SUPPLEMENTAL REPORTS & COMMUNICATIONS I
Office of the City Clerk

City Council of the City of Napa
Regular Meeting

September 7, 2021

FOR THE CITY COUNCIL OF THE CITY OF NAPA:

AFTERNOON SESSION:

4. CONSENT CALENDAR:

4.B. Encouraging Action by Other Governmental Agencies During the League of California Cities ("Cal Cities") Annual Conference.

1) Email from City of Eastvale City Manager Bryan Jones received on September 3, 2021.

5. ADMINISTRATIVE REPORTS:

5.A. Pension Update, September 2021

- PowerPoint Presentation from City Staff.

5.C. Emergency Replacement of Oak Street Storm Drain

- PowerPoint Presentation from City Staff.

CITY OF EASTVALE
12363 Limonite Avenue | Suite 910 | Eastvale, CA 91752
951.361.0900

September 3, 2021

Subject: Don't Punt Local Sales Tax Allocation to Legislature

Dear City Manager:

We need your help to protect cities' local control over sales tax distribution – and possibly all types of tax distribution. A flawed resolution has been proposed at the ***Cal Cities Annual Conference*** in September that is billed as an attempt to bring equity to sales tax distribution, but it opens the door to Legislative meddling on this sensitive issue without the League first having an actual plan that has been vetted with its membership.

Please join our effort to ***oppose the resolution unless it is amended to include the adoption of critical amendments to the Cal Cities' Online Sales Tax Equity Resolution*** to ensure the League and its City Manager Department leads on this issue by first developing and vetting actual proposals within the membership.

The proposed resolution aims at cities that host Amazon fulfillment centers and asks the Legislature to devise a "fair and equitable reallocation plan." In theory, this may sound appealing to some, but after dealing with ERAF, Redevelopment elimination, VLF elimination, the Triple-Flip, and piles of unreasonable housing mandates, all cities should be concerned with the League asking the Legislature to engage in reallocating local revenues without having an actual plan based on data to allow an informed decision.

My city, and 16 others, have these large Amazon facilities that serve as regional distribution hubs. Many of these communities are located in inland areas, close to freeway networks, and lack economic advantages and opportunities that other cities have to generate revenue for police, fire, and other city services. We also bear major infrastructure and environmental burdens that other cities don't have to worry about. Still, Amazon is continuing to expand its network and has plans to build many smaller delivery hubs at the local level, which will allow more communities to also benefit.

In addition, most of the sales tax revenue from Amazon is still going to County pools and only a percentage is going to the host cities. This past year the success of the County pools went up significantly and benefitted many cities. The structural corporation change of Amazon is aligning them with other online fulfillment centers like eBay, Wayfair, Walmart, Target, and Costco to name a few. Dozens of cities have these online fulfillment centers as sales tax revenue generators.

Concerns about expanded internet purchases and sales tax allocation are not unique to Amazon facilities. The League has been discussing this evolving issue for nearly a decade and has adopted policies that include sales tax allocation that says: ***"Specific proposals in this area should be carefully reviewed so that the impacts of any changes are fully understood."***

The League's City Manager's Department also had a working group on sales tax allocation that last met in 2018. That group made numerous recommendations, but after considering various phase-in options for destination sourcing and allocation of sales taxes from online purchases, the group decided that a more complete analysis was needed to sufficiently determine impacts, and should be revisited when better data was available.

It is time for the League to reconvene this group. We are certainly not opposed to a discussion on sales tax allocation; however, this massively complex issue needs to be looked at holistically – not just Amazon fulfillment warehouses. Our cities are all unique. Some cities are close to beaches, mountains or lakes, or parks that generate tourism sales tax revenue and transient occupancy tax.

Other cities have major brick-and-mortar destination retail-like Bass Pro Shop or auto malls that generate sales tax revenue for which other cities can't benefit from because not every city was in existence during the era of the regional auto mall land use development concept.

And equally as important, this critical policy area affecting city revenue needs to be driven first by an effort to secure internal consensus within the League instead of being turned over to the state to decide our fate.

The Legislature always looks out for their interests and has a track record of treating cities unfairly. If cities are not on the same page with a plan or are not at the table, then our budgets and revenues will be on a chopping block for special interests. ***If the Legislature is given free rein, likely, even the proponents of this resolution won't be satisfied with what develops***.

Let's work together to ***retain local control*** and come together to develop a ***comprehensive solution to this issue*** instead of asking the state to intervene when we are internally disorganized with no plan to address this complex issue.

There is a saying, 'What is popular and easy, is not always right. And what is right, is not always popular and easy." The difference requires leadership. As City Manager's we provide leadership and expertise at the local level and this resolution as it is currently written is '***punting' local expertise and experience to the state legislature.***

We encourage all of us to roll up our sleeves and utilize data to inform our decisions.

Thank you for your time and support. Please contact me directly if you would like to be part of our coalition.

Sincerely,

Bryan Jones
City Manager
City of Eastvale
(510) 789-5823
bjones@eastvaleca.gov

Attachment: Proposed Amended Resolution

Proposed Amendment to Resolution #1
All Proposed Amends are highlighted in Yellow.

Note: This document is taken directly from the League's resolution packet. The changes in the text below in red and blue are technical clarifications recommended in the Packet by League staff.

1. **RESOLUTION OF THE LEAGUE OF CALIFORNIA CITIES ("CAL CITIES") CALLING ON THE STATE LEGISLATURE TO PASS LEGISLATION THAT PROVIDES FOR A FAIR AND EQUITABLE DISTRIBUTION OF THE BRADLEY BURNS 1% LOCAL SALES TAX FROM IN-STATE ONLINE PURCHASES, BASED ON DATA WHERE PRODUCTS ARE SHIPPED TO, AND THAT RIGHTFULLY TAKES INTO CONSIDERATION THE IMPACTS THAT FULFILLMENT CENTERS HAVE ON HOST CITIES BUT ALSO PROVIDES A FAIR SHARE TO CALIFORNIA CITIES THAT DO NOT AND/OR CANNOT HAVE A FULFILLMENT CENTER WITHIN THEIR JURISDICTION**

Source: City of Eastvale
Referred to: Revenue and Taxation Policy Committee

WHEREAS, the 2018 U.S. Supreme Court decision in *Wayfair v. South Dakota* clarified that states could charge and collect tax on purchases even if the seller does not have a physical presence in the state; and

WHEREAS, California cities and counties collect 1% in Bradley Burns sales and use tax from the purchase of tangible personal property and rely on this revenue to provide critical public services such as police and fire protection; and

WHEREAS, in terms of "siting" the place of sale and determining which jurisdiction receives the 1% Bradley Burns local taxes for online sales, the California Department of Tax and Fee Administration (CDTFA) determines "out-of-state" online retailers as those with no presence in California that ship property from outside the state and are therefore subject to use tax, not sales tax, which is collected in a countywide pool of the jurisdiction where the property is shipped from; and

WHEREAS, for online retailers that have a presence in California and have a stock of goods in the state from which it fulfills orders, CDTFA considers the place of sale ("situs") as the location from which the goods were shipped such as a fulfillment center; and

WHEREAS, in early 2021, one of the state's largest online retailers shifted its ownership structure so that it is now considered both an in-state and out-of-state retailer, resulting in the sales tax this retailer generates from in-state sales now being **entirely** allocated to **the specific city** **cities** where the warehouse fulfillment center**s** **is** **are** located as opposed to going into **a** countywide pool**s** that **is** **are** shared with all jurisdictions in **those counties** **that County**, as was done previously; and

WHEREAS, this all-or-nothing change for the allocation of in-state sales tax has created winners and losers amongst cities as the online sales tax revenue **from the retailer** that was once spread amongst all cities in countywide pools is now concentrated in select cities that host **a** fulfillment center**s**; and

WHEREAS, this has created a tremendous inequity amongst cities, in particular for cities that are built out, do not have space for siting **a 1 million square foot** fulfillment center**s**, are not located along a major travel corridor, or otherwise not ideally suited to host a fulfillment center; and

WHEREAS, this inequity affects cities statewide, but in particular those with specific circumstances such as no/low property tax cities that are extremely reliant on sales tax revenue as well as cities struggling to meet their **Regional Housing Needs Allocation (**RHNA**)** obligations that are being compelled by the State to rezone precious commercial parcels to residential; and

WHEREAS, the inequity produced by allocating in-state online sales tax revenue exclusively to cities with fulfillment centers is exasperated even more by, in addition to already reducing the amount of revenue going into the countywide pools, the cities with fulfillment centers are also receiving a larger share of the dwindling countywide pool as it is allocated based on cities' proportional share of sales tax collected; and

WHEREAS, while it is important to acknowledge that those cities that have fulfillment centers experience impacts from these activities and deserve equitable supplementary compensation, it should also be recognized that the neighboring cities whose residents are ordering product**s** from **those that** center**s** now receive no **Bradley Burns** revenue **from the center's sales activity** despite also experiencing the impacts created by the**m** center, such as increased traffic and air pollution; and

WHEREAS, the COVID-19 pandemic greatly accelerated the public's shift towards online purchases, a trend that is unlikely to be reversed to pre-pandemic levels; and

WHEREAS, the League of California Cities existing policy requires that specific proposals that would involve a change to sales tax allocation to destination allocation be carefully reviewed within the League's policy process so that the impacts of any changes are fully understood; and

WHERAS, the League's City Manager Sales Tax Working Group, which met in 2017-18, made numerous recommendations, but after considering various phase-in options for destination sourcing and allocation of sales taxes from online purchases ultimately decided that a more complete analysis was needed to sufficiently determine impacts, and should be revisited when better data was available.

NOW, THEREFORE, BE IT RESOLVED that Cal Cities *believes that to avoid potential unworkable outcomes it is incumbent upon the organization to develop its own internal consensus solutions to this emerging issue of importance to all cities before seeking Legislative involvement; and therefore,* calls upon the ~~State Legislature to pass legislation~~ *League's City Manager's Department to reconvene its Sales Tax Working Group, with balanced and equitable representation from affected communities, to develop one or more proposals for consideration by the League's Revenue and Taxation Policy Committee and Board of Directors* that provides for a fair and equitable distribution of the Bradley Burns 1% local sales tax from in-state online purchases, based on data where products are shipped to, and that rightfully takes into consideration the impacts that *warehouse and* fulfillment centers have on host cities but also provides a fair share to California cities that do not and/or cannot have ~~a fulfillment center~~ *such facilities* within their jurisdiction.

City Council Meeting
9/7/2021
Supplemental I - 5.A.

Pension Funding

City of Napa, CA

Building Blocks of Pension Funding

Educate	Analyze	Plan	Adopt	Administer	Evaluate
Understand the problem intended to be solved	Evaluate cost drivers including new assumptions and actual experience	Develop funding policy	Formally adopt and implement funding policy	Monitor funding policy to ensure fiscal stability and growth	Revisit funding policy

Understanding Pension Funding

Pension Basics

Hurdles and Other Considerations

How is your agency doing relative to your funding targets?

Next Move

Pension Basics

Pension Jargon Glossary

- Assumption = Target, Goals or Expected Results
- Experience = Actual Results
- Normal Cost = Initial savings rate (Employee and Employer contributions)
- Present Value of Projected Benefit (PVPB) = Savings goal at desired retirement age
- Accrued Liability (AL) = Target funding progress at a given point of time
- Unfunded Accrued Liability (UAL) = Amount actual savings falls short of funding goal
- Amortization of UAL = Annual amount needed to get back on track
- Annual Required Contribution = Normal Cost + Amortization of UAL
- Discount Rate = Long-term *assumed* Investment Rate of Return

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What Is the Discount Rate?

Interest rate fixed by the CalPERS Board for the purposes determining the value of future promised benefits (liabilities)

Synonymous with long-term, assumed investment rate of return

Used to calculate or "discount" value of future expected future-benefit payments.

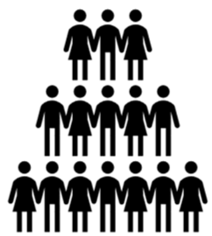
Informed by Capital Market Assumptions and selected by the Board from a range of actuarially sound options

It helps determine how much do we need in the bank today to grow to our desired savings goal.

Assumptions Set Future Cost & Funding Expectations

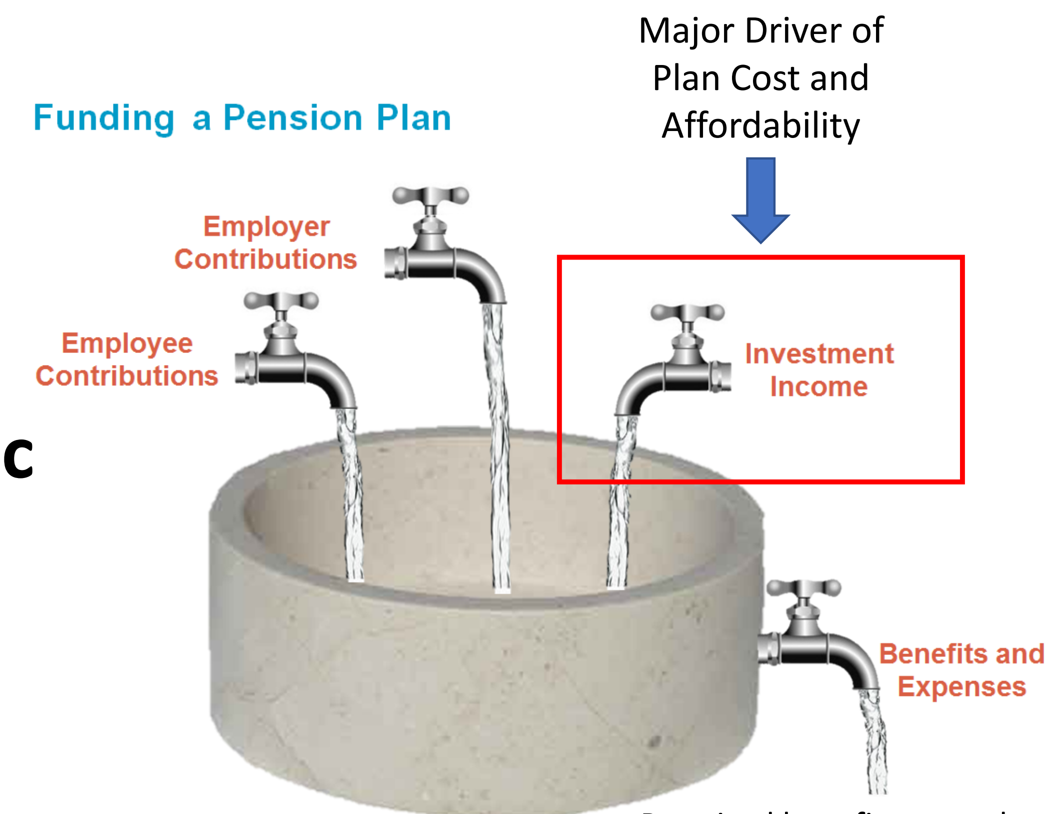
Economic

- Inflation
- Investment Return
- Salary Growth



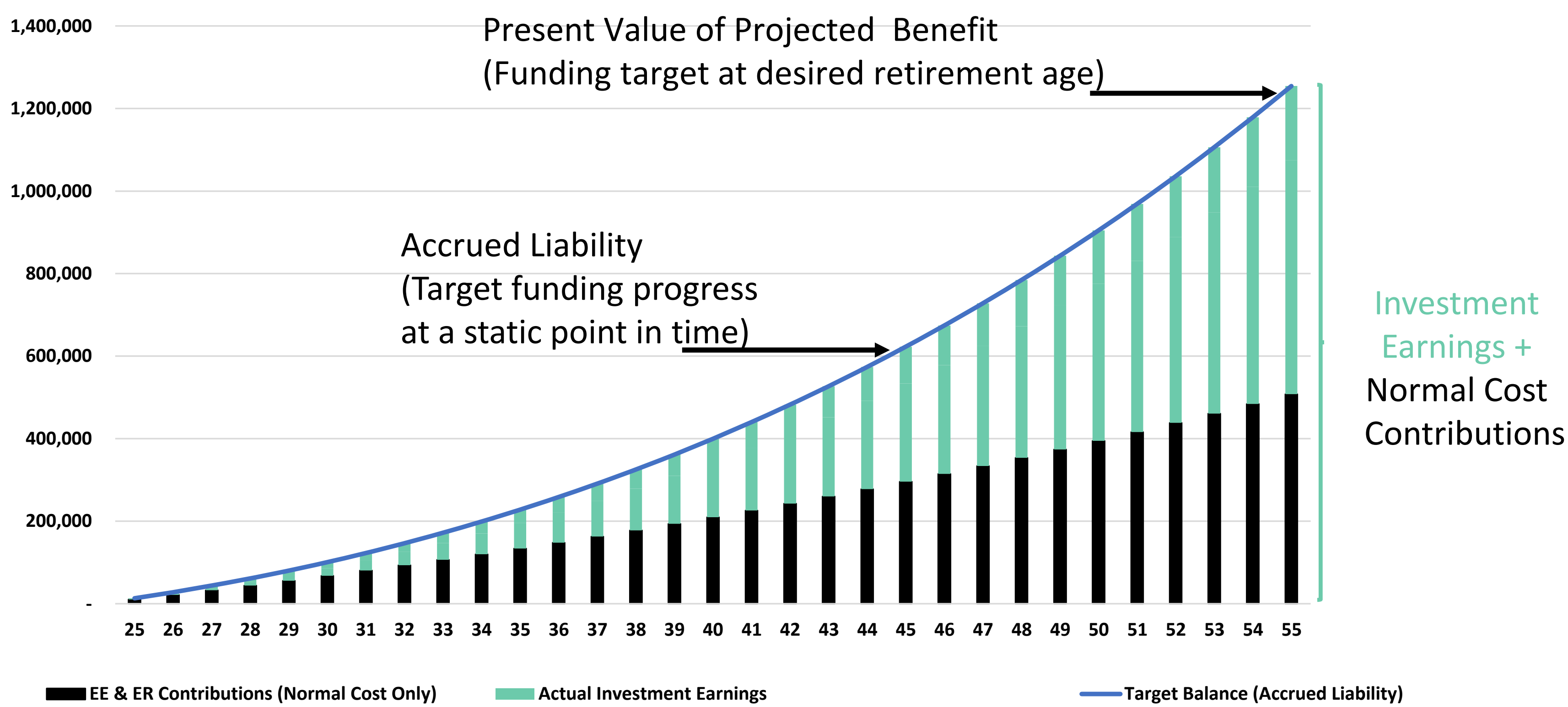
Demographic

- Retirement
- Disability
- Death
- Termination



Promised benefit cannot be retracted except prospectively, per CA Constitution AKA "The California Rule"

Retirement Plans Are Sensitive to Investment Earnings



Retirement Plans Are Sensitive to Investment Earnings

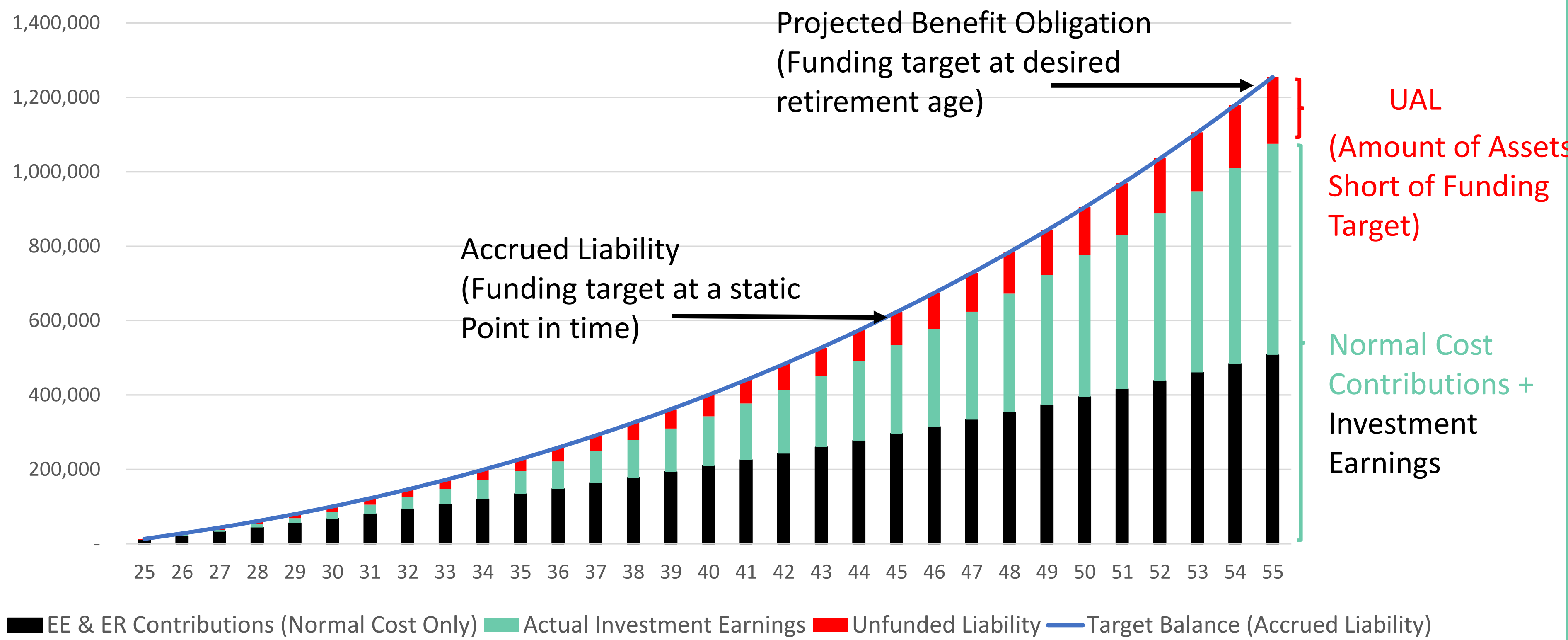
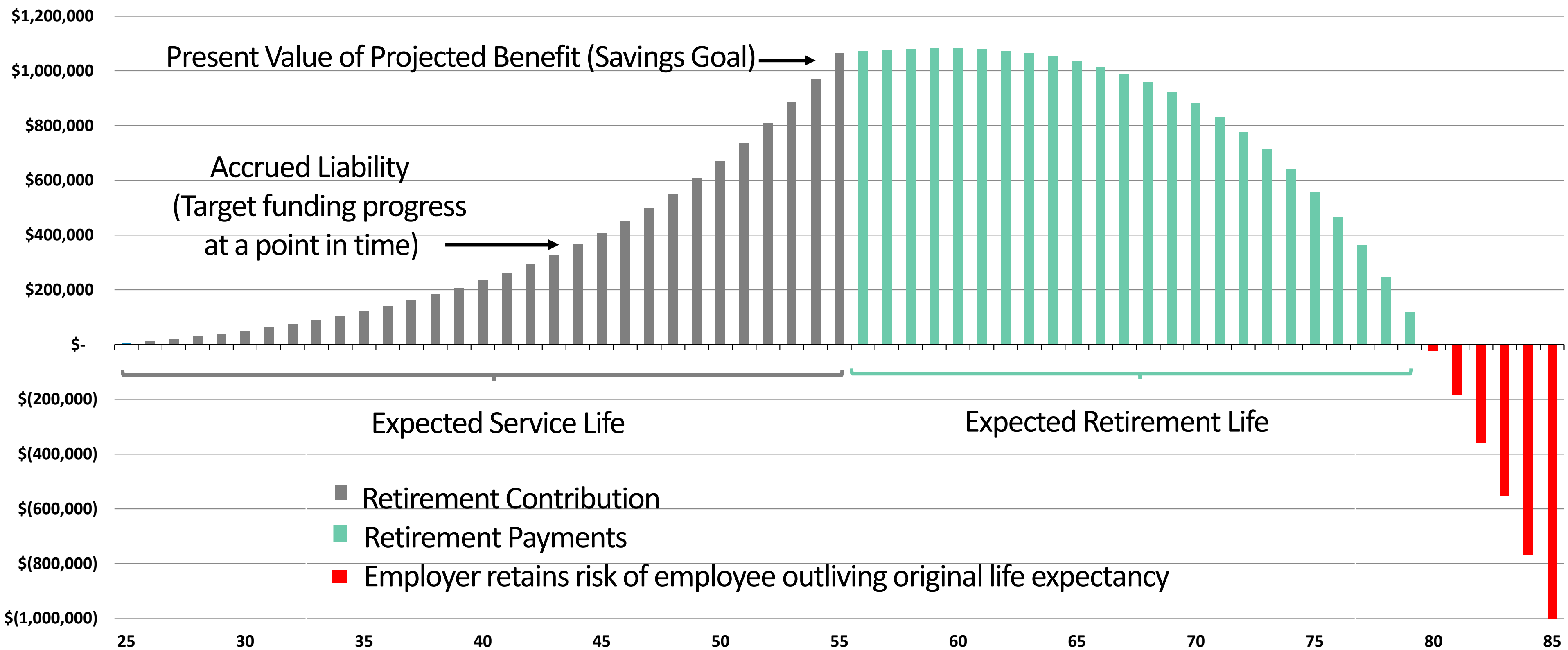


Illustration of Mortality Risk for an Individual Employee



Hurdles & Considerations

CalPERS Investment Return:

21.3%

(Preliminary Estimate)

Investment Return Triggers Lower Discount Rate Provision of Funding Risk Mitigation Policy

New Discount Rate 6.8% Heading into ALM Deliberations

Final Decisions Expected November 2021

https://www.calpers.ca.gov/docs/funding-risk-mitigation-policy.pdf

Funding Risk Mitigation Policy - Still in Place*
6.8% Discount Rate Heading Into ALM Deliberations Nov 21

Excess Investment Return	Reduction in Discount Rate	Reduction in Expected Investment Return
If the actual investment returns exceed the discount rate by:	*Then the discount rate will be reduced by:*	*And the expected investment return will be reduced by:*
2.00%	0.05%	0.05%
7.00%	0.10%	0.10%
10.00%	0.15%	0.15%
13.00%	0.20%	0.20%
17.00%	0.25%	0.25%

* While the CalPERS Board may elect to implement something different, the current policy suggests that the board should reduce the discount rate 20 bps to 6.8%. https://www.calpers.ca.gov/docs/funding-risk-mitigation-policy.pdf

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Stay Tuned, Stay Informed, Stay Engaged

2021
February
- Educational sessions:
  - ALM concepts and framework
  - ALM timeline

June
- Review of economic climate

July*
- Capital Market Assumptions
- Educational sessions:
  - ALM process and framework
  - Investment funds risk assessment
  - Gauging the funds' ability to tolerate market risk

September
- Discussion of candidate portfolios with proposed discount rates
- Draft Experience study results (first reading)

November
- Experience study results
- Discussion of candidate portfolios with discount rates
- Adopt new actuarial assumptions
- Adopt new economic assumptions
- Final approval of discount rate
- Final approval of strategic asset allocation

2022
July*
- Effective date for strategic asset allocation

** Board offsite*

Quarterly stakeholder webinars throughout the ALM process: January 20, April 27, August 3, and November 2021

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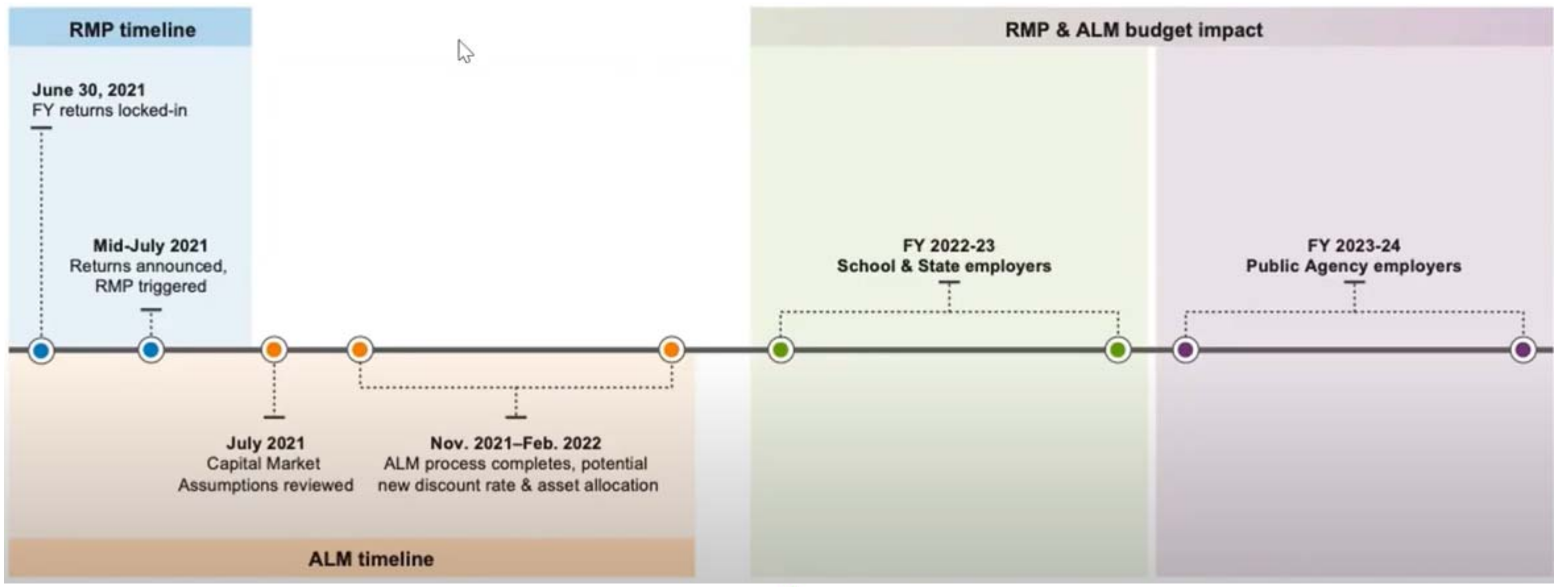
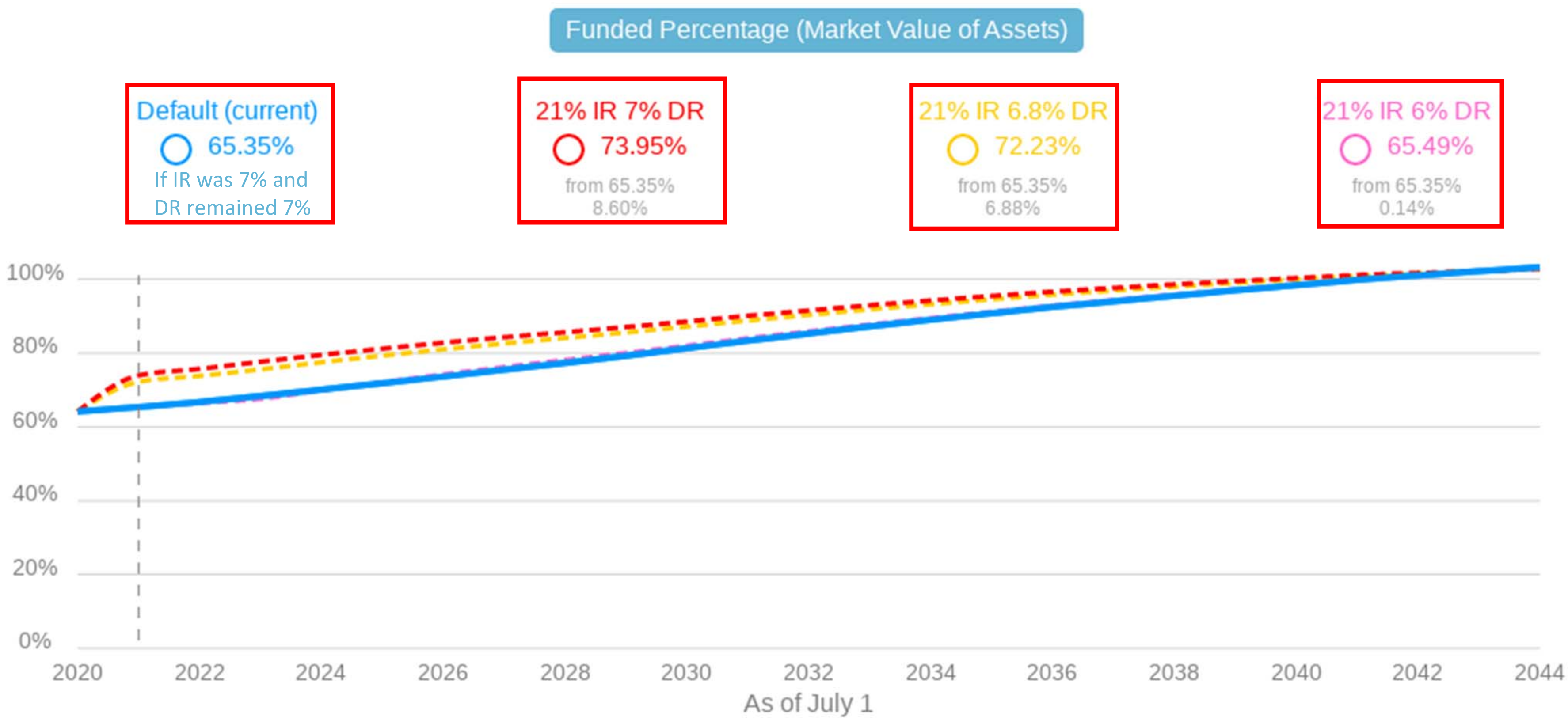
What is Happening When? *All subject to CalPERS Board Decisions*

- CalPERS Board Expected to Adopt New Discount Rate November 2021
- Assets and Liabilities Adjusted in 2021 Valuation (Next Fiscal Year for Most Plans)
- Net Positive Impact to Funded Status Under Almost Every Conceivable Scenario
- Contribution Rate Impact Begins FY 2023-24 for Local Agencies

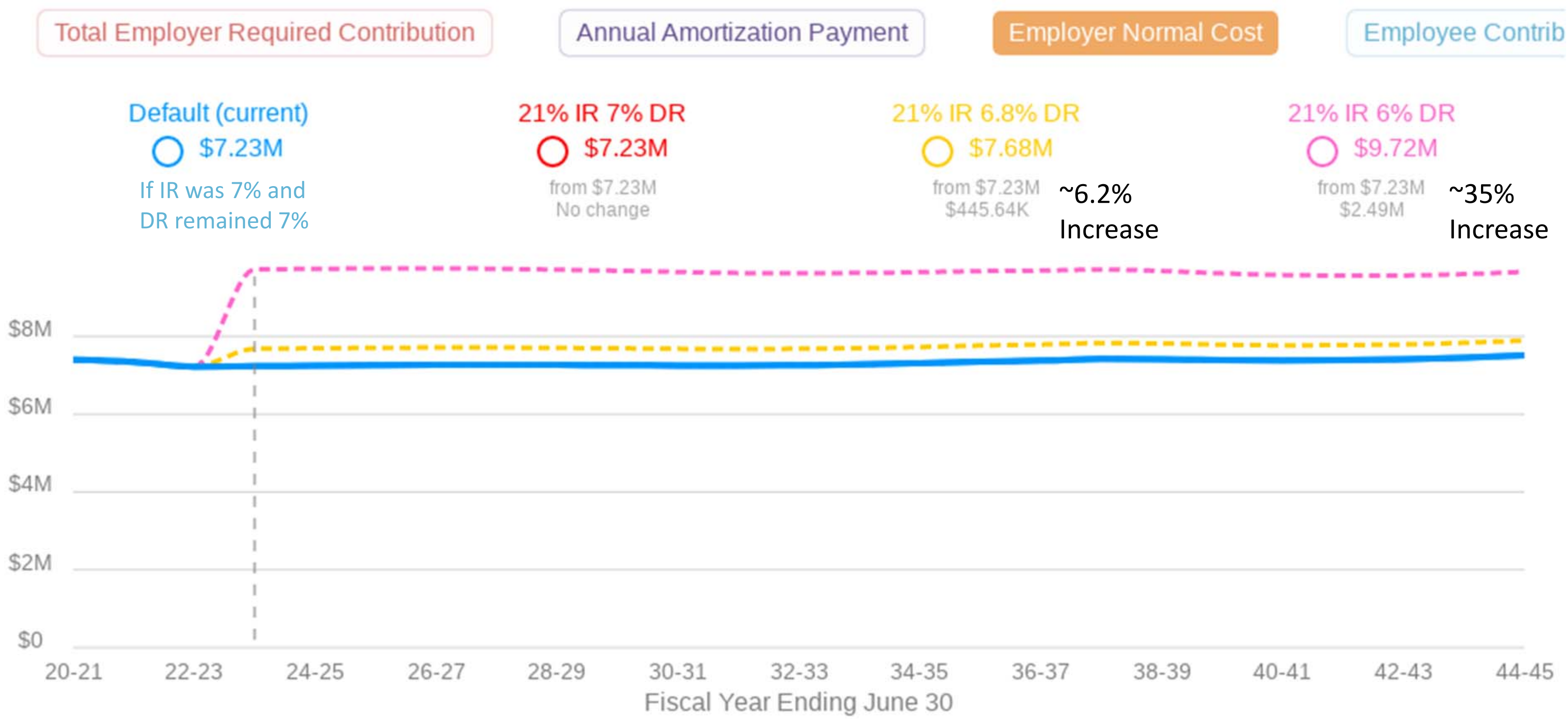


Potential Financial Impacts

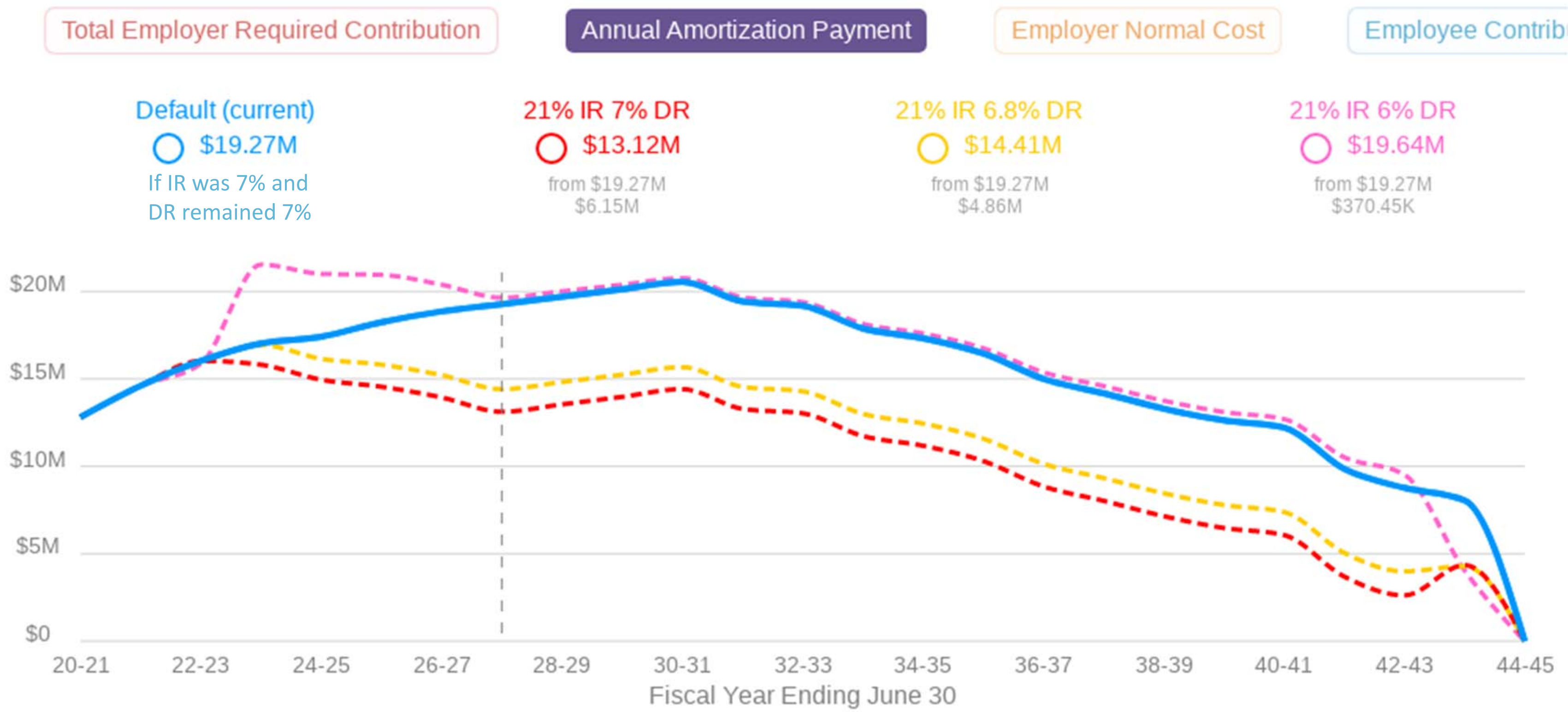
Plan Funded Status
(21.3% Return, Discount Rate Assumptions: 7% through 6.0%)



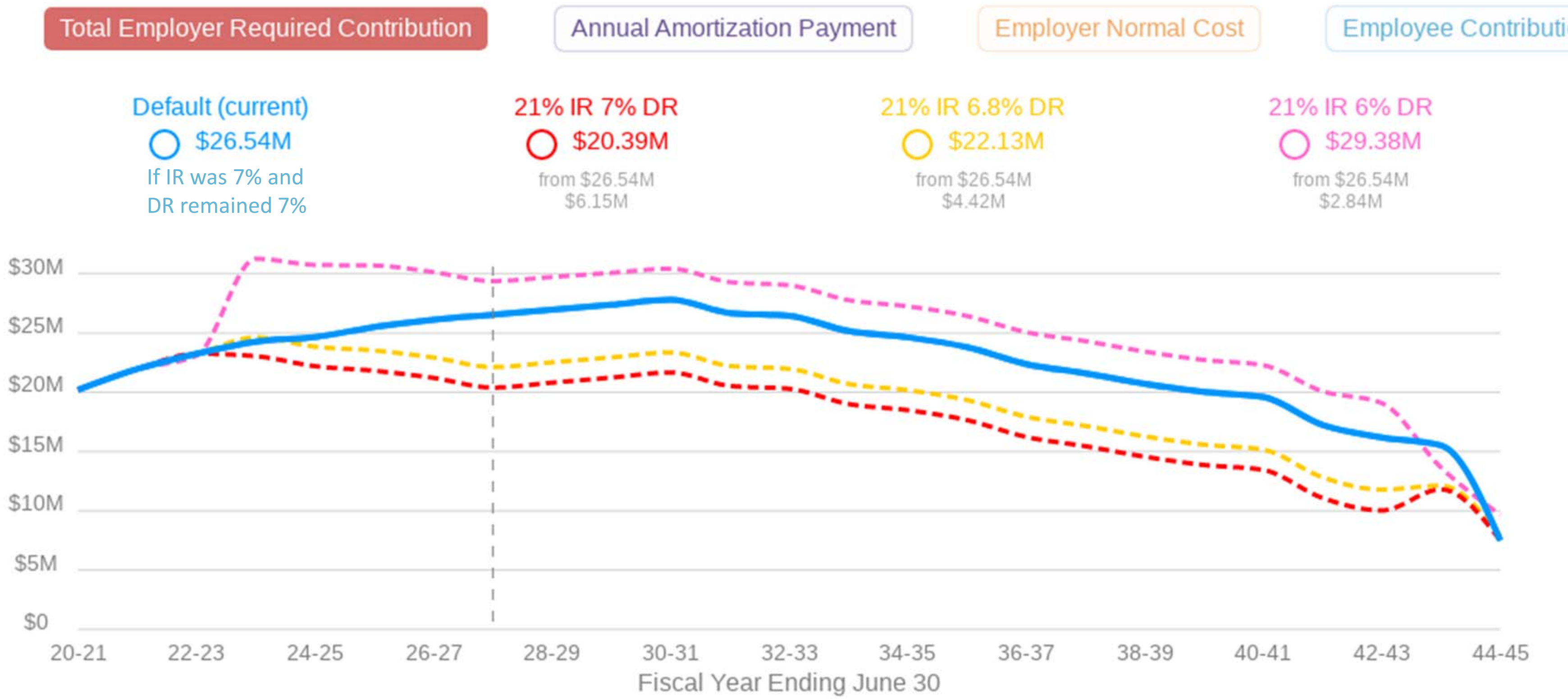
Approximate Dollar Change to Normal Cost from Current 7% Discount Rate to New Assumed Discount Rate Alternatives



Approximate Dollar Change to UAL Amort Payment from Default 7% Discount Rate to New Assumed Discount Rate Alternatives



Approximate Dollar Change to Total ER Cost from Default 7% Discount Rate to New Assumed Discount Rate Alternatives



Financial Impact Takeaways

1. The 21.3% Return in FYE 2020-21 will increase Napa's pension assets $49M boosting Napa's funded projected funded percentage at 6/30/21 from 67% as to 74% before considering any changes to the discount rate

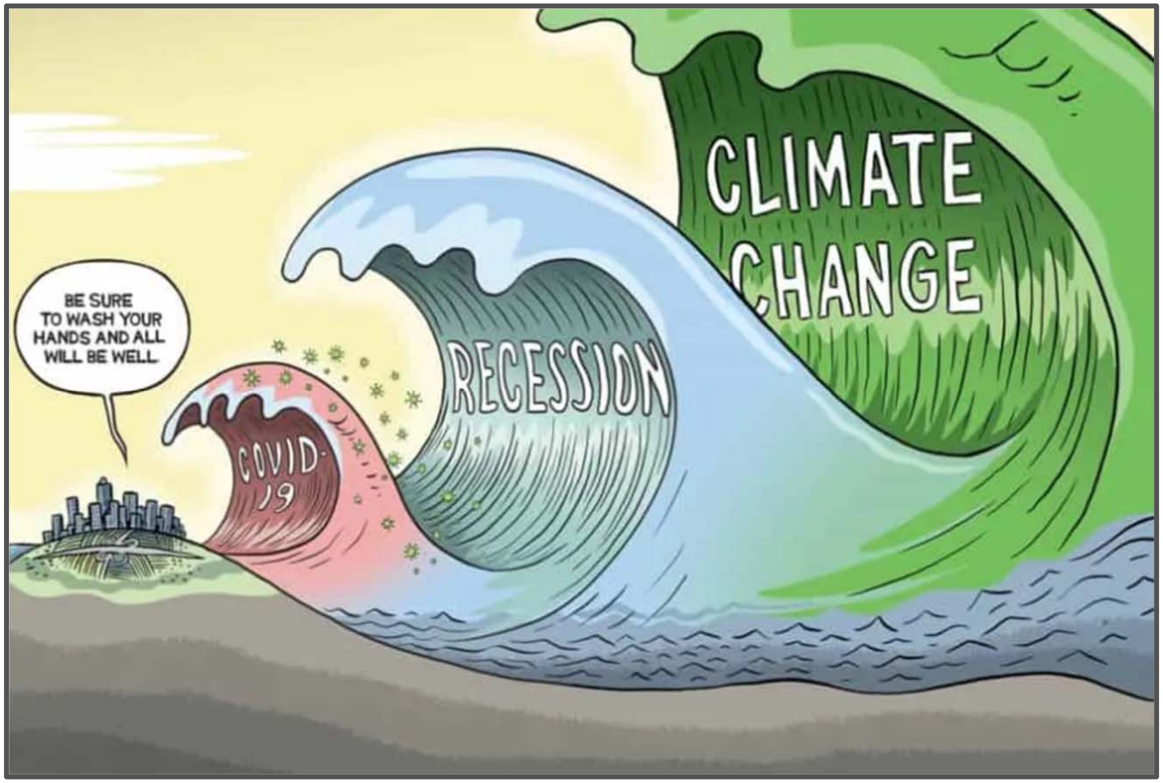
2. Lowering the discount rate to 6.8%, 6.5%, 6.25% or 6.0% will increase Napa's Accrued Liability and lowers the funded status

3. Overall, Napa's **decrease** in the required UAL Amortization contribution will be greater than the increase in the required normal cost contribution, **lowering** the overall employer pension cost to Napa, as long as the investment credit lasts and no new losses are incurred.

Next Move

An Over-Abundance of Uncertainty

Proceed Cautiously



The corona crisis has been a prompt for change. How will these changes impact your agency's finances?

Known Threats

- More Pandemic Waves
- Geopolitical Risks
- Political Gridlock on Further Stimulus
- Low Fixed Income Yields
- Inflation
- Low Fixed Income Yields
- Significant Market Correction or slow reversion to the mean
- Unknown, unknowns but we know you are out there

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Exercise Professional Skepticism

In other words, worry what may be lurking around the next bend

- Bank, Don't Spend Savings Associated with 21.3% Investment Return
- Bank, Don't Spend Pandemic Windfall
- Replenish Reserves as necessary
- Investment Gain is masking Long-term Cost of Lower Discount Rate
- Develop Funding Policy
- Good Times Don't Last Forever

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Why are Funding Policies Important

- Pension obligations are expensive and can become a serious financial threat to agencies without regular and appropriate attention;
- Pensions require long-term management therefore it is important to develop pension management strategies memorialize practices;
- Provides guidance in making annual budget decisions;
- Demonstrates prudent financial management practices;
- Reassures bond rating agencies; and
- Shows employees and the public how pensions will be funded

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Building Blocks of Pension Funding

Educate	Analyze	Plan	Adopt	Administer	Evaluate
Understand the problem intended to be solved	Evaluate cost drivers including new assumptions and actual experience	Develop funding policy	Formally adopt and implement funding policy	Monitor funding policy to ensure fiscal stability and growth	Revisit funding policy

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Questions

Disclaimer

While tested against actuarial valuation results, the software results will not necessarily match actuarial valuation results, as no two actuarial models are identical. The software offers financially sound projections and analysis; however, outputs do not guarantee compliance with standards under the Government Accounting Standards Board or Generally Accepted Accounting Principles. The software and this presentation are not prepared in accordance with standards as promulgated by the American Academy of Actuaries, nor do outputs or this presentation constitute Statements of Actuarial Opinion. GovInvest has used census data, plan provisions, and actuarial assumptions provided by Customer and/or Customer's actuary to develop the software for Customer. GovInvest has relied on this information without audit.

City Council Meeting
9/7/2021
Supplemental I - 5.C.

CITY OF NAPA

Emergency Replacement of Oak Street Storm Drain

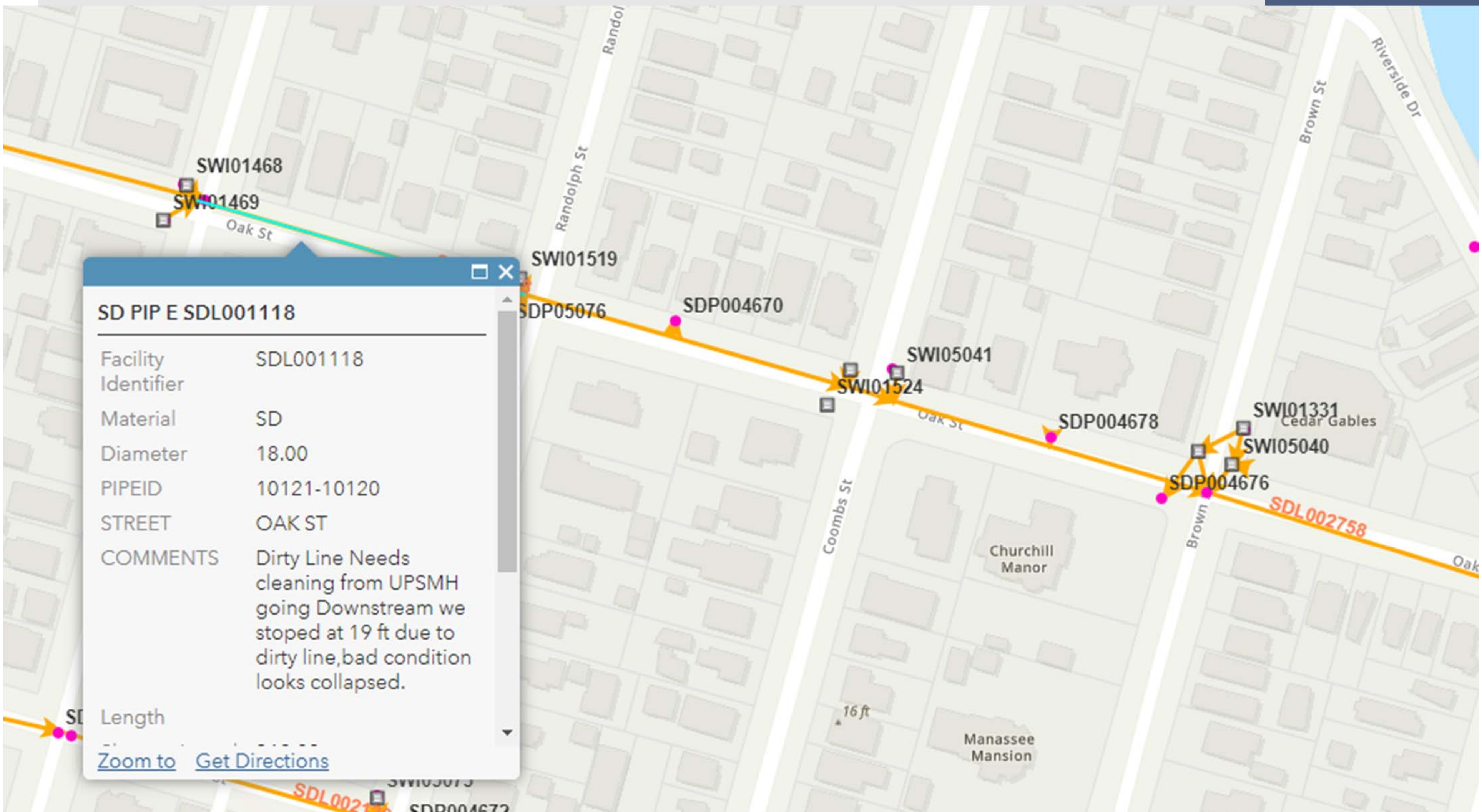
September 7, 2021

Emergency Replacement of Oak Street Storm Drain

- Problem initially identified by a sink hole in Oak Street east of Franklin Street.
- City was concurrently under contract for the storm drain facility assessment. Able to video line up to debris filled pipe.
- Attempts to flush and clean debris from pipe failed due to apparent collapse.
- City immediately engaged on-call contract Surveyors and Engineers to design the project.
- Emergency declaration made on August 25, due to need to fast track the bid process and contract award to complete project before wet weather.
- City will contract with the Lowest and Best Bidder based on weighted at 70% Lowest Bid Price and 30% Schedule and Experience.

CITY OF NAPA

Emergency Replacement of Oak Street Storm Drain



Emergency Replacement of Oak Street Storm Drain

Recommended Action

Adopt a resolution determining there is a need to continue the emergency action to execute and implement contracts for the construction to replace the Oak Street Storm Drain from Franklin Street to Brown Street and determining that the actions authorized by this resolution are exempt from CEQA.