



Item No. 20 Town of Atherton

CITY COUNCIL STAFF REPORT – REGULAR AGENDA

**TO: HONORABLE MAYOR AND CITY COUNCIL
GEORGE RODERICKS, CITY MANAGER**

FROM: ROBERT BARRON III, FINANCE DIRECTOR

DATE: SEPTEMBER 18, 2019

**SUBJECT: REVIEW AND APPROVE THE RESPONSE TO GRAND JURY REPORT:
“SOARING CITY PENSION COSTS – FOLLOW-UP ON GRAND JRUY
REPORT OF 2017-18”.**

RECOMMENDATION

Review and approve the attached response to the San Mateo County Grand Jury Report on their report entitled “Soaring City Pension Costs – Follow-Up On Grand Jury Report of 2017-18”.

BACKGROUND

The Superior Court of California, of the County of San Mateo Grand Jury issued a report in June 2018 on Public Pension Costs in San Mateo County. The Grand Jury filed a report entitled “Soaring Pension Costs – Timed for Hard Choices” which contained findings and recommendations pertaining to cities in San Mateo County. The 2018-19 Grand Jury conducted a follow-up investigation on the Report with an update of financial information and sought to identify what progress has been made to address pension issues. California Penal Code Section 933.05 requires any agency that is the subject of such a report to reply in writing at a public meeting.

The Finance Director has prepared the attached reply to the Grand Jury Report for Council consideration and approval.

FINDINGS | ANALYSIS

In the past several years there have been increased discussion regarding public pension costs and how much these costs are impacting annual budgets. With the recent changes in CalPERS assumptions on discount rates and demographics there is belief that within the next ten years pension costs could significantly increase. This Grand Jury Report is a follow up to the 2017-18 report that discussed alternatives to meet potential rising costs and recommended cities to develop long-term financial plans to address their pension liabilities. Part of this discussion recommended that cities publish readily accessible information on their websites regarding pension liabilities and

long-term financial plans. There were some alternatives that were outlined by the 2017-18 Report. These included three categories:

- (1) Reducing future pension payments to CalPERS – paying Unfunded Liabilities early.
- (2) Managing future pension payments – contributions to reserves, negotiated cost sharing agreements with employees.
- (3) Adapting to future payment increases – reducing municipal operating costs and/or seeking revenue enhancements.

The 2018-19 Grand Jury updated Appendix A from the prior report from the cities available pension cost data for the four-year period from FY 2014-15 through FY 2017-18. The Grand Jury anticipates that the data in Appendix A serve as repository of information to help municipalities understand their pension costs. Below is a snapshot from the Appendix A of Atherton’s pension costs.

CITIES	Fiscal Year	Covered Payroll	Pension Contribution Cost	Contribution Rate (i.e., Pension Contribution Cost as % of Payroll)	Unfunded Liability	Funded Percentage	Unfunded Liability if Discount Rate is Reduced 1%	General Fund Spending	Pension Contribution Cost as % of General Fund Spending*
Atherton	2017-18	\$4,649	\$1,289	27.7%	\$16,122	72.9%	\$24,391	\$12,065	10.7%
	2016-17	\$4,327	\$1,155	26.7%	\$13,982	73.8%	\$21,344	\$11,437	10.1%
	2015-16	\$4,261	\$617	14.5%	\$10,674	78.5%	\$17,326	\$10,611	5.8%
	2014-15	\$3,988	\$826	20.7%	\$9,253	81.9%	\$16,088	\$11,622	7.1%

The 2018-19 Report identifies steps taken by each jurisdiction to address pension costs and enhancement of the availability of public information on pension costs. Within the report are twenty-seven (27) findings broken into seven (7) key areas:

- 1) Status of Each Jurisdiction’s Pension Obligation (Data within Appendix A)
- 2) Projections of Future Pension Costs
- 3) Long-Term Financial Forecasts
- 4) Jurisdictional Plans for Future Payments to CalPERS beyond the Annual Required Contribution (ARC)
- 5) Establishment of Reserves or Section 115 Trusts for Future Pension Payments
- 6) Employee Cost-Sharing
- 7) Revenue Enhancement Ballot Initiatives

The Report concludes with two Recommendations to which each jurisdiction must respond.

- 1) Each jurisdiction should include in its published annual or bi-annual budgets a general fund operating budget forecast for the next ten fiscal years.
- 2) Each jurisdiction should include a report in its published annual or bi-annual budgets specifically setting for the dollar amounts of its annual pension costs paid to CalPERS. The Grand Jury outlines specific items that that Report shall include:
 - a. The jurisdictions total pension contribution costs for the preceding three years and the next ten years.

- b. The total unfunded liabilities under each plan for the preceding three years and the next ten years.
- c. The jurisdictions funded status across all plans for the preceding three years and the next ten years.
- d. The percentage of the jurisdictions general fund expenditures and the percentage of covered payroll in relation to pension costs.

The Grand Jury recommends that these either be developed internally or that the jurisdiction hire outside consultants to prepare the reports.

Atherton Pension Costs Review and Understanding

As the City Council is aware, the Town focus on pensions over the years has been vetted through the Finance Committee to seek opportunities to pay down long term liabilities. Such opportunities include developing an analysis with respect to changes in the discount rate and a forecast on how to reduce the Town's CalPERS unfunded liability. Staff and the Finance Committee discussed the recent discount rate changes and the anticipation that lowering the discount rate means agency plans will see increases in the normal cost required contribution and liabilities. Staff provided a projection of how these changes would impact the Town's financial obligations.

The Committee meets annually to discuss the CalPERS Actuarial Reports and when appropriate has made recommendations to the Council for review and consideration. Some of the recommendations have included making supplemental payments, cost sharing pensions agreements, setting aside reserves, salary and benefit management, and establishing a Section 115 Trust. Some of these options were considered and acted upon by City Council.

The Town's philosophy has been to keep our funds local and spend them where they make the most difference; rather than pay down a liability that fluctuates based on the investment decisions of an agency we do not control. The Town set up a Section 115 Trust; but, did so with the intent to fund it only after the Town Center was complete.

The Town reviews pension liability, normal cost projections, and analysis tools provided in its CalPERS actuarial reports. We use these projection variables when creating a Five-Year General Fund forecast that is included as part of the Town's budget review Projections beyond Five-Years can be extremely speculative.

The Grand Jury encourages transparency improvements on pension costs. All of the Town's CalPERS actuarial reports are available on the Town's website and its projections are part of the annual budget process. Staff also works continually to enhance its use of the OpenGov Financial Portal and increase the ability of the public to drill down on the Town's financial data – to include its pension obligations.

Lastly, the Grand Jury encourages agencies to pass ballot measures to pay for pension obligations. That is not something the Town has expressed any interest in doing nor is it something staff would recommend.

The City Council has developed a policy to direct ERAF funds toward pension obligations over time along with other budget priorities. As was mentioned above our philosophy is to maintain and invest funds locally or keep them in funds that we control. It is not the current philosophy to contribute to CalPERS any more funds than our required normal cost and unfunded liability requires. The Town recently implemented cost sharing with its employees and they are now contributing the maximum allowable under CalPERS law toward pension liability. This is in addition to the 100% portion of the employee share.

POLICY FOCUS

The Grand Jury requires that the Town respond to the findings and recommendations in the report. Staff has provided responses for the City Council’s consideration. Staff has agreed with some findings, partially agreed with others, and provided feedback on the recommendations.

FISCAL IMPACT

None.

COMMISSION/COMMITTEE FEEDBACK/REFERRAL

This item ___ has or X has not been before a Town Committee or Commission.

- Audit/Finance Committee (meets every other month)
- Bicycle/Pedestrian Committee (meets as needed)
- Civic Center Advisory Committee (meets as needed)
- Environmental Programs Committee (meets every other month)
- Park and Recreation Committee (meets each month)
- Planning Commission (meets each month)
- Rail Committee (meets every other month)
- Transportation Committee (meets every other month)
- Tree Committee (meets each month)

ATTACHMENT

1. Attachment 1 - Response to Grand Jury Report
2. Attachment 2 - 2018-2019 San Mateo County Civil Grand Jury Report “Soaring City Pension Costs- Follow Up on Grand Jury Report of 2017-18”



Town of Atherton

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September 19, 2019

Honorable V. Raymond Swope
Judge of the Superior Court
C/O Charlene Kresevich
Hall of Justice
400 County Center; 2nd Floor
Redwood City, CA. 94063-1655

SUBJECT: GRAND JURY REPORT "Soaring Pension Costs-Follow-Up On Grand Jury Report 2017-18"

Dear Hon. V. Raymond Swope:

Attached please find the Town of Atherton's response to the above Grand Jury Report. Pursuant to California Penal Code Section 933.05, the response was considered by the City Council at a public meeting on September 18, 2019.

Should you have any questions concerning the response, please contact City Manager George Rodericks at (650) 752-0504.

Sincere Regards,

TOWN OF ATHERTON

Bill Widmer
Mayor

RESPONSE TO GRAND JURY REPORT

Report Title: “Soaring City Pension Costs-Follow Up On Grand Jury Report 2017-2018”

Report Date: July 30, 2019

Response by: Town of Atherton

By: Bill Widmer, Mayor

The Town of Atherton is responding to each Finding solely with respect to itself and not regarding any other City.

FINDINGS:

- We agree with the findings of numbers: F1, F2, F4, F5, F6, F7, F8, F11, F12, F13, F14, F15, F17, F18, F19, F21, F23, F24, F25, F26, F27
 - For those items describing methodology for accessing information in other jurisdictions, the Town agrees with the findings of the Grand Jury only to the extent of the information provided within the Grand Jury Report. The Town has not independently accessed the websites or data of other jurisdictions.

- We somewhat agree, disagree wholly or partially with the findings numbered: F3, F9, F10, F16, F20, F22

RECOMMENDATIONS:

Recommendation numbered R1, R2 will take under advisement and implement when feasible.

FINDINGS

F3. Each City’s audited annual financial report for the fiscal year ending June 30, 2018 reported combined Unfunded Liabilities (as defined in this report) for the City’s pension plans for each of FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18 in the amounts set forth beside its name for that year in Appendix A. Each City has been required to make large Amortization Cost (as defined in this report) payments of principal and interest to CalPERS on those Unfunded Liabilities. These payments have diverted money that could otherwise have been used to provide public services or to add to reserves.

F3 Response: The Town of Atherton agrees with the finding that it has been required to make large amortization cost payments of principal and interest to CalPERS on our unfunded liabilities. However, the disagrees that these funds have diverted money that could have been used to provide public services or add to reserves. Personnel costs are part of the cost of a service driven industry and while funds could always be spent elsewhere, these funds were not “diverted” from other specific projects or services. The Town operates in a fiscally conservative manner and operates with a surplus each fiscal year.

F9 Each of Colma, Daly City, Foster City, Hillsborough, and Redwood City includes in its annual, or bi-annual budgets published on its public website, projections showing the annual dollar amount of its projected pension contribution costs for the next five or more years. None of the other Cities do so.

F9 Response: The Town of Atherton discusses annual dollar amount pension contribution cost projections with the Town Finance Committee and during its annual budget study sessions with the City Council. These projections extend over five years.

F10. Neither Atherton, Brisbane, nor Portola Valley have published, anywhere on their public website or their agenda packages for city council meetings, projections showing the annual dollar amount of their projected pension contribution costs for the next five or more years.

F10 Response: The Town of Atherton discusses annual dollar amount pension contribution cost projections with the Town Finance Committee and during its annual budget study sessions with the City Council. These projections extend over five years. These meetings are public meetings with publicly posted agendas on the Town's website. These meetings are also typically video-recorded.

F16. The only way to find the five-year general fund operating budget forecasts on the public websites of Atherton and Burlingame is by manually searching through agenda packages for their City Council meetings.

F16 Response: The Town of Atherton disagrees with the finding. The Town produces a General Fund five year forecast that is part of its annual budget study session discussions. These study sessions are posted on the Town website for City Council meetings.

F20. Neither Atherton, Brisbane, Burlingame, Daly City, East Palo Alto, Half Moon Bay, Hillsborough, Millbrae, Pacifica, Portola Valley, San Bruno, South San Francisco nor Woodside currently has a specific plan recommended by staff to the City or Town Council (as applicable) to make additional pension contribution payments to CalPERS beyond its Annual Required Contribution.

F20 Response: The Town of Atherton disagrees with the finding. The Town over the years through its Finance Committee has explored long term financial plans to provide opportunities the City Council can consider paying down pension liabilities and mitigate investment volatility. Every year we review the CalPERS pension actuarials and risk analysis tools to estimate the Town Contributions payments toward unfunded liabilities, Employer normal cost rates, and an outlook on paying down liabilities. Currently the Town anticipates making only its Annual Required Contributions.

The Town has explored the following:

➤ **Consideration of additional contributions to CalPERS beyond required UAL to lower our payroll normal costs. This will accelerate funding based on alternative amortization schedules in the valuation reports;**

- **Decision to accumulate reserves and establish an Internal Service Fund to make a singular significant contribution to CalPERS when the Town sees prudent;**
- **The Town established an Irrevocable Supplemental Trust that can be used to reimburse for CalPERS contributions or make payments directly to CalPERS;**
- **Setting of a funding target for unfunded liabilities versus continuing pay as we go based on CalPERS valuation reports.**

F22. Neither Atherton, Belmont, East Palo Alto, Millbrae, San Bruno, nor San Mateo currently has a specific plan recommended by staff to the City or Town Council (as applicable) to set aside internal reserves, or to contribute funds to a Section 115 trust, specifically for the purpose of paying future pension contribution costs.

F22 Response: The Town of Atherton disagrees. In 2018, the Town of Atherton approved setting up an Irrevocable Trust with PARS that can be used to reimburse CalPERS contributions or make payments directly to CalPERS. No funds have yet been directed to this Trust.

RECOMMENDATIONS

R1. Each City include in its published annual or bi-annual budgets a general fund operating budget forecast for the next ten fiscal years.

R1 Response: The Town reviews its pension cost every year in public meetings with the Town Finance Committee and City Council. The Town believes that forecast revenue and expenditures over 10 years will not be accurate and may have a tendency to be highly speculative. The Town does a 5-year forecast that it believes is more appropriate in providing an accurate forecast while gauging current trends and operations. Pension liabilities are reviewed during budget study sessions, its annual audit, and presentation of financials statement at City Council. Paying down of long-term liabilities is a Town core strategy of maintaining financial stability as the Town has taken steps to address pension costs in the long term. The Town supports reviewing pension obligations annually and projecting costs and looking for opportunities to pay down long term liabilities. The Town has explored most of the options of policies and or implementation measures provided in the Grand Jury Report and will take others under advisement where feasible.

R2. Each City include a report in its published annual or bi-annual budgets specifically setting forth the dollar amounts of its annual pension costs paid to CalPERS. The report should include the following:

- The City's total pension contribution costs under all plans, for each of the three preceding fiscal years as well as estimates for such costs in each of the following ten fiscal years (whether developed by City staff internally, or by outside consultants to the City), assuming CalPERS' actuarial assumptions are met.
- The City's total Unfunded Liabilities under all plans, for each of the three preceding fiscal years as well as estimates for such Unfunded Liabilities in each of the next ten fiscal years, (whether developed by City staff internally,

or by outside consultants to the City), assuming CalPERS' actuarial assumptions are met.

- The City's Funded Percentage across all plans, for each of the three preceding fiscal years as well as estimates for such Funded Percentages in each of the next ten fiscal years, assuming CalPERS' actuarial assumptions are met.
- The percentage of the City's general fund expenditures, and the percentage of the City's covered payroll, represented by the pension costs described in (a) above (using estimates of general fund expenditures in future fiscal years).

R2 Response: The Town supports reviewing pension obligations annually and projecting costs in future fiscal years. The Town will take under advisement the recommendations above and project costs in future years in a matter that is feasible and allows the Town to identify opportunities to pay down its pension obligations.



SOARING CITY PENSION COSTS – FOLLOW-UP ON GRAND JURY REPORT OF 2017-2018

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ISSUE

One year after the Grand Jury's 2017-2018 report on soaring pension costs, what are San Mateo County's cities doing to manage them and to make better information available to the public about the impact of pension costs on long-term financial plans?

SUMMARY

The 2017-18 San Mateo County Civil Grand Jury issued a report in June 2018 entitled "*Soaring City Pension Costs – Time for Hard Choices.*" It can be viewed at: www.sanmateocourt.org/documents/grand_jury/2017/city_pension.pdf.

In the current report, the 2018-19 Grand Jury updates financial data on pensions for each city in San Mateo County, including the data in Appendix A relating to their pension costs during the four-year period from FY 2014-15 through FY 2017-18. The Grand Jury also reports on the steps, if any, currently being taken by each city to reduce, otherwise better manage, and/or plan for their long-term pension costs. It identifies whether the cities have implemented the Grand Jury's recommendation in the prior report that they develop long-term financial plans to address their pension liabilities and publish readily-accessible information on their websites about future pension costs and their long-term financial plans.

The 2018-19 Grand Jury finds that while projected pension cost information can now be found on the websites of almost all of the 20 cities, only a few include that information in their annual budgets. As a result, members of the public who may be interested in these data are forced to hunt for them through manual searches of those cities' numerous online city council meeting agenda packages looking for references to pensions. While the Grand Jury finds it commendable that almost half of the 20 cities now publish ten-year instead of five-year financial forecasts (and some of these cities only started generating ten-year forecasts this year), a minority of these cities still choose not to include these forecasts in their annual budgets. As a result, persons wishing to understand those cities' long-term pension situations must search through online city council agenda packages to find forecasts. Some cities with five-year forecasts also do not include them in their annual budgets. (For specifics on city financial forecasts, see Appendix B.)

The Grand Jury is persuaded that, in the interests of transparency, all of the cities should make it easy for their residents to see what their city's projected pension costs are over at least a ten year period, together with a ten-year general fund financial forecast so that the public can compare these rising pension costs against their city's overall financial situation. In order to make that information readily-accessible to the public, the Grand Jury recommends that this information be set forth in the cities' annual budgets, making it unnecessary for the public to search through council meeting agendas looking for it.

BACKGROUND

The 2017-18 San Mateo County Civil Grand Jury issued a report in June 2018 entitled “*Soaring City Pension Costs – Time for Hard Choices*.” The report received substantial press coverage,¹ and the 2018-19 Grand Jury decided to update the financial data in the report and conduct a follow-up investigation to identify what progress has been made to address the issues raised in the prior report.

The 2017-18 report provided a detailed analysis of the local government employee pension system and the factors affecting its financial health. It provided key statistics on the recent (FY 2014-15 through FY 2016-17) and projected future pension costs of each city in San Mateo County (each referred to here as a “City” and collectively as the “Cities”). The report found that most Cities’ pension costs would likely double within the next seven to ten years, posing a serious threat to their ability to continue to deliver public services at current levels. The report outlined the alternatives available to meet these costs and recommended that the Cities develop long-term financial plans for how to address the coming crisis of pension payments. Analyses in the 2017-18 report are not repeated in this new report and the reader is encouraged to read the prior report first, in order to fully understand this update. A brief summary of the report’s key findings follows.

Each City provides its employees with a defined-benefit pension plan² administered by the California Public Employees Retirement System (“CalPERS”). These plans are funded by Normal Cost³ contributions⁴ to CalPERS from both the Cities and the employees themselves. CalPERS, in turn, invests these contributions in a portfolio of assets. CalPERS relies on a Return on Investment⁵ (ROI) from this portfolio for about 61 percent of the funds needed to pay the pension benefits promised to retired City employees. CalPERS’ current ROI expectation over the long-term is an annual return of seven percent.⁶

In the event that the projected cost of benefits increases unexpectedly, or CalPERS’ ROI falls short of projections, the pension plans will have Unfunded Liabilities.⁷ The Cities, rather than CalPERS, are responsible for paying off Unfunded Liabilities through payments to CalPERS of their Amortization Cost⁸ of principal and interest on the Unfunded Liabilities. Both Normal Cost and Amortization Cost contributions are legal obligations that the Cities have to CalPERS and are not discretionary spending.

¹ Bradshaw, Kate, “Grand jury urges county cities to prepare for crushing pension costs,” The Almanac, July 31, 2018. Walsh, Austin, “Study: Cost of pensions dangerous,” San Mateo Daily Journal, July 18, 2018. Climate Magazine, “Wiping Out on the California Pension Wave” March 2019.

² Defined pension benefit plans are described on page 4 of the prior report.

³ “Normal Cost” is defined on page 3 of the prior report.

⁴ The terms “contributions” and “pension contribution costs” as used in this report and in the prior report refer to payments to CalPERS of pension costs, including both Normal Costs and Amortization Costs.

⁵ All capitalized terms used in this report that are not defined have the definitions given to them in the prior report.

⁶ SFGate, “CalPERS lowers projected return on investment,” December 22, 2016.

⁷ “Unfunded Liability” is defined on page 4 of the prior report.

⁸ “Amortization Cost” is defined on page 2 of the prior report.

Due in large part to unduly optimistic assumptions CalPERS made in the past about long-term rates of return it could achieve, almost all of the Cities have large Unfunded Liabilities, with an average Funded Percentage⁹ of just 70.5 percent in FY 2016-17, well below the 80 percent “at risk” threshold.¹⁰ Further, average annual pension payments by the Cities were projected to increase by 92.6 percent between FY 2017-18 and FY 2024-25. According to some financial experts, CalPERS’ assumptions about ROI appear to remain optimistic, implying that future pension liabilities may be even larger than currently projected.¹¹

The 2017-18 Grand Jury recommended that Cities develop long-term financial plans to address their pension liabilities and publish readily-accessible information on their websites about future pension costs and their long-term financial plans. The Grand Jury did not recommend what specific actions the Cities should take to plan for meeting their pension obligations but did outline a number of alternatives. Broadly, these fall into three categories: (1) *reducing* future pension payments to CalPERS by paying down the Unfunded Liabilities early, thereby saving interest costs; (2) *managing* future pension payments to CalPERS by methods such as contributions to a reserve, negotiating cost-sharing arrangements with employees, and keeping employee salary increases within the rate assumed by CalPERS; and (3) *adapting* to future pension payment increases by reducing municipal operating costs and/or seeking revenue enhancements.

DISCUSSION

Updated Pension Data from Cities’ FY 2017-18 Financial Reports

Appendix A to this report is an updated version of the Appendix A attached to the prior report. The updated Appendix A incorporates pension cost data from each City for FY 2017-18, the most recent year for which annual financial reports (usually referred to in this report as “CAFRs” for “Comprehensive Annual Financial Report”)¹² from the Cities are available. This updated Appendix A provides data from each of the 20 Cities for the four-year period from FY 2014-15 through FY 2017-18.

Data for FY 2017-18 in Appendix A show continued increases in (i) the Cities’ pension contribution costs, averaging an increase of 15.2 percent over FY 2016-17, and (ii) the amount of the Cities’ Unfunded Liabilities, averaging an increase of 14.2 percent over FY 2016-17. These increases are generally consistent with projections described in the prior report.

⁹ “Funded Percentage” is defined on page 3 of the prior report.

¹⁰ See discussion in prior report of “at risk” threshold (page 16).

¹¹ See discussion of expert concerns that CalPERS’ return on investment projections may be too optimistic at pages 8-9 of the prior report.

¹² The term “CAFR” is used in this report to refer, not only to “Comprehensive Annual Financial Reports,” but also to “Basic Financial Statements” and “Annual Financial Reports.” The audited annual financial reports for the Towns of Atherton, Colma, Portola Valley, and Woodside are referred to by them as either “Basic Financial Statements” or “Annual Financial Reports.”

The 2018-19 Grand Jury hopes that the data in this updated Appendix A can serve as a reference for members of the public who wish to understand the pension costs being paid by their City, without having to sift through financial reports, operating budgets and city council agenda packages online to find and assemble the data themselves. It also serves as a helpful basis for comparing each City's pension cost situation against other Cities.

Reports on Steps Taken by Each City to Address Pension Costs and Enhance the Availability of Public Information About Pension Costs

Set forth below as to each City is (1) additional information summarizing its projected, future pension costs (see, "Pension Contribution Costs"), (2) a brief overview of its financial condition (see, "Financial Overview"), (3) a summary of its available general fund reserves that might in the future help to absorb fiscal strains from rising costs or slowing revenue growth (see, "General Fund Reserves"), (4) specific actions that it might consider in order to better meet its future pension obligations (see, "Additional Payments to CalPERS," "Pension Reserve Fund," "Employee Contribution to City's Normal Cost," "Revenue Enhancement," and "Pension Obligation Bonds"), and (5) the extent to which the City has and makes accessible to the public information about its projected pension costs ("Pension Contribution Costs") and projected financial forecasts ("Long-Term Financial Forecast"). Some of this information is also summarized in Appendix B to this report in order to facilitate a side-by-side comparison of the Cities.

The reports on individual Cities show that seven Cities¹³ are making, or plan to make, additional payments to CalPERS beyond their Annual Required Contribution¹⁴ in order to reduce their total pension payments. Cities taking steps to better manage rising pension costs include (1) fourteen Cities that have established, or are currently planning to establish and fund, special funds/reserves to help buffer the impact of future increases in pension obligations and/or shortfalls in projected revenues, whether as a result of a recession, natural disaster, or otherwise,¹⁵ (2) eleven Cities have reduced, or are planning to reduce, the pension costs they would otherwise owe through cost-sharing agreements with their employees under which those employees pay a portion of the Cities' pension costs,¹⁶ nine Cities have since 2016 have sought and obtained voter approval for ballot

¹³ The Cities are Belmont, Colma, Foster City, Menlo Park, Redwood City, San Carlos, and San Mateo. (See, discussions of those specific Cities in sections for each of them below entitled "Additional Payments to CalPERS" and also Appendix B.)

¹⁴ Annual Required Contribution (ARC) means the sum of a municipality's share of Normal Cost and, if any, the Amortization Cost. ARC is the amount an agency is legally required to pay to the plan administrator in order to fund a pension plan. See, Brainard, Keith and Brown, Alex, *The Annual Required Contribution Experience of State Retirement Plans, FY01 to FY13*, National Association of State Retirement Administrators, March 2015, p. 2, <https://www.nasra.org/files/JointPublications/NASRA_ARC_Spotlight.pdf>.

¹⁵ The Cities are Brisbane, Burlingame, Colma, Daly City, Foster City, Half Moon Bay, Hillsborough, Menlo Park, Pacifica, Portola Valley, Redwood City, San Carlos, South San Francisco and Woodside. (See, discussions of those specific Cities in sections for each of them below entitled "Pension Reserve Fund" and also Appendix B.)

¹⁶ The Cities are Atherton, Belmont, Burlingame, Foster City, Hillsborough, Menlo Park, Millbrae, Pacifica, Redwood City, San Mateo and South San Francisco. (See, discussions of those specific Cities in sections for each of them below entitled "Employee Contribution to City's Normal Cost" and also Appendix B.)

measures intended to increase revenues,¹⁷ and four Cities are concurrently considering seeking approval of their voters for revenue enhancement measures in the near term.¹⁸

Two Cities have not yet put in place either (a) a plan to make additional payments to CalPERS beyond their Annual Required Contribution in the near term in order to reduce their long-term pension costs, (b) a plan to set aside money in a separate fund/reserve to help pay future pension costs, or (c) long-term general fund financial forecasts to help in budget planning.¹⁹ One additional City also does not currently make long-term general fund financial forecasts.²⁰

Of the seventeen²¹ Cities that prepare long-term general fund financial forecasts of at least five years, six²² do not publish those forecasts in their readily-accessible annual budgets or annual financial statements, requiring members of the public who are looking for long-term forecasts to manually search through City Council meeting agendas online looking for reports that contain such data, and eight²³ only prepare five-year forecasts rather than the ten-year forecasts recommended by the Grand Jury.

While all but three²⁴ of the Cities have either generated, or retained consultants to generate for them, long-term projections of their future pension costs, only five of them²⁵ publish those forecasted pension costs in their readily-accessible annual budget or financial reports, requiring members of the public who are looking for such projections to manually search through City Council meeting agendas online looking for reports that contain such data.

¹⁷ The Cities are Belmont, Brisbane, Burlingame, Colma, Daly City, East Palo Alto, Foster City, Redwood City, and South San Francisco. (See, discussions of those specific Cities in sections for each of them below entitled “Revenue Enhancement” and also Appendix B.)

¹⁸ The Cities are Half Moon Bay, Pacifica, Redwood City and San Bruno. (See, discussions of those specific Cities in sections for each of them below entitled “Revenue Enhancement” and also Appendix B.)

¹⁹ The Cities are East Palo Alto and Millbrae. (See, discussions of those specific Cities in sections for each of them below entitled “Additional Payments to CalPERS,” “Pension Reserve Fund,” “Long-Term Financial Forecast” and also Appendix B.) However, East Palo Alto’s City Council has instructed staff to prepare a long-term, general fund operating plan going out to the end of FY 2025-26 and staff is in the process of preparing such a plan. Staff’s objective is to complete such a plan by October 2019. (See, section on East Palo Alto’s “Long-Term Financial Forecast” below.) Millbrae also reports that it is in the process of developing a ten-year general fund financial forecast and expects to have one sometime in FY 2019-20. (See, section on Millbrae’s “Long-Term Financial Forecast” below.)

²⁰ This City is Portola Valley. (See, section on Portola Valley’s “Long-Term Financial Forecast” below.)

²¹ The Cities are Atherton, Belmont, Brisbane, Burlingame, Colma, Daly City, Foster City, Half Moon Bay, Hillsborough, Menlo Park, Pacifica, Redwood City, San Bruno, San Carlos, San Mateo, South San Francisco and Woodside. (See, sections on these Cities’ “Long-Term Financial Forecast” below.)

²² The Cities are Atherton, Brisbane, Burlingame, Daly City, Pacifica, and South San Francisco. (See, sections on these Cities’ “Long-Term Financial Forecast” below.)

²³ These Cities are Atherton, Belmont, Brisbane, Burlingame, Foster City, Half Moon Bay, San Bruno and San Carlos. (See, sections on these Cities’ “Long-Term Financial Forecast” below.)

²⁴ These Cities are Atherton, Brisbane, and Portola Valley. (See, sections on these Cities’ “Pension Contribution Costs” below.)

²⁵ These Cities are Colma, Daly City, Foster City, Hillsborough, and Redwood City. (See, sections on these Cities’ “Pension Contribution Costs” below.)

Finally, the Grand Jury commends the following Cities for the actions to increase transparency and/or reduce long-term pension contribution costs described below:

- Colma, Daly City, Foster City, Hillsborough for their decisions to incorporate pension contribution cost projections in their most recent annual budgets. They had not included such projections in their prior budgets.²⁶
- Redwood City and Woodside for their decisions to extend their general fund forecast periods from five years to ten years.²⁷
- Redwood City for recently adding a “Fiscal Update” page to its public website (www.redwoodcity.org/fiscalupdate) that the Grand Jury finds to quite helpful to access key information about Redwood City’s most recent budget.²⁸
- Foster City for the unusual depth of information and analysis provided in the five-year general fund operating forecast contained in its most recent FY 2019-20 budget.²⁹
- Belmont, Colma, Foster City, Menlo Park, Portola Valley, Redwood City, San Carlos, and San Mateo, for having made, or currently having specific plans to make, additional pension contribution payments to CalPERS beyond their Annual Required Contribution, thus actually reducing their long-term pension contribution costs.³⁰

Atherton

Pension Contribution Costs - Atherton

Atherton’s pension contribution costs in FY 2017-18 were \$1.29 million (up from \$1.16 million in FY 2016-17).³¹ The Town’s FY 2017-18 pension contribution costs represented 27.7 percent of that year’s covered payroll³² (up from 26.7 percent the preceding year) and 10.7 percent of its total general fund spending (up from 10.1 percent the preceding year).³³

The Town projects its pension contribution costs will increase above FY 2017-18 by \$1.86 million (144.1 percent) to \$3.15 million by FY 2023-24.³⁴ The Town does not have any projections beyond FY 2023-24.³⁵

²⁶ See, sections on these Cities’ “Pension Contribution Costs” and Appendix B below.

²⁷ See, sections on these Cities’ “Long-Term Financial Forecast” and Appendix B below.

²⁸ See, sections on Redwood City’s “Long-Term Financial Forecast” and Appendix B below.

²⁹ Foster City, Preliminary Budget for Fiscal Year 2019-2020, pp. 55-94.

³⁰ See, sections on these Cities’ “Additional Payments to CalPERS” and Appendix B below.

³¹ Appendix A.

³² “Covered payroll” refers to pay received by those employees who participate in a City’s CalPERS pension plan.

³³ Appendix A.

³⁴ Email from Atherton, dated June 20, 2019.

³⁵ Grand Jury interview.

Financial Overview – Atherton

Atherton describes its fiscal condition as “positive.”³⁶ It had general fund surpluses of \$3.87 million and \$4.58 million in each of FY 2016-17 and FY 2017-18, respectively.³⁷ It projects that it will accrue another \$22.93 million in surpluses during the six year period from FY 2018-19 through FY 2023-24,³⁸ which represents an annual average surplus of \$3.82 million.

Per its reserve policies, Atherton maintains general fund reserves equal to 15 percent of its general fund expenditures for emergency contingencies and additional 20 percent of expenditures for budget stabilization.³⁹

Through the end of FY 2017-18, Atherton accumulated an unassigned general fund balance of \$14.86 million,⁴⁰ which the Town projects will grow to \$18.49 million by the end of FY 2019-20.⁴¹ Atherton plans to invest this unassigned balance on a new Civic Center.⁴²

Additional Payments to CalPERS - Atherton

Atherton does not currently have plans to make additional payments to CalPERS beyond its Annual Required Contribution. It re-evaluates this option each year when it reviews its annual June 30 CalPERS actuarial valuation reports.⁴³

Pension Reserve Fund - Atherton

Atherton approved setting up a Section 115 Trust for future pension costs in November 2018 but has not funded the trust. The Town has no plan to fund the trust in FY 2019-20. It expects to re-evaluate its decision not to fund the trust each year when it reviews its annual June 30 CalPERS actuarial valuation reports.⁴⁴

Employee Contribution to City’s Normal Cost - Atherton

Prior to FY 2012-13, Atherton paid 100 percent of its employees’ pension contribution costs. That year, in order to reduce expenses, it negotiated a change with employees under which the Town stopped funding any portion of its employees’ pension costs.⁴⁵

³⁶ Atherton, Staff Report for City Council Meeting on June 5, 2019 re: Review of the FY 2019/20 Town Budget, p. 2.

³⁷ Atherton, Basic Financial Statements for the Year Ended June 30, 2017, p. 26. Atherton, Basic Financial Statements for the Year Ended June 30, 2018, p. 26.

³⁸ Atherton, Staff Report for City Council Meeting on March 6, 2019 re: FY 2019/20 Budget Kick-Off and Overview, pp. 4-6.

³⁹ See, section below entitled “General Fund Reserves – Atherton.”

⁴⁰ Atherton, Basic Financial Statements for the Year Ended June 30, 2018, p. 58.

⁴¹ Atherton, Staff Report for City Council Meeting on June 5, 2019 re: Review of the FY 2019/20 Town Budget, General Fund 101 Revenue & Expenditures Summary, p. 20.

⁴² Atherton, Staff Report for City Council Meeting on March 6, 2019 re: FY 2019/20 Budget Kick-Off and Overview, p. 7.

⁴³ Grand Jury interview.

⁴⁴ Ibid.

⁴⁵ Ibid.

In FY 2018-19, Atherton entered into an agreement with employees under which employees agreed to pay a portion of the Town's pension contribution costs (one percent of salary for employees under Miscellaneous plans and three percent of salary for employees under Safety plans).⁴⁶

Revenue Enhancement - Atherton

Since 2016 Atherton has not put any ballot initiatives before its voters for the purpose of revenue enhancement and it does not currently have plans to do so in the future.⁴⁷

Pension Obligation Bonds - Atherton

Atherton does not have any outstanding pension obligation bonds.⁴⁸

General Fund Reserves - Atherton

Atherton's unassigned general fund balance at the end of FY 2017-18 was \$14.86 million, representing 123.1 percent of general fund expenditures of \$12.07 million that year,⁴⁹ far in excess of its policy minimum of 20 percent of such expenditures.⁵⁰ The Town projects that its unassigned general fund balance will grow to \$15.58 million in FY 2018-19⁵¹ (representing 110.6 percent of general fund expenditures of \$14.09 million)⁵² and to \$18.49 million in FY 2019-20 (representing 126.7 percent of general fund expenditures).⁵³ The Town expects to spend its unallocated general fund balance on a capital improvement project for a new Civic Center,⁵⁴ which it describes as its "biggest capital project in recent memory."⁵⁵

In addition to its unassigned general fund balance, Atherton's policy is to set aside another 15 percent of total general fund operating expenses for emergency contingencies.⁵⁶ At the end of FY 2017-18, the Town had committed \$1.81 million to this reserve⁵⁷ (representing 15 percent of its \$12.07 million in expenditures⁵⁸). Per the 15 percent policy, this

⁴⁶ Ibid.

⁴⁷ Ibid.

⁴⁸ Ibid.

⁴⁹ Atherton, Basic Financial Statements for the Year Ended June 30, 2018, pp. 22 & 26.

⁵⁰ Ibid., p. 58.

⁵¹ Atherton, Staff Report for City Council Meeting on March 6, 2019 re: FY 2019/20 Budget Kick-Off and Overview, p. 2.

⁵² Atherton, Fiscal Year 2018/19 Operating & Capital Improvement Budget, General Fund 101 Revenue & Expenditures Summary, p. 35.

⁵³ Atherton, Staff Report for City Council Meeting on June 5, 2019 re: Review of the FY 2019/20 Town Budget, General Fund 101 Revenue & Expenditures Summary, p. 20.

⁵⁴ Atherton, Staff Report for City Council Meeting on March 6, 2019 re: FY 2019/20 Budget Kick-Off and Overview, p. 7.

⁵⁵ Atherton, Basic Financial Statements for the Year Ended June 30, 2018, p. 15.

⁵⁶ Ibid., p. 58.

⁵⁷ Ibid., p. 58.

⁵⁸ Ibid., p. 26.

emergency contingency reserve is projected to increase to \$2.11 million at the end of FY 2018-19⁵⁹ and to \$2.19 million at the end of FY 2019-20.⁶⁰

Atherton has also established a policy to have a “budget stabilization reserve” equal to 20 percent of general fund expenditures. This too is in addition to the unassigned general fund budget. Per this 20 percent policy, the budget stabilization reserve is projected to hold \$2.82 million at the end of FY 2018-19⁶¹ and \$2.92 million at the end of FY 2019-20.⁶²

Long-Term Financial Forecast – Atherton

Atherton has a long-term general fund financial forecast covering the five years from FY 2019-20 through FY 2023-24.⁶³ The forecast is not included in the Town’s FY 2017-18 CAFR or its FY 2018-19 budget⁶⁴ In order to find Atherton’s long-term financial forecast online, it is necessary to manually search online City Council agendas at www.ci.atherton.ca.us/Archive.aspx?AMID=41 (last accessed on May 29, 2019). That search will eventually lead to the agenda for the City Council’s meeting on March 6, 2019⁶⁵ which includes a link entitled “2. FY 2019/20 Budget Kick-Off and Overview.” That link leads to a staff report for the March 6, 2019 meeting that includes the Town’s five-year long-term financial forecast.⁶⁶

Belmont

Pension Contribution Costs – Belmont

Belmont’s pension contribution costs in FY 2017-18 were \$3.93 million, up \$0.345 million (9.6 percent) from \$3.58 million in FY 2016-17.⁶⁷ The City’s FY 2017-18 pension contribution costs represented 24.9 percent of that year’s covered payroll (up from 23.6 percent the preceding year) and 20.2 percent of its total general fund spending (up from 19.5 percent the preceding year).⁶⁸

The City’s actuarial consultant – GovInvest - projects that Belmont’s pension contribution costs will increase above FY 2017-18 costs by \$1.43 million (36.4 percent) to \$5.36

⁵⁹ Atherton, Staff Report for City Council Meeting on March 6, 2019 re: FY 2019/20 Budget Kick-Off and Overview, p. 2.

⁶⁰ Atherton, Staff Report for City Council Meeting on June 5, 2019 re: Review of the FY 2019/20 Town Budget, p. 20.

⁶¹ Atherton, Staff Report for City Council Meeting on March 6, 2019 re: FY 2019/20 Budget Kick-Off and Overview, p. 2.

⁶² Atherton, Staff Report for City Council Meeting on June 5, 2019 re: Review of the FY 2019/20 Town Budget, p. 20.

⁶³ Atherton, Staff Report for City Council Meeting on March 6, 2019 re: FY 2019/20 Budget Kick-Off and Overview, pp. 4-6.

⁶⁴ Atherton, Basic Financial Statements for the Year Ended June 30, 2018. Atherton, Fiscal Year 2018/19 Operating & Capital Improvement Budget.

⁶⁵ The March 6, 2019 City Council meeting agenda may be found at www.ci.atherton.ca.us/Archive.aspx?ADID=3112 (Last accessed May 29, 2019.)

⁶⁶ Atherton, Staff Report for City Council Meeting on March 6, 2019 re: FY 2019/20 Budget Kick-Off and Overview, pp. 4-6.

⁶⁷ Appendix A.

⁶⁸ Ibid.

million by FY 2023-24 and by an additional \$0.643 million (12 percent) to \$6 million by FY 2027-28.⁶⁹

Belmont’s projected, annual pension contribution costs are not included in its published FY 2018-19 budget, or its FY 2019-20 budget.⁷⁰ In order to find these projected costs online, it is necessary to manually search through City Council meeting agenda packages, which can be accessed at the following website: <https://www.belmont.gov/our-city/city-government/meetings-agendas-minutes>. (Last accessed on May 11, 2019.) That search would eventually lead to the June 12, 2018 agenda for a meeting of the Belmont City Council⁷¹ which refers to a discussion of “CalPERS Unfunded Accrued Liability (UAL) Funding Options” and provides a link to a June 12, 2018 GovInvest presentation, which includes a graph showing contribution projections through FY 2048-49 on page 5.⁷²

Financial Overview – Belmont

Belmont reports that it was in a financial “survival mode” following the 2008 recession, but that its finances have now “steadied ... at least in the near-term.”⁷³ In addition to “massive exposure from deferring infrastructure improvements,”⁷⁴ the City states that its financial health is currently subject to two additional pressures. The first is rising CalPERS pension costs and the second is “the high likelihood of experiencing a mild recession in the mid-term.”⁷⁵ The City’s primary budget focus at present is funding the repair of its infrastructure.⁷⁶

Additional Payments to CalPERS – Belmont

Over the six-year period from FY 2017-18 through FY 2022-23, Belmont plans to make additional payments to CalPERS beyond the Annual Required Contribution for a total of \$3.65 million (approximately \$0.609 million per year). The City estimates that these additional payments will result in long-term net savings of \$4.67 million.⁷⁷

⁶⁹ Belmont, GovInvest, City of Belmont Pension Funding Analysis dated June 12, 2018, p. 5. GovInvest’s contribution projections run through 2049.

⁷⁰ Belmont FY 2019 Budget. Belmont FY 2020 Budget. Note, however, that at page 15 of the Budget Brief section of the FY 2020 Budget, the City does (1) show projected increases in the CalPERS contribution “rates” (i.e., the percentages of covered payroll represented by CalPERS pension contribution costs) and (2) state that Safety Plan and Miscellaneous Plan contribution cost increases from FY 2020 to FY 2024 were projected to be \$0.034 million and \$0.148 million, respectively.

⁷¹ Belmont’s June 12, 2018 City Council meeting agenda may be found at- https://ca.granicus.com/GeneratedAgendaViewer.php?view_id=2&event_id=563 (Last accessed on May 11, 2019.)

⁷² Belmont, GovInvest, City of Belmont Pension Funding Analysis dated June 12, 2018.

⁷³ Belmont, FY 2019 Budget, p. 1 of FY 2019 Budget Brief.

⁷⁴ Ibid, p. 1 of FY 2019 Budget Brief.

⁷⁵ Ibid, p. 1 of FY 2019 Budget Brief.

⁷⁶ Ibid, pp. 2 & 4-5 of FY 2019 Budget Brief.

⁷⁷ Grand Jury interview. Belmont, GovInvest, City of Belmont Pension Funding Analysis dated November 27, 2018, p. 8. Net savings are the result of subtracting total additional payments of \$3.65 million from total (not net) savings of \$8.32 million.

Pension Reserve Fund – Belmont

Belmont does not currently have plans to establish an internal pension reserve fund, nor a Section 115 Trust.⁷⁸ Instead, it has decided to make additional payments to CalPERS beyond its Annual Required Contribution (as described above in section entitled “Additional Payments to CalPERS – Belmont”, because doing so actually reduced overall pension costs while merely setting aside funds for future payment obligations does not.⁷⁹

Employee Contribution to City’s Normal Cost – Belmont

Belmont has cost-sharing agreements in place with employees in Miscellaneous Plans⁸⁰ and Safety Plans⁸¹ under which those employees pay a portion of the City’s pension costs.⁸²

Revenue Enhancement – Belmont

Belmont residents approved a one-half cent sales tax in November 2016 (Measure I), which was projected to generate approximately \$1.3 million per year initially.⁸³ Measure I revenues are all allocated to infrastructure projects.⁸⁴ In November, 2018 Belmont residents approved Measure KK, which increased the City’s transient occupancy tax (“Hotel tax”) rate from ten percent to twelve percent. Measure KK is projected to bring in an additional \$0.560 million in unrestricted general fund revenues annually. The City Council has adopted “Top Priorities” as part of its FY 2020 Strategic Planning effort, which include, in part, the following: “Secure on-going funding for Sewer, Storm, Streets, Facilities and Parks to address deferred maintenance and future capital needs along with a plan to support critical public services ...”⁸⁵

Pension Obligation Bonds - Belmont

Belmont does not have any outstanding pension obligation bonds.⁸⁶

General Fund Reserves – Belmont

Belmont’s general fund unrestricted reserve as of the end of FY 2017-18 was \$10.68 million, representing 54.9 percent of its \$19.5 million in general fund operating expenditures that year.⁸⁷ Belmont’s policy is to maintain a minimum reserve balance of \$5

⁷⁸ Section 115 Trusts are irrevocable trusts where funds are deposited for the purpose of meeting future pension obligations. They are described on page 30 of the prior report.

⁷⁹ Grand Jury interview.

⁸⁰ “Miscellaneous Plans” are pension plans for public service employees who do not provide safety services such as police and fire protection. Miscellaneous Plans are generally less expensive to maintain than Safety Plans. (Prior report, Glossary, p. 3.)

⁸¹ “Safety Plans” are plans for public service employees who provide safety services such as police and fire protection. (Prior report, Glossary, p. 3.)

⁸² Grand Jury interview.

⁸³ Ballotpedia, Local Ballot Measures, Belmont, California, Sales Tax Measure I (November 2016).

⁸⁴ Grand Jury interview.

⁸⁵ Email from Belmont, dated June 7, 2019.

⁸⁶ Ibid.

⁸⁷ Belmont, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, pp. 25 & 27.

million and it targets maintaining a balance equal to 33 percent of general fund operating expenditures.⁸⁸ The City projects that the general fund unrestricted reserve will remain well above this 33 percent target throughout the FY 2019-20 through FY 2023-24 period.⁸⁹

Long-Term Financial Forecast – Belmont

Belmont's long-term financial forecast is based on a five-year forecast period.⁹⁰ The City incorporated its long-term financial forecast into its FY 2019 and FY 2020 budgets,⁹¹ which are readily-accessible on the finance department home page of the City's website.⁹²

Brisbane

Pension Contribution Costs - Brisbane

Brisbane's pension contribution costs in FY 2017-18 were \$1.91 million, up \$0.193 million (11.3 percent) from \$1.71 million in FY 2016-17.⁹³ The City's FY 2017-18 pension contribution costs represented 23.5 percent of that year's covered payroll (up from 21.6 percent the preceding year) and 10.9 percent of its total general fund spending (down from 11.0 percent the preceding year).⁹⁴

Brisbane projects its pension contribution costs will increase from FY 2017-18 by \$1.63 million (85.5 percent) to \$3.54 million by FY 2023-24.⁹⁵ The City has not made any pension cost projections beyond FY 2023-24.⁹⁶

In addition to its contribution payments made to CalPERS, Brisbane also makes annual, installment payments on its 2006 pension obligation bonds (originally issued in the amount of \$4.75 million) and on a 2013 Pension Side Fund Bank Loan (in the original principal amount of \$1.61 million).⁹⁷ Brisbane paid a combined total of \$0.794 million on the bonds and loan in FY 2017-18. These payments will decrease to \$0.364 million in FY 2018-19. From FY 2018-19 through FY 2022-23 when the bonds and loan are fully paid off, the City will make average annual payments on the bonds and loan of approximately \$0.389 million.⁹⁸ Taking bond and loan payments into account, the City's total payments on account of its pensions (CalPERS, bond and loan payments combined) were \$2.7 million in

⁸⁸ Belmont, FY 2019 Budget, p. 6 of FY 2019 Budget Brief and p. 3 of Appendix.

⁸⁹ Email from Belmont, dated June 7, 2019. Belmont, FY 2020 Budget, p. 21 of Budget Brief; General Fund and Subsidized Funds Trends & Projections FY 2018 – FY 2024.

⁹⁰ Ibid, pp. 19-21 of Budget Brief; General Fund and Subsidized Funds Trends & Projections FY 2017 – FY 2023.

⁹¹ Belmont FY 2019 Budget, pp. 19-21. Belmont, FY 2020 Budget, pp. 19-21 & 24.

⁹² The finance department's home page on the Belmont website may be found at <https://www.belmont.gov/departments/administrative-services/finance/budget>. (Last accessed on May 9, 2019.)

⁹³ Appendix A.

⁹⁴ Ibid.

⁹⁵ Email from Brisbane dated May 21, 2019. Brisbane, CalPERS 2017 Public Agency Actuarial Valuation Reports for Miscellaneous First Tier, Miscellaneous Second Tier, PEPRAs Miscellaneous, PEPRAs Safety Fire, PEPRAs Safety Police, Safety.

⁹⁶ Email from Brisbane, dated June 13, 2019.

⁹⁷ Brisbane, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2017, pp. 53-54.

⁹⁸ Ibid, pp. 53-54.

FY 2017-18 (representing 33.3 percent of that year's covered payroll of \$8.11 million and 15.4 percent of that year's total general fund spending of \$17.54 million.⁹⁹

The City's projected pension contribution costs are not included in its FY 2017-18 CAFR, or in its budget for FY 2018-19 & 2019-20. The Grand Jury's review of Brisbane's City Council agenda packages from January 1, 2018 through June 1, 2019 yielded no documents that set forth the City's future, annual pension contribution costs over its five-year forecasting period. The Grand Jury obtained data on these annual costs through a direct document request made to the City.

Financial Overview – Brisbane

Brisbane notes that it has robust and growing revenues from its business base and staff is confident that projected revenues will be adequate to pay rising pension costs.¹⁰⁰

Additional Payments to CalPERS - Brisbane

Brisbane does not currently have plans to make additional payments to CalPERS beyond its Annual Required Contribution. The City's Unfunded Liability is currently projected to be fully paid off within 20 years.¹⁰¹ The City Council has determined that it would like to have this Unfunded Liability paid off sooner, if possible. Accordingly, staff suggested in April 2019 that the City's Administrative and Financial Policy Committee develop a policy related to the quicker funding of these liabilities over the next year.¹⁰²

Pension Reserve Fund - Brisbane

Brisbane has established a Section 115 Trust to help pay for any unexpected increases in its pension payment obligations. The City initially contributed \$0.12 million to the trust. By the end of FY 2018-19, the City plans to have contributed an additional \$0.8 million to the trust, bringing total contributions to \$0.92 million.¹⁰³ The City's policy is to contribute 50 percent of any unanticipated general fund surpluses to this trust.¹⁰⁴ Staff is bringing to the City Council a proposal to fund the trust with sufficient funds to cover two years of unfunded liability amortization costs (approximately \$5 million) within the next four years and to set aside up to \$1 million per year for this purpose.¹⁰⁵

Employee Contribution to City's Normal Cost - Brisbane

Brisbane's employees do not pay any portion of the City's pension costs.¹⁰⁶

⁹⁹ Appendix A.

¹⁰⁰ Grand Jury interview.

¹⁰¹ Email from Brisbane, dated June 13, 2019.

¹⁰² Brisbane, City Council Agenda Report for City Council Meeting on April 18, 2019 re: Mid-Year Budget Report, p. 2.

¹⁰³ Grand Jury interview.

¹⁰⁴ Email from Brisbane, dated June 13, 2019. Brisbane, City Council Agenda Report for City Council Meeting on April 18, 2019 re: Mid-Year Budget Report, p. 2.

¹⁰⁵ Email from Brisbane, dated June 13, 2019.

¹⁰⁶ Grand Jury interview.

Revenue Enhancement - Brisbane

Brisbane voters approved two business license tax revenue enhancement measures in November 2017 (Measures D and E). As of FY 2017-18, Measure D was projected to yield annual revenues of \$0.2 million and Measure E \$4 million.¹⁰⁷ Brisbane is not currently planning on proposing any revenue enhancement ballot measures to its voters.¹⁰⁸

Pension Obligation Bonds and Loan - Brisbane

Brisbane issued \$4.75 million in pension obligation bonds in 2006 and took a \$1.61 million Pension Side Fund Bank Loan in 2013.¹⁰⁹ As of the end of FY 2017-18, the remaining outstanding principal on the bonds and loan, combined, was \$1.73 million.¹¹⁰ The bonds mature in FY 2020-21 and the loan is due to be fully paid off in FY 2022-23. From FY 2018-19 through FY 2022-23 when the bonds and loan are fully paid off, the City will make average annual payments on them of approximately \$0.389 million.¹¹¹

General Fund Reserves - Brisbane

At the end of FY 2017-18, Brisbane's general fund balance was \$11.45 million, of which \$8.63 million (49.2 percent of general fund expenditures for that year) represented unassigned reserves.¹¹² The City projects that the FY 2018-19 ending general fund balance will be \$10.8 million¹¹³ from which \$3.5 million will be set aside in an "Emergency Reserve" for any sudden unanticipated expense, \$3.2 million will be put in a "Recession Reserve" so that City services do not need to be "immediately reduced in case of recession," and \$2 million will be in an "Annual Reserve" for use in the event of any budget discrepancies.¹¹⁴

Long-Term Financial Forecast – Brisbane

Brisbane's long-term general fund financial forecast is based on a five-year period. It reports that it has "taken great strides in long-term financial planning" and that "[s]taff continuously works on a five-year forecast" which "provides Council and the community greater information on projects and issues that will be affecting the community in the near future."¹¹⁵ However, the Grand Jury's review of the City's Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, its budget for FY 2018-19 and FY 2019-20, as well as all agenda packages that the City posted on its website from

¹⁰⁷ Brisbane, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. vii of letter of transmittal.

¹⁰⁸ Email from Brisbane, dated June 13, 2019.

¹⁰⁹ Brisbane, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, pp. 55-56.

¹¹⁰ Ibid., p. 54.

¹¹¹ Brisbane, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2017, pp. 53-54.

¹¹² Brisbane, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, pp. 20 & 22.

¹¹³ Brisbane, City Council Agenda Report for City Council Meeting on April 18, 2019 re: Mid-Year Budget Report, p. 2.

¹¹⁴ Ibid., pp. 2 & 4.

¹¹⁵ Brisbane, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, December 7, 2018 letter of transmittal, p. viii.

January 1, 2018 through the Grand Jury's final check on June 14, 2019¹¹⁶ yielded no long-term financial forecast for the City.

Burlingame

Pension Contribution Costs - Burlingame

Burlingame's pension contribution costs in FY 2017-18 were \$5.72 million, up \$0.424 million (8.0 percent) from \$5.29 million in FY 2016-17.¹¹⁷ The City's FY 2017-18 pension contribution costs represented 27.8 percent of that year's covered payroll (up from 26.8 percent the preceding year) and 10.7 percent of its total general fund spending (flat from the 10.7 percent the preceding year).¹¹⁸

In addition to its contribution payments made to CalPERS, the City also makes annual installment payments on its 2006 pension obligation bonds (originally issued in the amount of \$33 million).¹¹⁹ It paid \$3.85 million on the bonds in FY 2017-18¹²⁰ and will pay \$0.957 million in FY 2018-19.¹²¹ From FY 2019-20 through FY 2035-36 when the bonds are fully paid off, the City will have made total payments on the bonds of \$12.6 million, with an annual average of approximately \$0.741 million.¹²² Taking bond payments into account, the City's total payments on account of its pensions (CalPERS and bond payments combined) were \$9.56 million in FY 2017-18 (representing 46.4 percent of that year's covered payroll of \$20.6 million and 17.8 percent of total general fund spending of \$53.6 million), up \$0.535 million (5.9 percent) from \$9.03 million in FY 2016-17.¹²³ It should be noted, however, that the City's annual bond payment amount dropped by almost \$3 million in FY 2018-19.¹²⁴

Burlingame projects that its pension contribution costs will increase from FY 2017-18 by \$5.03 million (87.9 percent) to \$10.74 million by FY 2023-24 and by an additional \$2.57 million (23.9 percent) to \$13.32 million by FY 2027-28.¹²⁵ Taking bond payments into account, the City's total payments on account of its pensions (CalPERS and bond payments combined) will increase from FY 2017-18 by \$2.25 million (23.5 percent) to \$11.81

¹¹⁶ Brisbane City Council meeting agenda packages can be accessed at https://brisbaneca.org/city-government/meetings?field_meeting_type_value=cc (Last accessed on June 14, 2019.)

¹¹⁷ Appendix A.

¹¹⁸ Ibid.

¹¹⁹ Burlingame, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 69.

¹²⁰ Burlingame, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015, p. 81.

¹²¹ Burlingame, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 69.

¹²² Ibid.

¹²³ Ibid. Burlingame's pension obligation bond repayment amount in FY 2016-17 was \$3.73 million. (Burlingame, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015, p. 81.)

¹²⁴ Burlingame, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 69.

¹²⁵ Appendix A. Burlingame, Staff Report for City Council Meeting on March 13, 2019 re: Adoption of Resolution Amending the FY 2018-19 Operating and Capital Budgets to Reflect the Recommended Mid-Year Adjustments, p. 32. This report provides pension cost projections from FY 2018-19 through FY 2023-24. Bartel Associates, LLC report to City of Burlingame, January 22, 2019, pp. 28 & 46. This report provides pension cost projections from FY 2018-19 through FY 2029-30.

million by FY 2023-24 and by an additional \$2.06 million (17.4 percent) to \$13.87 million by FY 2027-28.¹²⁶

Burlingame’s projected pension contribution costs are not included in its FY 2017-18 CAFR, or in its FY 2018-19 budget.¹²⁷ In order to find the City’s projected costs online, the Grand Jury ran a search for the word “pension” on the “Search Archives” feature of the City Council Meeting Documents & Minutes website page.¹²⁸ That search would eventually lead to the agenda for a City Council Study Session on January 22, 2019¹²⁹ which refers to a review of pension liabilities by the actuarial consulting firm Bartel Associates, LLC and includes a link to Bartel’s presentation materials. However, as of the Grand Jury’s last search on June 9, 2019, the Bartel presentation slides could not be accessed through that link. Instead, the Grand Jury obtained a copy of the Bartel presentation slides through a direct document request to the City. Since then, the City has made the Bartel presentation materials available through its finance page on its website at <https://www.burlingame.org/Pension%20Funding%20Presentation%20-%2001-22-19.pdf> (last accessed on June 9, 2019). The presentation can most easily be found using the City’s “Search” feature on the home page of its website (<https://www.burlingame.org/>) (last accessed on June 9, 2019) by typing in the word “Bartel.” Going further back, the search results would also point to a City Council meeting on July 3, 2017, which links to a Staff Report for that meeting which includes contribution cost projections through FY 2027-28.¹³⁰

Financial Overview – Burlingame

Burlingame’s financial condition appears to be strong. According to the City “In the bond markets, the Burlingame name is recognized as a high-credit municipal entity given both the City’s financial strength and solid financial management.”¹³¹ Burlingame had a general fund surplus of approximately \$3.5 million in FY 2018-19 (after transferring approximately \$3 million to its Capital Investment Reserve).¹³² Looking forward to FY 2019-20, the City projects the general fund surplus will drop to approximately \$0.361 million, primarily as a result of the City Council’s May 8, 2019 decision to transfer approximately \$6.5 million to its Capital Investment Reserve.¹³³ From FY 2018-19 through FY 2023-24 the City projects

¹²⁶ Ibid. Burlingame, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 69. Email from Burlingame, dated June 5, 2019.

¹²⁷ Burlingame, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018. Burlingame, Fiscal Year 2018-19 Adopted Budget.

¹²⁸ This search feature may be found at https://www.burlingame.org/government/city_council/city_council_meeting_documents_and_minutes.php. (Last accessed on May 31, 2019.)

¹²⁹ Burlingame, Agenda for City Council Meeting held on January 22, 2019.

¹³⁰ Burlingame, Staff Report for City Council Meeting on July 3, 2017 re: Review of Options Available for Pre-Funding Pension Obligations, pp. 4 - 5.

¹³¹ Burlingame, Fiscal Year 2018-19 Adopted Budget, p. v of June 18, 2018 City Manager’s Transmittal Letter.

¹³² Burlingame, Staff Report for City Council Meeting on May 8, 2019 re: Study Session: Fiscal Year 2019-20 Budget, p. 22.

¹³³ Emails from Burlingame, dated June 5 and June 7, 2019.

annual general fund revenue growth of 2.3 percent and an annual increase in its general fund balance (excluding amounts set aside for its Section 115 pension trust (described below)) of 1.5 percent.¹³⁴

Additional Payments to CalPERS - Burlingame

Burlingame is not currently planning on making additional payments to CalPERS beyond its Annual Required Contribution.¹³⁵

Pension Reserve Fund - Burlingame

In FY 2017-18, Burlingame established a Section 115 Trust which could be drawn upon when required pension contribution rates exceed the City's threshold rates.¹³⁶ The trust was funded with approximately \$4.8 million in FY 2017-18.¹³⁷ The City intends to transfer another \$3.4 million to the trust in FY 2018-19,¹³⁸ bringing total contributions to the trust to \$8.15 million.¹³⁹ This amount represents approximately 15 months of the City's \$6.69 million in pension costs in FY 2018-19.¹⁴⁰ The City plans to continue making annual contributions to the Section 115 trust until its required contribution rates for each plan exceed the threshold rate, at which point the City will begin drawing down on the trust. The City currently projects that will happen in approximately FY 2025-26. As of the end of FY 2023-24 the City projects that it will have transferred an aggregate total of \$16.78 million to the trust (including the \$8.15 million deposited in the trust through FY 2018-19).¹⁴¹ This amount (less an \$0.80 million contribution budgeted to be made in FY 2019-20 with respect to the City's payment obligations to the Central County Fire Department) would represent approximately 148.8 percent of its \$10.74 million in projected pension costs in FY 2023-24.¹⁴²

Employee Contribution to City's Normal Cost - Burlingame

Burlingame employees have entered into cost-sharing agreements with the City under which they pay for a portion of the pension costs that would otherwise have to be paid by the City. Under these cost-sharing agreements (a) miscellaneous plan "classic"¹⁴³

¹³⁴ Five-year general fund forecast received from Burlingame via email dated May 3, 2019. Email from Burlingame, dated June 5, 2019.

¹³⁵ Grand Jury interview.

¹³⁶ Burlingame, Fiscal Year 2018-19 Adopted Budget, pp. v & xviii of June 18, 2018 City Manager's Transmittal Letter. Email from Burlingame, dated June 5, 2019.

¹³⁷ Burlingame, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 23.

¹³⁸ Burlingame, Fiscal Year 2018-19 Adopted Budget, p. v of June 18, 2018 City Manager's Transmittal Letter.

¹³⁹ Email from Burlingame, dated June 5, 2019.

¹⁴⁰ Staff Report for City Council Meeting on March 13, 2019 re: Adoption of Resolution Amending the FY 2018-19 Operating and Capital Budgets to Reflect the Recommended Mid-Year Adjustments, p. 32.

¹⁴¹ Five-year forecast received from Burlingame via email dated May 29, 2019. Email from Burlingame, dated June 5, 2019.

¹⁴² Email from Burlingame, dated June 5, 2019.

¹⁴³ "Classic" plan employees are those who joined the CalPERS pension system before January 1, 2013 and who have not had a break in service of more than six months. (CalPERS, Public Employees' Pension Reform Act. (<https://www.calpers.ca.gov/page/about/laws-legislation-regulations/public-employees-pension-reform-act>) (Last accessed on May 31, 2019.)

employees pay a portion of the City’s pension costs equal to 1.5 percent of their covered payroll, and (b) safety plan “classic” employees pay a portion of the City’s pension costs equal to 4 percent of their covered payroll.¹⁴⁴

Revenue Enhancement - Burlingame

In November 2017, residents of Burlingame approved Measure I, a one-quarter cent sales tax increase.¹⁴⁵ The measure was projected by the City to yield additional annual revenues of approximately \$2 million.¹⁴⁶ The City is not currently planning on bringing another revenue enhancement ballot measure before its voters.¹⁴⁷

Pension Obligation Bonds - Burlingame

Burlingame issued \$33 million in pension obligation bonds in 2006. As of the end of FY 2017-18, the remaining outstanding principal on the bonds was \$9 million. The bonds mature on June 1, 2036. From FY 2018-19 through FY 2035-36 when the bonds are fully paid off, the City will make average annual payments on the bonds of approximately \$0.8 million.¹⁴⁸

General Fund Reserves - Burlingame

As of the end of FY 2018-19, Burlingame projects that it will have a general fund balance of \$39.92 million¹⁴⁹ (up from \$36.37 million at the end of FY 2017-18¹⁵⁰), of which – as a result of the City’s General Fund Balance Reserve Policy adopted in FY 2014-15 establishing appropriate levels of reserves using a risk-based analysis of City’s long-term financial condition¹⁵¹ - \$18.84 million are assigned to the Economic Stability Reserve, \$2 million to the Catastrophic Reserve, \$0.5 million to the Contingency Reserve, \$7 million to a Section 115 Trust¹⁵² and \$11.6 million are unassigned.¹⁵³ Burlingame’s FY 2018-19 general fund balance represents a healthy 68 percent of its \$58.67 million of general fund operating expenditures for the year.¹⁵⁴

By FY 2023-24, Burlingame projects that the general fund balance will increase to \$48.93 million (a 22.6 percent increase from FY 2018-19’s \$39.92 million) of which \$21.01

¹⁴⁴ Burlingame, Staff Report for City Council Meeting on October 15, 2018 re: Update on Long-Term Unfunded Post-Employment Liabilities and Options, p. 2.

¹⁴⁵ Ballotpedia, Local Ballot Measures, Burlingame, California, Sales Tax Measure I (November 2017).

¹⁴⁶ Burlingame, Staff Report for City Council Meeting on June 19, 2017 re: Public Hearing and Introduction of an Ordinance to Place a Revenue Measure to Enact a Quarter Cent Local Sales Tax on the November 2017 Ballot to Maintain Quality of Life Programs, p. 4.

¹⁴⁷ Email from Burlingame, dated June 5, 2019.

¹⁴⁸ Burlingame, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 69.

¹⁴⁹ Five-year forecast received from Burlingame via email dated May 29, 2019.

¹⁵⁰ Burlingame, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 32.

¹⁵¹ Email from Burlingame, dated June 5, 2019.

¹⁵² Note: As noted in the section above, entitled “Pension Reserve Fund – Burlingame,” the Section 115 Trust will have a total of \$8.15 million in contributed funds as of the end of FY 2018-19; the \$7 million is just the portion attributable to the general fund.

¹⁵³ Five-year forecast received from Burlingame via email dated May 29, 2019.

¹⁵⁴ Ibid. Email from Burlingame, dated June 5, 2019.

million will be assigned to the Economic Stability Reserve, \$2 million to the Catastrophic Reserve, \$0.5 million to the Contingency Reserve, \$13.5 million to the Section 115 pension trust and \$11.92 million will be unassigned. The City's FY 2023-24 general fund balance will represent 67.8 percent of its projected \$72.16 million of general fund expenditures for the year.¹⁵⁵

Long-Term Financial Forecast – Burlingame

Burlingame publishes a long-term general fund operating budget forecast with a period of 5 years.¹⁵⁶ The City did not present this forecast in its FY 2018-19 Adopted Budget.¹⁵⁷ In order to find the forecast online, the Grand Jury used the “Search Archives” feature on the City Council Meeting Documents and Minutes page¹⁵⁸ and searched for “five-year forecast.” This yielded a reference to the March 13, 2019 council meeting agenda package,¹⁵⁹ which includes the forecast in a staff report for the meeting.¹⁶⁰

Colma

Pension Contribution Costs - Colma

Colma's pension contribution costs in FY 2017-18 were \$1.26 million, up \$0.216 million (20.6 percent) from \$1.05 million in FY 2016-17.¹⁶¹ The Town's FY 2017-18 pension contribution costs represented 29.1 percent of that year's covered payroll (up from 26 percent the preceding year) and 8.6 percent of its total general fund spending (up from 7.9 percent the preceding year).¹⁶²

The Town projects its pension contribution costs will increase from FY 2017-18 by \$0.46 million (36.1 percent) to \$1.72 million by FY 2023-24 and by an additional \$0.106 million (6.2 percent) to \$1.83 million by FY 2027-28.¹⁶³ The Town notes that “rising pension cost continues to be the Town's largest challenge.”¹⁶⁴

The Town's projected pension contribution costs were not included in its FY 2017-18 CAFR, or in its FY 2018-19 budget.¹⁶⁵ However, in a change from prior budgets, Colma's

¹⁵⁵ Five-year general fund forecast received from Burlingame via email dated May 3, 2019.

¹⁵⁶ Burlingame, Staff Report for City Council Meeting on March 13, 2019 re: Adoption of Resolution Amending the FY 2018-10 Operating and Capital Budgets to Reflect the Recommended Mid-Year Adjustments, p. 52.

¹⁵⁷ Burlingame, Fiscal Year 2018-19 Adopted Budget.

¹⁵⁸ https://www.burlingame.org/government/city_council/city_council_meeting_documents_and_minutes.php (Last accessed May 9, 2019.)

¹⁵⁹ burlingameca.legistar1.com/burlingameca/meetings/2019/3/1452_A_City_Council_19-03-13_Meeting_Agenda.pdf (Last accessed May 9, 2019.)

¹⁶⁰ Burlingame, Staff Report for City Council Meeting on March 13, 2019 re: Adoption of Resolution Amending the FY 2018-10 Operating and Capital Budgets to Reflect the Recommended Mid-Year Adjustments, p. 52.

¹⁶¹ Appendix A.

¹⁶² Ibid.

¹⁶³ Colma, Staff Report for City Council Meeting on September 26, 2018 re: Unfunded Liabilities Study, Attachment B. This report contains pension cost projections through FY 2043-44.

¹⁶⁴ Colma, Fiscal Year 2019-20 Operating and Capital Budget, p. 11.

¹⁶⁵ Colma, FY 2018-19 Adopted Budget.

FY 2019-20 budget does include a graph showing annual pension cost projections. They run through FY 2035-36.¹⁶⁶

Financial Overview – Colma

Colma noted in its FY 2017-18 budget that “[r]ising costs of health care and pension rates are placing extraordinary pressure on the fiscal health of most California municipalities, including the Town of Colma” and, among other responses to this pressure, has elected to terminate its retiree health premium payments programs for all new employees hired after January 1, 2017.¹⁶⁷ In its FY 2019-20 budget, the Town states that “rising pension cost continues to be the Town’s largest challenge.”¹⁶⁸ Colma’s recent ten-year general fund forecast projects that, absent new revenue increases and/or expense reductions, current spending plans will turn the \$4.06 million general fund operating surplus in FY 2017-18¹⁶⁹ into an operating deficit of \$5.48 million by FY 2029-30,¹⁷⁰ and that general fund reserves will drop from \$24.46 million in FY 2017-18¹⁷¹ to \$15.23 million in FY 2023-24, to zero during FY 2027-28.¹⁷²

The ten-year forecast shows that, in order to fund all currently projected general fund expenses through FY 2029-30, the Town would need to secure an additional \$14.09 million in new funding.¹⁷³

The Town’s latest forecast in the FY 2019-20 budget is immediately followed by a section entitled “Potential Options to Mitigate Insolvency.” The Town notes that “[d]ue to the projections above, the Town should consider cost containment/reduction strategies to remain financially healthy in the next ten years. To aggressively address the projected depletion of the Town’s reserve, the following cost containment/reduction and new revenue measures can be considered.”¹⁷⁴

One of the potential options for cost containment/reduction identified in the budget is the adoption of a “pay as you go” policy under which the Town would stop making further contributions to the trusts it had established to set aside funds out of current budget

¹⁶⁶ Colma, Fiscal Year 2019-20 Operating and Capital Budget, p. 20.

¹⁶⁷ Colma, FY 2017-18 Adopted Budget, p. 8.

¹⁶⁸ Colma, FY 2019-20 Operating and Capital Budget, p. 11.

¹⁶⁹ *Ibid.*, p. 184.

¹⁷⁰ *Ibid.*, p. 180. Note: Colma provides two different versions of its ten-year general fund forecast. The first (at page 180), entitled “Status Quo,” uses the assumption that there will be an economic “slowdown” but not a “recession” (Email from Colma, dated June 14, 2019), while the second (at page 181) uses the assumption that there will be a recession beginning in FY 2020-21 with a three-year recovery period. Colma believes that the “Status Quo” projections at page 180 more closely track economists’ current sentiments than the recession projection at page 181. (Email from Colma, dated June 14, 2019.) Therefore, the Grand Jury is reporting numbers relying on the “Status Quo” projection. However, even if the recession forecast was used, the financial numbers are only slightly worse and, for purposes of this report, do not change the overall picture.

¹⁷¹ Colma, FY 2019-20 Operating and Capital Budget, p. 184.

¹⁷² *Ibid.*, pp. 180.

¹⁷³ *Ibid.*, p. 180. This \$14.09 million amount would be \$15.61 million if one used the recession version of this forecast.

¹⁷⁴ *Ibid.*, p. 182.

surpluses to help pay future pension costs (see section below entitled “Pension Reserve Fund – Colma”) and future OPEB (“other post-employment benefits”) costs.^{175, 176} The Town notes that this measure “will handicap the Town in meeting its future unfunded liabilities.”¹⁷⁷

Additional Payments to CalPERS - Colma

On October 24, 2018, Colma decided to make an additional payment to CalPERS of \$1.05 million more than its Annual Required Contribution.¹⁷⁸ This amount was paid to CalPERS in February 2019¹⁷⁹ and represented an additional 68.6 percent payment on top of the Annual Required Contribution of \$1.53 million for FY 2018-19.¹⁸⁰

Pension Reserve Fund - Colma

On October 24, 2018, Colma also decided to transfer \$1 million into its Section 115 Trust for pensions in FY 2018-19 and, from FY 2019-20 through at least FY 2042-43, to make annual contributions to the trust of the additional dollar amounts that Colma would be required to pay if CalPERS discount rate was set at 6 percent (or 6.5 percent if the City Council determined that the payment tied to 6 percent was not feasible) rather than the current 7 percent discount rate.¹⁸¹ As explained in the prior report at pages 6-8, higher discount rates result in lower payment obligations to CalPERS and lower discount rates result in higher payment obligations.

¹⁷⁵ Ibid., p. 182. As of June 30, 2018, the Town had an unfunded liability under its OPEB plan of \$14.04 million (substantially larger than its unfunded pension liability of \$10.2 million). (Staff Report for City Council Meeting on October 10, 2018 re: Unfunded Liabilities Study and Strategic Plan, p. 1.) The Town contributed \$1.7 million to its OPEB trust in FY 2018-19 and has budgeted contributing another \$1.61 million to the trust in FY 2019-20. (FY 2019-20 Operating and Capital Budget, p. 18.) The Town’s plan has been to continue making annual contributions to its OPEB trust through FY 2040-41, with the goal of reaching an 80 percent funded level for the OPEB plan. (Staff Report for City Council Meeting on October 10, 2018 re: Unfunded Liabilities Study and Strategic Plan, p. 3.) At present, the OPEB plan’s funded percentage is only 14 percent. (FY 2019-20 Operating and Capital Budget, p. 18.)

¹⁷⁶ In the OPEB context “pay as you go” means paying only the minimum amount required to pay benefits that come due each year to current retirees “and funds necessary for future liability are not accumulated. That is, contributions made are for current retirees only, causing the majority of retiree health benefits liability to be considered unfunded.” (GASBhelp website at [https://gasb45help.com/\(S\(owachimsfyshowi4vph02112\)\)/term.aspx?t=94](https://gasb45help.com/(S(owachimsfyshowi4vph02112))/term.aspx?t=94).) The phrase has essentially the same meaning in the pension plan context. (See, e.g., Heinen, Winfried. Why Time is Running Out for Pay As You Go-Based Pension Systems, <http://www.genre.com/knowledge/blog/why-time-is-running-out-for-pay-as-you-go-based-pension-systems-en.html>. (Last accessed June 11, 2019.))

¹⁷⁷ FY 2019-20 Operating and Capital Budget, p. 182.

¹⁷⁸ Grand Jury interview. Colma, Staff Report for City Council Meeting on October 24, 2018 re: Unfunded Liabilities Funding Strategy, p. 1.

¹⁷⁹ Colma, Fiscal Year 2019-20 Operating and Capital Budget., p. 12.

¹⁸⁰ Colma, Staff Report for City Council Meeting on September 26, 2018 re: Unfunded Liabilities Study, Attachment B.

¹⁸¹ Grand Jury interview. Colma, Unfunded Liabilities Funding Strategy, October 24, 2018, pp. 3-4.

Colma transferred the initial \$1.0 million to the Section 115 Trust for pensions in March 2019¹⁸² and its FY 2019-20 budget calls for it to transfer an additional \$0.344 to the trust based on the 6 percent discount rate.¹⁸³

As noted above in the section entitled “Financial Overview – Colma,” one of the potential cost containment/reduction options staff has identified to the City Council to help mitigate insolvency is adoption of a “pay as you go” policy for pensions, which would mean that these annual contributions to the Section 115 trust would stop, at least for a period of time.

Employee Contribution to City’s Normal Cost - Colma

Colma does not have any cost-sharing agreements in place with its employees under which employees agree to pay a portion of the Town’s contribution obligations.¹⁸⁴

Revenue Enhancement - Colma

In November 2018, residents of Colma approved Measure PP, which put in place a transient occupancy tax (i.e., “hotel tax”) of 12 percent.¹⁸⁵ The Town estimates that, if a hotel is built in Colma, this tax would yield annual revenues of approximately \$0.319 million.¹⁸⁶

Colma’s staff has stated that it “intends to review ...new revenue measures as part of the 2020-22 Strategic Plan and future study sessions with the City Council.”¹⁸⁷

Pension Obligation Bonds - Colma

Colma does not have any outstanding pension obligation bonds.¹⁸⁸

General Fund Reserves - Colma

At the end of FY 2017-18, Colma had a total general fund balance of \$24.46 million (representing 166.6 percent of its \$14.68 million of general fund expenditures that year),¹⁸⁹ of which \$15.54 million (105.8 percent of expenditures) were committed, \$7.96 million (54.2 percent of expenditures) were unassigned and \$0.95 million (6.5 percent of expenditures) were assigned.¹⁹⁰ The Town’s policy is to have general fund assigned reserves consisting of (a) 100 percent of the operating budget, (b) two years of debt service payments (which were \$0.299 million in FY 2017-18), (c) a \$0.1 million litigation reserve,

¹⁸² Colma, Fiscal Year 2019-20 Operating and Capital Budget, p. 12.

¹⁸³ Colma, Staff Report for City Council Meeting on May 8, 2019 re: FY 2019-20 Budget Study Session, p. 7. Colma, Fiscal Year 2019-20 Operating and Capital Budget, p. 18.

¹⁸⁴ Grand Jury interview.

¹⁸⁵ Ballotpedia, Local Ballot Measures, Colma, California, Measure PP, Colma Hotel Tax (November 2018)

¹⁸⁶ Voters Edge Library, Measure PP.

¹⁸⁷ Colma, Fiscal Year 2019-20 Operating and Capital Budget, p. 182.

¹⁸⁸ Email from Colma, dated June 11, 2019.

¹⁸⁹ Colma, Basic Financial Statements as of June 30, 2018, p. 14. Colma, Fiscal Year 2019-20 Operating and Capital Budget, p. 184.

¹⁹⁰ Colma, Basic Financial Statements as of June 30, 2018, p. 13.

(d) a \$0.1 million insurance loss reserve, and (e) a \$0.75 million disaster response / recovery reserve. All other general fund reserves are classified as “unassigned.”¹⁹¹

Colma projects that its general fund reserves will drop from \$23.78 million in FY 2017-18¹⁹² to \$12.67 million in FY 2023-24, and to zero during FY 2027-28.^{193,194} In addition, “as a result of increasing expenditure [sic] budget”¹⁹⁵ unassigned reserves will be completely drawn down during this period (dropping from \$7.96 million in FY 2017-18¹⁹⁶ to zero in FY 2023-24.¹⁹⁷

Long-Term Financial Forecast – Colma

Colma published a long-term general fund operating budget forecast with a period of 5 years, which was incorporated into its readily-accessible FY 2018-19 budget.¹⁹⁸ In its FY 2019-20 budget, the Town has extended the forecast period to ten years.¹⁹⁹

Daly City

Pension Contribution Costs – Daly City

Daly City’s pension contribution costs in FY 2017-18 were \$13.13 million, up \$1.5 million (12.9 percent) from \$11.63 million in FY 2016-17.²⁰⁰ The City’s FY 2017-18 pension contribution costs represented 30.4 percent of that year’s covered payroll (up from 26.8 percent the preceding year) and 16.9 percent of its total general fund spending (up from 15.1 percent the preceding year).²⁰¹ In addition to its contribution payments made to CalPERS, the City also makes annual, installment payments of over \$3.5M on its pension obligation bonds.²⁰² Taking these bond payments into account, the City’s total payments on account of its pensions (CalPERS and bond payments combined) were \$16.8 million in FY 2017-18 (representing 38.9 percent of that year’s covered payroll and 22.6 percent of total general fund spending), up \$1.63 million (10.8 percent) from \$15.17 million in FY 2017.²⁰³

¹⁹¹ Colma, FY 2018-19 Adopted Budget, pp. 151 & 155.

¹⁹² Ibid., p. 155.

¹⁹³ Colma, FY 2019-20 Operating and Capital Budget, pp. 180 & 181.

¹⁹⁴ Colma notes that its general fund reserves were dramatically reduced in FY 2015-16 and FY 2016-17 by the transfer of approximately \$12.9 million from the reserves to fund the renovation of its Town Hall. (Colma, FY 2019-20 Operating and Capital Budget, p. 178.)

¹⁹⁵ Colma, FY 2018-19 Adopted Budget, p. 151.

¹⁹⁶ Colma, Basic Financial Statements as of June 30, 2018, p. 13.

¹⁹⁷ Colma, FY 2018-19 Adopted Budget, p. 151.

¹⁹⁸ Ibid., pp. 149-155.

¹⁹⁹ Colma, Fiscal Year 2019-20 Operating and Capital Budget, pp. 179-181.

²⁰⁰ Appendix A.

²⁰¹ Appendix A.

²⁰² Daly City’s payments on the pension obligation bonds were \$3.54 million, \$3.67 million and \$3.81 million in fiscal years 2016-17, 2017-18 and 2018-19, respectively. The City’s bond repayment obligations continue through FY 2023-24. Daly City, City Council Meeting presentation slides re: FYs 2019/2020 Comprehensive Biennial Operating and Capital Budget, April 12, 2018, p. 11.

²⁰³ Bartel Associates, LLC report to City of Daly City, March 27, 2017, pp. 24 & 44. Daly City POB payments in FY 2016-17 were \$3.54 million and in FY 2017-18 were \$3.67 million. (Daly City, City Council Meeting presentation slides re: FYs 2019/2020 Comprehensive Biennial Operating and Capital Budget, April 12, 2018, p. 11)

Daly City's pension contribution costs are projected to increase from FY 2017-18 by \$14.64 million (111.5 percent) to \$27.78 million by FY 2023-24 and by an additional \$4.63 million (16.7 percent) to \$32.4 million by FY 2027-28.²⁰⁴ The City's total pension costs (CalPERS and bond repayments combined) are projected to increase over FY 2017-18 costs by \$15.55 million (78.7 percent) to \$32.36 million by FY 2023-24. Total costs in FY 2024-25 drop because the bonds will be fully paid off by the end of FY 2023-24. From FY 2024-25 to FY 2027-28, annual pension contribution costs to CalPERS rise by \$2.92 million (9.9 percent) to \$32.4 million (up from \$29.48 million in FY 2024-25).²⁰⁵

The City's projected pension contribution costs were not included in its FY 2017 and 2018 budget²⁰⁶ but are set forth in its readily-accessible FY 2019-20 budget.²⁰⁷ They are also set forth in greater detail in the report of its actuarial consultant – Bartel Associates, LLC.²⁰⁸ However, in order to find the Bartel Associates projections online, it is necessary to manually search through City Council meeting agenda packages, which can be accessed at the following website: www.dalycity.org/City_Hall/Meeting_Agendas_and_Minutes/City_Council.htm (last accessed on May 23, 2019). That search would eventually lead to the agenda package for the City Council meeting on March 27, 2017²⁰⁹, which includes the report from Bartel Associates, LLC dated March 27, 2017.²¹⁰

Financial Overview – Daly City

Daly City describes itself as being in a “precarious financial situation” and that it “has balanced recent budgets through major workforce and service reductions.”²¹¹ The City reports that, out of the ten largest cities in San Mateo County, it has the lowest median household income, per capita income and median home value, the highest unemployment rate and second highest poverty rate.²¹² Absent significant changes to revenues and/or expenses, the City forecasts that it will experience general fund deficits beginning in FY 2018-19 with a \$4.4 million deficit that rises to \$12.9 million in FY 2023-24. The forecast projects a cumulative deficit of \$98 million over the ten years FY 2017-18 through FY 2027-28, with the City's unassigned general fund reserves dropping to zero in FY 2021-22.²¹³ The foregoing forecast numbers do not factor in a recession between the present and

²⁰⁴ Appendix A. CalPERS Actuarial Valuation – June 30, 2017 Miscellaneous Plan of the City of Daly City, p. 4. CalPERS Actuarial Valuation – June 30, 2017 Safety Plan of the City of Daly City, p. 4. Bartel Associates, LLC report to City of Daly City, March 27, 2017, pp. 24 & 44. The annual pension cost projection numbers are given through FY 2027-28.

²⁰⁵ Bartel Associates, LLC report to City of Daly City, March 27, 2017, pp. 24 & 44. Daly City, City Council Meeting presentation slides re: FYs 2019/2020 Comprehensive Biennial Operating and Capital Budget, April 12, 2018, p. 11

²⁰⁶ Daly City, Comprehensive Biennial Operating and Capital Budget for Fiscal Years 2017 and 2018.

²⁰⁷ Daly City, Comprehensive Biennial Operating and Capital Budget for Fiscal Years 2019 and 2020, pp. 19-20. These pension cost projections go through FY 2027-28.

²⁰⁸ Bartel Associates, LLC report to City of Daly City, March 27, 2017, pp. 24 & 44.

²⁰⁹ Daly City, Agenda for City Council Meeting on March 27, 2017.

²¹⁰ Bartel Associates, LLC report to City of Daly City, March 27, 2017, pp. 24 & 44.

²¹¹ Daly City Budget Forecast Model & Long-Term Financial Planning, PFM Consulting LLC, June 25, 2018, p. 29. Daly City, Comprehensive Biennial Operating and Capital Budget for Fiscal Years 2019 and 2020, p. 17.

²¹² Daly City Budget Forecast Model & Long-Term Financial Planning, PFM Consulting LLC, June 25, 2018, pp. 6 – 8.

²¹³ Ibid., pp. 14 & 15.

FY 2027-28. When a hypothetical recession is modelled into the City's forecast beginning in FY 2019-20, the FY 2023-24 deficit rises from \$12.9 million to \$15.2 million and the cumulative deficit rises from \$98 million to \$117.6 million for the FY 2017-18 through FY 2027-28 period.²¹⁴

Additional Payments to CalPERS – Daly City

At present, Daly City does not plan to make any supplemental payments to CalPERS beyond its Annual Required Contribution.²¹⁵

Pension Reserve Fund – Daly City

In May, 2017 Daly City approved putting in place a Section 115 Trust to help it manage payment of future pension costs.²¹⁶ Daly City transferred \$1 million into the trust in FY 2016-17 and an additional \$2 million in FY 2017-18. The City expects to transfer another \$1 million to the trust in 2019 bringing the total to approximately \$4 million.²¹⁷

Employee Contribution to City's Normal Cost

Daly City does not have cost-sharing agreements in place with employees under which its employees pay for any part of the City's pension contribution costs.²¹⁸

Revenue Enhancement – Daly City

In November 2018 the residents of Daly City approved two revenue enhancements.²¹⁹ They were a transient occupancy tax (a "hotel tax") increase from 10 percent to 13 percent that was expected to yield increased revenue of between \$0.203 million to \$0.459 million year during FY 2018-19 and FY 2019-20 and \$0.306 million to \$0.689 million per year thereafter²²⁰ and business license tax increase of 10 percent that is expected to yield increased revenues of approximately \$0.42 million per year.²²¹ The City is not currently planning on bringing any new revenue enhancement ballot measures before its voters.²²²

Pension Obligation Bonds – Daly City

In 2004 Daly City issued \$36.24 million in pension obligation bonds.²²³ Daly City's payments on these bonds were \$3.54 million, \$3.67 million and \$3.81 million in FYs 2016-

²¹⁴ Ibid., p. 23.

²¹⁵ Grand Jury interview.

²¹⁶ Daly City, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 44.

²¹⁷ Grand Jury interview.

²¹⁸ Email from Daly City, dated June 18, 2019.

²¹⁹ Ibid.

²²⁰ Daly City, 6-25-18 Agenda Report re Consideration to Place a Measure Relating to the Transient Occupancy Tax on the November 6, 2018 General Election, pp. 1 & 4.

²²¹ Daly City, 6-25-18 Agenda Report re Consideration to Place a Measure Relating to the Business License Tax on the November 6, 2018 General Election, pp. 1 & 4.

²²² Email from Daly City, dated June 18, 2019.

²²³ Daly City, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 56.

17, 2017-18 and 2018-19, respectively. The City's bond repayment obligations continue through FY 2023-24.²²⁴

General Fund Reserves – Daly City

Daly City's goal is to maintain general fund unassigned reserves of at least 15 percent of general fund expenditures.²²⁵ In June 2018 the City had projected that it would have to apply approximately \$6.1 million of these reserves in FY 2019-20 to close its expected operating budget deficit.²²⁶ However, the City's most recent estimate is that the FY 2019-20 deficit may be less than \$6.1 million.²²⁷ If FY 2019-20's deficit is \$6.1 million, then the City's unassigned general fund reserves would be projected to drop from \$22.59 million in FY 2017-18 (29.1 percent of general fund expenditures),²²⁸ to \$16.7 million (18.5 percent of general fund expenditures) in FY 2019-20.²²⁹

Long-Term Financial Forecast – Daly City

Daly City uses a ten-year financial forecasting model as part of its long-term financial planning process.²³⁰ This forecast is not included in the FY 2019-20 budget.²³¹ A manual search through City Council meeting agenda packages, which can be accessed at the following website: www.dalycity.org/City_Hall/Meeting_Agendas_and_Minutes/City_Council.htm (last accessed on May 27, 2019,) would eventually lead to the June 25, 2018 agenda for a meeting of the City Council²³² which refers to "Update of Long-Term Financial Plan" and a link to a staff report stating that a presentation on the City's long-term financial forecast would be made at the meeting.²³³ Unfortunately, however, the slides for that presentation are not included in the June 25, 2018 agenda package available online. The Grand Jury was only able to obtain Daly City's long-term financial plan through a document request made to the City.

²²⁴ Daly City, City Council Meeting presentation slides re: FYs 2019/2020 Comprehensive Biennial Operating and Capital Budget, April 12, 2018, p. 11.

²²⁵ Daly City Budget Forecast Model & Long-Term Financial Planning, PFM Consulting LLC, June 25, 2018, slide 15. Daly City, Comprehensive Biennial Operating and Capital Budget for Fiscal Years 2019 and 2020, p. 11.

²²⁶ Daly City, Comprehensive Biennial Operating and Capital Budget for Fiscal Years 2019 and 2020, p. 7. This document is dated June 2018 and, at that time, the City also projected having to use \$4.8 million in reserves to close a budget deficit in FY 2018-19. (Ibid.) However, the City now believes that it will not have a budget deficit in FY 2018-19 as a result of stronger-than-projected revenues during the year. (Email from Daly City, dated June 18, 2019.)

²²⁷ Email from Daly City, dated June 18, 2019.

²²⁸ Daly City, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, pp. 22 & 24.

²²⁹ Daly City, Comprehensive Biennial Operating and Capital Budget for Fiscal Years 2019 and 2020, pp. 7 & 11.

²³⁰ Grand Jury interview. Daly City Budget Forecast Model & Long-Term Financial Planning, PFM Consulting LLC, June 25, 2018, slides 12-20.

²³¹ Daly City, Comprehensive Biennial Operating and Capital Budget for Fiscal Years 2019 and 2020.

²³² Daly City, Agenda for City Council Meeting on June 25, 2018.

²³³ Daly City, Agenda Report for City Council Meeting on June 25, 2018 re: Update of Long-Term Financial Plan.

East Palo Alto

Pension Contribution Costs – East Palo Alto

East Palo Alto’s pension contribution costs in FY 2017-18 were \$1.64 million, up \$0.149 million (10 percent) from \$1.49 million in FY 2016-17.²³⁴ The City’s FY 2017-18 pension contribution costs represented 17.7 percent of that year’s covered payroll (up from 17.6 percent the preceding year) and 8.3 percent of its total general fund spending (up from 8.2 percent the preceding year).²³⁵

East Palo Alto’s actuarial consultant projects that the City’s pension contribution costs will increase from FY 2017-18 by \$1.18 million (71.7 percent) to \$2.82 million by FY 2023-24 and by an additional \$0.429 million (15.2 percent) to \$3.25 million by FY 2027-28.²³⁶

The City’s projected pension contribution costs are not included in its FY 2017-18 CAFR, or in its FY 2018-19, or FY 2019-20 budgets.^{237,238} In order to find these projected costs online, it is necessary to manually search through City Council meeting agenda packages, which can be accessed at the following website: www.ci.east-palo-alto.ca.us/AgendaCenter (last accessed on May 23, 2019). That search would eventually lead to the agenda package for the City Council meeting on May 15, 2018.²³⁹ The agenda package includes a report by Bartel Associates, LLC that contains annual pension cost projections.²⁴⁰

Financial Overview – East Palo Alto

East Palo Alto has experienced substantial revenue growth in recent years²⁴¹ and describes itself as being “in a stable financial condition.”²⁴² The City notes that its opportunities include “a robust economy” and “an excellent location in Silicon Valley with 60 acres of vacant or underutilized land.” However, the City also notes fiscal revenue challenges including “the lack of material increases in General Fund revenues for the near to medium term future,” and continued organizational challenges such as “fewer staff than comparable cities,” “ongoing retention and recruitment challenges,” “unfunded CalPERS liabilities,” and “an astronomical gap in deferred infrastructure and services created before the City’s incorporation.”²⁴³

²³⁴ Appendix A.

²³⁵ Ibid.

²³⁶ Bartel Associates, LLC report to the City of East Palo Alto, March 8, 2017, Updated May 15, 2018, pp. 15 & 21. The report contains annual pension cost projections through FY 2027-28.

²³⁷ East Palo Alto, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018. East Palo Alto, Adopted Budget Fiscal Year 2018-2019. East Palo Alto, Proposed Operating Budget for Fiscal Year 2019-20.

²³⁸ By way of clarification, however, East Palo Alto “notes that the actuarial projections contained in the Bartel study are utilized in graphical presentations to Council regarding FY 18-19 to FY 2025-26 forecasts of General Fund revenues and expenditures – including increased CalPERS costs to provide context for the City’s need to contain program cost expansion.” (Email from East Palo Alto, dated June 7, 2019.)

²³⁹ East Palo Alto, Agenda for City Council meeting on May 15, 2018.

²⁴⁰ Bartel Associates, LLC report to the City of East Palo Alto, March 8, 2017, Updated May 15, 2018, pp. 15 & 21.

²⁴¹ East Palo Alto, Adopted Budget Fiscal Year 2018-2019, p. CM-2.

²⁴² Ibid., p. CM-5. East Palo Alto, Proposed Operating Budget for Fiscal Year 2019-20, p. CM-2.

²⁴³ Ibid., pp. CM-3 & CM-5.

The City also notes that its “compensation and benefits package is generally below market. Over the past four years, the City has experienced a high volume of turnover due to various organizational issues, including retirements and non-competitive salaries and benefits. The high turnover rate results in ‘short term’ General Fund savings and increased reserves, but ultimately strains staff capacity and is also a contributing cause of the high cycle of turnover. The high rate of turnover and vacancy also ultimately has tamped down the City’s pension costs during the past four years.”²⁴⁴

Additional Payments to CalPERS – East Palo Alto

East Palo Alto is in the initial stages of evaluating additional payments to CalPERS beyond its Annual Required Contribution. At present, however, the City Council’s expressed interest is in pre-funding the City’s unfunded pension liability with current uncommitted reserves.²⁴⁵

Pension Reserve Fund – East Palo Alto

East Palo Alto has not established a reserve fund for the specific purpose of helping to meet rising future pension costs. However, it does have an unassigned reserve that is projected to hold \$9.5 million at the end of FY 2019 that is available for risk mitigation, including pre-funding CalPERS obligations.²⁴⁶

The City does not yet have comprehensive general fund reserve policies in place to address financial risks. Developing such an overall reserves plan is now a city council priority. At its March 5, 2019 meeting, the council approved hiring the Government Finance Officers’ Association (“GFOA”) and PSD Research Consulting Software to prepare analyses of financial risks to the City, which is a necessary precursor to the City developing an overall financial reserves policy.²⁴⁷ As part of developing overall reserves policies, the City will evaluate reserves needs to meet rising, future pension funding obligations.²⁴⁸ The City plans to complete the risk studies by January 2020.²⁴⁹

Employee Contribution to City’s Normal Cost – East Palo Alto

East Palo Alto does not have cost-sharing agreements in place with its employees under which the employees pay a portion of the City’s pension contribution costs.²⁵⁰

Revenue Enhancement – East Palo Alto

East Palo Alto’s residents approved Measure HH in November 2018, which is projected to provide the City with approximately \$1.67 million of additional revenues to help pay for

²⁴⁴ Email from East Palo Alto, dated June 7, 2019.

²⁴⁵ Grand Jury interview. Email from East Palo Alto, dated June 7, 2019.

²⁴⁶ East Palo Alto, Staff Report for March 5, 2019 City Council Meeting, p. 5. Email from East Palo Alto, dated June 7, 2019.

²⁴⁷ Grand Jury interview. East Palo Alto, Staff Report for March 5, 2019 City Council Meeting.

²⁴⁸ Grand Jury interview.

²⁴⁹ Ibid. East Palo Alto email, dated June 7, 2019.

²⁵⁰ Ibid.

housing and job training.²⁵¹ In November 2016, residents of East Palo Alto also approved Measures O and P.²⁵² Measure O increased the City’s business license tax for landlords with five or more residential units and was expected to increase City revenues by approximately \$0.6M annually.²⁵³ Measure P increased the City’s sales tax by a half-cent and was expected to increase City revenues by approximately \$1.8M annually.²⁵⁴ The City’s planned revenue enhancements are targeted toward an expanded and improved Master Fee Schedule (Fall 2019) and assessment or special district taxes related to the City’s stormwater and storm-drain systems. If approved, the assessment fees/taxes will ultimately relieve General Fund operating transfers of between \$0.20 million and \$0.50 million per year.²⁵⁵

Pension Obligation Bonds – East Palo Alto

East Palo Alto does not have any outstanding pension obligation bonds.²⁵⁶

General Fund Reserves – East Palo Alto

East Palo Alto’s general fund unassigned reserve as of end of FY 2017-18 was \$16.2 million²⁵⁷ which represented a healthy 82.3 percent of the \$19.67 million in general fund expenditures for the year.²⁵⁸ However, as of the FY 2018-19 Mid-year report, budgeted general fund expenditures increased by 29.1 percent over FY 2017-18 (from \$19.67 million in FY 2017-18 to \$25.4 million in FY 2018-19).²⁵⁹ At that time, the City had approved approximately \$5.8 million in additional spending initiatives primarily related to major capital project improvements; of which \$4.2 million is budgeted from general fund reserves.²⁶⁰

Long-Term Financial Forecast – East Palo Alto

East Palo Alto’s city council has instructed staff to prepare a long-term, general fund operating plan going out to the end of FY 2025-26 and staff is in the process of preparing such a plan.²⁶¹ Staff’s objective is to complete such a plan by October 2019.²⁶²

²⁵¹ The Stanford Daily, East Palo Alto Passes Measure to Tax Large Companies. Ballotpedia, Local Ballot Measures, East Palo Alto, California, Measure HH, Commercial Office Space Parcel Tax. East Palo Alto website at www.ci.east-palo-alto.ca.us/index.aspx?NID=627.

²⁵² Ballotpedia, Local Ballot Measures, East Palo Alto, California, Measure O, Landlord Tax (November 2016). Ballotpedia, Local Ballot Measures, East Palo Alto, California, Measure P, Sales Tax (November 2016).

²⁵³ East Palo Alto, Staff Report for July 19, 2016 City Council Meeting re: increasing business license tax, p. 3. East Palo Alto, Staff Report for February 19, 2019 City Council Meeting, p.4.

²⁵⁴ East Palo Alto, Staff Report for July 19, 2016, p. 4. East Palo Alto, Staff Report for February 19, 2019 City Council Meeting, p. 4.

²⁵⁵ East Palo Alto email, dated June 7, 2019.

²⁵⁶ Ibid.

²⁵⁷ East Palo Alto, Staff Report for March 5, 2019 City Council Meeting, p. 4.

²⁵⁸ East Palo Alto, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 34.

²⁵⁹ East Palo Alto, Presentation slides re: Fiscal Year 2018-2019 Midyear Budget Amendment, p. 24. East Palo Alto email, dated June 7, 2019.

²⁶⁰ Ibid.

²⁶¹ Grand Jury interview.

²⁶² East Palo Alto, Proposed Operating Budget for Fiscal Year 2019-20, p. DB-55.

Foster City

Pension Contribution Costs – Foster City

Foster City’s pension contribution costs in FY 2017-18 were \$6.51 million, down \$0.703 million (-9.7 percent) from \$7.21 million in FY 2016-17.²⁶³ The City’s FY 2017-18 pension contribution costs represented 31.2 percent of that year’s covered payroll (down from 36.3 percent the preceding year) and 17.2 percent of its total general fund spending (down from 19.8 percent the preceding year).²⁶⁴

The City projects its pension contribution costs will increase by \$4.81 million (73.9 percent) to approximately \$11.32 million by FY 2024²⁶⁵ and then drop by \$0.366 million (-3.2 percent) to \$10.95 million by FY 2028.²⁶⁶

The City’s projected pension contribution costs are not included in its FY 2017-18 CAFR, or in its FY 2018-19 budget.²⁶⁷ Annual projected pension contribution costs for the five year period from FY 2019-20 through FY 2023-24 are, however, included in the City’s readily accessible preliminary budget for FY 2019-20.²⁶⁸ In order to find the City’s projected pension costs beyond FY 2023-24, it is necessary to manually search through City Council meeting agenda packages, which can be accessed at the following website: <https://www.fostercity.org/agendasandminutes>. (Last accessed on May 29, 2019.) That search would eventually lead to the agenda for the City Council meeting on January 22, 2019²⁶⁹ which has an agenda item entitled “Consideration of an Update on Unfunded Pension Liabilities” and a link to a “Staff Report” on the subject and a separate link to “Attachment 2 – Amortization Schedules – Current, Projected 15-year, Projected Leveled.”²⁷⁰ Clicking on this link to Attachment 2 leads to graphs showing Foster City’s annual, projected pension costs through FY 2028-29.²⁷¹

Financial Overview – Foster City

While Foster City describes its pension liability as a “significant cause of concern,”²⁷² it also notes that its financial health is “strong.”²⁷³ While the City is facing structural general fund budget deficits during the five-year period ending with FY 2022-23, these deficits are

²⁶³ Foster City FY 2017-18 CAFR, pp. 86-87.

²⁶⁴ Appendix A.

²⁶⁵ Foster City, Preliminary Budget for Fiscal Year 2019-2020, p. 44.

²⁶⁶ Attachment 2 to Foster City staff report re Pension Liability Subcommittee Updated dated January 22, 2019. This document sets forth pension cost projections through FY 2048-49.

²⁶⁷ Foster City Final Budget for Fiscal Year 2018-19.

²⁶⁸ Foster City, Preliminary Budget for Fiscal Year 2019-2020, p. 44.

²⁶⁹ Foster City, Agenda for City Council meeting on January 22, 2019.

²⁷⁰ The agenda for Foster City’s Council meeting on January 22, 2019 may be found at <https://fostercityca.civicclerk.com/Web/Player.aspx?id=772&key=-1&mod=-1&mk=-1&nov=0>. (Last accessed on May 29, 2019.)

²⁷¹ Attachment 2 to Foster City Staff Report for City Council Meeting on January 22, 2019 re: Pension Liability Subcommittee Update.

²⁷² Foster City staff report for March 26, 2018 City Council Meeting re: Pension Liability, p. 269.

²⁷³ Foster City Final Budget for Fiscal Year 2018-19, p. 9.

modest in comparison to available general fund reserves of \$40.77 million as of the end of FY 2019.²⁷⁴

Additional Payments to CalPERS – Foster City

Foster City plans to make an extra \$3.43 million payment to CalPERS beyond its Annual Required Contribution by the end of FY 2018-19.²⁷⁵ The City Council has not yet established a policy about making additional payments to CalPERS beyond its Annual Required Contribution in future years.²⁷⁶ The City Council’s Pension Subcommittee plans to meet in the fall of 2019 to discuss long-term plans to improve funding for the City’s pension.²⁷⁷

Pension Reserve Fund – Foster City

In 2018, Foster City approved creating a \$2 million Discretionary Pension Liability Stabilization Fund.²⁷⁸ However, the City’s primary focus is on accelerating payments to CalPERS in order to reduce long-term CalPERS costs, not on building a stabilization fund. Accordingly, the City has decided to apply the \$2 million in this stabilization fund as part of an estimated \$3.43 million additional payment to CalPERS being made before the end of FY 2019.²⁷⁹

In late 2018, Foster City established a Pension Liability Subcommittee of the City Council to discuss strategies towards addressing the City’s long-term pension obligations.²⁸⁰

Employee Contribution to City’s Normal Cost – Foster City

Foster City has stated that it will seek pension cost-sharing agreements from employees in its next round of labor negotiations.²⁸¹ The City’s existing agreements with three of its represented groups of employees expire on June 30, 2019 and labor negotiations began in early 2019.²⁸²

²⁷⁴ The projected deficits are \$850,000, \$84,000, \$159,000, \$68,000 and \$26,000. Foster City Final Budget for Fiscal Year 2018-19, p. 43.

²⁷⁵ Grand Jury interview; Foster City, Staff Report for April 15, 2019 City Council Meeting re: Use and Transfer Out of FY 207-2018 General Fund Rollover Surplus, pp. 1-2. Foster City, Preliminary Budget for Fiscal Year 2019-2020, p. 44.

²⁷⁶ Grand Jury interview. Email from Foster City, dated June 18, 2019.

²⁷⁷ Email from Foster City, dated June 18, 2019.

²⁷⁸ Foster City, Staff Report for June 4, 2018 City Council Meeting re: Public Hearing for FY 2018-2019 Preliminary Budget, p. 136. Grand Jury interview.

²⁷⁹ Grand Jury interview. Foster City, Staff Report for April 15, 2019 City Council Meeting re: Use and Transfer Out of FY 207-2018 General Fund Rollover Surplus, pp. 1-2.

²⁸⁰ Foster City, Staff Report for November 19, 2018 City Council Meeting re: Establishing a Pension Liability Subcommittee.

²⁸¹ Foster City, Staff Report for March 26, 2018 City Council Meeting re: Pension Liability, p. 269. Grand Jury interview.

²⁸² Foster City, Staff Report for City Council Meeting on February 11, 2019 re: Policy Direction Regarding Preparation of the FY 2019-2020 Annual Budget and Five-Year Financial Plan, p. 6.

Revenue Enhancement – Foster City

Foster City residents approved Measure TT in November 2018.²⁸³ This was an increase in the City’s transient occupancy tax (“TOT” or “hotel tax”) from 9.5 percent to 12 percent. The City forecasts that this tax increase will yield revenue of \$0.272 million, \$0.924 million, \$0.943 million, \$0.962 million and \$0.981 million in the 5 years from FY 2018-19 through FY 2022-23.²⁸⁴ Foster City is not currently planning on bringing any new revenue enhancement ballot measures before its voters.²⁸⁵

Pension Obligation Bonds – Foster City

Foster City does not have any outstanding pension obligation bonds.²⁸⁶

General Fund Reserves – Foster City

Foster City’s general fund reserve balance is projected to be \$40.77 million at the end of FY 2018-19, representing a very healthy 91.1 percent of the general fund budget for the year.²⁸⁷ The City’s five-year forecast projects that this reserve balance percentage will drop down to 82.5 percent by the end of FY 2022-23. This remains well above the City’s Reserve Policy percentage of 33.3 percent to 50 percent of the general fund budget.²⁸⁸

Long-Term Financial Forecast – Foster City

Foster City’s long-term general fund financial forecast is based on a five-year projection. The most current five-year financial forecast published by the City is for the period ending on June 30, 2024 and can be found in the City’s FY 2019-20 preliminary budget.²⁸⁹

Half Moon BayPension Contribution Costs – Half Moon Bay

Half Moon Bay’s pension contribution costs in FY 2017-18 were \$0.881 million, up \$0.287 million (48.3 percent) from \$0.594 million in FY 2016-17.²⁹⁰ The City’s FY 2017-18 pension contribution costs represented 28.2 percent of that year’s covered payroll (up from 24.5 percent the preceding year) and 7.2 percent of total general fund spending (up from 5.7 percent the preceding year).²⁹¹

²⁸³ Ballotpedia, Local Ballot Measures, Foster City, California, Measure TT, Hotel Tax Increase (November 2018).

²⁸⁴ Foster City Final Budget for Fiscal Year 2018-19, pp. 47-48.

²⁸⁵ Email from Foster City, dated June 18, 2019.

²⁸⁶ Ibid.

²⁸⁷ Ibid., p. 54.

²⁸⁸ Ibid., p. 54.

²⁸⁹ Foster City, Preliminary Budget for Fiscal Year 2019-2020, pp. 55-94. The city also published a five-year financial forecast in its Final Budget for Fiscal Year 2018-19, pp. 52-90.

²⁹⁰ Appendix A.

²⁹¹ Ibid.

The City's actuarial consultant projects that the City's pension contribution costs will increase by \$0.665 million (75.6 percent) to \$1.55 million by FY 2023-24 and by an additional \$0.345 million (22.3 percent) to \$1.89 million by FY 2028-29.²⁹²

The City's projected pension contribution costs are not included in its FY 2017-18 CAFR, its FY 2018-19 budget, or its FY 2018-19 budget²⁹³ nor was the Grand Jury able to find them in any City Council meeting agenda packages for the period from January 1, 2018 through June 1, 2019. The only pension cost projections for Half Moon Bay that the Grand Jury obtained came from a written document request made to the City. That request yielded a detailed study of the City's current and projected annual pension costs through FY 2028-29 prepared by Bartel Associates, LLC and dated October 8, 2018.²⁹⁴ As of the Grand Jury's March 21, 2019 interview, staff reported that neither the Bartel report, nor any other data showing the City's rising pension costs in the future, had been presented by staff to the City Council and that staff saw no reason to provide such information to the City Council because pensions are not an area of financial concern for Half Moon Bay.²⁹⁵

Financial Overview – Half Moon Bay

Half Moon Bay states that it is in a “strong position” financially “following 10 years of economic growth”²⁹⁶ Nevertheless, the City states in its FY 2019-20 recommended budget that “rising pension costs will pose significant budgetary and service-level challenges in coming fiscal years.”²⁹⁷ Notwithstanding the concern, staff reports that it is confident that the City will be able to meet this challenge.²⁹⁸ The City projects that its general fund balance (or surplus) will decrease from \$10.1 million at the end of FY 2017-18 (representing 56.8 percent of \$17.77 million in general fund expenses) down to \$4.14 million at the end of FY 2023-24 (representing 20.9 percent of \$19.79 million in general fund expenses). This is due, in part, to the City's projections that it will make approximately \$12 million of investments into capital improvement projects from FY 2017-18 through FY 2023-24 (spending an average of \$1.73 million per year on improvements during that period).²⁹⁹

Additional Payments to CalPERS – Half Moon Bay

Half Moon Bay has no current plans to make any additional payments to CalPERS beyond its Annual Required Contribution.³⁰⁰ In its FY 2018-19 budget, the City stated that “Staff is currently working on an independent actuarial valuation of the City's pension plans and

²⁹² Bartel Associates, LLC report to City of Half Moon Bay, October 8, 2018, pp. 20 & 30. This report includes pension cost projections through FY 2028-29.

²⁹³ Half Moon Bay FY 2017-18 Comprehensive Annual Financial Report. Half Moon Bay Adopted Operating Budget FY 2018-19. Half Moon Bay, Fiscal Year 2019-20 Recommended Operating Budget.

²⁹⁴ Bartel Associates, LLC report to City of Half Moon Bay, October 8, 2018, pp. 20 & 30.

²⁹⁵ Grand Jury interview.

²⁹⁶ Half Moon Bay, Fiscal Year 2019-20 Recommended Operating Budget, p. 19.

²⁹⁷ Ibid., p. 16.

²⁹⁸ Grand Jury interview.

²⁹⁹ Half Moon Bay, Fiscal Year 2019-20 Recommended Operating Budget, p. 82.

³⁰⁰ Grand Jury interview.

will be bringing a pension funding policy recommendation to Council at the beginning of the new fiscal year.”³⁰¹ As noted above, the City’s actuarial valuation firm (Bartel Associates, LLC) delivered that valuation report to the City on October 8, 2018.³⁰² However, as of March 21, 2019, staff had not presented the Bartel report to the City Council and reported that there were no plans to develop a pension funding policy recommendation for council’s consideration.³⁰³

Pension Reserve Fund – Half Moon Bay

Half Moon Bay has \$1.15 million in a “Retirement Stabilization Fund”³⁰⁴ and plans to add another \$0.1 million to that fund by June 30, 2019.³⁰⁵ This amount would represent approximately 17 months of pension contribution cost (based on FY 2017-18 payments). The City has made no decision yet as to whether to add further to this fund in FY 2019-20 or thereafter.³⁰⁶

Employee Contribution to City’s Normal Cost – Half Moon Bay

Half Moon Bay has no cost-sharing agreements in place with employees under which the employees pay a portion of the City’s pension contribution costs.³⁰⁷

Revenue Enhancement – Half Moon Bay

At present, Half Moon Bay is not engaged in a process of actively preparing to bring any revenue enhancement ballot measures before its voters.³⁰⁸ However, staff notes that it regularly considers whether a ballot measure seeking revenue enhancement is appropriate for the City and it is certainly possible that the City could decide to begin such a process in the future with an eye to submitting such a ballot measure to its voters in November 2020.³⁰⁹

Pension Obligation Bonds – Half Moon Bay

Half Moon Bay does not have any outstanding pension obligation bonds.³¹⁰

General Fund Reserves – Half Moon Bay

Half Moon Bay projects that its general fund balance (or surplus) will decrease from \$10.1 million at the end of FY 2017-18 (representing 56.8 percent of its \$17.77 million in general fund expenses) down to \$4.14 million at the end of FY 2023-24 (representing 20.9 percent of its \$19.79 million in general fund expenses).³¹¹ As noted above in the section entitled

³⁰¹ Half Moon Bay Adopted Operating Budget FY 2018-19, p. 57.

³⁰² Bartel Associates, LLC report to City of Half Moon Bay, October 8, 2018.

³⁰³ Grand Jury interview.

³⁰⁴ Half Moon Bay Adopted Operating Budget FY 2018-19, p. 208.

³⁰⁵ Grand Jury interview. Half Moon Bay Adopted Operating Budget FY 2018-19, p. 57.

³⁰⁶ Grand Jury interview.

³⁰⁷ Ibid.

³⁰⁸ Ibid.

³⁰⁹ Ibid.

³¹⁰ Ibid.

³¹¹ Half Moon Bay, Fiscal Year 2019-20 Recommended Operating Budget, p. 82.

“Financial Overview – Half Moon Bay,” this projected draw down of the general fund balance would be due, in part, to the City’s decision to make approximately \$12 million of investments into capital improvement projects from FY 2017-18 through FY 2023-24 (spending an average of \$1.73 million per year on improvements during that period).³¹²

Notwithstanding the draw-down of the general fund balance, Half Moon Bay expects to continue to maintain an operating contingency reserve of at least 30 percent of operating general fund expenses each year³¹³ and the City has also established an economic uncertainty reserve with the goal of holding an amount in that reserve equal to at least 20 percent of general fund operating expenses. The City projects that at the end of FY 2019-20, the contingency reserve will equal \$5.04 million (30 percent of general fund operating expenses of \$16.79 million) and the new economic uncertainty reserve will equal \$2.61 million (15.6 percent of general fund operating expenses).³¹⁴

The City also notes that in FY 2019-20, it plans to make a one-time payment of \$11 million to pay off (ahead of schedule) its outstanding judgement obligation bonds, which will leave the City largely debt free, except for repayment over the next ten years, on an interest-free basis, of \$6 million that San Mateo County advanced to the City to help build the City’s new library.³¹⁵

Long-Term Financial Forecast – Half Moon Bay

Half Moon Bay included a five-year general fund financial forecast in its readily-accessible FY 2018-19 budget³¹⁶ and in its FY 2019-20 recommended budget.³¹⁷

Hillsborough

Pension Contribution Costs - Hillsborough

Hillsborough’s pension contribution costs in FY 2017-18 were \$2.41 million, up \$0.254 million (11.8 percent) from \$2.16 million in FY 2016-17.³¹⁸ The Town’s FY 2017-18 pension contribution costs represented 23.6 percent of that year’s covered payroll (down from 24.9 percent the preceding year) and 10.8 percent of its total general fund spending (up from 10.2 percent the preceding year).³¹⁹

³¹² Ibid., p. 82.

³¹³ Staff note that this 30 percent compares favorably with the recommendation of the Government Finance Officers Association (GFAO) that municipalities maintain unrestricted reserves (which would include contingency reserves) equal to at least two months (17 percent) of general fund revenues or expenses. GFAO website (<https://www.gfoa.org/fund-balance-guidelines-general-fund>). Grand Jury interview.

³¹⁴ Half Moon Bay, Fiscal Year 2019-20 Recommended Operating Budget, p. 73. Grand Jury interview.

³¹⁵ Grand Jury interview.

³¹⁶ Half Moon Bay Adopted Operating Budget FY 2018-19, p. 94.

³¹⁷ Half Moon Bay, Fiscal Year 2019-20 Recommended Operating Budget, p. 82.

³¹⁸ Appendix A.

³¹⁹ Ibid.

Hillsborough’s actuarial consultant projects the Town’s pension contribution costs will increase from FY 2017-18 by \$2.05 million (84.6 percent) to \$4.47 million by FY 2023-24 and by an additional \$0.926 million (20.7 percent) to \$5.4 by FY 2027-28.³²⁰

Hillsborough’s projected pension contribution costs were not included in its FY 2018-19 budget³²¹ but are set forth in its readily-accessible FY 2019-20 proposed budget.³²²

Financial Overview – Hillsborough

Hillsborough’s financial position appears to be strong. It had a large general fund balance of \$22.5 million at the end of FY 2017-18 (representing 101.1 percent of general fund expenditures for the year)³²³ and, over the course of the following ten years through FY 2027-27, projects that this balance will remain at an average of approximately \$24.4 million, representing an average of 77 percent of general fund expenditures, still well above the Town’s minimum of 30 percent and goal of 50 percent.³²⁴

Additional Payments to CalPERS - Hillsborough

Hillsborough’s staff recommended to the Town Council on September 11, 2018 that an analysis be prepared for the FY 2019-20 budget to fund a \$0.25 million additional payment to CalPERS beyond its Annual Required Contribution for each of the next five years in order to accelerate amortization of the Town’s Unfunded Liability and thus reduce long-term interest costs.³²⁵ This recommendation was made in the context of an overall recommendation that the Town budget a total of \$3.25 million for pension mitigation over the next five years (\$1.25 million in additional payments and \$2 million into a Section 115 trust).³²⁶ After weighing all aspects of pension mitigation strategies over the course of several discussions, the Town council elected not to proceed with additional payments to CalPERS at that time, but (as described in “Pension Reserve Fund – Hillsborough” below) also decided to increase the proposed contribution to the Section 115 trust from the recommended \$2 million to \$4.8 million over the next two years. Staff reports that the Town will review its pension mitigation strategy during the next annual budget process.³²⁷

³²⁰ Bartel Associates, LLC report to Town of Hillsborough, February 19, 2018, pp. 12 & 26. This report includes pension cost projections through FY 2028-29.

³²¹ Hillsborough, Adopted Budget for Fiscal Year 2018-19, with Preliminary Budgets for Fiscal Years 2019-20 and 2020-21.

³²² Hillsborough, Proposed Budget for Fiscal Year 2019-20 with Preliminary Budgets for Fiscal Years 2020-21 & 2021-22, p. 105.

³²³ Hillsborough, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 24.

³²⁴ Hillsborough, Proposed Budget for Fiscal Year 2019-20 with Preliminary Budgets for Fiscal Years 2020-21 & 2021-22, p. 107.

³²⁵ Hillsborough, Memorandum from Jan Cooke to Financial Advisory Committee Working Group dated August 3, 2018 re: Pension Liability Mitigation Strategies, p. 63.

³²⁶ Hillsborough, Memorandum from Jan Cooke to Financial Advisory Committee Working Group dated August 3, 2018 re: Pension Liability Mitigation Strategies, p. 63.

³²⁷ Grand Jury interview. Email from Hillsborough, dated June 5, 2019.

Pension Reserve Fund - Hillsborough

Hillsborough has established a Section 115 Trust for the purpose of helping meet future pension expenses and, in January 2019 approved funding the trust with an initial \$2.4 million. The Town's FY 2019-20 proposed budget calls for an additional \$2.4 million to be transferred to the trust. If this additional amount is deposited in the trust, the total as of FY 2019-20 will be \$4.8 million³²⁸ which would represent 18 months of Hillsborough's projected annual pension costs as of FY 2019-20.³²⁹ The Town is not currently planning to contribute any amounts beyond \$4.8 million to this trust, but will review funding changes in the future if circumstances warrant.³³⁰

Employee Contribution to City's Normal Cost - Hillsborough

Hillsborough has cost sharing agreements with employees who participate in its "Classic" plans under which they pay a portion of the Town's pension costs equal to one percent of their compensation.³³¹

Revenue Enhancement - Hillsborough

Hillsborough is not currently in the process of planning to seek voter approval of any revenue enhancement measures, but it does periodically review its funding sources to fund needs such as capital improvements.³³²

Pension Obligation Bonds – Hillsborough

Hillsborough does not have any outstanding pension obligation bonds.³³³

General Fund Reserves - Hillsborough

Hillsborough projects having a general fund balance of \$23.42 million at the end of FY 2018-19. The Town projects that it will have small annual general fund surpluses through FY 2024-25, at which time the balance will be \$25.6 million. In FY 2025-26, the Town projects running a general fund deficit of \$0.441 million, and annual deficits of \$1.32 and \$1.66 million in FY 2027-28 and FY 2028-29, respectively, at which time the general fund balance is projected to be \$21.34 million.³³⁴ Included in these annual general fund balance numbers is \$4.8 million in the Section 115 Trust.

Hillsborough's general fund reserve policy is to maintain a general fund balance equal to a 50 percent, with a minimum of 30 percent, of general fund expenditures. In FY 2017-18,

³²⁸ Hillsborough, Proposed Budget for Fiscal Year 2019-20 with Preliminary Budgets for Fiscal Years 2020-21 & 2021-22, p. 27.

³²⁹ Appendix A.

³³⁰ Grand Jury interview. Email from Hillsborough, dated June 5, 2019.

³³¹ Grand Jury interview.

³³² Ibid. Email from Hillsborough, dated June 5, 2019.

³³³ Grand Jury interview.

³³⁴ Hillsborough, Proposed Budget for Fiscal Year 2019-20 with Preliminary Budgets for Fiscal Years 2020-21 & 2021-22, p. 107.

the general fund balance equaled 101.1 percent of general fund expenditures for the year.³³⁵ That percentage is projected to drop to 85.2 percent by the end of FY 2018-19, 81.3 percent at the end of FY 2023-24 and down to 63.3 percent at the end of FY 2027-28, still well above the Town's goal of 50 percent.³³⁶ If Hillsborough's general fund expenditures were calculated to include transfers of funds out to other funds, however, then the expenditures numbers would increase and the percentages of expenditures represented by the general fund balances would change to 92.5 percent at the end of FY 2017-18, 85.7 percent at the end of FY 2018-19, 81.1 percent at the end of FY 2023-24 and 57 percent at the end of FY 2027-28.³³⁷

Long-Term Financial Forecast – Hillsborough

Hillsborough's long-term general fund financial forecasting is based on a ten-year period. This forecast is included in the Town's readily-accessible FY 2018-19 budget and its FY 2019-20 proposed budget.³³⁸

Menlo Park

Pension Contribution Costs – Menlo Park

Menlo Park's pension contribution costs in FY 2017-18 were \$5.56 million, down \$0.01 million (-0.2 percent) from FY 2016-17.³³⁹ The City's FY 2017-18 pension contribution costs represented 23.8 percent of that year's covered payroll (down from 24.1 percent the preceding year) and 11.8 percent of its total general fund spending (unchanged from 11.8 percent the preceding year).³⁴⁰

Menlo Park's actuarial consultant projects the City's pension contribution costs (net of employee cost sharing under which employees pay a portion of the City's pension obligations) will increase over FY 2017-18 costs by \$4.84 million (87.1 percent) to \$10.39 million by FY 2023-24 and by an additional \$1.64 million (15.8 percent) to \$12.03 million over FY 2023-24 costs by FY 2027-28.³⁴¹

Menlo Park's projected pension contribution costs are not included in its FY 2017-18 CAFR, or in its FY 2018-19 budget.³⁴² In order to find these projected costs online, it is

³³⁵ Hillsborough, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 24.

³³⁶ Hillsborough, Proposed Budget for Fiscal Year 2019-20 with Preliminary Budgets for Fiscal Years 2020-21 & 2021-22, p. 107.

³³⁷ Email from Hillsborough, dated June 5, 2019.

³³⁸ Hillsborough, Adopted Budget for Fiscal Year 2018-19, with Preliminary Budgets for Fiscal Years 2019-20 and 2020-21, p. 98. Hillsborough, Proposed Budget for Fiscal Year 2019-20 with Preliminary Budgets for Fiscal Years 2020-21 & 2021-22, p. 107.

³³⁹ Appendix A.

³⁴⁰ Ibid. See "Note" regarding Menlo Park's "Contribution Cost as % of General Fund Spending" for alternative calculation of these percentages.

³⁴¹ Bartel Associates, LLC report to City of Menlo Park, November 13, 2018, pp.28 & 46.

³⁴² Menlo Park. Fiscal Year 2018-19 Adopted Budget. Menlo Park's FY 2018-19 budget (at page 38) does set forth the City's pension costs through FY 2028-29, but only to the extent paid out of the general fund. Therefore, the budget does not show the City's total pension costs.

necessary to manually search through City Council meeting agenda packages, which can be accessed at the following website: <https://menlopark.org/AgendaCenter/City-Council-14>. (Last accessed on June 2, 2019.) That search would eventually lead to the agenda for the November 13, 2018 City Council meeting,³⁴³ which refers to an “Employee pension obligations” study session and includes a link to a staff report on this topic dated November 13, 2019,³⁴⁴ attached to which is a detailed review of the City’s projected pension costs from its actuarial consulting firm (Bartel Associates, LLC).³⁴⁵

Financial Overview – Menlo Park

Menlo Park describes its financial outlook “currently quite strong” and notes that the outlook for growing property tax revenues, the City’s largest revenue source, remains “strong.”³⁴⁶ The City notes, however, that the “strong economy has resulted in near zero unemployment for the region and the City is in fierce competition for talented staff.”³⁴⁷

As of the end of FY 2017-18, Menlo Park had a total general fund balance of \$37.12 million.³⁴⁸ Notwithstanding rising pension costs and a tight labor market, the City projects that it will continue to accrue substantial increases in its general fund balance. From FY 2018-19 through FY 2023-24, it projects aggregating additional general fund balance amounts totaling \$16.3 million and, from FY 2024-25 through FY 2027-28, it projects aggregating an additional \$12.1 million in general fund balance amounts, bringing total additional amounts accrued in the general fund balance for the period from FY 2018-19 through FY 2027-28 to \$28.4 million.³⁴⁹ These projections take into account an assumption that “an economic downturn [is] nearly certain to occur within the time frame of the [long-term] forecast”³⁵⁰ making the projections more conservative than those of Cities that do not model a likely recession into their long-term financial planning.

Staff notes, however, that a portion of these projected general fund surpluses may be used to offset a portion of future funding needs for planned capital improvements. The City points out that capital improvement projects are budgeted for a total of \$73.5 million over five years and that the “funds that support those projects ... are expected to have a funding requirement of \$44.64 million through the five-year plan. As the City realizes surpluses in the General Fund, those funds may be used to offset a portion of the future funding need.”³⁵¹

³⁴³ Menlo Park. Agenda for City Council meeting on November 13, 2018.

³⁴⁴ Menlo Park. Staff Report for City Council Meeting on November 13, 2018 re: Study Session: Employee pension obligations.

³⁴⁵ Bartel Associates, LLC report to City of Menlo Park, November 13, 2018, pp.28 & 46.

³⁴⁶ Menlo Park, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, pp. iii - iv of December 21, 2018 transmittal letter.

³⁴⁷ Menlo Park. Fiscal Year 2018-19 Adopted Budget, p. ii of City Manager’s Transmittal Letter.

³⁴⁸ Menlo Park, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 36.

³⁴⁹ Menlo Park. Fiscal Year 2018-19 Adopted Budget, pp. 36-37.

³⁵⁰ Ibid., p. 37.

³⁵¹ Ibid., p. viii of City Manager’s Transmittal Letter. Email from Menlo Park, dated June 6, 2019.

Additional Payments to CalPERS – Menlo Park

Menlo Park’s staff has recommended to the council that the City make supplemental payments to CalPERS in excess of its Annual Required Contribution in amounts that mimic the effect of amortizing unfunded liabilities on a ten year schedule for its Miscellaneous Plans and a fifteen year schedule for its Tier 1 Safety Plan.³⁵² If adopted by the City Council for FY 2019-20 and included in budgets for each subsequent year (which requires affirmative City Council action each new year), this recommendation would, by the end of FY 2027-28 result in the City making aggregate supplemental payments to CalPERS of approximately \$12.68 million in addition to its Annual Required Contribution.³⁵³ After FY 2027-28, the City projects that these additional payments will yield net, annual decreases in payments to CalPERS for an aggregate savings – net of the \$12.68 million of additional payments - of approximately \$18.1 million by FY 2033-34.³⁵⁴

Pension Reserve Fund – Menlo Park

Menlo Park has established a “Strategic Pension Funding” reserve which, as of June 30, 2018, had a balance of \$4.3 million³⁵⁵, up from \$3.3 million the year before.³⁵⁶ Menlo Park’s policy is to assign 25 percent of any general fund surpluses to this pension reserve.³⁵⁷ Based on projected surpluses set forth in the City’s FY 2018-19 budget of approximately \$0.6 million in FY 2018-19, \$4.24 million in FY 2019-20, \$3.67 million in FY 2020-21, \$2.57 million in FY 2021-22, \$2.79 million in FY 2022-23 and \$2.4 million in FY 2023-24³⁵⁸ this policy would, if the City continued to implement it, add another \$4.1 million to the reserve through FY 2023-24 for an aggregate total Strategic Pension Funding Reserve of \$8.4 million.³⁵⁹ If Menlo Park continued to apply this 25 percent policy through FY 2027-28, based on projections in the City’s FY 2018-19 budget a further \$3 million would be added to the reserve.³⁶⁰ This would result in a Strategic Pension Funding reserve balance of \$11.4 million at the end of FY 2027-28, which would equal almost a full year of projected FY 2027-28 pension costs.³⁶¹ Menlo Park notes that the foregoing projections from its FY 2018-19 budget have been updated since the budget was prepared in 2018,³⁶² however the new projections have not been published yet and so the Grand Jury relied on the FY 2018-19 budget numbers.

³⁵² Menlo Park, Staff Report for City Council Meeting on March 5, 2019 re: Planned budget strategy for unfunded pension liability, pp. 9-10 & 11.

³⁵³ Email from Menlo Park, dated June 6, 2019.

³⁵⁴ Ibid.

³⁵⁵ Menlo Park, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 74.

³⁵⁶ Menlo Park, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2017, p. 14.

³⁵⁷ Menlo Park, Fiscal Year 2018-19 Adopted Budget, p. 38.

³⁵⁸ Ibid., p. 36.

³⁵⁹ The City has indicated that it will continue to implement this policy until otherwise affirmatively decided by the City Council. Grand Jury interview.

³⁶⁰ Menlo Park, Fiscal Year 2018-19 Adopted Budget, p. 37.

³⁶¹ Bartel Associates, LLC report to City of Menlo Park, November 13, 2018, pp. 28 & 46.

³⁶² Email from Menlo Park, dated June 6, 2019.

Employee Contribution to City's Normal Cost – Menlo Park

Menlo Park employees have entered into cost-sharing agreements with the City under which they pay for a portion of the pension costs that would otherwise have to be paid by the City. Under these cost-sharing agreements (a) Miscellaneous plan employees will pay an additional amount equal to 50 percent of the City's future pension cost increases above set percentage contribution rates for the City,³⁶³ (b) with sworn Safety plan Tier 1 and Tier 2 employees under which they will pay a portion of the City's pension costs equal to 3 percent of covered payroll, and (c) with PEPRSA Safety plan employees under which they pay the greater of one-half of the City's pension contribution costs for them, or an amount equal to 12 percent of their covered payroll.³⁶⁴ Menlo Park estimates the net present value of the savings it could achieve under these employee cost-sharing agreements to be \$11.88 million.³⁶⁵

Revenue Enhancement – Menlo Park

Menlo Park is not currently planning to put any revenue enhancement ballot measures before its voters.³⁶⁶

Pension Obligation Bonds – Menlo Park

Menlo Park does not have any outstanding pension obligation bonds.³⁶⁷

General Fund Reserves – Menlo Park

As of June 30, 2018, Menlo Park's unrestricted³⁶⁸ general fund balance was \$35.71 million³⁶⁹ representing 53.1 percent of the general fund's \$67.26 million in budgeted general fund expenditures for FY 2018-19.³⁷⁰ Included within the FY 2018-19 general fund unrestricted balance was \$9.3 million emergency contingencies reserve, a \$12 million reserve to mitigate the effects of major economic uncertainties, and \$4.3 million for strategic pension funding.³⁷¹ The City's goal is to maintain the unrestricted general fund balance at between 43 and 55 percent of general fund expenditures.³⁷²

³⁶³ For Miscellaneous plan employees in the SEIU unit, this percentage is 14.597 percent and for other Miscellaneous plan employees it is 15.85 percent. (Email from Menlo Park, dated June 6, 2019.)

³⁶⁴ Grand Jury interview. See also, Menlo Park. Fiscal Year 2018-19 Adopted Budget, p. 38.

³⁶⁵ Menlo Park, Staff Report for City Council Meeting on March 5, 2019 re: Planned budget strategy for unfunded pension liability, pp. 6-7.

³⁶⁶ Email from Menlo Park, dated June 6, 2019.

³⁶⁷ Ibid.

³⁶⁸ "Unrestricted" assets are those which are not "invested in capital assets net of related debt" or that the City is otherwise restricted from spending by external creditors, grantors, contributors or applicable laws or regulations. Menlo Park, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 52.

³⁶⁹ Menlo Park, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. vi of December 21, 2018 transmittal letter & pp. 14 & 32.

³⁷⁰ Ibid., p. vi of December 21, 2018 transmittal letter. Menlo Park. Fiscal Year 2018-19 Adopted Budget, pp. 36-37.

³⁷¹ Menlo Park, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 74.

³⁷² Ibid., p. 14.

As of the end of FY 2017-18, Menlo Park had a total general fund balance of \$37.12 million.³⁷³ As noted above, over the ten-year period from FY 2018-19 through FY 2027-28, Menlo Park projects it will aggregate further general fund surpluses totaling \$28.4 million.³⁷⁴

Over that same ten-year period, the unassigned general fund balance is projected to increase from \$4.41 million to \$11.55 million.³⁷⁵

Long-Term Financial Forecast – Menlo Park

Menlo Park publishes a long-term general fund operating budget forecast with a period of ten years.³⁷⁶ The long-term general fund operating budget forecast can be found in the City's FY 2018-19 budget,³⁷⁷ which can easily be accessed online at the landing page for the Menlo Park finance department at <https://menlopark.org/367/Finance>. (Last accessed on May 11, 2019.)

Millbrae

Pension Contribution Costs - Millbrae

Millbrae's pension contribution costs in FY 2017-18 were \$3.31 million, up \$0.978 million (41.9 percent) from \$2.34 million in FY 2016-17.³⁷⁸ The City's FY 2017-18 pension contribution costs represented 45 percent of that year's covered payroll (up from 37.9 percent the preceding year) and 11.7 percent of its total general fund spending (up from 9.2 percent the preceding year).^{379, 380}

In addition to its contribution payments made to CalPERS, Millbrae also makes annual, installment payments on its 2004 pension obligation bonds (originally issued in the amount of \$11.5 million).³⁸¹ The City paid \$1.07 million on the bonds in FY 2017-18 and will pay \$1.11 million in FY 2018-19.^{382,383} Taking bond payments into account, Millbrae's total payments on account of its pensions (CalPERS and bond payments combined) were \$4.39

³⁷³ Ibid., p. 32.

³⁷⁴ Menlo Park. Fiscal Year 2018-19 Adopted Budget, pp. 36-37.

³⁷⁵ Email from Menlo Park, dated May 11, 2019. Menlo Park. Fiscal Year 2018-19 Adopted Budget, p. 39.

³⁷⁶ Menlo Park. Fiscal Year 2018-19 Adopted Budget, pp. 36-37.

³⁷⁷ Ibid., pp. 36-37. A ten-year forecast was also included in the City's Fiscal Year 2017-18 Adopted Budget, pp. 46-47.

³⁷⁸ Appendix A.

³⁷⁹ Ibid.

³⁸⁰ Millbrae notes that its pension payments as a percentage of covered payroll are artificially high because the City has pension liability for public safety employees (police and fire) but the City currently contracts for services and has no employees in those categories. While the City has no police and fire staff, the City is responsible for unfunded liability pension costs associated with former police and fire agencies and is also responsible for pension costs associated with employees in police and fire contracts. Pension spending for Miscellaneous plan employees in FY 2017-18 represented only 29.5% of covered payroll. (Email from Millbrae, dated June 12, 2019.)

³⁸¹ Millbrae, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, pp. 19 & 68.

³⁸² Millbrae, Slide presentation for November 13, 2018 City Council meeting re: Post-Employment Benefit Review, slide 30.

³⁸³ Email from Millbrae, dated June 12, 2019.

million in FY 2017-18 (representing 59.6 percent of that year's covered payroll and 15.5 percent of total general fund spending of \$28.2 million³⁸⁴), up \$1.02 million (30.3 percent) from \$3.37 million in FY 2016-17.³⁸⁵

Millbrae projects its pension contribution costs will increase from FY 2017-18 by \$2.93 million (88.3 percent) to \$6.24 million by FY 2023-24 and by an additional \$0.0377 million (6 percent) to \$6.62 million by FY 2027-28.³⁸⁶ From FY 2018-19 through FY 2027-28, the City will pay a total of \$13.57 million on its pension obligation bonds, which represents an annual average of approximately \$1.36 million.³⁸⁷ Taking bond payments into account, the City's total payments on account of its pensions (CalPERS and bond payments combined) will increase from FY 2017-18 by \$3.24 million (73.9 percent) to \$7.62 million by FY 2023-24 and by an additional \$0.602 (7.9 percent) to \$8.23 million by FY 2027-28.³⁸⁸

Millbrae's projected pension contribution costs are not included in its FY 2017-18 CAFR, or in its FY 2018-19 & 2019-20 budget.³⁸⁹ The most detailed information about the City's projected pension costs is found in the January 19, 2018 report by the City's actuarial consultant (Bartel Associates, LLC).³⁹⁰ Unfortunately, this report is not made available by Millbrae on its website. The Grand Jury obtained a copy through a direct request to the City.³⁹¹ Other pension cost projection information can be found on the City's website by manually searching through City Council meeting agenda packages, which can be accessed at the following website: <https://www.ci.millbrae.ca.us/departments-services/city-clerk/city-council-meetings-agendas/-toggle-allpast>. (Last accessed on June 2, 2019.) That search would eventually lead to the agenda for the November 13, 2018 City Council meeting,³⁹² which references a discussion of "Post Employment Benefit Costs" and has a link next to it entitled "PowerPoint presentation." Clicking on that link leads to presentation slides that include, on slide 30, projected pension costs and annual pension obligation bond debt service amounts.³⁹³

³⁸⁴ Millbrae, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 34. Note: If general fund "transfers out" were included as part of general fund expenditures for FY 2017-18, then total expenditures would be \$33.64 million and the \$4.39 million of total, combined payments on account of pensions would represent 13 percent of general fund expenditures.

³⁸⁵ Millbrae, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2017, p. 34. Millbrae, Slide presentation for November 13, 2018 City Council meeting re: Post-Employment Benefit Review, slide 30. Email from Millbrae, dated June 12, 2019.

³⁸⁶ Ibid.

³⁸⁷ Ibid.

³⁸⁸ Ibid.

³⁸⁹ Millbrae, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018. Millbrae, Operating and Capital Budget for the 2018-2019 Fiscal Year and 2019-2020 Fiscal Year.

³⁹⁰ Bartel Associates, LLC report to City of Millbrae, January 19, 2018.

³⁹¹ The Grand Jury also received updated annual pension contribution cost and pension obligation bond debt service cost information for FY 2018-19 through FY2028-29 via an email from Millbrae, dated June 12, 2019.

³⁹² Millbrae, Agenda for City Council meeting on November 13, 2018.

³⁹³ Millbrae, Slide presentation for November 13, 2018 City Council meeting re: Post-Employment Benefit Review, slide 30.

Financial Overview – Millbrae

Millbrae reports that its overall financial position is “sound” and that key revenues are anticipated to continue to grow. The City notes, however, that there is concern about the effects of a future recession, which appears to be overdue as the length of the current recovery from the 2008 recession has lasted twice as long as the average of 5 years between recessions.³⁹⁴

The City notes that, for its prior 2-year budget cycle from FY 2015-16 through FY 2017-18, it planned to draw down a total of \$12.5 million in general fund reserves “to fund a robust capital improvement program.” The City states that it was able to reduce that planned draw down of reserves to \$8.5 million, but \$1.8 million of that use of reserves was in order to close a budget deficit for operating expenses. In FY 2018-19, the City states that it had to take “significant action to assure a balanced operating budget.”³⁹⁵ Millbrae notes that on June 11, 2019, it presented an update to the FY 2019-20 budget that brings the operating budget into balance.³⁹⁶

Additional Payments to CalPERS - Millbrae

Millbrae reports that it has no current plans to make any additional payments to CalPERS beyond its Annual Required Contribution but, at the City Council’s direction staff is investigating options which will be presented at a future date to be considered in line with the City’s additional strategic priorities.³⁹⁷

Pension Reserve Fund - Millbrae

Millbrae has not established any reserves for the purpose of helping to meet rising pension costs in the future.³⁹⁸

Employee Contribution to City’s Normal Cost - Millbrae

Millbrae has entered into cost-sharing agreements with Miscellaneous plan “classic” employees under which those employees agree to pay a portion of the City’s pension contribution costs equal to 5 percent of their salary.³⁹⁹ Those employee contributions are projected to average \$0.257 million per year from FY 2017-18 through FY 2027-28.⁴⁰⁰

Revenue Enhancement - Millbrae

Millbrae has no current plans to put any revenue enhancement ballot measures before its voters.⁴⁰¹

³⁹⁴ Millbrae, Operating and Capital Budget for the 2018-2019 Fiscal Year and 2019-2020 Fiscal Year, p. 7.

³⁹⁵ Ibid., p. 16.

³⁹⁶ Email from Millbrae, dated June 12, 2019.

³⁹⁷ Ibid.

³⁹⁸ Ibid.

³⁹⁹ Millbrae, City Council Agenda Report for City Council Meeting on November 13, 2018 re: Receive informational report on City of Millbrae Post-Employment Benefit Costs, p. 3

⁴⁰⁰ Bartel Associates, LLC report to City of Millbrae, January 19, 2018, p. 26.

⁴⁰¹ Email from Millbrae, dated June 12, 2019.

Pension Obligation Bonds - Millbrae

In 2004, Millbrae issued pension obligation bonds in the amount of \$11.5 million.⁴⁰² A total of \$10.54 million in payments on the bonds will be due from Millbrae during the years from FY 2019-20 through FY 2026-27, which represents an annual average of approximately \$1.32 million.⁴⁰³ The bonds will be paid off in FY 2033-34.⁴⁰⁴

General Fund Reserves - Millbrae

At the end of FY 2017-18, Millbrae had an unrestricted general fund balance of \$19.3 million. This amount was 68 percent of the \$28.2 million of general fund expenditures for that year.⁴⁰⁵ The FY 2017-18 balance represented a decrease of \$3.81 million (16.5 percent) from FY 2016-17, when the City's unrestricted general fund balance was \$23.07 million and equaled 90.5 percent of general fund expenditures of \$25.49 million for the year.⁴⁰⁶

The City informed the Grand Jury in April 2018 that it was unable to predict what its general fund balance will be at the end of FY 2018-19 or FY 2019-20 as staff was continuing to evaluate opportunities to increase revenues and improve efficiencies.⁴⁰⁷ Based on the current adopted budget and proposed amendments at the mid-cycle update, assuming all revenues and expenses as originally forecast, staff now estimates an ending general fund balance of \$12.7 million in FY 2018-19 and \$6.05 in FY2019-20 with a reserve fund policy level of 15 percent.⁴⁰⁸

Long-Term Financial Forecast – Millbrae

Millbrae does not currently have a long-term general fund financial forecast. The City is in the process of developing a ten-year general fund financial forecast and expects to have one sometime in FY 2019-20.⁴⁰⁹

PacificaPension Contribution Costs - Pacifica

Pacifica's pension contribution costs in FY 2017-18 were \$4.09 million, up \$0.351 million (9.4 percent) from \$3.74 million in FY 2016-17.⁴¹⁰ The City's FY 2017-18 pension contribution costs represented 24.8 percent of that year's covered payroll (up from 22.9 percent the preceding year) and 13.6 percent of its total general fund spending (up from 13 percent the preceding year).⁴¹¹

⁴⁰² Millbrae, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, pp. 19 & 68.

⁴⁰³ Millbrae, Slide presentation re: Post-Employment Benefit Review, slide 30.

⁴⁰⁴ Millbrae, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 68.

⁴⁰⁵ Ibid., pp. 5, 32, 34 & 74.

⁴⁰⁶ Millbrae, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2017, pp. 32, 34 & 74.

⁴⁰⁷ Grand Jury interview.

⁴⁰⁸ Email from Millbrae, dated June 12, 2019.

⁴⁰⁹ Grand Jury interview.

⁴¹⁰ Appendix A.

⁴¹¹ Ibid.

In addition to its contribution payments made to CalPERS, the City also makes annual, installment payments on its 2010 pension obligation bonds (originally issued in the amount of \$20.5 million).⁴¹² It paid \$1.69 million on the bonds in FY 2017-18⁴¹³ and will pay \$1.75 million in FY 2018-19.⁴¹⁴ From FY 2019-20 through FY 2029-30 when the bonds are fully paid off, the City will make bond payments totaling \$13.26 million, for an average annual payment on the bonds of approximately \$1.25 million.⁴¹⁵ Taking bond payments into account, the City's total payments on account of its pensions (CalPERS and bond payments combined) were \$5.78 million in FY 2017-18 (representing 35.1 percent of that year's covered payroll and 19.3 percent of total general fund spending),⁴¹⁶ down \$0.528 million (8.4 percent) from \$6.31 million in FY 2016-17.⁴¹⁷

Pacifica's actuarial consultant projects that the City's pension contribution costs will increase from FY 2017-18 by \$3.42 million (83.6 percent) to \$7.51 million by FY 2023-24 and by an additional \$1.59 million (20.6 percent) to \$9.06 by FY 2027-28.⁴¹⁸ Taking bond payments into account, the City's total payments on account of its pensions (CalPERS and bond payments combined) will increase from FY 2017-18 by \$2.91 million (50.3 percent) to \$8.69 million by FY 2023-24 and by an additional \$1.72 million (19.8 percent) to \$10.41 million by FY 2027-28.⁴¹⁹

The City's projected pension contribution costs are not included in its FY 2017-18 CAFR, or in its budget for FY 2018-19.⁴²⁰ In order to find these projected costs online, it is necessary to manually search through City Council meeting agenda packages, which can be accessed at the following website:

<https://pacificacityca.iqm2.com/Citizens/Calendar.aspx?From=1/1/2019&To=12/31/2019>.

(Last accessed on May 20, 2019.) That search would eventually lead to the agenda for a City Council meeting on November 26, 2018.⁴²¹ That agenda includes a heading entitled "2018 Presentation of Pension Costs" under which is a link entitled "Attachment 1 – Bartel Associates – CalPERS Actuarial Issues – 6/30/17 Valuation" which contains the City's pension cost projections.⁴²²

⁴¹² Pacifica, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. 64.

⁴¹³ Pacifica, Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2016, pp. 64 & 66.

⁴¹⁴ Pacifica, Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2017, pp. 64 & 66.

⁴¹⁵ Pacifica, Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2018, pp. 64 & 66.

⁴¹⁶ Appendix A. Pacifica, Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2017, pp. 64 & 66.

⁴¹⁷ Appendix A. Pacifica, Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2016, pp. 64 & 66.

⁴¹⁸ Bartel Associates, LLC report to City of Pacifica, November 13, 2018, pp. 12, 21, 30. This report provides projected pension cost data through FY 2029-30.

⁴¹⁹ Ibid., pp. 12, 21, 30. Pacifica, Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2017, pp. 64 & 66. Email from Pacifica, dated May 22, 2019.

⁴²⁰ Pacifica, Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2018. Pacifica, Annual Operating Budget 2018-2019, Adopted June 25, 2018.

⁴²¹ Pacifica, Agenda for City Council Meeting on November 26, 2019.

⁴²² Bartel Associates, LLC report to City of Pacifica, November 13, 2018, pp. 30, 34, 52, 56, 74, 78 & 82.

Financial Overview – Pacifica

While Pacifica has been able to maintain balanced general fund budgets over the years, it notes that “the slow [revenues] growth rate in Pacifica is not keeping pace with inflationary cost increases...”⁴²³ The City highlights two sources of rising cost pressures that are driving long-term general fund budget deficit projections; rising salary and benefits costs in order to compete with other cities for quality employees and rising pension and health care costs.⁴²⁴

If the City does not make substantial expenditure reductions or develop additional revenues, its long-term general fund financial forecast projects that its general fund expenses will exceed revenues by a total of approximately \$18 million over the nine years from FY 2019-20 through FY 2027-28. Annual deficits are projected to rise from \$1.1 million in FY 2019-20 to \$3.55 million in FY 2027-28.⁴²⁵

Pacifica states that, while it is committed to keeping future general fund budgets balanced, “[t]he increasing [budget] gap projected beyond FY 2019-20 is anticipated to be extremely challenging to balance.”⁴²⁶

Additional Payments to CalPERS - Pacifica

Pacifica does not currently have any plans to make additional payments to CalPERS beyond its Annual Required Contribution.⁴²⁷

Pension Reserve Fund - Pacifica

Staff has recommended that the City Council consider establishing a Section 115 Trust and begin funding the trust with one-time revenue sources.⁴²⁸ The City expects to include a transfer of \$0.2 million into a Section 115 Trust in the FY 2019-20 budget. It has not put in place a plan for the amounts of any future transfers to the trust in subsequent years but expects that it would consider further contributions if general fund surpluses were available.⁴²⁹

Employee Contribution to City’s Normal Cost – Pacifica

Pacifica has cost-sharing agreements in place with its employees pursuant to which employees pay a portion of the City’s pension contribution costs equal a percentage of their compensation ranging from 2.5 percent up to 5 percent.⁴³⁰

⁴²³ Pacifica, Council Agenda Summary Report for April 25, 2019 meeting re: FY 2019-20 Narrative Budget Report, pp. 2-3.

⁴²⁴ Ibid., pp. 2-3 & 5.

⁴²⁵ Pacifica, Council Agenda Summary Report for February 25, 2019 meeting re: Long Term Financial Plan Update 2018-2028, Attachment 1 (Long Term Financial Plan 2018-28).

⁴²⁶ Pacifica, Council Agenda Summary Report for April 25, 2019 meeting re: FY 2019-20 Narrative Budget Report, p. 5.

⁴²⁷ Email from Pacifica, dated June 10, 2019.

⁴²⁸ Pacifica, Council Agenda Summary Report for April 25, 2019 meeting re: FY 2019-20 Narrative Budget Report, p. 9.

⁴²⁹ Grand Jury interview.

⁴³⁰ Ibid. Email from Pacifica, dated May 22, 2019.

Revenue Enhancement - Pacifica

Pacifica is currently focusing on future economic development, especially the building of new hotels and residences, to help increase revenues and bring down projected future deficits. The City may also consider putting an increase in its 12 percent transient occupancy tax (“hotel tax”) before its voters.⁴³¹

Pension Obligation Bonds - Pacifica

In 2010, Pacifica issued \$20.5 million in pension obligation bonds.⁴³² As of the end of FY 2017-18, Pacifica’s remaining payment obligations on the bonds through maturity in FY2029-30 totaled \$15 million.⁴³³

General Fund Reserves - Pacifica

Pacifica’s general fund balance as of the end of FY 2017-18 was \$12.55 million, of which \$8.55 million (representing 28.5 percent of general fund expenditures for the year⁴³⁴) was spendable,⁴³⁵ consisting of \$1.41 million that is assigned,⁴³⁶ and \$7.14 million that is unassigned.⁴³⁷ The City expects that it will need to draw down some of these reserves to close general fund budget deficits in future years.⁴³⁸

Long-Term Financial Forecast – Pacifica

Pacifica has a long-term general fund forecast covering the period from FY 2017-18 through FY 2027-28, which it made available online in connection with its February 25, 2019 City Council meeting regarding a long-term financial plan.⁴³⁹ The City has not included any long-term general fund operating forecast in its FY 2018-19 budget.⁴⁴⁰ In order to find its long-term general fund forecast online, it is necessary to manually search through agendas for City Council meetings that are available at <https://pacificacityca.igm2.com/Citizens/Calendar.aspx>. (Last accessed on May 20, 2019.) That search will eventually lead to the agenda for a meeting held on February 25, 2019, which references a discussion

⁴³¹ Grand Jury interview.

⁴³² Pacifica, Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2018, p. 64.

⁴³³ Ibid., pp. 64 & 66.

⁴³⁴ Pacifica, Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2018, p. 34.

⁴³⁵ Nonspendable funds ‘include amounts that cannot be spend because they are no in spendable form, or legally or contractually required to be maintained intact. The ‘not in spendable form’ criterion includes items that are not expected to be converted to cash.’ Pacifica, Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2018, p. 90.

⁴³⁶ “Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In the General Fund, assigned amounts represent intended uses established by City Council or a City official delegated that authority by City ordinance (City Manager).” Pacifica, Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2018, p. 91.

⁴³⁷ “Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications.” Ibid., p. 91. Pacifica, Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2018, p. 30.

⁴³⁸ Grand Jury interview.

⁴³⁹ Pacifica, Council Agenda Summary Report for February 25, 2019 meeting re: Long Term Financial Plan Update 2018-2028.

⁴⁴⁰ Pacifica, Annual Operating Budget 2018-2019, Adopted June 25, 2018.

entitled “Long Term Financial Plan Update.”⁴⁴¹ Clicking on the link below that heading entitled ‘Attachment 1: LTFP 2018-2028’ leads to the long-term plan.

Portola Valley

Pension Contribution Costs – Portola Valley

Portola Valley’s pension contribution costs in FY 2017-18 were \$0.141 million, up \$0.025 million (21.7 percent) from \$0.116 million in FY 2016-17. The City’s FY 2017-18 pension contribution costs represented 9.3 percent of that year’s covered payroll (up from 8.1 percent the preceding year) and 2.7 percent of its total general fund spending (flat from 2.7 percent the preceding year).⁴⁴²

CalPERS projects that Portola Valley’s pension contribution costs will increase by \$0.117 million (83.3 percent) to \$0.258 million by FY 2023-24.⁴⁴³

Portola Valley does not prepare any projections for future pension contribution costs and none are included in its FY 2017-18 financial report,⁴⁴⁴ its FY 2018-19 operating budget,⁴⁴⁵ or its FY 2019-20 proposed operating budget.⁴⁴⁶ In order to develop the projected cost numbers through FY 2023-24 reported above, the Grand Jury reviewed CalPERS’ actuarial reports to Portola Valley,⁴⁴⁷ together with supplemental information received directly from the Town via email⁴⁴⁸ and combined the two data sources to generate the projection.

Financial Overview – Portola Valley

Portola Valley reports that its “fiscal condition remains strong.”⁴⁴⁹ The Town reported very robust general fund balances of \$4.77 million at the end of FY 2016-17 (representing 109.4 percent of general fund expenses of \$4.36 million for the year), rising to \$4.92 million at the end of FY 2017-18 (representing 93 percent of general fund expenses of \$5.29 million for the year). Unassigned reserves were reported to be \$2.68 million in FY 2016-17 (representing 61.5 percent of general fund expenses for the year) and \$2.83 million in FY 2017-18 (representing 53.5 percent of general fund expenses for the year).⁴⁵⁰ In addition, the Town projects that it will have an unfunded pension liability reserve funded with a

⁴⁴¹ The February 25, 2019 City Council meeting agenda can be found at https://pacificacityca.igam2.com/Citizens/Detail_Meeting.aspx?ID=1259 . (Last accessed on May 20, 2019.)

⁴⁴² Appendix A.

⁴⁴³ CalPERS Actuarial Valuation – June 30, 2017 Miscellaneous Plan of the Town of Portola Valley, p. 5. CalPERS Actuarial Valuation – June 30, 2017 PEPRA Miscellaneous Plan of the Town of Portola Valley, p. 5. Email correspondence from Portola Valley dated June 18, 2019.

⁴⁴⁴ Portola Valley, Basic Financial Statements for the Year Ended June 30, 2018.

⁴⁴⁵ Portola Valley, Adopted Operating & Capital Budgets Fiscal Year 2018-19.

⁴⁴⁶ Portola Valley, Proposed Operating & Capital Budgets, Fiscal Year 2019-20.

⁴⁴⁷ CalPERS Actuarial Valuation – June 30, 2017 Miscellaneous Plan of the Town of Portola Valley, p. 5. CalPERS Actuarial Valuation – June 30, 2017 PEPRA Miscellaneous Plan of the Town of Portola Valley, p. 5.

⁴⁴⁸ Email correspondence from Portola Valley dated June 18, 2019.

⁴⁴⁹ Portola Valley, Adopted Operating & Capital Budgets Fiscal Year 2018-19, Town Managers transmittal letter to the Town Council, p. 1.

⁴⁵⁰ Portola Valley, Basic Financial Statements for the Year Ended June 30, 2017, pp. 18 & 22. Portola Valley, Basic Financial Statements for the Year Ended June 30, 2018, pp. 20 & 24.

balance of \$0.712 million in FY 2019-20.⁴⁵¹ Per the Town’s unfunded pension liability reserve policy, this reserved amount will equal the Town’s total unfunded pension liability for FY 2017-18⁴⁵² and represent approximately 38 months of its projected pension contribution costs of \$0.220 million as of FY 2019-20.⁴⁵³

Additional Payments to CalPERS – Portola Valley

In FY 2014-15, Portola Valley paid CalPERS \$0.907 million in order to retire its entire unfunded pension liability at that time.⁴⁵⁴ Since then, as a result of returns on CalPERS’ investments being lower than projected by CalPERS, the Town’s has accrued a new unfunded pension liability totaling \$0.712 million as of the end of FY 2017-18.⁴⁵⁵ Over the course of three to four study sessions beginning in September of 2019, Portola Valley plans to discuss, among other things, how to manage its rising pension costs going forward. While staff has not yet analyzed the possibility of again making additional payments to CalPERS to retire this latest unfunded pension liability, this may be one of the options discussed in those study sessions.⁴⁵⁶

Pension Reserve Fund – Portola Valley

As noted above in the section entitled “Financial Overview – Portola Valley,” the Town’s policy is to maintain a reserve for its unfunded pension liability that equals its total unfunded pension liability amount.⁴⁵⁷ The reserve balance was \$0.524 million as of the end of FY 2018-19⁴⁵⁸ (equaling the total unfunded pension liability as of the end of FY 2016-17)⁴⁵⁹ and will be increased to \$0.712 million in FY 2019-20 (equaling the total unfunded pension liability as of the end of FY 2017-18).⁴⁶⁰

During its study sessions scheduled to begin in September 2019, the Town will consider, among other options, whether to move these reserves into a Section 115 pension trust or other outside investment vehicle.⁴⁶¹

Employee Contribution to City’s Normal Cost – Portola Valley

Portola Valley does not have any cost-sharing agreements in place with its employees under which employees agree to pay a portion of the Town’s pension contribution costs.⁴⁶²

⁴⁵¹ Grand Jury interview.

⁴⁵² Ibid.

⁴⁵³ CalPERS Actuarial Valuation – June 30, 2017 Miscellaneous Plan of the Town of Portola Valley, p. 4. CalPERS Actuarial Valuation – June 30, 2017 PEPRA Miscellaneous Plan of the Town of Portola Valley, p. 4.

⁴⁵⁴ Portola Valley, Basic Financial Statements for the Year Ended June 30, 2015, p. 49. Grand Jury interview.

⁴⁵⁵ Appendix A.

⁴⁵⁶ Grand Jury interview.

⁴⁵⁷ Ibid.

⁴⁵⁸ Portola Valley, Adopted Operating & Capital Budgets Fiscal Year 2018-19, 2018-19 Fund Activity Summary.

⁴⁵⁹ Appendix A.

⁴⁶⁰ Grand Jury interview. Portola Valley, Proposed Operating & Capital Budget, Fiscal Year 2019-20, 2019-20 Fund Activity Summary.

⁴⁶¹ Grand Jury interview.

⁴⁶² Ibid.

Revenue Enhancement – Portola Valley

Since 2016, Portola Valley has not sought voter approval of any revenue enhancement ballot measures and it does not currently have any plans for doing so in the next two years. Staff notes, however, that the Town may evaluate putting ballot measures before its voters for funding of road improvements and/or wildfire risk mitigation in the near future.⁴⁶³

Pension Obligation Bonds – Portola Valley

Portola Valley does not have any outstanding pension obligation bonds.⁴⁶⁴

General Fund Reserves – Portola Valley

AS noted above in the section entitled “Financial Overview - Portola Valley,” the Town reported very robust general fund balances of \$4.77 million at the end of FY 2016-17 (representing 109.4 percent of general fund expenses of \$4.36 million for the year), rising to \$4.92 million at the end of FY 2017-18 (representing 93 percent of general fund expenses of \$5.29 million for the year). Unassigned reserves were reported to be \$2.68 million in FY 2016-17 (representing 61.5 percent of general fund expenses for the year) and \$2.83 million in FY 2017-18 (representing 53.5 percent of general fund expenses for the year).⁴⁶⁵ Unassigned reserves are projected to drop to \$1.06 million by the end of FY 2019-20,⁴⁶⁶ but staff notes this is largely due to planned investments in two pedestrian safety enhancements and setting aside funds to meet unfunded retiree medical costs.⁴⁶⁷

Long-Term Financial Forecast – Portola Valley

To date, Portola Valley has not prepared long-term general fund operating budget forecasts. However, staff expects that in the study sessions beginning in September 2019, the possibility of developing five-year general fund forecasts will be discussed. Staff has not yet considered whether or not any such forecast would, once developed, be included in the Town’s published annual budget.⁴⁶⁸

Redwood CityPension Contribution Costs – Redwood City

Redwood City’s pension contribution costs in FY 2017-18 were \$18.41million, up \$0.687 million (3.9 percent) from \$17.72 million in FY 2016-17. The City’s FY 2017-18 pension contribution costs represented 30.3 percent of that year’s covered payroll (up from 28.5 percent the preceding year) and 14.6 percent of its total general fund spending (down from 15.8 percent the preceding year).⁴⁶⁹

⁴⁶³ Ibid.

⁴⁶⁴ Ibid.

⁴⁶⁵ Portola Valley, Basic Financial Statements for the Year Ended June 30, 2017, pp. 18 & 22. Portola Valley, Basic Financial Statements for the Year Ended June 30, 2018, pp. 20 & 24.

⁴⁶⁶ Grand Jury interview. Portola Valley, Proposed Operating & Capital Budget, Fiscal Year 2019-20, 2019-20 Fund Activity Summary.

⁴⁶⁷ Grand Jury interview.

⁴⁶⁸ Ibid.

⁴⁶⁹ Appendix A.

The City projects its pension contribution costs will increase by a \$19.5 million (106 percent) to \$37.9 million by FY 2023-24 and by an additional \$3.71 million (9.8 percent) to \$41.63 million by FY 2027-28.⁴⁷⁰

Redwood City's projected pension contribution costs are included in its readily accessible FY 2018-19 budget and FY 2019-20 recommended budget.⁴⁷¹

Financial Overview – Redwood City

Redwood City faces significant fiscal challenges beginning in FY 2021-22 as substantial projected general fund surpluses in FY 2018-19, FY 2019-20 and FY 2020-21 are projected to turn into large and growing deficits (with an annual deficit of \$0.945 million in FY 2022-23 rising to an annual deficit of \$17.85 million in FY 2027-28) if significant expense reductions and/or revenue increases are not made.⁴⁷² A major component of these looming deficits is rising pension costs.⁴⁷³

As part of its FY 2017-18 budget, the City adopted a “Financial Sustainability Plan” or “FSP” which includes reducing operating expenses and increasing revenue over the following five years.⁴⁷⁴ Under the FSP, the City had included in its FY 2018-19 budget approximately \$3.8 million in operating cost reductions. The City also obtained voter approval for new revenue enhancement measures in 2018 (described in the section entitled “Revenue Enhancement – Redwood City” below). Partly as a result of passage of these measures, the City restored \$2.7 million of the planned \$3.8 million in planned cost reductions, which included restoration of police department staffing and library hours.⁴⁷⁵

Redwood City notes that, during FY 2019-20, “the City Council Finance/Audit Subcommittee will be discussing opportunities for the City to increase revenue, among other financial strategies” and that “[m]aintaining the City’s long-term fiscal stability requires meaningful action and a proactive approach to addressing the City’s projected deficit and long-term liabilities through both revenue increases and expenditure reductions over time.”⁴⁷⁶

Additional Payments to CalPERS – Redwood City

Redwood City has been evaluating the option of making additional annual payments to CalPERS beyond its Annual Required Contribution in order to reduce long-term pension

⁴⁷⁰ Redwood City, Recommended Budget Fiscal Year 2019-2020, pp. 26, 29 & 175. The graphs on pages 26 and 175 of this budget include contribution cost projections through FY 2038-39. A table on page 29 of the budget projects pension contribution costs through FY 2045-46.

⁴⁷¹ Redwood City, Fiscal Year 2018-2019 Adopted Budget, p. 173. Redwood City, Recommended Budget Fiscal Year 2019-2020, pp. 26 & 175.

⁴⁷² Ibid., pp. 166 & 176.

⁴⁷³ Grand Jury interview.

⁴⁷⁴ Redwood City, Recommended Budget Fiscal Year 2019-2020, p. 16.

⁴⁷⁵ Ibid.

⁴⁷⁶ Ibid., p. 17.

costs.⁴⁷⁷ Staff has estimated that, by paying CalPERS an extra \$1.6 million per year over the next 18 years, the City would receive net savings of approximately \$6 to \$27 million.⁴⁷⁸ If the City made additional annual payments averaging \$5.56 million over 15 years, the City's estimated net savings would be approximately \$100 million.⁴⁷⁹

At its June 10, 2019 meeting, the City Council approved making an additional payment of \$0.6 million to CalPERS beyond the City's Annual Required Contribution out of the FY 2018-19 operating balance.⁴⁸⁰ In addition, staff's ten-year general fund forecast included in the new FY2019-20 budget includes additional payments of CalPERS of \$0.5 million per year through FY 2028-29.⁴⁸¹

Staff's recommendation to the City Council in June 2019 is that, on a going forward basis, the City apply 80 percent of all general fund surpluses to pension funding (a combination of additional payments to CalPERS and transfers to the Section 115 Trust) as long as surpluses last.⁴⁸² Surpluses of \$5.23 million and \$3.93 million are projected for FY 2019-20 and FY 2020-21.⁴⁸³ Putting 80 percent of those into pension funding would result in an additional \$4.19 million for pensions in FY 2019-20 and another \$3.15 million in FY 2020-21. These general fund surpluses are projected to turn into a deficit of \$0.945 million in FY 2021-22 and thereafter to grow each year through FY 2028-29⁴⁸⁴ if new revenues are not found, expense reductions made, or a combination of the two. Accordingly, staff considers FY 2019-20 and FY 2020-21 to be the City's best window for making substantial progress toward funding future pension cost increases.⁴⁸⁵

Pension Reserve Fund – Redwood City

In January 2018, Redwood City transferred \$10.5 million into a Section 115 pension trust in order to pre-fund future pension payment obligations.⁴⁸⁶ In late calendar 2018 the City decided to put another \$0.55 million into the Section 115 trust in FY 2018-19.⁴⁸⁷ At its June 10, 2019 meeting, the City Council approved contributing an additional \$3 million to the Section 115 pension trust out of the FY 2018-19 general fund operating balance, which would bring total contributions to date approximately \$14.05 million.⁴⁸⁸

⁴⁷⁷ Grand Jury interview. Redwood City, Staff Memorandum, March 21, 2019, re: Discussion Topics and Staff Recommendations for Meeting on March 25, 2019, pp. 2-5. Redwood City, Recommended Budget Fiscal Year 2019-2020, pp. 27-28.

⁴⁷⁸ Ibid., p. 27.

⁴⁷⁹ Redwood City, Staff Memorandum, March 21, 2019, re: Discussion Topics and Staff Recommendations for Meeting on March 25, 2019, pp. 4-5.

⁴⁸⁰ Email from Redwood City, dated June 18, 2019.

⁴⁸¹ Redwood City, Recommended Budget Fiscal Year 2019-2020, p. 26.

⁴⁸² Grand Jury interview.

⁴⁸³ Redwood City, Recommended Budget Fiscal Year 2019-2020, p. 176.

⁴⁸⁴ Ibid.

⁴⁸⁵ Grand Jury interview.

⁴⁸⁶ Redwood City, Fiscal Year 2018-2019 Adopted Budget, p. 15.

⁴⁸⁷ Grand Jury interview.

⁴⁸⁸ Emails from Redwood City, dated June 18 and June 19, 2019.

In addition, the City's ten-year general fund budget forecast included in the FY 2019-20 budget contemplates the contribution of an additional \$1.1 million per year to the Section 115 pension trust through the ten-year period from FY 2019-20 through FY 2028-29.⁴⁸⁹ If made through FY 2028-29, total aggregate contributions to the trust would equal \$25.05 million. However, it is possible that the City may begin drawing down some of the Section 115 pension trust balance in the out years of the ten-year forecast to mitigate the impact of rising pension costs, in which case annual contributions of \$1.1 million might not continue.⁴⁹⁰

Employee Contribution to City's Normal Cost – Redwood City

Redwood City has negotiated cost-sharing agreements with certain employees bargaining units under which those employees pay a portion of the City's Normal Costs equal to between 2 percent and 9 percent of their salary.⁴⁹¹ The Grand Jury notes that Redwood City has also made a policy decision not to allow compensation increases to exceed CalPERS' assumption on cost-of-living increases, thus ensuring that pension costs will not rise faster than projected based on employee pay raises.⁴⁹²

Revenue Enhancement – Redwood City

In November 2018 Redwood City residents approved a half-cent sales tax increase which is expected to generate approximately \$8.7 million per year.⁴⁹³ Notwithstanding this increase, the City will need to find further substantial revenue enhancements to close the projected its projected general fund budget gap that opens up in FY 2021-22. To the extent it does not, major expense cuts through staffing reductions will have to be made.⁴⁹⁴

Pension Obligation Bonds – Redwood City

Redwood City does not have any outstanding pension obligation bonds.⁴⁹⁵

General Fund Reserves – Redwood City

Redwood City's ten-year general fund forecast projects that general fund reserves will increase from \$21.4 million at the end of FY 2017-18 (representing 14.7 percent of general fund revenues) to \$29.88 million at the end of FY 2019-20 (representing 19 percent of general fund revenues); thereafter dropping by \$1.04 million, \$4.36 million, \$4.67 million, \$7.6 million, and \$9.31 million during the years from FY 2020-21 through FY 2024-25, at which point reserves will be down to \$2.9 million (representing 1.7 percent of general fund

⁴⁸⁹ Redwood City, Recommended Budget Fiscal Year 2019-2020, p. 176.

⁴⁹⁰ Grand Jury interview.

⁴⁹¹ Redwood City, Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2018, p. 66.

⁴⁹² Grand Jury interview.

⁴⁹³ Redwood City, Staff Report for City Council Meeting on February 25, 2019 re: FY 2018-19 Mid-Year Budget Update and Proposed Process for Development of the FY 2019-20 Budget, p. 3. Email from Redwood City, dated June 7, 2019.

⁴⁹⁴ Grand Jury interview.

⁴⁹⁵ Email from Redwood City, dated June 7, 2019.

revenues).⁴⁹⁶ The City's policies require that general fund reserves not drop below 15 percent of general fund revenues,⁴⁹⁷ which is projected to occur by the end of FY 2022-23, unless revenues are increased or expenses reduced.⁴⁹⁸

Long-Term Financial Forecast – Redwood City

Prior to FY 2018-19, Redwood City's long-term general fund financial forecasting was based on a five-year period.⁴⁹⁹ In FY 2018-19, however, the City changed this to a ten-year period.⁵⁰⁰ This extension of the forecast period enabled the City Council and public to better understand the longer-term the general fund budget challenges facing the City.⁵⁰¹

Redwood City included its long-term (five-year) general fund financial forecast in its FY 2018-19 budget⁵⁰² and its new ten-year general fund financial forecast is included in the City's FY 2019-20 budget.⁵⁰³ Redwood has also added a "Fiscal Update" page to its public website (www.redwoodcity.org/fiscalupdate) (last accessed on June 16, 2019) that the Grand Jury finds to be quite helpful to access key information about Redwood City's most recent budget.

San Bruno

Pension Contribution Costs – San Bruno

San Bruno's pension contribution costs in FY 2017-18 were \$7.18 million, up \$0.832 million (13.1 percent) from \$6.34 million in FY 2016-17. The City's FY 2017-18 pension contribution costs represented 32.2 percent of that year's covered payroll (up from 28.2 percent the preceding year) and 16.5 percent of its total general fund spending (up from 14.7 percent the preceding year).⁵⁰⁴

In addition to its contribution payments made to CalPERS, the City also makes annual, installment payments on its 2013 pension obligation bonds (originally issued in the principal amount of \$13.18 million), which mature in FY 2026-27.⁵⁰⁵ It paid \$1.18 million on the bonds in FY 2017-18⁵⁰⁶ and will pay approximately the same amount in FY 2018-

⁴⁹⁶ Redwood City, Recommended Budget Fiscal Year 2019-2020, p. 176.

⁴⁹⁷ Redwood City, Comprehensive Annual Financial Report Fiscal Year Ended June 30, 2018, p. vi of December 10, 2018 transmittal letter included in the report.

⁴⁹⁸ Redwood City, Recommended Budget Fiscal Year 2019-2020, p. 176.

⁴⁹⁹ Redwood City, Staff Report for City Council Meeting on February 26, 2018 re: FY 2017-18 Mid-Year Budget Study Session and Proposed Process for Development of the FY 2018-19 Budget, p. 16.

⁵⁰⁰ Redwood City, Staff Report for City Council Meeting on February 25, 2019 re: FY 2018-19 Mid-Year Budget Update and Proposed Process for Development of the FY 2019-20 Budget, Attachment 2.

⁵⁰¹ Grand Jury interview.

⁵⁰² Redwood City, Fiscal Year 2018-2019 Adopted Budget, p. 174.

⁵⁰³ Redwood City, Recommended Budget Fiscal Year 2019-2020, p. 176.

⁵⁰⁴ Appendix A.

⁵⁰⁵ San Bruno, Adopted 2018-19 Operating and Capital Budget, p. 436.

⁵⁰⁶ San Bruno, Adopted Operating Budget for Fiscal Year 2017-18 and Adopted Capital Improvement Program for Fiscal Years 2017-18 Through 2021-22, p. 194.

19.⁵⁰⁷ From FY 2019-20 through FY 2026-27 when the bonds are fully paid off, the City will make average annual payments on the bonds of approximately \$0.883 million.⁵⁰⁸ Taking bond payments into account, the City's total payments on account of its pensions (CalPERS and bond payments combined) were \$8.35 million in FY 2017-18 (representing 37.5 percent of that year's covered payroll and 19.3 percent of total general fund spending), up \$0.83 million (11 percent) from \$7.52 million in FY 2016-17.⁵⁰⁹

The City projects its pension contribution costs will increase from FY 2017-18 by \$6.27 million (87.4 percent) to \$13.45 million by FY 2023-24.⁵¹⁰ The City does not have pension cost projections for any subsequent years.⁵¹¹ The City projects its total pension costs (CalPERS and bond payments combined) will increase over FY 2017-18 costs by \$6.27 million (75.1 percent) to \$14.62 million by FY 2023-24.

The City's projected pension contribution costs are not included in its FY 2017-18 CAFR, or in its FY 2018-19 budget.⁵¹² However, the City has now included them in its new FY 2019-20 budget.⁵¹³

Financial Overview – San Bruno

San Bruno describes its overall fiscal condition as “[s]table but not sustainable.”⁵¹⁴ The City notes that it has “[h]ealthy general fund Reserves” but also “[s]ignificant unmet needs” including “[f]ailing infrastructure” and “[r]ising pension and other employee costs.”⁵¹⁵

The City goes on to explain that “[t]hrough the proposed budget, the City will be able to maintain core service levels as well as make modest enhancements in a few notable areas However, the proposed budget reflects tough choices to not enhance needed services due to financial constraints in both the operating and capital budgets. There [are] remaining millions of dollars’ worth of deferred capital improvements and maintenance, and the City is not able to meet the needs and service priorities of the community in several areas – most notably annual roadway rehabilitation and pothole repairs.” “The backlog of deferred maintenance to public infrastructure and future growth in employee costs (both direct

⁵⁰⁷ The amount San Bruno paid in FY 2017-18 was \$1,177,481 and the amount it will pay on the bonds in FY 2018-19 is \$1,179,931. San Bruno, Comprehensive Annual Financial Report for the Year Ended June 30, 2018, p. 64.

⁵⁰⁸ San Bruno, Comprehensive Annual Financial Report for the Year Ended June 30, 2018, p. 64.

⁵⁰⁹ FY 2016-17 debt service payments on the pension obligation bonds totaled \$1.18 million (San Bruno, Adopted Fiscal Year 2016-17 Operating and Capital Budget, p. K-5.) FY 2016-17 pension contribution costs are in Appendix A.

⁵¹⁰ Emails from San Bruno dated April 22, 2019 and May 6, 2019. These emails contain pension cost projections through FY 2024-25.

⁵¹¹ Email from San Bruno dated May 6, 2019.

⁵¹² San Bruno, Comprehensive Annual Financial Report for the Year Ended June 30, 2018. San Bruno, Adopted 2018-19 Operating and Capital Budget.

⁵¹³ San Bruno, Proposed FY 2019-20 Operating and Capital Budget, p. A10. The budget contains projected pension cost numbers through FY 2024-25.

⁵¹⁴ San Bruno, Proposed FY 2019-20 Operating and Capital Budget, p. A2.

⁵¹⁵ San Bruno, Presentation Slides for City Council Meeting on November 27, 2018 re: Fiscal Sustainability Study Session – Presentation on the Scope of Work for a Comprehensive Fiscal Sustainability Project, Slide 9.

compensation and long-term post-employment liabilities) will continue to significantly impact the health of the City's General Fund. In addition, funding the needed and State-mandates improvements to the City's stormwater system cannot be accomplished within existing resources and remains a significant financial challenge."⁵¹⁶

Not surprisingly, San Bruno emphasizes that it has a "[n]eed for new revenues." "As discussed above, the Proposed Operating Budget includes viable strategies to balance revenues and expenditures and to assure continuation of all necessary programs and service delivery in the coming year. However, current projections indicated that the practice of using prior year fund balance to supplement annual revenues to cover operating expenditures is not sustainable long-term. Continuing cost increases to support necessary services creates a situation where there is insufficient revenue available to support existing service levels 2 to 3 years into the future."⁵¹⁷

Additional Payments to CalPERS – San Bruno

San Bruno is not currently considering making additional payments to CalPERS beyond its Annual Required Contribution.⁵¹⁸ However, staff is developing a set of options for managing rising pension costs that the City Council can discuss.⁵¹⁹

Pension Reserve Fund – San Bruno

San Bruno has not established any reserves specific to meeting rising pension costs in the future. However, as noted above, staff is developing a set of options for managing rising pension costs that the City Council can discuss.⁵²⁰

Employee Contribution to City's Normal Cost – San Bruno

San Bruno does not have any cost sharing agreements in place with its employees under which employees pay any portion of the City's pension costs.⁵²¹

Revenue Enhancement – San Bruno

San Bruno recognizes that revenue enhancement is a necessary component for its long-term fiscal sustainability.⁵²² As part of that process, the City is working to maximize existing revenue streams, by among other things, auditing payments to the City of transient occupancy taxes, property taxes and business license fees to ensure that all amounts due are, in fact, being paid. The City is also tightening up water and waste utility billing

⁵¹⁶ San Bruno, Proposed FY 2019-20 Operating and Capital Budget, p. A2.

⁵¹⁷ Ibid., p. A12.

⁵¹⁸ Grand Jury interview.

⁵¹⁹ Ibid.

⁵²⁰ Ibid.

⁵²¹ Email from San Bruno dated April 22, 2019.

⁵²² Grand Jury interview. San Bruno, Presentation Slides for City Council Meeting on February 19, 2019 re: Revenue Enhancements City Council Study Session.

processes and significantly expanding the scope of business development impact fees it assesses.⁵²³

San Bruno is also currently engaged in a process to identify potential revenue enhancement ballot measures, including a 2 percent increase in its transient occupancy tax (commonly referred to as a “hotel tax”) that could yield annual additional revenues of approximately \$0.55 million and an increase of a quarter-cent or half-cent to its sales tax that could yield annual additional revenues of approximately \$2 million at the quarter-cent rate and \$4 million at the half-cent rate. The City has to option of putting these two possible measures on the ballot in either November 2019 or 2020.⁵²⁴

Pension Obligation Bonds – San Bruno

In January 2013, San Bruno issued pension obligation bonds in the principal amount of \$13.18 million⁵²⁵ which mature in FY 2026-27.⁵²⁶ The City paid \$1.18 million on the bonds in FY 2017-18⁵²⁷ and will pay approximately the same amount in FY 2018-19.⁵²⁸ From FY 2019-20 through FY 2026-27 when the bonds are fully paid off, the City will make average annual payments on the bonds of approximately \$0.883 million.⁵²⁹

General Fund Reserves – San Bruno

As of June 30, 2018, San Bruno had a general fund reserve of \$11.25 million.⁵³⁰ The City projects that this reserve will increase to \$12.09 million as of June 30, 2019,⁵³¹ and to \$12.77 million as of June 30, 2020.⁵³² The City’s goal is to maintain this reserve of at least 25 percent of general fund expenditures and City policy requires that the balance not fall below 15 percent of general fund operating expenditures except upon a declaration of emergency.⁵³³ The June 30, 2018 general fund reserve balance was 25.9 percent of the \$43.4 million in FY 2017-18 general fund expenditures.⁵³⁴

⁵²³ Grand Jury interview.

⁵²⁴ San Bruno, Presentation Slides for City Council Meeting on February 19, 2019 re: Revenue Enhancements City Council Study Session, p. 27.

⁵²⁵ San Bruno, Adopted 2018-19 Operating and Capital Budget, p. 436.

⁵²⁶ Grand Jury interview. San Bruno, Adopted Fiscal Year 2016-17 Operating and Capital Budget, p. K-4.

⁵²⁷ San Bruno, Adopted Operating Budget for Fiscal Year 2017-18 and Adopted Capital Improvement Program for Fiscal Years 2017-18 Through 2021-22, p. 194.

⁵²⁸ The amount San Bruno paid in FY 2017-18 was \$1,177,481 and the amount it will pay on the bonds in FY 2018-19 is \$1,179,931. San Bruno, Comprehensive Annual Financial Report for the Year Ended June 30, 2018, p. 64.

⁵²⁹ San Bruno, Comprehensive Annual Financial Report for the Year Ended June 30, 2018, p. 64.

⁵³⁰ Ibid., p. 72.

⁵³¹ San Bruno, Adopted 2018-19 Operating and Capital Budget, p. 5 of Citywide Summary of Funds.

⁵³² San Bruno, Proposed FY 2019-20 Operating and Capital Budget, p. 5 of Citywide Summary of Funds.

⁵³³ San Bruno, Adopted 2018-19 Operating and Capital Budget, p. C13.

⁵³⁴ San Bruno, Comprehensive Annual Financial Report for the Year Ended June 30, 2018, p. 30.

San Bruno projects that it will incur general fund operating budget deficits of \$2.09 million in FY 2018-19 and \$0.376 million in FY 2019-20.⁵³⁵ which will be funded out of the FY 2017-18 general fund balance.⁵³⁶

Long-Term Financial Forecast – San Bruno

San Bruno has noted that, in order to “[d]evelop a comprehensive understanding of the financial pressures and constraints on the City’s general fund, today and in the foreseeable future” it needs to “[d]evelop a ten-year operating budget forecast (general fund revenues and expenses).”⁵³⁷

Prior to its just-released FY 2019-20 proposed budget⁵³⁸ San Bruno had not previously prepared any long-term general fund financial forecasts.⁵³⁹ However, staff has now added a five-year general fund operating budget forecast to their budget.⁵⁴⁰ As part of the City’s “Fiscal Sustainability Plan,” staff plans to extend that to a ten-year period. No date has yet been set for staff to deliver that longer forecast.⁵⁴¹

San Carlos

Pension Contribution Costs – San Carlos

San Carlos’ contribution payments to CalPERS in FY 2017-18 were \$9.7 million, up \$7.47 million (334 percent) from \$2.24 million in FY 2016-17.⁵⁴² However, \$6 million of the FY 2017-18 payment reflected one-time additional payments that San Carlos made to CalPERS beyond its Annual Required Contribution.⁵⁴³ San Carlos’ Annual Required Contribution in FY 2017-18 was \$3.7 million, up \$1.46 million (65.2 percent) from \$2.24 million in FY 2016-17. The City’s FY 2017-18 total contribution payments represented 86.9 percent of that year’s covered payroll of \$11.17 million (up from 20.2 percent the preceding year) and 22.8 percent of its total general fund spending of \$42.5 million (up from 6.7 percent the preceding year).⁵⁴⁴ However, the City’s total Annual Required Contribution for the year represented only 33.1 percent of that year’s covered payroll and 8.7 percent of its total general fund spending.

⁵³⁵ San Bruno, Proposed FY 2019-20 Operating and Capital Budget, p. A2.

⁵³⁶ San Bruno, Adopted 2018-19 Operating and Capital Budget, pp. A5 – A6. Email from San Bruno, dated June 13, 2019.

⁵³⁷ San Bruno, Presentation Slides for City Council Meeting on November 27, 2018 re: Fiscal Sustainability Study Session – Presentation on the Scope of Work for a Comprehensive Fiscal Sustainability Project, Slide 11.

⁵³⁸ San Bruno, Proposed FY 2019-20 Operating and Capital Budget.

⁵³⁹ San Bruno, Adopted 2018-19 Operating and Capital Budget.

⁵⁴⁰ San Bruno, Proposed FY 2019-20 Operating and Capital Budget, pp. 6-8 of Citywide Summary of Funds.

⁵⁴¹ Grand Jury interview.

⁵⁴² Appendix A.

⁵⁴³ See, more detailed discussion below in Section entitled “Additional Payments to CalPERS – San Carlos”.

⁵⁴⁴ Appendix A.

The City projects its pension contribution costs will increase from FY 2017-18 (excluding the \$6 million additional payment) by \$2.8 million (63.6 percent) to \$6.5 million by FY 2023-24 and by an additional \$0.5 million (7.7 percent) to \$7 million by FY 2027-28.⁵⁴⁵

The City's projected pension contribution costs are not included in its FY 2017-18 CAFR, or in its FY 2018-2020 budget.⁵⁴⁶ In order to find these projected costs online, it is necessary to manually search through City Council meeting agenda packages, which can be accessed at the following website: sancarlosca.iqm2.com/Citizens/Default.aspx (last accessed on June 5, 2019.) That search would eventually lead to the agenda for its meeting on April 9, 2018,⁵⁴⁷ which has a link entitled "a. Consideration of Adopting a Resolution Authorizing the City Manager to Transfer \$7 Million from the Unfunded Liability Reserve to Pay Down the California Public Employees Retirement System (CalPERS) Unfunded Pension Liability in the Amount of \$5 Million, and Funding the Other Post Employment Benefit Trusts: California Employers' Retirement Benefit Trust (CERBT) in the Amount of \$1 Million and Public Agency Retirement Services (PARS) in the Amount of \$1 Million." which takes the reader to the City's April 9, 2018 staff report that contains a graph with the projected costs.⁵⁴⁸

Financial Overview – San Carlos

San Carlos' five-year general fund forecast projects steadily increasing revenues (including net transfers to the general fund) from \$44.35 million in FY 2018-19 to \$49.33 million in FY 2022-23, and also rising expenses from \$44.3 million in FY 2018-19 to \$48.6 million in FY 2022-23.⁵⁴⁹ The City projects modest operating surpluses in the general fund totaling \$3.95 million over the five-year period FY 2018-19 through FY 2022-23.⁵⁵⁰

Additional Payments to CalPERS – San Carlos

San Carlos made an additional one-time payment to CalPERS of \$5 million beyond its Annual Required Contribution in FY 2017-18.⁵⁵¹ Staff projects this will result in

⁵⁴⁵ San Carlos, Staff Report for City Council Meeting on April 9, 2018 re: Consideration of Adopting a Resolution Authorizing the City Manager to Transfer \$7 Million from the Unfunded Liability Reserve to Pay Down the [CalPERS] Unfunded Pension Liability in the Amount of \$5 Million, p. 3. The report contains pension cost projections through FY 2047-48.

⁵⁴⁶ San Carlos, Comprehensive Annual Financial Report for Fiscal Year 2017-2018. San Carlos, 2018 – 2020 Adopted Budget.

⁵⁴⁷ San Carlos, Agenda for City Council Meeting on April 9, 2018.

⁵⁴⁸ San Carlos, Staff Report for City Council Meeting on April 9, 2018 re: Consideration of Adopting a Resolution Authorizing the City Manager to Transfer \$7 Million from the Unfunded Liability Reserve to Pay Down the [CalPERS] Unfunded Pension Liability in the Amount of \$5 Million, p. 3.

⁵⁴⁹ San Carlos, 2018 – 2020 Adopted Budget, p. 63.

⁵⁵⁰ Ibid. Email from San Carlos, dated June 11, 2019.

⁵⁵¹ San Carlos, 2018 – 2020 Adopted Budget, p. 23. Grand Jury interview. San Carlos, Staff Report for City Council Meeting on April 9, 2018 re: Consideration of Adopting a Resolution Authorizing the City Manager to Transfer \$7 Million from the Unfunded Liability Reserve to Pay Down the [CalPERS] Unfunded Pension Liability in the Amount of \$5 Million, p. 1.

contribution cost reductions of \$0.515 million per year for 18 years.⁵⁵² The City also made \$1 million one-time payment to PARS at that time, which staff projects will result in savings of approximately \$0.06-\$0.07 million per year for 18 years.⁵⁵³

The City expects to decide in November 2019, after receipt of audited FY 2018-19 financials, on whether to make a further additional payment to CalPERS and also whether to increase the amount of its “Unfunded Liabilities” reserve for pension costs. The City notes that its preference is making additional payments to CalPERS beyond the minimum requirements rather than holding money in a reserve because only the former actually reduces long-term pension costs.⁵⁵⁴

Pension Reserve Fund – San Carlos

San Carlos has transferred \$1 million into a Section 115 Trust through PARS to help pay for future PARS pension costs.⁵⁵⁵

In addition, as of end of FY 2017-18 San Carlos had a \$2 million “Unfunded Liabilities” reserve for use in managing pension costs.⁵⁵⁶ The City expects to decide in November 2019, after receipt of audited FY 2018-19 financials, on whether/how much to increase this reserve amount.⁵⁵⁷

Employee Contribution to City’s Normal Cost – San Carlos

San Carlos is not currently considering asking its employees to pay a portion of the City’s pension costs. The City does not pay any portion of employees’ pension costs.⁵⁵⁸

Revenue Enhancement – San Carlos

San Carlos is not currently evaluating the possibility of bringing forward any revenue enhancement ballot measures.⁵⁵⁹

⁵⁵² San Carlos, Staff Report for City Council Meeting on April 9, 2018 re: Consideration of Adopting a Resolution Authorizing the City Manager to Transfer \$7 Million from the Unfunded Liability Reserve to Pay Down the [CalPERS] Unfunded Pension Liability in the Amount of \$5 Million, p. 1.

⁵⁵³ San Carlos, Staff Report for City Council Meeting on April 9, 2018 re: Consideration of Adopting a Resolution Authorizing the City Manager to Transfer \$7 Million from the Unfunded Liability Reserve to Pay Down the [CalPERS] Unfunded Pension Liability in the Amount of \$5 Million, p. 4.

⁵⁵⁴ Grand Jury interview.

⁵⁵⁵ San Carlos, Staff Report for City Council Meeting on April 9, 2018 re: Consideration of Adopting a Resolution Authorizing the City Manager to Transfer \$7 Million from the Unfunded Liability Reserve to Pay Down the [CalPERS] Unfunded Pension Liability in the Amount of \$5 Million, p. 4.

⁵⁵⁶ San Carlos, Comprehensive Annual Financial Report for Fiscal Year 2017-2018, p. 26. San Carlos, Staff Report for City Council Meeting on November 13, 2018 re: Consideration of Adopting a Resolution Approving the General Fund Balance Reserve Allocations, p. 2.

⁵⁵⁷ Grand Jury interview.

⁵⁵⁸ Ibid.

⁵⁵⁹ Email from San Carlos, dated June 11, 2019.

Pension Obligation Bonds –San Carlos

San Carlos does not have any outstanding pension obligation bonds.⁵⁶⁰

General Fund Reserves – San Carlos

As of the end of FY 2017-18, San Carlos had a general fund ending balance of \$29.6 million, of which \$6.23 million were in an “Economic Uncertainty” reserve, \$7.69 million were in a reserve for “Strategic Property Acquisition,” \$2 million were in a “PG&E Community Endowment,” \$2 million were in the “Unfunded Liabilities” reserve, \$7.84 million were in “Facility/Infrastructure Reserves,” \$3.17 million were unassigned and \$0.61 million were not spendable.⁵⁶¹

San Carlos notes that the Government Finance Officers Association (“GFOA”) “best practice” recommendation is that unrestricted general fund balances be, at a minimum, equal to two months (16.7 percent) of regular general fund operating revenues or expenses.⁵⁶² The City’s unrestricted general fund balance at the end of FY 2017-18 was \$29.55 million, an amount equal to 69.5 percent of general fund expenditures of \$42.49 million.⁵⁶³ In its FY 2018-20 budget, the City projected that the general fund balance at the end of FY 2018-19 would be \$22.12 million (47.6 percent of expenditures of \$44.32 million), \$21.81 million at the end of FY 2019-20 (49.1 percent of projected expenditures of \$44.43 million), \$22 million at the end of FY 2020-21 (49.4 percent of projected expenditures of \$44.5 million), \$21.27 million at the end of FY 2021-22 (45.7 percent of projected expenditures of \$46.54 million), and \$20.04 million at the end of FY 2022-23 (41.3 percent of projected expenditures of \$48.56 million).⁵⁶⁴

San Carlos’ policy is that its Economic Uncertainty reserve not be allowed to drop below 12.5 percent of general fund expenditures, but the City notes that a balance of 20 percent is “highly desirable.”⁵⁶⁵ As of the end of FY 2017-18, the Economic Uncertainty reserve balance was \$6.23 million,⁵⁶⁶ representing 14.7 percent of general fund expenditures of \$42.49 million for the year.⁵⁶⁷

⁵⁶⁰ Ibid.

⁵⁶¹ San Carlos, Staff Report for City Council Meeting on November 13, 2018 re: Consideration of Adopting a Resolution Approving the General Fund Balance Reserve Allocations, p. 3.

⁵⁶² San Carlos, Staff Report for City Council Meeting on March 12, 2018 re: Report to Council on the City’s Reserves, Unfunded Pension Liabilities and Unfunded Capital Projects, p.1.

⁵⁶³ San Carlos, Comprehensive Annual Financial Report for Fiscal Year 2017-2018, p. 30.

⁵⁶⁴ San Carlos, 2018 – 2020 Adopted Budget, pp. 63.

⁵⁶⁵ San Carlos, Staff Report for City Council Meeting on November 13, 2018 re: Consideration of Adopting a Resolution Approving the General Fund Balance Reserve Allocations, p.3.

⁵⁶⁶ Ibid. San Carlos, Comprehensive Annual Financial Report for Fiscal Year 2017-2018, p. 30.

⁵⁶⁷ Ibid.

During FY 2017-18, San Carlos withdrew \$7 million out of existing general fund reserves in order to make a one-time \$5 million additional payment to CalPERS, and to transfer \$1 million into a pension trust and \$1 million into a trust for OPEB liabilities.⁵⁶⁸

Long-Term Financial Forecast – San Carlos

San Carlos' long-term general fund financial planning is based on a five-year forecast period. The City includes its long-term general fund forecast in its 2018 – 2020 budget.⁵⁶⁹

San Mateo

Pension Contribution Costs – San Mateo

San Mateo's pension contribution costs in FY 2017-18 were \$19.7 million, up \$0.787 million (4.2 percent) from \$18.91 million in FY 2016-17.⁵⁷⁰ The City's FY 2017-18 pension contribution costs represented 31.2 percent of that year's covered payroll (down from 32.2 percent the preceding year) and 17.7 percent of its total general fund spending (down from 18.2 percent the preceding year).⁵⁷¹

San Mateo's actuarial consultant (Bartel Associates, LLC) projects its pension contribution costs will increase from the FY 2017-18 number by \$11.7 million (59.4 percent) to \$31.4 million by FY 2023-24 and by an additional \$4.65 million (14.8 percent) to \$36.06 million by FY 2027-28.⁵⁷²

San Mateo's projected pension contribution costs are not included in its FY 2017-18 CAFR, or in its budgets for FY 2017-18 or FY 2018-20,⁵⁷³ and the projections by its actuarial consultant (Bartel Associates, LLC) are not published by the City on its website.⁵⁷⁴ The Grand Jury obtained a copy of the Bartel report through a document request to the City. The City does include projected general fund pension costs in its budgets and in its FY 2018-20 budget through FY 2028-29.⁵⁷⁵ While general fund pension costs do not represent the San Mateo's total pension costs, they do represent a large majority of the costs and the inclusion of the general fund cost information is helpful to an understanding of the impact of rising pension costs on the City. The Grand Jury's review of online agenda

⁵⁶⁸ San Carlos, 2018 – 2020 Adopted Budget, pp. 63-64. San Carlos, Staff Report for City Council Meeting on April 9, 2018 re: Consideration of Adopting a Resolution Authorizing the City Manager to Transfer \$7 Million from the Unfunded Liability Reserve to Pay Down the [CalPERS] Unfunded Pension Liability in the Amount of \$5 Million, p. 1.

⁵⁶⁹ San Carlos, 2018 – 2020 Adopted Budget, pp. 63-64. The City also included a general fund forecast through FY 2020-21 in its 2017-18 Adopted Budget, p. 32.

⁵⁷⁰ Appendix A.

⁵⁷¹ Ibid.

⁵⁷² Bartel Associates, LLC report to City of San Mateo, October 25, 2019, pp. 28 & 46. This report contains pension cost projections through FY 2029-30.

⁵⁷³ San Mateo, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018. San Mateo, Adopted 2017-18 Budget. San Mateo, Adopted 2018-20 Business Plan.

⁵⁷⁴ Email from San Mateo, dated June 12, 2019.

⁵⁷⁵ San Mateo, Adopted 2017-18 Budget, p. 11. San Mateo, Adopted 2018-20 Business Plan, p. 11. San Mateo, Proposed 2019-20 Budget, p. 11. The 2019-20 proposed budget provides pension cost projections for the general fund through FY 2029-30.

packages from San Mateo City Council meetings on the City’s website at: <https://cosm.legistar.com/Calendar.aspx> (last accessed on June 12, 2019) also yielded an link to the January 22, 2019 City Council meeting agenda that provides pension cost projects for the City as a whole (not limited to costs to the general fund) through FY 2029-30.

Financial Overview – San Mateo

In February 2018, San Mateo noted that “the City is currently in a strong financial position” but that “the long-term financial plan [is] out of structural balance, primarily due to rising pension costs and competing demands for general fund resources.”⁵⁷⁶

Staff notes that, under the City’s current long-term plan, “funding for all resource demands is not entirely sustainable.”⁵⁷⁷ The plan contemplates that the City will have to make annual net reductions in general fund spending of approximately \$2.32 million each year throughout the plan period in order to absorb rising pension costs and keep the current 25 percent operating reserve and housing reserve at policy levels.⁵⁷⁸ (See, discussion of “General Fund Reserves – San Mateo” below.)

Additional Payments to CalPERS – San Mateo

San Mateo made the following additional payments to CalPERS beyond its Annual Required Contributions: \$1.38 million in FY 2016-17, and \$1.4 million in FY 2017-18. The City also made a \$1.63 million additional payment in FY 2018-19, for a total over all three years of \$4.41 million.⁵⁷⁹

San Mateo’s current plan is to apply 50 percent of future ERAF refunds toward making further additional payments to CalPERS beyond its Annual Required Contributions.⁵⁸⁰ Staff expects the City’s ERAF refund to be approx. \$4 - \$5 million per year over the next ten years,⁵⁸¹ and it projects annual additional payments to CalPERS of approximately \$2 million per year. The City’s current projection is that application of 50 percent of projected ERAF refunds toward additional pension payments to CalPERS over the course of the period from FY 2019-20 through FY 2029-30 would yield total additional payments of \$22.8 million.⁵⁸² Staff has not presented the City Council with any data on projected, long-term pension savings to be realized from these additional payments.⁵⁸³

⁵⁷⁶ San Mateo, Administrative Report Re: 2018-20 Business Plan – Preliminary Review, April 16, 2018, p. 1.

⁵⁷⁷ San Mateo, Proposed 2019-20 Budget, p. 54.

⁵⁷⁸ Ibid., pp. 44-45 & 54.

⁵⁷⁹ Grand Jury interview. Emails from San Mateo, dated June 12 and June 13, 2019.

⁵⁸⁰ San Mateo, Adopted 2018-20 Business Plan, pp. 13 & 69. Grand Jury interview.

⁵⁸¹ Grand Jury interview.

⁵⁸² Email from San Mateo, dated June 12, 2019. Grand Jury interview.

⁵⁸³ Ibid.

Pension Reserve Fund – San Mateo

San Mateo does not currently plan to create a pension stabilization reserve because setting aside funds in a reserve does not reduce long-term pension costs.⁵⁸⁴

Employee Contribution to City’s Normal Cost – San Mateo

San Mateo has cost-sharing agreements in place with employees under which they agree to pay a portion of the City’s pension costs.⁵⁸⁵ The City does not currently expect to ask employees to pay any greater portion of pension contribution costs in the future.⁵⁸⁶

Revenue Enhancement – San Mateo

San Mateo’s City Council has directed staff to poll San Mateo voters on their support for revenue enhancement ballot measures, including increasing the City’s transient occupancy tax (“hotel tax”) rate, the business tax rates and/or the real property transfer tax rate.⁵⁸⁷ The City notes that it is exploring tax increase measures for the November 2020 ballot.⁵⁸⁸

Pension Obligation Bonds – San Mateo

San Mateo does not have any outstanding pension obligation bonds.⁵⁸⁹

General Fund Reserves – San Mateo

San Mateo’s general fund reserves are projected to decrease from \$75.5 million in FY 2017-18 to \$58.35 million in FY 2029-30, while remaining reserves (net of the City’s 25 percent operating reserve and its housing reserve) decrease from \$44.76 million in FY 2017-18 to zero by FY 2029-30.⁵⁹⁰ The City’s policy is to maintain a reserve of 25 percent of budgeted general fund operating expenditures,⁵⁹¹ which will have to be increased from \$26.84 million in FY 2017-18 to \$40 million in FY 2029-30 in order to remain at 25 percent of projected expenditures, while the amount of the City’s housing reserve is projected to increase from \$3.9 million in FY 2017-18 to \$18.41 in FY 2029-30.⁵⁹²

Staff notes that under the City’s current long-term plan, “funding for all resource demands is not entirely sustainable.”⁵⁹³ The plan contemplates that the City will have to make net reductions in general fund expenditures of approximately \$2.32 million per year from FY 2020-21 through FY 2029-30 in order to maintain its 25 percent operating reserve and the housing reserve at policy levels,⁵⁹⁴ and even with such net reductions, the remaining

⁵⁸⁴ Ibid.

⁵⁸⁵ San Mateo, Adopted 2017-18 Budget, p. 52.

⁵⁸⁶ Grand Jury interview.

⁵⁸⁷ Email from San Mateo, dated June 12, 2019.

⁵⁸⁸ San Mateo, Proposed 2019-20 Budget, p. 12.

⁵⁸⁹ Email from San Mateo, dated June 13, 2019.

⁵⁹⁰ San Mateo, Proposed 2019-20 Budget, pp. 44-45.

⁵⁹¹ San Mateo, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018, p. xi to Letter of Transmittal.

⁵⁹² San Mateo, Proposed 2019-20 Budget, pp. 44-45.

⁵⁹³ Ibid., p. 54.

⁵⁹⁴ Ibid., pp. 44-45 & 54.

reserves described above will be drawn down from \$44.76 million in FY 2017-18 to zero in FY 2029-30.⁵⁹⁵

Long-Term Financial Forecast – San Mateo

San Mateo’s general fund long-term financial forecasting is based on a ten-year period. The City included this long-term forecast in its readily-accessible FY 2017-18 and FY 2019-20 budgets.⁵⁹⁶

South San Francisco

Pension Contribution Costs - South San Francisco

South San Francisco’s pension contribution costs in FY 2017-18 were \$15.49 million, up \$2.19 million (16.5 percent) from \$13.3 million in FY 2016-17. The City’s FY 2017-18 pension contribution costs represented 34 percent of that year’s covered payroll (up from 27.2 percent the preceding year) and 16 percent of its total general fund spending (up from 14.4 percent the preceding year).⁵⁹⁷

The City projects its pension contribution costs will increase by at least \$9.42 million (60.8 percent) to \$24.91 million by FY 2023-24 and by an additional \$2.51 million (10.1 percent) to \$27.42 million by FY 2027-28.⁵⁹⁸

The City’s projected, annual pension contribution costs are not included in its FY 2017-18 CAFR, or in its FY 2018-19 budget.⁵⁹⁹ In order to find these projected costs online, it is necessary to manually search through City Council meeting agenda packages, which can be accessed at the following website: <https://ci-ssf-ca.legistar.com/Calendar.aspx>. (Last accessed on June 8, 2019.) That search would eventually lead to agenda information about the September 26, 2018 City Council meeting at <https://ci-ssf-ca.legistar.com/MeetingDetail.aspx?ID=621621&GUID=3C2F6C1E-F701-4040-8E44-2DAB2DBCF52D&Options=info&Search> (last accessed on June 8, 2019), a staff report for that meeting regarding pensions⁶⁰⁰ and a set of pension contribution projections

⁵⁹⁵ San Mateo, Adopted 2017-18 Budget, pp. 46-47. San Mateo, Proposed 2019-20 Budget, pp. 44-45 & 54.

⁵⁹⁶ Ibid., pp. 44-45.

⁵⁹⁷ Appendix A.

⁵⁹⁸ Attachment 4 to South San Francisco, Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs. This report contains pension cost data through FY 2027-28. The City also has pension cost projections going out to FY 2045-46 that were prepared for a September 26, 2018 City Council meeting. They are Attachment 2 to the Staff Report for the September 26, 2018 City Council meeting re: Report regarding a resolution approving and authorizing the City Manager to sign a response to the San Mateo County Grand Jury Report “Soaring City Pension Costs – Time for Hard Choices.”

⁵⁹⁹ South San Francisco, Comprehensive Annual Financial Report for Year Ended June 30, 2018. South San Francisco, Adopted Operating Budget for Fiscal Year 2018-19.

⁶⁰⁰ South San Francisco, Staff Report for City Council meeting on September 26, 2018 re: Report regarding a resolution approving and authorizing the City Manager to sign a response to the San Mateo County Grand Jury Report “Soaring City Pension Costs – Time for Hard Choices.”

attached to that report as “Attachment 2.”⁶⁰¹ The search of the City’s online City Council meeting agendas would also eventually lead to information about the April 9, 2019 City Council meeting at <https://ci-ssf-ca.legistar.com/MeetingDetail.aspx?ID=683321&GUID=18367370-F11F-4D7B-9D54-5050862A9304&Options=info&Search=> (last accessed on June 8, 2019) a staff report for that meeting regarding, among other things, pensions,⁶⁰² and a set of pension contribution projections attached to that report as “Attachment 10.”⁶⁰³ In response to this paragraph, the City points out that “The City’s current unfunded liability of \$179 million and the apex of annual pension payments of \$29 million in FY 2028-29 can be found on the City’s website www.ssf.net.department/finance.”⁶⁰⁴

Financial Overview – South San Francisco

South San Francisco city staff does not believe that rising future pension costs represent a major financial issue for the City. Staff believes the City is in a strong financial position with solid future revenue growth.⁶⁰⁵

The City projects general fund revenues increasing from \$109.05 million in FY 2018-19 to \$127.38 million in FY 2023-24, to \$141.68 million in FY 2027-28.⁶⁰⁶ The City further projects that its general fund reserves will increase from \$21.21 million at the end of FY 2018-19 to \$25.12 in FY 2023-24, to \$27.98 million in FY 2027-28.⁶⁰⁷

Additional Payments to CalPERS - South San Francisco

South San Francisco is not currently considering making any additional payments to CalPERS beyond its Annual Required Contribution. When staff last investigated this possibility, it concluded that an additional payment of at least \$10 million would be required to significantly reduce future pension costs.⁶⁰⁸

⁶⁰¹ South San Francisco, Attachment 2 – Pension Contributions 2016-2046, linked to Staff Report for City Council meeting on September 26, 2018.

⁶⁰² South San Francisco, Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs.

⁶⁰³ South San Francisco, Attachment 4 to Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs.

⁶⁰⁴ Email from South San Francisco, dated June 14, 2019.

⁶⁰⁵ Grand Jury interview.

⁶⁰⁶ Attachment 8, p. 1 to South San Francisco, Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs.

⁶⁰⁷ Attachment 8, p. 2 to South San Francisco, Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs.

⁶⁰⁸ Grand Jury interview.

Pension Reserve Fund - South San Francisco

As of the end of FY 2017-18 South San Francisco had allocated \$4.5 million to an internal pension stabilization reserve.⁶⁰⁹ The City plans to transfer another \$1 million to this fund in FY 2019, bringing the total to \$5.5 million.⁶¹⁰

Staff's recommendation to the City Council in November 2018 was to move this \$5.5 million to a Section 115 Trust⁶¹¹ in order to earn higher returns on these funds than the City's internal funds earn.⁶¹² However, City Council members expressed concerns about the loss of control over the funds entailed by putting them in a Section 115 Trust.⁶¹³ In April 2019 staff instead recommended a plan for managing rising future pension costs consisting of: (a) expanding the City's revenue and tax base, (b) considering transferring a portion of any future general fund surpluses to the internal pension reserve, (c) lowering the City's pension cost through continued and expanded cost-sharing with employees, and (d) continuing to explore the possibility of a Section 155 trust.⁶¹⁴

Staff's recommendation to council is also, beginning in FY 2022-23, and "depending on available funds," to contribute an additional \$1 million per year to the pension trust fund.⁶¹⁵

Employee Contribution to City's Normal Cost - South San Francisco

South San Francisco has cost-sharing agreements in place with safety employees under which those employees will pay a portion of the City's pension costs equal to 3 percent of their salary.⁶¹⁶ In FY 2020 labor negotiations, the City expects to negotiate for employees take on a greater share of pension costs.⁶¹⁷

Revenue Enhancement - South San Francisco

In November 2018, South San Francisco residents approved revenue enhancement ballot measures to increase its transient occupancy tax ("TOT" and sometimes referred to as the

⁶⁰⁹ South San Francisco, Adopted Operating Budget for Fiscal Year 2018-19, p. B-5.

⁶¹⁰ Grand Jury interview. South San Francisco, Slide presentation for City Council meeting on November 14, 2018 re: Fiscal Year 2017-18 Year-End Results, Attachment 4 to the Staff Report for City Council meeting on November 14, 2018 re: Report regarding resolution accepting the financial results for the fiscal year ended June 30, 2018, and approving Budget Amendment 18.034., slides 2 & 7.

⁶¹¹ South San Francisco, Slide presentation for City Council meeting on November 14, 2018 re: Pension Study Session, Attachment 10 to the Staff Report for City Council meeting on November 14, 2018 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs, slide 16.

⁶¹² Grand Jury interview.

⁶¹³ Ibid.

⁶¹⁴ South San Francisco, Presentation Slides for Pension Study Session on April 9, 2019, Attachment 10 to Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs, slides 15 & 16.

⁶¹⁵ South San Francisco, Slide presentation for City Council meeting on November 14, 2018 re: Pension Study Session, Attachment 10 to the Staff Report for City Council meeting on November 14, 2018 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs, p. 16.

⁶¹⁶ South San Francisco, Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs, pp. 5-6.

⁶¹⁷ Grand Jury interview.

“hotel tax”) (Measure FF)⁶¹⁸ and to impose a business license tax on commercial cannabis operations (Measure LL).⁶¹⁹ Measure FF is projected to increase revenues by approximately \$5.9 million per year.⁶²⁰ The City is not currently planning on putting any new revenue enhancement ballot measures before voters in the near future.

Pension Obligation Bonds – South San Francisco

South San Francisco does not have any outstanding pension obligation bonds.⁶²¹

General Fund Reserves - South San Francisco

South San Francisco’s general fund unassigned reserves balance at the end of FY 2017-18 was \$19.64 million,⁶²² which represented 16.5 percent of the City’s \$118.87 million in general fund revenues for the year.⁶²³ The City’s reserve policy is to have general fund unassigned reserves equal to between 15 percent and 20 percent of general fund operating revenues.⁶²⁴

The City projects general fund revenues in FY 2018-19 of \$109.05 million and that these revenues will increase to \$127.38 million in FY 2023-24, and to \$141.68 million in FY 2027-28.⁶²⁵ The City further projects that its general fund reserves will increase from \$21.21 million (representing 19.5 percent of operating expenses) at the end of FY 2018-19 to \$25.12 million (representing 19.7 percent of operating expenses) in FY 2023-24, to \$28.98 million (representing 19.7 percent of operating expenses) in FY 2027-28.⁶²⁶

Long-Term Financial Forecast – South San Francisco

South San Francisco’s long-term financial forecasting period is 10 years.⁶²⁷ The City’s long-term financial forecast is not included in its FY 2018-19 budget.⁶²⁸ In order to find its forecast online, it is necessary to manually search agenda packages from the City Council calendar of meetings (listed at <https://ci-ssf-ca.legistar.com/Calendar.aspx>)⁶²⁹ for references to budgets and/or forecasts. That search of the City’s online City Council meeting agendas

⁶¹⁸ Ballotpedia, Local Ballot Measures, South San Francisco, California, Measure FF, Hotel Tax Increase (November 2018).

⁶¹⁹ Ballotpedia, Local Ballot Measures, South San Francisco, California, Measure LL, Marijuana Business Tax (November 2018)

⁶²⁰ South San Francisco, Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs, p. 6.

⁶²¹ Email from South San Francisco, dated June 14, 2019.

⁶²² South San Francisco, Comprehensive Annual Financial Report for Year Ended June 30, 2018, pp. 32 & 74.

⁶²³ Ibid., p. 36.

⁶²⁴ Ibid., p. 74.

⁶²⁵ Attachment 8, p. 1 to South San Francisco, Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs.

⁶²⁶ Attachment 8, p. 2 to South San Francisco, Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs.

⁶²⁷ Attachment 8 to South San Francisco, Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs.

⁶²⁸ South San Francisco, Adopted Operating Budget for Fiscal Year 2018-19.

⁶²⁹ Last accessed on May 10, 2019.

would eventually lead to information about the April 9, 2019 City Council meeting at <https://ci-ssf-ca.legistar.com/MeetingDetail.aspx?ID=683321&GUID=18367370-F11F-4D7B-9D54-5050862A9304&Options=info&Search=> (last accessed on June 8, 2019) a staff report for that meeting regarding, among other things, pensions,⁶³⁰ and a general fund ten-year forecast attached to that report as “Attachment 8.”⁶³¹

Woodside

Pension Contribution Costs - Woodside

Woodside’s pension contribution costs in FY 2017-18 were \$0.39 million, up \$0.067 million (20.8 percent) from \$0.323 million in FY 2016-17.⁶³² The Town’s FY 2017-18 pension contribution costs represented 18.8 percent of that year’s covered payroll (up from 16.2 percent the preceding year) and 5.7 percent of its total general fund spending (up from 4.8 percent the preceding year).⁶³³

The Town projects its pension contribution costs will increase by \$0.316 million (81.2 percent) to \$0.706 million by FY 2023-24 and by an additional \$0.152 million (21.6 percent) to \$0.859 million by FY 2027-28.⁶³⁴

The Town’s projected pension contribution costs are not included in its FY 2017-18 financials,⁶³⁵ its FY 2018-19 budget,⁶³⁶ or its FY 2019-21 budget,⁶³⁷ nor was the Grand Jury able to find them in any report that is included in City Council meeting agenda packages from January 1, 2018 to June 15 2019. While the Town’s operating budget forecasts contained in its FY 2018-19 budget and FY 2019-21 budget set forth combined annual cost projections for CalPERS and “Retiree Health Benefits,”⁶³⁸ the CalPERS costs – on a standalone basis – cannot be determined from this.

Financial Overview – Woodside

Woodside views its financial health as good. The Town projects ending FY 2018-19 with a general fund balance of \$7.89 million; equal to 95.5 percent of its projected general fund revenues of \$8.24 million for the year⁶³⁹ and it reports that this allows it the luxury of being able to think long-term.⁶⁴⁰

⁶³⁰ South San Francisco, Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs.

⁶³¹ South San Francisco, Attachment 8 (General Fund 10-year forecast \$1M contribution to CalPERS) to Staff Report for City Council meeting on April 9, 2019 re: Study session regarding a comprehensive financial review of the City of South San Francisco, including pension costs.

⁶³² Appendix A.

⁶³³ Ibid.

⁶³⁴ Appendix A. Email from Woodside dated May 23, 2019.

⁶³⁵ Woodside, Annual Financial Report for the Fiscal Year Ended June 30, 2018

⁶³⁶ Woodside, Adopted Budget Fiscal Year 2018-19.

⁶³⁷ Woodside, Proposed Budget Fiscal Years 2019-21

⁶³⁸ Woodside, Adopted Budget Fiscal Year 2018-19, p. 6. Woodside, Proposed Budget Fiscal Years 2019-21, p. 8.

⁶³⁹ Woodside, Proposed Budget Fiscal Years 2019-21, p. 8.

⁶⁴⁰ Grand Jury interview.

Additional Payments to CalPERS - Woodside

Woodside does not currently have any plan to make additional payments to CalPERS in excess of its Annual Required Contribution.⁶⁴¹

Pension Reserve Fund - Woodside

On March 26, 2019, Woodside's staff recommended to the City Council that the Town establish a Section 115 Trust for the purpose of helping cushion the budgetary impact of future pension costs increases and "that the upcoming budget include funds to be contributed to the Section 115 trust."⁶⁴² The Town plans to contribute a total of \$1.8 million to the trust over the next three fiscal years.⁶⁴³

Employee Contribution to City's Normal Cost - Woodside

Woodside does not have any agreements in place with its employees under which they pay for any portion of the Town's pension obligations.⁶⁴⁴

Revenue Enhancement - Woodside

Woodside does not currently have any plans for seeking voter approval of any revenue enhancement measures.⁶⁴⁵

Pension Obligation Bonds - Woodside

Woodside does not have any outstanding pension obligation bonds.⁶⁴⁶

General Fund Reserves - Woodside

Woodside currently projects cumulative general fund budget deficits of \$3.71 million over the ten years from FY 2018-19 to FY 2027-28 (an average of \$0.371 million each year).⁶⁴⁷ Over that same period, Woodside's general fund balance is projected to drop from \$7.89 million in FY 2018-19 (representing 95.5 percent of general fund operating revenues that year) to \$3.68 million in FY 2027-28 (representing 33.6 percent of general fund revenues that year).⁶⁴⁸

Long-Term Financial Forecast – Woodside

Woodside included a five-year general fund operating budget forecast in its FY 2018-19 budget.⁶⁴⁹ The Town has now developed a ten-year general fund operating budget forecast

⁶⁴¹ Ibid.

⁶⁴² Woodside, Report to Town Council for meeting on March 26, 2019 re: Discussion of the Town's Pension Obligations and Direction to Staff Regarding an Approach to Address the Obligations, p. 3.

⁶⁴³ Woodside, Proposed Budget Fiscal Years 2019-21, June 3, 2019 letter of transmittal from City Manager, p. ii. Email from Woodside, dated June 14, 2019.

⁶⁴⁴ Grand Jury interview.

⁶⁴⁵ Ibid.

⁶⁴⁶ Ibid.

⁶⁴⁷ Woodside, Proposed Budget Fiscal Years 2019-21, Budget Overview, p. 8.

⁶⁴⁸ Ibid.

⁶⁴⁹ Woodside, Adopted Budget Fiscal Year 2018-19, p. 6.

for the first time and it is incorporated into the Town's readily-accessible FY 2019-21 budget.⁶⁵⁰

FINDINGS

Important explanatory note for the Cities in responding to the Findings: Each City is to respond to each Finding solely with respect to itself and not with regard to any other City.

Data Set Forth in Appendix A

- F1. Each City's audited annual financial report for the fiscal year ending June 30, 2018 reported combined covered payroll for the City's pension plans for each of FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18 in the amounts set forth beside its name for that year in Appendix A.
- F2. Each City's audited annual financial report for the fiscal year ending June 30, 2018 reported combined contribution payments to CalPERS on the City's pension plans for each of FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18 in the amounts set forth beside its name for that year in Appendix A.
- F3. Each City's audited annual financial report for the fiscal year ending June 30, 2018 reported combined Unfunded Liabilities (as defined in this report) for the City's pension plans for each of FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18 in the amounts set forth beside its name for that year in Appendix A. Each City has been required to make large Amortization Cost (as defined in this report) payments of principal and interest to CalPERS on those Unfunded Liabilities. These payments have diverted money that could otherwise have been used to provide public services or to add to reserves.
- F4. Each City's audited annual financial report for the fiscal year ending June 30, 2018 reported combined Funded Percentages (as defined in the prior report) for the City's pension plans for each of FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18 in the amounts set forth beside its name for that year in Appendix A.
- F5. Each City's audited annual financial report for the fiscal years ending June 30, 2015, June 30, 2016, June 30, 2017, and June 30, 2018 reported what the combined Unfunded Liabilities (as defined in the prior report) for the City's pension plans for each of FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18 would have been if the applicable Discount Rate applied to calculate them had been one percentage point lower in the amount set forth beside its name for that year in Appendix A.
- F6. Each City's audited annual financial report for the fiscal years ending June 30, 2015, June 30, 2016, June 30, 2017, and June 30, 2018 reported general fund total expenditures

⁶⁵⁰ Woodside, Proposed Budget Fiscal Years 2019-21, Budget Overview, p. 8.

for each of FY 2014-15, FY 2015-16, FY 2016-17 and FY 2017-18 in the amounts set forth beside its name for that year in Appendix A.

- F7. In each of the fiscal years ending June 30, 2015, June 30, 2016, June 30, 2017 and June 30, 2018, each City's combined contribution payments to CalPERS on the City's pension plans represented the percentage of that City's general fund total expenditures for that year set forth beside its name for that year in Appendix A in the column entitled "Contribution Payments as % of General Fund Total Expenditures."
- F8. In each of the fiscal years ending June 30, 2015, June 30, 2016, June 30, 2017 and June 30, 2018, each City's combined contribution payments to CalPERS on the City's pension plans represented the percentage of that City's combined covered payroll for the City's pension plans in the amount set forth beside its name for that year in Appendix A in the column entitled "Contribution Rate (i.e., Contribution Payments as % of Covered Payroll)."

Projections of Future City Pension Costs

- F9. Each of Colma, Daly City, Foster City, Hillsborough, and Redwood City includes in its annual, or bi-annual budgets published on its public website, projections showing the annual dollar amount of its projected pension contribution costs for the next five or more years. None of the other Cities do so.
- F10. Neither Atherton, Brisbane, nor Portola Valley have published, anywhere on their public website or their agenda packages for city council meetings, projections showing the annual dollar amount of their projected pension contribution costs for the next five or more years.
- F11. The only way to find projections showing the annual dollar amount of the following Cities' projected pension contribution costs for the next five or more years on their public websites is by manually searching through agenda packages for their city council meetings: Belmont, Burlingame, East Palo Alto, Half Moon Bay, Menlo Park, Millbrae, Pacifica, San Bruno, San Carlos, San Mateo, South San Francisco and Woodside.

Long-Term Financial Forecasts

- F12. Each of Colma, Daly City, Hillsborough, Menlo Park, Pacifica, Redwood City, San Mateo, South San Francisco and Woodside has a general fund operating budget forecast covering a ten-year period. Of those nine, only Colma, Hillsborough, Menlo Park, Redwood City, San Mateo, and Woodside make those forecasts accessible to the public in their most recent annual or bi-annual budgets or annual financial reports published on their public websites.

- F13. The only way to find the ten-year general fund operating budget forecasts on the public websites of Pacifica and South San Francisco is by manually searching through agenda packages for their City Council meetings.
- F14. Daly City’s ten-year general fund operating forecast is not accessible to the public through its public website.
- F15. Each of Atherton, Belmont, Brisbane, Burlingame, Foster City, Half Moon Bay, San Bruno and San Carlos has a general fund operating budget forecast covering only a five-year period. Of those eight, only Belmont, Foster City, Half Moon Bay, San Bruno and San Carlos make the forecasts available to the public in their most recent annual or bi-annual budgets or annual financial reports published on their public websites.
- F16. The only way to find the five-year general fund operating budget forecasts on the public websites of Atherton and Burlingame is by manually searching through agenda packages for their City Council meetings.
- F17. Brisbane’s five-year general fund operating forecast is not accessible to the public through its public website.
- F18. Neither East Palo Alto, Millbrae, nor Portola Valley has a general fund operating forecast that extends beyond the fiscal years covered in its most recent annual or bi-annual budget.

Plans to Make Additional Payments to CalPERS Beyond Annual Required Contributions

- F19. Each of Belmont, Colma, Foster City, Menlo Park, Portola Valley, Redwood City, San Carlos, and San Mateo has made, or currently has a specific plan to make, additional pension contribution payments to CalPERS beyond its Annual Required Contribution.
- F20. Neither Atherton, Brisbane, Burlingame, Daly City, East Palo Alto, Half Moon Bay, Hillsborough, Millbrae, Pacifica, Portola Valley, San Bruno, South San Francisco nor Woodside currently has a specific plan recommended by staff to the City or Town Council (as applicable) to make additional pension contribution payments to CalPERS beyond its Annual Required Contribution.

Establishment of Reserves or Section 115 Trusts for Future Pension Payments

- F21. Each of Brisbane, Burlingame, Colma, Daly City, Foster City, Half Moon Bay, Hillsborough, Menlo Park, Pacifica, Portola Valley, Redwood City, San Carlos, South San Francisco and Woodside has set aside internal reserves, or contributed funds to a Section 115 trust, specifically for the purpose of paying future pension contribution costs.

F22. Neither Atherton, Belmont, East Palo Alto, Millbrae, San Bruno, nor San Mateo currently has a specific plan recommended by staff to the City or Town Council (as applicable) to set aside internal reserves, or to contribute funds to a Section 115 trust, specifically for the purpose of paying future pension contribution costs.

Employee Cost-Sharing to Help Pay Cities' Pension Costs

F23. Each of Atherton, Belmont, Burlingame, Foster City, Hillsborough, Menlo Park, Millbrae, Pacifica, Redwood City, San Mateo and South San Francisco has, or currently intends to seek, one or more cost-sharing agreements with employees under which employees pay for a portion of the City's Normal Cost pension payment obligations to CalPERS.

F24. Neither Brisbane, Colma, Daly City, East Palo Alto, Half Moon Bay, Portola Valley, San Bruno, San Carlos nor Woodside has, or currently intends to seek, one or more cost-sharing agreements with employees under which employees pay for a portion of the City's Normal Cost pension payment obligations to CalPERS.

Revenue Enhancement Ballot Initiatives by Cities

F25. Each of Belmont, Brisbane, Burlingame, Colma, Daly City, East Palo Alto, Foster City, Redwood City and South San Francisco have, since November 2016, sought and obtained voter approval for ballot measures intended to increase revenues.

F26. Each of Half Moon Bay, Pacifica, Redwood City, and San Bruno are currently considering seeking approval of their voters for revenue enhancement measures in the near term.

F27. Neither Atherton, Belmont, Brisbane, Burlingame, Colma, Daly City, East Palo Alto, Foster City, Hillsborough, Menlo Park, Millbrae, Portola Valley, San Carlos, San Mateo, South San Francisco, nor Woodside is currently considering seeking approval of its voters for revenue enhancement measures in the near term.

RECOMMENDATIONS

- R1. Each City include in its published annual or bi-annual budgets a general fund operating budget forecast for the next ten fiscal years.
- R2. Each City include a report in its published annual or bi-annual budgets specifically setting forth the dollar amounts of its annual pension costs paid to CalPERS. The report should include the following:
- a) The City's total pension contribution costs under all plans, for each of the three preceding fiscal years as well as estimates for such costs in each of the following ten fiscal years (whether developed by City staff internally, or by outside consultants to the City), assuming CalPERS' actuarial assumptions are met.
 - b) The City's total Unfunded Liabilities under all plans, for each of the three preceding fiscal years as well as estimates for such Unfunded Liabilities in each of the next ten fiscal years, (whether developed by City staff internally, or by outside consultants to the City), assuming CalPERS' actuarial assumptions are met.
 - c) The City's Funded Percentage across all plans, for each of the three preceding fiscal years as well as estimates for such Funded Percentages in each of the next ten fiscal years, assuming CalPERS' actuarial assumptions are met.
 - d) The percentage of the City's general fund expenditures, and the percentage of the City's covered payroll, represented by the pension costs described in (a) above (using estimates of general fund expenditures in future fiscal years).

REQUEST FOR RESPONSES

Pursuant to Penal Code Section 933.05, the Grand Jury requests that each of the following respond to the foregoing Findings and Recommendations referring in each instance to the number thereof:

- The Town of Atherton
- The City of Belmont
- The City of Brisbane
- The City of Burlingame
- The Town of Colma
- The City of Daly City
- The City of East Palo Alto
- The City of Foster City
- The City of Half Moon Bay
- The Town of Hillsborough
- The City of Menlo Park
- The City of Millbrae
- The City of Pacifica
- The Town of Portola Valley

- The City of Redwood City
- The City of San Bruno
- The City of San Carlos
- The City of San Mateo
- The City of South San Francisco
- The Town of Woodside

METHODOLOGY

The Grand Jury reviewed each of the documents listed in “BIBLIOGRAPHY” below.

The Grand Jury also reviewed email correspondence it received from some of the Cities.

In addition, the Grand Jury interviewed representatives of each of the Cities.

APPENDIX A – Data on Each City’s Pension Costs for Four Years from FY 2014-15 through FY 2017-18

The column below that reflects the most immediate impact on the Cities is “Contribution Cost” as this sets out the total pension costs paid each year and shows the rate at which it has, in most cases, increased each year. The other column that is particularly useful to understanding the impact of pension costs on the Cities’ budgets is “Contribution Cost as % of General Fund Spending” as this shows the relative size of pension costs in comparison to the overall general fund budget.

Note: Except as noted in this note, all information in Appendix A is derived from the Cities’ “Comprehensive Annual Financial Reports” (or “Basic Financial Statements,” or “Annual Financial Reports” in the case of the Towns of Atherton, Colma, Portola Valley and Woodside). Certain of Daly City’s, East Palo Alto’s and Foster City’s numbers are based on correspondence from those Cities received in June, 2019.

(All dollar numbers in thousands.)

CITIES	Fiscal Year	Covered Payroll	Pension Contribution Cost	Contribution Rate (i.e., Pension Contribution Cost as % of Payroll)	Unfunded Liability	Funded Percentage	Unfunded Liability if Discount Rate is Reduced 1%	General Fund Spending	Pension Contribution Cost as % of General Fund Spending*
Atherton	2017-18	\$4,649	\$1,289	27.7%	\$16,122	72.9%	\$24,391	\$12,065	10.7%
	2016-17	\$4,327	\$1,155	26.7%	\$13,982	73.8%	\$21,344	\$11,437	10.1%
	2015-16	\$4,261	\$617	14.5%	\$10,674	78.5%	\$17,326	\$10,611	5.8%
	2014-15	\$3,988	\$826	20.7%	\$9,253	81.9%	\$16,088	\$11,622	7.1%
Belmont	2017-18	\$15,773	\$3,927	24.9%	\$37,312	73.3%	\$55,262	\$19,450	20.2%
	2016-17	\$15,209	\$3,582	23.6%	\$32,835	72.0%	\$48,680	\$18,344	19.5%
	2015-16	\$14,613	\$4,191	28.7%	\$26,626	76.2%	\$41,855	\$16,800	24.9%
	2014-15	\$12,701	\$2,262	17.8%	\$25,067	79.8%	\$39,412	\$16,777	13.5%
Brisbane	2017-18	\$8,111	\$1,906	23.5%	\$21,118	73.4%	\$32,231	\$17,544	10.9%
	2016-17	\$7,916	\$1,713	21.6%	\$18,227	78.6%	\$27,989	\$15,521	11.0%
	2015-16	\$6,880	\$883	12.8%	\$13,952	79.9%	\$23,410	\$14,850	5.9%
	2014-15	\$7,023	\$1,174	16.7%	\$12,074	82.2%	\$21,119	\$13,247	8.9%
Burlingame	2017-18	\$20,598	\$5,718	27.8%	\$65,912	72.1%	\$97,834	\$53,637	10.7%
	2016-17	\$19,753	\$5,294	26.8%	\$57,694	73.4%	\$86,051	\$49,707	10.7%
	2015-16	\$18,232	\$4,615	25.3%	\$46,987	77.8%	\$75,062	\$47,459	9.7%
	2014-15	\$17,671	\$3,894	22.0%	\$41,762	80.1%	\$69,042	\$44,405	8.8%
Colma	2017-18	\$4,346	\$1,264	29.1%	\$10,682	73.3%	\$15,961	\$14,683	8.6%
	2016-17	\$4,031	\$1,048	26.0%	\$9,449	74.2%	\$14,008	\$13,323	7.9%
	2015-16	\$3,749	\$937	25.0%	\$7,747	74.7%	\$11,969	\$13,410	7.0%
	2014-15	\$3,604	\$939	26.1%	\$6,891	76.1%	\$10,724	\$12,948	7.3%

*Note: Contribution Cost amounts in Comprehensive Annual Financial Reports may include pension costs paid on account of certain employees whose activities are not accounted for as part of General Fund activities, and their pension costs would, therefore, not be included in General Fund total expenditures. As a result, the percentage of General Fund Spending in Appendix represented by Pension Contribution Costs may somewhat overstate the percentage represented by General Fund pension costs. Some experts have estimated that this might result in an overstatement of the percentage by 10 – 30 percent, such that a Contribution Payment as a % of General Fund Total Expenditures of 10 percent might actually be somewhere between 7 and 9 percent.

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CITIES	Fiscal Year	Covered Payroll	Pension Contribution Cost	Contribution Rate (i.e., Pension Contribution Cost as % of Payroll)	Unfunded Liability	Funded Percentage	Unfunded Liability if Discount Rate is Reduced 1%	General Fund Spending	Pension Contribution Cost as % of General Fund Spending
Daly City	2017-18	\$42,809	\$13,132	30.7%	\$164,352	74.1%	\$248,373	\$77,663	16.9%
	2016-17	\$43,398	\$11,631	26.8%	\$139,861	75.7%	\$213,918	\$77,139	15.1%
	2015-16	\$42,608	\$12,081	28.4%	\$112,195	80.0%	\$185,217	\$79,062	15.3%
	2014-15	\$42,226	\$8,862	21.0%	\$99,631	81.9%	\$169,965	\$72,649	12.2%
East Palo Alto*	2017-18	\$9,258	\$1,643	17.7%	\$10,854	73.3%	\$16,132	\$19,673	8.3%
	2016-17	\$8,464	\$1,493	17.6%	\$9,459	74.1%	\$13,750	\$18,109	8.2%
	2015-16	\$8,078	\$1,372	17.0%	\$8,112	78.4%	\$12,086	\$17,735	7.7%
	2014-15	\$7,926	\$1,477	18.6%	\$7,856	79.8%	\$11,417	\$16,524	8.9%
Foster City	2017-18	\$20,859	\$6,506	31.2%	\$78,061	68.1%	\$111,419	\$37,842	17.2%
	2016-17	\$19,875	\$7,209	36.3%	\$69,207	68.8%	\$98,575	\$36,416	19.8%
	2015-16	\$18,697	\$5,294	28.3%	\$56,390	76.3%	\$84,686	\$33,048	16.0%
	2014-15	\$17,696	\$4,552	25.7%	\$50,458	78.2%	\$77,534	\$31,322	14.5%
Half Moon Bay	2017-18	\$3,118	\$881	28.2%	\$10,902	72.9%	\$16,491	\$12,188	7.2%
	2016-17	\$2,423	\$594	24.5%	\$9,502	74.6%	\$14,557	\$10,418	5.7%
	2015-16	\$2,014	\$583	28.9%	\$7,319	80.1%	\$12,332	\$8,781	6.6%
	2014-15	\$1,987	\$529	26.6%	\$6,736	81.6%	\$11,620	\$8,352	6.3%
Hillsborough**	2017-18	\$10,233	\$2,412	23.6%	\$25,911	73.6%	\$39,430	\$22,258	10.8%
	2016-17	\$8,661	\$2,158	24.9%	\$22,387	74.8%	\$34,262	\$21,224	10.2%
	2015-16	\$9,089	\$1,893	20.8%	\$17,187	78.6%	\$28,063	\$19,693	9.6%
	2014-15	\$8,625	\$1,605	18.6%	\$14,770	79.8%	\$25,822	\$18,721	8.6%
Menlo Park***	2017-18	\$23,371	\$5,555	23.8%	\$57,358	74.7%	\$87,527	\$52,491	11.8%
	2016-17	\$23,112	\$5,565	24.1%	\$50,993	74.4%	\$77,514	\$47,314	11.8%
	2015-16	\$19,868	\$4,747	23.9%	\$38,881	79.2%	\$64,170	\$42,565	11.2%
	2014-15	\$19,969	\$4,228	21.2%	\$34,371	80.6%	\$58,596	\$40,581	10.4%

*Note: East Palo Alto has stated to the Grand Jury that it believes it is more representative of its financial situation to include in “General Fund Spending” the “operating transfers out of [its] General Fund to other City funds. The transfers primarily relate to the support of infrastructure-related programs including NPDES, Drainage District and pay-go funded Capital Improvement projects.” If these operating transfers out are included, then General Fund Spending with transfers would be \$21.77 million in FY 2017-18, \$21.92 million in FY 2016-17, \$21.2 million in FY 2015-16 and \$20.15 million in FY 2014-15 and Contribution Cost as a % of General Fund Spending with these transfers would be 7.5% in FY 2017-18, 6.8% in FY 2016-17, 6.5% in FY 2015-16 and 7.3% in FY 2014-15. (Email from East Palo Alto, dated June 7, 2019.)

**Note: Hillsborough makes the same comment as East Palo Alto and notes that, transfers out of the general fund should be included in “General Fund Spending” above as follows: For FY 2017-18, add \$2.07 million for a new total of \$24.33 million; for FY 2016-17, add \$3.86 million for a new total of \$25.09 million; for FY 2015-16, add \$0.461 million for a new total of \$20.15 million; and for FY 2014-15, add \$0.742 million for a new total of \$19.46 million. These higher General Fund Spending amounts would result in decreases in the percentages in “Contribution Cost as a % of General Fund Spending” as follows: for FY 2017-18, 9.9%; for FY 2016-17, 8.6%; for FY 2015-16, 9.4%; and for FY 2014-15, 8.3%. (Email from Hillsborough, dated June 7, 2019.)

***Note: Menlo Park also makes the same comment as East Palo Alto and Hillsborough. If its “transfers out” of \$5.09 million in FY 2017-18 were included as a part of general fund expenditures, then those expenditures would increase to \$57.58 million and “Contribution Cost as % of General Fund Spending” would drop from 11.8 percent to 9.6 percent. Adding “transfers out” of \$5.57 million, \$4.75 million, and \$4.23 million for fiscal years 2016-17, 2015-16 and 2014-15, respectively, results in the “Contribution Cost as % of General Fund Spending” for those years dropping to 10.7 percent, 9.3 percent and 9.4 percent, respectively. (Email from Menlo Park, dated June 6, 2019.) (Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2017, p. 36. Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2016, p. 35. Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2015, p. 35.)

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CITIES	Fiscal Year	Covered Payroll	Pension Contribution Cost	Contribution Rate (i.e., Pension Contribution Cost as % of Payroll)	Unfunded Liability	Funded Percentage	Unfunded Liability if Discount Rate is Reduced 1%	General Fund Spending	Pension Contribution Cost as % of General Fund Spending
Millbrae*	2017-18	\$7,355	\$3,313	45.0%	\$48,740	73.3%	\$71,117	\$28,199	11.7%
	2016-17	\$6,165	\$2,335	37.9%	\$42,769	74.1%	\$62,676	\$25,494	9.2%
	2015-16	\$5,835	\$2,064	35.4%	\$34,256	78.4%	\$53,883	\$22,514	9.2%
	2014-15	\$6,871	\$1,400	20.4%	\$28,989	79.8%	\$47,979	\$18,201	7.7%
Pacifica	2017-18	\$16,478	\$4,091	24.8%	\$50,801	76.7%	\$80,376	\$29,991	13.6%
	2016-17	\$16,369	\$3,740	22.9%	\$44,400	77.5%	\$70,650	\$28,781	13.0%
	2015-16	\$15,922	\$2,749	17.3%	\$32,841	82.3%	\$56,750	\$27,358	10.0%
	2014-15	\$15,378	\$2,739	17.8%	\$28,089	84.3%	\$52,855	\$25,354	10.8%
Portola Valley	2017-18	\$1,523	\$141	9.3%	\$712	89.7%	\$1,663	\$5,292	2.7%
	2016-17	\$1,442	\$116	8.1%	\$524	91.8%	\$1,382	\$4,361	2.7%
	2015-16	\$1,072	\$84	7.8%	\$82	98.6%	\$881	\$4,303	2.0%
	2014-15	\$993	\$1,019	102.6%	\$957	83.0%	\$1,706	\$5,587	18.2%
Redwood City**	2017-18	\$60,845	\$18,409	30.3%	\$245,579	64.8%	\$341,571	\$125,859	14.6%
	2016-17	\$62,098	\$17,722	28.5%	\$215,202	65.7%	\$298,653	\$112,142	15.8%
	2015-16	\$57,352	\$17,363	30.3%	\$177,937	70.1%	\$257,798	\$101,684	17.1%
	2014-15	\$54,275	\$16,467	30.3%	\$164,149	71.6%	\$240,111	\$95,856	17.2%
San Bruno	2017-18	\$22,287	\$7,176	32.2%	\$89,228	70.4%	\$130,222	\$43,366	16.5%
	2016-17	\$22,512	\$6,344	28.2%	\$78,198	70.7%	\$114,180	\$43,244	14.7%
	2015-16	\$21,315	\$4,434	20.8%	\$61,771	75.6%	\$96,281	\$38,882	11.4%
	2014-15	\$20,532	\$4,979	24.3%	\$53,531	78.4%	\$86,637	\$36,738	13.6%
San Carlos***	2017-18	\$11,169	\$9,701	86.9%	\$50,152	62.6%	\$69,070	\$42,495	22.8%
	2016-17	\$11,047	\$2,236	20.2%	\$47,009	63.3%	\$64,530	\$33,182	6.7%
	2015-16	\$10,486	\$2,622	25.0%	\$40,263	67.3%	\$57,293	\$41,264	6.4%
	2014-15	\$13,231	\$2,624	19.8%	\$35,253	71.2%	\$42,824	\$29,067	9.0%

*Note: Millbrae notes that its pension payments as a percentage of covered payroll are artificially high because the City has pension liability for public safety employees (police and fire) but the City currently contracts for services and has no employees in those categories. While the City has no police and fire staff, the City is responsible for unfunded liability pension costs associated with former police and fire agencies and is also responsible for pension costs associated with employees in police and fire contracts. Pension spending for Miscellaneous plan employees in FY 2017-18 represented only 29.5% of covered payroll. (Email from Millbrae, dated June 12, 2019.)

**Note: Redwood City points out that its FY 2017-18 General Fund Spending amount set forth above includes a one-time transfer of \$8.8 million to the City's Section 115 pension trust account. If that \$8.8 million were excluded from General Fund Spending, then the total amount for FY 2017-18 would drop from \$125.86 million to \$117.06 million and Pension Contribution Costs as a % of General Fund Spending would increase from 14.6 percent to 15.7 percent. (Email from Redwood City dated June 7, 2019.)

***Note: San Carlos points out that its "Contribution Cost" in FY 2017-18 includes \$6 million of one-time additional payments it made in excess of its Annual Required Contribution in order to reduce its unfunded pension liabilities and thus reduce long term pension contribution costs. If this \$6 million voluntary additional payment were not included, then pension contribution costs would represent only 33.1 percent of covered payroll rather than 86.9 percent and only 8.7 percent of General Fund Spending, rather than 22.8 percent.

In addition, the Grand Jury notes that San Carlos' percentage of covered payroll represented by pension contribution costs is also artificially increased because the City continues to make substantial pension contribution payments to CalPERS (reflected in the numbers above) for its former fire and police personnel even though it no longer employs fire fighters or police personnel (thus reducing its covered payroll amount significantly). San Carlos' police services are now provided by the San Mateo County Sheriff's Office and fire services have been transferred to the Redwood City Fire Department. (San Carlos, Comprehensive Annual Financial Report for Fiscal Year 2017-2018, p. 155.)

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CITIES	Fiscal Year	Covered Payroll	Pension Contribution Cost	Contribution Rate (i.e., Pension Contribution Cost as % of Payroll)	Unfunded Liability	Funded Percentage	Unfunded Liability if Discount Rate is Reduced 1%	General Fund Spending	Pension Contribution Cost as % of General Fund Spending
San Mateo (City)	2017-18	\$63,131	\$19,699	31.2%	\$218,196	65.9%	\$301,300	\$111,079	17.7%
	2016-17	\$58,645	\$18,912	32.2%	\$197,822	66.2%	\$271,523	\$103,992	18.2%
	2015-16	\$52,345	\$15,908	30.4%	\$168,693	70.1%	\$240,459	\$95,779	16.6%
	2014-15	\$49,788	\$13,860	27.8%	\$159,585	71.4%	\$228,588	\$88,078	15.7%
South San Francisco	2017-18	\$45,563	\$15,489	34.0%	\$182,872	66.2%	\$256,395	\$96,677	16.0%
	2016-17	\$48,954	\$13,300	27.2%	\$152,786	68.4%	\$216,103	\$92,367	14.4%
	2015-16	\$40,396	\$13,938	34.5%	\$130,042	72.2%	\$191,669	\$86,795	16.1%
	2014-15	\$34,478	\$11,403	33.1%	\$124,085	73.2%	\$184,305	\$76,805	14.8%
Woodside	2017-18	\$2,073	\$390	18.8%	\$3,642	71.9%	\$5,424	\$6,876	5.7%
	2016-17	\$1,996	\$323	16.2%	\$3,164	72.3%	\$4,702	\$6,801	4.8%
	2015-16	\$1,809	\$409	22.6%	\$2,578	75.8%	\$4,325	\$6,638	6.2%
	2014-15	\$1,640	\$355	21.6%	\$2,053	79.1%	\$3,356	\$6,107	5.8%
Totals & Weighted Averages	2017-18	\$394,084	\$122,642	31.1%	\$1,388,505	69.1%	\$2,002,188	\$829,327	14.8%
	2016-17	\$386,398	\$106,468	27.6%	\$1,215,467	70.6%	\$1,755,047	\$769,315	13.8%
	2015-16	\$354,648	\$96,784	27.3%	\$994,535	75.0%	\$1,515,516	\$729,230	13.3%
	2014-15	\$340,601	\$85,194	25.0%	\$905,562	76.3%	\$1,399,702	\$668,939	12.7%
% Change from 2016-17 to 2017-18			15.2% increase		14.2% increase				

APPENDIX B – Table showing information on each of the Cities.

City	Long-term pension cost projections available online on City’s website?	Long-term pension cost projections published in City’s budget?	Additional payments to CalPERS currently planned?	Pension reserve fund?	Employee cost sharing?	Revenue increase measures approved since 2016 or planned?	Pension obligation bonds outstdg.?	Long-term general fund forecast? / Period of forecast?	Long-term forecast included in budget?
Atherton	No.	No.	No.	Section 115 trust approved but not funded.	Yes	No	No.	Yes. 5 years	No
Belmont	Yes. Through FY 2048-49.	No	Yes. \$3.65M	No.	Yes.	Sales tax incr. 2016.No further plans.	No.	Yes. 5 years	Yes.
Brisbane	No.	No	No.	Yes. Section 115 Trust. \$0.92M.	No.	Yes. Business license tax measures in 2017.	Yes. 2006 for \$4.75M and 2013 for \$1.61M.	Yes. 5 years	No. Forecast not available on City’s website.
Burlingame	Yes. Through FY 2029-30	No	No.	Yes. Section 115 Trust. \$8.2M as of FY 2018-19 and more thereafter.	Yes.	Sales tax incr. 2017. No further plans.	Yes. 2006 for \$33M.	Yes. 5 years	No
Colma	Yes. Through FY 2035-36.	Yes. Colma included pension cost projections for the first time in FY 2019-20 budget.	Yes. \$1.05M	Yes. Section 115 Trust. \$1M in FY 2018-19 and more thereafter.	No.	Hotel tax 2018.	No.	Yes. Town extended forecast period to 10 years for first time in FY 2019-20 budget	Yes.
Daly City	Yes. Through FY 2027-28.	Yes. The City included pension cost projections for the first time in its FY 2019 & FY 2020 budget	No.	Yes. Section 115 Trust. \$4M.	No.	Hotel and biz license tax 2018. No further plans.	Yes. 2004 for \$36.24M.	Yes. 10 years	No. Forecast not available on City’s website.
East Palo Alto	Yes. Through FY 2027-28.	No	No.	No.	No.	Sales tax and biz license tax incr. 2016. Office space parcel tax incr. 2018. No further plan.	No.	No forecast exists. City plans to develop one in 2019.	N/A
Foster City	Yes. Through FY 2048-49.	Yes. The City included pension cost projections through FY 2023-24 for the first time in its FY 2019-20 budget	Yes. \$3.43M.	Yes, but using its balance to make fund portion of \$3.43M additional pymts. to CalPERS.	City plans to seek in next round of negotiations.	Hotel tax incr. 2018. No further plan.	No.	Yes. 5 years.	Yes.
Half Moon Bay	Yes. Through FY 2028-29.	No.	No.	Yes. \$1.1M.	No.	No.	No.	Yes. 5 years.	Yes.

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City	Long-term pension cost projections available online on City's website?	Long-term pension cost projections published in City's budget?	Additional payments to CalPERS currently planned?	Pension reserve fund?	Employee cost sharing?	Revenue increase measures planned?	Pension obligation bonds outstdg.?	Long-term general fund forecast? / Period of forecast?	Long-term forecast included in budget?
Hillsborough	Yes. Through FY 2028-29.	Yes. The Town included pension cost projections for the first time in its FY 2019-20 budget.	No	Yes. Section 115 Trust. \$4.8M.	Yes	No	No	Yes. 10-years	Yes
Menlo Park	Yes. Through FY 2029-30.	No	Yes. Plans for additional pymts. totaling \$15.2M.	Yes. \$4.3M in FY 2018-19. Expect \$8.4M by FY2023-24 and \$11.4M by FY 2027-28.	Yes.	No.	No.	Yes. 10 years.	Yes.
Millbrae	Yes. Through FY 2028-29.	No	No.	No.	Yes.	No.	Yes. 2004 for \$11.5M..	No forecast exists	N/A
Pacifica	Yes. Through FY 2028-29.	No	No	Yes. Plans for Section 115 Trust and \$0.2M	Yes.	Yes. May seek increase in "hotel tax"	Yes 2010 for \$20.5M	Yes. 10 years	No
Portola Valley	No.	No.	The Town made a \$0.9M pymt. in FY 2014-15. Additional pymts. to be discussed in 2019.	Yes. \$0.712 million.	No.	None currently planned.	No.	No forecast exists.	N/A
Redwood City	Yes. Through FY 2038-39.	Yes.	Yes. \$0.6M in FY2018-19 and \$0.5M annually thereafter.	Yes. Section 115 Trust. \$14.05M to date and \$1.1M per year thereafter.	Yes.	Sales tax incr. 2018. Expecting to seek additional revenue increases in future.	No.	Yes. City extended period to 10 years for first time in FY 2019-20 budget.	Yes.
San Bruno	Yes. Through FY 2024-25	No	No.	No.	No.	Yes. Considering additional tax increase ballot initiatives in 2019 or 2020.	Yes. 2013 for \$13.16M.	Yes. 5 years.	Yes. City included forecast for first time in FY 2019-20 budget
San Carlos	Yes. Through FY 2047-48.	No	Yes. \$6M.	Yes. Section 115 Trust. \$1M and \$2M internal reserve.	No.	No.	No.	Yes. 5 years.	Yes.
San Mateo	Yes. Through FY 2029-30	No	Yes. \$4.39M by FY 2018-19. Additional pymts. of \$14M (for total of \$18.39M) projected to be made by FY 2028-29.	No.	Yes.	No.	No.	Yes. 10 years.	Yes.

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City	Long-term pension cost projections available online on City's website?	Long-term pension cost projections published in City's budget?	Additional payments to CalPERS currently planned?	Pension reserve fund?	Employee cost sharing?	Revenue increase measures planned?	Pension obligation bonds outstdg.?	Long-term general fund forecast? / Period of forecast?	Long-term forecast included in budget?
South San Francisco	Yes. Through FY 2045-46	No	No.	Yes. \$5.5M.	Yes.	Hotel tax and business license incr.2018. Not planning further increases	No.	Yes. 10 years.	No.
Woodside	Yes. Through FY 2027-28	No	No.	Yes. \$0.15M per year.	No	No	No	Yes. Town extended period to 10 years for the first time in its FY 2019-21 budget.	Yes.

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