Opinion: Time to fess up about taxes, pensions

By Dan Walters, CALmatters

California's political leaders don't have to look very far to find a stark example of the pension cost crisis facing the state's 482 cities.

Three blocks from the Capitol, in Sacramento's city hall, Mayor Darrell Steinberg – a former leader of the state Senate – and other officials are seeing pension costs skyrocket.


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"Over the past nine years, the city's pension expense has increased by 28 percent or $14.5 million," says a passage in the city's 2017-18 budget. "Over the next eight years, the city's pension cost is expected to more than double what is currently paid."

The California Public Employees Retirement System (CalPERS), which handles pensions for virtually all Sacramento city employees, says in its most recent "actuarial evaluations" that the city's costs will rise from $92.8 million in 2018-19 to $159.4 million by 2024-25, a $66.6 million increase.

Keep that number in mind because it bears an uncanny resemblance to another figure.

Immediately after explaining the rising pension costs, the city's budget talks about Measure U, a half-cent increase in the sales tax that city voters approved in 2012 and that will expire next year.

Based on current retail sales activity in the city – $6.4 billion in 2016, the last year for which complete data are available – the half-cent tax now generates about $32 million a year, mostly dedicated to police and fire services.

City officials not only want to ask voters to renew that tax, but Mayor Steinberg and other officials may ask them to double it to a full cent, which would raise at least $66 million a year as taxable sales rise.

Sound familiar? It's very close to the projected increase in the city's annual pension costs, driven primarily by those for police officers and firefighters. By 2024, CalPERS projects, Sacramento will be paying 61 cents into the pension fund for every dollar of police and fire salaries, up from 43 cents in 2018-19. For non-safety "miscellaneous" employees, payments will rise from 19 cents per $1 of payroll to nearly 28 cents.

Of course, rising pension costs aren't being mentioned as a reason why the city may be asking its voters to pay more taxes.

During his State of the City address in January, Steinberg talked about creating a multibillion-dollar fund to pay for infrastructure, affordable housing, cultural amenities and incentives to attract new business.

"With more capital, we can direct and lead more of the change we want to see," Steinberg said.

He said money for the new city improvement fund would come from a new tax and/or sale of unneeded city property.

Facts, however, are facts.

CalPERS is making ever-increasing demands on Sacramento and other local governments for more money to prop up its trust fund, which has scarcely two-thirds of the money it needs to meet current pension promises.

The city of Sacramento's two CalPERS accounts are similarly short, with the police/fire system just 66.5 percent funded and the one for other employees only slightly better at 70.8 percent, its actuarial statements say.

Renewal of Sacramento's expiring half-cent tax would cover perhaps half of the projected increase in annual pension costs, but crowd out other services the tax now finances. Were voters to double it to a full cent, virtually every new dollar it generated would be needed to pay increased CalPERS demands.

Asking voters to raise taxes for popular services without mentioning rising pension costs has become a common tactic in California's cities.

The League of California Cities has raised the alarm about "unsustainable levels" of pension costs. Isn't it time for the cities themselves to be truthful when they ask voters for new taxes? And isn't Sacramento the right place to begin the truth-telling?

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