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City Officials Warn Further Pension Reforms Are Needed

Long Beach Aims To Fix $54 Million Structural Deficit; Proposes Cutting 500 Positions

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The Long Beach City Council has taken initial steps toward reforming the city's employee pension system, but city officials said there's still a ways to go before solving budget shortfalls and a looming mountain of debt.

At its February 15 meeting, councilmembers unanimously approved new retirement terms for four of the city's nine employee unions – along with unrepresented employees and elected city officials – just two weeks after declaring an impasse with the city's engineering employee union.

Most of the new agreements are aimed at solving long-term budget shortfalls and the changes provide "minimal savings" for the immediate future, according to city officials, who said further reforms are needed. "Although these reforms are a significant step in the right direction, further reforms are needed to ensure the city's financial sustainability," City Manager Pat West said, during the city's second pension study session last month.

The city just recently has proposed imposing 500 layoffs by 2014, affecting all departments and all levels of the city organization, to fix a three-year $54.7 million structural deficit. Long Beach officials warn of more cutbacks to city services and positions if skyrocketing pension costs aren't addressed soon.

The California Legislature, however, faces legal challenges, that "limit the options of state and local pension plans to reduce future, as-yet-unearned pension benefits promised to current workers," which are protected by decades of court decisions, according to a a February 24 report by the Commission on California State Government Organizations and Economy. The report urges that "public agencies must have the flexibility and authority to freeze accrued pension benefits for current workers and make changes to pension formulas going forward to protect state and local public employees and the public good." The commission further urges the Legislature to pursue structural changes that realign pension costs and expectations of employees, employers and taxpayers.

The local effort would take tough negotiations between the city and all public employee unions. With labor costs now accounting for roughly 80 percent of Long Beach's overall budget, pension costs remain a major cause of rising expenses. The move toward pension reform, however, has widespread implications that public and private agencies across California are facing, as the issue becomes a public debate in Sacramento.

Primarily due to the economic downturn, CalPERS (California Public Employees Retirement System) pension fund took significant investment losses during the recession that has now forced the PERS board to drive up rates to make employers such as Long Beach pay more into the fund. That, in turn, has caused many agencies to start asking employees to pitch in more toward their pension fund, if not already doing so. The city's pension actuarial analyst John Bartel gave a presentation last year that showed, in the next 30 years, the city is estimated to have an unfunded liability of $1.2 billion.

Under the new terms recently approved by the city council, the city auditor, attorney and prosecutor labor unions have agreed to pay 4 percent of their employee contributions toward their CalPERS pension fund in lieu of receiving pay raises this year. The groups also agreed to a second tier for new hires starting this year, which reduces pension payments from 2.5 percent to 2 percent of each year of service; increases the retirement age from 55 to 60; and makes new employees pay their full 8 percent of payroll contribution toward their pensions.

In addition, all elected officials (the mayor, city councilmembers, city auditor, city prosecutor, city attorney and city clerk) agreed to hand over their raises, which were 1.8 percent this year, and agreed to implement the new tier for those positions as well. This action by the elected offices saves the city a total of $23,624 for all funds for Fiscal Year 2011, according to city staff. Subsequently, the council approved an additional proposal, brought forth by Councilmember Gerrie Schipske, for councilmembers and the mayor to pay their full 8 percent employee contribution toward their pensions, inviting other elected officials to do the same and respond to the council within 30 days.

The management association – which includes some associated sworn fire and marine safety managers and confidential workers – did not receive pay raises but also agreed to follow the new tier for new hires. The Long Beach Association of Engineering Employees, however, couldn't come to terms with the city and the new tier was imposed after the city declared an impasse on February 1.

'Not A Budget Solution'

However, Bartel, who works as an independent consultant for the city, said during a pension study session, that simply adding another tier for new hires won't save the city any significant money until new employees are hired at the new pension formula. It could take 15 to 25 years from now to see any dramatic effect, he said, but added that a lot could happen in that time. "Putting in a second tier is not a budget solution to any significant degree in the short term," Bartel said.

Additionally, all other unions have yet to agree to the new terms, which could be years away. The city has entered into five-year contracts with unions and a majority of those contracts can't be renegotiated until the next three years, unless union representatives prematurely open up talks. Powerful public safety unions – such as police and fire department associations – in addition to miscellaneous labor groups like the International Association of Machinists and Aerospace Workers (IAM), make up 95 percent of the city's budget and have yet to agree on any significant pension reforms.

The new tier system would save the city up to about $31 million in the next 11 years, if all unions agree to the terms, according to Bartel. But many say that still isn't enough to solve the immediate problems of budget shortfalls and rising pension costs. The city's pension obligations from the General Fund were $46 million, just for Fiscal Year 2010, and are expected to reach more than $95 million by 2016.

The council agrees, however, the option that provides the most savings is having all current and future city workers pay their full employee contribution toward pensions, which for safety is 9 percent and for miscellaneous is 8 percent. However, the council also points out this goal is a challenge to negotiate with unions that have already had to accept cutbacks in workforce.

Councilmember Gary DeLong estimates full employee contributions would reduce pension costs by about $25 million annually. In addition, he proposed eliminating step increases for confidential employees and removing executive leave time for management employees, which is being negotiated during the city's next round of discussions with unions. "I think this is a great start; all these agreements are providing the long-term solution," he said. "But they don't address the short-term problem. Clearly, getting toward full pension pickup is where we need to get or we'll continue to have tremendous deficits, which is going to result in a significant reduction in services to Long Beach residents and businesses."

In a letter published online, DeLong expressed his frustration with the remaining unions coming to a bargaining point. He stated, "It appears these unions would prefer to have fewer employees and reduced service levels rather than be our partner in meaningful change."

'Pension Spiking'

During the February 8 pension study session, some councilmembers blamed the rising pension costs and unsustainable pension system on the city's decision to retroactively increase the pension formula for employee benefits from 1999 to 2002 – a time when the city was more financially stable.

While Bartel said laws prevent the pension formula from being decreased, Councilmember James Johnson added that it could be increased, which is exactly what the council did during that time, a practice referred to as "pension spiking." If the council never made those increases, Bartel said the city would have saved roughly $202 million, from both miscellaneous and safety employee pensions. "Basically we could double our sidewalk budget," Johnson said.

A letter sent from Gov. Jerry Brown to Johnson, dated February 10, states California needs to prohibit such increases. "We are pleased that the Long Beach City council is in agreement with the Governor on the need for pension reform, including a ban on retroactive enhanced benefits, and all forms of 'pension spiking,'" the letter states. "These reforms are an essential aspect of any reform effort. The Brown administration is committed to a system that is fair to employees and taxpayers."

Councilmember Rae Gabelich said bringing up past council actions could be more divisive than trying to solve the current fiscal crisis, adding that the council wasn't forced into the decision and it rather was a compromise between all parties.

Police Officers Association President Steve James, who spoke during public comment, said the union continues to negotiate with the city, but it's pointless to look backward. "We are having communication with you . . . despite some of you wanting to continue to bash us in the head," he said. "It's not productive. We don't want to continue to look back into the past, we are proud to be participating to remedy [the situation]."

Mayor Bob Foster added, "For whatever reason, however this happened, we can learn from that incident. Everyday that goes by it's going to get larger . . . We're losing ground every year. The bill gets bigger every year and it has to stop. I understand there were issues, mistakes were made . . . Everyone has to pull it together to get this done." ■