Chair	Jenny Haruyama
Vice Chair	Carlos Palacios
Board Member	Jamie Goldstein
Board Member	Martin Bernal

SC PL SANTA CRUZ PUBLIC LIBRARIES

SANTA CRUZ CITY/COUNTY LIBRARIES
JOINT POWERS AUTHORITY BOARD

[IMMEDIATELY FOLLOWING THE SANTA CRUZ LIBRARIES FACILITIES FINANCING AUTHORITY (LFFA)]

Special Session

THURSDAY AUGUST 30, 2018

9:00 A.M.

DOWNTOWN BRANCH LIBRARY
224 CHURCH STREET, SANTA CRUZ, CA 95060

1. **CALL TO ORDER / ROLL CALL**

   Board Members Jamie Goldstein, Carlos Palacios, Martin Bernal and Chair Jenny Haruyama

2. **ADDITIONS AND DELETIONS TO AGENDA**

3. **ORAL COMMUNICATION**

   Any member of the audience may address the Board on any matter either on or off the agenda that is within the Board's jurisdiction. Note, however, that the Board is not able to undertake extended discussion or act on non-agendized items. Such items can be referred to staff for appropriate action which may include placement on a future agenda. If you intend to address a subject that is on the Agenda, please hold your comments regarding that item until it is before the Board, so that we may properly respond to all comments on that subject at the same time. In general 3 minutes will be permitted per speaker during Oral Communication; A MAXIMUM of 30 MINUTES is set aside for Oral Communications at this time.

4. GENERAL BUSINESS

A. Participation in CalPERS advance payment to lower Unfunded Pension Liability (PG.3-7)

RECOMMENDED ACTION: (1) joining the City of Santa Cruz pay down of the California Public Employees Retirement System (CalPERS) unfunded pension liability; (2) approving the allocation of and applicable action to retroactively increase the FY 2018 Budget for up to $689,911 from the Santa Cruz Public Libraries (SCPL) available, unreserved Fund Balance towards paying down their proportional share; and (3) to consider directing the SCPL Director to request a loan proposal from the City of Santa Cruz for up to 75% of the CalPERS pay down.

5. SCHEDULED UPCOMING MEETINGS

October 4, 2018	**Scotts Valley Branch Library**	**Agenda Items:**
	251 Kings Village Road, Scotts Valley, CA 95066	

6. ADJOURNMENT

Adjourned to a Regular Meeting of the Library Joint Powers Authority (LJPA) to be held on Thursday October 4, 2018 at 6:00 p.m. at the Scotts Valley Branch Library, located at 251 Kings Village Road, Scotts Valley, CA 95066.

The Santa Cruz City-County Library System does not discriminate against persons with disabilities. Out of consideration for people with chemical sensitivities, we ask that you attend fragrance free. Upon request, the agenda can be provided in a format to accommodate special needs. Additionally, if you wish to attend this public meeting and will require assistance such as an interpreter for American Sign Language, Spanish, or other special equipment please call the Library Administration Office at (831)427-7706 at least five days in advance so that we can arrange for such special assistance, or email library_admin@santacruzpl.org.

SANTA CRUZ
PUBLIC LIBRARIES

STAFF REPORT

DATE: August 30, 2018

TO: Library Joint Powers Authority Board

FROM: Marcus Pimentel, Finance Director

RE: Payment Towards Unfunded Pension Liability (FN)

RECOMMENDATION

Motion to authorize: (1) joining the City of Santa Cruz pay down of the California Public Employees Retirement System (CalPERS) unfunded pension liability; (2) approving the allocation of and applicable action to retroactively increase the FY 2018 Budget for up to $689,911 from the Santa Cruz Public Libraries (SCPL) available, unreserved Fund Balance towards paying down their proportional share; and (3) to consider directing the SCPL Director to request a loan proposal from the City of Santa Cruz for up to 75% of the CalPERS pay down.

BACKGROUND

By current estimates, the SCPL share of unfunded pension liability owed to CalPERS is $7.9 million. Factoring in the future interest rate charged by the State of 7.25%, just the annualized interests costs to the SCPL are approximately $570,000. This is the funding challenge faced by all California CalPERS member agencies largely as the result of recent underperformance by CalPERS of their annual investment returns.

CalPERS expects that 60% of the cost of public pensions would be covered by investment returns. However, during this 9-year national economic boom and bull market for stocks (that has seen the S&P 500 grow over 300%), CalPERS rate of return has averaged a comparatively subpar 9.9%. In three of these 9 years, CalPERS annual investment returns were an impossibly low at 0.1%, 2.4% and 0.6% (2012, 2015 & 2016 respectively).

Their 9.9% average return during this growth cycle is 5 plus basis points below their average returns during the last economic growth cycles (15.7% between 1995 to 2000 and 15.0% between 2004 to 2007). The impact of this historical underperformance during a recovery period is a system wide pension shortfall of over $300 billion. The impact to member agencies is the continued, large increase in the CalPERS unfunded liability. This is despite making all the required payments to CalPERS and where, for the City and SCPL, there were no increases in plan benefits or significant changes in the number of plan members. In real dollars, this underperformance is the largest reason the City and SCPL's Miscellaneous Employees' pension plan's share of the CalPERS systems total liability increased from $72.4 million to the current valuation amount of $91.6 million.

In addition to shifting more debt to local government, CalPERS has unilaterally set a high interest rate on this debt, currently at 7.375%. A major part of any financial strategy is paying down or refinancing high rate debt to achieve annual savings.

The City, with the SCPL's support, has consistently taken steps to mitigate increases in its pension costs using most of the tools currently available, including (1) adopting pension reforms prior to the State's reforms; (2) negotiation for greater cost sharing by employees; (3) paying down available CalPERS liability; (4) annual CalPERS prepayments that result in discounted costs; (5) the City's creation and funding of unfunded liability reserves; (6) adoption of policies that direct annual surpluses towards reduction of pension liabilities; and (7) creation and funding of retirement trust funds.

The next level of recommended practice would be making annual, additional CalPERS payments above the annual required contribution to pay down faster of the City and SCPL's share of the system's unfunded liability.

CalPERS unfunded liability is separated into individual plan year amounts that are treated as if they are separate debt issues. For the City and SCPL, our most costly debt component of the CalPERS unfunded liability is the $17 million owed for the 2012 investment year where CalPERS earned only a 0.1% rate of return but expected a 7.5% return. This $17 million liability, if left untouched, would be paid off by 2043 after a total City/SCPL combined payments of nearly $43 million (principal and interest). It is this year the City directed its June 2018 payment towards.

Cities have recently been permitted to pay down any of their CalPERS liabilities. Accordingly, some are aggressively investing reserves sitting in low-yield investment funds or budgeting additional payments to reduce the high cost CalPERS liability. As recently as this past year the State of California conducted an internal borrowing to significantly pay down its own unfunded liabilities. In June 2017, the City of Santa Monica made a significant payment of $45 million towards reduction of its CalPERS liability.

DISCUSSION

The City has already received City Council approval and subsequently made a total $8 million paydown of the Miscellaneous Plan's "2012" unfunded liability. This payment made better use of the City's pooled investment portfolio that, in the aggregate earns near 2% (between investments in or California's investment pool to other higher yielding but safe returns like Federal notes). When applied against CalPERS's 7.35% interest rate, after deducting for the appx 2% lost by removing funds from the City's portfolio, the net savings should be near 5% annually.

In the past, the Library Board has expressed general support and interest in participating in future payments by the City that would, for the SCPL, generate immediate cost savings while reducing the SCPL's share of CalPERS unfunded liabilities.

However, because the SCPL employees are blended with the City of Santa Cruz employees in a single pension plan, this complicates matters on both sides of this CalPERS payment.

First, it is impossible to perfectly determine the balance owed by the SCPL and the City to properly spread out the $8 million payment. CalPERS is not able to determine the proper allocation of the CalPERS unfunded liability between the City and the SCPL. The City's approach is to allocate this payment proportionally based on all the City & SCPL operations share of the total, fiscal year-to-date actual CalPERS liability payments since July 1, 2017.

Second, since CalPERS has already lowered the FY 2019/20 payroll to adjust for the $8 million paid down by the City in June, it would be very difficult to reverse out and reprogram our payroll systems and processes if the SCPL were to opt out of this pay down.

Accordingly, should the SCPL choose not to participate in this payment, the City recommends that the SCPL, at a minimum, directs the following action:

1) Allow the City to, in the interim, reverse out of the SCPL's biweekly payroll the estimated savings from this payment. Once this calculation and approach is finalized, it will be provided to the Board as an informational report.
2) Contract with at least two actuaries to arrive at a recommendation as to the proportion of the CalPERS unfunded liability that would apply to the SCPL and to recommend a long-term model for the City to add back the savings the SCPL would have received had the SCPL participated. This later item would be used to "true-up" the estimated savings reversal for FY 2019 and be used for future payroll cost modifications. It is further recommended that the SCPL contracts with an actuary at least every two years to provide a review of the CalPERS cost allocation model.

Note that option #2 should be done anyway to identify the SCPL's liability for its share of their employees within the City's MISCELLANEOUS pension plan, who are blended with all other City employees.

Loan option. To provide cash management options to the SCPL, should the Board be interested, the City of Santa Cruz City Manager has been authorized to provide a loan proposal to the SCPL to support the SCPL cash liquidity position. This could be in the formal up to a 5 year term loan with a variable interest rate at an equivalent rate to the City's portfolio rate of return plus a small margin (the City's June 2018, aggregate portfolio rate of return was 1.78%).

FISCAL IMPACT: Paying down the unfunded liability at an accelerated level leads to decreased future liabilities, and therefore results in significant savings in required payments and interest now and in the future.

This payment would leave the Library at a preliminary available fund balance on June 30, 2018 of $1.57 million in addition to fully funded $3.2 million in reserves. Prior to factoring in the Library's payment (which would be reflected as a June 2018 costs), the system ended the year with a preliminary net gain of $269,027. See the June 2018 Library dashboard report for more details. Even though the Library is facing the threat of future deficits, this one time use of excess reserves will help provide annual savings to offset a portion of future deficits.

Based on preliminary savings calculations, the City and SCPL would save an estimated $10.9 million in interest over the next 25 years, with the SCPL's share at $940,004.

For FY 2019, the SCPL's pension payments would be reduced by an estimated $36,000. The tables on the following page summarize these calculations. They are based on the unaudited FY

2018 unfunded liability pension costs and total pension plan liability and the SCPL proportional share of these costs and liabilities.

	FY 2018 unaudited PERS costs: UAL	Fund proportional share	CalPERS UAL Payment (June 2018 - $8,000,000)	Estimated Savings: CalPERS Interest Charge: 7.25%	Less: Portfolio interest earnings rate: 2.00%	Estimated FY 2019 Net Gain
Fund 101 -- General Fund	4,414,073	58.7%	4,692,978	340,241	(93,860)	246,381
Fund 103 -- Code Enforcement/Civil Penalties	1,094	0.0%	1,163	84	(23)	61
Fund 104 -- Municipal Wharf	127,082	1.7%	135,112	9,796	(2,702)	7,093
Fund 108 -- Green Bldg Educational Resource Fund	14,370	0.2%	15,278	1,108	(306)	802
Fund 221 -- Gasoline Tax	2,778	0.0%	2,953	214	(59)	155
Fund 226 -- Traffic Impact Fee-Citywide Fund	4,889	0.1%	5,198	377	(104)	273
Fund 235 -- Clean River, Beaches & Ocean Tax Fund	13,063	0.2%	13,888	1,007	(278)	729
Fund 313 -- CIP - Public Art	1,834	0.0%	1,949	141	(39)	102
Fund 711 -- Water	887,727	11.8%	943,818	68,427	(18,876)	49,550
Fund 721 -- Wastewater	534,805	7.1%	568,597	41,223	(11,372)	29,851
Fund 731 -- Refuse	566,823	7.5%	602,638	43,691	(12,053)	31,638
Fund 741 -- Parking	157,212	2.1%	167,146	12,118	(3,343)	8,775
Fund 751 -- Storm Water	3,905	0.1%	4,152	301	(83)	218
Fund 752 -- Storm Water Overlay	5,662	0.1%	6,019	436	(120)	316
Fund 811 -- Equipment Operations	72,794	1.0%	77,393	5,611	(1,548)	4,063
Fund 841 -- Workers' Compensation Insurance	23,104	0.3%	24,564	1,781	(491)	1,290
Fund 842 -- Liability Insurance	28,485	0.4%	30,285	2,196	(606)	1,590
Fund 843 -- Group Health Insurance	15,949	0.2%	16,956	1,229	(339)	890
Fund 951 -- Library Joint Powers Authority	648,910	8.6%	689,911	50,019	(13,798)	36,220
	7,524,558		8,000,000	580,000	(160,000)	420,000

		CalPERS Unfunded Liability	CalPERS FY 2012 Loss Year Liability	Est. Total Interest Savings from Prepayment
City of Santa Cruz- MISC Plan Liability		91,626,354	17,010,411	10,900,000
Santa Cruz Public Libraries- allocated share	8.6%	7,901,758	1,466,960	940,004

Prepared by Marcus Pimentel, Finance Director

TO: Library Joint Powers Authority Board
FROM: Marcus Pimentel, City of Santa Cruz Finance Director 08/17/18
RE: Library Financial Dashboard Report for the Quarter ended June 2018

SANTA CRUZ PUBLIC LIBRARIES

Jun 18 Report
Preliminary, Unaudited

Contained herein is the preliminary, UNAUDITED Library Financial Dashboard summary report for the month ended June 2018. At month's end, the NET operating results were <$1,148,549> with year-to-date net operating results of <$420,884>. In general, preliminary revenues are behind the budget target by 1.4% and expenditures are under budget by 1.6%.

Net Operations *(major accounts)*	Last Quarter Results					Percent of Budget Comparison		
	April	May	June	Fiscal Year to Date	Annual Adj. Budget FY 2017/18	YTD Actuals	Months completed	Positive / (Negative)
Revenue:								
[1] Sales Tax	$ 477,233	$ 768,474	$ 654,699	$ 8,038,819	$ 7,994,000	100.6%	100.0%	0.6%
MOE - Member Contributions	465,439	465,439	465,439	5,582,224	5,585,273	99.9%	100.0%	(0.1%)
Other Revenue	16,289	22,262	16,579	337,885	573,403	58.9%	100.0%	(41.1%)
TOTAL REVENUES	**$ 958,962**	**$ 1,256,175**	**$ 1,136,718**	**$ 13,958,928**	**$ 14,152,676**	98.6%	100.0%	(1.4%)
Expenditures:								
[2] Payroll	$ 723,542	$ 724,761	$ 1,808,469	$ 10,154,523	$ 10,058,899	101.0%	99.7%	(1.2%)
Books (w/Grants)	56,470	110,293	146,290	1,382,838	1,464,127	94.4%	100.0%	5.6%
Janitorial Services	38,768	30,054	47,257	292,135	277,463	105.3%	100.0%	(5.3%)
Building and Facility	8,765	13,613	30,235	179,871	155,707	115.5%	100.0%	(15.5%)
Rent (Equip, Building, Land)	23,718	23,718	23,728	301,234	313,107	96.2%	100.0%	3.8%
Utilities	17,294	66,869	41,776	411,039	447,962	91.8%	100.0%	8.2%
[3] Other expenditures	191,624	201,229	187,512	1,658,172	1,893,798	87.6%	100.0%	12.4%
TOTAL EXPENDITURES	**$ 1,060,181**	**$ 1,170,538**	**$ 2,285,267**	**$ 14,379,812**	**$ 14,611,063**	98.4%	100.0%	1.6%
Net Gain / (Loss)	$ (101,219)	$ 85,637	$ (1,148,549)	$ (420,884)	$ (458,387)			

Key Balance Sheet Items	April	May	June
[4] Equipment Reserve	446,252	446,252	446,252
[4] 20% Reserve	2,770,182	2,770,182	2,770,182
Fund Balance-Beginning Available	2,735,762	2,634,543	2,720,180
Net Change in Fund Balance	(101,219)	85,637	(1,148,549)
[5] Fund Balance-Ending Available	2,634,543	2,720,180	1,571,631

Trust Current Assets			
Trust	Balance	Trust	Balance
McCaskill- Hist	215,257	Leet-Corday	95,838
McCaskill- Vis	204,381	Morely	13,260
Finkeldey	9,002	Hale	45,977
Whalen	95,332	Gruber	(17,125)

Notes:

[1] For sales tax, September, December, March, and June include the State's estimated revenue plus any balances for actuals vs. estimates for the prior 3-months (true-up). The subsequent months (October, January, April, and July) tend to be lower as they contain the lower state estimates.

[2] For the current fiscal year, the following months have more than two pay periods, which will create higher monthly payroll costs: December and June. The month's completed % is adjusted to reflect year-end accrual of the last pay period. In June, the Library paid $690k towards its unfunded PERS liability, which will result in future interest savings.

[3] For the month ended in June, the four largest expenditures within 'Other expenditures' included: [Financial services - outside at $39k], [Software maintenance services at $36k], [Library functional supplies at $35k], and [Hardware maintenance services at $25k].

[4] The Library's reserves were changed on September 1, 2016 to: (1) reduce from 2 months to 15% the primary reserve and (2) formally establish a capital reserve with a target balance of $400,000 (formally the informal reserve for fleet/equipment replacement). On November 2, 2017, the Library's reserves were increased from 15% to 20%.

[5] Ending Available Fund Balance is unaudited and before consideration of remaining contractual encumbrances (administrative support, legal, janitorial, equip & material purchases, etc.).

print date: 8/17/2018