Exclusive: California pension reform measure to target Calpers

BY TIM REID

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 (Reuters) - A ballot measure campaign to cut California's public pensions will be launched in May by a coalition of politicians and business people led by former San Jose Mayor Chuck Reed, with the state's largest retirement system a prime target.

The measure would take aim at California's $300 billion giant CalPERS, which has a near-iron grip on the state's pensions. CalPERS, America's largest public pension fund and administrator of pensions for more than 3,000 state and local agencies, has long argued that pensions cannot be touched or renegotiated, even in bankruptcy.

"CalPERS has dedicated itself to preserving the status quo and making it difficult for anybody to reform pensions," Reed said in an interview. "This is one way to take on CalPERS, and yes, CalPERS will push back."

CalPERS spokeswoman Rosanna Westmoreland said: "Pensions are an integral part of deferred compensation for public employees and a valuable recruitment and retention tool for employers."

The measure will be closely watched by reformers and their union opponents in other states, in an ongoing national battle between those who say public pensions are putting intolerable strains on budgets and those who argue pension cuts unfairly penalize retirees and workers.

For most California cities, their largest debt is pension liability, a significant factor in the recent bankruptcies of Vallejo, Stockton and San Bernardino. CalPERS has said it will increase pension contributions for most cities by up to 50 percent in the coming years.

Reed, a Democrat, abandoned a similar statewide ballot initiative in 2014, claiming that Kamala Harris, California's Democratic attorney general, had approved wording of the initiative that was biased and union-friendly.

But he vowed to fight on after leaving office in December, and in an interview with Reuters confirmed for the first time the launch of the initiative and its timing, while noting that a major motive was to challenge CalPERS' grip.

Reed says the push will seek to place a simpler, more legally watertight pension reform measure on California's November 2016 ballot, giving mayors and other local government executives the authority to renegotiate contracts.

To win a place on the 2016 ballot, backers of the initiative will have to obtain the signatures of 585,000 registered voters, or 8 percent of the number of voters in California's last gubernatorial election, in this case 2014.

Reed and his allies have been huddling with legal advisers for months to devise a voter initiative that is simpler and less vulnerable to court challenges than last year's effort.

They have also been buoyed by a ruling in the recent municipal bankruptcy of Stockton, whose judge said California's public pensions are not inviolate.

As San Jose mayor, Reed helped pass a pension reform measure for his city, parts of which have been struck down after union lawsuits.

Reed is working with other pension reform advocates, including former San Diego Republican council member Carl DeMaio, the primary backer of a pension reform initiative in San Diego that was approved by voters in 2012; and the Ventura County Taxpayers Association's David Grau.

"We have done a lot of legal work to make sure this initiative is bulletproof," DeMaio said. "Because the unions are going to throw the kitchen sink at us."

The group is talking to potential financial backers, Reed said. Last year Reed took $200,000 from a group funded by Texas hedge fund billionaire John Arnold and they could partner again this time round, he said.

Karol Denniston, a public finance attorney and pension expert at Squire Patton Boggs in San Francisco, said voters should be working for legal change to provide more options than municipal bankruptcy: "Right now CalPERS has no program for financially distressed cities," Denniston said.

Dave Low, executive director of the California School Employees Association, said the group would campaign to defeat the measure and was "confident we can defeat it."

(Reporting by Tim Reid; Editing by Megan Davies and Steve Orlofsky)