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Posted on Fri, May. 23, 2003

The Mercury News

Increased pensions expected to wallop state, local budgets

RAISES FOR POLICE, FIRE AGENCIES ENACTED IN 1999 NOW COMING

DUE

By Ken McLaughlin
Mercury News

Nearly four years ago, Gov. Gray Davis signed a little-noticed piece of legislation that allowed state agencies, cities and counties to boost the retirement benefits of their employees, particularly peace officers and firefighters.

Now that law, debated for only a few minutes in the frenetic closing days of the 1999 legislative session, has come back to haunt California. Those greatly improved retirement benefits -- and a stock market in the tank -- are about to devour billions of dollars that could otherwise be used for education, police and fire protection and road improvements.

Although the issue of pensions has received scant attention amid Sacramento's boiling budget debate, many local government officials say future payments to the California Public Employees' Retirement System represent their No. 1 worry during these scary fiscal times -- more than declining sales tax revenue or state raids on local treasuries.

``The single largest driving force is the CalPERS increase," said John de Russy, San Mateo's finance director. ``It's kind of the silent killer."

With 30 years of service, many local government workers can now retire at age 60 with pensions equal to 90 percent of their final salary. Firefighters and police officers can retire at 90 percent of their salaries at age 50, resulting in benefit increases of 50 percent and making the peace officers' pensions among the most generous in the nation.

Carroll Wills of the California Professional Firefighters noted that public safety officers had waited a long time -- 16 years -- under two previous Republican administrations to improve retirement plans. ``They deserved these new benefits," he said. ``A lot of our member

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unions gave up pay raises to allow them to retire at 50."

Randy Perry, lobbyist for the Peace Officers Research Association of California, agreed. "You have to understand how important these guys are to California, especially with today's terrorist threat," he said. "They risk their lives every day. They're often injured on the job."

But the costs to cities and counties are mounting.

Fremont, the Bay Area city that has done the longest-term projections on retirement costs, predicts it will spend \$11.4 million more in the next five years.

That \$11.4 million -- roughly equivalent to 10 percent of Fremont's general fund budget for this fiscal year -- could pay the salaries and benefits of 95 firefighters or 88 police officers for a year, according to Mark Moses, the city's financial services manager. It could repave 80 miles of the city's residential streets. It could maintain all city parks at last year's level for 2 1/2 years.

Moses said cities and counties are only starting to see the increases because the amounts employers must contribute to retirement coffers are based on figures that lag two years behind the results of pension fund investments.

"It's California's ticking time bomb," said Jon Coupal, president of the Howard Jarvis Taxpayers Association. "I honestly believe that these irresponsible pension increases will make California's energy crisis pale in comparison. The problem with public employee pensions is they're locked in. They're a vested, contractual right."

How did this happen?

Remember life in 1999? Remember irrational exuberance?

CalPERS, heavily invested in the stock market, was awash in cash after its investment portfolio soared for five years in a row. The companies of the New Economy were boosting salaries, handing out stock options like licorice, throwing lavish parties.

In June of that year, the 13-member CalPERS board decided to share the wealth with retirees.

Board President William Crist pointed out that most benefit formulas for state and school workers hadn't been revised in nearly 30 years. In addition, the system was then operating under a two-tier system in which employees who came to work after 1991 received lower benefits than other workers.

"CalPERS' investment returns provide this historic opportunity to restore equity among our active members and retirees, without causing any additional taxpayer burden," Crist, who recently left the board, said at the time.

Sen. Deborah Ortiz, a Democrat from Sacramento, then chair of the



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Senate's Public Employment and Retirement Committee, sponsored the bill at the request of CalPERS and the Davis administration. Ortiz said she was skeptical even after agreeing to carry the legislation.

“But we probed and probed and asked questions 100 times,” she said. “The CalPERS staff assured us that even in the worst-case scenario the state's general fund would take a \$300 million hit” annually.

The latest CalPERS projections are that it will need more than \$3 billion from taxpayers next year to cover retirement benefits because the stock market crashed and burned three years in a row.

“We made the same mistake as millions of private investors around the United States,” assuming the stock market would remain strong, Ortiz said.

Darin Hall, a spokesman for CalPERS, and Ross Lopez, a spokesman for Davis, agreed. “Nobody could have guessed several years ago we could have been in this position” -- in regard to retirement costs or the budget in general, Lopez said.

State agencies such as the California Highway Patrol, Department of Corrections and the California Department of Forestry and Fire Protection got the enhanced benefits first.

“Then it turned into a mad rush,” as cities and counties, including nearly all in the Bay Area, began negotiating contracts that allowed police and firefighters to retire at up to 90 percent of their salary to keep them from fleeing to state agencies, Hall said.

Conservative Sen. Tom McClintock, R-Thousand Oaks, said the CalPERS board and cities and counties that went along with them should have known better. “The bill was ludicrous on its face,” he said. “I can't think of a faster way to undermine the integrity of the retirement system than by paying someone 90 percent of their highest salary and setting the retirement age at 50.”

The Ortiz bill, SB 400, cleared the Senate 39-0. McClintock, then an assemblyman, was one of only seven of 80 Assembly members who voted against it. It was followed by other retirement-enhancement bills.

Even today, Sen. Joe Dunn, D-Garden Grove, is sponsoring a bill, SB 100, that would raise the amount police and firefighters can receive after they retire to 100 percent of their salary. CalPERS says the change could actually save money because many public safety personnel will work longer to reach the 100 percent benchmark.

“What are these people smoking for breakfast?” asked Coupal, of the taxpayer's association.

Perry, the lobbyist for the statewide police association, said his members are sympathetic to the plight of state and local governments. But he said city and county officials should have been putting away money for a rainy day when CalPERS required them to



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