



HANDCUFFED

Unfunded police and fire pensions have left city leaders with few options to shore up the budget. Is the new police contract a good one?

by Brandon Vogel

The line in City Hall’s legislative chamber wasn’t long — maybe 10 people waiting for the chance to rail against Mayor Jim Suttle’s proposed Omaha police contract. But for more than an hour on Aug. 10, it felt endless. As one citizen had his or her say and sat down, another stood up.

“This contract stinks.”

“The city is going to explode.”

“There’s a rat in the wood pile and this contract is it.”

Police Union President Aaron Hanson acknowledged that he didn’t have the emotion on his side in the debate.

“What I do have on my side is the facts, the law and the solution,” he said.

Faced with a big problem — a \$620 million unfunded police and fire pension liability — the City Council on Tuesday approved the new police contract by a vote of 4 to 3. Council members Garry Gernandt, Ben Gray, Chris Jerram and Thomas Mulligan supported the plan. And members Franklin Thompson, Pete Festersen and Jean Stothert voted against.

But it’s a solution that’s likely to leave many unsatisfied.

The solution

Suttle’s administration calls the contract — a revision of a draft rejected by the council in April — the first major reform of police pensions and benefits in more than 30 years. The police and fire departments have been operating for the last three years on a contract originally struck in 2004 that was to expire in 2007.

The police union must vote to approve the contract, which may happen as early as

Monday. If approved, the contract would take effect about 15 days later.

The contract, covering 2009-2013, would eliminate the spiking allowed under the current contract, which permits officers to inflate their pensions by working more overtime in their last years of service. Pensions for new hires would be calculated on an average of the highest three years of base pay. Current employees' pensions would be based on an average of the three highest years of base pay, plus a career average of overtime.

Veterans who have served for 20 years or more could still retire at 45. But the contract would raise the retirement age for new and midcareer officers from 45 to 50.

The contract would increase pension contributions by officers by .8 percent of their pay this year, and by 1.8 percent from 2011 through 2013 — a total of 16.35 percent of their pay.

The city's contribution to the pension would increase by about \$13.5 million annually. Taxpayers would contribute an extra 12.5 percent of police salaries in 2010, 13 percent in 2011 and 13.5 percent in 2012 and 2013 — a total of 33.67 percent of police pay.

Police officers had agreed to a salary freeze for 2009 and 2010, but they would receive pay increases in 2011 through 2013 based on officer salaries in comparable cities.

Gregg Rueschhoff, the city's actuary, said the contract would allow the city to fully fund its pension obligations within 50 years. Without changes, the pension fund would be bankrupt within 20 years.

"We're in a situation now where we've never been before," Thompson said on Aug. 10. Critics say the contract features a cozy retirement package for officers unlike anything found in the private sector. And they hate Suttle's suggestion that a future tax increase will likely be needed to pay for it.

But the question so many had asked earlier remained: How did we get here?

The can

Before the line, there was the can.

Omaha Human Resource Director Richard O'Gara brought a large tin can with him to two community forums preceding the contract hearing. And he kicked it.

Here it was again before the City Council, a clear metaphor for how this administration feels past city leaders had put off addressing the pension problem by “kicking the can down the road.”

The city faced a \$192 million unfunded pension liability at the start of 2003, according to Milliman, Inc., the firm that employees Rueschoff. The country’s near economic collapse contributed to make that number reach \$520 million by 2009.

The city lost \$135 million in investments because of the stock market collapse. An additional \$61 million came from contribution shortfalls under the previous police and fire contracts. Forty million was tacked on to the pension liability through spiking between 2006 and 2008, with an estimated \$30 million in future spiking still on the books.

City actuaries saw the danger looming years ago.

In 2003, Milliman told the city its pension contributions — and those of officers — were 7 percent lower than needed to balance the fund. The firm warned the city that the liability would grow steadily.

In a 2005 meeting of the Police and Fire Retirement System Board of Trustees, Rueschhoff warned attendees that their contributions needed to increase by \$6.9 million annually.

But as the unfunded pension liability continued to grow, property tax rates — the city’s second-largest source of revenue after sales tax — remained substantially unchanged between 2001 and 2010.

When former Mayor Mike Fahey faced a budget deficit in 2003, he negotiated a deal with the fire union that garnered wage concessions in exchange for lowering the minimum retirement age and raising the maximum pension amount. The budget was balanced, a property tax increase avoided and a precedent set for the police contract.

One year later, faced with an even larger \$4 million budget deficit, Fahey again proposed a lower retirement age for firefighters and police, combined with increased pension benefits. The City Council passed the current contract, and for the second-straight year, the budget was balanced without a property tax increase.

This time, the police contract could set the mark for future fire union negotiations. Like the police union, the firefighters have been working on Fahey’s 2004 contract.

Suttle and Omaha Fire Union President Steve LeClair announced a tentative agreement

last August that called for a two-year wage freeze, but negotiations stalled over pension benefits and staffing reductions.

In July, the fire union took its case to the Nebraska Commission of Industrial Relations, the state's labor court charged with arbitrating negotiations. The agency bases contract negotiations on comparable levels of pay and benefits in seven similarly sized Midwestern cities.

The agency has yet to issue a ruling, but Suttle's 2011 budget is based on a 0 percent wage increase for firefighters in 2009 and 2010. LeClair said the agency was likely to suggest retroactive wage increases, which would add to the city's projected budget shortfall.

But the city received some good news on Monday. The Finance Department announced sales tax receipts for May and June exceeded projections. Combined with attrition in the police and fire departments, the 2010 projected budget shortfall was reduced by \$7 million to \$4.7 million.

That won't have an effect on next year's numbers, however.

The city still projects a \$33.5 million shortfall for 2011, including the \$13.5 million in increased pension fund contributions. That money is slated to come from a proposed 4 percent restaurant tax, according to Suttle's proposed 2011 budget. An amended form of the 2 percent entertainment tax that failed to pass in 2010, the restaurant tax would generate an estimated \$22 million dollars in additional funds for 2011.

Omaha Restaurant Association President Richard Barmettler said that's a hefty bill, even for an industry that frequently calls on police and fire services.

"We rely on the firefighters and police in our industry tremendously," he said. "We just don't want to rely on them so much that we're paying for them to be able to retire at age 45."

The bottom line

After the can there was The Bottom Line, a mock newspaper produced by the police union that said current council members Thompson and Festersen had helped dig the hole by voting for the fire and police contracts in 2004.

Some City Council members were not amused.

Stothert called quotes attributed to her in the publication an “attack.”

“If an individual thinks this is an attack, I would suggest that that individual probably needs to thicken their skin,” Hanson replied.

Thompson took issue with an article claiming he was the beneficiary of a Commission of Industrial Relations decision that raised salaries and increased benefits for faculty of the University of Nebraska-Omaha, where Thompson is an associate professor of education.

Festersen, Stothert and Thompson said that the agreement hasn’t gone far enough to address the concerns they voiced when presented with the contract’s initial draft, including increasing officer contributions to the pension and reducing those of the city.

“It’s still too long and too expensive,” Festersen said. “I can’t support it.”

But for a city that’s seen its assets dwindle through the recession while its unfunded pension liability grew, officials have been asking a different question.

“The question is not can we afford to pay millions into the pension fund. We can’t afford not to,” O’Gara said.

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