

**EMPLOYEE RELATIONS POLICY COMMITTEE  
AGENDA  
REVISED**

Thursday, April 7, 2011

**10:00 a.m. – 3:00 p.m.**

Doubletree Hotel, 222 N. Vineyard Avenue, Ontario Room: Vineyard

<b>Special Order Joint Policy Committee State Budget and Redevelopment Update 10:00 a.m., Harvest Room, Doubletree Hotel</b>
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*Individuals who wish to review the full text of bills included in this packet are encouraged to do so by visiting the League's website at [www.cacities.org](http://www.cacities.org) and clicking on "Bill Search" found at the left column. Be sure to review the most recent version of the bill.*

**A G E N D A**

- I. Welcome and Introductions**
- II. Public Comment**
- III. Committee Work Plan** (Attachment A) *Action*
- IV. State Legislative Action Items** (Attachment B) *Action*
  - A) Policy Discussion on Pending Compensation and Retirement Reform Legislation
  - B) Other legislation (as necessary) (Attachment B-1)

*Note: Due to the recent introduction of, or pending amendments to these bills, the League analyses were not yet completed at the time of agenda distribution. The full analyses will be provided prior to the policy committee meeting.*

- V. Federal Legislative Update** (Attachment C)
- VI. Information Update** *Informational*
  - A) 2005 Pension White Paper (Attachment D)
  - B) 2010 Pension White Paper (Attachment E)
  - C) Comparing Pension Reform Plans (Attachment F)
  - D) 2011 City Managers' Pension Survey (Attachment G)
  - E) League's Pensions Information Center Web Site  
<http://www.cacities.org/pensions>
- VII. Little Hoover Commission Report** (Attachment H) *Informational*

*Speaker: Stuart Drown, Executive Director, Little Hoover Commission*  
<http://www.lhc.ca.gov/studies/204/Report204.pdf>

**VIII. Next Meeting: Thursday, June 16, 2011, League of California Cities, Sacramento**

<p><i>Brown Act Reminder: The League of California Cities' Board of Directors has a policy of complying with the spirit of open meeting laws. Generally, off-agenda items may be taken up only if:</i></p>
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| <ul style="list-style-type: none"><li><i>1) Two-thirds of the policy committee members find a need for immediate action exists and the need to take action came to the attention of the policy committee after the agenda was prepared (Note: If fewer than two-thirds of policy committee members are present, taking up an off-agenda item requires a unanimous vote); or</i></li><li><i>2) A majority of the policy committee finds an emergency (for example: work stoppage or disaster) exists.</i></li></ul> |
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<p><i>A majority of a city council may not, consistent with the Brown Act, discuss specific substantive issues among themselves at League meetings. Any such discussion is subject to the Brown Act and must occur in a meeting that complies with its requirements.</i></p>
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<p><i>NOTE: Policy committee members should be aware that lunch is usually served at these meetings. The state's Fair Political Practices Commission takes the position that the value of the lunch should be reported on city officials' statement of economic interests form. Because of the service you provide at these meetings, the League takes the position that the value of the lunch should be reported as income (in return for your service to the committee) as opposed to a gift (note that this is <u>not</u> income for state or federal income tax purposes—just Political Reform Act reporting purposes). The League has been persistent, but unsuccessful, in attempting to change the FPPC's mind about this interpretation. As such, we feel we need to let you know about the issue so you can determine your course of action.</i></p>
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<p><i>If you would prefer not to have to report the value of the lunches as income, we will let you know the amount so you may reimburse the League. The lunches tend to run in the \$30 to \$45 range. To review a copy of the FPPC's most recent letter on this issue, please go to <a href="http://www.cacities.org/FPPCletter">www.cacities.org/FPPCletter</a> on the League's Website.</i></p>
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## **EMPLOYEE RELATIONS POLICY COMMITTEE 2011 DRAFT WORK PROGRAM**

### **2011 LEAGUE STRATEGIC GOALS**

**Strong Partnerships for a Stronger Golden State.** Collaborate and partner with other public and private groups and leaders to reform and revitalize the structure, governance, fiscal integrity and responsiveness of our state government and intergovernmental system.

**Sustainable and Secure Public Pension Systems.** Work in partnership with other groups and stakeholders to promote sustainable and secure public pension systems to help ensure responsive and affordable public services for the people of our state and cities.

**Responsive and Accessible League Services.** Implement distance learning, meeting and other cost-effective strategies to deliver even more responsive and accessible League educational, information and advocacy services to the city officials of California.

### **1. PENSION SUSTAINABILITY**

Staff will track and alert the committee of any legislation that will reform or modify the current public employee pension system and/or other post-employment benefits. Staff will also work closely with the Governor's CalPERS Board local government appointee.

### **3. HEALTHCARE / INSURANCE**

The committee will address the issue of healthcare and insurance by doing the following:

- Track rising costs and examine strategies for rate stabilization
- Track any reforms to future retiree liabilities
- Track legislation that impacts costs of the healthcare system
- Track prefunding measures as they relate to future unfunded liabilities
- Track and Review healthcare proposals and their impact on public employers

### **4. WORKERS' COMPENSATION**

The committee will continue to be engaged with the issue of workers' compensation as it pertains to public employers. Staff will track legislation and will: Protect reforms that were implemented with the passage of SB 899 (Poochigian; 2005); Protect employers from labor, applicant attorneys, and other stakeholders seeking to roll back the reforms passed through SB 899 including: predesignation, permanent disability rating schedule, apportionment, and utilization review; Track reforms proposed by the State Division on Workers' Compensation; and, Track legislation proposed by the California Coalition on Worker's Compensation to reform Temporary Disability.

### **5. LEGISLATIVE UPDATES AND MONITORING**

The committee will review pending legislation and make recommendations where appropriate.

COMMITTEE ON EMPLOYEE RELATIONS  
Legislative Agenda  
April 2011  
Combined Staff Report:

**Staff:** Natasha Karl, (916) 658-8254

**Background: City of Bell**

In the summer of 2010, citizens were shocked to find the city manager, assistant city manager, police chief and four council members accused of misconduct including:

- padding their salaries by holding multiple meetings back to back in order to collect separate stipends for each meeting;
- offering excessive loans with city funds;
- pension spiking;
- illegally adopting higher assessment sanitation and sewage system rates; and
- holding a questionable special election where barely 400 of the 40,000 voters participated.

In the wake of the litigation, Bell's city officials standing trial are prohibited from setting foot in City Hall, leaving the city without a quorum and unable to conduct business. 30+ bills have been introduced that directly or indirectly address this misconduct.

**Context: 2010 Reactions to misconduct in the City of Bell**

In response to these allegations, the League is leading efforts to provide much greater transparency, accountability, and disclosure on compensation of state and local government officials. The League is actively participating in discussions of legislative proposals to tighten existing laws and give the public greater access to compensation information. The City Managers' Department surveyed city manager compensation and the League's Board adopted new *Guidelines for City Manager Compensation*, which serves as a recommended "best practices" for city councils in negotiating compensation packages with city manager candidates.

During the last month of the 2009-10 legislative session, legislators amended bills to respond to the situation in Bell. The League supported both SB 501 (Correa) and AB 2064 (Huber) (together) because *combined* they reflected the concept embodied in the League's legislative proposal: promoting a uniform compensation transparency standard for public employees and elected officials that would apply equally to all state and local agencies.

The League also worked with the State Controller beginning in July 2010 in support of his efforts to expand transparency. The State Controller announced expanded financial reporting requirements for all cities and counties to report salary, pension and other compensation for all job classifications in an online database.

**Background: The League creates a Technical Review process**

In order to quickly evaluate the 30+ bills introduced in response to the City of Bell situation, the League convened several technical review groups to screen the Bell bills: Audits, Compensation/Retirement and Governance/Transparency. Members reviewed bills in their areas and met by conference call 2-3 times in March to provide initial feedback. This input was designed to help staff set priorities for, and intervene early in, bills that could have a significant impact on cities.

Task Force Members include:

- Dawn Abrahamson, City Clerk, City of Fremont
- Linda Barton, City Manager, City of Livermore
- Bruce Channing, City Manager, City of Laguna Hills
- Michael Coleman, League Fiscal Advisor
- Craig Labadie, City Attorney, City of Concord
- Robert Clark Leland, Director of Finance (Retired), City of Fairfield
- Michael Jenkins, City Attorney
- Randi Johl, City Clerk, City of Lodi
- Leyne Milstein, Director of Finance, City of Sacramento
- Steve Strong, Director of Finance, City of Redding

During these discussions, feedback was consistent around several concerns. These have been developed into a proposed statement of League Compensation and Retirement Principles; adoption of these principles will guide future League policy on governance, transparency, and ethics related legislation.

### **Proposed League Compensation and Retirement Principles**

*\*indicates new League Policy and requires action by the committee*

1. The standard practice for establishing employee compensation should be reasonably based upon market conditions, transparent, and tied to experience and salaries at comparable agencies. Compensation should also be based on job requirements, the complexity of both the make-up of the city organization and community, the leadership needed, labor market conditions, and the organization's ability to pay.
2. Because the salaries public employees receive impact public perception, ethical considerations about what is just and fair must be taken into account when determining compensation.
3. *\*State revisions to laws governing local agency retirements and compensation should address material and documented inadequacies in those laws and have a reasonable relationship to those problems.*
4. *\*In order to encourage and facilitate compliance with new compensation and retirement laws, State laws should be internally consistent, avoid redundancy and be mindful of the practical challenges associated with implementation.*

5. Locally negotiated retirement system programs should be fair to taxpayers and employees, and provide long-term financial stability and sustainability.
6. Transparency of retirement benefits and other pension obligations ensures the public is informed about the fiscal realities local agencies face as they relate to pension obligations.

**Staff Recommendation: Adopt Compensation and Retirement Principles to guide policy decisions**

Staff recommends that the Policy Committee discuss, revise if necessary and adopt the Proposed Compensation and Retirement Principles to determine positions on all these bills. By focusing on high level policy rather than ever-changing details of individual bills, Policy Committee Members make efficient use of their time and ensure that staff has a guide for the many negotiations inherent in the legislative process.

Should significant policy issues emerge which are not covered by these Principles, staff will bring them to the Policy Committee for discussion. As technical issues arise, staff will work with technical staff to resolve them; Committee members who would like to participate in these technical discussions are welcome. Staff will provide a status report on all pending legislation at the June meeting.

**Summary of Compensation and Retirement Principles Legislation**

**AB 148 (Smyth) Local government: ethics training: disclosure** *(as amended March 16)*

Bill Summary:

This bill adds agencies compensation setting guidelines to the required ethics training curriculum. Requires local agencies to post records of ethics training on websites and submit copies of training records to the Controller. Requires local agencies with written attendance compensation or reimbursement policies to post them on its website and submit copies to the Controller. Bill keyed as State mandated local program.

This measure appears to be consistent with the proposed principles encouraging transparency. Staff is working with the author and addressing some technical issues, including:

- Timing of record submittal
- Clarifying who will attend the ethics training

**AB 582 (Pan). Open meetings: local agencies.** *(as introduced on Feb. 16, 2011)*

Bill Summary:

This bill would amend the Ralph M. Brown Act to require that proposed compensation increases for unrepresented employees be publically noticed twice.

The first notice will be for general notice and nonvoting discussion. The compensation increase, if deemed necessary by the legislative body must be noticed a second time, no less than 12 days after the first notice, announcing a vote on the matter.

The measure is consistent with the proposed principles. Staff is working with the author to address the need for this legislation.

**AB 1344 (Feuer) Local Governance.** *(as introduced on Feb. 18, 2011)*

Bill Summary:

Requires a charter proposed by a charter commission, whether elected or appointed by a governing body, for a city or city and county to be submitted to the voters at and established statewide election date. This bill includes several provisions related to employment contracts and compensation increases and makes several changes to the Ralph M. Brown Act.

The measure is consistent with the proposed principles. Staff is working with the author to address concerns raised by the subcommittee.

**AB 1355 (Lara) City officials: standards** *(as amended on March 24)*

Bill Summary:

This bill requires the Secretary of State to develop recommendations for minimal educational and certification standards for city clerks, managers and treasurers and to post these standards on his/her website.

The measure is consistent with the proposed policy principles that encourage transparency. However, portions of AB 1355 are inconsistent with principles, given that it may not be appropriate or practical to have state-developed standards.

- Staff is working with author on technical amendments to allow cities to post their own existing job requirements for these positions.

COMMITTEE ON EMPLOYEE RELATIONS  
Legislative Agenda  
April 2010

**Staff:** Lobbyist: Natasha Karl (916) 658-8254

**1. AB 801 (Swanson) Code Enforcement Officers. Training.**

**Bill Summary:**

Establishes minimum training standard and a continuing education requirement for code enforcement officers (CEO). Specifically this bill,

- Provides for the establishment of uniform minimum training standards designed to increase the level of competency and reliability of code enforcement officers, to improve and expand the professional training available to code enforcement officers, to encourage the active participation of local governments in the code enforcement training standards process, and to develop training criteria that will enhance each local government's ability to protect the lives and property of its citizens;
- Requires a public agency employing CEOs to adopt requirements for and require that all CEOs wear apparel or a uniform that allows members of the public to recognize that person wearing the apparel or uniform as a public office.
- Requires public agencies employing CEOs to adopt a set of standards and minimum education requirements that do all of the following:
  - Establish a number of hours of continuing education required for an employee to be certified as a CEO.
  - Establish an approved curriculum, which must include material regarding changes in applicable law.
  - Require CEOs to complete, and certify CEOs as having successfully completed, the following training programs: 1) certified basic training program within 12 months of his or her initial appointment; 2) intermediate level of certified training within 12 months from when he or she successfully completes the basic training; 3) advanced level of certification within 24 months from when he or she successfully completes the intermediate training program; 4) successfully complete a minimum of 16 hours of in-service training each year to maintain a minimum level of proficiency and certification by California Association of Code Enforcement Officers or an institute of higher education.
- Requires that the training program established by this bill be administered by any of the following:
  - An organization comprised of a least 750 CEOs, which provides at least 20,000 hours of annual person-hours of training.
  - A career technical program.
  - An institution of higher education.

**Background:**

This bill is sponsored by the California Association of Code Enforcement Officers.

Policy questions to consider:

- What need exists to require that CEOs are trained, certified, and identifiable to the public?
- Does this create in inequity for CEOs that contract with a city to provide code enforcement?

**Staff Recommendation:**

Staff recommends the committee discusses this issue.

**Fiscal Impact:**

Unknown. But requiring local agencies to adopt uniform standards and minimum education standards will have a fiscal impact.

**Existing League Policy:**

The League has no specific policy that relates directly to this legislation.

**Support-Opposition:**

California Association of Code Enforcement Officers (Sponsor)

**2. AB 1184 (Gatto) Public Employees' Retirement Benefits.**

**Bill Summary:**

Provides that the obligations for retirement benefits that are attributable to excess compensation earned by a nonrepresented employee who was employed by one or more public agencies is the sole obligation of the subsequent contracting agency that paid the excess compensation. Prohibits PERS or a contracting agency from administering a plan of replacement benefits and applies this to members hired on or after Jan. 1, 2013.

- Requires that the contributions and disbursements of benefits for that portion of the compensation of an employee of a contracting agency that constitutes excessive compensation be the sole obligation of the current contracting agency that paid the excessive compensation;
- Requires that the liability of any prior contracting agency for the contributions and disbursements of benefits of that employee be limited to contributions and other assets sufficient to fund a retirement allowance calculated using the amount of the employee's final compensation at the time her or she terminated his or her service with the prior contacting agency and any amount that is not excess compensation;
- Defines "excessive compensation" to mean final compensation of any employee of a contracting agency who previously worked for another contacting agency to the extent the final compensation received from the current contracting agency is 15-percent or more in excess of the salary paid by the prior contacting agency, as adjusted for actuarial increases in that salary;
- Does not apply to any employee covered by a memorandum of understanding or any member of a recognized bargaining unit;
- Requires the CalPERS actuary, in determining contributions for contracting agencies, to establish a contribution with respect to excessive compensation separate from, and independent of, the contribution required for other benefits under their contracts;

- Requires that total contributions in these cases, for agencies as a group be established, and from time to time be adjusted by actuarial valuation performed by the actuary of the liability for the benefit or benefits on account of the employees of all those agencies;
- Requires that adjustments affect only future contributions and take into account the difference between contributions on hand and the amount required to fund the allowances of benefits for which entitlement has already been established, as well as liability for future entitlements to benefits;
- Requires that the contributions that are established and adjusted from time to time be allocated between the agencies on a basis that, in the opinion of the board, after recommendation of the actuary, provides an equitable distribution between the agencies;
- Prohibits allocations from being based on differences in the incidence of death or disability in the respective agencies;
- Provides that when the board established a separate contribution, it must maintain the contribution and any contributions required to be made by employees towards the cost of the benefit or benefits as a separate account, and that account may only be available for payment of the benefit or benefits and cannot be a part of the accumulated contributions under this system of any of the employers or members included;
- Requires that the board and each contacting agency modify each contract to reflect these requirements on or before July 1, 2012; and,
- Prohibits a CalPERS or a participating agency from administering a plan of replacement benefits for members hired on or after January 1, 2013.

### **Background:**

#### Existing Law:

- Requires that if a local agency employs 100 or fewer employees, its assets and liabilities shall be pooled with other small agencies having the same benefit structures and that the employers in the pool shall share the same employer rate.
- Requires PERS to actuarially determine the employer rates annually, which are based on various factors, including employee and retiree demographics, experience (e.g., numbers of deaths and retirements, amounts of salary increases, etc.), and the level of investment returns on the retirement fund. The rates are charged as a percentage of the employer's total payroll for active employees and are paid over the course of an employee's career.
- Allows public employees who change public employers to, upon retirement and having met specified criteria, have all their years of service calculated at their highest compensation for the purpose of determining their retirement benefits and specifies that this is one of the benefits of reciprocity.
- Requires employees to also make contributions to fund their benefits, which accumulated contributions are the property of the employees and may be disbursed to them or their survivors upon separation from employment or death.

City of Bell & impact on former cities: In the City of Bell several employees received significant salary bumps from the salaries they received with their previous employers. What was problematic about these

increases was not just that they were significant, but that the previous employers would be on the hook for the increased retirement costs associated with these inflated salaries through a process CalPERS has called “salary reciprocity.”

Salary reciprocity allows public employees who change public employers to, upon retirement and having met specified criteria, have all their years of service calculated at their highest compensation for the purpose of determining their retirement benefits.

For example: Jon Smith works at City A for 20 years making \$80,000 and moves to City B for the final 10 years of his career and receives a salary increase and now makes \$100,000. After a full 30 years of service in the public sector John Smith retires. When CalPERS calculates Jon Smith’s retirement they will calculate the 20 years of service for City A based on the \$100,000 not on the \$80,000 Jon Smith was making while employed by City A. So the additional \$20,000 Jon Smith received will increase the costs for City A. This same example can also be flipped and work in the benefit of City A. If Jon Smith receives a salary decrease when he moves to City B and retires without receiving any increases, City A’s liability will also decrease.

A major benefit of reciprocity is that it enables labor force mobility within California government. Allowing mobility among public agencies provides not only the employee benefits but also provides employers the benefit of an increased pool of well qualified candidates. Some have argued that without reciprocity the public sector is less attractive. Without reciprocity there would be a disincentive for individuals to move from one employer to another, which is common especially for younger generations.

Replacement benefit: The Replacement Benefit Plan (RBP) is a plan that allows for “replacement” of the annual benefit allowance amount that exceeds the IRC Section 415(b) limit (defined below) with wages. Its purpose is to “make whole” the retirement allowances limited by Section 415(b).

The RBP is funded by the employer. CalPERS invoices and collects the replacement benefit amount from the affected employer and then disburses it to affected retirees as wages in quarterly payments within the calendar year.

All member whose combination of reportable compensation, benefit factor and service credit cause their benefits to exceed the Section 415(b) benefit limits are eligible to participate in the RBP.

Internal Revenue Code Section 415(b): This is a provision in federal law which limits the amount of annual retirement benefit an individual can receive from a qualified defined benefit pension plan such as CalPERS. This limit was put into place to prevent employers from using tax-qualified defined benefit plans as tax shelters. The CalPERS retirement plan will lose its tax exempt status if it fails to comply with Section 415.

The current limit or cap is \$195,000 for those retiring between the ages of 62-66, this amount is set annually, and applies to anyone entering the system after Jan. 1990. There are adjustments that are made to the limit to reflect variables such as the date of membership in the CalPERS defined benefit plan and age at the time of retirement.

Policy questions to consider:

- Is the 15% threshold too low for defining “excess compensation”?
- Would employers make hiring decisions based on the 15% threshold?

- Does the committee see concerns about significantly limiting reciprocity?
- What concerns, if any, are raised about deleting the Replacement Benefit Plan administered by CalPERS?

**Staff Recommendation:**

Staff recommends the committee discusses this issue.

**Fiscal Impact:**

Unknown.

**Existing League Policy:**

The League has no specific policy that relates directly to this legislation.

**Support-Opposition:**

Unknown.



## **April 2011 Policy Committees Federal Update**

### **I. League Officers Advocate for California City Priorities in Washington, D.C.**

The League's officers and over a hundred other California city officials traveled to Washington, D.C. March 12-16 for the National League of Cities (NLC) Congressional City Conference. Focusing on NLC's priorities, California city officials advocated for the passage of a comprehensive transportation reauthorization, sustained funding for critical grant programs, and protection of existing local revenues.

The conference, held March 12-16, covered a range of topics including lobbying strategies, public safety, transportation reauthorization, and disaster response. On Thursday, March 17, attendees heard from First Lady Michelle Obama on her *Let's Move!* nationwide initiative and the link between obesity issues and economic issues.

The League's officers, President Jim Ridenour, First Vice President Mike Kasperzak, Second Vice President Bill Bogaard and Immediate Past President Judy Mitchell, lobbied heavily for California's cities' federal priorities. Meetings included:

- Sen. Barbara Boxer (D-Calif.) chair, Senate Environment and Public Works Committee;
- Congressman David Dreier (R-Calif.) ranking member, House Rules Committee;
- Chris Thompson, chief of staff to Sen. Dianne Feinstein (D-Calif.);
- Katie Wheeler Mathews and Brian Turner, deputy directors, Gov. Jerry Brown's Washington office; and
- Meetings with the U.S. Department of Housing and Urban Development, U.S. Department of Transportation officials and others.

In preparation for the NLC Conference, League staff prepared the following issue papers:

1. Protect Local Revenues
2. Priorities for Transportation Reauthorization (SAFETEA-LU)
3. Full Funding for Critical Federal Programs
4. Creating Sustainable Communities

These issue papers, along with the League's federal priorities are posted on the website at [www.cacities.org/federalpriorities](http://www.cacities.org/federalpriorities).

### **II. California Cities Encouraged to Lobby in Support of Community Development Block Grants**

Congress is currently considering proposed funding cuts for FY 2011 and the President's FY 2012 Budget proposal, including cuts to the Community Development Block Grants (CDBG) program. The League sent a letter to the California Delegation stressing the importance of this program to California cities. The League encourages cities to contact their federal

representative directly via phone call and letter to ask that the program be fully funded. A sample letter can be found on the League's website at [www.cacities.org/federal](http://www.cacities.org/federal).

Established in 1974, CDBG is one of the longest continuously run programs offered by the Department of Housing and Urban Development. These flexible annual grants provide communities needed funding to develop and fund priorities that provide housing, better communities, and economic growth opportunities for low- and moderate- income residents. With the state considering a proposal that would eliminate redevelopment, these federal funds are more important than ever to California cities.

### **III. California Cities Encouraged to Lobby in Opposition to the Wireless Tax Fairness Act of 2011**

The U.S. House of Representatives is moving HR 1002, a reintroduction of last year's HR 1521. The legislation imposes a five-year moratorium on state and local taxes on mobile services providers and thus limits local government taxing authority over mobile phones. The same bill has been introduced in the Senate (S. 543), but has yet to gain any momentum.

HR 1002 removes a much needed local government revenue source solely to benefit an industry whose subscribership has grown by 158 percent and whose revenues have increased by 124 percent since 2000. In addition to imposing a financial burden on local governments, HR 1002 undermines the efforts of a number of cities in California that are working directly with voters to update and simplify their tax ordinances to assure technology-neutrality.

It is important for all cities who have a utility users tax (or may want one in the future) to send their letters of opposition, especially if they have a representative on the House Judiciary Committee. The Committee membership includes: Rep. Darrell Issa (CA-49), Rep. Elton Gallegly (CA-24), Rep. Dan Lungren (CA-3), Rep. Howard Berman (CA-28), Rep. Zoe Lofgren (CA-16), Rep. Maxine Waters (CA-35), Rep. Judy Chu (CA-32) and Rep. Linda Sanchez (CA-39).

The League's opposition letter and sample opposition letter have been posted on the League's website ([www.cacities.org/federal](http://www.cacities.org/federal)).



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[www.cacities.org](http://www.cacities.org)

February 9, 2011

The Honorable Kevin McCarthy  
Majority Whip  
U.S. House of Representatives  
326 Cannon House Office Building  
Washington, DC 20515

Dear Representative McCarthy:

As Congress works to finalize legislation extending funding for programs under the Transportation-Housing and Urban Development Appropriations bill for the remainder of FY 2011, I am writing on behalf of the League of California Cities to urge you to support the full funding at \$3.99 billion for the Community Development Block Grant, and oppose efforts to reduce funding for the program to FY 2008 levels.

The need for CDBG funding in the state has never been greater. CDBG grants provide critical funding for community development projects in California cities, which have been severely impacted by the national economic downturn and state budget raids of California city redevelopment agencies. As a result many California cities do not have the resources necessary to advance important community improvement projects which CDBG funding supports.

Over the past 30 years, cities throughout California—both urban and rural—have relied upon CDBG funding to support affordable housing and economic revitalization activities to improve neighborhoods. These funds allow cities to undertake innovative approaches to community development that include job creation, homeownership promotion, youth employment opportunities, after-school programs and gang intervention activities. These vital services ensure that our cities and communities are safe, active and healthy.

Thank you for your consideration of this urgent matter to California's cities. We look forward to working closely with you to achieve the maximum level of funding possible for this vital program for the remainder of FY 2011.

Sincerely,

A handwritten signature in cursive script that reads "Chris McKenzie".

Christopher McKenzie  
Executive Director



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www.cacities.org

March 23, 2011

The Honorable Kevin McCarthy  
U.S. House of Representatives  
326 Cannon House Office Building  
Washington, DC 20515

**RE: Oppose Legislation That Would Reduce Critical Local Government Revenue**

Dear Congressman McCarthy:

On behalf of the League of California Cities (League), which represents California's 481 cities, I am writing to urge you to oppose recently introduced HR 1002 – the Wireless Tax Fairness Act of 2011 – which would impose a five-year moratorium on “new” state and local taxes on mobile services and the providers of mobile services.

Prior to the economic downturn California cities already faced limited options to generate revenue to provide city services. An increasing portion of the property taxes collected at the local level have been transferred to balance the state's budget in recent years, despite the fact that California cities are experiencing the same recessionary effects as the state. As the current national economic crisis expands a number of local governments are being forced to impose severe cuts on critical services, such as police, fire, parks and libraries as well as defer important local public infrastructure maintenance and upgrade projects. This situation is being exacerbated by the turmoil in the national financial markets, which has constrained debt financing as an alternative mechanism for local governments to utilize to maintain these important services, further limiting resources available to local governments.

In response to threats to their existing tax revenues, over one-half of the one hundred-fifty (150) California cities with local taxes on all telecommunications have successfully obtained voter approval, during the past five years, of the level and scope of their local telecommunication taxes. The local voters in California overwhelmingly voted to preserve their existing tax revenues for vital government services, and impose their local tax in a non-discriminatory, technology-neutral manner. Unless this bill is amended to specifically exclude “voter approved local taxes pursuant to state law”, this federal bill could deprive local voters of self-determining their local taxes to provide local services (especially public safety), and possibly jeopardize the existing

tax revenues of many California cities that may need to seek voter approval to protect their existing local tax revenues from the effect of adverse court rulings.

For these reasons we urge you to oppose this legislation. Please let me know if you have any questions or need any additional information, or contact the League's Washington advocates, Eve O'Toole and Dustin McDonald, at (202) 419-2505 and (202) 419-2511 respectively. We look forward to continuing to work with you on California's important local priority issues.

Sincerely,

A handwritten signature in cursive script that reads "Chris McKenzie".

Christopher McKenzie  
Executive Director

**PENSION REFORM IN CALIFORNIA**  
**League of California Cities**  
**March 1, 2005**

For close to 60 years California state and local governments have offered “defined benefit” retirement plans to their employees which provide a guaranteed annual pension based upon retirement age, years of service, and some period of highest salary (typically the last one or three years of work). These plans generally provide an annual cost-of-living adjustment and additional inflation protection that maintains the purchasing power over time at a specified minimum level. The Public Employee’s Retirement System (PERS), the State Teachers’ Retirement System (STRS), and a variety of individual cities and counties administer these retirement plans.

Over the years local and state government retirement costs have risen and fallen based on two principal factors: (1) the investment returns of the various systems; and (2) the level of benefit payments provided to employees. In the late 1990s the California legislature enacted dramatic benefit enhancements for public employees in the PERS system that were optional for participating local governments. Some local governments adopted these benefit enhancement plans—for a variety of reasons, typically to retain employees and at times at a shared cost with the employees. When the retirement systems suffered serious investment losses in the early part of this decade, these losses combined with the benefit enhancements to cause dramatic increases in employer contribution rates.

**Defined Contribution Mandate Proposed**

In the fall of 2004 a proposed constitutional and statutory initiative (File No. SA2005RF0007) was filed that would close all state and local public sector defined benefit plans (including locally administered plans) to new entrants effective July 1, 2007. Employees hired after that date could only enroll in defined contribution retirement plans. Defined contribution plans provide fixed annual employer contributions to employee accounts that are invested, along with employee contributions. Unlike defined benefit plans, the employee has no guaranteed pension benefit and employers never incur any unfunded liabilities.

The initiative (which has a legislative counterpart by Assembly Member Richman) would establish maximum employer contributions of 9 percent for police officers and firefighters and 6 percent for other employees, assuming participation in federal Social Security (3 percent higher if no Social Security). Local agencies could exceed these limits with a two-thirds vote of their electorate. The state could do so with a three-fourths vote of both houses of the Legislature in two consecutive sessions. Mr. Richman has informed the League in a letter dated February 17 that he is willing to enter into negotiations to avoid the need for the initiative.

In his 2005 State of the State message, Governor Schwarzenegger recommended a defined contribution pension mandate for new state and local employees. In a presentation to the League board of directors on February 25, 2005 Tom Campbell,

Director of Finance, explained the Governor's proposal contains no caps on employer contribution and would not require lower state or local contributions. It would simply remove the risk of increased costs to the taxpayer due to future stock market declines by requiring that all new state and local employees be provided a defined contribution plan in place of the traditional defined benefit plan. Mr. Campbell indicated that in all other respects (e.g., PERS administration, employer contributions, employer contributions, etc.) the plans would be identical.

### **League Pension Reform Task Force**

In late 2004 the Executive Director asked the City Manager's Department's standing task force on PERS to undertake a study of the defined contribution proposal and potential other defined benefit reforms. A group of other appointed and elected officials were subsequently added to the task force to provide broader input, and since early December it has met regularly to study the problems with the existing defined benefit retirement systems and to evaluate the defined contribution proposal. The task force is chaired by Bob LaSala, Lancaster City Manager.

The League also retained the services of a retirement actuary, John Bartel of Bartel Associates, LLC, who worked with the Task Force to ensure its recommendations for reform of the defined benefit system were actuarially sound. He assisted the Board in its discussions. His report to the Pension Reform Task Force, dated February 26, 2005 and entitled *Replacement Ratio Study: Preliminary Results*, is available from the League.

### **Review and Comment on Discussion Draft Sought**

The task force report was reviewed by subcommittee of the Public Employee Relations Policy Committee on Wednesday, February 23, 2005 and forwarded to the League board of directors with a favorable recommendation. On Saturday, February 26, 2005 the board accepted the report, with modifications, and authorized staff to circulate the report as a discussion draft for review and comment. It is important to note the ideas contained in this report represent an initial assessment by the League on pension reform. It is offered for discussion and consideration in the pension reform debate. Comments are requested from League member cities, other local government associations, local government labor organizations, state legislators and the Administration. Comments should be sent to the League of California Cities, c/o Anthony Thomas, Legislative Representative, 1400 K St., Sacramento, CA 95814 [athomas@cacities.org](mailto:athomas@cacities.org).

# A Framework for Public Pension Reform<sup>1</sup>

## March 1, 2005

### General Pension Reform Principles

Any serious discussion of public pension reform must begin with a set of principles/goals to guide any following recommendations. Until questions about the appropriate role and purpose of public pension benefits in local government compensation packages are answered, it would be at least premature and perhaps self-defeating to make any specific benefit recommendations. In keeping with this philosophy, it is recommended that the following principles precede any benefit recommendations:

- The primary goal of a public pension program should be to provide a full-career employee with pension benefits that maintain the employees' standard of living in retirement.
- The proper level of public pension benefits should be set with the goal of providing a fair and adequate benefit for employees and fiscally sustainable contributions for employers and the taxpayers.
- Public pension benefits should be supported with proper actuarial work to justify pension levels. The Legislature should reject any and all attempts to establish pension benefits that bear no relation to proper actuarial assumptions and work.
- Pension benefits should be viewed in the context of an overall compensation structure whose goal is the recruitment and retention of employees in public sector jobs. In recognition of competitive market forces, any change in the structure of retirement benefits must be evaluated in concert with other adjustments in compensation necessary to continue to attract and retain an experienced and qualified workforce.
- The reciprocity of pension benefits within the public sector should be maintained to ensure recruitment and retention of skilled public employees - particularly in light of the retirement of the post World War II "Baby Boom" generation which will result in unprecedented demand for public sector employees.
- Perceived abuses of the current defined benefit retirement programs need to be addressed. Benefit plans which result in retirement benefits which exceed the levels established as appropriate to maintain employees' standard of living should be reformed. It is in the interest of all public employees, employers and taxpayers that retirement programs are fair, economically sustainable and provide for adequate benefits for all career public employees, *without providing excessive benefits for a select few.*

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<sup>1</sup> This report constitutes the recommendations of the League Pension Reform Task Force that was accepted by the League of California Cities Board of Directors for distribution as a discussion draft.

- The obligation to properly manage public pension systems is a fiduciary responsibility that is shared by PERS, employers and employees. This joint responsibility is necessary to provide quality services while ensuring long-term fiscal stability. These parties need to be held responsible to ensure a high level of protection against mismanagement of public resources that could jeopardize a community's ability to maintain services and provide fair compensation for its workforce.
- Charter cities with independent pension systems should retain the constitutional discretion to manage and fund such pension plans.

### **Reform Recommendations**

Public employee defined benefit programs have been appropriately criticized in a number of areas. The following reform recommendations address short-comings within some defined benefit retirement programs, while preserving the aspects of the program that have served the employees, employers and taxpayers of California well for over 60 years.

### **Pension Benefit Levels**

*Principles:* Public pension benefit plans should:

- Allow career-employees to maintain standard of living post-retirement.
- Be designed with consideration of age at retirement, length of service, compensation level and applicability of Social Security.
- Be supported with proper actuarial work to justify pension levels. The Legislature should reject any and all attempts to establish pension benefits that bear no relation to proper actuarial assumptions and work.
- Promote career public service without creating incentives to work past retirement age, nor disincentive to early retirement. Employees who voluntarily choose to either work beyond retirement age or retire early should not be penalized or rewarded.

### *Recommendations*

- Maintain the defined benefit plan as the central pension plan for public employees in California.
- Rollback/repeal public retirement plans that provide benefits in excess of levels required to maintain a fair, standard of living<sup>2</sup> that are not financially sustainable and may have no actuarial justification. The new and exclusive benefit formulas to achieve these goals should be:

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<sup>2</sup> This should be determined in accordance with a Cal PERS 2001 target replacement benefit study and/or the Aon Georgia State Replacement Ration Study (6<sup>th</sup> update since 1988).

1. **Safety Employees:** 3% @ 55 formula, offset by 50% of anticipated social security benefit for safety employees with social security coverage. Safety employees retain the current cap on retirement at 90% of final compensation.
  2. **Miscellaneous Employees(Non-safety):** 2% @ 55 formula, offset by 50% of anticipated social security benefit for miscellaneous employees with social security coverage. A cap of 100% of final compensation is placed on newly-hired, miscellaneous(non-safety) employees.
- The above formulas would incorporate “Three-Year-Average” for “final compensation” calculation. All “Highest Final Year” compensation calculations would be repealed for newly-hired employees.
  - Provide alternatives to a defined benefit plan for job classifications not intended for career public service employment.
  - Give employers greater flexibility to determine when a part-time employee is entitled to public pension benefits. The current hourly threshold in PERS is too low.

## **Rate Volatility**

### *Principles*

- Responsible fiscal planning suggests the need to “manage” volatility in defined benefit plan contribution rates.
- Rates have historically been relatively constant and comparable to rates currently paid by most public agency employers.
- Recent rate volatility is primarily due to large fluctuations in annual investment returns for the retirement plan investment portfolios, causing significant changes in plan funding status.
- Normal Costs for defined benefit plans have remained relatively constant over time.

### *Recommendations*

- Public Agency retirement contribution rates, over time, should be constructed to stay within reasonable ranges around the historical “normal cost” of public pension plans in California. Sound actuarial methods should be adopted to limit contribution volatility while maintaining a sound funding policy.
- Establish “reserve” funding for public pension systems that will help smooth the volatility of pension benefit costs. Plan surpluses are to be retained within plan

assets, but should be reserved for amortization of future unfunded liabilities, and should not be used to offset plans' normal cost contribution rates.

## **Shared Risk**

### *Principles*

- Currently, in most local jurisdictions, employers shoulder the burden of rate volatility risk – both positive and negative. This principle should be carefully examined with the intent of better spreading the risk of rate volatility among both employers and employees.
- Negotiated labor agreements containing language whereby employers “pick-up” employees’ retirement contributions are assumed to be part and parcel of a “total compensation” package; this implies that agencies with Employer Paid Member Contributions would also typically reflect correspondingly lower base salaries.

### *Recommendations*

- When employer contribution rates exceed the “normal costs” threshold, employees should be expected to take some of the financial responsibility for those excessive increases.

## **Disability Retirement**

### *Principles*

- Retirement-eligible employees who are injured in the workplace should be entitled to full disability retirement benefits; disability retirement benefits should, however, be tied to individual’s employability and be structured so as to encourage return to work, where applicable.
- Larger disability reform measures should be considered outside of the scope of general pension reform.

### *Recommendations*

- Full tax-exempt disability retirement should be retained for employees who are injured and can not work in any capacity
- Reform the disability pension provisions of public retirement systems to restrict benefits when a public employee can continue to work at the same or similar job after sustaining a work-related injury.

- Employees eligible for disability retirement should be first afforded applicable service retirement benefits, and THEN provided disability retirement benefits up to applicable “cap” on total retirement benefits.

## **Portability of Plan Benefits**

### *Principles*

- Reciprocity of public agency retirement benefits is critical to recruitment of qualified, experienced public sector employees.
- Limiting portability of retirement plan benefits to non-public sector employment helps in the retention of senior and management level employees.

### *Recommendation*

- Any pension reform package should retain transferability of retirement benefits across public sector employers. No employee currently in a defined benefit plan should be required to involuntarily give up a defined benefit formula before retirement.

## **Tiered Plans**

### *Principles*

- Agencies should strive to avoid multi-tiered compensation structures where there are large discrepancies in benefits accruing to employees. In addition to having adverse impacts on recruitment and employee morale, multi-tiered approaches can raise issues of comparable worth and equity.

### *Recommendations*

- Any pension reform measures should seek to minimize disparity between current and prospective public agency employees.
- Any reduction(s) or change(s) to current Defined Benefit plans should be considered in context of other compensation issues that will tend, over time, to “equate” compensation plans within and across public agency employers.

## **Management Oversight**

### *Principles*

- The obligation to properly manage public pension systems is a fiduciary responsibility that is shared by PERS, employers and employees. This joint responsibility is necessary to provide quality services while ensuring long-term fiscal stability. These parties need to be held responsible to ensure a high level of protection

against mismanagement of public resources that could jeopardize a community's ability to maintain services and provide fair compensation for its workforce.

### *Recommendations*

- Public agencies that do not make the Annual Required Contribution under GASB 27 should be made subject to appropriate oversight.
- The membership of the Public Employees and Retirement System Board should be changed to achieve both a better balance of employer and employee representatives as well as a better balance of public agency representatives.

### **Conclusion**

Defined benefit retirement plans have been the traditional approach for close to 60 years in California and have produced fair and sustainable retirement benefits that have been central to recruiting and retaining quality public employees. Defined benefit plans should be retained as the central component of public pension systems in California.



# DRAFT

## Pension Reform Revisited: 2010 White Paper

April 2010

DRAFT

**A** major policy shift occurred in California's public pension systems in 1999 resulting in a substantial increase to the level of public pension benefits. This shift, along with other economic factors, is now producing a public backlash against public pension benefits. Many Californians, as well as residents of other states, seriously question the amount of public resources being dedicated to public pension costs. This growing public pension debate has become amplified by the global recession that has, among other things, decimated federal, state and local tax revenues used to pay for public services, including pension costs. At the same time, private sector workers are experiencing substantial reductions, or in some cases, the complete loss of their pension funds, not to mention their jobs. This stark contrast between the public and private sectors is adding fuel to the public's discontent over public pension costs. How did we get to this point and perhaps more importantly, what do we do to address it?

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## Recent Pension History

Rebounding from a significant recession in the early 1990s, the economy expanded rapidly in the early 2000s. Stock market investments soared, producing a tremendous amount of return on the investments of California’s public pension systems.

Investment earnings were so high in the late 1990s that employers were given a “rate holiday” for a number of years and did not have to make employer contributions into their respective pension systems.

Public employee organizations quickly recognized the tremendous earnings on pension fund investments systems and concluded that employers should not be the only group receiving a financial advantage. To “even” the investment largesse, they proposed a series of retirement benefit formula increases. The first round of increases was accomplished in 1999 with SB 400 (Ortiz), which established a new set of retirement formulas for public safety officers. In 2001, just two years later, miscellaneous (non-safety) employees were also provided increased benefit level options with AB 616 (Calderon).

The California Highway Patrol was the first to receive the new benefits. Local govern-

ments were given the option to adopt the same benefits for their public safety officers. The state of California also increased benefits for its miscellaneous employees through SB 400 by changing the retirement formula from 2% at 60 to 2% at 55. The 2% at age 55 formula was enacted as an option for local government miscellaneous employees many years earlier.

Benefits grew with SB 400 by increasing the “multiplier factor” in existing formulas. Public safety officers were given a 3% multiplier instead of 2%. A public safety employee with 30 years in the system would receive 90% of salary in retirement:  $3 \times 30 \text{ years of service} = 90\% \times \$80,000 \text{ final salary} = \$72,000$  as a retirement benefit. Under the previous formulas, that same public safety officer would have received the following benefit:  $2 \times 30 \text{ years of service} = 60\% \times \$80,000 \text{ final salary} = \$48,000$ . A substantial increase in the final retirement benefit. It’s important to remember that while this example is mathematically correct, for a public safety officer to receive 90% of his/her final salary at age 50 they would have to begin working at 20, which may not be all that common.

AB 616 provided increased benefits

for miscellaneous local government employees only. The increases were accomplished again by increasing the multiplier factor. Previously, the multiplier was set at 2%. AB 616 established the following optional formulas with the increased multipliers:

2.5% at age 55;

2.7% at age 55; and,

3% at age 60.

These new formulas were not mandatory, but they were subject to collective bargaining. The post-1999 formulas for both safety and miscellaneous employees have been very popular among local governments. Most cities in the California Public Employees' Retirement System (CalPERS) have now adopted some form of the increased benefit options placed into law through AB 661 and SB 400.

### **Financial Strain on Public Pensions**

The new benefit increases, combined with a significant downturn in the economy in the early 2000s—know as the “Good Recession”—brought a brief period of volatility to California’s public pension systems.

*[Continued on page 4]*

### **Pension 101—Sidebar**

Defined Benefit Plan: Most public pension systems provide defined benefit plans. This means that a retiree’s pension is computed through a formula that incorporates: 1) years of service, 2) age, 3) final salary and 4) a retirement multiplier. For example, an employee with a 30 year public sector career who is 55 years old with a final salary calculated at \$100,000 and is covered by a retirement formula that has a 2% multiplier, that employee would receive an annual salary of \$60,000 (2 [multiplier] X 30 years of service = 60% X \$100,000 = \$60,000).

Pension System Revenues: A defined benefit plan has three sources of revenue: 1) employee contributions (a fixed percentage); 2) investment earnings on the system’s assets (employee and employer contributions); and 3) employer contributions (percentage varies based on revenue needs that are actuarially determined). When investment earnings on the system’s assets are high, employer contribution rates (stated as a percentage of payroll) go down; when investment earnings are down, employer contribution rates go up.

Defined Contribution Plan: A small and diminishing number of defined benefit plans are found in the private sector. Most private sector retirement plans, if a corporation or business has a pension system in place at all, are defined contribution plans. In such a plan the employee contributes as much as possible into the plan and there may or may not be an employer contribution. The amount of money going into the plan is the amount of money an individual has to meet his or her retirement planning. If the amount in the defined contribution plan meets the amount needed to retire, then all is well. If not, then the individual has to make adjustments to ensure that sufficient money is present to meet retirement obligations. Unlike the defined benefit plan, there is no guaranteed benefit amount.

Investment earnings in public pension systems took a nosedive along with all other investments. Public employers who had enjoyed years of no or very low contributions to their pension systems experienced a dramatic increase in employer contributions after most pension systems experienced unprecedented negative investment earnings for two consecutive years. Employer contributions climbed sharply. Funds were diverted from other public sector services to meet rising pension obligations. This economic downturn and its direct impact on pension costs was not anticipated or seriously considered when the rush was on in the Legislature to enact new and higher benefit formulas. All of a sudden, pension contributions began to pull heavily on local resources.

The economic challenges and the effect these new benefit formulas would have on local budgets for years to come compelled the League to take a closer look at the issue. The organization created a task force to examine the genesis of the new pension problems and make recommendations for local governments to consider. These recommendations appeared in the League's 2005 White Paper on the subject and have subsequently served as the basis of

League policy in this area.

## **Development of the 2005 White Paper**

The Pension Reform Task Force used professional actuaries to provide needed technical resources and expertise.

The task force began by asking fundamental questions about the purpose behind public pension benefits in local government compensation packages before addressing the merits of the multiple pension benefit plan options. It concluded that public pension systems have served as a successful tool to recruit and retain a quality workforce. The task force also concluded that a key factor in that success has been the defined benefit plan (please see Pension 101 sidebar on page 3 for information on the defined benefit and defined contribution).

The task force requested that the actuaries make comparisons of the benefit options in California (both pre-and-post 1999) against two models developed to help determine the appropriate level of retirement benefits for public sector employees. One model was developed by CalPERS and another by Georgia State University, known for its Actuarial Science program. These two models contained three primary

principles for determining an “appropriate level of retirement benefit” and include:

1. Retirement benefits should be “fair” and recognize the contribution of public employees to the mission of the organization;
2. The retirement system should be established with the goal of providing this benefit to a career employee (defined as 30 years of service); and,
3. The retirement benefit should provide the means to maintain an employee’s standard of living in retirement (with the model including an array of factors such as changes in taxation in retirement, personal savings, expenses and other factors).

Using the CalPERS and Georgia State University models, the task force concluded the post-1999 formulas produced retirement benefits that were well above what these models considered as appropriate levels of retirement benefits. Based on this analysis, the task force finished its work by making the following recommendations:

- Defined benefit plans have been a great recruitment/retention tool for local government workforces and should be retained;
- Because retirement benefits under the post-

1999 formulas substantially exceeds the amount necessary to meet the three principles in the comparative models, local governments should return to pre-1999 formulas for all new hires coming into public employment;

- All post-1999 benefit options adopted by the California Legislature should be repealed and no longer be options for local governments; and,
- The “highest single year” standard for determining “final salary” in computing retirement benefits has produced far too many, highly-visible and publicly embarrassing incidents of pension spiking and should be eliminated as an option and replaced with a “three highest years average” standard.

In addition to these key elements, the 2005 White Paper recommended that retirement formula options be rolled back to their pre-1999 levels for newly hired public safety and miscellaneous employees and that one single formula be made available for all public safety employees and one single formula be made available for miscellaneous employees. The 2005 White Paper contained a number of other related recommendations.

The 2005 White Paper was approved by the League’s Employee Relations Committee as well as the League’s board of directors.

### **Public Pensions and the Great Recession**

A recovery that pushed investment earnings back into the black followed the recession of the early 2000s. For CalPERS, the stock market recovery produced investment returns close to a high of 20% in one fiscal year. However, the apparent return to more robust market conditions did not last.

The stock market rapidly declined in the late summer, early fall 2008. This was partially fueled by the implosion of questionable real estate investments and aggressive investment practices by key financial institutions. A worldwide recession of a magnitude not witnessed since the Great Depression ensued.

California’s public retirement systems experienced a huge drop in investment earnings followed by rapidly escalating employer contributions. The volatility of employer contributions has been somewhat eased through actuarial “smoothing” techniques. Unfortunately, retirement system administrators predict that employer contributions will continue to rise to his-

torically high levels and perhaps remain for decades. Public pension systems will need an extraordinary revenue infusion to simply meet normal retirement obligations. Additional revenues will be needed to mitigate the large losses these systems suffered in this recession.

Comments from pension administrators about this financial problem are very telling. The scope and breadth of the financial challenge to sustain current pension levels are formidable, some say impossible. Paraphrased observations from pension administrators include:

*“We will not be able to invest our way out of this financial condition – it is a reality that we will live with for years to come, regardless of market turnarounds.”*

*“The employer contribution levels for these pension benefits are simply unsustainable.”*

These are the warnings that seriously concern those who are responsible for balancing city, county and special district budgets. The question is where will this revenue infusion come from? If the answer is primarily local governments, administrators at the local level have doubts that these pension benefits can be sustained.

## **Pension Reform Revisited**

This most recent financial crisis prompted the League to reexamine the 2005 White Paper on pension reform with the League's City Managers' Department taking the lead in this process. As managers of our public institutions, there is widespread concern about the financial ability of local governments, and state government for that matter, to meet predicted pension obligations in the future.

The League's Employee Relations Policy Committee scheduled a meeting in the fall 2009 to begin reexamining the organization's pension reform policy. The committee members heard from representatives of local government labor organizations, including both the Peace Officers Research Association of California (PORAC) and the California Professional Firefighters (CPF).

The response to pension reform from these labor organizations was both pointed and simple: modifications or reforms to public pension systems in order to cope with rising pension costs belong in the local collective bargaining process and should not be addressed from a statewide perspective, whether by legislation or

by ballot measure. These labor groups recognize the financial problems facing local governments in California, but ultimately thought this could be best solved locally between employers and employee organizations.

A number of committee members raised concerns at the meeting about the 2005 White Paper's specific recommendation that defined benefit plans should be retained as the primary retirement benefit for recruiting and retaining a quality workforce. They argued that a policy of this nature presupposes the "right" or "best" pension plan for local governments. The committee expressed a preference for a recommendation that was more consistent with the long established League principle of local control; a recommendation that recognized greater latitude for local governments to determine appropriate pension benefit options in local compensation plans.

The League's City Managers' Department also briefed the committee on local government officials' efforts to have regional policy discussions about proper public pension levels. A number of regions have started these conversations that include managers, elected officials and labor organizations. Some areas have al-

ready adopted regional policy principles to help guide the inevitable discussion about the sustainability of current pension costs.

The committee went on to make a number of recommendations.

### **Employee Relations Policy Committee Recommendations**

1. Actuarial Models/Principles Remain Valid.

The assumptions in the actuarial models used to assess CalPERS retirement benefit plans are still valid and should be the basis of any new recommendations on pension reform. Those models were developed by CalPERS and Georgia State University and contained the following principles:

- Public pensions should be fair and sustainable in recognizing the contribution of an employee to the mission of the organization.
- Public pensions should be constructed in such a manner that career employees (defined as 30 years) are incentivized, recognized and rewarded for their contributions to public service.
- Public pension benefits should be set at levels designed to maintain a career employee's standard of living in retirement.

2. 1999/2001 Benefit Changes Excessive. The

actuarial analysis done in 2005 clearly suggests that the benefit increases enacted by SB 400 (1999) and AB 616 (2001) produced pension benefits that were in excess of the CalPERS and Georgia State University models. Any local collective bargaining process should consider these principles or conduct a similar actuarial analysis before adopting new benefit policies.

3. Locally Determined Pension Benefits. The appropriate public pension benefits for any local jurisdiction should be determined through the collective bargaining process. Current benefit levels were set through local collective bargaining and any modifications to those benefits should be determined in the same process. When considering modifications to public pension systems for new employees, defined benefit plans, defined contribution plans, or any combination of the two, along with incentives to increase personal savings for retirement purposes should be fully explored in any analysis.

4. Regional Pension Discussions Endorsed.

The League endorses the regional efforts of city officials to bring about a meaningful

public dialogue about the appropriate levels of public pension benefits in any particular region. These regional efforts should also include public employee organizations.

5. Increased Employee Responsibility for Pension Costs. Employee financial responsibility for public pension costs should be increased above current levels. Employers and ultimately the taxpayers bear far too much of the financial risk in current pension systems.

6. Elected Officials Guide to Public Pensions. The League should undertake the development of a publication to serve as a guide for elected officials when considering the adoption of and any modifications to public pension benefits.

7. Public Pension Spiking. The practice of “spiking” pension benefits excessively in the final year(s) of employment is a practice that can and should be eliminated by taking appropriate actions, both at the state and local level. This practice takes a heavy toll on the credibility of public agencies when very visible, highly-paid local employees

substantially increase pension benefits in the final years of employment through loopholes in pension laws.

### **California Public Policy**

The backdrop to this discussion of pension reform cannot be complete without recognition of the realities of public policy development in California. The state of California is solidly deadlocked as a policy-making body. Placing some kind of reasonable control on public pension costs is a growing problem that from all indications cannot be resolved by the current state institutions. The Legislature and the Governor’s Office don’t appear capable to muster the consensus needed in California to tackle any of the major public problems, including pension reform.

To fill the public policy vacuum left by the state, organizations, special interests, and citizens are increasingly using the initiative process to end-run the state’s governing institutions. Public pension reform is an issue that is ripe for this type of public policy end-run.

With the growing sentiment of private sector workers that public pension benefits are too generous, it’s likely that the sponsor of a

pension reform measure will be an individual or organization who wants to radically alter public institutions. An astute sponsor can easily tap into the growing “pension envy” among private sector workers who have lost their pension plans, perhaps their jobs and are being asked to pay higher taxes for public services during these difficult economic times.

The initiative is the greatest unknown and biggest threat to reasoned public pension reform and needs to be recognized by anyone or any organization that wants to engage in this debate. A measure was submitted to the Attorney General for the November 2010 statewide ballot. It would have seriously altered public sector pension plans. This poorly financed effort will not move ahead to the ballot, but it certainly won't be the last proposal on the subject.

## **Conclusion**

The League couldn't be more serious about the need to address this public pension problem before it is placed in the hands of the voters by interests who do not have a favorable opinion of public employees, public employment or public service. The League strongly urges employee organizations to join employers in

offering a constructive alternative for the public pension reform discussions. The local collective bargaining process is a good place to start these reform discussions, but there is definitely room to talk about reasonable statewide alterations to our public pension systems and this discussion should be framed by a need to ultimately develop public pension systems that are clearly defensible in a public debate.

# Comparing Pension Reform Plans

## Governor's 12-Point Plan vs. Senate Republican Proposal

	GOVERNOR BROWN 12-POINT PLAN	SENATE REPUBLICAN PROPOSAL
Eliminate the purchase of Airtime	✓	✓
Prohibit pension "holidays"	✓	✓
Prohibit employers from making employee pension contributions	✓	✓
Prohibit retroactive pension increases	✓	✓
Prohibit pension spiking: three year final compensation	✓	✓
Prohibit pension spiking: define compensation as only regularly, non-recurring pay (i.e. vacation pay)	✓	✓
Prohibits payment of pension benefits to those who commits a felony related to their employment.	✓	✓
Impose pension benefit cap	✓	✓
Improve retirement board governance	✓	✓
Limit post-retirement public employment	✓	✓
Place pension changes before the voters	Has not addressed this issue	✓
Mandatory hybrid pension system	Keep hybrid plans optional	✓
Require employees to pay fair share of unfunded pension obligations	Has not addressed this issue	✓
Ability to change unaccrued pension benefits for current employees	No	✓
Require 2/3 vote to make salary and pension changes	No Keep simple majority	✓

## 2011 City Manager Pension Survey

The League of California Cities (League) City Managers Department in January 2011 sent a survey to the 481 cities in California and asked that they respond to questions that would help in determining the latest trends in pension changes across the state. This is the first in what will be an annual survey conducted by the League. For other pension resources and information please visit the League's Pension Information Center at [www.cacities.org/pensions](http://www.cacities.org/pensions).

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### DEMOGRAPHIC INFORMATION

Survey Respondents: 296 out of 449 cities that contract with CalPERS

Regional Division Representation:

Every regional division in the League was represented

Divisions with more than 20 cities responding include:

- Central Valley (23)
- East Bay (26)
- Los Angeles County (49)
- North Bay (26)
- Orange County (22)
- Peninsula (23)
- Sacramento Valley (33)

Divisions with fewer than 10 cities responding include:

- Imperial County (1)
- Redwood Empire (5)
- Riverside County (9)

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### TIERING

*Cities were asked to indicate whether they adopted a new tier of benefits and when the new tier was adopted. They were also asked to indicate both the previously offered benefit level as well as the new level of benefits.*

- 22% of cities responding have adopted a new pension tier and it appears that most of the new tiers were adopted in the last two years.
- 73% of the new tiers adopted are for miscellaneous employees.

### Trends in Fire Plans

Most cities that negotiated changes to their fire plans reduced benefit levels. Most cities that provided the 3% at 50 plan adopted a lower benefit of 3% at 55 plan. The 2% at 50 plan is the second most commonly adopted new formula.

### Trends in Police Plans

Most cities that negotiated changes to their fire plans reduced benefit levels. Most cities that provided the 3% at 50 plan adopted a lower benefit of 3% at 55 plan. The 2% at 50 plan is the second most commonly adopted new formula.

### Trends in Miscellaneous Plans

The survey indicates that there is no commonly offered benefit level to miscellaneous employees. The 2% at 55, 2.5% at 55, and the 2.7% at 55 plans were equally provided by cities that responded. However, what is common among miscellaneous employees is that they are being offered a lower benefit level of 2% at 60.

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## **COST SHARING**

*Cities were asked to provide information on whether they had negotiated an increase in employee cost sharing of pension costs.*

- 38% of cities responding have adopted some form of cost sharing with many of those changes occurring over the last two years.

### Trends in Fire Plans

57% of cities that said they negotiated an increase in employee cost sharing indicated that their fire units will be picking up more of the pension costs. Formerly the common trend among these employees was to contribute 0% toward pension costs and now they are contributing 9%.

It also appears that 10% of these agencies have asked their fire units to pick up a portion of the employer contribution rate. Agencies have negotiated a 2—4% pick up of the employer contribution.

### Trends in Police Plans

73% of cities that said they negotiated an increase in employee cost sharing indicated that their police units will be picking up more of the pension costs. Formerly the common trend among these employees was to contribute 0% toward pension costs and now they are contributing 9%.

It also appears that less than one-percent of these agencies have asked their police units to pick up a portion of the employer contribution rate. Agencies have negotiated a 1—4% pick up of the employer contribution.

### Trends in Miscellaneous Plans

89% of cities that said they negotiated an increase in employee cost sharing indicated that their miscellaneous employees will be picking up more of the pension costs. Formerly the common trend among these employees was to contribute 0% toward pension costs and now they are contributing 8%.

It also appears that just about one-percent of these agencies have asked their miscellaneous employees to pick up a portion of the employer contribution rate. Agencies have negotiated a 2—6% pick up of the employer contribution.

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## **FINAL AVERAGE EARNINGS (FAE)**

*Cities were asked to provide information on changes they negotiated to the FAE formula (also referred to as the final compensation calculation).*

- 12% of cities responding have negotiated changes to their final compensation calculations. It appears that an overwhelming majority of these cities negotiated a change in formula from the highest one-year to an average of the highest three years for future fire, police, and miscellaneous employees.

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## **CONCLUSION**

There is strong indication that we will continue to see changes adopted at the local collective bargaining table. The survey results show that 62% of responding cities are currently considering negotiating changes to their pension offerings.

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## **CONTACT**

For questions regarding this survey please contact Natasha Karl, legislative representative, at [nkarl@cacities.org](mailto:nkarl@cacities.org).

# Little Hoover Commission Report

## Public Pensions for Retirement Security Executive Summary

## *Executive Summary*

**T**he 2008-09 stock market collapse and housing bust exposed the structural vulnerabilities of California's public pension systems and the risky political behaviors that have led to a growing retirement obligation for state and local governments, the scale of which taxpayers are just beginning to understand.

Treated like another speculative house during the boom, the state allowed public agencies and employees to pull equity in the form of increased retirement benefits from the pension funds whose value was inflated by optimistic market return estimates. The retirement promises that elected officials made to public employees over the last decade are not affordable, yet this is a mortgage that taxpayers cannot walk away from easily.

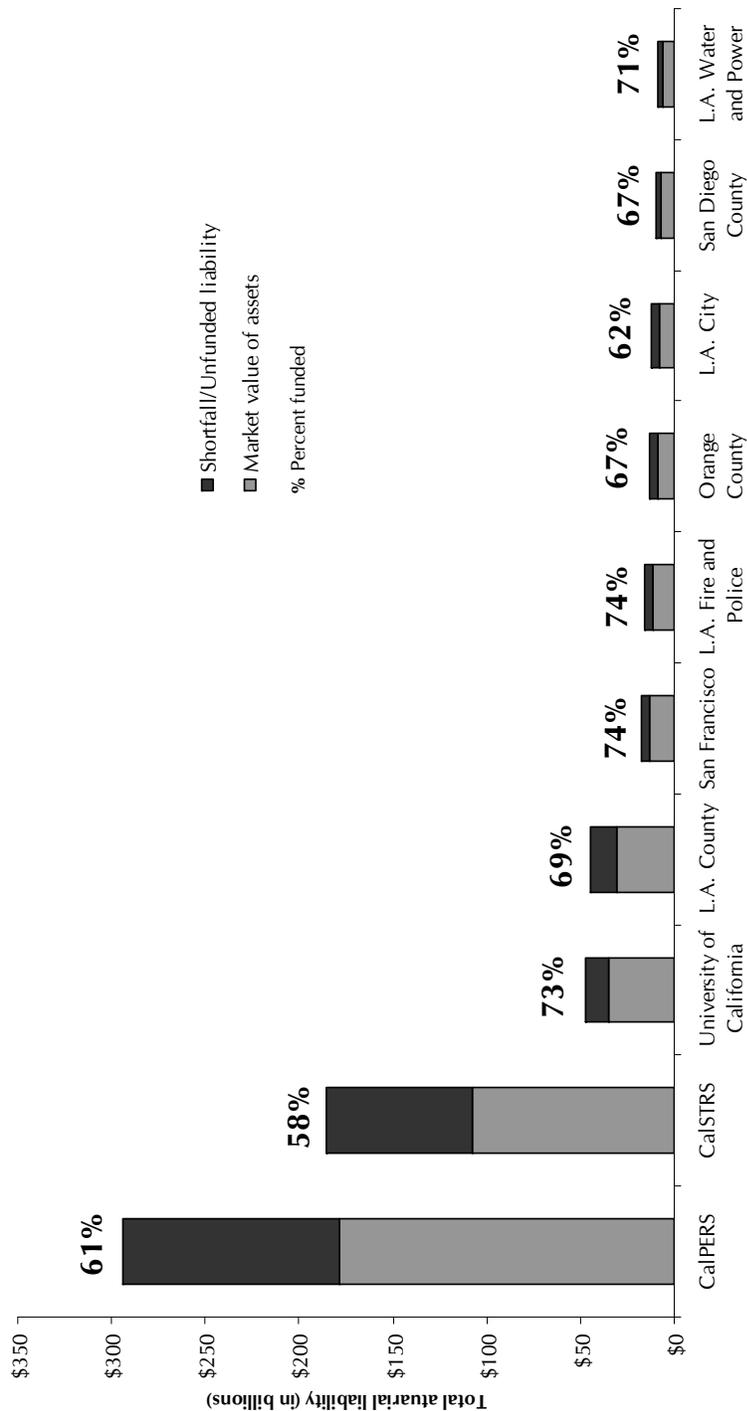
When the economy crashed, another lesson from the housing bubble became just as important. A public pension, like a house, is not a get-quick-rich investment. As a house is for shelter, a pension is for long-term financial security. Even the "teaser rates" reflecting aggressive investment assumptions are re-setting, revealing a higher cost to maintain a level of benefits that have become more generous than reasonable.

Boom and bust cycles are natural, if unpredictable, but political leaders agreed to changes in the pension system at the peak of a boom, and as a major demographic event began unfolding – the start of the retirements of the Baby Boomers.

Pension benefits promised to retirees are irrevocable, as are the promised benefits that current workers have accrued since their employment began. It also remains difficult to alter the theoretical, yet-to-be earned benefits for current workers. This situation, reinforced by decades of legal precedent, leaves little room for state and local governments to control mounting retirement costs, particularly when the only venue for change is the bargaining table.

Taxpayer groups, citizen grand juries and think tanks have sounded the alarm for reform, a call that is beginning to resonate in city councils,

**California Public Pension Obligations in 2010  
for 10 Largest Defined-Benefit Systems**



The 10 largest public pension funds in California – encompassing 90 percent of all assets and members in the state’s defined benefit systems – faced a combined shortfall of more than \$240 billion in 2010. As a point-in-time measurement to gauge the financial health of these systems, this chart includes the percent of actuarial liabilities that are covered by the market value of assets in each fund. An 80 percent funded status is considered the low threshold for a stable system. Actuarial methodology used by each system to determine liabilities can vary, which can complicate comparisons between systems. This chart was assembled using the unaltered information as reported by the pension systems.

See end notes for sources.

county boards of supervisors, school boards and among trustees of specials districts now that they face the prospect of increasing required contributions into their pension funds by 40 to 80 percent of their payroll costs for decades to come. It is practically enough money to fund a second government, and it will – a retired government workforce.

Public employees might appear to have little incentive to push for reforms, yet they will pay a price for inaction: salary freezes, layoffs, increased payroll deductions and the threat of a city or county bankruptcy. Doing nothing to current pension obligations will cost public employees everything. A pension cannot grow without a job attached to it.

Public employees also share in the prospect of a very different California, as cities such as Los Angeles, San Diego, San Francisco and San Jose prepare to spend one third of their operating budgets on retirement costs in coming years. Pensions are at the center of what will be an intensifying fight for diminishing resources from which government can pay for schools, police officers, libraries and health services. With 86 percent of the retirees and beneficiaries of the California Public Employees' Retirement System remaining in the state, in what sort of communities do they want to live? Without reform, it will be communities with dwindling services and less police and fire protection.

The Little Hoover Commission began its study of California's public pension systems in April 2010 to understand the scale of the problem and develop recommendations to control growing pension costs in state and local governments. Over a six-month period, the Commission held a series of hearings at the State Capitol and conducted several other public meetings with stakeholders to address these issues. Through these hearings and additional research, the Commission found:

***Pension costs will crush government.*** Government budgets are being cut while pension costs continue to rise and squeeze other government priorities. As the Commission heard during its hearings, the tension between rising pension costs and lean government budgets is often presented today in a political context, with stakeholders debating the severity of the problem and how long it will last. In another five years, when pension contributions from government are expected to jump and remain at higher levels for decades in order to keep retirement systems solvent, there will be no debate about the magnitude of the problem. Even with the introduction of two-tiered pension plans, barring a miraculous market advance, few government entities – especially at the local level – will be able to absorb the blow without severe cuts to services.

***The math doesn't work.*** Investment losses in 2008-09 certainly shocked the system, but several other factors have contributed to an unsustainable pension environment. Payroll growth – in terms of both compensation for public employees and the number of employees – has ballooned pension liabilities. The minimum retirement age has dropped to 55 – earlier for public safety employees – as people live longer, creating an upside-down scenario where governments potentially will send retirement checks to an employee for more years than they earned paychecks. At the same time, state and local governments have increased what used to be considered a good pension into pensions that are the most generous in the country. Banking on high fund returns and an aggressive investment strategy, employers and employees also have failed to contribute sufficiently – and on occasion, stopped paying into the system at all. Today, the state's largest pension systems are dangerously underfunded.

***The system lacks discipline.*** The purpose of the public pension system has shifted away from providing retirement security to public employees. Today, the pension system is regarded as deferred compensation – the perceived tradeoff of earning a lower salary in the public sector in exchange for a good retirement package. The retirement systems invest aggressively to help workers accumulate wealth, which leaves taxpayers facing all the risk when returns fail to meet system needs. A lesson from history would suggest that, when the market eventually recovers, the pressure from employees will return to ramp up pension formulas and undo any reforms being made today. The ability or willingness of elected officials to hold the line on their own is in serious doubt.

***The system lacks oversight and accountability.*** CalPERS, the largest pension plan in the country, covers state workers and many city, county and school district workers – roughly half of all public employees in California, 1.6 million altogether. Other public workers in universities, cities, counties, school districts and special districts receive retirement benefits through dozens of other independently run pension plans. The collective-bargaining environment also allows numerous employee unions within each government entity to negotiate separately for benefits, resulting in thousands of different retirement packages across the state. Since 2008, fewer than 30 of the 1,500 local public agencies in the CalPERS network have adopted a lower level of pension benefits for new hires. As pension portfolios shrunk and tax revenues plunged, nearly 200 public agencies in CalPERS

continued to increase retirement benefits for current workers. This lack of uniformity:

- Clouds transparency.
- Invites mischief and abuse, such as pension “spiking.”
- Creates a compensation arms race among communities.
- Delegates complicated decisions to often inexperienced, local officials.

With needed reforms, defined-benefit pensions can remain a core component of public employee retirement plans.

The problem, however, cannot be solved without addressing the pension liabilities of current employees. The state and local governments need the authority to restructure future, unearned retirement benefits for their employees. The Legislature should pass legislation giving this explicit authority to state and local government agencies. While this legislation may entail the courts having to revisit prior court decisions, failure to seek this authority will prevent the Legislature from having the tools it needs to address the magnitude of the pension shortfall facing state and local governments.

The situation is dire, and the menu of proposed changes that include increasing contributions and introducing a second tier of benefits for new employees will not be enough to reduce unfunded liabilities to manageable levels, particularly for county and city pension plans. The only way to manage the growing size of California governments’ growing liabilities is to address the cost of future, unearned benefits to current employees, which at current levels is unsustainable. Employers in the private sector have the ability and the authority to change future, unaccrued benefits for current employees. California public employers require the ability to do the same, to both protect the integrity of California’s public pension systems as well as the broader public good.

Freezing earned pension benefits and re-setting pension formulas at a more realistic level going forward for current employees would allow governments to reduce their overall liabilities – particularly in public safety budgets. Police officers, firefighters and corrections officers have to be involved in the discussion because they, as a group, are younger, retire earlier and often comprise a larger share of personnel costs at both the state and local level. Public safety pensions cannot be exempted from the discussion because of political inconvenience.

**Hybrid model.** A new “hybrid” model for public employee retirement should be made available to state and local agencies to reinforce the

principles of retirement security and shared responsibility. The model, being tested in Orange County for miscellaneous workers, combines a lower defined-benefit pension with an employer-matched 401(k)-style plan. The 401(k) element is risk-managed to protect employee investments from market volatility in order to generate an adequate retirement income.

The idea is not new. The federal government adopted a similar approach more than 25 years ago for federal employees. Federal employees hired after 1987 have joined a three-tiered retirement plan that provides a defined-benefit formula up to 1.1 percent of final compensation for every year of service; a 401(k) plan with an employer match of up to 5 percent of salary (the first 1 percent is automatic); and, Social Security benefits (previously not provided) to augment the workers' retirement income. The newer defined-benefit pension plan requires lower contributions for employees and federal agencies – and it was 100 percent funded as of 2009. Employees hired after July 1, 2010 are automatically enrolled in the 401(k) element, with a 3 percent payroll deduction unless they change the contribution level.

Roughly half of all public employees in California do not participate in or receive Social Security benefits, so many public employees rely more heavily on state and local governments to provide larger retirement benefits. Serious consideration must be given to extending Social Security to non-covered, public-sector workers, toward the goal of building a three-part retirement strategy as has the federal government.

***Uniformity.*** The state also must establish standards for more uniform and reasonable pensions. The public outrage over the “spiking” of benefits to provide a larger retirement income cannot continue to be ignored, nor can the increasing number of six-figure pensions for some managers and high-wage earners. The gaming and abuses of the pension system must end. To restore public confidence in the public pension system, the state must impose a cap in the \$80,000 to \$90,000 range on the salary used to determine pension benefits, or alternatively, a cap on pensionable income. Under such an arrangement, compensation above the cap would be factored into contributions toward an employee's 401(k)-style plan.

***Transparency.*** The Legislature also must take steps to improve transparency of the state and local government costs of providing retirement benefits to current and future retirees. The debate over discount rates used to determine unfunded pension liabilities has laid bare the volatility of pension assets and raised important questions about the public's exposure to systemic pension obligation risk. A measure of liability is a way for the public to understand and start a fact-

based discussion about solutions to the problem. It is reasonable to try to come up with a “bottom line” on how much taxpayers owe, but it is an imperfect process. Numbers that have been used by think tanks and researchers to estimate the unfunded liabilities of California public pension plans can vary by hundreds of billions of dollars. Methodologies across studies are often inconsistent – using different asset bases, investment assumptions, the number of pension plans captured in the estimates, and the inclusion of retiree health benefits – leading to more confusion. There is no one “right” number that the state should mandate to determine actuarial liabilities. But an honest and public assessment of the risks and options about determining obligations can inform decision-makers when setting contribution rates and making investment strategies. Adding more independent, public members to retirement boards can help broaden perspectives to facilitate this conversation.

The Commission offers its recommendations in the spirit of Governor Brown’s call in his State of the State address for pension reforms to be “fair to both taxpayers and workers alike.” The Commission asks the Governor and the Legislature to take immediate and bold steps to put the state’s pension plans on a path to sustainability and to add oversight to protect current employees, retirees and taxpayers. Delay will continue to create concern over California’s ability to pay for its promises, distort local government budgets and further erode California governments’ standing in the municipal bond market. The stakes are too high to continue making temporary changes at the margin.

## ***Recommendations***

### ***Recommendation 1: To reduce growing pension liabilities of current public workers, state and local governments must pursue aggressive strategies on multiple fronts.***

- ❑ The Legislature should give state and local governments the authority to alter the future, unaccrued retirement benefits for current public employees.
- ❑ State and local governments must slow down pension costs by controlling payroll growth and staffing levels.

### ***Recommendation 2: To restore the financial health and security in California’s public pension systems, California should move to a “hybrid” retirement model.***

- ❑ The Legislature must create pension options for state and local governments that would retain the defined-benefit formula – but at a lower level – combined with an employer-matched 401(k)-style defined-contribution plan.

- ✓ The 401(k)-style component must be risk-managed to provide retirement security and minimize investment volatility.

***Recommendation 3: To build a sustainable pension model that the public can support, the state must take immediate action to realign pension benefits and expectations.***

- To provide more uniform direction to state and local agencies, the Legislature must:
  - ✓ Cap the salary that can be used to determine pension allowances, or cap the pension, at a level that is reasonable and fair. Once the employee exceeds the threshold, employees and employers could make additional retirement contributions into a risk-managed, 401(k)-type defined-contribution plan.
  - ✓ Set appropriate pension eligibility ages to discourage early retirement of productive and valuable employees.
  - ✓ Set a tight definition of final compensation, computed on base pay only, over a five-year average to prevent and discourage pension “spiking.”
  - ✓ Set uniform standards for the maximum hours that retirees can return to work and continue to receive public-sector pensions.
  - ✓ Set uniform standards and definitions for disability benefits.
  - ✓ Restrict pension allowances to exclude service in an elected office.
  - ✓ Eliminate the purchase of “air time.”
  - ✓ Strengthen standards for revoking or reducing pensions of public employees and elected officials convicted of certain crimes involving the public trust.
- To minimize risk to taxpayers, the responsibility for funding a sustainable pension system must be spread more equally among parties.
  - ✓ The Legislature must prohibit employees and employers from taking contribution “holidays,” except under rare circumstances.
  - ✓ The Legislature must prohibit retroactive pension increases.
  - ✓ The Legislature must require employees and employers to annually adjust pension contributions based on an equal sharing of the normal costs of the plan.
  - ✓ State and local governments must explore options for coordinating pension benefits with Social Security.

***Recommendation 4: To improve transparency and accountability, more information about pension costs must be provided regularly to the public.***

- ❑ The Legislature must require government retirement boards to restructure their boards to add a majority or a substantial minority of independent, public members to ensure greater representation of taxpayer interests.
- ❑ All proposed pension increases must be submitted to voters in their respective jurisdictions.
  - ✓ The ballot measures must be accompanied by sound actuarial information, written in a clear and concise format.
- ❑ The Legislature must require all public pension systems to include in their annual financial reports:
  - ✓ The present value of liabilities of individual pension funds, using a sensitivity analysis of high, medium and low discount rates.
  - ✓ The government entity's pension contributions as a portion of the general operating budget and as a portion of personnel costs, trended from the past and projected into the future.
- ❑ The State Controller must expand the *Public Retirement Systems Annual Report* to include the above information. Administrative fees to pension systems should be considered as a funding source to support actuarial expertise and the timely production of the report.
- ❑ The Legislature must require pension fund administrators to improve procedures for detecting and alerting the public about unusually high salary increases of government officials that will push pension costs upward.

