

Yolo County's four cities must address looming public pension crisis

Grand Jury calls on cities to collaborate on best practices, engage citizens

Pension and retiree health insurance costs for the cities of Davis, West Sacramento, Winters and Woodland are consuming increasing portions of city budgets, putting extreme pressure on other city service priorities, according to a Yolo County Grand Jury report released today.

In Davis, 19 percent of the city's general fund budget now goes to pensions and retiree health benefits, a share that will rise to approximately 26 percent by 2025. West Sacramento can expect its pension and retiree benefits to increase from 16 percent of its general fund budget this year to approximately 17 percent by 2025. Winters will see that share jump from 12 percent to 16 percent and in Woodland, it will climb from 14 to 18 percent. The projections were based on information provided by each city.

Across California, pension payments alone now represent 11 percent of a city's general fund budget, on average, according to the League of California Cities. The statewide average is expected to rise to 16 percent over the next seven years. Pension payments alone now represent 12 percent of the general fund budget in both Davis and West Sacramento, 11 percent in Winters and 10 percent in Woodland.

“Historically, elected city councils have been pressured to agree to pension benefit enhancements based on overly optimistic, often inaccurate investment earnings projections,” the report states. “As a result, too many decision makers failed to realize that pension contributions would eventually become a significant burden on cities, counties and other governmental entities, and by extension, taxpayers.”

The Grand Jury also concluded that city-level financial information regarding pension and retiree health insurance costs and liabilities should be easier for citizens to find and understand.

According to the report, Yolo County's four cities are facing 67 to 90 percent increases in pension costs over the next seven years. In dollars, these increases are projected to amount to \$8.7 million for Davis, \$6.9 million for West Sacramento, \$0.4 million for Winters and \$6.3 million for Woodland. The projections are taken from CalPERS and city annual financial reports.

The increases are needed for cities to catch up on the revenues they will need to pay pension costs through mid-2025. Currently, Davis has only 64 percent of the funds invested with CalPERS that it will need to cover its pension obligations, and it has been falling behind: Three years ago, the city had 72 percent of the needed funds invested. West Sacramento now has 71 percent, down from 79 percent three years ago. Winters has 76 percent, down from 84 percent. Woodland has 70 percent, down from 63 percent.

Overall, Davis faces \$110.1 million in unfunded accrued pension liabilities, CalPERS data and city annual financial reports show. For West Sacramento, the number is \$70.3 million. In Winters, it is \$4.4 million and in Woodland it is \$86.9 million.

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The picture is even worse for retiree medical insurance, the Grand Jury found. West Sacramento has assets to pay just under half its liability for future retiree medical insurance. Davis has assets to fund only a quarter of its obligation. In Woodland, the figure is 6 percent, while Winters has funded none of its liability.

As pensions and retiree health benefits consume more of a city's budget, local governments face increased pressure to find other sources of revenue to fund competing priorities, the report emphasizes.

“The most common method of finding new revenue sources for retirement costs is through proposed new city taxes and fees, such as sales tax increases or parcel taxes,” the report states.

The Grand Jury report calls on local governments to be transparent when such taxes and fees are necessary to offset rising pension and retiree benefit costs.

To conduct its analysis, the Grand Jury requested statistics from city finance departments, reviewed city budgets and annual financial reports, studied CalPERS annual valuation reports for public employee pensions, and interviewed city managers. The Grand Jury compiled this information into a set of simple tables.

The Grand Jury made four recommendations to help cities address the looming crisis in pensions and retiree benefit costs:

- Cities should educate residents about impacts of the crisis on other city services, from parks to public safety.
- Cities should create simple statistical graphs that show three-year past and projected pension costs and liabilities, as well as the percentages that these costs represent of total city budgets.
- Cities should investigate and consider alternatives to the existing CalPERS-managed pension systems, such as the alternative hybrid-defined pension option described in the proposed Public Employees' Pension Reform Action of 2018 (Senate Bill B-32).
- Cities should collaborate to share best practices in analysis and cost containment of pensions and other retiree benefits.

In addition, the Grand Jury highlighted several positive steps that cities have already taken:

- Woodland has negotiated labor contracts in which public employees will contribute more to their retirement.
- Beginning in fiscal year 2013-14, Woodland increased its contributions to fund future retiree health insurance benefits.
- Davis has developed a financial forecasting tool that shows the evolution of the pension costs as a share of city general funds.
- Woodland also uses a pension and retiree health benefits forecasting analysis to educate its elected officials and staff.

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The full report will be posted online on the Grand Jury's website:

<http://www.yolocounty.org/business/community/grand-jury/yolo-county-grand-jury-reports>

About the Yolo County Grand Jury

The Yolo County Grand Jury is made up of 19 citizens selected by the Yolo County Superior Court. Jurors serve one-year terms that conclude on June 30 each year. In addition to advising the county District Attorney on whether to bring indictments in select criminal cases, the Yolo County Grand Jury also conducts an annual inquiry into the condition and management of public jails and serves as a citizen watchdog over public offices and agencies within the county.

Yolo County residents who are interested in participating on the Grand Jury may learn how to apply at www.yolocounty.org/business/community/grand-jury.

How to file a complaint with the Grand Jury

Residents who have a complaint or concern about a public official or entity can download an application here: <https://yolocountyca.seamlessdocs.com/f/CitizensComplaintForm>. Complaint forms are also available at the county courthouse, county jail facilities and local libraries, or can be requested by calling (530) 406-5088 or writing to the Grand Jury, P.O. Box 2142, Woodland, CA 95776. Completed complaint forms, including any relevant evidence, should be mailed to P.O. Box 2142, Woodland, CA 95776 or emailed to grandjury@sbcglobal.net.