



The City of Santa Rosa

Mayor's Task Force on Pension Reform

Final Report to the City Council

Introduction

Created in January 2011 by Mayor Olivares, the Mayor's Task Force on Pension Reform was directed to develop a report that would inform the community about public pension reform in California. The Task Force was asked to specifically review current pension plans approved and utilized by the City of Santa Rosa as part of the total compensation for City employees; to study the legal limitations for changes to the current pension plans including the requirements of the California Public Employee Retirement System (CalPERS); and to present options for pension reform that the Mayor and City Council may wish to consider. The Task Force was comprised of community members and labor representatives, with staff support provided by the City Manager's Office, City Attorney's Office and the Human Resources Department. A total of eight meetings were held between January 25, 2011 and May 26, 2011. Summary minutes of all meetings as well as pension reform educational material may be viewed on the City's website found at <http://ci.santa-rosa.ca.us/government/Pages/PensionReformTaskForce.aspx>

Due to various factors including stock market declines, increased retirement formulas and the impact of the economic downturn resulting in declining tax revenue collections, local governments throughout the state and nation are faced with escalating pension costs that have become a competing challenge for tax resources needed to maintain and deliver basic public services. The overarching purpose of the Task Force was to identify options that may inform the City Council when seeking potential solutions to this challenge.

The City of Santa Rosa has three different defined benefit pension plans under CalPERS. CalPERS pension benefits are based on a combination of three factors: 1) years of service; 2) age at retirement; and 3) average highest year salary. Since inception of these defined benefit pension plans in 1971, changes have been made through collective bargaining with City labor groups. These changes include formula changes and added enhancements that have increased both the value and cost of the pension benefit. These benefits have been negotiated as a part of employee total compensation in lieu of salary increases.

As of the publishing of this report, 17 legislative bills related to pension reform were introduced and are active in the 2011-12 Legislative Session and one ballot initiative is in the review process with the Attorney General's Office. These bills and initiative range in content from pension fund management, to limiting compensation, to restricting post government employment. In addition, the Government Code provides the legal authority for PERS benefits and GC section 20516 (a)-(e), places strict legal limitations on cost sharing options. It should be noted, that the City is bound by the applicable provisions of state law governing the PERS system and does not possess the authority to change those provisions.

The City Charter provides authority for the City to offer a retirement plan provided by PERS. A Charter amendment would be necessary to authorize the City to provide a retirement plan for its employees

other than one offered by PERS. Any changes to the City's Charter must be placed on the ballot and voted on by a majority of the electorate. Changes could be considered when the Charter Review Committee is appointed for the review of the Charter that is required by 2012 or as an independent amendment to the Charter.

Collaborative Efforts

The City of Santa Rosa, its union leaders and employees have a long history of collaboration to find solutions for addressing budget issues. These efforts have particularly come to light over the last four years as the City has experienced extreme financial difficulty. In response to the continuing challenges facing Santa Rosa, employee groups have agreed to a number of concessions including: deferral or forfeit of salary increases; salary reductions through furloughs; increased health premium contributions; and agreement to move to a two-tier retirement plan for miscellaneous employees. Current and future discussions to address the rising cost of employee pensions include: employee cost sharing of employer contribution for all employees; employee payment rather than the employer payment contribution for Safety employees; three-year final compensation formula rather than one-year; and two-tier retirement plan for Safety employees.

During the first three meetings of the Task Force, members were provided detailed information about current statewide efforts to address pension reform, the value of a public employee retirement system, the history of the City of Santa Rosa pension program, legal constraints under California law and the City Charter, and CalPERS actuarial information. The fourth, fifth and sixth meetings were centered on developing and understanding viable pension reform options for Council consideration. Options were also categorized in State-wide Solutions versus Local Solutions and pros and cons for each option were identified. The final two meetings were focused on finalizing options and the final report to Council.

The Task Force identified ten pension reform options for City Council consideration:

- 1) Implement new, reduced benefit/cost second-tier pension for new hires;
- 2) Create City/employee partnership on payment of pension obligation bonds;
- 3) Increase employee contribution to pension;
- 4) Authorize alternate pension programs;
- 5) Implement three-year average vs. single highest year final compensation;
- 6) Keep status quo;
- 7) No "holiday" for City or employee paid contributions (if funding exceeds actuarial need in any one year) or create a restricted account to retain any excess paid contributions for future pension payments only;
- 8) Raise retirement age;
- 9) Increase police and firefighters paid contribution to future pension costs; and
- 10) Use more "non-PERSable" forms of employee compensation

Advantages and disadvantages regarding implementation of the above options are detailed in the City Options - Pros and Cons section of this report.

The Final Report will be presented to City Council in Study Session scheduled for June 28, 2011.

The Task Force

The Task Force was comprised of representatives from the community and representatives of local labor groups. Together this group reviewed, discussed information from subject matter experts, and developed options for City Council to consider.

Members of the Task Force were: Chair: Scott Bartley, Council Member; Vice Chair: Pam Chanter, Insurance Broker; Tony Alvernaz, Santa Rosa Employees Association; Robert Andrews, Business Consultant; Paul Carroll, SEIU Local 1021; Dave Gossman, Operating Engineers Local 3; Greg Hurd, Civil Engineer; Mike Lavin, Taxpayers' Assn; Stan Lindsay, Retired Finance Director; Alan Schellerup, Santa Rosa Police Officers Association; and Jack Thomas, IAFF Local 1401.

Task Force Staff: Kathy Millison, City Manager; Caroline Fowler, City Attorney; Fran Elm, Director of Human Resources; Patricia Thompson, Interim Assistant City Manager; Jennifer Phillips, Assistant City Manager; Barbara Schepis, Human Resources Analyst; and Liz Licursi, Administrative Secretary.

The Importance of a Pension Plan for Public Employers and the Community They Serve

The main goal of a public retirement system is to provide full time career public employees with pension benefits that provide a reasonable standard of living during retirement years. The benefit level is meant to be fair and adequate replacement of income needed in retirement.

For over the past 70 years, state and local government employers have offered a "defined benefit" retirement plan for employees. This system guarantees annual pension payments based on the factors of: 1) retirement age; 2) years of service; and 3) salary. Most cities and approximately two-thirds of the counties in California are members of the California Public Employees Retirement System (CalPERS) for local government or a similar system. State of California employees also participate in CalPERS. The remaining counties in California not participating in CalPERS are members of an independent retirement system of similar design established under the County Employees Retirement Law of 1937, commonly referred to as the "37 Act." The majority of California public school districts and community colleges are members of the California State Teachers' Retirement System (CalSTRS). CalSTRS, established in 1913, is part of the California State and Consumer Services Agency.

Many public employers in California, including the City of Santa Rosa, elected not to participate in Social Security, although the employees have been required to participate in Medicare since 1996, and they will not be eligible for Social Security benefits. For the majority of public employees, their public pension will be the only source of pension income other than personal savings. Additionally, public employees who have prior participation in Social Security and who are eligible to receive both social security and public pension benefits, are subject to the Windfall Elimination Provision and/or the Government Pension Offset, which results in substantially reduced Social Security benefits. See Attachment: [Windfall Elimination Provision](#)

Public employment is established in such a manner that it generally provides for a stable business entity for continuity of public service that attracts workers interested in public service careers. The predictability and security of a defined benefit plan has been a successful tool in attracting and retaining

a more professional, educated and stable workforce. Since a great deal of time and expense goes into recruiting and training of new employees, public employers strive to reap the benefit of that investment by retaining those employees for as long as possible. The defined benefit plan encourages retention by its design, as longevity is a key component in the plan. Because of this, public employees, on the whole, tend to be older, more stable and invested in their jobs. As employees gain longevity, they also gain further knowledge, skill and expertise as they advance in their careers; and thus become valuable assets to their employer and to the community they serve.

In public safety and other physically demanding jobs, while defined benefit plans do encourage stability and longevity in public service they also encourage older workers to retire at an appropriate age when it becomes increasingly difficult to perform demanding physical work and where workers would be prone to industrial injury. In Santa Rosa, statistics show that over the past three years OSHA recordable injuries averaged approximately 23.6% of the population for all Public Safety employees compared to 7.8% for all Miscellaneous employees; and over the past 10 years, approximately 35% of public safety employee retirements were classified as industrial disability compared to 2.8% for the miscellaneous employee group.

Most of the literature and studies show that public pensions were instituted to allow employees to retire with a reasonable pension that would allow them to live their retirement years in dignity without the need for public assistance. Social Security became an early example of a basic "defined benefit" retirement pension for federal employees to retire in a reasonable fashion. The employer and the employee pay into the retirement system, and at retirement, the employee is given a set benefit which is adjusted for cost of living in the years following retirement. Social Security is now available to state and local governments although many choose not to participate for a variety of reasons. Many private companies have changed from defined benefit pension plans to defined contribution plans offering 401(k) style pensions where employee contributions into the plan are matched by the employer and allow for portability of the plan when a job change takes place. Some entities have gone to a mix of plans, with a small defined benefit pension plan coupled with a voluntary defined contribution plan and in some cases Social Security as the third component. These plans are often referred to as "hybrids." This has allowed employees to have a viable pension in retirement without unknown financial risks for the employer.

With the passage of SB 400 in 1999 and AB 616 in 2001, local government agencies were given the legal authority to enhance retirement benefits for Public Safety and Miscellaneous employees. Following the implementation of enhanced benefits for the California Highway Patrol, local government agencies began adopting enhanced benefits for Public Safety employees. As more and more agencies adopted enhancements for their Public Safety employees, agencies that had not adopted enhancements became concerned about their ability to retain and recruit Public Safety employees. The same reaction occurred once State employees were granted enhanced benefits; local government agencies responded by adopting similar enhancements for their employees to ensure they were able to attract and retain the best and brightest in the profession. The perception was that without a "level playing field" related to pension benefits, recruitment and retention could be seriously impacted. Therefore, by the mid 2000's the vast majority of local government agencies had adopted enhanced pension benefits for both public

safety and miscellaneous employees. The “level playing field” concept is again a concern as the City examines various options related to pension reform.

City of Santa Rosa Pension Plans

The City of Santa Rosa has three different defined benefit pension plans under the CalPERS system: The current plans are:

3% @ 60 for Miscellaneous Employees: Technical, Professional, Skilled Maintenance, Administrative, Executive Management, and all other classifications not defined as “safety” by CalPERS are included in the “miscellaneous” plan

3% @ 50 for Fire Safety Employees: Firefighters and Fire Managers are included in the fire safety plan.

3% @ 50 for Police Safety Employees: Police Officers and Police Managers are included in the police safety plan.

The combination of age (which determines the benefit factor) multiplied by years of service (service credit) determines the percent of average highest salary received. All plans have a five-year vesting period and all have a formula based on average of highest 12 months salary (also referred to as single highest year). The employee contribution is 8% for Miscellaneous employees and 9% for Public Safety employees. Currently all Miscellaneous employees and Public Safety management employees contribute the employee member contribution portion of either 8% or 9%. Non-management Public Safety employees have a 9% employer paid member contributions (EPMC) benefit that was negotiated in 1997-1998 and funded by employees forfeiting wage increases.

Total Compensation

An employee’s “single highest year” salary used for retirement calculations contains elements which are part of the employee’s total compensation. Total compensation is typically defined as cash payments or other compensation made to, or on behalf of, an employee, including but not limited to: salary, incentive pays, contributions to deferred compensation, overtime, auto or uniform allowances, holiday pay, contributions to health plans and retirement, paid leave, etc. Some elements included in total compensation, such as overtime or health insurance contributions, are not factored into an employee’s single highest year retirement calculation. In addition to base salary, many of the elements included in an employee’s “single highest year” retirement calculation can be found in [PERS Reportable Compensation](#). The Miscellaneous plan, 3% @ 60, has no limit on the maximum benefit that may be received. This explains why an employee aged 65 and with 40 years of service is eligible to receive a pension of 120% of salary. While this is not a common occurrence, it may occur. The Public Safety plan, 3% @ 50, has a cap of 90% of the employee’s single highest year salary. The plans’ designs have changed significantly since 1971 with formula changes and added enhancements, some of which were purchased by the employees in lieu of their negotiated salary increases. Plan descriptions as well as a history of the evolution of each of these plans can be found at [Presentation of City Pension Programs](#).

Task Force Meetings:

The first three meetings of the Task Force were focused on understanding the Public Employee Retirement System (PERS). The Task Force also received information from staff and other experts in the following areas:

- ◆ Descriptions of the City of Santa Rosa pension plans
- ◆ The history of pension reform efforts statewide

- ◆ The legal constraints of changing plans and benefits
- ◆ The benefit and rate changes of the City’s Miscellaneous and Public Safety plans over time
- ◆ The status of the funded versus unfunded liabilities in the pension plans
- ◆ How and why private plans may differ from public plans
- ◆ The potential for savings and costs of converting to two tier plans
- ◆ The future of potential rate increases under various scenarios

The remaining five meetings were centered on developing and understanding viable pension reform options for Council consideration.

A summary of the contents and discussions held at each meeting can be found at: [Task Force Meeting Summaries](#)

Legal Limitations to Modifying Pension Plan or Benefit Options

A. California Public Employees Retirement System

The Santa Rosa City Charter (Section 49) provides that the City may contract with the California Public Employees Retirement System (CalPERS) for providing retirement and disability benefits for its employees. The Charter further provides that no “other kind or character” of pensions other than as provided in the Charter may be awarded or paid unless approved by the electors of the City or required by State or Federal Law. In addition, the Charter provides that the Council may provide for inclusion of City employees in Social Security. The City currently does not participate in Social Security for its employees. Thus, in order to change to a different pension plan other than one offered through CalPERS, it would be necessary to have voter approval unless there was a change in State or Federal law that required the City to use a different pension plan.

CalPERS is governed by the California Public Employees Retirement Law (Government Code Section 20000 et. seq.) which sets forth the statutory requirements for administration of contracts under CalPERS. When a Charter City has contracted with CalPERS it is bound by the applicable provisions of state law governing that system and has no authority to change those provisions. (57 Ops. Cal. Attny Gen 7)

Government Code Section 20479 places limits on contracts for local agencies such as cities providing benefits based on classifications (Miscellaneous, Police, and Fire). The Code states that no contract or contract amendment shall provide for different retirement benefits within a subgroup (including bargaining units) within those classifications. This means, for example, that different miscellaneous bargaining units cannot have different retirement benefits—they must all be under the same retirement contract with CalPERS. This limitation does not preclude a second tier retirement plan that provides different benefits to new employees; however, all new employees within the second tier that are in the same classification must have the same retirement benefit. This is an important limitation to understand for options that are related to negotiating pension cost sharing.

Government Code Section 20516 (a)-(f) provides for specific legal limitations related to pension cost sharing.

B. Meyers-Milias-Brown Act and Vested Rights

The majority of City employees are represented by Employee organizations and the terms and conditions of their employment are set forth in Memorandums of Understanding entered into between the City and the Employee Organizations. The City is subject to the requirements of the Meyers-Milias-Brown Act (“MMBA”- Government Code Sections 3500-3510) when it negotiates with employee organizations representing its employees. This act requires the City to “meet and confer” with the employee’s representative regarding any matter that is within the “scope of representation” (Government Code Section 3505). The scope of representation is defined to include “all matters relating to employment conditions and employee-employer relations, including but not limited to, wages, hours and other terms and conditions of employment” (Government Code Section 3504). The Public Employee Relations Board which has jurisdiction over issues arising under the MMBA has held that retirement benefits for current employees are within the scope of bargaining. (Temple City Education Association v Temple Unified School District PERB Decision 782 (1989))

Thus, to make any changes to the pension benefits the City would be required to meet and confer with each of the affected bargaining units. If agreement could not be reached, there are some limitations on the City’s ability to impose changes on the bargaining units. For example, the City could not impose a requirement that employees pay a portion of the “employer” contribution determined by PERS for the particular retirement plan.

In addition, the courts have held that public employees have a “vested right” to a pension based on the system then in effect when they accept employment and are protected by the Constitution. (Miller vs. State of California (1977) 18 Cal. 3d 808, 817) This, however, does not prevent a governmental entity from making “reasonable modifications and changes before the pension becomes payable.” What is reasonable depends on the facts of each case and courts have indicated that changes which result in disadvantages to employees should be accompanied by comparable new advantages to the employees.

In County of Orange vs. Association of Deputy Sheriffs (2011) 192 Cal. App. 4th 21, the California Court of Appeal recently held, based on the vested rights doctrine, that the County could not reverse a prior decision by a previous Board of Supervisors which provided that an enhanced benefit formula applied retroactively to all years of service for deputy sheriffs, not just the years of service after the enhanced benefit was approved. The California Supreme court denied review of the case.

C. Summary of Legal Limitations

In summary, the City is limited at this time to providing retirement benefits through CalPERS in accordance with the CalPERS regulations and the plans that are currently available unless there is a change in state law or the voters of Santa Rosa approve a ballot measure to amend the Charter that provides for adoption of an alternative system.

To make any changes to the retirement benefits the City is required to meet and confer with its employee bargaining units in accordance with state law.

Rate Changes Over Time – Key Factors

Employer contribution rates have changed dramatically over the last ten years. Beginning in 2000, with the adoption of 3% @ 50 for Fire, employer contribution rates for the Fire Safety Plan rose from 4.5% before to 13.4% after the enactment and continued to rise to 26.4% in 2009. These rates reflect pension obligation bond (POB) proceeds only and not debt service in addition to the CalPERS rates. Similarly, employer contribution rates for the Police Safety Plan rose from 5.8% to 21.5% in 2001 and continued to rise to 29.4% in 2009. In 2001, with the adoption of 3% @ 60 for Miscellaneous employees, the rates for the Miscellaneous Plan rose from 0% to 10.6% in 2001 and continued to rise to 15.6% in 2009. The rate increase for the Miscellaneous group, however, was and continues to be offset by an 8.02% forfeit of negotiated salary increases by the employees. There are many factors that have an impact on contribution rates. Plan enhancements, such as formula improvements, single highest year average salary for final CalPERS calculations, cost of living adjustments; actuarial assumptions; investment returns; demographics of the workforce; and age at retirement contribute greatly to the calculation of rates. Other factors such as rate smoothing (a CalPERS method for reducing volatility and stabilizing employer rates by allowing investment gains to be used in future years to soften rate increases); and labor relations, where employees have an opportunity to bargain for total compensation in the form of benefits, pay increases, specialty pays and other reportable compensation that enhance employee retirement benefits, also influence rates.

In the end, what has changed for Santa Rosa and many other municipalities is the fact that “defined benefit” plans in California as well as other states across the country have become increasingly unsustainable from a cost standpoint. As costs have risen, many taxpayers are concerned that they are experiencing reductions in services as a result of increased contribution to pensions.

Financial Implications for Santa Rosa without Pensions

John Bartel, of Bartel Associates, LLC, a well respected pension actuary, gave a presentation to the Task Force and the City Council on the CalPERS Actuarial Issues for the City’s Miscellaneous and Safety Plans. During the presentations, Mr. Bartel indicated that absent any future changes to benefits, shorter amortization periods, more conservative methods and assumptions, or agencies paying more, most agencies can expect to see contribution rates continue to increase and remain high for an extremely long time with no significant increase in funded ratios. He also stated that the type and amount of pension reform will determine how much future rates and funded ratios will be impacted. General reform, such as limiting benefit formulas for future hires, will have little or no immediate impact but will have a larger impact as time goes by. Whether or not agencies can afford to make those payments will, of course, be a function of future revenue. It is important to understand that while contribution rates will likely remain high, agencies’ ability to pay those rates could be mitigated by having employees contribute more.

Actuarial Summary of Santa Rosa Outlook and Recommendations

Mr. Bartel suggested that the City consider paying more than the required minimum contribution rates to CalPERS and/or if the City has one-time money, it should consider paying down its unfunded liability. He views the City’s contributions rates for the Miscellaneous plan as high but manageable and the

contribution rates for the Police and Fire Safety plans as difficult to manage, particularly since the City currently pays the full member rate for non-management safety employees. In addition, Mr. Bartel views Santa Rosa’s current retirement formula for both miscellaneous and safety employees as providing more income than employees will need to maintain their standard of living into retirement. He also sees a second tier formula (e.g. 2@55 or 2@60 for Miscellaneous employees and 2% @ 50 for Safety employees) and a lowering of the final compensation formula (final three year average pay rather than highest year) as being more in line with providing employees a reasonable retirement benefit.

Links to the following attachments, as follows:

- ◆ Attachment – City Contributions Rates on Pages 19, 43 and 67 of [Bartel Report](#)
- ◆ Attachment – CalPERS Smoothing Method on Pages 111-112 of [Bartel Report](#)
- ◆ Attachment – Employee Demographics – [Summary of PERS Actuarial Valuation Data – June 2008 – June 2009](#)
- ◆ Attachment – [PERS Reportable Compensation](#) Financial Implications for Santa Rosa without Pension Reform

Options for Santa Rosa City Council Consideration

The Task Force Members divided into two work groups and generated options. Each work group was made up of a combination of the members of the business community and members from the City’s labor organizations. After the options were generated the Task Force then divided the options into two separate lists, “City Options” and “State/Legislation Options”. Task Force members did not generate these options by consensus but rather through “brainstorming” within their assigned groups. The options were then reviewed and where there were redundancies or similarities the Task Force then combined the options to create the final list of which they began to identify the “pros” and “cons” associated with each of the City options.

The Task Force also discussed the issue of binding arbitration for Public Safety. A majority of the committee felt that this issue was not within the scope of the Task Force’s mission, but that this is an issue the Council may want to consider during the charter review or at some other time.

While reviewing the options it became clear to the Task Force that there were several options generated of which the City has no jurisdiction or authority to make the proposed change. These options will require legislative action or changes at the State level. They follow:

State/Legislation Options	What prevents City from Making this Change?
1. Cap the benefit at 100% for Miscellaneous	CalPERS would need to change the rules via legislative action
2. Allow “opt out” provision to allow employee to option out of CalPERS	CalPERS currently does not allow an “opt out” provision. Changes would require legislative action
3. One bargaining unit and/or one labor contract to streamline City effort	The Meyers-Milias-Brown Act, which governs labor relations in California for local government, and the City’s own rules allow for employees to petition and create separate and multiple bargaining units. The City currently has 12

State/Legislation Options	What prevents City from Making this Change?
	bargaining units. Changes would require legislative action. PERS law also requires separate contracts for Miscellaneous and Public Safety employees
4. Fixed level contribution from City (no less than required from employee)	CalPERS is a defined benefit plan which means the City's rate fluctuates based on multiple factors while the employee's rate remains constant. Changes would require legislative action
5. Cap "PERSable pay"	"Persable pay" is defined by CalPERS and is any form of compensation considered to be salary and changes would require legislative action
6. Cap percentage of pay for final compensation and resulting pension	CalPERS rules define final compensation and changes would require legislative action
7. More flexible choice of plans per bargaining unit	CalPERS defines the rules regarding which bargaining unit belongs in which plan. Currently there are three plans: Miscellaneous, Police, and Fire. Charter does not allow for any plan other than PERS or Social Security.
8. Single uniform plan choice	CalPERS defines the rules regarding which bargaining unit belongs in which plan. Currently there are three plans: Miscellaneous, Police, and Fire
9. Adopt Federal model	CalPERS defines the rules regarding which bargaining unit belongs in which plan. Currently there are three plans: Miscellaneous, Police, and Fire. Charter does not allow for any plan other than PERS or Social Security and a Charter amendment would be required to allow alternate models.
10. Revisit "lifetime" vesting	This refers to the fact that public employees have a vested right to the pension plan in effect when employment is accepted with an agency and this right is protected by the California Constitution. Changes would require legislative action and voter approval
11. Ability to change plans for current employees	This is limited by court decisions which have held that public employees have a vested right in their pension benefits.

The following options are the “City Options” including the identified pros and cons for each option.

CITY OPTIONS

1 Implement New, Lower Tier Pension Plan for New Hires

PROS

- Long term dollar savings – City must hire new employees at the lower tier to get savings. This is a long range plan
- Opportunity to lower benefit payment
- Opportunity to supplement with other options such as a “hybrid” defined contribution plan
- Opportunity to raise retirement age for employee with lower tier

CONS

- No immediate dollar savings – According to the Bartel report, it will take at least ten years before the City will see substantial savings; the savings will depend upon benefit formula of new two-tier plan
- Employee morale issues/inequity in total compensation impacts groups of employees and may make it divisive within the employee group
- CalPERS does not offer a “hybrid” defined benefit or defined contribution plan. Would need more steps to get there, including voter-approved Charter amendment to authorize use of pension plans other than CalPERS if such option not offered by CalPERS
- May increase cost for existing pension for the first tier, as no new hires would be going into the higher tier. Cost depends upon actuarial assumption, one of which is that there are younger employees coming into the plan with contributions over a longer period of time than those closer to retirement this could have impact on savings. PERS currently does not offer plan with a higher retirement age than 60. As discussed above use of any plan other than one offered by PERS would require a Charter amendment
- If not a regional solution, it may affect City’s ability to hire competitively, perhaps not in the current economic climate but when times are better, and the City needs to be more competitive in order to attract and compete for talent

PROS

CONS

- May increase workers' compensation costs if a two-tier plan requires that the employee work longer to reach the years of service and age necessary for the new benefit - many of the City jobs are physically demanding and risk of injury may increase

2 City/Employee Partnership on Payment of Pension Obligation Bonds

Relies on City issuing additional Pension Obligation Bonds

PROS

- City may be able to take advantage of the low interest rates currently available
- Opportunity to share costs with employees
- May reduce the annual City cost but need more data to effectively evaluate this option
- Costs of borrowing may be less than the percent CalPERS charges
- If employees paid for the pension obligation bonds it may be a win/win

CONS

- More debt adds risks to pension plans as City relinquishes control of investment decisions to CalPERS by requirement to submit bond proceeds to CalPERS for investment management in order to have any effect on overall rate calculations of pension plans
- If any portion of bonds are variable rate then City risks paying high interest rates due to uncertainties in the market if rapid changes occur; if bonds sold as fixed rate, then risk may be muted depending upon market at time of bond sale
- Current legislative proposals could undermine savings; voters may create change to pensions that could negate the benefits of Pension Obligation Bonds. . Financial data was not presented to the Task Force regarding costs or potential savings.
- CalPERS may experience additional significant drops in their investment return increasing the City's rate beyond what can be saved by issuing pension obligation bonds
- Increases the City's risk due to increased debt measured against all City activities and could result in negative impact to the City's credit rating
- Pension obligation bonds can only pay for the unfunded liability portion of the pension costs. The unfunded liability is amortized over a 30 year period. Ongoing, regular and significant contributions by employees would be required in order to make progress toward paying down the unfunded liability and not transferring the current unfunded liability to future generations of employees.

3 Increase Employee Contribution

PROS

- Currently Miscellaneous employees pay 8% for the member contribution to CalPERS. Public Safety Management employees pay 9% for the member contribution to CalPERS and Police Officers and Firefighters do not currently pay the member contribution to CalPERS.* If employees should begin sharing in the cost of the employer contribution rate or if employees should “pick up” or pay the member contribution (9%) to CalPERS this will be an immediate financial benefit and reduce the City’s employer rate for CalPERS
- Short and long term fiscal benefit to the City

CONS

- Difficult to achieve because some employees currently pay the employee contribution (8% or 9%). Employees can contribute to employer rate but this must be negotiated and parties must agree. Some public safety employees negotiated to give up salary increases and the City “picked up” the employee contribution in lieu of the salary increases.
- Therefore, employees assert that they are paying the employee contribution vs. public perception that they are not paying their prescribed share for the pension benefit
- Some bargaining units negotiated to “pay for the enhanced benefits” while others bargaining units negotiated employer paid member contribution (EPMC) as part of total compensation, bargaining units will want “credit” for what was negotiated in the past before agreeing to increase the employee contribution making it difficult to create immediate savings
- Implementation will require agreements during negotiations (unable to impose after good faith effort as pension law requires agreement)

*During negotiations total compensation is considered and it was negotiated that the City would “pick up” or pay the member contribution to CalPERS rather than provide comparable salary increase or increase in another area of total compensation.

4 Alternate Pension Programs Including Defined Contribution Plans and “Hybrid” 457 Plan

PROS

- The City could begin participating in social security
- May be attractive to younger employees
- Requires savings generated by the employee and the employee assumes the investment risks not the City
- More flexibility than CalPERS
- Opportunity to design plan to fit City fiscal condition
- More competitive in labor market – as legislative actions could create a Hybrid Option under CalPERS
- Creates fixed cost and gives the City control of any cost increases
- Attracts a different type of employee, one that is more transient and wants to manage his/her own money

CONS

- Charter prevents offering anything but CalPERS plans. Currently CalPERS does not offer a defined contribution plan. If City were to offer a plan other than CalPERS it would require a voter approved amendment to the City
- If social security or other non CalPERS plan is used, there will be set up and ongoing administrative costs
- Regionally, the public sector hires an older workforce
- May be less competitive in the labor market, it would make it difficult to compete for talent if other cities continue to offer a defined benefit plan and Santa Rosa offers only a defined contribution plan. Could run the risk and added expense of becoming a place where employees come to get training and then leave
- Unable to “shut down” the defined benefit program and the new benefit can only be provided to new hires which takes longer to realize savings (would require a Charter Amendment)
- No guaranteed pensions, creating situations where employees may work beyond a healthy retirement age. Requires Charter Amendment
- Unless there are similar changes on a regional level this would make it difficult for the City to recruit and retain talent

5 Three-Year Average vs. Single Highest Year Final Compensation

PROS

- Reduces opportunity to significantly increase salary in the last year of employment as it requires averaging three years to determine final compensation for purposes of calculating retirement benefit
- Moving to a three year average could reduce pension costs for the City
- Current employees may be more willing to agree to this change as it does not apply to them

CONS

- Legally the City is prohibited from changing the Single Highest Year for current employees -- this would be for new hires only and will take many years before savings are realized
- There is a fiscal impact to the employee however this would only apply to new employees would have to be negotiated with the employee bargaining units
- May make City less competitive for new hires if not a regional change

6 **Keep Status Quo**

PROS

- Maintains employee morale
- Allows employees to retire with dignity and allows the employee to decide when it is the right time to retire
- Manages workers compensation costs as employees can retire at lower retirement age

CONS

- The plan is not sustainable. Keeping the plan status quo will require the City to reduce costs elsewhere such as the elimination of services and/or layoffs. This would increase internal competition for already scarce City resources and frustrate citizens
- Creates incentive for retention of employees who might/ should otherwise consider retirement
- Because this is a defined benefit plan, the City bears 100% financial risk, while the employee rate remains at 8% or 9% -- the City rate fluctuates based upon investment returns and other factors
- There is no “cap” on the Miscellaneous benefit formula providing some employees the opportunity to retire with a pension benefit that is at or higher than their salary while employed
- The benefits under the current plan provide for a level of income that is beyond what is reasonably necessary for retirement

7 No “holiday” for City or Employees (even if fully funded, continue contributions) or Create a “Restricted” Pension Funds Account

PROS

- Ensures that the City and the Employees pay for the benefit even when CalPERS rate calculation is indicating little or no payment is due
- Ensures funding during up and down financial cycles
- Create a restricted fund to pay CalPERS rates and accumulate surplus funds to offset large rate increases during negative financial cycles

CONS

- Savings generated on an ongoing basis not just boom times, better to create a restricted fund where contributions can be held by the City
- If all funds submitted to CalPERS then City relinquishes control of investments which are managed by CalPERS and may experience losses similar to current circumstance

8 Raise Retirement Age

PROS

- A higher retirement age could reduce the cost to the City
- Employees work longer keeping the talent and institutional knowledge in the City as workforce and population demographic ages

CONS

- CalPERS does not offer a plan above age 60 for Miscellaneous nor above age 55 for Public Safety; age is only one of the factors in the benefit formula. Would need to consider change to other benefit factors, such as reduction to current 3% factor for Miscellaneous and Public Safety Any plan other than one offered by PERS would require voter approved Charter Amendment
- Increased workers compensation injuries and costs due to employees working longer in physically demanding jobs -- there could also be an increase in disability retirements due to normal aging process and ailments
- The City could experience recruitment and retention problems if surrounding public agencies offer a better retirement plan with CalPERS

9 Increase Police Officers and Firefighters Contribution to Future Pension Costs

PROS

- The City currently pays the 9% employee member contribution (EPMC) for Police Officers and Firefighters; if the City did not pay the EPMC additional rate which allows for the employer paid member contribution to be counted as total compensation at time of retirement thereby increasing the pension, there would be immediate savings to the employer cost of the pension plan
- If the public knew that all City employees contribute to their pensions public perception could be improved

CONS

- The City and the Firefighters negotiated Employer Paid Member Contribution (EPMC) as part of a total compensation package. During these negotiations a survey of comparable cities was conducted and it showed that Firefighters were below the average compensation of the comparable cities -- it was agreed that rather than provide Firefighters with a base salary increase the City would “pick up” or pay the 9% member contribution to CalPERS, thus decreasing other costs for the City such as overtime and other costs calculated on base salary; to make a change will require agreement by the employee bargaining units

10 Use More “Non-PERSable” Forms of Compensation

PROS

- Use of such compensation such as signing bonuses are not considered “PERSable” compensation thus reducing employer pension costs
- Signing bonuses are useful recruitment tools

CONS

- CalPERS controls what salary or special pays are considered “PERSable” (meaning compensation reported to CalPERS on behalf of an employee which is considered to be salary and then used to determine final compensation at time of retirement) many special pays are considered “PERSable” and the City has no authority to change them
- Signing bonuses and other forms of non-PERSable compensation still cost the City money

Messages From The Task Force Members

All Task Force members were invited to provide a personal message to the Mayor and Council at the conclusion of the meetings. Those comments are included below.

Tony Alvernaz:

- The notion that all public workers are collecting fat pensions is simply not true
- Politically motivated and ill-considered proposals to gut public pensions will not fix local and state budgets, and instead will likely cost taxpayers more
- Ballot Box Proposals to Gut Pensions Will not Prevent Pink Slips
- Public employees have been willing participants in helping fix local and state budget woes
- Out-of-state billionaires and right-wing extremists with Tea Party ties are driving this assault on California's middle class
- Public retirement benefits boost our economy and create jobs

Robert Andrews:

Assuming that everything we saw and heard at these Task Force Meetings is true, what should the Council **DO** to counter steadily rising CalPERS Pension contributions? **Answer:** 1) Ballot measure to remove "Mandatory Pay and Benefits" for Police and Fire; 2) Actually **implement** second tier of pension benefits for new hires; 3) Ask Police and Fire to contribute more.

Pam Chanter:

The Pension Reform Task Force worked cohesively to create a comprehensive report for the City Council to ensure that future pension programs are sustainable. The process was informative and the insights and recommendations are highly valuable for all participants involved moving forward.

Dave Gossman:

City of Santa Rosa Miscellaneous Employees pay 100% of their employee obligation to the CalPERS retirement system. In addition they provide funding to pay for over 60% of the employer's obligation to the CalPERS retirement system including the funding of Pension Obligation Bonds.

Greg Hurd:

This has been a good experience participating on this Task Force. The Council has embarked on and completed the monumental task of taking on the hard discussions about the sustainability of the public retirement system. It has been good to see such a diverse group of individuals representing both the public and private sector come together and rationally discuss the issues at hand and recognize the need for reform of the retirement system.

If we are going to have a sustainable public retirement system we need to adjust the process, the mechanism, perceptions and expectations for future generations of workers entering the retirement system. It is hard to comprehend a solution that will be agreeable by everybody paying for it and those receiving it, but we may begin to minimize the future work through the efforts of the Task Force. This

and many other groups around California are currently kicking the can down the road but the can will eventually get smaller and smaller.

Mike Lavin:

The deliberations on reform should be based upon realistic financial projections of the city's finances without reform. The decisions regarding reforms should be accompanied by a revised set of financial projections which reflect the decisions taken.

Stan Lindsay:

Pension reform will not occur in Santa Rosa until binding arbitration is rescinded and professional labor negotiators are hired by the city to deal with MOU negotiations.

Alan Schellerup:

Thank You for inviting the SRPOA to be part of the Pension Reform Task Force. Our participation has allowed the POA and other employee groups the opportunity to maintain open lines of communication with our City Leaders and our community about matters related to public pensions, which are often quite confusing and detailed.

Jack Thomas:

The mayor's pension task force has been an informative and worthwhile process which, I feel, created a channel of clear and open communication amongst many community stakeholders on the important topic of public employee pensions. The broad interests, experience and points of view that were brought to the table provided the opportunity for the task force members, voters and city staff to engage in real and thoughtful conversation and reach some consensus on important points and information to bring back to the council.

It is imperative for all of us to remember that the concerns that were brought up during those discussions were the results of things both within and beyond any of our control and the key to sustainable solutions moving forward will be through continued cooperation, frank discussion, and thorough evaluation. There is no silver bullet solution to any of these challenges.