



REVISED

**AGENDA REGULAR
MEETING**

**City Council of the Town of Colma
Colma Town Hall
1198 El Camino Real
Colma, CA 94014**

Wednesday, September 26, 2018

PRESENTATION – 5:30 PM

REGULAR SESSION – 7:00 PM

PRESENTATION – 5:30 PM

- Open House and Tours of Newly Renovated Town Hall

PLEDGE OF ALLEGIANCE AND ROLL CALL – 7:00 PM

ADOPTION OF AGENDA

PUBLIC COMMENTS

Comments on the Consent Calendar and Non-Agenda Items will be heard at this time. Comments on Agenda Items will be heard when the item is called.

CONSENT CALENDAR

1. Motion to Accept the Minutes from the September 12, 2018 Regular Meeting.
2. Motion to Adopt a Resolution to Adjust Part-Time Recreation Staff Salary Schedule; to Meet the Minimum Wage Requirement Set Forth by the State of California and Amending the Salary Schedule.
3. Motion to Adopt a Resolution Concerning the Bankruptcy Filed by Verity Health Systems and Potential Sale of Seton Medical Center and Seton Coastside.

STUDY SESSION

4. **UNFUNDED LIABILITIES**
5. **ESTABLISHING NEW CITY FUNDS**

These items are for discussion only; no action will be taken at this meeting.

REPORTS

Mayor/City Council
City Manager

ADJOURNMENT

The City Council Meeting Agenda Packet and supporting documents are available for review at the Colma Town Hall, 1198 El Camino Real, Colma, CA during normal business hours (Mon – Fri 8am-5pm). Persons interested in obtaining an agenda via e-mail should call Caitlin Corley at 650-997-8300 or email a request to ccorley@colma.ca.gov.

Reasonable Accommodation

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**MINUTES
REGULAR MEETING**

City Council of the Town of Colma
Colma Community Center, 1520 Hillside Boulevard
Colma, CA 94014

Wednesday, September 12, 2018

CLOSED SESSION – 5:30 PM

1. **In Closed Session under Government Code §54956.9(d)(1) - CONFERENCE WITH LEGAL COUNSEL – EXISTING LITIGATION**

Workers Compensation Appeals Board Case No. ADJ10113539

CALL TO ORDER – 7:00 PM

Mayor Raquel Gonzalez called the Regular Meeting of the City Council to order at 7:04 p.m.

Council Present – Mayor Raquel “Rae” Gonzalez, Vice Mayor Joanne F. del Rosario, Council Members John Irish Goodwin, Diana Colvin and Helen Fiscaro were all present.

Staff Present – City Manager Brian Dossey, City Attorney Christopher Diaz, Chief of Police Kirk Stratton, Director of Public Works Brad Donohue, Recreation Manager Cynthia Morquecho, Recreation Coordinator Angelika Abellana, City Clerk Caitlin Corley, Administrative Technician Darcy De Leon were in attendance.

ADOPTION OF THE AGENDA

Mayor Gonzalez asked if there were any changes to the agenda; none were noted. The Mayor asked for a motion to adopt the agenda.

Action: Council Member Fiscaro moved to adopt the agenda; the motion was seconded by Vice Mayor del Rosario and carried by the following vote:

Name	Voting		Present, Not Voting		Absent
	Aye	No	Abstain	Not Participating	
Raquel Gonzalez, Mayor	✓				
Joanne F. del Rosario	✓				
John Irish Goodwin	✓				
Diana Colvin	✓				
Helen Fiscaro	✓				
	5	0			

REPORT FROM CLOSED SESSION

City Attorney Christopher Diaz stated that no action was taken during the closed session.

PRESENTATIONS

Recreation Coordinator Angelika Abellana introduced new Facility Attendant Lisa Augustine.

Council presented the Town’s Honor Roll Students with gifts and a certificate in honor of their academic achievements. The following students made the Honor Roll:

Kaylaan Basto	Kylie Paguio
Faith Bautista	Nicolas Perreras
Mikki Catimbang	Victor Rangel
Sean Goodwin	Luis Ruan
Daniel Gotelli	Serena Trejo
Joseph Gotelli	Damien Villanueva
Leilani Kennan	Brendan Walsh
Maleiah Kennan	Sarah Walsh
Giovanny Lozano	Amanda Yoa
Marcel Moyrong	Vernice Wang
Keezean Paguio	

There was a brief break for coffee and cupcakes from 7:12 p.m. to 7:27 p.m.

PUBLIC COMMENTS

Mayor Gonzalez opened the public comment period at 7:27 p.m. and seeing no one come forward to speak, she closed the public comment period.

CONSENT CALENDAR

2. Motion to Accept the Minutes from the August 22, 2018 Regular Meeting.
3. Motion to Approve Report of Checks Paid for July 2018.
4. Motion to Approve Report of Checks Paid for August 2018.
5. Motion Approving the Town’s Response to the Grand Jury Report Dated July 17, 2018, Regarding “Soaring Pension Costs – Time for Hard Choices.”
6. Motion Approving the Town’s Response to the Grand Jury Report Dated July 19, 2018, Regarding “Cooperative Purchasing – A Roadmap to More Effective Procurement.”

Action: Council Member Goodwin moved to approve the Consent Calendar items #2 through #6; the motion was seconded by Council Member Colvin and carried by the following vote:

Name	Voting		Present, Not Voting		Absent
	Aye	No	Abstain	Not Participating	
Raquel Gonzalez, Mayor	✓				
Joanne F. del Rosario	✓				
John Irish Goodwin	✓				
Diana Colvin	✓				
Helen Fisicaro	✓				
	5	0			

NEW BUSINESS

7. GRANT FUNDING REQUEST FOR DALY CITY PUBLIC LIBRARY ASSOCIATES

Mayor Gonzalez announced that because she sits on the board of directors for the Daly City Public Library Associates, she would recuse herself from the item; she stepped off the dais and out of the room. City Manager Brian Dossey presented the staff report.

Vice Mayor del Rosario opened the public comment period at 7:30 p.m. Thomas Nuris of the Daly City Public Library Associates spoke on behalf of his organization. The Vice Mayor closed the public comment period at 7:32 p.m. Council discussion followed.

Action: Council Member Fiscaro moved to Adopt a Resolution Approving a Grant to Daly City Public Library Associates, Finding That the Grant Serves a Public Purpose, and Authorizing a Contract with Daly City Public Library Associates for the Use of Town Funds; the motion was seconded by Council Member Colvin and carried by the following vote:

Name	Voting		Present, Not Voting		Absent
	Aye	No	Abstain	Not Participating	
Raquel Gonzalez, Mayor				✓	
Joanne F. del Rosario	✓				
John Irish Goodwin	✓				
Diana Colvin	✓				
Helen Fiscaro	✓				
	4	0			

Mayor Gonzalez returned to the dais.

8. FY 2018-19 NON-PROFIT FUNDING

City Manager Brian Dossey presented the staff report. Mayor Gonzalez opened the public comment period at 7:42 p.m. The following people spoke:

- Conrad Fernandez, Jobs for Youth
- Colsaria Henderson, Communities Overcoming Relationship Abuse
- Laura Moya, HIP Housing
- Christine Kohl-Zaugg, Sustainable San Mateo County
- Cherie M. Colin, Skyline College
- Ivon Hernandez, San Mateo County Pride Center
- Pat Bohm, Daly City Partnership, Operation Santa Claus, Daly City Youth Health Center
- Georgette Sarles, Colma-Daly City Chamber of Commerce

Mayor Gonzalez closed the public comment period at 8:06 p.m.

Council requested several changes to the funding amounts:

Grantee	Staff Proposed	Council Approved
Clinic by the Bay	\$3,000	\$3,000
Colma - Daly City Chamber of Commerce	\$25,000	\$25,000
Community Gatepath	\$6,500	\$6,500
CORA	\$1,500	\$2,500
Daly City Peninsula Partnership Collaborative	\$15,000	\$15,000
Daly City Public Library Associates	\$4,000	\$4,000
Daly City Youth Health Center	\$6,000	\$6,000
HIP Housing	\$5,000	\$5,000
Jefferson Union School District (Wilderness School)	\$5,000	\$5,000
LifeMoves ¹	\$4,000	\$4,000
North Peninsula Food Pantry & Dining Center of Daly City	\$12,500	\$12,500
Operation Santa Claus	\$1,000	\$1,000
Peninsula Conflict Resolution Center (PCRC)	\$1,378.65	\$1,380
SMC Community College Foundation (Skyline College President's Innovation Fund)	\$3,400	\$3,500
SMC Jobs for Youth	\$2,000	\$2,000
SMC Pride Center	\$2,000	\$2,500
SMC Resource Conservation District	\$5,000	\$5,000
Sitike Counseling Center	\$6,500	\$6,500
Sustainable San Mateo County	\$3,500	\$3,500
Veterans Sportsman Alliance (VSA)	\$1,200	\$1,200
TOTALS	\$113,478.65	\$115,080

Action: Vice Mayor del Rosario moved to Adopt a Resolution Determining Eligibility for Grant Funding, Approving Grants to Eligible Organizations, Finding That Each Approved Grant Serves a Public Purpose, and Authorizing Contracts with Each Eligible Organization for the Use of Town Funds, with the requested changes; the motion was seconded by Council Member Goodwin and carried by the following vote:

Name	Voting		Present, Not Voting		Absent
	Aye	No	Abstain	Not Participating	
Raquel Gonzalez, Mayor	✓				
Joanne F. del Rosario	✓				
John Irish Goodwin	✓				
Diana Colvin	✓				
Helen Fisicaro	✓				
	5	0			

COUNCIL CALENDARING

The next Regular City Council Meetings will be on Wednesday, September 26, 2018 at the newly renovated Town Hall. There will be a Sneak Peek event at 5:30p.m. followed by the regular meeting at 7:00 p.m.

REPORTS

Raquel "Rae" Gonzalez

Council of Cities Dinner, hosted by Pacifica, 8/31/18

Chamber of Commerce Business to Consumers Event, 9/8/18

Town Picnic, 9/8/18

Joanne F. del Rosario

Council of Cities Dinner, hosted by Pacifica, 8/31/18

Town Picnic, 9/8/18

John Irish Goodwin

Town Picnic, 9/8/18

Helen Fisicaro

Town Picnic, 9/8/18

City Manager Brian Dossey gave a report on the following topics:

- Staff has moved into the newly renovated Town Hall and all future Council Meetings will be in the Council Chamber. A huge thank you to the Recreation Department for hosting Council Meetings for the past five years!

ADJOURNMENT

Mayor Gonzalez adjourned the meeting at 8:40 p.m.

Respectfully submitted,

Caitlin Corley
City Clerk





STAFF REPORT

TO: Mayor and Members of the City Council
 FROM: Cynthia Morquecho, Recreation Manager
 VIA: Brian Dossey, City Manager
 MEETING DATE: September 26, 2018
 SUBJECT: Salary Schedule Adjustment for Recreation Leader and Facility Attendant

RECOMMENDATION

Staff recommends that the City Council adopt the following resolution:

RESOLUTION TO ADJUST PART-TIME RECREATION STAFF SALARY SCHEDULE; TO MEET THE MINIMUM WAGE REQUIREMENT SET FORTH BY THE STATE OF CALIFORNIA AND AMENDING THE SALARY SCHEDULE

EXECUTIVE SUMMARY

On April 4, 2016, Governor Brown signed Senate Bill 3, which will increase California's minimum wage annually, potentially reaching \$15 per hour for employers with at least 26 employees by January 1, 2022.

To ensure the Town addresses the minimum wage requirements set forth by the State of California; staff recommends that City Council adopt a resolution adjusting the part-time recreation staff salary schedule to meet minimum wage requirements for 2019; and continually adjust the salary schedule on an annual basis to remain in alignment with state required minimum wage.

Also, in an effort to simplify the salary schedule, staff recommends the City Council adjust the current salary schedule from five steps to four steps.

FISCAL IMPACT

The proposed wages are estimated to increase the Recreation Services Department part-time salaries to \$5,300 over budget; subsequent minimum wage increases will be a part of the annual budget process. The projected \$5,300 over budget is anticipated to be offset by savings in other areas within the Recreation Department Budget. Finance and the Recreation Department will monitor the overall budget and address any adjustments if needed as part of the mid-year financial review and budget amendment.

BACKGROUND

The minimum wage established by Federal, State and local government law sets the lowest wage an employer may legally pay to workers. As of January 1, 2017, California law requires the minimum wage for all industries to be no less than \$10.00 per hour for businesses with less than 25 employees and \$10.50 per hour for businesses with 26 or more employees. The Federal minimum wage for covered nonexempt employees has been \$7.25 per hour since July 24, 2009.

On April 4, 2016, California Governor Jerry Brown signed legislation (SB 3, Leno) which will raise California's minimum wage to \$15 per hour by 2022. After January 1, 2023, future wage increases are tied to inflation, reflecting increases in the Consumer Price Index up to 3.5% per year. Under the new state law, the wage increase schedule may be temporarily suspended by the Governor during economic downturns. The increased minimum wage levels would be applied uniformly across the state. Local governments retain the ability to adopt local wage ordinances that increase the minimum wage more rapidly than the statewide time frame or increase the minimum wage level. The law also maintains existing exemptions in the state's minimum wage law. This legislation gives California the highest minimum wage in the country along with New York.

State of California Minimum Wage		
Effective Date	Employers w/ 25 Employees or Less	Employers w/ 26 Employees or More
January 1, 2016	\$10.00	\$10.00
January 1, 2017	\$10.00	\$10.50
January 1, 2018	\$10.50	\$11.00
January 1, 2019	\$11.00	\$12.00
January 1, 2020	\$12.00	\$13.00
January 1, 2021	\$13.00	\$14.00
January 1, 2022	\$14.00	\$15.00
January 1, 2023	\$15.00	\$15.00+CPI

Currently, the Town of Colma is subject to Federal and State minimum wage laws. When there are conflicts in the laws, the employer must follow the strictest standard, meaning that employers must follow the standard that is most favorable to the employee. Since the State's law on minimum wage is higher than the Federal law, covered employers are required to pay the State's minimum wage.

Staff reviewed the salary schedule adjustments of other cities in San Mateo County and in order to meet state mandated minimum wage, remain competitive during the recruitment process, and retain highly qualified staff; staff recommends an adjustment to the part-time Recreation department salary schedule.

ANALYSIS

The proposed salary schedule adjustments increase the minimum wage for employees working in Town of Colma in increments. The rate of increase follows similar minimum wage increases enacted in cities throughout San Mateo County: The employee wage increase for the Town of Colma would occur in January 2019 to be consistent with the annual state mandated increase. The salary schedule adjustment increases the minimum wage in four increments in 2019, 2020, 2021, 2022. The first increase would occur on January 1, 2019 and would increase the wage to meet the states minimum wage requirement of \$12.00 per hour. The subsequent years would continue to increase and align with the State and other local minimum wage ordinances, the step increases would occur on January 1 of the respective year. Staff will bring the mandated minimum wage increases for 2020, 2021 and 2022 for City Council consideration each year in case there in an economic downturn and the Governor suspends the increase for the upcoming year.

Please see Attachment B – for proposed wage schedule for the effected position. Staff recommends the adjustments in the salary schedule and proposed salary increase in an effort to maintain alignment with the state mandated minimum wage.

Council Adopted Values

Adoption of the attached resolution is the *fair* course of action because the City Council will be bringing the salaries in alignment with the minimum wage set forth by the State of California. Adoption of the resolution is also the *responsible* course of action because the Council is considering the importance of meeting minimum wage law.

Alternatives

The Council could choose to not adopt the proposed resolution, or to request modifications to the proposed salary ranges. Doing so is not recommended, because the salary ranges are based on meeting the minimum wage requirements set forth by the State of California.

CONCLUSION

Staff recommends adoption of the attached resolution.

ATTACHMENTS

- A. Resolution
- B. Wage Schedule



**RESOLUTION NO. 2018__ -
OF THE CITY COUNCIL OF THE TOWN OF COLMA**

**RESOLUTION ADJUSTING SALARY FOR PART-TIME RECREATION STAFF TO MEET
THE MINIMUM WAGE REQUIREMENT SET FORTH BY THE STATE OF CALIFORNIA
AND AMENDING THE SALARY SCHEDULE**

The City Council of the Town of Colma does hereby resolve as follows:

1. Background.

(a) On April 4, 2016, Governor Brown signed Senate Bill 3, which will increase California's minimum wage annually, potentially reaching \$15 per hour for employers with at least 26 employees by January 1, 2022.

(b) The part-time recreation staff salary ranges may eventually be below any potentially increased state minimum wage, as it increases into the future.

(c) In order to ensure compliance with state law, the City Manager is now recommending that the City Council adjust the salary for the part-time recreation staff as provided for in this Resolution, and continually adjust the salary on an annual basis to ensure compliance with state required minimum wage law.

2. Salary Scale for Part-Time Recreation Staff (including Recreation Leader, Senior Recreation Leader/Facility Attendant). The Town shall pay the part-time recreation staff, the respective hourly salaries shown below, with the City Manager determining the appropriate step in accordance with Subchapter 3.02 of the Colma Administrative Code relating to Employment:

Recreation Leader				
STEP	1	2	3	4
	12.00	12.60	13.23	13.90

Senior Recreation Leader/Facility Attendant				
STEP	1	2	3	4
	14.11	14.81	15.55	16.33

3. Salary Schedule Adopted.

(a) The City Council hereby directs staff to amend the pay or salary schedule to memorialize the changes proposed by this Resolution, with the applicable pay or salary for each position listed, in compliance with Title 2 of the California Code of Regulations Section 570.5.

(b) No changes in pay or salary are proposed for those positions on the pay or salary schedule, except for the part-time recreation staff, as set by this Resolution.

4. No Contract. Nothing herein shall be construed as a contract with any employee, and the City Council shall have the discretion to modify the respective salaries in accordance with any applicable state or local provisions.

5. Effective Date. This resolution shall become effective upon adoption.

Certification of Adoption

I certify that the foregoing Resolution No. 2018-__ was duly adopted at a regular meeting of said City Council held on June 22, 2016 by the following vote:

Name	Counted toward Quorum			Not Counted toward Quorum	
	Aye	No	Abstain	Present, Recused	Absent
Raquel "Rae" Gonzalez, Mayor					
Joanne F. del Rosario					
Diana Colvin					
John Goodwin					
Helen Fisicaro					
<i>Voting Tally</i>					

Dated _____

Raquel Gonzalez, Mayor

Attest: _____
Caitlin Corley, City Clerk

**Minimum Wage Requirement and Salary Schedule Adjustment
Attachment B: Wage Schedule for Proposed and Alternatives**

Current Rate

Current Rate	Recreation Leader					Senior Rec Leader / Facility Attendant					Fiscal Impact for 2018/19	Maximum Equivalent Salary
	1	2	3	4	5	1	2	3	4	5		
	10.65	11.18	11.74	12.33	12.95	13.15	13.81	14.50	15.22	15.98		33,238.40

Proposed

1/1/2019	Recreation Leader				Senior Rec Leader / Facility Attendant				Fiscal Impact for 2018/19	Maximum Equivalent Salary
	1	2	3	4	1	2	3	4		
	12.00	12.60	13.23	13.90	14.11	14.81	15.55	16.33	5,264.07	33,966.40

- NOTES: 1. Wage Scale for both categories will change from 5 to 4.
 2. Step progression remains the same. 5% differential within a position and 2% differential when promoted to Senior Recreation Leader/Facility Attendant.





STAFF REPORT

TO: Mayor and Members of the City Council
 FROM: Brian Dossey, City Manager
 MEETING DATE: September 26, 2018
 SUBJECT: Seton Medical Center

RECOMMENDATION

Staff recommends that the City Council adopt:

RESOLUTION CONCERNING THE BANKRUPTCY FILED BY VERITY HEALTH SYSTEMS
 AND POTENTIAL SALE OF SETON MEDICAL CENTER AND SETON COASTSIDE.

EXECUTIVE SUMMARY

Staff recommends that the City Council consider adopting a resolution urging that Seton Medical Center, and Seton Coastside, continue to operate as a full-service care hospital pending the bankruptcy proceedings of Verity Health Systems and that both Seton Medical Center and Seton Coastside ensure that any potential buyer remain committed to continued operations of both facilities.

FISCAL IMPACT

None.

BACKGROUND

Seton Medical Center in Daly City, founded as Mary's Help Hospital in 1893 by the Daughters of Charity, has been providing medical care to the people of San Francisco and Northern San Mateo County for over a century. Seton Medical Center's 357-bed facility serves a highly diverse population of 1.5 million residents in San Francisco and San Mateo Counties with a comprehensive range of medical, surgical and emergency services. Seton Coastside, its sister hospital, a 116-bed skilled nursing facility, offers the only 24-hour standby Emergency Department along the 55-mile coastal stretch between Daly City and Santa Cruz.

In December 2016, Seton Medical Center and Seton Coastside became part of the Verity Health Systems network. On August 31, 2018, Verity Health Systems filed a voluntary petition for protection under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court. The City Council is very concerned about the continuing operations of both Seton Medical Center and Seton Coastside during the bankruptcy proceedings and is

also concerned about the sale of both facilities following bankruptcy. The potential impacts to Colma residents, and the surrounding community, could be critical.

Council Adopted Values

Adoption of the proposed resolution detailing the Town's concerns regarding the potential sale of Verity Health and Seton Medical Center is the *responsible* action as it is ensuring that the community's voice is heard through this process.

Alternatives

The City Council could choose not to adopt the proposed resolution; however, that is not recommended as doing so will not provide a voice to the community during this process.

CONCLUSION

Staff recommends that the City Council adopt the attached resolution detailing the Town's concerns regarding Seton Medical Center and Seton Coastside as a result of the recent Verity Health Systems bankruptcy filing.

ATTACHMENTS

- A. Resolution

RESOLUTION NO. 2018-__
OF THE CITY COUNCIL OF THE TOWN OF COLMA

**RESOLUTION CONCERNING THE BANKRUPTCY FILED BY VERITY
HEALTH SYSTEMS AND POTENTIAL SALE OF SETON MEDICAL
CENTER AND SETON COASTSIDE**

The City Council of the Town of Colma does hereby resolve as follows:

1. Background

- (a) Verity Health, formerly the Daughters of Charity Health System (DCHS), is a regional healthcare system spanning the State of California from the Bay Area to Los Angeles, and in the spirit of its founders St. Vincent de Paul, St. Louise de Marillac and St. Elizabeth Ann Seton, the DCHS was committed to providing holistic, spiritually centered care to the sick and poor; and
- (b) Seton Medical Center in Daly City, founded as Mary's Help Hospital in 1893 by the Daughters of Charity, has been providing medical care to the people of San Francisco and Northern San Mateo County for over a century; and
- (c) Seton Medical Center's 357-bed facility serves a highly diverse population of 1.5 million residents in San Francisco and San Mateo counties with a comprehensive range of medical, surgical and emergency services; and
- (d) Care for the sick and persons living in poverty is central to the mission and values of Seton Medical Center as it serves 28,000 residents annually in its emergency room with 85 percent of them having Medicaid or Medi-Cal as insurance; and
- (e) Verity Health employs nearly 7,000 employees to facilitate the comprehensive healthcare delivery system at each of its medical centers in northern and southern California including over 1,500 in Daly City and the surrounding area, with compassionate care and attention to the whole person: body, mind and spirit; and
- (f) The state Attorney General approved the sale of DCHS to hedge fund Blue Mountain in December 2015, which rebranded the system Verity Health; and
- (g) The state Attorney General established conditions of approval that mandated Seton Medical Center continue to operate as a full-service acute care hospital with an emergency room for a minimum of 10 years from the point of sale; and
- (h) Verity Health entered into bankruptcy Friday, Aug. 31, 2018 with an auction of its assets pending.

1. Order

- (a) The City Council does hereby resolve that Seton Medical Center should be maintained as a full-service acute care hospital under new ownership.
- (b) The City Council does further hereby resolve that a potential buyer should retain all current employees, honor existing labor agreements and pension obligations through the transition to a new owner/operator.

Certification of Adoption

I certify that the foregoing Resolution No. 2018-__ was duly adopted at a regular meeting of said City Council held on September 26, 2018 by the following vote:

Name	Voting		Present, Not Voting		Absent
	Aye	No	Abstain	Not Participating	
Raquel "Rae" Gonzalez					
Joanne F. del Rosario					
John Irish Goodwin					
Diana Colvin					
Helen Fisicaro					
<i>Voting Tally</i>					

Dated _____

Raquel "Rae" Gonzalez, Mayor

Attest: _____
Caitlin Corley, City Clerk



STAFF REPORT

TO: Mayor and Members of the City Council
 FROM: Pak Lin, Administrative Services Director
 VIA: Brian Dossey, City Manager
 MEETING DATE: September 26, 2018
 SUBJECT: Unfunded Liabilities Study

RECOMMENDATION

This item is a study session for informational purposes only. No City Council action is required; however, staff seeks City Council feedback on the following:

1. funding strategy to address unfunded pension liability and accrued leave payout;
2. creating a new committed reserve for Accrued Leave Payout; and
3. redefine the Budget Stabilization Reserve calculation to exclude annual contributions for pension, OPEB, and accrued leave payout.

EXECUTIVE SUMMARY

The Town has three main unfunded liabilities resulting from guaranteed future payments to Town current employees.

Pension	\$10,199,600
Retiree Medical/Dental (OPEB)	\$14,038,976
Accrued Leave Payout	\$1,951,242

Unfunded liabilities will continue to grow as employees plan for retirement in the next 10 years. Utilizing the PARS Trust for pension liabilities and creating a separate reserve fund for Accrued Leave Payout are some of the ways the Town can help buffer the dramatic increases in future retiree benefit obligations. OPEB liabilities have been discussed as part of the 2017-18 Mid-Year Financial Update.

With a projected Unassigned Reserve of \$8.0 million by June 30, 2019 and a projected general fund surplus of \$2.0 million in FY 2017-18, the Town has the financial strength to begin addressing the unfunded liabilities and stabilize the budget for the next 10 years.

FISCAL IMPACT

There is no immediate fiscal impact associated with this report. The direction provided by the City Council will have future fiscal impact. The impact is discussed within the Staff Report for each scenario.

Additionally, Staff recommends the City Council consider redefining the Budget Stabilization Reserve calculation. Currently, the Budget Stabilization Reserve strategy reserves 100 percent of the annual operating budget. The unfunded liability strategies discussed below assumes pension, OPEB and accrued leave payout contribution as part of the annual operating budget. As a result, Staff recommends these contributions be excluded from the Budget Stabilization Reserve calculation.

BACKGROUND AND ANALYSIS

The Town of Colma offers benefit packages with certain guaranteed future payments to employees who retire from the Town (annuitant). These guaranteed future benefits result in unfunded liabilities. The key benefits that has future guaranteed payments are pension, OPEB and accrued leave payouts.

Pension

The Town participates in California Public Employee Retirement System (CalPERS) for its pension benefits. Unlike the better known 401(k) retirement account, or the government equivalent 457(b), pension benefits guarantee retirement income that is based on set pension formulas. Currently, the Town has six pension formulas – three for sworn officers and three for non-sworn employees. The formulas are listed in attachment A.

In addition to the formulas, retirement income is a function of annuitant's years of service and final earnings. Annually, employees and employers make contributions to CalPERS to be managed and invested such that when the employee retires, there are sufficient funds for the remainder of the annuitant's life. To determine the appropriate level of required annual contributions, CalPERS actuaries calculate the minimum contributions based on set assumptions. Unfunded pension liability arises from the difference between actuarial assumptions and actual occurrence. The three main factors with the most unpredictability are average investment return (discount rate), the length of payment (mortality rate), and final compensation (covered payroll).

After the collapse of Lehman Brothers, CalPERS began re-evaluating and modifying its investment strategies and discount rate. The CalPERS board decided to invest in more secure investments. This meant lower annual investment returns resulting in a lower discount rate. As the discount rate reduces, pension liabilities increase. This puts pressure on agencies to make additional contributions to address the unfunded pension liability.

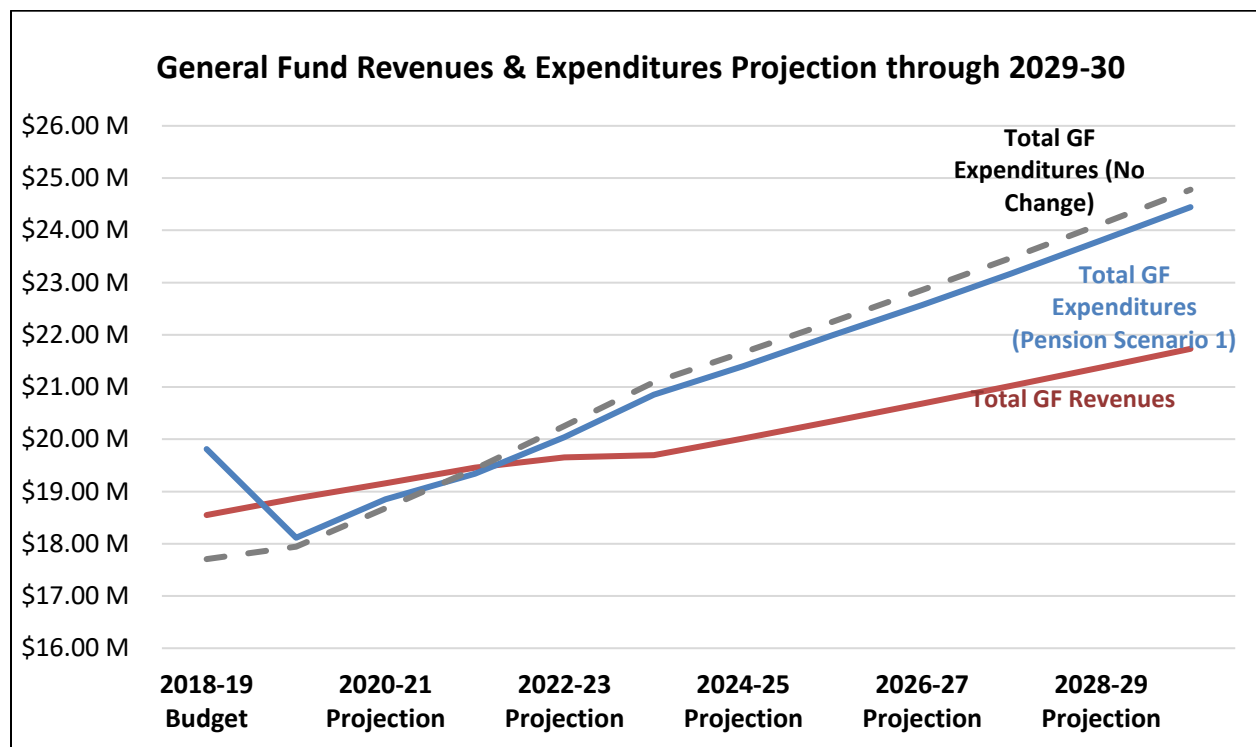
As of June 30, 2017, the Town's total unfunded pension liability is \$10.2 million. This is based on the current discount rate of 7.25 percent. At 7.00 percent, the unfunded pension liability would be \$11.4 million. Per the December 2016 CalPERS Board decision, the discount rate will reduce to 7.00 percent by 2018.

FUNDING STRATEGY

As of now, the Town has been "paying as you go" and making only the minimum required annual contribution to CalPERS. As summarized in attachment A, the total funded ratio is 73.8 percent. Utilizing the GovInvest online module, Staff ran a few scenarios based on analysis from economist, educators, CalPERS Actuary and other pension experts.

Scenario 1: The CalPERS Actuary recommends making a supplemental contribution to CalPERS to reduce unfunded liabilities and to reduce overall pension contributions. This is equivalent to paying down the principal portion of a debt quickly to reduce interest payments. Scenario 1 has the Town making a \$2.0 million supplemental contribution in 2018-19 to CalPERS. The benefit of this would be the reduction in the Town’s overall pension contribution. The estimated savings in Scenario 1 is \$2.3 million.

FINANCIAL FORECAST. Below is the projected General Fund Revenues and Expenditures through 2029-30. The Revenue and Expenditure lines crosses in 2022-23, assuming no new revenues and sales tax revenues remain flat. The 2018-19 budgetary deficit includes the one-time \$2.0 million supplemental contribution to CalPERS. Staff recommends using unassigned general fund reserves for this contribution.

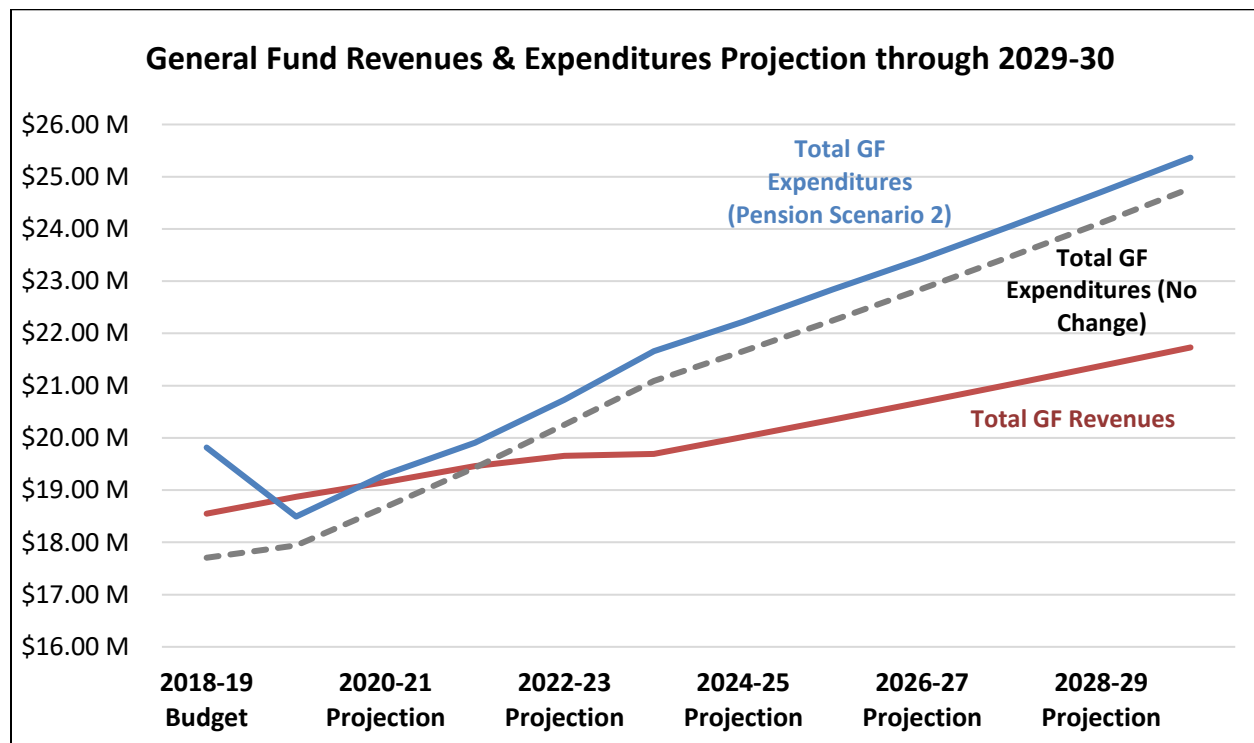


Scenario 1 has the least impact to the annual operating budget and the least impact to addressing our unfunded liabilities.

Scenario 2: Many industry leaders in the area of pension costs presented that the CalPERS discount rate should be 6.00 percent, rather than 7.00 percent. This will increase the Town’s total pension cost by \$17.7 million (calculated using GovInvest). CalPERS discussed whether to reduce the discount rate further but decided to hold off for now. In Scenario 2 the Town would make a \$2.0 million supplemental contribution in 2018-19 to CalPERS, and a budget contribution cost at 6.00 percent as part of the Town’s annual budget. At 6.00 percent, the annual contribution will be \$2.0-\$2.6 million. See attachment B for the projected payment schedule.

When the PARS Trust balance is equal to the CalPERS calculated unfunded liabilities, the Town will evaluate whether to halt contributions or to begin drawing down on the Trust. This evaluation will be done as part of the budget process. The estimated savings under Scenario 2 is \$7.9 million and an ending PARS Trust balance of \$10.0 million by FY 2030-31.

FINANCIAL FORECAST. The chart below shows the projected Revenues and Expenditures lines crossing in 2020-21, due to the aggressive funding of the PARS Trust. As part of the annual budget, Departments will be responsible to reduce other operating cost to account for the increase in pension contribution. Other budgeting strategies to balance the 2021-22 budget deficit, and thereafter, include adopting of the new rates set by Cost of Service Study scheduled for Council consideration in October/November 2018, reducing capital investments currently set at \$500,000 per year, and increasing rental income or changing investment strategies in the short-term. Long-term strategies include changing the rental and sewer system programs to be self-funded and negotiating with labor unions for employees to pay for a portion of their pension cost as suggested by the Grand Jury Report on Pension Costs. As for the 2018-19 budgetary deficit, Staff recommends using unassigned general fund reserves for the one-time \$2.0 million supplemental contribution to CalPERS, rather than using the 2018-19 revenues.



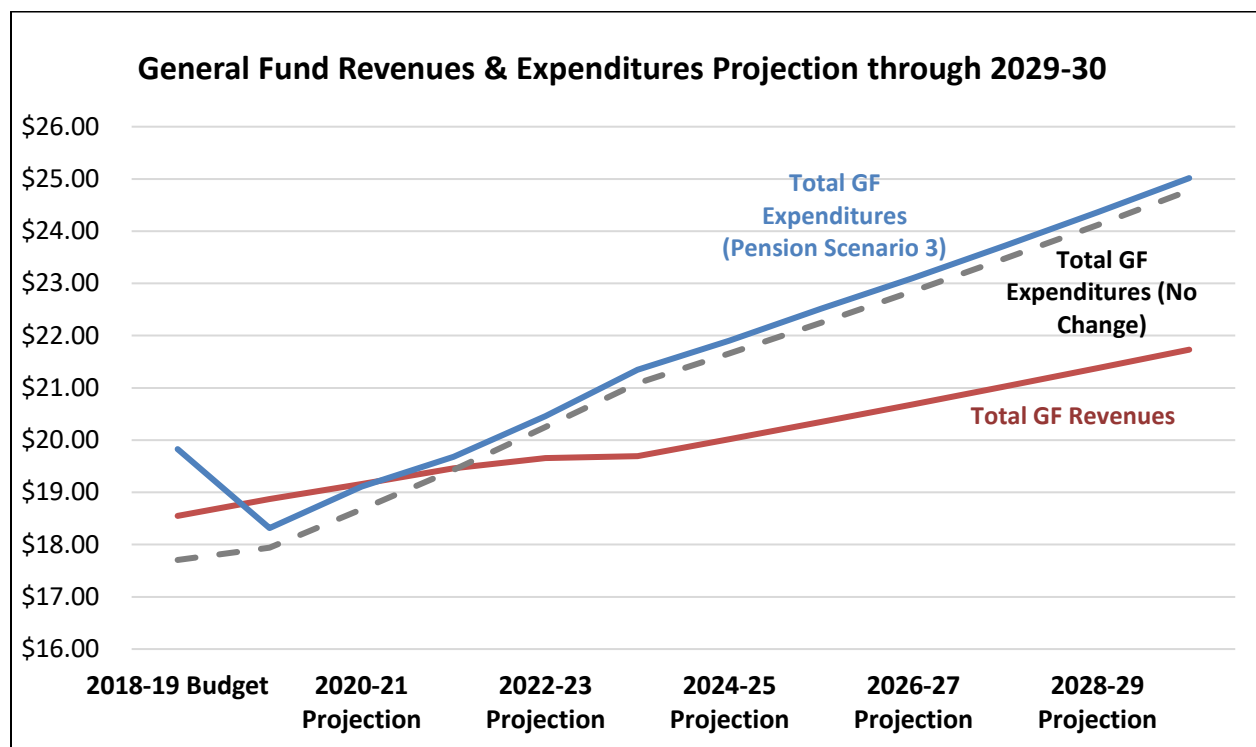
Scenario 2 has the greatest impact to the annual operating budget and is the most aggressive approach in addressing our unfunded liabilities.

Scenario 3: This is the middle ground between Scenario 1 and 2. In this scenario, annually budgeted contributions are based on the discount rate of 6.50 percent – roughly \$350,000 per year paid into the PARS Trust. Additionally, the Town would make a one-time supplemental contribution to CalPERS of \$1.0 million and set-aside \$1.0 million to the PARS Trust. This scenario adds flexibility and control for the Town. It allows the Town to continue to fund other

priorities while addressing pension liabilities. See attachment B for the projected payment schedule.

Flexibility is crucial right now as California voters will be given the opportunity to change how online sales tax revenues will be distributed (SCA 20 – Glazer Bill), this November. This is projected to have a negative impact on the Town’s sales tax revenue. If the Glazer Bill passes and it puts an undue burden on the Town’s finances, the City Council may use the PARS Trust as a buffer while the Town strategizes and acclimates to the new tax revenue. The estimated saving of Scenario 3 is \$6.1 million and an ending PARS Trust Balance of \$10.0 million by FY 2035-36.

FINANCIAL FORECAST. Similar to Scenario 2, the chart below shows the Revenues and Expenditures lines crossing in 2020-21, due to the aggressive funding of the PARS Trust. The short-term and long-term budgeting strategies identified in Scenario 2 will also be used to address the budgetary deficit projected in Scenario 3. As for the 2018-19 budgetary deficit, Staff recommends using unassigned general fund reserves for the one-time \$1.0 million supplemental contribution to CalPERS, rather than using the 2018-19 revenues and \$1.0 million from the Budget Stabilization Fund to the PARS Trust. Since the PARS Trust is by nature a Budget Stabilization fund designated to pension cost, the Town can include the PARS Trust as part of its 100% Budget Stabilization Reserve strategy.



Scenario 3 is the middle of the road approach. It offers the most flexibility to the City Council while containing the annual operating budget and addressing the unfunded liabilities.

GRAND JURY REPORT – SOARING PENSION COST (REPORT)

Scenario 2 and 3 partially satisfy the recommendations from the Grand Jury Report released on July 17, 2018 titled Soaring Pension Cost. The reporting recommendations will be addressed at the October 10, 2018 City Council meeting with the Council consideration and adoption of the Unfunded Liability strategies. Recommendation 3 of the Grand Jury Report lists several recommended changes. See attachment C for the list of the recommendations and Staff's responses.

Other Post-Employment Benefits (OPEB) – Retiree Medical and Dental

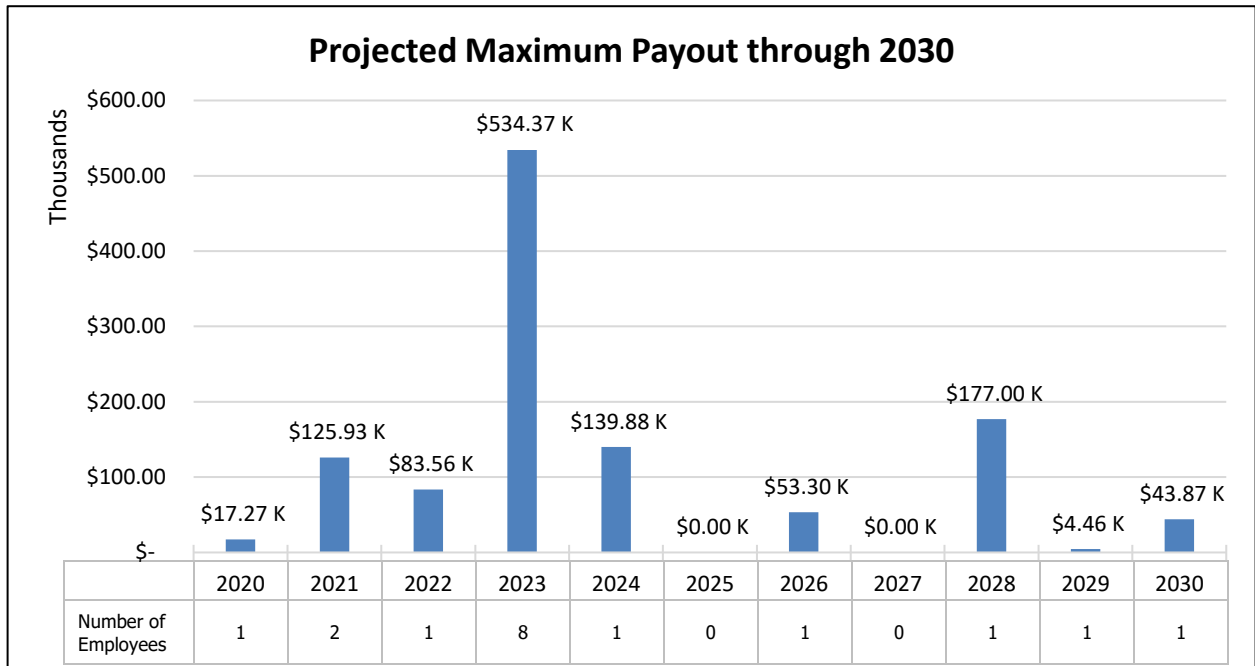
Retiree medical and dental, also known as Other Post-Employment Benefits (or OPEB), was addressed in the prior fiscal year. Based on the July 24, 2017 Valuation Report, the OPEB unfunded liabilities is \$14.0 million. The Valuation shows a PARS OPEB Trust balance of \$1.6 million and a funded ratio of 10.3 percent. As stated in the pension discussion above, a healthy solvent plan should be at least 80 percent funded. In March 2018, the City Council approved making monthly contribution to PARS Trust. As of August 31, 2018, the PARS Trust balance is \$3.1 million, an increase \$1.4 million. While the Town is making progress in funding its OPEB liabilities, continued contributions are necessary until the Trust is at least 80 percent funded. Attachment D summarizes the OPEB benefits offered by the Town and the OPEB Contribution Schedule through FY 2042-43.

Accrued Leave

The Town budgets for three types of accrued leave payouts – (1) annual vacation cash out, (2) holiday compensation to police officers, and (3) lump sum payments at separation or retirement (sick leave, vacation, compensation time). Employees who meet the criteria listed under Administrative Code § 3.06-410(f) may elect to cash out a portion of their unused vacation balance in August of each fiscal year. This allows the Town to reduce total vacation accruals and may reduce an employee's final payout cost.

Of the three types of accrued leave payouts, lump sum payments at separation or retirement poses the highest budgetary fluctuation. According to Administrative Code and MOUs, employees retiring under the CalPERS system within 60 days of separation may convert unused and accrued sick leave to additional PERS service credit or be paid for unused and accrued sick leave, not to exceed 1,092 for peace officers and 1,040 for all other employees. Additionally, employees separating from Town employment are eligible for a vacation payout. In FY2017-18, one long-time employee retired and received \$26,400. The Town anticipates two additional retirements in FY2018-19, with an estimated maximum lump sum payout of \$153,400.

Under the direction of the City Council, Staff projected retirement lump sum payments for all employees, totaling \$1.95 million. As shown in the chart below, 17 of the current employees are eligible for retirement through 2029-30. Of the 17, 8 are eligible for retirement in FY 2022-23, resulting in the highest payout at \$534,000.

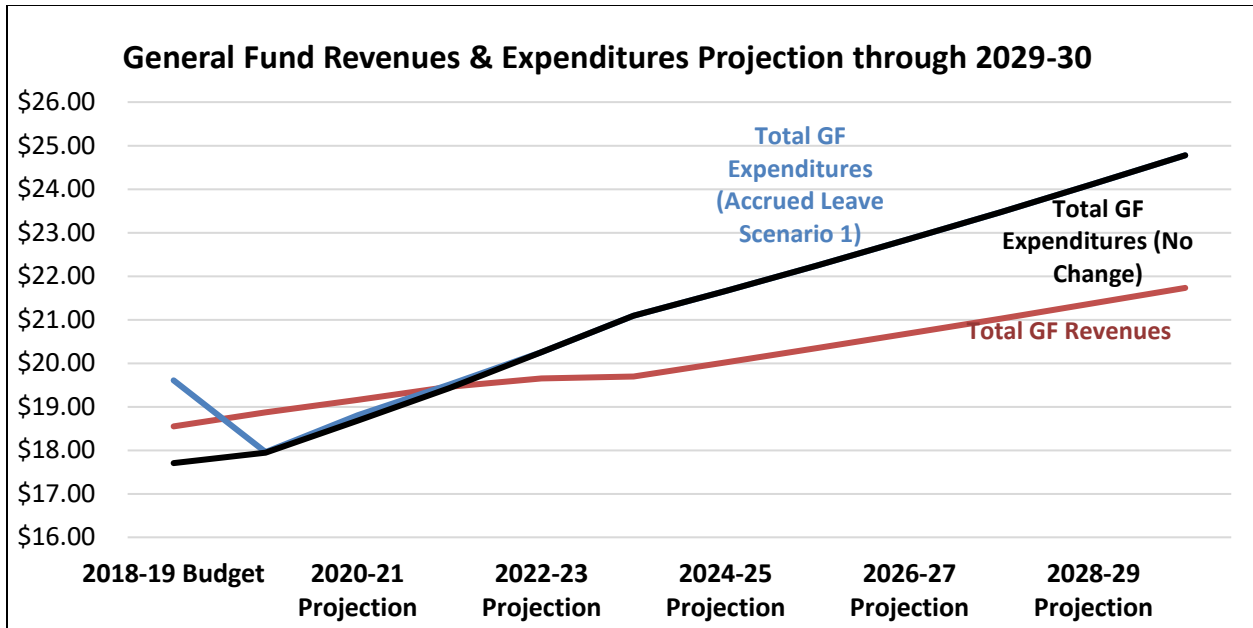


FUNDING STRATEGY

Establishing an Accrued Leave Reserve will buffer the drastic fluctuations in accrued leave payouts. All scenarios below address funding mechanism and drawdown options.

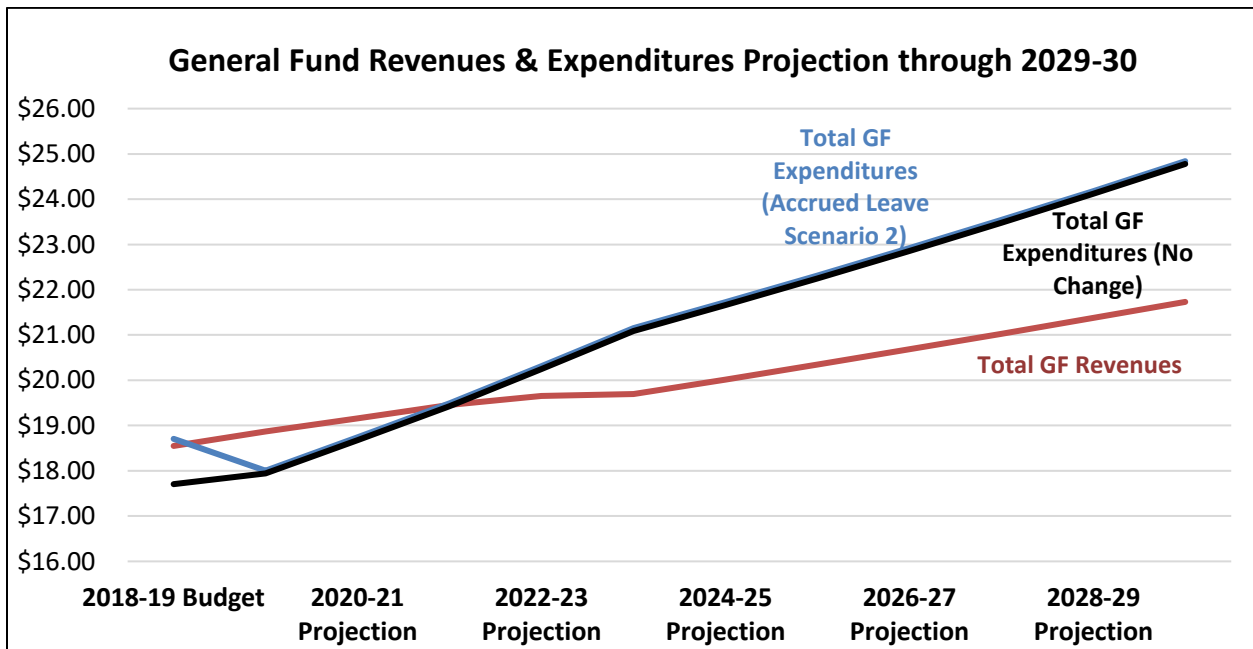
Scenario 1: Create an Accrued Leave Reserve and designate \$1.9 million of unassigned general fund reserves. As employees leave or retire, the reserve will be drawn down. The Reserve can be replenished as part of the year-end close process where Staff may transfer up to 20 percent of general fund operating surplus into this reserve to maintain 100 percent funding.

FINANCIAL FORECAST. As shown in the chart below, Scenario 1 makes minimal financial changes to the Town’s overall financial forecast. Since the revenues and expenditures lines are projected to cross in 2022-23, the Town will not be replenishing the Accrued Leave reserve thereafter. However, the initial \$1.9 million contribution is sufficient for existing employees. As existing employees separate, and new employees are added, the Accrued Leave Reserve will need to be adjusted.



Scenario 2: Create an Accrued Leave Reserve and designate \$600,000 of unassigned general fund reserve. As employees leave or retire, the reserve will be drawn down. As part of the annual budget, the Town may contribute \$61,000 to replenish the fund. The \$600,000 initial investment plus the annual contribution of \$61,000 will allow the Town to address the large obligation through 2023-24.

FINANCIAL FORECAST. Similar to Scenario 1, Scenario 2 makes minimal financial changes to the Town’s overall financial forecast. Departments will be tasked to look for cost saving measures to address the annual budgetary deficit beginning 2022-23. Other budgetary strategies identified under Pension Scenario 2 would be considered to bridge the budgetary gap.



CONCLUSION

Staff seeks City Council feedback on funding strategies to address pension unfunded liabilities and accrued leave payout liabilities for existing employees. Direction from the Council will be brought back in the October 10, 2018 meeting for final adoption.

As mentioned in the Fiscal Impact section above, Staff is also seeking direction from the City Council on whether the Town's Budget Stabilization Reserve calculation can exclude the pension contribution, OPEB contribution and Accrued Leave Reserve contribution (estimated total annual contribution of \$3.0 million).

ATTACHMENTS

- A. 2018 Pension Summary
- B. Projection Payment Schedule for Pension Liabilities
- C. Staff's Analysis on the Grand Jury Recommendations Regarding Soaring Pension Cost
- D. 2018 Other Post Employment Benefit Summary (Retiree Medical and Dental)



**Town of Colma
Attachment A: Pension Summary**

Formula	Misc	Safety	CalPERS Disc Rate 2018	CalPERS Disc Rate 2019
Tier 1	2.5% @ 55	3.0% @ 50	7.25%	7.00%
Tier 2	2.0% @ 60	3.0% @ 55	7.25%	7.00%
Tier 3	2.0% @ 62	2.7% @ 57	7.25%	7.00%

Misc Tier 1	Normal Rate	UAL	Safety Tier 1	Normal Rate	UAL
2019-20	11.432%	\$ 247,314	2019-20	21.927%	\$ 653,793
2020-21	12.200%	\$ 272,000	2020-21	23.300%	\$ 726,000
2021-22	12.200%	\$ 301,000	2021-22	23.300%	\$ 811,000

Misc Tier 2	Normal Rate	UAL	Safety Tier 2	Normal Rate	UAL
2019-20	8.081%	\$ 2,727	2019-20	18.928%	\$ 1,264
2020-21	8.700%	\$ 3,000	2020-21	20.100%	\$ 2,500
2021-22	8.700%	\$ 3,300	2021-22	20.100%	\$ 3,900

Misc Tier 3	Normal Rate	UAL	Safety Tier 3	Normal Rate	UAL
2019-20	6.985%	\$ 6,499	2019-20	13.034%	\$ 4,017
2020-21	7.500%	\$ 1,200	2020-21	13.100%	\$ 4,500
2021-22	7.500%	\$ 1,000	2021-22	13.100%	\$ 5,100

June 30, 2017 Plan's Funded Status @ 7.25%	Misc				Safety				Total
	Tier 1	Tier 2	Tier 3	Total	Tier 1	Tier 2	Tier 3	Total	CalPERS
Present Value of Projected Benefits (PVB)	11,073,947	729,881	406,729	12,210,557	30,500,761	3,176,517	1,582,743	35,260,021	47,470,578
Entry Age Normal Accrued Liability (AL)	9,708,200	188,143	62,489	9,958,832	27,406,388	1,431,375	195,783	29,033,546	38,992,378
Plan's Market Value of Assets (MVA)	6,860,174	173,981	59,911	7,094,066	20,076,917	1,438,973	182,822	21,698,712	28,792,778
Unfunded Accrued Liability (UAL)	2,848,026	14,162	2,578	2,864,766	7,329,471	(7,598)	12,961	7,334,834	10,199,600
Funded Ratio	70.7%	92.5%	95.9%	71.2%	73.3%	100.5%	93.4%	74.7%	73.8%

Accrued Liability (\$)	Misc				Safety				Total
	Tier 1	Tier 2	Tier 3	Total	Tier 1	Tier 2	Tier 3	Total	Total
Active Member	3,516,774	106,685	62,489	3,685,948	9,063,666	471,345	175,247	9,710,258	13,396,206
Transferred Members	600,664	81,458	-	682,122	1,312,039	-	20,536	1,332,575	2,014,697
Terminated Members	208,095	-	-	208,095	577,123	4,496	-	581,619	789,714
Members and Beneficiaries Receiving Payment	5,382,667	-	-	5,382,667	16,453,560	955,534	-	17,409,094	22,791,761
Total	9,708,200	188,143	62,489	9,958,832	27,406,388	1,431,375	195,783	29,033,546	38,992,378

Accrued Liability (# of members)	Misc				Safety				Total
	Tier 1	Tier 2	Tier 3	Total	Tier 1	Tier 2	Tier 3	Total	Total
Active Member	14	4	4	22	10	4	5	19	41
Transferred Member	12	1	0	13	9	0	2	11	24
Separated Member	13	0	0	13	6	1	0	7	20
Retired Member	21	0	0	21	34	1	0	35	56
Total	60	5	4	69	59	6	7	72	141

**Town of Colma
Attachment B: Pension Summary**

ADDITIONAL INFORMATION

June 30, 2017									
Plan's Funded Status @ 7.00%	Misc				Safety				Total CalPERS
	Tier 1	Tier 2	Tier 3	Total	Tier 1	Tier 2	Tier 3	Total	
Present Value of Projected Benefitis (PVB)	11,073,947	729,881	406,729	12,210,557	30,500,761	3,176,517	1,582,743	35,260,021	47,470,578
Accrued Liability at 7.00%	9,977,837	196,759	65,517	10,240,113	28,223,479	1,480,787	204,645	29,908,911	40,149,024
Plan's Market Value of Assets (MVA)	6,860,174	173,981	59,911	7,094,066	20,076,917	1,438,973	182,822	21,698,712	28,792,778
Unfunded Accrued Liability	3,117,663	22,778	5,606	3,146,047	8,146,562	41,814	21,823	8,210,199	11,356,246
Funded Ratio	68.8%	88.4%	91.4%	69.3%	71.1%	97.2%	89.3%	72.5%	71.7%

June 30, 2017									
Plan's Funded Status @ 6.00%	Misc				Safety				Total CalPERS
	Tier 1	Tier 2	Tier 3	Total	Tier 1	Tier 2	Tier 3	Total	
Present Value of Projected Benefitis (PVB)	11,073,947	729,881	406,729	12,210,557	30,500,761	3,176,517	1,582,743	35,260,021	47,470,578
Accrued Liability at 6.00%	11,364,588	253,425	85,442	11,703,455	32,322,990	1,740,836	258,636	34,322,462	46,025,917
Plan's Market Value of Assets (MVA)	6,860,174	173,981	59,911	7,094,066	20,076,917	1,438,973	182,822	21,698,712	28,792,778
Unfunded Accrued Liability	4,504,414	79,444	25,531	4,609,389	12,246,073	301,863	75,814	12,623,750	17,233,139
Funded Ratio	60.4%	68.7%	70.1%	60.6%	62.1%	82.7%	70.7%	63.2%	62.6%

Town of Colma
Attachment B: Projected Payment Schedule for Pension

CURRENT AMORTIZATION SCHEDULE @ 7.0%

CalPERS defines Normal Costs as current liabilities to active employees. Unfunded Liabilities is defined as past liabilities for active and retired employees. Unfunded liabilities arise from the difference between CalPERS assumptions and actual occurrence. This includes better or worse investment returns, longer or shorter retiree payments, and higher or lower final compensation than projected.

Year	Employer Normal Cost	Unfunded Liability Contribution	Total Required Contribution @ 7%
2018-19	625,885	904,345	1,530,230
2019-20	702,259	987,549	1,689,808
2020-21	705,723	1,096,485	1,802,208
2021-22	705,378	942,954	1,648,332
2022-23	715,890	921,517	1,637,407
2023-24	730,359	989,595	1,719,954
2024-25	726,081	1,008,871	1,734,952
2025-26	754,417	1,029,347	1,783,764
2026-27	745,053	1,051,235	1,796,288
2027-28	752,945	1,073,242	1,826,187
2028-29	759,637	1,096,083	1,855,721
2029-30	762,924	1,119,448	1,882,372
2030-31	781,031	1,143,275	1,924,306
2031-32	792,133	1,120,144	1,912,277
2032-33	802,115	1,094,593	1,896,708
2033-34	817,411	1,047,992	1,865,403
2034-35	828,952	982,289	1,811,240
2035-36	843,484	751,409	1,594,892
2036-37	848,727	431,890	1,280,617
2037-38	862,876	352,259	1,215,135
2038-39	882,345	292,524	1,174,869
2039-40	879,728	247,917	1,127,644
2040-41	897,597	161,824	1,059,421
2041-42	900,118	128,510	1,028,628
2042-43	920,907	44,344	965,251
2043-44	935,301	-	935,301
Total	20,679,277	20,019,637	40,698,914 [1]

Town of Colma

Attachment B: Projected Payment Schedule for Pension

SCENARIO 1: ONE-TIME SUPPLEMENTAL CONTRIBUTION OF \$2.0 MILLION TO CALPERS

In this scenario, the Town makes a supplemental contribution of \$2.0 million to CalPERS in 2018-19. Estimated savings is \$2.3 million ([1] – [2]).

Year	Employer Normal Cost	Unfunded Liability Contribution	Total Required Contribution @ 7%
2018-19	625,885	893,698	3,519,583
2019-20	702,259	941,001	1,643,260
2020-21	705,723	1,001,657	1,707,380
2021-22	705,378	803,956	1,509,334
2022-23	715,890	735,867	1,451,757
2023-24	730,359	770,308	1,500,667
2024-25	726,081	783,225	1,509,306
2025-26	754,417	797,157	1,551,574
2026-27	745,053	812,312	1,557,365
2027-28	752,945	827,390	1,580,335
2028-29	759,637	843,102	1,602,739
2029-30	762,924	859,130	1,622,054
2030-31	781,031	875,408	1,656,439
2031-32	792,133	844,509	1,636,641
2032-33	802,115	810,964	1,613,079
2033-34	817,411	756,139	1,573,549
2034-35	828,952	698,360	1,527,312
2035-36	843,484	515,925	1,359,409
2036-37	848,727	247,900	1,096,627
2037-38	862,876	222,947	1,085,824
2038-39	882,345	221,217	1,103,562
2039-40	879,728	219,179	1,098,907
2040-41	897,597	132,253	1,029,850
2041-42	900,118	98,082	998,199
2042-43	920,907	13,033	933,940
2043-44	935,301	-	935,301
Total	20,679,277	15,724,718	38,403,995 [2]

Town of Colma
Attachment B: Projected Payment Schedule for Pension

SCENARIO 2: ONE-TIME SUPPLEMENTAL CONTRIBUTION OF \$2.0 MILLION TO CALPERS AND MAKE ANNUAL CONTRIBUTION TO PARS TRUST BASED ON DISCOUNT RATE OF 6.0%

In this scenario, the Town makes the \$2.0 million supplemental contribution to CalPERS in 2018-19. Beginning in 2019-20, the Town budgets annual pension contributions at 6.0%. Because the CalPERS discount rate remains at 7%, the difference will be annual contributions to the PARS Trust to earn average investment returns of 3%. When PARS the Trust Balance is equal to the CalPERS Calculated unfunded liabilities, the Town has fully funded pension liability and may consider drawing down from the PARS Trust to avoid overfunding pension. The schedule below shows when to use the PARS Trust to pay CalPERS pension costs. Estimated savings is \$7,936,659 ([1] – ([3]-[4])).

Year	Required Contribution @ 6% [a]	Payment to CalPERS [b]	Payment to PARS [a]-[b]	Projected PARS Trust Balance @ 3% investment return
2018-19	3,519,583	3,519,583	-	-
2019-20	2,022,311	1,643,260	379,051	390,422
2020-21	2,155,543	1,707,380	448,163	863,742
2021-22	2,074,444	1,509,334	565,110	1,471,718
2022-23	2,143,781	1,451,757	692,024	2,228,654
2023-24	2,308,721	1,500,667	808,054	3,127,809
2024-25	2,331,207	1,509,306	821,901	4,068,201
2025-26	2,400,894	1,551,574	849,320	5,065,047
2026-27	2,420,518	1,557,365	863,153	6,106,045
2027-28	2,461,105	1,580,335	880,770	7,196,420
2028-29	2,504,898	1,602,739	902,159	8,341,536
2029-30	2,542,795	1,622,054	920,741	9,540,145
2030-31	2,602,699	1,656,439	946,260	10,800,997
2031-32	0	1,636,641	(1,636,641)	9,439,286
2032-33	2,615,641	1,613,079	1,002,562	10,755,104
2033-34	0	1,573,549	(1,573,549)	9,457,001
2034-35	2,577,714	1,527,312	1,050,402	10,822,625
2035-36	0	1,359,409	(1,359,409)	9,747,113
2036-37	1,922,166	1,096,627	825,539	10,889,831
2037-38	0	1,085,824	(1,085,824)	10,098,127
2038-39	1,637,140	1,103,562	533,578	10,950,657
2039-40	0	1,098,907	(1,098,907)	10,147,303
2040-41	1,426,337	1,029,850	396,487	10,860,104
2041-42	0	998,199	(998,199)	10,157,761
2042-43	1,347,286	933,940	413,346	10,888,241
2043-44	1,285,211	935,301	(935,301)	10,251,528 [4]
Total	[3] 43,014,783	38,403,995	4,610,788	
Average Annual Contribution		1,477,077	699,927	

Town of Colma
Attachment B: Projected Payment Schedule for Pension

SCENARIO 3: ONE-TIME SUPPLEMENTAL CONTRIBUTION OF \$1.0 MILLION TO CALPERS, INITIAL CONTRIBUTION OF \$1.0 MILLION TO PARS AND MAKE ANNUAL CONTRIBUTION TO PARS TRUST BASED ON DISCOUNT RATE OF 6.5%

In this scenario, the Town makes the \$1.0 million supplemental contribution to CalPERS and transfers \$1.0 million into the PARS Trust in 2018-19. Beginning in 2019-20, the Town budgets annual pension contributions at 6.5%. Because the CalPERS discount rate remains at 7%, the difference will be the annual contributions to the PARS Trust to earn average investment returns of 3%. When the PARS Trust Balance is equal to the CalPERS Calculated unfunded liabilities, the Town has fully funded pension liability and may consider drawing down from the PARS Trust to avoid overfunding pension. The schedule below shows when to use PARS Trust to pay CalPERS pension costs. Estimated savings is \$6,138,969 ([1] – ([5]-[6])).

Year	Required Contribution @ 6.5% [a]	Payment to CalPERS [b]	Payment to PARS [a]-[b]	Projected PARS Trust Balance @ 3% investment return
2018-19	3,530,230	2,530,230	1,000,000	1,030,000
2019-20	1,844,432	1,689,808	154,624	1,220,163
2020-21	1,965,477	1,759,507	205,969	1,468,916
2021-22	1,846,760	1,582,422	264,338	1,785,251
2022-23	1,874,780	1,546,980	327,800	2,176,443
2023-24	1,997,038	1,603,642	393,397	2,646,935
2024-25	2,015,737	1,615,267	400,470	3,138,827
2025-26	2,074,425	1,660,608	413,817	3,659,223
2026-27	2,090,444	1,669,560	420,884	4,202,510
2027-28	2,125,486	1,695,784	429,702	4,771,179
2028-29	2,161,851	1,721,536	440,315	5,367,838
2029-30	2,193,924	1,744,296	449,628	5,991,990
2030-31	2,244,435	1,782,226	462,209	6,647,825
2031-32	2,242,625	1,766,076	476,548	7,338,104
2032-33	2,236,377	1,746,268	490,109	8,063,060
2033-34	2,216,728	1,710,600	506,128	8,826,263
2034-35	2,174,063	1,651,948	522,115	9,628,829
2035-36	1,928,230	1,463,763	464,467	10,396,095
2036-37	0	1,179,418	(1,179,418)	9,493,178
2037-38	1,476,697	1,145,713	330,984	10,118,887
2038-39	1,391,222	1,139,151	252,071	10,682,087
2039-40	0	1,127,644	(1,127,644)	9,841,076
2040-41	1,229,935	1,059,421	170,514	10,311,938
2041-42	1,200,593	1,028,628	171,965	10,798,420
2042-43	0	965,251	(965,251)	10,128,164
2043-44	1,096,495	935,301	161,194	10,598,039 [6]
Total	[5] 45,157,984	39,521,049	5,636,935	
Average Annual Contribution		1,520,040	387,359	

Town of Colma**Attachment C: Staff's Analysis on the Grand Jury Recommendations Regarding Soaring Pension Cost**

- R3-1. The Grand Jury recommends making regular and irregular supplemental payments directly to CalPERS.

It is true that reducing the unfunded pension liabilities by making additional contribution will result in the most savings. It will also limit the Town's ability to meeting various obligations during an economic downturn. Similar to the last housing crisis, CalPERS contributions requirements increased when most California agencies experienced significant financial constraint. This will likely occur during the next economic downturn. Regular contribution to the Town's PARS Trust, on the other hand, will allow the Town to meet future CalPERS obligations while financially stabilizes the Town's financial outlook.

- R3-2. The Grand Jury recommends reducing the Amortization Period from the current to either 20 or shorting periods offered by CalPERS.

Similar to shortening a mortgage term, this will equate to lower interest expenses. However, once the Town elects a shorter amortization period, the Town cannot revert back to the current schedule, locking the Town in for a larger annual obligation. Similar to the R1, Staff recommends using the PARS Trust as the mechanism to save for future pension obligations. The PARS Trust is an irrevocable trust fund, by IRS Code, and can only be used to offset pension cost. It also has an average investment return of 3 percent, which is higher than the Town's current investment earnings.

- R3-3. The Grand Jury recommends issuing pension obligation bonds to reduce pension liability.

This is similar to refinancing a home which does not actually address the actual debt. The only benefit of refinancing is to reduce overall interest payments by going to a lower interest rate. Since the Town has an unrestricted general fund reserves of \$8 million projected for 2018-19, it would be to the Town's advantage to set aside money in the PARS Trust rather than paying debt.

- R3-4. The Grand Jury recommends establishing substantial reserves that can be applied in the future to help meet rising pension costs.

This is the purpose of the PARS Trust.

- R3-5. The Grand Jury recommends seeking additional general fund revenues that can be applied directly to pay pension costs.

This recommendation implies asking voters to approve new tax measures specifically to address pension costs. Although this is a possibility, Staff does not recommend pursuing this avenue. Pension liability should be something the Town tries to address with existing resources, rather than asking for more money.

- R3-6. The Grand Jury recommends keeping employee salary increases at or below the CalPERS salary escalation assumption, which is 2.75 percent beginning 2018-19.

This is a matter related to labor negotiations and will be considered separately from this pension cost discussion.

R3-7. The Grand Jury recommends negotiating cost-sharing agreements with employees where employees pay for a portion of the City's pension cost.

Legally, employees can only pay for the "normal cost" and not unfunded liability portion of the pension cost. This is something that can be considered in the coming labor negotiations.

R3-8. Lastly, the Grand Jury recommends maintain growth in employee salaries and COLAs at or below the assumed CalPERS rates.

This recommendation is very similar to R3-6, above. It is a matter to be considered as part of labor negotiations. One important note to consider when discussing employee salary is that the Town is responsible for the portion of an employee's pension income based on the employee's last reportable compensation, regardless of which agency the employees retire from. This means if a Town employee separates from the Town and works for another agency that pays higher than the Town's salary schedule, the Town is still liable for the separated employee's pension cost calculated at that higher pay. For this reason, Staff believes there will always be some level of unfunded liability as long as the Town is a participating agency of CalPERS pension. This is another reason Staff is in favor of using the PARS Trust as part of the Budget Stabilization strategy and not modify CalPERS amortization schedule or make continuous supplemental contributions to CalPERS.

Town of Colma
Attachment D: Other Post-employment Benefit (Retiree Medical and Dental)

Benefit Summary

As of December 31, 2016, the retiree medical and dental benefits are as followed.

Description	Unrepresented	Peace Officer and Dispatcher
Medical Coverage		
100% of selected	Tier A: Originally hired prior to 7/1/2012	Tier A: Originally hired prior to 6/1/2008.
Up to 100% of 2nd most expensive medical plan		Tier B: Originally hired between 6/1/2008 and 6/30/2012
Percent based on years of services. See table below for the vesting schedule	Tier B: Originally hired between 7/1/2012-12/31/2016	Tier C: Originally between 7/1/2012-12/31/2016
1.5% pay into a Retirement Health Savings Program	Tier C: Hired after 1/1/2017	Tier D: Hired after 1/1/2017
Dental Coverage	Council: first elected before 1/1/1995 Others: Hired before 5/1/2010	Peace Officers: Hired before 1/1/2008 Dispatchers: Hired before 1/1/2010

Vesting Schedule

Credited Years of Services in CalPERS (minimum of 5 year with the Town)	Percent vested
10	50%
11	55%
12	60%
13	65%
14	70%
15	75%
16	80%
17	85%
18	90%
19	95%
20+	100%

Town of Colma
Attachment D: Other Post-employment Benefit (Retiree Medical and Dental)

OPEB Contribution Schedule

Year	Total Required Contribution	Year	Total Required Contribution
2018-19	1,679,867	2030-31	2,395,089
2019-20	1,730,263	2031-32	2,466,941
2020-21	1,782,171	2032-33	2,540,950
2021-22	1,835,636	2033-34	2,617,178
2022-23	1,890,705	2034-35	2,695,693
2023-24	1,947,426	2035-36	2,776,564
2024-25	2,005,849	2036-37	2,859,861
2025-26	2,066,025	2037-38	1,368,968
2026-27	2,128,005	2038-39	1,410,037
2027-28	2,191,845	2039-40	1,452,338
2028-29	2,257,601	2040-41	1,495,908
2029-30	2,325,329		



STAFF REPORT

TO: Mayor and Members of the City Council
 FROM: Pak Lin, Administrative Services Director
 VIA: Brian Dossey, City Manager
 MEETING DATE: September 26, 2018
 SUBJECT: Establishing New City Funds

RECOMMENDATION

This item is a study session for informational purposes only. No City Council action is required; however, staff seeks Council feedback on establishing new City Funds.

EXECUTIVE SUMMARY

The Town's finances currently make use of 10 primary funds that are described in the 2018-19 Adopted Budget. To improve the Town's financial reporting and budgeting, seven additional funds are proposed for City Council consideration. Additionally, the creation of these funds establishes the framework to begin reserving for various Town priorities, such as the capital improvement program and facilities replacement and improvement program.

FISCAL IMPACT

There is no fiscal impact with the consideration and future adoption of the seven new funds.

BACKGROUND

The Town of Colma budgets for revenues and expenditures and reports financial transactions in accordance with the principles of fund accounting. Separation of revenue and expenditures into unique funds provides additional control and demonstrates compliance required when the fund has specific restrictions on how it is used.

A description of the 10 primary funds and their use in budgeting and financial reporting is found in the 2018-19 Adopted Budget on pages 161 and 162. Attachment A is a copy of those pages from the budget.

In the new fiscal year, Staff is working on several ways to improve the Town's budgeting and financial reporting. These projects include the development of a 5-Year Capital Improvement

Budget program and addition of Accrued Leave Payout reserves. To carry out these improvements, it is necessary to update the Town's financial policies and fund structure.

The proposed new funds are General Fund Reserves (Fund 12), Parks In Lieu (Fund 24), Housing Impact Fees (Fund 25), Street Capital (Fund 32), Sewer Operating (Fund 81), Sewer Capital (Fund 82) and City Properties (Fund 83). A table showing these proposed new funds, their fund group and classifications can be found in Attachment B.

ANALYSIS

Fund Categories

Funds used by the Town of Colma are organized into eight categories. The proposed new funds follow the same system. The fund categories are:

<u>No.</u>	<u>Description</u>
1x	General
2x	Special Revenue
3x	Capital Projects
4x	Debt Service
5x	Permanent (Fixed Asset & Long-Term Debt)
6x	Internal Service Funds
7x	Fiduciary Funds (OPEB & Pension)
8x	Enterprise

Classification of Funds (GASB 54)

The Town of Colma follows the requirements of Government Accounting Standards Board (GASB) Statement No. 54 in classification of governmental funds. This statement organizes funds into five classifications:

- **Non-Spendable** – amounts that are not in a spendable form, such as prepaid items or supplies inventories that are legally or contractually required to remain intact, such as principal endowments.

In Colma, this classification is used for Debt Service funds that are used on debt issues such as the Town Hall Certificates of Participation (COPs).

- **Restricted** – amounts that are subject to externally enforceable legal restrictions imposed by outside parties (i.e. creditors, grantors, contributors) or that are imposed by law through constitutional provisions or enabling legislation.

In Colma, this classification is currently used for operating and capital funds that can only be spent for specific purposes. This includes Gas Tax revenues from the State, Measure A revenues from the County Transportation Authority, Transportation and Police Grants and Proceeds from the Town Hall Certificates of Participation (COPs).

Five of the seven proposed new funds are classified as restricted. This includes Parks In Lieu and Housing Impact Fees, Street Capital and Sewer Operating and Sewer Capital funds.

- **Committed** – amounts whose use is constrained by specific limitations that the government imposes upon itself, as determined by a formal action of the highest level decision-making authority.

In Colma, the Town Council serves as the Town’s highest level decision-making authority and has the authority to establish, modify or rescind a fund balance commitment. This classification currently covers the Vehicle Replacement Fund. Staff is proposing that the new General Fund Reserves and City Properties funds also be included in this classification.

- **Assigned** – amounts intended to be used by the Town for specific purposes, subject to change, as established either directly by the Town Council or by management officials to whom the assignment authority has been delegated by the Town Council.

In Colma, the General Fund is classified as an Assigned fund.

- **Unassigned** – is the residual classification that includes the spendable amounts in the General Fund that are available for any purpose.

Staff plans to review and make a presentation to the City Council during the 2018-19 fiscal year on potential uses of the Unassigned General Fund balance. This is the source of funds that could be used to reduce the Town’s future pension and OPEB expenses as well as increased funding for Capital Improvement Projects.

Description of Proposed New Funds

Staff is proposing the establishment of 7 new funds for revenues, expenses and financial reporting. The proposed funds are:

- **General Fund Reserves (General, Committed)** – reserved funds approved by the City Council in the Town Budget. This includes Debt Reduction (\$600,000), Budget Stabilization (\$15,000,000), Litigation (\$100,000), Insurance (\$100,000), Disaster Response and Recovery (\$750,000). Contributions to the reserve funds will be discussed as part of the Reserve Policy Update scheduled for October 10, 2018 City Council meeting.

Fund 11: General Fund Operating Fund will continue to record the Unassigned reserve balance, projected to be \$8,253,939 in the 2018-19 Adopted.

- **Parks In Lieu (Special Revenue, Restricted)** – funds from Parks In Lieu fees paid by developers. These funds are restricted and can only be used for Park and green space development around Town. Funding will depend on developmental activities.
- **Housing Impact Fees (Special Revenue, Restricted)** – funds from Housing Impact fees paid by developers. These funds are restricted and can only be used for Housing purposes. Funding will depend on developmental activities.
- **Street Capital (Capital Projects, Restricted)** – funds that will cover the cost of Street Capital Improvement projects. This will include grant funding from State, County and

Federal sources. The creation of a separate Street Capital Fund, from Fund 31 Capital Improvement Fund, will aid in meeting this grant reporting requirements.

- **Sewer Operating (Enterprise, Restricted)** – funds that will cover the operating and maintenance cost of the Town’s Sewer System including sewer lines and the Town share of Sewer Treatment. Establishing this fund will also make the process of developing quarterly financial and annual state controller reports easier and more efficient since these revenues and expenses will be accounted for in the dedicated enterprise fund. Currently, sewer operating and maintenance cost is subsidized by the General Fund. Typically, Enterprise Funds are fully funded by user fees. Until a comprehensive sewer fee study is completed and the new fee schedule is adopted by the City Council, General Fund will continue subsidies this fund.
- **Sewer Capital (Enterprise, Restricted)** – funds that will cover the cost of Sewer Capital Improvement projects including major maintenance, sewer system assessments and capacity. Establishing this fund will better track and establish the sewer system needs in the Town. Typically, Enterprise Funds are fully funded by user fees. Until a comprehensive sewer fee study is completed and the new fee schedule is adopted by the City Council, General Fund will continue subsidies this fund.
- **City Properties (Enterprise, Committed)** – includes revenues from the lease and rental of City properties, expenses for the maintenance of City properties and depreciation and reserves to cover the expense of renovation of these properties. Establishing this fund as an enterprise will also enable the Town to more easily report on the full cost of operating these properties in terms of revenues vs. annual expense and future major maintenance and renovation expenses. Fund surplus will remain in this fund for future improvement needs. Fund deficits will require General Fund subsidies.

An Equipment Replacement Fund may be created as part of the 2019-2024 Five-Year Capital Plan to address major equipment replacement needs and funding mechanism.

CONCLUSION

Staff recommends that the Council provide feedback on the creation of these funds for better maintenance of Town reserves and financial reporting purposes.

ATTACHMENTS

- A. Description of Current City Funds (pages 161 and 162 of 2018-19 Adopted Town Budget)
- B. Summary of Key City Funds – Current and Proposed

Description of Funds

The Town budgets for revenues and expenses and reports financial transactions in accordance with the principles of fund accounting. Separation of revenue and expenditures into unique funds provides additional control and demonstrates compliance required when the fund has specific restrictions on how it is used.

Governmental Funds

The majority of the funds reported as part of the Budget are classified as Governmental Funds. This category refers to funds used to account for activities which are primarily supported by tax or charges for services revenues and are generally unique to town government. Within this category, the Town uses the following fund types:

- **General** - This is the Town's primary operating fund and accounts for all financial resources of the Town except those that involve restricted funding or are required to be accounted for in another fund. The expenditure and use of General Funds are discretionary after appropriation by the City Council to the extent there are no local policies or laws that impose any special conditions.

The General Fund is designated by the Town as Fund #11. It funds the majority of Town's day to day operations, including key Town services (such as Police, Recreation, Planning, Building Inspection and General Administration). After covering the cost of Town services, General Fund resources are also transferred to the Capital Improvement and Debt Service Funds to help fund these areas as well.

- **Special Revenues** - These funds account for the use of revenues that are legally restricted to expenditures for specific purposes. The following funds are Special Revenue funds for the Town of Colma:

Gas Tax - Gas Tax revenue is collected by the State of California. It is partially distributed to cities and counties based on population and other factors. Gas Tax funds can only be spent on authorized activities related to the maintenance and construction of streets and roads.

The Gas Tax Fund is designated by the Town as Fund #21. Traffic Signal and Street Lighting contract services are also funded with this revenue source.

Measure A - Measure A is administered by the San Mateo County Transportation Authority. This is a county-wide voter-approved sales tax measure designed to improve transit and relieve traffic congestion. A portion of the Measure A funds are distributed directly to cities on a per-capita basis. The Measure A Fund is designated by the Town as Fund #22.

Transportation Grants - The Town pursues competitive grants as a source of funding major bikeway, pedestrian, and roadway capital improvement projects. Due to the restricted nature of these grants they are accounted for in a separate fund.

The Transportation Grants Fund is designated as Fund #23. The Mission Road Bicycle and Pedestrian Improvement Project (#903) has been selected for a Transportation Livable Community (TLC) and a Federal Local Streets and Roads grant. The two grants fund approximately 45% of the estimated project cost. The Roadway Network Plan (CIP #993) is partially funded with a State Systemic Safety Analysis Report Program (SSARP) grant.

Public Safety Grants - Public Safety Grants account for revenue associated with one-time or limited term Police grants that have restricted uses. This includes a distribution associated with State criminal justice realignment funds. Other one-time Police-related grants are also accounted for in this fund. The Public Safety Grants Fund is designated by the Town as Fund #27. Expenditures from this fund will finance the majority of costs associated with specialized Police training and homeless outreach services.

Police Grants - Police Grants accounts for revenue associated with Police grants that have restricted uses and may be on-going. This includes an annual State distribution from the Supplemental Law Enforcement Services Fund (SLESF), which must be used for front-line law enforcement activities.

The Police Grants Fund is designated by the Town as Fund #29. Expenditures from this fund will finance the majority of costs associated with Police - Community Services Division including a Community Services Officer (CSO) position.

- **Capital Projects** - These funds are used to fund and account for capital improvement projects that involve streets, sidewalks and bikeways (category 1), sewers and storm drains (category 2), city facilities and long range plans (category 3) and major equipment, technology and fleet replacement (category 4).

Capital Improvement - The Capital Improvement Fund funds and accounts for projects in the four categories listed earlier. Capital Improvement Projects are assigned for non-operating projects in excess of \$10,000. Due to the nature of capital projects, funding and expenditures for a single project may span more than one Fiscal Year. The Capital Project Fund is designated by the Town as Fund #31.

COPs Town Hall - The COP Town Hall capital fund accounts for project expenses which were financed by Certificates of Participation (COPs) debt financing. The Town financed a portion of the Town Hall Campus Renovation Project (\$5.1 million) with funds borrowed with this financing approach. The remainder of the Town Hall project is funded by the Capital Improvement Fund. During 2017-18, COPs Town Hall funding was completely spent. The COPs Town Hall Fund is designated by the Town as Fund #33.

- **Debt Service** - This fund accounts for the payment of interest and principal associated with the 2015 Town Hall Campus Renovation COP and related administrative expenses. This is the only debt the Town currently has outstanding. The source of funding the annual cost of this debt issue is a transfer of funds from the General Fund. The Debt Service Fund is designated by the Town as Fund #43.

Internal Service Fund - In addition to Governmental Funds, the Town has one Internal Service Fund (ISF). An Internal Service Fund accounts for the provision of goods and services to departments on a cost reimbursement basis.

- **Fleet Replacement Fund** - This fund is used to accumulate funds over time to provide for the replacement of the Town fleet used by Police, Public Works, Recreation and Administration. Annual charges based on the usable life and cost of vehicles and the public works fleet are recorded as expenses within the operating departments. The future replacement of these vehicles and the fleet is financed from reserves accumulated in this fund. The Fleet Replacement Fund is designated by the Town as Fund #61.

Town of Colma**Attachment B: Summary of Key City Funds – Current and Proposed****FUND CATEGORIES**

No.	Description
1x	General
2x	Special Revenue
3x	Capital Projects
4x	Debt Service
5x	Permanent (Fixed Asset & Long Term Debt)
6x	Internal Service Funds
7x	Fiduciary Funds (OPEB & Pension)
8x	Enterprise

CURRENT FUNDS

<i>No.</i>	<i>Fund</i>	<i>Category</i>	<i>Classifications</i>
11	General Fund	General	Assigned, Unassigned
21	Gas Tax	Special Revenue	Restricted
22	Measure A	Special Revenue	Restricted
23	Transportation Grants	Special Revenue	Restricted
27	Public Safety Grants	Special Revenue	Restricted
29	Police Grants	Special Revenue	Restricted
31	Capital Improvement	Capital Projects	Committed
33	COPs - Town Hall	Capital Projects	Restricted
43	Debt Service	Debt Service	Non-Spendable
61	Vehicle Replacement	Internal Service	Committed

NEW FUNDS

<i>No.</i>	<i>Fund</i>	<i>Category</i>	<i>Classification</i>
12	General Fund Reserves	General	Committed
24	Parks In Lieu	Special Revenue	Restricted
25	Housing Impact Fees	Special Revenue	Restricted
32	Street Capital	Capital Projects	Restricted
81	Sewer Operating	Enterprise	Restricted
82	Sewer Capital	Enterprise	Restricted
83	City Properties	Enterprise	Committed

