

# City of Berkeley Auditor's Office

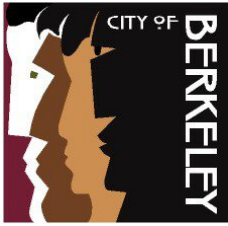
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## Communicating the Bad News: Pension and Infrastructure Liabilities

**Presented by:**

**Ann-Marie Hogan, City Auditor  
City of Berkeley Auditor's Office**

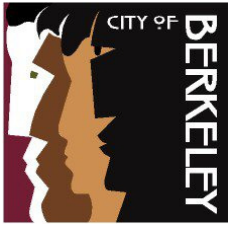
**May 16, 2013**



# Training Objectives

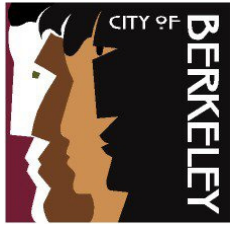
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- Learn what your decision makers need to know about underfunded liabilities for benefits and infrastructure
- Learn how to communicate complex and unwelcome information to decision makers.



# We Just Didn't Listen

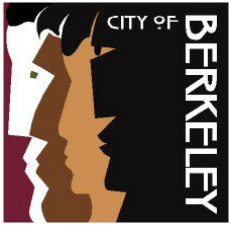
- In 1999, the CalPERS Board voted to retroactively lower the retirement age and enhance the benefit formula for California public employees. Who knew it was unsustainable?
- “The bean counters warned us, but we didn't listen to them” in 1999 - attributed to former mayor/PERS Board member
- As independent auditors, our audience includes the public: those who influence the decision makers
- How can we as auditors tell it like it is, be believed, and inspire action?



# San Jose City Auditor: Results

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- 2010 Audit Report (September 2012 WIAF)
- November 2010 – Voters overwhelmingly pass Measure W allowing establishment of 2nd tier
- May 2011 – City Council approved Fiscal Reform Plan (goal to maintain retirement costs at FY 2010-11 contribution levels)
- December 2011 – City Council considered but did not declare a fiscal and service level emergency
- June 2012 – Voters overwhelmingly pass Measure B amending pension plans

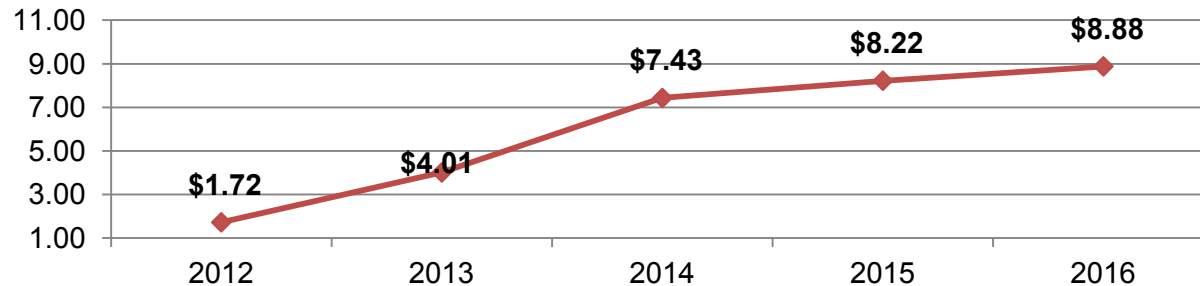


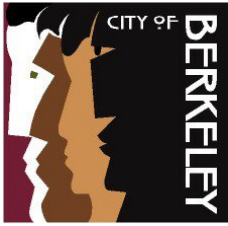
# Berkeley's 2010 Pension Audit: Titles, Text Boxes, Graphics

## *Employee Benefits: Tough Decisions Ahead*

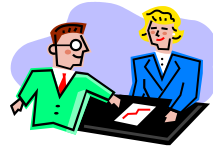
CalPERS' recent investment gains won't stop pension rates from rising.

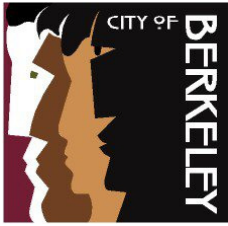
- **CalPERS Estimated Additional General Fund Expenditures (in millions)**





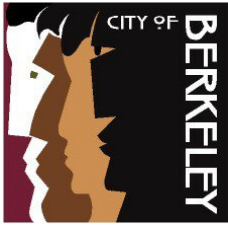
# General Fund Impact of PERS and Police Retiree Medical only: 66 FTE in 2016





# Taking it to the press-sound bites

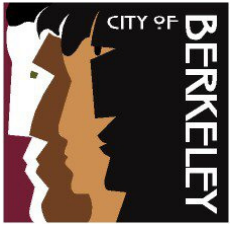
- Jan 19, 2011 “Even if CalPERS gets 7.75% forever now, they have lost \$200 million on which we’ll never get 7.75%,” explained the City Auditor.
- The City Manager said the money to close the gap has to come from either increased contributions or a reduction in cash available for city services, or some combination of the two. Long term, the gap can be closed by reduced benefits for new employees, but that does little in the short and medium term.
- “Rather than cut services, people are asking employees to contribute more,” said an elected official. “That’s the path we have to go down. People will need to start contributing more. It’s unfortunate, but they’re lucky to have a job.”



# 2013: Auditors Need to Tell

- What rates will PERS charge for employees in my jurisdiction each year over the lifetime of the last employee hired under the old rules?
- What is the actual cost (without smoothing) of a sworn police officer, firefighter, and miscellaneous worker under specific assumptions?
- Compare service cut and compensation cut outcomes; compare salary vs benefit reduction outcomes.

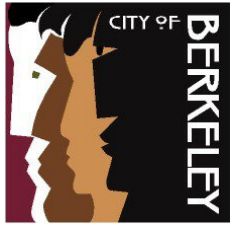




# How Can California Auditors Get Action On Pension Liabilities?

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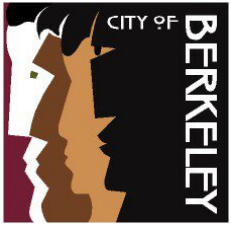
- The State Auditor could do a report that lays out the CalPERS assumptions and shows the impact on state and local employees and budgets
  - Report separately on police, fire, and miscellaneous
- Local auditors could build on that research to show their own legislators:
  - What rates CalPERS may be charging each year over the next 30 years
  - What the **true cost** of employees in each category will be
  - Build scenarios showing number of positions eliminated or percentage cuts to total compensation, graphed over 30 years



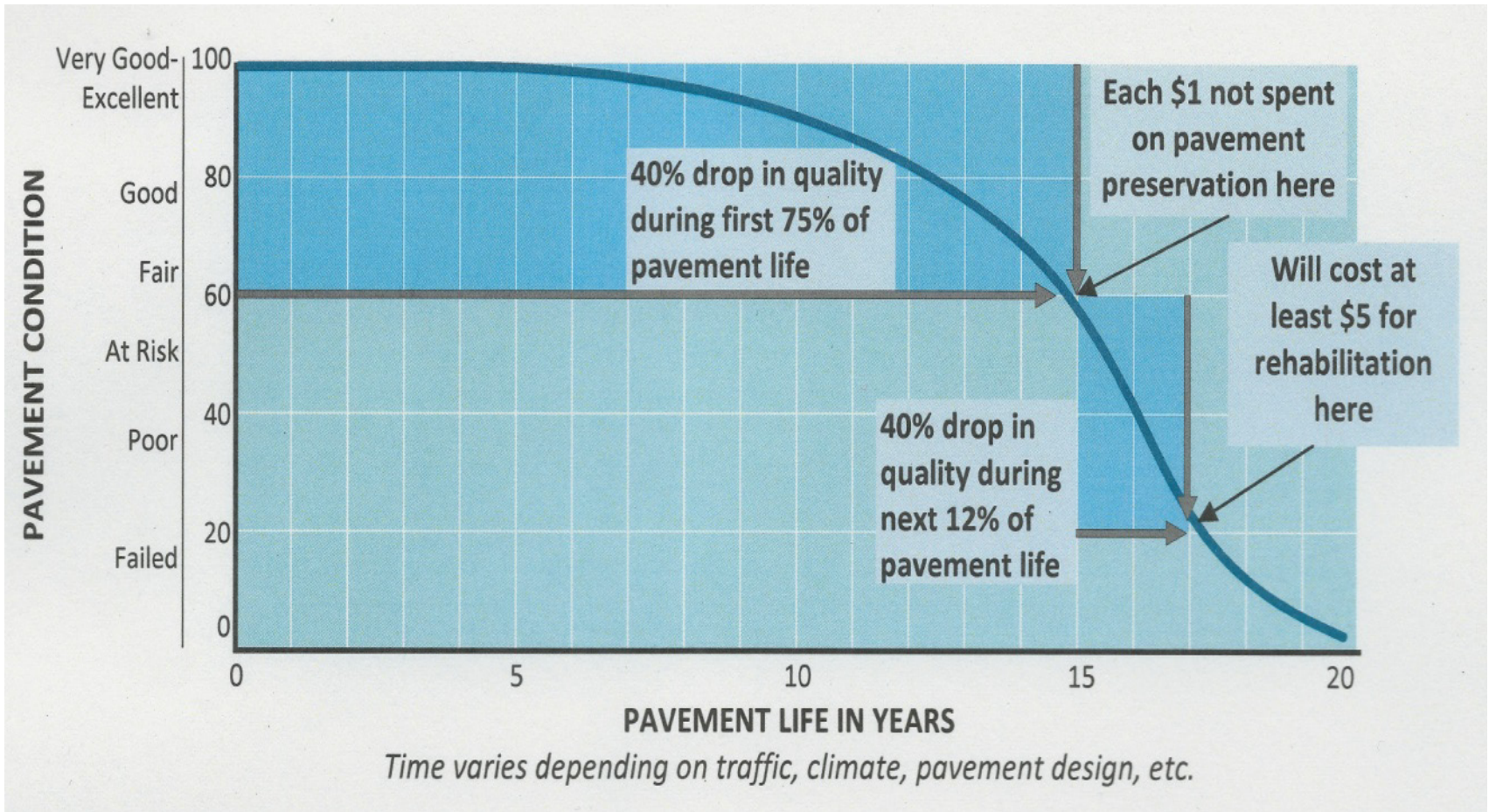
# Failing Streets: Ballot Measure Needed

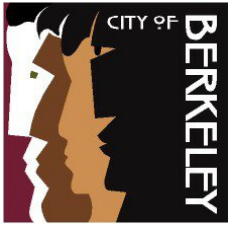
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- *Failing Streets: Time to Change Direction to Achieve Sustainability*
- Communicating persuasively:
  - The title
  - The report
  - The handout
  - The presentation
  - Community and Media outreach

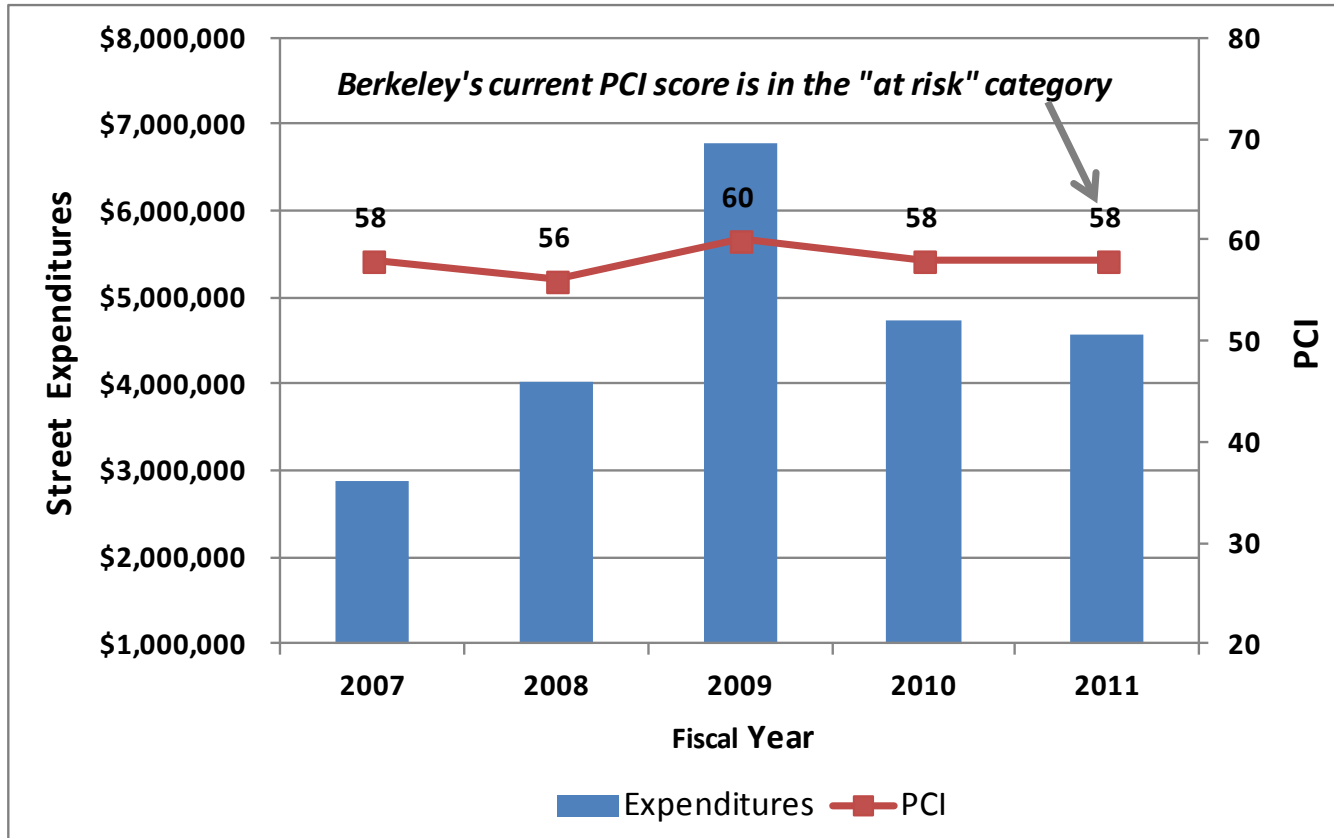


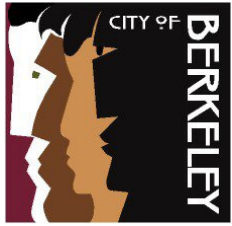
# Failing Streets: Pavement Life Cycle and Costs





# Streets: How We Doin'?

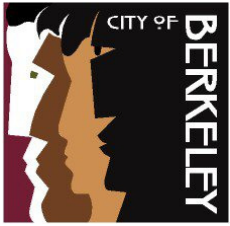




# Failing Streets: Which is More Persuasive?

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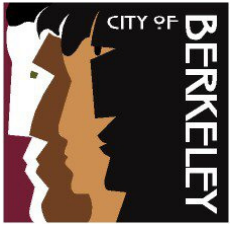
- If we can't afford to fix the streets now, our children and grandchildren are definitely not going to be able to afford to fix the streets
- Fixing a street before it fails costs \$36,000 to \$306,000 a mile and reconstructing it after it fails costs \$1.5 million
- Some hear the numbers; others hear the kids



# Sewer Audit: Which is more Persuasive?

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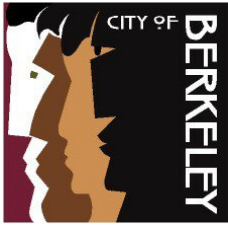
- It'll save the city money, but more importantly, it will save the bay
- In addition, the mismanagement of the sewer system could sully the city's reputation, said the Councilmember. "It doesn't look good since we're supposed to be a green city. We have to take a step back and realize we screwed up and do better. The sewer report was a wake up call.



# What Do They Need to Know About the Streets?

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- Pay me now or pay me later: How much more will it cost if we delay paying for preventive maintenance?
- Why do we need to target the streets just before they fail, instead of fixing an equal number of miles of streets in each Council district?
- How much can we improve the condition of the streets using existing budgeted funds?
- What will the voters think?

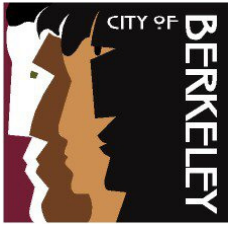


# Conclusion

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- Auditors: the most trusted people in government
- Auditors can take complex information and make it understandable and believable
- Keep your eyes on the prize: persuading a variety of audiences who take in information in a variety of ways
- Audits can result in action by voters and legislators, as well as management
- Ask others in the audit community for help





# Questions?

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**For more information, contact:**

**Ann-Marie Hogan**

**[ahogan@ci.berkeley.ca.us](mailto:ahogan@ci.berkeley.ca.us)**

**510.981.6750**