

**CITY OF REDONDO BEACH
BUDGET & FINANCE COMMISSION AGENDA
Thursday, July 11, 2024**

415 DIAMOND STREET, REDONDO BEACH

CITY COUNCIL CHAMBER

**REGULAR MEETING OF THE BUDGET AND FINANCE COMMISSION - 6:30
PM**

**ALL PUBLIC MEETINGS HAVE RESUMED IN THE CITY COUNCIL
CHAMBER. MEMBERS OF THE PUBLIC MAY PARTICIPATE IN-PERSON,
BY ZOOM, EMAIL OR eCOMMENT.**

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*Click "In Progress" hyperlink under Video section of meeting

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TO JOIN ZOOM MEETING (FOR PUBLIC COMMENT ONLY):

Register in advance for this meeting:

https://us02web.zoom.us/webinar/register/WN_k4Oa5OjETXaOEojelp8P-Q

After registering, you will receive a confirmation email containing information about joining the meeting.

If you are participating by phone, be sure to provide your phone # when registering. You will be provided a Toll Free number and a Meeting ID to access the meeting. Note; press # to bypass Participant ID. Attendees will be muted until the public participation period is opened. When you are called on to speak, press *6 to unmute your line. Note, comments from the public are limited to 3 minutes per speaker.

eCOMMENT: COMMENTS MAY BE ENTERED DIRECTLY ON WEBSITE AGENDA PAGE:

<https://redondo.granicusideas.com/meetings>

- 1) Public comments can be entered before and during the meeting.
- 2) Select a SPECIFIC AGENDA ITEM to enter your comment;
- 3) Public will be prompted to Sign-Up to create a free personal account (one-time) and then comments may be added to each Agenda item of interest.
- 4) Public comments entered into eComment (up to 2200 characters; equal to approximately 3 minutes of oral comments) will become part of the official meeting record.

EMAIL: TO PARTICIPATE BY WRITTEN COMMUNICATION WITH ATTACHED DOCUMENTS BEFORE 3PM DAY OF MEETING:

Written materials that include attachments pertaining to matters listed on the posted agenda received after the agenda has been published will be added as supplemental materials under

the relevant agenda item. Email FinanceMail@redondo.org

REGULAR MEETING OF THE BUDGET AND FINANCE COMMISSION - 6:30 PM

A. CALL MEETING TO ORDER

B. ROLL CALL

C. SALUTE TO THE FLAG

D. APPROVE ORDER OF AGENDA

E. BLUE FOLDER ITEMS - ADDITIONAL BACK UP MATERIALS

Blue folder items are additional back up material to administrative reports and/or public comments received after the printing and distribution of the agenda packet for receive and file.

E.1. For Blue Folder Documents Approved at the Budget and Finance Commission Meeting

CONTACT: STEPHANIE MEYER, ASSISTANT FINANCIAL SERVICES DIRECTOR

F. CONSENT CALENDAR

Business items, except those formally noticed for public hearing, or discussion are assigned to the Consent Calendar. The Commission Members may request that any Consent Calendar item(s) be removed, discussed, and acted upon separately. Items removed from the Consent Calendar will be taken up under the "Excluded Consent Calendar" section below. Those items remaining on the Consent Calendar will be approved in one motion following Oral Communications.

F.1. APPROVAL OF AFFIDAVIT OF POSTING FOR THE REGULAR BUDGET AND FINANCE COMMISSION MEETING OF JULY 11, 2024

CONTACT: STEPHANIE MEYER, ASSISTANT FINANCIAL SERVICES DIRECTOR

F.2. APPROVAL OF THE MINUTES FROM THE SPECIAL BUDGET AND FINANCE COMMISSION MEETING OF APRIL 30, 2024

CONTACT: STEPHANIE MEYER, ASSISTANT FINANCIAL SERVICES DIRECTOR

G. EXCLUDED CONSENT CALENDAR ITEMS

H. PUBLIC PARTICIPATION ON NON-AGENDA ITEMS

This section is intended to provide members of the public with the opportunity to comment on any subject that does not appear on this agenda for action. This section is limited to 30 minutes. Each speaker will be afforded three minutes to address the Commission. Each speaker will be permitted to speak only once. Written requests, if any, will be considered first under this section.

H.1. For eComments and Emails Received from the Public

CONTACT: STEPHANIE MEYER, ASSISTANT FINANCIAL SERVICES DIRECTOR

I. ITEMS CONTINUED FROM PREVIOUS AGENDAS

J. ITEMS FOR DISCUSSION PRIOR TO ACTION

J.1. CAPITAL IMPROVEMENT PROGRAM, CONSTRUCTION CONTRACT AND CHANGE

ORDER HISTORY DISCUSSION

CONTACT: STEPHANIE MEYER, ASSISTANT FINANCIAL SERVICES DIRECTOR

J.2. DISCUSSION REGARDING CITY OF REDONDO BEACH PENSIONS

CONTACT: STEPHANIE MEYER, ASSISTANT FINANCIAL SERVICES DIRECTOR

K. MEMBER ITEMS AND REFERRALS TO STAFF

L. ADJOURNMENT

The next meeting of the Redondo Beach Budget and Finance Commission will be a regular meeting to be held at 6:30 p.m. on August 8, 2024, in the Redondo Beach Council Chambers, at 415 Diamond Street, Redondo Beach, California.

It is the intention of the City of Redondo Beach to comply with the Americans with Disabilities Act (ADA) in all respects. If, as an attendee or a participant at this meeting you will need special assistance beyond what is normally provided, the City will attempt to accommodate you in every reasonable manner. Please contact the City Clerk's Office at (310) 318-0656 at least forty-eight (48) hours prior to the meeting to inform us of your particular needs and to determine if accommodation is feasible. Please advise us at that time if you will need accommodations to attend or participate in meetings on a regular basis.

An agenda packet is available 24 hours at www.redondo.org under the City Clerk.



Administrative Report

E.1., File # BF24-1124

Meeting Date: 7/11/2024

TITLE

For Blue Folder Documents Approved at the Budget and Finance Commission Meeting



Administrative Report

F.1., File # BF24-1123

Meeting Date: 7/11/2024

TITLE

APPROVAL OF AFFIDAVIT OF POSTING FOR THE REGULAR BUDGET AND FINANCE
COMMISSION MEETING OF JULY 11, 2024

Financial Services

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STATE OF CALIFORNIA)
COUNTY OF LOS ANGELES) SS
CITY OF REDONDO BEACH)

AFFIDAVIT OF POSTING

In compliance with the Brown Act, the following materials have been posted at the locations indicated below.

Legislative Body	Budget and Finance Commission
Posting Type	Regular Meeting Agenda
Posting Locations	415 Diamond Street, Redondo Beach, CA 90277 ✓ Adjacent to Council Chambers ✓ City Clerk's Counter, Door "1"
Meeting Date & Time	July 11, 2024 6:30 p.m.

As the Finance Director and Liaison of the Budget and Finance Commission of the City of Redondo Beach, I declare, under penalty of perjury, the document noted above was posted at the date displayed below.

*Stephanie Meyer, Assistant Financial Services Director
Budget and Finance Commission*

Date: July 8, 2024



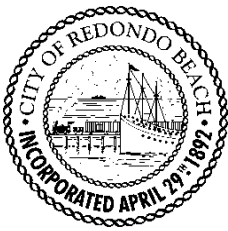
Administrative Report

F.2., File # BF24-0937

Meeting Date: 7/11/2024

TITLE

APPROVAL OF THE MINUTES FROM THE SPECIAL BUDGET AND FINANCE COMMISSION
MEETING OF APRIL 30, 2024



SPECIAL MEETING OF THE BUDGET AND FINANCE COMMISSION – 6:30 PM

A. CALL MEETING TO ORDER

A Special Meeting of the Redondo Beach Budget and Finance Commission was called to order at 6:30 p.m. by Chair Castle, in the City Hall Council Chambers, 415 Diamond Street, Redondo Beach, California.

B. ROLL CALL

Commissioners Present: Jeste, Marin, Samples, Sherbin, Woodham
Chair Castle

Commissioners Absent: Allen

Officials Present: Wendy Collazo, Finance Director
Stephanie Meyer, Assistant Financial Services Director
Doug Kaku, Grants Financial Administrator

C. SALUTE TO THE FLAG

Chair Castle led in the salute to the flag.

D. APPROVE ORDER OF AGENDA

There were no public comments on this item.

Motion by Commissioner Samples, seconded by Commissioner Woodham, to approve the order of the agenda, as presented. There being no objections, Chair Castle so ordered.

E. BLUE FOLDER ITEMS – ADDITIONAL BACK UP MATERIALS

E.1. For Blue Folder Documents Approved at the Budget and Finance Commission Meeting

CONTACT: WENDY COLLAZO, FINANCE DIRECTOR

Grants Financial Administrator Kaku confirmed there were no Blue Folder Items for tonight's meeting.

F. CONSENT CALENDAR

F.1. APPROVAL OF AFFIDAVIT OF POSTING FOR THE SPECIAL BUDGET AND FINANCE COMMISSION MEETING OF APRIL 30, 2024

CONTACT: WENDY COLLAZO, FINANCE DIRECTOR

F.2. APPROVAL OF THE MINUTES FROM THE REGULAR AND SPECIAL BUDGET AND FINANCE COMMISSION MEETINGS OF NOVEMBER 28, 2023 (SPECIAL), DECEMBER 14, 2023, JANUARY 11, 2024 AND FEBRUARY 8, 2024

CONTACT: WENDY COLLAZO, FINANCE DIRECTOR

There were no public comments on the Consent Calendar.

Motion by Commissioner Woodham, seconded by Commissioner Samples, to approve the Consent Calendar, as presented. There being no objections, Chair Castle so ordered.

G. EXCLUDED CONSENT CALENDAR ITEMS - None

H. ITEMS CONTINUED FROM PREVIOUS AGENDAS - None

I. ITEMS FOR DISCUSSION PRIOR TO ACTION

I.1. FISCAL YEAR 2024-25 BUDGET INPUT

CONTACT: WENDY COLLAZO, FINANCE DIRECTOR

Finance Director Collazo introduced the City Manager and deferred to him for a continuation of discussions regarding the FY 2024-25 Budget.

City Manager Witzansky requested input from the Budget and Finance Commission prior to preparing the FY 2024-25 Budget.

Discussion followed regarding projected revenues and expenses, revenue growth, capital projects, exploring a general obligation (GO) bond to help with capital needs, conducting a needs analysis and the bond issue on CalPERS.

City Manager Witzansky provided an update on the matter of the possibility of transitioning the RBFD to LACFD.

Discussion followed regarding needed infrastructure improvements, addressing some tenant improvements that may be warranted within the budget, review of certain elements of the Master Plan improvements by the Budget & Finance Commission, Council's consideration of the topic on May 21st, comparing costs as well as services, outlining areas to be worked on without including those costs in what it takes to stay with RBFD and including the full text of the County's proposal in the materials.

City Manager Witzansky reported that has been provided in prior materials; noted the direction was for staff to facilitate a review; addressed the goal of the study and indicated it is generally

effusive in praise for the quality of the RBFD operations; pointed out it does not critique the reduction in the service delivery model the County is proposing but simply indicates that the County would also adequately serve the City. In response to the Commission, City Manager Witzansky provided background and an update of the Police shooting range proposed project and discussed the possibility for grant funding, partnering with Space Force and other Federal groups and operating costs.

Discussion followed regarding availability of local shooting ranges and related challenges, frequency for qualifying, value, efficiencies and benefits of having a local facility, impacts from the cancellation of the fall Beach Life Festival and saturation of the festival market.

City Manager Witzansky reported that the Commission will receive copies of the budget and CIP for review at its June meeting.

J. MEMBER ITEMS AND REFERRALS TO STAFF

Finance Director Collazo reported the Budget & Finance Commission will have a meeting on May 9, 2024, which will include the quarterly review.

Commissioner Woodham felt it would be helpful if the Commission could receive minutes sooner than currently or at least a summary of the Commission's actions earlier in the process.

Finance Director Collazo reported the City Clerk's office, along with consultants, are catching up with a backlog of minutes and soon they will be available more cyclically and will check with the City Clerk's office.

K. ADJOURNMENT – 7:15 p.m.

There being no further business to come before the Budget & Finance Commission, motion by Commissioner Woodham, seconded by Commissioner Samples, to adjourn the meeting at 7:15 p.m., to a Regular meeting to be held at 6:30 p.m. on May 9, 2024, in the Redondo Beach City Hall Council Chambers, 415 Diamond Street, Redondo Beach, California. There being no objections, Chair Castle so ordered.

All written comments submitted via eComment are included in the record and available for public review on the City website.

Respectfully submitted:

Stephanie Meyer
Assistant Financial Services Director



Administrative Report

H.1., File # BF24-1122

Meeting Date: 7/11/2024

TITLE

For eComments and Emails Received from the Public



Administrative Report

J.1., File # BF24-1197

Meeting Date: 7/11/2024

To: BUDGET AND FINANCE COMMISSION

From: STEPHANIE MEYER, ASSISTANT FINANCE DIRECTOR

TITLE

CAPITAL IMPROVEMENT PROGRAM, CONSTRUCTION CONTRACT AND CHANGE ORDER
HISTORY DISCUSSION

Accept as Complete Date	Project	Project Award Amount	Change Order Authority*	Total Change Order Amount	Change Order % of Total Contract	Total Cost	Comments
1/14/2020	VETERANS PARK PLAY EQUIPMENT REPLACEMENT PROJECT, JOB NO. 30700	\$ 586,093	\$ 125,000	\$ 46,737	8%	\$ 632,830	
2/4/2020	PLAYGROUND RUBBERIZED SURFACE REPLACEMENT PROJECT, JOB NO. 30760	\$ 234,800	\$ 58,700	\$ -	0%	\$ 234,800	
3/17/2020	INGLEWOOD AVENUE FROM GRANT AVENUE TO 190TH STREET PROJECT, JOB NO. 41100 AND THE FLAGLER LANE FROM 190TH STREET TO BERYL STREET PROJECT, JOB NO. 41060	\$ 1,187,801	\$ 125,000	\$ 71,961	6%	\$ 1,259,762	
3/17/2020	THE SANTA MONICA BAY NEAR/OFFSHORE DEBRIS TMDL PROJECT – TORRANCE CIRCLE LFD, JOB NO. 60190	\$ 374,000	\$ 93,500	\$ 13,769	4%	\$ 387,769	
3/31/2020	PROSPECT AVENUE FROM BERYL STREET TO DEL AMO STREET RESURFACING PROJECT, JOB NO. 41030	\$ 605,080	\$ 125,000	\$ -	0%	\$ 605,080	
5/5/2020	CITYWIDE CURB RAMP IMPROVEMENTS, JOB NO. 40399	\$ 444,103	\$ 111,026	\$ 59,052	13%	\$ 503,155	
5/19/2020	THE PACIFIC COAST HIGHWAY NORTHBOUND RIGHT TURN LANE AT TORRANCE BLVD PROJECT, MEASURE R PROJECT NO. MR312.07, JOB NO. 40810	\$ 555,705	\$ 125,000	\$ 38,853	7%	\$ 594,558	
5/19/2020	MAIN LIBRARY ELEVATOR REHAB PROJECT, JOB NO. 20780	\$ 173,784	\$ 43,446	\$ -	0%	\$ 173,784	
6/2/2020	MEDIAN RENOVATIONS - PALOS VERDES BOULEVARD, PROJECT, JOB NO. 41110	\$ 94,129	\$ 25,000	\$ 8,785	9%	\$ 102,914	
6/2/2020	RINDGE SANITARY SEWER PUMP STATION PROJECT, JOB NO. 50290	\$ 1,994,000	\$ 199,400	\$ 196,362	10%	\$ 2,190,362	
7/7/2020	COMPLETE THE SPECIAL PARK NEEDS - JULIA FIELD POWER PEDESTALS, SYSTEM PROJECT, JOB NO. 30710	\$ 164,900	\$ 41,225	\$ -	0%	\$ 164,900	
7/7/2020	CITYWIDE SLURRY SEAL PROJECT, PHASE 1, JOB NO. 41140	\$ 392,995	\$ 98,249	\$ 63,235	16%	\$ 456,230	
10/6/2020	NORTH REDONDO BEACH BIKEWAY IMPROVEMENTS PROJECT, JOB NO. 30640	\$ 699,565	\$ 125,000	\$ 30,725	4%	\$ 730,290	
4/6/2021	RESIDENTIAL STREET REHABILITATION PROJECT, CYCLE 2, PHASE 1 AND 2, JOB NO 40190	\$ 4,688,777	\$ 468,878	\$ 158,734	3%	\$ 4,847,511	
6/15/2021	CITY COUNCIL CHAMBERS IMPROVEMENTS PROJECT, JOB NO. 20560	\$ 797,000	\$ 125,000	\$ 66,133	8%	\$ 863,133	
8/17/2021	SANITARY SEWER REHAB – 2020 UPGRADES TO PCH/VISTA DEL MAR, JOB NO. 50150	\$ 673,870	\$ 125,000	\$ 43,942	7%	\$ 717,812	
2/15/2022	CITYWIDE SLURRY SEAL PROJECT, PHASE 2, JOB NO. 41140	\$ 720,726	\$ 125,000	\$ -	0%	\$ 720,726	
9/6/2022	PIER RESTROOM IMPROVEMENTS PROJECT, JOB NO. 70640	\$ 247,000	\$ 25,000	\$ 23,284	9%	\$ 270,284	
6/6/2023	BERYL STREET DRAINAGE AND STREET IMPROVEMENTS PROJECT FROM PROSPECT AVENUE TO FLAGLER LANE, JOB NO. 41130	\$ 2,388,177	\$ 238,818	\$ 214,506	9%	\$ 2,602,683	
6/6/2023	CITYWIDE SKATE FACILITIES PROJECT – PERRY PARK AND PAD 10 LOCATIONS, JOB NO. 30740	\$ 403,000	\$ 100,750	\$ 11,477	3%	\$ 414,477	
6/20/2023	ALTA VISTA SEWER PUMP STATION PROJECT, JOB NO. 50300*	\$ 3,044,650	\$ 304,465	\$ 307,116	10%	\$ 3,351,766	Included offsite improvement for the Pallet Shelter approved by City Council separately
6/20/2023	PIER RAILING IMPROVEMENT PROJECT, JOB NO. 70360	\$ 1,571,546	\$ 157,155	\$ 125,370	8%	\$ 1,696,916	
10/3/2023	RESIDENTIAL STREET REHABILITATION PROJECT, CYCLE 2, PHASE 3, JOB NO. 40190**	\$ 4,611,206	\$ 461,121	\$ 492,145	11%	\$ 5,103,351	Included offsite improvement for Ave I approved by City Council separately
11/14/2023	CITYWIDE SLURRY SEAL PROJECT, PHASE 3, JOB NO. 41140	\$ 635,601	\$ 125,000	\$ 77,575	12%	\$ 713,177	
12/19/2023	REDONDO BEACH TRANSIT CENTER PROJECT, JOB NO. 20120 AND THE KINGSDALE AVENUE WIDENING PROJECT, JOB NO 41150***	\$ 11,500,000	\$ 1,150,000	\$ 2,821,826	25%	\$ 14,321,826	Staff obtained City Council Approval for amounts over the Change Order Authority and no discretionary funding was spent
2/6/2024	COMPLETE THE BASIN 2 SEWER PUMP OUT STATION UPGRADE PROJECT & HARBOR PATROL DOCK REPLACEMENT PROJECT, JOB NO. 50310 & JOB NO. 70690	\$ 2,990,267	\$ 299,027	\$ 155,052	5%	\$ 3,145,319	

*Change Order Authority is governed by APP 14.1	
Projects Under \$150,000	25% of contract amount or \$25,000 whichever is greater
Projects Between \$150,000 and \$500,000	25% of contract
Projects Over \$500,000	10% of contract or \$125,000, whichever is greater



Administrative Report

J.2., File # BF24-1198

Meeting Date: 7/11/2024

To: BUDGET AND FINANCE COMMISSION

From: STEPHANIE MEYER, ASSISTANT FINANCE DIRECTOR

TITLE

DISCUSSION REGARDING CITY OF REDONDO BEACH PENSIONS

Ranks of high-priced public pensioners explode in California
CalPERS' '100K' club went from 2,000 members in 2005 to 51,000 in 2023.
Guess how many there are now?

By [TERI SFORZA](#) | tsforza@scng.com | Orange County Register
PUBLISHED: June 2, 2024 at 7:00 a.m.

Yes, public employees, we know you detest \$100K club stories. We hear you when you say it's a distorted lens on public pension challenges. And that there's nothing magical — or diabolical — about the number \$100,000.

We're even sympathetic to accusations that we suffer from "pension envy" (guilty as charged). But we argue that the growth of the \$100K club in the gargantuan California Public Employees Retirement System — the nation's largest — is a canary in the coal mine, signaling stresses on public retirement systems as a whole. These stresses trickle down to Jo Citizen, and thus are a legitimate line of inquiry. To wit: After more than a decade of skyrocketing contributions to CalPERS from state, city, school and special district governments — and from public workers themselves! — [the system still only has 72%](#) of the money it currently owes to public workers.

Who's on the hook for filling that hole if investments don't produce what's needed to pay the bills?
You are.

Yes, public employees contribute to their pensions up front. But taxpayers contribute up front *and* are on the hook for 100% of any funding deficiencies later on, writes David Crane, president of [Govern For California](#) and public policy lecturer at Stanford University.

As our local and state governments shovel ever more money into the pension system, those dollars can't fund services for Jo Taxpayer — like more libraries or repaired pot holes or recreation programs. Critics call that "crowd out."

We haven't crunched this data since 2019, and a local government-watcher recently prodded us to check on its growth. So we did. Suffice to say it has been huge. HUGE!

Up, up and away

- Back in 2005, only 1,841 CalPERS retirees collected pensions exceeding \$100,000 a year.
- By 2009, the \$100K Club had more than tripled, to 6,133.
- In 2013, membership had nearly tripled again, to 16,838.
- In 2018, club membership exceeded 26,000.
- And in 2023, membership nearly doubled yet again, to 51,530, according to data from CalPERS.

You can chalk this up to generous pension formulas (particularly for public safety types) approved by your elected officials when the stock market was booming in the early 2000s, and to generous pay packages. It may be fitting that the most well-paid CalPERS retiree was the erstwhile director of CalPERS' investments, Curtis D Ishii. He retired in 2018 after more than 45 years of service, and drew benefits of \$444,295 last year.

Next up was Michael D. Johnson, erstwhile administrator for Solano County, who retired after nearly 43 years of service. He drew benefits of \$404,307.

All told, there were just those two with benefits over \$400,000 a year. There were 19 people getting \$300,000 to \$400,000 a year; another 1,782 with benefits between \$200,000 and \$300,000 a year; and 49,727 with benefits between \$100,000 and \$200,000 a year.

Other findings of note:

- Total benefits paid by CalPERS more than doubled between 2012 and 2023, from \$14.4 billion to \$30.2 billion.
- The number of folks receiving benefits between 2012 and 2023 leaped 63%, from 483,902 to more than 790,500.
- The average for all retirees and their survivors/beneficiaries was a bit more than \$38,000 a year. But that hides big variations.
- Old-timers — those who retired between 1956 and 1981 — got a measly \$16,749 on average.
- Folks who retired from 1982 to 2002 got \$25,328.
- Folks who retired from 2003 to 2023 averaged \$40,636.
- Public safety types — such as police and firefighters — had much higher pensions than regular retirees, averaging \$64,279 last year.

But police and firefighters who worked for *cities*, as opposed to the *state*, had the highest, averaging \$75,125.

Public safety types who worked for the state averaged \$55,821.

We were most curious to see how Bruce Malkenhorst — [once the poster boy for public pension reform](#) — was faring.

Malkenhorst, of Huntington Beach, was once the highest-paid retiree in the entire CalPERS system, pulling down more than \$551,000 a year. How? From his service to the small, strange city of Vernon — where he was city administrator, finance director, redevelopment director, city clerk, city treasurer, head of the municipal light and power operation, etc., all at the same time.

CalPERS paid him that princely half-million-dollars for years until a closer examination — prompted by the public release of CalPERS' pension rolls and Malkenhorst's guilty plea to felony misappropriation of public funds — suggested that sum might be grossly inflated.

After legal wrangling, CalPERS slashed Malkenhorst's pension to \$115,000 a year. It grew with annual cost-of-living adjustments to \$137,869 in 2021. But then something strange happened: It nearly doubled, to \$227,155, the following year. In 2023, it grew to \$252,663.

We've asked CalPERS to explain. We'll let you know when the mystery unravels.

No crisis

Pension costs for local agencies may rise — but don't buy doomsday scenarios. There's no real danger to California's public pension systems themselves.



Because, as we mentioned, taxpayers guarantee them.

California courts have ruled that the retirement benefits promised to public workers on the day they were hired are etched in stone. They can't be reduced, even if governments sag under their weight. It can be argued that governments are sagging under their weight.

The state paid \$4.3 billion to CalPERS in 2016. That bill has climbed to \$7.7 billion this fiscal year, according to [the state budget](#).

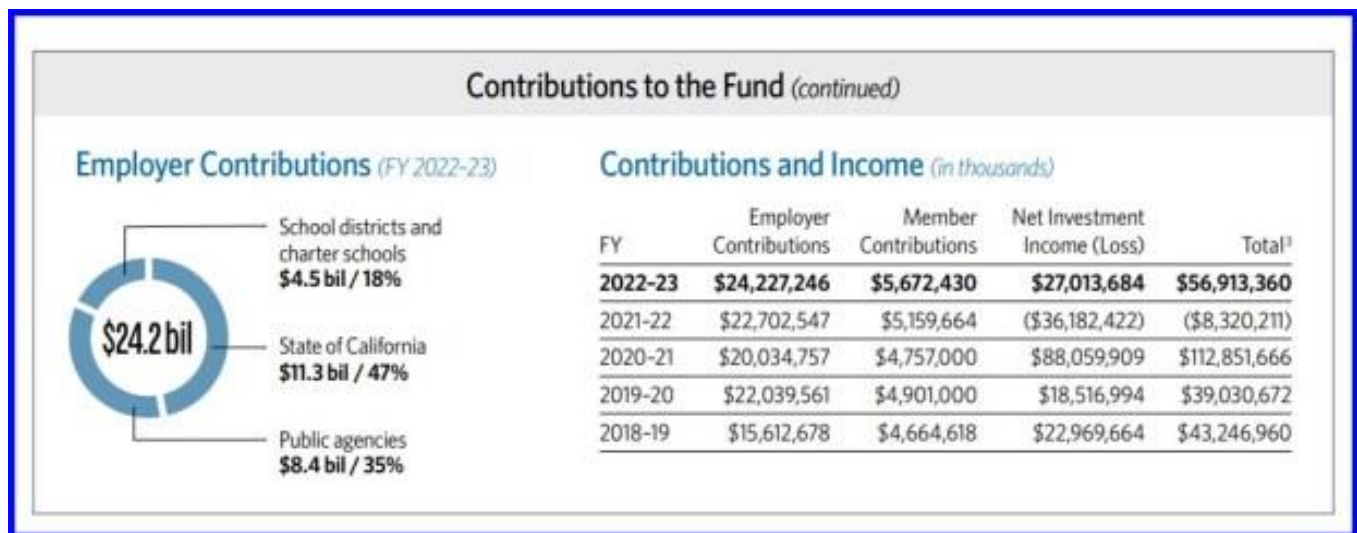
Ouch.

All CalPERS' member agencies combined — cities, school and special districts, the state — paid a total of \$15.6 billion to CalPERS in 2019 — and \$24.2 billion in 2023, according to [CalPERS data](#).

Ouch.

Public workers are feeling it, too: They kicked in \$4.7 billion from their own pocketbooks in 2019 — and \$5.7 billion in 2023.

Ouch.



It's hard for Jo Citizen to see the toll of all this directly. It may surface as an urgent plea for an extended utility tax, or a higher sales tax. As a reduction in city hall service hours, or a hiring freeze. As cuts in this or that part of an unbalanced state budget.

The scenario is much like [Orange County's bankruptcy](#), really. (County loses \$1.6 billion on Wall Street. County issues \$1 billion in bonds to repay investors. County spends \$1.5 billion to repay those bonds over the next 20-plus years.) But who really notices? It's a phantom disaster, consuming some \$60 million a year that might have funded street improvements, libraries, health care and myriad other public services. The impact is a ghostly one, measured in shadows of what might have been.

Pension relief is allegedly afoot. Pension reforms for new hires, pushed through by then-Gov. Jerry Brown in 2013, are supposed to start bearing fruit in coming years. Tremendous increases in what public agencies must pay are supposed to start leveling off.

But voters — and their local and state elected officials — must understand that the pay raises they grant to public workers today increase everyone's pension burdens tomorrow. And pie-in-the-sky assumptions about meaty investment returns (that will never materialize) do the same.

Crane, of Stanford and Govern for California (and, incidentally, a registered Democrat who served then-Gov. Arnold Schwarzenegger on the California State Teachers' Retirement System), pushed for "realistic investment return assumptions" that would have forced higher upfront contributions from agencies and workers.

But, under union pressure, the state Senate removed him from CalSTRS' board in 2006, Crane writes. "And because CalSTRS and its sister state pension fund, the California Public Employees' Retirement System, continued to use unrealistic assumptions, taxpayers are saddled with nearly \$270 billion of expensive unfunded pension liabilities." Guess who'll be on the hook for that?

OPINION // OPEN FORUM

California's unfunded pension liabilities are ballooning out of control. Here's the fix

By **Francois Melese**

May 10, 2024





The California Public Employees's Retirement System has a pension debt of nearly half a trillion dollars and is only 72% funded.

Max Whittaker/Getty Images 2009

As California struggles to address its alarming budget deficit, big bills are coming due for retirement past benefits promised city, county and state workers.

Choking on unfunded pension and health care liabilities, cities like Carmel-by-the-Sea pay their pensioners more than active employees. While the average annual earnings of Carmel's 99 workers are around \$85,000, its 108 pensioners collect nearly \$95,000 per year. Carmel's combined pension and health care promises add up to nearly \$100 million. This includes over \$30 million in unfunded liabilities. Though this looks good in comparison to the nearby Monterey County city of Pacific Grove's \$66 million in unfunded liabilities, it still demands attention.

Sadly, San Jose faces \$4 billion in [unfunded pension and health care liabilities](#). San Francisco faces a staggering [\\$7 billion](#). California's [total unfunded pension liabilities](#) are an eye-watering \$250 billion. At the heart of California's pension crisis are "defined benefit" retirement programs.

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To fix its pension problems California should follow the lead of the federal government and private sector and shift from defined benefit programs to defined contribution, or 401(k)-type plans. Under defined benefit programs, cities and unions negotiate future pension and health care promises and then set aside funds to cover those liabilities. Much like Social Security, employees contribute a fraction of their paychecks to the retirement system. Unlike Social Security, where employers contribute 6.2% of wages, cities deposit an average of over 25% of their payrolls into California's public pension funds.

The nation's largest pension fund, the California Public Employee Retirement System, known as [CalPERS](#), manages pooled assets of roughly 75% of California municipalities. [San Jose](#) has two similar retirement funds, the [Police and Fire Department Retirement Plan](#) and the [Federated City Employees' Retirement System](#). [San Francisco](#) relies on its [San Francisco Employees' Retirement System](#).

Regrettably, the CalPERS fund is bleeding red ink. Its pension debt of nearly half a trillion dollars is only 72% funded. More than \$150 billion of CalPERS over \$600 billion in pension promises remain unfunded.

Historically, a major risk for retirement funds is investment returns fail to meet pension and health care obligations. Budget holes faced by Carmel, Pacific Grove, San Jose, San Francisco and other cities, counties and special districts are partly the result of over-optimistic pension fund forecasts and overly generous taxpayer-guaranteed pension promises.

Remarkably, the average retirement benefit distributed by California's public pension funds is nearly five times greater than comparable Social Security benefits. Furthermore, the California Rule gives retirees a legal right to public pension benefits even if a city can no longer afford them. Exploding pension costs are priority obligations, forcing municipalities strapped for cash to boost taxes or sacrifice funding for infrastructure, maintenance and public safety, or they have to dip into their financial reserves. City services suffer and future taxpayers are left on the hook. Unfunded liabilities compound a city's problems by sinking its credit worthiness. This can raise borrowing costs at precisely the time a city needs to issue bonds to meet pension obligations.

The pension crisis is not the fault of California's public employees. Voters, taxpayers and state and local officials all failed to notice the revolution taking place in retirement benefits. The federal government and most private companies determined decades ago that defined benefit programs were unsustainable. They depend on complex and easily manipulated economic, demographic and actuarial variables. Consequently, a complete picture of pension and health care promises is often hidden until it's too late. The result is unfunded liabilities.

Today, the federal government and most major companies have largely transitioned away from defined benefit programs to defined contribution plans. These plans clearly define periodic pension contributions that are deposited in their employee's individual retirement accounts, typically matching a fraction of their savings. The cumulative value of an employee's pension upon retirement is simply a function of their saving decisions, employer contributions and investment returns. This eliminates the risk of unfunded pension liabilities.

To avoid insolvency and turn unfunded liabilities into a historical footnote, municipalities must gradually shift from defined benefit programs to defined contribution plans. But because these 401(k)-type plans transfer investment risks from employers to employees, public unions are likely to resist. Fortunately, these objections can be overcome (and cities assured of retaining valued employees) by offering higher wages, and/or more generous matching. The major benefit is revealing the true cost of public services.

Although adjustments to employee benefits are politically sensitive and can provoke labor disputes, cities are at a breaking point. The remaining challenge is the near impossibility of a city escaping its liability without making large payments to CalPERS, the Police and Fire Department Retirement Plan, the Federated City Employees' Retirement System and the San Francisco Employees' Retirement System. This suggests the only way to implement the transition may be through a state referendum that requires Sacramento to secure all municipal pension obligations. The dual benefit would be to encourage state officials to modify future benefits to better align with Social Security and to facilitate the transition from defined benefit programs to defined contribution plans.

Francois Melese is a professor emeritus of economics at the Naval Postgraduate School in Monterey. He consults for Crediture.com, a local startup that focuses on community impact lending, and serves as a board member of the California Arts & Sciences Institute.

May 10, 2024

Francois Melese

About Opinion

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Two Bay Area tech companies to lay off hundreds of workers

Two Bay Area tech companies, Lacework and Planet Labs, to lay off hundreds of workers.

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CALIFORNIA

Rainbow Family ordered to leave California forest or face fines

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California's heat wave is about to intensify. When will it end?

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Trust-Level Review, Interim Quarter

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PERF Metrics

Trust Level Review, As of March 31, 2024

\$495.3bn

Assets Under
Management

6.6%

10-Yr
Total Return

7.8%

Fiscal Year-to-Date
Total Return

\$0.4bn

5-Yr Cumulative
Value Added

\$(2.8)bn

Fiscal Year to-Date
Value Added

14.0%

Forecasted
Volatility

14bps

Forecasted
Actionable
Tracking Error

30.6%

Allocation to
Private Assets

2.0x

30-Day Tier 1
Stress Liquidity
Coverage Ratio¹

54%

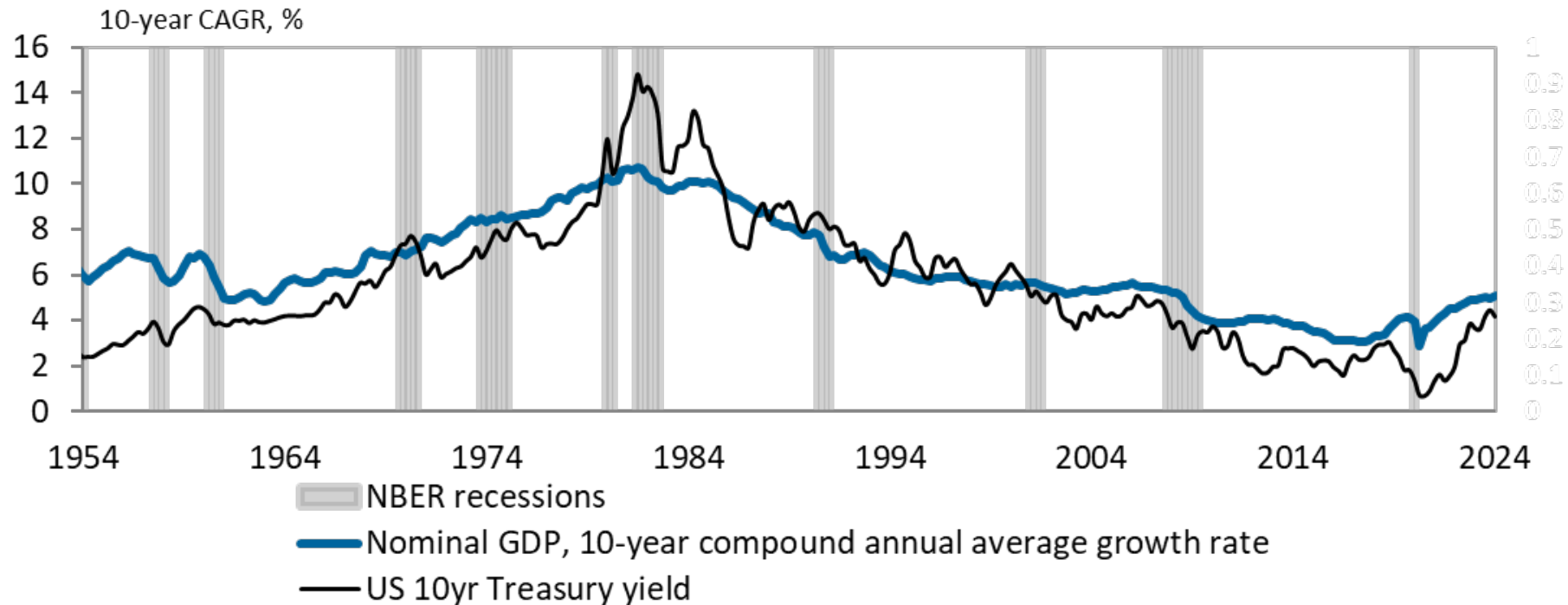
Allocation to
Actively Managed
Assets



Markets and Economy

Trust Level Review, As of March 31, 2024, Exhibit 3.1

US Treasury 10-year note yield and nominal GDP





PERF Commentary

Trust Level Review, As of March 31, 2024

Capital Markets

- Global public equity markets continued to rally in Q1 2024, as strong economic data and prospects of Fed rate cuts fueled a broadening of market breadth
- The 1-Yr return for the Income sleeve was 3.6%, with strong absolute returns in the High Yield and Emerging Market Debt segments. It outperformed its benchmark by 14 bps for the 1-Yr period

Private Markets

- All applicable Private Market asset classes have positive returns for the 5-, 10-, and 20-Year periods
- The repricing of Real Estate continued to exert downward pressure on Real Asset absolute returns, although relative returns remained ahead of the benchmark
- Private Debt generated strong absolute performance, with a FYTD return of 11.1 % and a 1-Yr return of 14.8%

Total Fund

- Portfolio risk metrics remain within expected ranges