City of Long Beach
Working Together to Serve

Memorandum

Date: November 6, 2006

To: Mayor and City Council

From: Councilwoman Gerrie Schipske G.S/jj

For: Charter Amendment Committee

Subject: Amend the City Charter Regarding Certification of Available Funds to Fulfill Collective Bargaining Agreements and Establishment of a Retirement Reserve

Discussion

CURRENT CITY CHARTER

The current Long Beach City Charter does not contain a provision requiring the City Council to certify that funds are available to fulfill obligations agreed to in collective bargaining agreements. The City has certain obligations regarding contributions to the defined benefit retirement plan for employees of the City.

While GASB 45 standards will require the City to report, in their financial statements, the total cost of the unfunded liabilities for post-employment benefits, there is no current obligation for the City to either establish a "reserve for retirement expenses" or to certify that funds will be available to fulfill these obligations.

CALPERS RETIREMENT SYSTEM

CalPERS is a defined benefit retirement plan for employees of the State of California and the participating local agencies. CalPERS is administered by the CalPERS Board. The Board has statutory and constitutional power to manage and administer the PERS plan. (California Constitution Article XVI, section 17, subdivision (a); Government Code section 20120). The City of Long Beach is a local agency and public employer. The City has contracted with the Board to include its eligible employees in the CalPERS retirement plan.

Members of CalPERS receive a retirement allowance, upon retirement, based on age at retirement, length of service and final compensation. These factors are defined in the Public Employees' Retirement Law (hereinafter referred to as "PERL"). (Gov. Code sections 20000, et seq.) The City, as a local agency contracting with CalPERS, is subject to the provisions of the PERL (*City of Sacramento v. Public Employees' Retirement System (1994) 22 Cal. App. 4th 786, 789.)* The statutory formula for determining a member's service retirement allowance provides for application of a percentage figure to the member's final compensation when he/she retires. The percentage figure applied is based upon the employee's years of service and the employee's age at retirement. Retirement benefits are funded by employer contributions, employee contributions and earnings on the assets. Employee contributions are fixed by statute and CalPERS sets the employer contributions based on employee compensation and actuarial projections.

Under the current CalPERS statutes, the minimum service retirement age for CalPERS members, including Public Safety employees, is 50 with five years of CalPERS credited-service. The amount of retirement benefit is calculated by a formula that varies from 1.4% to 3.0% times the number of years of service.

CITY OF LONG BEACH RETIREMENT SYSTEM

CalPERS retirement formulas provide~~s~~ a benefit factor which is the percentage of pay a member is entitled for each year of service. It is determined by the member's age at retirement and the retirement formula the City has contracted for its employees. For miscellaneous employees, the benefit factor ~~it~~ increases each completed quarter year of their birthday up to age 55, with a maximum benefit factor of 2.5% or 2.7% (depending on Tier). For safety employees, the benefit factor is 3% beginning at age 50.

The past experience with contribution rates from CalPERS has been unpredictable. There are periods when CalPERS rates cause super-funding (i.e., contribution plus high portfolio returns result in refunds) and periods when CalPERS rates cause under-funding (i.e., when contribution rates plus low portfolio returns result in steep rate increases).

(CalPERS), which sets employer rates on an annual basis following actuarial valuations. As a result of strong investment gains in the late 1990's, "excess assets" resulted and CalPERS reduced most employer rates to zero. This surplus of assets was also a driving force behind CalPERS and the Legislature creating improved levels of retirement benefits. Starting in 2000 the 3%@50 Safety Plan quickly became the standard statewide, with over 250 police agencies adopting improved benefits.

At that time CalPERS predicted five more years of 0% employer contributions, even with the improved benefits, and long-term rates of 16.2%.

However, CalPERS started absorbing heavy investment losses in 2000/01 with a negative 7.2% return (which is actually 15.45% below the positive 8.25% figure on which employer contribution rates are based). They incurred another 6.0% loss in 2001/02 and as of February 2003 are en route to losing another 7.1% in

2002/03. These negative returns compare to the CalPERS actuarial assumption of a positive 8.25% annual rate of return, which is based upon long-term past performance. CalPERS staff state that in their computer modeling, the odds given to this kind of investment loss occurring over three consecutive years was one in 10,000. All assets lost through lower investment returns must be made up through future higher charges to employers; employee rates are fixed by law. These investment losses are not unique to California; they plague public pension systems nationwide, and are driving up all government retirement costs.

The City of Long Beach did not reserve funds to meet the obligations of employer contributions when the 0% contribution rates ended.

To mitigate this cyclical pattern, some cities have established a reserve for retirement expense. A retirement reserve would be established as a buffer against sharp rate increases.

POLICY ISSUES

1. Shall the City Charter be amended to require that the City Council certify in writing upon ratifying a collective bargaining agreement whether the city is able to meet its financial obligations for the remainder of the fiscal year and based on current forecasts for the subsequent fiscal years for the term of such collective bargaining agreement?

2. Further, shall the City Charter be amended to require that within 45 days of adopting a collective bargaining agreement, the city manager shall forward to the city council any revisions to the city's current year budget that are necessary to fulfill the terms of that agreement. Any additional costs to the city that may result from the terms of the collective bargaining agreement also shall be reflected in any interim fiscal reports or multi year fiscal projections?

3. Finally, shall the City Charter be amended to require the establishment of a reserve for retirement expense to provide a buffer for the city budget against future sharp increases?