



City Council Agenda Item

City Council Meeting Date: April 21, 2020

TO: Honorable Mayor and Members of the City Council

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

Recommendation:

Staff recommends the City Council continue discussions, but take no actions, on options related to Unfunded Accrued Liability (UAL) with the California Public Employees Retirement System (CalPERS), and receive a presentation from the City's Management Services Director on the recent CalPERS conference call update, as well as other current financial updates.

Background:

At the April 7, 2020, City Council meeting, the City Council began discussions concerning options on how to best deal with the City's UAL with CalPERS.

The discussion included a presentation from the NHA Advisors (financial advisors) on different options available to the City in addressing the UAL. Those options included 'Pros/Cons' for each of the different options presented.

The City Council majority decided that no decision be made at the April 7th meeting, and that staff should report back at the April 21st meeting on the outcome of the CalPERS conference call, which CalPERS was going to be discussing the current and possible future liability payments.

Discussion:

The City has a long-term liability with CalPERS with the outstanding liability currently estimated to be in excess of \$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. That 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.

The City Council has now decided to continue the discussion on options pertaining to the City's UAL and how best to fund its repayment.

Fiscal Impact:

A current estimate on the possible increase for the City's UAL, based on the CalPERS conference call on April 8, 2020, could be as much as an additional \$23 million. This is an estimated 18% increase from the previous \$93 million UAL. However, this is just an estimate as much uncertainty remains in the financial markets since no one knows how long the current situation will continue.

It is important to note that with the present financial downturn, the current estimate is that all General Fund reserves will be depleted by June 30, 2020. General fund reserves are a critical part of a city's financial health, and discussion should be made on how to rebuild those reserves.

Conclusion:

It is recommended that the City Council continue to hold discussions on the options available to pay down the UAL.

Respectfully submitted,

Jim Throop, City Manager