



CITY OF FULLERTON

City Council Office

Mayor, Jennifer Fitzgerald
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June 2, 2020

The Honorable Gavin Newsom
Governor, State of California
State Capitol
Sacramento, California 95814

RE: REQUEST FOR STATEWIDE PENSION RELIEF/REFORM

Dear Governor Newsom:

As you are well aware, tumult in the financial markets and the economic issues presented by the COVID-19 pandemic are adding significant unanticipated costs and unprecedented revenue losses for many city and local governments. The financial issues are reflected in the market valuation of CalPERS investments which hit a low of more than \$74 billion less than its high from January of this year, and \$40 billion less than the June 30, 2019 close for Fiscal Year 2018-19.

While the market valuation fluctuates and currently is around \$380 billion, the end of the 2019-20 Fiscal Year is quickly coming to an end and it is highly likely that CalPERS will not realize its target discount rate of a 7% return. While CalPERS will certainly weather the current financial storm, I cannot say the same for the local government members of the system. The reality is that CalPERS weathered the Great Recession largely on the backs of local government employers. What CalPERS needed to survive the Great Recession they took from us by changing how they extract payment from local governments.

Local governments continue to live with the changes that CalPERS made to their actuarial assumptions and discount rates. Changes that have resulted in massive increases in unfunded liability costs to cities, despite some of that burden being shifted to employees as they now pay more towards their retirements. While the State has witnessed huge revenue gains in recent years, fueled primarily by its dominant revenue sources of personal and corporate income taxes, local governments' primary revenue sources, made up of property and local sales tax, have only modestly increased since the Great Recession in comparison. In many cases, to include the City of Fullerton, those increases have barely kept up with the pace of expenses, fueled mostly by the increase in unfunded pension liability expenditures. When you add in the need to invest more in infrastructure, the loss of redevelopment funding, and the rising cost of labor, it can be argued that many cities are not much better off now than what they were ten years ago.

This is where we need your help and the help of the entire Legislature. Please consider the plight of cities and the difficulty that exists for over 480 cities, many with multiple bargaining entities, to better position the pension system through a second comprehensive, state-wide pension reform that addresses differing pension formulas, increasing costs due to expected

THE EDUCATION COMMUNITY

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reduced discount rates, and continued escalating unfunded obligation costs which increase greater than a city's revenue base. This reform should also include providing cities the ability to defer cost of living adjustments if their unfunded status is less than 80% either in whole or for those earning over a defined annual median income level. The reality is, this public health crisis will hasten the further decline of cities' ability to provide services, maintain and enhance infrastructure, and provide the necessary police and fire protection that our residents expect. We must do something about it now.

Thank you for your consideration. You have the attention of all Mayors and elected Councilmembers in California and an opportunity to make true and meaningful reform which will only better the communities of California.

Sincerely,

Jennifer Fitzgerald
Mayor

cc: Senator Ling Ling Chang
Assemblymember Sharon Quirk-Silva
Fullerton City Council
Ken Domer, City Manager