

For Immediate Release:

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Statement from Mayor Chuck Reed regarding ethical complaint from the City's employee unions

San Jose, Calif. – Mayor Chuck Reed has released the following statement regarding an ethical complaint that the City of San Jose's employee unions have filed against Mayor Reed regarding retirement contribution projections.

Statement from Mayor Reed:

We're in campaign season and it's unfortunate that our employee unions have resorted to political theater. Just like our unions' numerous claims that the City has been bargaining in bad faith, which have been consistently dismissed by the state's Public Employee Relations Board,¹ this complaint is completely frivolous.

As Mayor, I believe that we must keep the public fully informed about the potential consequences that we'll face if we don't rein in our escalating pension costs. In fact, I am obligated to disclose material facts by Council Policy.

If you look at my past press releases, statements and memos,² you'll see that I've been very clear in explaining that the \$650 million figure was an estimate of what could happen if things get worse. And whenever I cited the \$650 million figure, it was always in tandem with the actuaries' official projection. For example, in my June 2011 Budget Message, which was approved by the City Council, I wrote:

Unfortunately, the huge increase to fund retirement costs to date is just beginning. Using the most optimistic assumptions, retirement costs, if left unchecked, will increase to \$400 million per year by 2016 - or almost 30% of the General Fund - and will continue to go up for another 10 or 15 years. Even greater increases in retirement costs are likely if actuarial assumptions, such as life expectancy, retirement ages, or rates of investment return, are modified by the retirement boards that are independent from the City and have fiduciary obligations to modernize assumptions and keep the plans solvent. That could cause retirement costs to jump to \$650 million per year by 2016.

The \$650 million figure wasn't used as a basis for labor negotiations, and in fact, all pay concessions that were negotiated last year were based on the actual size of last year's deficit, not future projections.

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Unfortunately, \$650 million is still a reasonable estimate of how high our retirement costs could reach if the independent retirement boards adopt more realistic assumptions. As shown in a recent report by the Stanford Institute for Economic Policy Research,³ the City's retirement costs over the next four years could easily skyrocket past current projections if more realistic investment return assumptions are used.

Our retirement costs are likely to stay flat this year because we had to layoff police officers and firefighters and implement a 10% pay cut – things that will lower retirement cost projections, but which we never wanted to have to do. And after this one year reprieve, the independent retirement boards' actuaries are forecasting that costs will start growing again.

A year ago, the leader of city's largest employee union was claiming that our pension crisis was imaginary. Now, some of our unions are trying to use this complaint to distract the public from the fact that we are in a real crisis and trying to avoid a fiscal disaster.

Ten years ago, we spent \$73 million on retirement costs. This year, it's grown to \$245 million. Those are not projections or assumptions. They are real dollars spent. As a result, we've been forced to eliminate jobs, close libraries and community centers, lay off police officers and fire fighters, and watch our streets and infrastructure deteriorate.

The retirement reform ballot measure will allow us to gain control of our costs and avoid reducing services even further. But without action, we'll be looking at even deeper cuts that will keep us from restoring services to our community.

¹ CA Public Employment Relations Board Dismissal Letter, *AFSCME Local 101 v. City of San Jose, Unfair Practice Charge No. SF-CE-837-M* (12/29/2011):

http://www.sanjoseca.gov/mayor/goals/budget/pdf/PERB_Dismissal_Letter_UPC-SF-CE-837-M.pdf

CA Public Employment Relations Board Proposed Decision, *Operating Engineers Local 3 v City of San Jose, Case No. SF-CE-744-M* (1/12/2012):

http://www.sanjoseca.gov/mayor/goals/budget/pdf/PERB_ProposedDecision_2012-01-13.pdf

² Listed here are links to documents in which Mayor Reed cited "\$650 million" as a potential scenario – all of which also cited the actuaries' official projections:

- Press Release: Mayor Reed and Vice Mayor Nguyen to Discuss Impacts of Pension Costs on San José Budget (4/13/2011): <http://www.sanjoseca.gov/mayor/news/releases/11April/ReedNguyenDiscussPensionCosts.pdf>
- Memo: Fiscal Reforms (5/13/2011, see page 5): http://www.sanjoseca.gov/mayor/news/memos/11May/FiscalReforms_05132011.pdf
- Press Release: Mayor Reed Releases Fiscal Reform Plan (5/13/2011): http://www.sanjoseca.gov/mayor/news/releases/11May/FiscalReformPlan_05132011.pdf
- E-Mail Blast: Mayor Reed Releases Fiscal Reform Plan (5/13/2011): http://www.sanjoseca.gov/mayor/news/Share/PU_FiscalReforms.asp
- Memo: June Budget Message (6/3/2011, see pages 2-3): http://www.sanjoseca.gov/mayor/news/memos/11June/JuneBudgetMessage_06032011.pdf
- Press Release: Mayor Reed Releases June Budget Message (6/3/2011, see page 2): http://www.sanjoseca.gov/mayor/news/releases/11June/JuneBudgetMsg_06032011.pdf
- Sacramento Bee OpEd: Why Pension Reform is Now a Top Priority in San Jose (7/3/2011): <http://www.sacbee.com/2011/07/03/3742639/why-pension-reform-is-now-a-top.html>

³ Stanford Institute for Economic Policy Research, *Shrinking Services: Public Pension Costs and Their Impacts on San Jose*: http://siepr.stanford.edu/system/files/shared/pubs/Nation_public_pension_sj.pdf (12/14/2011)