

Opinion, Government

Employee Pensions May Cripple the City's Finances

Millbrae's continuous underfunding of city employee pensions may jeopardize its future economic stability.

By [David Carini](#) | [Email the author](#) | April 20, 2011



The city formally began budget talks yesterday for the 2011-2012 fiscal year and officials expect no drastic layoffs or cuts in services in the next year. But, if the city does not rein in ballooning pension costs, it may face dire consequences in the next decade.

As the debt accumulates, the city will be forced to use more money from its general fund. If sufficient money is not set aside now, city services such as police, fire and parks will suffer, or residents may have to pay more taxes.

Millbrae is not alone however, as many California cities face the same fate.

To address the statewide problem, prompted by investor concern over whether a city will be able to repay pension bonds, the [Government Accounting Standards Board](#) issued Rule 45 in 2006 determining cities' yearly pension contributions and requiring local governments to disclose the details of their pension liability situation.

GASB expects Millbrae to set aside about \$1.3 million a year to pay for the city's future retiree's pensions, but Millbrae has only been contributing less than half that for the last two years, \$312,000 in 2009 and \$538,00 in 2010, according to the city's [Comprehensive Annual Financial Report](#).

According to Gary Rogers, a human resources consultant for Millbrae, this money is set aside to reduce the impact of the dramatic increase in pension costs as the employee population ages and accesses benefits.

In 2004, a bond was issued to prepay the unfunded pension liability. The city's portion at the time was \$11.5 million, but since, the city's liability has jumped to over \$14 million.

"The council at any time can say, we're going to fund this liability...this train that's coming down the tracks," Rogers said at yesterday's budget meeting. "What some cities will do, is adopt a resolution and say that over the next 20 years, we're going to fund that \$14 million."

However, it's not clear where the money would come from. And although property taxes currently cover the city's other loans, this might not be the case in the near future, according to Millbrae Finance Director Larae Brown.

One possible solution is to increase the employee paid contribution rate to pensions, currently at about 24 percent for police and fire personnel.

"Moving forward I see our costs increasing and we need to devise a plan to address that, 2,3,4 years down the road," City Manager Marcia Raines told council members.

Without citing specifics, Raines proposed overhauling the city's organizational structure and sharing services wherever feasible.

City council will meet three more times publicly to discuss the 2011-2012 budget, on April 26, May 10 and 26. It expects to adopt a budget shortly thereafter for the fiscal year beginning July 1.
