CITY OF SAN DIEGO

Proposition G

(This proposition will appear on the ballot in the following form.)

PROP G **AMENDS THE CITY CHARTER RELATING TO CITY CONTRIBUTIONS TO THE RETIREMENT SYSTEM.** Shall the City Charter be amended to preclude any future multi-year agreement between the City and the Retirement Board delaying full actuarial funding of City contributions to the Retirement System, and defining the amortization schedules to be used for payment of costs associated with past service liability and costs associated with reducing the unfunded accrued actuarial liability of the pension system?

This proposition requires approval by a majority (over 50%) of the voters.

Full text of this proposition follows the arguments.

CITY ATTORNEY'S IMPARTIAL ANALYSIS

The City Council has authorized the placement of a proposition on the ballot seeking voter approval of a measure that would amend Article IX section 143 of the San Diego City Charter to insert new language to specify how the City's Retirement Board should determine the amount of the City's annual contribution to the San Diego City Employees Retirement System.

Under existing language in the City Charter, the City's Retirement System is a contributory plan, with the City contributing jointly with the employees. Employees are required to contribute according to the actuarial tables adopted by the Retirement Board for normal retirement allowances. The City is required to contribute annually an amount substantially equal to that required of the employees for normal retirement allowances, as certified by the actuary, but shall not be required to contribute in excess of that amount.

The result of application of the contribution requirements described above is that the City, not the City employees, is legally responsible for making any contributions necessary to rectify a situation where the Unfunded Accrued Actuarial Liability [UAAL] is unacceptably high, such as where the Retirement System is in an underfunded status.

This measure adds language into the City Charter which, commencing July 1, 2008, sets amortization schedules recommended by the Pension Reform Committee for the Retirement Board and the City to use in making the calculations necessary to determine the component of the City's annual contribution associated with paying down the UAAL. Between now and July 1, 2008, the minimum obligations of the City with respect to contributions is provided for both in the City Charter and the terms of a recently approved court settlement agreement settling litigation brought by a group of City retirees.

In addition, this measure adds language into the City Charter that precludes the City and the Retirement Board from entering into any future multi-year contracts or agreements delaying full funding of City obligations to the Retirement System, except for court-approved settlement agreements.

The California Constitution, at article XVI, section 17, provides that certain pension administration responsibilities are vested exclusively with local retirement boards. This provision was included in the California Constitution to ensure that retirement board members would not be artificially constrained by any law or policy that would interfere with the ability of these boards to exercise fiduciary duties in the most prudent manner. It is the City Attorney's opinion that the setting of contribution rates is one of those responsibilities vested exclusively with the Retirement Board. Therefore, at the suggestion of the City Attorney, language has been incorporated into the measure providing the Retirement Board with the ability to deviate from the amortization standards provided for in this measure, but only in a circumstance where adherence to the standard would prevent the Retirement Board from fulfilling its fiduciary duties prescribed in article XVI, section 17 of the California Constitution.

CITY MANAGER'S FISCAL ANALYSIS

This proposition would preclude the ability of the City of San Diego to negotiate multi-year delays of full actuarial funding of the Retirement System. Additionally, the basis upon which new retirement benefits are amortized would be limited to no more than a five-year schedule and the basis upon which net accumulated actuarial losses are amortized would be limited to no more than a fifteen-year schedule. The charter currently places no restrictions on any of these actions.

A determination of fiscal impact due to the change in amortization schedules for new retirement benefits requires a full and complete actuarial report, which time did not permit.

ARGUMENT IN FAVOR OF PROPOSITION G

Vote Yes on Proposition G to make sure the City's pension system is financially sound.

A year ago the Mayor and City Council appointed a Pension Reform Committee to examine the City's Retirement System and make recommendations for improvements. In order to prevent future underfunding of the pension plan liability, the Pension Reform Committee has made a series of recommendations and determined that changes should be made on how the City pays for retirement benefits.

Proposition G is a result of recommendations by the Pension Reform Committee designed to help prevent future underfunding of the City's Retirement System.

Proposition G amends the City Charter to:

1. Prohibit the City of San Diego from ever again repeating multi-year underfunding of the City's pension system such as began in 1996.
2. Tell the Retirement Board to set amortization schedules for retiring the pension system debt on no more than a 15-year schedule. Under the current system, it is actually possible for the liability to increase rather than decrease.
3. Tell the Retirement Board to set amortization schedules for newly granted benefits on no greater than a five-year schedule.

- **VOTE YES on Proposition G to ensure that the City's pension fund <u>debt is paid down, not increased</u>.**
- **VOTE YES on Proposition G to force the City and the Retirement Board to understand the true costs associated with increasing employee retirement benefits and to force the City to pay for those benefits over a responsible period of time.**

A YES VOTE WILL PROTECT TAXPAYERS, CITY EMPLOYEES AND CITY RETIREES.

<u>Endorsed by the Pension Reform Committee!!</u>

DICK MURPHY
Mayor
City of San Diego

SCOTT H. PETERS
Councilmember,
District 1

LISA BRIGGS
Executive Director,
San Diego County Taxpayers Association

APRIL BOLING
Chair,
Pension Reform Committee

ARGUMENT AGAINST PROPOSITION G

This measure **continues the billion-dollar Pension underfunding that you will eventually pay for.** **VOTE NO!**

Pension systems are simple. If the City grants pension benefits, the Pension actuary tells you how much to put in the system each year to pay for those benefits. Put that amount in, and you are NEVER underfunded. How hard is that?

But, this impossible to understand measure, drafted by the very people that created the problem, approves the City's recent underfunding action which funds **$70 million less** this year than the amount the Pension Reform Committee recommended to just keep the City from going **further in debt.**

It attempts to **validate future underfunding 'deals'** if part of "approved settlement agreement(s)". It specifically allows the City to **"enter into multi-year contracts or agreements delaying full funding of City obligations to the system."** The City recently did that in a Court settlement with retirees. This could become the norm for getting around full funding.

This **is exactly** the type of thinking that got us into this **billion-dollar mess** in the first place!

It also does not set a 'fixed' amortization time for paying off the Pension deficit. So, it could be 'rolled" forever! It allows the City to issue Pension Bonds to be paid off **many decades into the future.** That means the City could be financing billion-dollar deficits long after the existing employees are retired. Does that make sense?

This is a terrible measure. It condemns San Diego to a future of mountainous debt.

Worst of all, IT DOES NOT FIX ANY OF THE PROBLEMS! IT MAKES THEM PERMANENT!

Don't be fooled! **VOTE NO!**

DIANN SHIPIONE
Pension Board Trustee
(Public Representative)

PROPOSED CHARTER AMENDMENT

(The portions of the charter to be added are underlined
and the portions to be deleted are printed in ~~strike-out~~ type.)

Section 143: Contributions

The retirement system herein provided for shall be conducted on the contributory plan, the City contributing jointly with the employees affected thereunder. Employees shall contribute according to the actuarial tables adopted by the Board of Administration for normal retirement allowances, except that employees shall, with the approval of the Board, have the option to contribute more than required for normal allowances, and thereby be entitled to receive the proportionate amount of increased allowances paid for by such additional contributions. The City shall contribute annually an amount substantially equal to that required of the employees for normal retirement allowances, as certified by the actuary, but shall not be required to contribute in excess of that amount, except in the case of financial liabilities accruing under any new retirement plan or revised retirement plan because of past service of the employees. The mortality, service, experience or other table calculated by the actuary and the valuation determined by him and approved by the board shall be conclusive and final, and any retirement system established under this article shall be based thereon. Funding obligations of the City shall be determined by the Board on an annual basis and in no circumstances, except for court approved settlement agreements, shall the City and the Board enter into multi-year contracts or agreements delaying full funding of City obligations to the system. When setting and establishing amortization schedules for the funding of the unfunded accrued actuarial liability, the Board shall place the cost of the past service liability associated with a new retirement benefit increase on no greater than a fixed, straight-line, five year amortization schedule. Effective July 1, 2008, the Board shall place the cost associated with net accumulated actuarial losses on no greater than a fifteen year amortization schedule and the Board shall place the benefit associated with net accumulated actuarial gains on no less than a five year amortization schedule. Notwithstanding the above, the Board shall retain plenary authority and fiduciary responsibility for investment of moneys and administration of the system as provided for in article XVI, section 17 of the California Constitution. The setting and establishing of amortization schedules by the Board pursuant to this section is not intended and shall not be interpreted to preclude the City from issuing pension obligation bonds or other similar instruments containing repayment terms exceeding fifteen years.