

**MINUTES**  
**SAND CITY COUNCIL STUDY SESSION**

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STUDY SESSION  
Thursday, June 20, 2019  
**2:00 P.M. – 4:00 P.M.**  
CITY COUNCIL CHAMBERS

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The Mayor opened the meeting at 2:01 P.M.

**Agenda item 1, PLEDGE OF ALLEGIANCE**

The Pledge of Allegiance was led by Chief Brian Ferrante.

**Agenda item 2, ROLL CALL**

Present: Mayor Mary Ann Carbone  
Vice Mayor Blackwelder  
Council Member Hawthorne  
Council Member Sofer  
Council Member Cruz

Staff: Fred Meurer, Interim City Administrator  
Vibeke Norgaard, City Attorney  
Brian Ferrante, Police Chief  
Linda Scholink, Administrative Services Director/City Clerk

**Agenda item 3, ANNOUNCEMENTS BY MAYOR AND CITY MANAGER**

Interim City Manager Fred Meurer commented that this study session is another piece of the foundation of helping the Council get to the point of making hard decisions based on facts presented to them. Complementing the facts will be a set of assumptions that will need to be made and considered as the Council looks at its various options.

**Agenda item 4, COMMUNICATIONS**

2:02 p.m. Floor opened for Public Comment.

There were no comments from the Public.

2:02 p.m. Floor closed for Public Comment.

**Agenda item 5, NEW BUSINESS**

**A. Discussion and Presentation by Joseph R. D’Onofrio, Assistant Vice President of Bartel Associates, LLC on CalPERS Actuarial Issues, Comprehensive Scope of Work regarding Review of PER Retirement Contributions, and Impacts of Changes regarding the City’s Future Contributions**

Interim City Manager Meurer reported that the following presentation will be based on facts and a set of assumptions that the Council can consider as they look for options. He has witnessed City Council's assume their way out of a problem. Assumptions on revenue change and retail sales expectations change as well. A change of 2.3% to 5% affects everything and you hope that the strategy works and your change assumption comes true. He would rather bring conservative assumptions before the Council and be wrong; to have money left in the budget instead of being wrong in the other direction, and having to pass the hat to collect money so the city can get through the year.

Yesterday's study session meeting was a briefing on the status of the city's general/operating fund to show the Council recurring revenues as compared to recurring expenses. When you subtract expenses from revenues you get a sense of what discretionary money you have left over to do one-time things which could be to build a project, buy a piece of equipment, pay down your Public Employee Retirement System (PERS) liability and retirements, or an investment in employee pay increases. Presently, the budget indicates that the city has \$250,000 dollars in discretionary money. For example, that money can purchase 4-5 police cars, two street sweepers, a 1% pay increase for city staff which is approximately \$30,000 for the fiscal year, or it can buy a few yards of pavement. The meeting yesterday indicated that the city is grossly underfunding its investment in the long-term health.

The capital improvement program will bring to you a list of projects that staff believes will need to be done. An example of that would be the construction of half of California Avenue that DBO is not required to build, the Bay Avenue beach access that was washed out from the storm several years ago that needs to be repaired as a condition of the coastal development permit. The money the City received from the Federal FEMA grant is insufficient to pay for the reconstruction of the beach access. Staff believes that the city may receive a grant for the repair of Contra Costa Street which will need to be improved, and something that cannot be ignored. A future study session to talk about the capital improvement plan will need to be scheduled. The goal is to have all of this done so Council can stand before the public with staff's recommendation for a 5 year capital improvement program and a good definition of what can happen in 2020/2021 to further identify what the city will be faced with. Every decision the Council makes is linked to some other decision to be made in the future. This study session will address the Public Employee Retirement System (PERS) that is currently faced with the reality of going deeper into debt. To keep cities from immediately going bankrupt, PERS had to take action and adjusted its interest rate. The rates may go from 7.75% to 6%. Mr. D’Onofrio will help the Council

understand what that means as PERS is now having cities fund a portion of their unfunded liability. Sand City made some additional investments into its unfunded liability, and as part of the FY 18/19 budget the city budgeted \$450,000 to reduce its PERS obligations. Presently, the city only has \$240,000 of discretionary income, and the question is where to make an investment and what is the higher priority right now. Looking at fiscal year 2019/2020 should the city look into building a project or allocating the money into lowering its future PERS obligations. The presentation will help the Council understand something complex and simplify it because the system has changed considerably and it would be best to focus on the dollars. Any questions the Council may have can be addressed during the presentation.

Mr. D'Onofrio of Bartel and Associates reported that the valuation conducted for the period ending June 30, 2017, may seem old, but is the last report CalPERS conducted for 2019 contributions and are now working on the June 30, 2018 valuation. Mr. D'Onofrio commented that he will provide an explanation of the numbers, what CalPERS put in the analysis, what the city is looking at, what might change over the next few years, and what Sand City's numbers are going to be looking like. If the City has additional funds to put aside, that can be something discussed as well.

Mr. Meurer added that CalPERS puts information on their website that will be different from the numbers Mr. D'Onofrio will be presenting which is based on the numbers the city currently has.

Mr. D'Onofrio commented that the first slide depicts the employee groups with a total of 56 employees spanning active, transfers, terminations, retirees & beneficiaries. He explained that 'terminations' are former employees not working for an agency participating in a CalPERS pension plan. The funded status is what is owed to everyone who retires and takes into account the accrued liability, assets, unfunded liability and funded percentage. The city has contributed into its total accrued liability of approximately \$19 million over the years leaving \$4.6 million that is still owed. He explained how pension plans work when the city contributes to the pension plan for employees that have worked on given years. The CalPERS's report is 2 years old and does not depict the city's present status. The city had paid an additional \$450,000 last year to pay down its unfunded liability.

In response to Mr. Meurer's question of how often PERS increases its accrued liability for those living longer, Mr. D'Onofrio responded that the number can change for various reasons as CalPERS conducts studies on how long people live. Younger people are expected to live longer than the present generation, and PERS takes that into account as well. They base their assumptions on how long people may live, when they retire, if they are terminated, and payroll increases. They look at all agencies and plans, and try to make those assumptions current. They could either increase or decrease the liability, and they also work with investment advisors. This review happens about every 4 years. Another thing that can affect that number is when employees do something different such as

retiring earlier, which creates an extra amount of liability.

There was discussion regarding the costs of retiring early, its impacts to cities, the increase of percentages for cities and why decisions the Council makes today would have a potential impact well into the future. Mr. Meurer remarked that the legislature passed generous retirements without forcing the funding of those retirements.

Mr. D'Onofrio referred to the 2019/2020 Employer Contribution slide that depicts the dollar amount CalPERS uses and is calculated based on a percentage. PERS will inform cities to put in an 'xxx' amount of pay to cover its employees which is the cost that is estimated based on the city's payroll years ago.

Council Member Cruz received an explanation regarding 'transfers'; who are employees working for an agency participating in a CalPERS pension plan, and those employees also affect the city's totals.

Mr. D'Onofrio explained the next slide that showed the ongoing plan discount rate which was 7.25% for the June 30, 2017 valuation, and will be 7.00% for the June 30, 2018 valuation. The discount rate is ultimately expected to decrease to about 6% as a result of CalPER's risk mitigation policy. CalPER's wants to invest more conservatively and risk less, and if the market were to return less, then the employees would need to contribute more.

Council Member Hawthorne commented that everyone projects better when times are good but do not account for when things start to decline.

Mr. D'Onofrio explained the actuarial assumptions and contribution policy for the 2018 valuation, and the changes that CalPERS would like to instill which would involve a discount rate change as explained earlier. The first impact will occur in the FY 2020/21 contributions with full impact resulting in 2024/25. The contribution policy/amortization methods for the 2019 valuation will change from 20 years instead of 30 for investment and demographic experience gains and losses. This is for new liabilities only. There will be a 5 year ramp-up for investment gains and losses with no ramp-up/down for other amortization payments. This would apply only to newly established unfunded liability bases, resulting in faster funding and improved generational equity, and will impact the 2021/22 contributions.

The 2019 Valuation would involve Risk Mitigation and advised moving to a more conservative investment portfolio over time. CalPERS would like to go to a 6% rate. For example, assuming the contribution is \$100 and the market does well, the contribution would only amount to \$90. Whenever the investment earnings are better, some of the funds would be kept and investment advisors would be told that the rate is lower. This would avoid immediate larger contribution increases and would become effective with the June 30, 2018 valuations for 2021/22 contributions. The miscellaneous plan includes the \$300,000 June 2018 payment excluding Employer Paid Member Contributions (EPMC). This will go up

in the next 4 years due to a lot of changes happening over the next few years. The future discount rate will go down for the years the investment earnings are predicted to go down. He explained the different scenarios as it pertained to the graphs. Mr. D'Onofrio also explained the contribution projection-percent of pay for the miscellaneous plan and why it depicted a decline by the year 2047/48. The Safety Plan contribution projections that include the \$100,000 June Payment should double in the next ten years with and without (EPMC).

In response to Mr. Meurer inquiry on what the tradeoffs would be in terms of employee salary increases and whether the assumption includes that. Mr. D'Onofrio replied that CalPERS assumptions are based on the percentage rate they currently have.

Mr. Meurer added that the Council would need to think of how they would like to invest or not invest any residual funds that may be left over and what projects they may want to forgo. He provided examples of what the City of Monterey is taking back to help assist them in funding their unfunded liability. Council Member Blackwelder is right in commenting that everyone is struggling with this issue. Council Member Hawthorne added that the City of Monterey has a lot of things that Sand City does not have, such as school systems, parking, child care, and senior citizen centers. There are not a lot of benefits for Sand City's citizens and the Council has to start thinking of where it can acquire additional funds. Sand City is not like other cities.

Mr. Meurer spoke to what the Council may be looking at for improvements to the city and that future decisions may include doing more or less things, and how a tradeoff may occur to accomplish the goal to obtaining one or two things/projects done. His goal is to provide the costs to the Council who may choose executive decisions of either forgoing the hiring of an executive position and/or adding to the police department. It comes back to answering the question of looking at the budget. Many people received the impression that the Council already made a decision regarding the different choices or priorities. Mr. D'Onofrio is going to explain what will happen if the Council chooses to invest the \$450,000 into PERS or if the Council would rather use it to pave California Avenue, Contra Costa, and/or make the Carroll property available for public parking.

There was discussion regarding the deficit that may occur within the next two years and the possibility that the City may not have funds in the future to allocate towards street improvements, as well as the deficit of \$850,000 in the next two years from the revenues received from the CalAm lease payments. Council Member Hawthorne commented that there is not only one thing that the Council can do. There are other different alternatives, and although some things blatantly need changing, the alternatives can be pursued. Some things are overlooked and those things would require the Council to come up with a plan to make Sand City into a real city. Council Member Cruz added that you cannot look at the budget and expect to do everything, and as a Council we need to look at what the priorities of the city are. It would require looking forward, ranking what we need to do, and prioritizing what can be done. Council Member Hawthorne

further commented that the Council take a look at everything, come up with and make suggestions.

Mr. D'Onofrio continued that the Council should seek a conservative investment with a lot of return and lower risk should they decide to invest any monies left over in the general fund. The investment is flexible and the City can send the monies to CalPERS this year and/or 2 years from now. It is not restricted and can be used towards street improvements if this is what they decide.

Director of Administrative Services Linda Scholink commented that in the past the City annually placed some money into a bank account to set aside funds for its Other Post-Employment Benefits (OPEB) obligations. The Council decided to place it into a CERT Trust Fund that cannot be touched because it is only for OPEB obligations. The Council can choose to do the same and also set aside the money for its PERS unfunded liability; however, there will be the option to use the funds dependent on the type of account the Council would like to place the money into.

Mr. D'Onofrio added that the City can use the assets and send it to CalPERS similar to what it did with the \$450,000. The Council can also choose to secure a first start amortization and combine all its bases. What is saved is the 7% interest, like a loan. On the other hand, if you give all the money to CalPERS, the markets may go down and the city can possibly lose a portion of the investment.

Mr. Meurer spoke to PERS, the PERS Board, and how their decisions affect the entire retirement system. He also reported on the circumstances that occurred during his tenure with the City of Monterey and the painful clawback that resulted due to the PERS issue that happened several years ago.

Mr. D'Onofrio reported that leaving the money in a general fund would eventually disappear. Placing the money into a Section 115 Trust may result in greater risk on return than leaving it in the general fund, but less than CalPERS. The city can choose its asset allocation and consider when funds are expected to be used. This is also flexible as to when and how it can be used for CalPERS funding. The money can be used towards payment of unfunded bases, and avoids CalPERS overfunding due to required normal cost contributions. The asset is restricted and can only be used for pension funding. It is not part of GASB 68 assets for determining Net Pension Liability. He summarized the differences between the different pre-funding options. Paying off the shorter bases would impact the contribution immediately however the interest savings would be less. He referred to the graph provided in the Powerpoint and noted the results of the interest savings when investing in either the shorter bases or longer bases, and what would happen should the funds be used when it reaches the maximum budgeted contribution rate of 45.5%. He explained the rate stabilization examples on the following slides of what would happen when funds are used to offset contribution payments.

There was Council discussion regarding whether there were other options

available other than CalPERS, the timing and volatility of the market, and that once an agency participates in the CalPERS system, it may be very hard to get out.

Council Member Sofer remarked that it was a very informative and helpful presentation. The Council thanked Mr. D'Onofrio for his time.

#### **Agenda Item 6, ADJOURNMENT**

Motion to adjourn the June 20, 2019 Study Session meeting was made by Council member Cruz, seconded by Council Member Hawthorne. There was consensus of the Council to adjourn the meeting at 3:55 p.m. to the next regularly scheduled Council meeting on July 16, 2019.



Linda K. Scholink, City Clerk