



CITY OF BEVERLY HILLS STAFF REPORT

Meeting Date: December 15, 2009
To: Honorable Mayor & City Council
From: Dr. Scott G. Miller, CFO / Director of Administrative Services
Cheryl Friedling, Deputy City Manager
Subject: Current California Pension Reform Efforts
Attachments: None

INTRODUCTION

At Councilmember Mirisch's request, Staff compiled information on current California pension reform efforts.

These 'defined benefit' retirement plans provide a guaranteed annual pension based upon retirement age, years of service, and some period of highest salary (typically the last 1-3 years of work.) The City's pension plans are administered by state's Public Employees' Retirement System (CalPERS). As is common among local governments in California, Beverly Hills city employees do not contribute towards the costs associated with their pensions.

DISCUSSION

In recent years, government retirement expenses have risen dramatically, and have been compounded by a 25% loss in CalPERS' investment income. The CalPERS chief actuary has publicly stated that pension costs are 'unsustainable.'

Several initiatives have been proposed to achieve pension reform. These include state legislative initiatives, proposed constitutional ballot measures, and individual city/county efforts. The League of California Cities has established a Pension Reform Task Force, as well.

Several factors have made it challenging to achieve immediate pension reform. Vested pension rights are generally regarded to have ironclad protection under contract law. Courts in California have ruled that reductions in pensions can only be approved in exchange for something of equal value. As a result, proposed 'two-tier' programs would only impact newly-hired employees.

Several initiatives have been introduced to achieve public pension reform:

- Through the collective bargaining process, several San Diego-area cities have required city employees to make annual payments to their pensions;
- The City and County of San Diego and several cities within San Mateo County have both adopted 'two-tier' pension systems, which provide lower benefits to newly-hired employees;
- Governor Schwarzenegger has proposed a two-tier system of retiree compensation for state employees. To date, this proposal has not been implemented. However since this was offered in conjunction with the State budget proposal, it is expected that the Governor will reintroduce this initiative in the next legislative session;
- Various legislative bills have been introduced regarding public pension reform; and two versions of 'The Public Employee Benefits Reform Initiative' have been filed for placement on the 2010 statewide ballot;
- In 2006, the League of California Cities organized a Pension Reform Task Force responsible for developing a list of pension reform recommendations, including possible alternatives to the current reform proposals. Comprised of city managers, finance directors, human resources directors, elected officials and League staff, the goal of the task force is to develop a plan that could demonstrate long-term cost savings to local government.

FISCAL IMPACT

Like all municipalities, the City of Beverly Hills pension costs are dependent on CalPERS' investment performance. From 1999 – 2003, CalPERS investments performed exceptionally well, which created surplus assets, also known as 'superfunding.' Superfunding is a condition where the actuarial value of assets (the value of CalPERS investments) exceeds the present value of benefits (amount due to CalPERS). When this condition exists, contributions for the rate year covered by that valuation may be reduced or waived.

During 1999-2003, CalPERS assets were greater than the amount the City of Beverly Hills was responsible for paying resulting in no City contribution for miscellaneous employees and a lower contribution level for public safety employees. The City didn't attain superfunding status beginning in 2004 and as a result, the contribution amounts for both miscellaneous and public safety employees increased.

However, going forward, fiscal problems exist regarding the future ability of CalPERS to meet retirement obligations without significant cash infusions from member agencies such as Beverly Hills. Staff is closely monitoring this situation and will provide ongoing fiscal analyses as this issue develops further.

The charts on the next page demonstrate the increase in City-required CalPERS contribution rates. CalPERS estimates that contribution rates will increase at or above 10% annually over the next five years.

Historical City of Beverly Hills CalPERS contributions are listed below.

MISCELLANEOUS EMPLOYEES		
	<i>City's Contributions</i>	<i>City Paid Employee Contribution</i>
1999-2000	\$0	\$1,638,678
2000-2001	\$0	\$1,831,241
2001-2002	\$0	\$1,730,376
2002-2003	\$0	\$1,851,407
2003-2004	\$0	\$1,893,897
2004-2005	\$970,814	\$1,907,331
2005-2006	\$3,421,123	\$1,836,009
2006-2007	\$2,111,983	\$1,328,085
2007-2008	\$3,104,225	\$2,631,084
Total	\$ 9,608,145	\$ 16,648,108

SAFETY EMPLOYEES		
	<i>City's Contributions</i>	<i>City Paid Employee Contribution</i>
1999-2000	\$1,395,379	\$1,387,931
2000-2001	\$401,547	\$1,519,114
2001-2002	\$1,384,290	\$1,543,818
2002-2003	\$1,084,168	\$1,609,353
2003-2004	\$1,598,800	\$1,678,824
2004-2005	\$5,052,075	\$1,773,764
2005-2006	\$7,584,186	\$1,867,981
2006-2007	\$4,244,566	\$2,226,000
2007-2008	\$5,001,175	\$2,163,528
Total	\$ 27,746,186	\$ 15,770,313

RECOMMENDATION

Involvement with this issue can take many forms:

The City Council could choose to place this item on the city's legislative platform including major elements to support, such as a tiered system related to defined contribution as opposed to defined benefit.

Locally, the Council can continue to seek regional solutions to achieve pension reform.

The Council can address this issue when employee association MOU's are scheduled for re-negotiation.

The Council could also authorize an interested council member to participate on behalf of the city to seek reforms that would address the lack of structural sustainability of the current system.

Scott G. Miller *SGM*

Approved By

Cheryl Friedling *cf*

Approved By