

February 7, 2019

Sabrina Landreth
City Administrator
City of Oakland
1 Frank H Ogawa Plaza
Oakland, CA 94612

Katano Kasaine
Director of Finance
City of Oakland
150 Frank H Ogawa Plaza
Oakland, CA 94612

RE: City of Oakland Other Post-Employment Benefits (OPEB) Funding Policy

Dear Ms. Landreth and Ms. Kasaine:

On behalf of the City of Oakland public service employees represented by IAFF Local 55, IPFTE Local 21, and SEIU 1021, along with the Alameda Central Labor Council, we offer these comments regarding the proposed Other Post-Employment Benefits (OPEB) Funding Policy.

There are a number of aspects of the proposal to be lauded and we commend the staff at the City of Oakland for their hard work. We are in broad agreement that the City's retiree medical program must enhance the delivery of quality public services, support the City's ability to recruit and retain a professional workforce, and be sustainable in the long-term. We support a gradual transition to pre-funding retiree medical benefits from the current pay-go model. Prefunding will reduce costs to the City over time, and a transition to paying benefits from a retiree medical trust will eventually reduce pressure on on-going revenue sources.

However, we believe that the proposed policy, as currently written, does not adequately achieve these goals. It is our hope that we can offer support for this program once the details have been worked out and our concerns have been addressed.

There are some specific areas where the OPEB Funding Policy can be improved. Our main recommendations concern the inclusion of principles dictating how the City is to engage in collective bargaining with employees and how one-time funds could be used to supplement the OPEB Trust. Following this, we will outline our thoughts on the more detailed elements of the proposal.

1. Inappropriate Requirements to Pursue Further Retiree Medical Benefit Cuts in Collective Bargaining

Our primary concern with the proposed OPEB Funding Policy is that it includes principles that lock the City into an antagonistic collective bargaining relationship with employees. As written, it mandates that the City seek benefit cuts from its union employees in years when total pay-go plus the 2.5% of payroll contribution do not meet the total actuarial defined contribution (ADC). The policy would also require the City to seek contract reopener language in years where it elects not to make the 2.5% of payroll contribution by Council Resolution.

The inclusion of these principles is unnecessary and inappropriate as they tie the hands of elected officials and city staff. It also locks the parties into an antagonistic relationship by requiring the City pursue benefit cuts in bargaining even in years when the budget is in good health.

According to Cheiron's projections, there are multiple years in which 2.5% of payroll plus annual pay-go costs only barely exceed the ADC. Given that actuarial projections and pay-go benefit costs can fluctuate significantly, this is of deep concern. It is unclear what the margin of error may be for these projections as the actuary did not provide a rate sensitivity analysis as part of the policy report.

We urge the City to remove the sections of the policy that would require them to seek benefit restructuring, employee contributions or contract reopeners. The City can still choose to take these positions within the context of bargaining when appropriate.

2. Commitment of One-Time Funds to the OPEB Trust

In correspondence with the City regarding the PFM consultant presentation on OPEB funding, unions requested an analysis of how the fund would improve over time if one-time money was contributed more consistently. We received no response to this request and the projections put together by the actuary do not incorporate any analysis of contributing funds beyond the 2.5% payroll contribution.

The policy as proposed essentially reiterates the current consolidated fiscal policy in regards to how excess Real Estate Transfer Tax (RETT) should be allocated. However, there has not currently been a strong commitment to utilize excess RETT toward OPEB pre-funding, and by not making a stronger commitment to do so, the policy would allow for the status quo to continue.

We urge the City to amend the Consolidated Fiscal Policy to explicitly state that at least 25% of Excess Real Estate Transfer Tax be committed to funding OPEB. The City should also explore the possibility of offsetting annual contributions using onetime monies to reduce pressure on ongoing revenue sources.

We appreciate the opportunity to share our thoughts on the City's proposed OPEB Funding Policy and we look forward to our continued work together.

Sincerely,

Dan Robertson, President, IAFF Local 55
Anthony Reese, Oakland Vice President, IFPTE Local 21
Kyra Byrne Steele, Senior Representative, IFPTE Local 21
Felipe Cuevas, City of Oakland Chapter President, SEIU 1021
Liz Ortega, Executive Secretary-Treasurer, Alameda Labor Council

cc: Mayor Libby Schaaf
Councilmember Rebecca Kaplan
Councilmember Dan Kalb
Councilmember Nikki Fortunato-Bas
Councilmember Lynette Gibson McElhaney
Councilmember Sheng Thao
Councilmember Noel Gallo
Councilmember Loren Taylor
Councilmember Larry Reid