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Public Pensions and the Initiative Process: Winds of Change?

Abstract: The most recent recession has put considerable stress on state and local government budgets and has pushed public pension reforms to the spotlight. Through the lens of the initiative process, this paper intends to examine the impact of the Great Recession on public pensions in California local governments. Based on a review of the literature and a study of local government budgets, Comprehensive Annual Financial Reports and other reports, this paper reviews 13 pension reform measures passed by voters in California cities and counties in an attempt to answer the question: What has caused the pension measures to be put on the ballot? The paper finds that the recent economic downturn, market crash, poor public decision-making, negative coverage, and inability of the State to solve pension problems all contributed to the rise of local ballot measures on public pensions, and through the initiative process, the voters decided to take public pension reforms in their hands. Essentially, ballot-box pension reforms reveal the public's distrust of government. The victories of local pension measures in California have attracted national attention, and may inspire other cities and counties in California and other states to attempt similar actions.

Keywords: public pension reform; the initiative process.

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1 Introduction

The most recent recession that officially began in December 2007 and ended in June 2009 is the longest and deepest economic downturn since the Great Depression and has put considerable stress on state and local government budgets. To weather the economic and budgetary crisis, states and localities across the US have examined all possible alternatives to cut current costs and control future expenses, one of which has focused on public pensions. Pensions in the public sector have taken center stage and have spurred heated debate recently partly

due to the costs of maintaining public pension plans in difficult financial times. Funding employee retirement benefits has been one of the biggest fiscal burden for many state and local governments, and public pensions have been compared to “a ticking time bomb of debt that is threatening to bankrupt a number of states by the end of the decade” (Sullivan 2010). Research shows that half of the states in 2000 had enough money to cover future pension costs and by 2008, that number had shrunk to four, and there was a \$1 trillion gap at the end of fiscal 2008 between the \$2.35 trillion assets and the \$3.35 trillion employees’ retirement benefits (The Pew Center on the States 2010).

In California, California Public Employees’ Retirement System (CalPERS), the largest public pension system in the US, lost \$56.9 billion in (or about a quarter of) its portfolio value between June 2008 and June 2009, and was faced with billions of unfunded liabilities (Bornstein et al. 2010). Local governments are in a similar dire situation. A *Sacramento Bee* review of pension plan valuation reports indicates that public pension plans at the 80 largest city and county governments in California had \$28 billion unfunded liabilities in 2010 and of the 80 cities and counties, about one-third (including Merced, Orange and Fresno counties) had unfunded liabilities that equal or exceed the size of their annual payroll (Reese and Brana 2010).

The Great Recession also has witnessed the rise of local ballot measures on public pensions in California. There have been, in recent elections, an unprecedented number of measures concerning public pensions. Some measures have changed the rules governing binding arbitration to resolve labor disputes. For instance, voters passed Measure V on November 2, 2010 in the City of San Jose, Measure B in the City of San Luis Obispo on August 30, 2011, and Measure D in the City of Palo Alto on November 8, 2011, to repeal certain articles of the City Charter that mandate binding arbitration when contract negotiations between the city and city employees come to an impasse. Another type of ballot measures passed in a number of cities are advisory measures. Voters in Modesto, CA, for instance, strongly approved three non-binding advisory notes on November 8, 2011 calling for a defined contribution plan, increasing retirement age, and avoiding pension spiking for city employees. The advisory notes, “while not creating new city law, increased pressure on city leaders to enter into serious reform discussions” and reassured other local governments to reform pensions to control skyrocketing pension costs (Dearen 2011). Other measures have reduced or restricted public employee retirement benefits – Table 1 shows a list of 13 measures approved by California voters, including 8 measures passed in 2010, 3 in 2011, and 2 in 2012.

Focusing on the last type of pension reform measures passed in California local governments (as shown in Table 1), this paper, through the lens of

Table 1 Pension Reform Measures in California Local Governments.

Date	Measure	Question on the Ballot	Yes%
6/8/2010	San Francisco Prop. D	“Shall the City: calculate retirement benefits for new City employees using average monthly compensation over 2 years instead of over 1 year; increase the retirement benefit employee contribution for new safety employees and new employees in positions covered by the State retirement system; and require that savings from reduced employer contributions to the City’s retirement system be deposited in the Retiree Health Care Trust Fund?”	77.97%
11/2/2010	City of Bakersfield (Kern County) Measure D	“Shall the City of Bakersfield adopt the following law: Effective January 1, 2011, new City of Bakersfield sworn public safety employees will pay 100% of their employee pension contribution and be eligible for a maximum retirement allowance with the Board of Administration of the Public Employees’ Retirement System (PERS) at a 2% at age 50 formula based on their average salary calculated over 36 highest paid consecutive months?”	55.53%
11/2/2010	City of Carlsbad (San Diego County) Prop. G	“Shall the Charter of Carlsbad, California be amended to add Section 502 Retention of Benefits limiting increases in safety retirement benefits without an amendment to this section?”	64.28%
11/2/2010	City of Menlo Park (San Mateo County) Measure L	“Shall the ordinance entitled ‘Measure to limit retirement benefits for new City of Menlo Park employees (Except Sworn Police Officers) and to restrict City Council from increasing benefits in the future without voter approval,’ be adopted?”	71.33%
11/2/2010	City of Pacific Grove (Monterey County) Measure R	“Shall the Pacific Grove City Charter be amended to conform to the ‘Voter Initiative Limiting the Ability of the City of Pacific Grove to Approve or Modify Agreements That Provide Retirement Benefits to City Employees,’ provide City officers/employees do not hold rights to future employment or future employment benefits, and amend the Pacific Grove Municipal Code to clarify that voter-approved limits relating to long-term City debt or financial liabilities apply only to retirement plans or agreements?”	73.89%
11/2/2010	Riverside County Measure L	“Shall the proposed Ordinance, requiring voter approval for increases or decreases in public safety employee retirement or pre-retirement death benefits and requiring that the County of Riverside continue the current CALPERS (California Public Employee Retirement System) retirement formula, be adopted?”	52.72%

(Table 1 Continued)

Date	Measure	Question on the Ballot	Yes%
11/2/2010	Riverside County Measure M	“Shall Ordinance No. 899, requiring voter approval for increases in public safety employee retirement benefits or decreases in job related pre-retirement death benefits, and allowing decreases in retirement benefits, be adopted?”	60.84%
11/2/2010	City of San Jose (Santa Clara County) Measure W	“To provide fiscal stability, control costs and maintain City Services to residents, shall the Charter be amended to allow the Council, by ordinance and subject to the requirements of applicable law, to exclude any officer or employee hired on or after the ordinance’s effective date from any retirement plan or benefit of any plan then in existence and to require that any new or different plan shall be actuarially sound?”	72.14%
3/8/2011	City of Los Angeles (Los Angeles County) Measure G	“Shall the Charter be amended: (1) to provide sworn Fire, Police, and Harbor Department employees, who are hired on or after July 1, 2011, with the pension benefits provided in the Fire and Police Pension Plan-Tier 6; and (2) to modify provisions of the Fire and Police Pension Plan in order to facilitate compliance with state and federal laws, to authorize the Council to establish an Excess Benefit Plan, to allow flexibility in establishing amortization policies, and to make technical changes?”	74.54%
8/30/2011	City of San Luis Obispo (San Luis Obispo County) Measure A	“Shall Section 1105 (Retirement) of the San Luis Obispo Charter, which authorizes the City Council to enter into a contract with the Board of Administration of the Public Employees’ Retirement System (PERS), be amended to provide that the City Council may terminate or amend its contract or negotiate another contract to provide improved or reduced employee benefits only in accordance with state law and as permitted by the Board of Administration of PERS?”	73.95%
11/8/2011	San Francisco Proposition C	“Shall the City amend its Charter to adjust pension contribution rates for most current and future City employees based on the City’s costs; reduce pension benefits for future City employees; limit cost-of-living adjustments to pension benefits; decrease City contributions to retiree health care costs for certain former employees; require all current and future employees to contribute toward their retiree health care costs; change the composition and voting requirements of the Health Service Board; and make other changes to the City’s retirement and health benefits systems?”	68.91%

(Table 1 Continued)

Date	Measure	Question on the Ballot	Yes%
6/5/2012	City of San Diego (San Diego County) Prop. B	“Should the Charter be amended to: direct City negotiators to seek limits on a City employee’s compensation used to calculate pension benefits; eliminate defined benefit pensions for all new City Officials and employees, except police officers, substituting a defined contribution 401 (k)-type plan; require substantially equal pension contributions from the City and employees; and eliminate, if permissible, a vote of employees or retirees to change their benefits?”	65.81%
6/5/2012	City of San Jose (Santa Clara County) Measure B	“Shall the Charter be amended to modify retirement benefits of City employees and retirees by: increasing employees’ contributions, establishing a voluntary reduced pension plan for current employees, establish pension cost and benefit limitations for new employees, modify disability retirement procedures, temporarily suspend retiree COLAs during emergencies, require voter approval for increases in future pension benefits?”	69.02%

Source: Compiled from Ballotpedia.

the initiative process, intends to examine the impact of the Great Recession on public pensions in California. Based on a review of the literature and a study of local government budgets, Comprehensive Annual Financial Reports and other reports, this paper attempts to answer the question: What has caused the pension reform measures to be put on the ballot?

The paper is structured as followed. The next section provides an overview of public pension plans in California and the 13 pension reform measures in California local governments. The paper continues with a discussion of the underlying causes for the use of the initiative process on public pensions, and concludes with a summary of the research and ramifications for future pension reforms in California and other states.

2 Pension Reform Measures in California Local Governments

Defined benefit (DB) and defined contribution (DC) are two major types of retirement plans. DB plans guarantee employees a certain level of pension benefits

based on their years of service credit, base pay, and a multiplier which typically is a percentage.¹ There is no such guarantee, however, in DC plans where employers contribute to employees' retirement funds and employees are responsible for the investment and pension benefits when they retire. While DC plans [e.g., 401(k) plans] dominate the private sector, DB plans remain the norm in the public sector – 92% of state and local workers were covered by a DB plan in 2005 compared to 33% in the private sector (Munnell et al. 2007). Though the vast majority of public employees stay in DB plans, some states (such as Alaska and Washington) have introduced some form of DC and/or hybrid plans that combine characteristics of DB and DC plans, due to increased calls for public pension reforms.

California local governments offer their employees a variety of pension plans including both DB and DC plans. The majority of them, however, are contracted with CalPERS offering DB plans (Sun, accepted for publication; The League of California Cities, March 2011). As shown in Table 1, of the ten local governments that passed pension reform measures, six localities (cities of Bakersfield, Carlsbad, Menlo Park, Pacific Grove, and San Luis Obispo, and Riverside County) use CalPERS, and four localities (San Francisco and cities of Los Angeles, San Diego, and San Jose) have their own locally administered DB plans. In this section, an overview of each local government's retirement plans is presented, followed by a discussion of their pension reform measures.

2.1 DB Plans under CalPERS

CalPERS is an agent multi-employer public employee DB plan that provides retirement and other benefits to 1.6 million plan members and beneficiaries as of June 30, 2011. As the nation's largest public pension fund, CalPERS acts as the investment and administrative agent for over 3000 public agencies and school districts within the State of California (CalPERS 2012). While state employees are automatically covered, local governments may contract with CalPERS which offers a variety of optional benefit provisions. Contributions by local governments and/or their employees, benefit provisions, and other requirements are established by State statutes, the CalPERS Board of Administration, or local ordinance. The following cities and counties participate in CalPERS retirement plans.

¹ A benefit formula of 3% at 50 in a DB plan, for instance, means a vested public employee, upon retirement at the age of 50, is entitled to receive a pension amount by multiplying 3% by his/her total years of services and base pay.

2.1.1 City of Bakersfield: Measure D (November 2, 2010)

The City of Bakersfield contracts with CalPERS to administer its three pension plans: one for police, one for fire, and one for miscellaneous employees.² Currently the three pension plans have approximately 1400 active members. Under CalPERS, City employees must provide five years of service to be vested for pension benefits. City employees are not covered by Social Security. Before Measure D was passed, the benefit formulas were 3% at 50 for police and fire personnel, and 3% at 60 or 3% at 55 for miscellaneous employees depending on when they are hired, and employee pension benefits are based on their final year's salary (City of Bakersfield Department of Finance 2011).

The City's pensions are funded through employee contribution, employer contribution, and earnings on the investment. Before Measure D was passed, City employees paid 8% (for miscellaneous employees) or 9% (for public safety employees) of their salary into CalPERS for five years and after five years, the City took over those payments. Employer/city contribution rates are established by CalPERS and for the year ended June 30, 2011, the City contributed approximately \$17.9 million (City of Bakersfield Department of Finance 2011).

Before the market crash in 2008, the police, fire, and miscellaneous pension plans were 77.7%, 90.9%, and 89.8% funded, respectively, according to the June 30, 2007 actuarial valuation. The last available funding levels were 76.3%, 88.4%, and 84.5% for the police, fire, and general employees' retirement plans, respectively, based on the most recently completed actuarial valuation on June 30, 2010 (City of Bakersfield Department of Finance 2011). The CalPERS annual actuarial reports indicate that the City's unfunded pension liability grew by more than 40% from \$103.2 million to \$145.2 million in 2010, and the City's annual contributions to the retirement plans are expected to escalate in the next three years (Wenner 2010).

To help trim pension costs, Measure D was proposed by City Council member Zack Schrivner and was voted by the City Council 5-2 in June 2010 to be sent to the November ballot. On November 2, 2010, Measure D was approved by 55.53% of the voters. Effective January 1, 2011, new City of Bakersfield sworn police officers or fire fighters pay 100% of their employee contribution for the term of their employment and are eligible for a maximum retirement allowance at a 2% at age 50 formula based on their average salary calculated over 36 highest paid consecutive months (Bakersfield City Clerk's Office 2010).

² The City of Bakersfield also has the Fireman's Relief and Pension Fund (FRPF), which is a DB pension plan administered by the City for firefighters who retired prior to June 26, 1972. As of June 30, 2011, the most recent actuarial valuation date, there were six participants, retired and 100% vested (City of Bakersfield Department of Finance 2011).

While the City estimates Measure D will save \$1.5 million in the first five years, savings “from the measure won’t make much of a dent for years... until new workers hired under the plan make up a bigger share of the employee pool” (Wenner 2010). In addition, the CalPERS Board adopted a new smoothing method in 2005 to handle the 2008–2009 investment losses, resulting in large rate increases for the City over the next three years with an estimated increase of \$8 million per year for the next 30 years. In response, the City has proposed to set aside \$4.5 million one-time money to cover those increases (Bakersfield City Manager’s Office 2011).

2.1.2 City of Carlsbad: Proposition G (November 2, 2010)

Public employees in the City of Carlsbad have their retirement benefits covered by contract with CalPERS. Miscellaneous employees are required to contribute 8% of their annual salaries to their pensions with 7% of the required 8% contributions made by the City. Safety employees are required to contribute 9% with 8% funded by the City. Fire employees began in June 2010 paying the entire 9% employee contribution, and police employees began in July 2010 paying an additional 4%. For fiscal year ended June 30, 2011, the City contributed approximately \$12.1 million to CalPERS and the funded status of the retirement plans for safety and miscellaneous employees were 80.8% and 79.8%, respectively (City of Carlsbad Finance Department 2011).

The City’s pension expenses have soared from \$2.5 million to \$15.2 million over the last decade due to enhanced benefits to public safety employees, stock market losses, and other factors (Henry 2010). To help control pension costs, the City had adopted a number of strategies before Prop. G was approved in November 2010. In addition to increased employee contributions from police and firefighters, the City Council amended the contract with CalPERS, which, effective October 4, 2010, provides a lower, second-tier level of benefits for new hires. New public safety employees, hired on or after October 4, 2010, would qualify for “2% at 50” or “2.7% at 55” and have their pensions calculated using the average of highest three-year salary, rather than the “3% at 50” of the single highest year of salary. This change was estimated to save the City \$2.1 million over the next 10 years, according to the City Attorney’s impartial analysis.

Moving further, the City Council resolved to place Prop. G on the ballot in July 2010, and it was passed in November 2010 by 64.28% of the voters. Prop. G is an amendment to the City Charter that future increases to public safety employee pension benefits would be subject to voter approval, while the City Council could reduce the benefits without a vote of the electorate. “Essentially Prop. G would

help lock in recent changes to the city's pension system for public safety workers" (Henry 2010).

2.1.3 City of Menlo Park: Measure L (November 2, 2010)

The City of Menlo Park contributes to CalPERS for their employees' retirement benefits. Miscellaneous employees are required to contribute 8% and safety employees 9%, of their annual salary. The City is required to contribute at an actuarially determined rate. For the fiscal year ended June 30, 2011, the City's annual pension cost was approximately \$3.9 million (City of Menlo Park Finance Department 2011). The funded status of miscellaneous employees' retirement plan was 87% based on the 2009 actuarial valuation, down from 90.6% in 2008 (City of Menlo Park Finance Department 2010, 2011). The funded status of safety employee pension plan is not available.

Like other cities in the State, when the Great Recession hit, the City of Menlo Park worked to rectify pension plans for public employees since employee benefit package has become increasingly unaffordable due to retroactive pension increases, longer life-spans, and others. In 2007, the City Council passed a 35% pension increase retroactive to a worker's first day on the job, which was given in return for the unions giving up a 5% pay raise (Editorial 2011, September 28). Prior to the passage of Measure L, a general employee can receive 2.7% of his or her salary for each year of service up to 30 years at age 55 with a cap of 81%.

To reduce pension obligations, the City Council voted unanimously in May 2010 to adopt a two-tier pension system. Then in 2010, Measure L was put on the ballot and was passed by 71.33% of the voters in November 2010. Measure L sets the retirement age for city employees (except sworn police officers) hired after the Measure takes effect at age 60, and allows them to earn up to 60% of their salary at 60, or 2% at 60 for 30 years of service. Measure L also restricts the authority of the City Council from increasing pension benefits for non-police officers in the future without voter approval. The City Attorney's impartial analysis of Measure L (2010) indicates long-term cost savings upon the passage of Measure L.

2.1.4 City of Pacific Grove: Measure R (November 2, 2010)

The City of Pacific Grove employees participate in the Safety (police and fire) and Miscellaneous (all other) plans offered by CalPERS. Safety employees are required to contribute 9%, and miscellaneous 7%, of their salary to their retirement plans, and the City's actuarially required contribution for FY 2011 was

\$915,009. As of the June 30, 2010 valuation date, the funded ratio for the Miscellaneous and Safety plans are 89.0% and 83.3%, respectively (City of Pacific Grove Finance Department 2011).

Like other cities that grapple with their budgets, the City of Pacific Grove was faced with rising pension costs. To cover benefit increases in 2002 and investment losses in 2005, the City issued a \$19 million pension obligation bond in 2006, which costs the City \$1.3 million to \$1.6 million a year for 30 years (Mendel 2010). Despite the bond, the City's unfunded pension liability has grown after the Great Recession to approximately \$362 million of the Miscellaneous plan (or 48.5% of their payroll) and \$1.69 billion for the Safety plan (or 177.3% of payroll) as of June 30, 2010 valuation date (City of Pacific Grove Finance Department 2011).

As an attempt to shift the burden of spiking pension costs from the City to its employees and lower the City's CalPERS payments, the City Council voted in July 2010 to enact the "Sustainable Retirement Benefit Reform Initiative" before placing it before voters in November 2010. The Initiative, enacted as an ordinance, caps the City's contribution at 10% of employees' salaries and employees will pay the rest as determined by CalPERS. To clarify the intent of the ordinance and change the city charter to make implementation easier (Urevich 2010), Measure R was put on the November 2, 2010 ballot and was passed by 73.89% of the voters.

2.1.5 Riverside County: Measures L and M (November 2, 2010)

The County of Riverside contracts with the CalPERS to provide retirement benefits to its employees. For FY2010–2011, County safety employees were required to contribute 9%, and miscellaneous employees 8%, of their annual salary, and County contribution rates for safety and miscellaneous employees were 19.311% and 12.118%, respectively, for a total of approximately \$151 million. As of June 30, 2011, the funded status for County safety and miscellaneous plans were 89.79% and 89.16%, respectively (County of Riverside Office of County Auditor-Controller 2011).

Faced with \$800 million unfunded pension liabilities and projected annual pension costs of \$306 million by FY2019–2020 if the system remains unchanged, the County has been exploring various ways to reduce pension obligations. Options discussed were to develop a second-tier pension plan with lower benefits for new hires, and to have a DC plan for public safety employees (Gang 2010), which served as an impetus for the Measure L effort.

Two competing measures were on the November 2, 2010 ballot for Riverside County voters which propose changes to County safety employees' retirement plans. Measure L was backed by the Riverside Sheriffs Association, a union of

the County sheriffs that prevents the Riverside County Board of Supervisors from changing public safety employees' pension without a public vote. In opposition to Measure L, Measure M was supported by a majority of County Board of Supervisors that would require a public vote to increase pension benefits for public safety employees. Supporters of both measures spent thousands of dollars on the campaign and allegations flew as both sides accused one another of misleading voters (Gang 2010). While both measures were approved by the voters with a majority vote, Measure M received a higher number of affirmative votes (60.84% for Measure M vs. 52.72% for Measure L) and as a result, Measure M would take effect rather than Measure L (Passing of Measures L and M 2010).

2.1.6 City of San Luis Obispo: Measure A (August 30, 2011)

The City of San Luis Obispo contributes to CalPERS. Miscellaneous city employees can retire at 55 and receive an annual retirement benefit in an amount equal to 2.7% of their highest annual salary for each year of service, while public safety employees can retire at 50 and receive 3%, with their retirement benefit capped at 90% of their final compensation. Public safety employees are required to contribute 9% of their salary and miscellaneous employees 8%, to their pensions. The City, however, picks up the contributions required of most miscellaneous employees. For the year ended June 30, 2011, the City's pension contributions were approximately \$3.5 million for miscellaneous employees and \$3.9 million for public safety employees. As of June 30, 2010, the most recent actuarial valuation date, the funded status for miscellaneous and safety employee plans are 70.2% and 83.3%, respectively (City of San Luis Obispo, CA Department of Finance & Information Technology 2011).

The path to the pension reform ballot measure started months before the special election in August 2011 with growing tension between the City's public safety employee unions and the majority of city leaders. According to most city leaders, the current pension system was expensive and unsustainable. The City spent approximately \$7.4 million on pensions in FY2010–2011, and that number was projected to increase to approximately \$10.5 million in five years, or 20% of the City's General Fund. At the same time, the City was estimated to face a \$4.4 million budget shortfall in its \$54 million General Fund for FY2011–2012, and the shortfall was expected to grow bigger over time (Cornejo 2011, May 18). The City Council voted in May 2011 to refer the measure to the ballot and in August's special mail-only election, it was approved by 73.95% of the voters.

Measure A ending amends the San Luis Obispo City Charter so the City Council would no longer be required to seek voter approval to terminate or

negotiate reduced employee retirement benefits (Cornejo 2011, August 31). It sets the tone for salary and benefit negotiations with the City's employee groups in 2011, allowing the City to cut employee compensation to balance its budget (Cornejo 2011, August 31).

2.2 Local DB Plans

The cities of Los Angeles, San Diego, and San Jose, and City and County of San Francisco provide independent, locally administered DB pension plans to their employees. This section reviews their local DB plans and pension reform measures.

2.2.1 City of Los Angeles: Measure G (March 8, 2011)

The City of Los Angeles has three pension plans, Los Angeles City Employees' Retirement System (LACERS), Los Angeles Fire and Police Pensions (LAFPP), and Water and Power Employee's Retirement Plan (WPWRP), and each retirement system administers its plan. For example, LACERS administers the LACERS retirement plan. LACERS is the largest of the three plans with 26,245 current active members and 17,264 retirees and beneficiaries as of June 30, 2010 (Los Angeles City Employees' Retirement System 2010). LAFPP has 13,654 current active members and 12,348 beneficiaries as of June 30, 2010 (Los Angeles Fire and Police Pensions 2010), and WPERP has 9295 current active members and 8468 beneficiaries as of July 1, 2010 (The Segal Company 2010). All three pension plans are DB plans, and City employees are not covered by Social Security. This paper focuses on LACERS and LAFPP since they cover the majority of City employees.

Under LACERS, the City's civilian employees must work five years to be eligible for pension benefits using a 2.16% factor based on their highest 12 consecutive months salary (<http://www.lacers.org/>). The LACERS retirement plan is funded through employee contribution, employer contribution and investment income. For the year ended June 30, 2010, employees contributed about \$126.96 million (or 9% of their salary); the City contributed a total of \$266.24 million; and investment brought in \$911.08 million. Based on the June 30, 2010 actuarial valuation, the funding ratio of the LACERS retirement plan decreased to 75.9% from 81.7% in FY2006–2007, with the unfunded actuarial accrued liability (UAAL) growing to \$1.30 billion from \$1.92 billion in FY2006–2007 (Los Angeles City Employees' Retirement System 2010).

LAFPP administers DB pension plans for all sworn members of the Police, Fire, and Harbor Departments of the City of Los Angeles (<http://www.lafpp.com/LAFPP/>). Before Measure G was passed, LAFPP included five tiers depending on the time members were hired, and benefits are based on the members' pension tier, salary base and years of service. Tier V was established for sworn members hired on or after January 1, 2002 and had 12,138 members (out of a total of 13,654 LAFPP members) as of June 30, 2010 (Los Angeles Fire and Police Pensions 2010). Tier V has a benefit formula ranging from 2.5% (minimum age 50 with 20 years of service) to 2.72% (minimum age 50 with 33 years of service). The LACERS retirement plans are funded through employee contribution, employer contribution and investment earnings. For the year ended June 30, 2010, employees contributed about \$114.32 million; the City contributed \$250.51 million; and investment earned approximately \$1.44 billion. Based on the June 30, 2010 actuarial valuation, the funding ratio of the LAFPP retirement plans was 91.6% with the UAAL of \$1.3 billion; those corresponding numbers as of June 30, 2007 were 99.2% and \$108.42 million, respectively.

Pension payments have consumed a growing share of the City's budgets. In FY 2010–2011, 20% of the City's General Fund went to employees' pension benefits. "Intended to undo an excessively generous pension deal for public safety workers approved in 2001," Measure G, supported by L.A. Mayor Antonio Villaraigosa, City council President Eric Garcetti, LA Times and others, was passed on March 8, 2011, by 74.54% of the voters. Effective July 1, 2011, a new tier, Tier VI is created and newly hired police officers and firefighters would become members of Tier VI. Tier VI would lower the minimum pension to 40% from 50% at age 50 with 20 years of service, require employees to contribute 9% of their salary plus an additional 2% of salary to retiree health benefits; and base pension allowance on the highest two-year salary average instead of the highest one-year average salary. Measure G also provides other modifications to the City Charter including the authorization of the City Council to establish an Excess Benefit Plan (The League of Women Voters for California Education Fund 2011, March 8).

The enactment of Measure G will allow the City to reduce pension costs by lowering retirement benefits to public safety employees hired on or after July 1, 2011, and is estimated to save the City approximately \$152 million over the next 10 years, based on studies conducted by the independent actuary for LAFPP (The League of Women Voters for California Education Fund 2011, March 8). While critics say Measure G is too modest and does not go far enough to reduce public employee pension benefits and control the City's soaring pension obligations (McDonnell 2010), it is a first step in that direction and "might help convince

other public-employee unions to come to the table” (Editorial, “Times endorsements,” March 6, 2011).

2.2.2 City of San Diego: Prop. B (June 5, 2012)

The City of San Diego participates in the San Diego City Employees’ Retirement System (SDCERS), which is authorized by the City Charter and administers “independent, qualified, single employer governmental defined benefit plans and trusts for the City, the Port and the Airport” (City of San Diego Office of the City Comptroller 2012: p. 133). This paper focuses only on the City’s participation in SDCERS for its elected officials, safety and general employees, which had 18,588 members as of June 30, 2011 (City of San Diego Office of the City Comptroller 2012). According to the City Charter, amendments to benefit provisions will require City Council approval, and amendments to retirement benefits require a majority vote by the SDCERS members and the public.

The City Charter requires employers and employees to contribute to the Plan. Employee contribution rates vary depending on their start date. For FY 2011, City employees contributed, on average, 9.89% for general members and 15.79% for safety employees, of their annual salary. Historically the City has paid a portion of the employee contributions. For instance, in FY2009, all “eligible employees received some level of contribution offset” (City of San Diego Office of the City Comptroller 2012: p. 136), ranging from 1.4% for White-Collar Workers to 5.89% for elected officials (City of San Diego Office of the City Comptroller 2012: p. 135). The City employer contributions had been less than the full actuarial rates from FY1996–2005. For the fiscal year ended June 30, 2011, the City contributed 99.56% of its annual pension costs with a net pension obligation of approximately \$141 million (City of San Diego Office of the City Comptroller 2012: p. 139), and the Plan’s funded ratio was 68.51% (City of San Diego Office of the City Comptroller 2012: p. 138) due to insufficient employer contribution, pension benefit increases, less-than-expected market returns, and other factors.

San Diego’s pension problems are widely exposed. Dubbed “Enron by the Sea” (Broder, September 7, 2004), the City raised pension benefits, dropped its contributions below the actuarially required amounts, and took investment risks, all of which increased pension costs that could possibly bankrupt the City (Lowenstein 2008). The actuarial audit shows that the City’s contribution to pensions will increase over the next three years to nearly 47% of its payroll (Cheiron 2012). In 2011, San Diego had a \$2.1 billion pension shortfall (Gustafson 2011, April 5), and the underfunding of the City’s pension plan has resulted in numerous lawsuits.

To address pension issues, many groups in San Diego have pushed for pension reforms. For instance, The San Diego Pension Reform Committee was created by the Mayor and approved by the City Council to “address concerns about the current unfunded liability of the San Diego City Employees Retirement System (CERS)” (<http://www.sandiego.gov/pensionreform/>). The City also implemented a new lower retirement tier for miscellaneous and police employees hired after July 25, 2009 (San Diego City Employees’ Retirement System 2011). Later, the Comprehensive Pension Reform (CPR) for San Diego gathered enough signatures and put Prop. B, San Diego Pension Reform Initiative, on the June 2012 ballot. Prop. B was passed by 65.81% of the voters, which will switch new city employees (except police officers) to a 401(k) plan, require equal pension contributions from the City and employees, eliminate the majority vote of city employees to change their benefits, among other pension cost cutting provisions. Prop. B is projected to save the City \$8.3 million in the first year, \$141 million over the first five years, and \$1.6 billion through 2040 (Gustafson 2011, March 24).

2.2.3 San Francisco: Proposition D (June 8, 2010) and Proposition C (November 8, 2011)

San Francisco, officially the City and County of San Francisco, is the only consolidated City-County in California that maintains two retirement plans. The first retirement plan, a DB plan administered by the City and County of San Francisco Employees’ Retirement System (SFERS), “covers substantially all of its employees, and certain classified and certified employees of the San Francisco Community College District and Unified School District, and San Francisco Trial Court employees other than judges,” and the second one, administered by CalPERS, covers “certain employees in public safety functions, the Port, the Airport, the San Francisco County Transportation Authority and the Redevelopment Agency” (City & County of San Francisco Office of the Controller 2011: p. 112). This paper focuses on SFERS pension plan that provides pensions to the City’s vast majority of miscellaneous and safety employees. As of June 30, 2010, SFERS has 28,222 active members and 23,500 retirees and beneficiaries (City & County of San Francisco Office of the Controller 2011). City employees are covered by Social Security.

SFERS is funded through employee contribution, employer contribution, and investment earnings. City employees need to work five years to be eligible for pension benefits, and before Prop. D was passed in June 2010, almost all City employees contributed 7.5% of their salary to the retirement plan. The City contributions are based on an actuarially determined rate. For fiscal

year ended June 30, 2010, employees and the City contributed approximately \$189.94 million and \$223.61 million, respectively, to the retirement plan, and net investment gain amounted to \$1.65 billion (SFERS 2010). The SFERS's July 1, 2010 actuarial valuation (Cheiron 2011) indicates that the funding ratio of the SFERS retirement plan was 91.1%, down from 110% as of July 1, 2007, and the UAAL was \$1.57 billion, down from a surplus of \$1.38 billion as of July 1, 2007.

City contributions to employees' pensions have been growing since the economic downturn. In FY2007–2008, the contribution rates paid by the City to SFERS were 5.91% of covered payroll, which grew to 13.56% in FY2010–2011 (or \$276 million), and further to 18.09% in FY2011–2012 (or \$434 million) when the City was projected to face a \$350 million General Fund deficit (“San Francisco Retirement FAQs,” 2011). To curb the “unsustainable rate” of increasing pension costs, Prop. D was approved by the voters on June 8, 2010. Prop. D is a Charter amendment that requires that a) for employees hired on and after July 1, 2010, their retirement benefits are calculated using average monthly compensation over two years (instead of one year for existing employees); b) for safety employees and CalPERS members hired on and after July 1, 2010, their employee contribution rates to SFERS and CalPERS will increase to 9% of their salary (instead of 7.5% paid by most existing members); and c) when the City's contributions to SFERS are reduced due to investment gains, the savings would be deposited in the Retiree Health Care Trust Fund (The League of Women Voters for California Education Fund, June 8, 2010). While Prop. D will not solve the City's pension problem, it is expected to save the City \$400–\$600 million over 25 years and “it is a step in the right direction and an indication that the City is willing to address the problem” (The League of Women Voters for California Education Fund, June 8, 2010).

The sense of urgency about the rising burden of the City's retiree benefits, however, prompted another three measures to be placed before the voters, including Prop. B on the November 2, 2010 ballot, and Props. C and D on the November 8, 2011 ballot. Of the three measures, only Prop. C was passed by 68.91% of the voters in November 2011. Prop. C is a Charter amendment that changes the way SFERS is funded. It requires, among many changes, that a) city employees pay 7.5% of their salaries toward their pensions and that percentage could rise if pension funds earn low investment returns; b) employees hired on or after January 7, 2012 have new retirement plans with reduced pension benefits; and c) SFERS retirees have limited cost-of-living adjustments. Prop. C, according to the San Francisco City Controller, would save the city approximately \$1 billion to \$1.3 billion over 10 years from FY2012–2013 to FY2021–2022 (The League of Women Voters for California Education Fund, November 8, 2011).

2.2.4 City of San Jose: Measure W (November 2, 2010) and Measure B (June 5, 2012)

The City of San Jose provides two DB retirement plans for City employees: the Police and Fire Department Retirement Plan (PFDRP) for sworn employees and the Federated City Employees' Retirement System (FCERS) for all other employees.³ Benefits are based on the average final compensation (average of the highest 12 consecutive month pay), years of service, and limited cost-of-living adjustments (COLAs). City employees do not participate in the federal Social Security program. As of June 30, 2011, there were 1889 retirees and beneficiaries in the PFDRP and 3430 in the FCERS (City of San Jose Finance Department 2011).

Rising pension costs have threatened the City's ability to maintain service levels and are not sustainable, according to a report issued by the San Jose Office of the City Auditor (2010). The City's annual contributions to the retirement funds had doubled over the past decade and approximately one quarter of all General Fund is expected to go toward retirement and other post employment benefits by FY2014–2015 (Office of the City Auditor 2010). As of June 30, 2009, the City had a \$2 billion unfunded pension liability based on market value, and the funded ratios for PFDRP and FCERS were 86.7% and 70.7%, respectively (City of San Jose Finance Department 2010).

There are many reasons for the rise in the City's unfunded pension liability. According to the City Auditor (2010), significant reasons include the investment losses of about \$978.8 million from 2007–2009, the granting of retroactive benefit enhancements, and the unrealistic assumptions used by the retirement plans' actuaries to calculate pension liabilities and contribution rates. Other major cost drivers of the City's pension costs are the age at which members are eligible to receive retirement benefits (50 for PFDRP and 55 for FCERS), guaranteed annual 3% COLAs, determination of final compensation, and other (Office of the City Auditor 2010).

To rein in pension costs and move toward sustainability, the City Auditor recommends additional cost sharing by employees, a second tier for new hires, joining CalPERS, and other (Office of the City Auditor 2010). Echoing the City Auditor's report, Measure W was placed on the November 2, 2010 ballot and

³ The Mayor and City Council members in the City of San Jose, CA are eligible to participate in CalPERS under the Miscellaneous 2% at 55 Risk Pool. Participants are vested after five years of service and contribute 7% of their salaries to CalPERS. The City's contributions for the year ended June 30, 2011, 2010, and 2009 were \$108,000, \$127,000, and \$133,000 respectively (City of San Jose Finance Department 2011). The City also offers other DC plans including the voluntary 457 Deferred Compensation Plan (Office of the City Auditor 2010).

was approved by 72.14% of the voters. Measure W is a charter amendment that allows the City Council on or after November 3, 2010, to “adopt an ordinance excluding any officer or employee hired after the ordinance’s effective date from any retirement plan or benefit of any retirement plan then in existence...” and requires “any new or different retirement plan established on or after November 3, 2010 to be actuarially sound” (City Attorney’s Impartial Analysis 2010). Measure W gives the San Jose City Council more leeway in making pension decisions, and is considered as the “first step... of gaining control” (San Jose Council, August 4, 2010).

The passage of pension measures does not stop there. While the supporters believe that it is just the first step of easing the growing costs of retirement, employee unions and other opponents claimed that public officials exaggerate the severity of the problem. They challenged the constitutionality of the measure at the court, and the State has ordered an audit of the City’s finances and pension costs (Woolfork 2012). As both sides of pension reform continue to fight, the San Jose City Council voted 8-3 on March 6, 2012 to place another pension reform measure on the June 5, 2012 ballot (City of San Jose Council Agenda 03-06-12). Measure B, passed by 69.02% of the voters in June 2012, requires city employees to contribute more to their retirement plans, provides limited benefits to new employees, and requires voter approval for future increases in pension benefits.

2.3 Summary of Pension Reform Measures in California

The above overview indicates that public pensions are currently a hot-button issue throughout California. Since the recent recession, pension payments have consumed a growing share of local government budgets, representing a mounting source of fiscal pressure. The retirement plans for the majority of California local governments are DB plans and are funded through employer and/or employee contributions, and investments. Employees in many cities and counties do not contribute or contribute 1–8% of their salary depending on their contracts (Sun, accepted for publication). Regarding investment earnings, CalPERS and other locally owned DB plans suffered substantial losses during the recession. To make up for investment shortfalls and/or inadequate contributions and to maintain adequate funding levels, local governments have to shoulder the cost and in general have experienced employer contribution increases. In FY2010–2011, for instance, city contributions could be as high as 20% of their General Fund (Sun, accepted for publication). Compared to low or no city contributions in the late 1990s and early 2000s, these numbers are significant as local governments are struggling to balance their budgets during constrained economic times, and

public pension obligations are threatening to crowd out resources for education, health care, and other programs.

Given the downturn economy and widespread unemployment, many local governments have come under criticism for offering 3% DB plans. The animosity towards “generous” public employee pensions reached such a point that voters in Bakersfield, Carlsbad, Los Angeles, San Jose, San Francisco, and other cities and counties have weighed in through the initiative process. While each locality had its own unique circumstances that led to the passage of pension reform measures, there are some common factors that underlie the recent wave of initiative-driven reforms, which include investment losses, poor pension policies, lack of statewide pension reform, and negative media coverage. Next section explains in detail the recent success of local pension measures.

3 Why Ballot-Box Pension Reforms?

Many California local governments, since the Great Recession, increasingly have been faced with rising pension costs and unfunded pension liabilities. The financial challenge in turn created social issues – public misconceptions of retirement benefits for government employees and distrust of the public sector as a whole. There are many reasons for local governments’ pension mess, among which are recession inflicted investment losses, poor pension decision making, negative coverage, and inability of the State to solve pension problems.

The poor performance of investments during the recession is a major cause of the increase in local governments’ unfunded pension liabilities. For instance, in addition to the well publicized CalPERS investment losses in 2008/2009, the City and County of San Francisco Employees’ Retirement System (SFERS) lost \$3.5 billion (Cheiron 2011), Los Angeles City Employees’ Retirement System (LACERS) lost over \$2.35 billion (Los Angeles City Employees’ Retirement System 2010), and the Los Angeles Fire and Police Pensions (LAFPP) retirement plans lost over \$3.53 billion (Los Angeles Fire and Police Pensions 2009, 2010).

While the loss of assets in CalPERS and other retirement plans were the center of national attention, public policy making was less examined. The origin of escalating pension costs in many California local governments can be traced to SB 400 adopted in 1999, which enhanced retirement benefits for all state employees including the 3% at 50 for California Highway Patrol. Since then, many city and county governments in California have followed suit and have given similar deals to their employees. While it seemed affordable at that time, it has become unsustainable over the years as pension costs have increasingly become a drag

on municipal finances. In 2001, for instance, to recruit and retain qualified public safety employees and compete against the California Highway Patrol and other public safety agencies that were boosting their retirement benefits under SB 400, then-Mayor of Los Angeles Richard Riordan and other City officials promoted and voters approved “a charter amendment that gave long-serving police officers and firefighters a pension as large as 90% of their highest yearly salary (plus annual cost-of-living increases)... Other groups of city employees obtained better retirement packages too” (Editorial, February 15, 2011). The deal turned out to be costing the City millions of dollars in the following decade. In addition to employee pension benefit enhancements, pension contribution holidays engaged in by public officials played a role in local governments’ soaring pension costs. During economic booms in the late 1990s and early 2000s, for instance, San Francisco did not contribute the City’s share to SFERS for six years, though the City covered the employee contributions. “The ability of the fund to withstand the economic downturn would have been considerably strengthened if the city made a minimum contribution. Under Proposition D, passed in 2010, the city can no longer declare a complete pension holiday” (“San Francisco Retirement FAQs,” 2011).

For local governments that are contracted with CalPERS, there are some special issues about CalPERS performance. While investment losses are partly due to the volatility of the markets and the economic downturn, questions have been raised about CalPERS’ investment policies. For instance, some local officials asserted the assumed 7.75% rate of return is high and CalPERS needs to set an appropriate rate (Sun, accepted for publication). In 2008/2009, CalPERS investment returns did not achieve the assumed rate, and missing the target can increase pension costs. Another concern voiced by local officials is the limited menu of viable options available to cities to control costs (Sun, accepted for publication). Being contracted with CalPERS, governments have no local control and their pension funds are managed by CalPERS which sets employer rates to maintain adequate funding. With CalPERS’ billions of unfunded pension liabilities, local officials are worried that current benefit formulas are not sustainable and may require major contribution increases from employers and/or employees. Local officials want to ensure CalPERS maintain stability for their pools, and would like to see more pension reforms by CalPERS including such proposals as DC plan options and eliminating retroactivity for benefit changes (Sun, accepted for publication).

While the recession and market losses pushed pension problems to the spotlight, media coverage and exposure of local governments’ pension liabilities and their impact on municipal budgets added fuel to the public’s discontent over public pension costs and helped, to a certain extent, with the rise of local ballot measures on public employee retirement benefits in California. From the bankruptcy

of the City of Vallejo, CA in May 2008, to the \$500,000 annual pensions received by an ex Vernon official in May 2009, to the CalPERS' investment portfolio loss in April 2010, and to the fallout from the City of Bell, CA scandal in 2010–2011,⁴ press accounts surrounding public pensions in California have been largely negative, and many Californians question the “over-generous” or “lavish” retirement benefits public employees receive and various forms of “pension abuse” in the public sector. As a result, local governments across California, including those discussed in the paper, passed propositions to limit public employee retirement benefits, and a number of them are considering such actions (Sun, accepted for publication).

Another important contributing factor to the rise of local ballot measures on public pensions is the inability of the State to grapple with serious pension reforms in a timely manner. Many of the problems with the current public pensions in California go back decades, and the Great Recession just worsened those problems. Two major decisions that helped shape California public pensions are SB 839 approved in 1977 that extended collective bargaining rights to state employees, and SB 400 passed in 1999 that increased state employee pension benefits, paving the way for a state-wide trend for public safety employees to retire at 50 with 3% of their highest salary. With the recessions in the 2000s, many California local governments found themselves confronted with huge pension funding gaps. To solve the problems, Governor Schwarzenegger in FY 2009–2010 proposed to roll back SB 400's enhanced retirement package and reduce benefits for new employees, which was blocked by the State Legislature. Towards the end of his second term, he was able to raise the retirement age of new public safety employees and require public employees to contribute more. The most recent state action was AB 340 signed into law by Governor Jerry Brown on September 12, 2012, which raised public employees' retirement age, capped their pension benefits, and eliminated “spiking.”⁵ Described as the “biggest rollback to public pension benefits in the state's history” and a “radical change,” the legislation lacks key parts of the 12-point proposal Brown submitted in October 2011 (which includes switching new public employees to a DC plan), and much more needs to be done to rein in public pension costs (Risling 2012).

⁴ A series of articles published by the *Los Angeles Times* starting in July 2007 revealed that top officials in the City of Bell, California, were among the highest paid public employees in the country and Bell had the second highest property tax rate among cities in Los Angeles County. Those and other reports led to widespread criticism, subsequent investigations and charges in Bell, and crackdown of political corruption in other cities in Los Angeles County.

⁵ Spiking is defined by the GFOA “as an unusual increase in income during the employee's final years of service that increases the employee's pension benefits. Examples include increases in income through unused vacation, sick leave, and overtime” (2010: p. 1).

The above-mentioned factors all contribute to the “current atmosphere of distrust, disrespect, and anger” among the citizens, who decided to take public pension reforms in their hands through the initiative process. The initiative process⁶ was established in California in 1911 and Californians have used the process more often than voters in any other state (Van Vechten 2012). It has become an important tool of policymaking and has fundamentally altered California government and politics (Van Vechten 2012). At the local level, the initiative process has been used to address issues ranging from imposing term limits on city council members or county supervisors to changing the compensation packages for local government employees, and local measures rarely generate much attention unless the issue is controversial (Van Vechten 2012). Public pensions are one of those controversial issues both at the state and local levels. On the one hand, California voters in 1992 passed Proposition 162 that gave public pension boards complete authority over investments and administration of the systems. While it was intended to stop Governor Pete Wilson and the State Legislature from tapping pension funds to balance the State budget, the Proposition could pose potential costs to state and local governments since it gave priority of providing benefits to public employees and their beneficiaries. On the other hand, local measures approved by the voters about 20 years later (as discussed in this paper) demonstrate the power of the initiative process, that “All political power is inherent in the people... and they have the right to alter or reform it when the public good may require” (California State Constitution, Article II).

Essentially, ballot-box pension reforms reveal the public’s distrust of government. As a recent Public Policy Institute of California (PPIC) survey (Public Policy Institute of California 2012) shows, 79% of the residents in California say that voters, rather than legislators, should make budget decisions. Believing government fails to do its job and is incapable of giving them what they want, citizens have chosen to voice their concerns through the instruments of direct democracy. Research shows that direct democracy is not inherently conservative or liberal but rather reflects shifts in public opinion (Matsusaka 2004; Dyck 2010), and political distrust can “underscore the way in which individuals have come to think about politics and ultimately reason in initiative elections” (Dyck 2010: p. 613). Just as the initiative was originally designed, “voters have chosen, by way of the citizen

⁶ The initiative is a form of direct democracy that permits registered voters to place a proposed law or constitutional amendments on the ballot through a predetermined number of petition signatures and allows fellow citizens to vote on. According to the Initiative & Referendum Institute at the University of Southern California, 24 states have an initiative process, though each has different requirements for bringing measures to the voters. In California, citizens can propose laws at the local and state levels and the legislature cannot, and only the voters can, make any changes to the adopted measures.

initiative, to take policy matters into their own hands, act where legislators have failed to act ..." (Dyck 2010: p. 621), and the outcomes of these pension reform measures reflect the tastes and preferences of the majority of the electorate.

4 Conclusion

A vigorous debate has been underway "by academics, financial experts, regulators, and plan sponsors all seeking to define a new future for public retirement systems" (Mitchell 2009, Preface: p. xii) as "public sector pensions are ... wielding impressive financial and political clout, while at the same time portending huge costs" (Mitchell 2009: p. 1). The substantial market losses in 2008–2009, poor policy decisions made prior to the recession and other factors have resulted in billions of dollars of unfunded pension liabilities for public pension plans. To help state and local governments better manage their pension plans, the Government Finance Officers Association (GFOA) (2010) issued an advisory that recommends sufficient contribution, no pension contribution holidays, no spiking of final pension compensation, adjusting plans' retirement ages, realistic investment assumptions, and others. These recommendations are consistent with those proposed by Peng (2004, 2008) about prudent pension management, and by the Little Hoover Commission (2011) about the overhaul of California's public pension systems.

Pension reforms are underway in California. Research shows California local governments have taken several actions, including instituting new tiers for new hires, increasing employee contributions, using cutback management (such as layoffs, hiring freeze, more part-time work, and more contracting out of services), creating a pension stabilization fund to mitigate potential losses (The League of California Cities 2011; Sun, accepted for publication). Another alternative is to issue pension obligation bonds (POBS), which have been popular and yet, have been criticized for being used as a quick fix, their potential financial risks, lack of intergenerational equity, and other concerns (Peng 2008). Many states and local governments are avoiding POBS to finance their underfunded pension systems, and the amount of POBS sold this year is projected to be at its lowest since 2001 (Barghini and Connor 2012). The next possible and a grim resort is bankruptcy – the City of Vallejo in 2008 and cities of Stockton and San Bernardino in 2012 turned to bankruptcy in part due to pension costs. More municipal bankruptcies in California are expected (Moody's 2012).

Another option adopted by the Californians to deal with the pension problems is ballot-box lawmaking. Voters in California are accustomed to go to the

polls to vote on important issues, and pension reforms measures approved by the electorate have significant implications for government budgets. As powerful as it appears, the initiative process is not a panacea for the pension problems. Approximately 88% of Californians believe the initiative process is controlled by special interests, and approximately 60% of Californians are satisfied with it (Public Policy Institute of California 2012). Proponents of ballot-box pension reforms claim public pension systems are not sustainable and pension measures are citizens' safeguard giving voters control over the financial health of their local government. Opponents, on the other hand, argue that the local governments are moving too fast to reform the pension systems and they violate California labor law. As a result, lawsuits have been, and are vowed to be, filed to negate the impact of the measures, which has happened in Menlo Park and other localities. In addition, propositions can be very long and complicated, and the process could be very political. Through San Jose's pension reform process, for instance, there was a contentious battle between public employee unions and city leaders represented by Mayor Chuck Reed, and Measure B was projected to "define his [Reed's] mayoral career" (Herhold 2011).

Pension reforms have swept the nation. A report by the National Conference of State Legislatures (2012) shows that to address pension plan funding issues, legislators in eight states approved major changes to their pension systems in 2012 (including increasing the retirement age for current employees, ending cost-of-living increases for retirees, and implementing a hybrid plan for new employees) and these reforms will affect various sets of state and local government employees. With state-wide legislations, the victories of local pension measures in California have attracted national attention, and may inspire other cities and counties in California and other states to attempt similar actions.

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