



Santa Cruz County Civil Grand Jury

2014-2015 Response Packet

Funded for the Future?

Retirement Costs and Obligations in Santa Cruz County

Capitola City Council

Due date: 90 Days (by Thursday, Sept. 10, 2015)

When finished, email the completed response packet as a file attachment to:
grandjury@co.santa-cruz.ca.us

Instructions for Respondents

California law PC § 933.05 requires that those responding to a Grand Jury report must provide a response for each individual finding and recommendation within a report, not a generalized response to the entire report. Explanations for disagreements and timeframes for further implementation or analysis must be provided.

Please follow the format below when preparing your response.

Response Format

1. Find the Responses Required table that appears near the end of the report. Look for the row with the name of the entity you represent and then respond to the Findings and/or Recommendations listed in that row using the custom packet provided to you.
2. For Findings, indicate one of the following responses and provide the required additional information:
 - a. AGREE with the Finding,
 - b. PARTIALLY DISAGREE with the Finding and specify the portion of the Finding that is disputed and include an explanation of the reasons therefor, or
 - c. DISAGREE with the Finding and provide an explanation of the reasons therefor.
3. For Recommendations, select one of the following actions and provide the required additional information:
 - a. HAS BEEN IMPLEMENTED, with a summary regarding the implemented action,
 - b. HAS NOT YET BEEN IMPLEMENTED BUT WILL BE IMPLEMENTED IN THE FUTURE, with a timeframe or expected date for implementation,
 - c. REQUIRES FURTHER ANALYSIS, with an explanation and the scope and parameters of an analysis or study, and a timeframe for that analysis or study; this timeframe shall not exceed six months from the date of publication of the grand jury report,
 - d. WILL NOT BE IMPLEMENTED because it is not warranted or is not reasonable, with an explanation therefor.

If the respondent is a governing body, please provide the voted response of the body as a whole. Individual responses from members of a governing body will not be published.

If you have questions about the response report please contact the Grand Jury by calling 831-454-2099 or by sending an e-mail to grandjury@co.santa-cruz.ca.us.

How and Where to Respond

1. Please download and fill out the Response Packet provided to you for your responses. Please respond to each finding and recommendation. Be sure to save any changes you make to the packet.
2. Print and send a hard copy of the Response Packet to:
The Honorable Judge Rebecca Connelly
Santa Cruz Superior Court
701 Ocean Street
Santa Cruz, Ca 95060
3. Email the completed Response Packet, as an attachment, to the Grand Jury at grandjury@co.santa-cruz.ca.us.

Due Dates

Elected officials or administrators are required to respond within 60 days of the Grand Jury report's publication. Responses by the governing body of any public entity are required within 90 days.

Penal Code § 933.05

1. For Purposes of subdivision (b) of § 933, as to each Grand Jury finding, the responding person or entity shall indicate one of the following:
 - a. the respondent agrees with the finding,
 - b. 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 therefor.
2. For purpose of subdivision (b) of § 933, as to each Grand Jury recommendation, the responding person shall report one of the following actions:
 - a. the recommendation has been implemented, with a summary regarding the implemented action,
 - b. the recommendation has not yet been implemented but will be implemented in the future, with a timeframe for implementation,
 - c. the recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a timeframe 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 timeframe shall not exceed six months from the date of the publication of the Grand Jury report, or
 - d. the recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation therefor.
3. However, if a finding or recommendation of the Grand Jury addresses budgetary or personnel matters of a County department headed by an elected officer, both the department head and the Board of Supervisors shall respond if requested by the Grand Jury, but the response of the Board of Supervisors shall address only those budgetary or personnel matters over which it has some decision-making authority. The response of the elected department head shall address all aspects of the findings or recommendations affecting his or her department.
4. A Grand Jury may request a subject person or entity to come before the Grand Jury for the purpose of reading and discussing the findings of the Grand Jury report that relates to that person or entity in order to verify the accuracy of the findings prior to their release.
5. During an investigation, the Grand Jury shall meet with the subject of that investigation regarding that investigation unless the court, either on its own determination or upon request of the foreperson of the Grand Jury, determines that such a meeting would be detrimental.

A Grand Jury shall provide to the affected agency a copy of the portion of the Grand Jury report relating to that person or entity two working days prior to its public release and after the approval of the presiding judge. No officer, agency, department or governing body of a public agency shall disclose any contents of the report prior to the public release of the final report.

6.

Findings

Finding 1: Continually rising retirement costs and obligations put funding of jurisdictions' services and projects at risk.

AGREE

PARTIALLY DISAGREE - explain disputed portion below

DISAGREE - explain below

Response explanation (required for responses other than "Agree"):

As with any projected expenditure increase, the City agrees that rising pension costs will either have to be offset with future revenue increases or reductions in services or projects.

The City partially disagrees with the finding as the City has taken a number of proactive steps to address this issue. For example this fiscal year the City established a PERS Contingency Fund. The Fund was set up to help stabilize the City's finances and to help manage future increases in PERS contributions.

In addition, current long-term projections show the City with a balanced budget position in future years, due to current fiscal policies, increased revenue, and the payoff of Pension Obligation Bonds. However, given the potential for an economic downturn or other revenue contractions, these projections must be consistency analyzed and monitored and City services levels evaluated in the face of changing economic conditions.

Finding 2: A clear and complete statement of the total retirement costs and obligations has not been provided in the budget narrative for either the public or elected officials.

AGREE

PARTIALLY DISAGREE - explain disputed portion below

DISAGREE - explain below

Response explanation (required for responses other than "Agree"):

The City agrees with this finding. The City believes we have previously included detail of pension costs in several different areas of the budget but the City agrees that having the information in one section would improve the transparency of the City's Budget. A new chart showing the total retirement costs, along with funding ratios and funded status will be included in the Final Fiscal Year 2015-16 Budget and all future budget documents.

Recommendations

Recommendation 1: To prevent reductions in public services, each of the six public agencies studied in this report should increase, and make public, their efforts to manage and reduce retirement costs and obligations.

HAS BEEN IMPLEMENTED

HAS NOT BEEN IMPLEMENTED BUT WILL BE IMPLEMENTED IN THE FUTURE

- indicate timeframe below

REQUIRES FURTHER ANALYSIS - explain scope and timeframe below (not to exceed six months)

WILL NOT BE IMPLEMENTED - explain below

Response summary, timeframe or explanation:

The City of Capitola has been proactive in addressing retirement obligations. The City issued a Pension Obligation Bond in 2007 to pay off the CalPERS side fund that CalPERS established in 2003. The POB allowed the City to reduce the interest rate charged on the side fund from 7.75 percent that CalPERS charges to 6.01 percent.

The City also implemented a cap on the City's contribution to CalPERS. The cap required that employees pay all pension costs above the cap. The City was one of very few jurisdictions in the state with essentially fixed pension costs as a percentage of payroll. The cap allowed for a predictable expenditure stream into future years.

In 2012, the City also implemented a Tier II retirement plan for new hires that required an additional five percent employee contribution towards retirement.

Unfortunately the recent changes in the CalPERS risk pooling formulas have had a significant negative impact on the City. In fact, the scale of the impact effectively made the City's cap on employer CalPERS contributions unsustainable, as it would have required employees to contribute more than 25 percent of their salary toward pension costs in coming years.

The amended employee agreements establish increasing employee retirement contributions rates, projected to be over 15 percent for safety and over 14 percent for miscellaneous upon the end of the term of the existing contracts. The City believes these employee contribution rates are among the highest in the State.

To address the larger actuarial unfunded pension liability requires further analysis. There are several possibilities the City will evaluate in Fiscal Year 2015/16. Some of the possibilities include increased payments to CalPERS to reduce the Unfunded Liability and become fully funded in fewer years, a Pension Obligation Bond to reduce, and lock in, interest rates, and a new idea to set up an irrevocable trust fund for future CalPERS payments.

Lastly, CalPERS continues to examine their long term funding challenges. The City will follow these potential changes closely, and should changes occur, develop plans to address the impacts as quickly as possible.

Recommendation 2: Each of the six public agencies studied in this report should provide, in language understandable to the public, the totality of retirement obligations in their annual budget narratives beginning with the fiscal year 2015/16 budget.

HAS BEEN IMPLEMENTED

HAS NOT BEEN IMPLEMENTED BUT WILL BE IMPLEMENTED IN THE FUTURE - indicate timeframe below

REQUIRES FURTHER ANALYSIS - explain scope and timeframe below (not to exceed six months)

WILL NOT BE IMPLEMENTED - explain below

Response summary, timeframe or explanation:

This recommendation will be included in the Final Fiscal Year 2015/16 Budget Document. The City agrees that the City's Budget document should provide readers with the totality of the retirement obligations. The City will include the below chart in its Final Fiscal Year 2015/15 Budget Document:

	2014 Adopted Budget	2015 Adopted Budget	2016 Adopted Budget	2017 Forecast
Pension Cost- Safety	540,502	583,665	372,738	337,558
Unfunded Liability Pension Cost-Safety*	-	-	318,781	395,101
Pension Cost- Misc	484,319	478,697	202,701	199,490
Unfunded Liability Pension Cost-Misc*	-	-	372,627	441,371
Pension Obligation Bond Payments	674,713	672,900	669,204	668,595
OPEB Retiree Health	23,000	33,150	31,940	35,078
OPEB Trust Fund	43,415	39,500	38,600	38,600
PARS	3,340	4,336	3,940	4,046
Total City Retirement Costs	1,769,289	1,812,248	2,010,531	2,119,839
Total Employee Contributions**	549,979	559,282	586,497	604,092
Unfunded Actuarial Liability-Safety	5,933,935	8,042,676	7,144,975	7,472,159
Unfunded Actuarial Liability-Misc	6,348,043	8,036,379	7,118,107	7,452,552
Unfunded OPEB Liability	1,011,800	657,500	618,900	580,300
Funding Ratio PERS Safety	78.9%	73.7%	77.5%	n/a
Funding Ratio PERS Misc	75.3%	71.0%	75.2%	n/a

*New Budget Item for 2015/16

**The City implemented in-house payroll system in March of 2014. 2013-14 Employee Contribution is estimated based on the available data in new system.