

Proposition B – City of San Diego – Voter Approval of Pension Benefit Increases

Board Recommendation (10/13/06):

SUPPORT

Rationale:

While recognizing that Prop B alone will not solve our pension system problems, this measure allows for additional voter scrutiny that may prevent the City from assuming additional unfunded pension obligations in the future. The measure will provide for disclosure of the actuarial analysis of any potential pension benefit cost increase. This is critical because pension benefits, once approved, create long-term obligations for taxpayers.

Background:

Proposition B is a City of San Diego Charter amendment that requires majority voter approval of any pension benefit increases for San Diego City employees. Prop B will be followed up by an implementing ordinance. Currently, the City has not adopted an implementing ordinance nor is a draft available for review at this time.

On February 8th the Rules Committee voted unanimously to send the proposition to the full City Council. On February 27th, Mayor Jerry Sanders asked the City Council for a 4-week extension to complete the meet and confer process with the five labor unions. On March 27th, the Mayor came back to the City Council to report that, although there had been five revisions of the ballot language, the city and labor unions were at an impasse. Despite this, the City Council voted to put Prop B on the November ballot.¹

Currently, the Charter requires that any change in the San Diego City Employee Retirement System (SDCERS) benefits be approved by (1) the City Council and (2) a majority of the “affected” members of SDCERS.² Prop B will amend section 143.1 of Charter Article IX to require voter approval for *increases* in pension benefits. In determining whether there is an increase or not, the Charter amendment would require voter approval for increases in **any part** of the retirement benefits, not simply on a net basis.

Prop B explicitly excludes “cost of living increases” from the requirement of voter approval. Therefore, a cost of living adjustment or COLA of up to 2% per year can be made without triggering a vote.³

Proposal:

The question that would be put to the voters of San Diego on November 7, 2006 if the City Council passes this proposed ballot measure would read as follows: “Shall the Charter be

¹ San Diego City Council Minutes, March 27th, 2006,
<http://clerkdoc.sannet.gov/legtrain/Minutes/2006/min20060327rm>

² City of San Diego Charter, Article IX,
http://clerkdoc.sannet.gov/RightSite/getcontent/local.pdf?DMW_OBJECTID=09001451800b73ac

³ COLA increases are calculated using the Consumer Price Index published by the Bureau of Labor Statistics

amended to require voter approval for any increases in retirement benefits for public employees?”

This measure would amend Section 143 of the City Charter to add certain requirements when changes are proposed to the retirement system such as:⁴

- Any increase in pension benefits must be approved by a majority of the electorate.
- Any change to the employee retiree benefits – other than those that result in an increase in benefits – must be approved by a majority of the current members of the system.
- Any change to the system that impacts the vested defined benefits of a retired member of the system must be approved by a majority of the affected retirees.

According to the Chief Operating Officer’s Report No. 06-017, when a benefit increase is placed on the ballot for approval by the electorate, an actuarial study of the cost due to the benefit changes proposed based upon the amortization schedules established by Charter Section 143, and consistent with generally accepted actuarial assumptions must be completed ahead of time. A summary of that study shall be published in the ballot pamphlet.

City officials will still be able to negotiate tentative agreements with employee organizations that include retirement benefit changes. However, those changes shall not be binding until approved by voters.

Passage of this proposition requires the affirmative vote of a majority of qualified electors voting on the matter at the Municipal Election.

⁴ City of San Diego – Report to City Council from Chief Operating Officer Ronne Froman – Date Issued: February 1, 2006 (Report No. 06-017).

ORDINANCE #O-19473 (Date of Final Passage 3/27/06)

BALLOT QUESTION:

PROPOSITION ____ . AMENDS THE CITY CHARTER TO CHANGE THE APPROVAL PROCESS FOR INCREASES IN CITY EMPLOYEES' RETIREMENT SYSTEM BENEFITS. Shall the Charter be amended to require voter approval for any increases in retirement system benefits for public employees?

CHARTER SECTION LANGUAGE

143.1 Approval of ~~Amendments by Members~~ Retirement System Benefits

(a) ~~No ordinance amending the retirement system which affects the benefits of any employee under such retirement system shall be adopted without the approval of a majority vote of the members of said system. No ordinance amending the retirement system which affects the vested defined benefits of any retiree of such retirement system increases the benefits of any employee, legislative officer or elected official under such retirement system, with the exception of Cost of Living Adjustments, shall be adopted without the approval of a majority vote of the affected retirees of said retirement system.~~ of those qualified electors voting on the matter. No ordinance amending the retirement system which affects the vested defined benefits of any retiree of such retirement system shall be adopted without the approval of a majority vote of the affected retirees of said retirement system.

(b) Prior to any proposed amendment of the retirement system which increases benefits of any employee, legislative officer or elected official under such retirement system being placed on the ballot, the retirement system shall prepare an actuarial study of the cost due to the benefit changes proposed based upon the amortization schedules established by Charter Section 143. A summary of the actuarial study shall be published in the ballot pamphlet.

(c) Nothing in subsection (a) of this section shall prevent City officials from negotiating tentative agreements with employee organizations incorporating benefit changes to the extent permitted by state law, provided, however that no amendment of the retirement system which increases benefits, with the exception of Cost of Living Adjustments, of any employee, legislative officer or elected official under such retirement system, shall become binding or effective until approved by a majority of those qualified electors voting on the matter, and shall not have any force or effect if rejected by said voters. The City Council shall have no authority to enter into final or binding agreements regarding retirement system benefits increases until and unless those increases to retirement system benefits are approved by a majority of those qualified electors voting on the matter.

(d) The requirement for voter approval of retirement system benefit increases shall become operative on January 1, 2007, for all proposed increases in retirement system benefits tentatively agreed upon by the City on or after that date. This requirement shall remain in effect for a period of fifteen (15) years from that date, at which time this requirement shall be automatically repealed and removed from the Charter.

Fiscal and Other Impacts:

It would cost taxpayers between \$150,000 and \$200,000 to place a pension benefit increase measure on a general election ballot.⁵ This cost would be more in the event of a special election.

Changes to the pension system will have an impact of City finances. Should voters approve any increases to the pension system, there would be an ongoing cost to the City for those changes. Should the voters reject an increase or modification resulting in a cost increase, those on-going costs will be avoided.⁶

Most labor agreements are negotiated in 3-year increments.⁷ Since the Prop B would require that voters approve increases in **any part** of pension benefits, this would likely result in pension benefit increase propositions being on local ballots every election cycle. The City and labor unions have agreed that any negotiated benefit increases will be put on the ballot for the next scheduled election. The Mayor's office has stated there is **no chance of a special election**. In the event the voters reject a pension benefit increase that is a part of a larger collective bargaining agreement, the City and labor unions would operate under the new agreement minus the pension benefits. If the agreement were long enough to span multiple election cycles (4 years for example) the rejected increases would again be submitted to the voters for approval.⁸

As the sole guarantor of the San Diego City Employee Retirement System (SDCERS), the City of San Diego and taxpayers bear a significant amount of risk. As of FY03 the funding ratio of SDCERS was only 62.85%, a \$1.76 billion liability for the City and local taxpayers.⁹ While Prop B does nothing to address the current unfunded pension liability of the City, additional voter scrutiny may prevent the City from assuming additional unfunded pension obligations in the future.

Prop B may also have impacts on the collective bargaining process. With Prop B the City and unions would have an incentive to increase non-pension benefits (e.g. salary) to avoid a vote. This may indirectly increase pension benefits since they are calculated based on a percentage of salary. General members retiring at 55 with at least 20 years of service or at 60 with at least 10 years of service get 2.5% of their highest annual salary for every year employed. Public safety members receive 3%. The added incentive to rely on non-pension benefits to recruit and retain qualified employees may cause salaries to increase at a more rapid rate. Over time, this will cause the average highest annual salary to increase at a higher rate which will then increase pension benefits. If, for example, the effect of Prop B is to increase the growth rate of salaries by 1%, an employee retiring 30 years from now with benefits at 90% of highest salary could receive up to 33% more in retirement benefits.¹⁰ That said, it is very difficult if not impossible to quantify the exact impacts of

⁵ San Diego County Registrar of Voters

⁶ City of San Diego – Report to City Council from Chief Operating Officer Ronne Froman – Date Issued: February 1, 2006 (Report No. 06-017).

⁷ This is simply a custom. It is not a requirement of either state or federal law.

⁸ Lisa Briggs, Policy Advisor, City of San Diego, Sept. 27th, 2006

⁹ This data comes from the City of San Diego FY03 Draft Comprehensive Annual Financial Report (CAFR). The total pension liability is reported in two parts, formerly reported liability of \$1.39 billion and other liabilities of \$369 million. The reported funding ratio is 68.5%, but when the other liabilities are included this ratio falls to 62.85%.

¹⁰ SDCTA staff calculations. $BenefitDifferential = [0.9 \times 20,000 \times (1.03)^{30}] - [0.9 \times 20,000 \times (1.02)^{30}]$

Prop B on salary growth rates and even more difficult to discern whether salary growth is a result of Prop B or other economic factors.

Arguments of the Proponents:

- **Taxpayers have been left holding the bag.** The City of San Diego's employee pension system is under-funded by over \$1.4 billion. This shortfall represents a potential obligation owed by every taxpayer in the city.
- **Proposition B Protects Taxpayers.** Proposition B gives voters the final say over future pension increases for elected officials and city employees. It eliminates the backroom deals that created the city's current pension fund crisis.
- **It works effectively in San Francisco.** Public employee unions in San Francisco have even more political clout than they do in San Diego. Over a decade ago, facing a pension crisis, voters in San Francisco approved a requirement similar to Proposition B. Since then, San Francisco has avoided the pension under-funding problems that afflict San Diego and other public agencies in California and across the nation.
- **Won't impact legitimate pension increases.** If it can be shown that pension benefits paid San Diego workers aren't adequate to attract or retain workers in highly competitive fields like public safety, voters will approve reasonable benefit increases. But voters should and will require elected officials to demonstrate in advance how they intend to pay for enhanced benefits.
- **Implementation cost will be small.** In Proposition B is approved, employee labor contracts can be synchronized to coincide with regularly scheduled state and federal elections, so that if and when pension increases are recommended, the cost of placing them before voters will be minimal.
- **Insurance policy for our future.** Some say the city's pension problems are so widely known that there's little chance the same mistake will be repeated in the future. But memories are short, and the pressure to increase benefits never lets up. Proposition B provides insurance that once the current crisis fades, safeguards will still be in place.

Signors/ Supporters for the Arguments

- Jerry Sanders, Mayor of San Diego
- Michael J. Aguirre, San Diego City Attorney
- Jon Coupal, *President, Howard Jarvis Taxpayers Assn.*
- Carl De Maio, *Chairman, San Diego Citizens for Accountable Government*
- Donna Frye, City Councilmember

Arguments of the Opponents

- **Proposition B will make is harder to hire highly qualified police officers and firefighters.** San Diego's own independent budget analyst expects our city to lose more than 100 police officers this fiscal year alone. We cannot attract new officers because of the low wages and benefits the city pays them. Proposition B will only make this problem worse.

- **Proposition B will COST us money, not save it.** Proposition B will mean more and more police officers and firefighters continue to leave San Diego for other cities with better pay and benefits—AFTER we have spent hundreds of thousands of our tax dollars to train them! That’s a really bad deal for San Diego!
- **Proposition B will guarantee we get what we pay for!** Low pay and benefits for police and firefighters mean low standards for our public safety. When we call 911, we want to ensure the best trained and most experienced emergency medical personnel work in our city—not another one with better pay and benefits.
- **Proposition B sets the bar for our safety even lower.** San Diego already has one of the lowest ratios of police officers and firefighters per population in the state. Proposition B will only make that problem worse.
- **Proposition B will take away our flexibility to make badly needed public safety improvements.** If Proposition B passes, it won’t matter how badly we need to change public safety compensation. We will have to wait years to put it to a vote.

Signors for the Arguments in opposition to Prop. G:

- Frank DeClercq
Vice-President
San Diego Firefighters
- Bill Nemec
President
SDPOA