

OPINION

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Oakland must face its pension debts now

OAKLAND CITY government will begin 2011 with a new mayor, but with an old problem.

The problem is that the bills for old police and fire pensions are now due, and we can't afford to pay — at least not without making serious and dramatic cuts in city services that taxpayers rely on today.

This is an old problem because we've been here before.

In 1997, instead of making pension payments on time for more than 1,100 retired workers under the old Police and Fire Retirement System (PFRS), city officials "solved" the problem by issuing bonds to cover payments until the far-off-future year of 2011.

In other words, we borrowed money to pay our bills, betting that, in the end, we would actually make money on the deal when our stock market profits exceeded the interest we paid on the loan.

It didn't quite work out according to plan. A recent High Impact Report from City Auditor Courtney Ruby shows that Oakland taxpayers lost a quarter of a billion

JOHN RUSSO

My Word

dollars on that bet. That's more than half of the city's total annual general fund budget.

I was on the City Council in 1997 and was in the minority when the bond scheme was approved by a 5-4 vote. At the time, my colleague Dick Spees and I explained our "no" votes this way: "Tonight is the night we put a second mortgage on the house to bet on the stock market."

That bet turned out to be a big loser and vastly increased our debt. The bills the City Council pushed off 13 years ago are now due. Faced with the same problem, the finance department is now proposing to double down. The department wants to issue more bonds — essentially take out another mortgage so we can further defer payments for another five to seven years.

Ruby's report runs the numbers and shows that the bonds could provide "short-term relief" to a city on the edge of a financial precipice. But there is no realistic universe in which the city will be

able to make the astronomical payments projected for 2024-26.

The old PFRS system was underfunded even when it closed to new members 35 years ago. For almost that long, Oakland property owners have paid hundreds of dollars in taxes every year to subsidize these pensions. This year, the payments will be almost \$40 million on top of the tax revenue. Oakland now, this year, must come up with a back-to-basics budget that includes a responsible pension payment plan. This will be painful, but the reality is we don't have a choice.

Even if the city gets lucky with the dice this time around and makes a decent return (7 percent annually for the next 15 years), we'll still be on the hook for \$154 million each year from 2024 to 2026. There will be no way to avoid bankruptcy without borrowing even more money and pushing the problem further into the future.

Taxpayers in the 2050s shouldn't have to pay for police who patrolled Oakland's streets in the 1950s.

It is time for Oakland's leadership to level with the public, start paying — not

deferring — our bills, and stop thieving from the future. The reckoning is now.

John Russo is Oakland's elected city attorney.

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