

Recently, the City was notified by the Executive Officer of Marin LAFCO (Local Agency Formation Commission) that a Request for Reconsideration (R4R) of LAFCO's unanimous vote to approve the Fire Department Annexation was filed by resident John Flavin and Councilmember Linda Pfeifer.

The City's decision to pursue the annexation, and LAFCO's subsequent 7-0 vote to approve it and to schedule the legally required protest hearing for January 23, 2012, was based on comprehensive analysis by public administration and fire administration experts, and three years of noticed public meetings with the public, City Council, Fire District Board Members and finally LAFCO.

The City's comprehensive analysis included multiple scenarios for the present and future impact on City finances, Fire District finances and on citizen taxation. The analysis included operating costs, capital costs, and personnel costs. All compensation to firefighters was analyzed including wages, pensions and other benefits. The City and the District hired expert pension actuaries to review current and future pension costs.

The City's decision to move forward with the LAFCO annexation was based on the facts that \$2,969,250 of annual fire service costs would be transferred to the District, along with an equal amount of annual tax revenues. The application is tax-neutral to citizen taxpayers – meaning, if the annexation is accomplished, there will be no additional taxes as a result.

And finally, in accordance with State Law, LAFCO was required to find that there are enough revenues available to fund services after annexation and that both the City and the District will be able to fund their respective services into the future. LAFCO voted unanimously to approve the annexation, finding that it makes fiscal sense for the City, for the District, and for the people they both serve.

The Request for Reconsideration includes no new information that wasn't already analyzed during years of comprehensive analysis and therefore does not justify any change in LAFCO's approval. The assumptions and conclusions in the Request for Reconsideration are not only seriously flawed, but also misrepresent the long-term fiscal impacts of annexation on the City, the District and citizen taxpayers. Contrary to the filers' claims, annexation's impacts will be positive, as explained below.

R4R POINT #1.

It is incorrect and misleading to label as “double-dipping” the continuation of employee pension benefits by employees that will transfer from the City's pension provider (CalPERS) to the Fire District's pension provider (Marin County Employees Retirement Association, or MCERA) .

- It is simply not true that a Sausalito firefighter can transfer to the District, receive reciprocity from MCERA and concurrently receive a retirement from CalPERS. They must choose one or the other.

- Further, the City never said that there are six Sausalito firefighters eligible to retire from CalPERS. In fact, only one employee that will reach the CalPERS age and years of service requirements for full retirement by the effective date of annexation.
- Overtime is definitively not part of the calculation of a pension. Both CalPERS and MCERA specifically exclude overtime as a component of calculating pension benefits.
- The City's actuary used the CalPERS demographic assumptions based on age and years of service in calculating the post-annexation impact to the City – as the standards of his profession require.
- Finally, moving Sausalito Fire personnel from CalPERS to MCERA is no different than what happens when an employee changes jobs – they get the same pension benefits, but two pension providers share the responsibility to fund that pension based on the years of service to employers covered by each pension plan. This is an established part of the labor market for government employees in California.

In summary, the R4R POINT #1 includes false information and contains no new information. Annexation will create no added pension costs for the City or the District, nor ultimately for the citizen taxpayers they both serve.

R4R POINT #2

CalPERS and MCERA annually produce actuarial reports on the capacity of their investment pools to fund their pension obligations. The R4R provides no real new information in its Point #2, but is the filer's own personal calculation on pension obligation. In short, the filer is making large assumptions about pension liabilities and engaging in speculation.

As stated above regarding RFR Point #1, a Sausalito firefighter cannot transfer to the District, receive reciprocity from MCERA and concurrently receive a retirement from CalPERS. They must choose one or the other. R4R Point #2 relies on this mistaken assumption, and then alleges a \$1.4 million impact. His incorrect assumptions have produced meaningless conclusions.

Pension experts and actuaries annually calculate CalPERS and MCERA's assets and liabilities and forecast the ability of each pension pool to fund its future pension obligations. Those reports forecast the impact on the City's annual pension contributions and are published annually on the City's web site. The impact of annexation on the City's pension costs was analyzed by the City's professional actuary and was included in the financial analysis provided to LAFCO which shows that annexation will have no negative financial impact on Sausalito, South Marin Fire, or the residents those agencies serve.

The argument that the pension cost analysis should use a more pessimistic prediction of future investment returns is not new. This argument restates an academic study report that argues – contrary to the standard practice of pension actuaries around the country and working at all levels of government – that the expected rate of return used by CalPERS is inappropriate for discounting liabilities backed by assets (like stocks), and liabilities not covered by assets fall to the sponsoring government, and therefore should be discounted by the sponsor's borrowing cost. That academic debate has gone on for years and is not new. The fact is, and the

City/District analysis was predicated upon, that pension plans are constrained by regulated actuarial standards not the arguments of academics. CalPERS and MCERA have to follow the laws that exist, not the laws that academics argue for. In any event, a pessimistic forecast of earnings on pension pool assets would affect CalPERS and MCERA alike and that pessimism will predict higher pension costs for the City's fire service whether or not the annexation occurs.

In summary, the R4R POINT #2 relies on one person's opinion and conjecture. It contains no new information that could justify LAFCO reconsidering its unanimous approval of the annexation. Despite the filer's personal opinion, calculations done according to professional and industry standards indicate that annexation will create no added pension costs to the City or the District, nor ultimately to citizen taxpayers.

R4R POINT #3

It is incorrect, as the co-filers claim, that City taxpayers would be taxed for the existing District's share of MCERA losses. As LAFCO confirmed, the annual revenue transferred from the City to the District is sufficient to fund future fire service to the City including incremental increases in the District's costs caused by the annexation.

In summary, the R4R POINT #3 also includes false information, contains no new information to justify a change in LAFCO's unanimous approval of the annexation and fails to demonstrate that annexation will add pension costs to the City or the District, nor ultimately to citizen taxpayers they serve.

In conclusion, annexing Sausalito to the Southern Marin Fire Protection District will continue the excellent and high quality level of fire protection service for the residents and businesses in the City of Sausalito, with no negative impact on taxpayers. The annexation provides both the City and the District, and ultimately the citizen taxpayers they serve, with the most cost-effective and efficient level of fire services, with the fiscal stability necessary to meet future challenges. It is \$1.4 million cheaper per year than the best alternative to annexation – namely, a Fire Department staffed and funded by the City. Finally, the Southern Marin Fire Protection District makes important decisions affecting the life and safety services provided to residents of Sausalito and those residents cannot have a voice in the election of the leaders of that District until the annexation is approved.