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Mayor Reed Releases Fiscal Reform Plan

San José, Calif. – With San José facing unprecedented cuts to core city services and the loss of 600 jobs, Mayor Reed has called for the City to declare a fiscal and public safety emergency and released a proposal to save the city from being decimated in a fiscal disaster.

“The dramatic impacts of the budget shortfall on our community demonstrate why we have to gain control over skyrocketing retirement costs,” Mayor Reed said. “If we act now, we can preserve the retirement benefit levels our employees and retirees have earned and accrued, and we can restore jobs and vital services.”

San Jose has billions of dollars in unfunded liabilities for retirement benefits, driving up the City’s annual retirement costs from \$63 million in 2000 to \$250 million in 2011. By 2016, these costs are projected to reach \$400 million and could jump to \$650 million if actuarial assumptions are adjusted to reflect modern conditions. Growing retirement costs make up about half of the budget deficit for the upcoming fiscal year, during which San Jose will likely be forced to eliminate 195 sworn police positions, cut 64 firefighter positions and reduce branch library services to three days per week.

“Our employees are dedicated, hard-working people and I wish there were better alternatives to these changes,” continued Mayor Reed. “But we need to act now to protect the solvency of our retirement funds. If we don’t, our employees and retirees won’t have security in their senior years.”

Mayor Reed’s proposal – which is outlined in a memo co-signed by Vice Mayor Nguyen, Councilmember Herrera and Councilmember Liccardo – sets limits on retirement benefits for new employees, current employees and retirees. These limits include:

- Capping the city’s contribution to retirement benefits for new employees at 9% of base salary and 50% of the total cost.
- Raising the age at which employees can receive full retirement benefits to: 60 for sworn public safety employees and 65 for all other employees (*phased-in for current employees*)
- Raising the eligibility for retiree healthcare benefits to 20 years of service (*phased-in for current employees*).
- Limiting current employees’ pension accrual rate to 1.5% per year for any future years of service (*benefits earned and accrued to-date will not be reduced*).

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- Limiting the cost of living adjustment to a maximum of 1% per year and restricting bonus pension payments to retirees.

The proposal does not reduce retirement benefits that current employees and retirees have already earned and accrued.

The plan also institutes additional temporary limits on employee benefits until essential city services are restored to January 1, 2011 levels or if the retirement plans' experience new unfunded liabilities. Since many of the recommendations in the Mayor's proposal require changes to the City Charter, they must be approved by the voters.

“Without reform, skyrocketing retirement costs will destroy our ability to protect the public and the quality of life enjoyed here in San Jose,” Mayor Reed said.

The Mayor's proposal builds on recommendations from the City Manager's Fiscal Reform Plan, which identified approximately \$270 million in potential savings, including approximately \$216 million that could be achieved through retirement reform alone. The City Manager's plan is designed to generate enough savings over the next five years to: eliminate the city's structural budget deficit, restore critical services being cut this year and open the city's vacant libraries, community centers, fire stations and police substation.

The Mayor's proposal also directs City staff to meet and consult with the city's employee bargaining units prior to developing specific ballot measure language.

“This proposal lays out what I think must be done, but I remain open to other solutions and hope that our employee unions come to the table to help us solve this fiscal crisis,” Mayor Reed said. “However, one thing is absolutely clear: we cannot afford to wait any longer to reform our retirement systems.”

Read the entire proposal:

http://www.sanjoseca.gov/mayor/news/memos/11May/FiscalReforms_05132011.pdf

Critical Upcoming Dates

- **Wednesday, May 18:** The City Council will hold a study session on retirement reform
- **Tuesday, May 24:** The City Council will vote on the City Manager's Fiscal Reform Plan and Mayor Reed's proposal.

If the City Manager's Fiscal Reform Plan and/or Mayor Reed's proposal are approved:

- **Tuesday, June 21:** Staff will return to the City Council with the proposed changes to the City Charter.
- **Tuesday, August 2:** Staff will return to the City Council ballot measure language for a possible election in November.