



# Memorandum

TO: City Council

FROM: Mayor Chuck Reed  
Vice Mayor Madison Nguyen  
Councilmember Rose Herrera  
Councilmember Pete Constant  
Councilmember Sam Liccardo

SUBJECT: DECLARATION OF FISCAL  
EMERGENCY AND BALLOT  
MEASURES

DATE: June 22, 2011

APPROVED:

*Chuck Reed* *Pete Constant* *6-22-11*  
*Sam Liccardo* *Madison Nguyen* *Rose Herrera*  
*RH* *N.V.*

## RECOMMENDATION

Negotiations with the bargaining units shall include the following direction that continues with the current Council direction, with the additional flexibility to:

### 1. Opt-In Program for Current Employees:

- a. Negotiate an "opt-in" plan, and draft related ballot language implementing such a plan, such that when combined with the current Council direction, the City's share of retirement costs for FY12-13 would not exceed the aggregate cost of pension and retiree health costs for FY10-11 (approx. \$186.0 million for all funds).<sup>1</sup>
- b. Make explicit to all parties that the incentive for employees to choose to "opt-in" to this lower tier of benefits by:
  - 1) Enabling these employees to avoid the additional contribution to pay for unfunded liabilities, as described in Paragraph 2, below, and
  - 2) Reducing the costs of benefits for these employees.

### 2. All Other Current Employees Who Decline to Opt In:

- a. Calculate the savings in the City's Annual Required Contribution (ARC) for each plan (Federated, Police and Fire) from the opt-in program described above, again assuming that every employee would choose to "opt-in."
- b. Negotiate additional employee contributions in an amount equivalent to the ARC savings from the opt-in program, to pay for benefits and unfunded liabilities.

<sup>1</sup> For purposes of making the cost calculations described in that paragraphs 1 and 2, the City Manager should assume that every employee would choose to "opt-in" to the new tier of benefits.

According to the City Manager's May 2, 2011 Fiscal Reform Plan, the \$186.0 million figure includes the City's pre-payment discount. It also reflects what the City would have paid for retirement benefits had several bargaining units not paid for a portion of their contributions as part of that year's concessions.

- c. Provide all employees the ability to avoid paying these additional contributions by choosing to “opt in” to the set of retirement benefits outlined above.
3. **Other Alternatives:** Bargaining units are encouraged to offer other alternatives that achieve equivalent savings under the same assumptions.

### **BACKGROUND**

This recommendation re-affirms Council’s basic direction from its approval of the Mayor’s Budget Message on March 22, 2011: to propose a set of retirement benefits for current and new employees that would provide sufficient savings to restore the City’s services to their levels on January 1, 2011. We recognize that January 2011 levels of service remain inadequate by anyone’s standards, particularly as we consider the deep reductions in such basic services as police patrol, library hours, and other basic services. We must also recognize, however, that the task of reducing retirement costs sufficiently to reach even those paltry levels of service will prove challenging to the most committed of negotiators on both sides of the table. Our current direction, for instance, would require that by July 2012, we close a \$125 million gap between next year’s (FY12-13) and last year’s (FY10-11) retirement costs.

Recognizing the work that has already been completed to achieve savings through modifications to the SRBR, retiree COLA, workers compensation and reductions in retiree benefit premium costs, the direction for savings in this memorandum shall be combined with savings achieved by earlier council direction. The \$125 million in savings sought by this recommendation approximates the \$127 million in 1<sup>st</sup> Tier retirement savings identified in the City Manager’s Fiscal Reform Plan.

Fortunately, the leaders of several of our employee groups -- namely, the Association of Engineers and Architects, City Association of Management Personnel, Association of Maintenance Supervisory Personnel, the Police Officer’s Association, and the International Association of Fire Fighters-- recognize the severity of the challenges in front of us, and have stepped forward earnestly to begin negotiating to find a solution. We hope that with the additional direction provided in this memorandum, we will help to open the door for fruitful discussion.