CITY OF OAKLAND

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March 7, 2011

Dear Colleagues,

The economic downturn and current recession have resulted in significant reductions to budget revenues for the City of Oakland. The City of Oakland's General Purpose Fund revenues have gone from $491 million in 2006 down to a projected $401 million for the 2011 fiscal year. Since the Fiscal Year 2008-09, we have had to implement layoffs, mandatory furloughs for our City employees, cuts in programs and services, we've sold City assets, and eliminated programs and support to our non-profit partners in order balance the budget, but the worst is yet to come.

This proposed charter amendment is being put forward with the intent of making one of the long-term structural changes necessary to preserve the fiscal solvency of our City.

The Police and Fire Retirement System ("PFRS") was founded in 1951 and provides pension, disability and beneficiary payments to retired Police and Fire sworn members who were hired prior to 1976. In 1976 PFRS closed to new members. Anyone hired after 1976 has been covered under the CalPERS retirement system. Currently, PFRS is funded at only 37.6% which translates into an unfunded liability of $494 million. Per the Series 1997 Bonds which where issued in 1997, the City is required to deposit into PFRS beginning FY 11-12 an annual contribution of approximately $45.6 million, such annual payments are to be made until 2026. The City's total obligation to PFRS in FY 11-12, combined with bond debt service payments, will total approximately $109.1 million.

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The extremely low funding level of PFRS, combined with the City's General Purpose Fund projected deficit of at least $46 million in FY 2011-12 and $62 million in FY 2012-13, have made this a matter of fiscal emergency. The City's General Fund does not have the capacity to make the required $45.6 million PFRS payment on July 1, 2011.

The escalation of costs related to the PFRS obligations is simply unsustainable. Currently, the PFRS plan formula is based on "compensation attached to the average rank held." The City Charter defines this term as the compensation attached to the lowest rank held during the three years immediately preceding. As a result, the PFRS plan pays its members a percentage of the compensation currently paid to active sworn personnel who hold the rank the retired member held prior to retirement.

For example, if a PFRS member retired in 1985 as a Police Sergeant, they would continue to receive a percentage of the pay of an active Oakland Police Sergeant (in 2011.) The active pay elements currently deemed attached to the rank include (1) Base Pay/ Cost of Living Adjustment ("COLA") (2) Holiday Pay, (3) Uniform Allowance, (4) Shift Differential, and (5) Longevity Pay. Any changes to these pay elements changes the pay that the PFRS members receive.

I believe it is in the best interest of the City to ask the voters to amend Charter Section 2607 to define the annual benefit increases for members of PFRS. The proposed charter amendment reads "In no event shall any increase from year to year to a benefit exceed two percent".

Unless this Charter amendment is enacted, the escalating costs will increase to a point that the City will be unable to fund PFRS at all. The consequences of that will be that the City's General Fund will have to fund debt service payments in excess of $100 million. The PFRS payment and projected deficit will cause further distress to the City's finances. Even without this payment obligation, the City will be required to make major reductions to core services detrimentally affecting the health and safety of the citizens of Oakland. The City simply cannot sustain this system without long term permanent changes.

I respectfully request that we put this proposed charter amendment out to the voters for their consideration.

Sincerely,

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