City of LOMPOC

City Council Agenda Item

City Council Meeting Date: March 17, 2020

TO: Honorable Mayor and Members of the City Council

FROM: Jim Throop, City Manager
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SUBJECT: Council Discussion Regarding Long-Term Liabilities with California Public Employees Retirement System

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Recommendation:

Staff recommends the City Council open discussions on options for paying down the long-term California Public Employees Retirement System (CalPERS) liabilities, but to allow the City's financial advisor team to present options and sensitivity analysis on these options at the April 7th Council meeting before making a final decision.

Background:

During the last budget cycle, covering FY 2019-21, the City Council decided to place a sales tax measure on the March 3, 2020 election ballot. The measure was designated a 'General Tax', thus only requiring a 50% +1 vote for approval. The ballot question stated:

Lompoc Preservation of City Services Measure
To maintain and improve public services, including neighborhood police patrols, firefighter staffing, gang unit enforcement, crime and vandalism prevention, street improvements, community and recreational needs, park upgrades, reduction of long-term liabilities (which include a potential savings of $21 million in interest payments), and other general city services, shall the measure establishing an additional maximum 1% sales tax, ending in 15 years, and estimated to generate $4.8 million annually, be adopted?

The election was held on March 3, 2020, and the measure was approved with 68% of the vote (subject to final certification of the vote count by the County).

If the ballot measure passed, the City Council had requested that an agenda item be brought back the first meeting immediately following the election for discussion about the long-term liabilities.

Discussion:

The City has a long-term liability with CalPERS with the outstanding liability currently estimated to be $93 million.

This liability issue began in 1998/1999 with the approval by then Governor Davis to allow State and Local governments to increase retirement benefits immediately with no prior payments from agencies or employees. This action created the unfunded liability and it grew larger during the historic recession in 2007-2009.

This situation became more dire when CalPERS changed different assumptions on their investment policy by reducing their forecasted ‘return on investment’, as well as changing actuarial charts, such as their “mortality rates’, which determines how long an average retirement annuitant would live. The new mortality chart increased the time a person is expected to live, thus causing a larger unfunded liability.

After reviewing the most recent City budget, the City Council, via a unanimous decision, decided to place a sales tax measure on the ballot, to provide a new revenue stream for the City that could be used to reduce or eliminate the long-term liability.

Given that the annual payments to CalPERS would need to be made regardless of other necessary City expenses, this new sales tax funding could be used to backfill department budgets that would need to be reduced in order to make the required benefit payments.

The City Council must now decide on the best plan to reduce or eliminate the long-term liability. There are different options available and range from just paying the debt for the next 30 years at the payment schedule set by CalPERS, to do a ‘re-set’ and choose a reduced length of time for payment (similar to moving from a 30-year mortgage to a 15-year mortgage), selling Pension Obligation Bonds, which typically are running at an interest cost of approximately 3% (versus CalPERS interest at 7%), as well as other options.

During the last budget process, the City hired the firm, NHA Advisors, to review staff’s projections the during the budget cycle. This financial advisory firm presented to the City Council their confirmation of staff’s projections on outstanding long-term liabilities and schedule of benefit payments. Both the City Council and the public appreciated the presentation to such a degree that staff has engaged the firm to present to the City Council different options and sensitivity analysis on these options, at the April 7th City Council meeting.

Fiscal Impact:

The fiscal impact to the City depends upon the choices made by the City Council. It is recommended to first listen to the financial advisors, who have worked with more than 40 cities on this topic, before making a final decision. At that time, a calculation can be made on the option that the City Council decides upon.

As an example, a preliminary interest savings estimate for selecting a pay-down period of 15 years, via the CalPERS 're-set', is estimated to be $21,000,000, but a final amount would be determined, if this option was selected.

Conclusion:

It is recommended that the City Council begin discussions on options available to reduce or eliminate the long-term liability, but to also discuss what critical needs are required in the City and attempt to balance these competing needs with the new revenue stream.

The financial advisors, given their experience helping other cities reduce their liabilities, should be able to offer options for the City Council to select from, while also possibly allowing other critical needs of the City to be met.

Respectfully submitted,

Jim Throop, City Manager