CITY OF COSTA MESA

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FROM THE OFFICE OF THE INTERIM DIRECTOR OF COMMUNICATIONS

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Costa Mesa Fact Check #2: Repair Costa Mesa 'Outsourcing' E-mail

COSTA MESA, CALIF.—In its continued effort to provide more clarity on city budget matters, the City of Costa Mesa's Fact Check offers some context and corrections to Repair Costa Mesa's latest e-mail ("The Truth About Costa Mesa's Outsourcing Plan") published last week.

Repair Costa Mesa Statement: "Before the City sent layoff notices, they did no studies, and they still haven't conducted a study or sent out a request for proposal to outsource services."

Fact Check: Contracts with employee associations require the City Council to give a six-month warning before city jobs are outsourced. The council stated that during this half-year waiting period, the city would send out Requests for Proposals (RFPs) and then have city staff and others analyze the submitted proposals to see which services were viable for outsourcing. The city also stated that it would take about two months to research and write well-crafted RFPs, and they would go out in late April and May. The first decisions on the viability of outsourcing services aren't expected until later in the summer.

Repair Costa Mesa Statement: "Outsourcing won't save money."

Fact Check: Over the years, the City already has saved money by outsourcing some of its services, including the City Attorney and the operation of the city-owned golf courses. Until the City receives and analyzes outsourcing proposals for other services, it's unknown if additional outsourcing will save the city money.

Repair Costa Mesa Statement: “The City’s budget is balanced.”

Fact Check: The city is finishing its 2010-2011 fiscal year (ending June 30, 2011) with a projected $1.6 million shortfall. In the past three fiscal years, the City has used more than $30 million of its reserves to bridge the gap between revenues and expenses. It also has an estimated $130-million unfunded pension liability and a $35.4-million unfunded retirement health benefit liability. CalPERS projections show annual pension costs to the city continuing to increase over the next several years.

For the 2011-2012 fiscal year, City staff is currently working to erase a $5 million gap from preliminary numbers submitted by each department and is also developing a 5-year Capital Reinvestment Plan to fund needed infrastructure repairs, technology improvements and replenishment of reserves. The City CEO will submit a proposed balanced budget along with the Capital Reinvestment Plan to the City Council in late May.

Repair Costa Mesa Statement: “Instead, they plan to spend more than $7 million for upgrades to City Hall, including about $2.2 million for wall and carpet upgrades and $75,000 for a clock.“

Fact Check: The proposed $7 million in upgrades for City Hall in the 2010-2011 budget was part of an *unfunded*, 7-year, $204-million capital improvement program, which included needed road repairs, fire station renovations and park improvements that have been on the city’s to-do list for years. The City Hall renovations have not been started—and there are not plans to do so in the foreseeable future—because the city doesn’t have the funds. Though needed, the City Hall repairs are not a priority right now. The $75,000 for a “centralized clock system” has been eliminated from next year’s capital improvement program.

Repair Costa Mesa Statement: “The City’s pension projections are ‘subjective’ and disingenuous.”

Fact Check: The pension rates for next three fiscal years (two years for the city’s firefighters) were given to the City by CalPERS. For the out years of Years 4 and 5, the City made projections in early February based on the best available data at the time. CalPERS has since provided estimates for those years, and the City is currently working with an independent actuary to update the projections.

Repair Costa Mesa Statement: “The City’s pension projections have not been confirmed by CalPERS actuaries.”

Fact Check: In February, when the city released its 5-year projections for pension costs, the first three (two years only for firefighters) were projected with figures supplied by CalPERS.

The projections for Year 3 (for firefighters), Year 4 and Year 5 were the city’s best estimates at the time. Since then, CalPERS has given the city projected increases for Year 3 (for firefighters), Year 4 and Year 5. CalPERS’ estimated rate increases for Year 3 (for firefighters) was higher than the City’s projections. CalPERS’ Year 4 and Year 5 estimated rate increases were lower than the City’s projections, but still represent increases in costs to the city. The city

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has hired a well-respected, independent actuary to formulate expected pension costs and those figures are expected to be ready in May.

Repair Costa Mesa Statement: "[In the pension cost projections, city officials] incorrectly assume employees will stop making pension contributions in the future."

Fact Check: Agreements with employee associations did not make permanent their most recent concessions that had employees contribute more to their own portion of their CalPERS pension plan (prior to this, for example, the city paid the 9% "employee contribution" to the pensions of police officers and firefighters). In its projections, the City's assumption was based on the current contracts, in which the concessions are temporary.

For the 2011-2012 fiscal year, the City, firefighters and firefighter management will pay a total of 46.404 cents to CalPERS per eligible dollar the employees earn (the City will pay for 85.15% of the cost; the firefighters and management will pay the remaining 14.85%). Under existing contracts, the City alone will be obligated to pay for increases in the pension rates, which CalPERS projects will rise in the next several years.

In their contracts, the firefighters and their management agreed to pay 14.85% of their pension costs until November 2011 and April 2015 respectively, when their contributions to their pensions are scheduled to revert to zero unless an agreement can be reached to continue contributions.

For the 2011-2012 fiscal year, the City and its police officers will pay a total of 43.063 cents to CalPERS per eligible dollar the employees earn (the City will pay for 90.7% of the cost; the police officers will pay the remaining 9.3%). Under existing contracts, the City alone will be obligated to pay for increases in the pension rates, which CalPERS projects will rise in the next several years.

In their contracts, the police officers agreed to pay 9.3% of their pension costs until April 2015, when their contributions to their pensions are scheduled to revert to zero unless an agreement can be reached to continue contributions.

For the 2011-2012 fiscal year, the City and its general employees will pay a total of 27.052 cents to CalPERS per eligible dollar the employees earn (the City will pay for 68.5% of the cost; the general employees will pay the remaining 31.5%). Under existing contracts, the City alone will be obligated to pay for increases in the pension rates, which CalPERS projects will rise in the next several years.

In their contracts, the general employees agreed to pay 31.5% of their pension costs until April 2013, when their contributions to their pensions are scheduled to be reduced unless an agreement can be reached to continue contributions.

For more information, the PowerPoint presentation by CalPERS to City Council on April 26 can be viewed here. Videotaped remarks by CalPERS senior actuary Rick Santos and city consultant and CalPERS expert John Bartel from the same meeting can be seen here.