

Pensions show how California cities courted ruin

By Alison Vekshin, James Nash and Rodney Yap, Bloomberg News

Stockton Police Chief Tom Morris was supposed to bring stability to law enforcement when he was appointed to the job four years ago.

He lasted eight months and left the now-bankrupt city at age 52 with an annual pension that pays more than \$204,000 – the third of four chiefs who stayed in the position for less than three years and retired with an average of 92 percent of their final salaries.

Stockton, which filed for bankruptcy protection on June 28, is among California cities from the Mexican border to the San Francisco Bay confronting rising pension costs as they contend with growing unemployment and declining property- and sales-tax revenue. The pensions are the consequence of decisions made when stock markets were soaring, technology money flooded the state, and retirement funds were running surpluses.

“We didn’t have very many people looking out for the taxpayers when these deals were negotiated,” San Jose Mayor Chuck Reed, 63, said in a telephone interview. San Jose, the state’s third-largest city, approved a ballot measure in June to contain annual retirement costs that soared to \$245 million from \$73 million in the past decade.

Bloomberg News compiled data from the California Public Employees’ Retirement System for more than a dozen cities facing the financial strains of rising pension costs and declining revenue. The data show how local governments struggle to support six-figure lifetime benefits for some retirees even as they cut police and fire services for city residents.

Intractable costs

Many cities are hobbled by retiree obligations that consume 10 percent or more of revenue. And unlike other expenses, which can be cut or deferred, pension costs are intractable, said Eric Friedland, head of municipal-credit research for Schroder Investment Management North America.

“As their tax revenues go down, they’re stuck with these fixed costs,” Friedland said. “I see this as a major driver of fiscal stress.”

City councils across the state, spurred by then-Gov. Gray Davis’s move to enhance pensions for California Highway Patrol officers in 1999, sweetened retirement benefits for police, firefighters and other workers in the decade that followed. Public-safety employees could retire after working for 30 years, collect 90 percent of their top salaries and take jobs elsewhere while still in their 50s.

Younger retirement

San Bernardino, a city of 209,000, is typical of the phenomenon. Its City Council voted July 18 to approve an emergency bankruptcy filing, about six years after the panel unanimously lowered the retirement age for public-safety workers to 50 from 55.

The council acted in August 2006 even though Aon Plc, the city’s risk-management consultant, had warned it that such a change would add millions of dollars to San Bernardino’s long-term pension costs. In the fiscal year that ended in June, pensions consumed 13 percent of the city’s general fund, up from 9 percent in fiscal 2007.

“I knew it was going to be costly in the long run,” San Bernardino City Councilwoman Wendy McCammack said of the lower retirement age. “However, this city is one of the toughest to police. In order to attract and retain the kind of officers

that it takes to police a city like this, that was a benefit that we had to negotiate.”

Cities and counties began boosting pensions for police and firefighters after Davis signed the bill enhancing the benefit for state troopers. The Legislature enacted the measure in a year when CalPERS, the largest U.S. pension fund, had 138 percent of the assets needed to cover projected liabilities.

None understood

“It got out of control,” said Jay Goldstone, who was Pasadena’s finance director from 1996 to 2006 and now is chief operating officer of San Diego. “No one understood the potential impacts of what these increased benefits were and how they were being paid.”

State Controller John Chiang said steps toward bankruptcy taken by Stockton, San Bernardino and Mammoth Lakes within weeks of each other shows the need for greater scrutiny of city finances and pensions.

“You want to have a sound, fair compensation package for your public servants,” Chiang said. “You don’t want them in a vulnerable position where they easily could be lost, but then you also have to make sure that you have a fair system that can make adjustments if a city’s finances are tanking.”

Pension liabilities

Pension liabilities in the cities of Fairfield, Inglewood, Pomona, San Bernardino, Stockton and Vallejo rose 6 percent to \$4.3 billion for the year ending June 30, 2010, from \$4.1 billion in 2009, according to the most recent data available from CalPERS. In the Northern California municipality of Fairfield, near the famed Napa Valley winegrowing region, 18 percent of the general-fund budget goes toward pension costs, up from 14 percent in fiscal 2008, said David White, the deputy city manager.

Fairfield, Inglewood, Pomona and other municipalities including Compton are on a list of cities "on the precipice" compiled by Matt Fabian, a managing director for Concord, Massachusetts-based Municipal Market Advisors, who cited news reports in identifying them in a July 23 research note.

Fairfield's White said the city isn't approaching bankruptcy because it doesn't have a lot of debt in its general fund. He said he expected pension costs to ease because benefits for new employees are less generous than before.

Six figures

Across the state, former city managers and public-safety employees are collecting six-digit annual pensions for life at taxpayers' expense as cities slash staff and basic services such as police and fire protection and library hours to keep up with the payments.

In San Bernardino, two former police chiefs are among those who receive six-figure pensions, according to Calpers. Keith Kilmer, who retired last year, gets a pension of \$216,581, CalPERS said. He now serves as interim chief of the Seal Beach, California, Police Department. Michael Billdt, his predecessor, who receives \$205,014 annually, took a medical retirement in 2009 after two no-confidence votes by officers.

Billdt, who had no college degree, was accused of trying to induce an officer to withdraw a union grievance in exchange for the department dropping an internal-affairs investigation into his conduct. Billdt didn't return a telephone call seeking comment, and Kilmer declined to comment.

Possible bankruptcy

In Compton, where the treasurer raised the possibility of bankruptcy at a July 17 meeting, former city managers Barbara Kilroy and Charles Evans were fired by their city councils, records show. Kilroy, who worked in government for more than

34 years, is collecting an annual pension of \$172,917, while Evans receives \$136,712 after almost 22 years in the public sector, according to CalPERS data.

Kilroy, 65, in a telephone interview, said she never received a definitive explanation for her firing. Her pension is fair, she said, adding that there is a property assessment in Compton that provides a dedicated revenue stream for pensions. Evans didn't return a phone call seeking comment.

On July 24, the new city manager of Compton, Harold Duffey, denied the municipality was considering a bankruptcy filing.

Amy Norris, a CalPERS spokeswoman, said the average pension of someone in the CalPERS system who retired in fiscal 2011 is \$3,065 a month, or \$36,780 annually.

"For most of our retirees, it's a very modest retirement," Norris said in a telephone interview. "People are giving their entire careers to public service."

National average

Among California's municipal police and fire workers, the average retirement age is 54 after 25 years of service with a monthly pension of \$7,059 a month, or \$84,708 a year, Norris said. The average retirement benefit for all public employees nationally is \$22,600, according to the Denver-based National Conference of State Legislatures.

Municipalities are moving to counter earlier largesse by reducing pension benefits for new hires, according to a February survey by the League of California Cities. Most that allowed police and firefighters to retire at 50, and collect as much as 90 percent of active-duty income as pensions, have bumped the age back to 55, the survey showed.

Stockton, a city of about 292,000 residents, illustrates the array of benefits that can be combined to maximize employee

compensation in retirement, Kathy Miller, the city's vice mayor, said in a telephone interview.

"In Stockton, we took every bad practice and put it into place," Miller said. "We have some safety retirees that are actually earning more in retirement than they earned when they were working because they were able to manipulate the system enough in that last year that they could crank that last year's income and then get 3 percent times their 25 to 30 years."

Revolving door

The revolving door of police-chief departures began after Edward Chavez retired in October 2003 with 30 years of service to become the city's mayor. Mark Herder succeeded Chavez as chief, staying just over two years before retiring in March 2006. He collects a pension of \$166,890, according to CalPERS.

Wayne Hose was in the process of retiring as an assistant chief in Stockton, then retracted the paperwork to apply for the chief's position when Herder retired, Miller said. Hose stayed in the position for two years before retiring in March 2008 to collect a pension of \$202,398, the second-highest in the city, according to CalPERS.

"The pensions are so fat that it doesn't pay them almost to stay on the job," Miller said. "It's crazy. The system is just completely out of control."

Highest pension

Morris, now 55, took the post in 2008 after Hose left. Morris collects the highest pension in Stockton. Four months after retiring, he took a job as an investigator at the San Joaquin County District Attorney's Office, collecting an annual salary of \$76,066 in addition to his six-figure Stockton pension. He since has left the district attorney's office.

Next came Blair Ulring, who retired in September 2011 and stayed on the job until February of this year as interim chief. He collects an annual pension of \$193,417, the third-highest in the city, and is one of four finalists for the police chief's job in Omaha, Nebraska, according to Aida Amoura, a spokeswoman for the Omaha mayor's office. He also applied for the police chief's jobs in Spokane, Washington, and Flagstaff, Arizona, spokesmen for those cities said.

Herder, reached by telephone, declined to comment. Morris, Hose and Ulring didn't respond to requests for comment made through the Stockton police department.

Good faith

Stockton Councilmember Elbert Holman said public-safety employees negotiated in good faith for the benefits they received, and blamed city leaders who agreed to the pensions without making provisions for them.

"It's the people that were sitting in office who authorized those benefits but did not put the money away to pay for it," Holman said in a telephone interview.

Stockton's latest police chief, Eric Jones, is 40 years old and isn't eligible to retire for another 10 years.

"I would have never expected that I would get the job this early in my career," Jones, who became chief in March, said in a June interview in his office at the Stockton Police Department.

"What the department and the community and the city leaders wanted was some longevity and stability in this office," he said. "To build a solid plan and see the solid plan come to fruition, it takes somebody to be here for a little while."