Meeting Report: League of California Cities (LOCC)

Policy Committee – Governance, Transparency, Labor Relations (GTLR)

April 12, 2018
Sacramento Convention Center

Reporting: Bill Kampe, Mayor

I attended this meeting as the Monterey Bay Division representative to the policy Committee.

Opening General Session

LOCC supported these successful initiatives on the June 5 ballot:

- Prop 68 – Clean Water and Safe Parks
- Prop 69 – Protection of Road Funds
- Prop 72 – Tax exemptions for storm water capture investments

The State budget reserve is headed to a $7B surplus. State tax revenues are holding steady. The operating debt is almost erased. Pension liabilities are still very large. General fund revenues are $4.2B above estimates, though the general fund is a small part of the state budget.

LOCC supports more money in the new budget for emergency response, e.g. wildland fires. Also looking at recycling for organics, and the effect of the new policy on China restricting import of recyclable materials.

Gavin Newsom led in the primaries for Governor. Some of his goals:

- Tax increment financing – eliminate barriers to entry; match to housing production
- Marshall Plan for housing
    - Regulatory streamlining
    - Need 500K new units/year
    - Tax reform
    - Link transport funding to housing

A senate democrat was recalled. Democrats no longer have a 2/3 majority.

In local revenue ballot measures, 86% for general funds passed while 56% needing 2/3 vote passed.

For homeless, state goal is to get money direct to the cities.

SB1 – get project lists submitted. Gas tax revenues will be lower, so SB1 funds are more important than ever.

"If you are not at the table, you are on the menu." – Political thought for the day.

Telecom companies working at Federal level for federal pre-emption on cell site location.

AB1912 is moving rapidly through the legislature. It establishes for JPA's, retroactively, proportional liability for CalPERS on the JPA members. If passed, cities will see a big jump in liabilities on their balance sheets.

SB1302 is in the legislature and would not allow cities to prohibit cannabis delivery.

GTLR Session

Dane Hutchings, the liaison to the GTLR policy committee, reviewed several current bills, the prospects, and implications. There is a very complete listing of bills, status, and implications on the LOCC website.

SB783 would establish a divestment committee to review any bills that would require state retirement funds to divest in specific industries, countries, etc. The intent of the committee would be to ensure a competent analysis of consequences to the retirement fund portfolios. Action by the committee was to recommend the addition of a city finance rep to the board.

AB1412 would require the release of certain police personnel records in cases of police shootings, sexual harassment, and a few other events. While the policy committee acknowledged the public purpose and desire for such record releases, there was also concern about the effect on the police operations and the individuals involved. The policy committee voted to oppose unless amended. One of the members of the GTLR committee represents the Police Chiefs. He spoke well on the issue, recognizes there needs to be some give on the issue, but spelled out the dilemmas would be created.

In other news, the state will be spending $134M to replace election systems in some counties. California is also starting conditional registration, allowing same day registration, and also implementing the Voters Choice Act. You will be able to vote by mail or at any voting place in your jurisdiction.

We received a briefing from CalPERS, represented by Randy Dziubek, Deputy Chief Actuary, and David Teykaerts, Stakeholder relations. I'm going to give my interpretation here of their core message: "It's not our fault. Nothing is our fault." They were pleased to report good returns for 2016/17 of 11.2% and YTD for the current year of 9%. The current funding ratio is 71%.

They offered 3 strategies: 1) Ad hoc – Annual Discretionary Payments, 2) Fresh start – locks a city into a 20-year amortization, consolidating all amortization bases, 3) IRS Section 115 Trusts

There is a hardship policy based on facts and circumstances. They have done it a few times. Basically, it's a stretch-out of payments, not a reduction.

A couple of statements caught my ear. First, they stated that CalPERS has no influence on benefits, i.e. they are only the bookkeepers. I waited my turn to speak and challenged that, especially the enhanced benefits created in 1999. Randy, who has only been at CalPERS since 2015, acknowledged that he had heard something about that.

I also began to note that when he talked about the annual valuation statements, he kept talking about the minimum contribution. The implication was clear that if we hadn't been paying more, then it was our fault that we have big unfunded liabilities. I also challenged on why they didn't set contribution amounts that maintained a healthy fund. He pushed back saying that he suspected that a lot of people in the room prefer a minimum requirement…(so it's not CalPERS fault, it's our fault). On this one he is partly right, except that none of the cities has staff actuaries to help understand the implications.

By the way, it's my impression that agencies who have their own plans do not have all the flexibility to kick the can down the road that CalPERS uses.

On the investment side, CalPERS is trying to create CalPERS direct. Currently, CalPERS uses independent investment advisors for private equity. That's the area where CalPERS gets the best returns. Yet they pay a lot in fees. They want to create an independent and separate organization for such investment. It's a business where you pay for talent, way beyond state salary scales. The challenge is to create a legal and cultural separation from CalPERS.

We adjourned.