



CITY COUNCIL AGENDA REPORT

MEETING DATE: MAY 20, 2008

ITEM NUMBER: Item Number

SUBJECT: ADOPTION OF RESOLUTION OF INTENTION TO AMEND CONTRACT BETWEEN CALPERS AND THE CITY OF COSTA MESA - 2.5% @ 55 FORMULA (MISCELLANEOUS EMPLOYEES)

DATE: MAY 8, 2008

FROM: ADMINISTRATIVE SERVICES DEPARTMENT/HUMAN RESOURCES DIVISION

PRESENTATION BY: TERRI L. CASSIDY, HUMAN RESOURCES MANAGER

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RECOMMENDATION:

- 1) Adopt a Resolution of Intention (Attachment I) to approve an Amendment to the Contract between the Board of Administration of the California Public Employees' Retirement System and the City Council of the City of Costa Mesa (Exhibit) in order to implement the 2.5% @ 55 retirement formula for eligible Miscellaneous employees.
- 2) Authorize the City Clerk to execute the Certification of Governing Body's Action (Attachment II).
- 3) Authorize the City Clerk to execute the Certification of Compliance with Government Code Section 7507 (Attachment III).

BACKGROUND:

Presently the City of Costa Mesa has three separate retirement plans with the California Public Employees' Retirement System (CalPERS): a 3% @ 50 plan for Sworn Police personnel, a 3% @ 55 plan for Sworn Fire Personnel and a 2% @ 55 plan for Miscellaneous employees. The safety plans provide an enhanced retirement benefit for these groups with the 3% formulae. The City originally entered into a contract with CalPERS to provide a retirement formula for Miscellaneous employees on August 13, 1978.

In 2006, the exclusive bargaining unit for represented Miscellaneous employees (Costa Mesa City Employees' Association (CMCEA)) inquired whether the City Council would consider an enhanced formula and offered to discuss employees' paying for the change in the employer/employee share of retirement costs during the upcoming Meet & Confer sessions. The City asked CalPERS to perform an actuarial valuation to determine the costs of the request. It appeared to be an increase of 1% to the Employees' share and 2.6% on the Employer's share (or a total of 3.6%). The actuarial data is considered valid for a limited period of time and these numbers have since expired. However, the

Council indicated a willingness to have City negotiators discuss the enhancement as part of a package during the negotiations.

In addition to the CalPERS valuation, City Council requested that an independent actuary look at the costs of the enhanced retirement formula. John Bartel and Associates, a recognized firm, performed this function and reported to City Council in June 2007 that the costs were accurate based upon the actuarial data at the time.

The request to implement the 2.5% @ 55 formula became a key issue during Meet & Confer between the City and the CMCEA beginning in August 2007. In exchange for an enhanced retirement plan, the employees agreed to pay the entire cost of the enhancement and would start paying for the benefit *in advance of the implementation date*. A second actuarial study was requested and received by the City/CMCEA in November 2007 (Attachment IV). It indicated the cost of implementation to be 1% increase on the Employee's share and 2.52% on the Employers' share (or a total of 3.52%).

A tentative agreement was reached between the parties on October 24, 2007 and on November 13, 2007, the extended CMCEA Memorandum of Understanding (MOU) containing the following was adopted by the City Council with the language below contained in Article 3.4:

Fourth Year of the Agreement – Effective the pay period that includes September 1, 2007...employees covered by this agreement shall contribute 1% of their salary toward the cost of the 2.5% at 55 CalPERS retirement benefit. To the extent permitted by CalPERS and the IRS regulations, this 1% contribution shall be implemented through payroll deduction on a pre-tax basis.

Fifth Year of the Agreement – Effective the pay period that includes September 1, 2008...employees covered by this agreement shall contribute an additional 2.6% of their salary toward the cost of the 2.5% at 55 CalPERS retirement benefit for a total cost of 3.6% (both employer and employee rate based on CalPERS actuarial data on September 1, 2007 and subject to update in 2008). If the total cost exceeds 4%, the parties agree to meet and discuss the payment for the excess amount over 4%. To the extent permitted by CalPERS and the IRS regulations, this 2.6% or greater contribution shall be implemented through payroll deduction on a pre-tax basis.

It is recommended that the 2.52% increase to the Employer share be substituted for the 2.6% in the MOU language as the intent was that employees' pay the full cost of the benefit, begin paying in advance of the implementation, and agree to an implementation date at least one year after the MOU went into effect (on or about October 1, 2008). It was not intended that the amount be greater than the actuarially determined cost of implementation.

The actuarial data is valid until August 1, 2008.

ANALYSIS:

This CalPERS contract amendment was a key provision of the negotiated agreement between the City and the Costa Mesa City Employees Association (CMCEA) adopted by the City Council on November 13, 2007. The parties to this agreement considered a

wide variety of issues in the context of good faith negotiations in accordance with Government Code Section 3500 et seq. (Meyers-Milias-Brown Act).

CalPERS requires that clearly defined procedures be followed for contract amendments. The following are guidelines provided by CalPERS in order to complete the contract amendment process by the target date of October 1, 2008:

- First, a Resolution of Intention must be approved by the City Council (May 20, 2008 City Council Meeting), and a first reading of the Ordinance authorizing an amendment to the contract must occur (June 17, 2008 City Council Meeting).
- An employee election must be held (on or about June 11, 2008) for all employee members of the miscellaneous group with appropriate certification given by the City Clerk. A majority of voters must approve the contract amendment to proceed to the next step.
- A final reading of the Ordinance (July 1, 2008 City Council Meeting) and a City Council vote for or against adoption must take place. If adopted, the ordinance may take effect no less than 30 days later. The effective date of the ordinance will be August 1, 2008.
- The effective date of the contract amendment must be the first day of a payroll period and may not be earlier than the day after the effective date of the Ordinance. Per Resolution No. 08-21, the agreed effective date for retiree benefits shall be on or about October 1, 2008 which will place the effective date of the contract amendment on September 28, 2008, the first day of the payroll period containing October 1.

The current 2% @ 55 plan for Miscellaneous employees has an Employer rate of 12.564% for 2008-2009. The Employee rate is 7%. With approval of City Council to implement the 2.5% @ 55 formula to go into effect October 2008, the Employer rate will become 15.084% (an increase of 2.52%) and the Employee rate will become 8%. Miscellaneous employees began contributing the 1% of salary toward the Employee rate, in accordance with the MOU provisions on September 1, 2007. If the formula is adopted as a contract amendment, the additional 2.52% Employer rate will go into effect September 1, 2008.

Employees who retire after October 1, 2008 will then be eligible for the 2.5% @ 55 factor in their retirement calculations. All prior years of City of Costa Mesa service will be converted. This will be used in addition to age and years of service in calculating their pension benefit. It will not affect any retirees or former employees of the City of Costa Mesa.

ALTERNATIVES CONSIDERED:

The Memorandum of Understanding (MOU) was adopted and it represents the successful conclusion of the legal process, and as such, no alternatives are being considered.

FISCAL REVIEW:

The CalPERS regulations require that all (represented and non-represented) miscellaneous employees agree to the implementation of a benefit requiring changes in the employee/employer contribution amount. The City Council has directed that the

employees pay the entire cost of the contract amendment (based upon the most current actuarial information prior to adoption of the CalPERS contract amendment). In preparation, early salary reduction of 1% for all Miscellaneous employees was implemented on September 1, 2007. An additional 2.52% salary reduction will occur as of September 1, 2008 for Miscellaneous employees eligible for CalPERS retirement. The impact of this benefit will be factored in to the City's annual actuarial valuation performed by CalPERS.

LEGAL REVIEW:

Legal has reviewed the documents and approved them as to form.

CONCLUSION:

Staff recommends that the City Council adopt a Resolution of Intention to Approve an Amendment to the Contract between the Board of Administration of the California Public Employees' Retirement System and the City Council of the City of Costa Mesa; and authorize the City Clerk to execute the Certification of Governing Body's Action (PERS-CON-12) and Certification of Compliance with Government Code Section 7507 (PERS-CON-12A)

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ATTACHMENTS: I [Resolution of Intention and Exhibit Amendment to Contract](#)
II [Certification of Governing Body's Action](#)
III [Certification of Compliance with Government Code Section 7507](#)
IV [Cost Analysis](#)
V [Summary of Major Provisions \(2% @ 55 Formula\)](#)