R-10

James Johnson
City of Long Beach
Councilmember, Seventh District

Date: September 11th, 2012

To: Honorable Mayor and Members of the City Council

From: Councilmember James Johnson, Seventh District
Councilmember Gary DeLong, Third District
Councilwoman Gerrie Schipske, Fifth District

Subject: Reducing General Fund Costs to Preserve Vital Services Over the Long Run

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RECOMMENDATION:

Request that a Study Session be scheduled within 60 days of the adoption of the FY13 budget to discuss the City's unfunded liabilities, and how a plan to fund some of these liabilities may reduce structural costs in the General Fund over the long term, thus preserving vital City services.

DISCUSSION

During discussion of this year's budget, one theme has become painfully clear—the City must control its costs. If we do not control the growth of our costs so that they more closely reflect our growth of revenue, the next decade will look much like the last—year after year of significant annual cuts to services.

One way that the City can help control its long-term costs is by looking at its unfunded liabilities. Such obligations of the City, if ignored, may grow to be significantly more expensive in future years. This could significantly raise our cost to provide services, such as police services or libraries.

On March 29, 2011, City Management presented to the City Council regarding our unfunded liabilities (attached). While the City's billion dollar plus unfunded liability has been thoroughly discussed, other unfunded liabilities include workers' compensation, post employment health care, and sick leave. It is now time to take a fresh look at these unfunded liabilities, given their importance to the City's future well being.

It is requested that within 60 days of adopting the FY13 budget the City Manager present to the City Council an updated presentation highlighting the significant unfunded liabilities of the City, highlighting opportunities for the City to reduce its long-term costs of providing services by funding these obligations earlier than would otherwise be the case.

FISCAL IMPACT

Recognizing and funding the city's future liabilities has the potential to reduce the City's structural costs, preserving services in future years. The exact future savings realized, and the present day investment required to realize those savings, will be discussed as part of the requested Council presentation.

Attachment: 2011 unfunded liabilities presentation

Reserve Funds & Funding Obligations

March 29, 2011

Introduction

- General Fund Reserves
- Liabilities
- Addressing Unfunded Liabilities
- Summary

Reserve Funds

Emergency Reserve

- Potential Uses: As a last resort in emergency situations
- 10% of General Fund recurring expenditures, secured by short-term assets
- Reserve includes short-term assets that can be liquidated within 60 days (e.g. accounts receivable)
- Available Assets: $37.1 million

Reserve Funds

Operating Reserve

- Created in September 2003 by City Council action
- Potential Uses: As a buffer against temporary losses of revenues or uncontrollable spikes in expenses
- Envisioned to have 10% of General Fund recurring expenditures, dedicating 5% of all new (ongoing) discretionary revenue once the General Fund budget is brought into structural balance
- Current balance: $335,000

Reserve Funds

Budget Stabilization Fund

- Created in FY 08, per City Council direction
- Potential Uses: To address one-time contingencies that may arise during the fiscal year
- Current revenues have come from a one-time $6 million Sempra settlement and $3 million in FY 08 one-time revenues
- Current balance: $9 million

Reserve Funds

Infrastructure Reserve

- Created in FY 05, per City Council direction
- Potential Uses: Unanticipated critical or emergency one-time capital project needs
- Current balance: $1 million
- April 26th Study Session will be dedicated to infrastructure

Liabilities Summary

Funded Liabilities ("Pay As You Go")

- Pension Obligation Bond Debt Service
- Old Police & Fire Annuity Program
- New Police & Fire Retirement Supplement Plan
- Insurance Fund

Unfunded Liabilities

- CalPERS
- Unused Sick Leave (GASB 16)
- Postemployment Benefits (GASB 45)

Funded Liabilities (“Pay As You Go”)

Pension Obligation Bond (POB) Debt Service

- In 1995, the City issued POBs totaling $108.6 million
- In 2002, the POBs were refunded as the 1995 POB’s debt service had become unaffordable
- Average annual payment for FY 12 - FY 21: $7.1 million (General Fund portion - $3.3 million)

Funded Liabilities ("Pay As You Go")

Old Police & Fire Annuity Program

- City administers a Police and Fire Pension Program for employees who were hired before 1945 and who retired with 20 years of service

- Closed pension program - number of participants/costs diminishes each year; average annual decline from FY 00 to FY 10 is approximately 7%

- Estimated cost of the program for current fiscal year is approximately $3.6 million ($1.5 million Police, $2.1 Fire)

Funded Liabilities ("Pay As You Go")

New Police & Fire Retirement Supplement Plan

- POA: Members who retire on or after 9/30/09 receive a supplement to their sick leave bank to make up for a foregone median adjustment on 9/30/09

- FFA: Members who retiree on or before 12/31/09 receive a supplement to their sick leave bank to account for delayed 10/1/09 general salary adjustment

- The accrued liability for these supplement plans is $13 million; this represents the total annual payments made to retirees' sick leave banks for all the projected years they will be part of the plan

- In 2009, there were 56 Safety retirees with a supplement value costing $384,000; in 2010, there were 27 new POA retirees with a supplement valued at $115,000

Funded Liabilities ("Pay As You Go")

Insurance Fund

- Includes Workers' Compensation and General Liability (i.e. pending claims)
- The City budgets each year based on total anticipated costs
- The City budgets annual costs of $37.5 million citywide ($23.5 in the General Fund)
- Includes estimates of actual and anticipated claims based on historical analysis

Unfunded Liabilities

CalPERS

- Each year, the City fully pays the minimum amount required by CalPERS
- Unfunded liability based on the true market loss is $1.2 billion
- FY 12 payment with additional smoothing: $95m for All Funds, $55m for General Fund (15% of General Fund Budget)
- If no additional smoothing was implemented, the FY 12 payment would have been approximately $125m for All Funds, $73m for General Fund
- Current City General Fund deficit projections do not assume paying more into PERS to reduce unfunded liability

Unfunded Liabilities

Unused Sick Leave (GASB 16)

- GASB 16, which was issued in 1992, is the liability associated with the unused sick leave balance employees have earned; these balances can be used to pay their health insurance costs during retirement
- Accrued liability: $102 million and increasing each year
- Unlike some cities, Long Beach does not pay lifetime medical for its employees, significantly reducing this unfunded liability
- At the present, the City is not required to fund this liability, but may be a requirement in the future
- Current sick leave is funded by the Employee Benefits Fund

Unfunded Liabilities

Postemployment Benefits (GASB 45)

- GASB 45, which was issued in 2004, is the liability associated with the subsidy provided to retirees for health insurance
- As retirees are pooled with current employees, the premiums they pay are lower than they would be if they were insured separately
- Accrued liability: $121 million
- The subsidy provided to retirees is optional and can be reduced
- Funding this liability is <u>not</u> recommended

Addressing Unfunded Liabilities

- Paying off most unfunded liabilities is desirable
- The following charts provide potential additional contributions that could be made to lower the unfunded liabilities
- These figures are illustrative and are not exact figures
- The cost of paying off unfunded liabilities is a moving target since factors can change every year

Addressing Unfunded Liabilities

CalPERS

Scenario	Payment	Unfunded Liability in 30 years
1. No change (additional smoothing)	Make minimum payment required by CalPERS	$1.20 billion (market value)
2. Additional payments with basic smoothing	Pay an additional $1 million	$1.17 billion (market value)
3. Work to eliminate unfunded liability with basic smoothing	Pay an additional 6% of payroll, approx. an additional $24m in 1st year	$600 million (market value)

Addressing Unfunded Liabilities

Unused Sick Leave (GASB 16)

Scenario	Payment	Unfunded Liability in 30 years
1. No change from current payment	Make minimum payments required annually	$292 million
2. Additional payments	Pay an additional $1 million	$200 million
3. Work to eliminate unfunded liability	Pay an additional 0.8% of payroll, approx. an additional $2.6m in 1st year	$0

Summary

- The City fully funds, on a "pay-as-you-go" basis, some of its liabilities: POBs, Old Police and Fire Annuity, New Police and Fire Annuity and Insurance Fund
- Any contribution to reduce the unfunded liabilities will increase the General Fund structural deficit, which will require future reductions or the use of one-time revenues
- If Council chooses to fund any of these unfunded liabilities, a long-term strategy will need to be adopted

Reserve Funds & Funding Obligations

March 29, 2011