

TASK FORCE MEETING SUMMARIES

Meeting #1 -- January 25, 2011

A number of publications related to pension reform were distributed to the Task Force and posted on the City Website for the community to read. One of the reports distributed by the League of California Cities addressed local government pension plans and was entitled "Pension Reform Revisited: 2010 White Paper (Draft)". This white paper chronicles the pension changes in California from 1999 to the present and looks at the challenges facing local governments as they begin to address the escalating costs of these plans. They include recommendations from the League's Employee Relations Committee; warning of the reality of public sentiment that public pensions may now be too generous; and that the League strongly urges public sector employee groups to join with their employers to address the challenge before it progresses to the initiative process at the ballot box. (Note: The League is now conducting a review of the "Pension Reform Action Plan-Final Draft-May 2011" prepared by a special committee of the City Managers' Department. Recommendations for further action to develop a legislative platform concerning local government employee pension financial sustainability may be forthcoming from the League leadership but will not be concluded in time for this report.)

At this meeting, City Manager Millison provided an overview of the pension system and its impact statewide in creating a level playing field in terms of employee recruitment and retention. She also addressed reasons for the escalating costs, the use of Pension Obligation Bonds obtained at very favorable rates for smoothing current rates, and the impact of "actuarial assumptions" on contribution rates. The City Manager pointed out that CalPERS is considering a lower discount rate for earnings as a part of its rate-making process which could cause rates to be increased for the foreseeable future although such actions would be prudent and provide for a more sustainable program longer term. She further touched on the studies performed at Stanford questioning the discount rates used in the past by CalPERS actuaries to determine rates and the ongoing effect this will have in terms of the unfunded liability and future cost of City plans if left unaddressed.

The City Manager also noted that public pensions have helped attract professional employees to the public sector (engineers, environmental specialists, planners, accountants, educators, managers, attorneys, police and fire fighters, etc). Though critics claim that public sector salaries now meet or exceed salaries in the private sector, and therefore guaranteed pension plans are not needed, studies show that when comparing salaries for both public and private sector jobs requiring advanced degrees and certifications the salaries of the public sector jobs remain below the salaries of comparable private sector jobs. While the job market may be favorable for recruitment now, when unemployment numbers begin to drop and private companies begin hiring again at competitive salaries, including additional benefits, bonuses, and stock options not found in the public sector, the competition for well-qualified employees will again become an issue for public employers.

Meeting #2 --February 10, 2011

The second Task Force meeting focused on a presentation of the City of Santa Rosa Public Pension Plan benefits for both Miscellaneous and Public Safety Employees. Human Resources Director, Fran Elm,

covered the retirement changes in each plan from 1971 forward and provided a handout. Director Elm explained how benefit enhancements were negotiated over time and further pointed out how each plan worked in relation to the age of the employee at retirement, their years of service and their highest 12 months of earnings. City Manager Millison explained the funded and unfunded liabilities of the various plans noting trends in recent years that show the effects of the stock market losses which began in 2008. The presentation also showed the contribution rates for the employer and employee since 1994. Rates have escalated in recent years due to dramatic losses in the stock market, actuarial assumption modifications by CalPERS and also benefit enhancements. Many employers like the City of Santa Rosa included the cost of the enhanced benefits into the total compensation costs to be negotiated with the respective labor groups.

City Attorney Caroline Fowler provided an overview of laws in California which impact the City's ability to change pension benefits including the Meyers-Milias-Brown Act, requirements for cities to "meet and confer" with employee unions, scope of representation which includes retirement benefits, and the fact that City Councils cannot unilaterally impose a change in retirement benefits without engaging in meet and confer with its employees (see Power Point: "PERS System Overview and Related Legal Issues"). The City Attorney also discussed the Public Employees Retirement Law and the City Charter's limits on employee pension programs. City Attorney Fowler pointed out that the courts have held that public employees have a "vested right" to a pension based upon the system then in effect when they accept the employment and are protected by the Constitution. (*Miller v. State of California* (1977) 18 Cal 3d 808, 817). The City Attorney also indicated that the courts have further held that this does not necessarily mean that a governmental entity may not make "reasonable modifications and changes before the pension becomes payable"; however, the courts have said that any changes which result in a disadvantage to employees should be accompanied by a comparable advantage.

Meeting #3—March 10, 2011

John Bartel, of Bartel Associates, LLC, a well respected pension actuary, presented an in depth explanation of CalPERS actuarial information for the City of Santa Rosa Pension Plans. Mr. Bartel discussed the funded status of the miscellaneous and public safety plans and highlighted the effects of the stock market losses in 2008 and 2009 on the employer contribution rates for 2011-12 that resulted in a rate increase of roughly 3% for miscellaneous plans and 5% for public safety plans. He pointed out that with the methodology and assumptions currently used by CalPERS, the City would see an annual increase in contribution rates continuing well into the future. Other factors contributing to the increase in rates are the plan amendments negotiated in the early 2000's, higher payroll costs, single highest year average salary for final CalPERS calculations, specialty pays particularly in the public safety plans, and evidence that retirees are living longer in retirement requiring longer payouts than originally planned or funded. The 2001 plan amendments for Miscellaneous Employees 3% @ 60 formula increased costs an additional 10%, while 2000 plan amendments for 3%@ 50 for Police and Fire employees increased costs an additional 11.2% and 13.5%, respectively. The City's debt service on pension obligation bonds sold in 2003 and Employer Paid Member Contributions (EPMC) also added to the overall increasing costs. Finally, should CalPERS act in the future to reduce the discount rate from 7.75% to 7.5% or lower, the increase in costs would be on average 2-5% higher in addition to adjustments needed to offset prior

market losses. (See Power Point Slides prepared by Mr. Bartel: CalPERS Actuarial Issues—6/30/09 Valuation.)

Facing increased contribution rates, many cities in California have begun to negotiate second tier benefit plans with their labor groups. Mr. Bartel presented the savings potential of several different two-tier benefit formulas for City of Santa Rosa Miscellaneous employees. However, since the second tier would only apply to future employees, these plans would only generate minimal savings in the near term. Similarly, various benefit formulas for Public Safety employees were also demonstrated, again with minimal budgetary savings for several years. Benefit formulas where employees begin to share the Employer Paid Member Contributions or “cost share” a portion of the employer costs generate much more substantial savings in the early years, as all current employees would be contributing in addition to all new employees under a blended rate method. He did suggest that while the two-tier plans for new employees would not generate immediate recognizable savings, the City may want to consider such plans if it appears that these plans offer more sustainable public benefits long term.

The Task Force was also presented with the State’s Little Hoover Commission February 2011 report entitled “Public Pensions for Retirement Security” because this report will serve as a starting point for discussions with the California Legislature.* This document was provided as background material and for discussion as part of the Task Force deliberations at upcoming meetings. The Little Hoover Commission began its interviews and public hearings in April 2010. Testimony from pension experts, including Mr. Bartel, and various labor leaders formed the basis of the report findings. The report is critical of the current public pension system in California and notes that rising costs are “squeezing other government priorities”. The report suggests that public pensions are now too generous and that the CalPERS system lacks needed oversight and accountability. While the report made several recommendations to improve and restore financial health to the California public pension system, many will require action by the State Legislature to implement. One of the more far-reaching recommendations included the need for “the Legislature to give state and local governments the authority to alter the future, un-accrued retirement benefits for current public employees”. However, the report acknowledges this concept will need to be tested in the courts. There appear to be some openings provided by the courts to pursue modifications to pensions for current employees and, therefore, the Little Hoover Commission believes this may be one of the only ways to secure large scale savings in the near term. And while the report suggests that the defined-benefit plans should still play a role in the public pension program, it stresses the need for hybrid solutions where such guaranteed benefits are reduced and augmented with other forms of retirement savings plans such as 401(k) plans and Social Security.

Meeting #4 – March 24, 2011

A handout containing comments by State Treasurer Bill Lockyer regarding the Little Hoover Commission’s February 2011 Report, “Public Reasons for Retirement Security”, challenging the accuracy of the factual data contained in the Little Hoover Commission’s report, was distributed at the meeting for information. (Executive Summary attached) The main focus of this meeting and the meeting of April 7 was to identify pension reform options for possible implementation in Santa Rosa. During the meeting, Task Force Members formed two groups, each with a facilitator, and brainstormed various

options. Later, options were either classified as 1) a City Option (within the City's jurisdiction and authority to implement); or 2) a State/Legislative Option (outside the City's jurisdiction and authority to implement). This resulted in ten City Options and eleven State/Legislative Options being identified. Task Force members then proceeded to identify pros and cons for each option. The first four options were reviewed and discussed by the Task Force for the remainder of the meeting. Discussion of the remaining options was postponed until the meeting of April 7.

Meeting #5 – April 7, 2011

During this meeting, two handouts were distributed: 1) Governor Brown Releases Twelve-Point Pension Reform Plan, which contains actual bill language for one of Governor Brown's pension reform measures; and 2) City of Santa Rosa General Operating Expenses vs. Pension Costs. This graph illustrates actual general fund expenses through FY 2009/2010 as reported in the annual financial audit. FY 2010/2011 through 2014/2015 projections reflect no new hires or cost of living increases, unless currently approved by contract.

The groups resumed discussion and identification of pros and cons of the remaining options. A complete list of the options, as well as the pros and cons on each option, can be found on Page XX.

Meeting #6 – April 21, 2011

Several handouts were distributed during the meeting: 1) Graph: FY 2005/2006 – FY 2014/2015 General Fund and Non-General Fund Pension Costs as a percentage of Salary; 2) "The Watchful Eye – An Analysis of the Financial Impact of Public Employee Pensions on the City of Santa Rosa and Recommendations for Reform" from the Sonoma County Taxpayers Association; 3) 2011 City Manager Pension Survey conducted by the League of California Cities; 4) List of Upcoming Legislative Bills Related to Pension Reform (2011-2012); and 5) The impact of Closing the Defined Benefit Plan at CalPERS prepared by the California Public Employees Retirement System (CalPERS).

During this meeting, Task Force members were provided the City Options List and a draft outline for the final report. A review of the Mayor's original directive to the Task Force regarding purpose and authority was presented by a Task Force labor representative who initiated a discussion regarding the appropriateness of one of the City Options "Rescind Binding Arbitration". He felt it was not within the "scope of purpose and authority" of the Task Force as outlined in the Purpose Statement (Refer to Purpose Statement on page 1). A Task Force community representative shared his opinion that binding arbitration had a direct impact on pension reform; that it limits the City's ability to negotiate changes in employee benefits and compensation as City Charter requires comparable pay and benefits for public safety employees be determined by survey. The City Attorney clarified that Section 56 (d)(4) of the City Charter, in addition to providing for binding arbitration of disputes, contains language that requires the wages, hours, benefits and terms and conditions of employment for public safety employees be made comparable to cities of similar population. The Task Force members remained opposed on this issue. Based upon the group consensus, Chair Bartley directed the removal of "Rescind Binding Arbitration" from the options list because it was not an option that the City had jurisdiction and authority to change; but he asked that it remain in the report as additional information only.

The Task Force conducted a final review of the options and discussed and clarified the pros and cons for each option for the final report. An additional meeting was scheduled for May 26, 2011 to review the draft of the final report.