AGENDA
REGULAR MEETING
CITY COUNCIL OF THE TOWN OF COLMA

Colma Town Hall
1198 El Camino Real
Colma, CA 94014

Wednesday, September 25, 2019
7:00 PM

PLEDGE OF ALLEGIANCE AND ROLL CALL

ADOPTION OF AGENDA

PRESENTATIONS

- Introduction of Finance Consultants from Maze & Associates, Angie Nguyen and Maria Munoz
- Introduction of Facility Attendants Jenny Arcaina and Ted Cook
- Introduction of Police Recruit Carlos Huayllapuma
- Introduction of Human Resources Manager Letty Juárez

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 11, 2019 Regular Meeting.
2. Motion Approving the Town's Response to the Grand Jury Report Dated July 29, 2019, Regarding "Soaring Pension Costs – Follow-Up On Grand Jury Report Of 2017-2018."
3. Motion Directing the Voting Delegate to Vote in Support of the Two Resolutions That are Being Considered at the 2019 League of California Cities Conference Annual Business Meeting on October 18, 2019.

PUBLIC HEARING

4. **BIDDING THRESHOLDS FOR PUBLIC WORKS PROJECT**

Consider: Motion to Introduce an Ordinance Amending Colma Municipal Code Section 1.06.270 Relating to Bid Limits for Public Works Projects, and Waive a Further Reading of the Ordinance.

NEW BUSINESS

5. **LEW EDWARDS GROUP CONTRACT AMENDMENT**

   Consider: Motion to Adopt a Resolution Approving the First Amendment to Professional Services Agreement with the Lew Edwards Group.

6. **FLAG POLICY AMENDMENT AND ITALIAN FLAG RAISING**

   a. *Consider:* Motion to Adopt a Resolution Amending Subchapter 1.18 to the Colma Administrative Code, Relating to the Display of Flags on Town Property.

   b. *Consider:* Motion to Adopt a Resolution Directing Town Staff to Fly the Italian Flag at [Specify Location] in Lieu of the Town Flag on [Specify Date/Duration], in Honor of Italian Heritage and Cultural Month.

STUDY SESSION

7. **ENERGY REACH CODES**

8. **WILD BIRD AND WILD ANIMAL FEEDING ORDINANCE**

   This item is 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.

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Upon request, this publication will be made available in appropriate alternative formats to persons with disabilities, as required by the Americans with Disabilities Act of 1990. Any person with a disability, who requires a modification or accommodation to view the agenda, should direct such a request to Pak Lin, ADA Coordinator, at 650-997-8300 or pak.lin@colma.ca.gov. Please allow two business days for your request to be processed.

MINUTES
REGULAR MEETING
City Council of the Town of Colma
Town Hall Council Chamber, 1198 El Camino Real
Colma, CA 94014
Wednesday, September 11, 2019
7:00 PM

CALL TO ORDER

Mayor Joanne F. del Rosario called the meeting to order at 7:02 p.m.

The Mayor requested that the first responders and honor roll students who were present to be honored step forward to lead the meeting in the pledge of allegiance.

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

Staff Present – City Manager Brian Dossey, City Attorney Christopher Diaz, Chief of Police Kirk Stratton, Administrative Services Director Pak Lin, City Planner Michael Laughlin, City Clerk Caitlin Corley and Administrative Technician Darcy De Leon were in attendance.

ADOPTION OF THE AGENDA

Mayor del Rosario asked if there were any changes to the agenda; none were requested. The Mayor asked for a motion to adopt the agenda.

Action: Council Member Fisicaro moved to adopt the agenda; the motion was seconded by Council Member Gonzalez and carried by the following vote:

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

PRESENTAIONS

- Mayor del Rosario made comments in recognition of the 18th anniversary of the September 11, 2001 terror attacks. She honored the victims of that day and recognized the remarkable acts of bravery and sacrifice made that day by so many first responders. Representatives from the Colma Police Department and the Colma Fire Protection District were present. The Mayor led the crowd in thanking the first responders with a round of applause, followed by a moment of silence for the victims of September 11, 2001.
- Council Presented the Town's Honor Roll Students with a certificate and several small gifts in honor of their academic achievements. The following Colma students made the honor roll in the 2018-19 academic year:

Vickie Feng
Aidan Gonzalez
Sean Goodwin
Joanna Lou
Rosa Mendoza
Janessa Moreno Padilla

Mia Myvett	Katie Juarez Gonzalez
Liana Myvett	Maleiah Kennan
Nicholas Jacob Perreras	Giovanny Lozano
Luis Ruan	Marcel Moyrong
Sarah Walsh	Miguel Navarro, Jr.
Vernice Wang	Keesean Paguio
Daniel Gotelli	Kylie Ann Paguio
Joseph Gotelli	Shelley Shaine Paningbatan
Cesiah Arias	Malekai Ramos
Hannah Balton	Delilah Trejo
Jordan Bondoc	Serena Trejo
Malaiya Catimbang	Danica Villanueva
Angelia Contreras	Amanda Yoa
Aidan Figlietti	

There was a brief break for coffee and treats from 7:15 p.m. to 7:28 p.m.

PUBLIC COMMENTS

Mayor del Rosario opened the public comment period at 7:28 p.m. and seeing no one come forward to speak, she closed the public comment period.

CONSENT CALENDAR

1. Motion to Accept the Minutes from the August 28, 2019 Regular Meeting.
2. Motion to Accept Report of Checks Paid for August 2019.
3. Motion to Adopt a Resolution Authorizing the City Manager to Execute a Radio Replacement and Maintenance Agreement with Telecommunications Engineering Associates (TEA).
4. Motion Accepting the Fiscal Year 2018-19 Annual Investment Report Through June 30, 2019.

Action: Council Member Colvin moved to approve the Consent Calendar items #1 through #4; the motion was seconded by Vice Mayor Goodwin and carried by the following vote:

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

NEW BUSINESS

5. **FY 2019-20 NON-PROFIT FUNDING**

City Attorney Christopher Diaz reminded Council to please note for the record if they were a member of any of the non-profit organizations being considered. City Manager Brian Dossey presented the staff report.

Mayor del Rosario opened the public comment period at 7:36 p.m. Council discussion occurred throughout the public comment. The following people spoke:

Chris Sturken, HIP Housing
Pat Bohm, Daly City Partnership, Operation Santa Claus
Adrienne Tissier, Daly City Public Library Associates
Dan Schmidt, Daly City Youth Health Center
Lisa Grey and Ernest Felix, Wilderness School
Sandie Arnott, North Peninsula Food Pantry and Dining Center of Daly City
Bernie Mellott, Ombudsman Services SMC
Ivon Hernandez and Chris Sturken, San Mateo County Pride Center
Christine Kohl-Zaugg, Sustainable San Mateo County
Jennifer Bearss and Eva Jimenez, West Bay Alano
Georgette Sarles, Colma-Daly City Chamber of Commerce

Mayor del Rosario closed the public comment period at 8:58 p.m. Council discussion occurred throughout the public comment and continued following it. Council requested that West Bay Alano's grant funds be contingent on the organization providing the Town with their missing IRS 501(c)3 letter, and that the Chamber of Commerce receive their funding quarterly, contingent upon meeting quarterly benchmarks set by the Town. Council also gave direction to staff to adhere firmly to deadlines in the next grant cycle and notify organizations that applications received after the deadline will not be considered.

Council also made several changes to the staff recommended funding amounts, which are marked in red below:

Grantee	Staff Proposed	Council Approved
Clinic by the Bay	$3,000	$3,500
Colma - Daly City Chamber of Commerce	$25,000	$25,000
Community Gatepath	$6,500	$6,500
CORA	$2,500	$3,000
Daly City Peninsula Partnership Collaborative	$15,000	$15,000
Daly City Public Library Associates	$4,000	$5,000
Daly City Youth Health Center	$6,000	$6,000
Human Investment Project (HIP Housing)	$5,000	$5,000
Jefferson Union School District (Wilderness School)	$5,000	$6,000
LifeMoves	$4,000	$4,000
North Peninsula Food Pantry & Dining Center of Daly City	$12,500	$15,000
Ombudsman Services SMC	$2,000	$2,000
Operation Santa Claus	$1,000	$1,000
Peninsula Conflict Resolution Center (PCRC)	$1,378.65	$1,380

Grantee	Staff Proposed	Council Approved
SMC Community College Foundation (Skyline College President's Innovation Fund)	$3,500	$3,500
SMC Jobs for Youth	$2,000	$2,500
SMC Pride Center	$2,500	$3,000
Sitike Counseling Center	$6,500	$6,500
Sustainable San Mateo County	$3,500	$2,500
Veterans Sportsman Alliance (VSA)	$1,200	$1,200
West Bay Alano Club	$0	$2,500
TOTALS	**$112,078.65**	**$120,080**

Action: Council Member Gonzalez 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 Fisicaro and carried by the following vote:

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

STUDY SESSION

6. MOBILE FOOD VENDING ORDINANCE

City Planner Michael Laughlin presented the staff report. Mayor del Rosario opened the public hearing at 9:12 p.m. Business owner Griselda Gonzalez and President of the Colma-Daly City Chamber of Commerce Georgette Sarles made comments. The Mayor closed the public comment period at 9:16 p.m. Council discussion followed.

This item was for discussion only; no action was taken.

COUNCIL CALENDARING

The next Regular Council Meeting will be on Wednesday, September 25, 2019 at 7:00pm at Town Hall.

REPORTS

Joanne del Rosario

Business to Consumers Event, 9/7/19
Town Picnic, 9/7/18

John Goodwin

Town Picnic, 9/7/18

Helen Fisicaro

Town Picnic, 9/7/18

Rae Gonzalez

Silicon Valley Leadership Group Women's Celebration, 8/26/19
Town Picnic, 9/7/18

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

- There will be an Active Shooter Training on Friday, September 13, 2019 at 5:30 p.m.
- The new C.A.P.E. classes will begin Thursday, September 19, 2019.
- There will be a compost giveaway September 24-October 1 and an e-waste recycling and secure shredding event on October 5, 2019.

ADJOURNMENT

Mayor del Rosario adjourned the meeting at 9:32 p.m. in memory of Thomas James O'Brien, father of longtime Town employee Jeanne O'Brien.

Respectfully submitted,

Caitlin Corley
City Clerk

STAFF REPORT

TO: Mayor and Members of the City Council

FROM: Brian Dossey, City Manager

MEETING DATE: September 25, 2019

SUBJECT: Grand Jury Response to Soaring Pension Costs – Follow Up

RECOMMENDATION

Staff recommends that the City Council make the following motion:

> MOTION APPROVING THE TOWN'S RESPONSE TO THE GRAND JURY REPORT DATED JULY 29, 2019, REGARDING "SOARING PENSION COSTS – FOLLOW-UP ON GRAND JURY REPORT OF 2017-2018."

EXECUTIVE SUMMARY

The City Council is required under California penal code section 933.05 to respond to the Grand Jury Report. The draft response letter is attached as Attachment B.

FISCAL IMPACT

There are no fiscal implications associated with the approval of the Town's response to the Grand Jury report.

Background

The County Grand Jury is a volunteer body of 19 citizens, selected at random from a pool of nominees, to investigate local governmental agencies and make recommendations to improve the efficiency of local government. The July 29, 2019 Follow Up Grand Jury report contains findings and recommendations on a number of subjects that are applicable to agencies in San Mateo County. The Presiding Judge of the County Superior Court has formally requested that the Town review the report and file a written response indicating the following:

- For the "findings", the Town was to 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, for each Grand Jury "recommendation", the Town was requested to 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.

- The response was approved by your governing body at a public meeting.

ANALYSIS

Grand Jury Findings

The proposed July 29, 2019 Grand Jury response, which includes the Grand Jury's findings and recommendations, is attached as Attachment B.

Council Adopted Values

Approving the Town's Grand Jury response is in the responsible action; reviewing the Town's pension costs is in the best interest of the Town, residents and community at large.

CONCLUSION

Staff recommends that the City Council approve, by motion, the Town's proposed response to the July 29, 2019 Grand Jury report regarding "Soaring City Pension Costs – Follow-up on Grand Jury Report of 2017-2018."

ATTACHMENTS

A. July 29, 2019 Grand Jury Report "Soaring City Pension Costs – Follow-up on Grand Jury Report of 2017-2018.
B. Town's draft response letter for July 29, 2019 Grand Jury Report
C. July 17, 2018 Grand Jury Report – "Soaring City Pension Costs – Time for Hard Choices."
D. Town's response letter for July 17, 2018 Grand Jury Report

Attachment A

Superior Court of California, County of San Mateo
Hall of Justice and Records
400 County Center
Redwood City, CA 94063-1655

NEAL TANIGUCHI
COURT EXECUTIVE OFFICER
CLERK & JURY COMMISSIONER

(650) 261-5066
FAX (650) 261-5147
www.sanmateocourt.org

July 29, 2019

Town Council
Town of Colma
1198 El Camino Real
Colma, CA 94014

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

Dear Councilmembers:

The 2018-2019 Grand Jury filed a report on July 29, 2019 which contains findings and recommendations pertaining to your agency. Your agency must submit comments, within 90 days, to the Hon. Donald J. Ayoob. Your agency's response is due no later than October 28, 2019. **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 Ayoob.**

Hon. Donald J. Ayoob
Judge of the Superior Court
c/o Charlene Kresevich
Hall of Justice
400 County Center; 2nd 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. (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,

Neal Taniguchi

Neal Taniguchi
Court Executive Officer

NT:ck
Enclosure

cc: Hon. Donald J. Ayoob
Paul Okada

Information Copy: City Manager

SOARING CITY PENSION COSTS – FOLLOW-UP ON GRAND JURY REPORT OF 2017-2018

Table of Contents | Issue | Summary | Background | Discussion | Findings | Recommendations
Requests for Responses | Methodology | Appendixes | Bibliography | Responses

Table of Contents

ISSUE

One year after the Grand Jury's 2017-2018 report on soaring pension costs, what are San Mateo County's cities doing to manage them and to make better information available to the public about the impact of pension costs on long-term financial plans?

SUMMARY

The 2017-18 San Mateo County Civil Grand Jury issued a report in June 2018 entitled "*Soaring City Pension Costs – Time for Hard Choices*." It can be viewed at: www.sanmateocourt.org/documents/grand_jury/2017/city_pension.pdf .

In the current report, the 2018-19 Grand Jury updates financial data on pensions for each city in San Mateo County, including the data in Appendix A relating to their pension costs during the four-year period from FY 2014-15 through FY 2017-18. The Grand Jury also reports on the steps, if any, currently being taken by each city to reduce, otherwise better manage, and/or plan for their long-term pension costs. It identifies whether the cities have implemented the Grand Jury's recommendation in the prior report that they develop long-term financial plans to address their pension liabilities and publish readily-accessible information on their websites about future pension costs and their long-term financial plans.

The 2018-19 Grand Jury finds that while projected pension cost information can now be found on the websites of almost all of the 20 cities, only a few include that information in their annual budgets. As a result, members of the public who may be interested in these data are forced to hunt for them through manual searches of those cities' numerous online city council meeting agenda packages looking for references to pensions. While the Grand Jury finds it commendable that almost half of the 20 cities now publish ten-year instead of five-year financial forecasts (and some of these cities only started generating ten-year forecasts this year), a minority of these cities still choose not to include these forecasts in their annual budgets. As a result, persons wishing to understand those cities' long-term pension situations must search through online city council agenda packages to find forecasts. Some cities with five-year forecasts also do not include them in their annual budgets. (For specifics on city financial forecasts, see Appendix B.)

The Grand Jury is persuaded that, in the interests of transparency, all of the cities should make it easy for their residents to see what their city's projected pension costs are over at least a ten year period, together with a ten-year general fund financial forecast so that the public can compare these rising pension costs against their city's overall financial situation. In order to make that information readily-accessible to the public, the Grand Jury recommends that this information be set forth in the cities' annual budgets, making it unnecessary for the public to search through council meeting agendas looking for it.

BACKGROUND

The 2017-18 San Mateo County Civil Grand Jury issued a report in June 2018 entitled "*Soaring City Pension Costs – Time for Hard Choices*." The report received substantial press coverage,[1] and the 2018-19 Grand Jury decided to update the financial data in the report and conduct a follow-up investigation to identify what progress has been made to address the issues raised in the prior report.

The 2017-18 report provided a detailed analysis of the local government employee pension system and the factors affecting its financial health. It provided key statistics on the recent (FY 2014-15 through FY 2016-17) and projected future pension costs of each city in San Mateo County (each referred to here as a "City" and collectively as the "Cities"). The report found that most Cities' pension costs would likely double within the next seven to ten years, posing a serious threat to their ability to continue to deliver public services at current levels. The report outlined the alternatives available to meet these costs and recommended that the Cities develop long-term financial plans for how to address the coming crisis of pension payments. Analyses in the 2017-18 report are not repeated in this new report and the reader is encouraged to read the prior report first, in order to fully understand this update. A brief summary of the report's key findings follows.

Each City provides its employees with a defined-benefit pension plan[2] administered by the California Public Employees Retirement System ("CalPERS"). These plans are funded by Normal Cost[3] contributions[4] to CalPERS from both the Cities and the employees themselves. CalPERS, in turn, invests these contributions in a portfolio of assets. CalPERS relies on a Return on Investment[5] (ROI) from this portfolio for about 61 percent of the funds needed to pay the pension benefits promised to retired City employees. CalPERS' current ROI expectation over the long-term is an annual return of seven percent.[6]

In the event that the projected cost of benefits increases unexpectedly, or CalPERS' ROI falls short of projections, the pension plans will have Unfunded Liabilities.[7] The Cities, rather than CalPERS, are responsible for paying off Unfunded Liabilities through payments to CalPERS of their Amortization Cost[8] of principal and interest on the Unfunded Liabilities. Both Normal Cost and Amortization Cost contributions are legal obligations that the Cities have to CalPERS and are not discretionary spending.

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[1] Bradshaw, Kate, "Grand jury urges county cities to prepare for crushing pension costs," The Almanac, July 31, 2018. Walsh, Austin, "Study: Cost of pensions dangerous," San Mateo Daily Journal, July 18, 2018. Climate Magazine, "Wiping Out on the California Pension Wave" March 2019.

[2] Defined pension benefit plans are described on page 4 of the prior report.

[3] "Normal Cost" is defined on page 3 of the prior report.

[4] The terms "contributions" and "pension contribution costs" as used in this report and in the prior report refer to payments to CalPERS of pension costs, including both Normal Costs and Amortization Costs.

[5] All capitalized terms used in this report that are not defined have the definitions given to them in the prior report.

[6] SFGate, "CalPERS lowers projected return on investment," December 22, 2016.

[7] "Unfunded Liability" is defined on page 4 of the prior report.

[8] "Amortization Cost" is defined on page 2 of the prior report.

Due in large part to unduly optimistic assumptions CalPERS made in the past about long-term rates of return it could achieve, almost all of the Cities have large Unfunded Liabilities, with an average Funded Percentage[9] of just 70.5 percent in FY 2016-17, well below the 80 percent "at risk" threshold.[10] Further, average annual pension payments by the Cities were projected to increase by 92.6 percent between FY 2017-18 and FY 2024-25. According to some financial experts, CalPERS' assumptions about ROI appear to remain optimistic, implying that future pension liabilities may be even larger than currently projected.[11]

The 2017-18 Grand Jury recommended that Cities develop long-term financial plans to address their pension liabilities and publish readily-accessible information on their websites about future pension costs and their long-term financial plans. The Grand Jury did not recommend what specific actions the Cities should take to plan for meeting their pension obligations but did outline a number of alternatives. Broadly, these fall into three categories: (1) *reducing* future pension payments to CalPERS by paying down the Unfunded Liabilities early, thereby saving interest costs; (2) *managing* future pension payments to CalPERS by methods such as contributions to a reserve, negotiating cost-sharing arrangements with employees, and keeping employee salary increases within the rate assumed by CalPERS; and (3) *adapting* to future pension payment increases by reducing municipal operating costs and/or seeking revenue enhancements.

DISCUSSION

Updated Pension Data from Cities' FY 2017-18 Financial Reports

Appendix A to this report is an updated version of the Appendix A attached to the prior report. The updated Appendix A incorporates pension cost data from each City for FY 2017-18, the most recent year for which annual financial reports (usually referred to in this report as "CAFRs" for "Comprehensive Annual Financial Report")[12] from the Cities are available. This updated Appendix A provides data from each of the 20 Cities for the four-year period from FY 2014-15 through FY 2017-18.

Data for FY 2017-18 in Appendix A show continued increases in (i) the Cities' pension contribution costs, averaging an increase of 15.2 percent over FY 2016-17, and (ii) the amount of the Cities' Unfunded Liabilities, averaging an increase of 14.2 percent over FY 2016-17. These increases are generally consistent with projections described in the prior report.

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[9] "Funded Percentage" is defined on page 3 of the prior report.
[10] See discussion in prior report of "at risk" threshold (page 16).
[11] See discussion of expert concerns that CalPERS' return on investment projections may be too optimistic at pages 8-9 of the prior report.
[12] The term "CAFR" is used in this report to refer, not only to "Comprehensive Annual Financial Reports," but also to "Basic Financial Statements" and "Annual Financial Reports." The audited annual financial reports for the Towns of Atherton, Colma, Portola Valley, and Woodside are referred to by them as either "Basic Financial Statements" or "Annual Financial Reports."

The 2018-19 Grand Jury hopes that the data in this updated Appendix A can serve as a reference for members of the public who wish to understand the pension costs being paid by their City, without having to sift through financial reports, operating budgets and city council agenda packages online to find and assemble the data themselves. It also serves as a helpful basis for comparing each City's pension cost situation against other Cities.

Reports on Steps Taken by Each City to Address Pension Costs and Enhance the Availability of Public Information About Pension Costs

Set forth below as to each City is (1) additional information summarizing its projected, future pension costs (see, "Pension Contribution Costs"), (2) a brief overview of its financial condition (see, "Financial Overview"), (3) a summary of its available general fund reserves that might in the future help to absorb fiscal strains from rising costs or slowing revenue growth (see, "General Fund Reserves"), (4) specific actions that it might consider in order to better meet its future pension obligations (see, "Additional Payments to CalPERS," "Pension Reserve Fund," "Employee Contribution to City's Normal Cost," "Revenue Enhancement," and "Pension Obligation Bonds"), and (5) the extent to which the City has and makes accessible to the public information about its projected pension costs ("Pension Contribution Costs") and projected financial forecasts ("Long-Term Financial Forecast"). Some of this information is also summarized in Appendix B to this report in order to facilitate a side-by-side comparison of the Cities.

The reports on individual Cities show that seven Cities[13] are making, or plan to make, additional payments to CalPERS beyond their Annual Required Contribution[14] in order to reduce their total pension payments. Cities taking steps to better manage rising pension costs include (1) fourteen Cities that have established, or are currently planning to establish and fund, special funds/reserves to help buffer the impact of future increases in pension obligations and/or shortfalls in projected revenues, whether as a result of a recession, natural disaster, or otherwise,[15] (2) eleven Cities have reduced, or are planning to reduce, the pension costs they would otherwise owe through cost-sharing agreements with their employees under which those employees pay a portion of the Cities' pension costs,[16] nine Cities have since 2016 have sought and obtained voter approval for ballot

[13] The Cities are Belmont, Colma, Foster City, Menlo Park, Redwood City, San Carlos, and San Mateo. (See, discussions of those specific Cities in sections for each of them below entitled "Additional Payments to CalPERS" and also Appendix B.)

[14] Annual Required Contribution (ARC) means the sum of a municipality's 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>.

[15] The Cities are Brisbane, Burlingame, Colma, Daly City, Foster City, Half Moon Bay, Hillsborough, Menlo Park, Pacifica, Portola Valley, Redwood City, San Carlos, South San Francisco and Woodside. (See, discussions of those specific Cities in sections for each of them below entitled "Pension Reserve Fund" and also Appendix B.)

[16] The Cities are Atherton, Belmont, Burlingame, Foster City, Hillsborough, Menlo Park, Millbrae, Pacifica, Redwood City, San Mateo and South San Francisco. (See, discussions of those specific Cities in sections for each of them below entitled "Employee Contribution to City's Normal Cost" and also Appendix B.)

measures intended to increase revenues,[17] and four Cities are concurrently considering seeking approval of their voters for revenue enhancement measures in the near term.[18]

Two Cities have not yet put in place either (a) a plan to make additional payments to CalPERS beyond their Annual Required Contribution in the near term in order to reduce their long-term pension costs, (b) a plan to set aside money in a separate fund/reserve to help pay future pension costs, or (c) long-term general fund financial forecasts to help in budget planning.[19] One additional City also does not currently make long-term general fund financial forecasts.[20]

Of the seventeen[21] Cities that prepare long-term general fund financial forecasts of at least five years, six[22] do not publish those forecasts in their readily-accessible annual budgets or annual financial statements, requiring members of the public who are looking for long-term forecasts to manually search through City Council meeting agendas online looking for reports that contain such data, and eight[23] only prepare five-year forecasts rather than the ten-year forecasts recommended by the Grand Jury.

While all but three[24] of the Cities have either generated, or retained consultants to generate for them, long-term projections of their future pension costs, only five of them[25] publish those forecasted pension costs in their readily-accessible annual budget or financial reports, requiring members of the public who are looking for such projections to manually search through City Council meeting agendas online looking for reports that contain such data.

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[17] The Cities are Belmont, Brisbane, Burlingame, Colma, Daly City, East Palo Alto, Foster City, Redwood City, and South San Francisco. (See, discussions of those specific Cities in sections for each of them below entitled "Revenue Enhancement" and also Appendix B.)

[18] The Cities are Half Moon Bay, Pacifica, Redwood City and San Bruno. (See, discussions of those specific Cities in sections for each of them below entitled "Revenue Enhancement" and also Appendix B.)

[19] The Cities are East Palo Alto and Millbrae. (See, discussions of those specific Cities in sections for each of them below entitled "Additional Payments to CalPERS," "Pension Reserve Fund," "Long-Term Financial Forecast" and also Appendix B.) However, East Palo Alto's City Council has instructed staff to prepare a long-term, general fund operating plan going out to the end of FY 2025-26 and staff is in the process of preparing such a plan. Staff's objective is to complete such a plan by October 2019. (See, section on East Palo Alto's "Long-Term Financial Forecast" below.) Millbrae also reports that it is in the process of developing a ten-year general fund financial forecast and expects to have one sometime in FY 2019-20. (See, section on Millbrae's "Long-Term Financial Forecast" below.)

[20] This City is Portola Valley. (See, section on Portola Valley's "Long-Term Financial Forecast" below.)

[21] The Cities are Atherton, Belmont, Brisbane, Burlingame, Colma, Daly City, Foster City, Half Moon Bay, Hillsborough, Menlo Park, Pacifica, Redwood City, San Bruno, San Carlos, San Mateo, South San Francisco and Woodside. (See, sections on these Cities' "Long-Term Financial Forecast" below.)

[22] The Cities are Atherton, Brisbane, Burlingame, Daly City, Pacifica, and South San Francisco. (See, sections on these Cities' "Long-Term Financial Forecast" below.)

[23] These Cities are Atherton, Belmont, Brisbane, Burlingame, Foster City, Half Moon Bay, San Bruno and San Carlos. (See, sections on these Cities' "Long-Term Financial Forecast" below.)

[24] These Cities are Atherton, Brisbane, and Portola Valley. (See, sections on these Cities' "Pension Contribution Costs" below.)

[25] These Cities are Colma, Daly City, Foster City, Hillsborough, and Redwood City. (See, sections on these Cities' "Pension Contribution Costs" below.)

Finally, the Grand Jury commends the following Cities for the actions to increase transparency and/or reduce long-term pension contribution costs described below:

- Colma, Daly City, Foster City, Hillsborough for their decisions to incorporate pension contribution cost projections in their most recent annual budgets. They had not included such projections in their prior budgets.[26]

- Redwood City and Woodside for their decisions to extend their general fund forecast periods from five years to ten years.[27]

- Redwood City for recently adding a "Fiscal Update" page to its public website (www.redwoodcity.org/fiscalupdate) that the Grand Jury finds to quite helpful to access key information about Redwood City's most recent budget.[28]

- Foster City for the unusual depth of information and analysis provided in the five-year general fund operating forecast contained in its most recent FY 2019-20 budget.[29]

- Belmont, Colma, Foster City, Menlo Park, Portola Valley, Redwood City, San Carlos, and San Mateo, for having made, or currently having specific plans to make, additional pension contribution payments to CalPERS beyond their Annual Required Contribution, thus actually reducing their long-term pension contribution costs.[30]

Atherton

Pension Contribution Costs - Atherton

Atherton's pension contribution costs in FY 2017-18 were $1.29 million (up from $1.16 million in FY 2016-17).[31] The Town's FY 2017-18 pension contribution costs represented 27.7 percent of that year's covered payroll[32] (up from 26.7 percent the preceding year) and 10.7 percent of its total general fund spending (up from 10.1 percent the preceding year).[33]

The Town projects its pension contribution costs will increase above FY 2017-18 by $1.86 million (144.1 percent) to $3.15 million by FY 2023-24.[34] The Town does not have any projections beyond FY 2023-24.[35]

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[26] See, sections on these Cities' "Pension Contribution Costs" and Appendix B below.
[27] See, sections on these Cities' "Long-Term Financial Forecast" and Appendix B below.
[28] See, sections on Redwood City's "Long-Term Financial Forecast" and Appendix B below.
[29] Foster City, Preliminary Budget for Fiscal Year 2019-2020, pp. 55-94.
[30] See, sections on these Cities' "Additional Payments to CalPERS" and Appendix B below.
[31] Appendix A.
[32] "Covered payroll" refers to pay received by those employees who participate in a City's CalPERS pension plan.
[33] Appendix A.
[34] Email from Atherton, dated June 20, 2019.
[35] Grand Jury interview.

Financial Overview – Atherton

Atherton describes its fiscal condition as "positive."[36] It had general fund surpluses of $3.87 million and $4.58 million in each of FY 2016-17 and FY 2017-18, respectively.[37] It projects that it will accrue another $22.93 million in surpluses during the six year period from FY 2018-19 through FY 2023-24,[38] which represents an annual average surplus of $3.82 million.

Per its reserve policies, Atherton maintains general fund reserves equal to 15 percent of its general fund expenditures for emergency contingencies and additional 20 percent of expenditures for budget stabilization.[39]

Through the end of FY 2017-18, Atherton accumulated an unassigned general fund balance of $14.86 million,[40] which the Town projects will grow to $18.49 million by the end of FY 2019-20.[41] Atherton plans to invest this unassigned balance on a new Civic Center.[42]

Additional Payments to CalPERS - Atherton

Atherton does not currently have plans to make additional payments to CalPERS beyond its Annual Required Contribution. It re-evaluates this option each year when it reviews its annual June 30 CalPERS actuarial valuation reports.[43]

Pension Reserve Fund - Atherton

Atherton approved setting up a Section 115 Trust for future pension costs in November 2018 but has not funded the trust. The Town has no plan to fund the trust in FY 2019-20. It expects to re-evaluate its decision not to fund the trust each year when it reviews its annual June 30 CalPERS actuarial valuation reports.[44]

Employee Contribution to City's Normal Cost - Atherton

Prior to FY 2012-13, Atherton paid 100 percent of its employees' pension contribution costs. That year, in order to reduce expenses, it negotiated a change with employees under which the Town stopped funding any portion of its employees' pension costs.[45]

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[36] Atherton, Staff Report for City Council Meeting on June 5, 2019 re: Review of the FY 2019/20 Town Budget, p. 2.
[37] Atherton, Basic Financial Statements for the Year Ended June 30, 2017, p. 26. Atherton, Basic Financial Statements for the Year Ended June 30, 2018, p. 26.
[38] Atherton, Staff Report for City Council Meeting on March 6, 2019 re: FY 2019/20 Budget Kick-Off and Overview, pp. 4-6.
[39] See, section below entitled "General Fund Reserves – Atherton."
[40] Atherton, Basic Financial Statements for the Year Ended June 30, 2018, p. 58.
[41] Atherton, Staff Report for City Council Meeting on June 5, 2019 re: Review of the FY 2019/20 Town Budget, General Fund 101 Revenue & Expenditures Summary, p. 20.
[42] Atherton, Staff Report for City Council Meeting on March 6, 2019 re: FY 2019/20 Budget Kick-Off and Overview, p. 7.
[43] Grand Jury interview.
[44] Ibid.
[45] Ibid.

In FY 2018-19, Atherton entered into an agreement with employees under which employees agreed to pay a portion of the Town's pension contribution costs (one percent of salary for employees under Miscellaneous plans and three percent of salary for employees under Safety plans).[46]

Revenue Enhancement - Atherton

Since 2016 Atherton has not put any ballot initiatives before its voters for the purpose of revenue enhancement and it does not currently have plans to do so in the future.[47]

Pension Obligation Bonds - Atherton

Atherton does not have any outstanding pension obligation bonds.[48]

General Fund Reserves - Atherton

Atherton's unassigned general fund balance at the end of FY 2017-18 was $14.86 million, representing 123.1 percent of general fund expenditures of $12.07 million that year,[49] far in excess of its policy minimum of 20 percent of such expenditures.[50] The Town projects that its unassigned general fund balance will grow to $15.58 million in FY 2018-19[51] (representing 110.6 percent of general fund expenditures of $14.09 million)[52] and to $18.49 million in FY 2019-20 (representing 126.7 percent of general fund expenditures).[53] The Town expects to spend its unallocated general fund balance on a capital improvement project for a new Civic Center,[54] which it describes as its "biggest capital project in recent memory."[55]

In addition to its unassigned general fund balance, Atherton's policy is to set aside another 15 percent of total general fund operating expenses for emergency contingencies.[56] At the end of FY 2017-18, the Town had committed $1.81 million to this reserve[57] (representing 15 percent of its $12.07 million in expenditures[58]). Per the 15 percent policy, this

46 Ibid.
47 Ibid.
48 Ibid.
49 Atherton, Basic Financial Statements for the Year Ended June 30, 2018, pp. 22 & 26.
50 Ibid., p. 58.
51 Atherton, Staff Report for City Council Meeting on March 6, 2019 re: FY 2019/20 Budget Kick-Off and Overview, p. 2.
52 Atherton, Fiscal Year 2018/19 Operating & Capital Improvement Budget, General Fund 101 Revenue & Expenditures Summary, p. 35.
53 Atherton, Staff Report for City Council Meeting on June 5, 2019 re: Review of the FY 2019/20 Town Budget, General Fund 101 Revenue & Expenditures Summary, p. 20.
54 Atherton, Staff Report for City Council Meeting on March 6, 2019 re: FY 2019/20 Budget Kick-Off and Overview, p. 7.
55 Atherton, Basic Financial Statements for the Year Ended June 30, 2018, p. 15.
56 Ibid., p. 58.
57 Ibid., p. 58.
58 Ibid., p. 26.

emergency contingency reserve is projected to increase to $2.11 million at the end of FY 2018-19[59] and to $2.19 million at the end of FY 2019-20.[60]

Atherton has also established a policy to have a "budget stabilization reserve" equal to 20 percent of general fund expenditures. This too is in addition to the unassigned general fund budget. Per this 20 percent policy, the budget stabilization reserve is projected to hold $2.82 million at the end of FY 2018-19[61] and $2.92 million at the end of FY 2019-20.[62]

Long-Term Financial Forecast – Atherton

Atherton has a long-term general fund financial forecast covering the five years from FY 2019-20 through FY 2023-24.[63] The forecast is not included in the Town's FY 2017-18 CAFR or its FY 2018-19 budget[64] In order to find Atherton's long-term financial forecast online, it is necessary to manually search online City Council agendas at www.ci.atherton.ca.us/Archive.aspx?AMID=41 (last accessed on May 29, 2019). That search will eventually lead to the agenda for the City Council's meeting on March 6, 2019[65] which includes a link entitled "2. FY 2019/20 Budget Kick-Off and Overview." That link leads to a staff report for the March 6, 2019 meeting that includes the Town's five-year long-term financial forecast.[66]

Belmont

Pension Contribution Costs – Belmont

Belmont's pension contribution costs in FY 2017-18 were $3.93 million, up $0.345 million (9.6 percent) from $3.58 million in FY 2016-17.[67] The City's FY 2017-18 pension contribution costs represented 24.9 percent of that year's covered payroll (up from 23.6 percent the preceding year) and 20.2 percent of its total general fund spending (up from 19.5 percent the preceding year).[68]

The City's actuarial consultant – GovInvest - projects that Belmont's pension contribution costs will increase above FY 2017-18 costs by $1.43 million (36.4 percent) to $5.36

[59] Atherton, Staff Report for City Council Meeting on March 6, 2019 re: FY 2019/20 Budget Kick-Off and Overview, p. 2.
[60] Atherton, Staff Report for City Council Meeting on June 5, 2019 re: Review of the FY 2019/20 Town Budget, p. 20.
[61] Atherton, Staff Report for City Council Meeting on March 6, 2019 re: FY 2019/20 Budget Kick-Off and Overview, p. 2.
[62] Atherton, Staff Report for City Council Meeting on June 5, 2019 re: Review of the FY 2019/20 Town Budget, p. 20.
[63] Atherton, Staff Report for City Council Meeting on March 6, 2019 re: FY 2019/20 Budget Kick-Off and Overview, pp. 4-6.
[64] Atherton, Basic Financial Statements for the Year Ended June 30, 2018. Atherton, Fiscal Year 2018/19 Operating & Capital Improvement Budget.
[65] The March 6, 2019 City Council meeting agenda may be found at www.ci.atherton.ca.us/Archive.aspx?ADID=3112 (Last accessed May 29, 2019.)
[66] Atherton, Staff Report for City Council Meeting on March 6, 2019 re: FY 2019/20 Budget Kick-Off and Overview, pp. 4-6.
[67] Appendix A.
[68] Ibid.

million by FY 2023-24 and by an additional $0.643 million (12 percent) to $6 million by FY 2027-28.[69]

Belmont's projected, annual pension contribution costs are not included in its published FY 2018-19 budget, or its FY 2019-20 budget.[70] In order to find these projected costs online, it is necessary to manually search through City Council meeting agenda packages, which can be accessed at the following website: https://www.belmont.gov/our-city/city-government/meetings-agendas-minutes. (Last accessed on May 11, 2019.) That search would eventually lead to the June 12, 2018 agenda for a meeting of the Belmont City Council[71] which refers to a discussion of "CalPERS Unfunded Accrued Liability (UAL) Funding Options" and provides a link to a June 12, 2018 GovInvest presentation, which includes a graph showing contribution projections through FY 2048-49 on page 5.[72]

Financial Overview – Belmont

Belmont reports that it was in a financial "survival mode" following the 2008 recession, but that its finances have now "steadied … at least in the near-term."[73] In addition to "massive exposure from deferring infrastructure improvements,"[74] the City states that its financial health is currently subject to two additional pressures. The first is rising CalPERS pension costs and the second is "the high likelihood of experiencing a mild recession in the mid-term."[75] The City's primary budget focus at present is funding the repair of its infrastructure.[76]

Additional Payments to CalPERS – Belmont

Over the six-year period from FY 2017-18 through FY 2022-23, Belmont plans to make additional payments to CalPERS beyond the Annual Required Contribution for a total of $3.65 million (approximately $0.609 million per year). The City estimates that these additional payments will result in long-term net savings of $4.67 million.[77]

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[69] Belmont, GovInvest, City of Belmont Pension Funding Analysis dated June 12, 2018, p. 5. GovInvest's contribution projections run through 2049.

[70] Belmont FY 2019 Budget. Belmont FY 2020 Budget. Note, however, that at page 15 of the Budget Brief section of the FY 2020 Budget, the City does (1) show projected increases in the CalPERS contribution "rates" (i.e., the percentages of covered payroll represented by CalPERS pension contribution costs) and (2) state that Safety Plan and Miscellaneous Plan contribution cost increases from FY 2020 to FY 2024 were projected to be $0.034 million and $0.148 million, respectively.

[71] Belmont's June 12, 2018 City Council meeting agenda may be found at- https://ca.granicus.com/GeneratedAgendaViewer.php?view_id=2&event_id=563 (Last accessed on May 11, 2019.)

[72] Belmont, GovInvest, City of Belmont Pension Funding Analysis dated June 12, 2018.

[73] Belmont, FY 2019 Budget, p. 1 of FY 2019 Budget Brief.

[74] Ibid, p. 1 of FY 2019 Budget Brief.

[75] Ibid, p. 1 of FY 2019 Budget Brief.

[76] Ibid, pp. 2 & 4-5 of FY 2019 Budget Brief.

[77] Grand Jury interview. Belmont, GovInvest, City of Belmont Pension Funding Analysis dated November 27, 2018, p. 8. Net savings are the result of subtracting total additional payments of $3.65 million from total (not net) savings of $8.32 million.

Pension Reserve Fund – Belmont

Belmont does not currently have plans to establish an internal pension reserve fund, nor a Section 115 Trust.[78] Instead, it has decided to make additional payments to CalPERS beyond its Annual Required Contribution (as described above in section entitled "Additional Payments to CalPERS – Belmont", because doing so actually reduced overall pension costs while merely setting aside funds for future payment obligations does not.[79]

Employee Contribution to City's Normal Cost – Belmont

Belmont has cost-sharing agreements in place with employees in Miscellaneous Plans[80] and Safety Plans[81] under which those employees pay a portion of the City's pension costs.[82]

Revenue Enhancement – Belmont

Belmont residents approved a one-half cent sales tax in November 2016 (Measure I), which was projected to generate approximately $1.3 million per year initially.[83] Measure I revenues are all allocated to infrastructure projects.[84] In November, 2018 Belmont residents approved Measure KK, which increased the City's transient occupancy tax ("Hotel tax") rate from ten percent to twelve percent. Measure KK is projected to bring in an additional $0.560 million in unrestricted general fund revenues annually. The City Council has adopted "Top Priorities" as part of its FY 2020 Strategic Planning effort, which include, in part, the following: "Secure on-going funding for Sewer, Storm, Streets, Facilities and Parks to address deferred maintenance and future capital needs along with a plan to support critical public services …"[85]

Pension Obligation Bonds - Belmont

Belmont does not have any outstanding pension obligation bonds.[86]

General Fund Reserves – Belmont

Belmont's general fund unrestricted reserve as of the end of FY 2017-18 was $10.68 million, representing 54.9 percent of its $19.5 million in general fund operating expenditures that year.[87] Belmont's policy is to maintain a minimum reserve balance of $5

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78 Section 115 Trusts are irrevocable trusts where funds are deposited for the purpose of meeting future pension obligations. They are described on page 30 of the prior report.
79 Grand Jury interview.
80 "Miscellaneous Plans" are 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. (Prior report, Glossary, p. 3.)
81 "Safety Plans" are plans for public service employees who provide safety services such as police and fire protection. (Prior report, Glossary, p. 3.)
82 Grand Jury interview.
83 Ballotpedia, Local Ballot Measures, Belmont, California, Sales Tax Measure I (November 2016).
84 Grand Jury interview.
85 Email from Belmont, dated June 7, 2019.
86 Ibid.
87 Belmont, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, pp. 25 & 27.

million and it targets maintaining a balance equal to 33 percent of general fund operating expenditures.[88] The City projects that the general fund unrestricted reserve will remain well above this 33 percent target throughout the FY 2019-20 through FY 2023-24 period.[89]

Long-Term Financial Forecast – Belmont

Belmont's long-term financial forecast is based on a five-year forecast period.[90] The City incorporated its long-term financial forecast into its FY 2019 and FY 2020 budgets,[91] which are readily-accessible on the finance department home page of the City's website.[92]

Brisbane

Pension Contribution Costs - Brisbane

Brisbane's pension contribution costs in FY 2017-18 were $1.91 million, up $0.193 million (11.3 percent) from $1.71 million in FY 2016-17.[93] The City's FY 2017-18 pension contribution costs represented 23.5 percent of that year's covered payroll (up from 21.6 percent the preceding year) and 10.9 percent of its total general fund spending (down from 11.0 percent the preceding year).[94]

Brisbane projects its pension contribution costs will increase from FY 2017-18 by $1.63 million (85.5 percent) to $3.54 million by FY 2023-24.[95] The City has not made any pension cost projections beyond FY 2023-24.[96]

In addition to its contribution payments made to CalPERS, Brisbane also makes annual, installment payments on its 2006 pension obligation bonds (originally issued in the amount of $4.75 million) and on a 2013 Pension Side Fund Bank Loan (in the original principal amount of $1.61 million).[97] Brisbane paid a combined total of $0.794 million on the bonds and loan in FY 2017-18. These payments will decrease to $0.364 million in FY 2018-19. From FY 2018-19 through FY 2022-23 when the bonds and loan are fully paid off, the City will make average annual payments on the bonds and loan of approximately $0.389 million.[98] Taking bond and loan payments into account, the City's total payments on account of its pensions (CalPERS, bond and loan payments combined) were $2.7 million in

[88] Belmont, FY 2019 Budget, p. 6 of FY 2019 Budget Brief and p. 3 of Appendix.
[89] Email from Belmont, dated June 7, 2019. Belmont, FY 2020 Budget, p. 21 of Budget Brief; General Fund and Subsidized Funds Trends & Projections FY 2018 – FY 2024.
[90] Ibid, pp. 19-21 of Budget Brief; General Fund and Subsidized Funds Trends & Projections FY 2017 – FY 2023.
[91] Belmont FY 2019 Budget, pp. 19-21. Belmont, FY 2020 Budget, pp. 19-21 & 24.
[92] The finance department's home page on the Belmont website may be found at https://www.belmont.gov/departments/administrative-services/finance/budget. (Last accessed on May 9, 2019.)
[93] Appendix A.
[94] Ibid.
[95] Email from Brisbane dated May 21, 2019. Brisbane, CalPERS 2017 Public Agency Actuarial Valuation Reports for Miscellaneous First Tier, Miscellaneous Second Tier, PEPRA Miscellaneous, PEPRA Safety Fire, PEPRA Safety Police, Safety.
[96] Email from Brisbane, dated June 13, 2019.
[97] Brisbane, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2017, pp. 53-54.
[98] Ibid, pp. 53-54.

FY 2017-18 (representing 33.3 percent of that year's covered payroll of $8.11 million and 15.4 percent of that year's total general fund spending of $17.54 million.[99]

The City's projected pension contribution costs are not included in its FY 2017-18 CAFR, or in its budget for FY 2018-19 & 2019-20. The Grand Jury's review of Brisbane's City Council agenda packages from January 1, 2018 through June 1, 2019 yielded no documents that set forth the City's future, annual pension contribution costs over its five-year forecasting period. The Grand Jury obtained data on these annual costs through a direct document request made to the City.

Financial Overview – Brisbane

Brisbane notes that it has robust and growing revenues from its business base and staff is confident that projected revenues will be adequate to pay rising pension costs.[100]

Additional Payments to CalPERS - Brisbane

Brisbane does not currently have plans to make additional payments to CalPERS beyond its Annual Required Contribution. The City's Unfunded Liability is currently projected to be fully paid off within 20 years.[101] The City Council has determined that it would like to have this Unfunded Liability paid off sooner, if possible. Accordingly, staff suggested in April 2019 that the City's Administrative and Financial Policy Committee develop a policy related to the quicker funding of these liabilities over the next year.[102]

Pension Reserve Fund - Brisbane

Brisbane has established a Section 115 Trust to help pay for any unexpected increases in its pension payment obligations. The City initially contributed $0.12 million to the trust. By the end of FY 2018-19, the City plans to have contributed an additional $0.8 million to the trust, bringing total contributions to $0.92 million.[103] The City's policy is to contribute 50 percent of any unanticipated general fund surpluses to this trust.[104] Staff is bringing to the City Council a proposal to fund the trust with sufficient funds to cover two years of unfunded liability amortization costs (approximately $5 million) within the next four years and to set aside up to $1 million per year for this purpose.[105]

Employee Contribution to City's Normal Cost - Brisbane

Brisbane's employees do not pay any portion of the City's pension costs.[106]

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99 Appendix A.
100 Grand Jury interview.
101 Email from Brisbane, dated June 13, 2019.
102 Brisbane, City Council Agenda Report for City Council Meeting on April 18, 2019 re: Mid-Year Budget Report, p. 2.
103 Grand Jury interview.
104 Email from Brisbane, dated June 13, 2019. Brisbane, City Council Agenda Report for City Council Meeting on April 18, 2019 re: Mid-Year Budget Report, p. 2.
105 Email from Brisbane, dated June 13, 2019.
106 Grand Jury interview.

Revenue Enhancement - Brisbane

Brisbane voters approved two business license tax revenue enhancement measures in November 2017 (Measures D and E). As of FY 2017-18, Measure D was projected to yield annual revenues of $0.2 million and Measure E $4 million.[107] Brisbane is not currently planning on proposing any revenue enhancement ballot measures to its voters.[108]

Pension Obligation Bonds and Loan - Brisbane

Brisbane issued $4.75 million in pension obligation bonds in 2006 and took a $1.61 million Pension Side Fund Bank Loan in 2013.[109] As of the end of FY 2017-18, the remaining outstanding principal on the bonds and loan, combined, was $1.73 million.[110] The bonds mature in FY 2020-21 and the loan is due to be fully paid off in FY 2022-23. From FY 2018-19 through FY 2022-23 when the bonds and loan are fully paid off, the City will make average annual payments on them of approximately $0.389 million.[111]

General Fund Reserves - Brisbane

At the end of FY 2017-18, Brisbane's general fund balance was $11.45 million, of which $8.63 million (49.2 percent of general fund expenditures for that year) represented unassigned reserves.[112] The City projects that the FY 2018-19 ending general fund balance will be $10.8 million[113] from which $3.5 million will be set aside in an "Emergency Reserve" for any sudden unanticipated expense, $3.2 million will be put in a "Recession Reserve" so that City services do not need to be "immediately reduced in case of recession," and $2 million will be in an "Annual Reserve" for use in the event of any budget discrepancies.[114]

Long-Term Financial Forecast – Brisbane

Brisbane's long-term general fund financial forecast is based on a five-year period. It reports that it has "taken great strides in long-term financial planning" and that "[s]taff continuously works on a five-year forecast" which "provides Council and the community greater information on projects and issues that will be affecting the community in the near future."[115] However, the Grand Jury's review of the City's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, its budget for FY 2018-19 and FY 2019-20, as well as all agenda packages that the City posted on its website from

[107] Brisbane, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. vii of letter of transmittal.
[108] Email from Brisbane, dated June 13, 2019.
[109] Brisbane, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, pp. 55-56.
[110] Ibid., p. 54.
[111] Brisbane, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2017, pp. 53-54.
[112] Brisbane, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, pp. 20 & 22.
[113] Brisbane, City Council Agenda Report for City Council Meeting on April 18, 2019 re: Mid-Year Budget Report, p. 2.
[114] Ibid., pp. 2 & 4.
[115] Brisbane, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, December 7, 2018 letter of transmittal, p. viii.

January 1, 2018 through the Grand Jury's final check on June 14, 2019[116] yielded no long-term financial forecast for the City.

Burlingame

Pension Contribution Costs - Burlingame

Burlingame's pension contribution costs in FY 2017-18 were $5.72 million, up $0.424 million (8.0 percent) from $5.29 million in FY 2016-17.[117] The City's FY 2017-18 pension contribution costs represented 27.8 percent of that year's covered payroll (up from 26.8 percent the preceding year) and 10.7 percent of its total general fund spending (flat from the 10.7 percent the preceding year).[118]

In addition to its contribution payments made to CalPERS, the City also makes annual installment payments on its 2006 pension obligation bonds (originally issued in the amount of $33 million).[119] It paid $3.85 million on the bonds in FY 2017-18[120] and will pay $0.957 million in FY 2018-19.[121] From FY 2019-20 through FY 2035-36 when the bonds are fully paid off, the City will have made total payments on the bonds of $12.6 million, with an annual average of approximately $0.741 million.[122] Taking bond payments into account, the City's total payments on account of its pensions (CalPERS and bond payments combined) were $9.56 million in FY 2017-18 (representing 46.4 percent of that year's covered payroll of $20.6 million and 17.8 percent of total general fund spending of $53.6 million), up $0.535 million (5.9 percent) from $9.03 million in FY 2016-17.[123] It should be noted, however, that the City's annual bond payment amount dropped by almost $3 million in FY 2018-19.[124]

Burlingame projects that its pension contribution costs will increase from FY 2017-18 by $5.03 million (87.9 percent) to $10.74 million by FY 2023-24 and by an additional $2.57 million (23.9 percent) to $13.32 million by FY 2027-28.[125] Taking bond payments into account, the City's total payments on account of its pensions (CalPERS and bond payments combined) will increase from FY 2017-18 by $2.25 million (23.5 percent) to $11.81

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[116] Brisbane City Council meeting agenda packages can be accessed at https://brisbaneca.org/city-government/meetings?field_meeting_type_value=cc (Last accessed on June 14, 2019.)
[117] Appendix A.
[118] Ibid.
[119] Burlingame, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 69.
[120] Burlingame, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015, p. 81.
[121] Burlingame, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 69.
[122] Ibid.
[123] Ibid. Burlingame's pension obligation bond repayment amount in FY 2016-17 was $3.73 million. (Burlingame, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015, p. 81.)
[124] Burlingame, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 69.
[125] Appendix A. Burlingame, Staff Report for City Council Meeting on March 13, 2019 re: Adoption of Resolution Amending the FY 2018-19 Operating and Capital Budgets to Reflect the Recommended Mid-Year Adjustments, p. 32. This report provides pension cost projections from FY 2018-19 through FY 2023-24. Bartel Associates, LLC report to City of Burlingame, January 22, 2019, pp. 28 & 46. This report provides pension cost projections from FY 2018-19 through FY 2029-30.

million by FY 2023-24 and by an additional $2.06 million (17.4 percent) to $13.87 million by FY 2027-28.[126]

Burlingame's projected pension contribution costs are not included in its FY 2017-18 CAFR, or in its FY 2018-19 budget.[127] In order to find the City's projected costs online, the Grand Jury ran a search for the word "pension" on the "Search Archives" feature of the City Council Meeting Documents & Minutes website page.[128] That search would eventually lead to the agenda for a City Council Study Session on January 22, 2019[129] which refers to a review of pension liabilities by the actuarial consulting firm Bartel Associates, LLC and includes a link to Bartel's presentation materials. However, as of the Grand Jury's last search on June 9, 2019, the Bartel presentation slides could not be accessed through that link. Instead, the Grand Jury obtained a copy of the Bartel presentation slides through a direct document request to the City. Since then, the City has made the Bartel presentation materials available through its finance page on its website at https://www.burlingame.org/Pension%20Funding%20Presentation%20-%2001-22-19.pdf (last accessed on June 9, 2019). The presentation can most easily be found using the City's "Search" feature on the home page of its website (https://www.burlingame.org/) (last accessed on June 9, 2019) by typing in the word "Bartel." Going further back, the search results would also point to a City Council meeting on July 3, 2017, which links to a Staff Report for that meeting which includes contribution cost projections through FY 2027-28.[130]

Financial Overview – Burlingame

Burlingame's financial condition appears to be strong. According to the City "In the bond markets, the Burlingame name is recognized as a high-credit municipal entity given both the City's financial strength and solid financial management."[131] Burlingame had a general fund surplus of approximately $3.5 million in FY 2018-19 (after transferring approximately $3 million to its Capital Investment Reserve). [132] Looking forward to FY 2019-20, the City projects the general fund surplus will drop to approximately $0.361 million, primarily as a result of the City Council's May 8, 2019 decision to transfer approximately $6.5 million to its Capital Investment Reserve.[133] From FY 2018-19 through FY 2023-24 the City projects

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[126] Ibid. Burlingame, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 69. Email from Burlingame, dated June 5, 2019.
[127] Burlingame, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018. Burlingame, Fiscal Year 2018-19 Adopted Budget.
[128] This search feature may be found at https://www.burlingame.org/government/city_council/city_council_meeting_documents_and_minutes.php. (Last accessed on May 31, 2019.)
[129] Burlingame, Agenda for City Council Meeting held on January 22, 2019.
[130] Burlingame, Staff Report for City Council Meeting on July 3, 2017 re: Review of Options Available for Pre-Funding Pension Obligations, pp. 4 - 5.
[131] Burlingame, Fiscal Year 2018-19 Adopted Budget, p. v of June 18, 2018 City Manager's Transmittal Letter.
[132] Burlingame, Staff Report for City Council Meeting on May 8, 2019 re: Study Session: Fiscal Year 2019-20 Budget, p. 22.
[133] Emails from Burlingame, dated June 5 and June 7, 2019.

annual general fund revenue growth of 2.3 percent and an annual increase in its general fund balance (excluding amounts set aside for its Section 115 pension trust (described below)) of 1.5 percent.[134]

Additional Payments to CalPERS - Burlingame

Burlingame is not currently planning on making additional payments to CalPERS beyond its Annual Required Contribution.[135]

Pension Reserve Fund - Burlingame

In FY 2017-18, Burlingame established a Section 115 Trust which could be drawn upon when required pension contribution rates exceed the City's threshold rates.[136] The trust was funded with approximately $4.8 million in FY 2017-18.[137] The City intends to transfer another $3.4 million to the trust in FY 2018-19,[138] bringing total contributions to the trust to $8.15 million.[139] This amount represents approximately 15 months of the City's $6.69 million in pension costs in FY 2018-19.[140] The City plans to continue making annual contributions to the Section 115 trust until its required contribution rates for each plan exceed the threshold rate, at which point the City will begin drawing down on the trust. The City currently projects that will happen in approximately FY 2025-26. As of the end of FY 2023-24 the City projects that it will have transferred an aggregate total of $16.78 million to the trust (including the $8.15 million deposited in the trust through FY 2018-19).[141] This amount (less an $0.80 million contribution budgeted to be made in FY 2019-20 with respect to the City's payment obligations to the Central County Fire Department) would represent approximately 148.8 percent of its $10.74 million in projected pension costs in FY 2023-24.[142]

Employee Contribution to City's Normal Cost - Burlingame

Burlingame employees have entered into cost-sharing agreements with the City under which they pay for a portion of the pension costs that would otherwise have to be paid by the City. Under these cost-sharing agreements (a) miscellaneous plan "classic"[143]

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134 Five-year general fund forecast received from Burlingame via email dated May 3, 2019. Email from Burlingame, dated June 5, 2019.
135 Grand Jury interview.
136 Burlingame, Fiscal Year 2018-19 Adopted Budget, pp. v & xviii of June 18, 2018 City Manager's Transmittal Letter. Email from Burlingame, dated June 5, 2019.
137 Burlingame, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 23.
138 Burlingame, Fiscal Year 2018-19 Adopted Budget, p. v of June 18, 2018 City Manager's Transmittal Letter.
139 Email from Burlingame, dated June 5, 2019.
140 Staff Report for City Council Meeting on March 13, 2019 re: Adoption of Resolution Amending the FY 2018-19 Operating and Capital Budgets to Reflect the Recommended Mid-Year Adjustments, p. 32.
141 Five-year forecast received from Burlingame via email dated May 29, 2019. Email from Burlingame, dated June 5, 2019.
142 Email from Burlingame, dated June 5, 2019.
143 "Classic" plan employees are those who joined the CalPERS pension system before January 1, 2013 and who have not had a break in service of more than six months. (CalPERS, Public Employees' Pension Reform Act. (https://www.calpers.ca.gov/page/about/laws-legislation-regulations/public-employees-pension-reform-act) (Last accessed on May 31, 2019.)

employees pay a portion of the City's pension costs equal to 1.5 percent of their covered payroll, and (b) safety plan "classic" employees pay a portion of the City's pension costs equal to 4 percent of their covered payroll.[144]

Revenue Enhancement - Burlingame

In November 2017, residents of Burlingame approved Measure I, a one-quarter cent sales tax increase.[145] The measure was projected by the City to yield additional annual revenues of approximately $2 million.[146] The City is not currently planning on bringing another revenue enhancement ballot measure before its voters.[147]

Pension Obligation Bonds - Burlingame

Burlingame issued $33 million in pension obligation bonds in 2006. As of the end of FY 2017-18, the remaining outstanding principal on the bonds was $9 million. The bonds mature on June 1, 2036. From FY 2018-19 through FY 2035-36 when the bonds are fully paid off, the City will make average annual payments on the bonds of approximately $0.8 million.[148]

General Fund Reserves - Burlingame

As of the end of FY 2018-19, Burlingame projects that it will have a general fund balance of $39.92 million[149] (up from $36.37 million at the end of FY 2017-18[150]), of which – as a result of the City's General Fund Balance Reserve Policy adopted in FY 2014-15 establishing appropriate levels of reserves using a risk-based analysis of City's long-term financial condition[151] - $18.84 million are assigned to the Economic Stability Reserve, $2 million to the Catastrophic Reserve, $0.5 million to the Contingency Reserve, $7 million to a Section 115 Trust[152] and $11.6 million are unassigned.[153] Burlingame's FY 2018-19 general fund balance represents a healthy 68 percent of its $58.67 million of general fund operating expenditures for the year.[154]

By FY 2023-24, Burlingame projects that the general fund balance will increase to $48.93 million (a 22.6 percent increase from FY 2018-19's $39.92 million) of which $21.01

[144] Burlingame, Staff Report for City Council Meeting on October 15, 2018 re: Update on Long-Term Unfunded Post-Employment Liabilities and Options, p. 2.
[145] Ballotpedia, Local Ballot Measures, Burlingame, California, Sales Tax Measure I (November 2017).
[146] Burlingame, Staff Report for City Council Meeting on June 19, 2017 re: Public Hearing and Introduction of an Ordinance to Place a Revenue Measure to Enact a Quarter Cent Local Sales Tax on the November 2017 Ballot to Maintain Quality of Life Programs, p. 4.
[147] Email from Burlingame, dated June 5, 2019.
[148] Burlingame, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 69.
[149] Five-year forecast received from Burlingame via email dated May 29, 2019.
[150] Burlingame, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 32.
[151] Email from Burlingame, dated June 5, 2019.
[152] Note: As noted in the section above, entitled "Pension Reserve Fund – Burlingame," the Section 115 Trust will have a total of $8.15 million in contributed funds as of the end of FY 2018-19; the $7 million is just the portion attributable to the general fund.
[153] Five-year forecast received from Burlingame via email dated May 29, 2019.
[154] Ibid. Email from Burlingame, dated June 5, 2019.

million will be assigned to the Economic Stability Reserve, $2 million to the Catastrophic Reserve, $0.5 million to the Contingency Reserve, $13.5 million to the Section 115 pension trust and $11.92 million will be unassigned. The City's FY 2023-24 general fund balance will represent 67.8 percent of its projected $72.16 million of general fund expenditures for the year.[155]

Long-Term Financial Forecast – Burlingame

Burlingame publishes a long-term general fund operating budget forecast with a period of 5 years.[156] The City did not present this forecast in its FY 2018-19 Adopted Budget.[157] In order to find the forecast online, the Grand Jury used the "Search Archives" feature on the City Council Meeting Documents and Minutes page[158] and searched for "five-year forecast." This yielded a reference to the March 13, 2019 council meeting agenda package, [159] which includes the forecast in a staff report for the meeting.[160]

Colma

Pension Contribution Costs - Colma

Colma's pension contribution costs in FY 2017-18 were $1.26 million, up $0.216 million (20.6 percent) from $1.05 million in FY 2016-17.[161] The Town's FY 2017-18 pension contribution costs represented 29.1 percent of that year's covered payroll (up from 26 percent the preceding year) and 8.6 percent of its total general fund spending (up from 7.9 percent the preceding year).[162]

The Town projects its pension contribution costs will increase from FY 2017-18 by $0.46 million (36.1 percent) to $1.72 million by FY 2023-24 and by an additional $0.106 million (6.2 percent) to $1.83 million by FY 2027-28.[163] The Town notes that "rising pension cost continues to be the Town's largest challenge."[164]

The Town's projected pension contribution costs were not included in its FY 2017-18 CAFR, or in its FY 2018-19 budget.[165] However, in a change from prior budgets, Colma's

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155 Five-year general fund forecast received from Burlingame via email dated May 3, 2019.
156 Burlingame, Staff Report for City Council Meeting on March 13, 2019 re: Adoption of Resolution Amending the FY 2018-10 Operating and Capital Budgets to Reflect the Recommended Mid-Year Adjustments, p. 52.
157 Burlingame, Fiscal Year 2018-19 Adopted Budget.
158 https://www.burlingame.org/government/city_council/city_council_meeting_documents_and_minutes.php (Last accessed May 9, 2019.)
159 burlingameca.legistar1.com/burlingameca/meetings/2019/3/1452_A_City_Council_19-03-13_Meeting_Agenda.pdf (Last accessed May 9, 2019.)
160 Burlingame, Staff Report for City Council Meeting on March 13, 2019 re: Adoption of Resolution Amending the FY 2018-10 Operating and Capital Budgets to Reflect the Recommended Mid-Year Adjustments, p. 52.
161 Appendix A.
162 Ibid.
163 Colma, Staff Report for City Council Meeting on September 26, 2018 re: Unfunded Liabilities Study, Attachment B. This report contains pension cost projections through FY 2043-44.
164 Colma, Fiscal Year 2019-20 Operating and Capital Budget, p. 11.
165 Colma, FY 2018-19 Adopted Budget.

FY 2019-20 budget does include a graph showing annual pension cost projections. They run through FY 2035-36.[166]

Financial Overview – Colma

Colma noted in its FY 2017-18 budget that "[r]ising 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 new employees hired after January 1, 2017.[167] In its FY 2019-20 budget, the Town states that "rising pension cost continues to be the Town's largest challenge."[168] Colma's recent ten-year general fund forecast projects that, absent new revenue increases and/or expense reductions, current spending plans will turn the $4.06 million general fund operating surplus in FY 2017-18[169] into an operating deficit of $5.48 million by FY 2029-30,[170] and that general fund reserves will drop from $24.46 million in FY 2017-18[171] to $15.23 million in FY 2023-24, to zero during FY 2027-28.[172]

The ten-year forecast shows that, in order to fund all currently projected general fund expenses through FY 2029-30, the Town would need to secure an additional $14.09 million in new funding.[173]

The Town's latest forecast in the FY 2019-20 budget is immediately followed by a section entitled "Potential Options to Mitigate Insolvency." The Town notes that "[d]ue to the projections above, the Town should consider cost containment/reduction strategies to remain financially healthy in the next ten years. To aggressively address the projected depletion of the Town's reserve, the following cost containment/reduction and new revenue measures can be considered."[174]

One of the potential options for cost containment/reduction identified in the budget is the adoption of a "pay as you go" policy under which the Town would stop making further contributions to the trusts it had established to set aside funds out of current budget

[166] Colma, Fiscal Year 2019-20 Operating and Capital Budget, p. 20.
[167] Colma, FY 2017-18 Adopted Budget, p. 8.
[168] Colma, FY 2019-20 Operating and Capital Budget, p. 11.
[169] Ibid., p. 184.
[170] Ibid., p. 180. Note: Colma provides two different versions of its ten-year general fund forecast. The first (at page 180), entitled "Status Quo," uses the assumption that there will be an economic "slowdown" but not a "recession" (Email from Colma, dated June 14, 2019), while the second (at page 181) uses the assumption that there will be a recession beginning in FY 2020-21 with a three-year recovery period. Colma believes that the "Status Quo" projections at page 180 more closely track economists' current sentiments than the recession projection at page 181. (Email from Colma, dated June 14, 2019.) Therefore, the Grand Jury is reporting numbers relying on the "Status Quo" projection. However, even if the recession forecast was used, the financial numbers are only slightly worse and, for purposes of this report, do not change the overall picture.
[171] Colma, FY 2019-20 Operating and Capital Budget, p. 184.
[172] Ibid., pp. 180.
[173] Ibid., p. 180. This $14.09 million amount would be $15.61 million if one used the recession version of this forecast.
[174] Ibid., p. 182.

surpluses to help pay future pension costs (see section below entitled "Pension Reserve Fund – Colma") and future OPEB ("other post-employment benefits") costs.[175],[176] The Town notes that this measure "will handicap the Town in meeting its future unfunded liabilities."[177]

Additional Payments to CalPERS - Colma

On October 24, 2018, Colma decided to make an additional payment to CalPERS of $1.05 million more than its Annual Required Contribution.[178] This amount was paid to CalPERS in February 2019[179] and represented an additional 68.6 percent payment on top of the Annual Required Contribution of $1.53 million for FY 2018-19.[180]

Pension Reserve Fund - Colma

On October 24, 2018, Colma also decided to transfer $1 million into its Section 115 Trust for pensions in FY 2018-19 and, from FY 2019-20 through at least FY 2042-43, to make annual contributions to the trust of the additional dollar amounts that Colma would be required to pay if CalPERS discount rate was set at 6 percent (or 6.5 percent if the City Council determined that the payment tied to 6 percent was not feasible) rather than the current 7 percent discount rate.[181] As explained in the prior report at pages 6-8, higher discount rates result in lower payment obligations to CalPERS and lower discount rates result in higher payment obligations.

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175 Ibid., p. 182. As of June 30, 2018, the Town had an unfunded liability under its OPEB plan of $14.04 million (substantially larger than its unfunded pension liability of $10.2 million). (Staff Report for City Council Meeting on October 10, 2018 re: Unfunded Liabilities Study and Strategic Plan, p. 1.) The Town contributed $1.7 million to its OPEB trust in FY 2018-19 and has budgeted contributing another $1.61 million to the trust in FY 2019-20. (FY 2019-20 Operating and Capital Budget, p. 18.) The Town's plan has been to continue making annual contributions to its OPEB trust through FY 2040-41, with the goal of reaching an 80 percent funded level for the OPEB plan. (Staff Report for City Council Meeting on October 10, 2018 re: Unfunded Liabilities Study and Strategic Plan, p. 3.) At present, the OPEB plan's funded percentage is only 14 percent. (FY 2019-20 Operating and Capital Budget, p. 18.)

176 In the OPEB context "pay as you go" means paying only the minimum amount required to pay benefits that come due each year to current retirees "and funds necessary for future liability are not accumulated. That is, contributions made are for current retirees only, causing the majority of retiree health benefits liability to be considered unfunded." (GASBhelp website at https://gasb45help.com/(S(owachimsfyshowi4vph02112))/term.aspx?t=94.) The phrase has essentially the same meaning in the pension plan context. (See, e.g., Heinen, Winfried. Why Time is Running Out for Pay As You Go-Based Pension Systems, http://www.genre.com/knowledge/blog/why-time-is-running-out-for-pay-as-you-go-based-pension-systems-en.html. (Last accessed June 11, 2019.))

177 FY 2019-20 Operating and Capital Budget, p. 182.

178 Grand Jury interview. Colma, Staff Report for City Council Meeting on October 24, 2018 re: Unfunded Liabilities Funding Strategy, p. 1.

179 Colma, Fiscal Year 2019-20 Operating and Capital Budget., p. 12.

180 Colma, Staff Report for City Council Meeting on September 26, 2018 re: Unfunded Liabilities Study, Attachment B.

181 Grand Jury interview. Colma, Unfunded Liabilities Funding Strategy, October 24, 2018, pp. 3-4.

Colma transferred the initial $1.0 million to the Section 115 Trust for pensions in March 2019[182] and its FY 2019-20 budget calls for it to transfer an additional $0.344 to the trust based on the 6 percent discount rate.[183]

As noted above in the section entitled "Financial Overview – Colma," one of the potential cost containment/reduction options staff has identified to the City Council to help mitigate insolvency is adoption of a "pay as you go" policy for pensions, which would mean that these annual contributions to the Section 115 trust would stop, at least for a period of time.

<u>Employee Contribution to City's Normal Cost - Colma</u>

Colma does not have any cost-sharing agreements in place with its employees under which employees agree to pay a portion of the Town's contribution obligations.[184]

<u>Revenue Enhancement - Colma</u>

In November 2018, residents of Colma approved Measure PP, which put in place a transient occupancy tax (i.e., "hotel tax") of 12 percent.[185] The Town estimates that, if a hotel is built in Colma, this tax would yield annual revenues of approximately $0.319 million.[186]

Colma's staff has stated that it "intends to review …new revenue measures as part of the 2020-22 Strategic Plan and future study sessions with the City Council."[187]

<u>Pension Obligation Bonds - Colma</u>

Colma does not have any outstanding pension obligation bonds.[188]

<u>General Fund Reserves - Colma</u>

At the end of FY 2017-18, Colma had a total general fund balance of $24.46 million (representing 166.6 percent of its $14.68 million of general fund expenditures that year),[189] of which $15.54 million (105.8 percent of expenditures) were committed, $7.96 million (54.2 percent of expenditures) were unassigned and $0.95 million (6.5 percent of expenditures) were assigned.[190] The Town's policy is to have general fund assigned reserves consisting of (a) 100 percent of the operating budget, (b) two years of debt service payments (which were $0.299 million in FY 2017-18), (c) a $0.1 million litigation reserve,

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182 Colma, Fiscal Year 2019-20 Operating and Capital Budget, p. 12.

183 Colma, Staff Report for City Council Meeting on May 8, 2019 re: FY 2019-20 Budget Study Session, p. 7. Colma, Fiscal Year 2019-20 Operating and Capital Budget, p. 18.

184 Grand Jury interview.

185 Ballotpedia, Local Ballot Measures, Colma, California, Measure PP, Colma Hotel Tax (November 2018)

186 Voters Edge Library, Measure PP.

187 Colma, Fiscal Year 2019-20 Operating and Capital Budget, p. 182.

188 Email from Colma, dated June 11, 2019.

189 Colma, Basic Financial Statements as of June 30, 2018, p. 14. Colma, Fiscal Year 2019-20 Operating and Capital Budget, p. 184.

190 Colma, Basic Financial Statements as of June 30, 2018, p. 13.

(d) a $0.1 million insurance loss reserve, and (e) a $0.75 million disaster response / recovery reserve. All other general fund reserves are classified as "unassigned."[191]

Colma projects that its general fund reserves will drop from $23.78 million in FY 2017-18[192] to $12.67 million in FY 2023-24, and to zero during FY 2027-28.[193,194] In addition, "as a result of increasing expenditure [sic] budget"[195] unassigned reserves will be completely drawn down during this period (dropping from $7.96 million in FY 2017-18[196] to zero in FY 2023-24.[197]

Long-Term Financial Forecast – Colma

Colma published a long-term general fund operating budget forecast with a period of 5 years, which was incorporated into its readily-accessible FY 2018-19 budget.[198] In its FY 2019-20 budget, the Town has extended the forecast period to ten years.[199]

Daly City

Pension Contribution Costs – Daly City

Daly City's pension contribution costs in FY 2017-18 were $13.13 million, up $1.5 million (12.9 percent) from $11.63 million in FY 2016-17.[200] The City's FY 2017-18 pension contribution costs represented 30.4 percent of that year's covered payroll (up from 26.8 percent the preceding year) and 16.9 percent of its total general fund spending (up from 15.1 percent the preceding year).[201] In addition to its contribution payments made to CalPERS, the City also makes annual, installment payments of over $3.5M on its pension obligation bonds.[202] Taking these bond payments into account, the City's total payments on account of its pensions (CalPERS and bond payments combined) were $16.8 million in FY 2017-18 (representing 38.9 percent of that year's covered payroll and 22.6 percent of total general fund spending), up $1.63 million (10.8 percent) from $15.17 million in FY 2017.[203]

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191 Colma, FY 2018-19 Adopted Budget, pp. 151 & 155.

192 Ibid., p. 155.

193 Colma, FY 2019-20 Operating and Capital Budget, pp. 180 & 181.

194 Colma notes that its general fund reserves were dramatically reduced in FY 2015-16 and FY 2016-17 by the transfer of approximately $12.9 million from the reserves to fund the renovation of its Town Hall. (Colma, FY 2019-20 Operating and Capital Budget, p. 178.)

195 Colma, FY 2018-19 Adopted Budget, p. 151.

196 Colma, Basic Financial Statements as of June 30, 2018, p. 13.

197 Colma, FY 2018-19 Adopted Budget, p. 151.

198 Ibid., pp. 149-155.

199 Colma, Fiscal Year 2019-20 Operating and Capital Budget, pp. 179-181.

200 Appendix A.

201 Appendix A.

202 Daly City's payments on the pension obligation bonds were $3.54 million, $3.67 million and $3.81 million in fiscal years 2016-17, 2017-18 and 2018-19, respectively. The City's bond repayment obligations continue through FY 2023-24. Daly City, City Council Meeting presentation slides re: FYs 2019/2020 Comprehensive Biennial Operating and Capital Budget, April 12, 2018, p. 11.

203 Bartel Associates, LLC report to City of Daly City, March 27, 2017, pp. 24 & 44. Daly City POB payments in FY 2016-17 were $3.54 million and in FY 2017-18 were $3.67 million. (Daly City, City Council Meeting presentation slides re: FYs 2019/2020 Comprehensive Biennial Operating and Capital Budget, April 12, 2018, p. 11)

Daly City's pension contribution costs are projected to increase from FY 2017-18 by $14.64 million (111.5 percent) to $27.78 million by FY 2023-24 and by an additional $4.63 million (16.7 percent) to $32.4 million by FY 2027-28.[204] The City's total pension costs (CalPERS and bond repayments combined) are projected to increase over FY 2017-18 costs by $15.55 million (78.7 percent) to $32.36 million by FY 2023-24. Total costs in FY 2024-25 drop because the bonds will be fully paid off by the end of FY 2023-24. From FY 2024-25 to FY 2027-28, annual pension contribution costs to CalPERS rise by $2.92 million (9.9 percent) to $32.4 million (up from $29.48 million in FY 2024-25.[205]

The City's projected pension contribution costs were not included in its FY 2017 and 2018 budget[206] but are set forth in its readily-accessible FY 2019-20 budget.[207] They are also set forth in greater detail in the report of its actuarial consultant – Bartel Associates, LLC.[208] However, in order to find the Bartel Associates projections online, it is necessary to manually search through City Council meeting agenda packages, which can be accessed at the following website: www.dalycity.org/City_Hall/Meeting_Agendas_and_Minutes/City_Council.htm (last accessed on May 23, 2019). That search would eventually lead to the agenda package for the City Council meeting on March 27, 2017[209], which includes the report from Bartel Associates, LLC dated March 27, 2017.[210]

Financial Overview – Daly City

Daly City describes itself as being in a "precarious financial situation" and that it "has balanced recent budgets through major workforce and service reductions."[211] The City reports that, out of the ten largest cities in San Mateo County, it has the lowest median household income, per capita income and median home value, the highest unemployment rate and second highest poverty rate.[212] Absent significant changes to revenues and/or expenses, the City forecasts that it will experience general fund deficits beginning in FY 2018-19 with a $4.4 million deficit that rises to $12.9 million in FY 2023-24. The forecast projects a cumulative deficit of $98 million over the ten years FY 2017-18 through FY 2027-28, with the City's unassigned general fund reserves dropping to zero in FY 2021-22.[213] The foregoing forecast numbers do not factor in a recession between the present and

[204] Appendix A. CalPERS Actuarial Valuation – June 30, 2017 Miscellaneous Plan of the City of Daly City, p. 4. CalPERS Actuarial Valuation – June 30, 2017 Safety Plan of the City of Daly City, p. 4. Bartel Associates, LLC report to City of Daly City, March 27, 2017, pp. 24 & 44. The annual pension cost projection numbers are given through FY 2027-28.
[205] Bartel Associates, LLC report to City of Daly City, March 27, 2017, pp. 24 & 44. Daly City, City Council Meeting presentation slides re: FYs 2019/2020 Comprehensive Biennial Operating and Capital Budget, April 12, 2018, p. 11
[206] Daly City, Comprehensive Biennial Operating and Capital Budget for Fiscal Years 2017 and 2018.
[207] Daly City, Comprehensive Biennial Operating and Capital Budget for Fiscal Years 2019 and 2020, pp. 19-20. These pension cost projections go through FY 2027-28.
[208] Bartel Associates, LLC report to City of Daly City, March 27, 2017, pp. 24 & 44.
[209] Daly City, Agenda for City Council Meeting on March 27, 2017.
[210] Bartel Associates, LLC report to City of Daly City, March 27, 2017, pp. 24 & 44.
[211] Daly City Budget Forecast Model & Long-Term Financial Planning, PFM Consulting LLC, June 25, 2018, p. 29. Daly City, Comprehensive Biennial Operating and Capital Budget for Fiscal Years 2019 and 2020, p. 17.
[212] Daly City Budget Forecast Model & Long-Term Financial Planning, PFM Consulting LLC, June 25, 2018, pp. 6 – 8.
[213] Ibid., pp. 14 & 15.

FY 2027-28. When a hypothetical recession is modelled into the City's forecast beginning in FY 2019-20, the FY 2023-24 deficit rises from $12.9 million to $15.2 million and the cumulative deficit rises from $98 million to $117.6 million for the FY 2017-18 through FY 2027-28 period.[214]

Additional Payments to CalPERS – Daly City

At present, Daly City does not plan to make any supplemental payments to CalPERS beyond its Annual Required Contribution.[215]

Pension Reserve Fund – Daly City

In May, 2017 Daly City approved putting in place a Section 115 Trust to help it manage payment of future pension costs.[216] Daly City transferred $1 million into the trust in FY 2016-17 and an additional $2 million in FY 2017-18. The City expects to transfer another $1 million to the trust in 2019 bringing the total to approximately $4 million.[217]

Employee Contribution to City's Normal Cost

Daly City does not have cost-sharing agreements in place with employees under which its employees pay for any part of the City's pension contribution costs.[218]

Revenue Enhancement – Daly City

In November 2018 the residents of Daly City approved two revenue enhancements.[219] They were a transient occupancy tax (a "hotel tax") increase from 10 percent to 13 percent that was expected to yield increased revenue of between $0.203 million to $0.459 million year during FY 2018-19 and FY 2019-20 and $0.306 million to $0.689 million per year thereafter[220] and business license tax increase of 10 percent that is expected to yield increased revenues of approximately $0.42 million per year.[221] The City is not currently planning on bringing any new revenue enhancement ballot measures before its voters.[222]

Pension Obligation Bonds – Daly City

In 2004 Daly City issued $36.24 million in pension obligation bonds.[223] Daly City's payments on these bonds were $3.54 million, $3.67 million and $3.81 million in FYs 2016-

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[214] Ibid., p. 23**.**
[215] Grand Jury interview.
[216] Daly City, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 44.
[217] Grand Jury interview.
[218] Email from Daly City, dated June 18, 2019.
[219] Ibid.
[220] Daly City, 6-25-18 Agenda Report re Consideration to Place a Measure Relating to the Transient Occupancy Tax on the November 6, 20918 General Election, pp. 1 & 4.
[221] Daly City, 6-25-18 Agenda Report re Consideration to Place a Measure Relating to the Business License Tax on the November 6, 20918 General Election, pp. 1 & 4.
[222] Email from Daly City, dated June 18, 2019.
[223] Daly City, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 56.

17, 2017-18 and 2018-19, respectively. The City's bond repayment obligations continue through FY 2023-24.[224]

General Fund Reserves – Daly City

Daly City's goal is to maintain general fund unassigned reserves of at least 15 percent of general fund expenditures.[225] In June 2018 the City had projected that it would have to apply approximately $6.1 million of these reserves in FY 2019-20 to close its expected operating budget deficit.[226] However, the City's most recent estimate is that the FY 2019-20 deficit may be less than $6.1 million.[227] If FY 2019-20's deficit is $6.1 million, then the City's unassigned general fund reserves would be projected to drop from $22.59 million in FY 2017-18 (29.1 percent of general fund expenditures),[228] to $16.7 million (18.5 percent of general fund expenditures) in FY 2019-20.[229]

Long-Term Financial Forecast – Daly City

Daly City uses a ten-year financial forecasting model as part of its long-term financial planning process.[230] This forecast is not included in the FY 2019-20 budget.[231] A manual search through City Council meeting agenda packages, which can be accessed at the following website: www.dalycity.org/City_Hall/Meeting_Agendas_and_Minutes/City_Council.htm (last accessed on May 27, 2019,) would eventually lead to the June 25, 2018 agenda for a meeting of the City Council[232] which refers to "Update of Long-Term Financial Plan" and a link to a staff report stating that a presentation on the City's long-term financial forecast would be made at the meeting.[233] Unfortunately, however, the slides for that presentation are not included in the June 25, 2018 agenda package available online. The Grand Jury was only able to obtain Daly City's long-term financial plan through a document request made to the City.

[224] Daly City, City Council Meeting presentation slides re: FYs 2019/2020 Comprehensive Biennial Operating and Capital Budget, April 12, 2018, p. 11.
[225] Daly City Budget Forecast Model & Long-Term Financial Planning, PFM Consulting LLC, June 25, 2018, slide 15. Daly City, Comprehensive Biennial Operating and Capital Budget for Fiscal Years 2019 and 2020, p. 11.
[226] Daly City, Comprehensive Biennial Operating and Capital Budget for Fiscal Years 2019 and 2020, p. 7. This document is dated June 2018 and, at that time, the City also projected having to use $4.8 million in reserves to close a budget deficit in FY 2018-19. (Ibid.) However, the City now believes that it will not have a budget deficit in FY 2018-19 as a result of stronger-than-projected revenues during the year. (Email from Daly City, dated June 18, 2019.)
[227] Email from Daly City, dated June 18, 2019.
[228] Daly City, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, pp. 22 & 24.
[229] Daly City, Comprehensive Biennial Operating and Capital Budget for Fiscal Years 2019 and 2020, pp. 7 & 11.
[230] Grand Jury interview. Daly City Budget Forecast Model & Long-Term Financial Planning, PFM Consulting LLC, June 25, 2018, slides 12-20.
[231] Daly City, Comprehensive Biennial Operating and Capital Budget for Fiscal Years 2019 and 2020.
[232] Daly City, Agenda for City Council Meeting on June 25, 2018.
[233] Daly City, Agenda Report for City Council Meeting on June 25, 2018 re: Update of Long-Term Financial Plan.

East Palo Alto

Pension Contribution Costs – East Palo Alto

East Palo Alto's pension contribution costs in FY 2017-18 were $1.64 million, up $0.149 million (10 percent) from $1.49 million in FY 2016-17.[234] The City's FY 2017-18 pension contribution costs represented 17.7 percent of that year's covered payroll (up from 17.6 percent the preceding year) and 8.3 percent of its total general fund spending (up from 8.2 percent the preceding year).[235]

East Palo Alto's actuarial consultant projects that the City's pension contribution costs will increase from FY 2017-18 by $1.18 million (71.7 percent) to $2.82 million by FY 2023-24 and by an additional $0.429 million (15.2 percent) to $3.25 million by FY 2027-28.[236]

The City's projected pension contribution costs are not included in its FY 2017-18 CAFR, or in its FY 2018-19, or FY 2019-20 budgets.[237,238] In order to find these projected costs online, it is necessary to manually search through City Council meeting agenda packages, which can be accessed at the following website: www.ci.east-palo-alto.ca.us/AgendaCenter (last accessed on May 23, 2019). That search would eventually lead to the agenda package for the City Council meeting on May 15, 2018.[239] The agenda package includes a report by Bartel Associates, LLC that contains annual pension cost projections.[240]

Financial Overview – East Palo Alto

East Palo Alto has experienced substantial revenue growth in recent years[241] and describes itself as being "in a stable financial condition."[242] The City notes that its opportunities include "a robust economy" and "an excellent location in Silicon Valley with 60 acres of vacant or underutilized land." However, the City also notes fiscal revenue challenges including "the lack of material increases in General Fund revenues for the near to medium term future," and continued organizational challenges such as "fewer staff than comparable cities," "ongoing retention and recruitment challenges," "unfunded CalPERS liabilities," and "an astronomical gap in deferred infrastructure and services created before the City's incorporation."[243]

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234 Appendix A.
235 Ibid.
236 Bartel Associates, LLC report to the City of East Palo Alto, March 8, 2017, Updated May 15, 2018, pp. 15 & 21. The report contains annual pension cost projections through FY 2027-28.
237 East Palo Alto, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018. East Palo Alto, Adopted Budget Fiscal Year 2018-2019. East Palo Alto, Proposed Operating Budget for Fiscal Year 2019-20.
238 By way of clarification, however, East Palo Alto "notes that the actuarial projections contained in the Bartel study are utilized in graphical presentations to Council regarding FY 18-19 to FY 2025-26 forecasts of General Fund revenues and expenditures – including increased CalPERS costs to provide context for the City's need to contain program cost expansion." (Email from East Palo Alto, dated June 7, 2019.)
239 East Palo Alto, Agenda for City Council meeting on May 15, 2018.
240 Bartel Associates, LLC report to the City of East Palo Alto, March 8, 2017, Updated May 15, 2018, pp. 15 & 21.
241 East Palo Alto, Adopted Budget Fiscal Year 2018-2019, p. CM-2.
242 Ibid., p. CM-5. East Palo Alto, Proposed Operating Budget for Fiscal Year 2019-20, p. CM-2.
243 Ibid., pp. CM-3 & CM-5.

The City also notes that its "compensation and benefits package is generally below market. Over the past four years, the City has experienced a high volume of turnover due to various organizational issues, including retirements and non-competitive salaries and benefits. The high turnover rate results in 'short term' General Fund savings and increased reserves, but ultimately strains staff capacity and is also a contributing cause of the high cycle of turnover. The high rate of turnover and vacancy also ultimately has tamped down the City's pension costs during the past four years."[244]

Additional Payments to CalPERS – East Palo Alto

East Palo Alto is in the initial stages of evaluating additional payments to CalPERS beyond its Annual Required Contribution. At present, however, the City Council's expressed interest is in pre-funding the City's unfunded pension liability with current uncommitted reserves.[245]

Pension Reserve Fund – East Palo Alto

East Palo Alto has not established a reserve fund for the specific purpose of helping to meet rising future pension costs. However, it does have an unassigned reserve that is projected to hold $9.5 million at the end of FY 2019 that is available for risk mitigation, including pre-funding CalPERS obligations.[246]

The City does not yet have comprehensive general fund reserve policies in place to address financial risks. Developing such an overall reserves plan is now a city council priority. At its March 5, 2019 meeting, the council approved hiring the Government Finance Officers' Association ("GFOA") and PSD Research Consulting Software to prepare analyses of financial risks to the City, which is a necessary precursor to the City developing an overall financial reserves policy.[247] As part of developing overall reserves policies, the City will evaluate reserves needs to meet rising, future pension funding obligations.[248] The City plans to complete the risk studies by January 2020.[249]

Employee Contribution to City's Normal Cost – East Palo Alto

East Palo Alto does not have cost-sharing agreements in place with its employees under which the employees pay a portion of the City's pension contribution costs.[250]

Revenue Enhancement – East Palo Alto

East Palo Alto's residents approved Measure HH in November 2018, which is projected to provide the City with approximately $1.67 million of additional revenues to help pay for

[244] Email from East Palo Alto, dated June 7, 2019.
[245] Grand Jury interview. Email from East Palo Alto, dated June 7, 2019.
[246] East Palo Alto, Staff Report for March 5, 2019 City Council Meeting, p. 5. Email from East Palo Alto, dated June 7, 2019.
[247] Grand Jury interview. East Palo Alto, Staff Report for March 5, 2019 City Council Meeting.
[248] Grand Jury interview.
[249] Ibid. East Palo Alto email, dated June 7, 2019.
[250] Ibid.

housing and job training.[251] In November 2016, residents of East Palo Alto also approved Measures O and P.[252] Measure O increased the City's business license tax for landlords with five or more residential units and was expected to increase City revenues by approximately $0.6M annually.[253] Measure P increased the City's sales tax by a half-cent and was expected to increase City revenues by approximately $1.8M annually.[254] The City's planned revenue enhancements are targeted toward an expanded and improved Master Fee Schedule (Fall 2019) and assessment or special district taxes related to the City's stormwater and storm-drain systems. If approved, the assessment fees/taxes will ultimately relieve General Fund operating transfers of between $0.20 million and $0.50 million per year.[255]

Pension Obligation Bonds – East Palo Alto

East Palo Alto does not have any outstanding pension obligation bonds.[256]

General Fund Reserves – East Palo Alto

East Palo Alto's general fund unassigned reserve as of end of FY 2017-18 was $16.2 million[257] which represented a healthy 82.3 percent of the $19.67 million in general fund expenditures for the year.[258] However, as of the FY 2018-19 Mid-year report, budgeted general fund expenditures increased by 29.1 percent over FY 2017-18 (from $19.67 million in FY 2017-18 to $25.4 million in FY 2018-19).[259] At that time, the City had approved approximately $5.8 million in additional spending initiatives primarily related to major capital project improvements; of which $4.2 million is budgeted from general fund reserves.[260]

Long-Term Financial Forecast – East Palo Alto

East Palo Alto's city council has instructed staff to prepare a long-term, general fund operating plan going out to the end of FY 2025-26 and staff is in the process of preparing such a plan.[261] Staff's objective is to complete such a plan by October 2019.[262]

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[251] The Stanford Daily, East Palo Alto Passes Measure to Tax Large Companies. Ballotpedia, Local Ballot Measures, East Palo Alto, California, Measure HH, Commercial Office Space Parcel Tax. East Palo Alto website at www.ci.east-palo-alto.ca.us/index.aspx?NID=627.
[252] Ballotpedia, Local Ballot Measures, East Palo Alto, California, Measure O, Landlord Tax (November 2016). Ballotpedia, Local Ballot Measures, East Palo Alto, California, Measure P, Sales Tax (November 2016).
[253] East Palo Alto, Staff Report for July 19, 2016 City Council Meeting re: increasing business license tax, p. 3. East Palo Alto, Staff Report for February 19, 2019 City Council Meeting, p.4.
[254] East Palo Alto, Staff Report for July 19, 2016, p. 4. East Palo Alto, Staff Report for February 19, 2019 City Council Meeting, p. 4.
[255] East Palo Alto email, dated June 7, 2019.
[256] Ibid.
[257] East Palo Alto, Staff Report for March 5, 2019 City Council Meeting, p. 4.
[258] East Palo Alto, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 34.
[259] East Palo Alto, Presentation slides re: Fiscal Year 2018-2019 Midyear Budget Amendment, p. 24. East Palo Alto email, dated June 7, 2019.
[260] Ibid.
[261] Grand Jury interview.
[262] East Palo Alto, Proposed Operating Budget for Fiscal Year 2019-20, p. DB-55.

Foster City

Pension Contribution Costs – Foster City

Foster City's pension contribution costs in FY 2017-18 were $6.51 million, down $0.703 million (-9.7 percent) from $7.21 million in FY 2016-17.[263] The City's FY 2017-18 pension contribution costs represented 31.2 percent of that year's covered payroll (down from 36.3 percent the preceding year) and 17.2 percent of its total general fund spending (down from 19.8 percent the preceding year).[264]

The City projects its pension contribution costs will increase by $4.81 million (73.9 percent) to approximately $11.32 million by FY 2024[265] and then drop by $0.366 million (-3.2 percent) to $10.95 million by FY 2028.[266]

The City's projected pension contribution costs are not included in its FY 2017-18 CAFR, or in its FY 2018-19 budget.[267] Annual projected pension contribution costs for the five year period from FY 2019-20 through FY 2023-24 are, however, included in the City's readily accessible preliminary budget for FY 2019-20.[268] In order to find the City's projected pension costs beyond FY 2023-24, it is necessary to manually search through City Council meeting agenda packages, which can be accessed at the following website: https://www.fostercity.org/agendasandminutes. (Last accessed on May 29, 2019.) That search would eventually lead to the agenda for the City Council meeting on January 22, 2019[269] which has an agenda item entitled "Consideration of an Update on Unfunded Pension Liabilities" and a link to a "Staff Report" on the subject and a separate link to "Attachment 2 – Amortization Schedules – Current, Projected 15-year, Projected Leveled."[270] Clicking on this link to Attachment 2 leads to graphs showing Foster City's annual, projected pension costs through FY 2028-29.[271]

Financial Overview – Foster City

While Foster City describes its pension liability as a "significant cause of concern,"[272] it also notes that its financial health is "strong."[273] While the City is facing structural general fund budget deficits during the five-year period ending with FY 2022-23, these deficits are

[263] Foster City FY 2017-18 CAFR, pp. 86-87.
[264] Appendix A.
[265] Foster City, Preliminary Budget for Fiscal Year 2019-2020, p. 44.
[266] Attachment 2 to Foster City staff report re Pension Liability Subcommittee Updated dated January 22, 2019. This document sets forth pension cost projections through FY 2048-49.
[267] Foster City Final Budget for Fiscal Year 2018-19.
[268] Foster City, Preliminary Budget for Fiscal Year 2019-2020, p. 44.
[269] Foster City, Agenda for City Council meeting on January 22, 2019.
[270] The agenda for Foster City's Council meeting on January 22, 2019 may be found at https://fostercityca.civicclerk.com/Web/Player.aspx?id=772&key=-1&mod=-1&mk=-1&nov=0. (Last accessed on May 29, 2019.)
[271] Attachment 2 to Foster City Staff Report for City Council Meeting on January 22, 2019 re: Pension Liability Subcommittee Update.
[272] Foster City staff report for March 26, 2018 City Council Meeting re: Pension Liability, p. 269.
[273] Foster City Final Budget for Fiscal Year 2018-19, p. 9.

modest in comparison to available general fund reserves of $40.77 million as of the end of FY 2019.[274]

Additional Payments to CalPERS – Foster City

Foster City plans to make an extra $3.43 million payment to CalPERS beyond its Annual Required Contribution by the end of FY 2018-19.[275] The City Council has not yet established a policy about making additional payments to CalPERS beyond its Annual Required Contribution in future years.[276] The City Council's Pension Subcommittee plans to meet in the fall of 2019 to discuss long-term plans to improve funding for the City's pension.[277]

Pension Reserve Fund – Foster City

In 2018, Foster City approved creating a $2 million Discretionary Pension Liability Stabilization Fund.[278] However, the City's primary focus is on accelerating payments to CalPERS in order to reduce long-term CalPERS costs, not on building a stabilization fund. Accordingly, the City has decided to apply the $2 million in this stabilization fund as part of an estimated $3.43 million additional payment to CalPERS being made before the end of FY 2019.[279]

In late 2018, Foster City established a Pension Liability Subcommittee of the City Council to discuss strategies towards addressing the City's long-term pension obligations.[280]

Employee Contribution to City's Normal Cost – Foster City

Foster City has stated that it will seek pension cost-sharing agreements from employees in its next round of labor negotiations.[281] The City's existing agreements with three of its represented groups of employees expire on June 30, 2019 and labor negotiations began in early 2019.[282]

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[274] The projected deficits are $850,000, $84,000, $159,000, $68,000 and $26,000. Foster City Final Budget for Fiscal Year 2018-19, p. 43.

[275] Grand Jury interview; Foster City, Staff Report for April 15, 2019 City Council Meeting re: Use and Transfer Out of FY 207-2018 General Fund Rollover Surplus, pp. 1-2. Foster City, Preliminary Budget for Fiscal Year 2019-2020, p. 44.

[276] Grand Jury interview. Email from Foster City, dated June 18, 2019.

[277] Email from Foster City, dated June 18, 2019.

[278] Foster City, Staff Report for June 4, 2018 City Council Meeting re: Public Hearing for FY 2018-2019 Preliminary Budget, p. 136. Grand Jury interview.

[279] Grand Jury interview. Foster City, Staff Report for April 15, 2019 City Council Meeting re: Use and Transfer Out of FY 207-2018 General Fund Rollover Surplus, pp. 1-2.

[280] Foster City, Staff Report for November 19, 2018 City Council Meeting re: Establishing a Pension Liability Subcommittee.

[281] Foster City, Staff Report for March 26, 2018 City Council Meeting re: Pension Liability, p. 269. Grand Jury interview.

[282] Foster City, Staff Report for City Council Meeting on February 11, 2019 re: Policy Direction Regarding Preparation of the FY 2019-2020 Annual Budget and Five-Year Financial Plan, p. 6.

Revenue Enhancement – Foster City

Foster City residents approved Measure TT in November 2018.[283] This was an increase in the City's transient occupancy tax ("TOT" or "hotel tax") from 9.5 percent to 12 percent. The City forecasts that this tax increase will yield revenue of $0.272 million, $0.924 million, $0.943 million, $0.962 million and $0.981 million in the 5 years from FY 2018-19 through FY 2022-23.[284] Foster City is not currently planning on bringing any new revenue enhancement ballot measures before its voters.[285]

Pension Obligation Bonds – Foster City

Foster City does not have any outstanding pension obligation bonds.[286]

General Fund Reserves – Foster City

Foster City's general fund reserve balance is projected to be $40.77 million at the end of FY 2018-19, representing a very healthy 91.1 percent of the general fund budget for the year.[287] The City's five-year forecast projects that this reserve balance percentage will drop down to 82.5 percent by the end of FY 2022-23. This remains well above the City's Reserve Policy percentage of 33.3 percent to 50 percent of the general fund budget.[288]

Long-Term Financial Forecast – Foster City

Foster City's long-term general fund financial forecast is based on a five-year projection. The most current five-year financial forecast published by the City is for the period ending on June 30, 2024 and can be found in the City's FY 2019-20 preliminary budget .[289]

Half Moon Bay

Pension Contribution Costs – Half Moon Bay

Half Moon Bay's pension contribution costs in FY 2017-18 were $0.881 million, up $0.287 million (48.3 percent) from $0.594 million in FY 2016-17.[290] The City's FY 2017-18 pension contribution costs represented 28.2 percent of that year's covered payroll (up from 24.5 percent the preceding year) and 7.2 percent of total general fund spending (up from 5.7 percent the preceding year).[291]

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283 Ballotpedia, Local Ballot Measures, Foster City, California, Measure TT, Hotel Tax Increase (November 2018).
284 Foster City Final Budget for Fiscal Year 2018-19, pp. 47-48.
285 Email from Foster City, dated June 18, 2019.
286 Ibid.
287 Ibid., p. 54.
288 Ibid., p. 54.
289 Foster City, Preliminary Budget for Fiscal Year 2019-2020, pp. 55-94. The city also published a five-year financial forecast in its Final Budget for Fiscal Year 2018-19, pp. 52-90.
290 Appendix A.
291 Ibid.

The City's actuarial consultant projects that the City's pension contribution costs will increase by $0.665 million (75.6 percent) to $1.55 million by FY 2023-24 and by an additional $0.345 million (22.3 percent) to $1.89 million by FY 2028-29.[292]

The City's projected pension contribution costs are not included in its FY 2017-18 CAFR, its FY 2018-19 budget, or its FY 2018-19 budget[293] nor was the Grand Jury able to find them in any City Council meeting agenda packages for the period from January 1, 2018 through June 1, 2019. The only pension cost projections for Half Moon Bay that the Grand Jury obtained came from a written document request made to the City. That request yielded a detailed study of the City's current and projected annual pension costs through FY 2028-29 prepared by Bartel Associates, LLC and dated October 8, 2018.[294] As of the Grand Jury's March 21, 2019 interview, staff reported that neither the Bartel report, nor any other data showing the City's rising pension costs in the future, had been presented by staff to the City Council and that staff saw no reason to provide such information to the City Council because pensions are not an area of financial concern for Half Moon Bay.[295]

Financial Overview – Half Moon Bay

Half Moon Bay states that it is in a "strong position" financially "following 10 years of economic growth"[296] Nevertheless, the City states in its FY 2019-20 recommended budget that "rising pension costs will pose significant budgetary and service-level challenges in coming fiscal years."[297] Notwithstanding the concern, staff reports that it is confident that the City will be able to meet this challenge.[298] The City projects that its general fund balance (or surplus) will decrease from $10.1 million at the end of FY 2017-18 (representing 56.8 percent of $17.77 million in general fund expenses) down to $4.14 million at the end of FY 2023-24 (representing 20.9 percent of $19.79 million in general fund expenses). This is due, in part, to the City's projections that it will make approximately $12 million of investments into capital improvement projects from FY 2017-18 through FY 2023-24 (spending an average of $1.73 million per year on improvements during that period).[299]

Additional Payments to CalPERS – Half Moon Bay

Half Moon Bay has no current plans to make any additional payments to CalPERS beyond its Annual Required Contribution.[300] In its FY 2018-19 budget, the City stated that "Staff is currently working on an independent actuarial valuation of the City's pension plans and

[292] Bartel Associates, LLC report to City of Half Moon Bay, October 8, 2018, pp. 20 & 30. This report includes pension cost projections through FY 2028-29.
[293] Half Moon Bay FY 2017-18 Comprehensive Annual Financial Report. Half Moon Bay Adopted Operating Budget FY 2018-19. Half Moon Bay, Fiscal Year 2019-20 Recommended Operating Budget.
[294] Bartel Associates, LLC report to City of Half Moon Bay, October 8, 2018, pp. 20 & 30.
[295] Grand Jury interview.
[296] Half Moon Bay, Fiscal Year 2019-20 Recommended Operating Budget, p. 19.
[297] Ibid., p. 16.
[298] Grand Jury interview.
[299] Half Moon Bay, Fiscal Year 2019-20 Recommended Operating Budget, p. 82.
[300] Grand Jury interview.

will be bringing a pension funding policy recommendation to Council at the beginning of the new fiscal year."[301] As noted above, the City's actuarial valuation firm (Bartel Associates, LLC) delivered that valuation report to the City on October 8, 2018.[302] However, as of March 21, 2019, staff had not presented the Bartel report to the City Council and reported that there were no plans to develop a pension funding policy recommendation for council's consideration.[303]

Pension Reserve Fund – Half Moon Bay

Half Moon Bay has $1.15 million in a "Retirement Stabilization Fund"[304] and plans to add another $0.1 million to that fund by June 30, 2019.[305] This amount would represent approximately 17 months of pension contribution cost (based on FY 2017-18 payments). The City has made no decision yet as to whether to add further to this fund in FY 2019-20 or thereafter.[306]

Employee Contribution to City's Normal Cost – Half Moon Bay

Half Moon Bay has no cost-sharing agreements in place with employees under which the employees pay a portion of the City's pension contribution costs.[307]

Revenue Enhancement – Half Moon Bay

At present, Half Moon Bay is not engaged in a process of actively preparing to bring any revenue enhancement ballot measures before its voters.[308] However, staff notes that it regularly considers whether a ballot measure seeking revenue enhancement is appropriate for the City and it is certainly possible that the City could decide to begin such a process in the future with an eye to submitting such a ballot measure to its voters in November 2020.[309]

Pension Obligation Bonds – Half Moon Bay

Half Moon Bay does not have any outstanding pension obligation bonds.[310]

General Fund Reserves – Half Moon Bay

Half Moon Bay projects that its general fund balance (or surplus) will decrease from $10.1 million at the end of FY 2017-18 (representing 56.8 percent of its $17.77 million in general fund expenses) down to $4.14 million at the end of FY 2023-24 (representing 20.9 percent of its $19.79 million in general fund expenses).[311] As noted above in the section entitled

[301] Half Moon Bay Adopted Operating Budget FY 2018-19, p. 57.
[302] Bartel Associates, LLC report to City of Half Moon Bay, October 8, 2018.
[303] Grand Jury interview.
[304] Half Moon Bay Adopted Operating Budget FY 2018-19, p. 208.
[305] Grand Jury interview. Half Moon Bay Adopted Operating Budget FY 2018-19, p. 57.
[306] Grand Jury interview.
[307] Ibid.
[308] Ibid.
[309] Ibid.
[310] Ibid.
[311] Half Moon Bay, Fiscal Year 2019-20 Recommended Operating Budget, p. 82.

"Financial Overview – Half Moon Bay," this projected draw down of the general fund balance would be due, in part, to the City's decision to make approximately $12 million of investments into capital improvement projects from FY 2017-18 through FY 2023-24 (spending an average of $1.73 million per year on improvements during that period).[312]

Notwithstanding the draw-down of the general fund balance, Half Moon Bay expects to continue to maintain an operating contingency reserve of at least 30 percent of operating general fund expenses each year[313] and the City has also established an economic uncertainty reserve with the goal of holding an amount in that reserve equal to at least 20 percent of general fund operating expenses. The City projects that at the end of FY 2019-20, the contingency reserve will equal $5.04 million (30 percent of general fund operating expenses of $16.79 million) and the new economic uncertainty reserve will equal $2.61 million (15.6 percent of general fund operating expenses).[314]

The City also notes that in FY 2019-20, it plans to make a one-time payment of $11 million to pay off (ahead of schedule) its outstanding judgement obligation bonds, which will leave the City largely debt free, except for repayment over the next ten years, on an interest-free basis, of $6 million that San Mateo County advanced to the City to help build the City's new library.[315]

<u>Long-Term Financial Forecast – Half Moon Bay</u>

Half Moon Bay included a five-year general fund financial forecast in its readily-accessible FY 2018-19 budget[316] and in its FY 2019-20 recommended budget.[317]

Hillsborough

<u>Pension Contribution Costs - Hillsborough</u>

Hillsborough's pension contribution costs in FY 2017-18 were $2.41 million, up $0.254 million (11.8 percent) from $2.16 million in FY 2016-17.[318] The Town's FY 2017-18 pension contribution costs represented 23.6 percent of that year's covered payroll (down from 24.9 percent the preceding year) and 10.8 percent of its total general fund spending (up from 10.2 percent the preceding year).[319]

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312 Ibid., p. 82.

313 Staff note that this 30 percent compares favorably with the recommendation of the Government Finance Officers Association (GFAO) that municipalities maintain unrestricted reserves (which would include contingency reserves) equal to at least two months (17 percent) of general fund revenues or expenses. GFAO website (https://www.gfoa.org/fund-balance-guidelines-general-fund). Grand Jury interview.

314 Half Moon Bay, Fiscal Year 2019-20 Recommended Operating Budget, p. 73. Grand Jury interview.

315 Grand Jury interview.

316 Half Moon Bay Adopted Operating Budget FY 2018-19, p. 94.

317 Half Moon Bay, Fiscal Year 2019-20 Recommended Operating Budget, p. 82.

318 Appendix A.

319 Ibid.

Hillsborough's actuarial consultant projects the Town's pension contribution costs will increase from FY 2017-18 by $2.05 million (84.6 percent) to $4.47 million by FY 2023-24 and by an additional $0.926 million (20.7 percent) to $5.4 by FY 2027-28.[320]

Hillsborough's projected pension contribution costs were not included in its FY 2018-19 budget[321] but are set forth in its readily-accessible FY 2019-20 proposed budget.[322]

Financial Overview – Hillsborough

Hillsborough's financial position appears to be strong. It had a large general fund balance of $22.5 million at the end of FY 2017-18 (representing 101.1 percent of general fund expenditures for the year)[323] and, over the course of the following ten years through FY 2027-27, projects that this balance will remain at an average of approximately $24.4 million, representing an average of 77 percent of general fund expenditures, still well above the Town's minimum of 30 percent and goal of 50 percent.[324]

Additional Payments to CalPERS - Hillsborough

Hillsborough's staff recommended to the Town Council on September 11, 2018 that an analysis be prepared for the FY 2019-20 budget to fund a $0.25 million additional payment to CalPERS beyond its Annual Required Contribution for each of the next five years in order to accelerate amortization of the Town's Unfunded Liability and thus reduce long-term interest costs.[325] This recommendation was made in the context of an overall recommendation that the Town budget a total of $3.25 million for pension mitigation over the next five years ($1.25 million in additional payments and $2 million into a Section 115 trust).[326] After weighing all aspects of pension mitigation strategies over the course of several discussions, the Town council elected not to proceed with additional payments to CalPERS at that time, but (as described in "Pension Reserve Fund – Hillsborough" below) also decided to increase the proposed contribution to the Section 115 trust from the recommended $2 million to $4.8 million over the next two years. Staff reports that the Town will review its pension mitigation strategy during the next annual budget process.[327]

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[320] Bartel Associates, LLC report to Town of Hillsborough, February 19, 2018, pp. 12 & 26. This report includes pension cost projections through FY 2028-29.

[321] Hillsborough, Adopted Budget for Fiscal Year 2018-19, with Preliminary Budgets for Fiscal Years 2019-20 and 2020-21.

[322] Hillsborough, Proposed Budget for Fiscal Year 2019-20 with Preliminary Budgets for Fiscal Years 2020-21 & 2021-22, p. 105.

[323] Hillsborough, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 24.

[324] Hillsborough, Proposed Budget for Fiscal Year 2019-20 with Preliminary Budgets for Fiscal Years 2020-21 & 2021-22, p. 107.

[325] Hillsborough, Memorandum from Jan Cooke to Financial Advisory Committee Working Group dated August 3, 2018 re: Pension Liability Mitigation Strategies, p. 63.

[326] Hillsborough, Memorandum from Jan Cooke to Financial Advisory Committee Working Group dated August 3, 2018 re: Pension Liability Mitigation Strategies, p. 63.

[327] Grand Jury interview. Email from Hillsborough, dated June 5, 2019.

Pension Reserve Fund - Hillsborough

Hillsborough has established a Section 115 Trust for the purpose of helping meet future pension expenses and, in January 2019 approved funding the trust with an initial $2.4 million. The Town's FY 2019-20 proposed budget calls for an additional $2.4 million to be transferred to the trust. If this additional amount is deposited in the trust, the total as of FY 2019-20 will be $4.8 million[328] which would represent 18 months of Hillsborough's projected annual pension costs as of FY 2019-20.[329] The Town is not currently planning to contribute any amounts beyond $4.8 million to this trust, but will review funding changes in the future if circumstances warrant.[330]

Employee Contribution to City's Normal Cost - Hillsborough

Hillsborough has cost sharing agreements with employees who participate in its "Classic" plans under which they pay a portion of the Town's pension costs equal to one percent of their compensation.[331]

Revenue Enhancement - Hillsborough

Hillsborough is not currently in the process of planning to seek voter approval of any revenue enhancement measures, but it does periodically review its funding sources to fund needs such as capital improvements.[332]

Pension Obligation Bonds – Hillsborough

Hillsborough does not have any outstanding pension obligation bonds.[333]

General Fund Reserves - Hillsborough

Hillsborough projects having a general fund balance of $23.42 million at the end of FY 2018-19. The Town projects that it will have small annual general fund surpluses through FY 2024-25, at which time the balance will be $25.6 million. In FY 2025-26, the Town projects running a general fund deficit of $0.441 million, and annual deficits of $1.32 and $1.66 million in FY 2027-28 and FY 2028-29, respectively, at which time the general fund balance is projected to be $21.34 million.[334] Included in these annual general fund balance numbers is $4.8 million in the Section 115 Trust.

Hillsborough's general fund reserve policy is to maintain a general fund balance equal to a 50 percent, with a minimum of 30 percent, of general fund expenditures. In FY 2017-18,

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[328] Hillsborough, Proposed Budget for Fiscal Year 2019-20 with Preliminary Budgets for Fiscal Years 2020-21 & 2021-22, p. 27.
[329] Appendix A.
[330] Grand Jury interview. Email from Hillsborough, dated June 5, 2019.
[331] Grand Jury interview.
[332]Ibid. Email from Hillsborough, dated June 5, 2019.
[333] Grand Jury interview.
[334] Hillsborough, Proposed Budget for Fiscal Year 2019-20 with Preliminary Budgets for Fiscal Years 2020-21 & 2021-22, p. 107.

the general fund balance equaled 101.1 percent of general fund expenditures for the year.[335] That percentage is projected to drop to 85.2 percent by the end of FY 2018-19, 81.3 percent at the end of FY 2023-24 and down to 63.3 percent at the ed of FY 2027-28, still well above the Town's goal of 50 percent.[336] If Hillsborough's general fund expenditures were calculated to include transfers of funds out to other funds, however, then the expenditures numbers would increase and the percentages of expenditures represented by the general fund balances would change to 92.5 percent at the end of FY 2017-18, 85.7 percent at the end of FY 2018-19, 81.1 percent at the end of FY 2023-24 and 57 percent at the end of FY 2027-28.[337]

Long-Term Financial Forecast – Hillsborough

Hillsborough's long-term general fund financial forecasting is based on a ten-year period. This forecast is included in the Town's readily-accessible FY 2018-19 budget and its FY 2019-20 proposed budget.[338]

Menlo Park

Pension Contribution Costs – Menlo Park

Menlo Park's pension contribution costs in FY 2017-18 were $5.56 million, down $0.01 million (-0.2 percent) from FY 2016-17.[339] The City's FY 2017-18 pension contribution costs represented 23.8 percent of that year's covered payroll (down from 24.1 percent the preceding year) and 11.8 percent of its total general fund spending (unchanged from 11.8 percent the preceding year).[340]

Menlo Park's actuarial consultant projects the City's pension contribution costs (net of employee cost sharing under which employees pay a portion of the City's pension obligations) will increase over FY 2017-18 costs by $4.84 million (87.1 percent) to $10.39 million by FY 2023-24 and by an additional $1.64 million (15.8 percent) to $12.03 million over FY 2023-24 costs by FY 2027-28.[341]

Menlo Park's projected pension contribution costs are not included in its FY 2017-18 CAFR, or in its FY 2018-19 budget.[342] In order to find these projected costs online, it is

[335] Hillsborough, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 24.
[336] Hillsborough, Proposed Budget for Fiscal Year 2019-20 with Preliminary Budgets for Fiscal Years 2020-21 & 2021-22, p. 107.
[337] Email from Hillsborough, dated June 5, 2019.
[338] Hillsborough, Adopted Budget for Fiscal Year 2018-19, with Preliminary Budgets for Fiscal Years 2019-20 and 2020-21, p. 98. Hillsborough, Proposed Budget for Fiscal Year 2019-20 with Preliminary Budgets for Fiscal Years 2020-21 & 2021-22, p. 107.
[339] Appendix A.
[340] Ibid. See "Note" regarding Menlo Park's "Contribution Cost as % of General Fund Spending" for alternative calculation of these percentages.
[341] Bartel Associates, LLC report to City of Menlo Park, November 13, 2018, pp.28 & 46.
[342] Menlo Park. Fiscal Year 2018-19 Adopted Budget. Menlo Park's FY 2018-19 budget (at page 38) does set forth the City's pension costs through FY 2028-29, but only to the extent paid out of the general fund. Therefore, the budget does not show the City's total pension costs.

necessary to manually search through City Council meeting agenda packages, which can be accessed at the following website: https://menlopark.org/AgendaCenter/City-Council-14. (Last accessed on June 2, 2019.) That search would eventually lead to the agenda for the November 13, 2018 City Council meeting,[343] which refers to an "Employee pension obligations" study session and includes a link to a staff report on this topic dated November 13, 2019,[344] attached to which is a detailed review of the City's projected pension costs from its actuarial consulting firm (Bartel Associates, LLC).[345]

Financial Overview – Menlo Park

Menlo Park describes its financial outlook "currently quite strong" and notes that the outlook for growing property tax revenues, the City's largest revenue source, remains "strong."[346] The City notes, however, that the "strong economy has resulted in near zero unemployment for the region and the City is in fierce competition for talented staff."[347]

As of the end of FY 2017-18, Menlo Park had a total general fund balance of $37.12 million.[348] Notwithstanding rising pension costs and a tight labor market, the City projects that it will continue to accrue substantial increases in its general fund balance. From FY 2018-19 through FY 2023-24, it projects aggregating additional general fund balance amounts totaling $16.3 million and, from FY 2024-25 through FY 2027-28, it projects aggregating an additional $12.1 million in general fund balance amounts, bringing total additional amounts accrued in the general fund balance for the period from FY 2018-19 through FY 2027-28 to $28.4 million.[349] These projections take into account an assumption that "an economic downturn [is] nearly certain to occur within the time frame of the [long-term] forecast"[350] making the projections more conservative than those of Cities that do not model a likely recession into their long-term financial planning.

Staff notes, however, that a portion of these projected general fund surpluses may be used to offset a portion of future funding needs for planned capital improvements. The City points out that capital improvement projects are budgeted for a total of $73.5 million over five years and that the "funds that support those projects … are expected to have a funding requirement of $44.64 million through the five-year plan. As the City realizes surpluses in the General Fund, those funds may be used to offset a portion of the future funding need."[351]

343 Menlo Park. Agenda for City Council meeting on November 13, 2018.
344 Menlo Park. Staff Report for City Council Meeting on November 13, 2018 re: Study Session: Employee pension obligations.
345 Bartel Associates, LLC report to City of Menlo Park, November 13, 2018, pp.28 & 46.
346 Menlo Park, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, pp. iii - iv of December 21, 2018 transmittal letter.
347 Menlo Park. Fiscal Year 2018-19 Adopted Budget, p. ii of City Manager's Transmittal Letter.
348 Menlo Park, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 36.
349 Menlo Park. Fiscal Year 2018-19 Adopted Budget, pp. 36-37.
350 Ibid., p. 37.
351 Ibid., p. viii of City Manager's Transmittal Letter. Email from Menlo Park, dated June 6, 2019.

Additional Payments to CalPERS – Menlo Park

Menlo Park's staff has recommended to the council that the City make supplemental payments to CalPERS in excess of its Annual Required Contribution in amounts that mimic the effect of amortizing unfunded liabilities on a ten year schedule for its Miscellaneous Plans and a fifteen year schedule for its Tier 1 Safety Plan.[352] If adopted by the City Council for FY 2019-20 and included in budgets for each subsequent year (which requires affirmative City Council action each new year), this recommendation would, by the end of FY 2027-28 result in the City making aggregate supplemental payments to CalPERS of approximately $12.68 million in addition to its Annual Required Contribution.[353] After FY 2027-28, the City projects that these additional payments will yield net, annual decreases in payments to CalPERS for an aggregate savings – net of the $12.68 million of additional payments - of approximately $18.1 million by FY 2033-34.[354]

Pension Reserve Fund – Menlo Park

Menlo Park has established a "Strategic Pension Funding" reserve which, as of June 30, 2018, had a balance of $4.3 million[355], up from $3.3 million the year before.[356] Menlo Park's policy is to assign 25 percent of any general fund surpluses to this pension reserve.[357] Based on projected surpluses set forth in the City's FY 2018-19 budget of approximately $0.6 million in FY 2018-19, $4.24 million in FY 2019-20, $3.67 million in FY 2020-21, $2.57 million in FY 2021-22, $2.79 million in FY 2022-23 and $2.4 million in FY 2023-24[358] this policy would, if the City continued to implement it, add another $4.1 million to the reserve through FY 2023-24 for an aggregate total Strategic Pension Funding Reserve of $8.4 million.[359] If Menlo Park continued to apply this 25 percent policy through FY 2027-28, based on projections in the City's FY 2018-19 budget a further $3 million would be added to the reserve.[360] This would result in a Strategic Pension Funding reserve balance of $11.4 million at the end of FY 2027-28, which would equal almost a full year of projected FY 2027-28 pension costs.[361] Menlo Park notes that the foregoing projections from its FY 2018-19 budget have been updated since the budget was prepared in 2018,[362] however the new projections have not been published yet and so the Grand Jury relied on the FY 2018-19 budget numbers.

[352] Menlo Park, Staff Report for City Council Meeting on March 5, 2019 re: Planned budget strategy for unfunded pension liability, pp. 9-10 & 11.
[353] Email from Menlo Park, dated June 6, 2019.
[354] Ibid.
[355] Menlo Park, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 74.
[356] Menlo Park, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2017, p. 14.
[357] Menlo Park. Fiscal Year 2018-19 Adopted Budget, p. 38.
[358] Ibid., p. 36.
[359] The City has indicated that it will continue to implement this policy until otherwise affirmatively decided by the City Council. Grand Jury interview.
[360] Menlo Park. Fiscal Year 2018-19 Adopted Budget, p. 37.
[361] Bartel Associates, LLC report to City of Menlo Park, November 13, 2018, pp. 28 & 46.
[362] Email from Menlo Park, dated June 6, 2019.

Employee Contribution to City's Normal Cost – Menlo Park

Menlo Park employees have entered into cost-sharing agreements with the City under which they pay for a portion of the pension costs that would otherwise have to be paid by the City. Under these cost-sharing agreements (a) Miscellaneous plan employees will pay an additional amount equal to 50 percent of the City's future pension cost increases above set percentage contribution rates for the City,[363] (b) with sworn Safety plan Tier 1 and Tier 2 employees under which they will pay a portion of the City's pension costs equal to 3 percent of covered payroll, and (c) with PEPRA Safety plan employees under which they pay the greater of one-half of the City's pension contribution costs for them, or an amount equal to 12 percent of their covered payroll.[364] Menlo Park estimates the net present value of the savings it could achieve under these employee cost-sharing agreements to be $11.88 million.[365]

Revenue Enhancement – Menlo Park

Menlo Park is not currently planning to put any revenue enhancement ballot measures before its voters.[366]

Pension Obligation Bonds – Menlo Park

Menlo Park does not have any outstanding pension obligation bonds.[367]

General Fund Reserves – Menlo Park

As of June 30, 2018, Menlo Park's unrestricted[368] general fund balance was $35.71 million[369] representing 53.1 percent of the general fund's $67.26 million in budgeted general fund expenditures for FY 2018-19.[370] Included within the FY 2018-19 general fund unrestricted balance was $9.3 million emergency contingencies reserve, a $12 million reserve to mitigate the effects of major economic uncertainties, and $4.3 million for strategic pension funding.[371] The City's goal is to maintain the unrestricted general fund balance at between 43 and 55 percent of general fund expenditures.[372]

[363] For Miscellaneous plan employees in the SEIU unit, this percentage is 14.597 percent and for other Miscellaneous plan employees it is 15.85 percent. (Email from Menlo Park, dated June 6, 2019.)

[364] Grand Jury interview. See also, Menlo Park. Fiscal Year 2018-19 Adopted Budget, p. 38.

[365] Menlo Park, Staff Report for City Council Meeting on March 5, 2019 re: Planned budget strategy for unfunded pension liability, pp. 6-7.

[366] Email from Menlo Park, dated June 6, 2019.

[367] Ibid.

[368] "Unrestricted" assets are those which are not "invested in capital assets net of related debt" or that the City is otherwise restricted from spending by external creditors, grantors, contributors or applicable laws or regulations. Menlo Park, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 52.

[369] Menlo Park, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. vi of December 21, 2018 transmittal letter & pp. 14 & 32.

[370] Ibid., p. vi of December 21, 2018 transmittal letter. Menlo Park. Fiscal Year 2018-19 Adopted Budget, pp. 36-37.

[371] Menlo Park, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 74.

[372] Ibid., p. 14.

As of the end of FY 2017-18, Menlo Park had a total general fund balance of $37.12 million.[373] As noted above, over the ten-year period from FY 2018-19 through FY 2027-28, Menlo Park projects it will aggregate further general fund surpluses totaling $28.4 million.[374]

Over that same ten-year period, the unassigned general fund balance is projected to increase from $4.41 million to $11.55 million.[375]

Long-Term Financial Forecast – Menlo Park

Menlo Park publishes a long-term general fund operating budget forecast with a period of ten years.[376] The long-term general fund operating budget forecast can be found in the City's FY 2018-19 budget,[377] which can easily be accessed online at the landing page for the Menlo Park finance department at https://menlopark.org/367/Finance. (Last accessed on May 11, 2019.)

Millbrae

Pension Contribution Costs - Millbrae

Millbrae's pension contribution costs in FY 2017-18 were $3.31 million, up $0.978 million (41.9 percent) from $2.34 million in FY 2016-17.[378] The City's FY 2017-18 pension contribution costs represented 45 percent of that year's covered payroll (up from 37.9 percent the preceding year) and 11.7 percent of its total general fund spending (up from 9.2 percent the preceding year).[379],[380]

In addition to its contribution payments made to CalPERS, Millbrae also makes annual, installment payments on its 2004 pension obligation bonds (originally issued in the amount of $11.5 million).[381] The City paid $1.07 million on the bonds in FY 2017-18 and will pay $1.11 million in FY 2018-19.[382,383] Taking bond payments into account, Millbrae's total payments on account of its pensions (CalPERS and bond payments combined) were $4.39

[373] Ibid., p. 32.
[374] Menlo Park. Fiscal Year 2018-19 Adopted Budget, pp. 36-37.
[375] Email from Menlo Park, dated May 11, 2019. Menlo Park. Fiscal Year 2018-19 Adopted Budget, p. 39.
[376] Menlo Park. Fiscal Year 2018-19 Adopted Budget, pp. 36-37.
[377] Ibid., pp. 36-37. A ten-year forecast was also included in the City's Fiscal Year 2017-18 Adopted Budget, pp. 46-47.
[378] Appendix A.
[379] Ibid.
[380] Millbrae notes that its pension payments as a percentage of covered payroll are artificially high because the City has pension liability for public safety employees (police and fire) but the City currently contracts for services and has no employees in those categories. While the City has no police and fire staff, the City is responsible for unfunded liability pension costs associated with former police and fire agencies and is also responsible for pension costs associated with employees in police and fire contracts. Pension spending for Miscellaneous plan employees in FY 2017-18 represented only 29.5% of covered payroll. (Email from Millbrae, dated June 12, 2019.)
[381] Millbrae, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, pp. 19 & 68.
[382] Millbrae, Slide presentation for November 13, 2018 City Council meeting re: Post-Employment Benefit Review, slide 30.
[383] Email from Millbrae, dated June 12, 2019.

million in FY 2017-18 (representing 59.6 percent of that year's covered payroll and 15.5 percent of total general fund spending of $28.2 million[384]), up $1.02 million (30.3 percent) from $3.37 million in FY 2016-17.[385]

Millbrae projects its pension contribution costs will increase from FY 2017-18 by $2.93 million (88.3 percent) to $6.24 million by FY 2023-24 and by an additional $0.0.377 million (6 percent) to $6.62 million by FY 2027-28.[386] From FY 2018-19 through FY 2027-28, the City will pay a total of $13.57 million on its pension obligation bonds, which represents an annual average of approximately $1.36 million.[387] Taking bond payments into account, the City's total payments on account of its pensions (CalPERS and bond payments combined) will increase from FY 2017-18 by $3.24 million (73.9 percent) to $7.62 million by FY 2023-24 and by an additional $0.602 (7.9 percent) to $8.23 million by FY 2027-28.[388]

Millbrae's projected pension contribution costs are not included in its FY 2017-18 CAFR, or in its FY 2018-19 & 2019-20 budget.[389] The most detailed information about the City's projected pension costs is found in the January 19, 2018 report by the City's actuarial consultant (Bartel Associates, LLC).[390] Unfortunately, this report is not made available by Millbrae on its website. The Grand Jury obtained a copy through a direct request to the City.[391] Other pension cost projection information can be found on the City's website by manually searching through City Council meeting agenda packages, which can be accessed at the following website: https://www.ci.millbrae.ca.us/departments-services/city-clerk/city-council-meetings-agendas/-toggle-allpast. (Last accessed on June 2, 2019.) That search would eventually lead to the agenda for the November 13, 2018 City Council meeting,[392] which references a discussion of "Post Employment Benefit Costs" and has a link next to it entitled "PowerPoint presentation." Clicking on that link leads to presentation slides that include, on slide 30, projected pension costs and annual pension obligation bond debt service amounts.[393]

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384 Millbrae, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 34. Note: If general fund "transfers out" were included as part of general fund expenditures for FY 2017-18, then total expenditures would be $33.64 million and the $4.39 million of total, combined payments on account of pensions would represent 13 percent of general fund expenditures.
385 Millbrae, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2017, p. 34. Millbrae, Slide presentation for November 13, 2018 City Council meeting re: Post-Employment Benefit Review, slide 30. Email from Millbrae, dated June 12, 2019.
386 Ibid.
387 Ibid.
388 Ibid.
389 Millbrae, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018. Millbrae, Operating and Capital Budget for the 2018-2019 Fiscal Year and 2019-2020 Fiscal Year.
390 Bartel Associates, LLC report to City of Millbrae, January 19, 2018.
391 The Grand Jury also received updated annual pension contribution cost and pension obligation bond debt service cost information for FY 2018-19 through FY2028-29 via an email from Millbrae, dated June 12, 2019.
392 Millbrae, Agenda for City Council meeting on November 13, 2018.
393 Millbrae, Slide presentation for November 13, 2018 City Council meeting re: Post-Employment Benefit Review, slide 30.

Financial Overview – Millbrae

Millbrae reports that its overall financial position is "sound" and that key revenues are anticipated to continue to grow. The City notes, however, that there is concern about the effects of a future recession, which appears to be overdue as the length of the current recovery from the 2008 recession has lasted twice as long as the average of 5 years between recessions.[394]

The City notes that, for its prior 2-year budget cycle from FY 2015-16 through FY 2017-18, it planned to drawn down a total of $12.5 million in general fund reserves "to fund a robust capital improvement program." The City states that it was able to reduce that planned draw down of reserves to $8.5 million, but $1.8 million of that use of reserves was in order to close a budget deficit for operating expenses. In FY 2018-19, the City states that it had to take "significant action to assure a balanced operating budget."[395] Millbrae notes that on June 11, 2019, it presented an update to the FY 2019-20 budget that brings the operating budget into balance.[396]

Additional Payments to CalPERS - Millbrae

Millbrae reports that it has no current plans to make any additional payments to CalPERS beyond its Annual Required Contribution but, at the City Council's direction staff is investigating options which will be presented at a future date to be considered in line with the City's additional strategic priorities.[397]

Pension Reserve Fund - Millbrae

Millbrae has not established any reserves for the purpose of helping to meet rising pension costs in the future.[398]

Employee Contribution to City's Normal Cost - Millbrae

Millbrae has entered into cost-sharing agreements with Miscellaneous plan "classic" employees under which those employees agree to pay a portion of the City's pension contribution costs equal to 5 percent of their salary.[399] Those employee contributions are projected to average $0.257 million per year from FY 2017-18 through FY 2027-28.[400]

Revenue Enhancement - Millbrae

Millbrae has no current plans to put any revenue enhancement ballot measures before its voters.[401]

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[394] Millbrae, Operating and Capital Budget for the 2018-2019 Fiscal Year and 2019-2020 Fiscal Year, p. 7.
[395] Ibid., p. 16.
[396] Email from Millbrae, dated June 12, 2019.
[397] Ibid.
[398] Ibid.
[399] Millbrae, City Council Agenda Report for City Council Meeting on November 13, 2018 re: Receive informational report on City of Millbrae Post-Employment Benefit Costs, p. 3
[400] Bartel Associates, LLC report to City of Millbrae, January 19, 2018, p. 26.
[401] Email from Millbrae, dated June 12, 2019.

Pension Obligation Bonds - Millbrae

In 2004, Millbrae issued pension obligation bonds in the amount of $11.5 million.[402] A total of $10.54 million in payments on the bonds will be due from Millbrae during the years from FY 2019-20 through FY 2026-27, which represents an annual average of approximately $1.32 million.[403] The bonds will be paid off in FY 2033-34.[404]

General Fund Reserves - Millbrae

At the end of FY 2017-18, Millbrae had an unrestricted general fund balance of $19.3 million. This amount was 68 percent of the $28.2 million of general fund expenditures for that year.[405] The FY 2017-18 balance represented a decrease of $3.81 million (16.5 percent) from FY 2016-17, when the City's unrestricted general fund balance was $23.07 million and equaled 90.5 percent of general fund expenditures of $25.49 million for the year.[406]

The City informed the Grand Jury in April 2018 that it was unable to predict what its general fund balance will be at the end of FY 2018-19 or FY 2019-20 as staff was continuing to evaluate opportunities to increase revenues and improve efficiencies.[407] Based on the current adopted budget and proposed amendments at the mid-cycle update, assuming all revenues and expenses as originally forecast, staff now estimates an ending general fund balance of $12.7 million in FY 2018-19 and $6.05 in FY2019-20 with a reserve fund policy level of 15 percent.[408]

Long-Term Financial Forecast – Millbrae

Millbrae does not currently have a long-term general fund financial forecast. The City is in the process of developing a ten-year general fund financial forecast and expects to have one sometime in FY 2019-20.[409]

Pacifica

Pension Contribution Costs - Pacifica

Pacifica's pension contribution costs in FY 2017-18 were $4.09 million, up $0.351 million (9.4 percent) from $3.74 million in FY 2016-17.[410] The City's FY 2017-18 pension contribution costs represented 24.8 percent of that year's covered payroll (up from 22.9 percent the preceding year) and 13.6 percent of its total general fund spending (up from 13 percent the preceding year).[411]

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402 Millbrae, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, pp. 19 & 68.
403 Millbrae, Slide presentation re: Post-Employment Benefit Review, slide 30.
404 Millbrae, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 68.
405 Ibid., pp. 5, 32, 34 & 74.
406 Millbrae, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2017, pp. 32, 34 & 74.
407 Grand Jury interview.
408 Email from Millbrae, dated June 12, 2019.
409 Grand Jury interview.
410 Appendix A.
411 Ibid.

In addition to its contribution payments made to CalPERS, the City also makes annual, installment payments on its 2010 pension obligation bonds (originally issued in the amount of $20.5 million).[412] It paid $1.69 million on the bonds in FY 2017-18[413] and will pay $1.75 million in FY 2018-19.[414] From FY 2019-20 through FY 2029-30 when the bonds are fully paid off, the City will make bond payments totaling $13.26 million, for an average annual payment on the bonds of approximately $1.25 million.[415] Taking bond payments into account, the City's total payments on account of its pensions (CalPERS and bond payments combined) were $5.78 million in FY 2017-18 (representing 35.1 percent of that year's covered payroll and 19.3 percent of total general fund spending),[416] down $0.528 million (8.4 percent) from $6.31 million in FY 2016-17.[417]

Pacifica's actuarial consultant projects that the City's pension contribution costs will increase from FY 2017-18 by $3.42 million (83.6 percent) to $7.51 million by FY 2023-24 and by an additional $1.59 million (20.6 percent) to $9.06 by FY 2027-28.[418] Taking bond payments into account, the City's total payments on account of its pensions (CalPERS and bond payments combined) will increase from FY 2017-18 by $2.91 million (50.3 percent) to $8.69 million by FY 2023-24 and by an additional $1.72 million (19.8 percent) to $10.41 million by FY 2027-28.[419]

The City's projected pension contribution costs are not included in its FY 2017-18 CAFR, or in its budget for FY 2018-19.[420] In order to find these projected costs online, it is necessary to manually search through City Council meeting agenda packages, which can be accessed at the following website:
https://pacificacityca.iqm2.com/Citizens/Calendar.aspx?From=1/1/2019&To=12/31/2019. (Last accessed on May 20, 2019.) That search would eventually lead to the agenda for a City Council meeting on November 26, 2018.[421] That agenda includes a heading entitled "2018 Presentation of Pension Costs" under which is a link entitled "Attachment 1 – Bartel Associates – CalPERS Actuarial Issues – 6/30/17 Valuation" which contains the City's pension cost projections.[422]

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412 Pacifica, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 64.
413 Pacifica, Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2016, pp. 64 & 66.
414 Pacifica, Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2017, pp. 64 & 66.
415 Pacifica, Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2018, pp. 64 & 66.
416 Appendix A. Pacifica, Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2017, pp. 64 & 66.
417 Appendix A. Pacifica, Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2016, pp. 64 & 66.
418 Bartel Associates, LLC report to City of Pacifica, November 13, 2018, pp. 12, 21, 30. This report provides projected pension cost data through FY 2029-30.
419 Ibid., pp. 12, 21, 30. Pacifica, Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2017, pp. 64 & 66. Email from Pacifica, dated May 22, 2019.
420 Pacifica, Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2018. Pacifica, Annual Operating Budget 2018-2019, Adopted June 25, 2018.
421 Pacifica, Agenda for City Council Meeting on November 26, 2019.
422 Bartel Associates, LLC report to City of Pacifica, November 13, 2018, pp. 30, 34, 52, 56, 74, 78 & 82.

Financial Overview – Pacifica

While Pacifica has been able to maintain balanced general fund budgets over the years, it notes that "the slow [revenues] growth rate in Pacifica is not keeping pace with inflationary cost increases…"[423] The City highlights two sources of rising cost pressures that are driving long-term general fund budget deficit projections; rising salary and benefits costs in order to compete with other cities for quality employees and rising pension and health care costs.[424]

If the City does not make substantial expenditure reductions or develop additional revenues, its long-term general fund financial forecast projects that its general fund expenses will exceed revenues by a total of approximately $18 million over the nine years from FY 2019-20 through FY 2027-28. Annual deficits are projected to rise from $1.1 million in FY 2019-20 to $3.55 million in FY 2027-28.[425]

Pacifica states that, while it is committed to keeping future general fund budgets balanced, "[t]he increasing [budget] gap projected beyond FY 2019-20 is anticipated to be extremely challenging to balance."[426]

Additional Payments to CalPERS - Pacifica

Pacifica does not currently have any plans to make additional payments to CalPERS beyond its Annual Required Contribution.[427]

Pension Reserve Fund - Pacifica

Staff has recommended that the City Council consider establishing a Section 115 Trust and begin funding the trust with one-time revenue sources.[428] The City expects to include a transfer of $0.2 million into a Section 115 Trust in the FY 2019-20 budget. It has not put in place a plan for the amounts of any future transfers to the trust in subsequent years but expects that it would consider further contributions if general fund surpluses were available.[429]

Employee Contribution to City's Normal Cost – Pacifica

Pacifica has cost-sharing agreements in place with its employees pursuant to which employees pay a portion of the City's pension contribution costs equal a percentage of their compensation ranging from 2.5 percent up to 5 percent.[430]

[423] Pacifica, Council Agenda Summary Report for April 25, 2019 meeting re: FY 2019-20 Narrative Budget Report, pp. 2-3.
[424] Ibid., pp. 2-3 & 5.
[425] Pacifica, Council Agenda Summary Report for February 25, 2019 meeting re: Long Term Financial Plan Update 2018-2028, Attachment 1 (Long Term Financial Plan 2018-28).
[426] Pacifica, Council Agenda Summary Report for April 25, 2019 meeting re: FY 2019-20 Narrative Budget Report, p. 5.
[427] Email from Pacifica, dated June 10, 2019.
[428] Pacifica, Council Agenda Summary Report for April 25, 2019 meeting re: FY 2019-20 Narrative Budget Report, p. 9.
[429] Grand Jury interview.
[430] Ibid. Email from Pacifica, dated May 22, 2019.

Revenue Enhancement - Pacifica

Pacifica is currently focusing on future economic development, especially the building of new hotels and residences, to help increase revenues and bring down projected future deficits. The City may also consider putting an increase in its 12 percent transient occupancy tax ("hotel tax") before its voters.[431]

Pension Obligation Bonds - Pacifica

In 2010, Pacifica issued $20.5 million in pension obligation bonds.[432] As of the end of FY 2017-18, Pacifica's remaining payment obligations on the bonds through maturity in FY2029-30 totaled $15 million.[433]

General Fund Reserves - Pacifica

Pacifica's general fund balance as of the end of FY 2017-18 was $12.55 million, of which $8.55 million (representing 28.5 percent of general fund expenditures for the year[434]) was spendable;[435] consisting of $1.41 million that is assigned,[436] and $7.14 million that is unassigned.[437] The City expects that it will need to draw down some of these reserves to close general fund budget deficits in future years.[438]

Long-Term Financial Forecast – Pacifica

Pacifica has a long-term general fund forecast covering the period from FY 2017-18 through FY 2027-28, which it made available online in connection with its February 25, 2019 City Council meeting regarding a long-term financial plan.[439] The City has not included any long-term general fund operating forecast in its FY 2018-19 budget.[440] In order to find its long-term general fund forecast online, it is necessary to manually search through agendas for City Council meetings that are available at https://pacificacityca.iqm2.com/Citizens/Calendar.aspx. (Last accessed on May 20, 2019.) That search will eventually lead to the agenda for a meeting held on February 25, 2019, which references a discussion

[431] Grand Jury interview.
[432] Pacifica, Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2018, p. 64.
[433] Ibid., pp. 64 & 66.
[434] Pacifica, Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2018, p. 34.
[435] Nonspendable funds 'include amounts that cannot be spend because they are no in spendable form, or legally or contractually required to be maintained intact. The 'not in spendable form' criterion includes items that are not expected to be converted to cash." Pacifica, Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2018, p. 90.
[436] "Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City ordinance (City Manager)." Pacifica, Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2018, p. 91.
[437] "Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications." Ibid., p. 91. Pacifica, Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2018, p. 30.
[438] Grand Jury interview.
[439] Pacifica, Council Agenda Summary Report for February 25, 2019 meeting re: Long Term Financial Plan Update 2018-2028.
[440] Pacifica, Annual Operating Budget 2018-2019, Adopted June 25, 2018.

entitled “Long Term Financial Plan Update.”[441] Clicking on the link below that heading entitled ‘Attachment 1: LTFP 2018-2028” leads to the long-term plan.

Portola Valley

Pension Contribution Costs – Portola Valley

Portola Valley’s pension contribution costs in FY 2017-18 were $0.141 million, up $0.025 million (21.7 percent) from $0.116 million in FY 2016-17. The City’s FY 2017-18 pension contribution costs represented 9.3 percent of that year’s covered payroll (up from 8.1 percent the preceding year) and 2.7 percent of its total general fund spending (flat from 2.7 percent the preceding year).[442]

CalPERS projects that Portola Valley’s pension contribution costs will increase by $0.117 million (83.3 percent) to $0.258 million by FY 2023-24.[443]

Portola Valley does not prepare any projections for future pension contribution costs and none are included in its FY 2017-18 financial report,[444] its FY 2018-19 operating budget,[445] or its FY 2019-20 proposed operating budget.[446] In order to develop the projected cost numbers through FY 2023-24 reported above, the Grand Jury reviewed CalPERS’ actuarial reports to Portola Valley,[447] together with supplemental information received directly from the Town via email[448] and combined the two data sources to generate the projection.

Financial Overview – Portola Valley

Portola Valley reports that its “fiscal condition remains strong.”[449] The Town reported very robust general fund balances of $4.77 million at the end of FY 2016-17 (representing 109.4 percent of general fund expenses of $4.36 million for the year), rising to $4.92 million at the end of FY 2017-18 (representing 93 percent of general fund expenses of $5.29 million for the year). Unassigned reserves were reported to be $2.68 million in FY 2016-17 (representing 61.5 percent of general fund expenses for the year) and $2.83 million in FY 2017-18 (representing 53.5 percent of general fund expenses for the year).[450] In addition, the Town projects that it will have an unfunded pension liability reserve funded with a

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441 The February 25, 2019 City Council meeting agenda can be found at https://pacificacityca.iqm2.com/Citizens/Detail_Meeting.aspx?ID=1259 . (Last accessed on May 20, 2019.)

442 Appendix A.

443 CalPERS Actuarial Valuation – June 30, 2017 Miscellaneous Plan of the Town of Portola Valley, p. 5. CalPERS Actuarial Valuation – June 30, 2017 PEPRA Miscellaneous Plan of the Town of Portola Valley, p. 5. Email correspondence from Portola Valley dated June 18, 2019.

444 Portola Valley, Basic Financial Statements for the Year Ended June 30, 2018.

445 Portola Valley, Adopted Operating & Capital Budgets Fiscal Year 2018-19.

446 Portola Valley, Proposed Operating & Capital Budgets, Fiscal Year 2019-20.

447 CalPERS Actuarial Valuation – June 30, 2017 Miscellaneous Plan of the Town of Portola Valley, p. 5. CalPERS Actuarial Valuation – June 30, 2017 PEPRA Miscellaneous Plan of the Town of Portola Valley, p. 5.

448 Email correspondence from Portola Valley dated June 18, 2019.

449 Portola Valley, Adopted Operating & Capital Budgets Fiscal Year 2018-19, Town Managers transmittal letter to the Town Council, p. 1.

450 Portola Valley, Basic Financial Statements for the Year Ended June 30, 2017, pp. 18 & 22. Portola Valley, Basic Financial Statements for the Year Ended June 30, 2018, pp. 20 & 24.

balance of $0.712 million in FY 2019-20.[451] Per the Town's unfunded pension liability reserve policy, this reserved amount will equal the Town's total unfunded pension liability for FY 2017-18[452] and represent approximately 38 months of its projected pension contribution costs of $0.220 million as of FY 2019-20.[453]

Additional Payments to CalPERS – Portola Valley

In FY 2014-15, Portola Valley paid CalPERS $0.907 million in order to retire its entire unfunded pension liability at that time.[454] Since then, as a result of returns on CalPERS' investments being lower than projected by CalPERS, the Town's has accrued a new unfunded pension liability totaling $0.712 million as of the end of FY 2017-18.[455] Over the course of three to four study sessions beginning in September of 2019, Portola Valley plans to discuss, among other things, how to manage its rising pension costs going forward. While staff has not yet analyzed the possibility of again making additional payments to CalPERS to retire this latest unfunded pension liability, this may be one of the options discussed in those study sessions.[456]

Pension Reserve Fund – Portola Valley

As noted above in the section entitled "Financial Overview – Portola Valley," the Town's policy is to maintain a reserve for its unfunded pension liability that equals its total unfunded pension liability amount.[457] The reserve balance was $0.524 million as of the end of FY 2018-19[458] (equaling the total unfunded pension liability as of the end of FY 2016-17)[459] and will be increased to $0.712 million in FY 2019-20 (equaling the total unfunded pension liability as of the end of FY 2017-18).[460]

During its study sessions scheduled to begin in September 2019, the Town will consider, among other options, whether to move these reserves into a Section 115 pension trust or other outside investment vehicle.[461]

Employee Contribution to City's Normal Cost – Portola Valley

Portola Valley does not have any cost-sharing agreements in place with its employees under which employees agree to pay a portion of the Town's pension contribution costs.[462]

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451 Grand Jury interview.
452 Ibid.
453 CalPERS Actuarial Valuation – June 30, 2017 Miscellaneous Plan of the Town of Portola Valley, p. 4. .CalPERS Actuarial Valuation – June 30, 2017 PEPRA Miscellaneous Plan of the Town of Portola Valley, p. 4.
454 Portola Valley, Basic Financial Statements for the Year Ended June 30, 2015, p. 49. Grand Jury interview.
455 Appendix A.
456 Grand Jury interview.
457 Ibid.
458 Portola Valley, Adopted Operating & Capital Budgets Fiscal Year 2018-19, 2018-19 Fund Activity Summary.
459 Appendix A.
460 Grand Jury interview. Portola Valley, Proposed Operating & Capital Budget, Fiscal Year 2019-20, 2019-20 Fund Activity Summary.
461 Grand Jury interview.
462 Ibid.

Revenue Enhancement – Portola Valley

Since 2016, Portola Valley has not sought voter approval of any revenue enhancement ballot measures and it does not currently have any plans for doing so in the next two years. Staff notes, however, that the Town may evaluate putting ballot measures before its voters for funding of road improvements and/or wildfire risk mitigation in the near future.[463]

Pension Obligation Bonds – Portola Valley

Portola Valley does not have any outstanding pension obligation bonds.[464]

General Fund Reserves – Portola Valley

AS noted above in the section entitled "Financial Overview - Portola Valley," the Town reported very robust general fund balances of $4.77 million at the end of FY 2016-17 (representing 109.4 percent of general fund expenses of $4.36 million for the year), rising to $4.92 million at the end of FY 2017-18 (representing 93 percent of general fund expenses of $5.29 million for the year). Unassigned reserves were reported to be $2.68 million in FY 2016-17 (representing 61.5 percent of general fund expenses for the year) and $2.83 million in FY 2017-18 (representing 53.5 percent of general fund expenses for the year).[465] Unassigned reserves are projected to drop to $1.06 million by the end of FY 2019-20,[466] but staff notes this is largely due to planned investments in two pedestrian safety enhancements and setting aside funds to meet unfunded retiree medical costs.[467]

Long-Term Financial Forecast – Portola Valley

To date, Portola Valley has not prepared long-term general fund operating budget forecasts. However, staff expects that in the study sessions beginning in September 2019, the possibility of developing five-year general fund forecasts will be discussed. Staff has not yet considered whether or not any such forecast would, once developed, be included in the Town's published annual budget.[468]

Redwood City

Pension Contribution Costs – Redwood City

Redwood City's pension contribution costs in FY 2017-18 were $18.41million, up $0.687 million (3.9 percent) from $17.72 million in FY 2016-17. The City's FY 2017-18 pension contribution costs represented 30.3 percent of that year's covered payroll (up from 28.5 percent the preceding year) and 14.6 percent of its total general fund spending (down from 15.8 percent the preceding year).[469]

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463 Ibid.
464 Ibid.
465 Portola Valley, Basic Financial Statements for the Year Ended June 30, 2017, pp. 18 & 22. Portola Valley, Basic Financial Statements for the Year Ended June 30, 2018, pp. 20 & 24.
466 Grand Jury interview. Portola Valley, Proposed Operating & Capital Budget, Fiscal Year 2019-20, 2019-20 Fund Activity Summary.
467 Grand Jury interview.
468 Ibid.
469 Appendix A.

The City projects its pension contribution costs will increase by a $19.5 million (106 percent) to $37.9 million by FY 2023-24 and by an additional $3.71 million (9.8 percent) to $41.63 million by FY 2027-28.[470]

Redwood City's projected pension contribution costs are included in its readily accessible FY 2018-19 budget and FY 2019-20 recommended budget.[471]

Financial Overview – Redwood City

Redwood City faces significant fiscal challenges beginning in FY 2021-22 as substantial projected general fund surpluses in FY 2018-19, FY 2019-20 and FY 2020-21 are projected to turn into large and growing deficits (with an annual deficit of $0.945 million in FY 2022-23 rising to an annual deficit of $17.85 million in FY 2027-28) if significant expense reductions and/or revenue increases are not made.[472] A major component of these looming deficits is rising pension costs.[473]

As part of its FY 2017-18 budget, the City adopted a "Financial Sustainability Plan" or "FSP" which includes reducing operating expenses and increasing revenue over the following five years.[474] Under the FSP, the City had included in its FY 2018-19 budget approximately $3.8 million in operating cost reductions. The City also obtained voter approval for new revenue enhancement measures in 2018 (described in the section entitled "Revenue Enhancement – Redwood City" below). Partly as a result of passage of these measures, the City restored $2.7 million of the planned $3.8 million in planned cost reductions, which included restoration of police department staffing and library hours.[475]

Redwood City notes that, during FY 2019-20, "the City Council Finance/Audit Subcommittee will be discussing opportunities for the City to increase revenue, among other financial strategies" and that "[m]aintaining the City's long-term fiscal stability requires meaningful action and a proactive approach to addressing the City's projected deficit and long-term liabilities through both revenue increases and expenditure reductions over time."[476]

Additional Payments to CalPERS – Redwood City

Redwood City has been evaluating the option of making additional annual payments to CalPERS beyond its Annual Required Contribution in order to reduce long-term pension

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[470] Redwood City, Recommended Budget Fiscal Year 2019-2020, pp. 26, 29 & 175. The graphs on pages 26 and 175 of this budget include contribution cost projections through FY 2038-39. A table on page 29 of the budget projects pension contribution costs through FY 2045-46.
[471]Redwood City, Fiscal Year 2018-2019 Adopted Budget, p. 173. Redwood City, Recommended Budget Fiscal Year 2019-2020, pp. 26 & 175.
[472] Ibid., pp. 166 &176.
[473] Grand Jury interview.
[474] Redwood City, Recommended Budget Fiscal Year 2019-2020, p. 16.
[475] Ibid.
[476] Ibid., p. 17.

costs.[477] Staff has estimated that, by paying CalPERS an extra $1.6 million per year over the next 18 years, the City would receive net savings of approximately $6 to $27 million.[478] If the City made additional annual payments averaging $5.56 million over 15 years, the City's estimated net savings would be approximately $100 million.[479]

At its June 10, 2019 meeting, the City Council approved making an additional payment of $0.6 million to CalPERS beyond the City's Annual Required Contribution out of the FY 2018-19 operating balance.[480] In addition, staff's ten-year general fund forecast included in the new FY2019-20 budget includes additional payments of CalPERS of $0.5 million per year through FY 2028-29.[481]

Staff's recommendation to the City Council in June 2019 is that, on a going forward basis, the City apply 80 percent of all general fund surpluses to pension funding (a combination of additional payments to CalPERS and transfers to the Section 115 Trust) as long as surpluses last.[482] Surpluses of $5.23 million and $3.93 million are projected for FY 2019-20 and FY 2020-21.[483] Putting 80 percent of those into pension funding would result in an additional $4.19 million for pensions in FY 2019-20 and another $3.15 million in FY 2020-21. These general fund surpluses are projected to turn into a deficit of $0.945 million in FY 2021-22 and thereafter to grow each year through FY 2028-29[484] if new revenues are not found, expense reductions made, or a combination of the two. Accordingly, staff considers FY 2019-20 and FY 2020-21 to be the City's best window for making substantial progress toward funding future pension cost increases.[485]

<u>Pension Reserve Fund – Redwood City</u>

In January 2018, Redwood City transferred $10.5 million into a Section 115 pension trust in order to pre-fund future pension payment obligations.[486] In late calendar 2018 the City decided to put another $0.55 million into the Section 115 trust in FY 2018-19.[487] At its June 10, 2019 meeting, the City Council approved contributing an additional $3 million to the Section 115 pension trust out of the FY 2018-19 general fund operating balance, which would bring total contributions to date approximately $14.05 million.[488]

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[477] Grand Jury interview. Redwood City, Staff Memorandum, March 21, 2019, re: Discussion Topics and Staff Recommendations for Meeting on March 25, 2019, pp. 2-5. Redwood City, Recommended Budget Fiscal Year 2019-2020, pp. 27-28.
[478] Ibid., p. 27.
[479] Redwood City, Staff Memorandum, March 21, 2019, re: Discussion Topics and Staff Recommendations for Meeting on March 25, 2019, pp. 4-5.
[480] Email from Redwood City, dated June 18, 2019.
[481] Redwood City, Recommended Budget Fiscal Year 2019-2020, p. 26.
[482] Grand Jury interview.
[483] Redwood City, Recommended Budget Fiscal Year 2019-2020, p. 176.
[484] Ibid.
[485] Grand Jury interview.
[486] Redwood City, Fiscal Year 2018-2019 Adopted Budget, p. 15.
[487] Grand Jury interview.
[488] Emails from Redwood City, dated June 18 and June 19, 2019.

In addition, the City's ten-year general fund budget forecast included in the FY 2019-20 budget contemplates the contribution of an additional $1.1 million per year to the Section 115 pension trust through the ten-year period from FY 2019-20 through FY 2028-29.[489] If made through FY 2028-29, total aggregate contributions to the trust would equal $25.05 million. However, it is possible that the City may begin drawing down some of the Section 115 pension trust balance in the out years of the ten-year forecast to mitigate the impact of rising pension costs, in which case annual contributions of $1.1 million might not continue.[490]

Employee Contribution to City's Normal Cost – Redwood City

Redwood City has negotiated cost-sharing agreements with certain employees bargaining units under which those employees pay a portion of the City's Normal Costs equal to between 2 percent and 9 percent of their salary.[491] The Grand Jury notes that Redwood City has also made a policy decision not to allow compensation increases to exceed CalPERS' assumption on cost-of-living increases, thus ensuring that pension costs will not rise faster than projected based on employee pay raises.[492]

Revenue Enhancement – Redwood City

In November 2018 Redwood City residents approved a half-cent sales tax increase which is expected to generate approximately $8.7 million per year.[493] Notwithstanding this increase, the City will need to find further substantial revenue enhancements to close the projected its projected general fund budget gap that opens up in FY 2021-22. To the extent it does not, major expense cuts through staffing reductions will have to be made.[494]

Pension Obligation Bonds – Redwood City

Redwood City does not have any outstanding pension obligation bonds.[495]

General Fund Reserves – Redwood City

Redwood City's ten-year general fund forecast projects that general fund reserves will increase from $21.4 million at the end of FY 2017-18 (representing 14.7 percent of general fund revenues) to $29.88 million at the end of FY 2019-20 (representing 19 percent of general fund revenues); thereafter dropping by $1.04 million, $4.36 million, $4.67 million, $7.6 million, and $9.31 million during the years from FY 2020-21 through FY 2024-25, at which point reserves will be down to $2.9 million (representing 1.7 percent of general fund

489 Redwood City, Recommended Budget Fiscal Year 2019-2020, p. 176.
490 Grand Jury interview.
491 Redwood City, Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2018, p. 66.
492 Grand Jury interview.
493 Redwood City, Staff Report for City Council Meeting on February 25, 2019 re: FY 2018-19 Mid-Year Budget Update and Proposed Process for Development of the FY 2019-20 Budget, p. 3. Email from Redwood City, dated June 7, 2019.
494 Grand Jury interview.
495 Email from Redwood City, dated June 7, 2019.

revenues).[496] The City's policies require that general fund reserves not drop below 15 percent of general fund revenues,[497] which is projected to occur by the end of FY 2022-23, unless revenues are increased or expenses reduced.[498]

Long-Term Financial Forecast – Redwood City

Prior to FY 2018-19, Redwood City's long-term general fund financial forecasting was based on a five-year period.[499] In FY 2018-19, however, the City changed this to a ten-year period.[500] This extension of the forecast period enabled the City Council and public to better understand the longer-term the general fund budget challenges facing the City.[501]

Redwood City included its long-term (five-year) general fund financial forecast in its FY 2018-19 budget[502] and its new ten-year general fund financial forecast is included in the City's FY 2019-20 budget.[503] Redwood has also added a "Fiscal Update" page to its public website (www.redwoodcity.org/fiscalupdate) (last accessed on June 16, 2019) that the Grand Jury finds to be quite helpful to access key information about Redwood City's most recent budget.

San Bruno

Pension Contribution Costs – San Bruno

San Bruno's pension contribution costs in FY 2017-18 were $7.18 million, up $0.832 million (13.1 percent) from $6.34 million in FY 2016-17. The City's FY 2017-18 pension contribution costs represented 32.2 percent of that year's covered payroll (up from 28.2 percent the preceding year) and 16.5 percent of its total general fund spending (up from 14.7 percent the preceding year).[504]

In addition to its contribution payments made to CalPERS, the City also makes annual, installment payments on its 2013 pension obligation bonds (originally issued in the principal amount of $13.18 million), which mature in FY 2026-27.[505] It paid $1.18 million on the bonds in FY 2017-18[506] and will pay approximately the same amount in FY 2018-

[496] Redwood City, Recommended Budget Fiscal Year 2019-2020, p. 176.
[497] Redwood City, Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2018, p. vi of December 10, 2018 transmittal letter included in the report.
[498] Redwood City, Recommended Budget Fiscal Year 2019-2020, p. 176.
[499] Redwood City, Staff Report for City Council Meeting on February 26, 2018 re: FY 2017-18 Mid-Year Budget Study Session and Proposed Process for Development of the FY 2018-19 Budget, p. 16.
[500] Redwood City, Staff Report for City Council Meeting on February 25, 2019 re: FY 2018-19 Mid-Year Budget Update and Proposed Process for Development of the FY 2019-20 Budget, Attachment 2.
[501] Grand Jury interview.
[502] Redwood City, Fiscal Year 2018-2019 Adopted Budget, p. 174.
[503] Redwood City, Recommended Budget Fiscal Year 2019-2020, p. 176.
[504] Appendix A.
[505] San Bruno, Adopted 2018-19 Operating and Capital Budget, p. 436.
[506] San Bruno, Adopted Operating Budget for Fiscal Year 2017-18 and Adopted Capital Improvement Program for Fiscal Years 2017-18 Through 2021-22, p. 194.

19.[507] From FY 2019-20 through FY 2026-27 when the bonds are fully paid off, the City will make average annual payments on the bonds of approximately $0.883 million.[508] Taking bond payments into account, the City's total payments on account of its pensions (CalPERS and bond payments combined) were $8.35 million in FY 2017-18 (representing 37.5 percent of that year's covered payroll and 19.3 percent of total general fund spending), up $0.83 million (11 percent) from $7.52 million in FY 2016-17.[509]

The City projects its pension contribution costs will increase from FY 2017-18 by $6.27 million (87.4 percent) to $13.45 million by FY 2023-24.[510] The City does not have pension cost projections for any subsequent years.[511] The City projects its total pension costs (CalPERS and bond payments combined) will increase over FY 2017-18 costs by $6.27 million (75.1 percent) to $14.62 million by FY 2023-24.

The City's projected pension contribution costs are not included in its FY 2017-18 CAFR, or in its FY 2018-19 budget.[512] However, the City has now included them in its new FY 2019-20 budget.[513]

<u>Financial Overview – San Bruno</u>

San Bruno describes its overall fiscal condition as "[s]table but not sustainable."[514] The City notes that it has "[h]ealthy general fund Reserves" but also "[s]ignificant unmet needs" including [f]ailing infrastructure" and "[r]ising pension and other employee costs."[515]

The City goes on to explain that "[t]hrough the proposed budget, the City will be able to maintain core service levels as well as make modest enhancements in a few notable areas …. However, the proposed budget reflects tough choices to not enhance needed services due to financial constraints in both the operating and capital budgets. There [are] remaining millions of dollars' worth of deferred capital improvements and maintenance, and the City is not able to meet the needs and service priorities of the community in several areas – most notably annual roadway rehabilitation and pothole repairs." "The backlog of deferred maintenance to public infrastructure and future growth in employee costs (both direct

[507] The amount San Bruno paid in FY 2017-18 was $1,177,481 and the amount it will pay on the bonds in FY 2018-19 is $1,179,931. San Bruno, Comprehensive Annual Financial Report for the Year Ended June 30, 2018, p. 64.
[508] San Bruno, Comprehensive Annual Financial Report for the Year Ended June 30, 2018, p. 64.
[509] FY 2016-17 debt service payments on the pension obligation bonds totaled $1.18 million (San Bruno, Adopted Fiscal Year 2016-17 Operating and Capital Budget, p. K-5.) FY 2016-17 pension contribution costs are in Appendix A.
[510] Emails from San Bruno dated April 22, 2019 and May 6, 2019. These emails contain pension cost projections through FY 2024-25.
[511] Email from San Bruno dated May 6, 2019.
[512] San Bruno, Comprehensive Annual Financial Report for the Year Ended June 30, 2018. San Bruno, Adopted 2018-19 Operating and Capital Budget.
[513] San Bruno, Proposed FY 2019-20 Operating and Capital Budget, p. A10. The budget contains projected pension cost numbers through FY 2024-25.
[514] San Bruno, Proposed FY 2019-20 Operating and Capital Budget, p. A2.
[515] San Bruno, Presentation Slides for City Council Meeting on November 27, 2018 re: Fiscal Sustainability Study Session – Presentation on the Scope of Work for a Comprehensive Fiscal Sustainability Project, Slide 9.

compensation and long-term post-employment liabilities) will continue to significantly impact the health of the City's General Fund. In addition, funding the needed and State-mandates improvements to the City's stormwater system cannot be accomplished within existing resources and remains a significant financial challenge."[516]

Not surprisingly, San Bruno emphasizes that it has a "[n]eed for new revenues." "As discussed above, the Proposed Operating Budget includes viable strategies to balance revenues and expenditures and to assure continuation of all necessary programs and service delivery in the coming year. However, current projections indicated that the practice of using prior year fund balance to supplement annual revenues to cover operating expenditures is not sustainable long-term. Continuing cost increases to support necessary services creates a situation where there is insufficient revenue available to support existing service levels 2 to 3 years into the future."[517]

Additional Payments to CalPERS – San Bruno

San Bruno is not currently considering making additional payments to CalPERS beyond its Annual Required Contribution.[518] However, staff is developing a set of options for managing rising pension costs that the City Council can discuss.[519]

Pension Reserve Fund – San Bruno

San Bruno has not established any reserves specific to meeting rising pension costs in the future. However, as noted above, staff is developing a set of options for managing rising pension costs that the City Council can discuss.[520]

Employee Contribution to City's Normal Cost – San Bruno

San Bruno does not have any cost sharing agreements in place with its employees under which employees pay any portion of the City's pension costs.[521]

Revenue Enhancement – San Bruno

San Bruno recognizes that revenue enhancement is a necessary component for its long-term fiscal sustainability.[522] As part of that process, the City is working to maximize existing revenue streams, by among other things, auditing payments to the City of transient occupancy taxes, property taxes and business license fees to ensure that all amounts due are, in fact, being paid. The City is also tightening up water and waste utility billing

[516] San Bruno, Proposed FY 2019-20 Operating and Capital Budget, p. A2.
[517] Ibid., p. A12.
[518] Grand Jury interview.
[519] Ibid.
[520] Ibid.
[521] Email from San Bruno dated April 22, 2019.
[522] Grand Jury interview. San Bruno, Presentation Slides for City Council Meeting on February 19, 2019 re: Revenue Enhancements City Council Study Session.

processes and significantly expanding the scope of business development impact fees it assesses.[523]

San Bruno is also currently engaged in a process to identify potential revenue enhancement ballot measures, including a 2 percent increase in its transient occupancy tax (commonly referred to as a "hotel tax") that could yield annual additional revenues of approximately $0.55 million and an increase of a quarter-cent or half-cent to its sales tax that could yield annual additional revenues of approximately $2 million at the quarter-cent rate and $4 million at the half-cent rate. The City has to option of putting these two possible measures on the ballot in either November 2019 or 2020.[524]

Pension Obligation Bonds – San Bruno

In January 2013, San Bruno issued pension obligation bonds in the principal amount of $13.18 million[525] which mature in FY 2026-27.[526] The City paid $1.18 million on the bonds in FY 2017-18[527] and will pay approximately the same amount in FY 2018-19.[528] From FY 2019-20 through FY 2026-27 when the bonds are fully paid off, the City will make average annual payments on the bonds of approximately $0.883 million.[529]

General Fund Reserves – San Bruno

As of June 30, 2018, San Bruno had a general fund reserve of $11.25 million.[530] The City projects that this reserve will increase to $12.09 million as of June 30, 2019,[531] and to $12.77 million as of June 30, 2020.[532] The City's goal is to maintain this reserve of at least 25 percent of general fund expenditures and City policy requires that the balance not fall below 15 percent of general fund operating expenditures except upon a declaration of emergency.[533] The June 30, 2018 general fund reserve balance was 25.9 percent of the $43.4 million in FY 2017-18 general fund expenditures.[534]

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[523] Grand Jury interview.
[524] San Bruno, Presentation Slides for City Council Meeting on February 19, 2019 re: Revenue Enhancements City Council Study Session, p. 27.
[525] San Bruno, Adopted 2018-19 Operating and Capital Budget, p. 436.
[526] Grand Jury interview. San Bruno, Adopted Fiscal Year 2016-17 Operating and Capital Budget, p. K-4.
[527] San Bruno, Adopted Operating Budget for Fiscal Year 2017-18 and Adopted Capital Improvement Program for Fiscal Years 2017-18 Through 2021-22, p. 194.
[528] The amount San Bruno paid in FY 2017-18 was $1,177,481 and the amount it will pay on the bonds in FY 2018-19 is $1,179,931. San Bruno, Comprehensive Annual Financial Report for the Year Ended June 30, 2018, p. 64.
[529] San Bruno, Comprehensive Annual Financial Report for the Year Ended June 30, 2018, p. 64.
[530] Ibid., p. 72.
[531] San Bruno, Adopted 2018-19 Operating and Capital Budget, p. 5 of Citywide Summary of Funds.
[532] San Bruno, Proposed FY 2019-20 Operating and Capital Budget, p. 5 of Citywide Summary of Funds.
[533] San Bruno, Adopted 2018-19 Operating and Capital Budget, p. C13.
[534] San Bruno, Comprehensive Annual Financial Report for the Year Ended June 30, 2018, p. 30.

San Bruno projects that it will incur general fund operating budget deficits of $2.09 million in FY 2018-19 and $0.376 million in FY 2019-20.[535] which will be funded out of the FY 2017-18 general fund balance.[536]

Long-Term Financial Forecast – San Bruno

San Bruno has noted that, in order to "[d]evelop a comprehensive understanding of the financial pressures and constraints on the City's general fund, today and in the foreseeable future" it needs to "[d]evelop a ten-year operating budget forecast (general fund revenues and expenses)."[537]

Prior to its just-released FY 2019-20 proposed budget[538] San Bruno had not previously prepared any long-term general fund financial forecasts.[539] However, staff has now added a five-year general fund operating budget forecast to their budget.[540] As part of the City's "Fiscal Sustainability Plan," staff plans to extend that to a ten-year period. No date has yet been set for staff to deliver that longer forecast.[541]

San Carlos

Pension Contribution Costs – San Carlos

San Carlos' contribution payments to CalPERS in FY 2017-18 were $9.7 million, up $7.47 million (334 percent) from $2.24 million in FY 2016-17.[542] However, $6 million of the FY 2017-18 payment reflected one-time additional payments that San Carlos made to CalPERS beyond its Annual Required Contribution.[543] San Carlos' Annual Required Contribution in FY 2017-18 was $3.7 million, up $1.46 million (65.2 percent) from $2.24 million in FY 2016-17. The City's FY 2017-18 total contribution payments represented 86.9 percent of that year's covered payroll of $11.17 million (up from 20.2 percent the preceding year) and 22.8 percent of its total general fund spending of $42.5 million (up from 6.7 percent the preceding year).[544] However, the City's total Annual Required Contribution for the year represented only 33.1 percent of that year's covered payroll and 8.7 percent of its total general fund spending.

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535 San Bruno, Proposed FY 2019-20 Operating and Capital Budget, p. A2.

536 San Bruno, Adopted 2018-19 Operating and Capital Budget, pp. A5 – A6. Email from San Bruno, dated June 13, 2019.

537 San Bruno, Presentation Slides for City Council Meeting on November 27, 2018 re: Fiscal Sustainability Study Session – Presentation on the Scope of Work for a Comprehensive Fiscal Sustainability Project, Slide 11.

538 San Bruno, Proposed FY 2019-20 Operating and Capital Budget.

539 San Bruno, Adopted 2018-19 Operating and Capital Budget.

540 San Bruno, Proposed FY 2019-20 Operating and Capital Budget, pp. 6-8 of Citywide Summary of Funds.

541 Grand Jury interview.

542 Appendix A.

543 See, more detailed discussion below in Section entitled "Additional Payments to CalPERS – San Carlos".

544 Appendix A.

The City projects its pension contribution costs will increase from FY 2017-18 (excluding the $6 million additional payment) by $2.8 million (63.6 percent) to $6.5 million by FY 2023-24 and by an additional $0.5 million (7.7 percent) to $7 million by FY 2027-28.[545]

The City's projected pension contribution costs are not included in its FY 2017-18 CAFR, or in its FY 2018-2020 budget.[546] In order to find these projected costs online, it is necessary to manually search through City Council meeting agenda packages, which can be accessed at the following website: sancarlosca.iqm2.com/Citizens/Default.aspx (last accessed on June 5, 2019.) That search would eventually lead to the agenda for its meeting on April 9, 2018,[547] which has a link entitled "a. Consideration of Adopting a Resolution Authorizing the City Manager to Transfer $7 Million from the Unfunded Liability Reserve to Pay Down the California Public Employees Retirement System (CalPERS) Unfunded Pension Liability in the Amount of $5 Million, and Funding the Other Post Employment Benefit Trusts: California Employers' Retirement Benefit Trust (CERBT) in the Amount of $1 Million and Public Agency Retirement Services (PARS) in the Amount of $1 Million." which takes the reader to the City's April 9, 2018 staff report that contains a graph with the projected costs.[548]

Financial Overview – San Carlos

San Carlos' five-year general fund forecast projects steadily increasing revenues (including net transfers to the general fund) from $44.35 million in FY 2018-19 to $49.33 million in FY 2022-23, and also rising expenses from $44.3 million in FY 2018-19 to $48.6 million in FY 2022-23.[549] The City projects modest operating surpluses in the general fund totaling $3.95 million over the five-year period FY 2018-19 through FY 2022-23.[550]

Additional Payments to CalPERS – San Carlos

San Carlos made an additional one-time payment to CalPERS of $5 million beyond its Annual Required Contribution in FY 2017-18.[551] Staff projects this will result in

545 San Carlos, Staff Report for City Council Meeting on April 9, 2018 re: Consideration of Adopting a Resolution Authorizing the City Manager to Transfer $7 Million from the Unfunded Liability Reserve to Pay Down the [CalPERS] Unfunded Pension Liability in the Amount of $5 Million, p. 3. The report contains pension cost projections through FY 2047-48.
546 San Carlos, Comprehensive Annual Financial Report for Fiscal Year 2017-2018. San Carlos, 2018 – 2020 Adopted Budget.
547 San Carlos, Agenda for City Council Meeting on April 9, 2018.
548 San Carlos, Staff Report for City Council Meeting on April 9, 2018 re: Consideration of Adopting a Resolution Authorizing the City Manager to Transfer $7 Million from the Unfunded Liability Reserve to Pay Down the [CalPERS] Unfunded Pension Liability in the Amount of $5 Million, p. 3.
549 San Carlos, 2018 – 2020 Adopted Budget, p. 63.
550 Ibid. Email from San Carlos, dated June 11,2019.
551 San Carlos, 2018 – 2020 Adopted Budget, p. 23. Grand Jury interview. San Carlos, Staff Report for City Council Meeting on April 9, 2018 re: Consideration of Adopting a Resolution Authorizing the City Manager to Transfer $7 Million from the Unfunded Liability Reserve to Pay Down the [CalPERS] Unfunded Pension Liability in the Amount of $5 Million, p. 1.

contribution cost reductions of $0.515 million per year for 18 years.[552] The City also made $1 million one-time payment to PARS at that time, which staff projects will result in savings of approximately $0.06-$0.07 million per year for 18 years.[553]

The City expects to decide in November 2019, after receipt of audited FY 2018-19 financials, on whether to make a further additional payment to CalPERS and also whether to increase the amount of its "Unfunded Liabilities" reserve for pension costs. The City notes that its preference is making additional payments to CalPERS beyond the minimum requirements rather than holding money in a reserve because only the former actually reduces long-term pension costs.[554]

Pension Reserve Fund – San Carlos

San Carlos has transferred $1 million into a Section 115 Trust through PARS to help pay for future PARS pension costs.[555]

In addition, as of end of FY 2017-18 San Carlos had a $2 million "Unfunded Liabilities" reserve for use in managing pension costs.[556] The City expects to decide in November 2019, after receipt of audited FY 2018-19 financials, on whether/how much to increase this reserve amount.[557]

Employee Contribution to City's Normal Cost – San Carlos

San Carlos is not currently considering asking its employees to pay a portion of the City's pension costs. The City does not pay any portion of employees' pension costs.[558]

Revenue Enhancement – San Carlos

San Carlos is not currently evaluating the possibility of bringing forward any revenue enhancement ballot measures.[559]

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[552] San Carlos, Staff Report for City Council Meeting on April 9, 2018 re: Consideration of Adopting a Resolution Authorizing the City Manager to Transfer $7 Million from the Unfunded Liability Reserve to Pay Down the [CalPERS] Unfunded Pension Liability in the Amount of $5 Million, p. 1.
[553] San Carlos, Staff Report for City Council Meeting on April 9, 2018 re: Consideration of Adopting a Resolution Authorizing the City Manager to Transfer $7 Million from the Unfunded Liability Reserve to Pay Down the [CalPERS] Unfunded Pension Liability in the Amount of $5 Million, p. 4.
[554] Grand Jury interview.
[555] San Carlos, Staff Report for City Council Meeting on April 9, 2018 re: Consideration of Adopting a Resolution Authorizing the City Manager to Transfer $7 Million from the Unfunded Liability Reserve to Pay Down the [CalPERS] Unfunded Pension Liability in the Amount of $5 Million, p. 4.
[556] San Carlos, Comprehensive Annual Financial Report for Fiscal Year 2017-2018, p. 26. San Carlos, Staff Report for City Council Meeting on November 13, 2018 re: Consideration of Adopting a Resolution Approving the General Fund Balance Reserve Allocations, p. 2.
[557] Grand Jury interview.
[558] Ibid.
[559] Email from San Carlos, dated June 11, 2019.

Pension Obligation Bonds –San Carlos

San Carlos does not have any outstanding pension obligation bonds.[560]

General Fund Reserves – San Carlos

As of the end of FY 2017-18, San Carlos had a general fund ending balance of $29.6 million, of which $6.23 million were in an "Economic Uncertainty" reserve, $7.69 million were in a reserve for "Strategic Property Acquisition," $2 million were in a "PG&E Community Endowment," $2 million were in the "Unfunded Liabilities" reserve, $7.84 million were in "Facility/Infrastructure Reserves," $3.17 million were unassigned and $0.61 million were not spendable.[561]

San Carlos notes that the Government Finance Officers Association ("GFOA") "best practice" recommendation is that unrestricted general fund balances be, at a minimum, equal to two months (16.7 percent) of regular general fund operating revenues or expenses.[562] The City's unrestricted general fund balance at the end of FY 2017-18 was $29.55 million, an amount equal to 69.5 percent of general fund expenditures of $42.49 million.[563] In its FY 2018-20 budget, the City projected that the general fund balance at the end of FY 2018-19 would be $22.12 million (47.6 percent of expenditures of $44.32 million), $21.81 million at the end of FY 2019-20 (49.1 percent of projected expenditures of $44.43 million), $22 million at the end of FY 2020-21 (49.4 percent of projected expenditures of $44.5 million), $21.27 million at the end of FY 2021-22 (45.7 percent of projected expenditures of $46.54 million), and $20.04 million at the end of FY 2022-23 (41.3 percent of projected expenditures of $48.56 million).[564]

San Carlos' policy is that its Economic Uncertainty reserve not be allowed to drop below 12.5 percent of general fund expenditures, but the City notes that a balance of 20 percent is "highly desirable."[565] As of the end of FY 2017-18, the Economic Uncertainty reserve balance was $6.23 million,[566] representing 14.7 percent of general fund expenditures of $42.49 million for the year.[567]

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560 Ibid.

561 San Carlos, Staff Report for City Council Meeting on November 13, 2018 re: Consideration of Adopting a Resolution Approving the General Fund Balance Reserve Allocations, p. 3.

562 San Carlos, Staff Report for City Council Meeting on March 12, 2018 re: Report to Council on the City's Reserves, Unfunded Pension Liabilities and Unfunded Capital Projects, p.1.

563 San Carlos, Comprehensive Annual Financial Report for Fiscal Year 2017-2018, p. 30.

564 San Carlos, 2018 – 2020 Adopted Budget, pp. 63.

565 San Carlos, Staff Report for City Council Meeting on November 13, 2018 re: Consideration of Adopting a Resolution Approving the General Fund Balance Reserve Allocations, p.3.

566 Ibid. San Carlos, Comprehensive Annual Financial Report for Fiscal Year 2017-2018, p. 30.

567 Ibid.

During FY 2017-18, San Carlos withdrew $7 million out of existing general fund reserves in order to make a one-time $5 million additional payment to CalPERS, and to transfer $1 million into a pension trust and $1 million into a trust for OPEB liabilities.[568]

Long-Term Financial Forecast – San Carlos

San Carlos' long-term general fund financial planning is based on a five-year forecast period. The City includes its long-term general fund forecast in its 2018 – 2020 budget.[569]

San Mateo

Pension Contribution Costs – San Mateo

San Mateo's pension contribution costs in FY 2017-18 were $19.7 million, up $0.787 million (4.2 percent) from $18.91 million in FY 2016-17.[570] The City's FY 2017-18 pension contribution costs represented 31.2 percent of that year's covered payroll (down from 32.2 percent the preceding year) and 17.7 percent of its total general fund spending (down from 18.2 percent the preceding year).[571]

San Mateo's actuarial consultant (Bartel Associates, LLC) projects its pension contribution costs will increase from the FY 2017-18 number by $11.7 million (59.4 percent) to $31.4 million by FY 2023-24 and by an additional $4.65 million (14.8 percent) to $36.06 million by FY 2027-28.[572]

San Mateo's projected pension contribution costs are not included in its FY 2017-18 CAFR, or in its budgets for FY 2017-18 or FY 2018-20,[573] and the projections by its actuarial consultant (Bartel Associates, LLC) are not published by the City on its website.[574] The Grand Jury obtained a copy of the Bartel report through a document request to the City. The City does include projected general fund pension costs in its budgets and in its FY 2018-20 budget through FY 2028-29.[575] While general fund pension costs do not represent the San Mateo's total pension costs, they do represent a large majority of the costs and the inclusion of the general fund cost information is helpful to an understanding of the impact of rising pension costs on the City. The Grand Jury's review of online agenda

[568] San Carlos, 2018 – 2020 Adopted Budget, pp. 63-64. San Carlos, Staff Report for City Council Meeting on April 9, 2018 re: Consideration of Adopting a Resolution Authorizing the City Manager to Transfer $7 Million from the Unfunded Liability Reserve to Pay Down the [CalPERS] Unfunded Pension Liability in the Amount of $5 Million, p. 1.

[569] San Carlos, 2018 – 2020 Adopted Budget, pp. 63-64. The City also included a general fund forecast through FY 2020-21 in its 2017-18 Adopted Budget, p. 32.

[570] Appendix A.

[571] Ibid.

[572] Bartel Associates, LLC report to City of San Mateo, October 25, 2019, pp. 28 & 46. This report contains pension cost projections through FY 2029-30.

[573]San Mateo, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018. San Mateo, Adopted 2017-18 Budget. San Mateo, Adopted 2018-20 Business Plan.

[574] Email from San Mateo, dated June 12, 2019.

[575] San Mateo, Adopted 2017-18 Budget, p. 11. San Mateo, Adopted 2018-20 Business Plan, p. 11. San Mateo, Proposed 2019-20 Budget, p. 11. The 2019-20 proposed budget provides pension cost projections for the general fund through FY 2029-30.

packages from San Mateo City Council meetings on the City's website at: https://cosm.legistar.com/Calendar.aspx (last accessed on June 12, 2019) also yielded an link to the January 22, 2019 City Council meeting agenda that provides pension cost projects for the City as a whole (not limited to costs to the general fund) through FY 2029-30.

Financial Overview – San Mateo

In February 2018, San Mateo noted that "the City is currently in a strong financial position" but that "the long-term financial plan [is] out of structural balance, primarily due to rising pension costs and competing demands for general fund resources."[576]

Staff notes that, under the City's current long-term plan, "funding for all resource demands is not entirely sustainable."[577] The plan contemplates that the City will have to make annual net reductions in general fund spending of approximately $2.32 million each year throughout the plan period in order to absorb rising pension costs and keep the current 25 percent operating reserve and housing reserve at policy levels.[578] (See, discussion of "General Fund Reserves – San Mateo" below.)

Additional Payments to CalPERS – San Mateo

San Mateo made the following additional payments to CalPERS beyond its Annual Required Contributions: $1.38 million in FY 2016-17, and $1.4 million in FY 2017-18. The City also made a $1.63 million additional payment in FY 2018-19, for a total over all three years of $4.41 million.[579]

San Mateo's current plan is to apply 50 percent of future ERAF refunds toward making further additional payments to CalPERS beyond its Annual Required Contributions.[580] Staff expects the City's ERAF refund to be approx. $4 - $5 million per year over the next ten years,[581] and it projects annual additional payments to CalPERS of approximately $2 million per year. The City's current projection is that application of 50 percent of projected ERAF refunds toward additional pension payments to CalPERS over the course of the period from FY 2019-20 through FY 2029-30 would yield total additional payments of $22.8 million.[582] Staff has not presented the City Council with any data on projected, long-term pension savings to be realized from these additional payments.[583]

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576 San Mateo, Administrative Report Re: 2018-20 Business Plan – Preliminary Review, April 16, 2018, p. 1.
577 San Mateo, Proposed 2019-20 Budget, p. 54.
578 Ibid., pp. 44-45 & 54.
579 Grand Jury interview. Emails from San Mateo, dated June 12 and June 13, 2019.
580 San Mateo, Adopted 2018-20 Business Plan, pp. 13 & 69. Grand Jury interview.
581 Grand Jury interview.
582 Email from San Mateo, dated June 12, 2019. Grand Jury interview.
583 Ibid.

Pension Reserve Fund – San Mateo

San Mateo does not currently plan to create a pension stabilization reserve because setting aside funds in a reserve does not reduce long-term pension costs.[584]

Employee Contribution to City's Normal Cost – San Mateo

San Mateo has cost-sharing agreements in place with employees under which they agree to pay a portion of the City's pension costs.[585] The City does not currently expect to ask employees to pay any greater portion of pension contribution costs in the future.[586]

Revenue Enhancement – San Mateo

San Mateo's City Council has directed staff to poll San Mateo voters on their support for revenue enhancement ballot measures, including increasing the City's transient occupancy tax ("hotel tax") rate, the business tax rates and/or the real property transfer tax rate.[587] The City notes that it is exploring tax increase measures for the November 2020 ballot.[588]

Pension Obligation Bonds – San Mateo

San Mateo does not have any outstanding pension obligation bonds.[589]

General Fund Reserves – San Mateo

San Mateo's general fund reserves are projected to decrease from $75.5 million in FY 2017-18 to $58.35 million in FY 2029-30, while remaining reserves (net of the City's 25 percent operating reserve and its housing reserve) decrease from $44.76 million in FY 2017-18 to zero by FY 2029-30.[590] The City's policy is to maintain a reserve of 25 percent of budgeted general fund operating expenditures,[591] which will have to be increased from $26.84 million in FY 2017-18 to $40 million in FY 2029-30 in order to remain at 25 percent of projected expenditures, while the amount of the City's housing reserve is projected to increase from $3.9 million in FY 2017-18 to $18.41 in FY 2029-30.[592]

Staff notes that under the City's current long-term plan, "funding for all resource demands is not entirely sustainable."[593] The plan contemplates that the City will have to make net reductions in general fund expenditures of approximately $2.32 million per year from FY 2020-21 through FY 2029-30 in order to maintain its 25 percent operating reserve and the housing reserve at policy levels,[594] and even with such net reductions, the remaining

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[584] Ibid.
[585] San Mateo, Adopted 2017-18 Budget, p. 52.
[586] Grand Jury interview.
[587] Email from San Mateo, dated June 12, 2019.
[588] San Mateo, Proposed 2019-20 Budget, p. 12.
[589] Email from San Mateo, dated June 13, 2019.
[590] San Mateo, Proposed 2019-20 Budget, pp. 44-45.
[591] San Mateo, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. xi to Letter of Transmittal.
[592] San Mateo, Proposed 2019-20 Budget, pp. 44-45.
[593] Ibid., p. 54.
[594] Ibid., pp. 44-45 & 54.

reserves described above will be drawn down from $44.76 million in FY 2017-18 to zero in FY 2029-30.[595]

Long-Term Financial Forecast – San Mateo

San Mateo's general fund long-term financial forecasting is based on a ten-year period. The City included this long-term forecast it its readily-accessible FY 2017-18 and FY 2019-20 budgets.[596]

South San Francisco

Pension Contribution Costs - South San Francisco

South San Francisco's pension contribution costs in FY 2017-18 were $15.49 million, up $2.19 million (16.5 percent) from $13.3 million in FY 2016-17. The City's FY 2017-18 pension contribution costs represented 34 percent of that year's covered payroll (up from 27.2 percent the preceding year) and 16 percent of its total general fund spending (up from 14.4 percent the preceding year).[597]

The City projects its pension contribution costs will increase by at least $9.42 million (60.8 percent) to $24.91 million by FY 2023-24 and by an additional $2.51 million (10.1 percent) to $27.42 million by FY 2027-28.[598]

The City's projected, annual pension contribution costs are not included in its FY 2017-18 CAFR, or in its FY 2018-19 budget.[599] In order to find these projected costs online, it is necessary to manually search through City Council meeting agenda packages, which can be accessed at the following website: https://ci-ssf-ca.legistar.com/Calendar.aspx. (Last accessed on June 8, 2019.) That search would eventually lead to agenda information about the September 26, 2018 City Council meeting at https://ci-ssf- ca.legistar.com/Meeting Detail.aspx?ID=621621&GUID=3C2F6C1E-F701-4040-8E44-2DAB2DBCF52D&Options=info&Search (last accessed on June 8, 2019), a staff report for that meeting regarding pensions[600] and a set of pension contribution projections

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595 San Mateo, Adopted 2017-18 Budget, pp. 46-47. San Mateo, Proposed 2019-20 Budget, pp. 44-45 & 54.

596 Ibid., pp. 44-45.

597 Appendix A.

598 Attachment 4 to South San Francisco, Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs. This report contains pension cost data through FY 2027-28. The City also has pension cost projections going out to FY 2045-46 that were prepared for a September 26, 2018 City Council meeting. They are Attachment 2 to the Staff Report for the September 26, 2018 City Council meeting re: Report regarding a resolution approving and authorizing the City Manager to sign a response to the San Mateo County Grand Jury Report "Soaring City Pension Costs – Time for Hard Choices."

599 South San Francisco, Comprehensive Annual Financial Report for Year Ended June 30, 2018. South San Francisco, Adopted Operating Budget for Fiscal Year 2018-19.

600 South San Francisco, Staff Report for City Council meeting on September 26, 2018 re: Report regarding a resolution approving and authorizing the City Manager to sign a response to the San Mateo County Grand Jury Report "Soaring City Pension Costs – Time for Hard Choices."

attached to that report as "Attachment 2."[601] The search of the City's online City Council meeting agendas would also eventually lead to information about the April 9, 2019 City Council meeting at https://ci-ssf-ca.legistar.com/ MeetingDetail.aspx?ID=683321&GUID=18367370-F11F-4D7B-9D54-5050862A9304&Options=info&Search= (last accessed on June 8, 2019) a staff report for that meeting regarding, among other things, pensions,[602] and a set of pension contribution projections attached to that report as "Attachment 10."[603] In response to this paragraph, the City points out that "The City's current unfunded liability of $179 million and the apex of annual pension payments of $29 million in FY 2028-29 can be found on the City's website www.ssf.net.department/finance."[604]

Financial Overview – South San Francisco

South San Francisco city staff does not believe that rising future pension costs represent a major financial issue for the City. Staff believes the City is in a strong financial position with solid future revenue growth.[605]

The City projects general fund revenues increasing from $109.05 million in FY 2018-19 to $127.38 million in FY 2023-24, to $141.68 million in FY 2027-28.[606] The City further projects that its general fund reserves will increase from $21.21 million at the end of FY 2018-19 to $25.12 in FY 2023-24, to $27.98 million in FY 2027-28.[607]

Additional Payments to CalPERS - South San Francisco

South San Francisco is not currently considering making any additional payments to CalPERS beyond its Annual Required Contribution. When staff last investigated this possibility, it concluded that an additional payment of at least $10 million would be required to significantly reduce future pension costs.[608]

[601] South San Francisco, Attachment 2 – Pension Contributions 2016-2046, linked to Staff Report for City Council meeting on September 26, 2018.
[602] South San Francisco, Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs.
[603] South San Francisco, Attachment 4 to Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs.
[604] Email from South San Francisco, dated June 14, 2019.
[605] Grand Jury interview.
[606] Attachment 8, p. 1 to South San Francisco, Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs.
[607] Attachment 8, p. 2 to South San Francisco, Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs.
[608] Grand Jury interview.

Pension Reserve Fund - South San Francisco

As of the end of FY 2017-18 South San Francisco had allocated $4.5 million to an internal pension stabilization reserve.[609] The City plans to transfer another $1 million to this fund in FY 2019, bringing the total to $5.5 million.[610]

Staff's recommendation to the City Council in November 2018 was to move this $5.5 million to a Section 115 Trust[611] in order to earn higher returns on these funds that the City's internal funds earn.[612] However, City Council members expressed concerns about the loss of control over the funds entailed by putting them in a Section 115 Trust.[613] In April 2019 staff instead recommended a plan for managing rising future pension costs consisting of: (a) expanding the City's revenue and tax base, (b) considering transferring a portion of any future general fund surpluses to the internal pension reserve, (c) lowering the City's pension cost through continued and expanded cost-sharing with employees, and (d) continuing to explore the possibility of a Section 155 trust.[614]

Staff's recommendation to council is also, beginning in FY 2022-23, and "depending on available funds," to contribute an additional $1 million per year to the pension trust fund.[615]

Employee Contribution to City's Normal Cost - South San Francisco

South San Francisco has cost-sharing agreements in place with safety employees under which those employees will pay a portion of the City's pension costs equal to 3 percent of their salary.[616] In FY 2020 labor negotiations, the City expects to negotiate for employees take on a greater share of pension costs.[617]

Revenue Enhancement - South San Francisco

In November 2018, South San Francisco residents approved revenue enhancement ballot measures to increase its transient occupancy tax ("TOT" and sometimes referred to as the

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609 South San Francisco, Adopted Operating Budget for Fiscal Year 2018-19, p. B-5.

610 Grand Jury interview. South San Francisco, Slide presentation for City Council meeting on November 14, 2018 re: Fiscal Year 2017-18 Year-End Results, Attachment 4 to the Staff Report for City Council meeting on November 14, 2018 re: Report regarding resolution accepting the financial results for the fiscal year ended June 30, 2018, and approving Budget Amendment 18.034., slides 2 & 7.

611 South San Francisco, Slide presentation for City Council meeting on November 14, 2018 re: Pension Study Session, Attachment 10 to the Staff Report for City Council meeting on November 14, 2018 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs, slide 16.

612 Grand Jury interview.

613 Ibid.

614 South San Francisco, Presentation Slides for Pension Study Session on April 9, 2019, Attachment 10 to Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs, slides 15 & 16.

615 South San Francisco, Slide presentation for City Council meeting on November 14, 2018 re: Pension Study Session, Attachment 10 to the Staff Report for City Council meeting on November 14, 2018 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs, p. 16.

616 South San Francisco, Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs, pp. 5-6.

617 Grand Jury interview.

"hotel tax") (Measure FF)[618] and to impose a business license tax on commercial cannabis operations (Measure LL).[619] Measure FF is projected to increase revenues by approximately $5.9 million per year.[620] The City is not currently planning on putting any new revenue enhancement ballot measures before voters in the near future.

Pension Obligation Bonds – South San Francisco

South San Francisco does not have any outstanding pension obligation bonds.[621]

General Fund Reserves - South San Francisco

South San Francisco's general fund unassigned reserves balance at the end of FY 2017-18 was $19.64 million,[622] which represented 16.5 percent of the City's $118.87 million in general fund revenues for the year.[623] The City's reserve policy is to have general fund unassigned reserves equal to between 15 percent and 20 percent of general fund operating revenues.[624]

The City projects general fund revenues in FY 2018-19 of $109.05 million and that these revenues will increase to $127.38 million in FY 2023-24, and to $141.68 million in FY 2027-28.[625] The City further projects that its general fund reserves will increase from $21.21 million (representing 19.5 percent of operating expenses) at the end of FY 2018-19 to $25.12 million (representing 19.7 percent of operating expenses) in FY 2023-24, to $28.98 million (representing 19.7 percent of operating expenses) in FY 2027-28.[626]

Long-Term Financial Forecast – South San Francisco

South San Francisco's long-term financial forecasting period is 10 years.[627] The City's long-term financial forecast is not included in its FY 2018-19 budget.[628] In order to find its forecast online, it is necessary to manually search agenda packages from the City Council calendar of meetings (listed at https://ci-ssf-ca.legistar.com/Calendar.aspx)[629] for references to budgets and/or forecasts. That search of the City's online City Council meeting agendas

[618] Ballotpedia, Local Ballot Measures, South San Francisco, California, Measure FF, Hotel Tax Increase (November 2018).
[619] Ballotpedia, Local Ballot Measures, South San Francisco, California, Measure LL, Marijuana Business Tax (November 2018)
[620] South San Francisco, Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs, p. 6.
[621] Email from South San Francisco, dated June 14, 2019.
[622] South San Francisco, Comprehensive Annual Financial Report for Year Ended June 30, 2018, pp. 32 & 74.
[623] Ibid., p. 36.
[624] Ibid., p. 74.
[625] Attachment 8, p. 1 to South San Francisco, Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs.
[626] Attachment 8, p. 2 to South San Francisco, Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs.
[627] Attachment 8 to South San Francisco, Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs.
[628] South San Francisco, Adopted Operating Budget for Fiscal Year 2018-19.
[629] Last accessed on May 10, 2019.

would eventually lead to information about the April 9, 2019 City Council meeting at https://ci-ssf-ca.legistar.com/MeetingDetail.aspx?ID=683321&GUID=18367370-F11F-4D7B-9D54-5050862A9304&Options=info&Search= (last accessed on June 8, 2019) a staff report for that meeting regarding, among other things, pensions,[630] and a general fund ten-year forecast attached to that report as "Attachment 8."[631]

Woodside

Pension Contribution Costs - Woodside

Woodside's pension contribution costs in FY 2017-18 were $0.39 million, up $0.067 million (20.8 percent) from $0.323 million in FY 2016-17.[632] The Town's FY 2017-18 pension contribution costs represented 18.8 percent of that year's covered payroll (up from 16.2 percent the preceding year) and 5.7 percent of its total general fund spending (up from 4.8 percent the preceding year).[633]

The Town projects its pension contribution costs will increase by $0.316 million (81.2 percent) to $0.706 million by FY 2023-24 and by an additional $0.152 million (21.6 percent) to $0.859 million by FY 2027-28.[634]

The Town's projected pension contribution costs are not included in its FY 2017-18 financials,[635] its FY 2018-19 budget,[636] or its FY 2019-21 budget,[637] nor was the Grand Jury able to find them in any report that is included in City Council meeting agenda packages from January 1, 2018 to June 15 2019. While the Town's operating budget forecasts contained in its FY 2018-19 budget and FY 2019-21 budget set forth combined annual cost projections for CalPERS and "Retiree Health Benefits,"[638] the CalPERS costs – on a standalone basis – cannot be determined from this.

Financial Overview – Woodside

Woodside views its financial health as good. The Town projects ending FY 2018-19 with a general fund balance of $7.89 million; equal to 95.5 percent of its projected general fund revenues of $8.24 million for the year[639] and it reports that this allows it the luxury of being able to think long-term.[640]

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[630] South San Francisco, Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs.
[631] South San Francisco, Attachment 8 (General Fund 10-year forecast $1M contribution to CalPERS) to Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs.
[632] Appendix A.
[633] Ibid.
[634] Appendix A. Email from Woodside dated May 23, 2019.
[635] Woodside, Annual Financial Report for the Fiscal Year Ended June 30, 2018
[636] Woodside, Adopted Budget Fiscal Year 2018-19.
[637] Woodside, Proposed Budget Fiscal Years 2019-21
[638] Woodside, Adopted Budget Fiscal Year 2018-19, p. 6. Woodside, Proposed Budget Fiscal Years 2019-21, p. 8.
[639] Woodside, Proposed Budget Fiscal Years 2019-21, p. 8.
[640] Grand Jury interview.

Additional Payments to CalPERS - Woodside

Woodside does not currently have any plan to make additional payments to CalPERS in excess of its Annual Required Contribution.[641]

Pension Reserve Fund - Woodside

On March 26, 2019, Woodside's staff recommended to the City Council that the Town establish a Section 115 Trust for the purpose of helping cushion the budgetary impact of future pension costs increases and "that the upcoming budget include funds to be contributed to the Section 115 trust."[642] The Town plans to contribute a total of $1.8 million to the trust over the next three fiscal years.[643]

Employee Contribution to City's Normal Cost - Woodside

Woodside does not have any agreements in place with its employees under which they pay for any portion of the Town's pension obligations.[644]

Revenue Enhancement - Woodside

Woodside does not currently have any plans for seeking voter approval of any revenue enhancement measures.[645]

Pension Obligation Bonds - Woodside

Woodside does not have any outstanding pension obligation bonds.[646]

General Fund Reserves - Woodside

Woodside currently projects cumulative general fund budget deficits of $3.71 million over the ten years from FY 2018-19 to FY 2027-28 (an average of $0.371 million each year).[647] Over that same period, Woodside's general fund balance is projected to drop from $7.89 million in FY 2018-19 (representing 95.5 percent of general fund operating revenues that year) to $3.68 million in FY 2027-28 (representing 33.6 percent of general fund revenues that year).[648]

Long-Term Financial Forecast – Woodside

Woodside included a five-year general fund operating budget forecast in its FY 2018-19 budget.[649] The Town has now developed a ten-year general fund operating budget forecast

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641 Ibid.
642 Woodside, Report to Town Council for meeting on March 26, 2019 re: Discussion of the Town's Pension Obligations and Direction to Staff Regarding an Approach to Address the Obligations, p. 3.
643 Woodside, Proposed Budget Fiscal Years 2019-21, June 3, 2019 letter of transmittal from City Manager, p. ii. Email from Woodside, dated June 14, 2019.
644 Grand Jury interview.
645 Ibid.
646 Ibid.
647 Woodside, Proposed Budget Fiscal Years 2019-21, Budget Overview, p. 8.
648 Ibid.
649 Woodside, Adopted Budget Fiscal Year 2018-19, p. 6.

for the first time and it is incorporated into the Town's readily-accessible FY 2019-21 budget.[650]

FINDINGS

Important explanatory note for the Cities in responding to the Findings: Each City is to respond to each Finding solely with respect to itself and not with regard to any other City.

Data Set Forth in Appendix A

F1. Each City's audited annual financial report for the fiscal year ending June 30, 2018 reported combined covered payroll for the City's pension plans for each of FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18 in the amounts set forth beside its name for that year in Appendix A.

F2. Each City's audited annual financial report for the fiscal year ending June 30, 2018 reported combined contribution payments to CalPERS on the City's pension plans for each of FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18 in the amounts set forth beside its name for that year in Appendix A.

F3. Each City's audited annual financial report for the fiscal year ending June 30, 2018 reported combined Unfunded Liabilities (as defined in this report) for the City's pension plans for each of FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18 in the amounts 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.

F4. Each City's audited annual financial report for the fiscal year ending June 30, 2018 reported combined Funded Percentages (as defined in the prior report) for the City's pension plans for each of FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18 in the amounts set forth beside its name for that year in Appendix A.

F5. Each City's audited annual financial report for the fiscal years ending June 30, 2015, June 30, 2016, June 30, 2017, and June 30, 2018 reported what the combined Unfunded Liabilities (as defined in the prior report) for the City's pension plans for each of FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18 would have been if the applicable Discount Rate applied to calculate them had been one percentage point lower in the amount set forth beside its name for that year in Appendix A.

F6. Each City's audited annual financial report for the fiscal years ending June 30, 2015, June 30, 2016, June 30, 2017, and June 30, 2018 reported general fund total expenditures

[650] Woodside, Proposed Budget Fiscal Years 2019-21, Budget Overview, p. 8.

for each of FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18 in the amounts 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, June 30, 2017 and June 30, 2018, each City's combined 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, June 30, 2017 and June 30, 2018, each City's combined contribution payments to CalPERS on the City's pension plans represented the percentage of that City's combined 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)."

<u>Projections of Future City Pension Costs</u>

F9. Each of Colma, Daly City, Foster City, Hillsborough, and Redwood City includes in its annual, or bi-annual budgets published on its public website, projections showing the annual dollar amount of its projected pension contribution costs for the next five or more years. None of the other Cities do so.

F10. Neither Atherton, Brisbane, nor Portola Valley have published, anywhere on their public website or their agenda packages for city council meetings, projections showing the annual dollar amount of their projected pension contribution costs for the next five or more years.

F11. The only way to find projections showing the annual dollar amount of the following Cities' projected pension contribution costs for the next five or more years on their public websites is by manually searching through agenda packages for their city council meetings: Belmont, Burlingame, East Palo Alto, Half Moon Bay, Menlo Park, Millbrae, Pacifica, San Bruno, San Carlos, San Mateo, South San Francisco and Woodside.

<u>Long-Term Financial Forecasts</u>

F12. Each of Colma, Daly City, Hillsborough, Menlo Park, Pacifica, Redwood City, San Mateo, South San Francisco and Woodside has a general fund operating budget forecast covering a ten-year period. Of those nine, only Colma, Hillsborough, Menlo Park, Redwood City, San Mateo, and Woodside make those forecasts accessible to the public in their most recent annual or bi-annual budgets or annual financial reports published on their public websites.

F13. The only way to find the ten-year general fund operating budget forecasts on the public websites of Pacifica and South San Francisco is by manually searching through agenda packages for their City Council meetings.

F14. Daly City's ten-year general fund operating forecast is not accessible to the public through its public website.

F15. Each of Atherton, Belmont, Brisbane, Burlingame, Foster City, Half Moon Bay, San Bruno and San Carlos has a general fund operating budget forecast covering only a five-year period. Of those eight, only Belmont, Foster City, Half Moon Bay, San Bruno and San Carlos make the forecasts available to the public in their most recent annual or bi-annual budgets or annual financial reports published on their public websites.

F16. The only way to find the five-year general fund operating budget forecasts on the public websites of Atherton and Burlingame is by manually searching through agenda packages for their City Council meetings.

F17. Brisbane's five-year general fund operating forecast is not accessible to the public through its public website.

F18. Neither East Palo Alto, Millbrae, nor Portola Valley has a general fund operating forecast that extends beyond the fiscal years covered in its most recent annual or bi-annual budget.

Plans to Make Additional Payments to CalPERS Beyond Annual Required Contributions

F19. Each of Belmont, Colma, Foster City, Menlo Park, Portola Valley, Redwood City, San Carlos, and San Mateo has made, or currently has a specific plan to make, additional pension contribution payments to CalPERS beyond its Annual Required Contribution.

F20. Neither Atherton, Brisbane, Burlingame, Daly City, East Palo Alto, Half Moon Bay, Hillsborough, Millbrae, Pacifica, Portola Valley, San Bruno, South San Francisco nor Woodside currently has a specific plan recommended by staff to the City or Town Council (as applicable) to make additional pension contribution payments to CalPERS beyond its Annual Required Contribution.

Establishment of Reserves or Section 115 Trusts for Future Pension Payments

F21. Each of Brisbane, Burlingame, Colma, Daly City, Foster City, Half Moon Bay, Hillsborough, Menlo Park, Pacifica, Portola Valley, Redwood City, San Carlos, South San Francisco and Woodside has set aside internal reserves, or contributed funds to a Section 115 trust, specifically for the purpose of paying future pension contribution costs.

F22. Neither Atherton, Belmont, East Palo Alto, Millbrae, San Bruno, nor San Mateo currently has a specific plan recommended by staff to the City or Town Council (as applicable) to set aside internal reserves, or to contribute funds to a Section 115 trust, specifically for the purpose of paying future pension contribution costs.

Employee Cost-Sharing to Help Pay Cities' Pension Costs

F23. Each of Atherton, Belmont. Burlingame, Foster City, Hillsborough, Menlo Park, Millbrae, Pacifica, Redwood City, San Mateo and South San Francisco has, or currently intends to seek, one or more cost-sharing agreements with employees under which employees pay for a portion of the City's Normal Cost pension payment obligations to CalPERS.

F24. Neither Brisbane, Colma, Daly City, East Palo Alto, Half Moon Bay, Portola Valley, San Bruno, San Carlos nor Woodside has, or currently intends to seek, one or more cost-sharing agreements with employees under which employees pay for a portion of the City's Normal Cost pension payment obligations to CalPERS.

Revenue Enhancement Ballot Initiatives by Cities

F25. Each of Belmont, Brisbane, Burlingame, Colma, Daly City, East Palo Alto, Foster City, Redwood City and South San Francisco have, since November 2016, sought and obtained voter approval for ballot measures intended to increase revenues.

F26. Each of Half Moon Bay, Pacifica, Redwood City, and San Bruno are currently considering seeking approval of their voters for revenue enhancement measures in the near term.

F27. Neither Atherton, Belmont, Brisbane, Burlingame, Colma, Daly City, East Palo Alto, Foster City, Hillsborough, Menlo Park, Millbrae, Portola Valley, San Carlos, San Mateo, South San Francisco, nor Woodside is currently considering seeking approval of its voters for revenue enhancement measures in the near term.

RECOMMENDATIONS

R1. Each City include in its published annual or bi-annual budgets a general fund operating budget forecast for the next ten fiscal years.

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

a) The City's total pension contribution costs under all plans, for each of the three preceding fiscal years as well as estimates for such costs in each of the following ten fiscal years (whether developed by City staff internally, or by outside consultants to the City), assuming CalPERS' actuarial assumptions are met.

b) The City's total Unfunded Liabilities under all plans, for each of the three preceding fiscal years as well as estimates for such Unfunded Liabilities in each of the next ten fiscal years, (whether developed by City staff internally, or by outside consultants to the City), assuming CalPERS' actuarial assumptions are met.

c) The City's Funded Percentage across all plans, for each of the three preceding fiscal years as well as estimates for such Funded Percentages in each of the next ten fiscal years, assuming CalPERS' actuarial assumptions are met.

d) The percentage of the City's general fund expenditures, and the percentage of the City's covered payroll, represented by the pension costs described in (a) above (using estimates of general fund expenditures in future fiscal years).

REQUEST FOR RESPONSES

Pursuant to Penal Code Section 933.05, the Grand Jury requests that 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

METHODOLOGY

The Grand Jury reviewed each of the documents listed in “BIBLIOGRAPHY” below.

The Grand Jury also reviewed email correspondence it received from some of the Cities.

In addition, the Grand Jury interviewed representatives of each of the Cities.

APPENDIX A – Data on Each City's Pension Costs for Four Years from FY 2014-15 through FY 2017-18

The column below that reflects the most immediate impact on the Cities is "Contribution Cost" as this sets out the total pension costs paid each year and shows the rate at which it has, in most cases, increased each year. The other column that is particularly useful to understanding the impact of pension costs on the Cities' budgets is "Contribution Cost as % of General Fund Spending" as this shows the relative size of pension costs in comparison to the overall general fund budget.

Note: Except as noted in this note, all information in Appendix A is derived from the Cities' "Comprehensive Annual Financial Reports" (or "Basic Financial Statements," or "Annual Financial Reports" in the case of the Towns of Atherton, Colma, Portola Valley and Woodside). Certain of Daly City's, East Palo Alto's and Foster City's numbers are based on correspondence from those Cities received in June, 2019.

(All dollar numbers in thousands.)

CITIES	Fiscal Year	Covered Payroll	Pension Contribution Cost	Contribution Rate (i.e., Pension Contribution Cost as % of Payroll)	Unfunded Liability	Funded Percentage	Unfunded Liability if Discount Rate is Reduced 1%	General Fund Spending	Pension Contribution Cost as % of General Fund Spending*
Atherton	**2017-18**	**$4,649**	**$1,289**	**27.7%**	**$16,122**	**72.9%**	**$24,391**	**$12,065**	**10.7%**
	2016-17	$4,327	$1,155	26.7%	$13,982	73.8%	$21,344	$11,437	10.1%
	2015-16	$4,261	$617	14.5%	$10,674	78.5%	$17,326	$10,611	5.8%
	2014-15	$3,988	$826	20.7%	$9,253	81.9%	$16,088	$11,622	7.1%
Belmont	**2017-18**	**$15,773**	**$3,927**	**24.9%**	**$37,312**	**73.3%**	**$55,262**	**$19,450**	**20.2%**
	2016-17	$15,209	$3,582	23.6%	$32,835	72.0%	$48,680	$18,344	19.5%
	2015-16	$14,613	$4,191	28.7%	$26,626	76.2%	$41,855	$16,800	24.9%
	2014-15	$12,701	$2,262	17.8%	$25,067	79.8%	$39,412	$16,777	13.5%
Brisbane	**2017-18**	**$8,111**	**$1,906**	**23.5%**	**$21,118**	**73.4%**	**$32,231**	**$17,544**	**10.9%**
	2016-17	$7,916	$1,713	21.6%	$18,227	78.6%	$27,989	$15,521	11.0%
	2015-16	$6,880	$883	12.8%	$13,952	79.9%	$23,410	$14,850	5.9%
	2014-15	$7,023	$1,174	16.7%	$12,074	82.2%	$21,119	$13,247	8.9%
Burlingame	**2017-18**	**$20,598**	**$5,718**	**27.8%**	**$65,912**	**72.1%**	**$97,834**	**$53,637**	**10.7%**
	2016-17	$19,753	$5,294	26.8%	$57,694	73.4%	$86,051	$49,707	10.7%
	2015-16	$18,232	$4,615	25.3%	$46,987	77.8%	$75,062	$47,459	9.7%
	2014-15	$17,671	$3,894	22.0%	$41,762	80.1%	$69,042	$44,405	8.8%
Colma	**2017-18**	**$4,346**	**$1,264**	**29.1%**	**$10,682**	**73.3%**	**$15,961**	**$14,683**	**8.6%**
	2016-17	$4,031	$1,048	26.0%	$9,449	74.2%	$14,008	$13,323	7.9%
	2015-16	$3,749	$937	25.0%	$7,747	74.7%	$11,969	$13,410	7.0%
	2014-15	$3,604	$939	26.1%	$6,891	76.1%	$10,724	$12,948	7.3%

*Note: Contribution Cost amounts in Comprehensive Annual Financial Reports may include pension costs paid on account of certain employees whose activities are not accounted for as part of General Fund activities, and their pension costs would, therefore, not be included in General Fund total expenditures. As a result, the percentage of General Fund Spending in Appendix represented by Pension Contribution Costs may somewhat overstate the percentage represented by General Fund pension costs. 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	Pension Contribution Cost	Contribution Rate (i.e., Pension Contribution Cost as % of Payroll)	Unfunded Liability	Funded Percentage	Unfunded Liability if Discount Rate is Reduced 1%	General Fund Spending	Pension Contribution Cost as % of General Fund Spending
Daly City	**2017-18**	**$42,809**	**$13,132**	**30.7%**	**$164,352**	**74.1%**	**$248,373**	**$77,663**	**16.9%**
	2016-17	$43,398	$11,631	26.8%	$139,861	75.7%	$213,918	$77,139	15.1%
	2015-16	$42,608	$12,081	28.4%	$112,195	80.0%	$185,217	$79,062	15.3%
	2014-15	$42,226	$8,862	21.0%	$99,631	81.9%	$169,965	$72,649	12.2%
East Palo Alto*	**2017-18**	**$9,258**	**$1,643**	**17.7%**	**$10,854**	**73.3%**	**$16,132**	**$19,673**	**8.3%**
	2016-17	$8,464	$1,493	17.6%	$9,459	74.1%	$13,750	$18,109	8.2%
	2015-16	$8,078	$1,372	17.0%	$8,112	78.4%	$12,086	$17,735	7.7%
	2014-15	$7,926	$1,477	18.6%	$7,856	79.8%	$11,417	$16,524	8.9%
Foster City	**2017-18**	**$20,859**	**$6,506**	**31.2%**	**$78,061**	**68.1%**	**$111,419**	**$37,842**	**17.2%**
	2016-17	$19,875	$7,209	36.3%	$69,207	68.8%	$98,575	$36,416	19.8%
	2015-16	$18,697	$5,294	28.3%	$56,390	76.3%	$84,686	$33,048	16.0%
	2014-15	$17,696	$4,552	25.7%	$50,458	78.2%	$77,534	$31,322	14.5%
Half Moon Bay	**2017-18**	**$3,118**	**$881**	**28.2%**	**$10,902**	**72.9%**	**$16,491**	**$12,188**	**7.2%**
	2016-17	$2,423	$594	24.5%	$9,502	74.6%	$14,557	$10,418	5.7%
	2015-16	$2,014	$583	28.9%	$7,319	80.1%	$12,332	$8,781	6.6%
	2014-15	$1,987	$529	26.6%	$6,736	81.6%	$11,620	$8,352	6.3%
Hillsborough**	**2017-18**	**$10,233**	**$2,412**	**23.6%**	**$25,911**	**73.6%**	**$39,430**	**$22,258**	**10.8%**
	2016-17	$8,661	$2,158	24.9%	$22,387	74.8%	$34,262	$21,224	10.2%
	2015-16	$9,089	$1,893	20.8%	$17,187	78.6%	$28,063	$19,693	9.6%
	2014-15	$8,625	$1,605	18.6%	$14,770	79.8%	$25,822	$18,721	8.6%
Menlo Park***	**2017-18**	**$23,371**	**$5,555**	**23.8%**	**$57,358**	**74.7%**	**$87,527**	**$52,491**	**11.8%**
	2016-17	$23,112	$5,565	24.1%	$50,993	74.4%	$77,514	$47,314	11.8%
	2015-16	$19,868	$4,747	23.9%	$38,881	79.2%	$64,170	$42,565	11.2%
	2014-15	$19,969	$4,228	21.2%	$34,371	80.6%	$58,596	$40,581	10.4%

*Note: East Palo Alto has stated to the Grand Jury that it believes it is more representative of its financial situation to include in "General Fund Spending" the "operating transfers out of [its] General Fund to other City funds. The transfers primarily relate to the support of infrastructure-related programs including NPDES, Drainage District and pay-go funded Capital Improvement projects." If these operating transfers out are included, then General Fund Spending <u>with</u> transfers would be $21.77 million in FY 2017-18, $21.92 million in FY 2016-17, $21.2 million in FY 2015-16 and $20.15 million in FY 20-14-15 and Contribution Cost as a % of General Fund Spending with these transfers would be 7.5% in FY 2017-18, 6.8% in FY 2016-17, 6.5% in FY 2015-16 and 7.3% in FY 2014-15. (Email from East Palo Alto, dated June 7, 2019.)

**Note: Hillsborough makes the same comment as East Palo Alto and notes that, transfers out of the general fund should be included in "General Fund Spending" above as follows: For FY 2017-18, add $2.07 million for a new total of $24.33 million; for FY 2016-17, add $3.86 million for a new total of $25.09 million; for FY 2016-17, add $0.461 million for a new total of $20.15 million; and for FY 2014-15, add $0.742 million for a new total of $19.46 million. These higher General Fund Spending amounts would result in decreases in the percentages in "Contribution Cost as a % of General Fund Spending" as follows: for FY 2017-18, 9.9%; for FY 2016-17, 8.6%; for FY 2015-16, 9.4%; and for FY 2014-15, 8.3%. (Email from Hillsborough, dated June 7, 2019.)

***Note: Menlo Park also makes the same comment as East Palo Alto and Hillsborough. If its "transfers out" of $5.09 million in FY 2017-18 were included as a part of general fund expenditures, then those expenditures would increase to $57.58 million and "Contribution Cost as % of General Fund Spending" would drop from 11.8 percent to 9.6 percent. Adding "transfers out" of $5.57 million, $4.75 million, and $4.23 million for fiscal years 2016-17, 2015-16 and 2014-15, respectively, results in the "Contribution Cost as % of General Fund Spending" for those years dropping to 10.7 percent, 9.3 percent and 9.4 percent, respectively. (Email from Menlo Park, dated June 6, 2019.) (Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2017, p. 36. Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016, p. 35. Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015, p. 35.)

CITIES	Fiscal Year	Covered Payroll	Pension Contribution Cost	Contribution Rate (i.e., Pension Contribution Cost as % of Payroll)	Unfunded Liability	Funded Percentage	Unfunded Liability if Discount Rate is Reduced 1%	General Fund Spending	Pension Contribution Cost as % of General Fund Spending
Millbrae*	**2017-18**	**$7,355**	**$3,313**	**45.0%**	**$48,740**	**73.3%**	**$71,117**	**$28,199**	**11.7%**
	2016-17	$6,165	$2,335	37.9%	$42,769	74.1%	$62,676	$25,494	9.2%
	2015-16	$5,835	$2,064	35.4%	$34,256	78.4%	$53,883	$22,514	9.2%
	2014-15	$6,871	$1,400	20.4%	$28,989	79.8%	$47,979	$18,201	7.7%
Pacifica	**2017-18**	**$16,478**	**$4,091**	**24.8%**	**$50,801**	**76.7%**	**$80,376**	**$29,991**	**13.6%**
	2016-17	$16,369	$3,740	22.9%	$44,400	77.5%	$70,650	$28,781	13.0%
	2015-16	$15,922	$2,749	17.3%	$32,841	82.3%	$56,750	$27,358	10.0%
	2014-15	$15,378	$2,739	17.8%	$28,089	84.3%	$52,855	$25,354	10.8%
Portola Valley	**2017-18**	**$1,523**	**$141**	**9.3%**	**$712**	**89.7%**	**$1,663**	**$5,292**	**2.7%**
	2016-17	$1,442	$116	8.1%	$524	91.8%	$1,382	$4,361	2.7%
	2015-16	$1,072	$84	7.8%	$82	98.6%	$881	$4,303	2.0%
	2014-15	$993	$1,019	102.6%	$957	83.0%	$1,706	$5,587	18.2%
Redwood City**	**2017-18**	**$60,845**	**$18,409**	**30.3%**	**$245,579**	**64.8%**	**$341,571**	**$125,859**	**14.6%**
	2016-17	$62,098	$17,722	28.5%	$215,202	65.7%	$298,653	$112,142	15.8%
	2015-16	$57,352	$17,363	30.3%	$177,937	70.1%	$257,798	$101,684	17.1%
	2014-15	$54,275	$16,467	30.3%	$164,149	71.6%	$240,111	$95,856	17.2%
San Bruno	**2017-18**	**$22,287**	**$7,176**	**32.2%**	**$89,228**	**70.4%**	**$130,222**	**$43,366**	**16.5%**
	2016-17	$22,512	$6,344	28.2%	$78,198	70.7%	$114,180	$43,244	14.7%
	2015-16	$21,315	$4,434	20.8%	$61,771	75.6%	$96,281	$38,882	11.4%
	2014-15	$20,532	$4,979	24.3%	$53,531	78.4%	$86,637	$36,738	13.6%
San Carlos***	**2017-18**	**$11,169**	**$9,701**	**86.9%**	**$50,152**	**62.6%**	**$69,070**	**$42,495**	**22.8%**
	2016-17	$11,047	$2,236	20.2%	$47,009	63.3%	$64,530	$33,182	6.7%
	2015-16	$10,486	$2,622	25.0%	$40,263	67.3%	$57,293	$41,264	6.4%
	2014-15	$13,231	$2,624	19.8%	$35,253	71.2%	$42,824	$29,067	9.0%

*Note: Millbrae notes that its pension payments as a percentage of covered payroll are artificially high because the City has pension liability for public safety employees (police and fire) but the City currently contracts for services and has no employees in those categories. While the City has no police and fire staff, the City is responsible for unfunded liability pension costs associated with former police and fire agencies and is also responsible for pension costs associated with employees in police and fire contracts. Pension spending for Miscellaneous plan employees in FY 2017-18 represented only 29.5% of covered payroll. (Email from Millbrae, dated June 12, 2019.)

**Note: Redwood City points out that its FY 2017-18 General Fund Spending amount set forth above includes a one-time transfer of $8.8 million to the City's Section 115 pension trust account. If that $8.8 million were excluded from General Fund Spending, then the total amount for FY 2017-18 would drop from $125.86 million to $117.06 million and Pension Contribution Costs as a % of General Fund Spending would increase from 14.6 percent to 15.7 percent. (Email from Redwood City dated June 7, 2019.)

***Note: San Carlos points out that its "Contribution Cost" in FY 2017-18 includes $6 million of one-time additional payments it made in excess of its Annual Required Contribution in order to reduce its unfunded pension liabilities and thus reduce long term pension contribution costs. If this $6 million voluntary additional payment were not included, then pension contribution costs would represent only 33.1 percent of covered payroll rather than 86.9 percent and only 8.7 percent of General Fund Spending, rather than 22.8 percent.
In addition, the Grand Jury notes that San Carlos' percentage of covered payroll represented by pension contribution costs is also artificially increased because the City continues to make substantial pension contribution payments to CalPERS (reflected in the numbers above) for its former fire and police personnel even though it no longer employs fire fighters or police personnel (thus reducing its covered payroll amount significantly). San Carlos' police services are now provided by the San Mateo County Sheriff's Office and fire services have been transferred to the Redwood City Fire Department. (San Carlos, Comprehensive Annual Financial Report for Fiscal Year 2017-2018, p. 155.)

CITIES	Fiscal Year	Covered Payroll	Pension Contribution Cost	Contribution Rate (i.e., Pension Contribution Cost as % of Payroll)	Unfunded Liability	Funded Percentage	Unfunded Liability if Discount Rate is Reduced 1%	General Fund Spending	Pension Contribution Cost as % of General Fund Spending
San Mateo (City)	**2017-18**	**$63,131**	**$19,699**	**31.2%**	**$218,196**	**65.9%**	**$301,300**	**$111,079**	**17.7%**
	2016-17	$58,645	$18,912	32.2%	$197,822	66.2%	$271,523	$103,992	18.2%
	2015-16	$52,345	$15,908	30.4%	$168,693	70.1%	$240,459	$95,779	16.6%
	2014-15	$49,788	$13,860	27.8%	$159,585	71.4%	$228,588	$88,078	15.7%
South San Francisco	**2017-18**	**$45,563**	**$15,489**	**34.0%**	**$182,872**	**66.2%**	**$256,395**	**$96,677**	**16.0%**
	2016-17	$48,954	$13,300	27.2%	$152,786	68.4%	$216,103	$92,367	14.4%
	2015-16	$40,396	$13,938	34.5%	$130,042	72.2%	$191,669	$86,795	16.1%
	2014-15	$34,478	$11,403	33.1%	$124,085	73.2%	$184,305	$76,805	14.8%
Woodside	**2017-18**	**$2,073**	**$390**	**18.8%**	**$3,642**	**71.9%**	**$5,424**	**$6,876**	**5.7%**
	2016-17	$1,996	$323	16.2%	$3,164	72.3%	$4,702	$6,801	4.8%
	2015-16	$1,809	$409	22.6%	$2,578	75.8%	$4,325	$6,638	6.2%
	2014-15	$1,640	$355	21.6%	$2,053	79.1%	$3,356	$6,107	5.8%
Totals & Weighted Averages	**2017-18**	**$394,084**	**$122,642**	**31.1%**	**$1,388,505**	**69.1%**	**$2,002,188**	**$829,327**	**14.8%**
	2016-17	$386,398	$106,468	27.6%	$1,215,467	70.6%	$1,755,047	$769,315	13.8%
	2015-16	$354,648	$96,784	27.3%	$994,535	75.0%	$1,515,516	$729,230	13.3%
	2014-15	$340,601	$85,194	25.0%	$905,562	76.3%	$1,399,702	$668,939	12.7%
% Change from 2016-17 to 2017-18			15.2% increase		14.2% increase				

APPENDIX B – Table showing information on each of the Cities.

City	Long-term pension cost projections available online on City's website?	Long-term pension cost projections published in City's budget?	Additional payments to CalPERS currently planned?	Pension reserve fund?	Employee cost sharing?	Revenue increase measures approved since 2016 or planned?	Pension obligation bonds outstdg.?	Long-term general fund forecast? / Period of forecast?	Long-term forecast included in budget?
Atherton	No.	No.	No.	Section 115 trust approved but not funded.	Yes	No	No.	Yes. 5 years	No
Belmont	Yes. Through FY 2048-49.	No	Yes. $3.65M	No.	Yes.	Sales tax incr. 2016.No further plans.	No.	Yes. 5 years	Yes.
Brisbane	No.	No	No.	Yes. Section 115 Trust. $0.92M.	No.	Yes. Business license tax measures in 2017.	Yes. 2006 for $4.75M and 2013 for $1.61M.	Yes. 5 years	No. Forecast not available on City's website.
Burlingame	Yes. Through FY 2029-30	No	No.	Yes. Section 115 Trust. $8.2M as of FY 2018-19 and more thereafter.	Yes.	Sales tax incr. 2017. No further plans.	Yes. 2006 for $33M.	Yes. 5 years	No
Colma	Yes. Through FY 2035-36.	Yes. Colma included pension cost projections for the first time in FY 2019-20 budget.	Yes. $1.05M	Yes. Section 115 Trust. $1M in FY 2018-19 and more thereafter.	No.	Hotel tax 2018.	No.	Yes. Town extended forecast period to 10 years for first time in FY 2019-20 budget	Yes.
Daly City	Yes. Through FY 2027-28.	Yes. The City included pension cost projections for the first time in its FY 2019 & FY 2020 budget	No.	Yes. Section 115 Trust. $4M.	No.	Hotel and biz license tax 2018. No further plans.	Yes. 2004 for $36.24M.	Yes. 10 years	No. Forecast not available on City's website.
East Palo Alto	Yes. Through FY 2027-28.	No	No.	No.	No.	Sales tax and biz license tax incr. 2016. Office space parcel tax incr. 2018. No further plan.	No.	No forecast exists. City plans to develop one in 2019.	N/A
Foster City	Yes. Through FY 2048-49.	Yes. The City included pension cost projections through FY 2023-24 for the first time in its FY 2019-20 budget	Yes. $3.43M.	Yes, but using its balance to make fund portion of $3.43M additional pymts. to CalPERS.	City plans to seek in next round of negotiations.	Hotel tax incr. 2018. No further plan.	No.	Yes. 5 years.	Yes.
Half Moon Bay	Yes. Through FY 2028-29.	No.	No.	Yes. $1.1M.	No.	No.	No.	Yes. 5 years.	Yes.

City	Long-term pension cost projections available online on City's website?	Long-term pension cost projections published in City's budget?	Additional payments to CalPERS currently planned?	Pension reserve fund?	Employee cost sharing?	Revenue increase measures planned?	Pension obligation bonds outstdg.?	Long-term general fund forecast? / Period of forecast?	Long-term forecast included in budget?
Hillsborough	Yes. Through FY 2028-29.	Yes. The Town included pension cost projections for the first time in its FY 2019-20 budget.	No	Yes. Section 115 Trust. $4.8M.	Yes	No	No	Yes. 10-years	Yes
Menlo Park	Yes. Through FY 2029-30.	No	Yes. Plans for additional pymts. totaling $15.2M.	Yes. $4.3M in FY 2018-19. Expect $8.4M by FY2023-24 and $11.4M by FY 2027-28.	Yes.	No.	No.	Yes. 10 years.	Yes.
Millbrae	Yes. Through FY 2028-29.	No	No.	No.	Yes.	No.	Yes. 2004 for $11.5M..	No forecast exists	N/A
Pacifica	Yes. Through FY 2028-29.	No	No	Yes. Plans for Section 115 Trust and $0.2M	Yes.	Yes. May seek increase in "hotel tax"	Yes 2010 for $20.5M	Yes. 10 years	No
Portola Valley	No.	No.	The Town made a $0.9M pymt. in FY 2014-15. Additional pymts. to be discussed in 2019.	Yes. $0.712 million.	No.	None currently planned.	No.	No forecast exists.	N/A
Redwood City	Yes. Through FY 2038-39.	Yes.	Yes. $0.6M in FY2018-19 and $0.5M annually thereafter.	Yes. Section 115 Trust. $14.05M to date and $1.1M per year thereafter.	Yes.	Sales tax incr. 2018. Expecting to seek additional revenue increases in future.	No.	Yes. City extended period to 10 years for first time in FY 2019-20 budget.	Yes.
San Bruno	Yes. Through FY 2024-25	No	No.	No.	No.	Yes. Considering additional tax increase ballot initiatives in 2019 or 2020.	Yes. 2013 for $13.16M.	Yes. 5 years.	Yes. City included forecast for first time in FY 2019-20 budget
San Carlos	Yes. Through FY 2047-48.	No	Yes. $6M.	Yes. Section 115 Trust. $1M and $2M internal reserve.	No.	No.	No.	Yes. 5 years.	Yes.
San Mateo	Yes. Through FY 2029-30	No	Yes. $4.39M by FY 2018-19. Additional pymts. of $14M (for total of $18.39M) projected to be made by FY 2028-29.	No.	Yes.	No.	No.	Yes. 10 years.	Yes.

City	Long-term pension cost projections available online on City's website?	Long-term pension cost projections published in City's budget?	Additional payments to CalPERS currently planned?	Pension reserve fund?	Employee cost sharing?	Revenue increase measures planned?	Pension obligation bonds outstdg.?	Long-term general fund forecast? / Period of forecast?	Long-term forecast included in budget?
South San Francisco	Yes. Through FY 2045-46	No	No.	Yes. $5.5M.	Yes.	Hotel tax and business license incr.2018. Not planning further increases	No.	Yes. 10 years.	No.
Woodside	Yes. Through FY 2027-28	No	No.	Yes. $0.15M per year.	No	No	No	Yes. Town extended period to 10 years for the first time in its FY 2019-21 budget.	Yes.

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Issued: July 29, 2019

TOWN OF COLMA

COLMA

AUGUST 5, 1924

CALIFORNIA

TOWN OF COLMA
1198 El Camino Real • Colma, California • 94014-3212
Tel 650.997.8300 • Fax 650.997.8308

September 25, 2019

Honorable Donald J. Ayoob
Judge of the Superior Court
c/o Charlene Kresevich
Hall of Justice
400 County Center; 2nd Floor
Redwood City, CA 94063-1655

Re: Grand Jury Report: "Soaring City Pension Costs – Follow-up on Grand Jury Report of 2017-2018."

Dear Judge Ayoob;

The City Council received the San Mateo Civil Grand Jury report titled, "Soaring City Pension Costs – Follow-up on Grand Jury Report of 2017-2018."

The Town was requested to submit comments regarding the findings and recommendations no later than October 28, 2019. The Town of Colma's response to both the findings and recommendations are listed below.

The Grand Jury instructed all agencies in San Mateo County to respond to findings 1-27 (F1-F27) and for Cities to respond to recommendations 1-2 (R1-R2a, R2b, R2C and R2d).

For the "findings", the Town was to 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, for each Grand Jury "recommendation", the Town was requested to report one ofthe 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

The following are responses to findings 1-27:

<u>Data Set Forth in Appendix A</u>

F1. Each City's audited annual financial report for the fiscal year ending June 30, 2018 reported combined covered payroll for the City's pension plans for each of FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18 in the amounts set forth beside its name for that year in Appendix A.

Town Response: The Town agrees with this finding.

F2. Each City's audited annual financial report for the fiscal year ending June 30, 2018 reported combined contribution payments to CalPERS on the City's pension plans for each of FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18 in the amounts set forth beside its name for that year in Appendix A.

Town Response: The Town agrees with this finding.

F3. Each City's audited annual financial report for the fiscal year ending June 30, 2018 reported combined Unfunded Liabilities (as defined in this report) for the City's pension plans for each of FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18 in the amounts 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.

Town Response: The Town agrees with this finding.

F4. Each City's audited annual financial report for the fiscal year ending June 30, 2018 reported combined Funded Percentages (as defined in the prior report) for the City's pension plans for each of FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18 in the amounts set forth beside its name for that year in Appendix A.

Town Response: The Town agrees with this finding.

F5. Each City's audited annual financial report for the fiscal years ending June 30, 2015, June 30, 2016, June 30, 2017, and June 30, 2018 reported what the combined Unfunded Liabilities (as defined in the prior report) for the City's pension plans for each of FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18 would have been if the applicable Discount Rate applied to calculate them had been one percentage point lower in the amount set forth beside its name for that year in Appendix A.

Town Response: The Town agrees with this finding.

F6. Each City's audited annual financial report for the fiscal years ending June 30, 2015, June 30, 2016, June 30, 2017, and June 30, 2018 reported general fund total expenditures for each of FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18 in the amounts set forth beside its name for that year in Appendix A.

Town Response: The Town agrees with this finding.

F7. In each of the fiscal years ending June 30, 2015, June 30, 2016, June 30, 2017 and June 30, 2018, each City's combined 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."

Town Response: The Town agrees with this finding.

F8. In each of the fiscal years ending June 30, 2015, June 30, 2016, June 30, 2017 and June 30, 2018, each City's combined contribution payments to CalPERS on the City's pension plans represented the percentage of that City's combined 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)."

Town Response: The Town agrees with this finding.

Projections of Future City Pension Costs

F9. Each of Colma, Daly City, Foster City, Hillsborough, and Redwood City includes in its annual, or bi-annual budgets published on its public website, projections showing the annual dollar amount of its projected pension contribution costs for the next five or more years. None of the other Cities do so.

Town Response: The Town agrees with this finding as it relates to the Town of Colma.

F10. Neither Atherton, Brisbane, nor Portola Valley have published, anywhere on their public website or their agenda packages for city council meetings, projections showing the annual dollar amount of their projected pension contribution costs for the next five or more years.

Town Response: The Town agrees with this finding to the extent the information contained within the Grand Jury Report is accurate with respect to these cities.

F11. The only way to find projections showing the annual dollar amount of the following Cities' projected pension contribution costs for the next five or more years on their public websites is by manually searching through agenda packages for their city council meetings: Belmont, Burlingame, East Palo Alto, Half Moon Bay, Menlo Park, Millbrae, Pacifica, San Bruno, San Carlos, San Mateo, South San Francisco and Woodside.

Town Response: The Town agrees with this finding to the extent the information contained within the Grand Jury Report is accurate with respect to these cities.

Long-Term Financial Forecasts

F12. Each of Colma, Daly City, Hillsborough, Menlo Park, Pacifica, Redwood City, San Mateo, South San Francisco and Woodside has a general fund operating budget forecast covering a ten-year period. Of those nine, only Colma, Hillsborough, Menlo Park, Redwood City, San Mateo, and Woodside make those forecasts accessible to the public in their most recent annual or bi-annual budgets or annual financial reports published on their public websites.

Town Response: The Town agrees with this finding as it relates to the Town of Colma.

F13. The only way to find the ten-year general fund operating budget forecasts on the public websites of Pacifica and South San Francisco is by manually searching through agenda packages for their City Council meetings.

Town Response: The Town agrees with this finding to the extent the information contained within the Grand Jury Report is accurate with respect to these cities.

F14. Daly City's ten-year general fund operating forecast is not accessible to the public through its public website.

Town Response: The Town agrees with this finding to the extent the information contained within the Grand Jury Report is accurate with respect to this city.

F15. Each of Atherton, Belmont, Brisbane, Burlingame, Foster City, Half Moon Bay, San Bruno and San Carlos has a general fund operating budget forecast covering only a five- year period. Of those eight, only Belmont, Foster City, Half Moon Bay, San Bruno and San Carlos make the forecasts available to the public in their most recent annual or bi- annual budgets or annual financial reports published on their public websites.

Town Response: The Town agrees with this finding to the extent the information contained within the Grand Jury Report is accurate with respect to these cities.

F16. The only way to find the five-year general fund operating budget forecasts on the public websites of Atherton and Burlingame is by manually searching through agenda packages for their City Council meetings.

Town Response: The Town agrees with this finding to the extent the information contained within the Grand Jury Report is accurate with respect to these cities.

F17. Brisbane's five-year general fund operating forecast is not accessible to the public through its public website.

Town Response: The Town agrees with this finding to the extent the information contained within the Grand Jury Report is accurate with respect to this city.

F18. Neither East Palo Alto, Millbrae, nor Portola Valley has a general fund operating forecast that extends beyond the fiscal years covered in its most recent annual or bi-annual budget.

Town Response: The Town agrees with this finding to the extent the information contained within the Grand Jury Report is accurate with respect to these cities.

Plans to Make Additional Payments to CalPERS Beyond Annual Required Contributions

F19. Each of Belmont, Colma, Foster City, Menlo Park, Portola Valley, Redwood City, San Carlos, and San Mateo has made, or currently has a specific plan to make, additional pension contribution payments to CalPERS beyond its Annual Required Contribution.

Town Response: The Town agrees with this finding as it relates to the Town of Colma.

F20. Neither Atherton, Brisbane, Burlingame, Daly City, East Palo Alto, Half Moon Bay, Hillsborough, Millbrae, Pacifica, Portola Valley, San Bruno, South San Francisco nor Woodside currently has a specific plan recommended by staff to the City or Town Council (as applicable) to make additional pension contribution payments to CalPERS beyond its Annual Required Contribution.

Town Response: The Town agrees with this finding to the extent the information contained within the Grand Jury Report is accurate with respect to these cities.

Establishment of Reserves or Section 115 Trusts for Future Pension Payments

F21. Each of Brisbane, Burlingame, Colma, Daly City, Foster City, Half Moon Bay, Hillsborough, Menlo Park, Pacifica, Portola Valley, Redwood City, San Carlos, South San Francisco and Woodside has set aside internal reserves, or contributed funds to a Section 115 trust, specifically for the purpose of paying future pension contribution costs

Town Response: The Town agrees with this finding as it relates to the Town of Colma.

F22. Neither Atherton, Belmont, East Palo Alto, Millbrae, San Bruno, nor San Mateo currently has a specific plan recommended by staff to the City or Town Council (as applicable) to set aside internal reserves, or to contribute funds to a Section 115 trust, specifically for the purpose of paying future pension contribution costs.

Town Response: The Town agrees with this finding to the extent the information contained within the Grand Jury Report is accurate with respect to these cities.

Employee Cost-Sharing to Help Pay Cities' Pension Costs

F23. Each of Atherton, Belmont. Burlingame, Foster City, Hillsborough, Menlo Park, Millbrae, Pacifica, Redwood City, San Mateo and South San Francisco has, or currently intends to seek, one or more cost-sharing agreements with employees under which employees pay for a portion of the City's Normal Cost pension payment obligations to CalPERS.

Town Response: The Town agrees with this finding to the extent the information contained within the Grand Jury Report is accurate with respect to these cities.

F24. Neither Brisbane, Colma, Daly City, East Palo Alto, Half Moon Bay, Portola Valley, San Bruno, San Carlos nor Woodside has, or currently intends to seek, one or more cost- sharing agreements with employees under which employees pay for a portion of the City's Normal Cost pension payment obligations to CalPERS.

Town Response: The Town agrees with this finding as it relates to the Town of Colma.

Revenue Enhancement Ballot Initiatives by Cities

F25. Each of Belmont, Brisbane, Burlingame, Colma, Daly City, East Palo Alto, Foster City, Redwood City and South San Francisco have, since November 2016, sought and obtained voter approval for ballot measures intended to increase revenues.

Town Response: The Town agrees with this finding as it relates to the Town of Colma.

F26. Each of Half Moon Bay, Pacifica, Redwood City, and San Bruno are currently considering seeking approval of their voters for revenue enhancement measures in the near term.

Town Response: The Town agrees with this finding to the extent the information contained within the Grand Jury Report is accurate with respect to these cities.

F27. Neither Atherton, Belmont, Brisbane, Burlingame, Colma, Daly City, East Palo Alto, Foster City, Hillsborough, Menlo Park, Millbrae, Portola Valley, San Carlos, San Mateo, South San Francisco, nor Woodside is currently considering seeking approval of its voters for revenue enhancement measures in the near term.

Town Response: The Town agrees with this finding as it relates to the Town of Colma.

Recommendations

R1. Each City include in its published annual or bi-annual budgets a general fund operating budget forecast for the next ten fiscal years.

Town Response: The recommendation has been implemented and is part of the FY 2019-20 Adopted Budget on the Town's website.

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

- **a)** The City's total pension contribution costs under all plans, for each of the three preceding fiscal years as well as estimates for such costs in each of the following ten fiscal years (whether developed by City staff internally, or by outside consultants to the City), assuming CalPERS' actuarial assumptions are met.

Town Response: The recommendation has not yet been implemented but will be implemented beginning with the FY 2020-21 Budget. The FY 2019-20 Budget did not separate the Town's pension contribution from total Salary and Benefit expenditure category.

b) The City's total Unfunded Liabilities under all plans, for each of the three preceding fiscal years as well as estimates for such Unfunded Liabilities in each of the next ten fiscal years, (whether developed by City staff internally, or by outside consultants to the City), assuming CalPERS' actuarial assumptions are met.

Town Response: The recommendation has been implemented and is part of the FY 2019-20 Adopted Budget on the Town's website.

c) The City's Funded Percentage across all plans, for each of the three preceding fiscal years as well as estimates for such Funded Percentages in each of the next ten fiscal years, assuming CalPERS' actuarial assumptions are met.

Town Response: The recommendation has not yet been implemented but will be implemented beginning with the FY 2020-21 Budget.

d) The percentage of the City's general fund expenditures, and the percentage of the City's covered payroll, represented by the pension costs described in (a) above (using estimates of general fund expenditures in future fiscal years).

Town Response: The recommendation has not yet been implemented but will be implemented beginning with the FY 2020-21 Budget.

Sincerely,

Joanne F. del Rosario
Mayor

TOWN OF COLMA

AUGUST 5, 1924

CALIFORNIA

Attachment C

Superior Court of California, County of San Mateo
Hall of Justice and Records
400 County Center
Redwood City, CA 94063-1655

RODINA M. CATALANO
COURT EXECUTIVE OFFICER
CLERK & JURY COMMISSIONER

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www.sanmateocourt.org

July 17, 2018

Town Council
Town of Colma
1198 El Camino Real
Colma, CA 94014

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; 2nd 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. (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

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.

Soaring City Pension Costs – Time for Hard Choices.

Table of Contents

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

- <u>Agency</u>: 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.

- <u>Amortization Cost</u>: 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.

- <u>Amortization Period</u>: The number of years over which an Unfunded Liability is to be paid off.

- <u>Benefits</u> or <u>Benefits obligations</u>: 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[1] as an integral part of their compensation package. All of these plans are defined benefit plans[2] in which future Benefits are determined by a formula that is set at the outset of employment.[3,4] The Benefits are guaranteed by the Cities and do not depend on how well pension contributions are invested. Benefits are financed from three sources:[5]

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[1] See, the Comprehensive Annual Financial Reports (CAFRs) listed in the BIBLIOGRAPHY section below for each of the Cities.

[2] 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>.

[3] 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>. 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>.

[4] 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>.

[5] 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>. 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[6]), 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.[7]

- 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.[8]

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.[9] Agencies

[6] Appendix A.
[7] CalPERS at a Glance.
[8] CalPERS at a Glance.
[9] 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>. 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.[10]

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:[11]

- 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,[12] 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).[13] 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-Challeng-Faceing-Public-Plan-Sponsors_Optional.pdf>.

[10] Interviews by Grand Jury.

[11] 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>.

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

[13] 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."[14]

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.[15] 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.[16] 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".[17] Although GASB mandates this method of setting public pension plan Discount Rates,[18] it is controversial.[19] Many economists, academics and commentators claim it understates the size of Unfunded Liabilities.[20] They argue that the present value of future Benefit obligations should be

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[14] Ibid., p. 4.

[15] Nation, *Pension Math* 2011, pp. 9 and 11.

[16] GASB Statement No. 68, Paragraph 64, <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.

[17] 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>.

[18] GASB Statement No. 68, Paragraph 64.

[19] 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>.

[20] 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.[21] This approach is sometimes referred to as the "bond-based approach" or "market-based method."[22]

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."[23] 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.[24]

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.[25] 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

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>.

[21] 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.

[22] Mixon, *Estimating Future Costs at Public Pension Plans*, p. 2. U.S. Government Accountability Office, p. 2.

[23] 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.

[24] Turner, *Determining Discount Rates,* p. 3.

[25] 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>. Angelo, *Understanding the Valuation of Public Pension Liabilities*, p. 10. U.S. Government Accountability Office, pp. 2-3.

yet implemented[26] – is unrealistically high. They claim that a more reasonable projection would be 6.0 - 6.5 percent.[27] 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.[28] 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.[29]

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,[30] through higher annual contribution payments over the Amortization Period. Historically, CalPERS' standard Amortization Period for investment gains and losses

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[26] 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/CAlPERS-Stays-the-Course,-Adopts-a-7-Percent-Assum>.

[27] 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>.

[28] 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>. 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.*

[29] 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/calperss-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>, in which the authors note that CalPERS' determines its Discount Rate based on expectations for returns on investment over a 60 year period.

[30] 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,[31] but an Agency could elect a shorter Amortization Period.[32] 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."[33] Classic Members who change public employers retain their "Classic" status.[34] Thus, to date, the impact of PEPRA on public pension liabilities has been small.[35] 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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[31] 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>.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>.

[32] 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.

[33] 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>.

[34] 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>.

[35] 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=0ahUKEwj4wYnghL7bAhUPJ3wKHeqPCW0QFggpMAA&url=https%3A%2F%2Fwww.cacities.org%2FResources-Documents%2FPolicy-Advocacy-Section%2FHot-Issues%2FRetirement-System-Sustainability%2FPension_Gap_Public.aspx&usg=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.[36] 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.[37] 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.[38] Such an employee with 30 years of government service is entitled to a pension equal to 81 percent of their salary at age 55.[39] 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,[40] or less than 50 percent of what a Classic Member would receive. PEPRA specifies similar but more complex reductions for New Members under Safety Plans.[41]

- Caps on annual salary basis for calculation. PEPRA 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.[42] These caps are less than the salaries of many middle and upper management government employees.[43] Classic Members are not subject to salary caps in calculating their pensions.[44]

- Averaging of salaries for calculation. PEPRA requires, in calculating the annual salary used to calculate pensions, that New Members use the average of the three highest consecutive years salary.[45] In contrast, some public agencies allow Classic Members to use just their highest salary year.

- Prohibition on "spiking" salaries. PEPRA 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.[46]

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36 CalPERS, *Summary Public Employee Reform Act,* p. 2.
37 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>.
38 City of San Carlos, Teamsters Group – Benefits Summary 2018, p. 3.
39 CalPERS, *Retirement Formulas and Benefit Factors*, pp. 32-33.
40 Ibid., pp. 28-29.
41 CalPERS, *Summary Public Employee Reform Act,* p. 2.
42 Ibid., p. 3.
43 Interviews by Grand Jury.
44 CalPERS, *Summary Public Employee Reform Act,* p. 3.
45 Ibid., pp. 9-10.
46 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.[47]

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[48] 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.[49] 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."[50] 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.[51] 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."[52] The California Supreme Court is currently considering appeals of all three Court of

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[47] Ibid., pp. 7-8.
[48] *Allen v. City of Long Beach,* 45 Cal.2d 128 (1955), <https://scocal.stanford.edu/opinion/allen-v-city-long-beach-26585>.
[49] *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>. 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>.
[50] *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>.
[51] *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>.
[52] *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.[53] 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.[54,55] 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".[56] 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.[57] The May 2017 Roeder Survey of California public pension plans ranked CalPERS a poor 34th out of 37 California public pension plans rated for "funding assumptions."[58] However, CalPERS has begun taking actions to strengthen its pension system.

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[53] 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/>.

[54] 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>.

[55] 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>.

[56] 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>.

[57] 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>.

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

<u>CalPERS' reduction of Discount Rate from 7.5 to 7 percent</u>.

In late 2016, CalPERS decided to lower its Discount Rate from 7.5 to 7.0 percent.[59] 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.[60] 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.[61] 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[62]:

- 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.[63] 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.[64] 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.[65] 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.[66] 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.[67]

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[59] 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>.
[60] Nation, *Pension Math* 2011, pp. 25-26.
[61] Appendix A.
[62] CalPERS, *CalPERS to Lower Discount Rate to Seven Percent*. Terando, *Strategies for Managing the New Reality,* slide 6.
[63] Mendel, *Old cause of pension debt*, p. 3.
[64] League of California Cities, *CalPERS Stays the Course*.
[65] Diamond, *CalPERS considers 4 asset allocation options*, p. 1.
[66] Ibid. League of California Cities, *CalPERS Stays the Course*.
[67] 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.cityofpacifica.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. [68]

CalPERS' reduction of Amortization Period.

In February 2018, CalPERS reduced its standard Amortization Period from 30 to 20 years.[69] 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.[70] 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.[71] 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."[72]

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.

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.

[68] 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>.

[69] Lowe and Rogers, *CalPERS Reduces Amortization Period*. CalPERS, *Agenda Item 7a, Amortization Policy*, p. 1..

[70] Ibid., p. 4.

[71] 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.

[72] 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)[73].
- 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.[74]

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.

<u>Unfunded Liabilities and Funded Percentages of the Cities.</u>

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.

Table No. 1 - Increasing Unfunded Liabilities and Decreasing Funded Percentages
($000)

	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".[75] 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.

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[73] 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>.
[74] Interviews by Grand Jury.
[75] 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.

Table No. 2 - Increased Pension Unfunded Liabilities and Decreased Funded Percentages if Discount Rate is Reduced By 1 percentage point ($000)				
Fiscal Year	Unfunded Liabilities based on **7.5 %** Discount Rate	Unfunded Liabilities based on **6.5 %** Discount Rate	Funded Percentages based on **7.5 %** Discount Rates	Funded Percentages based on **6.5 %** Discount Rates
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.[76] 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.[77]

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.

Table No. 3 - Increasing Pension Contribution Payments ($000)			
Fiscal Year	Total Contribution Payments	Contributions as a percent of **covered payroll**	Contributions as a percent of **general fund spending**
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.)

[76] 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.
[77] 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.[78] 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[79] 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.

Table No. 4 - Percentage of Cities' FY 2017-18 Pension Costs that are Amortization Costs

($000)

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.

[78] League of California Cities, *2018 Retirement System Sustainability Study*, p. 4.
[79] Appendix A.

Interest Charges on Unfunded Liabilities.

CalPERS charges interest on Unfunded Liabilities at an annual rate equal to the then-current Discount Rate.[80] 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.

Table No. 5 - Interest payment savings where shorter Amortization Periods are applied ($000)

	Interest over 30 years			**Interest over 20 years**		**Interest over 15 years**	
City	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. [81]	$390,708	$206,436	52.8%	$185,162	**$20,574**	$127,457	**$78,979**
Redwood City[82]	$553,787	$305,671	55.2%	$250,256	**$55,415**	$171,616	**$134,055**
City of San Mateo[83]	$502,874	$280,510	55.8%	$224,282	**$56,228**	$153,805	**$126,706**
Daly City[84]	$371,749	$201,920	54.3%	$171,295	**$30,625**	$117,468	**$84,452**

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

[80] 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.
[81]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>.
[82] *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>.
[83] 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>.
[84] 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).[85] 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).[86]

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.[87] The Cities' projected future pension costs, as estimated by CalPERS, are also projected to almost double during that period,[88] and some experts project even larger increases.[89] 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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[85] League of California Cities, *2018 Retirement System Sustainability Study and Findings*, p. 2.
[86] Ibid., pp. 1 and 4.
[87] Ring, Edward, *Did CalPERS Use Accounting "Gimmicks …?*
[88] 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.
[89] 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					
($000)					
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[90] 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.[91]

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[90] 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>.

[91] 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. 71., 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[92] ($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[93] ($000) (Before[94] 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		

[92] 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.

[93] 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.

[94] 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[95] ($000) (Before[96] 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[97,98,99]) in their most recent budgets published in the finance section of

[95] 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.

[96] 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.

[97] 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>.

[98] 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>.

[99] 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.[100,101,102,103] 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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100 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>.

101 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 20187-19 Proposed Budget*, pp. 27 and 96, <https://www.hillsborough.net/ArchiveCenter/ViewFile/Item/212>.

102 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>. The proposed budget does not include more specific information about dollar amounts represented by these percentages.

103 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.[104,105,106,107]

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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[104] 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.
[105] 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.
[106] 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 PEPRA. See, "Specific Measures for the Cities to Consider" below for references to Redwood City's actions.
[107] 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,[108] so using reserves to make supplemental contributions can result in substantial net savings over the long-term.

Although not a subject of this report,[109] 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)[110] payments.[111] However, these supplemental contributions were applied to the entire SamCERA system, not the County alone.[112] Then, in November 2013, SamCERA and the County signed a Memorandum of Understanding (MOU) to formalize a plan to pay supplemental contributions.[113] 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).[114]

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

[109] 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."

[110] 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>.

[111] 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>.

[112] County Pension Costs – Hard Choices Paying Off, p. 6.

[113] Memorandum of Understanding Between the County of San Mateo and the San Mateo County Employees' Retirement System Funding, November 19, 2013.

[114] 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.[115]

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.[116] 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.[117]

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.[118] 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.[119]

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.[120] 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.[121] The City estimates that this payment will result in $4.3 million of net savings over the long-term.[122]

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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115 Ibid.
116 Ibid., pp. 7-8.
117 Ibid., p. 8.
118 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>.
119 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)>.
120 Redwood City *Report - FY 2017-18 Mid-Year Budget Study Session*, pp. 20 and 21. Grand Jury Interviews.
121 Interviews by Grand Jury. San Carlos, *City Council Staff Report*, Item 9.a of April 9, 2018 Agenda Packet, <http://sancarlosca.iqm2.com/Citizens/FileOpen.aspx?Type=1&ID=2707&Inline=True>.
122 Ibid.

years.[123] 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.[124]

(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.[125] 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.[126] 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.[127] Menlo Park's policy is to assign 25 percent of any general fund operating budget surpluses to this pension reserve.[128] 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.[129] However, the Strategic Pension Funding reserve currently represents only approximately 10 percent of the City's total general fund reserves[130] 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.[131]

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[123] City of San Mateo, *Proposed 2018-20 Business Plan*, pp. 58 and 67.
[124] City of Foster City, *Preliminary Budget Fiscal Year 2018-2019*, p. 50.
[125] 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>; 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 20187-19 Proposed Budget*, p. 95.
[126] Interviews by Grand Jury.
[127] Appendix A.
[128] City of Menlo Park, *Adopted Budget, Fiscal Year 2017-18*, p. 48.
[129] Interviews by Grand Jury.
[130] City of Menlo Park, *Adopted Budget, Fiscal Year 2017-18*, p. 49.
[131] 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.[132] As of June 30, 2017, the City reported having approximately $1 million in the fund[133] and its FY 2017-2018 budget provides for the transfer of another $0.51 million into the fund.[134] 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,[135] 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.[136] 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.[137] The City of San Mateo's annual pension costs were over $17.5 million in FY 2016-2017,[138] 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. [139] 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[140] and roughly 5 months' worth of its FY 2016-2017 pension costs of $13.3 million.[141]

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.[142]

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132 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>.
133 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>.
134 City of Half Moon Bay, *FY 2017-18 Adopted Operating Budget*, pp. 69 and 71.
135 Appendix A.
136 Menlo Park's pension costs in FY 2016-17 were approximately $5.6 million. Appendix A.
137 City of San Mateo, *Adopted 2017-18 Budget*, pp. 54 and 117, <https://www.cityofsanmateo.org/DocumentCenter/View/60043>.
138 Appendix A.
139 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 20187-19 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>.
140 City of South San Francisco, Letter from South San Francisco to Grand Jury, dated June 7, 2018.
141 Appendix A.
142 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.[143] 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.[144] 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[145] which can yield higher rates of Return on Investments than the rates available to the Cities for their general fund reserves.[146] 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,[147] representing approximately 7 months of its annual pension costs of $17.7 million in FY 2016-2017.[148] 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.[149] 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.[150] 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.[151]

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.[152] The

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[143] 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>.
[144] Ibid.
[145] Ibid.
[146] 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.
[147] Redwood City *Report – FY 2017-18 Mid-Year Budget Study Session*, p. 10. City of Redwood City, *Fiscal Year 2017-2018Adopted Budget*, Budget Message, pp. 13 and 28, <http://webapps.redwoodcity.org/files/finance/main/1.-Redwood-City-CA-Adopted-FY-17-18-Budget-.pdf>.
[148] Appendix A.
[149] City of Redwood City, *Fiscal Year 2018-2019 Recommended Budget*, p. 174, <http://www.redwoodcity.org/home/showdocument?id=15124>.
[150] 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.
[151] City of Redwood City, 2017 CAFR, p. v of Letter of Transmittal.
[152] 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,[153] 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.[154] 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[155] 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.[156]

(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.[157] Redwood City has also negotiated cost-sharing agreements with employees under which those employees pay a portion of the City's Normal Costs,[158] as have Atherton,[159] Burlingame,[160] Hillsborough,[161] and Millbrae.[162]

(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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153 Burlingame, Letter from City of Burlingame to Grand Jury, dated June 7, 2018.
154 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.
155 City of Burlingame, *Fiscal Year 2017-18 Adopted Budget*, p. xiii**.**
156 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.
157 City of Menlo Park, *Adopted Budget, Fiscal Year 2017-18*, p. 48.
158 Redwood City *Report - FY 2017-18 Mid-Year Budget Study Session*, p. 10.
159 Town of Atherton, *Fiscal Year 2017/18 Operating & Capital Improvement Budget*, p. 4, <http://www.ci.atherton.ca.us/ArchiveCenter/ViewFile/Item/2535>.
160 City of Burlingame, *Fiscal Year 2017-18 Adopted Budget*, p. xviii.
161 Interviews by Grand Jury.
162 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.[163] 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.[164] 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).[165] 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.[166] 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,[167] and the City of Burlingame issued $33 million in pension obligation bonds in 2007.[168]

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.[169]

(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.[170] 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.[171] The City of Palo Alto, although outside the borders of the county, has stated that it is looking at this option.[172] In essence, asking CalPERS to shorten

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[163] 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>.
[164] City of Daly City, 2017 CAFR, p. 15.
[165] City of Daly City, 2017 CAFR, p. 53.
[166] 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
[167] City of Brisbane, 2014 CAFR, pp. 54, 55 and 59, <http://brisbaneca.org/sites/default/files/brisbane%20cafr%20ocr.pdf>.
[168] City of Burlingame, 2010 CAFR, p. 60, <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.
[169] League of California Cities, *2018 Retirement System Sustainability Study*, pp. 6 and 33.
[170] 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.
[171] Interviews by Grand Jury.
[172] 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.[173] 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" [174] 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.[175] Indeed, Redwood City's finance group stated that rising pension costs are the biggest factor driving the city's efforts to reduce operating costs.[176]

Daly City describes its increasing pension costs as a "major challenge for the City's budget in coming years."[177] 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.[178] 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.[179]

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

[173] 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*.

[174] Redwood City, *Report - FY 2017-18 Mid-Year Budget Study Session*, pp. 7 and 11.

[175] City of Redwood City, *Fiscal Year 2018-2019 Recommended Budget*, pp. 9, 18 and 19.

[176] Interviews by Grand Jury.

[177] City of Daly City, *Adopted Comprehensive Biennial Operating and Capital Budget, Fiscal Years 2017 and 2018*, p. 26.

[178] Ibid., at p. 7.

[179] 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.[180] 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."[181] These deficits are projected to reach $6.6 million per year in the general fund budget by FY 2022-2023.[182] 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.[183]

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."

[180] Redwood City, *Report - FY 2017-18 Mid-Year Budget Study Session*, p. 12.
[181] Ibid.
[182] City of Redwood City, *Fiscal Year 2018-2019 Recommended Budget*, p. 174.
[183] 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)>.

(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[184] 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.[185] 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.[186] 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. [187] 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.[188] 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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[184] 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/>.
[185] Nation, *Pension Math* 2011, p. 3, footnote 11.
[186] Interviews by Grand Jury.
[187] Interviews by Grand Jury.
[188] 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.[189] 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.[190] Many of the Cities are experiencing rising revenues.[191] 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.[192] 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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[189] Interviews by Grand Jury.
[190] 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>.
[191] See footnote 125 above.
[192] 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 included 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 ($15M net pension liability/ (1-75% Funded Percentage) = $60 million)

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

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

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

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

Total assets under all pension plans are $105M ($35M under Miscellaneous Plan plus $80M 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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TOWN OF COLMA
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September 12, 2018

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

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

Dear Judge Swope;

The City Council received the San Mateo Civil Grand Jury report titled, "Soaring City Pension Costs – Time for Hard Choices."

The Town was requested to submit comments regarding the findings and recommendations within 90 days and no later than October 16, 2018. The Town of Colma's response to both the findings and recommendations are listed below.

The Grand Jury instructed all agencies in San Mateo County including the County to respond to findings 1-13 (F1-F13) and for Cities to respond to recommendations 1-4 (R1-R4).

For the "findings", the Town was to 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, for each Grand Jury "recommendation", the Town was requested to report one ofthe 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

The following are responses to findings 1-13:

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.

Town Response: The Town disagrees with this finding. The correct pension data for the Town of Colma is stated below. This is the same data provided in the June 7, 2018 Grand Jury request.

Fiscal Year	Covered Payroll	Contribution Payments	Contribution Rates	Unfunded Liability	Funded Percentage	Unfunded Liability @ 1% Disc Rate	General Fund Total Expenditures	% of Contribution to Total GF Expenditures
2016-2017	$ 4,031	$ 1,139	28.3%	$ 9,449	73.9%	$ 14,008	$ 13,323	8.5%
2015-2016	$ 4,219	$ 1,048	24.8%	$ 7,747	74.7%	$ 11,969	$ 13,410	7.8%
2014-2015	$ 3,209	$ 982	30.6%	$ 6,884	76.0%	$ 10,724	$ 12,948	7.6%

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.

Town Response: The Town disagrees with this finding. The corrected pension data is summarized under Town Response for F1.

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.

Town Response: The Town disagrees with this finding. The corrected pension data is summarized under Town Response for F1. While annual pension contributions increase, the Town has been maintaining an excess of $20.0 million in general fund reserves during the last several years. Service fee increases are related to equability and sustainability. The Town plans to establish and implement a long-range financial strategy to ensure future fiscal stability.

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.

Town Response: The Town disagrees with this finding. The corrected pension data is summarized under Town Response for F1.

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.

Town Response: The Town disagrees with this finding. The corrected pension data is summarized under Town Response for F1.

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.

Town Response: The Town disagrees with this finding. The corrected pension data is summarized under Town Response for F1.

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."

Town Response: The Town disagrees with this finding. The corrected pension data is summarized under Town Response for F1.

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)."

Town Response: The Town disagrees with this finding. The corrected pension data is summarized under Town Response for F1.

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 included data for them.)

Town Response: Not applicable to the Town of Colma.

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.

Town Response: The Town agrees with this finding.

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.

Town Response: The Town agrees with this finding but is cautious in only focusing on unfunded pension liability. Supplemental contributions will reduce overall interest payments, resulting in substantial savings. It, however, also reduces the Town's ability to meet other obligations and community needs.

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.

Town Response: The Town agrees with this finding. The Town has not published a 10-year financial forecast specifically addressing the rising pension cost. A 5-year financial forecast is included in the budget document.

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.

Town Response: The Town agrees with this finding. The 5-year financial forecast mentioned under F12 includes rising pension cost but did not separately highlight pension cost.

The following are responses to recommendations 1-4:

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

Town Response: This recommendation has not yet been implemented, but the Town is scheduled to discuss unfunded pension liability, along with other unfunded liabilities, during the September 26 City Council meeting. The discussion will include an initial funding plan and ongoing funding strategy.

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.

Town Response: This recommendation has not yet been implemented, but the Town will implement it by December 31, 2018.

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.
- 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 level 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.

Town Response: This recommendation has not been implemented and requires further analysis. The initial pension costs discussion is planned for the September 26 City Council meeting.

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' actuarial assumptions, especially the Discount Rate, are not met in future years.

Town Response: The recommendation has not yet been implemented, but the Town will implement this as part of the annual reporting process, with the 2018-19 plan by December 2018.

Sincerely,

Raquel P. Gonzalez

Raquel P. Gonzalez
Mayor

TOWN OF COLMA

AUGUST 5, 1924

CALIFORNIA

STAFF REPORT

TO: Mayor and Members of the City Council

FROM: Caitlin Corley, City Clerk

VIA: Brian Dossey, City Manager

MEETING DATE: September 25, 2019

SUBJECT: League of California Cities Resolutions

RECOMMENDATION

Staff recommends that the City Council approve:

> MOTION DIRECTING THE VOTING DELEGATE TO VOTE IN SUPPORT OF THE TWO RESOLUTIONS THAT ARE BEING CONSIDERED AT THE 2019 LEAGUE OF CALIFORNIA CITIES CONFERENCE ANNUAL BUSINESS MEETING ON OCTOBER 18, 2019.

EXECUTIVE SUMMARY

The Annual Business meeting at the League Conference is on Friday, October 18, 2019. This year there will be two resolutions that will be considered and voted on. The purpose of the staff report is to direct the voting delegate on how the Town wishes to vote at the Business meeting.

FISCAL IMPACT

There is no direct fiscal impact associated with this action. Attendance at various conferences is budgeted in the 2019 – 20 budget

BACKGROUND

As the Council knows, Colma has been a member of the League of California Cities for many years. In order for a representative from the Town to vote on Colma's behalf on key policy-related issues, the Council must officially designate someone as a voting delegate. The delegate does not necessarily need to be an elected official.

At the July 10, 2019 meeting, the City Council appointed the City Manager as the alternate voting delegate to attend the Business Meeting at the Annual League of California Cities Conference in October.

ANALYSIS

Staff is seeking input on how to vote at the Business Meeting at the League of California Cities Annual Conference. There are two resolutions that will be considered and voted on.

RESOLUTIONS TO BE CONSIDERED

1. A Resolution of the League of California Cities calling on the California Public Utilities Commission to amend Rule 20A to add projects in very high fire hazard severity zones to the list of eligibility criteria and to increase funding allocations for Rule 20A Projects.

Undergrounding power lines is an important tool in preventing wildfires, however the state's Rule 20A program, which allows local government to pay for undergrounding projects with ratepayer funds, does not currently consider fire safety as a factor in eligibility for the program. This resolution would call on the California PUC to amend Rule 20A to expand eligibility for undergrounding projects in very high fire hazard severity zones and increase funding allocation for these projects.

While this resolution would not directly impact the Town, as Colma does not fall in a high fire hazard zone, California's worsening fire season impacts the state as a whole. Colma's first responders including our Police Department and the Colma Fire Protection District have and will respond to calls for mutual aid in fighting fires and responding to the immediate aftermath of fires. This resolution would help high risk communities be proactive in preventing wildfires, thus making the whole region safer from the devastation fires can cause.

2. A Resolution calling on the Federal and State governments to address the devastating impacts of international transboundary pollution flows into the southern most regions of California and the Pacific Ocean.

Along California's southern border with Mexico, the New River in Imperial County and the Tijuana River in San Diego County are major sources of raw sewage, trash, chemicals, heavy metals, and toxins that pollute local communities. These transboundary flows threaten the health of residents in California and Mexico, harms the ecosystem, force closures at beaches, damage farmland, makes people sick, and adversely affects the economy of border communities. The root cause of this cross-border pollution is from insufficient or failing water and wastewater infrastructure in the border zone and inadequate federal action to address the problem through existing border programs. This resolution would call upon the State and Federal governments to restore and ensure proper funding for the U.S. – Mexico Border Water Infrastructure Program (BWIP) and work bi-nationally to address water quality issues resulting from transboundary flows from Mexico's Tijuana River into the United States containing untreated sewage, polluted sediment, and trash.

Again, this resolution does not directly impact the Town, however a decline in the State's beach quality and reputation could carry macroeconomic effects that could ripple outside of the San Diego County region and affect tourism throughout coastal communities in California. Tourism currently contributes over $140.6 billion to the State's economy. Additionally, this resolution is in line with the Town's sustainability efforts, as it works towards protecting the long term health of the California coastline.

Staff has attached the League of California Cities Annual Resolution Packet for City Council's review.

Council Adopted Values

Participating in the annual Business Meeting furthers the Council's adopted values of ***responsibility*** and ***vision*** because providing input on important local, regional and state policy issues protects the Town's long term financial stability and other interests.

CONCLUSION

Staff recommends the City Council approve a motion directing the voting delegate to vote in support of the two resolutions being considered at the 2019 League of California Cities Annual Business Meeting.

ATTACHMENTS

A. League of California Cities Annual Resolution Packet

Attachment A

Annual Conference Resolutions Packet

2019 Annual Conference Resolutions

Long Beach, California

October 16 – 18, 2019

INFORMATION AND PROCEDURES

RESOLUTIONS CONTAINED IN THIS PACKET: The League bylaws provide that resolutions shall be referred by the president to an appropriate policy committee for review and recommendation. Resolutions with committee recommendations shall then be considered by the General Resolutions Committee at the Annual Conference.

This year, two resolutions have been introduced for consideration at the Annual Conference and referred to League policy committees.

POLICY COMMITTEES: Two policy committees will meet at the Annual Conference to consider and take action on the resolutions referred to them. The committees are: Environmental Quality and Transportation, Communication & Public Works. The committees will meet from 9:00 – 11:00 a.m. on Wednesday, October 16, at the Hyatt Regency Long Beach. The sponsors of the resolutions have been notified of the time and location of the meeting.

GENERAL RESOLUTIONS COMMITTEE: This committee will meet at 1:00 p.m. on Thursday, October 17, at the Hyatt Regency Long Beach, to consider the reports of the policy committees regarding the resolutions. This committee includes one representative from each of the League's regional divisions, functional departments and standing policy committees, as well as other individuals appointed by the League president. Please check in at the registration desk for room location.

ANNUAL LUNCHEON/BUSINESS MEETING/GENERAL ASSEMBLY: This meeting will be held at 12:30 p.m. on Friday, October 18, at the Long Beach Convention Center.

PETITIONED RESOLUTIONS: For those issues that develop after the normal 60-day deadline, a resolution may be introduced at the Annual Conference with a petition signed by designated voting delegates of 10 percent of all member cities (48 valid signatures required) and presented to the Voting Delegates Desk at least 24 hours prior to the time set for convening the Annual Business Meeting of the General Assembly. This year, that deadline is 12:30 p.m., Thursday, October 17. Resolutions can be viewed on the League's Web site: www.cacities.org/resolutions.

Any questions concerning the resolutions procedures may be directed to Carly Shelby cshelby@cacities.org 916-658-8279 or Nick Romo nromo@cacities.org 916-658-8232 at the League office.

GUIDELINES FOR ANNUAL CONFERENCE RESOLUTIONS

Policy development is a vital and ongoing process within the League. The principal means for deciding policy on the important issues facing cities is through the League's seven standing policy committees and the board of directors. The process allows for timely consideration of issues in a changing environment and assures city officials the opportunity to both initiate and influence policy decisions.

Annual conference resolutions constitute an additional way to develop League policy. Resolutions should adhere to the following criteria.

<u>Guidelines for Annual Conference Resolutions</u>

1. Only issues that have a direct bearing on municipal affairs should be considered or adopted at the Annual Conference.

2. The issue is not of a purely local or regional concern.

3. The recommended policy should not simply restate existing League policy.

4. The resolution should be directed at achieving one of the following objectives:

    (a) Focus public or media attention on an issue of major importance to cities.

    (b) Establish a new direction for League policy by establishing general principles around which more detailed policies may be developed by policy committees and the board of directors.

    (c) Consider important issues not adequately addressed by the policy committees and board of directors.

    (d) Amend the League bylaws (requires 2/3 vote at General Assembly).

LOCATION OF MEETINGS

Policy Committee Meetings
Wednesday, October 16, 9:00 – 11:00 a.m.
Hyatt Regency Long Beach
200 South Pine Avenue, Long Beach

The following committees will be meeting:

1. Environmental Quality 10:00 - 11:00 a.m.
2. Transportation, Communication & Public Works 9:00 - 10:00 a.m.

General Resolutions Committee
Thursday, October 17, 1:00 p.m.
Hyatt Regency Long Beach
200 South Pine Avenue, Long Beach

Annual Business Meeting and General Assembly Luncheon
Friday, October 18, 12:30 p.m.
Long Beach Convention Center
300 East Ocean Boulevard, Long Beach

KEY TO ACTIONS TAKEN ON RESOLUTIONS

Resolutions have been grouped by policy committees to which they have been assigned.

Number | Key Word Index | Reviewing Body Action

		1	2	3

1 - Policy Committee Recommendation
to General Resolutions Committee
2 – General
Resolutions Committee
3 - General Assembly

ENVIRONMENTAL QUALITY POLICY COMMITTEE

		1	2	3
1	Amendment to Rule 20A			
2	International Transboundary Pollution Flows			

TRANSPORTATION, COMMUNICATION & PUBLIC WORKS POLICY COMMITTEE

		1	2	3
1	Amendment to Rule 20A			

Information pertaining to the Annual Conference Resolutions will also be posted on each committee's page on the League website: www.cacities.org. The entire Resolutions Packet is posted at: www.cacities.org/resolutions.

KEY TO ACTIONS TAKEN ON RESOLUTIONS *(Continued)*

Resolutions have been grouped by policy committees to which they have been assigned.

KEY TO REVIEWING BODIES

1. Policy Committee
2. General Resolutions Committee
3. General Assembly

ACTION FOOTNOTES

* Subject matter covered in another resolution

** Existing League policy

*** Local authority presently exists

KEY TO ACTIONS TAKEN

A	Approve
D	Disapprove
N	No Action
R	Refer to appropriate policy committee for study
a	Amend+
Aa	Approve as amended+
Aaa	Approve with additional amendment(s)+
Ra	Refer as amended to appropriate policy committee for study+
Raa	Additional amendments and refer+
Da	Amend (for clarity or brevity) and Disapprove+
Na	Amend (for clarity or brevity) and take No Action+
W	Withdrawn by Sponsor

Procedural Note:
The League of California Cities resolution process at the Annual Conference is guided by League Bylaws. A helpful explanation of this process can be found on the League's website by clicking on this link: Guidelines for the Annual Conference Resolutions Process.

League of California Cities Resolution Process

REGULAR RESOLUTIONS

Policy Committee Action	General Resolutions Committee Action	Calendar
Approve	Approve	Consent Calendar[1]
Approve	Disapprove or Refer	Regular Calendar[2]
Disapprove or Refer	Approve	Regular Calendar
Disapprove or Refer	Disapprove or Refer	Does not proceed to General Assembly

PETITION RESOLUTIONS

Policy Committee Action	General Resolutions Committee Action	Calendar
Not Heard in Policy Committee	Approve	Consent Calendar
Not Heard in Policy Committee	Disapprove or Refer	Regular Calendar
Not Heard in Policy Committee	Disqualified per Bylaws Art. VI	Does not proceed to General Assembly

<u>Resolutions</u>

- Submitted 60 days prior to conference *Bylaws Article VI, Sec. 4(a)*
- Signatures of at least 5 supporting cities or city officials submitted with the proposed resolution *Bylaws Article VI, Sec. 2*
- Assigned to policy committee(s) by League president *Bylaws Article VI, Sec. 4(b)(i)*
- Heard in policy committee(s) and report recommendation, if any, to GRC *Bylaws Article VI, Sec. 4(b)(ii)*
- Heard in GRC
    - Approved by policy committee(s) and GRC, goes on to General Assembly on consent calendar *2006 General Assembly Resolution Sec. 2(C)*
    - If amended/approved by all policy committee(s) to which it has been referred and disapproved by GRC, then goes on to General Assembly on the regular calendar. If not all policy committees to which it has been referred recommend amendment or approval, and the GRC disapproves or refers the resolution, the resolution does not move to the General Assembly *2006 General Assembly Resolution Sec. 2(A),(C); 1998 General Assembly Resolution, 1st Resolved Clause*
    - If disapproved by all policy committees to which it has been referred and disapproved by the GRC, resolution does not move to the General Assembly *2006 General Assembly Resolution Sec. 2(C)*
- Heard in General Assembly

[1] The consent calendar should only be used for resolutions where there is unanimity between the policy committees and the GRC that a resolution should be approved by the General Assembly, and therefore, it can be concluded that there will be less desire to debate the resolution on the floor.

[2] The regular calendar is for resolutions for which there is a difference in recommendations between the policy committees and the GRC.

Petitioned Resolutions

- Submitted by voting delegate *Bylaws Article VI, Sec. 5 (a)*
- Must be signed by voting delegates representing 10% of the member cities *Bylaws Article VI, Sec. 5 (c)*
- Signatures confirmed by League staff
- Submitted to the League president for confirmation 24 hours before the beginning of the General Assembly. *Bylaws Article VI, Sec. 5 (d)*
- Petition to be reviewed by Parliamentarian for required signatures of voting delegates and for form and substance *Bylaws Article VI, Sec. 5(e)*
- Parliamentarian's report is presented to chair of GRC
- Will be heard at GRC for action (GRC cannot amend but may recommend by a majority vote to the GA technical or clarifying amendments) *2006 General Assembly Resolution sec. 6(A), (B)*
- GRC may disqualify if:
    - Non-germane to city issues
    - Identical or substantially similar in substance to a resolution already under consideration *Bylaws Article VI, Sec. 5(e),* (f)
- Heard in General Assembly
    - General Assembly will consider the resolution following the other resolutions[3] *Bylaws Article VI, Sec. 5(g)*
    - Substantive amendments that change the intent of the petitioned resolution may only be adopted by the GA *2006 General Assembly Resolution sec. 6(C)*

Voting Procedure in the General Assembly

Consent Calendar: Resolution approved by Policy Committee(s) and GRC. Petitioned resolution approved by GRC)

- GRC Chair will be asked to give the report from the GRC and will ask for adoption of the GRC's recommendations
- Ask delegates if there is a desire to call out a resolution for discussion
- A voting delegate may make a motion to remove a resolution from the consent calendar for discussion
- If a motion is made to pull a resolution, the General Assembly votes on whether to pull the resolution from the consent calendar.
- If a majority of the General Assembly votes to pull the resolution, set "called out" reso(s) aside. If the motion fails, the resolution remains on the consent calendar.
- If reso(s) not called out, or after 'called out" reso is set aside, then ask for vote on remaining resos left on consent
- Move on to debate on reso(s) called out
- After debate, a vote is taken
- Voting delegates vote on resolutions by raising their voting cards.[4]

[3] Petitioned Resolutions on the Consent Calendar will be placed after all General Resolutions on the Consent Calendar. Petitioned Resolutions on the Regular Calendar will be placed after all General Resolutions on the Regular Calendar.

[4] Amendments to League bylaws require 2/3 vote

<u>Regular Calendar</u>: Regular resolutions approved by Policy Committee(s)[5], and GRC recommends disapproval or referral; Regular resolutions disapproved or referred by Policy Committee(s)[6] and GRC approves; Petitioned resolutions disapproved or referred by the GRC.

- Open the floor to determine if a voting delegate wishes to debate a resolution on the regular calendar.
- If no voting delegate requests a debate on the resolution, a vote to ratify the recommendation of the GRC on the resolution is taken.
- Upon a motion by a voting delegate to debate a resolution, a debate shall be held if approved by a majority vote of the General Assembly. If a majority of the General Assembly to debate the resolution is not achieved, then a vote shall be taken on whether to ratify the GRC's recommendation. If a majority of the General Assembly approves of the motion to debate the resolution, debate will occur. After debate on the resolution, a vote is taken based upon the substitute motion that was made, if any, or on the question of ratifying the GRC's recommendation.
- Voting delegates vote by raising their voting cards.

[5] Applies in the instance where the GRC recommendation of disapproval or refer is counter to the recommendations of the policy committees.

[6] Applies in the instance where the GRC recommendation to approve is counter to the recommendations of the policy committees.

1. **RESOLUTION OF THE LEAGUE OF CALIFORNIA CITIES CALLING ON THE CALIFORNIA PUBLIC UTILITIES COMMISSION TO AMEND RULE 20A TO ADD PROJECTS IN VERY HIGH FIRE HAZARD SEVERITY ZONES TO THE LIST OF ELIGIBILITY CRITERIA AND TO INCREASE FUNDING ALLOCATIONS FOR RULE 20A PROJECTS**

Source: City of Rancho Palos Verdes
Concurrence of five or more cities/city officials
Cities: City of Hidden Hills, City of La Cañada Flintridge, City of Laguna Beach, City of Lakeport, City of Malibu, City of Moorpark, City of Nevada City, City of Palos Verdes Estates, City of Rolling Hills Estates, City of Rolling Hills, City of Ventura
Referred to: Environmental Quality Policy Committee; Transportation, Communications, and Public Works Policy Committee

WHEREAS, the California Public Utilities Commission regulates the undergrounding conversion of overhead utilities under Electric Tariff Rule 20 and;

WHEREAS, conversion projects deemed to have a public benefit are eligible to be funded by ratepayers under Rule 20A; and

WHEREAS, the criteria under Rule 20A largely restricts eligible projects to those along streets with high volumes of public traffic; and

WHEREAS, the cost of undergrounding projects that do not meet Rule 20A criteria is left mostly or entirely to property owners under other parts of Rule 20; and

WHEREAS, California is experiencing fire seasons of worsening severity; and

WHEREAS, undergrounding overhead utilities that can spark brush fires is an important tool in preventing them and offers a public benefit; and

WHEREAS, brush fires are not restricted to starting near streets with high volumes of public traffic; and

WHEREAS, expanding Rule 20A criteria to include Very High Fire Hazard Severity Zones would facilitate undergrounding projects that would help prevent fires; and

WHEREAS, expanding Rule 20A criteria as described above and increasing funding allocations for Rule 20A projects would lead to more undergrounding in Very High Fire Hazard Severity Zones; and now therefore let it be,

RESOLVED that the League of California Cities calls on the California Public Utilities Commission to amend Rule 20A to include projects in Very High Fire Hazard Severity Zones to the list of criteria for eligibility and to increase funding allocations for Rule 20A projects.

Background Information on Resolution No. 1

Source: City of Rancho Palos Verdes

Background:
Rancho Palos Verdes is the most populated California city to have 90 percent or more of residents living in a Cal Fire-designated Very High Fire Hazard Severity Zone. Over the years, the Palos Verdes Peninsula has seen numerous brush fires that were determined to be caused by electrical utility equipment.

Across the state, some of the most destructive and deadly wildfires were sparked by power equipment. But when it comes to undergrounding overhead utilities, fire safety is not taken into account when considering using ratepayer funds to pay for these projects under California's Electric Tariff Rule 20 program. The program was largely intended to address visual blight when it was implemented in 1967. Under Rule 20A, utilities must allocate ratepayer funds to undergrounding conversion projects chosen by local governments that have a public benefit and meet one or more of the following criteria:

- Eliminate an unusually heavy concentration of overhead lines;
- Involve a street or road with a high volume of public traffic;
- Benefit a civic or public recreation area or area of unusual scenic interest; and,
- Be listed as an arterial street or major collector as defined in the Governor's Office of Planning and Research (OPR) Guidelines.

As we know, brush fires are not restricted to erupting in these limited areas. California's fire season has worsened in severity in recent years, claiming dozens of lives and destroying tens of thousands of structures in 2018 alone.

Excluding fire safety from Rule 20A eligibility criteria puts the task of undergrounding power lines in Very High Fire Hazard Severity Zones squarely on property owners who are proactive, willing and able to foot the bill.

The proposed resolution calls on the California Public Utilities Commission to amend Rule 20A to include projects in Very High Fire Hazard Severity Zones to the list of criteria for eligibility. To facilitate more undergrounding projects in these high-risk zones, the proposed resolution also calls on the CPUC to increase funding allocations for Rule 20A projects.

If adopted, utilities will be incentivized to prioritize undergrounding projects that could potentially save millions of dollars and many lives.

League of California Cities Staff Analysis on Resolution No. 1

Staff: Rony Berdugo, Legislative Representative, Derek Dolfie, Legislative Representative, Caroline Cirrincione, Legislative Policy Analyst
Committees: Environmental Quality; Transportation, Communications, and Public Works

Summary:
This Resolution, in response to intensifying fire seasons and hazards associated with exposed energized utility lines, proposes that the League of California Cities (League) call upon the California Public Utilities Commission (CPUC) to amend the Rule 20A program by expanding the criteria for undergrounding overhead utilities to include projects in Very High Fire Hazard Severity Zones (VHFHSZ). This Resolution also proposes that the League call upon the CPUC to increase utilities' funding allocations for Rule 20A projects.

Background

California Wildfires and Utilities

Over the last several years, the increasing severity and frequency of California's wildfires have prompted state and local governments to seek urgent prevention and mitigation actions. Record breaking wildfires in Northern and Southern California in both 2017 and 2018 have caused destruction and loss of life. This severe fire trend has local officials seeking solutions to combat what is now a year-round fire season exacerbated by years of drought, intense weather patterns, untamed vegetation and global warming.

These conditions create a dangerous catalyst for wildfires caused by utilities as extreme wind and weather events make downed power lines more of a risk. In response to recent catastrophic wildfires, Governor Newsom established a Strike Force tasked with developing a "comprehensive roadmap" to address issues related to wildfires, climate change, and utilities. The Strike Force report acknowledges that measures to harden the electrical grid are critical to wildfire risk management. A key utility hardening strategy: undergrounding lines in extreme high-fire areas.

Governor Newsom's Wildfire Strike Force program report concludes, "It's not a question of "if" wildfire will strike, but "when."

Very High Fire Hazard Severity Zones

This Resolution seeks to expand the undergrounding of overhead utility lines in VHFHSZ. California Government Code Section 51178 requires the Director of the California Department of Forestry and Fire Protection (CalFIRE) to identify areas in the state as VHFHSZ based on the potential fire hazard in those areas. VHFHSZ are determined based on fuel loading, slope, fire weather, and other relevant factors. These zones are in both local responsibility areas and state responsibility areas. Maps of the statewide and county by county VHFHSZ can be found here.[1]

[1] https://osfm.fire.ca.gov/divisions/wildfire-prevention-planning-engineering/wildland-hazards-building-codes/fire-hazard-severity-zones-maps/

More than 25 million acres of California wildlands are classified under very high or extreme fire threat. Approximately 25 percent of the state's population, 11 million people, live in those high-risk areas. Additionally, over 350,000 Californians live in cities that are nearly encompassed within Cal Fire's maps of VHFHSZ. Similar to the proponents of this Resolution, City of Rancho Palos Verdes, over 75 communities have 90 percent or more of residents living in a VHFHSZ.

CPUC Rule 20 Program

The CPUC's Rule 20 program lays out the guidelines and procedures for converting overhead electric and telecommunication facilities to underground electric facilities. Rule 20 funding and criteria is provided at four levels. Levels A, B, and C, reflect progressively diminishing ratepayer funding for undergrounding projects. Recently added Rule 20D is a relatively new program that is specific to San Diego Gas and Electric (SDG&E), which was created in response to the destructive 2007 wildfires. Each of these levels will be discussed below:

Rule 20A

The first California overhead conversion program, Rule 20A, was created in 1967 under then Governor Ronald Reagan. The program was created to provide a consistent and structured means of undergrounding utility lines throughout the state with costs covered broadly by utility ratepayers.

Each year, Investor Owned Utilities (IOUs) propose their Rule 20A allocation amounts to the CPUC during annual general rate case proceedings. In this process, IOUs propose revised utility customer rates based on expected service costs, new energy procurement and projects for the following year, including Rule 20 allocations. The CPUC then reviews, amends, and approves IOU rates. Currently, the cumulative budgeted amount for Rule 20A for Pacific Gas and Electric (PG&E), Southern California Edison (SCE), and San Diego Gas and Electric (SDG&E) totals around $95.7 million.

The funding set aside by IOUs for Rule 20A is allocated to local governments through a credit system, with each credit holding a value to be used solely for the costs of an undergrounding project. The credit system was created so that local governments and IOUs can complete undergrounding projects without municipal financing. Through Rule 20A, municipalities that have developed and received city council approval for an undergrounding plan receive annual credits from the IOU in their service area. At the last count by the CPUC, over 500 local governments (cities and counties) participate in the credit system.

While these credits have no inherent monetary value, they can be traded in or banked for the conversion of overhead lines. Municipalities can choose to accumulate their credits until their credit balance is sufficient to cover these conversion projects, or choose to borrow future undergrounding allocations for a period of up to five years. Once the cumulative balance of credits is sufficient to cover the cost of a conversion project, the municipality and the utility can move forward with the undergrounding. All of the planning, design, and construction is performed by the participating utility. Upon the completion of an undergrounding project, the utility is compensated through the local government's Rule 20A credits.

At the outset of the program, the amount of allocated credits were determined by a formula which factored in the number of utility meters within a municipality in comparison to the utilities' service territory. However, in recent years the formula has changed. Credit allocations for IOUs, except for PG&E, are now determined based on the allocation a city or county received in 1990 and is then adjusted for the following factors:

- 50% of the *change from the 1990* total budgeted amount is allocated for the ratio of the number of overhead meters in any city or unincorporated area to the total system overhead meters; and
- 50% of the *change from the 1990* total budgeted amount is allocated for the ratio of the number of meters (which includes older homes that have overhead services, and newer homes with completely underground services) in any city or the unincorporated area to the total system meters.

As noted, PG&E has a different funding formula for their Rule 20A credit allocations as they are not tied to the 1990 base allocation. Prior to 2011, PG&E was allocating approximately five to six percent of its revenue to the Rule 20A program. The CPUC decided in 2011 that PG&E's Rule 20A allocations should be reduced by almost half in an effort to decrease the growing accumulation of credits amongst local governments. Since 2011, PG&E's annual allocations for Rule 20A have been around $41.3 million annually, which is between two and three percent of their total revenue.

Criteria for Rule 20A Projects

For an undergrounding project to qualify for the Rule 20A program, there are several criteria that need to be met. The project must have a public benefit and:

1. Eliminate an unusually heavy concentration of overhead lines
2. Involve a street or road with a high volume of public traffic
3. Benefit a civic or public recreation area or area of unusual scenic interest,
4. Be listed as an arterial street or major collector as defined in the Governor's Office of Planning and Research (OPR) Guidelines

Notably, fire safety is excluded from the list of criteria that favors aesthetic and other public safety projects.

Rule 20A Credit System Imbalance Threatens Program Effectiveness

Allocations are made by utilities each year for Rule 20A credits. These current budget allocations total $95.7 million a year. Currently, the cumulative balance of credits throughout the state totals over $1 billion dollars. The Rule 20A cumulative balances aggregated by region can be found here.[2]

[2] Program Review, California Overhead Conversion Program, Rule 20A for Years 2011-2015, "The Billion Dollar Risk," California Public Utilities Commission.
https://www.cpuc.ca.gov/uploadedFiles/CPUC_Public_Website/Content/About_Us/Organization/Divisions/Policy_and_Planning/PPD_Work_Products_(2014_forward)(1)/PPD_Rule_20-A.pdf

Note: The existing credit allocation formulas do not consider a municipality's need or plans for overhead conversion projects, resulting in large credit balances in some jurisdictions.

Cities and counties are, however, able to trade or sell unallocated Rule 20A credits if they will not be used to fund local undergrounding projects. There have been several cases where one agency has sold their unused credits, often for less than the full dollar value of the credits themselves to another agency.

Rule 20B

Rule 20B projects are those that do not fit the Rule 20A criteria, but do, however, involve both sides of the street for at least 600 feet. These projects are typically done in conjunction with larger developments and are mostly paid for by the developer or applicant. Additionally, the applicant is responsible for the installation.

Rule 20C

Rule 20C projects are usually small projects that involve property owners. The majority of the cost is usually borne by the applicants. Rule 20C applies when the project does not qualify for either Rule 20A or Rule 20B.

Rule 20D--Wildfire Mitigation Undergrounding Program

Rule 20D was approved by the CPUC in January of 2014 and only applies to SDG&E. The Rule 20D program was established largely in response to the destructive wildfires that occurred in San Diego in 2007 as a wildfire mitigation undergrounding program. According to SDG&E, the objective of the Rule 20D undergrounding is exclusively for fire hardening as opposed to aesthetics. The program is limited in scope and is restricted to communities in SDG&E's Fire Threat Zone (now referred to as the High Fire Threat District or HFTD). As of this time, the program has yet to yield any projects and no projects are currently planned.

For an undergrounding project to qualify for the Rule 20D program, a minimum of three of the following criteria must be met. The project must be near, within, or impactful to:

- Critical electric infrastructure
- Remaining useful life of electric infrastructure
- Exposure to vegetation or tree contact
- Density and proximity of fuel
- Critical surrounding non-electric assets (including structures and sensitive environmental areas)
- Service to public agencies
- Accessibility for firefighters

Similar to Rule 20A, SDG&E must allocate funding each year through their general rate case proceedings to Rule 20D to be approved by the CPUC. This funding is separate from the allocations SDG&E makes for Rule 20A. However, the process of distributing this funding to localities is different. The amount of funding allocated to each city and county for Rule 20D is based on the ratio of the number of miles of overhead lines in SDG&E Fire Threat Zones in a city or county to the total miles of SDG&E overhead lines in the entire SDG&E fire zone. The

Rule 20D program is administered by the utility consistent with the existing reporting, engineering, accounting, and management practices for Rule 20A.

The Committee may want to consider whether Rule 20D should instead be expanded, adapted, or further utilized to support funding for overhead conversions within VHFHSZ throughout the state.

Fiscal Impact:

The costs to the State associated with this Resolution will be related to the staff and programmatic costs to the CPUC to take the necessary measures to consider and adopt changes to Rule 20A to include projects in VHFHSZ to the list of criteria for eligibility.

This Resolution calls for an unspecified increase in funding for Rule 20A projects, inferring that portions of increased funds will go towards newly eligible high fire hazard zones. While the Resolution does not request a specific amount be allocated, it can be assumed that these increased costs will be supported by utility ratepayers. According to the CPUC, the annual allocations towards Rule 20A are $95.7 million.

The CPUC currently reports a cumulative credit surplus valued at roughly $1 billion that in various regions, given the approval of expanded eligibility called for by this Resolution, could be used to supplement and reduce the level of new dollars needed to make a significant impact in VHFHSZ. The CPUC follows that overhead conversion projects range from $93,000 per mile for rural construction to $5 million per mile for urban construction.

The Resolution states that “California is experiencing fire seasons of worsening severity” which is supported by not only the tremendous loss of property and life from recent wildfires, but also in the rising costs associated with clean up, recovery, and other economic losses with high estimates in the hundreds of billions of dollars.

The Committee may wish to consider the costs associated with undergrounding utility lines in relation to the costs associated with past wildfires and wildfires to come.

Comments:

CPUC Currently Exploring Revisions to Rule 20

In May 2017, the CPUC issued an Order Instituting Rulemaking to Consider Revisions to Electric Rule 20 and Related Matters. The CPUC will primarily focus on revisions to Rule 20A but may make conforming changes to other parts of Rule 20. The League is a party in these proceedings will provide comments.

Beyond Rule 20A: Additional Options for Funding Undergrounding Projects

There are various ways in which cities can generate funding for undergrounding projects that fall outside of the scope of Rule 20A. At the local level, cities can choose to forgo the Rule 20A process and opt to use their own General Fund money for undergrounding. Other options are also discussed below:

Rule 20D Expansion
The City of Berkley in a 2018 study titled “Conceptual Study for Undergrounding Utility Wires in Berkley,” found that the city could possibly qualify for Rule 20D funding if they actively pursued this opportunity in partnership with PG&E and the CPUC.

One of the study’s recommendations is to advocate for release of 20D funds (now earmarked exclusively for SDG&E) to be used for more aggressive fire hardening techniques for above-ground utility poles and equipment, for undergrounding power lines, and for more aggressive utility pole and vegetation management practices in the Very High Hazard Fire Zone within Berkeley’s city limits.

As an alternative to changing the criteria for Rule 20A, the Committee may wish to consider whether there is the opportunity to advocate for the expansion of Rule 20D funding more broadly, expanding its reach to all IOU territories.

Franchise Surcharge Fees
Aside from Rule 20 allocations, cities can generate funding for undergrounding through franchise fee surcharges. For example, SDG&E currently operates under a 50-year City franchise that was granted in 1970. Under the franchises approved by the San Diego City Council in December 1970, SDG&E agreed to pay a franchise fee to the City equivalent to 3% of its gross receipts from the sales of both natural gas and electricity for 30 years.

These fees were renegotiated in 2000 and in 2001 an agreement was between the City of San Diego, SDG&E, and the CPUC to extend the existing franchise fee to include revenues collected from surcharges. SDG&E requested an increase of 3.88% to its existing electric franchise fee surcharge. The bulk, 3.53% of this increase is to be used for underground conversion of overhead electric wires.

Based on SDG&E's revenue projections, the increase would result in an additional surcharge revenue amount of approximately $36.5 million per year. SDG&E estimates that this would create a monthly increase of approximately $3.00 to a typical residential customer's electric bill. These surcharge revenues would pay for additional undergrounding projects including those that do not meet the Rule 20A criteria. The City of Santa Barbara has also adopted a similar franchise surcharge fee.

Having this funding source allows the City of San Diego to underground significantly more miles of above ground utility lines than other municipalities. However, the surcharge is currently being challenged in court, as it is argued that the City had SDG&E impose a tax without a ballot measure.

Utility Bankruptcy and Undergrounding Funding

In considering this Resolution, it is important to understand that Rule 20A allocations have been more substantial in the past. As mentioned earlier, prior to 2011, PG&E was allocating approximately 5% to 6% of its revenue to the Rule 20A program. Therefore, it is not unreasonable to encourage an increase in Rule 20A allocations as history shows that utilities had the capacity to do so in the past.

However, in a time where IOUs such as PG&E are facing bankruptcy as the result of utility caused wildfires, there is the possibility that expanding rule 20A funding will generate more costs for the ratepayers.

Questions to Consider:

1) Is Rule 20A or Rule 20D the more appropriate program to advocate for such an expansion?
2) Are there any wildfire risks outside of VHFHSZ that could be mitigated by undergrounding projects?

Existing League Policy:

Public Safety:

The League supports additional funding for local agencies to recoup the costs associated with fire safety in the community and timely mutual aid reimbursement for disaster response services in other jurisdictions. (pg. 43)

The League supports the fire service mission of saving lives and protecting property through fire prevention, disaster preparedness, hazardous-materials mitigation, specialized rescue, etc., as well as cities' authority and discretion to provide all emergency services to their communities. (pg. 43)

Transportation, Communication, and Public Works:

Existing telecommunications providers and new entrants shall adhere to local city policies on public utility undergrounding. (pg. 54)

The League supports protecting the additional funding for local transportation and other critical unmet infrastructure needs. (pg. 51)

The League supports innovative strategies including public private partnerships at the state and local levels to enhance public works funding. (pg. 52)

Environmental Quality

The League opposes any legislation that interferes with local utility rate setting authority and opposes any legislation that restricts the ability of a city to transfer revenue from a utility (or other enterprise activity) to the city's general fund. (pg. 9)

Cities should continue to have the authority to issue franchises and any program should be at least revenue neutral relative to revenue currently received from franchises. (pg. 9)

The League is concerned about the impacts of escalating energy prices on low income residents and small businesses. The League supports energy pricing structures and other mechanisms to soften the impacts on this segment of our community. (pg. 10)

2019 Strategic Goals

Improve Disaster Preparedness, Recovery and Climate Resiliency.

- Provide resources to cities and expand partnerships to better prepare for and recover from wildfires, seismic events, erosion, mudslides and other disasters.
- Improve community preparedness and resiliency to respond to climate-related, natural and man-made disasters.

Support:

The following letters of concurrence were received:

The City of Hidden Hills

The City of La Cañada Flintridge

The City of Laguna Beach

The City of Lakeport

The City of Malibu

The City of Moorpark

The City of Nevada City

The City of Palos Verdes Estates

The City of Rolling Hills Estates

The City of Rolling Hills

The City of Ventura

LETTERS OF CONCURRENCE

Resolution No. 1

Amendment to Rule 20A

City of Hidden Hills

6165 Spring Valley Road * Hidden Hills, California 91302
(818) 888-9281 * Fax (818) 719-0083

August 14, 2019

Jan Arbuckle, President
League of California Cities
1400 K Street, Suite 400
Sacramento, California 95814

Dear President Arbuckle:

The City of Hidden Hills supports the City of Rancho Palos Verdes' effort to bring a resolution for consideration by the General Assembly at the League's 2019 Annual Conference in Long Beach.

Undergrounding power lines is an important tool in preventing destructive wildfires that have devastated communities across our state. But California's Rule 20A program, which allows local governments to pay for these costly projects with ratepayer funds, does not factor in fire safety for eligibility. Unless projects meet the program's limited eligibility criteria, they are left to be funded by property owners who are proactive, willing and able to foot the bill. We believe Rule 20A offers an important opportunity for fire prevention and that the California Public Utilities Commission should expand this program so more communities can utilize it.

The resolution calls on the CPUC to amend Rule 20A to include projects in Very High Fire Hazard Severity Zones to the list of criteria for eligibility. To facilitate more undergrounding projects in these high-risk zones, the resolution also calls on the CPUC to increase funding allocations for Rule 20A projects.

The resolution is also in line with one of the League's 2019 Strategic Goals of improving disaster preparedness, recovery and climate resiliency.

For these reasons, we concur that the resolution should go before the General Assembly.

Sincerely,

LGWeber

Larry G. Weber
Mayor

CITY OF LA CAÑADA FLINTRIDGE ®

City Council
Leonard Pieroni, Mayor
Gregory C. Brown, Mayor Pro Tem
Jonathan C. Curtis
Michael T. Davitt
Terry M. Walker

August 14, 2019

Jan Arbuckle, President
League of California Cities
1400 K St., Ste. 400
Sacramento, CA 95814

Dear President Arbuckle:

The City of La Cañada Flintridge supports the City of Rancho Palos Verdes' effort to bring a resolution for consideration by the General Assembly at the League's 2019 Annual Conference in Long Beach.

Undergrounding power lines is an important tool in preventing destructive wildfires that have devastated communities across our state. But California's Rule 20A program, which allows local governments to pay for these costly projects with ratepayer funds, does not factor in fire safety for eligibility. Unless projects meet the program's limited eligibility criteria, they are left to be funded by property owners who are proactive, willing and able to foot the bill. We believe Rule 20A offers an important opportunity for fire prevention and that the California Public Utilities Commission should expand this program so more communities can utilize it.

The resolution calls on the CPUC to amend Rule 20A to include projects in Very High Fire Hazard Severity Zones to the list of criteria for eligibility. To facilitate more undergrounding projects in these high-risk zones, the resolution also calls on the CPUC to increase funding allocations for Rule 20A projects.

The City of La Cañada Flintridge is one of the few Southern California cities in which 100% of the community within a Very High Fire Hazard Severity Zone. The City, in 1987, committed 100% of its 20A allocation for forty-five years from this year for a major downtown undergrounding project. Therefore, the only way our City can directly benefit from this Resolution is if there is an additional annual increased allocation for this purpose. Due to the extreme threat the City experienced at the time of the Station Fire, the City is keenly aware of the damage a fire may potentially cause, whether from utility issues or from natural causes. The City strongly supports any effort, including this Resolution, to reduce fire danger for the City's residents.

The resolution is also in line with one of the League's 2019 Strategic Goals of improving disaster preparedness, recovery and climate resiliency.

For these reasons, we concur that the resolution should go before the General Assembly with the City of La Cañada Flintridge in support.

Sincerely,

Leonard Pieroni
Mayor

One Civic Center Drive, La Cañada Flintridge, CA 91011 • (818) 790-8880 • Fax (818) 790-7536
www.lcf.ca.gov

July 25, 2019

Jan Arbuckle, President
League of California Cities
1400 K St., Ste. 400
Sacramento, CA 95814

Dear President Arbuckle:

The City of Laguna Beach supports the City of Rancho Palos Verdes' effort to bring a resolution for consideration by the General Assembly at the League's 2019 Annual Conference in Long Beach.

Undergrounding power lines is an important tool in preventing destructive wildfires that have devastated communities across our state. Ten to the Top 20 most destructive fires in California were caused by electrical sources. The California's Rule 20A program, which allows local governments to pay for undergrounding of utilities costly projects with ratepayer funds, does not factor in fire safety for eligibility. Unless projects meet the program's limited eligibility criteria, they are left to be funded by property owners who are proactive, willing and able to foot the bill. We believe Rule 20A offers an important opportunity for fire prevention and that the California Public Utilities Commission should expand this program so more communities can utilize it. We also believe that this program should redirect unused Rule 20A allocations from cities who have no undergrounding projects planned to the cities in Very High Fire Hazard Severity zones.

The resolution calls on the CPUC to amend Rule 20A to include projects in Very High Fire Hazard Severity Zones to the list of criteria for eligibility. To facilitate more undergrounding projects in these high-risk zones, the resolution also calls on the CPUC to increase funding allocations for Rule 20A projects. The City of Laguna Beach recommends that the resolution also be amended to call on the CPUC to redirect unused Rule 20A allocations from cities who have no undergrounding projects planned to the cities in Very High Fire Hazard Severity zones.

Nearly 90% of the City of Laguna Beach land area is designated under State Law and local ordinance as Very High Fire Hazard Severity Zone. While the City has used Rule 20A and 20B funding in the past to underground more than half of its overhead utilities, sufficient funding is not available to underground the remaining parts of the City.

The resolution is also in line with one of the League's 2019 Strategic Goals of improving disaster preparedness, recovery and climate resiliency.

505 FOREST AVE. • LAGUNA BEACH, CA 92651 • TEL (949) 497-3311 • FAX (949) 497-0771

For these reasons, we concur that the resolution should go before the General Assembly.

Sincerely,

Bob Whalen
Mayor

CITY OF LAKEPORT
Over 125 years of community
pride, progress and service

August 7, 2019

Jan Arbuckle, President
League of California Cities
1400 K St., Ste. 400
Sacramento, CA 95814

Dear President Arbuckle:

The City of Lakeport supports the City of Rancho Palos Verdes' effort to bring a resolution for consideration by the General Assembly at the League's 2019 Annual Conference in Long Beach.

Undergrounding power lines is an important tool in preventing destructive wildfires that have devastated communities across our state. But California's Rule 20A program, which allows local governments to pay for these costly projects with ratepayer funds, does not factor in fire safety for eligibility. Unless projects meet the program's limited eligibility criteria, they are left to be funded by property owners who are proactive, willing and able to foot the bill. We believe Rule 20A offers an important opportunity for fire prevention and that the California Public Utilities Commission should expand this program so more communities can utilize it.

The resolution calls on the CPUC to amend Rule 20A to include projects in Very High Fire Hazard Severity Zones to the list of criteria for eligibility. To facilitate more undergrounding projects in these high-risk zones, the resolution also calls on the CPUC to increase funding allocations for Rule 20A projects.

The resolution is also in line with one of the League's 2019 Strategic Goals of improving disaster preparedness, recovery and climate resiliency.

For these reasons, we concur that the resolution should go before the General Assembly.

Sincerely,

Tim Barnes
Mayor
City of Lakeport

City of Malibu

Jefferson Wagner, Mayor

23825 Stuart Ranch Road · Malibu, California · 90265-4861

Phone (310) 456-2489 · Fax (310) 456-3356 · www.malibucity.org

August 15, 2019

Jan Arbuckle, President
League of California Cities
1400 K St., Ste. 400
Sacramento, CA 95814

RE: City of Rancho Palos Verdes Proposed Resolution to Amend California Public Utilities Commission Rule 20A – SUPPORT

Dear Ms. Arbuckle:

At its Regular meeting on August 12, 2019, the Malibu City Council unanimously voted to support the City of Rancho Palos Verdes' effort to bring a resolution for consideration by the General Assembly at the League's 2019 Annual Conference in Long Beach.

Undergrounding power lines is an important tool in preventing destructive wildfires that have devastated communities across our state, but California's Rule 20A program, which allows local governments to pay for these costly projects with ratepayer funds, does not factor in fire safety for eligibility. Unless projects meet the program's limited eligibility criteria, they are left to be funded by property owners who are proactive, as well as willing and able to foot the bill. The City of Malibu agrees with Rancho Palos Verdes that Rule 20A offers an important opportunity for fire prevention and that the California Public Utilities Commission (CPUC) should expand this program so more communities can utilize it.

The resolution calls on the CPUC to amend Rule 20A to include projects in Very High Fire Hazard Severity Zones to the list of criteria for eligibility. To facilitate more undergrounding projects in these high-risk zones, the resolution also calls on the CPUC to increase funding allocations for Rule 20A projects. As a recent series of news stories on wildfire preparedness in California pointed out, there are more than 75 communities across the state with populations over 1,000, including Rancho Palos Verdes and Malibu, where at least 90 percent of residents live in a Cal Fire-designated Very High Fire Hazard Severity Zone.

It is well-known that electric utility equipment is a common fire source, and has sparked some of the most destructive blazes in our state's history. Moving power lines underground is, therefore, a critical tool in preventing them. Currently, Rule 20A primarily addresses visual blight, but with fire seasons worsening, it is key that fire safety also be considered when local governments pursue Rule 20A projects, and that annual funding allocations for the program be expanded.

It is worth noting that the State does have a program, Rule 20D, that factors in fire safety for funding undergrounding projects. However, this is limited to San Diego Gas & Electric Company projects in certain areas only. This needs to be expanded to include projects in all projects within designated Very High Fire Hazard Severity Zones.

The proposed resolution is also in line with one of the League's 2019 Strategic Goals of improving disaster preparedness, recovery and climate resiliency.

For these reasons, the City of Malibu strongly concurs that the resolution should go before the General Assembly.

Sincerely,

Jefferson Wagner

Jefferson Wagner
Mayor

Cc: Honorable Members of the Malibu City Council
Reva Feldman, City Manager
Megan Barnes, City of Rancho Palos Verdes, mbarnes@rpvca.gov

CITY OF MOORPARK

799 Moorpark Avenue, Moorpark, California 93021
Main City Phone Number (805) 517-6200 | Fax (805) 532-2205 | moorpark@moorparkca.gov

July 24, 2019 **SUBMITTED ELECTRONICALLY**

Jan Arbuckle, President
League of California Cities
1400 K St., Ste. 400
Sacramento, CA 95814

RE: SUPPORT FOR RANCHO PALOS VERDES RESOLUTION RE: POWER LINE UNDERGROUNDING

Dear President Arbuckle:

The City of Moorpark supports the City of Rancho Palos Verdes effort to bring a resolution for consideration by the General Assembly at the League's 2019 Annual Conference in Long Beach.

Undergrounding power lines is an important tool in preventing destructive wildfires that have devastated communities across our state. But California's Rule 20A program, which allows local governments to pay for these costly projects with ratepayer funds, does not factor in fire safety for eligibility. Unless projects meet the program's limited eligibility criteria, they are left to be funded by property owners who are proactive, willing and able to foot the bill. We believe Rule 20A offers an important opportunity for fire prevention and that the California Public Utilities Commission should expand this program so more communities can utilize it.

The resolution calls on the CPUC to amend Rule 20A to include projects in Very High Fire Hazard Severity Zones to the list of criteria for eligibility. To facilitate more undergrounding projects in these high-risk zones, the resolution also calls on the CPUC to increase funding allocations for Rule 20A projects.

All cities in Ventura County, including Moorpark, have wildfire prevention fresh in our memories following the highly destructive 2017-2018 Thomas Fire, which was caused by above-ground power lines. The 2018 Woolsey Fire similarly affected Ventura County, and lawsuits have been filed alleging it was also caused by above-ground power lines. Each of these fires caused billions of dollars in damages and highlight the importance of undergrounding power lines.

The resolution is also in line with one of the League's 2019 Strategic Goals of improving disaster preparedness, recovery and climate resiliency.

For these reasons, we concur that the resolution should go before the General Assembly.

Sincerely,

Janice Parvin

Janice Parvin
Mayor

cc: City Council
City Manager

Jan Arbuckle, President
League of California Cities
1400 K St., Ste. 400
Sacramento, CA 95814

Dear President Arbuckle:

The City of Nevada City supports the City of Rancho Palos Verdes' effort to bring a resolution for consideration by the General Assembly at the League's 2019 Annual Conference in Long Beach.

Undergrounding power lines is an important tool in preventing destructive wildfires that have devastated communities across our state. But California's Rule 20A program, which allows local governments to pay for these costly projects with ratepayer funds, does not factor in fire safety for eligibility. Unless projects meet the program's limited eligibility criteria, they are left to be funded by property owners who are proactive, willing and able to foot the bill. We believe Rule 20A offers an important opportunity for fire prevention and that the California Public Utilities Commission (CPUC) should expand this program so more communities can utilize it.

The resolution calls on the CPUC to amend Rule 20A to include projects in Very High Fire Hazard Severity Zones to the list of criteria for eligibility. To facilitate more undergrounding projects in these high-risk zones, the resolution also calls on the CPUC to increase funding allocations for Rule 20A projects.

The City of Nevada City would also like to add that the local agency be given the power to use private firms to do design, inspect and construct Rule 20A projects in local jurisdiction rather than be required to use the designated local utility. In addition, the City of Nevada City wants the CPUC to allow local jurisdictions to transfer excess funds between agencies to better serve projects in high fire hazard severity zones.

The resolution is also in line with one of the League's 2019 Strategic Goals of improving disaster preparedness, recovery and climate resiliency.

For these reasons, we concur that the resolution should go before the General Assembly.

Sincerely,

Reinette Senum

Reinette Senum
Mayor
City of Nevada City

CITY OF INCORPORATED 1939 CALIFORNIA

CITY OF

Palos Verdes Estates

July 25, 2019

Jan Arbuckle, President
League of California Cities
1400 K St., Ste. 400
Sacramento, CA 95814

Dear President Arbuckle:

The City of Palos Verdes Estates supports the City of Rancho Palos Verdes' effort to bring a resolution for consideration by the General Assembly at the League's 2019 Annual Conference in Long Beach.

Undergrounding power lines is an important tool in preventing destructive wildfires that have devastated communities across our state. But California's current Rule 20A program, which allows local governments to pay for these costly projects with ratepayer funds, does not factor in fire safety for eligibility. Unless projects meet the program's limited eligibility criteria, they are left to be funded by property owners who are proactive, willing and able to foot the bill. We believe Rule 20A offers an important opportunity for fire prevention and that the California Public Utilities Commission should expand this program so more communities can utilize it.

The resolution calls on the CPUC to amend Rule 20A to include projects in Very High Fire Hazard Severity Zones to the list of criteria for eligibility. To facilitate more undergrounding projects in these high-risk zones, the resolution also calls on the CPUC to increase funding allocations for Rule 20A projects.

The resolution is also in line with one of the League's 2019 Strategic Goals of improving disaster preparedness, recovery and climate resiliency.

For these reasons, we concur that the resolution should go before the General Assembly.

Sincerely,

Mayor Kenneth J. Kao
City of Palos Verdes Estates

cc: PVE City Council
PVE Interim City Manager Petru
RPV City Manager Willmore

340 Palos Verdes Drive West, Palos Verdes Estates, California 90274 310-378-0383

City of
Rolling Hills Estates

Judith Mitchell
Mayor

Velveth Schmitz
Mayor Pro Tem

Britt Huff
Council Member

Frank V. Zerunyan
Council Member

Steven Zuckerman
Council Member

August 14, 2019

Jan Arbuckle, President
League of California Cities
1400 K St., Ste. 400
Sacramento, CA 95814

Dear President Arbuckle:

The City of Rolling Hills Estates supports the City of Rancho Palos Verdes' effort to bring a resolution for consideration by the General Assembly at the League's 2019 Annual Conference in Long Beach.

Undergrounding power lines is an important tool in preventing destructive wildfires that have devastated communities across our state. But California's Rule 20A program, which allows local governments to pay for these costly projects with ratepayer funds, does not factor in fire safety for eligibility. Unless projects meet the program's limited eligibility criteria, they are left to be funded by property owners who are proactive, willing and able to foot the bill. We believe Rule 20A offers an important opportunity for fire prevention and that the California Public Utilities Commission should expand this program so more communities can utilize it.

The resolution calls on the CPUC to amend Rule 20A to include projects in Very High Fire Hazard Severity Zones to the list of criteria for eligibility. To facilitate more undergrounding projects in these high-risk zones, the resolution also calls on the CPUC to increase funding allocations for Rule 20A projects.

The resolution is also in line with one of the League's 2019 Strategic Goals of improving disaster preparedness, recovery and climate resiliency.

For these reasons, we concur that the resolution should go before the General Assembly.

Sincerely,

Judith Mitchell

Judith Mitchell
Mayor

4045 Palos Verdes Drive North, Rolling Hills Estates, CA 90274 | (310) 377-1577 | www.RHE.city

City of Rolling Hills INCORPORATED JANUARY 24, 1957

NO. 2 PORTUGUESE BEND ROAD
ROLLING HILLS, CALIF. 90274
(310) 377-1521
FAX: (310) 377-7288

August 14, 2019

Jan Arbuckle, President
League of California Cities
1400 K St., Ste. 400
Sacramento, CA 95814

Dear Board of Directors:

The City of Rolling Hills supports the City of Rancho Palos Verdes' effort to bring a resolution for consideration by the General Assembly at the League's 2019 Annual Conference in Long Beach.

Undergrounding power lines is an important tool in preventing destructive wildfires that have devastated communities across our state. But California's Rule 20A program, which allows local governments to pay for these costly projects with ratepayer funds, does not factor in fire safety for eligibility. Unless projects meet the program's limited eligibility criteria, they are left to be funded by property owners who are proactive, willing and able to foot the bill. We believe Rule 20A offers an important opportunity for fire prevention and that the California Public Utilities Commission should expand this program so more communities can utilize it.

The resolution calls on the CPUC to amend Rule 20A to include projects in Very High Fire Hazard Severity Zones to the list of criteria for eligibility. To facilitate more undergrounding projects in these high-risk zones, the resolution also calls on the CPUC to increase funding allocations for Rule 20A projects.

The resolution is also in line with one of the League's 2019 Strategic Goals of improving disaster preparedness, recovery and climate resiliency.

For these reasons, we concur that the resolution should go before the General Assembly.

Sincerely,

Leah Mirsch

Leah Mirsch
Mayor

CITY OF
VENTURA

July 29, 2019

Jan Arbuckle, President
League of California Cities
1400 K St., Ste. 400
Sacramento, CA 95814

Dear President Arbuckle:

The City of Ventura supports the City of Rancho Palos Verdes' effort to bring a resolution for consideration by the General Assembly at the League's 2019 Annual Conference in Long Beach.

Undergrounding power lines is an important tool in preventing destructive wildfires that have devastated communities across our state. But California's Rule 20A program, which allows local governments to pay for these costly projects with ratepayer funds, does not factor in fire safety for eligibility. Unless projects meet the program's limited eligibility criteria, they are left to be funded by property owners who are proactive, willing and able to foot the bill. We believe Rule 20A offers an important opportunity for fire prevention and that the California Public Utilities Commission should expand this program so more communities can utilize it.

The resolution calls on the CPUC to amend Rule 20A to include projects in Very High Fire Hazard Severity Zones to the list of criteria for eligibility. To facilitate more undergrounding projects in these high-risk zones, the resolution also calls on the CPUC to increase funding allocations for Rule 20A projects.

The resolution is also in line with one of the League's 2019 Strategic Goals of improving disaster preparedness, recovery and climate resiliency.

For these reasons, we concur that the resolution should go before the General Assembly.

Sincerely,

Alex D. McIntyre
City Manager

501 Poli Street • Ventura, California 93001 • 805-654-7800 • cityofventura.ca.gov

2. **A RESOLUTION CALLING UPON THE FEDERAL AND STATE GOVERNMENTS TO ADDRESS THE DEVASTATING IMPACTS OF INTERNATIONAL TRANSBOUNDARY POLLUTION FLOWS INTO THE SOUTHERNMOST REGIONS OF CALIFORNIA AND THE PACIFIC OCEAN**

Source: San Diego County Division
Concurrence of five or more cities/city officials
Cities: Calexico; Coronado; Imperial Beach; San Diego
Individual City Officials: City of Brawley: Mayor Pro Tem Norma Kastner-Jauregui; Council Members Sam Couchman, Luke Hamby, and George Nava. City of Escondido: Deputy Mayor Consuelo Martinez. City of La Mesa: Council Member Bill Baber. City of Santee: Mayor John Minto, City of Vista: Mayor Judy Ritter and Council Member Amanda Young Rigby
Referred to: Environmental Quality Policy Committee

WHEREAS, international transboundary rivers that carry water across the border from Mexico into Southern California are a major source of sewage, trash, chemicals, heavy metals and toxins; and

WHEREAS, transboundary flows threaten the health of residents in the United States and Mexico, harm important estuarine land and water of international significance, force closure of beaches, damage farmland, adversely impact the South San Diego County and Imperial County economy; compromise border security, and directly affect U.S. military readiness; and

WHEREAS, a significant amount of untreated sewage, sediment, hazardous chemicals and trash have been entering southern California through both the Tijuana River Watershed (75 percent of which is within Mexico) and New River flowing into southern California's coastal waterways and residential and agricultural communities in Imperial County eventually draining into the Salton Sea since the 1930s; and

WHEREAS, in February 2017, an estimated 143 million gallons of raw sewage flowed into the Tijuana River and ran downstream into the Pacific Ocean and similar cross border flows have caused beach closures at Border Field State Park that include 211 days in 2015; 162 days in 2016; 168 days in 2017; 101 days in 2018; and 187 days to date for 2019 as well as closure of a number of other beaches along the Pacific coastline each of those years; and

WHEREAS, approximately 132 million gallons of raw sewage has discharged into the New River flowing into California through communities in Imperial County, with 122 million gallons of it discharged in a 6-day period in early 2017; and

WHEREAS, the presence of pollution on state and federal public lands is creating unsafe conditions for visitors; these lands are taxpayer supported and intended to be managed for recreation, resource conservation and the enjoyment by the public, and

WHEREAS, the current insufficient and degrading infrastructure in the border zone poses a significant risk to the public health and safety of residents and the environment on both sides of the border, and places the economic stress on cities that are struggling to mitigate the negative impacts of pollution; and

WHEREAS, the 1944 treaty between the United States and Mexico regarding *Utilization of Waters of the Colorado and Tijuana Rivers and of the Rio Grande* allocates flows on trans-border rivers between Mexico and the United States, and provides that the nations, through their respective sections of the International Boundary Water Commission shall give control of sanitation in cross border flows the highest priority; and

WHEREAS, in 1993, the United States and Mexico entered into the *Agreement Between the Government of the United States of America and the Government of the United Mexican States Concerning the Establishment of a North American Development Bank* which created the North American Development Bank (NADB) to certify and fund environmental infrastructure projects in border-area communities; and

WHEREAS, public concerns in response to widespread threats to public health and safety, damage to fish and wildlife resources and degradation to California's environment resulting from transboundary river flow pollution in the southernmost regions of the state requires urgent action by the Federal and State governments, and

WHEREAS, Congress authorized funding under the U.S. Environmental Protection Agency's (EPA) Safe Drinking Water Act and established the State and Tribal Assistance Grants (STAG) program for the U.S.-Mexico Border Water Infrastructure Program (BWIP) in 1996 to provide grants for high-priority water, wastewater, and storm-water infrastructure projects within 100 kilometers of the southern border; and

WHEREAS, the EPA administers the STAG and BWIP programs, and coordinates with the North American Development Bank (NADB) to allocate BWIP grant funds to projects in the border zone; and

WHEREAS, since its inception, the BWIP program has provided funding for projects in California, Arizona, New Mexico and Texas that would not have been constructed without the grant program; and

WHEREAS, the BWIP program was initially funded at $100 million per year, but, over the last 20 years, has been continuously reduced to its current level of $10 million; and

WHEREAS, in its FY 2020 Budget Request, the Administration proposed to eliminate the BWIP program; and

WHEREAS, officials from EPA Region 9, covering California, have identified a multitude of BWIP-eligible projects along the southern border totaling over $300 million; and

WHEREAS, without federal partnership through the BWIP program and state support to address pollution, cities that are impacted by transboundary sewage and toxic waste flows are left with limited resources to address a critical pollution and public health issue and limited legal remedies to address the problem; and

WHEREAS, the National Association of Counties, (NACo) at their Annual Conference on July 15, 2019 and the U.S. Conference of Mayors at their Annual Conference on in July 1, 2019 both enacted resolutions calling on the federal and state governments to work together to fund and address this environmental crisis; and

WHEREAS, local governments and the public support the State's primary objectives in complying with environmental laws including the Clean Water Act, Porter-Cologne Water Quality Control Act, and Endangered Species Act and are supported by substantial public investments at all levels of government to maintain a healthy and sustainable environment for future residents of California, and

WHEREAS, League of California Cities policy has long supported efforts to ensure water quality and oppose contamination of water resources; and

NOW, THEREFORE, BE IT RESOLVED at the League General Assembly, assembled at the League Annual Conference on October 18, 2019 in Long Beach, that the League calls upon the Federal and State governments to restore and ensure proper funding to the U.S- Mexico Border Water Infrastructure Program (BWIP) and recommit to working bi-nationally to develop and implement long-term solutions to address serious water quality and contamination issues, such as discharges of untreated sewage and polluted sediment and trash-laden transboundary flows originating from Mexico, that result in significant health, environmental, and safety concerns in communities along California's southern border impacting the state.

Background Information on Resolution No. 2

Source: San Diego County Division

Background:
Along California's southern border with Mexico, the New River in Imperial County and the Tijuana River in San Diego County are a major sources of raw sewage, trash, chemicals, heavy metals, and toxins that pollute local communities. Sewage contaminated flows in the Tijuana River have resulted in significant impacts to beach recreation that includes the closure of Border Field State Beach for more than 800 days over the last 5-years. Similarly, contaminated flows in the New River presents comparable hazards, impacts farm land, and contributes to the ongoing crisis in the Salton Sea. These transboundary flows threaten the health of residents in California and Mexico, harms the ecosystem, force closures at beaches, damage farm land, makes people sick, and adversely affects the economy of border communities. The root cause of this cross border pollution is from insufficient or failing water and wastewater infrastructure in the border zone and inadequate federal action to address the problem through existing border programs.

The severity of cross border pollution has continued to increase, due in part to the rapid growth of urban centers since the passage of the North American Free Trade Agreement (NAFTA). While economic growth has contributed to greater employment, the environmental infrastructure of the region has not kept pace, which is why Congress authorized the Border Water Infrastructure Program (BWIP) in 1996. The U.S. Environmental Protection Agency (EPA) administers the BWIP and coordinates with the North American Development Bank (NADB) to provide financing and technical support for projects on both sides of the U.S./Mexico border. Unfortunately, the current BWIP funding at $10 million per year is only a fraction of the initial program budget that shares funding with the entire 2,000 mile Mexican border with California, Arizona, New Mexico and Texas. EPA officials from Region 9 have identified an immediate need for BWIP projects totaling over $300 million just for California. Without federal partnerships through the BWIP and state support to address cross border pollution, cities that are impacted by transboundary sewage and toxic waste flows are left with limited resources to address a critical pollution and public health issue.

The International Boundary and Water Commission (IBWC) is another important federal stakeholder that, under the Treaty of 1944 with Mexico, must address border sanitation problems. While IBWC currently captures and treats some of the pollution generated in Mexico, it also redirects cross border flows without treatment directly into California.

Improving environmental and public health conditions for communities along the border is essential for maintaining strong border economy with Mexico. The IBWC, EPA, and NADB are the important federal partners with existing bi-national programs that are able to immediately implement solutions on cross border pollution. California is in a unique position to take the lead and work with local and federal partners to implement real solutions that will addresses the long standing and escalating water quality crisis along the border.

For those reasons, the cities of Imperial Beach and Coronado requested the San Diego County Division to propose a resolution at the 2019 League Annual Conference calling upon the federal and state governments to address the devastating impacts of international transboundary pollution flows into the waterways of the southernmost regions of California, San Diego and Imperial Counties and the Pacific Ocean.

On August 12, 2019 at the regularly scheduled meeting of the San Diego County Division, the membership unanimously endorsed submittal of the resolution, with close to 75% membership present and voting.

The Imperial County Division does not have a schedule meeting until after the deadline to submit proposed resolutions. However, the City of Calexico, which is most directly impacted by initial pollution flow of the New River from Mexicali, sent a letter in concurrence of this resolution as well as numerous city official from cities within Imperial County and the Imperial County Board of Supervisors. The League Imperial County Division will place a vote to support this resolution on the agenda of their September 26, 2019 meeting.

League of California Cities Staff Analysis on Resolution No. 2

Staff: Derek Dolfie, Legislative Representative
Carly Shelby, Legislative and Policy Development Assistant
Committees: Environmental Quality

Summary:

This Resolution states that the League of California Cities should call upon the State and Federal governments to restore and ensure proper funding for the U.S. – Mexico Border Water Infrastructure Program (BWIP) and work bi-nationally to address water quality issues resulting from transboundary flows from Mexico's Tijuana River into the United States containing untreated sewage, polluted sediment, and trash.

Background:

The League of California Cities' San Diego County Division is sponsoring this resolution to address their concerns over the contaminated flows from the Tijuana River into California that have resulted in the degradation of water quality and water recreational areas in Southern California.

The Tijuana River flows north through highly urbanized areas in Mexico before it enters the Tijuana River Estuary and eventually the Pacific Ocean via waterways in San Diego County in California. Urban growth in Tijuana has contributed to a rise in rates of upstream flows from water treatment facilities in Mexico. These treatment facilities have raised the amount of untreated sewage and waste in the Tijuana River due to faulty infrastructure and improper maintenance. The federal government refers to the river as an "impaired water body" because of the presence of pollutants in excess, which pose significant health risks to residents and visitors in communities on both sides of the border.

Federal Efforts to Address Pollution Crisis

To remedy the Tijuana River's low water quality, the United States and Mexico entered into a Treaty in 1944 entitled: *Utilization of Waters of the Colorado River and Tijuana Rivers and of the Rio Grande – the International Boundary and Water Commission* (IBWC). The IBWC was designed to consist of a United States section and a Mexico section. Both sections were tasked with negotiating and implementing resolutions to address water pollution in the area, which includes overseeing the development of water treatment and diversion infrastructure.

After the formation of the IBWC, the U.S. and Mexico entered into a treaty in 1993 entitled: *Agreement Concerning the Establishment of a Border Environment Cooperation Commission and a North American Development Bank.* This agreement established the North American Development Bank (NADB), which certifies and funds infrastructure projects located within 100 kilometers (62 miles) of the border line. The NADB supports federal programs like the Border Water Infrastructure Program (BWIP), which was initially funded at $100 million, annually.

The degradation of existing water treatment infrastructure along the border coincides with the federal government's defunding of the BWIP, which has steadily decreased from $100 million in 1996 to $10 million today. The Federal FY 2020 Budget proposes eliminating BWIP funding altogether. EPA's regions 6 and 9 (includes U.S. states that border Mexico) have identified a number of eligible projects that address public health and environmental conditions along the border totaling $340 million.

The NADB has funded the development of water infrastructure in both the U.S. and Mexico. Water diversion and treatment infrastructure along the U.S – Mexico border includes, but is not limited to, the following facilities:

- *The South Bay International Wastewater Treatment Plant (SBIWTP).* This facility was constructed by the U.S. in 1990 and is located on the California side of the border and is operated under the jurisdiction of the IBWC. The SBIWTP serves as a diversion and treatment sewage plant to address the flow of untreated sewage from Mexico into the United States.
- *Pump Station CILA.* CILA was constructed by Mexico in 1991 and is located along the border in Mexico. This facility serves as the SBIWTP's Mexican counterpart.

Both the SBIWTP and CILA facilities have had a multitude of overflows containing untreated sewage and toxic waste that spills into the Tijuana River. The cause of overflows can be attributed to flows exceeding the maximum capacity that the infrastructure can accommodate (this is exacerbated during wet and rainy seasons) and failure to properly operate and maintain the facilities. Much of the existing infrastructure has not had updates or repairs for decades, causing overflows to become more frequent and severe. The most notable overflow occurred in February 2017, wherein 143 million gallons of polluting waste discharged into the Tijuana River; affecting the Tijuana Estuary, the Pacific Ocean, and Southern California's waterways.

State Actions

In response to the February 2017 overflow, the San Diego Water Board's Executive Officer sent a letter to the U.S. and Mexican IBWC Commissioners which included recommendations on how to improve existing infrastructure and communications methods between both nations.

In September of 2018, California Attorney General Xavier Becerra submitted a lawsuit against IBWC for Violating the Clean Water Act by allowing flows containing sewage and toxic waste to flow into California's waterways, posing a public health and ecological crisis. The cities of Imperial Beach, San Diego, Chula Vista, the Port of San Diego, and the San Diego Regional Water Quality Board have also filed suit against the IBWC. The suit is awaiting its first settlement conference on October 19, 2019. If parties are unable to reach a settlement, the case will go to trial.

Fiscal Impact:

California's economy is currently the sixth largest in the world, with tourism spending topping $140.6 billion in 2018. In the past five years, San Diego's Border Field State Park has been closed for over 800 days because of pollution from the Tijuana River. A decline in the State's beach quality and reputation could carry macroeconomic effects that could ripple outside of the San Diego County region and affect coastal communities throughout California.

Existing League Policy
The League of California Cities has extensive language on water in its Summary of Existing Policy and Guiding Principles. Fundamentally, the League recognizes that beneficial water quality is essential to the health and welfare of California and all of its citizens. Additionally, the League advocates for local, state and federal governments to work cooperatively to ensure that water quality is maintained.
The following policy relates to the issue of water quality:

- Surface and groundwater should be protected from contamination.
- Requirements for wastewater discharge into surface water and groundwater to safeguard public health and protect beneficial uses should be supported.
- When addressing contamination in a water body, water boards should place priority emphasis on clean-up strategies targeting sources of pollution, rather than in stream or end-of-pipe treatment.
- Water development projects must be economically, environmentally and scientifically sound.
- The viability of rivers and streams for instream uses such as fishery habitat, recreation and aesthetics must be protected.
- Protection, maintenance, and restoration of fish and wildlife habitat and resources.

Click here to view the **Summary of Existing Policy and Guiding Principles 2018**.

Comments:

1. Water quality issues are prevalent across California and have been a constant priority of the State's legislature and residents. In 2014, California's voters approved Proposition 1, which authorized $7.5 billion in general obligation bonds to fund water quality improvement projects. In 2019, the Legislature reached an agreement to allocate $130 million from the State's Greenhouse Gas Reduction Fund (GGRF) to address failing water infrastructure and bad water qualities for over one million of California's residents in rural communities. Water quality is not an issue unique to the County of San Diego and communities along the border.

2. Tijuana River cross-border pollution has caught national attention. Members of Congress have proposed recent funding solutions to address the pollution crisis, including:
   - In February of 2019, California Congressional Representatives Vargas, Peters, and Davis helped secure $15 million for the EPA to use as part of its BWIP.
   - *H.R. 3895 (Vargas, Peters, 2019), The North American Development Bank Pollution Solution Act.* This bill seeks to support pollution mitigation efforts along the border by increasing the NADB's capital by $1.5 billion.
   - *H.R. 4039 (Levin, 2019), The Border Water Infrastructure Improvement Act.* This bill proposes increasing funding to the BWIP from the existing $10 million to $150 million as a continuous appropriation until 2025.

   Additionally, the National Association of Counties (NACo) and the U.S. Conference of Mayors enacted resolutions in support of increased funding for U.S. – Mexico border water infrastructure to address the environmental crisis in 2019.

3. The border pollution problem has sparked action from local, state, and federal actors. Should this resolution be adopted, League membership should be aware that future action will be adapted by what is explicitly stated in the resolution's language. In current form, the resolution's resolve clause cites the BWIP as the only program that should receive reinstated and proper funding. League staff recommends the language be modified to state:

   > "**NOW, THEREFORE, BE IT RESOLVED** at the League General Assembly, assembled at the League Annual Conference on October 18, 2019 in Long Beach, that the League calls upon the Federal and State governments to restore and ensure proper funding *for environmental infrastructure on the U.S. – Mexico Border, including* ~~to~~ the ~~U.S.–Mexico~~ Border Water Infrastructure Program (BWIP), and recommit to working bi-nationally to develop and implement long-term solutions to address serious water quality and contamination issues, such as discharges of untreated sewage and polluted sediment and trash-laden transboundary flows originating from Mexico, that result in significant health, environmental, and safety concerns in communities along California's southern border impacting the state."

   Modifying the language would ensure enough flexibility for the League to support funding mechanisms outside of the prescribed federally-operated BWIP.

4. It remains unclear if there is an appetite in Washington to fund border-related infrastructure projects that address environmental quality. Given the high probability of another overflow containing waste and sewage from the existing infrastructure operated by the IBWC, League membership should consider the outcome if no resolution is reached to address the issue.

Support:
The following letters of concurrence were received:
Cities:
The City of Calexico
The City of Coronado
The City of Imperial Beach
The City of San Diego
In their individual capacity:
Amanda Young Rigby, City of Vista Council Member
Bill Baber, City of La Mesa Council Member
Consuelo Martinez, City of Escondido Deputy Mayor
George A. Nava, City of Brawley Council Member
John Minto, City of Santee Mayor
Judy Ritter, City of Vista Mayor
Luke Hamby, City of Brawley Council Member
Norma Kastner-Jauregui, City of Brawley Mayor Pro-Tempore
Sam Couchman, City of Brawley Council Member

LETTERS OF CONCURRENCE

Resolution No. 2

International Transboundary
Pollution Flows

CITY OF CALEXICO

608 Heber Ave.
Calexico, CA 92231-2840
Tel: 760.768.2110
Fax: 760.768.2103
www.calexico.ca.gov

August 15, 2019

Jan Arbuckle, President
League of California Cities
1400 K Street, Suite 400
Sacramento, CA 95814

RE: **Environmental and Water Quality Impacts Of International Transboundary River Pollution Flow Resolution**

President Arbuckle:

The city of Calexico strongly supports the San Diego County Division's effort to submit a resolution for consideration by the General Assembly at the League's 2019 Annual Conference in Long Beach.

The Division's resolution calls upon the Federal and State governments to restore and ensure proper funding of the Border Water Infrastructure Program (BWIP) to address the devastating impacts of international transboundary pollution flows into the waterways of the southernmost regions of California (San Diego and Imperial Counties) and the Pacific Ocean.

Local government and the public support the State's water and environmental quality objectives and League policy has long supported efforts to ensure water quality and oppose contamination of water resources. This resolution addresses the critical need for the federal and state governments to recommit to work bi-nationally to develop and implement long-term solutions to address serious water quality and contamination issues, such as discharges of untreated sewage and polluted sediment and trash-laden transboundary flows originating from Mexico, that result in significant heath, environmental and safety concerns in communities along California's southern border impacting the state.

As members of the League, our city values the policy development process provided to the General Assembly. We appreciate your time on this issue.

Viva Calexico!

If you have any questions or require additional information, please do not hesitate to contact me at 760/768-2110.

Sincerely,

CITY OF CALEXICO

David Dale
City Manager

Cc: Honorable Mayor Bill Hodge

CITY OF CORONADO

1825 STRAND WAY
CORONADO, CA 92118

OFFICE OF THE CITY MANAGER
(619) 522-7335
FAX (619) 522-7846

August 15, 2019

Jan Arbuckle, President
League of California Cities
1400 K Street, Suite 400
Sacramento, CA 95814

RE: Environmental and Water Quality Impacts of International Transboundary River Pollution Flows Resolution

This letter is written on behalf of and with the support of the Coronado City Council. The City of Coronado wholeheartedly supports the resolution adopted by the San Diego County and Imperial County Division of the California League of Cities.

The San Diego County Division's resolution calls upon the federal and state governments to restore and ensure proper funding of the U.S.-Mexico Border Water Infrastructure Program (BWIP) to address the devastating impacts of international transboundary pollution flows into the waterways of the southernmost regions of California (San Diego and Imperial Counties) and the Pacific Ocean.

The City has been working closely with the Environmental Protection Agency and other federal partners on the matter since early 2018. City leaders are committed to finding long-term, sustainable solutions to this problem. Through its advocacy and education efforts, the City of Coronado has raised national awareness of the problem among legislators, political appointees and career staff at federal agencies. These efforts have been successful. However, the City along with our coalition partners, look forward to more action to swiftly resolve this issue.

Local government and the public support the state's water and environmental quality objectives and League policy has long supported efforts to ensure water quality and oppose contamination of water resources. This resolution addresses the critical need for the federal and state governments to recommit to work bi-nationally to develop and implement long-term solutions to address serious water quality and contamination issues, such as discharges of untreated sewage and polluted sediment and trash-laden transboundary flows originating from Mexico, that result in significant health, environmental and safety concerns in communities along California's southern border impacting the state.

As members of the League, Coronado values the policy development process provided to the General Assembly. We appreciate your time on this issue. Please feel free to contact me if you have any questions.

Sincerely,

Blair King
Coronado City Manager

cc: Coronado Mayor and City Council
Bill Baber, President, San Diego County Division
c/o Catherine Hill, Regional Public Affairs Manager, San Diego County Division chill@cacities.org

City of Imperial Beach, California

OFFICE OF THE CITY MANAGER

825 Imperial Beach Blvd., Imperial Beach, CA 91932 Tel: (619) 423-8303 Fax: (619) 628-1395

August 15, 2019

Jan Arbuckle, President
League of California Cities
1400 K St. Suite 400
Sacramento, CA 95814

RE: Environmental and Water Quality Impacts Of International Transboundary River Pollution Flow Resolution

President Arbuckle:

The city of Imperial Beach appreciates and supports the San Diego County Division's effort to submit a resolution for consideration by the full membership of the League of California Cities.

The Division's resolution calls on Federal and State government to address the impacts of transboundary pollution flows into the Southwestern regions of California. The pollution in these areas is an environmental disaster that threatens the health and general welfare of residents near the Mexican border in Imperial and San Diego Counties.

I encourage all voting delegates and elected officials in attendance at the 2019 Annual League of California Cities Conference in Long Beach to support this important resolution as it addresses the critical need for the federal and state government to recommit to work bi-nationally to address the serious contamination issues and to develop and implement long-term solutions.

I am available for any questions or additional information related to this letter of support.

Sincerely,

Andy Hall

Andy Hall
City Manger

Cc: Honorable Mayor Serge Dedina
Honorable Mayor Pro Tem Robert Patton
Honorable Councilmember Paloma Aguirre
Honorable Councilmember Ed Spriggs
Honorable Councilmember Mark West

City of Imperial Beach, California

OFFICE OF THE MAYOR

825 Imperial Beach Blvd., Imperial Beach, CA 91932 Tel: (619) 423-8303 Fax: (619) 628-1395

August 16, 2019

Jan Arbuckle, President
League of California Cities
1400 K Street, Suite 400
Sacramento, CA 95814

RE: Environmental and Water Quality Impacts Of International Transboundary River Pollution Flow Resolution

President Arbuckle:

The city of Imperial Beach strongly supports the San Diego County Division's effort to submit a resolution for consideration by the General Assembly at the League's 2019 Annual Conference in Long Beach.

The Division's resolution calls upon the Federal and State governments to restore and ensure proper funding of the Border Water Infrastructure Program (BWIP) to address the devastating impacts of international transboundary pollution flows into the waterways of the southernmost regions of California (San Diego and Imperial Counties) and the Pacific Ocean.

Local government and the public support the State's water and environmental quality objectives and League policy has long supported efforts to ensure water quality and oppose contamination of water resources. This resolution addresses the critical need for the federal and state governments to recommit to work bi-nationally to develop and implement long-term solutions to address serious water quality and contamination issues, such as discharges of untreated sewage and polluted sediment and trash-laden transboundary flows originating from Mexico, that result in significant heath, environmental and safety concerns in communities along California's southern border impacting the state.

As members of the League, our city values the policy development process provided to the General Assembly. We appreciate your time on this issue. If you have any questions or require additional information, please do not hesitate to contact me at 619-423-8303.

Sincerely,

Serge Dedina
Mayor

THE CITY OF SAN DIEGO

KEVIN L. FAULCONER
Mayor

August 15, 2019

Jan Arbuckle, President
League of California Cities
1400 K Street, Suite 400
Sacramento, CA 95814

RE: **Environmental and Water Quality Impacts of International Transboundary River Pollution Flow Resolution**

President Arbuckle:

The City of San Diego supports the San Diego County Division in their effort to submit a resolution to the General Assembly at the League of California Cities' 2019 Annual Conference in Long Beach.

To suppress the flow of pollution between the Mexico and Southern California's water channels, the Division requests for the Federal and State governments to give proper funding to the Border Water Infrastructure Program (BWIP).

The City of San Diego and its citizens have expressed their concerns about untreated sewage, polluted sediment and trash flowing from Mexico, into California, causing health, environmental and safety concerns. The State's water and environmental quality objectives and League policy has long supported efforts to ensure water quality and oppose contamination of water resources. With the Division's resolution, the great need for federal and state governments to reconsider working together, will help in developing a long-term solution to address serious water quality and contamination issues.

As members of the League, our City values the policy development process provided to the General Assembly. We appreciate your time on this issue.

Please contact me at (619)453-9946 if you have any questions.

Sincerely,

Denice Garcia
Director of International Affairs

Cc: Honorable Mayor Kevin L. Faulconer

202 C STREET, 11TH FLOOR • SAN DIEGO, CA 92101

AMANDA YOUNG RIGBY
CITY COUNCILWOMAN

August 15, 2019

Jan Arbuckle, President
League of California Cities
1400 K Street, 4th Floor
Sacramento, CA 95814

Re: Border Sewage Issues

Dear President Arbuckle;

As a Council Member in the City of Vista, and solely in my individual capacity as such, I write in ***support*** of the League of California Cities 2019 Annual Conference Resolution proposed by the San Diego County Division to address the constant sewage pollution issues at the international border with Mexico.

This Resolution requests that the federal and state governments recognize the paramount importance of this issue and address the devastating impacts that this constant contamination has on the southernmost regions of California and the Pacific coastline by requesting the necessary funding to develop and implement effective and long term solutions to the raw sewage contamination coming into San Diego and Imperial Counties from Mexico.

Although I have lived in Vista for 27 years now, I grew up in Imperial Beach and know well the severe health and environmental impact that this situation has had on our border communities for the ***decades***.

As a member of the League, I value the League's ability to effectively advocate on behalf of not only our cities but in effect, our citizens, and this is an important issue for our entire state. Should you have any questions or comments, please contact me at the number below. Thank you for your consideration.

Most Sincerely,

Amanda Young Rigby
Council Member, City of Vista

cc: Vista City Council
Vista City Manager
Vista City Attorney
City of Imperial Beach
City of Coronado
City of Calexico
City of San Diego

200 Civic Center Drive, Vista, California 92084-6275 I T: (760) 643-5213 I F: (760) 639-6132 I E: arigby@cityofvista.com I cityofvista.com

CITY OF
LA MESA
JEWEL of the HILLS

August 16, 2019

Jan Arbuckle, President
League of California Cities
1400 K Street, Suite 400
Sacramento, CA 95814

RE: Environmental and Water Quality Impacts Of International Transboundary River Pollution Flows Resolution

President Arbuckle:

As a Council Member for the City of La Mesa and in my individual capacity, not on behalf of the full La Mesa City Council as a body or the City, I am writing you in support of the San Diego County Division's effort to submit a resolution for consideration by the General Assembly at the League's 2019 Annual Conference in Long Beach.

The Division's resolution calls upon the Federal and State governments to restore and ensure proper funding of the Border Water Infrastructure Program (BWIP) to address the devastating impacts of international transboundary pollution flows into the waterways of the southernmost regions of California (San Diego and Imperial Counties) and the Pacific Ocean.

As San Diego County Division President and a member of the League, I value the policy development process provided to the General Assembly. I appreciate your time on this issue. Please feel free to contact me at 619-667-1106, should you have any questions.

Sincerely,

Bill Baber

BILL BABER
COUNCIL MEMBER CITY OF LA MESA
PRESIDENT, LEAGUE SAN DIEGO COUNTY DIVISION

8130 ALLISON AVENUE • LA MESA, CA 91941 • TEL: 619.667.1105 FAX: 619.462.7528

ESCONDIDO
City of Choice

Consuelo Martinez, Deputy Mayor
201 North Broadway, Escondido, CA 92025
Phone: 760-839-4638

August 16, 2019

Jan Arbuckle, President
League of California Cities
1400 K Street, 4th Floor
Sacramento, CA 95814

Dear President Arbuckle:

As one Council Member of the city of Escondido, and in my individual capacity and not on behalf of the Council as a body or the City, I write in support of the League of California Cities 2019 Annual Conference Resolution proposed by the San Diego County Division to address the transboundary river flow pollution impacting cities in San Diego and Imperial Counties.

This resolution calls upon the federal and state governments to address the devastating impacts of international transboundary pollution flows into the southernmost regions of California and the Pacific Ocean by requesting the necessary funding to develop solutions for pollution coming into San Diego County and Imperial County waterways through the Tijuana River and New River, respectively.

The passage of the proposed resolution by the San Diego County Division would provide support for the restoration of much needed funding and development and implementation of long-term solutions to address serious water quality and contamination issues, such as discharge of untreated sewage and polluted sediment and trash-laden transboundary flows that result in significant health, environmental, and safety concerns in communities along California's southern border impacting the state.

As a member of the League, I value the policy development process provided to the General Assembly. I appreciate your time on this issue. Please feel free to contact me at cmartinez@escondido.org if you have any questions.

Sincerely,

C. Martinez

Consuelo Martinez
Deputy Mayor

cc: Honorable Mayor and City Council Members
Jeffrey R. Epp, City Manager

CITY OF BRAWLEY

ADMINISTRATIVE OFFICES
383 Main Street
Brawley, CA 92227
Phone: (760) 351-3048
FAX: (760) 351-3088

August 15, 2019

Jan Arbuckle, President
League of California Cities
1400 K Street, 4th Floor
Sacramento, CA 95814

Dear President Arbuckle:

As one Council Member of the City of Brawley, and in my individual capacity and not on behalf of the Council as a body or the City, I write in support of the League of California Cities 2019 Annual Conference Resolution proposed by the San Diego County Division to address the transboundary river flow pollution impacting cities in San Diego and Imperial Counties.

This resolution calls upon the federal and state governments to address the devastating impacts of international transboundary pollution flows into the southernmost regions of California and the Pacific Ocean by requesting the necessary funding to develop solutions for pollution coming into San Diego County and Imperial County waterways through the Tijuana River and New River, respectively.

The passage of the proposed resolution by the San Diego County Division would provide support for the restoration of much needed funding and development and implementation of long-term solutions to address serious water quality and contamination issues, such as discharge of untreated sewage and polluted sediment and trash-laden transboundary flows that result in significant health, environmental, and safety concerns in communities along California's southern border impacting the state.

As a member of the League, I value the policy development process provided to the General Assembly. I appreciate your time on this issue. Please feel free to contact me at (City email) if you have any questions.

Sincerely,

George A. Nava
City Council Member
City of Brawley

MAYOR
John W. Minto

CITY COUNCIL
Ronn Hall
Stephen Houlahan
Laura Koval
Rob McNelis

CITY OF SANTEE

August 15, 2019

Jan Arbuckle, President
League of California Cities
1400 K Street, 4th Floor
Sacramento, CA 95814

Dear President Arbuckle:

As Mayor of the city of Santee, and in my individual capacity and not on behalf of the Council as a body or the City, I write in support of the League of California Cities 2019 Annual Conference Resolution proposed by the San Diego County Division to address the transboundary river flow pollution impacting cities in San Diego and Imperial Counties.

This resolution calls upon the federal and state governments to address the devastating impacts of international transboundary pollution flows into the southernmost regions of California and the Pacific Ocean by requesting the necessary funding to develop solutions for pollution coming into San Diego County and Imperial County waterways through the Tijuana River and New River, respectively.

The passage of the proposed resolution by the San Diego County Division would provide support for the restoration of much needed funding and development and implementation of long-term solutions to address serious water quality and contamination issues, such as discharge of untreated sewage and polluted sediment and trash-laden transboundary flows that result in significant health, environmental, and safety concerns in communities along California's southern border impacting the state.

As a member of the League, I value the policy development process provided to the General Assembly. I appreciate your time on this issue. Please feel free to contact me at (JMinto@cityofsanteeca.gov) if you have any questions.

Sincerely,

JOHN W. MINTO
Mayor
City of Santee

10601 Magnolia Avenue • Santee, California 92071 • (619) 258-4100 • www.cityofsanteeca.gov

JUDY RITTER

MAYOR

August 16, 2019

Jan Arbuckle, President
League of California Cities
1400 K Street, 4th Floor
Sacramento, CA 95814

Dear President Arbuckle:

As Mayor of the city of Vista, and in my individual capacity and not on behalf of the Council as a body or the City, I write in support of the League of California Cities 2019 Annual Conference Resolution proposed by the San Diego County Division to address the transboundary river flow pollution impacting cities in San Diego and Imperial Counties.

This resolution calls upon the federal and state governments to address the devastating impacts of international transboundary pollution flows into the southernmost regions of California and the Pacific Ocean by requesting the necessary funding to develop solutions for pollution coming into San Diego County and Imperial County waterways through the Tijuana River and New River, respectively.

The passage of the proposed resolution by the San Diego County Division would provide support for the restoration of much needed funding and development and implementation of long-term solutions to address serious water quality and contamination issues, such as discharge of untreated sewage and polluted sediment and trash-laden transboundary flows that result in significant health, environmental, and safety concerns in communities along California's southern border impacting the state.

As a member of the League, I value the policy development process provided to the General Assembly. I appreciate your time on this issue. Please feel free to contact me at jritter@cityofvista.com if you have any questions.

Sincerely,

Judy Ritter

Judy Ritter
Mayor
City of Vista

200 Civic Center Drive, Vista, California 92084-6275 | P: (760) 639-6130 | F: (760) 639-6132 | E: jritter@cityofvista.com | cityofvista.com

CITY OF BRAWLEY

ADMINISTRATIVE OFFICES
383 Main Street
Brawley, CA 92227
Phone: (760) 351-3048
FAX: (760) 351-3088

August 15, 2019

Jan Arbuckle, President
League of California Cities
1400 K Street, 4th Floor
Sacramento, CA 95814

Dear President Arbuckle:

As one Council Member of the City of Brawley, and in my individual capacity and not on behalf of the Council as a body or the City, I write in support of the League of California Cities 2019 Annual Conference Resolution proposed by the San Diego County Division to address the transboundary river flow pollution impacting cities in San Diego and Imperial Counties.

This resolution calls upon the federal and state governments to address the devastating impacts of international transboundary pollution flows into the southernmost regions of California and the Pacific Ocean by requesting the necessary funding to develop solutions for pollution coming into San Diego County and Imperial County waterways through the Tijuana River and New River, respectively.

The passage of the proposed resolution by the San Diego County Division would provide support for the restoration of much needed funding and development and implementation of long-term solutions to address serious water quality and contamination issues, such as discharge of untreated sewage and polluted sediment and trash-laden transboundary flows that result in significant health, environmental, and safety concerns in communities along California's southern border impacting the state.

As a member of the League, I value the policy development process provided to the General Assembly. I appreciate your time on this issue. Please feel free to contact me at (City email) if you have any questions.

Sincerely,

Luke Hamby
City Council Member
City of Brawley

CITY OF BRAWLEY

ADMINISTRATIVE OFFICES
383 Main Street
Brawley, CA 92227
Phone: (760) 351-3048
FAX: (760) 351-3088

August 15, 2019

Jan Arbuckle, President
League of California Cities
1400 K Street, 4th Floor
Sacramento, CA 95814

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Sincerely,

Norma Kastner-Jauregui
Mayor Pro-Tempore
City of Brawley

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As a member of the League, I value the policy development process provided to the General Assembly. I appreciate your time on this issue. Please feel free to contact me at (City email) if you have any questions.

Sincerely,

Sam Couchman
City Council Member
City of Brawley

TOWN OF COLMA

CALIFORNIA

AUGUST 5, 1924

STAFF REPORT

TO: Mayor and Members of the City Council

FROM: Brad Donohue, Public Works Director

VIA: Brian Dossey, City Manager

MEETING DATE: September 25, 2019

SUBJECT: Bidding Thresholds for Public Works Projects

RECOMMENDATION

Staff recommends that the City Council introduce and waive a further reading:

ORDINANCE AMENDING COLMA MUNICIPAL CODE SECTION 1.06.270 RELATING TO BID LIMITS FOR PUBLIC WORKS PROJECTS

EXECUTIVE SUMMARY

The Town previously elected to become subject to the alternative bidding procedures under the Uniform Public Construction Cost Accounting Act ("Act"). The Act provides increased bidding thresholds for public works projects thereby giving the Town greater procurement flexibility. The bidding thresholds under the Act increased effective January 1, 2019. The proposed ordinance will amend the Colma Municipal Code to be consistent with the currently effective bidding thresholds under the Act.

FISCAL IMPACT

There is not a direct fiscal impact associated with approving this ordinance. It is expected that by raising the bidding limits it can or will result in future saving, thus avoiding complex bidding procedures on small projects. Raising the informal bid limits will save staff time and resources and will allow the Town flexibility in awarding smaller public works contracts.

BACKGROUND/ANALYSIS

The Town elected to become subject to the Act on or about April 8, 2009. The Act provides an alternative bidding procedure on public works projects that local agencies such as the Town may elect to become subject to. These bidding procedures provide for higher bid thresholds relative to the default threshold applicable to the Town.

The Act is amended by the State Legislature from time to time to increase the bidding thresholds and was recently revised for this purpose. The previous version of the Act provided for an informal bidding threshold at $45,000 and a formal bidding threshold at $175,000.

These thresholds were increased to $60,000 and $200,000 respectively. Colma Municipal Code section 1.06.270 presently reflects the old bidding thresholds in effect prior to the most recent increase.

Staff is proposing that the City Council adopt the ordinance to amend Colma Municipal Code section 1.06.270 in order to maintain consistency with the increased bid thresholds under the Act.

Council Adopted Values

By approving this Ordinance, City Council will be acting Responsible, making decisions after, considering the long-term financial needs of the agency, especially its financial stability.

ALTERNATIVES

The City Council could choose not to introduce and adopt the ordinance to increase the bid thresholds under Colma Municipal Code section 1.06.270. This is not recommended as it does not maximize the Town's procurement flexibility, which was the main reason the Town elected to become subject to the Act's alternative bidding procedures for public works projects.

CONCLUSION

Staff recommends that City Council introduce the ordinance amending Colma Municipal Code section 1.06.270 to increase the bidding thresholds thereunder to maintain consistency with the Act.

ATTACHMENTS

A. Ordinance

ORDINANCE NO. ___
OF THE CITY COUNCIL OF THE TOWN OF COLMA

ORDINANCE AMENDING COLMA MUNICIPAL CODE SECTION 1.06.270 RELATING TO BID LIMITS FOR PUBLIC WORKS PROJECTS

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

Article 1. CMC § 1.06.270, Amended.

Section 1.06.270 of the Colma Municipal Code, entitled "Competitive Bidding, Selecting the Contractor," is amended to state as follows:

1.06.270 Competitive Bidding; Selecting the Contractor

(a) This section and section 1.06.280 shall apply to all public projects, as defined by section 22002 of the Public Contract Act. "Public project" means the construction, reconstruction, erection, alteration, renovation, improvement, demolition, painting, repainting or repair work involving any publicly owned, leased, or operated facility. "Facility" means any plant, building, structure, ground facility, real property, streets and highways, or other public work improvement. "Public project" does not include maintenance work.

(b) Public projects of ~~forty-five thousand dollars ($45,000)~~ sixty thousand dollars ($60,000) or less may be performed by the employees of a public agency under force account procedures, by negotiated contract, or by purchase order.

(c) Public projects of ~~one hundred seventy-five thousand dollars ($175,000)~~ two hundred thousand dollars ($200,000) or less may be let to contract by informal bid procedures as set forth in the Uniform Act and section 1.06.280 of this Code.

(d) Public projects in excess of ~~one hundred seventy-five thousand dollars ($175,000)~~ two hundred thousand dollars ($200,000) shall be let to contract by formal bid procedure as set forth in the Uniform Act and section 1.06.290 of this Code.

(e) If all bids received are in excess of ~~one hundred seventy-five thousand dollars ($175,000)~~ two hundred thousand dollars ($200,000), the City Council may by passage of a resolution by four-fifths vote, award the contract, at ~~one hundred eighty-seven thousand five hundred dollars ($187,500)~~ two hundred twelve thousand five hundred dollars ($212,500) or less, to the lowest responsible bidder, if it determines the Town's cost estimate was reasonable.

(f) The City Council shall approve plans, specifications and working details for all public works projects exceeding ~~$175,000~~ two hundred thousand dollars ($200,000). Plans, specifications and working details for all public works projects of two hundred thousand dollars ($200,000) or less may be approved by the Public Works Director or his or her designee.

(g) Competitive bidding shall not apply where, after rejecting bids, the City Council has passed a resolution by a four-fifths vote of its members declaring that the project can be performed more economically by day labor, or the materials or supplies can be furnished at a lower price in the open market.

[*References:* CAL. PUB. CONT. CODE § 22000 *et seq.*]

[History: Formerly part of § 1.06.210; Ord. 205 (12/8/76); Ord. 488 (4/10/96); Ord. 489 (5/8/96); Ord. 519 (11/12/97); Ord. 548 (2/10/99); Ord. 623 (12/8/2004); Ord. 734 (7/9/14); Ord. 737 (1/14/15); Ord. ___ (__/__/19)]

Article 2. Severability.

Each of the provisions of this Ordinance is severable from all other provisions. If any article, section, subsection, paragraph, sentence, clause or phrase of this Ordinance is for any reason held by a court of competent jurisdiction to be invalid, such decision shall not affect the validity of the remaining portions of this Ordinance.

Article 3. Not A CEQA Project.

The City Council finds that adoption of this Ordinance is not a "project," as defined in the California Environmental Quality Act because it does not have a potential for resulting in either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment and concerns general policy and procedure making.

Article 4. Effective Date.

This Ordinance, or a summary thereof prepared by the City Attorney, shall be posted on the three (3) official bulletin boards of the Town of Colma within 15 days of its passage and is to take force and effect thirty (30) days after its passage.

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Certification of Adoption

I certify that the foregoing Ordinance No. ___ was introduced at a regular meeting of the City Council of the Town of Colma held on _________________, 2019, and adopted at a regular meeting of the City Council of the Town of Colma held on _________________, 2019, by the following vote:

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

Dated ______________________

____
Joanne F. del Rosario, Mayor

Attest:____________________________
Caitlin Corley, City Clerk

STAFF REPORT

TO: Mayor and Members of the City Council

FROM: Brian Dossey, City Manager

MEETING DATE: September 25, 2019

SUBJECT: Lew Edwards Group Contract Amendment

RECOMMENDATION

Staff recommends the City Council adopt the following:

> RESOLUTION APPROVING THE FIRST AMENDMENT TO PROFESSIONAL SERVICES AGREEMENT WITH THE LEW EDWARDS GROUP

EXECUTIVE SUMMARY

At the August 28, 2019 meeting, staff presented the first amendment to the Lew Edwards Group contract to the City Council, extending their scope of work from September 2019 through October 2020. During the discussion City Council asked staff to go back to the Lew Edwards Group for clarification on the scope of work, staff time commitments and the term (length) of the contract.

The newly proposed contract extension begins on March 1, 2020 and will run through October 31, 2020; however, the agreement can be terminated by the Town on 10 days written notice with or without cause. See, Section 16 of the agreement (Attachment B). Consultant can also terminate the agreement but only for cause and upon 30-day notice to the Town.

FISCAL IMPACT

The cost to extend the agreement is $5,500 per month, not to exceed $44,000.

BACKGROUND

Over the past several months economic indicators are predicting a slowdown in the economy or even a recession in the near future. During the budget study sessions in April, May and June of this year, staff presented a future financial outlook in the event of a slowdown or recession and how it would impact the general fund and city services.

The financial outlook showed that if there were a significant slowdown or even a recession, annual operating expenditures could exceed annual revenues as early as fiscal year 2021-22 and possibly remain that way for the next ten years. This would cause the Town to not only make significant changes to the level of services it provides to the community but, also cause the Town to significantly draw down the financial reserves.

Therefore, the Town contracted with the Lew Edwards Group (Attachment B) as well as Godbe Research to conduct a Public Opinion Survey identifying resident priorities as they pertain to Town services, giving staff a barometer as to what services residents value the most. The results from the survey was very informative; residents have a very favorable impression (86.6%) of how the Town provides its services. Residents were also very clear on how they prioritized Town services with pothole repair, maintaining police patrols and attracting and retaining local businesses as their top preferences. The results from the survey will help the City Council and staff in making future decisions on Town services in the event of an economic slowdown or recession.

The scope of work in the agreement between the Lew Edwards Group and the Town has been completed; however staff is recommending that the City Council approve the First Amendment to extend the agreement (Attachment C) and modify the scope of services to include further resident engagement, expansion of community awareness of city services and seek additional community input.

Staff, therefore, is recommending that the City Council amend the Contract with the Lew Edwards group extending their schedule and scope of work so we can continue to educate and engage the public on Town services and how the economy affects the budget, and the Town's ability to maintain services.

ANALYSIS

The proposed contract amendment with the Lew Edwards Group will assist the Town in developing a strategy that educates the community through resident engagement with a focus on city service priorities and future budget updates. Through consistent messaging the Lew Edwards group will also assist in communicating how the economy affects the Town's ability to provide high quality services to the community.

During the August 28, 2019 meeting the City Council asked staff to follow up with the Lew Edwards Group regarding the scope of work, staff time commitments and the term (length) of the contract. While the Lew Edwards Group could not provide more detail in the scope citing company policy, they did however ensure staff that all work is catered to each agency and is customized based on the community's needs. The Lew Edwards Group also recommended that staff reach out to other City Managers that they have worked with in the County to see how much staff time was committed to their project.

After contacting a couple of neighboring agencies, various City Managers confirmed that it is a lot of staff time in the sense that the City Manager is consistently conveying the messaging regarding the budget and the financial future of the city. In terms of creating additional outlets to convey the messaging, the cities reported that they simply used the existing tools they had in place (i.e. website, newsletters, social media, bill stuffers, meetings, events, etc.). They also confirmed that the amount of time committed to support staff is minimal to moderate and most of the work falls on the City Manager and Administrative staff in terms of communicating a consistent message to the community throughout the term of the contract.

In terms of the length of the contract and costs, staff and the Lew Edwards Group talked at length over this issue and negotiated a shorter term to begin in March 2020 due to the fact that the survey results were favorable and the required outreach needed might be more on the moderate side versus the extreme. This way the messaging starts during the development of the budget while saving $33,000 from the previously presented Lew Edwards Group contract amendment.

Therefore, through the community engagement and strategic communication efforts the Lew Edwards Group and Town staff will work with the community to develop solutions to potential future budget shortfalls by evaluating resident priorities and the need to maintain city services.

Upon completion of the project, the Town will have a very clear picture as to what the communities priorities are when it comes to Town services which will help make future budget decisions during an economic downturn and potentially provide solutions on how to continue to maintain city services.

The proposed scope and schedule can be found in Attachment C, Exhibit A-1 and C.

If at any time over the course of the agreement the City Council or Town staff feel that this project has run its course, the Town can terminate the agreement on 10 days written notice with or without cause.

Council Adopted Values

The City Council is acting ***responsibly*** by extending the agreement with the Lew Edwards Group, engaging the community and seeking public input on the Town future fiscal solvency and city service priorities.

CONCLUSION

Staff recommends the City Council adopt the resolution approving the First Amendment to the Professional Services Agreement with the Lew Edwards Group.

ATTACHMENTS

A. Resolution
B. Lew Edwards Group Contract
C. First Amendment to the Lew Edwards Group Contract

RESOLUTION NO. 2019-__
OF THE CITY COUNCIL OF THE TOWN OF COLMA

RESOLUTION APPROVING FIRST AMENDMENT TO PROFESSIONALS SERVICES AGREEMENT WITH THE LEW EDWARDS GROUP

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

1. Background.

(a) On April 22, 2019, the Town entered into a professional services agreement with the Lew Edwards Group to provide consulting services with regard to determining resident priorities of services and to analyze funding priorities.

(b) The Town would now like to continue the professional services provided by the Lew Edwards Group by extending the term of the agreement and modifying the scope of services to provide additional consulting services to the Town.

2. Findings.

(a) The City Council finds that entering into the First Amendment is consistent with the Town's Purchasing Ordinance in that the services to be provided are professional services where demonstrated competence, the professional qualifications necessary for the satisfactory performance of the required services, and fair and reasonable prices to the Town of Colma, shall control the arrangement under Colma Municipal Code 1.06.200. Separately, the City Council also finds that even if the competitive process had been utilized, it would have likely not been in the best interests of the Town based on the unique experience and knowledge of the Lew Edwards Group in assisting cities and towns throughout the State of California.

3. Order.

(a) The First Amendment to the professional services agreement between the Town of Colma and the Lew Edwards Group, a copy of which is on file with the City Clerk, is approved by the City Council of the Town of Colma.

(b) The Mayor is authorized to execute said contract on behalf of the Town of Colma, with such technical amendments as may be deemed appropriate by the City Manager and the City Attorney.

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Certification of Adoption

I certify that the foregoing Resolution No. 2019-__ was duly adopted at a regular meeting of said City Council held on September 25, 2019 by the following vote:

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

Dated ______________________

____
Joanne F. del Rosario, Mayor

Attest: ______________________________
Caitlin Corley, City Clerk

TOWN OF COLMA
PROFESSIONAL SERVICES AGREEMENT

This Agreement is made and entered into as of April 22nd, 2019 by and between the Town of Colma, a municipal corporation organized and operating under the laws of the State of California with its principal place of business at 1198 El Camino Real, Colma, CA 94014 ("Town"), and The Lew Edwards Group, a [California Corporation with its principal place of business at 5454 Broadway, Oakland, California 94618 (hereinafter referred to as "Consultant"). Town and Consultant are sometimes individually referred to as "Party" and collectively as "Parties" in this Agreement.

RECITALS

A. Town is a public agency of the State of California and is in need of professional services for the following project:

Initial Consulting Services: Customer Satisfaction/Local Funding Viability (hereinafter referred to as "the Project").

B. Consultant has the necessary qualifications to provide such services.

C. The Parties desire by this Agreement to establish the terms for Town to retain Consultant to provide the services described herein.

AGREEMENT

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

1. Services.

Consultant shall provide the Town with the services described in the Scope of Services attached hereto as Exhibit "A."

2. Compensation.

a. Subject to paragraph 2(b) below, the Town shall pay for such services in accordance with the Schedule of Charges set forth in Exhibit "B."

b. In no event shall the total amount paid for services rendered by Consultant under this Agreement exceed the sum of $18,000. Periodic payments shall be made within 30 days of receipt of an invoice which includes a description of the work performed that is satisfactory to the Town. Payments to Consultant for work performed will be made on a monthly billing basis.

3. Additional Work.

If changes in the work seem merited by Consultant or the Town, and informal consultations with the other party indicate that a change is warranted, it shall be processed in the following manner: a letter outlining the changes shall be forwarded to the Town by Consultant with a statement of estimated changes in fee or time schedule. An amendment to this Agreement shall be prepared by the Town and executed by both Parties before performance of such services, or the Town will not be required to pay for the changes in the scope of work. Such amendment shall not render ineffective or invalidate unaffected portions of this Agreement.

4. Maintenance of Records.

Books, documents, papers, accounting records, and other evidence pertaining to costs incurred shall be maintained by Consultant and made available at all reasonable times during the contract period and for four (4) years from the date of final payment under the contract for inspection by Town.

5. Time of Performance.

Consultant shall perform its services in a prompt and timely manner and shall commence performance upon receipt of written notice from the Town to proceed ("Notice to Proceed"). Consultant shall complete the services required hereunder by July 15. The Notice to Proceed shall set forth the date of commencement of work.

6. Delays in Performance.

a. Neither Town nor Consultant shall be considered in default of this Agreement for delays in performance caused by circumstances beyond the reasonable control of the non-performing party. For purposes of this Agreement, such circumstances include but are not limited to, abnormal weather conditions; floods; earthquakes; fire; epidemics; war; riots and other civil disturbances; strikes, lockouts, work slowdowns, and other labor disturbances; sabotage or judicial restraint.

b. Should such circumstances occur, the non-performing party shall, within a reasonable time of being prevented from performing, give written notice to the other party describing the circumstances preventing continued performance and the efforts being made to resume performance of this Agreement.

7. Compliance with Law.

a. Consultant shall comply with all applicable laws, ordinances, codes and regulations of the federal, state and local government, including Cal/OSHA requirements.

b. If required, Consultant shall assist the Town, as requested, in obtaining and maintaining all permits required of Consultant by federal, state and local regulatory agencies.

c. If applicable, Consultant is responsible for all costs of clean up and/ or removal of hazardous and toxic substances spilled as a result of his or her services or operations performed under this Agreement.

8. Standard of Care

Consultant's services will be performed in accordance with generally accepted professional practices and principles and in a manner consistent with the level of care and skill ordinarily exercised by members of the profession currently practicing under similar conditions.

9. Assignment and Subconsultant

Consultant shall not assign, sublet, or transfer this Agreement or any rights under or interest in this Agreement without the written consent of the Town, which may be withheld for any reason. Any attempt to so assign or so transfer without such consent shall be void and without legal effect and shall constitute grounds for termination. Subcontracts, if any, shall contain a provision making them subject to all provisions stipulated in this Agreement. Nothing contained herein shall prevent Consultant from employing independent associates, and subconsultants as Consultant may deem appropriate to assist in the performance of services hereunder.

10. Independent Consultant

Consultant is retained as an independent contractor and is not an employee of Town. No employee or agent of Consultant shall become an employee of Town. The work to be performed shall be in accordance with the work described in this Agreement, subject to such directions and amendments from Town as herein provided.

11. Insurance. Consultant shall not commence work for the Town until it has provided evidence satisfactory to the Town it has secured all insurance required under this section. In addition, Consultant shall not allow any subcontractor to commence work on any subcontract until it has secured all insurance required under this section.

a. Commercial General Liability

(i) The Consultant shall take out and maintain, during the performance of all work under this Agreement, in amounts not less than specified herein, Commercial General Liability Insurance, in a form and with insurance companies acceptable to the Town.

(ii) Coverage for Commercial General Liability insurance shall be at least as broad as the following:

(1) Insurance Services Office Commercial General Liability coverage (Occurrence Form CG 00 01) or exact equivalent.

(iii) Commercial General Liability Insurance must include coverage for the following:

(1) Bodily Injury and Property Damage
(2) Personal Injury/Advertising Injury (within Consultant's Professional Liability coverage)
(3) Premises/Operations Liability
(4) Products/Completed Operations Liability (within Consultant's Professional Liability coverage)
(5) Aggregate Limits that Apply per Project
(6) Explosion, Collapse and Underground (UCX) exclusion deleted
(7) Contractual Liability with respect to this Contract
(8) Broad Form Property Damage
(9) Independent Consultants Coverage

(iv) The policy shall contain no endorsements or provisions limiting coverage for (1) contractual liability; (2) cross liability exclusion for claims or suits by one insured against another; (3) products/completed operations liability; or (4) contain any other exclusion contrary to the Agreement.

(v) The policy shall give Town, its officials, officers, employees, agents and Town designated volunteers additional insured status using ISO endorsement forms CG 20 10 10 01 and 20 37 10 01, or endorsements providing the exact same coverage.

(vi) The general liability program may utilize either deductibles or provide coverage excess of a self-insured retention, subject to written approval by the Town, and provided that such deductibles shall not apply to the Town as an additional insured.

b. Automobile Liability

(i) At all times during the performance of the work under this Agreement, the Consultant shall maintain Automobile Liability Insurance for bodily injury and property damage including coverage for owned, non-owned and hired vehicles, in a form and with insurance companies acceptable to the Town.

(ii) Coverage for automobile liability insurance shall be at least as broad as Insurance Services Office Form Number CA 00 01 covering automobile liability (Coverage Symbol 1, any auto).

(iii) The policy shall give Town, its officials, officers, employees, agents and Town designated volunteers additional insured status.

(iv) Subject to written approval by the Town, the automobile liability program may utilize deductibles, provided that such deductibles shall not apply to the Town as an additional insured, but not a self-insured retention.

c. Workers' Compensation/Employer's Liability

(i) Consultant certifies that he/she is aware of the provisions of Section 3700 of the California Labor Code which requires every employer to be insured against liability for workers' compensation or to undertake self-insurance in accordance with the provisions of that code, and he/she will comply with such provisions before commencing work under this Agreement.

(ii) To the extent Consultant has employees at any time during the term of this Agreement, at all times during the performance of the work under this Agreement, the Consultant shall maintain full compensation insurance for all persons employed directly by him/her to carry out the work contemplated under this Agreement, all in accordance with the "Workers' Compensation and Insurance Act," Division IV of the Labor Code of the State of California and any acts amendatory thereof, and Employer's Liability Coverage in amounts indicated herein. Consultant shall require all subconsultants to obtain and maintain, for the period required by this Agreement, workers' compensation coverage of the same type and limits as specified in this section.

d. Professional Liability (Errors and Omissions)

At all times during the performance of the work under this Agreement the Consultant shall maintain professional liability or Errors and Omissions insurance appropriate to its profession, in a form and with insurance companies acceptable to the Town and in an amount indicated herein. This insurance shall be endorsed to include contractual liability applicable to this Agreement and shall be written on a policy form coverage specifically designed to protect against acts, errors or omissions of the Consultant. "Covered Professional Services" as designated in the policy must specifically include work performed under this Agreement. The policy must "pay on behalf of" the insured and must include a provision establishing the insurer's duty to defend.

e. Minimum Policy Limits Required

(i) The following insurance limits are required for the Agreement:

	Combined Single Limit
Commercial General Liability	\$1,000,000 per occurrence/ \$2,000,000 aggregate for bodily injury, personal injury, and property damage
Automobile Liability	\$1,000,000 per occurrence for bodily injury and property damage
Employer's Liability	\$1,000,000 per occurrence
Professional Liability	\$1,000,000 per claim and aggregate (errors and omissions)

(ii) Defense costs shall be payable in addition to the limits.

(iii) Requirements of specific coverage or limits contained in this section are not intended as a limitation on coverage, limits, or other requirement, or a waiver of any coverage normally provided by any insurance. Any available coverage shall be provided to the parties required to be named as Additional Insured pursuant to this Agreement.

f. Evidence Required

Prior to execution of the Agreement, the Consultant shall file with the Town evidence of insurance from an insurer or insurers certifying to the coverage of all insurance required herein. Such evidence shall include original copies of the ISO CG 00 01 (or insurer's equivalent) signed by the insurer's representative and Certificate of Insurance (Acord Form 25-S or equivalent), together with required endorsements. All evidence of insurance shall be signed by a properly authorized officer, agent, or qualified representative of the insurer and shall certify the names of the insured, any additional insureds, where appropriate, the type and amount of the insurance, the location and operations to which the insurance applies, and the expiration date of such insurance.

g. Policy Provisions Required

(i) Consultant shall provide the Town at least thirty (30) days prior written notice of cancellation of any policy required by this Agreement, except that the Consultant shall provide at least ten (10) days prior written notice of cancellation of any such policy due to non-payment of premium. If any of the required coverage is cancelled or expires during the term of this Agreement, the Consultant shall deliver renewal certificate(s) including the General Liability Additional Insured Endorsement to the Town at least ten (10) days prior to the effective date of cancellation or expiration.

(ii) The Commercial General Liability Policy and Automobile Policy shall each contain a provision stating that Consultant's policy is primary insurance and that any insurance, self-insurance or other coverage maintained by the Town or any named insureds shall not be called upon to contribute to any loss.

(iii) The retroactive date (if any) of each policy is to be no later than the effective date of this Agreement. Insurance must be maintained and evidence of insurance must be provided for through at least the end of the 2020-2021 policy period, and if Consultant renews such policy for additional periods, the coverage will continue to be applicable for at least three years from the date of completion of Consultant's services.

(iv) All required insurance coverages, except for the professional liability coverage, shall contain or be endorsed to waiver of subrogation in favor of the Town, its officials, officers, employees, agents, and volunteers or shall specifically allow Consultant or others providing insurance evidence in compliance with these specifications to waive their right of recovery prior to a loss. Consultant hereby waives its own right of recovery against Town, and shall require similar written express waivers and insurance clauses from each of its subconsultants.

(v) The limits set forth herein shall apply separately to each insured against whom claims are made or suits are brought, except with respect to the limits of liability. Further the limits set forth herein shall not be construed to relieve the Consultant from liability in excess of such coverage, nor shall it limit the Consultant's indemnification obligations to the Town and shall not preclude the Town from taking such other actions available to the Town under other provisions of the Agreement or law.

h. Qualifying Insurers

(i) All policies required shall be issued by acceptable insurance companies, as determined by the Town, which satisfy the following minimum requirements:

(1) Each such policy shall be from a company or companies with a current A.M. Best's rating of no less than A:VII and admitted to transact in the business of insurance in the State of California, or otherwise allowed to place insurance through surplus line brokers under applicable provisions of the California Insurance Code or any federal law.

i. Additional Insurance Provisions

(i) The foregoing requirements as to the types and limits of insurance coverage to be maintained by Consultant, and any approval of said insurance by the Town, is not intended to and shall not in any manner limit or qualify the liabilities and obligations otherwise assumed by the Consultant pursuant to this Agreement, including but not limited to, the provisions concerning indemnification.

(ii) If at any time during the life of the Agreement, any policy of insurance required under this Agreement does not comply with these specifications or is canceled and not replaced, Town has the right but not the duty to obtain the insurance it deems necessary and any premium paid by Town will be promptly reimbursed by Consultant or Town will withhold amounts sufficient to pay premium from Consultant payments. In the alternative, Town may cancel this Agreement.

(iii) The Town may require the Consultant to provide complete copies of all insurance policies in effect for the duration of the Project.

(iv) Neither the Town nor any of its officials, officers, employees, agents or volunteers shall be personally responsible for any liability arising under or by virtue of this Agreement.

j. Subconsultant Insurance Requirements. Consultant shall not allow any subcontractors or subconsultants to commence work on any subcontract until they have provided evidence satisfactory to the Town that they have secured all insurance required under this section. Policies of commercial general liability insurance provided by such subcontractors or subconsultants shall be endorsed to name the Town as an additional insured using ISO form CG 20 38 04 13 or an endorsement providing the exact same coverage. If requested by Consultant, Town may approve different scopes or minimum limits of insurance for particular subcontractors or subconsultants.

12. Indemnification.

a. To the fullest extent permitted by law, Consultant shall defend (with counsel reasonably approved by the Town), indemnify and hold the Town, its officials, officers, employees, agents and volunteers free and harmless from any and all claims, demands, causes of action, suits, actions, proceedings, costs, expenses, liability, judgments, awards, decrees, settlements, loss, damage or injury of any kind, in law or equity, to property or persons, including wrongful death, (collectively, "Claims') in any manner arising out of, pertaining to, or incident to any alleged acts, errors or omissions, or willful misconduct of Consultant, its officials, officers, employees, subcontractors, consultants or agents in connection with the performance of the Consultant's services, the Project or this Agreement, including without limitation the payment of all consequential damages, expert witness fees and attorneys' fees and other related costs and expenses. Notwithstanding the foregoing, to the extent Consultant's services are subject to Civil Code Section 2782.8, the above indemnity shall be limited, to the extent required by Civil Code Section 2782.8, to Claims that arise out of, pertain to, or relate to the negligence, recklessness, or willful misconduct of the Consultant. Consultant's obligation to indemnify shall not be restricted to insurance proceeds, if any, received by the Town, its officials, officers, employees, agents or volunteers.

b. Additional Indemnity Obligations. Consultant shall defend, with counsel of Town's choosing and at Consultant's own cost, expense and risk, any and all Claims covered by this section that may be brought or instituted against the Town, its officials, officers, employees, agents or volunteers. Consultant shall pay and satisfy any judgment, award or decree that may be rendered against the Town, its officials, officers, employees, agents or volunteers as part of any such claim, suit, action or other proceeding. Consultant shall also reimburse Town for the cost of any settlement paid by the Town, its officials, officers, employees, agents or volunteers as part of any such claim, suit, action or other proceeding. Such reimbursement shall include payment for the Town's attorney's fees and costs, including expert witness fees. Consultant shall reimburse the Town, its officials, officers, employees, agents and volunteers, for any and all legal expenses and costs incurred by each of them in connection therewith or in enforcing the indemnity herein provided. Consultant's obligation to indemnify shall not be restricted to insurance proceeds, if any, received by the Town, its officials, officers, employees, agents and volunteers.

13. California Labor Code Requirements.

a. Consultant is aware of the requirements of California Labor Code Sections 1720 et seq. and 1770 et seq., which require the payment of prevailing wage rates and the performance of other requirements on certain "public works" and "maintenance" projects. If the services are being performed as part of an applicable "public works" or "maintenance" project, as defined by the Prevailing Wage Laws, and if the total compensation is $1,000 or more, Consultant agrees to fully comply with such Prevailing Wage Laws, if applicable. Consultant shall defend, indemnify and hold the Town, its officials, officers, employees and agents free and harmless from any claims, liabilities, costs, penalties or interest arising out of any failure or alleged failure to comply with the Prevailing Wage Laws. It shall be mandatory upon the Consultant and all subconsultants to comply with all California Labor Code provisions, which include but are not limited to prevailing wages, employment of apprentices, hours of labor and debarment of contractors and subcontractors.

b. If the services are being performed as part of an applicable "public works" or "maintenance" project, then pursuant to Labor Code Sections 1725.5 and 1771.1, the Consultant and all subconsultants performing such Services must be registered with the Department of Industrial Relations. Consultant shall maintain registration for the duration of the Project and require the same of any subconsultants, as applicable. This Project may also be subject to compliance monitoring and enforcement by the Department of Industrial Relations. It shall be Consultant's sole responsibility to comply with all applicable registration and labor compliance requirements.

14. Verification of Employment Eligibility.

By executing this Agreement, Consultant verifies that it fully complies with all requirements and restrictions of state and federal law respecting the employment of undocumented aliens, including, but not limited to, the Immigration Reform and Control Act of 1986, as may be amended from time to time, and shall require all subconsultants and sub-subconsultants to comply with the same.

15. Laws and Venue.

This Agreement shall be interpreted in accordance with the laws of the State of California. If any action is brought to interpret or enforce any term of this Agreement, the action shall be brought in a state or federal court situated in the County of San Mateo, State of California.

16 Termination or Abandonment

a. Town has the right to terminate or abandon any portion or all of the work under this Agreement by giving ten (10) calendar days written notice to Consultant. In such event, Town shall be immediately given title and possession to all final work product field notes, drawings and specifications, written reports and other documents produced or developed for that portion of the work completed and/or being abandoned. This provision specifically excludes Consultant's work notes and drafts, which will continue to be owned by Consultant. Town shall pay Consultant the reasonable value of services rendered for any portion of the work completed prior to termination. If said termination occurs prior to completion of any task for the Project for which a payment request has not been received, the charge for services performed during such task shall be the reasonable value of such services, based on an amount mutually agreed to by Town and Consultant of the portion of such task completed but not paid prior to said termination. Town shall not be liable for any costs other than the charges or portions thereof which are specified herein.

Consultant shall not be entitled to payment for unperformed services, and shall not be entitled to damages or compensation for termination of work.

b. Consultant may terminate its obligation to provide further services under this Agreement upon thirty (30) calendar days' written notice to Town only in the event of substantial failure by Town to perform in accordance with the terms of this Agreement through no fault of Consultant, or by mutual agreement of the parties.

17. Documents. Except as otherwise provided in "Termination or Abandonment," above, all final work product field notes, written reports, Drawings and Specifications and other documents, produced or developed for the Project shall, upon payment in full for the services described in this Agreement, be furnished to and become the property of the Town. Consultant's work notes and drafts are specifically excluded from this provision and will be owned by Consultant.

18. Organization

Consultant shall assign Catherine Lew as Lead Strategist and Rohnda Ammouri as Project Manager. Assigned Project personnel set forth above shall not be removed from the Project or reassigned without the prior written consent of the Town.

19. Limitation of Agreement.

This Agreement is limited to and includes only the work included in the Project described above.

20. Notice

Any notice or instrument required to be given or delivered by this Agreement may be given or delivered by depositing the same in any United States Post Office, certified mail, return receipt requested, postage prepaid, addressed to:

TOWN:
Town of Colma
1198 El Camino Real
Colma, CA 94014
Attn: Brian Dossey

CONSULTANT:
Lloyd A. Edwards, Secretary-Treasurer
PO Box 21215, Oakland CA 94620

and shall be effective upon receipt thereof.

21. Third Party Rights

Nothing in this Agreement shall be construed to give any rights or benefits to anyone other than the Town and the Consultant.

22. Equal Opportunity Employment.

Consultant represents that it is an equal opportunity employer and that it shall not discriminate against any employee or applicant for employment because of race, religion, color, national origin, ancestry, sex, age or other interests protected by the State or Federal Constitutions. Such non-discrimination shall include, but not be limited to, all activities related to initial employment, upgrading, demotion, transfer, recruitment or recruitment advertising, layoff or termination.

23. Entire Agreement

This Agreement, with its exhibits, represents the entire understanding of Town and Consultant as to those matters contained herein, and supersedes and cancels any prior or contemporaneous oral or written understanding, promises or representations with respect to those matters covered hereunder. Each party acknowledges that no representations, inducements, promises or agreements have been made by any person which are not incorporated herein, and that any other agreements shall be void. This Agreement may not be modified or altered except in writing signed by both Parties hereto. This is an integrated Agreement.

24. Severability

The unenforceability, invalidity or illegality of any provision(s) of this Agreement shall not render the provisions unenforceable, invalid or illegal.

25. Successors and Assigns

This Agreement shall be binding upon and shall inure to the benefit of the successors in interest, executors, administrators and assigns of each party to this Agreement. However, Consultant shall not assign or transfer by operation of law or otherwise any or all of its rights, burdens, duties or obligations without the prior written consent of Town. Any attempted assignment without such consent shall be invalid and void.

26. Non-Waiver

None of the provisions of this Agreement shall be considered waived by either party, unless such waiver is specifically specified in writing.

27. Time of Essence

Time is of the essence for each and every provision of this Agreement.

28. Town's Right to Employ Other Consultants

Town reserves its right to employ other consultants, including engineers, in connection with this Project or other projects.

29. Prohibited Interests

Consultant maintains and warrants that it has not employed nor retained any company or person, other than a bona fide employee working solely for Consultant, to solicit or secure this Agreement. Further, Consultant warrants that it has not paid nor has it agreed to pay any company or person, other than a bona fide employee working solely for Consultant, any fee, commission, percentage, brokerage fee, gift or other consideration contingent upon or resulting from the award or making of this Agreement. For breach or violation of this warranty, Town shall have the right to rescind this Agreement without liability. For the term of this Agreement, no director, official, officer or employee of Town, during the term of his or her service with Town, shall have any direct interest in this Agreement, or obtain any present or anticipated material benefit arising therefrom.

[SIGNATURES ON FOLLOWING PAGE]

SIGNATURE PAGE FOR PROFESSIONAL SERVICES AGREEMENT BETWEEN THE TOWN OF COLMA AND THE LEW EDWARDS GROUP

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first written above.

TOWN OF COLMA	THE LEW EDWARDS GROUP
By: [signature]	By: [signature]
Name: Brian Dossey	Its: President
Title: City Manager	Printed Name: Catherine Lew

ATTEST:

By: [signature]
City Clerk

APPROVED AS TO FORM:

By: [signature]
City Attorney

25977.00100\29530476.1

EXHIBIT A

Scope of Services

In consultation with Town of Colma staff, The Lew Edwards Group shall provide Services that include the following:

- Review current Town, budget, demographic, and policy information
- Review Town background materials and archival information
- Review and analyze current media clips and other information in the public arena about Town
- Participate in initial planning teleconferences
- Facilitate efforts of Town's designated Opinion Research Professional to create an opinion research study
- Independently review opinion research results and provide Strategic Recommendations to Town
- Provide additional strategic advice as needed

Legal advice is not within Consultant's scope of services. This Scope of Work is effective April 22nd, 2019 through July 15, 2019. Should services extend beyond that date, additional fees shall apply.

EXHIBIT B

Schedule of Charges/Payments

Consultant will invoice Town on a monthly cycle at the rate of Five Thousand, Seven Hundred Dollars ($5,750) per month:

- April and July will be prorated at $2875 per payment.
- May and June will be charged at $5750 per month.

Consultant will include with each invoice a description of services provided. Consultant will inform Town regarding any out-of-scope work being performed by Consultant.

EXHIBIT C

Recommended Activity Schedule

Week of April 22nd:	Conduct Team Kick Off Call
Week of April 29$^{t:h}$	Review draft survey draft
Week of May 6th:	Finalize legal review/approval of conceptual ballot question
Mid-May:	Provide survey protocol memorandum to City Council Launch survey interviews
Through first half of June:	Complete survey interviews
Mid-June:	Analyze results
By end of June:	Update City Staff on Strategic Recommendations Reach consensus on approach/deployment moving forward
Early July:	Debrief City Council

FIRST AMENDMENT TO
PROFESSIONAL SERVICES AGREEMENT WITH
THE LEW EDWARDS GROUP

This First Amendment to the Professional Services Agreement with the Lew Edwards Group ("First Amendment") is made and entered into this ____ day of September, 2019 by and between the Town of Colma, a California municipal corporation ("Town"), and the Lew Edwards Group, a California corporation with its principal place of business at 5454 Broadway, Oakland California 94618 (hereinafter referred to as "Consultant"). Town and Consultant are sometimes individually referred to as "Party and collectively as "Parties" in this Agreement.

RECITALS

A. Town and Consultant previously entered into a professional services agreement dated April 22, 2019 (the "Agreement").

B. Town and Consultant now desire to amend the Agreement to increase the compensation amount and modify the scope of services.

FIRST AMENDMENT

NOW, THEREFORE, IN CONSIDERATION OF THE MUTUAL PROMISES SET FORTH IN THIS FIRST AMENDMENT AND OTHER VALUABLE CONSIDERATION, THE PARTIES AGREE AS FOLLOWS:

1. Section 1, "Services" is hereby amended as follows:

"1. Services.

Consultant shall provide the Town with the services described in the Scope of Services attached to the Agreement as Exhibit "A" and the Scope of Services attached hereto as Exhibit "A-1"from March 1, 2020 – October 31, 2020."

2. Section 2, "Compensation" is hereby amended as follows:

"2. Compensation

a. Subject to paragraph 2(b) below, the Town shall pay for such services in accordance with the Schedule of Charges set forth in Exhibit "B" attached to the Agreement, and the Schedule of Charges attached hereto as Exhibit B-1 from March 1, 2020 – October 31, 2020.

b. In no event shall the total amount paid for services rendered by Consultant under this first amendment exceed the sum of $44,000. Periodic payments shall be made within 30 days of receipt of an invoice which includes a description of the work performed that is satisfactory to the Town. Payments to Consultant for work performed will be made on a monthly billing basis.

3. Section 5, "Time of Performance" is hereby amended as follows:

“5. Time of Performance/Term

This Agreement shall run from April 22, 2019 until October 31, 2020 unless terminated in accordance with Section 16 of this Agreement. Consultant shall perform its services in a prompt and timely manner and shall commence performance upon receipt of written notice from the Town to proceed (“Notice to Proceed”). Consultant shall complete the services in Exhibit A by July 15, 2019 and the services in Exhibit A-1 by October 31, 2020 and meet any dates noted in Exhibit A-1, B-1, and C. The Notice to Proceed shall set forth the date of commencement of the work.”

4. Exhibit C “Activity Schedule” to the Agreement is hereby modified by Exhibit C to this First Amendment.

[SIGNATURES ON FOLLOWING PAGE]

SIGNATURE PAGE TO FIRST AMENDMENT TO PROFESSIONAL SERVICES AGREEMENT WITH THE LEW EDWARDS GROUP

IN WITNESS WHEREOF, the Parties have executed this first amendment to the Agreement as of the date written below.

TOWN OF COLMA

By: ___________________________
Joanne F. del Rosario
Mayor

THE LEW EDWARDS GROUP

By: ________________________________

Its: ________________________________

Printed Name:__________________________

ATTEST:

By: _________________________
City Clerk

APPROVED AS TO FORM:

By: _________________________
City Attorney

EXHIBIT A-1

Scope of Services

The Lew Edwards Group (LEG) will perform the following services:

- Project-facilitate and continuously update a coordinated strategy and timeline for City staff and other professionals/consultants assigned to the Project.
- Work with City staff on methods to engage constituents, expand community awareness of city service/fiscal needs and solicit additional community input on service priorities. Recommend to staff methods of engaging/informing constituents about Project in City communications vehicles, such as newsletters, website, and social media. Consultant will update and refine community input content and informational messaging as needed. Advise and train City staff on informational community outreach activities.
- Recommend methods to conduct informational outreach with community networks and organizations in the City to solicit feedback on City planning, provide information and advise City staff on the best manner of responding to questions from the public. Consultant will update and refine concise, user-friendly messaging content.
- Recommend a plan for informational mailings and/or paid social media/engagement, and draft content copy for these vehicles. Content copy will be approved by the City Manager's office and City Attorney. City to facilitate its own graphics, printing, mail house, social media and postage needs with its own vendors at its own expense, outside of this Agreement.
- Consultant will review print media (i.e. newsletters, flyers, mailers and/or Internet media opportunities with City staff as a method for disseminating necessary information and assist with rapid response needs from media (if needed) or the community as necessary to correct misinformation or clarify confusing information. Consultant does not function as a paid spokesperson for the City.
- Confer with the City Attorney on the ballot question or other revenue measure materials. Work with City staff on related budget and staff reports and measure development.

The parties expressly acknowledge and agree that legal services or advice are not within Consultant's scope of services. This Scope of Work is effective March 1, 2020 through October 31, 2020. This scope of services shall include all activities on the activity schedule (Exhibit C). NO partisan activities shall be provided within this scope of services.

EXHIBIT B-1

Schedule of Charges/Payments

Consultant will invoice Town on a monthly cycle at the rate of Five Thousand Five Hundred Dollars ($5,500) per month. Consultant will include with each invoice a description of services work performed that is satisfactory to the Town. Consultant will inform Town regarding any out-of-scope work being performed by Consultant.

Professional fees do not include the following hard project costs: any additional opinion research, graphic design, printing, bulk postage, advertising, or mail house processing fees, which will be budgeted for separately by the City throughout the project.

EXHIBIT C

Activity Schedule

TOWN OF COLMA **RECOMMENDED PROJECT SCHEDULE** *As of 9/12/19* *This is a draft schedule subject to revision based on project needs and the agreement of the parties.*	
MAY-JULY 2019	**PHASE ONE: CONDUCT ASSESSMENT, DEVELOP STRATEGIC PLAN** ✓ Retain consulting team (Town) ✓ Review Town's Archival Election Results and current demographics, policies and media information ✓ Convene Team Kick Off Planning Meeting ✓ Conduct Customer Satisfaction/Community Priorities Survey ✓ Assess ballot measure viability ✓ Provide Strategic Recommendations ✓ Develop Recommended Communications/Engagement Plan/Timeline ✓ Update City Council

MARCH 2020	**PREPARE TO ENGAGE THE COMMUNITY**
	❑ Contact Community Groups for engagement presentations (Town)
	❑ Conduct re-entry conference call (Town/LEG)
	    o Update Consultant on budget planning and status (Town)
	    o Update Consultant on any new local dynamics/issues (Town)
	❑ Review budget planning items and materials, and recommend any additional embedment's to maximize budget messaging opportunities (LEG)
	❑ Develop and recommend Communications/Engagement Collaterals (LEG)
	    o Draft additional Information Documents/Engagement Tools for use in routine Town communications vehicles, such as Bill Stuffers, Town newsletter, Town website, and social media
	    o Develop Informational Speakers' Bureau Toolkit
	    o Conduct Informational Message Training for City Staff

APRIL – JUNE 2020	**ENGAGE COMMUNITY** ❑ Implement community presentations (Town) ❑ Copywrite Opinion Leader updates (LEG) ❑ Continue to update Town website and other communications vehicles (Town) with informational message points developed by LEG

	❑ Develop answers for community questions, continue to update communications/engagement materials (LEG) ❑ Assess community responses (LEG/Town) ❑ Continue to copy write information for such sources as Earned Media/New Media/Social Media opportunities (LEG) ❑ Continue to maximize budget-related messaging/informational opportunities (Town/LEG) ❑ Assess community responses, adjust program as needed (Town/LEG) ❑ Conceive informational mailing to solicit input and report back to the community (LEG to provide content copy/sample for Town's layout/production for all mailings, at Town's cost)
JULY 2020	**REPORT BACK TO COMMUNITY, DEVELOP BALLOT MEASURE** ❑ Issue second citywide mailing to report back on input received (Town with content from LEG) ❑ Assist with staff reports and measure preparation (LEG/Town) ❑ Assist in preparing for Council adoption vote (LEG/Town) ❑ Community participation
AUGUST 2020	**POST-ADOPTION ACTIVITIES** ❑ Update Town's website and all communications vehicles (Town) with updated Measure information prepared by LEG ❑ Issue final Opinion Leader Update written by LEG announcing placement of the measure on the ballot (Town) ❑ Continue informational Speakers' Bureau presentations (Town) ❑ Implement Earned Media/Internet Communications (Town) ❑ Address Rapid Response Needs as necessary (Town/LEG) *The Town of Colma can continue its factual, informational efforts following placement of a measure on the ballot but cannot engage in any partisan activities.*
SEPT-OCT 2020	❑ Draft media and social media content (LEG) ❑ Issue three informational mailings (Town w/content from LEG) ❑ Address rapid response needs (LEG/Town) ❑ Continue Speakers Bureau Presentations (Town) ❑ Provide two-way media comments (LEG) ❑ Thank the community (Town)

TOWN OF COLMA

COLMA

AUGUST 5, 1924

CALIFORNIA

STAFF REPORT

TO:	Mayor and Members of the City Council
FROM:	Caitlin Corley, City Clerk
VIA:	Brian Dossey, City Manager
MEETING DATE:	September 25, 2019
SUBJECT:	Flag Policy Amendment and Italian Flag Raising

RECOMMENDATION

Staff recommends that the City Council adopt:

> RESOLUTION AMENDING SUBCHAPTER 1.18 TO THE COLMA ADMINISTRATIVE CODE, RELATING TO THE DISPLAY OF FLAGS ON TOWN PROPERTY; and
>
> RESOLUTION DIRECTING TOWN STAFF TO FLY THE ITALIAN FLAG AT [SPECIFY LOCATION] IN LIEU OF THE TOWN FLAG ON [SPECIFY DATE/DURATION], IN HONOR OF ITALIAN HERITAGE AND CULTURAL MONTH

EXECUTIVE SUMMARY

On June 26, 2019, the City Council of the Town of Colma adopted a new flag policy, codified as Subchapter 1.18 of the Colma Administrative Code, which states that Council may by resolution direct Town staff to fly commemorative flags in lieu of the Town of Colma flag on the flagpole located at Town Hall, as an expression of the Town's official sentiments, consistent with the Town's vision, mission, and guiding principles, incorporating themes of diversity, equity, social justice, and inclusion. Commemorative flags shall be displayed for a period of time that is reasonable or customary for the subject that is to be commemorated, but no longer than 30 continuous days.

The first proposed resolution would amend the Colma Administrative Code to add the Colma Community Center as an additional location for the flying of commemorative flags.

The second proposed resolution would authorize the flying of the Italian flag in lieu of the Town of Colma Flag, with the date/duration and location to be specified by the Council.

FISCAL IMPACT

The proposed resolution would have minimal fiscal impacts; the cost of an Italian Flag could be absorbed into the existing budget.

ANALYSIS

Flag Policy Amendment

Town staff has recently learned about general flag etiquette and is recommending a potential new location, in addition to Town Hall, for flying of commemorative flags. Flag etiquette generally discourages the flying of another country's flag below the United States flag (and vice-versa). The current flag policy includes only Town Hall as an approved location for the flying of commemorative flags; because Town Hall has a single flagpole, flying of certain commemorative flags at Town Hall (such as the Italian flag or other national flags) would breech general flag protocol.

If the resolution amending Administrative Code 1.18 is adopted by the City Council, a commemorative flag could also be flown in lieu of the Town of Colma flag on the flagpole at the Colma Community Center where the Town flag is currently flown. The Community Center has 3 flagpoles; the other two flag poles would continue to fly the United States flag and the California flag.

Italian Heritage and Culture Month and Italian Flag Raising

The month of October is National Italian Heritage and Culture Month, which offers the country the opportunity to recognize the rich heritage of Americans of Italian descent and celebrate their contributions to our communities. The Town of Colma has strong ties to the Italian American community. Italians were among the first European immigrants to settle in the area that became Colma. The impact of these early settlers can still be seen today. Colma continues to have a strong Italian American community, and many of the Town's most longstanding businesses were founded by, and in some cases are still owned and operated by, Italian American families (Bocci Memorials, Fontana Monuments, Paul's Flowers). The Town is also home to the Italian Cemetery, which was founded in 1899 by *La Società Italiana di Mutua Beneficenza*, the oldest continuously existing Italian American organization in the United States.

The Council could choose to recognize its Italian American community through the flying of the Italian flag in lieu of the Town of Colma Flag, with the date/duration and location to be specified by the Council. This would be an expression of one of the Town's guiding principles of celebrating diversity, through celebrating its vibrant Italian American community, and recognizing the lasting and important cultural impact the community has had on the Town.

Council Adopted Values

The City Council's adoption of the resolution would be *visionary,* as it celebrates one of the communities that contributes to the diverse tapestry of heritages that make Colma the unique place it is.

Alternatives

As an alternative to the flying of the flag, the City Council could choose to celebrate Italian American Heritage and Culture Month though another avenue, such as a proclamation or event.

CONCLUSION

The City Council should consider the resolutions and adopt them or provide alternative direction to staff.

ATTACHMENTS

A. Resolution Amending Administrative Code 1.18
B. Resolution Approving the Flying of the Italian Flag

TOWN OF COLMA

AUGUST 5, 1924

CALIFORNIA

RESOLUTION NO. 2019-__
OF THE CITY COUNCIL OF THE TOWN OF COLMA

RESOLUTION AMENDING SUBCHAPTER 1.18 TO THE COLMA ADMINISTRATIVE CODE, RELATING TO THE DISPLAY OF FLAGS ON TOWN PROPERTY

The City Council of the Town of Colma hereby resolves:

ARTICLE 1. CAC SUBCHAPTER 1.18 AMENDED.

Section 1.18.030, "Display of Flags" is hereby amended to state as follows:

1.18.030 Display of Other Flags

(a) The display of flags other than the flags of the United States of America, State of California, and Town of Colma on Town Flag Poles is not permitted except as follows.

(1) The City Council may, by resolution, direct Town staff to display Commemorative Flags as an expression of the Town's official sentiments by any of the following means:

Display in lieu of the Town of Colma flag on the flag pole located at Town Hall or at the Colma Community Center.

(2) Commemorative Flags shall be displayed for a period of time that is reasonable or customary for the subject that is to be commemorated, but no longer than 30 continuous days.

ARTICLE 2. SEVERABILITY.

Each of the provisions of this resolution is severable from all other provisions. If any article, section, subsection, paragraph, sentence, clause or phrase of this resolution is for any reason held by a court of competent jurisdiction to be invalid, such decision shall not affect the validity of the remaining portions of this ordinance.

ARTICLE 3. NOT A CEQA PROJECT.

The City Council finds that adoption of this resolution is not a "project," as defined in the California Environmental Quality Act because it does not have a potential for resulting in either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment and concerns general policy and procedure making.

ARTICLE 4. EFFECTIVE DATE.

This resolution shall take effect immediately upon adoption.

Certification of Adoption

I certify that the foregoing Resolution No. 2019-__ was adopted at a regular meeting of said City Council held on September 25, 2019 by the following vote:

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

Dated ______________________

____
Joanne F. del Rosario, Mayor

Attest: ____________________________
Caitlin Corley, City Clerk

RESOLUTION NO. 2019-__
OF THE CITY COUNCIL OF THE TOWN OF COLMA

RESOLUTION DIRECTING TOWN STAFF TO FLY THE ITALIAN FLAG AT [SPECIFY LOCATION] IN LIEU OF THE TOWN FLAG ON [SPECIFY DATE/DURATION], IN HONOR OF ITALIAN HERITAGE AND CULTURAL MONTH

The City Council of the Town of Colma hereby resolves:

1. Recitals and Background.

(a) On June 26, 2019, the City Council of the Town of Colma adopted a new flag policy codified at Subchapter 1.18 of the Colma Administrative Code to memorialize the fact that the Town's flag poles are a nonpublic forum.

(b) Pursuant to Subchapter 1.18 of the Colma Administrative Code, Council may by resolution direct Town staff to fly commemorative flags in lieu of the Town of Colma flag on the flag pole located at Town Hall, as an expression of the Town's official sentiments, consistent with the Town's vision, mission, and guiding principles, incorporating themes of diversity, equity, social justice, and inclusion. Commemorative Flags shall be displayed for a period of time that is reasonable or customary for the subject that is to be commemorated, but no longer than 30 continuous days.

(c) The Town will be proclaiming October as Italian Heritage and Culture Month and as part of honoring that month, the Town intends to fly the Italian flag at [SPECIFY LOCATION] in lieu of the Town of Colma Flag, on [SPECIFY DATE/DURATION].

(d) This would be an expression of one of the Town's guiding principles of celebrating diversity, by celebrating its longstanding ties to the Italian American community and recognizing the lasting and important cultural impact the community has had on the Town.

2. Order.

(a) The City Council has considered the full record before and finds the recitals set forth above true and correct and hereby incorporates them by reference.

(b) Pursuant to Subchapter 1.18 of the Colma Administrative Code, the City Council hereby directs Town staff to fly the Italian flag at [SPECIFY LOCATION] in lieu of the Town of Colma Flag, on [SPECIFY DATE/DURATION].

3. Effective Date.

(a) This resolution shall take effect immediately upon adoption.

//

//

//

Certification of Adoption

I certify that the foregoing Resolution No. 2019-__ was adopted at a regular meeting of said City Council held on September 25, 2019 by the following vote:

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

Dated ______________________ ________________________________

Joanne F. del Rosario, Mayor

Attest: ____________________________

Caitlin Corley, City Clerk

STAFF REPORT

TO:	Mayor and Members of the City Council
FROM:	Brad Donohue, Director of Public Works
	Michael Laughlin, City Planner
VIA:	Brian Dossey, City Manager
MEETING DATE:	September 25, 2019
SUBJECT:	Energy Reach Codes

RECOMMENDATION

None. Staff is seeking comments, questions, opinions and an open discussion with the City Council and members of the public regarding Reach Codes that exceed Title 24 of the California Energy portion of the Building Code (Green Code).

EXECUTIVE SUMMARY

Reach codes are building codes that are more advanced than those required by the State, for the purposes of the discussion, Reach Codes are advancements to the upcoming 2019 CalGreen Energy Code which will be adopted in January of 2020. The purpose of studying the Reach Codes is to better understand what energy code enhancements would be applicable to the Town, (Residents and Businesses), analyze the benefits of the reach codes and the benefits it would have on meeting our Climate Action Goals, and lastly what possible effect would some of these code enhancements have on the business community.

FISCAL IMPACT

There is not a fiscal impact to the Town while studying energy reach codes. If the Town at a future date was to move ahead with various energy code enhancements, it could have financial impacts to the business and residential communities at the time of construction.

BACKGROUND

Assembly Bill (AB) 32, is a California State Law that fights global warming by establishing a comprehensive program to reduce greenhouse gas emissions from all sources throughout the State.

In meeting our AB 32 goals, staff over the next several years will be looking at several items such as reducing our solid waste stream reduction efforts, water & energy conservation, alternative transportation options along with energy reach codes that will help us meet or exceed State mandates, such as Senate Bill 32 where we have to reduce our Green House Gas (GHG) emissions 40% below the 1990 levels by the year 2030.

Amending the CalGreen Code by way of establishing Reach Codes can assist the Town in meeting those 2030 GHG reduction goals. The objective of the study session is to engage City Council, Public and Staff to have an open discussion exploring what Reach Codes may be applicable to the Town of Colma, what positive and negatives can be taken from the study session, how to make substantive changes where both the business and residential communities can financially absorb the cost associated with these enhancements while moving ahead in meeting State GHG mandates.

ANALYSIS

As stated, earlier Reach Codes are building codes that are more advanced than those required by the State. When we talk about Reach Codes it is in reference to the California Building Code (CBC), specifically the CalGreen Code.

There is a few approaches that we can look at in considering a Reach Code proposal;

Keeping the Status Quo:
In January of 2020 the State will adopt the new 2019 Building Code, with in the new code is the CalGreen code. As stated by Green Technology "California's Energy Code, which CalGreen defers to in regard to building efficiency standards, is the strictest code of its kind in the nation."

Prescriptive Reach Codes:
Local governments can use this type of reach code to require new development to include one or more specific features in order to reduce energy use.

An example of this could be that the Town mandates the owner or developer install solar panels on new buildings or reduce lighting features on the exterior of the proposed building or site, or require cool roofs, etc… The Town can amend the CalGreen code to add one or more of these options and mandate the owner or builder to install as a requirement of their building permit.

Performance Reach Codes:
This approach in amending the CalGreen codes are more complicated, but also allow greater flexibility to the developer or commercial enterprise. The California Energy Commission has determined how much energy is consumed in different types of buildings. A performance reach code approach would require a building to perform more efficiently based on computer modelling and allow trade-offs between energy efficiency measures.

What this means is, if the Town set a standard to have proposed new buildings or facilities perform 15% more efficiently than what is required in the CalGreen code, a developer may use a combination of solar, increase in insulation, and reduction of gas appliances to meet that goal. Computer modeling would be required and through that process the computer modeling would make a determination to see if a building after being constructed would meet or exceed the proposed 15% increase in energy efficiency. Again, prior to issuance of a building permit, the applicant would have to perform this modeling exercise and demonstrate that it meets or exceeds the Town's mandate.

For the purposes of this study session, Staff has created a Matrix (Attachment "A") that has focuses on Electrical Vehicle Charging Stations and Electrification of Buildings (the transition of the use of natural gas for space and water heating). In the matrix it states various scenarios, with in the scenarios it spells out the new 2019 CalGreen code and the proposed Reach Code. The goal of the study session is to review these two elements of the various reach codes and the Town's appetite in what can be assessed now as code enhancement to the CalGreen Code and what is to be reviewed and studied in more detail. This is a learning process, there is a lot of considerations that need to be made in evaluating building code enhancements; the right timing, costs or economic ramifications and environmental urgency.

Council Adopted Values

Creating an open forum with the community to review, discuss and analyze reach codes is ***visionary,*** conducting a study session in order to consider forwarding the Town's Sustainability Policies. The open discussion will yield a healthy perspective on how to apply various code enhancements to forward the Town's position on reducing GHG's, while being respectful of what the local economy can absorbed at this time.

Sustainability Impact

Studying and researching Reach Codes is the first step in moving the needle in the right direction to help assist in the Town doing its part in reducing Green House Gases. Part of the objective in being a sustainable community is to endear yourself to a cause and to see it through.

Alternatives

None, this is only a study session

CONCLUSION

This is a study session to discuss, ask questions, drawing the City Council, Community and Staff into a deeper conversation asking how far we can go installing stricter energy codes that will help promote the reduction of GHG, while respecting what the community (Residential and Commercial) can absorb financially.

ATTACHMENTS

A. Reach Code Matrix

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ATTACHMENT A

Reach Code Proposal	Current or New Code	Comments
EV Charging – Single Family, Townhouse with private garage (all units 100%) • New 110/120 Volt circuit for EV Charger (Level1) • New 208/240 Volt circuit for EV Charger (Level 2)	Cal Green 2019 requires one Level 2 EV circuit	• Reach code requires additional wiring for a level 1 charger, which is only a standard outlet.
EV Charging – Multi Family less than 20 units • Each unit New 208/240 Volt circuit for EV Charger (Level 2)	Cal Green 2019 requires 10% of all units to be Level 2 EV capable, regardless of the total number of units	• Reach code will require 90% more 208/240 Volt Circuits. • Will increase construction cost of new residences. • Additional space needed to accommodate electrical equipment
EV Charging – Multi-Family 20+ • 25% of units New 208/240 Volt circuit for EV Charger (Level 2) • All remaining parking spaces to have New 110/120 Volt circuit for EV Charger (Level1)	Cal Green 2019 requires 10% of all units to be Level 2 EV capable, regardless of the total number of units.	• Reach code will require 15% more 208/240 Volt Circuits. And require 75% more Level 1 chargers. • Reach code Will increase construction cost of new residences. • Additional space needed to accommodate electrical equipment
EV Charging – Multi-Family Affordable • 10% of units New 208/240 Volt circuit for EV Charger (Level 2) • All remaining parking spaces to have New 110/120 Volt circuit for EV Charger (Level1)	Cal Green 2019 requires only 10% be Level 2 EV capable and does not distinguish between affordable and market rate.	• Reach code is the same as Cal Green code for Level 2. Would require 90% of spaces to have Level 1. • Additional electrical cost for Level 1 circuits • Additional space needed to accommodate electrical equipment
EV Charging – New Office • 10% of spaces over 10, New 208/240 Volt circuit for EV Charger (Level 2) • 10% remaining parking spaces to have New 110/120 Volt circuit for EV Charger (Level1) • 30% EV Capable	Cal Green requirement based on total number of parking spaces. For 38 space parking lot, 2 Level 2 EV ready spaces would be required.	• Will increase construction cost of new Offices by tens of thousands of dollars. • Additional space needed to accommodate electrical equipment. • Entire parking lot wil require extensive infrastructure and conduit. • Will reduce parking available to non-electric vehicles by a considerable percentage – 20%+. • For an office building like the Dialysis Center on El Camino Real (10,000 sf w/38 parking spaces) would require 4 level 2 chargers; 4 level 1 chargers and 11 spaces with electrical for chargers. Cal

<table>
<tr><td></td><td></td><td>Green 2019 only requires two Level 2 ready chargers. Three separate spaces are required for clean air vehicles.</td></tr>
<tr><td>EV Charging – retail, institutional
6% of spaces over 10, New 208/240 Volt circuit for EV Charger (Level 2)
5% remaining parking spaces to have New 110/120 Volt circuit for EV Charger (Level1)
30% EV Capable</td><td>2019 Cal Green requires up to 6% Level 2 ready spaces (total based on table in code). No level 1 or capable spaces required.</td><td>Will increase construction cost of new retail and institutional uses.
Additional space needed to accommodate electrical equipment.
Entire parking lot wil require extensive infrastructure and conduit.
Fewer parking spaces will be available for non-electric vehicles.</td></tr>
<tr><td>Electrification – single and multi-family residential using mixed fuel sources. Required to be “Electric Ready:”
reach code requirements for newly constructed buildings using gas or propane are:
Require mixed-fuel buildings to perform 15% better than the baseline simulated building within the standard CEC-required energy simulation.
Exception: a prescriptive path for energy efficiency improvements has been provided which is laid out in the corresponding ordinance language document
Require a dedicated 240V, 30-amp circuit with receptacle next to water heaters with breaker space on the panel
Require a dedicated 240V, 40-amp circuit next to clothes dryers with breaker space on the panel
Require a dedicated 240V, 50-amp circuit next to cooktops with breaker space on the panel
Heat pump or heat pump ready – 240V, 30-amp service within 3’ of condenser location</td><td>2019 Green Code requires:
Dedicated 120V, 20-amp circuit with receptacle next to water heaters with breaker space on the panel
Solar Ready Zone – sized to offset annual kWh consumption
Energy Design Rating (EDR)</td><td>Increased cost to provide all electrical even if gas is used (estimate of $7,000 per unit)
Increased cost to make building 15% more efficient than code. This could be thousands or tens of thousands more for triple pane windows, high density insulation, initial solar panel insulation etc.</td></tr>
<tr><td>Electrification – commercial using mixed fuel sources. Required to be “Electric Ready:”
reach code requirements for newly constructed buildings using gas or propane are:</td><td>For commercial buildings, the 2019 Green Code requires:
Performance Pathway – Compliance Margin</td><td>Increased cost to provide all electrical even if gas is used.
Increased cost to install solar up front</td></tr>
</table>

• Require mixed-fuel buildings to perform 15% better than the baseline simulated building within the standard CEC-required energy simulation. ○ Exception: a prescriptive path for energy efficiency improvements has been provided which is laid out in the corresponding ordinance language document • Require 3kW solar photovoltaic system on new non-residential buildings with less than 10,000 square feet of gross floor area, and 5kW solar photovoltaic system for non-residential buildings with greater than 10,000 square feet of gross floor area ○ Exception: as an alternative to the solar photovoltaic system, require a solar thermal system with a minimum 40 square feet collector area	• Solar ready zone if less than 3 habitable stories	• Increased cost to make building 15% more efficient than code. This could be tens of thousands more for a large commercial building.

STAFF REPORT

TO:	Mayor and Members of the City Council
FROM:	Michael P. Laughlin, City Planner, CSG Consultants
	Suzanne Avila, Deputy City Planner, CSG Consultants
VIA:	Brian Dossey, City Manager
MEETING DATE:	October 10, 2019
SUBJECT:	Wild Bird and Wild Animal Feeding Ordinance

RECOMMENDATION

This item is a study session only. No City Council action is required; however, staff is requesting comments, questions, impressions, opinions and direction from the Council on whether to pursue amendments to the Town's regulations on the feeding of wild birds and animals.

EXECUTIVE SUMMARY

The Town currently has an ordinance that prohibits bird feeding on public property, including streets, sidewalks and parks. Homeowners at Verano, Sterling Park and Villa Hoffman have expressed concern about the number of birds, primarily pigeons, who cause property damage. The purpose of the study session is to consider whether bird feeding prohibitions should be extended to private property, including cemeteries.

FISCAL IMPACT

There could be a very minor financial impact if an ordinance is extended to prohibit feeding on private property. An ordinance could increase staff time in enforcement. However, warnings and citations by the Code Enforcement Officer or Police Department would be provided as a normal course of business.

BACKGROUND

The Town currently has an ordinance prohibiting the feeding of wild birds and animals on public property, streets and sidewalks.

Bird feeding on private property (primarily on cemetery properties) has continued to be an issue for the Verano, Sterling Park and Villa Hoffman neighborhoods as it has led to an overpopulation of pigeons which has proven to be costly for the residents to remedy property damage and the nuisance of roosting birds. There is also concern about diseases that may be carried by the birds. In addition to feeding birds, primarily at Cypress Lawn's eastside campus, bird feeding occurs indirectly with food left at gravesites for loved ones, particularly during festivals.

ANALYSIS

If the City Council is inclined to extend bird and wild animal feeding prohibitions to private property, there are different approaches that can be taken. Staff conducted a survey of other communities and found that bird feeding is restricted on public property in a number of jurisdictions. In San Mateo County, only San Carlos prohibits feeding on public property, and only limits feeding to one species (pigeons). A summary of bird feeding regulations is provided in Attachment A, with ordinance text in Attachment B.

Burlingame, Daly City, and Millbrae all include a prohibition of people feeding birds or wildlife on property that is not owned by them without permission.

The City of San Carlos limits feeding of only pigeons on private property. This ordinance is problematic since general bird feeding will attract pigeons. For example, bird feeding at the Cypress Lawn campus attracts pigeons, seagulls, ducks and several other species.

The City of San Jose prohibits feeding of birds or wildlife on public and private property regardless of land use. It only exempts bird feeders suspended above the ground.

Staff included an ordinance from the City of Saline, Michigan, which allows bird feeding but then uses a nuisance standard to assess health and safety impacts.

An ordinance could apply to all private property or be drafted with exclusions for certain land uses, such as single family residential.

The language in an ordinance could allow a private residential property owner to have a bird and/or hummingbird feeder provided it does not become a nuisance. The ordinance could give the City Manager or designee the discretion to approve bird feeding stations on individual properties. It is recommended that if bird feeders are allowed, they should be required to be elevated four to five feet off the ground, so they are not accessible to or an attraction to other wild animals. This can be accomplished by using a cable or post to elevate the feeder. Or, an ordinance could prohibit bird feeding on all commercial, residential, cemetery, and industrial properties.

Enforcement of the existing ordinance and any new ordinance would be by the Police Department, with enforcement authority provided in Subchapter 1.05 of the Colma Municipal Code. Anyone observed providing bread or food for birds or animals is first advised of the Town's ordinance. A second offence could result in the issuance of a citation as an infraction with a fee of $100.00. Subsequent infractions have a fee $200.00, then $500.00. The Code Enforcement Officer would also have the authority to issue warnings and write a citation for violations on private property.

Council Adopted Values

The discussion of bird and wildlife feeding restrictions is consistent with the Council value of ***responsibility*** because it considers public health and safety.

Sustainability Impact

Amending the Municipal Code to restrict or prohibit bird feeding on private property supports sustainability practices.

Alternatives

The City Council has the option of not amending the bird and wild animal ordinance. If the ordinance is not amended, bird and wild avenue feeding on private properties would remain unrestricted.

CONCLUSION

Staff recommends the City Council discuss and provide direction to staff on a possible amendment to the Municipal Code to restrict or prohibit bird and wild animal feeding on private property, with direction to staff on the following:

1. Should wild bird feeding be restricted or prohibited on private property? If yes, are there any exceptions?

2. Should wild bird feeding be allowed at cemeteries or on commercial properties?

3. Should wild bird feeding be allowed by an owner of a single-family residence provided the bird feeder is suspended and it does not become a nuisance?

4. Should allowance of bird feeding stations on private property be at the discretion of the City Manager or designee?

ATTACHMENTS

A. Summary of Bird Feeding regulations from other jurisdictions

B. Municipal Code Sections from various jurisdictions.

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Bird Feeding Restrictions		
Jurisdiction	*Public and/or Private Property Restrictions*	*Comments*
Berkeley	Public	Prohibited in City parks and public property
Burlingame	Public and Private	• May not feed on a property owned or controlled by another person w/out permission • City Manager may approve feeding stations
Daly City	Public and Private	• City Manager may approve feeding stations • Prohibited on private property unless birds are legally owned by an individual
Millbrae	Public	• Prohibited on City property and public rights-of-way • City Manager may approve feeding stations
Redwood City	Public	Prohibited in City parks and facilities
San Carlos	Public and Private	Nuisance to feed any wild pigeon on a public street or on public or private property.
San Francisco	Public	• Prohibited on sidewalks, streets and highways • Red Masked parakeets may not be fed in parks
San Jose	Public	• Prohibited at Parks properties and facilities • Bird feeders required to be suspended or elevated so not accessible to wild animals
San Mateo	Public	Prohibited in parks and City properties
San Mateo County	Public	Prohibited in County parks and recreation areas

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Bird Feeding Ordinances

San Carlos

8.26.030 Feeding pigeons on public streets, public property or private property—Nuisance.
It is a nuisance for any person to feed any wild pigeon, as defined in this chapter, on any public street or on any public or private property, within the City.

Burlingame

9.08.080 Feeding prohibited on city property and property of others.

(a) Except at feeding stations that are expressly authorized by the city manager or the manager's designee, it is unlawful for any person to do the following on any city property or city right-of-way:

  (1) To feed any bird or animal that is not legally owned by that person; or

  (2) To place any feed of any kind that is intended for consumption by any animal or bird of any kind or to attract any animal or bird of any kind.

(b) It is unlawful for any person to feed or to place any feed of any kind that is intended for consumption by any animal or bird of any kind or to attract any animal or bird of any kind on any property owned or controlled by another person without the express permission of the owner or person in control of the property.

(c) For purposes of this section, the following terms have the following meanings:

  (1) "Feed" means any material, including, but not limited to,, birdseed, bird feed, corn, bread pieces, food scraps, domestic animal food, or any similar substance that can be utilized for consumption by animals or birds to provide nourishment.

  (2) "To feed" means to spread, cast, lay, deposit, or dump feed.

Millbrae

6.10.020 Bird Feeding prohibited.

A. Except at feeding stations that are expressly authorized in writing by the city manager or designee, it is unlawful for any person to do the following on any city property or within city rights-of-way:

  1. To feed any bird that is not legally owned by that person; or

  2. To place any feed of any kind that is intended for consumption by or to attract any bird of any kind that is not legally owned by that person.

B. It is unlawful for any person to do the following on any private property that is owned or controlled by another person without the express permission of that person:

1. To feed any bird that is not legally owned by that person; or

2. To place any feed of any kind that is intended for consumption by or to attract any bird of any kind that is not legally owned by that person.

Daly City

6.32.090 - Bird feeding prohibited.

A. Except at feeding stations that are expressly authorized in writing by the city manager or designee, it is unlawful for any person to do the following on any city property or within city rights-of-way:
   1. To feed any bird that is not legally owned by that person; or
   2. To place any feed of any kind that is intended for consumption by or to attract any bird of any kind that is not legally owned by that person.

B. It is unlawful for any person to do the following on any private property that is owned or controlled by another person without the express permission of that person:
   1. To feed any bird that is not legally owned by that person; or
   2. To place any feed of any kind that is intended for consumption by or to attract any bird of any kind that is not legally owned by that person.

Redwood City

Sec. 25.2.02. - PROHIBITED ACTS:

No person shall engage in the following prohibited acts and/or uses in a City park or facility:

I. Feed, capture, remove, hunt, abuse, molest, injure, frighten, trap, kill, tease or hurt, throw or otherwise project objects at any wild or domestic fowl, animal, reptile, fish or bird or fowl, including the eggs or nest or young of any reptile, wild animal, or bird, except in conformance with federal or state regulations and/or permits

San Mateo County

3.68.080 - General protective regulations.

(k) Feeding Domesticated Animals. No person shall feed any abandoned domesticated animal in any County Park or Recreation area, or in the San Francisco Fish and Game Refuge.

(n) Wildlife. All County Parks and Recreation Areas and the San Francisco Fish and Game Refuge are sanctuaries for wildlife. No person shall feed, approach, disturb, frighten, hunt, trap, capture, wound, kill, chase, pursue, or disturb the natural habitat of, any wild bird, mammal, reptile, fish, amphibian or invertebrate within a County Park or Recreation Area or within any San Francisco Fish and Game Refuge area located within the County, nor shall any person allow any dog to do so

San Mateo

13.20.040 ANIMALS.

The following regulations apply to animals in park properties and facilities:

(e) It is prohibited to capture, remove, abuse, feed, or kill any wild or domestic animal, reptile, fish or bird, including the eggs or nest of any reptile, wild animal or bird.

San Francisco

SEC. 486. FEEDING BIRDS AND WILD ANIMALS PROHIBITED.

It shall be unlawful for any person to feed or offer food to any bird or wild animal in or on any sidewalk, street or highway of the City and County of San Francisco. It shall be unlawful to feed or offer food to any Red Masked Parakeet in any park of the City and County of San Francisco.

Note: Public Works has a page about not feeding pigeons:
https://www.sfpublicworks.org/services/pigeons

Berkeley

Prohibition on Feeding Wild Animals on Public Property

Section 6.50.030 Feeding of Wild Animals In City Parks Or On Public Property Prohibited. No person shall feed wild animals at any time in City Parks or on Public Property, without specific written authorization from the City Manager.

San Jose

7.40.120 - Ban on feeding wild animals.

A. It is unlawful for any person to feed or in any manner provide an attractant to a wild animal.

B. No person may leave, store, or maintain any attractant in a location and manner accessible to any wild animal.

C. The prohibitions in subsections A. and B. do not apply to:

   1. Any person who is the legal owner/guardian of the wild animal and the wild animal is kept under a valid license or permit issued by the State Department of Fish and Game, and in compliance with all applicable laws.

2. Any person who feeds or provides an attractant to a trapped, injured, or unweaned wild animal between the time that the agency charged with animal control or its designated agent is notified of the wild animal and the wild animal is picked up by said agency.
3. A wildlife rehabilitator.
4. Any person who is using an attractant to trap an animal in a legally authorized or permitted manner.
5. Any person with a bird feeder provided the feeders are suspended on a cable or other device to make them inaccessible to wild animals and the area below the feeders are kept free from the accumulation of seed debris.

City of Saline, Michigan

The City of Saline Ordains:

Section 1. Addition. A new section 58-280 of Article VII, Chapter 58 entitled "Prohibition on the Feeding of Wild Animals" is hereby added to Code of the City of Saline as follows:

SECTION 58-280 - Prohibition on the Feeding of Wild Animals

(a) *Purpose.* The City of Saline finds that the feeding of unconfined wild animals can be detrimental to wild animals, causes a public health nuisance, jeopardizes public and private property, and constitutes a safety hazard that is detrimental to the general health, safety, and general welfare of the public.

(b) *Definitions*. As used in this section the following terms will be defined as follows:

Feed or Feeding means the act of furnishing, exposing, placing, depositing, distributing or scattering, whether intentionally or negligently, any food or substance of any kind which is likely to attract, lure, or entice wild animals.

Wild animal means any species of animal wild by nature, as distinguished from the common domesticated animals. A wild animal is one that can survive in its natural environment without the help or assistance of humans, including but not limited to raccoons, bears, coyotes, deer, foxes, groundhogs, opossums, skunks, rats, mice, squirrels, and waterfowl.

Nuisance as used in this Section means whatever annoys, injures or endangers the safety, health, comfort or repose of the public; offends public decency; interferes with, obstructs or renders dangerous any street, highway, navigable lake or stream; or renders the public insecure in life or property.

(c) *Prohibited Conduct*.

(1) It shall be unlawful for any person, or agent thereof to feed wild animals upon public property or private property in such a way that causes a nuisance.

(2) It shall be unlawful to authorize or aid or abet any other person to feed wild animals upon public property or private property in such a way that causes a nuisance.

(3) It shall be unlawful to leave or store any refuse, garbage, food waste, pet food, seed or bird seed, fruit, meat, dairy, vegetable, grain or other food in a negligent manner likely to feed wild animals in such a way that causes a nuisance.

(d) *Exclusions.*

(1) The feeding of small songbirds or other backyard birds shall be permitted outdoors at such times and in such numbers that such feeding does not create an unreasonable disturbance that affects the rights of surrounding property owners or creates a nuisance, does not create an accumulation of droppings on the property or surround properties in violation of health and safety laws and ordinances, and does not become an attractant for rodents or other wild animals.

(2) Bird feeders or other devices for feeding small birds shall be allowed if placed at least five (5) feet above the ground and utilized so as to not be an attractant to wild animals.

(3) The feeding of wild animals is permitted within confined zoos, educational facilities, wild animal rehabilitation facilities and environmental centers or federally protected wildlife preserves where otherwise permitted by law.

(4) Baiting wild animals for the purpose of trapping for legal purposes, and the removal or abatement of nuisance wild animals on private or public property is allowed where otherwise permitted by law.

(5) Landscaping, gardening, or maintaining vegetable gardens, fruit and nut trees or other plants, is permitted so long as such activities are not conducted for the purpose of feeding wild animals.

(e) *Penalty.* A violation of the section shall be a municipal civil infraction.

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