

Administration 415/927-5110  
Fire 415-927-5007,5041  
Public Works 415-927-5017  
Recreation 415-927-6746  
Customer Service 415-927-5110  
Library 415/927-5005



Planning 415/927-5038  
Community Development  
Building Permits/Inspection  
Twin Cities Police 415/927-5150  
Fax 415/927-5022  
Web: [www.ci.larkspur.ca.us](http://www.ci.larkspur.ca.us)

## CITY OF LARKSPUR

September 14, 2005

Catherine D. McKown, Foreperson  
Marin County Civil Grand Jury  
3501 Civic Center Drive, Room 303  
San Rafael, CA 94913-4988

Dear Catherine,

Enclosed please find a copy of the City of Larkspur's response to the Marin Civil Grand Jury Report: *The Bloated Retirement Plans of Marin County, Its Cities and Towns.*

As I noted in my phone call to you our original copy was sent to The Honorable Terence Boren on July 13, 2005, well within the prescribed time limit. Since our original was sent to Judge Boren I am sending the copy only to the Grand Jury.

If you need anything else from me please phone at 927-5002.

Kind regards,

A handwritten signature in cursive script that reads "Cynthia Huisman".

Cynthia Huisman  
Assistant City Clerk  
City of Larkspur

Enclosure

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## CITY OF LARKSPUR

July 8, 2005

The Honorable Terence Boren  
Marin County Superior Court  
P. O. Box 4988  
San Rafael CA 94913-4988

Dear Honorable Judge Boren:

The Larkspur City Council appreciates the work of the Grand Jury members on this report regarding public employee retirement plans.

As required by Sections 933 (c), 933.05 (a) and 933.05 (b) of the California Penal Code, this letter acknowledges receipt of and responds to the 2005 Marin County Grand Jury Report, "The Bloated Retirement Plans of Marin County, Its Cities and Towns". The Larkspur City Council has been requested to respond to 10 of the 11 findings and all 10 recommendations. The responses requested are listed below.

### FINDINGS

**Finding No. 1** Public section pensions are substantially more valuable than private sector pensions. For Miscellaneous employees in Marin, pensions are 2 to 3 1/4 times as valuable as private section pensions; for safety employees, they are 2 1/2 to 4 1/2 times as valuable.

We disagree partially with this finding. Data provided by PERS on February 15, 2005 indicates that the average monthly benefit paid by PERS is \$1,669, and the national average benefit paid under other pension plans, including Social Security and other private pensions, is \$1,500 per month. The difference can be attributed to the higher cost of living in California than in most other areas of the nation. Regarding public safety pensions (which are incorporated into the average monthly benefit figures indicated above), there are no equivalent positions to governmental police and fire public safety positions in the private sector. No private entity provides public safety employees who are charged with protecting the safety of citizens under the laws of the

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State of California and the United States of America. The retirement benefits provided to public employees may be considered more generous because of the lower ages at which full benefits are offered, e.g., 55 years of age instead of 65 years of age under Social Security. It is our understanding that the average retirement age of a PERS miscellaneous employee is around 61 or 62.

**Finding No. 2** Most public sector employees in Marin do not participate in Social Security and thus contribute less (no Social Security taxes) to their retirement than do employees in the private sector.

We disagree partially with this finding. We do agree that most public sector employees do not participate in Social Security. Under federal law, agencies could choose to opt out of Social Security in lieu of PERS, which was meant to provide an equivalent, lifetime retirement benefit. Some cities and towns continue to provide both Social Security and PERS. We disagree with this finding that public sector employees contribute less to their retirement. Over the years, some employee groups have negotiated for the employer to pay all or part of the employee contribution in lieu of salary adjustments.

**Finding No. 3** The employers' costs for public sector pensions in Marin are extremely volatile, causing financial stress to the County and its Municipalities. Average pension costs for miscellaneous plans for the County and its Municipalities increased from 2% of miscellaneous payroll in FY2002-2003 to 15% in FY2005-02006. For safety plans, the increase was from 5% of safety payroll in FY2002-2003 to 30% in FY2005-2006.

We agree with this finding, along with the caveat that the period of time from 2002-2005 represented the most extraordinary flux in investment earnings in the history of PERS. While these past three years have been extremely volatile, and while there have been periods of other volatility in previous years, there have also been many years of extreme placidity with city/town pension costs.

**Finding No. 5** Despite extremely high pension levels and the financial stress that increases in pension costs bring upon public sector budgets, there is continuous pressure to increase public sector pensions. Unions apply this pressure on the legislature, which then enacts legislation enabling pension increases to proliferate throughout the state.

We agree with this finding.

**Finding No. 6** Once pension increases are adopted by a public sector employer, they cannot be rescinded without a bargained compensatory improvement in some other element of compensation. This contrasts vividly to the private sector wherein reductions in the future promises, in either pensions or Social Security, are common.

We partially disagree with this finding. We agree that once increases, or changes, in pension plans are adopted by a public sector employer, they are not usually rescinded except for another benefit or salary adjustment. We disagree that reductions in future promises in private pensions or Social Security are common. Most pension plans in private companies have been as stressed as PERS by the investment losses incurred in the early 21<sup>st</sup> century. Most of those private pension plans are still in business. A few extravagantly mismanaged or criminally attacked private pension funds have been liquidated or reduced. The last significant change to Social Security occurred in the 1980's – more than 25 years ago – and represented a significant tax increase to employers and employees, as well as a change in eligibility for future retirees.

Under federal law, private companies have the right to liquidate their assets, go out of business, walk away from their pension and other obligations and/or turn to a woefully underfunded Pension Guarantee Corporation (funded by taxpayer dollars) for relief. Local governments provide services in good times and bad, and we cannot simply walk away from our legal and financial obligations to the citizens and to the employees.

**Finding No. 7** Unless systemic (i.e., statewide) changes are made, the employers' abilities to attract and retain good employees would be undermined. Extremely large pensions, coupled with allegedly lower salary levels, impact hiring and retention. However, changing the mix, to increase salaries while decreasing pensions, would be harmful to public sector employers.

We agree with this finding.

**Finding No. 8** A number of reasonable pension reform proposals have been developed, and/or are being developed, to deal with the problems of public sector pensions.

We agree with this finding.

**Finding No. 9** In addition to pensions, the County and its municipalities maintain retiree healthcare plans for their employees. Although these plans share many characteristics with pensions, unlike the case with pensions, neither the County nor any of its Municipalities have been required to include retiree healthcare obligations on their financial statements.

We partially agree with this finding. While we may not be required to include retiree healthcare pension obligations on our financial statements, we have done so since at least 1993. This information can be found on page 40 of our last approved audited financial statements for FY 2003-04.

**Finding No. 10** Imminent changes required by GASB will require that public sector entities include retiree healthcare obligations on their books. In the private sector, similar Financial Accounting Standards already have caused many employers

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to discover substantial unknown obligations and, in many cases, to reduce those obligations by cutting retiree healthcare benefits.

We agree with this finding.

**Finding No. 11** Neither the County nor its Municipalities have any idea of the size of its retiree healthcare obligations. The Grand Jury has roughly estimated the County's obligations as ranging from \$150 million to \$300 million.

We partially disagree with this finding. We know our current annual obligation to fund retiree health care. We have no comment on the County's estimated or actual obligation.

## RECOMMENDATIONS

**Recommendation No. 1** Sponsor pension reforms, including rolling back pension levels to historical, lower levels for new hires.

Recommendation No. 1 will require further analysis. The City, through its participation in the Legislative Commission of the Marin County Council of Mayors and Councilmembers (MCCMC) has regularly taken positions on legislative pension proposals. The League of California Cities has sponsored legislation and PERS has also sponsored legislation on pension reform issues. The comment regarding rolling back pensions to "historical, lower levels" is unclear, and we would further note that future pension reform will be a complex, multi-faced set of recommendations involving the Legislature, the Governor, PERS, the employers and the unions. It is unlikely that individual local governments will sponsor significant pension reform legislation.

**Recommendation No. 2** Provide lower level pensions in favor of forms of compensation whose employer costs are less volatile.

Recommendation No. 2 will require further analysis. The proper mix of salaries and benefits for each employer has always been a complicated set of trade-offs, unique to each community. We would agree to consider the Grand Jury's recommendation in our annual salary and benefit considerations.

**Recommendation No. 3** Work with plan administrators, in most cases CalPERS, to establish more stable funding models for pensions.

Recommendation No. 3 has been implemented. The Marin County Managers met with several members of the CalPERS Board of Directors two years ago to express our concerns and share our recommendations about reducing volatility among employer rates for retirement and health care, and for encouraging more dialogue about supporting employer needs. On April 19, 2005 CalPERS Board of Directors agreed to

consider a Rate Stabilization Policy. We expect CalPERS to continue to explore options to smooth employer rates in the future.

**Recommendation No. 4 Stop spending found money, which is temporary, on recurring obligations.**

Recommendation No. 4 has been implemented. The City of Larkspur has a long-standing Council policy requiring that the City's annual revenues fund its annual operations. The Larkspur City Council has not asked its citizens to pay for any general or specific override taxes, and thus pays its bills year to year from its annual cash flow. If the Council determines that a budget problem is likely, the Council has directed that expenses be cut and excess revenues be set aside in temporary reserve accounts to balance future budgets. Larkspur does not spend one-time funds on on-going obligations.

**Recommendation No. 5 Lobby the unions to act responsibly and lobby the legislature to stop legislating plans that undermine public employers' abilities to control the structure of compensation.**

Recommendation No. 5 has been partially implemented. Another portion of the recommendation will not likely be implemented because it is unreasonable. The City, through its participation in the Legislative Commission of the Marin County Council of Mayors and Councilmembers (MCCMC) has regularly lobbied the legislature on local control issues, including compensation. The League of California Cities has sponsored legislation and PERS has also sponsored legislation on compensation issues. It is unreasonable to suggest that one city or even a group of cities lobby unions that are for the most part statewide or nation wide organizations. We frequently suggest courses of action to our local union representatives on a variety of issues.

**Recommendation No. 6 Rethink compensation strategy with a goal of sponsoring systemic (i.e., statewide) changes (including changes in disability retirement).**

Recommendation No. 6 has been implemented. We rethink compensation strategy annually, depending on the fiscal environment, and our short and long-term obligations. We participate with other cities in Marin in legislative lobbying on such issues as described above, and with the League of California Cities to support change that is beneficial to public employers.

**Recommendation No. 7 Sponsor programs to help employees understand their retirement, so they can take an active role in their retirement planning.**

Recommendation No. 7 has been implemented. We have sponsored in house retirement seminars with our deferred compensation providers since 1995, and

advertise and encourage employees to attend PERS retirement seminars throughout each year.

**Recommendation No. 8 Request that CalPERS' actuaries (and, in the case of the County and the City of San Rafael, the MCERA actuary) do a more thorough job of explaining pension and retiree healthcare changes and issues to policymakers. Make sure that the explanations of costs of any changes in either of these areas, including both sensitivity analysis (i.e., cost ranges that show what happens if either favorable or unfavorable experience is obtained prospectively) and forecasting (i.e., long term, rather than single year, cost estimates).**

Recommendation No. 8 has been partially implemented, and will be fully implemented in the future. We do a credible job of discussing our short and long term pension and health care cost issues, including retiree health care costs, to policy makers during our budget review, our mid year financial review and our independent audit. We could provide more detailed information about these obligations in the future, and will do so, beginning in FY 2005-06.

**Recommendation No. 9 Perform retiree healthcare valuations in the near future to ascertain the financial impact of the impending GASB standards.**

Recommendation No. 9 has not been implemented, but will be implemented in the future. City staff plans to analyze our retiree health program and expenses in FY 2005-06 and make recommendations to the Council by June 30, 2006.

**Recommendation No. 10 Make knowledgeable decisions, sooner rather than later, about retiree healthcare promises.**

Recommendation No. 10 has been implemented. We have made knowledgeable decisions about retiree healthcare in the past, and will continue to do so in the future.

Thank you for the opportunity to comment on these issues.

Respectfully submitted,



Jean A. Bonander

City Manager

On behalf of the Larkspur City Council