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August 29, 2011

2011 CITY OF SAN JOSE – AEA (units 41/42 and 43), AMSP and CAMP

COALITION COUNTER PROPOSAL
RETIREE HEALTHCARE BENEFITS FOR NEW EMPLOYEES

We reject, in its entirety, the latest City proposal on retiree healthcare benefits for new employees that was lifted from the Vallejo Bankruptcy proceedings and forced upon their retirees. This initial City proposal is not a serious effort to reach an amicable compromise that reduces future retiree healthcare costs in a fair and equitable manner.

The Vallejo new employee retiree healthcare scheme as proposed by the City will relegate future retirees to a paltry set dollar amount that will be eroded by 20 to 30 years of inflation ***and*** will never match the increases in healthcare costs that have been skyrocketing year over year for some time now.

The Vallejo scheme, coupled with other City proposals to slash pensions, eliminate retiree dental coverage, eliminate SRBR, introduce a new high deductible healthcare plan and cut COLA's, will ensure employees that dedicate a full career to serving the residents of San Jose will be unable to afford reasonable healthcare coverage, unable to afford dental coverage, and be made to make horrendous financial choices in their old age.

It is difficult to take this proposal seriously and this proposal will make it extremely difficult to listen to and read the heaps of praise given to employees by the City Manager and our elected officials when a proposal such as this would certainly relegate many full career employees to a life of poverty, poor health and rotten teeth upon retirement.

As such, we reject the Vallejo Retiree Healthcare Benefits Scheme.

Our coalition counter proposal is as follows:

- The retiree medical benefit will be defined as the employee medical benefit in effect at the time of retirement with no post-retirement plan or cost share changes.

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Calpensions

CalPERS, CalSTRS and other government pensions

Vallejo exits bankruptcy paying more for pensions
http://calpensions.com/2011/08/08/vallejo-exits-bankruptcy-paying-more-for-pensions/

By Ed Mendel

Vallejo got court approval to exit from bankruptcy last week with a plan that includes a sharp increase in pension payments to CalPERS — the opposite of what many expected when the city declared bankruptcy in May 2008.

Unions feared that bankruptcy would be used to overturn labor contracts covering pay and pensions. Legislation to curb municipal bankruptcies by requiring approval from a labor-friendly state commission stalled last year, but is back this year in a new form. CalPERS filed a motion in federal bankruptcy court in December 2008 arguing that if Vallejo labor contracts are overturned, separate city contracts with CalPERS for pensions and retiree health care would remain in force.

And as pension costs soared in a sinking economy in recent years, a few officials in Los Angeles, San Diego and other cities have talked about bankruptcy as a possible solution to unaffordable pensions promised current workers in better times.

But a Bank of America report reflects a new view: Vallejo's experience may do more to dissuade than persuade other California cities that bankruptcy is an option for dealing with severe labor and financial problems."The city paid roughly $10 million in legal fees and wound up with no changes to it's labor costs, which was the impetus for filing," the Bank of America report said as quoted by CNBC.

The city with 120,000 residents, hit by the closure of the Mare Island Naval Shipyard in 1996 and then the housing boom and bust, has cut its general fund spending from $87 million in fiscal 2007-8, the year of the bankruptcy, to $66 million this year.

Bankruptcy was not needed for most of the spending reduction: deep staff cuts (sworn police from 155 to 90 and firefighters from 122 to 70 with three fire station closures) and deep cuts in spending on streets, building maintenance and other programs.
The city negotiated new labor contracts with four unions while in bankruptcy. In an early agreement that one council member called "insane," the bankrupt city approved a new contract that gave police a 7 percent raise in July of last year.

U.S. Bankruptcy Judge Michael McManus in Sacramento, *who signed off* on the Vallejo exit plan Friday, made what some experts regard as a groundbreaking ruling in August 2009 after the electrical workers union held out. The judge, exhausting the alternatives, overturned their contract.

Bankruptcy enabled Vallejo to delay and reduce some debt payments. Union Bank, after guaranteeing debt repayment to investors, was owed $50 million but will receive about 40 percent of the amount, the Wall Street Journal *reported in May.*

Bankruptcy also may have helped Vallejo begin negotiating cuts in health care costs for current and future retirees, dropping from full payment of insurance to a limit of $300 a month. The Journal said some retirees have been receiving about $1,500 a month.
When Vallejo filed a list of its 20 largest "unsecured claims" in May 2008, the top two spots were held by the California Public Employees Retirement System: $135 million for retiree health and $84 million for pensions.

Continuing to negotiate a reduction in the retiree health payment to $300 a month is expected to cut about $100 million from the general fund debt, according to a five-year Vallejo *business plan* prepared for the bankruptcy court last fall.

For pensions, the new Vallejo labor contracts are similar to cost-cutting contracts bargained by cities not in bankruptcy. The new Vallejo contracts raise the pension contributions of current employees and, with the exception of police, give lower pensions to new hires represented by firefighter, electrical worker and mid-manager unions. Raising the employee contribution gives the city immediate savings, allowing a reduction of its contribution by a similar amount. Getting significant savings from lower pensions for new hires could take decades.

Why not lower the pensions promised current workers?
A series of court rulings are widely believed to mean that pensions promised current workers are protected by contract law, allowing cuts only if offset by something of equal value.

A local measure proposed by San Jose Mayor Chuck Reed and a statewide initiative discussed by a group led by Dan Pellissier would, if placed on the ballot and approved by voters, test whether pensions not yet earned by current workers can be cut.
Pension amounts earned for years already served would not be touched. But pension amounts earned after the ballot measures take effect would be reduced, producing immediate savings for government employers.

The Vallejo City Council chose not to use bankruptcy, and the power to overturn contracts, to test pension cuts for current workers. For example, the lower pensions given new hires could have been applied to pensions not yet earned by current workers.
Instead, Vallejo plans to pay CalPERS more than required to stabilize its five-year bankruptcy court plan, avoiding annual cuts in service and staff as CalPERS phases in rate increases expected to total more than 20 percent of pay in the next three to five years.

The city's general fund payment to CalPERS, $7.9 million in fiscal 2009-10, is about $11.7 billion this year and planned to be $13.8 million in fiscal 2012-13 and $13.2 million in fiscal 2015-16. "The city is challenged with significant and growing unfunded pension obligations due to CalPERS pension trust investment losses, demographic changes as employees live longer, and a 7.75 percent discount assumption that appears unsustainable," said the five-year plan.

The city apparently agrees with critics who say that the CalPERS investment earnings forecast, 7.75 percent, is too optimistic. Actuaries advised dropping to 7.5 percent, but CalPERS in March left it at 7.75 percent, avoiding further rate increases.
Pension contributions for Vallejo police are 37.6 percent of pay from the city and 9 percent of pay from officers, according to *a budget document.* Firefighter pension contributions are 37.6 percent of pay from the city and 13.4 percent from firefighters.

The recommended budget for the current fiscal year expects the average police officer to cost the city $230,479 and the average firefighter $211,474, when total salary, pension, retiree health and other costs are included. (see table)

Vallejo city manager Phil Batchelor, told CNBC that a stabilized budget helped Vallejo avoid layoffs this year, unlike some neighboring cities. Replying to a question, he said the city at one point had asked for federal and state help."We made the necessary adjustments," Batchelor *told the cable* television business channel. "We balanced our budget. We are not spending more than we are taking in. We are stable. We are sustainable. They are not. They can't help us."

The city council may ask Vallejo voters to approve a one-cent sales tax increase to restore some of the cuts and help rebuild the city.