June 2017

Word has it that the City, like many other public agencies throughout the State, is faced with significant pension expenses which are growing at an alarming rate – and that’s right. This is an issue that other cities and public agencies are having to contend with and so I thought it appropriate to make it the topic of this month’s Pathfinder article.

As most of you know, our current California Public Employees’ Retirement System (CalPERS) retirement system is funded by three sources: 1) Employee Paid Contributions, which are contributions made by employees to CalPERS; 2) Employer Paid Contributions, which are contributions made by the City; and 3) Return on Investments, which is the money CalPERS makes on its investment portfolio. And, it’s a combination of the latter plus changes by the CalPERS Board of Directors that’s wreaking havoc on the ability of public agencies throughout the State to balance their budgets.

One of the most significant challenges the City will be facing in the near future is our ever-increasing CalPERS pension-related expenses. These costs are growing at an alarming rate and will: have a direct effect on future City budget(s); create challenges for us to continue to maintain existing services levels; and no doubt have an influence on future employee compensation levels.

To drive this point home, estimated General Fund CalPERS pension-related expenses for the City of Santa Maria in 2016-17 are anticipated to be $10.3 million. That compares to $5.4 million in 2006-07; a 90 percent increase. What’s even more alarming is that General Fund pension-related expenses are anticipated to increase an additional $6 million over the next five years.

Next year (2017-18), not only will the City’s CalPERS pension-related expenses increase, but our Non-Hazardous Hydrocarbon Impacted Soils (NHIS) revenue will decrease. This, coupled with other operational cost increases, is leaving the City with a projected $5.6 million financial gap in the General Fund.

The 2017-18 Mid-Cycle Budget Review will be presented to the City Council on June 20th. As proposed, the strategy to address the aforementioned multi-million dollar financial gap will be to use a multifaceted approach of reducing operating expenses, using one-time reserves, keeping vacant positions unfilled (so as to incur salary savings) and engaging employee bargaining groups in concession bargaining discussions.

Accordingly, this onus is on all of us to be well-educated on the significant financial challenges that CalPERS pension-related expenses will be having on our operations. In that regard, I put together some information to help educate everyone on this matter. CalPERS Pension-Related Expenses – A Fiscal Tsunami Heading Our Way has been placed on the City’s Intranet (under PENSIONS) and is designed to help educate all of you about the magnitude of the City’s financial obligations as it pertains to pension expenses.

I encourage each of you to take a few minutes and read CalPERS Pension-Related Expenses – A Fiscal Tsunami Heading Our Way and become informed and educated.

Rick