18. Budget

How do you plan to fund the city's long-term pension and health benefits liability, which currently stands at $500 million? How serious is the impact of this liability to the City's ability to provide services and amenities to residents?

Stewart Carl:

If long term liabilities continue to increase they could threaten the city's ability to provide services and amenities. The city council needs to hold the line on employee salaries, especially managerial staff.

Leonard Ely III:

Again, not being an insider and not fully understanding the possible solutions I am really not able to comment on this. I know it is there and I know that it is time to stop kicking the can down the road. These are the types of problems/issues that I want

Adrian Fine:

If we continue to have a growing economy and tax base, with a strong top line, we can avoid this issue as a crisis. However, in the medium-term, the city should continue paying CalPERS the required amount, and we should be saving money for a larger payoff over time.

John Fredrich:

As for the pension problem, this is one of the big reasons for getting a new City Manager. The size of the City staff and the unfunded liabilities that we continue to create are eroding the future viability of local and state governments all over the country. To begin with we reduce over-all staffing, eliminate all pension credit for overtime (the pay itself does not impact your retirement), and put all medical costs into a national, universal, single-payer system.

Arthur Keller:

To fix this problem, we have to understand how we accrued this large liability in the first place. A decade ago, pensions were raised for existing as well as new employees by raising the retirement benefit for each year of service. This move, made to recruit new City employees, resulted in a windfall for employees of long standing and many of them retired. CalPERS, the California Public Employee Retirement System reduced (or stopped) annual contributions from Palo Alto and other cities because the stock market was up and was expected to keep going up. The stock market crash and recession of 2008 showed the error of CalPERS' policy

CalPERS' actuarial calculations include an estimate of the annual rate of growth of these investments. Even though the stock market is at record highs, CalPERS investment return has been grossly inadequate. See http://www.ocregister.com/articles/calpers-722198-year-percent.html

So our long-term liability might be even higher.

Palo Alto has taken measures to reduce the impact. Although State law does not allow pensions to be reduced for existing employees, even the rate of increase of pensions for future service, it does allow smaller pensions for new employees. Palo Alto does offer smaller pensions for new employees.

Compound interest has been called the most powerful force in the Universe. See http://www.snopes.com/quotes/einstein/interest.asp Prepaying our pension obligation eliminates years of compound interest and can dramatically lower our long-term pension liability.

Increasing employee contributions towards their pension can also reduce the Palo Alto's contribution, and can decrease our long-term liability by using the savings to prepay our pension obligation.

Of course, retired employees do not make contributions towards their retirement, so Palo Alto taxpayers have that liability.

Retiree health insurance is also a significant liability. Palo Alto can consider entering into a Section 218 agreement so that its employees are covered by Social Security and Medicare, thereby reducing the retiree health insurance obligation. See https://www.ssa.gov/pubs/EN-05-10051.pdf Palo Alto could instead pay for employees' and spouses' Medicare Supplement (Medigap) premiums. See https://www.medicare.gov/supplement-other-insurance/medigap/whats-medigap.html This cost may be less than our retiree health benefits liability for those over 65.

Liz Kniss:

This is a serious liability. We have a plan in place that is the least impactful to our community because it incorporates our asking the employees to increase their contribution and to add to the general fund on a regular basis. The long-term pension and health benefits liability accounts for about 1/3 or $156M. CalPers is making changes to funding and these are accelerating the increase on payments. We are looking at finding solutions, rather than impacting services. If you compare head count from 5 years ago it's down. Monitoring and trying to find ways to not increase the unfunded liability portion. In the past we have cut staff and outsourcing services. A 10-year forecast will be presented to the council to guide us and discuss how to address these issues. $330 million is the liability for the general fund, that combines retirement, medical and pension payments.

Lydia Kou:

First, this is a state-wide problem and is called a crisis because no one has good answers. Second, current and past Council members have told me that you don't begin to understand the City budget until you have been on Council for two years.

The most important thing that Council can do is **not** "kick the problem down the road" or hope that the pension fund (CalPERS) will see significant improvement in returns on their investments. We need to take prudent efforts to reduce liability. However, it cannot be the City's top priority: While these pensions and health benefits represent a contract with former employees, the City also has important obligations to its residents.

Reiterating from previous questions: The role of City Council is to oversee the work of professionals, not to be the experts on a wide range of highly complex and technical issues.

Danielle Martell:

DID NOT RESPOND

Don McDougall:

Retirement benefit liabilities are a widespread challenge among all public jurisdictions. We are dealing with a significant change in the returns from pension investments that are occurring in a low interest rate world but an established sinking fund allows whittling away at the deficit. Future solutions will rely on a combination of changes, including changes to the benefits and years of service required of new employees, cost sharing on future health benefits and increased funding from the City budget, as is occurring in jurisdictions at every level.

Greer Stone:

The city's long-term pension and health benefits liability is a serious issue for the city's longterm viability. Most of our city budget is dedicated to salaries and benefits. The city must consider all best options in order to pay off our rising pension and health benefits liability. One good option is to diversity our investment portfolio by creating a separate pension trust. This would give us more budget certainty in the future in case CalPERS rate of return does not remain consistent. I would also continue to support the efforts the city has made over the past several years in making the city's budget more sustainable for years to come. The impact of our budget being tied up with pensions and health benefits means less critical services for the rest of our city, such as funding for reduced traffic, more parks, and less funding for social services.

Greg Tanaka:

I believe Calpers, as currently defined and supported, is unsustainable. Funding Palo Alto long-term pension liability must be handled more aggressively than required under Calpers guidelines. Palo Alto can always rely on its budget and tax base to accommodate pensioners, but Calpers cannot rely on other member cities to be as responsible as Palo Alto. I will support funding pensions at responsible minimal requirements so that resources can be used for public services and infrastructure.