



THE CITY OF
NOVATO
CALIFORNIA

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City Manager
Regan M. Candelario

August 30, 2017

Marin County Civil Grand Jury
Jay Hamilton-Roth, Foreperson
3501 Civic Center Drive, Room 275
San Rafael CA 94903

Re: "The Budget Squeeze: How Will Marin Fund its Public Employee Pensions?"

Dear Mr. Hamilton-Roth:

As its regular meeting of August 29, 2017, the Novato City Council reviewed the above report which requests that the City of Novato respond to Recommendations R3, R4, and R8 of the report. The City's response is attached.

If the members of the Grand Jury require additional information, please contact City Manager Regan M. Candelario.

We appreciate the work of the Grand Jury and thank you for your service to our residents and Marin County.

Sincerely,

Denise M. Athas
Mayor
City of Novato

Cc: The Honorable Judge Kelly V. Simmons
Marin County Superior Court
P.O. Box 4988
San Rafael CA 94913-4988

The Grand Jury has requested that the City Council and City Manager respond in writing to certain of the recommendations (R3, R4, and R8) contained in the report.

The following are the City's responses to the Recommendations.

- R3. Agencies should publish long-term budgets (i.e., covering at least five years), update them at least every other year and report what percentage of total revenues they anticipate spending on pension contributions.**

The City of Novato updates its five-year General Fund budget projection two to three times each year. These projections, which include projected pension costs, are presented to City Council at regularly scheduled public meetings and are published as part of the agenda packet for the meeting. The projections do not currently calculate pension costs as a percentage of total revenue, but that is a change that will be made prior to the next review with City Council.

- R4. Each agency should provide 10 years of audited financial statements and summary pension data for the same period (or links to them) on the financial page of its public website.**

The City of Novato has provided 10 years of audited financial statements to the financial page of its website. The statements include summary pension data for the same period.

- R8. Public agencies and public employee unions should begin to explore how introduction of defined contribution programs can reduce unfunded liabilities for public pensions.**

The existing unfunded liabilities for the City of Novato of \$32 million have already been incurred; therefore, new or supplementary programs will not reduce these liabilities. Furthermore, as a participating agency with CalPERS, all eligible employees must be enrolled in the pension system; any changes to the CalPERS pension plans to try to reduce future costs by adding a defined contribution plan would require legislative action and approval of the CalPERS board. Additionally, the costs associated with terminating the City's CalPERS plan would be prohibitive (requiring outlay of millions of dollars). Any changes to the retirement benefits we offer our employees would also need to be negotiated with the affected labor units. However, the City is supportive of reasonable, fair, and effective alternatives that can be negotiated with labor groups to limit future financial exposure.

In June 2017, the City Council agreed to discuss, develop, and implement a plan of action to reduce and/or eliminate the City of Novato's Unfunded OPEB (pension and health) Liability.