

Statement from Mayor Reed regarding State Audit on San Jose's Retirement Costs

San Jose, Calif. - The California State Auditor has released a report regarding the City of San Jose's retirement costs.

The City of San Jose's official response to the California State Auditor is available here: <http://www.sanjoseca.gov/mayor/goals/budget/pdf/CityResponseStateAudit.pdf>

Below is a statement regarding the state audit from Mayor Reed:

The state auditor has confirmed what San Jose residents know from experience: San Jose is facing real financial challenges and increasing retirement costs have forced us to make significant cuts to core city services.

For example, the state auditor noted that the annual retirement costs for the police and fire department plan have grown by \$76 million since FY 2009-2010, and during that same period, we've been forced to eliminate approximately 380 public safety positions.

These skyrocketing costs and the loss of services were the main reasons why nearly 70% of San Jose voters approved the pension reforms included in Measure B this past June. Once implemented, Measure B will generate significant savings to restore critical city services, and my highest priority for these savings is to restore staffing in the police department.

I appreciate the auditor's recommendations for clearly reporting retirement cost information. In fact, the City of San Jose already does this and will continue to do so for both official projections and any estimates developed by its professional staff.

As city leaders, we must be cognizant of pessimistic and worst-case scenarios, and numerous outside experts have agreed that our retirement costs could grow hundreds of millions of dollars higher than projected if things get worse. [see below]

Outside Reports Analyzing Potential Retirement Cost Scenarios for San Jose:

· **Santa Clara County Civil Grand Jury:** In its report, *An Analysis of Pension and Other Post Employment Benefits*, the Civil Grand Jury stated:

"Pension experts the Grand Jury interviewed stated that other actuarial assumption changes, within reason and easily justified, would result in ARC [annual required contribution] costs even higher than \$650M per year. The Grand Jury understands that exploring these actuarial assumptions is justified. They help bring attention to the severity of the Benefits crisis and abate the trend of pushing financial problems to future generations of taxpayers." (p. 24)

Report: http://www.scscourt.org/court_divisions/civil/cgj/2012/pension.pdf

· **Bartel Associates, LLC:** In response to a request made by the city's Rules and Open Government Committee, the city's outside actuary ran calculations which showed that the city's retirement costs could be hundreds-of-millions of dollars higher than currently projected under

various pessimistic scenarios:

Bartel Associates' presentation during a March 29, 2012 study session: <http://www.sanjoseca.gov/mayor/goals/budget/pdf/retirementpresentation.pdf> (pp. 8-9)

Link to video of the Study Session: http://sanjose.granicus.com/MediaPlayer.php?view_id=22&clip_id=5660

· **Stanford Institute for Economic Policy Research:** Stanford researchers analyzed how using more realistic investment return assumptions could significantly increase the City of San Jose's retirement contributions:

- *Shrinking Services: Public Pension Costs and their Impacts on San Jose* http://siepr.stanford.edu/system/files/shared/pubs/Nation_public_pension_sj.pdf (p. 19)
- *More Pension Math:* <http://www.cacs.org/images/dynamic/articleAttachments/7.pdf> (p. 47)

Note: SIEPR's reports analyze pension costs only (they do not factor in the significant costs for retiree healthcare benefits)