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Met says new contract hikes employee pay and pensions - and saves money. OC's not buying it

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The board of the storied **Metropolitan Water District of Southern California** - the giant water importer that enables **19 million** of us to live in a desert - will vote Sept. 15 on a new union contract that would hike employee pay and pensions.

The new **five-year contract**, which would run through June 2014 (new-met-union-contract), could hike pay up to **23 percent** over its life if the economy goes swimmingly. Raises would be smaller - **11 percent** or so - over the five years if the economy is just OK; and raises could stall at **2 percent** if the economy goes into "deflation" (though there would be *no* salary *cuts*, the contract specifies.)

It would also hike the pension formula for retirees by **25 percent,** as we've reported before. That would cost some **$70 million** over the long haul, and comes at a curious time, when Met's investments in the **California Public Employees' Retirement System** have tanked at least **$400** million.

There has been outrage over this proposal, with reps from some local cities and water districts (who buy water from Met, and then sell it to you) rising in opposition. Some of our more spirited readers are barraging Met with emails and phone calls to register their displeasure. And now - brace yourselves, Met phone bank operators - the call to arms has gone out from none other than **KFI 640 AM's John & Ken Show**. (That Met's water rates just went up **19 percent,** and are slated to rise *another* **12 percent** in about a year, only enflames passions.)

Met, suddenly embattled, is circulating a defense of the contract to its member agencies in advance of the Sept. 15 vote (mwd-contract-highlights). The memo is heavy on adjectives, calling the proposed contract "a smart, prudent deal," "groundbreaking," "innovative" and "inventive. " And hey! The deal will actually *save* **$21 million** over five years through "employee concessions," it says. What's not to like?

HUH?

This was rather hard for us to wrap our minds around, so we were gratified to finally catch up with Met General Manager **Jeff Kightlinger** on Thursday. *How*, we asked, can Met possibly *save* money on a contract whose permanent pension hike is expected to cost **$70 million** over its life?

Perhaps the key is not to *look* at the pension hike over the cost of its life.

Kightlinger said that the (permanent) retirement enhancement will cost Met **$9 million** more per year. The unions, in exchange, came in with (five years' worth of) "givebacks" totaling roughly **$13 million** a year. Thus the net savings of **$21 million** over the contract's five-year life.

Those "givebacks" include:

- Elimination of annual payouts for unused sick leave and vacation;
- Elimination of one paid holiday and one personal leave day;
- Reductions to Met's 401(k) matching contributions;
- Greater employee contributions towards retiree medical costs.

(Yes, Met employees get 401K matching contributions as *well* as a guaranteed pensions.)

TWO TIERS

Met stands to gain much more than the **$21 million** "if the status quo is held," Kightlinger said. Why? Because the contract ushers in a two-tiered retirement system (of the type that the governor has championed, and that some experts say is nearly worthless at saving money).

Right now, Met foots the bill not only for the *employer's* contribution to CalPERS, but pays the *employee's* contribution as well. Sweet!

This contract will require *existing* employees to pay **2 percent** to fund their own retirements; and will require *new* employees to pay the *entire* **8 percent** employee contribution, Kightlinger said.

As the average age of Met's work force is **49.5,** "over the next 10 to 15 years we will see significant turnover, maybe **two-thirds** of our work force, and those new employees will be paying that full **8 percent**," Kightlinger said.

And *that,* he said, will help fund the district's under funded retirement obligations. "This arrangement, rather than hurting, will strengthen us over the next 15 years."

Yes. But…um…do forgive us for getting stuck here. Met's **$400 million** loss in CalPERS? What about that?

OH. THAT.

“The PERS issue is a true problem,” Kightlinger said. “An absolute issue that will mean greater employee and employer contributions to keep PERS whole. This particular deal, actually, leaves Met in a better position than without that deal. But it doesn’t solve this issue. It’s not intended to.

“I understand the concern with PERS and the psychological issue of, ‘Gee, we’re raising our benefits in a tough economic climate.’ But the reality is, with gains made in the two-teir system, Met is financially better off with this deal than without it.”

Met has about **2,000** employees. It is America’s largest provider of treated drinking water, delivering water to the aforementioned **19 million** customers in Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura counties.

OH, PLEASE.

Folks in Orange County are refusing to drink the Kool-Aid.

“Conceptually the risks to the Metropolitan Water District over the long term financially appear to far exceed any short term negotiating gain,” **Kevin Hunt**, general manager of the **Municipal Water District of Orange County** (which holds **four** seats on Met’s board of directors) told us recently.

Slightly more colorful was new MWDOC board member **Jeff Thomas** a bond manager by trade who has a much better-than-average grasp of finance. “You kind of have to scratch your head and wonder, ‘What are they thinking?’” said Thomas.

“These temporary givebacks saying ‘we’ll balance it’ look good on paper, and employees *are* giving back things I know are important to them. But the givebacks are *temporary*, and what they’re getting is a *permanent fix* to their pension that’s going to give them a *lifetime benefit* that can *never* be undone. It’s like getting the camel’s nose under the tent, before you know it the camel’s in there sleeping with you.

“We’re in an economy where people are being laid off, furloughed, losing their homes, worried about how to make ends meet. And Met is raising their water rates 31 percent over two years, asking them to conserve, and then asking for a 25 percent raise in benefits. What person in their right mind would agree to that?

“I will not support them on this. I believe it will result in the ire of our voters. I’m worried about people coming out with pitchforks.”

UNITED FRONT?

Behind the scenes, Orange County officials are trying to convince their brethren in San Diego and Los Angeles counties to stand with them on Sept. 15, and send the negotiators back to the drawing board on the pension hike.

San Diego officials declined comment, but are reportedly considering it. Los Angeles officials didn't get back to us by deadline, but reportedly support the contract as is.

It was just a couple of weeks ago that **Ron Seeling**, the CalPERS chief actuary, tried to give everyone a reality check.

"I don't want to sugarcoat anything," he said, **according to a story in the Capitol Weekly**. "We are facing decades without significant turnarounds in assets, decades of - what I, my personal words, nobody else's - unsustainable pension costs of between 25 percent of pay for a miscellaneous plan and 40 to 50 percent of pay for a safety plan (police and firefighters) … unsustainable pension costs. We've got to find some other solutions."

Forgive us, but hiking pension formulas is probably not what Seeling had in mind.

And as Met's own expert told Met's own executive committee last week, "Losses in CalPERS will result in increased contributions down the road. Eventually, you've got to pay for this."

Anyone care to venture a guess on who "you" is?