

**MINUTES OF THE SPECIAL MEETING
OF THE CITY COUNCIL OF THE CITY OF
SANTA ANA, CALIFORNIA**

FEBRUARY 5, 2018

CALLED TO ORDER

CITY HALL, ROSS ANNEX
20 CIVIC CENTER PLAZA, ROOM 1600
SANTA ANA, CA
4:12 P.M.

ATTENDANCE

COUNCILMEMBERS Present:
MICHELE MARTINEZ, Mayor Pro Tem
P. DAVID BENAVIDES
VICENTE SARMIENTO
JOSE SOLORIO
SAL TINAJERO (4:22 P.M.)
JUAN VILLEGAS

COUNCILMEMBERS Absent:
MIGUEL A. PULIDO, Mayor

STAFF Present:
RAUL GODINEZ, II, City Manager
SONIA R. CARVALHO, City Attorney
MARIA D. HUIZAR, Clerk of the Council

PUBLIC COMMENTS

- Jose Tapia, expressed strong opposition to the police officers who have been reinstated after video depicts illegal activity.

CLOSED SESSION MEETING

COUNCIL RECESSED to Room 2201 for Closed Session discussion at 4:14 p.m.

CLOSED SESSION ITEMS - The Brown Act permits legislative bodies to discuss certain matters without members of the public present. The City Council finds, based on advice from the City Attorney, that discussion in open session of the following matters will prejudice the position of the City in existing and anticipated litigation:

1. CONFERENCE WITH LEGAL COUNSEL--EXISTING LITIGATION pursuant to Paragraph (1) of subdivision (d) of Section 54956.9 of the Government Code:
 - a. Brandon Sontag v. City of Santa Ana, et al., Orange County Superior Court, Case # 30-2017-00902039-CU-OE-CJC
 - b. Nicole Quijas v. City of Santa Ana, Orange County Superior Court, Case # 30-2016-00850502-CU-OE-CJC
 - c. Santa Ana Police Officers' Association v. City of Santa Ana, Orange County Superior Court, Case # 30-2015-00801604-CU-OE-CJC
 - d. Robert Reisse and Dana Reisse v. City of Santa Ana, et al., Orange County Superior Court, Case No.: 30-2014-00705090
 - e. Sky High Holistic v. City of Santa Ana, et al., Orange County Superior Court, Case No. 30-2017-00897912-CU-WM-CJC

2. PUBLIC EMPLOYEE EVALUATION OF PERFORMANCE pursuant to Section 54957(b)(1) of the Government Code:

Title: City Manager and Clerk of the Council

3. CONFERENCE WITH LABOR NEGOTIATOR pursuant to Government Code Section 54957.6(a):

Agency Negotiator: City Manager, Raul Godinez II

Unrepresented Employees: Executive Management (EM)

ADJOURNED THE CLOSED SESSION MEETING AT 5:32 P.M. AND CONVENED TO THE REGULAR OPEN MEETING

REGULAR OPEN MEETING

CLOSED SESSION REPORT – There were no reportable actions.

WORK STUDY SESSION

WS-1.

STAFF PRESENTATION OF THE FOLLOWING:

- FISCAL YEAR 2017-18 MID-YEAR BUDGET REVIEW,
- FIVE (5) YEAR FORECAST,
- FISCAL YEAR 2018-19 PRELIMINARY BUDGET, AND
- DISCUSSION AND DIRECTION REGARDING CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

AGENDA

- City Manager Overview / Governing Principles.
- Pension Overview
- FY 2017-18 Adopted General Fund Balance
- FY 2017-18 General Fund Mid-Year Report
- Preliminary FY 2018-19 General Fund Budget
- Five-Year General Fund Forecast

GOVERNING PRINCIPLES

- Be transparent and honest about the problem
- Use a comprehensive approach for all funds
- Establish a vision, develop a budget that promotes long term sustainability, implement best practices and utilize a combination of cost reductions and revenue increases.
- Use a multi-year approach to achieve financial sustainability
- Identify core services and focus on funding core services
- Provide clear vision and direction from leadership
- Engage in a collaborative approach

PENSION OVERVIEW

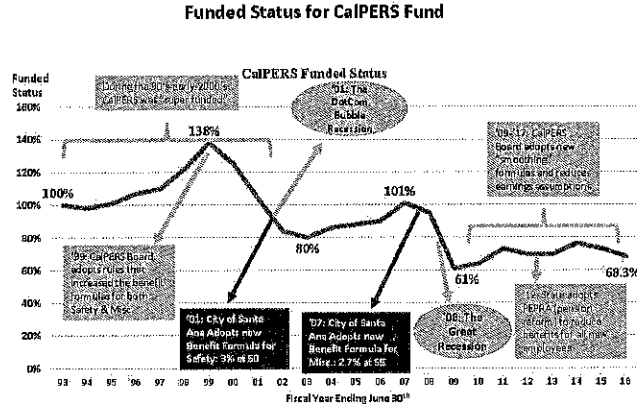
- Current Overview & Funding History
- Impacts to Unfunded PERS Liability
- Impacts to City Budget
- League of California Cities Study & Findings on Retirement System Sustainability
- Strategies to Address Rising Pension Costs

CURRENT OVERVIEW

CalPERS Fund

- History of CalPERS
 - 1932: Established as State retirement system
 - 1947: City entered into CalPERS
 - 1998: "Golden Age" CalPERS peak!!
 - 95% of statewide Miscellaneous employees were on 2% at 60 Plan
 - 50% of statewide Safety employees had the 2.5% at 55 Plan
- Employer Contribution Rates

- 0% for Miscellaneous
- 0-7% for Safety
- Misc.: 1971-1995: 2% @ 60; 1995-2008: 2% @ 55; 2009-Present: 2.7% @ 55
- Safety: 1974-2001: 2% @ 50; 2001-Present: 3% @ 50



City of Santa Ana Retirement Benefits History
Safety Plan History

- 1974-2001: 2% at 50
- 2001-Present (Classic Members): 3% at 50
- PEPRAs Members: 2.7% at 57

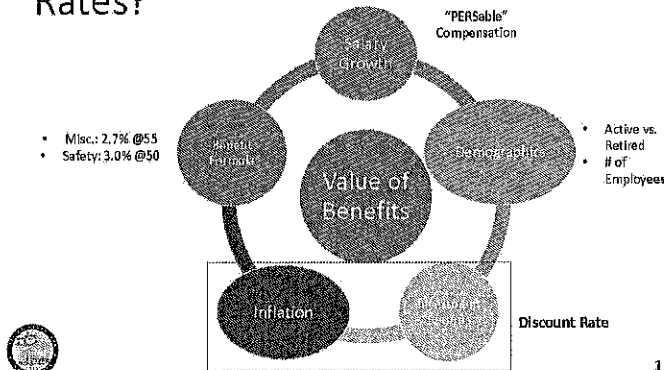
Miscellaneous Plan History

- 1971-1995: 2% at 60
- 1995-2008: 2% at 55
- 2009-Present (Classic Members): 2.7% at 55
- PEPRAs Members: 2.0% at 62

Up to 2% annual COLA for both Classic & PEPRAs members
 Disability benefits; death benefits; survivor benefit; EPMC (classic only)
 PEPRAs = Public Employees' Pension Reform Act

IMPACTS TO PERS – UNFUNDED LIABILITY

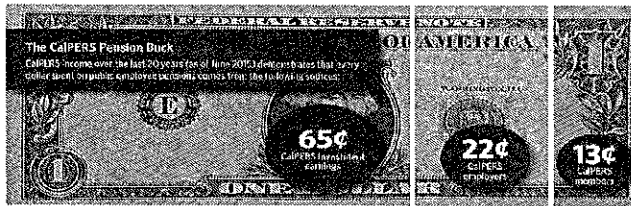
What Elements Impact PERS Rates?



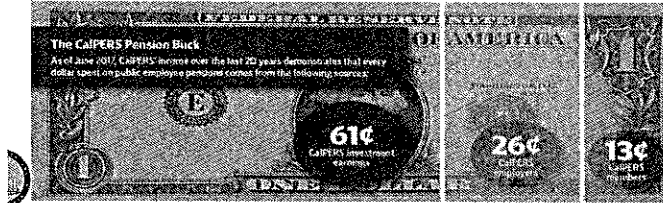
Plan Demographics:

	<u>Miscellaneous</u>	<u>Safety (Police/Fire)</u>
-		
• Retired employees or beneficiaries currently receiving benefits	1,328	923
• Separated employees entitled to but not yet receiving benefits	782	179
• Active employees	<u>737</u>	<u>292</u>
Total	2,847	1,394
Total Plan Participants: 4,241		

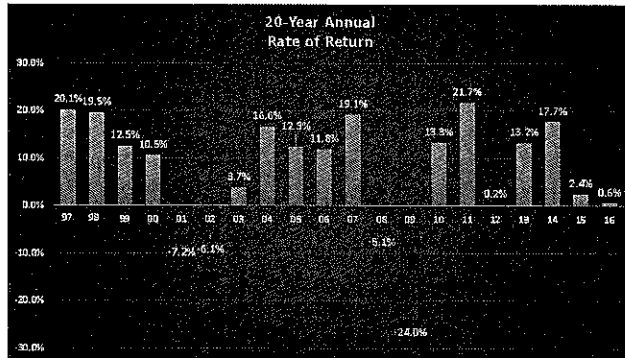
CalPERS Income by Source
2015



2017

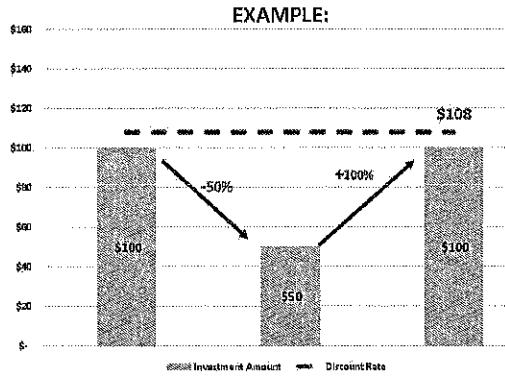


Source: <https://www.calpers.ca.gov/page/newsroom/for-the-record/2017/pension-buck>



Source: CalPERS' Fact Sheet

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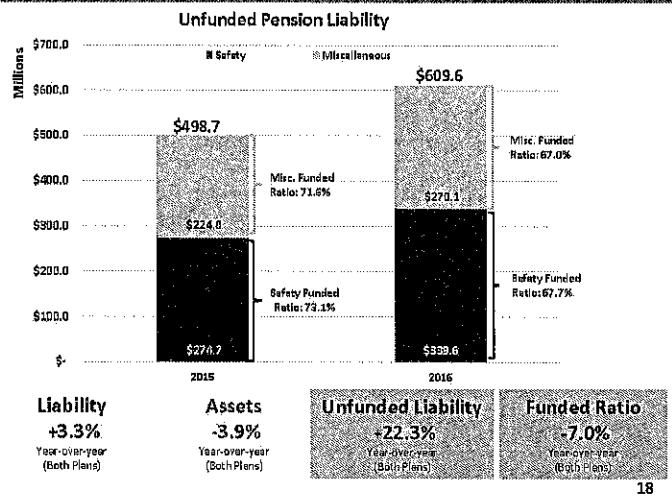
CalPERS Changes Enacted During Past 5 Years

- In response to deteriorating financial conditions, CalPERS began enacting a series of pension cost changes
- March 16, 2012 – Change in Discount Rate From 7.75% - 7.50%
- April 17, 2013 – Change in Amortization & Rate Smoothing Policy
- February 18, 2014 – Change in Actuarial Assumptions & Asset Allocations
- December 21, 2016, the CalPERS Board voted to enact two substantial new changes
 1. Lower the discount rate from 7.5% to 7.0% (assumed rate of return)
 2. Enact an accelerated payback schedule for all unfunded accrued liabilities (UAL)
- The resulting effect of the two changes includes the following:
 - Discount Rate Reduction
 - Impacts employer rates beginning in FY 2018/19
 - Option to accelerate the Unfunded Actuarial Liability Payment (30 to 20 years)

SAFETY PLAN		
	2015	2016
Market Value of Assets	\$748.0M	\$711.0M
Total Pension Liability	(1.08)	(1.18)
Unfunded Liability	(\$274.7M)	(\$339.6M)
Funded Ratio	78.1%	67.7%

MISC. PLAN		
	2015	2016
Market Value of Assets	\$564.0M	\$549.3M
Total Pension Liability	(787.9M)	(819.4M)
Unfunded Liability	(\$224.0M)	(\$270.1M)
Funded Ratio	71.6%	67.0%

Source: CalPERS' 06/30/2017 Valuation Report for the City of Santa Ana



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PERS RATES: Employer Contribution

SAFETY PLAN*					
	2018-19	2019-20	2020-21	2021-22	2022-23
Police Rates	35.2%	41.2%	44.7%	49.1%	52.8%
Fire UAL	\$9.3M	\$11.4M	\$12.7M	\$14.5M	\$16.0M

MISC. PLAN*					
	2018-19	2019-20	2020-21	2021-22	2022-23
PERS RATES	30.7%	35.3%	38.8%	41.9%	44.3%

Source: CalPERS' 06/30/2017 Valuation Report for the City of Santa Ana



* Excludes employee contribution:
 Safety: 12%
 Misc.: 8%

Safety (PD Only) Employees
 FY 18-19 For every \$100 in salary, the City Pays \$36 in Pension Benefits
 Salary + Pension Benefits = \$136

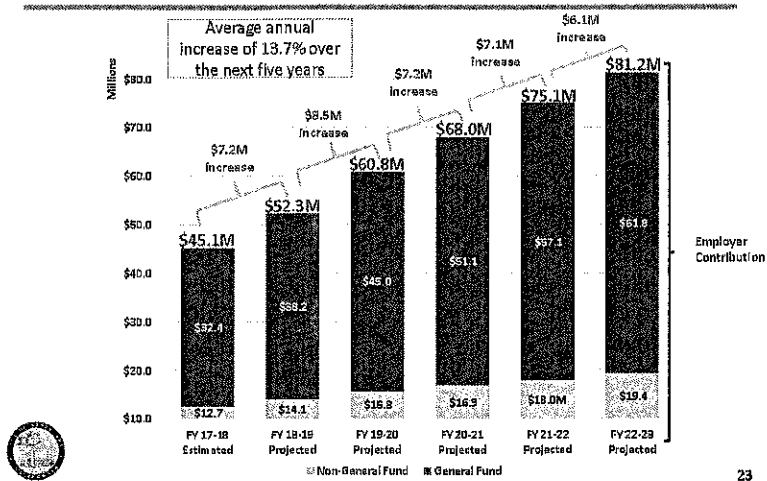
FY 22-23 For every \$100 in salary, the City will pay \$53 in Pension Benefits
 Salary + Pension Benefits = \$153

Miscellaneous Employees
 FY 18-19 For every \$100 in salary, the City Pays \$31 in Pension Benefits
 Salary + Pension Benefits = \$131

FY 22-23 For every \$100 in salary, the City will pay \$44 in Pension Benefits
 Salary + Pension Benefits = \$144

IMPACTS TO CITY BUDGET

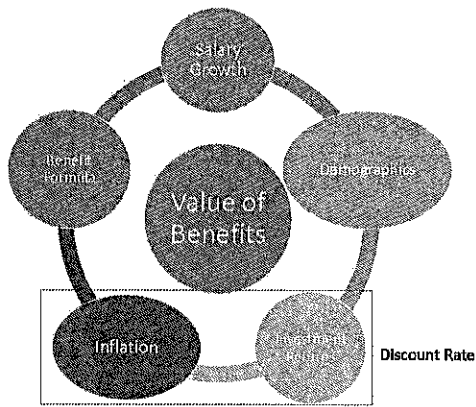
PROJECTED PERS IMPACT (ALL FUNDS)



LEAGUE OF CALIFORNIA CITIES PENSION STUDY

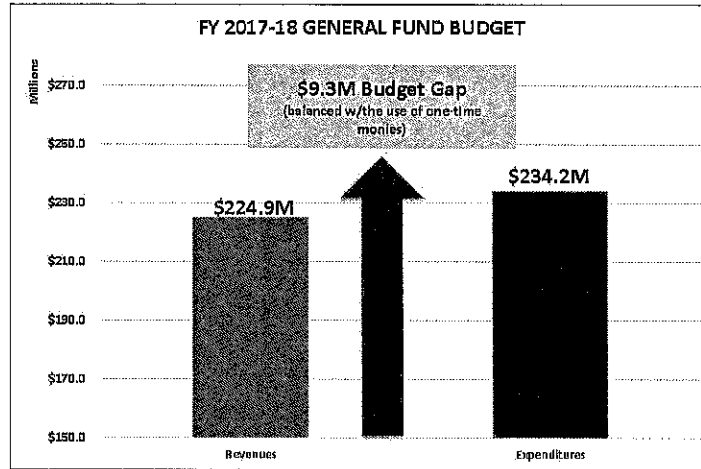
- Local agencies comprise approximately 40 percent of all CalPERS members.
- Local Leaders, comprising of mayors, council members, city managers and finance officers shared their own cities' stories and concerns during meetings in September & November 2017.
- The message delivered was: the "employer just paying more" option is no longer viable.
- Following these meetings where local leaders gave voice to the challenges they face delivering services as pension costs increase, the League decided to commission this study.
- Key Findings:
 - Rising pension costs will require cities over the next seven years to nearly double the percentage of their General Fund dollars they pay to CalPERS;
 - For many cities, pension costs will dramatically increase to unsustainable levels; and
 - The impacts of increasing pension costs as a percentage of General Fund spending will affect cities even more than the state. Employee costs, including police, fire and other municipal services, are a larger proportion of spending for cities

STRATEGIES TO ADDRESS RISING PENSION COSTS



BENEFIT FORMULA	SALARY GROWTH	DEMOGRAPHICS	OTHER
Ask Employees to contribute more (GF: 1% = \$650k; Overall: 1% = \$865k)	Minimize Salary Growth	Monitor classic and PERPRA employee demographics	Pre-Pay Unfunded Actuarial Payment for FY 18-19 (\$500k Savings)
Explore 3 rd Tier Retirement Benefits for new classic employees to the City	Consider "Non-PER5able" Compensation		Continue to fund Pension Obligation Trust Fund (Current bal: \$500k)
Monitor Cal Fire case for impacts to "California Rule"	Evaluate impacts of FPMC		Monitor efforts mandating payment acceleration from 30 to 20 years

FY 2017-18 ADOPTED GENERAL FUND BUDGET



Adopted Budget Includes the Following Elements:	
PERS Increase	4,631,324
OCFA Increase	1,284,534
Graffiti Abatement Program Funding in the GF	1,198,340
Health Insurance Increase	1,155,600
Allocation for 3rd COPS Grant	997,126
Annual Share of Animal Shelter Construction Costs	750,000
Workers' Comp 1% Increase	745,000
Financing of the 800 MHz Final Phase Backbone	200,000

* Adopted Budget prior to new MOU Increases

FY 2017-18 ADDITIONAL GENERAL FUND ADJUSTMENTS

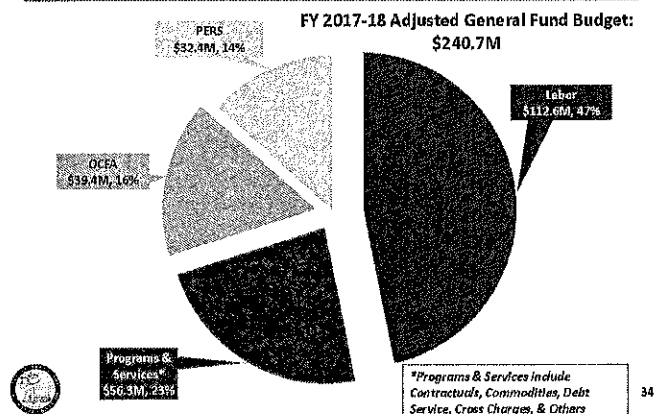
Additional GF Adjustments	Revenues	Expenditures
US Marshals' Contract ¹	10.2M	5.9M
Addition of Combination Inspectors	420K	420K
Homeless Services Manager	0	114K
Veterinarian Services at SA Zoo	40K	40K
MOU INCREASES		
Salary Increases ONLY POA-Sworn ²	0	2.2M
Salary Increases ONLY-SEIU ³	0	360K
Salary Increases ONLY-PMA ³	0	220K
Salary Increases ONLY-POA Non-Sworn ³	0	200K
Salary Increases ONLY-SAMA ³	0	80K
Salary Increases ONLY-CASA ³	0	52k

¹ Represents projected only, final value of the short-term 2 year Marshals' Contract TBD

²Partially offset with Cap on Health Insurance Premiums & Higher PERS Employee Contribution from 9% to 12% effective 01/01/18

³ Partially offset with Cap on Health Insurance, balance to be absorbed within existing budget

FY 2017-18 GENERAL FUND BUDGET CATEGORIES



**FY 2017-18 GENERAL FUND MID-YEAR REPORT
REVENUE & EXPENDITURE
TRENDS**

Quarterly Trends

	1Q	2Q	3Q	4Q
Revenues	10%	24%	28%	38%
Expenditures	24%	26%	23%	27%

**GENERAL FUND FY 17-18
2ND QUARTER REVENUES VS.
EXPENDITURES**

GENERAL FUND	FY 17-18 Adjusted Budget	FY 17-18 July-Dec Actuals	% Received/ Expended
Revenues	\$235,573,111	\$76,000,191	32.3%
Expenditures	\$240,735,022	\$118,834,909	49.4%

**GENERAL FUND FY 17-18
2ND QUARTER REVENUE VARIANCE**

	FY 17-18 ADJUSTED Budget	FY 17-18 July-Dec Actuals	% Received As of 12/31/17
Sales Tax	\$50,300,000	\$15,468,088	30.8%
Property Tax	34,544,000	19,119,218	55.3%
Property Tax In Lieu of VLF	30,966,459	0	0%
UUT	27,780,000	10,861,943	39.1%
Business License	11,870,000	2,683,115	22.6%
Hotel Visitors Tax	9,900,000	3,956,439	40.0%
Total Top 6 GF Revenues	165,360,459	52,088,812	31.5%
Jail Revenue	12,717,316	2,671,236	21.0%
Medical Marijuana	3,500,000	1,129,023	32.3%
Other General Fund Revenues	53,095,336	20,111,120	38.1%
Total Revenues	\$235,573,111	\$76,000,191	32.3%

**GENERAL FUND FY 17-18
2ND QUARTER EXPENDITURE COMPARISON**

Departmental Expenditures	FY 17-18 Adjusted Budget	FY 17-18 July-Dec Actuals	% Expended
City Manager	\$ 2,802,902	\$ 1,247,412	44.6%
Non-Dept	14,588,981	7,755,230	54.5%
Clerk of the Council	1,094,794	414,120	37.8%
City Attorney's Office	3,228,180	1,185,541	36.7%
Personnel Department	1,708,000	650,590	39.1%
Finance & Management Services Agency	5,575,058	2,472,759	44.3%
Bowers Museum	1,476,130	737,639	50.0%
Parks and Recreation Services Agency	20,066,600	9,809,668	49.3%
Police Department	121,798,278	59,095,517	49.5%
Fire Department	50,417,146	27,903,403	56.3%
Planning & Building Agency	10,528,100	4,779,281	46.4%
Public Works Agency	6,947,195	2,580,841	37.4%
Community Development Agency	881,431	332,857	60.5%
TOTAL GENERAL FUND	\$ 240,735,022	\$ 118,834,909	49.4%



**VACANCY REPORT AS OF
DECEMBER 31, 2017**

DEPARTMENT	FY 17-18 Budgeted Positions	GF Vacancies	Non-GF Vacancies	Total Vacancies	Unfunded Positions
City Manager's Office	10	3	0	3	0
City Attorney's Office	15	2	0	2	0
Clerk of the Council	5	1	0	1	0
Community Development	47	1	7	8	0
Finance & Management Services	104	11	4	15	0
Information Technology	17	0	6	6*	0
Personnel Services	25	0	3	3	0
Planning Building	72	10	0	10	2**
Police Department	631	102	0	102	55
PRCSA & Library	74	7	2	9	0
Public Works Agency	167	1	40	41	0
Total	1,167	138	62	200	47

* Currently filled by contractual services
**Two Code Enforcement Officers Pending Fee Study

**PRELIMINARY FY 2018-19 GENERAL FUND BUDGET
PRELIMINARY FY 2018-19
GENERAL FUND
EXPENDITURE BUDGET**

FY 17-18 ADJUSTED GENERAL FUND EXP. BUDGET 240,735,022

GENERAL FUND BASELINE ASSUMPTIONS	
Projected PERS Increase (Overall increase \$7.2M Citywide)	5,657,009
MDU Salary Increases	3,105,656
Strategic Plan FY 18-19	2,494,500
4.5% OCTA & CARE Increase	1,984,890
Additional Funding for Type II Jail Facility (US Marshals)*	1,184,982
Health Insurance Increase	745,971
Total Additions to the Base	15,373,008

6.4% Increase

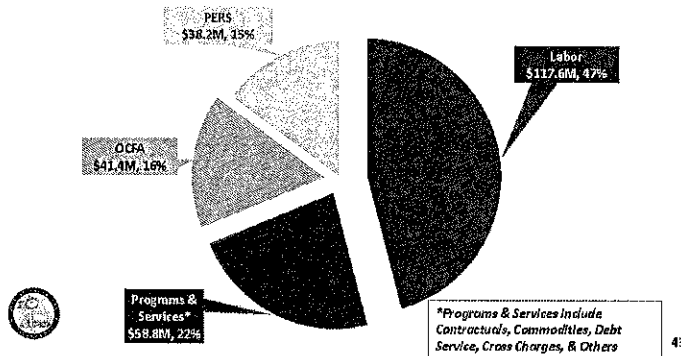
FY 18-19 GENERAL FUND PRELIMINARY BASE EXP. BUDGET 256,108,030



* Full Year Expense Value of Marshalls short term 2-year agreement - \$7.2M

PRELIMINARY FY 2018-19 GENERAL FUND EXPENDITURE BUDGET

FY 2018-19 Preliminary General Fund Exp. Budget:
\$256.1M

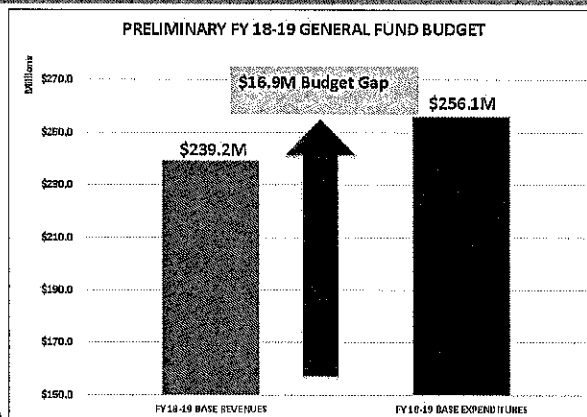


PRELIMINARY FY 2018-19 GENERAL FUND PROJECTED REVENUES

REVENUE CATEGORY	Projected Year-End 17-18	FY 18-19 Estimated Budget	\$ Increase	% Increase/Decrease
Sales Tax	48,210,473	49,048,000	1,837,527	3.82%
Property Tax	39,626,807	39,812,109	1,885,302	3.61%
Property Tax In-Lieu of M.F.	10,066,489	10,149,000	82,511	0.82%
OCF	24,850,000	24,850,000	-	0.00%
Business License	12,455,523	12,551,764	96,241	0.77%
Hotel/Venue Tax	2,442,137	2,725,281	283,144	11.60%
Medical Marijuana Tax	2,500,000	2,500,000	-	0.00%
Other Taxes	10,329,205	10,329,205	-	0.00%
Intergovernmental Revenues	5,871,569	5,871,569	-	0.00%
Use of Money & Property	1,868,142	1,868,142	-	0.00%
Miscellaneous	3,893,134	3,893,134	-	0.00%
Refuse Franchise Fees	6,324,800	6,324,800	-	0.00%
Charges for Services	12,469,266	12,469,266	-	0.00%
Franchise Fees	3,259,047	3,259,047	-	0.00%
Licenses & Permits	5,432,900	5,432,900	-	0.00%
Fees	5,129,299	5,129,299	-	0.00%
SUBTOTAL	216,508,488	221,422,748	4,914,260	2.26%
Additional Permits Revenues				
Jail Facility Rental-Use Materials	8,414,802	12,240,000	3,825,198	45.46%
Adult-Use Cannabis	TBD	8,800,000	8,800,000	N/A
Estimated General Fund Revenues	224,923,290	230,462,748	5,539,458	2.45%

*MMD Tax may experience a change as a result of Adult-Use Cannabis

PRELIMINARY FY 2018-19 GENERAL FUND



OTHER POTENTIAL IMPACTS AND CONSIDERATIONS FOR FY 2018-19

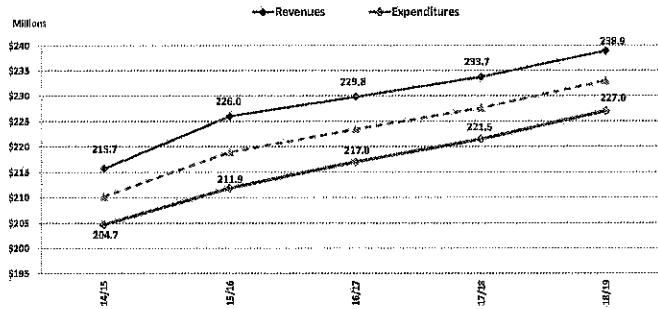
Internal Service Funds: Balanced Operations & Funding Fkt Year Capital (Operating/Capital)		
ALL GF	Building Maintenance Rate Increase for FY 18-19 & 1st Yr. Capital (Operations: 760k & Capital: 8.2M)	4,002,485
ALL GF	Preliminary IT Rate Increase for FY 18-19 & Capital (Operations: 1.4M & Capital: 1.5M)	2,923,325
ALL GF	Fleet Rate Increase for FY 18-19 & Vehicle Replacement (Operations: \$640k & Capital: \$1.8M all PD Veh.)	2,441,384
ALL GF	Liability Increase for FY 18-19 (reflects premium increases)	1,897,725
ALL GF	Workers' Comp Increase for FY 18-19	1,055,717
Subtotal		13,327,241
Other Options/Additional Potential Impacts		
PWA	Sanitation Enterprise Programs (Worst Case Scenario)	(3,641,000)
ALL GF	Refuse Surcharge & Contract Savings (Worst Case Scenario)	(6,324,000)
PO	Continue Current PD Recruitment Levels (1.6 position)?	(2,000,000)
ALL GF	Strategic Plan Funding for FY 18-19?	1,500,2,500
PBA	General Plan Funding (includes staffing)?	(1,300,1,000)
ALL GF	Additional Contribution to the Pension Stability Fund (PARS)?	(500,000)
PWA	Street Lighting Funding?	(500,000)
ALL GF	Additional Resources Needed for Cannabis Enforcement?	(100)
ALL GF	Departmental Supplemental Requests?	(100)
ALL GF	Additional Revenue from Contracts (expanded use)	1M
Subtotal		20,566,22,1M
TOTAL POTENTIAL IMPACTS/CONSIDERATIONS		\$4.1M-\$5.8M



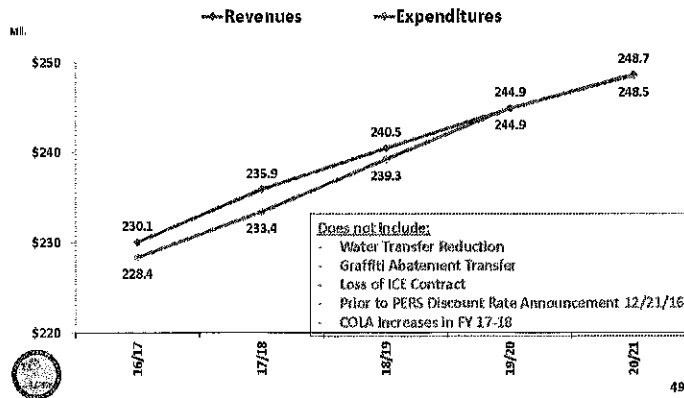
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FIVE-YEAR GENERAL FUND FORECAST

DECEMBER 2014 GENERAL FUND FORECAST

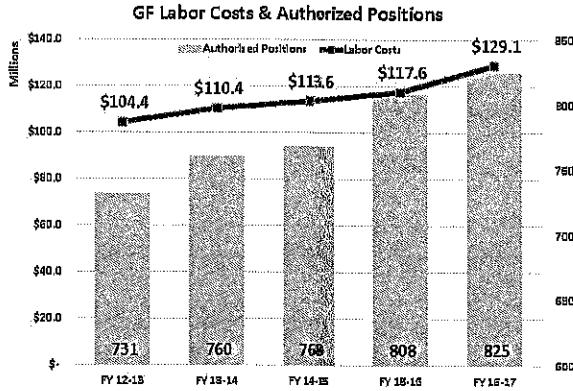


FY 16-17 FIVE-YEAR GENERAL FUND FORECAST



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GF EXPENDITURE TRENDS

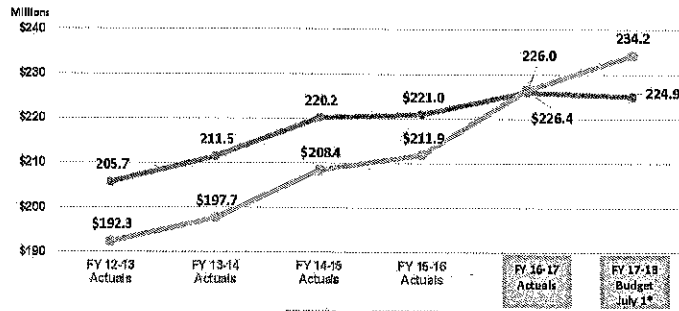


Labor Costs 5.5%

On average, labor costs in the General Fund have grown at the rate of 5.5% since FY 2012-13

FY 12-13 vs. FY 16-17 Labor Costs
+\$25M

5-YEAR GF REVENUE & EXPENDITURE TRENDS



Revenues 2%

On average, total General Fund revenues have grown at the rate of 2% since FY 2012-13

*Excludes the \$0.5M in One-Time Revenue

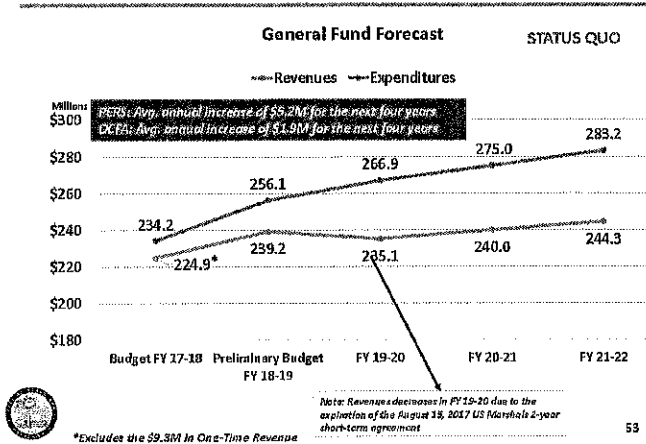
Expenditures 4%

On average, total General Fund expenditures have grown at the rate of 4% since FY 2012-13

FIVE-YEAR GENERAL FUND FORECAST – FEB. 2018

- Regional Economists are predicting slight economic growth as total GDP growth for the nation will hover around 2.3% in 2018
- Wall Street Journal: “[National]GDP Grew 2.6% at Year End [...]U.S. economy is in unusual territory: not quite booming”
- Governor Brown in his Governor’s Message as part of the proposed budget warned: “In recent years, I have warned of an inevitable recession lurking in our future, which thankfully has not yet arrived [...] Fiscal restraints are needed more than ever as California approaches the peak of the business cycle.”

FIVE-YEAR GENERAL FUND FORECAST-FEB. 2018



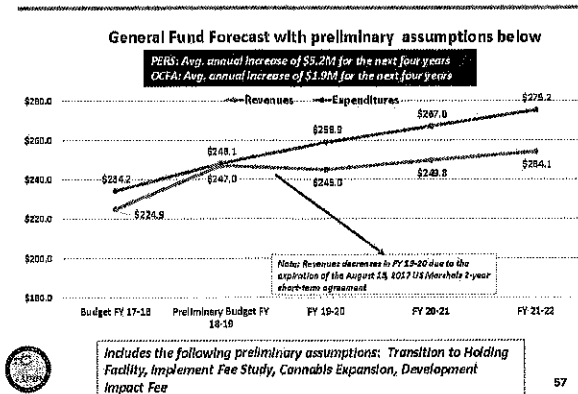
GOVERNING PRINCIPLES

- Be transparent and honest about the problem
- Use a comprehensive approach for all funds
- Establish a vision, develop a budget that promotes long term sustainability, implement best practices and utilize a combination of cost reductions and revenue increases.
- Use a multi-year approach to achieve financial sustainability
- Identify core services and focus on funding core services
- Provide clear vision and direction from leadership
- Engage in a collaborative approach

FRAMEWORK FOR BUDGET BALANCING SOLUTIONS

- Prepare a long term financial forecast and plan to achieve stability and sustainability
- Focus on funding core services
- Identify new ways of delivering city services at lower costs
- Identify revenue enhancements
- Engage with key stakeholders

FIVE-YEAR GENERAL FUND FORECAST-FEB. 2018



Council discussion ensued.

Councilmember Sarmiento, expressed need to have full range of options for consideration including voter relief, rate of return, anchor source of revenue.

Councilmember Villegas, supports a voter-approved measure.

Councilmember Benavides, noted that jail obligation to expire in 2024, voter measures considered in the past such as Utility User Tax; need to be right by the community and voters; focus on economic development; last option is to have measure on ballot, need to be creative and explore all other options.

Councilmember Tinajero, thanked staff for presentation; City has three year plan to ensure payment of obligations; consider revenue options such as green striping for vending trucks, manufacturing and cultivation of cannabis, encouraging economic development with conventions such as upcoming speech and debate; focus on arts and utilizing streetcar project.

Councilmember Solorio, suggested offering expedited approval process for major developments as means of revitalizing economy; allow for adequate staffing when approving new measures such as cannabis; need to focus on code enforcement and youth programs; use of technology to streamline and be more transparent; be flexible in requirements such as POST certificate of Park Rangers; consider employee contribution towards increasing PERS costs.

Mayor Pro Tem Martinez, staff to focus on building revenue; continue to have honest discussion of budget realities; review recommendations by Management Partners developed some years ago when City dealing with budget shortfalls; focus on manufacturing industry such as the brad city; focus on trades including economic development opportunities for residents to succeed; innovation; make general plan and land use decisions to allow for expansion such as Amazon headquarters; strategies need to be revolutionary.

COMMENTS

ADJOURNED - 7:25 P.M.

Maria D. Huizar,

Clerk of the Council