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More Pain for State's Taxpayers, Cities

By [STU WOO](#) and [JIM CARLTON](#)

The cost of shoring up Calpers, the troubled \$200 billion pension fund for California public employees, will ultimately fall on the state's 38 million residents, who are already dealing with tax increases and reduced public services.

The state and local governments are contractually bound to increase their payments to Calpers to help it make up for its investment losses of more than \$50 billion in the fiscal year ended June 30. Officials around the state are calling for more oversight of Calpers, which announced Wednesday it was investigating fees paid by its investment managers.

Gov. Arnold Schwarzenegger's office in July asked the Governmental Accounting Standards Board, which oversees public funds such as Calpers, for stricter oversight of the funds.

David Crane, an economics adviser to Mr. Schwarzenegger, said the fund's losses mean "there is less money for parks and recreation, less money for the University of California, less money for health and human services."

For the 2009-2010 fiscal year, Mr. Crane said the state had to spend an additional \$3.3 billion from its general-fund budget to make up for Calpers's poor performance. The state is expecting to cover further Calpers losses in the next fiscal year as well. Those expenses add to the financial troubles California has faced in the past year, including a \$60 billion budget shortfall that lawmakers closed by increasing taxes, slashing spending and raiding the coffers of already cash-strapped cities and counties.

In the Orange County city of Fullerton, officials said they were notified by Calpers in August that their city would have to pay a total of \$5.5 million more in the four-year period beginning in 2011 to fully fund city employees' retirements. The city, which passed a balanced budget in June that included a hiring freeze, has already dipped another \$4 million into the red and now plans to cut employee pay by an as-yet-undetermined amount.

"The bottom line from my point of view is that just about the time we will start to see a recovery in 2011, we are going to have this huge additional cost," said Fullerton City Manager Chris Meyer.

In Ontario, City Manager Greg Devereaux said Calpers's woes could make it even more difficult for his Southern California city of 175,000 to provide essential services. Already, the city this year had to dip into a rainy-day fund and get its police and firefighters to waive pay raises to avoid a \$13.8 million shortfall tied to a roughly 25% plunge in revenues from 2007.

Ontario's annual payments of \$8.2 million to Calpers are expected to increase by another \$6 million, or 75%, by 2015 to help cover the investment losses, Mr. Devereaux said. "If there's a shortfall in Calpers, we're the ones who have to pay for it. And any shortfall reduces the level of services we can provide," he said.

Other local officials said Calpers's losses would ultimately have to be covered by the taxpayer. "I think the taxpayers are going to be footing the bill for years because of less-than-stellar decisions on investments," said Brett Barbre, a director with the Municipal Water District of Orange County, whose employees' pensions are with Calpers. "This is going to affect every city, county and special district that is in Calpers. They will have to cover all of the losses, as well as the ancillary issues that are being uncovered."

Many cities are held hostage by their pension-benefit costs incurred in past years, said Mike Parness, city manager for the Northern California city of Napa. During the 1990s, when Calpers was flush with cash and charging low rates, many cities like Napa increased employee benefits to compete for workers, he said.

But now, some of those cities are finding themselves stuck with high pension costs at a time when the housing bust and recession have driven down revenues, Mr. Parness said. For example, he said that for some employees, pension benefits as a percentage of employee compensation have soared from 14% to 40% over the years. If the city tried to roll back benefits now, it would not be able to hire anyone, he said. And the city must divert any increase in revenue to pay for pension benefits instead of services. "We must change this system. It's unsustainable," Mr. Parness said.

—Bobby White contributed to this article.

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