



STEPS TO PENSION REFORM

BACKGROUND

- Like many California Cities, the City of Brea is a member of the CalPERS pension fund.
- CalPERS is the nation's largest public pension fund.
- The rate that CalPERS charges employers (the cost of the CalPERS benefit to cities) is based on several factors:
 - Investment portfolio performance: when CalPERS investment returns decrease over a period of time, such as during the Great Recession beginning in 2007, the City's contributions (or the rate paid to CalPERS for the pension benefit), has to increase. When the economy is booming and investment returns increase, it can take years for the CalPERS benefit rate to reflect the improved returns.
 - Other factors, such as people living longer, also affect the rates as CalPERS must pay benefits for longer time period.
 - Additionally, fewer new employees paying into the system equates into higher benefit rates to fund the pension for retirees.
- For many years, due to positive investment returns, CalPERS cities were "superfunded," meaning CalPERS was not charging an employer rate for the pension benefit.
- However, the Great Recession changed all of that. And in many ways cities are still feeling the impact of the Great Recession as it relates to the cost of providing the CalPERS pension benefit. The downturn in the economy negatively impacted investment returns nationwide, including CalPERS investments and consequently, CalPERS raised the pension rate to employers.
- This resulted in an increase in expenditures. For most cities, this increase could not be easily absorbed due to decreasing tax revenues—also a side effect of Great Recession, as well as other factors, such as a transition to on-line shopping (the so-called Amazon effect.)
- When residents shop on-line vs. shopping at a local brick and mortar, cities get only a fraction of the sales tax revenue that they would get if the same item had been purchased at a business in town.

- The rapid increase in the cost of the CalPERS benefit, at a time when municipalities are still struggling with a changing revenue stream is not unique to Brea. It is a statewide problem and must be dealt at that level.
- For Brea, the projected CalPERS increases are currently outpacing projected General Fund Revenues by \$2.57 million over five years, leveling off in FY 2022-23.

BREA'S STEPS TO MITIGATE BUDGET IMPACTS

1. The City has been working to bridge the projected budget gap and have taken measures to reduce expenditures including eliminating, or under filling vacant positions, trimming department's operational budgets and prioritizing programs and services.
2. The City of Brea is a fiscally conservative municipality. The budget is always balanced. The City maintains healthy general fund reserves
3. Pension reform has been identified a top priorities by the Brea City Council.
4. As this issue is impacting cities statewide, significant, long-term solutions must come from the State Legislature in Sacramento.
5. The Brea City Council actively supports legislative advocacy for pension reform.
6. To that end, the City Council established an ad hoc pension subcommittee: Mayor Parker and Council Member Hupp.
7. The ad hoc committee traveled to Sacramento in December, 2017 to meet with key individuals on pension reform.
8. The ad hoc committee attended a pension forum in Newport Beach in February.
9. The ad hoc committee has met with our local legislators about pension legislation/reform.
10. The City Manager collaborates with City Managers from the North Orange County Cities Coalition to coordinate pension reform strategies.
11. The City will continue to pay down unfunded pension liability and manage the Other Post Employment Benefit (OPEB) liability.
12. City Council in FY 2015-2016 set aside \$6 Million in a *Section 115 Irrevocable Pension Trust Fund*, under separate investment management to be used as necessary to meet our pension obligations and is an asset on the balance sheet to the unfunded pension liability. These funds have grown to approximately \$7.4 Million.
13. All City employees contribute 100% of the employee cost of pension benefits. In addition, most Public Safety employees are also paying more than the employee portion and are cost-sharing the City's cost of pension benefits.
14. Last year, City employees paid \$2.1 million toward their pension.

15. PEPRRA passed January 1, 2013 required all new employees in a lower retirement formula that will reduce our pension liabilities. The impact of this new law will be a long-term solutions but not able to impact our projected CalPERS increases in the near term.
16. The City of Brea is in fiscally sound health and continues to work to reduce expenditures, increase reserves and pay down pension liability.