

Pension tsunami about to hit City San Luis Obispo

By Andrea Seastrand

There are three [warning signs for a tsunami](#), according to the American Geosciences Institute: severe ground shaking from local earthquakes, water receding from the coast, and a roaring sound similar to a train or jet aircraft. A pension tsunami is about to hit the City of San Luis Obispo. The budgetary warning signs have been evident for years, and alarms have been raised by concerned citizens and organizations.

Unfortunately, city officials have chosen to ignore them, and the city budget is about to be swamped by pension debt. It's likely to result in reduced government services and higher taxes and fees on SLO residents and businesses.

Despite the current healthy economy, the city is facing a \$5 million deficit in the coming years, according to the city's [General Fund Five Year Fiscal Forecast](#). The problem is not that the city isn't taking in enough money. Revenue is projected to increase 15.5 percent in the next five years from \$68.6 million to \$79.2 million, due in large part to a 9.6 percent increase in sales taxes and a nearly 28 percent increase in property taxes.

The problem is on the expenditure side, specifically the amount the city pays in retirement benefits for city employees. Total contributions to the California Public Employees' Retirement System are projected to increase a whopping 78.3 percent from the current \$10.7 million to \$19.1 million in the 2021/22 budget year. As a result, the city reserve fund will decrease to just 7.5 percent of operating expenses, well under the city's goal of a 20 percent reserve.

The main reason for the enormous jump in pension contributions is that CalPERS is lowering its expected rate of return on investments to 7 percent from the current 7.5 percent. Cities, counties and school districts throughout the state that participate in CalPERS are required to make up the lost revenue.

This should not have been a surprise to SLO officials. For years the San Luis Obispo Property and Business Owners Association has warned about the city's shaky finances, including hosting State Treasurer John Chiang and CalPERS Actuarial Representative Barbara Ware at its meetings.

"We submitted pragmatic, efficient steps, large and small, to cut costs, but these were dismissed as naïve or untenable," said Association President Leslie Halls. "We published projections in 2007, based on the city's own data submitted to the state, as to where the debt would be in 2013, and practically begged for action. City staff could not refute the conclusions, but simply questioned our 'methodology.' In retrospect ... the debt became worse

than we had predicted.

"The original culprits, who knew about the impending fiscal problems and did nothing other than raise taxes, have since retired on six-figure pensions courtesy of SLO taxpayers. Current staff pretends this CalPERS debt is a big surprise. Their only answer is to cut capital outlays and make sure they don't lay off city employees. If history is an indication of future actions, they will no doubt also hire an expensive outside consultant to advise them.

"Perhaps it's time to look at our suggestions from ten years ago, put everything on the table, and make righting this fiscal ship the only priority. But deep down we know it will be the taxpayers of San Luis Obispo who will be digging ever deeper into their own pockets to fund these pension debts through fees, fines and surcharges."

Unfortunately, although the pension tsunami is about to put SLO's budget underwater, possibly resulting in cuts to public safety and increases in taxes, some council members appear to have their heads in the sand.

"I'm excited about the [cost-cutting] plan," said Vice Mayor Dan Rivoire as he sought to downplay concerns at the council's Feb. 21 meeting. "The alarmism is strong. It's just a time of constrained growth. We'll be sure we manage expenses. We may not be able to deliver the same rate of capital improvement projects in the same time frame. But by no means is it going to be a catastrophe for the city."

Those could be famous last words as the wall of debt washes over the city.