



Calif. cities take pension reform to the ballot

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Posted: 10/29/2011 08:31:29 AM PDT

Updated: 10/29/2011 09:01:46 AM PDT

SACRAMENTO, Calif.—San Francisco's public pension system took a beating during the recession, which has left it carrying a hefty unfunded liability for its 26,000 current and 28,000 retired employees. The city's pension obligation is growing by \$100 million a year, leaving less funding for police and fire protection, park maintenance and health services for the needy.

Unable to keep up, San Francisco is among several California cities asking voters to help tackle the public pension problem—which is now one of the biggest causes of municipal budget shortfalls.

In San Diego, city leaders and reform advocates recently submitted more than enough signatures to qualify an initiative to change the city's charter on pension calculations. If it qualifies, it would appear on the June ballot.

And San Jose's mayor has set a goal of placing retirement reform before voters in a March special election; labor groups are offering a compromise plan.

Local governments are increasingly turning to voters for help to rein in the cost of public pensions as the state continues to wrestle with the issue. Talks stalled earlier this year between Democratic Gov. Jerry Brown and Republican lawmakers after they failed to reach a compromise on tax extensions. Brown failed to generate support for his proposed changes and is now offering a plan to raise the retirement age to align with Social Security and move new state workers to a hybrid system where guaranteed benefits

are combined with a 401(k)-style plan.

Pension reformers say voters support efforts to roll back enhanced retirement benefits that were handed out during economic boom years. It was a time

when pension funds appeared so flush that some cities stopped asking employees to pay into their retirement programs.

As pension costs shoot up, taxpayers have been asking why they are on the hook to pay guaranteed lifetime pension and health care benefits for public employees as defined-benefit pensions have all but disappeared from the private sector, replaced by 401(k) plans that have tanked in value.

"When you look at the math, you realize there's no way that cities and counties can keep up with the escalating pension costs," said San Francisco Public Defender Jeff Adachi, who has made pension reform his campaign centerpiece for mayor.

But any proposal to change retirement benefits for current and retired public employees will almost certainly invite legal challenges from unions that represent police officers, firefighters, librarians and city hall workers.

Robert Bezemek, an Oakland union attorney who represents retired public employees, says less generous benefits are easy to negotiate for new hires but the courts have been fairly consistent about maintaining existing retirement contracts because employees have vested rights. He said an employer, whether it's a city or state government, must prove financial hardship and the courts often recommend replacing benefits with something of similar value.

"When a promise has been made, it has to be kept," Bezemek said.

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For example, the California Supreme Court this month declined to hear a challenge from Orange County, which lost its effort to roll back enhanced pension benefits for sheriff's deputies.

But how clear do those promises have to be? Local governments struggling with unfunded pension liabilities are closely watching another case the state's high court heard out of Orange County.

The county argues that it was within its right to lower health care costs by separating retirees from current employees, which increased retirees' premiums. The Retired Employees Association of Orange County argues retired employees have a contract right to be pooled with current employees, which lowers their costs because they are pooled with younger and healthier workers.

The state requires public employers to negotiate in good faith with their employees under the Meyers-Milias Brown Act. Even if a union agrees to concessions, cities often have charters that dictate how retirement benefits are accrued and handed out. Those kinds of changes require voters to weigh in, driving a string of local ballot measures.

Voters in Los Angeles, San Luis Obispo and Redding recently approved measures aimed at containing their pension costs. This November, San Francisco voters will have their pick between two pension proposals.

San Francisco Mayor Ed Lee and a broad coalition of labor and business groups have put forth Proposition C, which could save the city as much as \$1.3 billion over 10 years. Adachi, the public defender, collected enough signatures for Proposition D, which is estimated to save as much as \$1.7 billion over that same period.

While there are many differences between the competing measures, both share a similar goal: They require current city workers to contribute a larger portion of their salaries now to pay for their golden years.

Lee said unlike most measures, labor backed Proposition C knowing that it could serve as a model for sustaining public pensions without bankrupting municipal governments.

"We had to come to consensus here very quickly because the cost increases on the pension and

health care side was going to hurt the very employees we were negotiating with—and they knew that," the mayor said.

San Diego Councilman Carl DeMaio, a mayoral candidate who is making that city's initiative his campaign centerpiece, has crafted one of the most aggressive plans in the state. His initiative not only would transition new hires to defined contribution, or 401(k), plans, but also "picks the lock" of existing pensions by increasing the amount city employees must contribute to their own plans and freezing the salaries used to calculate their pension benefits for five years, possibly longer.

"You see it happening up and down California," DeMaio said. "The reality has sunk in that government, lifelong guaranteed pensions are not sustainable."

Advocates for pension reform, such as San Jose Mayor Chuck Reed, have warned that without more concessions from current employees, city services will continue to be devastated. Without savings, the city would have to fill the deficit by closing all branch libraries and community centers, making further cuts to police and firefighters, and eliminating park rangers. Reed says San Jose would not be able to continue its senior nutrition program or maintain traffic signs and street lights.

Several bargaining groups representing San Jose police officers, firefighters, architects and engineers, middle managers and maintenance supervisors submitted pension reform plans they said would net the city \$467 million in pension

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savings. They are hoping a compromise will keep the mayor from heading to the ballot in 2012 but Reed is seeking \$882 million in savings by increasing employee contributions, reducing benefits and raising the retirement age.

George Beattie, a 51-year-old San Jose police lieutenant who is close to retirement after 23 years of service, says he worries Reed is contemplating severe rollbacks, such as raising the retirement age for working police officers to age 60, which will violate workers' rights and invite costly legal challenges. He said the police association already has agreed to concessions such as higher pension and health care contributions.

Beattie, who estimated he is on track to earn 70 percent of his \$155,000 annual salary in retirement, said voters and elected officials might be worried about the bottom line, but if city officials don't negotiate with employees, they will ultimately drive away qualified men and women, jeopardizing the city's safety and well-being.

"You're going to make a bad situation worse," he said.

The San Jose city council has until early December to vote whether to place the mayor's proposed charter change on the March ballot.

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