DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: Original
POSITION: Oppose unless amended
SPONSOR: Los Angeles Community College Distruct and the Los Angeles College Faculty Guild, Local 1521

BILL NUMBER: SB 853
AUTHOR: M. Ridley-Thomas
RELATED BILLS: AB 554 (E. Hernandez)

BILL SUMMARY: Public Employees' Benefits: L.A. Community College

This bill would allow the California Public Employees' Retirement System (CalPERS) to authorize the Los Angeles Community College District to contract with CalPERS to prefund health care benefits and other post-employment benefits (OPEB) for annuitants.

FISCAL SUMMARY

According to CalPERS, the administrative cost is unknown and there are no new programmatic costs. A cost analysis for the prefunding plan will be completed sometime in the 2006-07 fiscal year. We do not foresee increased state costs, but the Los Angeles Community College District could incur significantly increased costs if the contract executed with CalPERS is deemed to create, change, or vest the obligations for either party to provide a specific level of benefits to employees, annuitants, or survivors. We note this bill expands the prefunding plan to include the Los Angeles Community College District, not just employers who contract with CalPERS for health care benefits and OPEB under PEMHCA.

COMMENTS

The Department of Finance opposes this bill unless it is amended to include language to clarify that contracts between any public employer and any retirement system to prefund post-employment benefits do not create, change, or vest the obligations for either party to provide a specific level of benefits to employees, annuitants, or survivors.

ANALYSIS

A. Programmatic Analysis

Current law allows only public employers who contract with CalPERS for employee health benefits under the Public Employees' Medical and Hospital Care Act (PEMHCA) to participate in the prefunding plan administered by CalPERS. This bill would require the Los Angeles Community College District to follow specific terms and conditions as described in the prefunding contract with CalPERS for health care benefits and OPEB. This bill would also require that if CalPERS terminates the prefunding plan or the participation of the Los Angeles Community College District, the assets attributable to contributions by the district shall remain in the prefunding plan for the continued payment of health benefits and OPEB, prior to any remaining assets being distributed to the district.

The California Employers' Retiree Benefit Trust Fund was established on March 1, 2007 to allow PEMHCA contracting employers to prefund their OPEB, including health care benefits for retirees. This bill seeks to expand the employers eligible to prefund their OPEB to include the Los Angeles Community College District rather than only PEMHCA contracting employers.

(Continued)

Analyst/Principal	Date	Program Budget Manager	Date
(0932) K. Hansen		Tom Dithridge	

Department Deputy Director	Date

Governor's Office:	By:	Date:	Position Approved_______
			Position Disapproved

AUTHOR	**AMENDMENT DATE**	**BILL NUMBER**
M. Ridley-Thomas	Original	SB 853

ANALYSIS (continued)

A. Programmatic Analysis (continued)

The Department of Finance opposes this bill unless it is amended to include language to clarify that contracts between any public employer and any retirement system to prefund post-employment benefits do not create, change, or vest the obligations for either party to provide a specific level of benefits to employees, annuitants, or survivors.

In 2006, the Los Angeles Community College District negotiated a collective bargaining agreement that requires 1.92 percent of employee payroll (currently about $5 million) to be contributed by the district annually for the prefunding of its unfunded liabilities. This contribution comes out of a cost-of-living increase that otherwise would have been available for employee raises. This bill would provide the district with the ability to invest these funds with CalPERS to potentially receive a higher rate of investment return that they could otherwise achieve through their own investments.

We also note that the 2006 Budget Act included $2.9 million to assist contracting agencies to comply with the new accounting standard (GASB 45) requiring government employers to calculate OPEB costs on an accrual basis. Funding also was included to conduct a feasibility study and costs analysis for prefunding annuitant health care benefits. This bill may be premature as neither the feasibility study nor the cost analysis have been completed.

In 2006, SB 1729 (Soto), a similar bill was vetoed because it did not include the recommended amendments to clearly preclude the possibility that prefunding OPEB would affect any obligation to provide a benefit.

Code/Department Agency or Revenue Type	SO LA CO RV	PROP 98	FC	2006-2007	FC	2007-2008	FC	2008-2009	Fund Code
		(Fiscal Impact by Fiscal Year) (Dollars in Thousands)							
9210/LocGovtFin	LA	No		---------------------- See Fiscal Summary ----------------------					0833

Fund Code	Title
0833	Annuitants' Health Care Coverage Fund

Suggested Amendments
SB 853 (As amended Original)

SUMMARY OF SUGGESTED AMENDMENTS

Insert line 3 after “22943” and before “The”:

(a)

Insert line 12 after “considerations.”:

(b) If the contract provides that the board annually determine the rate of contribution for the employer providing benefits pursuant to this part, then that rate of contribution shall be reviewed by an independent actuary. (c) No contract between a public employer and a retirement board entered into pursuant to this article, in and of itself, shall create, change, or vest an obligation for either party to the contract to provide a specific level of health, dental, vision, life, or other post-employment benefits to employees, annuitants, or survivors. (d) No contract between a public employer and a retirement board entered into pursuant to this article, in and of itself, shall preclude or in any way affect the authority of the employer to create, change, or vest the specific health, dental, vision, life, or other post-employment benefits that the employer may choose to provide to its employees, annuitants, or survivors in the future.