CITY COUNCIL AGENDA REPORT

Meeting Date: 10/3/2019

From: Stuart Schillinger, Deputy City Manager

Subject: Response to Grand Jury Report "Soaring City Pension Costs – Follow-up on Grand Jury Report of 2017-2018:

Community Goal/Result

Financial Sustainability

Purpose

To ensure current financial decisions ensure the most flexibility for future needs and the public is kept informed on the financial condition of the city organization.

Recommendation

Approve the City's response to the Grand Jury report.

Background

In July of 2019 the Grand Jury released its follow up to their 2017-2018 report related to the Soaring City Pension Costs.

The Grand Jury requested a response reviewed by the City Council during a public meeting prior to the end of October.

Discussion

The Grand Jury expressed a concern in their report that members of the public who may be interested in data concerning the cost of pensions for cities may not easily be able to find it. The Grand Jury believes that cities should produce 10-year financial forecasts, which include projected pension costs and include them with their budget documents on line.

The Grand Jury noted the City's creation of the 115 Trust to help pay future pension costs during down economic times. It noted the City staff was going to bring to the City Council the policy of having the 115 Trust reach $5,000,000 in the next 4 years. The S5, 000,000 would cover two years of the City's unfunded liability. The report said the employee's do not pay any portion of the City's Normal Cost, which was correct at the time of the report, but has since changed. The City recently negotiated with the Firefighters for the classic employees to increase their payment from 9% to 12% over the next three years. The additional 3% is part of our Normal Cost. This issue will become less important as more employees are in the PEPRA formulas where they are required to pay for half of the Normal Cost.

The report said the City was not anticipating any new revenue enhancements. This has also changed since the report was written, we are going to the voters in November with three ballot initiatives; an increase from 12- 14 percent in Transient Occupancy Tax, a new Cannabis tax, and updating the liquid storage tax to meet a negotiated agreement with Kinder Morgan. None of these were put on to pay for additional pension costs but to allow the City pay for additional programs or capital projects depending on the needs of the City.

Specifically, as it relates to findings and recommendations:

F1. Regarding covered payroll shown in the audit we agree.

F2. Regarding amount paid to PERS as reported in the CAFR, we agree.

F3. Regarding amount of Unfunded Liability as reported in the CAFR, we agree. The finding further states "Each City has been required to make large Amortization Cost (as defined in this report) payments of principal and interest to CalPERS on those Unfunded Liabilities. These payments have diverted money that would otherwise have been used to provide public services or add to reserves. Staff does not agree with this. The term large is a relative term and has inappropriate connotations. The amounts have been increasing due to the vagaries of the economy and increased life expectancy of our staff. If either was able to be predicted earlier the amount paid up front would have been larger and the Unfunded Liability would have been less. The City has not cut services to the public nor has it reduced the amount it has set aside for reserves over the past 10 years. Even during the recession the City was able to maintain a high level of service for the public and has since added back to its reserves and has set aside additional money in reserve to allow for greater choices going forward.

F4. Regarding Funded Percentages as set forth in the CAFR we agree.

F5. Regarding what the Unfunded Liability would have been if Discount Rate was 1% lower as reported in the CAFR, we agree.

F6. Regarding General Fund Expenditures as set out in the CAFR, we agree.

F7. Regarding the City's Combined contribution payment to CalPERS on the City's pension plans as a percent of the General Fund Total Expenditures. Although the math is correct the analysis does not take into account the amount paid by the non-general fund funds (Sierra Point Lighting and Landscaping, NPDES, Utility, or Marina). This is about 10% of our overall PERS payments. Therefore, the percentage of the actual impact on the General Fund is less.

F8. Regarding the Contribution Rate compared to Covered Payroll. We agree with the math, but it does not show the nuance of the difference between Safety Rates and Non-Safety Rates, nor does it show the decreasing cost of pension for newer employees who were hired after 2008.

F 10. Brisbane has not published on their website or agenda packet projections showing the annual dollar amount of their projected contribution costs for five or more years. City staff has reviewed these with City Council during Council meetings and has provided information that is more detailed to City Council as part of closed session (employee negotiation). These projections ran for 15 based on the projections provided by GovInvest.

F 15. Brisbane has a general fund budget forecast covering only five-year period. The information is not included in their budget. The City staff reviews the five-year forecast with City Council at its budget meetings but has not included it in the budget document itself. The most recent forecast looked at a 15 year period which was reviewed with City Council as part of its negotiations with its employees.

F 17. Brisbane 's five year-year general fund operating forecast is not accessible to the public through its website. The five year forecast was part of the budget presentation and is available as part of the meeting. Although, it is true no document is labeled 5-year budget forecast on the website.

F 20. Brisbane does not currently have a specific plan recommended by staff to the City Council to make additional pension contribution payments to CalPERs beyond its Annual Required Contribution. This is true; instead, the City is setting money aside in a 115 Trust for future pension obligations. The goal is to set aside $5,000,000 or two years of the City's unfunded pension liability. A 115 trust is more flexible because it can be used for any pension payment not just the unfunded liability and it can be invested more conservatively than CalPERS investments which will hopefully, have a smaller impact during bad investment environments. Also, if PERS has a loss the less money invested with them will mean a lower future unfunded liability.

F 21. Brisbane has contributed funds to a Section 115 trust, specifically for the purpose of paying future pension contributions. This is true. The City has set aside over $1,000,000 in this Trust with the goal of having $5,000,000 set aside within the next 4 years.

F 24. Brisbabne does not currently or seet to enter into a cost-sharing agreement with employees under which employees pay for a portion of the City's Normal Cost pension payment obligations to CalPERS. This was true at the time of the report but since then the City has entered into an agreement with its firefighter association for fighters to pick up 3% of the City's Normal Cost for classic employees.

F 25. Brisbane has since November 2016 sought and obtained voter approval for ballot measures intended to increase revenues. This is true.

F 25. Brisbane is not currently considering seeking approval of its voters for revenue enhancement in the near term. The City is going to the ballot in November for voter approval that would increase revenues if approved, a 2% increase in its Transient Occupancy Tax, and a new tax on cannabis businesses.

Recommendations from the Grand Jury

R1. Each City include in its published annual or bi-annual budgets a general fund operating budget forecast for the next ten fiscal years. The City could include this starting in July 2020. However, projections much more than 5 years out are only very rough estimates and may provide a false sense of the future depending on many different aspects including the general economy, specific businesses that move in or out of the City, the investment climate, new construction, or future contracts that cannot be contemplated at the time of the projections. Five-year projections are more accurate but still need to be kept up to date and reviewed annually.

R2. Each City include a report in its published annual or bi-annual budgets specifically setting forth the dollar amounts of its annual pension costs paid to CalPERS. The report should include the following:

a) The City's total pension contribution under all plans, for each of the three preceding fiscal years as well as estimates for such costs in each of the following ten fiscal years (whether develop by City staff internally, or by outside consultants to the City), assuming CalPERS actuarial assumptions are met.
b) The City's total Unfunded Liabilities under all plans, for each of the three preceding fiscal years as well as estimates for such Unfunded Liabilities in each of the next ten fiscal years, (whether developed by City staff internally, or by outside consultants to the City), assuming CalPERS' actuarial assumptions are met.
c) The City's Funded Percentage across all plans, for each of the three preceding fiscal years as well as estimates for such Funded Percentages in each of the next ten fiscal years, assuming CalPERS' actuarial assumptions are met.
d) The percentage of the City's general fund expenditures, and the percentage of covered payroll, represented by the pension costs described in (a) above (using estimates of general fund expenditures in future fiscal years).

City staff understands the desired outcome of the Grand Jury is to provide a more clear understanding of the impact of pension costs on City operations. The City is able to provide this information because it uses an outside company GovInvest to estimate future pension costs, liabilities, and payroll. The concern staff has is 10-year forecasts although good at a very high planning level does not provide the right type of information for the Council and the Community to make financial decisions in the best interest of the community. One really bad investment year like 2007 would negate all of the estimates. Or conversely, if the City was to limit public services or increase revenues because of future estimated impacts and they did not come to fruition either do to a better investment environment or a change in the local economy that was possible but not predictable then the community will have been disadvantaged.

Fiscal Impact

There is a minimal impact from making the Grand Jury's recommendations since the City already has access to the information it would be just additional staff time to put the information in an understandable chart.

Measure of Success

The City Council is able to make better financial decisions based on a better understanding of CalPERS.

Attachments

1) Grand Jury Report.

Stuart Schillinger

Stuart Schillinger, Deputy City Manager

Clay Holstine, City Manager