

# *City of Brisbane*

## *Agenda Report*

To: Mayor and City Council

From: Stuart Schillinger, Administrative Services Director

Subject: Response to the Grand Jury regarding CalPERS (California Public Employee Retirement System)

Date: September 6, 2018

### **Purpose:**

Ensure the City Council and the Public have an understanding of the impact of the retirement system on the City's ability to provide services.

### **Recommendation:**

The City Council review the Grand Jury report and the proposed response to their recommendations. Council should direct the staff to make any necessary changes and then send the responses to the Grand Jury.

### **Background:**

The Grand Jury reviewed the current position of CalPERS and made four recommendations related to providing information to the community regarding the funding status of the retirement system, and a plan for paying for retirement in the future.

It was noted in the report that the City of Brisbane is one of three cities which has already set up a Section 115 Trust to manage future pension obligations. The report also noted the City's policy discussed at last year's mid-year budget review of setting aside 40% of anticipated budget surplus for future pension obligations.

### **Discussion:**

City Staff has reviewed the report presented by the Grand Jury and the four recommendations. Staff proposes including the following responses in a letter to the Grand Jury to be signed by the Mayor.

Recommendation 1. The Grand Jury recommends that, by December 31, 2018, each City schedule public hearings to engage its residents in addressing the city's increasing pension costs and to develop a long-term plan to address them.

RESPONSE: The City has held a public meeting concerning the rising cost of our pension plan as part of the 2018/20 budget process. The long-term plan was established by setting up a 115 Trust and contributing to it annually as well as planning for the increase in pension costs as part of our long-term financial planning scenarios.

Recommendation 2. The Grand Jury recommends that, by December 31, 2018, and annually thereafter, each City publish a report on its website detailing its pension obligations. It goes on to list a number of items suggested to be in the report.

RESPONSE: It would make more sense to publish this type of report along with the City's budget in July or August of each year. The City contracts with GovInvest for PERS projections. The software is able to show the projected unfunded liability for the next 10 years by Plan so it has the ability to show the unfunded liability and the funded percentage. Without this software it would not be possible to show this information without getting a separate actuarial report which would be cost prohibitive. If the City was to show what would happen if PERS underperformed projections by 1% it would make sense to show what would happen if it over performed by 1% as well. The projected performance is the expected rate of return of over a twenty year period. In any given year PERs can underperform or over perform. Both cases are equally as likely.

Recommendation 3. The Grand Jury does not recommend specific policies or implementation measures to address pension costs. However, it recommends that by no later than December 31, 2018, and annually thereafter, each City instruct its staff to deliver a report to the City Council in connection with the City's financial plan evaluating available options to address pension costs and that each City hold public hearings to discuss and consider options no less than every other year. The report then listed 12 different strategies that could be reviewed.

RESPONSE: The City discussed the impact of pension on the City's ability to provide services for the City with its budget which is the time frame that the City Council can best decide on an overall strategy. The City does two year budgeting and will continue to have these discussions at this time. If the City Council was to discuss PERs options outside of the budget process, it would not have the same context to make the most informed decisions.

Recommendation 4 The Grand Jury recommends that, by June 30, 2019, each City develop and publish a long-term financial plan to deal with rising pension costs, and update that plan annually. The Grand Jury listed 5 items it recommends the plan include.

RESPONSE: The City will continue to review its Pension obligations alongside its budget every two years. Identifying a funded percentage by year may not be in the best interest of the City. There are years where PERs is able to outperform expectations. During these times the City should not deviate from its long-term financial objectives to take advantage of the short-term return on the market. It was thinking like this that enabled City's to provide additional benefits to its employees when PERs was above 100% funded. When there is a short-fall in returns the City should not reduce services which may be difficult to resurrect for short-term financial issues.

### **Fiscal Impact:**

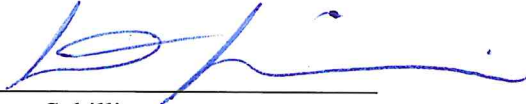
The cost of the software the City uses for pension projections is about \$5,000 a year and is included in the budget.

### **Measure of Success**

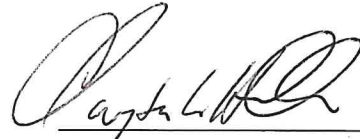
The City is able to meet its future pension obligations with minimal impact to ongoing services.

**Attachments:**

Grand Jury Report regarding Pension Costs.



Stuart Schillinger  
Administrative Services Director/Deputy City Manager



Clay Holstine  
City Manager



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July 17, 2018

City Council  
City of Brisbane  
50 Park Place  
Brisbane, CA 94005

Re: Grand Jury Report: "Soaring City Pension Costs – Time for Hard Choices"

Dear Councilmembers:

The 2017-2018 Grand Jury filed a report on July 17, 2018 which contains findings and recommendations pertaining to your agency. Your agency must submit comments, within 90 days, to the Hon. V. Raymond Swope. Your agency's response is due no later than October 16, 2018. **Please note that the response should indicate that it was approved by your governing body at a public meeting.**

For all findings, your responding agency shall indicate one of the following:

1. The respondent agrees with the finding.
2. The respondent disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefore.

Additionally, as to each Grand Jury recommendation, your responding agency shall report one of the following actions:

1. The recommendation has been implemented, with a summary regarding the implemented action.
2. The recommendation has not yet been implemented, but will be implemented in the future, with a time frame for implementation.
3. The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a time frame for the matter to be prepared for discussion by the officer or director of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This time frame shall not exceed six months from the date of publication of the Grand Jury report.
4. The recommendation will not be implemented because it is not warranted or reasonable, with an explanation therefore.

Please submit your responses in all of the following ways:

1. Responses to be placed on file with the Clerk of the Court by the Court Executive Office.
  - Prepare original on your agency's letterhead, indicate the date of the public meeting that your governing body approved the response address and mail to Judge Swope.

Hon. V. Raymond Swope  
Judge of the Superior Court  
c/o Charlene Kresevich  
Hall of Justice  
400 County Center; 2<sup>nd</sup> Floor  
Redwood City, CA 94063-1655.

2. Responses to be placed at the Grand Jury website.
  - Copy response and send by e-mail to: [grandjury@sanmateocourt.org](mailto:grandjury@sanmateocourt.org). (Insert agency name if it is not indicated at the top of your response.)
3. Responses to be placed with the clerk of your agency.
  - File a copy of the response directly with the clerk of your agency. Do not send this copy to the Court.

For up to 45 days after the end of the term, the foreperson and the foreperson's designees are available to clarify the recommendations of the report. To reach the foreperson, please call the Grand Jury Clerk at (650) 261-5066.

If you have any questions regarding these procedures, please do not hesitate to contact Paul Okada, Chief Deputy County Counsel, at (650) 363-4761.

Very truly yours,



Rodina M. Catalano  
Court Executive Officer

RMC:ck  
Enclosure

cc: Hon. V. Raymond Swope  
Paul Okada

Information Copy: City Manager

**This is an advanced copy of a Grand Jury report that will be publicly released on July 17, 2018. Penal Code section 933.05 (f) prohibits any officer, agency, department, or governing body of a public agency from disclosing any contents of the report prior to the public release of this report.**

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## **Soaring City Pension Costs – Time for Hard Choices.**

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## SOARING CITY PENSION COSTS – TIME FOR HARD CHOICES

### ISSUES

How high will the pension costs of cities within San Mateo County be in the next ten years and what actions can the cities take now to meet those obligations?

### SUMMARY

Public pension costs are already eating into city budgets and represent a serious threat to public services in San Mateo County's cities.

In FY 2016-2017, the 20 cities within the county of San Mateo (the Cities) spent a total of \$102 million on their pension plans, representing an average of approximately 13.6 percent of their general fund expenditures. As heavy a financial burden as this is, the Cities' pension costs are projected to double by FY 2024-2025 if new actuarial assumptions made by CalPERS - the administrator of the Cities' pension plans - prove to be correct. Many experts argue, however, that CalPERS' assumptions are unduly optimistic. If these experts are correct, increases in the Cities' pension costs could be even greater.

The most important change in CalPERS' actuarial assumptions is a lowered expectation for the Return on Investment for CalPERS' pension fund assets. Since Return on Investment is expected to pay for the majority of retiree pensions, a lower investment return means that the Cities and their employees must make up the difference by making larger payments into the pension fund. The Cities have no control over CalPERS' assumptions, and each year they must pay the amount of money required by CalPERS. In each City, the city government and employees share a "Normal Cost" of paying for future retiree benefits. These will increase as a result of the changed CalPERS's assumptions. However, each City also has an "Unfunded Liability" that represents the difference between the value of their pension fund assets and the present value of their long-term pension obligations. As a result, the Cities are required to pay "Amortization Costs" (principal plus interest) to CalPERS on their Unfunded Liabilities. Amortization Costs will also increase because of the changed CalPERS' assumptions. On average, the Cities' Normal Costs comprise 41 percent of their total pension payments to CalPERS, while Amortization Costs comprise 59 percent.

The Cities have a number of options for paying steeply rising pension costs, each of which can be implemented on its own, or in combination. First, the Cities can cut public services, reduce employee salaries and benefits, or lay off employees in order to free up additional funds. Second, the Cities can negotiate with bargaining units to increase the employees' share of pension costs. Third, the Cities can attempt to increase revenues from taxes. Fourth, the Cities can use other existing resources, if any, to pay down the Unfunded Liabilities early. The San Mateo Civil Grand Jury of 2017-2018 has found that the last choice could result in large savings for all the

Cities. In one scenario, the savings could exceed \$125 million each for the Cities of San Mateo and Redwood City.

In the course of its investigation, the Grand Jury learned that none of the Cities have adopted long-term financial plans to address their rising pension costs. Some Cities informed the Grand Jury that, while rising pension costs are important, they must be balanced against “other priorities” for new spending. While the Grand Jury understands the desire on the part of the Cities to expand their services in these times of growth and increasing property tax revenues, it is difficult to think of a more important issue for them to address than the looming pension crisis. Currently, the region enjoys unprecedented economic conditions, resulting in higher tax revenues and budget surpluses for many Cities. The Grand Jury asks: If the Cities do not address Unfunded Liabilities now, when will they ever be able to?

The Grand Jury has compiled data regarding pension costs of each of the Cities, which are set forth in Appendix A of this report, as well as aggregate information for all of the Cities. This report also provides a general overview of public pension obligations, the major variables that drive pension cost and Unfunded Liability calculations, including how these variables can understate Unfunded Liabilities. This report describes the options available to the Cities to address the looming budgetary crises they face from rising pension costs.

The Grand Jury recommends that the Cities make addressing pension costs a higher priority and that they engage residents in a discussion about the hard choices that their local governments will have to make. The Grand Jury also recommends that each City develop a financial plan to address rising pension costs. The Grand Jury does not recommend specific policies or implementation measures for the Cities to adopt, but the Grand Jury does identify a number of options for them to consider.

## GLOSSARY

- Agency: Any city, county, or other public entity employer that offers a pension plan to its employees through CalPERS. Each of the Cities is, accordingly, an “Agency” for purposes of this report.
- Amortization Cost: Payments by the Cities to CalPERS, to pay down their Unfunded Liability. It includes payments of (a) principal needed to pay off (amortize) the Unfunded Liability over a period of years, plus (b) interest charged by CalPERS on that liability.
- Amortization Period: The number of years over which an Unfunded Liability is to be paid off.
- Benefits or Benefits obligations: Amounts to be paid out of a pension plan’s assets to Members or their beneficiaries.

- Comprehensive Annual Financial Report or CAFR: An annual financial report issued by government entities, such as the Cities.
- CalPERS: The California Public Employees Retirement System, which administers pension plans for all of the Cities.
- County: The government of San Mateo County. The geographic area of San Mateo County is referred to as the “county.”
- Discount Rate: The interest rate used in calculating the present value of future cash flows. CalPERS determines the Discount Rate it will use to calculate each pension plan’s Total Plan Liabilities and Unfunded Liabilities. Under public pension plan accounting rules, the Discount Rate is the same as the annual Return on Investment that CalPERS projects it will earn on plan assets.
- Funded Ratio or Funded Percentage: Measures the extent to which a pension plan’s assets match the present value of its projected future pension obligations. It is the ratio that results from dividing Total Plan Assets by Total Plan Liabilities.
- GASB: The Government Accounting Standards Board. Among other things, it sets financial accounting standards for public service employee pension plans.
- Members: Current and vested former employees of the Cities, or their beneficiaries, who participate in one of the Cities’ CalPERS pension plans.
- Miscellaneous Plans: Pension plans for public service employees who do not provide safety services such as police and fire protection. Miscellaneous Plans are generally less expensive to maintain than Safety Plans.
- Normal Cost: The contribution payments Agencies and their employees make to CalPERS in order to fund the projected lifetime cost (discounted to present value) of Benefits that accrue to current employee Members during that year. It does not include Amortization Costs.
- Return on Investment or Rate of Return: The annual gain or loss on invested pension plan assets. In public pension plans, this is the same as the Discount Rate.
- Safety Plans: Pension plans for public service employees who provide safety services, such as police and fire protection.
- Cities: The 20 cities located within the San Mateo County.

- **Total Plan Assets:** The current dollar value of all assets within a pension plan (sometimes referred to in CAFRs as “Fiduciary Net Position”).
- **Total Plan Liabilities:** The present value of all future Benefit obligations under a pension plan (sometimes referred to in a CAFR as “Total Pension Liability”).
- **Unfunded Liability:** The dollar amount, if any, by which Total Plan Liabilities of a pension plan exceed its Total Plan Assets (sometimes referred to in a CAFR as “Net Pension Liability”).

## BACKGROUND

### The Cities’ Pension Plans.

Each of the Cities provides its employees with a pension plan administered by CalPERS<sup>1</sup> as an integral part of their compensation package. All of these plans are defined benefit plans<sup>2</sup> in which future Benefits are determined by a formula that is set at the outset of employment.<sup>3,4</sup> The Benefits are guaranteed by the Cities and do not depend on how well pension contributions are invested. Benefits are financed from three sources:<sup>5</sup>

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<sup>1</sup> See, the Comprehensive Annual Financial Reports (CAFRs) listed in the BIBLIOGRAPHY section below for each of the Cities.

<sup>2</sup> See, CAFRs for each of the Cities listed in the BIBLIOGRAPHY section below. CalPERS, *Comprehensive Annual Financial Report for the Year Ended June 30, 2017*, p. 7, <<https://www.calpers.ca.gov/docs/forms-publications/cafr-2017.pdf>>.

<sup>3</sup> Biggs, Andrew and Smetters, Kent, *Understanding the Argument for Market Valuation of Public Pension Liabilities*, American Enterprise Institute. May 2013, p. 1, <[http://www.aei.org/wp-content/uploads/2013/05/-understanding-the-argument-for-market-valuation-of-public-pension-liabilities\\_10491782445.pdf](http://www.aei.org/wp-content/uploads/2013/05/-understanding-the-argument-for-market-valuation-of-public-pension-liabilities_10491782445.pdf)>. Ruloff, Mark, *Defined Benefit Plans vs. Defined Contribution Plans*, Pension Section News of Society of Actuaries, January 2005 – Issue No. 57, p. 1. Money-Zine, *Defined Benefit versus Contribution Plans*, July 5, 2017, <<https://www.money-zine.com/financial-planning/retirement/defined-benefit-versus-contribution-plans/>>. Investopedia, *How does a defined benefit pension plan differ from a defined contribution plan?*, March 2015, <<https://www.investopedia.com/ask/answers/032415/how-does-defined-benefit-pension-plan-differ-defined-contribution-plan.asp>>.

<sup>4</sup> In contrast, most private companies’ retirement plans are defined contribution plans, such as 401k’s, where the amounts of future benefit payments vary depending on returns achieved on investments. Greenhut, Steven, *California Still Facing Pension Crisis Even with Good Stock Market Returns*, California Policy Center, July 14, 2017, <<http://reason.com/archives/2017/07/14/dont-let-unions-use-good-returns-to-defl>>.

<sup>5</sup> CalPERS at a Glance, *CalPERS Communications and Stakeholder Relations*, <<https://www.calpers.ca.gov/docs/forms-publications/calpers-at-a-glance.pdf>>. CalPERS 2017 CAFR, p. 47. Lin, Judy, *Retirement Debt: What’s the problem and how does it affect you?* CalMatters.org, February 21, 2018, <<https://calmatters.org/articles/california-retirement-pension-debt-explainer/>>. Nation, Joe, *Pension Math: How California’s Retirement Spending is Squeezing the State Budget*. SIEPR (Stanford Institute for Economic Policy Research). December 13, 2011, p. 23, <<http://arc.asm.ca.gov/NSR.pdf>>. Nation, Joe and Storms, Evan, *More Pension Math: Funded Status, Benefits, and Spending Trends for California’s Largest Independent Public Employee Pension Systems*. SIEPR (Stanford Institute for Economic Policy Research). February 21, 2012, p. 3, <[http://siepr.stanford.edu/sites/default/files/publications/Nation\\_More\\_Pension\\_0.pdf](http://siepr.stanford.edu/sites/default/files/publications/Nation_More_Pension_0.pdf)>. Biggs and Smetters, *Understanding the Argument for Market Valuation*, p. 3.

- Current employee contributions to CalPERS of a fixed percentage of their salaries. These contributions go towards Normal Costs and pay for approximately 13 percent of Benefits paid under CalPERS' pension plans).
- Agency (that is, employer) contributions to CalPERS of
  - (i) the Normal Cost of the pension plan for that year (less the employee contributions amounts), plus
  - (ii) if the pension plan has an Unfunded Liability (as do all of the Cities' pension plans<sup>6</sup>), the Amortization Cost (that is, the cost of paying off that Unfunded Liability, including both principal and interest, over a period of years).

These employer contributions pay for approximately 26 percent of Benefits paid under CalPERS' pension plans.<sup>7</sup>

- Return on Investment achieved by CalPERS from investing the contributions made by employees and Agencies between the time that the contributions are made and the date when Benefits payments come due. Historically, these Returns on Investment have paid for approximately 61 percent of Benefits paid under CalPERS' pension plans.<sup>8</sup>

CalPERS determines the contributions that Agencies (that is, employers) must pay to CalPERS to cover future Benefits by calculating:

- (i) Benefits amounts that will have to be paid, based on assumptions that include projected future retirement rates, inflation, wage increases and post-retirement longevity, and
- (ii) Returns on Investment CalPERS expects to earn on employee and Agency contributions.

To the extent that projected costs of Benefits increase unexpectedly, or Returns on Investment fall short of projections, pension plans will have Unfunded Liabilities. The Agencies rather than CalPERS are responsible for paying down all Unfunded Liabilities through increased contributions and the Agencies bear all the risk of CalPERS' projections being wrong.<sup>9</sup> Agencies

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<sup>6</sup> Appendix A.

<sup>7</sup> CalPERS at a Glance.

<sup>8</sup> CalPERS at a Glance.

<sup>9</sup> The Economist, Buttonwood's Notebook, *The soaring cost of old age, The real problem with pensions*, March 7, 2018, <<https://www.economist.com/blogs/buttonwood/2018/03/soaring-cost-old-age>>. Oliveira, Anthony, *The Local Challenges of Pension Reform*, Bartel Associates, May 24, 2010, p. 4, <[http://www.bartel-associates.com/docs/default-source/articles/oliveira\\_a\\_the-challenges-of-pension-reform-1.pdf?sfvrsn=2](http://www.bartel-associates.com/docs/default-source/articles/oliveira_a_the-challenges-of-pension-reform-1.pdf?sfvrsn=2)>. Andonov, Aleksander, Bauer, Rob, Cremers, Martijn, *Pension Fund Asset Allocation and Liability Discount Rates*,

have no control over CalPERS' determinations and must pay all contribution increases mandated by CalPERS.<sup>10</sup>

### **Importance of Rate of Return on Investment.**

As noted above, Returns on Investments are the primary funding source for meeting Benefits obligations. Accordingly, annual Returns on Investment achieved by CalPERS have a major impact on its ability to fund Benefits payments. As of June 30, 2017, CalPERS reported the following annualized net Returns on Investment over different periods of time:<sup>11</sup>

- Past 3 years: 4.6 percent
- Past 5 years: 8.8 percent
- Past 10 years: 4.4 percent
- Past 20 years: 6.6 percent

Even small changes in CalPERS' annual Returns on Investments over the long-term can drive substantial changes in its ability to meet Benefit obligations. For example, if a pension plan had an obligation to pay Benefits of \$150 million in 20 years and CalPERS projected that its annual Return on Investment over that time would average 7.5 percent, then CalPERS would need \$35.5 million at the outset to meet that obligation. However, if the actual Return on Investment achieved by CalPERS over that period was only 6.5 percent instead of 7.5 percent, then the pension plan would only have \$124.4 million available to pay Benefits in the 20th year,<sup>12</sup> a shortfall of more than \$35 million on the \$150 million obligation.

### **Importance of Discount Rates.**

To determine the Funded Percentage of a pension plan, CalPERS compares the value of the pension plan's assets (Total Plan Assets) to the present value of the plan's Benefits payment obligations (Total Plan Liabilities).<sup>13</sup> If the present value of the Benefits obligations is larger than the current value of pension assets, then the plan is not fully funded and has an Unfunded Liability equal to the difference.

In economic terms, the promise to make a future Benefit payment is worth less today than an immediate payment of the same amount. In order to compare the value of a promise to pay a

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March 2016, p. 1, <[http://www.icpmnetwork.com/wp-content/uploads/2016/05/Rob-Buaer\\_What-Is-the-Biggest-Challenge-Facing-Public-Plan-Sponsors\\_Optional.pdf](http://www.icpmnetwork.com/wp-content/uploads/2016/05/Rob-Buaer_What-Is-the-Biggest-Challenge-Facing-Public-Plan-Sponsors_Optional.pdf)>.

<sup>10</sup> Interviews by Grand Jury.

<sup>11</sup> CalPERS, *Investment & Pension Funding Facts at a Glance for Fiscal Year 2016-17*, <<https://www.calpers.ca.gov/docs/forms-publications/facts-investment-pension-funding.pdf>>.

<sup>12</sup> The formula for the 7.5 percent Return on Investment example is: \$150 million / ((1.0 + 0.075)<sup>20</sup>) = \$35,311,972. The formula for the 6.5 percent Return on Investment example is: \$35,311,972 x (1.065<sup>20</sup>) = \$124,426,856.

<sup>13</sup> Biggs and Smetters, *Understanding the Argument for Market Valuation*, p. 1.

Benefit in the future to the value of plan assets today, the value of the promise to make a future payment must first be discounted to its present value. As explained by Messrs. Biggs and Smetters:

“Discounting is a process similar to compound interest. While compound interest begins with a current dollar amount and adds interest to determine the future value, discounting begins with the future value and subtracts interest each year until a present value is arrived at.”<sup>14</sup>

Even small changes in the annual interest to be subtracted from the future value (that is, the Discount Rate), significantly impact present value and, consequently, a plan’s Unfunded Liability.<sup>15</sup> See, the section of this report entitled “Increase in Unfunded Liabilities and Decrease in Funded Percentages if a Lower Discount Rate is Used” at p. [16] for an example of the impact on the Cities of a drop of just one percentage point in the Discount Rate. As a result, the Discount Rate selected for this calculation matters a great deal.

### **Debate Over CalPERS’ Discount Rates and Projected Rates of Return.**

Discount rates are set based on CalPERS’ projections for long-term Returns on Investment.<sup>16</sup> The higher the projected Return on Investment, the higher the Discount Rate and the lower the Unfunded Liability. That is often referred to as the “assumed return approach”.<sup>17</sup> Although GASB mandates this method of setting public pension plan Discount Rates,<sup>18</sup> it is controversial.<sup>19</sup> Many economists, academics and commentators claim it understates the size of Unfunded Liabilities.<sup>20</sup> They argue that the present value of future Benefit obligations should be

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<sup>14</sup> Ibid., p. 4.

<sup>15</sup> Nation, *Pension Math* 2011, pp. 9 and 11.

<sup>16</sup> GASB Statement No. 68, Paragraph 64,

[http://www.gasb.org/jsp/GASB/Document\\_C/DocumentPage?cid=1176160220621&acceptedDisclaimer=true](http://www.gasb.org/jsp/GASB/Document_C/DocumentPage?cid=1176160220621&acceptedDisclaimer=true).  
Mixon, Peter, *Estimating Future Costs at Public Pension Plans: Setting the Discount Rate*. Pensions & Investments, April 29, 2015, p. 1, <http://www.pionline.com/article/20150429/ONLINE/150429853/estimating-future-costs-at-public-pension-plans-setting-the-discount-rate>.  
Brewington, Autumn, *Making Sense of the Mathematics of California’s Pension Liability*, Hoover Institution, August 21, 2012, <https://www.hoover.org/research/making-sense-mathematics-californias-pension-liability>.  
Biggs and Smetters, *Understanding the Argument for Market Valuation*, p. 4.

<sup>17</sup> U.S. Government Accountability Office, *Pension Plan Valuation: Views on Using Multiple Measures to Offer a More Complete Financial Picture*, September 30, 2014, p. 2, <https://www.gao.gov/products/GAO-14-264> and <https://www.gao.gov/assets/670/666287.pdf>.  
Mixon, *Estimating Future Costs at Public Pension Plans*, p. 1.  
Turner, John, Godinez-Olivares, Humberto, McCarthy, David, del Carmen Boado-Penas, Maria, *Determining Discount Rates Required to Fund Defined Benefit Plans*, Society of Actuaries, January 2017, p. 6, [www.actuaries.org/oslo2015/papers/PBSS-Turner&GO&McC&B-P.pdf](http://www.actuaries.org/oslo2015/papers/PBSS-Turner&GO&McC&B-P.pdf).

<sup>18</sup> GASB Statement No. 68, Paragraph 64.

<sup>19</sup> Angelo, Paul, *Understanding the Valuation of Public Pension Liabilities – Expected Cost versus Market Price*, In the Public Interest, January 2016, p. 9, <https://www.soa.org/library/newsletters/in-public-interest/.../ip-2016-iss12-angelo.aspx>.

<sup>20</sup> Mixon, *Estimating Future Costs at Public Pension Plans*, p. 1. U.S. Government Accountability Office, p. 2. Bui, Truong and Randazzo, Anthony, *Why Discount Rates Should Reflect Liabilities: Best Practices for Setting Public Sector Pension Fund Discount Rates*, Reason Foundation, September 2015, p. 4, <https://reason.org/wp->

based on a Discount Rate that reflects the value of those Benefits payments to the beneficiaries (that is, the amount an investor would pay today in exchange for the right to receive that future cash flow). Noting that obligations to pay Benefits in the future are similar to obligations to make future payments on municipal bonds, they argue that yield rates on municipal bonds having a duration and risk of non-payment similar to pension Benefits obligations are the best yardstick for establishing the value of those Benefit obligations and, accordingly, the Discount Rate.<sup>21</sup> This approach is sometimes referred to as the “bond-based approach” or “market-based method.”<sup>22</sup>

However, other experts, particularly actuarial professionals, argue that this bond or market-based approach does not provide useful information to the Agency sponsoring a pension plan about the cost to that Agency of funding future benefit obligations. They point out that, for purposes of calculating contribution rates, the expected costs of meeting future Benefit obligations are the only relevant consideration and that such costs are best calculated based on “assumed rates of return.”<sup>23</sup> Yet other experts believe that a variation on the assumed rate of return method in which the risk that future additional amortization payments will be necessary is factored into the Discount Rate offers the most useful information.<sup>24</sup>

This debate has important implications because CalPERS’ assumed Return on Investment (7.5 percent per year from 2012 to the present) is significantly greater than municipal bond yield rates.<sup>25</sup> Since CalPERS’ projected Return on Investment exceeds that of municipal bonds yields, the result is greater Discount Rates and smaller present values of Benefit payment obligations and Unfunded Liabilities.

Other experts do not engage in the debate between proponents of the assumed return approach and the bond or market-based approach but focus instead on concerns that CalPERS’ new projection of a 7.0 percent annual Return on Investment – approved in December 2016 but not

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[content/uploads/files/pension\\_discount\\_rates\\_best\\_practices.pdf](#)>. Biggs and Smetters, *Understanding the Argument for Market Valuation*, pp. 2-5. American Academy of Actuaries. *Measuring Pension Obligations: Discount Rates Serve Various Purposes*. American Academy of Actuaries Issue Brief, November 2013, <[http://www.actuary.org/files/IB\\_Measuring-Pension-Obligations\\_Nov-21-2013.pdf](http://www.actuary.org/files/IB_Measuring-Pension-Obligations_Nov-21-2013.pdf)>.

<sup>21</sup> Bui and Randazzo, *Why Discount Rates Should Reflect Liabilities*, p. 2. U.S. Government Accountability Office, p. 2. Biggs and Smetters, *Understanding the Argument for Market Valuation*, p. 5. American Academy of Actuaries, p. 2.

<sup>22</sup> Mixon, *Estimating Future Costs at Public Pension Plans*, p. 2. U.S. Government Accountability Office, p. 2.

<sup>23</sup> American Academy of Actuaries, p. 2. Angelo, *Understanding the Valuation of Public Pension Liabilities*, pp. 9, 11-12. Mixon, *Estimating Future Costs at Public Pension Plans*, p. 2. See also, Nation, *Pension Math* 2011, p. 12, for a chart outlining the arguments for and against public pension systems using high Discount Rates.

<sup>24</sup> Turner, *Determining Discount Rates*, p. 3.

<sup>25</sup> Boyd, Donald, Kiernan, Peter, *Strengthening the Security of Public Sector Defined Benefit Plans*, The Blinken Report, The Nelson A. Rockefeller Institute of Government. January 2014, pp. 38-39, footnote 12, <[www.rockinst.org/pdf/government\\_finance/2014-01-Blinken\\_Report\\_One.pdf](http://www.rockinst.org/pdf/government_finance/2014-01-Blinken_Report_One.pdf)>. Angelo, *Understanding the Valuation of Public Pension Liabilities*, p. 10. U.S. Government Accountability Office, pp. 2-3.



yet implemented<sup>26</sup> – is unrealistically high. They claim that a more reasonable projection would be 6.0 - 6.5 percent.<sup>27</sup> Wilshire Consulting, CalPERS' general consultant, has advised CalPERS' board that it expects the CalPERS' Return on Investment over the next ten years to be just 6.2 percent.<sup>28</sup> It should be noted, however, that CalPERS makes Discount Rate decisions based on projected Returns on Investments over 60-year periods, not 10. CalPERS' projected 60-year Returns on Investment are in line with its new 7 percent Discount Rate.<sup>29</sup>

As noted above, if Discount Rates and projected Returns on Investment are too high, then they understate the size of the Cities' Benefit payment obligations and Unfunded Liabilities.

### **Importance of Amortization Periods.**

If a pension plan has Unfunded Liabilities, CalPERS requires the sponsoring Agency to pay off (amortize) that Unfunded Liability, together with interest accrued at a rate equal to CalPERS' projected Rate of Return,<sup>30</sup> through higher annual contribution payments over the Amortization Period. Historically, CalPERS' standard Amortization Period for investment gains and losses

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<sup>26</sup> League of California Cities, *CalPERS Stays the Course, Adopts a 7 Percent Assumed Rate of Return*, December 22, 2017, <<https://www.cacities.org/Top/News/News-Articles/2017/December/CAIPERS-Stays-the-Course.-Adopts-a-7-Percent-Assum>>.

<sup>27</sup> Nation, *Pension Math* 2011, p. 13. Lin, *Retirement Debt*. Munnell, Alicia, *Appropriate discount rate for public plans is not simple*, MarketWatch, October 5, 2015, <<https://www.marketwatch.com/story/appropriate-discount-rate-for-public-plans-is-not-simple-2016-10-05>>.

<sup>28</sup> Rose-Smith, Imogen, *How Low Can CalPERS Go?* Institutional Investor.com, November 30, 2016, <<https://www.institutionalinvestor.com/article/b14z9p7tw9pdz0/how-low-can-calpers-go>>. Kasler, Dale, *With investments soft, CalPERS eyes higher contribution rates. What does that mean for workers?* Sacramento Bee, November 21, 2016, <[www.sacbee.com/news/business/article116331443.html](http://www.sacbee.com/news/business/article116331443.html)>. Kasler, Dale, *CalPERS moves to slash investment forecast. That means higher pension contributions are coming.*, Sacramento Bee, December 21, 2016, <<http://www.sacbee.com/news/business/article122088759.html>>. League of California Cities, *CalPERS Stays the Course*.

<sup>29</sup> Diamond, Randy, *CalPERS considers 4 asset allocation options; local officials prefer avoiding major changes*, November 14, 2017, p. 2, <<http://www.pionline.com/article/20171114/ONLINE/171119918/calpers-considers-4-asset-allocation-options-local-officials-prefer-avoiding-major-changes>>. CNBC.com, *CalPERS's sees 5.8 percent return with new allocation; below 7 percent goal*, February 8, 2017, <<https://www.cnbc.com/2017/02/08/calpers-sees-58-percent-return-with-new-allocation-below-7-percent-goal.html>>. See also, League of California Cities, *League of California Cities Retirement System Sustainability Study and Findings*, January 2018, p. 29, <[https://www.cacities.org/Resources-Documents/Policy-Advocacy-Section/Hot-Issues/Retirement-System-Sustainability/League-Pension-Survey-\(web\)-FINAL.aspx](https://www.cacities.org/Resources-Documents/Policy-Advocacy-Section/Hot-Issues/Retirement-System-Sustainability/League-Pension-Survey-(web)-FINAL.aspx)>, in which the authors note that CalPERS' determines its Discount Rate based on expectations for returns on investment over a 60 year period.

<sup>30</sup> Interviews by Grand Jury. Mendel, Ed, *Old cause of pension debt gets new attention*, Calpensions, July 10, 2017, p. 1, <<https://calpensions.com/2017/07/10/old-cause-of-pension-debt-gets-new-attention/>>. City of La Palma, *CalPERS Update and Additional Payment Discussion*, February 20, 2018, slide 22, <<https://www.cityoflapalma.org/ArchiveCenter/ViewFile/Item/2374>>. Eastman, Becky, *Report on status of Belvedere's employee pension funds*, May 13, 2013, p. 6, <<http://www.cityofbelvedere.org/DocumentCenter/View/1425>>.

was 30 years,<sup>31</sup> but an Agency could elect a shorter Amortization Period.<sup>32</sup> Like home loan repayment terms, the longer the Amortization Period, the lower the annual payment, but the larger the accrued interest costs. Examples of the cost of accrued interest to four of the Cities over different Amortization Periods are given in Table No. 5.

### **Public Employees Pension Reform Act of 2013 (PEPRA).**

In response to soaring public pension Unfunded Liabilities, the California Legislature adopted the California Public Employees Pension Reform Act of 2013 (PEPRA), which imposed significant reductions on state and local government pension benefits, primarily for employees hired after January 1, 2013 (referred to as “New Members”). Employees hired prior to that date are termed “Classic Members.”<sup>33</sup> Classic Members who change public employers retain their “Classic” status.<sup>34</sup> Thus, to date, the impact of PEPRA on public pension liabilities has been small.<sup>35</sup> However, it will increase over time as Classic Members retire and are replaced by New Members.

Some of the most important changes mandated by PEPRA include:

- Reduced pension benefit formulas for New Members. For New Member employees with Miscellaneous Plans, PEPRA requires a “2 percent at age 62” benefit formula, that is, a New Member retiring at age 62 is entitled to a pension equal to his number of years of

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<sup>31</sup> League of California Cities, *CalPERS Board Reduces Amortization Policy*, February 14, 2018, <<https://www.cacities.org/Top/News/News-Articles/2018/February/CalPERS-Board-Reduces-Amortization-Policy>>. Lowe, Stephanie and Rogers, Frances, *CalPERS Reduces Amortization Period with Impacts to Employer Contribution Rates*, California Public Agency Labor & Employment Blog, Liebert Cassidy Whitmore), March 1, 2018, <<https://www.calpublicagencylaboremploymentblog.com/retirement/calpers-reduces-amortization-period-with-impacts-to-employer-contribution-rates/>>. CalPERS Actuarial Office, *Finance and Administration Committee, Agenda Item 7a, Amortization Policy (Second Reading)*, February 13, 2018, <[https://www.calpers.ca.gov/docs/board-agendas/201802/financeadmin/item-7a-00\\_a.pdf](https://www.calpers.ca.gov/docs/board-agendas/201802/financeadmin/item-7a-00_a.pdf)>. Jacobius, Arleen, *CalPERS shortens amortization period to 20 years*, Pensions & Investments, February 14, 2018, <<http://www.pionline.com/article/20180214/ONLINE/180219934/calpers-shortens-amortization-period-to-20-years>>.

<sup>32</sup> Interviews by Grand Jury. However, if an Agency selects a shorter Amortization Period, CalPERS does not permit it to reverse that election later. Interviews by Grand Jury.

<sup>33</sup> CalPERS, *Summary of Public Employees Pension Reform Act of 2013 and Related Changes to Public Employees' Retirement Law*, November 27, 2012, pp. 1-2, <[http://www.counties.org/sites/main/files/file-attachments/calpers\\_summary.pdf](http://www.counties.org/sites/main/files/file-attachments/calpers_summary.pdf)>.

<sup>34</sup> Ibid. CalPERS, *A Guide to CalPERS: When You Change Retirement Systems*, p. 3, <<https://www.calpers.ca.gov/docs/forms-publications/change-retirement-systems.pdf>>.

<sup>35</sup> League of California Cities, *2018 Retirement System Sustainability Study*, pp. 2 and 5. Hutchings, Dane, *Closing the Pension Funding Gap*, League of California Cities, slide 4, <[https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0ahUKEwj4wYnghL7bAhUPJ3wKHegPCW0QFggpMAA&url=https%3A%2F%2Fwww.cacities.org%2FResources-Documents%2FPolicy-Advocacy-Section%2FHot-Issues%2FRetirement-System-Sustainability%2FPension\\_Gap\\_Public.aspx&usq=AOvVaw2C02vB9pPOI9v\\_n\\_zbeA38](https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0ahUKEwj4wYnghL7bAhUPJ3wKHegPCW0QFggpMAA&url=https%3A%2F%2Fwww.cacities.org%2FResources-Documents%2FPolicy-Advocacy-Section%2FHot-Issues%2FRetirement-System-Sustainability%2FPension_Gap_Public.aspx&usq=AOvVaw2C02vB9pPOI9v_n_zbeA38)>. Redwood City, *Report – FY 2017-18 Mid-Year Budget Study Session and Proposed Process for Development of the FY 2018-19 Budget*, February 26, 2018, p. 10, <<https://www.redwoodcity.org/home/showdocument?id=14650>>.

service, times 2 percent, times his average salary.<sup>36</sup> A New Member retiring before age 62 would have a pension that is further reduced. For instance, at age 55, a New Member is entitled to a pension equal to his years of service, times 1.3 percent, times his average salary.<sup>37</sup> Many Classic Members are entitled to more generous Benefits. For example, many City of San Carlos Classic employees under Miscellaneous Plans have pensions calculated according to a “2.7 percent at 55” formula.<sup>38</sup> Such an employee with 30 years of government service is entitled to a pension equal to 81 percent of their salary at age 55.<sup>39</sup> By comparison, a New Member with 30 years of government service would be entitled to a pension equal to just 39 percent of salary at that same age,<sup>40</sup> or less than 50 percent of what a Classic Member would receive. PEPRAs specifies similar but more complex reductions for New Members under Safety Plans.<sup>41</sup>

- Caps on annual salary basis for calculation. PEPRAs also caps the amount of annual salary that can be used to calculate pensions for New Members at \$113,700 (if Social Security is also offered) plus cost of living adjustments (COLAs), or \$136,440 (if Social Security is not offered) plus COLA.<sup>42</sup> These caps are less than the salaries of many middle and upper management government employees.<sup>43</sup> Classic Members are not subject to salary caps in calculating their pensions.<sup>44</sup>
- Averaging of salaries for calculation. PEPRAs requires, in calculating the annual salary used to calculate pensions, that New Members use the average of the three highest consecutive years salary.<sup>45</sup> In contrast, some public agencies allow Classic Members to use just their highest salary year.
- Prohibition on “spiking” salaries. PEPRAs also prohibits “spiking” salaries used to calculate pensions by including overtime, bonuses, cash payouts for unused vacation or sick leave, severance pay and the like.<sup>46</sup>

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<sup>36</sup> CalPERS, *Summary Public Employee Reform Act*, p. 2.

<sup>37</sup> CalPERS, *Retirement Formulas and Benefit Factors: Your Benefits / Your Future What You Need to Know About Your CalPERS Local Miscellaneous Benefits*, p. 28, <<http://www.reedley.ca.gov/departments/administrative/pdfs/CalPERS%202016-01-01%20Local%20Miscellaneous%20Pub%208.pdf>>.

<sup>38</sup> City of San Carlos, Teamsters Group – Benefits Summary 2018, p. 3.

<sup>39</sup> CalPERS, *Retirement Formulas and Benefit Factors*, pp. 32-33.

<sup>40</sup> *Ibid.*, pp. 28-29.

<sup>41</sup> CalPERS, *Summary Public Employee Reform Act*, p. 2.

<sup>42</sup> *Ibid.*, p. 3.

<sup>43</sup> Interviews by Grand Jury.

<sup>44</sup> CalPERS, *Summary Public Employee Reform Act*, p. 3.

<sup>45</sup> *Ibid.*, pp. 9-10.

<sup>46</sup> *Ibid.*, pp. 8-9.

- Prohibition on purchases of “airtime”. PEPRA also prohibits employees from purchasing nonqualified service time (“airtime”), which allows Members to boost their pensions by buying up to five years of additional service credit.<sup>47</sup>

As discussed below, PEPRA may have intended to apply some of these prohibitions to both Classic and New Members. However, whether these provisions apply to Classic Members is currently before the California Supreme Court.

### “California Rule”.

A major obstacle to reducing the pension Benefits to be earned by Classic employees in the future is the so-called “California rule,” an interpretation of a 1955 state Supreme Court decision<sup>48</sup> that public employee pension Benefits, once granted, can never be modified, even for future work, without providing “comparable new advantages,” and that also still leave employees with a “reasonable” pension.<sup>49</sup> However, in 2016, a Court of Appeal ruled that, under the Supreme Court’s decision, employees only have a vested right to “a ‘reasonable pension’ – not an immutable entitlement to the most optimal formula of calculating the pension.”<sup>50</sup> At issue in that case was the prohibition on “spiking” discussed above at p. 11. A few months later, another Court of Appeal reached a similar conclusion in upholding a prohibition on the purchasing of “airtime” discussed above at p. 12.<sup>51</sup> However, a third Court of Appeal recently reached a different conclusion, finding that detrimental changes to pension benefits of Classic Members would only be upheld as “reasonable” if supported by “compelling evidence that the required changes ‘bear a material relation to the theory ... of a pension system’ and its successful operation.”<sup>52</sup> The California Supreme Court is currently considering appeals of all three Court of

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<sup>47</sup> Ibid., pp. 7-8.

<sup>48</sup> *Allen v. City of Long Beach*, 45 Cal.2d 128 (1955), <<https://scocal.stanford.edu/opinion/allen-v-city-long-beach-26585>>.

<sup>49</sup> *Allen v. City of Long Beach*, 45 Cal.2d 128 at 131. Beyerdorf, Brian, *The Fate of Public Employee Pensions: Marin’s Revision of the ‘California Rule’*, California Law Review Online, September 2017, p. 1, <[www.californialawreview.org/wp-content/uploads/2017/09/Beyersdorf-02-formatted-62-72.pdf](http://www.californialawreview.org/wp-content/uploads/2017/09/Beyersdorf-02-formatted-62-72.pdf)>. Walters, Dan, *Jerry Brown, nearing end of terms, defies unions on pensions*, San Francisco Chronicle, November 28, 2017, <<https://www.sfchronicle.com/news/article/Jerry-Brown-nearing-end-of-term-defies-unions-12389814.php>>.

<sup>50</sup> *Marin Association of Public Employees v. Marin County Employees Retirement Association*, 2 Cal. App. 5th 674 at 680 (1st Dist. 2016), <<https://www.leagle.com/decision/incaco20160817007>>.

<sup>51</sup> *Cal Fire Local 2881 et al., v. California Public Employees’ Retirement System et al.*, 7 Cal. App. 5th 115 (1st Dist. 2016), <<https://www.eastbaytimes.com/wp-content/uploads/2017/01/123016-appellate-court-ruling.pdf>>.

<sup>52</sup> *Alameda County Deputy Sheriff’s Association, et al. v. Alameda County Employees’ Retirement Assn., et al.*, Case No. A141913, filed January 8, 2018, as modified February 5, 2018, <<https://www.gmsr.com/wp-content/uploads/2018/04/scw-A141913M.pdf>>. Rogers, Frances and Overby, Brett, *California Court of Appeal Issues A Contrary Decision Addressing “Vested Rights” of Public Employees in the Aftermath of PEPRA: Where will the Supreme Court Land?*, California Public Agency Labor & Employment Blog (Liebert Cassidy Whitmore), January 10, 2018, <<https://www.calpublicagencylaboremploymentblog.com/pension/california-court-of-appeal-issues-a-contrary-decision-addressing-vested-rights-of-public-employees-in-the-aftermath-of-pepra-where-will-the-supreme-court-land/>>.

Appeal rulings.<sup>53</sup> Acceptance of the “reasonable pension” standard enunciated in the first two Court of Appeal cases could have significant implications for future pension reform efforts, as well as eliminate the pension “spiking” and “air time” practices for both Classic and New Members.

### **CalPERS’ changes.**

CalPERS administers pension plans for Agencies throughout California. CalPERS’ system-wide Funded Percentage (that is, value of current assets divided by the present value of future Benefit payments) is only 68 percent.<sup>54,55</sup> As discussed below in the section entitled “Unfunded Liabilities and Funded Percentages of the Cities” at p. 16, among private sector pension plans, a Funded Percentage of 80 percent is the threshold below which a plan’s solvency is considered “at risk”.<sup>56</sup> CalPERS’ reported 68 percent Funded Percentage is based on a Return on Investment and Discount Rate assumption of 7 percent. CalPERS has been criticized in the past for inaccurate assumptions made in its calculations of future Benefits obligations and Returns on Investment.<sup>57</sup> The May 2017 Roeder Survey of California public pension plans ranked CalPERS a poor 34<sup>th</sup> out of 37 California public pension plans rated for “funding assumptions.”<sup>58</sup> However, CalPERS has begun taking actions to strengthen its pension system.

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<sup>53</sup> Webster, Keeley, *More briefs ask State Supreme Court to weaken California rule on pensions*, The Bond Buyer, February 27, 2018, <<https://www.bondbuyer.com/news/more-briefs-ask-state-supreme-court-to-weaken-california-rule-on-pensions>>. GMSR Appellate Lawyers, *California Supreme Court Watch*, #18-49, <<https://www.gmsr.com/18-49-alameda-county-deputy-sheriffs-assn-v-alameda-county-employees-retirement-assn-s247095-a141913-19-cal-app-5th-61-mod-19-cal-app-5th-945a-contra-costa-county-superior/>>.

<sup>54</sup> Terando, Scott, *Strategies for Managing the New Reality*, CalPERS, September 15, 2017, slide 8, <<https://www.cacities.org/Resources-Documents/Education-and-Events-Section/Annual-Conference/2017-Handouts/Strategies-for-Managing-the-New-Reality-of-CalPERS>>. CalPERS 2017 CAFR, p. 27. CalPERS, *CalPERS Reports Preliminary 11.2 Percent Investment Return for Fiscal Year 2016-17*, July 14, 2017, p. 1, <<https://www.calpers.ca.gov/page/newsroom/calpers-news/2017/preliminary-fiscal-year-investment-returns>>.

<sup>55</sup> A Funded Percentage of 68 percent is low compared to CalPERS’ historic Funded Percentages over the last 25 years. For a chart showing these percentages since 1993, see, Fox, Kelly, *CalPERS Update and Path Forward*, December 13, 2017, p. 16, <<https://www.cacities.org/Resources-Documents/Education-and-Events-Section/Fire-Chiefs/2017-Session-Materials/CalPERS-History-and-Pension-Updates>>.

<sup>56</sup> Nation, *Pension Math* 2011, p. 17. Financial analyst Rick Roeder notes that a public pension plan with a Funded Percentage in the 80-90 percent range is considered “reasonably well funded.” Roeder, Rick, Roeder Financial, *California Pension Systems: Ranking their Funding Assumptions*, May 2017, p. 2, <<http://roederfinancial.com/ramblings.php?ramble=42>>.

<sup>57</sup> See, for example, the following: Ring, Edward, *Did CalPERS Use Accounting “Gimmicks” to Enable Financially Unsustainable Pensions?*, California Policy Center, January 24, 2018, <<https://californiapolicycenter.org/calpers-use-accounting-gimmicks-enable-financially-unsustainable-pensions/>>. Dolan, Jack, *How a pension deal went wrong and cost California taxpayers billions*, Los Angeles Times, September 18, 2016, <<http://www.latimes.com/projects/la-me-pension-crisis-davis-deal/>>. Malanga, Steven, *The Pension Fund that Ate California*, The City Journal, <<https://www.city-journal.org/html/pension-fund-ate-california-13528.html>>.

<sup>58</sup> Roeder, Rick, Roeder Financial, *California 2017 Funding Assumption Survey*, May 2017, <<http://roederfinancial.com/RoederSurvey2017.html>>.

CalPERS' reduction of Discount Rate from 7.5 to 7 percent.

In late 2016, CalPERS decided to lower its Discount Rate from 7.5 to 7.0 percent.<sup>59</sup> This will have the effect of significantly increasing the size of CalPERS' Unfunded Liabilities and, accordingly, the contribution amounts Agencies must pay. One expert has estimated that, for every one quarter percentage point decrease in the Discount Rate, Agency contribution rates (that is, the size of their contribution payments as a percentage of total payroll) go up by approximately 2.5 percentage points.<sup>60</sup> A 5 percentage point increase in the contribution rate would represent a large increase in payments by the Cities as their average contribution rate in FY 2017-2018 was 27.3 percent.<sup>61</sup> In order to give Agencies time to prepare for these increased costs, CalPERS intends to phase in the change in its Discount Rate from 7.5 to 7 percent over a three-year period as follows<sup>62</sup>:

- FY 2018-2019: 7.35%
- FY 2019-2020: 7.25%
- FY 2020-2021: 7.00%

To further ease the impact on Agencies of these Discount Rate reductions, CalPERS plans to phase in the resulting contribution payment increases over an additional 5 years.<sup>63</sup> As a result, the full cost of the Discount Rate decreases to 7 percent will not be felt by Agencies until approximately FY 2024-2025.<sup>64</sup> This phasing-in process comes at a cost, however, as it allows interest to continue to accrue on Unfunded Liabilities for a longer time, thereby increasing total costs that the Cities will eventually have to pay.

In late 2017, CalPERS considered lowering its Discount Rate even further, down to 6.75 or even 6.5 percent.<sup>65</sup> Agencies objected because of the increased contribution costs this would impose on them and CalPERS decided not to lower the Discount Rate below 7 percent.<sup>66</sup> However, one expert has projected that it is "likely" CalPERS' Discount Rate will be lowered, in a series of steps, down to 6 percent over the course of the next 20 years or so.<sup>67</sup>

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<sup>59</sup> CalPERS, *CalPERS to Lower Discount Rate to Seven Percent Over the Next Three Years*, December 21, 2016, <<https://www.calpers.ca.gov/page/newsroom/calpers-news/.../calpers-lower-discount-rate>>.

<sup>60</sup> Nation, *Pension Math* 2011, pp. 25-26.

<sup>61</sup> Appendix A.

<sup>62</sup> CalPERS, *CalPERS to Lower Discount Rate to Seven Percent*. Terando, *Strategies for Managing the New Reality*, slide 6.

<sup>63</sup> Mendel, *Old cause of pension debt*, p. 3.

<sup>64</sup> League of California Cities, *CalPERS Stays the Course*.

<sup>65</sup> Diamond, *CalPERS considers 4 asset allocation options*, p. 1.

<sup>66</sup> Ibid. League of California Cities, *CalPERS Stays the Course*.

<sup>67</sup> Lin, Bianca and Childs, Matthew, *City of Pacifica Miscellaneous and Safety Plans, CalPERS Actuarial Issues – 6/30/15 Valuation Preliminary Results*, Bartel Associates LLC, September 18, 2017, slide 3, <<http://www.cityofpacificca.org/civicax/filebank/blobdload.aspx?BlobID=13378>>. Lin, Bianca and Yam, Wai Man, *City of Menlo Park Miscellaneous and Safety Plans, CalPERS Actuarial Issues – 6/30/15 Valuation Preliminary Results*, Bartel Associates LLC, May 2, 2017, slide 10, <<https://www.menlopark.org/DocumentCenter/View/14392/D2-MenloPark-17-05-02-CalPERS-Misc-Safety>>. Lin,

### CalPERS' adoption of new mortality rate assumptions.

In 2014, CalPERS adopted new mortality rate assumptions reflecting the fact that retirees are expected to live longer. These assumption changes were projected to have the effect of increasing Agencies' pension contribution costs.<sup>68</sup>

### CalPERS' reduction of Amortization Period.

In February 2018, CalPERS reduced its standard Amortization Period from 30 to 20 years.<sup>69</sup> To “avoid undue disruption” to Agency budgets, CalPERS proposes to implement the new period prospectively only, starting with amortization bases established by its June 30, 2017 valuation. Amortization bases established prior to that date would continue as scheduled under current policy.<sup>70</sup> Although this change will decrease the Cities' pension costs over the long run (see, Table No. 5 below for examples of such savings), in the near term shortened Amortization Periods will increase their contribution payments.

## DISCUSSION

### **Why are Unfunded Liabilities and Funded Percentages so important?**

The Grand Jury chose to study public pension costs and Unfunded Liabilities because they represent a serious threat to public services county-wide and are already eating into public agency budgets.<sup>71</sup> The League of California Cities recently warned:

“Rising pension costs will require cities over the next seven years to nearly double the percentage of their general fund dollars they pay to CalPERS...[U]nder current law, cities have two choices – attempt to increase revenue or reduce services. Given that police and fire services comprise a large percentage of city general fund budgets, public safety, including response time, will likely be impacted.”<sup>72</sup>

The effects of increasing pension costs are clear:

- As payments consume a larger share of cities' budgets, it becomes more difficult to maintain, much less improve, public services.

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Bianca and Yang Kevin, *Redwood City Miscellaneous and Safety Plans, CalPERS Actuarial Issues – 6/30/15 Valuation Preliminary Results*, Bartel Associates LLC, February 13, 2017, slide 7.

<sup>68</sup> Bartel Associates, LLC, *New CalPERS Assumptions Will Increase Rates*, February 23, 2014, <<http://www.bartel-associates.com/news/2014/02/23/new-calpers-assumptions-will-increase-rates>>.

<sup>69</sup> Lowe and Rogers, *CalPERS Reduces Amortization Period*. CalPERS, *Agenda Item 7a, Amortization Policy*, p. 1..

<sup>70</sup> *Ibid.*, p. 4.

<sup>71</sup> Nation, *Pension Math: Public Pension Spending and Service Crowd Out in California, 2003-2030*, October 2, 2017, p. xi, <<https://siepr.stanford.edu/research/publications/pension-math-public-pension-spending-and-service-crowd-out-california-2003>>. League of California Cities, *2018 Retirement System Sustainability Study*, p. 5.

<sup>72</sup> League of California Cities, *2018 Retirement System Sustainability Study*, p. 1.

- As Unfunded Liabilities increase, cities’ municipal bond ratings may be hurt, which could increase the cost of other public improvement projects that require bonds.
- Public employees may face reduced compensation, reduced COLAs, or layoffs.
- Retired employees may find the security of their pensions threatened (obligations “guaranteed” by the state constitution have been voided in situations of bankruptcy)<sup>73</sup>.
- Residents may be asked to raise taxes; a difficult “sell” in the present political climate when the reason is to pay for legacy pension costs and not current services.<sup>74</sup>

**The Cities’ Pension Costs and Unfunded Liabilities Today.**

Appendix A shows each City’s pension costs, Funded Percentage and Unfunded Liabilities for FY 2016-2017 (the most recent year for which information is available), together with a comparison to each of the two immediately preceding fiscal years. A review of Appendix A data on a consolidated basis (shown at the bottom of Appendix A) is also revealing. A discussion of that consolidated data for the Cities follows.

Unfunded Liabilities and Funded Percentages of the Cities.

Two important measures of the health of pension plans are the size of their Unfunded Liabilities and their Funded Percentages. Table No. 1 (below) shows, based on the 7.5 percent Discount Rate then being used by CalPERS, that the Cities’ aggregate Unfunded Liabilities increased by 10.7 percent from FY 2014-2015 to FY 2015-2016 and by another 22.2 percent from FY 2015-2016 to FY 2016-2017. Funded Percentages correspondingly decreased, at an accelerating rate, over these 3 years.

<b>Table No. 1 - Increasing Unfunded Liabilities and Decreasing Funded Percentages</b>			
<b>(\$000)</b>			
	Unfunded Liabilities	Percent Increase in Unfunded Liabilities	Funded Percentage
2016-2017	\$1,215,465	22.2%	70.5%
2015-2016	\$994,535	10.7%	75.1%
2014-2015	\$898,036		76.8%

(See, Appendix A.)

As noted previously, among private sector pension plans, a Funded Percentage of 80 percent is the threshold below which a plan’s solvency is considered “at risk”.<sup>75</sup> Table No. 1 shows that the Funded Percentage for the Cities’ pension plans, while slightly higher than CalPERS’ system-wide Funded Percentage of 68 percent, has dropped to 70.5 percent, almost 10 percentage points below this 80 percent “at risk” threshold. The Funded Percentages in Table No. 1 would be significantly lower, and the Unfunded Liabilities correspondingly higher, if a lower Discount Rate were applied. This difference is shown in Table No. 2, below.

<sup>73</sup> Ang, Kimberly, *What Happens to Public Employee Retirement Benefits When Municipalities Go Bankrupt?*, United States Common Sense, March 10, 2016, p. 3, <<http://govrank.org/research/researchText/45>>.

<sup>74</sup> Interviews by Grand Jury.

<sup>75</sup> Nation, *Pension Math* 2011, p. 17.



Increase in Unfunded Liabilities and Decrease in Funded Percentages if a Lower Discount Rate is Used.

The Cities’ Unfunded Liabilities and Funded Percentages in Table No. 1 were calculated using CalPERS then-applicable Discount Rate of 7.5 percent. If, however, the Discount Rate had been just one percentage point lower, the Cities’ Unfunded Liabilities for FY 2016-2017 would have been approximately 44 percent larger (as shown in Table No. 2) and the corresponding Funded Percentage that year would have been 62.4 percent rather than 70.5 percent, almost 18 percentage points below the 80 percent Funded Percentage standard.

<b>Table No. 2 - Increased Pension Unfunded Liabilities and Decreased Funded Percentages if Discount Rate is Reduced By 1 percentage point</b>				
<b>(\$000)</b>				
<b>Fiscal Year</b>	<b>Unfunded Liabilities based on 7.5 % Discount Rate</b>	<b>Unfunded Liabilities based on 6.5 % Discount Rate</b>	<b>Funded Percentages based on 7.5 % Discount Rates</b>	<b>Funded Percentages based on 6.5 % Discount Rates</b>
2016-2017	\$1,215,465	\$1,755,047	70.5%	62.4%
2015-2016	\$994,535	\$1,515,521	75.1%	66.5%
2014-2015	\$898,036	\$1,399,702	76.8%	68.0%

(See, Appendix A.)

Applying its new Discount Rate of 7 percent (which will be implemented in stages over the three fiscal years ending FY 2020-2021), CalPERS states that its current, system-wide Funded Percentage is 68 percent.<sup>76</sup> However, if long-term Returns on Investment decrease, or are projected to decrease, below 7 percent, then CalPERS’ Funded Percentage (and corresponding Discount Rate) would drop even lower. For example, at a Discount Rate of 6.2 percent, it has been estimated that CalPERS’ Funded Percentage would drop by almost 10 percentage points, from 68 to 58.3 percent.<sup>77</sup>

Increasing Pension Contribution Payments.

Increasing Unfunded Liabilities result in larger contribution payment costs. Table No. 3 shows how the Cities’ contribution costs have risen from FY 2014-2015 through FY 2016-2017 and how the percentages of cities’ payroll and general fund spending consumed by contribution payments have been increasing.

<b>Table No. 3 - Increasing Pension Contribution Payments</b>			
<b>(\$000)</b>			
<b>Fiscal Year</b>	<b>Total Contribution Payments</b>	<b>Contributions as a percent of covered payroll</b>	<b>Contributions as a percent of general fund spending</b>
2016-2017	\$104,986	27.3%	13.6%
2015-2016	\$95,987	27.4%	13.2%
2014-2015	\$85,335	25.5%	12.8%

(See, Appendix A.)

<sup>76</sup> Terando, *Strategies for Managing the New Reality*, slide 8. CalPERS 2017 CAFR, p. 27. League of California Cities, *2018 Retirement System Sustainability Study*, p. 1.

<sup>77</sup> Nation, *2011 Pension Math*, p. vii.

The average, statewide percentage of Agencies' general fund budgets projected to be paid to CalPERS in FY 2017-2018 is 11.2 percent.<sup>78</sup> In comparison, the Cities' pension costs in FY 2016-2017 represented an average of 13.6 percent of their general fund spending.

Percentage of Employer Contribution Paid for Amortization Costs.

All of the Cities have substantial Unfunded Liabilities<sup>79</sup> and a significant and increasing portion of their contribution payments go to paying Amortization Costs (that is, payments required to pay off Unfunded Liabilities, including accrued interest). Table No. 4 (below) shows that well over half of the Cities' contribution payments in FY 2017-2018 have been applied to payment of Amortization Costs.

<b>Table No. 4 - Percentage of Cities' FY 2017-18 Pension Costs that are Amortization Costs</b>			
<b>(\$000)</b>			
City	2017-2018 Normal Costs	2017-2018 Amortization Costs	% of 2017-2018 Total Contribution Costs for Amortization
Belmont	\$1,473	\$2,046	58.1%
Brisbane	\$989	\$912	48.0%
Burlingame	\$2,552	\$3,183	55.5%
Daly City	\$6,281	\$7,184	53.4%
East Palo Alto	\$1,024	\$635	38.3%
Half Moon Bay	\$174	\$654	79.0%
Menlo Park	\$2,841	\$2,915	50.6%
Millbrae	\$783	\$2,907	78.8%
Pacifica	\$2,084	\$2,043	49.5%
Redwood City	\$8,767	\$12,479	58.7%
San Bruno	\$3,334	\$4,070	55.0%
San Carlos	\$715	\$2,565	78.2%
City of San Mateo	\$6,750	\$11,239	62.5%
South San Francisco	\$5,872	\$9,171	61.0%
	Total	Total	Weighted Average
	\$43,637	\$62,001	58.7%

California Policy Center, *CalPERS Actuarial Report Data – Cities (\$=M)*, <<http://californiapolicycenter.org/wp-content/uploads/2018/02/CalPERS-Actuarial-Report-Data-Cities-and-Counties-w-totals.xlsx>>. The California Policy Center provides pension cost data for 14 of the 20 Cities. Data for Atherton, Colma, Foster City, Hillsborough, Portola Valley and Woodside was not provided.

<sup>78</sup> League of California Cities, *2018 Retirement System Sustainability Study*, p. 4.

<sup>79</sup> Appendix A.

## Interest Charges on Unfunded Liabilities.

CalPERS charges interest on Unfunded Liabilities at an annual rate equal to the then-current Discount Rate.<sup>80</sup> Accordingly, the 30-year Amortization Period historically used by CalPERS to amortize Unfunded Liabilities results in interest payments that make up a large percentage of total Amortization Costs. Table No. 5 (below) shows, by way of example, that more than 50 percent of the Amortization Costs paid by South San Francisco, Redwood City, the City of San Mateo, and Daly City go to interest payments. It also shows that, if the Amortization Periods were shortened to 20 years, or even 15, those Cities would realize large savings on interest. Most notably, the City of San Mateo would save \$56 million under a 20-year Amortization Period and \$126 million with a 15-year period. Redwood City would save \$55 million by switching to a 20-year Amortization Period and \$134 million with a 15-year period.

<b>Table No. 5 - Interest payment savings where shorter Amortization Periods are applied</b>							
(\$000)							
City	Interest over 30 years			Interest over 20 years		Interest over 15 years	
	Total payments over 30-years (using 30-year Amortization Period).	Interest payments over 30-years.	Percent of 30-year. Amortization Cost payments consisting of interest payments.	Interest payments over 20-years (using 20-year Amortization Period).	Savings compared to 30-year period.	Interest payments over 15-years (using 15-year Amortization Period).	Savings compared to 30-year period
South S.F. <sup>81</sup>	\$390,708	\$206,436	52.8%	\$185,162	<b>\$20,574</b>	\$127,457	<b>\$78,979</b>
Redwood City <sup>82</sup>	\$553,787	\$305,671	55.2%	\$250,256	<b>\$55,415</b>	\$171,616	<b>\$134,055</b>
City of San Mateo <sup>83</sup>	\$502,874	\$280,510	55.8%	\$224,282	<b>\$56,228</b>	\$153,805	<b>\$126,706</b>
Daly City <sup>84</sup>	\$371,749	\$201,920	54.3%	\$171,295	<b>\$30,625</b>	\$117,468	<b>\$84,452</b>

Shortening the Amortization Period is only one way that savings on interest can be achieved. Savings can also be made by reducing the size of the Unfunded Liabilities through supplemental

<sup>80</sup> Interviews by Grand Jury. Mendel, *Old cause of pension debt*, p. 1. City of La Palma, slide 22. Eastman, p. 6. City of Daly City, *Comprehensive Biennial Operating and Capital Budget, Fiscal Years 2017 and 2018*, p. 25.

<sup>81</sup> CalPERS, *Actuarial Valuation – June 30, 2016 Miscellaneous Plan of the City of South San Francisco*, p. 17, <<https://www.calpers.ca.gov/docs/actuarial-reports/2016/south-san-francisco-city-miscellaneous-2016.pdf>>.

CalPERS, *Actuarial Valuation – June 30, 2016 Safety Plan of the City of South San Francisco*, p. 17, <<https://www.calpers.ca.gov/page/.../actuarial.../public-agency-actuarial-valuation-reports>>.

<sup>82</sup> CalPERS, *Actuarial Valuation – June 30, 2016 Miscellaneous Plan of the City of Redwood City*, p. 17, <<https://www.calpers.ca.gov/docs/actuarial-reports/2016/redwood-city-miscellaneous-2016.pdf>>. CalPERS, *Actuarial Valuation – June 30, 2016 Safety Plan of the City of Redwood City*, p. 17, <<https://www.calpers.ca.gov/docs/actuarial-reports/2016/redwood-city-safety-2016.pdf>>.

<sup>83</sup> CalPERS, *Actuarial Valuation as of June 30, 2016 for the Miscellaneous Plans of the City of San Mateo*, p. 17, <<https://www.calpers.ca.gov/docs/actuarial-reports/2016/san-mateo-city-miscellaneous-2016.pdf>>. CalPERS *Actuarial Valuation as of June 30, 2016 for the Safety Plans of the City of San Mateo*, p. 17, <<https://www.calpers.ca.gov/docs/actuarial-reports/2016/san-mateo-city-safety-2016.pdf>>.

<sup>84</sup> CalPERS *Actuarial Valuation as of June 30, 2016 for Miscellaneous Plans of Daly City*, p. 17, <<https://www.calpers.ca.gov/docs/actuarial-reports/2016/daly-city-miscellaneous-2016.pdf>>. CalPERS *Actuarial Valuation as of June 30, 2016 for Safety Plans of Daly City*, p. 17, <<https://www.calpers.ca.gov/docs/actuarial-reports/2016/daly-city-safety-2016.pdf>>.

payments to CalPERS beyond the required contribution amounts. This can be done through a commitment by the Cities to make additional payments on a regular basis that is reflected in the annual budget, and/or by the Cities making additional payments as funds become available, as when there is a budget surplus or non-recurring revenue source. The process is similar to the experience of a credit card holder. If the holder only pays the minimum monthly balance, long-term interest expenses are higher than if the holder pays more than the minimum per month in order to work down the principal amount.

### **What does the future hold? The Impact of Increasing Pension Costs on the Cities.**

Rising Unfunded Liabilities will generate increasing pension costs. A “Key Finding” of the League of California Cities’ January 2018 report is that “City pension costs will *dramatically increase to unsustainable levels*” (emphasis added).<sup>85</sup> The League reports that the average percentage of its 426-member cities’ general fund spending on CalPERS pension plans will almost double between FY 2006-2007 and FY 2024-2025 (from 8.3 percent to 15.8 percent).<sup>86</sup>

CalPERS projects that the \$3.1 billion in pension costs being paid by member cities in FY 2017-2018 will almost double (to \$5.8 billion) by FY 2024-2025.<sup>87</sup> The Cities’ projected future pension costs, as estimated by CalPERS, are also projected to almost double during that period,<sup>88</sup> and some experts project even larger increases.<sup>89</sup> Table No. 6 sets out CalPERS’ projections for increasing pension costs for 15 of the Cities from FY 2017-2018 through FY 2024-2025 and shows that they will have to pay pension costs that are rising by an average of 13.3 percent per year.

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<sup>85</sup> League of California Cities, *2018 Retirement System Sustainability Study and Findings*, p. 2.

<sup>86</sup> *Ibid.*, pp. 1 and 4.

<sup>87</sup> Ring, Edward, *Did CalPERS Use Accounting “Gimmicks ...?”*

<sup>88</sup> California Policy Center, *CalPERS Actuarial Report Data – Cities (\$=M)*,

<https://californiapolicycenter.org/CalPERS-Actuarial-Report-Data-Cities-and-Counties/>. This source provides pension cost data for 15 of the 20 Cities in the County. Data for Atherton, Colma, Foster City, Hillsborough and Woodside is not included. The weighted average percent increase in costs for these 15 Cities from FY 2017-18 to FY 2024-25 is 92.7 percent.

<sup>89</sup> See, discussion following Table No. 6 about higher projections by Bartel Associates, LLC and Table Nos. 7.1, 7.2 and 7.3 (below).

Table No. 6 - Increasing Pension Costs for Cities					
(S000)					
City	2017-2018 Total Pension Costs	2024-2025 Total Projected Pension Costs	Percent Increase from 2017-2018 to 2024-2025	Average Annual Total Pension Cost Increase	Average Annual Percent Increase
Belmont	\$3,518	\$6,039	71.7%	\$360	10.2%
Brisbane	\$1,901	\$3,851	102.6%	\$279	14.7%
Burlingame	\$5,735	\$11,435	99.4%	\$814	14.2%
Daly City	\$13,464	\$28,579	112.3%	\$2,159	16.0%
East Palo Alto	\$1,658	\$2,873	73.3%	\$174	10.5%
Half Moon Bay	\$828	\$1,519	83.5%	\$99	11.9%
Menlo Park	\$5,756	\$11,258	95.6%	\$786	13.7%
Millbrae	\$3,690	\$6,828	85.0%	\$448	12.1%
Pacifica	\$4,127	\$8,899	115.6%	\$682	16.5%
Redwood City	\$21,246	\$39,955	88.1%	\$2,673	12.6%
San Bruno	\$7,404	\$14,695	98.5%	\$1,042	14.1%
San Carlos	\$3,280	\$5,407	64.8%	\$304	9.3%
City of San Mateo	\$17,988	\$33,178	84.4%	\$2,170	12.1%
South San Francisco	\$15,043	\$28,960	92.5%	\$1,988	13.2%
	Total	Total	Weighted Average	Total	Weighted Average
	\$105,638	\$203,477	92.6%	\$13,977	13.2%

California Policy Center, *CalPERS Actuarial Report Data – Cities (\$=M)*, <<http://californiapolicycenter.org/wp-content/uploads/2018/02/CalPERS-Actuarial-Report-Data-Cities-and-Counties-w-totals.xlsx>>. The California Policy Center provides pension cost data for 14 of the 20 Cities. Data for Atherton, Colma, Foster City, Hillsborough, Portola Valley and Woodside was not provided.

Bartel Associates, LLC<sup>90</sup> projects even larger increases in pension costs than CalPERS. For example, as shown in Table Nos. 7.1, 7.2 and 7.3, Bartel projected in 2017 that pension costs for Redwood City, Menlo Park and Pacifica will more than double from FY 2016-2017 through FY 2024-2025 (which is substantially greater than CalPERS’ projections for those Cities shown in Table 6) and are projected to continue to increase substantially thereafter through FY 2027-2028.<sup>91</sup>

<sup>90</sup> The public pension actuarial consulting firm of Bartel Associates, LLC reports having served as consultants to over 400 public sector clients since 2012 including, within the San Mateo county alone, the Cities of Belmont, Burlingame, Daly City, East Palo Alto, Foster City, Menlo Park, Millbrae, Pacifica, Redwood City, San Bruno, San Carlos, San Mateo, South San Francisco, and the Town of Hillsborough. See, Bartel website, <<http://www.bartel-associates.com/about-us/client-list>>.

<sup>91</sup> It should be noted that the Bartel Associates, LLC projections on which Table Nos. 7.1, 7.2 and 7.3 rely were set forth in reports dated February 17, 2017, May 2, 2017 and September 18, 2017, respectively. They were based on CalPERS numbers as of June 30, 2015. Last summer, CalPERS issued updated its numbers as of June 30, 2016 and it is expected to issued June 30, 2017 numbers again this summer. Were the Bartel projections to be re-run based on the most recent CalPERS data, they would be somewhat different from those reflected in Table Nos. 7.1., 7.2 and 7.3. Source: Grand Jury interviews.

Table No. 7.1 - Redwood City's projected increases in pension contribution costs from FY 2016-2017 to FY 2024-2025 and FY 2027-2028 <sup>92</sup>								
(\$000)								
	Miscellaneous Plans				Safety Plans			
	Pension Costs as a Percent of Payroll (Projected)	Annual Pension Costs (Projected)	Increase in Annual Pension Costs since FY 2016-2017	% Increase in Annual Pension Costs since FY 2016-2017	Pension Costs as a Percent of Payroll (Projected)	Annual Pension Costs (Projected)	Increase in Annual Pension Costs since FY 2016-2017	% Increase in Annual Pension Costs since FY 2016-2017
FY 2027-2028	37.3%	\$16,764	\$8,691	107.7%	67.2%	\$24,771	\$13,246	114.9%
FY 2024-2025	42.7%	\$17,530	\$9,457	117.1%	65.6%	\$22,148	\$10,623	92.2%
FY 2016-2017	26.3%	\$8,073			42.9%	\$11,525		

Table No. 7.2 – Menlo Park's projected increases in pension contribution costs from FY 2016-2017 to FY 2024-2025 and FY 2027-2028 <sup>93</sup>								
(\$000)								
(Before <sup>94</sup> taking into account any employee cost sharing.)								
	Miscellaneous Plans				Safety Plans			
	Pension Costs as a Percent of Payroll (Projected)	Annual Pension Costs (Projected)	Increase in Annual Pension Costs since FY 2016-2017	% Increase in Annual Pension Costs since FY 2016-2017	Pension Costs as a Percent of Payroll (Projected)	Annual Pension Costs (Projected)	Increase in Annual Pension Costs since FY 2016-2017	% Increase in Annual Pension Costs since FY 2016-2017
FY 2027-2028	33.9%	\$7,190	\$4,140	135.7%	60.5%	\$5,389	\$3,285	156.1%
FY 2024-2025	34.5%	\$6,695	\$3,645	119.5%	58.4%	\$4,756	\$2,652	126.0%
FY 2016-2017	21.2%	\$3,050			32.3%	\$2,104		

<sup>92</sup> Data in Table No. 7.1 is derived from Lin, Bianca and Yang Kevin, *Redwood City Miscellaneous and Safety Plans, CalPERS Actuarial Issues – 6/30/15 Valuation Preliminary Results*, Bartel Associates LLC, February 13, 2017, slides 17, 18, 29 and 30.

<sup>93</sup> Data in Table No. 7.2 is derived from Lin, Bianca and Yam, Wai Man, *City of Menlo Park Miscellaneous and Safety Plans, CalPERS Actuarial Issues – 6/30/15 Valuation Preliminary Results*, Bartel Associates LLC, May 2, 2017, slides 23, 24, 39 and 40, <https://www.menlopark.org/DocumentCenter/View/14392>.

<sup>94</sup> Menlo Park's projected Miscellaneous Plan annual pension costs in Table No. 7.2 would be approximately 15 percent lower than shown if employee cost sharing were taken into account and its Safety Plan pension costs would be 5 - 9 percent lower. Lin, Bianca and Yam, Wai Man, *City of Menlo Park Miscellaneous and Safety Plans, CalPERS Actuarial Issues – 6/30/15 Valuation Preliminary Results*, Bartel Associates LLC, May 2, 2017, slides 25, 28, 40 and 41.

Table No. 7.3 – City of Pacifica’s projected increases in pension contribution costs from FY 2016-2017 to FY 2024-2025 and FY 2027-2028 <sup>95</sup>								
(S000)								
(Before <sup>96</sup> taking into account any employee cost sharing.)								
	Miscellaneous Plans				Safety Plans			
	Pension Costs as a Percent of Payroll (Projected)	Annual Pension Costs (Projected)	Increase in Annual Pension Costs since FY 2016- 2017	% Increase in Annual Pension Costs since FY 2016- 2017	Pension Costs as a Percent of Payroll (Projected)	Annual Pension Costs (Projected)	Increase in Annual Pension Costs since FY 2016- 2017	% Increase in Annual Pension Costs since FY 2016- 2017
FY 2027-2028	36.3%	\$4,435	\$2,992	207.3%	71.8%	\$6,186	\$3,910	171.8%
FY 2024-2025	34.4%	\$3,846	\$2,403	166.5%	69.0%	\$5,428	\$3,152	138.5%
FY 2016-2017	16.7%	\$1,443			34.6%	\$2,276		

**Pension Information Provided by the Cities Could be Substantially Improved.**

Clear information about the Cities’ current and projected pension costs, as well as their plans for meeting these rising expenses in the future, is not readily found in the Cities’ CAFRs, nor (with a few notable exceptions<sup>97,98,99</sup>) in their most recent budgets published in the finance section of

<sup>95</sup> Data in Table No. 7.3 is derived from Lin, Bianca and Childs, Matthew, *City of Pacifica Miscellaneous and Safety Plans, CalPERS Actuarial Issues – 6/30/15 Valuation Preliminary Results*, Bartel Associates LLC, September 18, 2017, slides 8, 9, 18 and 19, <http://www.cityofpacifica.org/civicax/filebank/blobdload.aspx?BlobID=13378>.

<sup>96</sup> Pacifica’s projected Miscellaneous Plan annual pension costs in Table No. 7.3 would be approximately 15, 7.3 and 7 percent lower in FY 2016-17, FY 2024-25 and FY 2027-28 respectively than shown if employee cost sharing were taken into account and its Safety Plan pension costs would be approximately 11, 5.6 and 5.4 percent lower in FY 2016-17, FY 2024-25 and FY 2027-28 respectively. Lin, Bianca and Childs, Matthew, *City of Pacifica Miscellaneous and Safety Plans, CalPERS Actuarial Issues – 6/30/15 Valuation Preliminary Results*, Bartel Associates LLC, September 18, 2017, slides 11, 12, 20, 21, 29, 30.

<sup>97</sup> Redwood City’s FY 2017-18 Adopted Budget provides projections of projected future pension costs through FY 2030-31, together with a description of steps the city is taking to begin addressing these costs. City of Redwood City, *Report - FY 2017-18 Mid-Year Budget Study Session*. See also, City of Redwood City, *Fiscal Year 2018-2019 Recommended Budget*, pp. 13 and 14, <<http://www.redwoodcity.org/home/showdocument?id=15124>>.

<sup>98</sup> The City of San Mateo’s FY 2017-18 Adopted Budget includes a table showing how the City’s pension costs will increase from FY 2017-18 through FY 2027-28. City of San Mateo, *Adopted 2017-18 Budget*, p. 11, <<https://www.cityofsanmateo.org/DocumentCenter/View/60043/Adopted-2017-18-Budget>>. The City’s proposed 2018-20 Business Plan also includes annual pension cost projections through FY 2028-29. City of San Mateo, *Proposed 2018-20 Business Plan*, pp. 9, 11, and 65, <<https://www.cityofsanmateo.org/DocumentCenter/View/64801/Proposed-FY-2018-20-Business-Plan>>.

<sup>99</sup> Menlo Park’s FY 2017-18 budget shows total pension costs for each of the next 10 years. City of Menlo Park, *Adopted Budget, Fiscal Year 2017-18*, p. 48.

their websites.<sup>100,101,102,103</sup> Appendix B’s guide to locating pension information in CAFRs shows that a certain level of specialized knowledge and concerted effort is required to extract information about pension costs from CAFRs. While the Cities’ published budgets often refer to growing budgetary challenges faced by pension costs, the information provided about costs, especially projected future costs and descriptions of how the Cities are planning to meet them, is generally not set out in a systematic way. The information falls far short of what it should be given the importance and growing urgency of the subject matter.

## What can the Cities do About Their Rising Pension Costs?

### Develop a Financial Plan.

As with any challenge, the first step is to acknowledge the problem. In the case of pensions, this requires an analysis of future obligations, under various scenarios, over at least a 10-year time horizon. The second step is for each City to develop a long-term financial plan over at least a 10-year time period to address rising costs. Such a plan should include:

- Specific objectives, such as identifying a target Funded Percentage, eliminating the Unfunded Liabilities over “n” years and maintaining the City’s share of Normal Costs at “n” percentage of payroll
- Policies to achieve these objectives, such as making supplemental contributions to CalPERS, making annual contributions to a reserve or IRS Section 115 trust (described below) for the purpose of meeting unanticipated future pension costs, keeping salary increases below the actuarially assumed increase rate, or negotiating cost-sharing

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<sup>100</sup> The City of Burlingame provides information about its plans for addressing rising pension costs in Staff Reports and proposed budgets. See for example, Augustine, Carol, Staff Report to Burlingame City Council, July 3, 2017, <<http://burlingameca.legistar.com/gateway.aspx?M=F&ID=145f1c47-afe4-48e6-8c90-7af86841c428.docx>>; Augustine, Carol, Staff Report to Burlingame City Council, March 14, 2018, pp. 11, 12, 27, 28 and 48, <<http://burlingameca.legistar.com/gateway.aspx?M=F&ID=8bf430f2-6a90-46f4-a5e8-bc50ad710524.docx>>; Augustine, Carol, Staff Report to Burlingame City Council, May 9, 2018, <<http://burlingameca.legistar.com/gateway.aspx?M=F&ID=68ce413d-4c73-4e2b-abf2-d2e04b1dde86.docx>>.

<sup>101</sup> The Town of Hillsborough’s FY 2018-19 Proposed Budget notes that annual pension costs are projected to double over the next ten years (from \$2.4 to \$5.7 million). The Town also provides a 10-year forecast of expenditures that incorporates data regarding projected pension costs, but the actual pension costs themselves are not broken out. Town of Hillsborough, *FY 2018-19 Proposed Budget*, pp. 27 and 96, <<https://www.hillsborough.net/ArchiveCenter/ViewFile/Item/212>>.

<sup>102</sup> Foster City’s preliminary budget for FY 2018-19 states that, between FY 2017-18 and FY 2022-23, the City’s Miscellaneous Plan contribution rate will rise from 27.9 to 40.8 percent and its Safety Plan contribution rate will rise from 45.2 to 70.4 percent. City of Foster City, *Preliminary Budget Fiscal Year 2018-2019*, p. 10, <[https://www.fostercity.org/sites/default/files/fileattachments/financial\\_services/page/3521/fy\\_2018-2019\\_preliminary\\_budget\\_published.pdf](https://www.fostercity.org/sites/default/files/fileattachments/financial_services/page/3521/fy_2018-2019_preliminary_budget_published.pdf)>. The proposed budget does not include more specific information about dollar amounts represented by these percentages.

<sup>103</sup> The City of Belmont’s 2018 Budget includes a chart showing increasing pension contribution rates over the next 4 years. City of Belmont, *FY 2018 Budget*, p. 18, <<https://www.belmont.gov/home/showdocument?id=15433>>.



agreements with employees that cap the Cities' share of Normal Costs (which are described below in "Specific Measures for the Cities to Consider")

- Specific measures to implement the policies
- A process to monitor progress in implementing the measures and in achieving the objectives
- Consideration of alternative policies and measures, or a "Plan B," that may be used in the event that CalPERS's Return on Investment assumptions are not met in future years.

Finally, tough decisions need public support. This cannot be achieved without the public being informed about the issue at every step. The Cities' plans should include a public awareness component.

The Cities' CAFRs and budget documents published by the Cities in the finance section of their websites that were reviewed by the Grand Jury show that none of them has adopted a long-term financial plan with all of the components described above.<sup>104,105,106,107</sup>

#### Specific Measures for the Cities to Consider.

There are a number of measures that can be taken to meet objectives that might be included in the Cities' long-term financial plans. Some of these are summarized below. Most have been employed by one or more Cities, although not necessarily in a systematic way. Not every City will be in a financial position to take aggressive action now, but there are options, including the following nine:

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<sup>104</sup> The City of San Mateo states that it has a plan for eliminating its Unfunded Pension Liabilities; it intends to achieve this by 2050. City of San Mateo, *Adopted 2017-18 Budget*, p. 20.

<sup>105</sup> The City of Foster City plans to "[i]dentify and implement pension sustainability strategies to reduce the City Unfunded Accrued Liability and improve the City funded status with CalPERS" in FY 2018-19. City of Foster City, *Preliminary Budget Fiscal Year 2018-2019*, p. 188.

<sup>106</sup> It should be noted, however that the City of Redwood City does have a five-year plan that provides for supplemental payments to CalPERS (beyond required contributions) of \$0.5 million per year; it has funded a Section 115 pension trust (described below) with an initial \$10.5 million and plans to make additional contributions to the trust of \$1.1 million per year over the next five years, and employee cost sharing. Redwood City also adopted a lower tier, less expensive, pension plan even before the passage of PEPR. See, "Specific Measures for the Cities to Consider" below for references to Redwood City's actions.

<sup>107</sup> In 2014 San Carlos published annual pension cost projections through FY 2035-36. City of San Carlos, *Long-Term Financial Plan*, November 5, 2014, pp. 21 and 22, <<http://www.cityofsancarlos.org/Home/ShowDocument?id=700>>. The City also published a graph showing pension costs through FY 2047-48. City of San Carlos, *City Council Staff Report*, Item 7.b of March 12, 2018 Agenda Packet, p. 117, <<http://sancarlosca.iqm2.com/Citizens/FileOpen.aspx?Type=1&ID=2699&Inline=True>>.

(1) Make Supplemental Contributions to CalPERS.

By making supplemental contributions to CalPERS beyond the required payments, the Cities can reduce the amounts on which they are paying interest. The Cities generally cannot earn returns on their reserves equal to the interest rates CalPERS will be charging,<sup>108</sup> so using reserves to make supplemental contributions can result in substantial net savings over the long-term.

Although not a subject of this report,<sup>109</sup> actions taken by the County to reduce its pension costs are instructive. In FY 2011-2012 and FY 2012-2013, the County paid “supplemental contributions” to SamCERA (the plan administrator for the County’s pension plans) to reduce its Unfunded Liability. These were in addition to its Annual Required Contribution (ARC)<sup>110</sup> payments.<sup>111</sup> However, these supplemental contributions were applied to the entire SamCERA system, not the County alone.<sup>112</sup> Then, in November 2013, SamCERA and the County signed a Memorandum of Understanding (MOU) to formalize a plan to pay supplemental contributions.<sup>113</sup> Under the MOU, the County made two commitments. First, it agreed to pay supplemental contributions in a lump sum of \$50 million in the initial fiscal year (FY 2013-2014) and then to pay an additional \$10 million in each of the following nine years. Second, the County stated that it intended to maintain a minimum average employer contribution rate of 38 percent of payroll during the 10-year period. Since the ARC would otherwise decrease each year, as the Unfunded Liability is reduced, maintaining a contribution rate higher than the ARC would provide a second source of supplemental payments. For its part, SamCERA committed to establish a Supplemental Contribution Account to receive the supplemental contributions, which would be credited just to the County, rather than all three SamCERA employers. If SamCERA’s actuarial assumptions are met, the County’s supplemental contributions are expected to eliminate the Unfunded Liability within 10 years (FY 2022-2023).<sup>114</sup>

The MOU includes language stating that the County’s supplemental contributions are not legally binding. However, as of June 30, 2017, the MOU had been implemented on schedule. The

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<sup>108</sup> City of Menlo Park, *Adopted Budget, Fiscal Year 2017-18*, p. 48, <<https://www.menlopark.org/ArchiveCenter/ViewFile/Item/6273>>.

<sup>109</sup> Progress made by the County of San Mateo in planning for and reducing its pension costs is the subject of the Grand Jury’s report for 2017-2018, entitled “County Pension Costs – Hard Choices Paying Off.” San Mateo County Civil Grand Jury 2017-2018 report, “County Pension Costs – Hard Choices Paying Off.”

<sup>110</sup> Annual Required Contribution (ARC) is the sum of an Agencies’ share of Normal Cost and, if any, the Amortization Cost. ARC is the amount an Agency is legally required to pay to the plan administrator in order to fund a pension plan. See, Brainard, Keith and Brown, Alex, *The Annual Required Contribution Experience of State Retirement Plans, FY01 to FY13*, National Association of State Retirement Administrators, March 2015, p. 2, <[https://www.nasra.org/files/JointPublications/NASRA\\_ARC\\_Spotlight.pdf](https://www.nasra.org/files/JointPublications/NASRA_ARC_Spotlight.pdf)>.

<sup>111</sup> Referred to by SamCERA as the annual “statutory contribution rate.” SamCERA, *2017 Comprehensive Annual Financial Report for the Fiscal Year Ended on June 30, 2017*, p. 49, <[https://www.samcera.org/sites/main/files/file-attachments/2017cafr\\_final.pdf](https://www.samcera.org/sites/main/files/file-attachments/2017cafr_final.pdf)>.

<sup>112</sup> County Pension Costs – Hard Choices Paying Off, p. 6.

<sup>113</sup> Memorandum of Understanding Between the County of San Mateo and the San Mateo County Employees’ Retirement System Funding, November 19, 2013.

<sup>114</sup> County Pension Costs – Hard Choices Paying Off., p. 7.

County's supplemental contributions, including payments made before the MOU, as well as payments made pursuant to the MOU, total nearly \$139 million, through June 30, 2017.<sup>115</sup>

In theory, without supplemental contributions, the Unfunded Liability would be paid off at the end of the 15-year Amortization Period used by SamCERA. The benefit of making supplemental contributions to pay off the Unfunded Liability early is to reduce the interest payments that are included in the Amortization Cost. This is substantial. Prior to adoption of the MOU, the County Manager estimated the cumulative savings at \$304 million.<sup>116</sup> In 2017 the County Manager reported that the County could expect annual savings approaching \$90 million to \$100 million in principal and interest payments, beginning in FY 2023-2024, assuming the Unfunded Liability has been paid off by that date.<sup>117</sup>

It should be noted that the County was fortunate in having a non-recurring gain of about \$50 million from the 2014 sale of the County-owned Circle Star Plaza, which helped fund its capital plan.<sup>118</sup> The County general fund benefitted from passage of Measure A in 2012, which adds a one-half cent countywide sales tax for 10 years, through April 2023, as well as Measure K (2016) which extended the sales tax through 2043.<sup>119</sup>

Among the Cities, Redwood City's Preliminary Five-Year Forecast calls for additional payments to CalPERS of \$500,000 per year beyond the required contribution amounts.<sup>120</sup> As discussed below in "Establish IRS Section 115 non-revocable trusts," at p. 29, Redwood City's Preliminary Five-Year Forecast also calls for the city to annually contribute additional amounts to an irrevocable fund for the purposes of paying pension costs.

In April 2018, the City of San Carlos approved making an additional payment to CalPERS of \$5 million, beyond the required contribution, to pay down a portion of the City's Unfunded Liability.<sup>121</sup> The City estimates that this payment will result in \$4.3 million of net savings over the long-term.<sup>122</sup>

The City of San Mateo made additional payments to CalPERS of \$1.375 million in FY 2016-17 and \$1.4 million in FY 2017-18. The City's proposed 2018-20 budget recommends continued additional payments to CalPERS out of the general fund in the amounts of \$1.625 million in FY 2018-19 and an additional \$14 million thereafter over the course of approximately the next 10

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<sup>115</sup> Ibid.

<sup>116</sup> Ibid., pp. 7-8.

<sup>117</sup> Ibid., p. 8.

<sup>118</sup> Torres, Blanca, *San Mateo County cashes in with sale of Circle Star Plaza for \$90.1 million*, The San Francisco Business Times, May 20, 2014, <<https://www.bizjournals.com/sanfrancisco/blog/real-estate/2014/05/circle-star-plaza-griffin-capital-san-mateo-county.html>>.

<sup>119</sup> Ballotpedia, *San Mateo County Sales Tax Increase, Measure A (November 2012)*, <[http://ballotpedia/San\\_Mateo\\_County\\_Sales\\_Tax\\_Increase,\\_Measure\\_A\\_\(November\\_2012\)](http://ballotpedia/San_Mateo_County_Sales_Tax_Increase,_Measure_A_(November_2012))>. Ballotpedia, *San Mateo County Sales Tax Increase, Measure K (November 2016)*, <[https://ballotpedia.org/San\\_Mateo\\_County,\\_California,\\_Sales\\_Tax,\\_Measure\\_K\\_\(November\\_2016\)](https://ballotpedia.org/San_Mateo_County,_California,_Sales_Tax,_Measure_K_(November_2016))>.

<sup>120</sup> Redwood City Report - FY 2017-18 Mid-Year Budget Study Session, pp. 20 and 21. Grand Jury Interviews.

<sup>121</sup> Interviews by Grand Jury. San Carlos, *City Council Staff Report*, Item 9.a of April 9, 2018 Agenda Packet, <<http://sancarlosca.ig2.com/Citizens/FileOpen.aspx?Type=1&ID=2707&Inline=True>>.

<sup>122</sup> Ibid.

years.<sup>123</sup> The City does not indicate how much savings is expected to result from these additional payments.

The City of Foster City's preliminary budget for FY 2018-19 calls for an additional payment to CalPERS of \$2.1 million, representing 4.3% of its projected general fund operating expenditures budget that year.<sup>124</sup>

## (2) Make Contributions to a Reserve.

In the current good financial times, most of the Cities have experienced rising revenues and should be able to set their general fund budgets to yield a surplus of revenues over expenses and put the difference into a general fund reserve to be applied in their discretion against future unanticipated, special, or one-time expenses.<sup>125</sup> A portion of such reserves could be used to manage or smooth payments to CalPERS, consistent with budgetary needs. However, since the Cities retain the right to use these reserves as they deem appropriate, there is no guarantee that these reserves will be applied to pension costs.<sup>126</sup> Payments into a reserve do not reduce the Amortization Costs charged by CalPERS.

Several of the Cities have established reserves out of their general fund budgets that are earmarked for future increased pension contributions.

Menlo Park. The City has established a "Strategic Pension Funding reserve" which, as of June 30, 2017, held assets of \$3.2 million. That represents approximately 7 months of its annual pension contribution costs of \$5.56 million.<sup>127</sup> Menlo Park's policy is to assign 25 percent of any general fund operating budget surpluses to this pension reserve.<sup>128</sup> Based on its expected general fund operating budget surplus of approximately \$2.5 to \$3.5 million in FY 2017-2018, this policy will add another \$625,000 to \$875,000 to the reserve.<sup>129</sup> However, the Strategic Pension Funding reserve currently represents only approximately 10 percent of the City's total general fund reserves<sup>130</sup> and, even assuming continued growth in the Strategic Pension Funding reserve similar to FY 2017-2018, would only modestly help pay for increases in the City's expected pension costs over the next 10 years.<sup>131</sup>

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<sup>123</sup> City of San Mateo, *Proposed 2018-20 Business Plan*, pp. 58 and 67.

<sup>124</sup> City of Foster City, *Preliminary Budget Fiscal Year 2018-2019*, p. 50.

<sup>125</sup> See, for example, City of Menlo Park, *Adopted Budget, Fiscal Year 2017-18*, pp. 8, 33 – 38; City of San Mateo, *Adopted 2017-18 Budget*, pp. 6, 32, 36; City of Foster City, *Preliminary Budget Fiscal Year 2018-2019*, pp. 47 – 48; City of Belmont, *FY 2018 Budget*, p. 16, 22; City of Brisbane, *Fiscal Years 2016-2017 & 2017-2018, Adopted Two Year Operating Budget*, p. 11, <[http://www.brisbaneca.org/sites/default/files/City%20of%20Brisbane\\_1.pdf](http://www.brisbaneca.org/sites/default/files/City%20of%20Brisbane_1.pdf)>; Town of Portola Valley, *Adopted Budget, Fiscal Year 2017-2018*, p. 4, <<http://www.portolavalley.net/home/showdocument?id=10921>>; Town of Hillsborough, *FY 2017-18 Adopted Budget*, p. 26; Town of Hillsborough, *FY 2018-19 Proposed Budget*, p. 95.

<sup>126</sup> Interviews by Grand Jury.

<sup>127</sup> Appendix A.

<sup>128</sup> City of Menlo Park, *Adopted Budget, Fiscal Year 2017-18*, p. 48.

<sup>129</sup> Interviews by Grand Jury.

<sup>130</sup> City of Menlo Park, *Adopted Budget, Fiscal Year 2017-18*, p. 49.

<sup>131</sup> Menlo Park expects its pension costs to almost double to \$10.14 million per year by FY 2027-28. City of Menlo Park, *Adopted Budget, Fiscal Year 2017-18*, p. 48.

Half Moon Bay. The City has established a pension stabilization fund.<sup>132</sup> As of June 30, 2017, the City reported having approximately \$1 million in the fund<sup>133</sup> and its FY 2017-2018 budget provides for the transfer of another \$0.51 million into the fund.<sup>134</sup> This would bring the fund total to slightly more than \$1.5 million by the end of FY 2017-2018. When compared to Half Moon Bay's pension costs of \$0.59 million in FY 2016-2017,<sup>135</sup> a \$1.5 million pension stabilization fund represents a reasonable start to the city's preparations for rising pension costs. It compares favorably to Menlo Park's pension reserve, which holds only approximately 7 months' worth of pension costs.<sup>136</sup> In contrast, Half Moon Bay's fund holds the equivalent of well over 2 years of pension costs.

The City of San Mateo. The city's long-term budget calls for funding an \$8.95 million pension cost reserve, with \$1.4 million to be contributed in FY 2017-2018 and additional annual amounts thereafter equal to 50 percent of certain budget surpluses.<sup>137</sup> The City of San Mateo's annual pension costs were over \$17.5 million in FY 2016-2017,<sup>138</sup> so this reserve amount for pension costs is modest.

South San Francisco. The city reports that it established a "CalPERS Stabilization Reserve" with an initial amount of \$3.99 million in FY 2015-2016. It funded this reserve with another \$509,104 in FY 2016-2017 and projects funding it with an additional \$586,968 in FY 2018-2019, for a combined total of approximately \$5.1 million.<sup>139</sup> This \$5.1 million total would represent 27.3 percent of the City's \$18.7 million in unassigned reserves as of June 30, 2017<sup>140</sup> and roughly 5 months' worth of its FY 2016-2017 pension costs of \$13.3 million.<sup>141</sup>

Brisbane. The City of Brisbane reports having adopted a policy of allocating 40 percent of unanticipated ending fund balance to be used to be set aside to pay for unfunded pension and OPEB obligations.<sup>142</sup>

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<sup>132</sup> City of Half Moon Bay, *FY 2017-18 Adopted Operating Budget*, pp. 68, 71 and 224, <<https://www.half-moon-bay.ca.us/DocumentCenter/View/940>>.

<sup>133</sup> City of Half Moon Bay, California, Comprehensive Annual Financial Report, Fiscal Year Ended June 30, 2017, p. 102, <<https://www.half-moon-bay.ca.us/DocumentCenter/View/1341>>.

<sup>134</sup> City of Half Moon Bay, *FY 2017-18 Adopted Operating Budget*, pp. 69 and 71.

<sup>135</sup> Appendix A.

<sup>136</sup> Menlo Park's pension costs in FY 2016-17 were approximately \$5.6 million. Appendix A.

<sup>137</sup> City of San Mateo, *Adopted 2017-18 Budget*, pp. 54 and 117, <<https://www.cityofsanmateo.org/DocumentCenter/View/60043>>.

<sup>138</sup> Appendix A.

<sup>139</sup> South San Francisco, Letter from City of South San Francisco to Grand Jury, dated June 11, 2018. City of South San Francisco, *FY 2018-19 Addendum to Adopted FY 2018-19 Biennial Operating Budget*, p. B-5. City of South San Francisco, *FY 2018-19 Operating Budget Study Session*, May 23, 2018, p. 28. City of South San Francisco, *Adopted Biennial Operating Budget and Capital Improvement Program Fiscal Years 2017-19*, p. D-5, <<http://www.ssf.net/home/showdocument?id=2027>>.

<sup>140</sup> City of South San Francisco, Letter from South San Francisco to Grand Jury, dated June 7, 2018.

<sup>141</sup> Appendix A.

<sup>142</sup> Brisbane, Letter from City of Brisbane to Grand Jury, dated June 11, 2018. The City's letter does not disclose the estimated amounts that might be set aside as a result of this policy.

### (3) Establish IRS Section 115 non-revocable trusts.

The Cities can also put reserves that are set aside for pension costs into non-revocable trusts under Section 115 of the Internal Revenue Code. Contributions to Section 115 trusts are voluntary and can be made as city budgets allow. Funds in such trusts can only be used to pay pension costs.<sup>143</sup> As with ordinary reserves, the Cities can use funds in Section 115 trusts to manage or smooth payments to CalPERS, consistent with their budgetary needs.<sup>144</sup> The non-revocable feature assures employees, retirees and taxpayers that the funds will be used for pension costs. Another advantage of Section 115 trusts is that they offer different investment choices and risk profiles<sup>145</sup> which can yield higher rates of Return on Investments than the rates available to the Cities for their general fund reserves.<sup>146</sup> Payments into a reserve do not reduce the Amortization Costs charged by CalPERS.

In January 2018 Redwood City deposited \$10.5 million into a Section 115 trust,<sup>147</sup> representing approximately 7 months of its annual pension costs of \$17.7 million in FY 2016-2017.<sup>148</sup> Redwood City's finance group has recommended that the City deposit \$1.1 million per year from general fund reserves into the Section 115 trust over the 5-year period from and including FY 2018-2019 through FY 2022-2023.<sup>149</sup> This \$1.1 million per year would represent slightly less than 50 percent of the estimated \$2.5 million per year increase in pension costs that Redwood City is likely to experience.<sup>150</sup> In FY 2016-2017, the Redwood City Council adopted a general fund reserve policy, where the unreserved portion of the general fund's balance would be 15 percent of anticipated general fund revenues. Any excess balance above a 15 percent reserve threshold would be utilized to fund a Section 115 Trust Account to help pay pension expenses.<sup>151</sup>

In October 2017 Burlingame contributed \$3.7 million into a Section 115 trust for the purpose of paying pension obligations and, approximately six months later, an additional \$1 million.<sup>152</sup> The

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<sup>143</sup> CalPERS, Finance and Administration Committee, *Proposed California Employers' Pension Prefunding Trust (CEPPT) Legislation*, February 17, 2016, pp. 1-2, 4, <<https://www.calpers.ca.gov/docs/board-agendas/201602/financeadmin/item-6a-00.pdf>>.

<sup>144</sup> Ibid.

<sup>145</sup> Ibid.

<sup>146</sup> The City of Menlo Park notes that, if it moves funds in its Strategic Pension Funding reserve into a Section 115 trust, it would expect to earn returns on those assets of approximately 4 percent per year, as compared to the approximately 1 percent per year it earns on general fund reserves to due restrictions imposed on available investments for general fund reserves. City of Menlo Park, *Adopted Budget, Fiscal Year 2017-18*, p. 48.

<sup>147</sup> Redwood City Report – FY 2017-18 Mid-Year Budget Study Session, p. 10. City of Redwood City, *Fiscal Year 2017-2018 Adopted Budget*, Budget Message, pp. 13 and 28, <<http://webapps.redwoodcity.org/files/finance/main/1.-Redwood-City-CA-Adopted-FY-17-18-Budget-.pdf>>.

<sup>148</sup> Appendix A.

<sup>149</sup> City of Redwood City, *Fiscal Year 2018-2019 Recommended Budget*, p. 174, <<http://www.redwoodcity.org/home/showdocument?id=15124>>.

<sup>150</sup> Table No. 7.1, above shows that Redwood City's pension costs (Miscellaneous and Safety plans) are projected to increase by \$20.1 million between FY 2016-17 and FY 2024-25. \$20.1 million / 8 years = \$2.5 million in increases per year.

<sup>151</sup> City of Redwood City, 2017 CAFR, p. v of Letter of Transmittal.

<sup>152</sup> Letter from City of Burlingame to Grand Jury, dated June 7, 2018. Augustine, Carol, Staff Report to Burlingame City Council, March 14, 2018, pp. 11 and 12.

City's proposed FY 2018-19 budget recommends contributing another \$3.4 million to the Section 115 trust,<sup>153</sup> which would bring total funds in the trust to \$8.1 million. The City's five-year forecast projects ongoing annual contributions to the Section 115 trust in the amounts of \$2.7 million in FY 2019-20, \$2.1 million in FY 2020-21, \$1.5 million in FY 2021-22 and \$1.21 million in FY 202-23.<sup>154</sup> If the additional FY 2018-19 contribution of \$3.4 million is made, the \$8.1 million total Section 115 trust amount would represent 29 percent of Burlingame's projected total general fund reserves of \$28.19 million at the end of FY 2017-2018, of which \$9.15 million will be unassigned<sup>155</sup> and approximately 19 months' worth of its \$5.3 million in pension costs in FY 2016-2017.

The City of Brisbane also reports having recently established a Section 115 trust to help pay any unexpected increases in pension payment obligations. The City's financial plan calls for it to put aside funding for additional payments into the 115 trust.<sup>156</sup>

#### (4) Negotiate Cost-Sharing Arrangements with Employees.

The Cities can reduce their pension costs through cost-sharing agreements with employees under which employees agree to pay a portion of the Cities' Normal Costs. For example, the City of Menlo Park has negotiated cost-sharing agreements with non-sworn employees under which those employees will pay an additional amount equal to 50 percent of the City's future pension cost increases and agreements with sworn employees under which they will pay a portion of the City's pension costs equal to 3 percent of total payroll.<sup>157</sup> Redwood City has also negotiated cost-sharing agreements with employees under which those employees pay a portion of the City's Normal Costs,<sup>158</sup> as have Atherton,<sup>159</sup> Burlingame,<sup>160</sup> Hillsborough,<sup>161</sup> and Millbrae.<sup>162</sup>

#### (5) Pension Obligation Bonds (POBs).

Another option is to accelerate repayment of Unfunded Liabilities with the proceeds of pension obligation bonds issued by the City. Where the interest rate being charged by CalPERS on Unfunded Liabilities is higher than the interest rate on the bonds, this can result in savings for a City. For example, in FY 2003-2004, Daly City issued \$36.2 million in pension obligation bonds and applied the proceeds to reduce its Unfunded Liabilities. At the time, CalPERS was charging annual interest of 8.25 percent on Unfunded Liabilities and the interest on the bonds was only 5.973 percent. According to Daly City, the difference between the interest rate charged by

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<sup>153</sup> Burlingame, Letter from City of Burlingame to Grand Jury, dated June 7, 2018.

<sup>154</sup> Burlingame, Email from City of Burlingame to Grand Jury, dated June 9, 2018. See also, Augustine, Staff Report March 14, 2018, p. 48 for information on the portion of these payments that will be made out of the general fund.

<sup>155</sup> City of Burlingame, *Fiscal Year 2017-18 Adopted Budget*, p. xiii.

<sup>156</sup> Brisbane, Letter from City of Brisbane to Grand Jury, dated June 11, 2018. The City's letter does not disclose the amount(s) contributed into its Section 115 Trust.

<sup>157</sup> City of Menlo Park, *Adopted Budget, Fiscal Year 2017-18*, p. 48.

<sup>158</sup> Redwood City Report - FY 2017-18 Mid-Year Budget Study Session, p. 10.

<sup>159</sup> Town of Atherton, *Fiscal Year 2017/18 Operating & Capital Improvement Budget*, p. 4, <<http://www.ci.atherton.ca.us/ArchiveCenter/ViewFile/Item/2535>>.

<sup>160</sup> City of Burlingame, *Fiscal Year 2017-18 Adopted Budget*, p. xviii.

<sup>161</sup> Interviews by Grand Jury.

<sup>162</sup> City of Millbrae, Letter from City of Millbrae to Grand Jury, dated June 11, 2018.

CalPERS, and the lower rate paid to bondholders, resulted in \$7 million in net present value savings.<sup>163</sup> However, these bonds did not solve Daly City's pension problems. As of June 30, 2017, Daly City had a remaining unpaid balance of \$22.8 million on these bonds, which mature on August 1, 2022.<sup>164</sup> In evaluating Daly City's total Unfunded Liabilities and pension costs in Appendix A, the reader should take into account that Appendix A does not reflect Daly City's outstanding balance on the bonds, nor the annual costs of repayments of principal and interest on the bonds (which totaled approximately \$3.54 million in FY 2016-2017).<sup>165</sup> If these amounts were included, then Daly City's FY 2016-2017 Unfunded Liabilities in Appendix A would rise from \$139.86 million to \$162.66 million and its annual pension costs would rise from \$11.63 million to \$15.17 million. Daly City's interest payments on the bonds, however, do remain lower than the interest it would otherwise have had to pay on Unfunded Liabilities.

In 2013, the City of San Bruno issued \$13.2 million in pension obligation bonds.<sup>166</sup> The City of Brisbane issued \$4.7 million in pension obligation bonds in 2006 and took out a \$1.6 million loan in 2013 to pay off certain pension obligations,<sup>167</sup> and the City of Burlingame issued \$33 million in pension obligation bonds in 2007.<sup>168</sup>

An analysis of the risks and benefits of pension obligation bonds is beyond the scope of this report. See the Government Finance Officers Association's analysis of pension obligation bonds for an analysis of the reasons not to issue such bonds.<sup>169</sup>

#### (6) Shorten Amortization Periods.

The Cities may instruct CalPERS to shorten the Amortization Period of their Unfunded Liabilities. That would increase their contribution costs in the short-term but decrease aggregate interest costs over the long-term.<sup>170</sup> Such a decision, however, is irrevocable. Once it has shortened an Amortization Period at the request of an Agency, CalPERS will not subsequently increase it at the request of the Agency.<sup>171</sup> The City of Palo Alto, although outside the borders of the county, has stated that it is looking at this option.<sup>172</sup> In essence, asking CalPERS to shorten

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<sup>163</sup> City of Daly City, *Comprehensive Biennial Operating and Capital Budget, Fiscal Years 2017 and 2018*, p. 25, <<http://www.dalycity.org/Assets/Departments/Finance+and+Administration/Operating+Budget+2017-2018.pdf>>.

<sup>164</sup> City of Daly City, 2017 CAFR, p. 15.

<sup>165</sup> City of Daly City, 2017 CAFR, p. 53.

<sup>166</sup> City of San Bruno, *Fiscal Year 2013-14 City Council Adopted General Fund, Enterprise Funds, Internal Service Funds and Special Revenue Funds Operating Budget*, p. K-4,

<https://www.sanbruno.ca.gov/civicax/filebank/blobdload.aspx?BlobID=23046>

<sup>167</sup> City of Brisbane, 2014 CAFR, pp. 54, 55 and 59,

<<http://brisbaneca.org/sites/default/files/brisbane%20cafr%20ocr.pdf>>.

<sup>168</sup> City of Burlingame, 2010 CAFR, p. 60,

<[https://www.burlingame.org/document\\_center/Finance/Comprehensive%20Annual%20Financial%20Reports/CAFR%2009-10.pdf](https://www.burlingame.org/document_center/Finance/Comprehensive%20Annual%20Financial%20Reports/CAFR%2009-10.pdf)>. City of Burlingame, *Fiscal Year 2017-18 Adopted Budget*, p. x.

<sup>169</sup> League of California Cities, *2018 Retirement System Sustainability Study*, pp. 6 and 33.

<sup>170</sup> Lin, Bianca and Yam, Wai Man, *City of Menlo Park Miscellaneous and Safety Plans, CalPERS Actuarial Issues – 6/30/15 Valuation Preliminary Results*, Bartel Associates LLC, May 2, 2017, p. 48.

<sup>171</sup> Interviews by Grand Jury.

<sup>172</sup> Keene, James, Palo Alto City Manager, Letter to Tamara L. Davis, Deputy Manager, Jury Services, Santa Clara County Civil Grand Jury, January 30, 2017, p. 1, (Updated response to 2011-12 Santa Clara County Civil Grand



the Amortization Period is a more structured way to achieve the same goal as making supplemental contributions to CalPERS beyond the required contribution. CalPERS has announced that it will be phasing in a 20-year amortization schedule for all member Agencies.<sup>173</sup> However, Agencies remain free to elect more aggressive reductions in their Amortization Periods.

(7) Keep Salary Increases Within the Rate Assumed by CalPERS.

Calculations of future Benefit obligations are based, in part, on assumptions CalPERS makes about future salary increases by the Cities. Cities can impact the size of their contribution payments over time by ensuring that future employee salary increases do not exceed CalPERS's assumed amounts.

(8) Reduce Operating Costs.

Painful though it may be, the Cities can reduce operating costs to create additional reserves, which they could then apply to pension costs. Redwood City's finance group has warned of "future recessionary impacts that loom in the future"<sup>174</sup> and notes that, to meet these challenges, it recommends reducing operating costs by \$3.7 million in the FY 2018-2019 budget (primarily through reductions in budgeted headcount, including police and firefighters) and another \$2.3 million in FY 2019-2020.<sup>175</sup> Indeed, Redwood City's finance group stated that rising pension costs are the biggest factor driving the city's efforts to reduce operating costs.<sup>176</sup>

Daly City describes its increasing pension costs as a "major challenge for the City's budget in coming years."<sup>177</sup> It is in the process of cutting operating costs through, among other things, a freeze on filling six vacant police officer positions and eliminating nine firefighter positions through attrition. Daly City notes that its general fund has a structural budget deficit of approximately \$6 million in the biennial budget for FY 2016-2017 and 2017-2018 and that it is drawing down existing general fund reserves to close this budget gap.<sup>178</sup> The Town of Colma notes that "Rising costs of health care and pension rates are placing extraordinary pressure on the fiscal health of most California municipalities, including the Town of Colma" and, among other responses to this pressure, has elected to terminate its retiree health premium payments programs for all employees hired after January 1, 2017.<sup>179</sup>

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Jury report, *An Analysis of Pension and Other Post-Employment Benefits*,  
<[http://www.scsccourt.org/court\\_divisions/civil/cgj/2012/responses/pension/02.03.17%20Response%20-%20Palo%20Alto.PDF](http://www.scsccourt.org/court_divisions/civil/cgj/2012/responses/pension/02.03.17%20Response%20-%20Palo%20Alto.PDF)>.

<sup>173</sup> League of California Cities, *CalPERS Board Reduces Amortization Policy*. Lowe and Rogers, *CalPERS Reduces Amortization Period with Impacts to Employer Contribution Rates*. CalPERS Actuarial Office, *Finance and Administration Committee, Agenda Item 7a*. Jacobius, Arleen, *CalPERS shortens amortization period to 20 years*.

<sup>174</sup> Redwood City, *Report - FY 2017-18 Mid-Year Budget Study Session*, pp. 7 and 11.

<sup>175</sup> City of Redwood City, *Fiscal Year 2018-2019 Recommended Budget*, pp. 9, 18 and 19.

<sup>176</sup> Interviews by Grand Jury.

<sup>177</sup> City of Daly City, *Adopted Comprehensive Biennial Operating and Capital Budget, Fiscal Years 2017 and 2018*, p. 26.

<sup>178</sup> *Ibid.*, at p. 7.

<sup>179</sup> Town of Colma, *FY 2017-18 Adopted Budget*, p. 8.

(9) Seek New Revenue.

Although raising additional revenues for the purpose of paying down pension obligations may be difficult, it may still be possible for the Cities to supplement their funding of services through new revenue sources to protect them from cuts that might otherwise have to be made to pay rising pension costs. Redwood City's finance group notes that the City has increased revenues by approximately \$2 million per year through higher development fees and that it is in the process of developing a phased approach to cannabis regulation as a result of which it expects to generate at least \$0.3 million a year in additional taxes.<sup>180</sup> Redwood City is also exploring the possibility of implementing new solid waste fees to support street sweeping and parking enforcement services. The city's finance group concludes that: "Without new revenues, staff projects deficits beginning in FY 2019-20."<sup>181</sup> These deficits are projected to reach \$6.6 million per year in the general fund budget by FY 2022-2023.<sup>182</sup> In November 2016, Daly City residents voted on Measure V, a five-year supplemental parcel tax of \$162 per parcel for the purpose of restoring police and fire personnel and related operational costs. Measure V was defeated by a vote of 53 to 47 percent.<sup>183</sup>

Measures That Appear Unavailable at this Time.

Several more obvious strategies appear to be off the table at this time:

(a) Renegotiating employee pension formulas.

As described in BACKGROUND (pages 12-13), the California Rule, a California Supreme Court interpretation of the state constitution, appears to prohibit even prospective reductions in pension Benefits for existing employees. As noted, cases challenging that interpretation are currently before the California Supreme Court. In the event that the Supreme Court loosens the California Rule, local jurisdictions may be able to renegotiate pension Benefits with their employees. Under PEPRA, Benefits for "New Members" hired after January 1, 2013, are much lower than for the "Classic Members" hired prior to that date. The California League of Cities "supports a change in state law or judicial precedent to allow employers to negotiate plan changes with classic CalPERS members" and suggests "converting all currently deemed "Classic" employees to the same provisions (Benefits and employee contributions) currently in place for "PEPRA" employees for all future years of service."

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<sup>180</sup> Redwood City, *Report - FY 2017-18 Mid-Year Budget Study Session*, p. 12.

<sup>181</sup> *Ibid.*

<sup>182</sup> City of Redwood City, *Fiscal Year 2018-2019 Recommended Budget*, p. 174.

<sup>183</sup> Ballotpedia, *Daly City, California, Parcel Tax for Police and Fire Departments, Measure V (November 2016)*, <[https://ballotpedia.org/Daly\\_City,\\_California,\\_Parcel\\_Tax\\_for\\_Police\\_and\\_Fire\\_Departments,\\_Measure\\_V\\_\(November\\_2016\)](https://ballotpedia.org/Daly_City,_California,_Parcel_Tax_for_Police_and_Fire_Departments,_Measure_V_(November_2016))>.

(b) Adopting a defined contribution pension plan for new employees.

As noted in BACKGROUND (page 4), defined contribution (as opposed to defined benefit) plans such as 401k plans relieve municipalities of the risks and uncertainties of below-projected investment returns and other assumptions about the future (for example, mortality rates). A large percentage of private companies have now adopted this approach<sup>184</sup> but they may be compensating for this, at least in part, with salaries that are greater than public agency salaries. As of 2009, only 7 percent of private-sector employees had their sole pension plan in the form of a defined benefit plan, down from 62 percent in 1975.<sup>185</sup> The Cities could achieve much greater certainty with respect to future pension costs if they could switch to a defined contribution plan for new employees. However, CalPERS does not currently offer defined contribution plans as an option for its member agencies and it requires that all new employees of the member Agencies participate in CalPERS' pension plans.<sup>186</sup> As a result, the Cities could only offer defined contribution plans to new employees in addition to, rather than in place of, existing pension plans with the result that defined contribution plans would increase, rather than reduce, overall costs for the Cities. In addition, offering only defined contribution plans could put the Cities at a significant employee recruiting and retention disadvantage compared to private industry unless the Cities increased salaries to rates more competitive with private industry.

(c) Withdrawing from CalPERS.

Several cities have considered the possibility of withdrawing from CalPERS altogether in order to have more flexibility and visibility into their future pension costs. However, CalPERS' termination payment requirements are prohibitive.<sup>187</sup> The City of Palo Alto determined that, in order to leave CalPERS, it would first need to "immediately deposit" in excess of \$1 billion to the CalPERS Pension Trust, and then establish a new deferred compensation plan for employees.<sup>188</sup> A City of San Carlos official advised the Grand Jury that withdrawal from CalPERS is effectively "impossible" because of the high termination fees imposed by CalPERS.

**Conclusion.**

Most of the Cities do not yet appear to have adopted a long-term financial plan to address their rising pension costs. They have not adopted target Funded Percentages for their plans, dates for achieving them, or plans for monitoring progress against their targets. Thus far, they have not made it a priority to provide clear, regular and public disclosure to their residents of their future projected pension costs and Unfunded Liabilities, nor the cuts in services that they will make, or

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<sup>184</sup> Since 1980, when participation in defined benefits plans was at its peak in the United States, 30.1 million people participated in defined benefit plans. That number has dropped by 40 percent over the past 30 years. Money-Zine, *Defined Benefit versus Contribution Plans*, July 5, 2017, p. 2, <<https://www.money-zine.com/financial-planning/retirement/defined-benefit-versus-contribution-plans/>>.

<sup>185</sup> Nation, *Pension Math* 2011, p. 3, footnote 11.

<sup>186</sup> Interviews by Grand Jury.

<sup>187</sup> Interviews by Grand Jury.

<sup>188</sup> Keene, James, Palo Alto City Manager, Letter to Tamara L. Davis.

increases in revenues they will seek, in response to rapidly increasing pension costs. Where projected pension costs are disclosed, they are often based on CalPERS projections for returns on investment that some experts argue are optimistic, and residents are not apprised of the potential for far greater costs should another recession occur, or other CalPERS assumptions prove inaccurate.

The steps necessary to address the pension crisis are unpleasant to think about, much less implement. Indeed, some of the Cities have advised the Grand Jury that, while important, amortization of Unfunded Liabilities must be balanced against “other priorities” for new spending.<sup>189</sup> While the Grand Jury understands the desire on the part of the Cities to expand city services in these times of economic growth and increasing property tax revenues, it is difficult to think of a more important issue for the Cities to focus on than the looming pension crisis. Currently, the county enjoys good economic conditions. Its unemployment rate recently dropped to 2.1 percent.<sup>190</sup> Many of the Cities are experiencing rising revenues.<sup>191</sup> If the Cities do not address Unfunded Liabilities in a decisive way now, when will they ever be able to? The next recession may well reduce CalPERS’ Returns on Investment below their projected level, resulting in even larger Unfunded Liabilities and higher pension costs. The next recession may also reduce or eliminate the Cities’ budget surpluses, making it harder for them to cope.<sup>192</sup> Now is the time for the Cities to engage their residents in the issue and, with the residents’ support, take the difficult actions necessary to secure a bright future for their communities.

## FINDINGS

- F1. Each City’s CAFR for the fiscal years ending June 30, 2015, June 30, 2016 and June 30, 2017 reported covered payroll for the City’s pension plans in the amount set forth beside its name for that year in Appendix A.
- F2. Each City’s CAFR for the fiscal years ending June 30, 2015, June 30, 2016 and June 30, 2017 reported contribution payments to CalPERS on the City’s pension plans in the amount set forth beside its name for that year in Appendix A.
- F3. Each City’s CAFR for the fiscal years ending June 30, 2015, June 30, 2016 and June 30, 2017 reported Unfunded Liabilities (as defined in this report) for the City’s pension plans in the amount set forth beside its name for that year in Appendix A. 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 could otherwise have been used to provide public services or to add to reserves.

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<sup>189</sup> Interviews by Grand Jury.

<sup>190</sup> Glover, Mark, *California sets a new record for lowest unemployment rate*, The Sacramento Bee, January 19, 2018, <[www.sacbee.com/news/business/article/195571634.html](http://www.sacbee.com/news/business/article/195571634.html)>.

<sup>191</sup> See footnote 125 above.

<sup>192</sup> Redwood City notes that the current expansion phase of the economy has now lasted for eight years, and that, historically, expansionary cycles only last an average of five years. It cautions that the economy is in a “late stage of expansion” and that prudent long-term budgeting requires the city to “proactively prepare for future recessionary impacts that loom in the future.” Redwood City, *Report - FY 2017-18 Mid-Year Budget Study Session*, p. 11.

- F4. Each City's CAFR for the fiscal years ending June 30, 2015, June 30, 2016 and June 30, 2017 reported Funded Percentages (as defined in this report) for the City's pension plans in the amount set forth beside its name for that year in Appendix A.
- F5. Each City's CAFR for the fiscal years ending June 30, 2015, June 30, 2016 and June 30, 2017 reported what the Unfunded Liabilities (as defined in this report) for the City's pension plans would have been if the applicable Discount Rate applied to calculate them had been 1 percentage point lower in the amount set forth beside its name for that year in Appendix A.
- F6. Each City's CAFR for the fiscal years ending June 30, 2015, June 30, 2016 and June 30, 2017 reported general fund total expenditures for that year in the amount set forth beside its name for that year in Appendix A.
- F7. In each of the fiscal years ending June 30, 2015, June 30, 2016 and June 30, 2017, each City's contribution payments to CalPERS on the City's pension plans represented the percentage of that City's general fund total expenditures for that year set forth beside its name for that year in Appendix A in the column entitled "Contribution Payments as % of General Fund Total Expenditures."
- F8. In each of the fiscal years ending June 30, 2015, June 30, 2016 and June 30, 2017, each City's contribution payments to CalPERS on the City's pension plans represented the percentage of that City's covered payroll for the City's pension plans in the amount set forth beside its name for that year in Appendix A in the column entitled "Contribution Rate (i.e., Contribution Payments as % of Covered Payroll)."
- F9. In FY 2017-2018, each City (excluding Atherton, Colma, Foster City, Hillsborough, Portola Valley and Woodside) has paid CalPERS for its Normal Costs (as defined in this report) and Amortization Costs (as defined in this report) in the amounts set forth beside its name on Table No. 4. (The Cities of Atherton, Colma, Foster City, Hillsborough, Portola Valley and Woodside are not included in Table No. 4 because the source for that table did not include data for them.)
- F10. As a result, among other things, of CalPERS' decreasing its Discount Rate from 7.5 percent to 7 percent by FY 2020-2021, its reduction of future Amortization Periods from 30 to 20 years, and its use of updated mortality assumptions reflecting projected increases in the longevity of Members, each City faces increasing pension contribution payments to CalPERS which are likely to more than double by FY 2024-2025.
- F11. Principal and interest payments on each City's Unfunded Liabilities will increasingly impair such City's provision of public services, impair the security of employee salary and pension Benefits, and/or result in proposals for revenue increases. Paying down Unfunded Liabilities early results in large savings. Every City in the county would save substantial money by paying down their Unfunded Liabilities early.
- F12. The financial documents for each City reviewed by the Grand Jury show that no City has adopted a long-term financial plan with at least a 10-year time horizon to address rising Normal Costs and Amortization Costs that includes each of the following:

- objectives, such as achieving a target Funded Percentage, eliminating the Unfunded Liabilities over “n” years or maintaining the cities’ share of Normal Costs below “n” percentage of payroll,
- policies to achieve these objectives, such as making supplemental payments to CalPERS to reduce their Unfunded Liability, keeping salary increases below the actuarially assumed increase rate, capping the cities’ share of Normal Costs, reducing operational costs or increasing revenue,
- measures to implement such policies,
- processes to monitor progress in implementing the measures, and
- alternative financial strategies, or a “Plan B,” that may be used in the event that CalPERS’ assumptions are not met in future years.

F13. Despite the fact that rising pension costs and Unfunded Liabilities are a significant problem for each City, no City (except for Redwood City, the City of San Mateo, the City of Burlingame, the City of Belmont and the City of Menlo Park) includes specific, annual projections of future pension contribution costs in their budgets published in the finance section of their websites.

## RECOMMENDATIONS

- R1. The Grand Jury recommends that, by December 31, 2018, each City schedule public hearings to engage its residents in addressing the city’s increasing pension costs and to develop a long-term plan to address them.
- R2. The Grand Jury recommends that, by December 31, 2018, and annually thereafter, each City publish a report on its website detailing its pension obligations. The report should include, at a minimum, the following:
  - a) The City’s total pension contribution costs under all plans, and also broken out into subtotals for all Miscellaneous Plans, and all Safety Plans, for each of the 3 preceding fiscal years as well as estimates for such costs in each of the following 10 fiscal years, assuming CalPERS’ actuarial assumptions are met.
  - b) The City’s total Unfunded Liabilities under all plans, and also broken out into subtotals for all Miscellaneous Plans, and all Safety Plans, for each of the 3 preceding fiscal years as well as estimates for such Unfunded Liabilities in each of the next 10 fiscal years, assuming CalPERS’ actuarial assumptions are met.
  - c) The City’s Funded Percentage across all plans, and also broken out into subtotals for all Miscellaneous Plans, and all Safety Plans, for each of the 3 preceding fiscal years as well as estimates for such Funded Percentages in each of the next 10 fiscal years, assuming CalPERS’ actuarial assumptions are met.
  - d) The percentage of the City’s general fund expenditures and covered payroll represented by the pension costs described in (a) above (using estimates of general fund expenditures in future fiscal years).

- e) In addition, estimated information for all projections regarding the next 10 fiscal years set forth in items (a) through (e) above should be presented using a Discount Rate that is 1 percentage point below CalPERS' then-current Discount Rate.

R3. The Grand Jury does not recommend specific policies or implementation measures to address pension costs. However, it recommends that, by no later than December 31, 2018, and annually thereafter, each City instruct its staff to deliver a report to the City Council in connection with the City's financial plan evaluating available options to address pension costs and that each City hold public hearings to discuss and consider such options no less than every other fiscal year. These include (but may not be limited to):

- Regular supplemental payments to CalPERS (beyond those required by CalPERS) to accelerate the amortization of their Unfunded Liabilities.
- Irregular supplemental payments to CalPERS (beyond those required by CalPERS), as when a City has a budget surplus or receives special non-recurring revenues.
- Electing to apply shorter Amortization Periods (that is, less than 20 years) to their Unfunded Liabilities.
- Issuing pension obligation bonds.
- Establishing substantial reserves that can be applied in the future to help meet rising pension costs and/or accelerate amortization of Unfunded Liabilities.
- Establishing Section 115 trusts for the exclusive purposes of meeting rising pension costs and/or accelerating amortization of Unfunded Liabilities.
- Reductions in general fund operating costs other than pensions.
- Seeking additional general fund revenues that can be applied directly to paying pension costs or that can offset general fund budget shortfalls that would otherwise occur.
- Keeping employee salary increases at or below the levels assumed by CalPERS.
- Negotiating cost-sharing agreements with employees under which employees pay a portion of the City's pension costs (without at the same time agreeing to offsetting compensation increases).
- Maintaining growth in employee salaries and COLAs at or below the assumed CalPERS rates.
- To the extent allowed by law, consider the recommendation of the League of California Cities to renegotiate employee contracts to bring the pension Benefits of Classic Members in line with PEPRA Members, for future work. In particular, ensure that the salary used to determine final retirement compensation is based on the average of the final 3 years of employment (rather than highest 1 year), and that the salary is not enhanced by "spiking," such as by including overtime, unused vacation or sick leave, purchases of "air time," and the like.

R4: The Grand Jury recommends that, by June 30, 2019, each City develop and publish a long-term financial plan to deal with rising pension costs, and update that plan annually. Such a plan should include:

- Specific objectives, such as identifying a target Funded Percentage, eliminating the Unfunded Liabilities over “n” years and maintaining the City’s share of Normal Costs at “n” percentage of payroll.
- Policies to achieve these objectives.
- Specific measures to implement the policies.
- A process to monitor progress in implementing the measures and in achieving the objectives.
- Consideration of alternative policies and measures, or a “Plan B,” that may be used in the event that CalPERS’s actuarial assumptions, especially the Discount Rate, are not met in future years.

## **REQUEST FOR RESPONSES**

Pursuant to Penal Code Section 933.05, the Grand Jury requests that the City Councils of each of the following respond to the foregoing Findings and Recommendations referring in each instance to the number thereof:

- The Town of Atherton
- The City of Belmont
- The City of Brisbane
- The City of Burlingame
- The Town of Colma
- The City of Daly City
- The City of East Palo Alto
- The City of Foster City
- The City of Half Moon Bay
- The Town of Hillsborough
- The City of Menlo Park
- The City of Millbrae
- The City of Pacifica
- The Town of Portola Valley
- The City of Redwood City
- The City of San Bruno
- The City of San Carlos
- The City of San Mateo
- The City of South San Francisco
- The Town of Woodside



In responding to the foregoing Findings and Recommendations, each city and town should understand references to “[E]ach City” as referring only to itself. No city or town should be responding as to an entity other than itself.

## **METHODOLOGY**

The Grand Jury reviewed each of the documents listed in “BIBLIOGRAPHY” below. In addition, the Grand Jury interviewed representatives of 6 of the Cities, the County, and an independent public pensions expert.

## APPENDIX A – CITIES’ PENSION DATA

(Based on the Cities’ Annual Financial Reports for FY 2014-2015, FY 2015-2016 and FY 2016-2017)

**All dollar amounts in thousands.**

CITIES	Fiscal Year	Covered Payroll	Contribution Payments	Contribution Rate (i.e., Contribution Payments as % of Covered Payroll)	Unfunded Liability	Funded Percentage	Unfunded Liability if Discount Rate Is Reduced 1 Percentage Point	General Fund Total Expenditures	Contribution Payments as % of General Fund Total Expenditures*
Atherton	2016-2017	\$4,327	\$1,155	26.7%	\$13,982	74.3%	\$21,344	\$11,437	10.1%
	2015-2016	\$4,261	\$617	14.5%	\$10,674	80.4%	\$17,326	\$10,611	5.8%
	2014-2015	\$3,988	\$826	20.7%	\$9,253	81.9%	\$16,088	\$11,622	7.1%
Belmont	2016-2017	\$15,198	\$3,582	23.6%	\$32,835	72.0%	\$48,680	\$18,344	19.5%
	2015-2016	\$11,794	\$4,191	35.5%	\$26,626	76.2%	\$41,855	\$16,800	24.9%
	2014-2015	\$14,176	\$2,788	19.7%	\$25,059	76.7%	\$39,412	\$16,777	16.6%
Brisbane	2016-2017	\$7,916	\$1,713	21.6%	\$18,227	74.8%	\$27,989	\$15,521	11.0%
	2015-2016	\$7,101	\$883	12.4%	\$13,952	79.9%	\$23,410	\$14,850	5.9%
	2014-2015	6,152	1,153	18.7%	12,074	82.2%	\$21,119	\$13,247	8.7%
Burlingame	2016-2017	\$18,617	\$5,294	28.4%	\$57,694	73.4%	\$86,051	\$49,707	10.7%
	2015-2016	\$17,654	\$3,840	21.8%	\$46,987	77.8%	\$75,062	\$47,459	8.1%
	2014-2015	16,713	3,822	22.9%	41,762	80.1%	\$69,042	\$44,405	8.6%
Colma	2016-2017	\$4,031	\$1,048	26.0%	\$9,449	74.2%	\$14,008	\$13,323	7.9%
	2015-2016	\$3,749	\$937	25.0%	\$7,747	74.7%	\$11,969	\$13,410	7.0%
	2014-2015	\$3,604	\$939	26.1%	\$6,885	76.1%	\$10,724	\$12,948	7.3%
Daly City	2016-2017	\$40,070	\$11,631	29.0%	\$139,861	75.7%	\$213,918	\$77,139	15.1%
	2015-2016	\$42,608	\$12,081	28.4%	\$112,195	80.0%	\$185,217	\$79,062	15.3%
	2014-2015	42,226	8,862	21.0%	99,631	81.9%	\$169,965	\$72,649	12.2%
East Palo Alto	2016-2017	8,464	1,493	17.6%	9,459	74.1%	13,750	\$18,109	8.2%
	2015-2016	\$8,408	\$1,372	16.3%	\$8,112	78.4%	\$12,086	\$17,735	7.7%
	2014-2015	7,926	1,477	18.6%	7,856	70.6%	\$11,417	\$16,524	8.9%
Foster City	2016-2017	\$19,875	\$7,209	36.3%	\$69,207	68.7%	\$98,575	\$36,416	19.8%
	2015-2016	\$18,724	\$5,294	28.3%	\$56,390	76.7%	\$84,686	\$33,048	16.0%
	2014-2015	17,696	4,552	25.7%	50,458	78.2%	\$77,534	\$31,322	14.5%
Half Moon Bay	2016-2017	\$2,423	\$594	24.5%	\$9,502	74.6%	\$14,557	\$10,418	5.7%
	2015-2016	\$2,014	\$583	28.9%	\$7,319	80.1%	\$12,332	\$8,781	6.6%
	2014-2015	1,987	529	26.6%	6,736	81.6%	\$11,620	\$8,352	6.3%
Hillsborough	2016-2017	\$8,661	\$2,158	24.9%	\$22,387	74.5%	\$34,262	\$21,224	10.2%
	2015-2016	\$9,089	\$1,893	20.8%	\$17,187	80.2%	\$28,063	\$19,693	9.6%
	2014-2015	8,625	1,605	18.6%	14,770	79.8%	\$25,822	\$18,721	8.6%

\*Note: Covered Payroll amounts in CAFRs may include compensation paid to certain employees whose activities are not accounted for as part of General Fund activities, and their compensation would not be included in General Fund Total Expenditures. As a result, the percentage of General Fund Total Expenditures represented by Covered Payroll may somewhat overstate the percentage represented by General Fund Covered Payroll. Some experts have estimated that this might result in an overstatement of the percentage by 10 – 30 percent, such that a Contribution Payment as a % of General Fund Total Expenditures of 10 percent might actually be somewhere between 7 and 9 percent.

CITIES	Fiscal Year	Covered Payroll	Contribution Payments	Contribution Rate (i.e., Contribution Payments as % of Covered Payroll)	Unfunded Liability	Funded Percentage	Unfunded Liability if Discount Rate Is Reduced 1 Percentage Point	General Fund Total Expenditures	Contribution Payments as % of General Fund Total Expenditures*
Menlo Park	2016-2017	\$23,112	\$5,565	24.1%	\$50,993	74.4%	\$77,514	\$47,314	11.8%
	2015-2016	\$19,868	\$4,747	23.9%	\$38,881	79.3%	\$64,170	\$42,565	11.2%
	2014-2015	19,969	4,228	21.2%	34,371	81.2%	\$58,596	\$40,581	10.4%
Millbrae	2016-2017	\$6,165	\$2,335	37.9%	\$42,769	74.1%	\$62,676	\$25,494	9.2%
	2015-2016	\$5,835	\$2,064	35.4%	\$34,256	78.4%	\$53,883	\$22,514	9.2%
	2014-2015	6,871	1,400	20.4%	28,989	78.6%	47,979	\$18,201	7.7%
Pacifica	2016-2017	\$15,720	\$3,736	23.8%	\$44,400	77.5%	\$70,650	\$28,781	13.0%
	2015-2016	\$15,000	\$2,749	18.3%	\$32,841	82.7%	\$56,750	\$27,358	10.0%
	2014-2015	\$14,365	\$2,739	19.1%	\$28,089	85.0%	\$52,855	\$25,354	10.8%
Portola Valley	2016-2017	\$1,442	\$116	8.1%	\$524	91.8%	\$1,382	\$4,361	2.7%
	2015-2016	\$1,072	\$84	7.8%	\$82	98.6%	\$881	\$4,303	2.0%
	2014-2015	\$993	\$1,019	102.6%	\$957	83.0%	\$1,706	\$5,587	18.2%
Redwood City	2016-2017	\$62,098	\$17,722	28.5%	\$215,202	65.7%	\$298,653	\$112,142	15.8%
	2015-2016	\$57,352	\$17,363	30.3%	\$177,937	70.1%	\$257,798	\$101,684	17.1%
	2014-2015	\$54,275	\$16,467	30.3%	\$164,149	71.6%	\$240,111	\$95,856	17.2%
San Bruno	2016-2017	\$25,173	\$6,344	25.2%	\$78,198	70.7%	\$114,180	\$43,244	14.7%
	2015-2016	\$21,315	\$4,434	20.8%	\$61,771	75.6%	\$96,281	\$38,882	11.4%
	2014-2015	\$20,532	\$4,979	24.3%	\$53,531	78.4%	\$86,637	\$36,738	13.6%
San Carlos	2016-2017	\$11,047	\$2,134	19.3%	\$47,009	63.3%	\$64,530	\$33,182	6.4%
	2015-2016	\$10,486	\$2,601	24.8%	\$40,263	67.3%	\$57,293	\$41,264	6.3%
	2014-2015	\$8,480	\$2,296	27.1%	\$27,741	75.5%	\$42,824	\$29,067	7.9%
San Mateo (City)	2016-2017	\$58,645	\$17,537	29.9%	\$197,822	66.2%	\$271,523	\$103,992	16.9%
	2015-2016	\$52,345	\$15,908	30.4%	\$168,693	70.1%	\$240,459	\$95,779	16.6%
	2014-2015	\$49,788	\$13,860	27.8%	\$159,585	71.4%	\$228,588	\$88,078	15.7%
South San Francisco	2016-2017	\$48,954	\$13,300	27.2%	\$152,786	68.4%	\$216,103	\$92,367	14.4%
	2015-2016	\$40,396	\$13,938	34.5%	\$130,042	72.2%	\$191,669	\$86,795	16.1%
	2014-2015	\$34,478	\$11,403	33.1%	\$124,085	73.2%	\$184,305	\$76,805	14.8%
Woodside	2016-2017	\$1,996	\$323	16.2%	\$3,164	72.3%	\$4,702	\$6,801	4.8%
	2015-2016	\$1,809	\$409	22.6%	\$2,578	75.8%	\$4,325	\$6,638	6.2%
	2014-2015	\$1,640	\$389	23.7%	\$2,053	79.1%	\$3,356	\$6,107	6.4%

Totals & Weighted Averages	2016-2017	\$383,935	\$104,986	27.3%	\$1,215,467	70.5%	\$1,755,047	\$769,315	13.6%
	2015-2016	\$350,879	\$95,987	27.4%	\$994,535	75.1%	\$1,515,516	\$729,230	13.2%
	2014-2015	\$334,484	\$85,335	25.5%	\$898,036	76.8%	\$1,399,702	\$668,939	12.8%

## **APPENDIX B - HOW TO FIND PENSION DATA IN THE CITIES' CAFRS**

Set forth below is a guide to where information compiled in Appendix A can be found in the Cities' CAFRs.

Amount of Employer Contributions to Pension Plans: This information is set forth in the "Required Supplemental Information" section of the CAFR, in the "Schedule(s) of Contributions" for the pension plans. Sometimes a separate Schedule of Contribution is included for each pension plan, other times only an aggregate number for all plans is given.

Covered Payroll for Pension Plans: This information is set forth in the "Required Supplemental Information" section of the CAFR, in the "Schedule(s) of Contributions" for the pension plans. Where the CAFR has a separate Schedule of Contributions for each pension plan, it will also show the payroll specific to that plan's employees. Where plan information is aggregated, then the payroll number will also be aggregated.

Amount of Unfunded Liabilities: This information is set forth in the "Required Supplemental Information" section of the CAFR, in the "Schedule of Proportionate Share of The Net Pension Liability" as "Plan's proportionate share of the Net Pension Liability (Asset)." Note: The amounts given for "covered payroll" in this schedule should not be relied upon as they often apply to the year (either one or two years prior) in which pension assets and liabilities were last measured, rather than the fiscal year covered in the CAFR itself. For information as to covered payroll during the current fiscal year, rely only on the information is set forth in the "Required Supplemental Information" section of the CAFR, in the "Schedule(s) of Contributions" for the pension plans.

Funded Percentage of Pension Plan. This information is set forth in the "Required Supplemental Information" section of the CAFR, in the "Schedule of Proportionate Share of The Net Pension Liability" as "Plan's proportionate share of Fiduciary Net Position as a Percentage of Plan's Total Pension Liability." As used in CAFRs, "Fiduciary Net Position" refers to the total assets in the pension plan. Hence, the Funded Percentage of a pension plan is equal to its "Fiduciary Net Position" divided by "Total Pension Liability." The term, "Net Pension Liability" refers to the difference between plan assets ("Fiduciary Net Position") and plan liabilities ("Total Pension Liability"). The amounts given for "covered payroll" in this schedule should not be relied upon as they often apply to the year (either one or two years prior) in which pension assets and liabilities were last measured, rather than the fiscal year covered in the CAFR itself. For information as to covered payroll during the current fiscal year, rely only on the information is set forth in the "Required Supplemental Information" section of the CAFR, in the "Schedule(s) of Contributions" for the pension plans.

Total Assets, Total Liabilities and Total Unfunded Liabilities of Pension Plan: This information, if provided in the CAFR, is set forth in the "Required Supplemental Information" section of the CAFR, in the "Schedule of Changes in the Net Pension Liability and Related Ratios" as (i) "Plan

Fiduciary Net Position – ending (b)” with respect to plan assets, (ii) “Total Pension Liability – ending (a)” with respect to total plan liabilities, and (iii) “Net Pension Liability – ending (a) - (b)” with respect to unfunded pension liabilities. Note: In many CAFRs the amount of unfunded pension liabilities (“Net Pension Liabilities”) and the Funded Percentage of the pension plan are given, but the total assets amount (“Plan Fiduciary Net Position”) and the total liabilities amount (“Total Pension Liability”) are not given. They can, however, be calculated in the following way. To derive total liabilities, simply divide the Unfunded Liability amount (“Net Pension Liabilities”) by 1 minus the Funded Percentage for the fund. To derive total assets (“Plan Fiduciary Net Position”) simply subtract the Unfunded Liabilities amount (“Net Pension Liability”) from the amount of total plan liabilities (“Total Pension Liability”). Where the aggregate Funded Percentage of all pension plans is not given in a CAFR, it can be derived simply by dividing the sum of all of the plan asset amounts for each plan by the sum of all plan liabilities for each plan.

The following example will demonstrate the foregoing. Assume the CAFR provides the following information:

Net Pension Liability under Miscellaneous Plan is \$15 million.

Funded percentage under Miscellaneous Plan is 75%.

Net Pension Liability under Safety Plan is \$20 million.

Funded percentage under Safety Plan is 80%.

Accordingly,

Total liabilities under the Miscellaneous Plan are \$60 million ( $\$15\text{M net pension liability} / (1 - 75\% \text{ Funded Percentage}) = \$60 \text{ million}$ )

Total assets under the Miscellaneous Plan are \$35M ( $\$60\text{M total liabilities amount minus } \$15\text{M net pension liability} = \$35\text{M}$ )

Total liabilities under the Safety Plan are \$100M ( $\$20\text{M net pension liability} / (1 - 80\% \text{ Funded Percentage}) = \$100\text{M}$ )

Total assets under Safety Plan are \$80M ( $\$100\text{M total liabilities amount minus } \$20\text{M net pension liability} = \$80\text{M}$ )

Total liabilities under all pension plans are \$160M ( $\$60\text{M under Miscellaneous Plan and } \$100\text{M under Safety Plan}$ )

Total assets under all pension plans are \$105M ( $\$35\text{M under Miscellaneous Plan plus } \$80\text{M under Safety Plan}$ )

Aggregate Funded Percentage under all plans is 65.6% (\$105M aggregate total assets divided by \$160M aggregate total liabilities).

Unfunded Liabilities Where Discount Rate Is Increased/Decreased by 100 Points (i.e., 1 percentage point): This information is set forth in the section of “Notes to Basic Financial Statements” describing the pension plans under the heading “Sensitivity of Proportionate Share of Net Pension Liability to Changes in the Discount Rate.” It is sometimes provided separately for each pension plan and other times only an aggregate number for all pension plans is given.

General Fund Spending by City: This information is found in the “Government Fund Financial Statements” section of the CAFR in the “Statement of Revenue, Expenditures and Changes in Fund Balances, Governmental Funds for the Year Ended \_\_\_\_\_”.

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