

Agenda Report

September 19, 2011

TO: Honorable Mayor and City Council
FROM: City Manager
SUBJECT: RESPONSE TO LOS ANGELES COUNTY CIVIL GRAND JURY FINAL REPORT 2010-2011

RECOMMENDATION:

It is recommended that the City Council authorize the Mayor to transmit the proposed responses which appear in the body of this agenda report to the Presiding Judge of the Los Angeles County Superior Court, for those portions of the Civil Grand Jury's Final Report 2010-2011, dealing with the City of Pasadena in order to comply with the statutory requirements when a Grand Jury Report is issued.

BACKGROUND:

The Los Angeles County Civil Grand Jury serves as a public "watch-dog", by examining the operations of various government agencies within Los Angeles County. Each year the Grand Jury undertakes a number of investigative reports, which are combined into a single annual report.

For its 2010-2011 Annual Report, the Grand Jury performed thirteen investigations. Not surprising, given the recent attention focused on the issue, the Grand Jury included as one of its investigations this past year, a review of pension systems for five governmental agencies within the county, including: the Los Angeles County Employees Retirement Association, the Los Angeles Department of Water and Power Employee Retirement Plan, Monterey Park's CalPERS Miscellaneous and Safety Plans, Hermosa Beach's Safety Police Plan and the City of Pasadena's Fire and Police Retirement System (FPRS). A copy of the report, entitled '*Whoa! The State of Public Pensions in Los Angeles County*' is attached.

As indicated above, as it relates to the City of Pasadena, the Grand Jury report ostensibly focused on the FPRS; however, the final report included analysis and recommendations relating to the City's CalPERS pension plan and CalPERS Health Program as well. Specifically, the Grand Jury made three recommendations:

1. The City Council endorse the recommendations being made by management staff regarding actuarial assumptions, cost stabilization, administrative restructuring and funding for the FPRS.
2. The City Council direct the City Manager to negotiate reductions in the amount of employee contribution picked up by the City for its CalPERS pension plans, up to the full amount of 8% for Miscellaneous and 9% for Safety employees.
3. The City Council adopt a policy to fully fund the OPEB actuarially determined Annual Required Contribution each year, to build reserves toward future benefit obligations and earn investment income that can reduce the amount of the ARC in future years.

Pursuant to California Penal Code Sections §933(c) and §933.05 a written response to each of the recommendations contained in the Grand Jury report is required no later than ninety days after publication, September 30, 2011. As part of the response, agencies are required to indicate whether they agree or disagree with the finding or whether additional analysis is required. If in agreement, respondents are directed to provide a timetable for implementation. Accordingly, staff is recommending that the following responses be transmitted under cover letter from the Mayor.

Grand Jury Recommendation 1 – The City Council endorse the recommendations being made by management staff regarding actuarial assumptions, cost stabilization, administrative restructuring and funding for the FPRS.

Proposed Response: The City of Pasadena agrees with the recommendation. On March 28th the City Council unanimously approved the recommendation of City staff and the FPRS Task Force regarding actuarial assumptions, cost stabilization, administrative restructuring and funding for the FPRS. Specifically, the Council directed staff to:

- 1) Initiate the issuance of not to exceed \$65 million in pension obligation bonds to fund the Fire and Police Retirement System at 85% of its Actuarially Accrued Liability provided such issuance can be achieved at a maximum “all in” interest rate on the bonds not to exceed 7.5%;
- 2) Approve in concept the future refinancing of approximately \$81 million of existing pension obligation bonds, 1999 and 2004 issues;
- 3) Negotiate changes to Contribution Agreement 16,900 and Settlement and Release Agreement 18,550 between the City of Pasadena and the Fire and Police Retirement System including:
 - a. removing references to other pension systems operating under the County Employees Retirement Law of 1937;

- b. providing for annual investment return and inflation rate assumptions for the Fire and Police Retirement System to be set annually by mutual agreement between the City and the System's Board.

It is anticipated that items 1 and 3 will be completed prior to the end of calendar year, however, it must be recognized that this action is contingent upon approval of the FPRS Board, which pursuant to Article XVI, Section 17 of the California Constitution, has authority and fiduciary responsibility for the administration of the Fire and Police Retirement System. Item 2 will be completed prior to the mandatory tender associated with the 1999 and 2004 Pension Obligation Bonds, in 2015.

Grand Jury Recommendation 2 - The City Council direct the City Manager to negotiate reductions in the amount of employee contribution picked up by the City for its CalPERS pension plans, up to the full amount of 8% for Miscellaneous and 9% for Safety employees.

Proposed Response: The City of Pasadena agrees with the recommendation. Currently all non-safety personnel reimburse the City at least 3.6% towards the employee portion of CalPERS retirement rates. Recent amendments to two bargaining units covering more than 1/3 of full-time employees increases this amount to the full 8% during the term of their current contract terms. This trend is expected to continue for other bargaining units as contracts come up for renewal and renegotiation.

Additionally, the City Council has explored various options in regard to pension reform. However, it should be noted that over the course of the past few years the City's efforts have focused on controlling overall personnel costs including salary and benefit costs, as opposed to just the pension component, and has reached agreement with labor groups to forgo salary increases, in some cases, for multiple years in a row, as well as restructuring benefits, resulting in actual cost reductions for personnel. In addition to easing current budgetary pressure, by controlling salary growth, Pasadena is reducing future pension liabilities as well.

Grand Jury Recommendation 3 - The City Council adopt a policy to fully fund the OPEB (Other Post-Employment Benefits) actuarially determined Annual Required Contribution (ARC) each year, to build reserves toward future benefit obligations and earn investment income that can reduce the amount of the ARC in future years.

Proposed Response: The City of Pasadena agrees with the recommendation. The issue of OPEB liability has been monitored closely by the City as well as its outside auditors and the City has been in compliance with all applicable standards issued by the Governmental Accounting Standards Board. The Civil Grand Jury's inquiry did not reveal any new information.

On August 15, 2011 the City Council adopted a Fund Reserve Policy which addresses the OPEB issue raised by the Grand Jury. The Policy sets forth City Council intentions

to begin funding the actuarially determined Annual Required Contribution (ARC) each year over a period of time and to build reserves toward future benefit obligations as well as reducing the existing OPEB obligation per requirements of GASB 43 and GASB 45.

COUNCIL POLICY CONSIDERATION:

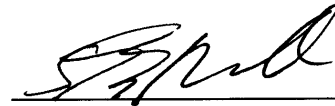
The actions being taken by the City in regard to the issues highlighted by the Civil Grand Jury are all consistent with the City Council's Strategic Plan goal to maintain financial responsibility and stability.

FISCAL IMPACT:

There is no fiscal impact as a result of this action and will not have any indirect or support cost requirements. The anticipated impact to other operational programs or capital projects as a result of this action will be none.

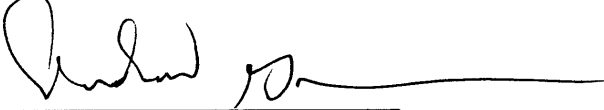
As discussed above, each of the recommendations of the Grand Jury are already part of the City's workplan.

Respectfully submitted,



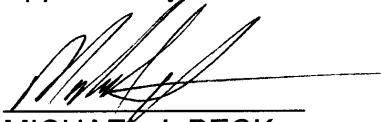
STEVE MERMELL
Assistant City Manager

Concurrence:



ANDREW GREEN
Director of Finance

Approved by:



MICHAEL J. BECK
City Manager