

# GOVERNANCE, TRANSPARENCY AND LABOR RELATIONS POLICY COMMITTEE HIGHLIGHTS

Friday, June 9, 2017  
Sacramento Convention Center

## **ATTENDANCE**

Members: Lammin, Sara (V. Chair); Abelson, Janet; Aguilar, Stephany; Arbuckle, Jan; Arnerich, Newell; Birsan, Edi; Boyles, Drew; Brower, Mark; Campbell, Cal; Clarke, Jim; Constantine, Richard; Cousino, JoAnne; Cox, Elisa; DeLaney, Lara; Duffey, Harold; Endaya, David; Garcia, Leon; Gomez, Jennifer; Grant, Peter; Johl, Randi; Low, Polly; Luckino, Frank; Murray, Laurie; Nicol, Colleen; Ogorchock, Lori; Paige, Bonnie; Panholzer, Gaudenz; Powell, Pam; Quintana, Ana Maria; Reynosa, Maribel; Ruffing, Linda; Schmidt, Ernie; Scoles, Greg; Sianez, Corey; Simonsen, Arne; Stone, Randall; Swift, Elizabeth; Talamantes, Jess; Walter, Jay

League Partners: Lofranco, Laurie; Narayan, Brenda

Staff: Dane Hutchings, Legislative Representative

## **I. State Budget and Issues Briefing**

The June 2017 Policy Committee meetings began with a general session briefing and an introduction from League Executive Director, Carolyn Coleman.

Dan Carrigg, Deputy Executive Director, Legislative Director provided an update on the known details of the California 2017-18 FY budget. Amongst the most pertinent pieces of the budget for cities is the rollout of \$2.8 billion in transportation dollars from recently improved funding sources. Mr. Carrigg noted that the Governor remains focused on building state reserve funds with additional allocations to the Rainy Day Reserve Fund. While state income tax revenues remain up, state sales tax revenue remains slightly down. The downward trend in overall sales tax revenues reflects the experience of cities and the impact of internet sales and other changes that affect this important city revenue source. Mr. Carrigg also mentioned that state pension liabilities continue to mount and are estimated to increase by \$51 billion over the last year, due to changes in the CalPERS discount rate and other factors.

The budget is on schedule to meet the June 15 legislative deadline for passage as required by the California Constitution. A handful of issues are still pending such as cap and trade reauthorization and potential reforms to the state recycling program (“Bottle Bill”).

Rony Berdugo, Legislative Representative, briefed members on the League’s ongoing efforts to help implement SB 1 (Beall), the landmark transportation deal passed by the Legislature and signed by the Governor. He outlined the historic nature of this transportation deal by highlighting how local governments should see a 100% increase in transportation funding over the next two years.

Mr. Berdugo then discussed SB 649 (Hueso), which would restrict local authority and lease revenue associated with small cell telecommunications installations. SB 649 seeks to eliminate public input, full local environmental and design review, mandating the leasing of publicly owned infrastructure and eliminating the ability for local governments to negotiate leases or any public benefit for the installation of “small cell” equipment on taxpayer funded property. He urged members to continue to send in letters of opposition and to call their Assembly Members to voice their opposition.

Jason Rhine, Legislative Representative, briefed members on the issues surrounding the continuing housing crisis. Specifically, Mr. Rhine discussed SB 540 (Roth) and SB 35 (Wiener). SB 540 is a

League sponsored bill, which seeks to streamline housing construction by improving planning and environmental review processes that protect public engagement and environmental analyses. Next, Mr. Rhine discussed SB 35 (Wiener), which would preempt local discretionary land use authority by making approvals of multifamily developments that meets inadequate criteria, “ministerial” actions. He stated that this measure would rely on often outdated community plans and would compromise critical project level environmental review, public input, and community integrity. Mr. Rhine urged members to support SB 540 and other measures, which provide support and financial assistance to cities and developers to lift California out of the housing crisis.

Dane Hutchings, Legislative Representative, provided a much-anticipated update to members on AB 1250 (Jones-Sawyer), which would institute a de-facto ban on contracting for many local governments through a series of costly and unachievable mandates. At the time of this presentation, the author of the measure had committed to remove cities from its provisions.

Erin Evans-Fudem, Legislative Representative, briefed members on several different environmental quality issues, including stormwater, Cap-and-Trade, and the Bottle Bill. She talked about the League’s continuing discussion over SB 231 (Hertzberg), which would add the word “stormwater” to the definition of “sewer.” The Environmental Quality and Transportation, Communication, and Public Works committee’s will be holding a joint policy meeting to further discuss this issue. Ms. Evans-Fudem also discussed the ever-changing potential plans surrounding both Cap-and-Trade and the Bottle Bill. While there has been no formal deal on either, as of yet, she assured members that the League will be closely monitoring the situation.

Tim Cromartie, Legislative Representative, briefed members on the issues surrounding the implementation of Proposition 64 through the administration’s trailer bill. Mr. Cromartie outlined the 14 different objections the League has with the trailer bill and why each of the objections is detrimental to public safety and local control. He urged members to send in letters of opposition to this trailer bill to put pressure on the administration to listen to the League’s objections. He is cautiously optimistic that the League’s concerns will be addressed in the final trailer bill.

## **II. Welcome and Introductions**

Chair Sara Lamnin (Councilmember; Hayward) welcomed the committee to the third committee meeting of the year and expressed gratitude to each member for their service to the cities of California and the League of California Cities. Each member was invited to introduce himself or herself.

## **III. Public Comment**

No Public Comment

## **IV. Legislative Update**

Dane Hutchings, Legislative Representative, League of California Cities updated the committee on legislation moving through the state legislature:

### **Elections/Open Meetings**

AB 890 (Medina) Local land use initiatives: Environmental review.

Would require environmental review of all proposed local initiatives and restricts proposed initiative ordinances, which may result in direct or indirect environmental impacts, from being placed on the ballot.

**Labor**

AB 1250 (Jones-Sawyer) Counties and cities: Contracts for personal services.

Would establish specific standards for the use of personal services contracts by counties and cities. Would require the county or city to clearly demonstrate that the proposed contract will result in actual overall costs savings to the county or city and also to show that the contract does not cause the displacement of county or city workers.

**Public Records Act/Data**

AB 22 (Bonta) Secretary of State: Storing and recording electronic media.

Provides an alternative means for record preservation by allowing local and state governments to store permanent and nonpermanent records using federally certified, commercial cloud-based storage services

AB 1479 (Bonta) Public records: Custodian of records: civil penalties.

Would require public agencies to designate a person or office to act as the agency's custodian of records who is responsible for responding to any request made pursuant to the California Public Records Act and any inquiry from the public about a decision by the agency to deny a request for records. Establishes monetary penalties for each violation.

SB 17 (Hernandez) Health care: Prescription drug costs.

Would require health care service plans or health insurers to report specified cost information regarding covered prescription drugs, including generic drugs, brand name drugs, and specialty drugs. State agencies would be required to compile the reported information into a report for the public and legislators that demonstrates the overall impact of drug costs on health care premiums and publish the reports on their Internet Web sites by January 1 of each year.

**Workers Compensation**

AB 570 (Gonzalez Fletcher) Workers' Compensation Apportionment.

Would prohibit apportionment, in the case of a physical injury occurring on or after January 1, 2018, from being based on pregnancy, childbirth, or other medical conditions related to pregnancy or childbirth.

**V. Pension Working Group Policy Recommendations**

Dane Hutchings provided the committee with an update on the state of the California Public Employee Retirement System (CalPERS) and the recent actions taken by the League and Pension Stability Working Group to revise existing policies and guidelines that will set the stage for additional and necessary reforms.

Mr. Hutchings noted that the unfunded liability of California's 130 state and local government pension plans stood at \$235 billion as of 2015. If retiree healthcare costs are added, the total rises to approximately \$366 Billion.

The Committee discussed various aspects of CalPERS and issues facing cities. Amongst the topics, most pertinent were the discussions on the formation of the CalPERS Board, Cost of Living Adjustments, affixing greater flexibility at the bargaining table, and seeking a measure of uniformity across local jurisdictions to limit competition.

The Committee discussed the importance of ensuring that changes to provide pension system sustainability should be the result of inclusive stakeholder collaboration at both the local and state level (retirees, employees, employers, CalPERS).

To meet this goal, League staff and the Pension Stability Working Group have done extensive outreach to League Divisions, CalPERS staff and Board of Directors, and subject matter experts. In

order to properly vet any revisions to existing League policies, the Governance, Transparency, and Labor Relations Committee and League Board of Directors are tasked with reviewing and adopting a version of recommendations from the Pension Stability Working Group. A “white paper” is currently under draft which will include best practices for cities. The public release of this document is not yet determined.

Starting in the fall of 2016, in an effort to address concerns about the funded status and sustainability of the pension system, an informal working group consisting of primarily city managers, fiscal officers, and the Chair of the of League’s GTLR began to convene to discuss the situation cities are facing and to develop responses to recent CalPERS action that reduced the discount rate. Many city managers involved in this effort, known as the Pension Stability Working Group (Working Group), contributed to prior versions of League’s City Managers Department’s “White Papers” on pension issues. These “White Papers” helped shape League policy and position the League to play a pivotal role in the development of what became the Public Employee Pension Reform Act (PEPRA), adopted in 2012, working with Governor Jerry Brown’s Administration. The Working Group met most recently on May 22, 2017, to finalize its recommendations for the GTLR committee and the League Board to consider.

After extensive discussion on the Working Group’s recommendations, the GTLR committee made numerous refinements to them. The GTLR’s final recommendations to the Board are included below. The League’s Revenue and Taxation Committee had a similar discussion, but did not make edits or vote on the matter.

### **Proposed Revisions to League Public Sector Pensions Existing Policies and Guidelines**

\*As Proposed by the Pension Stability Working Group.

### **ADOPTED BY GTLR POLICY COMMITTEE JUNE 2017 FOR BOARD CONSIDERATION**

**Note:** Proposed policies and guidelines *will be underlined and italicized.*

#### **Pension Sustainability Principles [New Subheading]**

- Public compensation systems programs should be sustainable, fair to taxpayers and employees, and provide long-term financial stability [*Existing Policy placed in new section*].
- *The League believes that solutions towards realizing pension system sustainability should be the result of inclusive stakeholder collaboration at both the local and state level (retirees, employees, employers, CalPERS ).*
- *The League supports legal or legislative remedies that facilitate options to restore sustainability to CalPERS benefit plans. As appropriate to each city, such actions could include one or more of the following:*
  - *A single benefit level for every employee.*
  - *Converting all currently deemed “Classic” employees to the same provisions (benefits and employee contributions) currently in place for “PEPRA” employees for all future years of service.*
  - *Temporary modifications to retiree Cost of Living Adjustments (COLA) that are automatically added to a retiree’s pension benefit payment regardless of compensation level or CPI.*

- *The League supports expanded flexibility for cities regarding their contract agreements with CalPERS, which could include additional mechanisms for exiting CalPERS and renegotiating UAL amortization terms.*

#### **General Pension Principles**

- ~~*The League supports a State Constitutional Amendment*~~ *The League supports a change in state law or judicial precedent to allow* employers to negotiate plan changes with classic CalPERS members.
- ~~*The League believes that the appropriate target replacement income is 75 percent of a career employee's pre-retirement income.*~~ **REJECTED AND AFFIRMED CURRENT POLICY**
- *This League supports legislative solutions to address increasing costs associated with Industrial Disability Retirement (IDR).*

#### **Committee Recommendation:**

The GTLR Committee took a series of votes corresponding to each policy proposal above. All items were approved by two-thirds of the committee with noted abstentions and “No” votes. Below is commentary that captures the deliberations of the policy committees on this item.

#### **VI. Governor/Treasurer’s State Pension Prefunding Proposal**

Mr. Tim Schaefer, Deputy Treasurer, Office of CA Treasurer John Chiang presented to the Committee on the Governor’s recent budget proposal to make a one-time \$6 billion supplemental payment towards the State’s CalPERS liabilities.

This actions comes as the state’s contributions to CalPERS are on track to nearly double by FY 2023-24. Specifically, the state’s 2017-18 contributions to CalPERS is about \$5.8 billion whereas in 2023-24 the same payment is expected to rise, absent a large prepayment, to \$9.2 billion. While paying down debt and prepaying to get ahead of ballooning costs is viewed as sound practice, the proposal is of great interest to local governments and subject matter experts as larger pension issues loom.

Drawing on his decades of experience in the private and public finance sector, Mr. Schaefer discussed the importance of protecting the state’s cash flow and risks from growing debt. Moreover, Mr. Schaefer noted that the proposed payment will be made from the Surplus Money Investment Fund and will save billions of dollars over the next 20 years. Mr. Schaefer reminded the committee of the importance of looking long term and positioning to endure expected fluctuations in the general economy and capital markets.

**Next Meeting (tent.): Annual Conference, Sacramento, September 13, 9:00 – 11:00 a.m.**

*Staff will notify committee members after July 21<sup>st</sup> if the policy committee will be meeting in September.*