able to pronounce it right.
Usually, when they get to Steve and they pause, I say, yes, that's me.

I'm here to give you a perspective on a mid-sized city. Lodi is about 70,000 people. First, I guess I'd be wrong if I didn't acknowledge your staff, and your staff report, and the work that you've done. We, as cities, understand that you have a compelling need to increase your -- the funded status of your system. We get it, but we hope you do that with an understanding of our ability to partner with you in that path.

Lodi is before you today a much healthier city than we were the first time I came to speak to you two years ago. Our citizens have granted us an additional $5 million a year in revenue. We've put away $12 million in a pension stabilization fund and our general fund has grown. Our employee are now paying as much as six percent of -- six points of the employer's share.

So a much healthier organization from a pension system side. And we've done a tremendous amount of work to address it. But unfortunately, none of that means that we are out of the woods. We're close to 70 percent funded today, just as you are. However, our pension obligations in the general fund, the $60 million general fund, are projected to go from 18 percent of that general fund, or $10 million, to 25 percent of that general fund, 15 and a
half. Before we do anything, before we buy a fire truck, before we buy a police car, before we buy radios, before we buy a mobile data computer, before we build parks, before we manage those parks, before we pay payroll, before we pay for insurance, we're going to be paying by 2025 25 percent of our general fund just in pensions.

What does that mean for our general fund?

Although right now, we are sitting on a pretty significant reserve, by 2023, we're probably laying people off. 2025, we're in significant trouble. We're not just laying people off, we're eliminating services wholesale, even in the face of having worked very hard to do what we've done.

And I greatly appreciate Board Member Middleton's comment, and I think it's worth you understanding. My employees have worked without a raise, effective raise, since 2008. They took a pay cut in 2009, '10, '11, '12, and we restored it. And that's all we've done. And you better believe that there is a significant demand for raises, and there's a significant demand to address the staff work that we have to do just to manage the new parks, and police the new neighborhoods, and take care of what we've built that's caused us to be able to grow.

That number that I referenced, that $5 million growth, doubling of our pension costs, that also represents the growth of our general fund. A hundred
percent of the growth of our general fund in the next five years will be directed to you, a hundred percent of it. Nothing to do anything else with. That's a real problem.

CHAIRPERSON TAYLOR: All right. You're out of time. Thank you.

MR. DOWELL: All right. Thank you very much.

Greetings from the City of Chico. I am Scott Dowell, Administrative Services Director for the City of Chico.

Recently, our city manager Mark Orme invited CFO Michael Cohen -- Hi, Michael -- to a Chico Chamber of Commerce meeting to discuss the CalPERS retirement system. During the meeting, some members of the public expressed their grave concern over the operations of CalPERS and its significant contribution increases the city would be facing over the coming years. The public wanted to know how we were addressing this issue.

In response, our city manager summarized our city's response over the years, including, one, pay reductions to city staff in 2013-2014; no COLAs for over ten years; employees now pay their full share of normal costs; employees also pay an additional three to six percent of the city's share of normal costs; we pay the UAL in July of each year to save on interest costs; create a Section 115 Trust and contribute based on cash flow availability; engage CalPERS' leadership on ways to
collaborate on these issues and challenges; greater
emphasis on our five-year projections and planning; and
creation of a Financial Budget Emergency Policy.

After the meeting, CFO Cohen commented to our
staff on how Chico had done over and above what many
agencies have done to address these funding issues. That
was good to hear, but it still presented that we still
have challenges ahead.

Today, I sit here and I say thank you to your
professional staff, including Marcie Frost -- Hi,
Marcie -- and Michael Cohen for their helpful interactions
with our team in Chico.

But the reality is still this, in the near --
next few years, our UAL payment will increase to $5
million over what it is right now. This is subject to
change as we know the actuarial reports each year update
those figures.

Candidly, this is overwhelming. Even though we
have been proactive to address the issue, it is still a
huge challenge for a city and its residents. Residents
routinely share their frustration with Chico staff about
the pensions and why they will end up paying staff's
pensions.

In November 2018, our city responded to the Camp
Fire in Paradise by providing shelter to over 20,000
Paradise residents relocating over night to Chico. Many of the Camp Fire survivors have remained in Chico and now require city services. As such, we have the financial challenge of providing these services with minimal long-term revenue enhancements.

Without any change, we are looking at reducing staff and services to deal with the additional pension contributions in future years. This would further frustrate residents who want public services, especially in light of a natural disaster that we just experienced.

In conclusion, please take no additional action to increase financial contributions required by CalPERS members.

Thank you.

CHAIRPERSON TAYLOR: Thank you, both.

That exhausts our list of speakers.

So, Mr. Cohen, Summary of Committee Direction.

CHIEF FINANCIAL OFFICER COHEN: Yes. So on the question of when GASB 67 was implemented, CalPERS did that beginning July 1st, 2013, so that would have shown up for the first time in the 2013-14 CAFR. And then as follow-up information, Member Paquin's question, we'll distribute percentages of PEPRA members to the entire Board.

CHAIRPERSON TAYLOR: Great. Thank you.

And then I have public comment. I don't have
anybody else that has said they want to make public comment.

So then I am adjourning this meeting.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Finance & Administration Committee meeting adjourned at 2:30 p.m.)
CERTIFICATE OF REPORTER

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration, Finance & Administration Committee meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California;

That the said proceedings was taken before me, in shorthand writing, and was thereafter transcribed, under my direction, by computer-assisted transcription.

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 24th day of November, 2019.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
License No. 10063