

CITY OF SAN JOSÉ

Item 3.1

June 24, 2011

Agenda

- Council Direction regarding Fiscal Reform Plan
- Revenues
- Fiscal Reform Plan
- Opt In Programs Study
- Meet and Confer Status

Council Direction Regarding Fiscal Reform Plan

City Council Approval - May 24th

- Approval of City Manager's Fiscal Reform Plan

- Approval of Memorandum dated May 13, 2011, from Mayor Reed, Vice Mayor Nguyen, Councilmember Herrera and Councilmember Liccardo
 - Inclusion of Councilmember Rocha's Memo
 - Inclusion of Councilmember Pyle's Memo

Council Direction – June 7th

- Work with the bargaining units on potentially giving more time to the process for the good of the City and to provide capacity to talk about both issues together: the potential ballot measure and negotiations over broader retirement reform issues
 - May or may not include moving the November timeframe for a ballot measure
- Tight timeframe and urgency around this issue in needing to address our retirement costs prior to FY 2012-2013
 - Reach resolution before the budget process begins

Revenues

Revenue Measure Considerations

- Timing
 - Unless Council *unanimously* declares a fiscal emergency, general revenue measures must wait until June or November, 2012.
- Polling
 - Relevant issues that change *after the survey is taken* will reduce accuracy of the polling data
 - Limit to 3 the number of measures surveyed

Council Direction for Surveys

1. Does passage of fiscal reforms affects voter acceptance of revenue measures?
2. Measures likely to pass that help the General Fund

1/4 Percent Sales Tax	\$34 million	58%
Business Tax Modernization	\$5 – \$10 million	58%
Disposal Facility Tax	\$5 million	55%
Municipal Water Transfer	\$11.6 million	??

3. Provide City flexibility in use of TOT → \$10.8 million
4. Report to Council on analysis of Gross Receipts Business Tax on Personal Service Businesses

Business Tax Modernization

- Updating Current Model
 - Increase tax to account for CPI changes
 - Add CPI adjustment factor going forward
- Potential other options
 - Gross Receipts Tax
 - Gross Receipts Business Tax on Personal Service Businesses
 - Payroll Tax

Gross Receipts Business Tax on Personal Service Businesses

- Gross Receipts Tax
 - Fremont
 - Oakland
- Estimated gross receipts tax revenue \$7.2 million
- Current tax revenue \$4.7 million
- Estimated increase in tax revenue \$2.5 million

Recommendation

1. Direct staff to conduct stakeholder outreach on Business Tax Modernization and return to Council before end of year.
2. Survey Following Measures:
 - a. ¼ percent Sales Tax
 - b. Business Tax Modernization
 - c. Disposal Facility Tax
3. Survey in February for possible June ballot

City Manager's Fiscal Reform Plan

City Council Direction

- Develop a plan to achieve \$216 million in General Fund savings in five years through cost reductions and/or new revenues
- Keep retirement costs at the Fiscal Year 2010-2011 level
- Restore/keep Police, Fire, libraries and community centers to the January 1, 2011 level
- Open the libraries, community centers, and fire stations built or under construction and the police substation within five years

Fiscal Reform Plan- Retirement Savings Needed

Fiscal Year	ALL FUNDS Retirement Costs
2015-2016^[1]	\$400.7 million
2010-2011	\$186.0 million
Difference	\$214.7 million

^[1] These are projected costs and are subject to change.

	City Manager's Fiscal Reform Plan	Retirement Reform Direction
New Employees	Social security with flexibility to add defined contribution plan later	Hybrid Plan consisting of social security, defined benefit and/or defined contribution not to exceed City contribution of 9%
Changes to Current Employees- Police/Fire	0.25% per year (future)- 90% maximum Age- 55 1.0% COLA 3 year final average salary	1.5% per year (future)- 90% maximum Age- 60 (phase in) 1.0% COLA 3 year final average salary
SAVINGS	\$98 million	\$81 million
Changes to Current Employees- Federated	0.50% per year (future)- 75% maximum Age- 60 1.0% COLA 3 year final average salary	1.5% per year (future)- 75% maximum Age- 65 (phase in) 1.0% COLA 3 year final average salary
SAVINGS	\$68 million	\$30 million
Retirees	Reduce COLA to 1%	Reduce COLA to 1%
SAVINGS	\$28 million	\$28 million
SRBR	Eliminate	Eliminate
SAVINGS	\$4.7 million	\$4.7 million
Retiree Healthcare	Reduce lowest cost plan by 25%	Reduce lowest cost plan by 25% (and increase eligibility to 20 years)
SAVINGS	\$17.9 million	\$17.9 million
TOTAL SAVINGS	\$216.6 million	\$161.6 million

Fiscal Reforms That Do Not Require a Charter Change But Are Subject to Meet and Confer

Area of Savings	General Fund Savings
Workers' Compensation Offset	\$ 2.8 million
Sick Leave Payout	\$ 9.5 million
Overtime	\$ 1.2 million
SRBR	\$ 3.7 million
Retiree Healthcare	\$ 13.9 million
Reduction of COLA to 1%	\$ 30.9 million
TOTAL SAVINGS	\$ 62 million
Increased Employee Retirement Contributions	?
Pay Reductions	?

Benefit Enhancements Granted to Retirees After Retirement

- Supplemental Retiree Benefit Reserve (SRBR)
 - Federated- 1986
 - Police/Fire- 2001

- Retiree Healthcare- 1984
 - Enhanced for Police/Fire in 1996

- Medicare Part B Supplement (Police/Fire)- 2001

- Guaranteed 3% COLA
 - Federated- 2006
 - Police/Fire- 2002

CalPERS

CalPERS: Pension Formulas

CalPERS Pension Benefit Formulas	
Miscellaneous	Public Safety
3.0% @ 60	3.0% @ 50
2.7% @ 55	3.0% @ 55
2.5% @ 55	2.5% @ 55
2.0% @ 55	2.0% @ 50
2.0% @ 60	2.0% @ 55

- All Public Safety formulas have a maximum of either 80% or 90%
- Miscellaneous formulas have maximums from 95-120%

CalPERS Options

- Transfer all active and retired members with all prior service costs

OR

- Transfer all active members going forward (with the City continuing to administer the benefits for costs associated with past service)

CalPERS Requirements

- Require passage of State legislation in order for the City to join CalPERS
- Require passage of State legislation in order for CalPERS to accommodate the City's current plans
- CalPERS requires a vote of the local system retirement plan members to join CalPERS
 - 2/3 majority vote

Orange County Study

- Study to join CalPERS took over a year
- Had CalPERS do an actuarial study to determine costs of moving
 - Actuarial study cost \$60,000
 - Determined that there was actually a cost to moving to CalPERS, contributions increased by \$6 million

City Auditor's Pension Sustainability Audit

- Current administrative expenses are \$5 million
 - CalPERS administrative expenses would be \$1.4 million
- If City decided just to move a portion of the employees to CalPERS, would pay both administrative expenses
- Employer and employee contributions would be set by CalPERS

City Auditor's Pension Sustainability Audit (continued)

- City would rely on CalPERS to invest plan assets
- Upfront costs of transferring prior service costs would be about \$300,000 (\$25 per member)

Opt In Programs

Opt In Programs

- Any opt in program would be subject to receiving an IRS approval letter
- Cost/savings of opt in programs are difficult to estimate
 - Actual savings will not be known until after the program has been implemented and employees have opted in
 - Need to have an election period where employees would have to complete an irrevocable waiver (with spouse signature as well)
 - After it is known who will opt in, valuation will be done to determine if there is savings and what the savings will be

Opt In Program Structures

- When employees opt in, they would no longer receive benefits in Tier 1. All benefits would be calculated on the benefit design of the opt in program
- Employees keep what have already been earned under Tier 1 and future accruals are based on the benefit design of the opt in program

Potential Incentives for Employees to Opt In

- Potential for lower employee contribution rate
- Requiring employees who stay in Tier 1 to pay a higher contribution rate
- Higher wages for employees who opt in

Opt In Program Proposals

Police Opt In Proposal	Fire Opt In Proposal
<p data-bbox="485 537 751 591">80% max</p> <p data-bbox="296 646 947 857">3 year final three-year average for pensionable salary</p> <p data-bbox="470 906 768 959">2% COLA</p>	<p data-bbox="1339 537 1606 591">75% max</p> <p data-bbox="1031 667 1913 878">Final average salary to be calculated as the annual average of the highest 36 months</p> <p data-bbox="1318 948 1619 1002">2% COLA</p> <p data-bbox="1045 1078 1892 1208">Employees would share in City savings</p>

Opt In Program Scenarios

	Councilmember Rocha (Predetermined Design)	Councilmember Constant (Design based on 50% of City's normal cost)
Police and Fire	<p>2.33% per year 70% maximum Age- 57 1.5% COLA 3 year final average salary</p>	<p>1.50% per year 45% maximum Age- 57 1.0% COLA 3 year final average salary</p>
Federated	<p>2.00% per year 60% maximum Age- 62 1.5% COLA 3 year final average salary</p>	<p>1.25% per year 37.5% maximum Age- 62 1.0% COLA 3 year final average salary</p>

Opt In Program Normal Cost- Police and Fire

	Current Normal Cost	Police Opt In Proposal	Fire Opt In Proposal	CM Rocha	CM Constant
7.75% (25% Probability) Earnings Assumption	38.5%	30.32%	28.38%	23.27%	N/A
6.75% (50% Probability) Earnings Assumption	48.6%	36.32%	36.65%	29.58%	19.76%

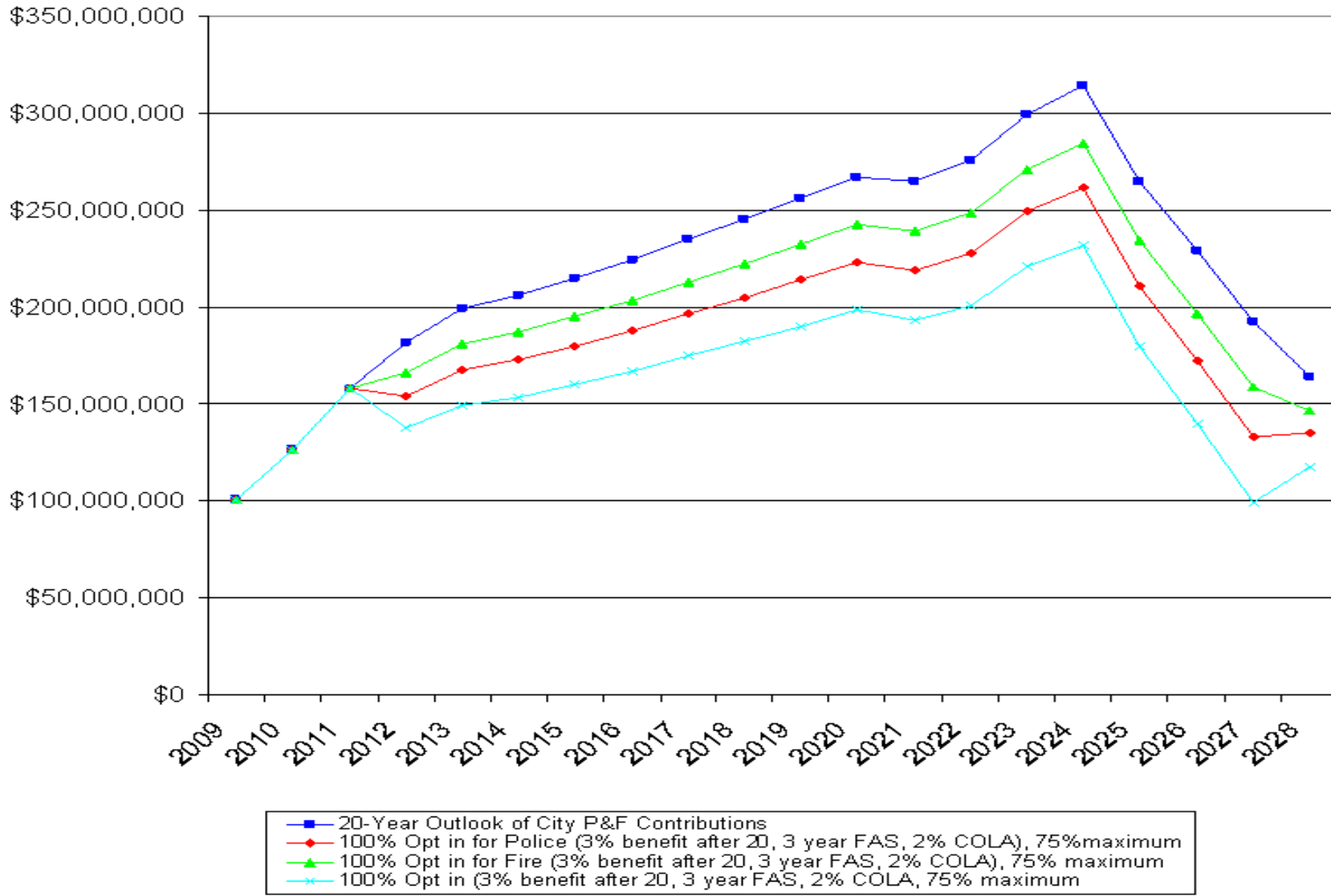
**Note: Fire proposal assumed a sharing of savings with the employees
All scenarios assume 100% of employees opt in**

Opt In Program Normal Cost- Federated

	Current Normal Cost	CM Rocha	CM Constant
7.75% (25% Probability) Earnings Assumption	17.44%	10.85%	N/A
6.75% (50% Probability) Earnings Assumption	22.1%	13.57%	8.93%

Opt In Program

20 year Outlook of City Contributions
Police and Fire Department Retirement Plan



Opt In Program Estimated Savings

- If 100% of employees opted into Councilmember Constant's Opt In Program:
 - Federated savings of \$52 million per year
 - Police/Fire savings of \$82 million per year

- If 100% of employees opted into Councilmember Rocha's Opt In Program:
 - Federated savings of \$21 million per year
 - Police/Fire savings of \$38 million per year

NOTE: Savings are using the 6.75% earnings assumption and does not assume any changes in cost sharing

Status of Meet and Confer Process with Bargaining Units

AEA, CAMP, AMSP, Local 230 and POA

- Pledge of cooperation and Agreement on Retirement Reform and Related Ballot Measure Negotiations
- Negotiate concurrently on the issues of retirement reform and related ballot measure(s)
 - Pension and retiree healthcare for current and future employees
 - Supplemental Retiree Benefit Reserve
 - Opt-in Program
- Complete negotiation process by October 31, 2011
- Will begin meeting in July

MEF, CEO, IBEW, OE#3, ABMEI and ALP

- Have not reached agreement on framework and timeline for Retirement Reform and Related Ballot Measure Negotiations
- Will provide notice of ballot measure language and will meet and confer upon request

Negotiation Process

- Bargaining units free to make proposals on any ideas they have for retirement reform
 - All proposals will be posted on internet
- Information requests and responses will be posted on the internet

Questions and Discussion