

City of Palo Alto

Office of the Mayor and City Council

August 11, 2026

The Honorable Tina McKinnor
California State Assembly
1021 O Street, Suite 5520
Sacramento, CA 95814

**RE: AB 1383 (McKinnor) Public Employees' Retirement Benefits
City of Palo Alto – Notice of Opposition**

Dear Assembly Member McKinnor:

On behalf of the City of Palo Alto, I write to respectfully oppose AB 1383, which would significantly expand long-term pension liabilities for local governments by increasing pensionable compensation limits, authorizing enhanced retirement formulas for safety employees, and weakening key structural reforms established under the Public Employees' Pension Reform Act of 2013 (PEPRA).

The City recognizes the importance of recruiting and retaining qualified public safety personnel and providing competitive compensation for public employees. However, AB 1383 would create substantial and permanent fiscal exposure for local agencies at a time when cities throughout California continue to face economic uncertainty, elevated pension costs, and growing pressure on their general funds.

PEPRA was enacted following years of escalating pension liabilities caused by prior benefit expansions, market downturns, optimistic investment assumptions, and increasing unfunded actuarial liabilities. The reforms adopted in 2013 represented a deliberate effort by the Legislature to improve the long-term sustainability of California's public retirement systems by slowing liability growth, increasing employee cost sharing, limiting pensionable compensation, and establishing more sustainable retirement formulas for future employees.

AB 1383 would substantially undermine those reforms.

The bill would authorize enhanced retirement formulas for safety employees, including a potential 3 percent at age 55 formula, while also increasing pensionable compensation limits for PEPRA members. These changes would increase normal costs and future accrued liabilities for participating public employers. These are not one-time expenditures; they are permanent actuarial obligations that compound over decades and remain highly sensitive to investment performance and broader economic conditions.

The City is particularly concerned that AB 1383 would create an intergenerational cost shift onto younger public employees and future taxpayers. Under PEPRA, employee contribution rates are tied to normal cost calculations. Expanding benefit formulas and pensionable compensation limits would increase normal costs and, in turn, the contribution obligations of newer employees entering the workforce. This could result in younger and often lower-paid employees bearing greater costs associated with enhanced benefits that disproportionately benefit higher-income and later-career employees.

At a time when public agencies are already confronting workforce recruitment challenges, housing affordability pressures, and rising employee costs, increasing contribution obligations for future employees may create additional workforce instability rather than improve long-term retention.

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The City is also concerned that the bill relies heavily on actuarial projections that remain dependent on continued market performance and the achievement of long-term investment return assumptions. Recent history demonstrates how quickly pension system funded status can deteriorate during periods of market volatility. Even following recent investment gains, CalPERS plans continue to carry substantial unfunded liabilities, and local governments remain responsible for absorbing increased employer contribution rates when investment assumptions are not achieved.

For Palo Alto and other local governments, these costs have direct operational consequences. Pension obligations already represent a significant and growing general fund expenditure. Additional long-term liabilities would reduce the resources available for essential community priorities, including public safety staffing, street and infrastructure maintenance, affordable housing and homelessness programs, libraries, parks and recreation, emergency preparedness, and other critical local services.

AB 1383 would create these substantial new liabilities without identifying a sustainable funding mechanism to offset them. If investment returns fall below actuarial assumptions, local agencies—not the State—would ultimately be responsible for covering the resulting costs through higher employer contributions, staffing constraints, delayed capital improvements, reductions in service levels, or future local revenue increases.

The City appreciates the author's willingness to continue discussions with affected stakeholders and consider potential amendments. However, looking ahead at our challenging long-range financial forecast, absent amendments that sufficiently address the bill's long-term fiscal impacts on local agencies and their employees, the City must respectfully oppose AB 1383.

Workforce recruitment and retention challenges are real and deserve thoughtful policy solutions. Reopening PEPRA and permanently expanding pension liabilities, however, would create fiscal consequences that will persist long after current labor market conditions change.

For these reasons, the City of Palo Alto respectfully opposes AB 1383.

Sincerely,

A handwritten signature in blue ink that reads "Vicki A. Veenker". The signature is fluid and cursive, with the first name "Vicki" and last name "Veenker" clearly legible.

Vicki Veenker
Mayor
City of Palo Alto

Cc: Senator Josh Becker
Assemblymember Marc Berman