



# AGENDA

## **SPECIAL MEETING –STUDY SESSION OF THE SANTA FE SPRINGS CITY COUNCIL**

**April 12, 2018  
5:00 P.M.**

Council Chambers  
11710 Telegraph Road  
Santa Fe Springs, CA 90670

**Jay Sarno, Mayor**  
**Juanita Trujillo, Mayor Pro Tem**  
**Richard J. Moore, Councilmember**  
**William K. Rounds, Councilmember**  
**Joe Angel Zamora, Councilmember**

**Public Comment:** The public is encouraged to address City Council on any matter listed on the agenda or on any other matter within its jurisdiction. If you wish to address the City Council, please complete the card that is provided at the rear entrance to the Council Chambers and hand the card to the City Clerk or a member of staff. City Council will hear public comment on items listed on the agenda during discussion of the matter and prior to a vote. City Council will hear public comment on matters not listed on the agenda during the Oral Communications period.

Pursuant to provisions of the Brown Act, no action may be taken on a matter unless it is listed on the agenda, or unless certain emergency or special circumstances exist. The City Council may direct staff to investigate and/or schedule certain matters for consideration at a future City Council meeting.

**Americans with Disabilities Act:** In compliance with the ADA, if you need special assistance to participate in a City meeting or other services offered by this City, please contact the City Clerk's Office. Notification of at least 48 hours prior to the meeting or time when services are needed will assist the City staff in assuring that reasonable arrangements can be made to provide accessibility to the meeting or service.

**Please Note:** Staff reports, and supplemental attachments, are available for inspection at the office of the City Clerk, City Hall, 11710 E. Telegraph Road during regular business hours 7:30 a.m.-5:30 p.m., Monday-Thursday and every other Friday Telephone (562) 868-0511.

**1. CALL TO ORDER**

**2. ROLL CALL**

Richard J. Moore, Councilmember  
William K. Rounds, Councilmember  
Joe Angel Zamora, Councilmember  
Juanita Trujillo, Mayor Pro Tem  
Jay Sarno, Mayor

**CITY COUNCIL**

**STUDY SESSION**

**3. Presentation on the City's Pension and Other Post-Employment Benefits Unfunded Liabilities**

**Recommendation:** That the City Council:

- Receive and file the presentation on the City's Pension and other post-employment benefits unfunded liabilities.

**4. ADJOURNMENT**

*I hereby certify under penalty of perjury under the laws of the State of California, that the foregoing agenda was posted at the following locations; Santa Fe Springs City Hall, 11710 Telegraph Road; Santa Fe Springs City Library, 11700 Telegraph Road; and the Town Center Plaza (Kiosk), 11740 Telegraph Road, not less than 72 hours prior to the meeting.*

  
\_\_\_\_\_  
Janet Martinez, CMC  
City Clerk

April 5, 2018  
Date





### **STUDY SESSION**

#### **Presentation on the City's Pension and Other Post-Employment Benefits Unfunded Liabilities**

#### **RECOMMENDATION**

That the City Council receive and file the presentation on the City's Pension and Other Post-Employment Benefits unfunded liabilities.

### **BACKGROUND**

Over the past several years, the issue of pension and Other Post-Employment Benefits ("OPEB") unfunded liabilities has garnered much attention. Staff has discussed the issue a number of times in presentations of the City's budget and annual audit and numerous media stories have covered the issue both locally and nationally. The State of California enacted pension reform in 2013 ("PEPRA") to address the problem long-term and CalPERS has taken a number of actions designed to secure the pension fund and lower the unfunded liabilities in the near-term. The latter changes have dramatically increased mandatory pension contributions for agencies across the state, and in particular, the City of Santa Fe Springs.

As of June 30, 2017 the City's unfunded liabilities were approximately \$110 million for the pension plan and \$49 million for the OPEB plan. The OPEB plan consists solely of retiree health insurance benefits.

#### *Unfunded Liabilities vs. Normal Cost*

The City's required pension and OPEB contributions include two components: the "normal cost" and the "unfunded liability". The unfunded liability refers to the difference between (1) the liability for benefits that have already been earned by workers and (2) the value of assets set aside to pay for those benefits. A portion of the total unfunded liability must be paid each year and this component is added to the normal cost to determine the total contributions. The normal cost refers to the value of benefits being earned for service in the current year.

PEPRA, the pension reform legislation which took effect in 2013, lowers the pension benefit for new workers, and will lower the City's normal cost over time, but did not reduce the overall unfunded liability. To give some context to the normal cost and unfunded liabilities, the required normal cost contribution rates for FY 2017-18 for the Miscellaneous and Safety plans were 9.161% and 21.418%, respectively. This translates to expected contributions of approximately \$2.45 million. The unfunded liability contributions on the other hand, are approximately \$6.28 million, representing 72% of the total contributions to CalPERS.

Of even greater concern is the expected increase in the unfunded liability contributions. While the normal cost rates are expected to increase very modestly, the same is not true of the unfunded liability payments. Over the past several years, the CalPERS board has approved a number of changes which have the effect of accelerating payments towards the unfunded liability. **The anticipated unfunded liability payments are expected to increase from \$6.28 million in FY 2017-18 to \$12.62 million in FY 2024-25. This is an increase of \$6.34 million, more than double the current contribution.**

#### *Budget Impact*

The City's budget deficit of approximately \$5.1 million for FY 2017-18 was balanced largely by the receipt of one-time loan repayments from the Successor Agency, the suspension of transfers to the City's Capital Improvement ("CIP") and Equipment Replacement Funds, and one-time transfers in from the Employee Benefits and Risk Management Funds.

As noted above, contributions are expected to more than double over the next seven years, however, contributions had already been increasing substantially over the past several fiscal years. This was a major factor in the City's budget deficit for FY 2017-18. Looking forward, balancing the City's budget without significant cuts in programs and services will be a major challenge. The following factors, discussed above, all combine to create a looming fiscal crisis:

- Increases in pension and OPEB contributions
- Lack of growth in expected revenues sufficient to fund expenditure increases
- Use of one-time loan repayments and funding set-asides
- Ongoing need to fund infrastructure and equipment replacement

These issues and proposed strategies to correct the deficit long-term will be explored in greater detail in the coming months as part of the FY 2018-19 budget process.

#### *Bartel Associates LLC*

In order to better understand the history, impact, expectations, and options of dealing with the unfunded liabilities, the City retained an actuarial firm, Bartel Associates LLC ("Bartels"), to study the City pension and OPEB plans and report back to the City. Their analysis provides a history of the overall environment that gave rise to the current pension and OPEB crisis as well as looks at the specifics which impact the City relatively harder than other cities. In addition, they have analyzed the City's future expected contributions as well as identified options for mitigating future contribution increases.

Ms. Mary Beth Redding, an actuary and principal with Bartels, is on hand to provide a presentation and answer any questions the City Council may have regarding the pension and OPEB unfunded liabilities. Bartels focuses on pension and OPEB valuations of California government agencies and is considered a foremost expert in this field.



Raymond R. Cruz  
City Manager