

BOARD OF SUPERVISORS AND BOARD OF DIRECTORS OF THE CCCFPD RESPONSE TO CONTRA COSTA COUNTY GRAND JURY REPORT 1503:

Time for a new Look at Pension Costs

Findings:

- F1. The County and CCCFPD currently have unfunded accrued pension and OPEB liabilities that exceed \$2.6 Billion. The cost to the County and CCCFPD to cover these and additional annual pension and OPEB liabilities require payments in excess of \$375 Million each year.

Response: The respondents agree with the finding.

- F2. Pension costs alone now consume over 11% of the combined budgets of the County and CCCFPD. These costs have risen from a percentage slightly under 5% in 2000 and now constitute the largest financial challenge facing the County.

Response: The respondents partially disagree with the finding. Although pension costs are large, the largest financial challenge facing the County is the issue of balancing the cost of salaries and benefits as components of total compensation to attract and retain employees.

- F3. The cost of pension and OPEB obligations are debts that must be paid before the County can allocate available resources to other needs and services. This has contributed to the "crowding out" of other County services, the deferral of needed building maintenance projects, and the postponement of needed system improvements for the County.

Response: The respondent partially disagrees with the finding. Other Post Employment Benefits (OPEB) liabilities are not 'debts'. Unlike pension liabilities, OPEB liabilities can be reduced rather than paid. In 2006, the County's OPEB liability was in excess of \$2.6 billion. The liability is currently under \$1 billion and was reduced by reducing the benefit, not paying the liability.

- F4. Pension costs are difficult to manage because they vary directly with the investment results obtained by CCCERA on its pension funds. The County and CCCFPD are at risk each year of having to increase pension payments in the event CCCERA does not achieve its 7.25% assumed rate of investment return on the pension fund.

Response: The respondents agree with the finding.

- F5. The County faces competitive pressures in retaining and recruiting a skilled and professional workforce. This limits its ability to seek greater contributions from its employees to the costs of the pension and OPEB obligations because other counties and cities may not seek the same contributions from their employees.

Response: The respondent agrees with the finding.

F6. The County and CCCFPD have a severe handicap in reducing their pension obligations because of a highly inflexible rule under a long-standing California court precedent that the County believes severely limits their ability to negotiate reductions in future, unearned pension benefit rates with their current employees.

Response: The respondents agree with the finding.

F7. The County has not taken steps to challenge or change the California legal rule on changes to future pension benefits for existing employees, whether through the initiative process, clarifying legislation, or friend of the court legal briefs.

Response: The respondent agrees with the finding.

Recommendations:

R1. The County Board of Supervisors and the Board of Directors of CCCFPD should establish a task force to review all options available to reduce the burden of the County and CCCFPD's pension obligations, including efforts to bring about a reform in California public pension law. The task force should:

- Confirm with the County's or CCCERA's actuaries what level of potential savings in pension costs could be achieved through negotiations with employees hired before 2013 for reductions in pension benefits for future employment periods.
- Review with qualified legal counsel what strategies are available to seek a change or clarification in California law to assure changes to future pension benefits for current employees are proper subjects of collective bargaining. Such strategies might include participation in a state ballot initiative, the filing of "friend of court" legal briefs, sponsoring clarifying language for the Meyers- Miliias-Brown Act, or including changes to future pension benefits for current employees as a subject for collective bargaining negotiations.
- Recommend what limits the Boards should establish as a matter of policy on any such reductions in future pension benefits for current employees, such as a minimum benefit tied to PEPRA rates as set forth in this report.
- Recommend a policy for keeping the County's and CCCFPD's employee groups informed of the Boards' intentions on any strategies for change so as to assure employees that any changes would be subject to collective bargaining and minimums set forth in the Boards' minimum benefit policy.
- Recommend a policy for keeping County citizens fully informed of the potential costs of any changes in pension benefits negotiated with the County's and CCCFPD's employee groups.

Response: The recommendation will not be implemented at this time. Although neither the County nor the District are opposed to such a mission, the County and Fire District are

currently in negotiations with the majority of bargaining groups to restructure delivery of healthcare to employees. It is reasonable to believe that the result will impact competitive pressures in retaining and recruiting a skilled and professional workforce. Additionally, the District is in the midst of a significant restructuring of delivery of ambulance services. Neither the County nor the Fire District are currently in an administrative position to take on such an undertaking.

- R2. The task force should be formed within 90 days and be required to report back to the Boards with its recommendations within 90–120 days.

Response: The recommendation will not be implemented. See response to recommendation R1.

- R3. Establish a special web page on the County web site where citizens can easily track by means of a pension "dashboard" the costs and size of the County's and CCCFPD's pension obligations and the progress on its plans to reduce their costs.

Response: The recommendation will not be implemented at this time. The County and District's Budget and CCCERA's web sites include annual updates of pension obligation and funding process. The obligation changes are calculated annually, which does not warrant a web page "dashboard", which is more suited for launching applications quickly for items that change often such as a stock ticker or weather report. The County's current pension information page is three clicks from the main menu and CCCERA's is two clicks from the main menu. Should the County and/or District undertake an effort to reform California public pension law in the future, such a "dashboard" could be utilized to keep employees and the public apprised of the progress on its plans to reduce costs.