



Agenda Date: 3/15/2005
Agenda Placement: 10A

NAPA COUNTY BOARD OF SUPERVISORS Board Agenda Letter

TO: Board of Supervisors
FROM: Britt Ferguson for Nancy Watt - County Executive Officer
County Executive Office
REPORT BY: Andrew Carey, Management Analyst, 253-4477
SUBJECT: CSAC's public pension reform guiding principles

RECOMMENDATION

Discussion and possible action related to encouraging CSAC's involvement in the drafting of legislative amendments to Assembly Constitutional Amendment (ACA) 5 (public pension reform).

EXECUTIVE SUMMARY

Reform of California's public pension systems is one of four items set for consideration in the 2005 Special Legislative Session called by Governor Schwarzenegger. Specifically, the Governor has proposed a constitutional amendment (ACA 5) that would require all state and local government employees hired after July 1, 2007 to join a defined contribution pension plan.

The California State Association of Counties (CSAC) has reviewed arguments in favor of and in opposition to ACA 5, and has developed a draft set of pension reform guiding principles designed to apply to new public employees hired after July 1, 2007. CSAC's Board of Directors has taken the position "that a legislative solution to pension reform is the best course to ensuring reform with clear cost-benefit outcomes for local government retirement systems and for taxpayers."

The Napa County legislative subcommittee has discussed the issue of public pension reform and the CSAC guiding principles, and has referred the issue to the Board of Supervisors for discussion and possible action related to encouraging CSAC's involvement in the drafting of legislative amendments to ACA 5.

FISCAL IMPACT

Is there a Fiscal Impact? No

ENVIRONMENTAL IMPACT

ENVIRONMENTAL DETERMINATION: The proposed action is not a project as defined by 14 California Code of Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

BACKGROUND AND DISCUSSION

Reform of California's public pension systems is one of four items set for consideration in the 2005 Special Legislative Session called by Governor Schwarzenegger. Specifically, the Governor has proposed a constitutional amendment that would require all state and local government employees hired after July 1, 2007 to join a defined contribution pension plan. Currently, public agencies in California (and most of the the other forty-nine states) typically offer defined benefit pension plans for state and local government employees.

A defined contribution pension plan is a savings plan with defined employer and employee contributions to the plan, where benefit payments upon retirement are not predetermined, but depend on the relative success (gains or losses) of the individual employee's investment strategy over the life of the plan. A defined benefit pension plan is a savings plan where retirement benefits are determined (defined) by a formula based on the individual employee's years of service in the plan, retirement formula factor, final compensation, and age at the time of retirement.

The County of Napa participates in the California Public Employees' Retirement System (CalPERS), a defined benefits pension plan for employees of the State of California, schools, and contracting local government entities. CalPERS is the largest public employee pension fund in the United States, with a market value of \$182 billion as of December 31, 2004. CalPERS provides a lifetime benefit based on the participating employee's years of service in the plan, age at the time of retirement, retirement benefit formula, and final compensation. Participation in the plan is mandatory for most state employees, classified school employees, and employees of contracting local government entities. Benefits are funded by employee contributions, employer contributions, and CalPERS investment returns. As of June 30, 2004, the average monthly benefit paid by CalPERS is \$1,669 per month.

The essential provisions of the Governor's proposed constitution amendment to California public pension plans are contained in Assembly Constitutional Amendment (ACA) 5, a bill introduced by Assembly Member Keith Richman, Granada Hills, CA. ACA 5, which requires a two-thirds affirmative vote by both houses of the Legislature before being submitted to the voters for consideration, has generated considerable attention in the Legislature, with local governments, and the news media. A key issue is how much, if any, reform is required for California's public employee pension plans and whether the defined contribution plan, as proposed by the Governor and Assembly Member Richman, should replace the existing defined benefits plan for future public employees.

The California State Association of Counties (CSAC) has reviewed arguments in favor of and in opposition to ACA 5, and has developed a draft set of pension reform guiding principles designed to apply to new public employees hired after July 1, 2007. CSAC's efforts in developing these guiding principles "have been guided by a firm belief that a legislative solution to pension reform is the best course to ensuring reform with clear cost-benefit outcomes for local government retirement systems and for taxpayers." An excerpt from the preamble to the CSAC guiding principles is reproduced below:

"Public pension reform has garnered widespread interest and generated significant debate among policy leaders about the appropriate remedy for actual and perceived abuse, rising costs, and accountability to taxpayers. CSAC welcomes this discussion and approaches the concept of reform with the overarching goal of ensuring public trust in public pension systems, as well as maintaining a retirement benefit sufficient to assure recruitment and retention of a competent local government workforce. Proposed reforms should meet these broad goals, as well

as CSAC's guiding principles."

Further discussion and possible action related to the CSAC pension reform guiding principles is scheduled for March 16th by the CSAC Government Finance and Operations Policy Committee, while the CSAC Board of Directors is expected to address the draft guiding principles and any related Government Finance and Operations Policy Committee recommendations at the CSAC Board of Directors meeting on March 17th. Both meetings will be held in Sacramento during the annual CSAC Legislative Conference.

The Napa County legislative subcommittee has discussed the issue of public pension reform and the CSAC guiding principles, and has referred the issue to the Board of Supervisors for discussion and possible action related to encouraging CSAC's involvement in the drafting of legislative amendments to ACA 5.

SUPPORTING DOCUMENTS

- A . CSAC pension reform guiding principles
- B . Assembly Constitutional Amendment 5

CEO Recommendation: Policy Issue

Reviewed By: Britt Ferguson