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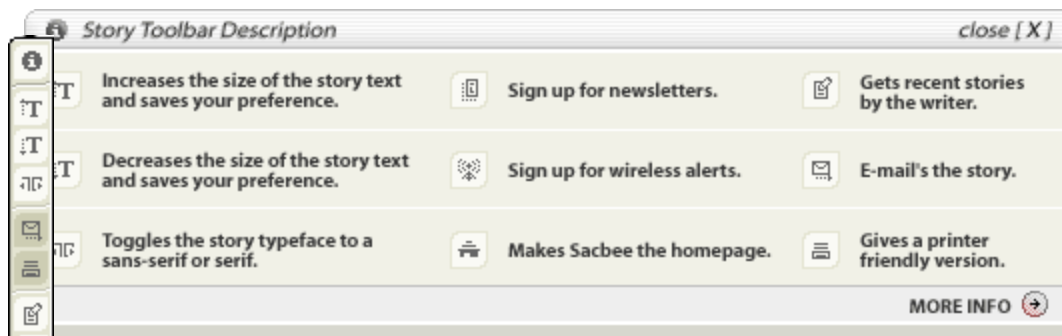
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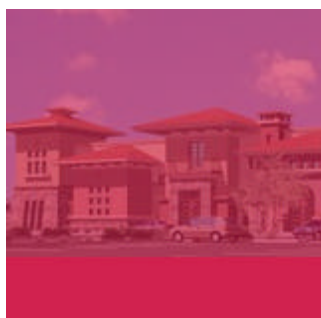


1999 pension law bites local budgets

By [Mary Lynne Vellinga](#) -- Bee Staff Writer
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In 1999, while stock prices boomed, the state slipped California's local governments a multibillion-dollar time bomb wrapped in a tempting package.

Gov. Gray Davis signed a bill sponsored by the California Public Employees' Retirement System, or CalPERS, that boosted state employee pensions. The legislation, SB 400, contained a clause allowing local governments to follow suit and raise retirement payments for their firefighters and police officers by 50 percent.



Police officers with several decades of service could now conceivably walk out the door at age 50 with 90 percent of their salaries -- 3 percent of their annual wages for every year worked.

A subsequent, labor-sponsored bill, also easily passed by the Legislature, permitted cities, counties and special districts to grant their other employees pension increases as well.

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Times were good. The state pension fund had grown so fat with investment gains that many local governments whose pension funds are administered by CalPERS had long since ceased having to make contributions.

"Money was pouring in from the investments, and the employer contribution rates (often) were held at zero," said Reina Schwartz, budget manager for the city of Sacramento.

CalPERS predicted the state's retirement costs would keep dropping, despite improved benefits and downplayed the likelihood of an extended market slide. Local governments, including most of those in the six-county Sacramento region, took the deal.

Now they are paying the price.

Tumbling stock prices caused the value of the CalPERS portfolio to drop from a high of \$172 billion in early 2000 to \$133.8 billion in 2002. The decline, combined with the benefit boost, has forced local governments to pay out millions of dollars in pension contributions during an already dismal budget year.

And because of the way investment performance is "smoothed" out over several years, next year's bill will be even higher for many.

"It's a financial disaster waiting to happen," said Geoff Davey, budget chief for Sacramento County, which administers its own pension fund.

The city of Sacramento's contribution to CalPERS for public safety pensions jumped from zero in fiscal 2001-2002 to nearly 8 percent of payroll this fiscal year. CalPERS has warned the city to expect premiums to jump again next year.

In dollar terms, the city's pension costs have climbed about \$5 million in the past two years. Schwartz said she expects additional rate hikes of \$5 million to \$10 million a year for at least the next couple of years.

"Then it might level out," Schwartz said.

So far, the city -- with a \$302 million operating budget for the current fiscal year -- has paid for the rate increases out of reserves. But that cushion is rapidly eroding.

"I hope it doesn't continue to increase by \$5 million a year (indefinitely)," Schwartz said. "That would be really horrible."

Other governments that negotiated the benefit increases with their unions are seeing similar rate hikes.

Two years ago, West Sacramento was paying 4.7 percent of payroll to fund the pension plan for its firefighters. By this July, the figure had risen to nearly 19 percent.

"The budget impact for the city of West Sacramento will be in the hundreds of thousands of dollars," said Mayor Christopher Cabaldon, whose city adopted a \$70 million budget in July.

In Roseville, a \$7 million jump in CalPERS payments, combined with court decisions that forced the city to refund \$9 million in utility user taxes, has forced painful trade-offs.

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"We wanted to open up a new fire station this coming year, and that's on hold," said city finance director Russ Branson. "We've had scheduled for years a new branch library, and that's on hold. We probably would have hired five or six police officers; we didn't."

CalPERS officials point out that local governments were not forced to sweeten their pensions.

"We set the table; it was up to them to decide whether to come to dinner," said Bob Walton, assistant executive officer of the pension fund.

But some local government officials maintain they had no choice if they were to remain competitive in the employment market, especially in Sacramento, where state government exercises a big influence on labor market rates.

"It's not like we could just ignore what they did and forever have a benefit that was lower than theirs," Davey said.

He predicted more public pension increases are on the way, despite the fact that more than two years of market declines have yet to be figured fully into rates, and the anemic recovery of Cal-PERS' investment portfolio still falls far short of fund projections.

"There are local jurisdictions that, as we speak, are approving pension increases despite the stock market performance," Davey said.

The increased benefits granted by Sacramento County were "the largest single item" forcing the county to make \$77 million in budget cuts, Davey said. The county's current general fund of \$1.7 billion is about \$100 million less than the previous year.

Three hundred people have retired from the county since the higher pension benefits took effect June 29, and another 300 to 500 are expected to retire in 2004, he said.

Paying higher pensions to all those people, as well as all those working who will eventually retire, will be a significant cost in the future.

"We're probably looking at \$67 million (annually) for the next 20 years," said John Descamp, chief executive officer of the Sacramento County Retirement System.

Descamp and Davey said it was inappropriate for CalPERS, supposedly a neutral fund administrator, to push for the increases.

"I believe the philosophy behind the board of trustees for a public pension plan should be how to properly administer the system," Descamp said. "I don't believe the trustees should become advocates for more or higher benefits."

But that's what happened, Descamp said: "The PERS board became advocates."

Six members of the 13-member board represent active or retired public employees. One is appointed by the Legislature. Two constitutional officers, the state treasurer and the controller, also serve. The four remaining members either come from the executive branch or are appointed by Gov. Gray Davis.

The Legislature has been almost universally supportive of benefit increases. So have public employee unions, which Davis has long relied upon for a significant

share of his campaign funds.

"It's the fox in charge of the henhouse," Davey complained.

But CalPERS officials say it was their duty to push the benefits changes and that SB 400 makes up for disparities that had crept into the retirement system.

"Over the years, inequities were created as benefits hodgepodged their way to adoption," said CalPERS spokeswoman Pat Macht.

One example is a second-tier retirement program adopted during the lean days of the Wilson administration that resulted in a situation where two people doing the same job could receive different pension benefits. SB 400 did away with the inferior plan.

State employees also had gone years without any cost of living raises during the 1990s. Meanwhile, said CalPERS' Walton, pensions hadn't changed substantially since 1971.

Marty Morgenstern, the governor's director of personnel administration, said the pension benefits granted in 1999 staved off demands for larger wage increases.

"Wilson had not given most state employees a raise in four years," Morgenstern said. "They had serious demands."

State Sen. Tom McClintock, R-Simi Valley, was one of the few legislators to vote against the pension increases. Now a candidate for governor, McClintock said SB 400 was based on "wildly unrealistic" predictions of the fund's performance.

Walton said CalPERS used conservative assumptions when making its predictions. "I don't know that anyone could have projected that we would have negative returns," he said.

When SB 400 was introduced, CalPERS actuaries predicted that the state would have to pay \$138.9 million in premiums to CalPERS in fiscal 2003-2004 if the new benefits were adopted.

But when CalPERS investments slid in value, the state had to contribute far more -- \$2.2 billion this fiscal year, together with \$1 billion more for school employees. SB 400 accounts for about \$500 million in increased costs annually, Walton said.

The bill was authored by state Sen. Deborah Ortiz, the Sacramento Democrat who chaired the pension committee at the time. While she said she's not sure how the language offering the higher benefits to local governments made it into the state bill, she's long supported higher wages and benefits for public employees.

"The history of my family in this town is they went from farm workers to cannery workers to state employees," Ortiz said.

About the Writer

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