



CITY COUNCIL AGENDA REPORT

MEETING DATE: JULY 21, 2009

ITEM NUMBER: Item Number

SUBJECT: RESOLUTION OF INTENTION TO AMEND THE CONTRACT BETWEEN CALPERS AND THE CITY OF COSTA MESA, FIRST READING OF ORDINANCE AND DISCLOSURE OF COSTS TO PROVIDE TWO YEARS ADDITIONAL SERVICE CREDIT

DATE: JULY 9, 2009

FROM: ADMINISTRATIVE SERVICES DEPARTMENT/HUMAN RESOURCES DIVISION
FINANCE DEPARTMENT

PRESENTATION BY: STEPHEN N. MANDOKI, ADMINISTRATIVE SERVICES DIRECTOR
MARC PUCKETT, DIRECTOR OF FINANCE

FOR FURTHER INFORMATION CONTACT: DEBRA YASUI, HUMAN RESOURCES ADMINISTRATOR
MARC PUCKETT, DIRECTOR OF FINANCE

RECOMMENDATION:

- 1) Adopt Resolution of Intention Number __ (Attachment I) to amend the contract for Safety members between the Board of Administration/ California Public Employees' Retirement System (CALPERS) and the City Council of the City of Costa Mesa.
- 2) Give first reading to Ordinance Number __ (Attachment II) authorizing an amendment to the contract between the City Council of the City of Costa Mesa and the Board of Administration of the California Public Employees' Retirement System.
- 3) Authorize the City Clerk to execute required CalPERS certifications and documents (for Safety and Miscellaneous groups):
 - o CON-12- Certification of Governing Body's Action (Attachment III).
 - o CON-12A – Certification of Compliance with Government Code Section 7307 (Attachment IV).
 - o Certification of Compliance with GC Section 20903 (Attachment V).
- 4) Receive and file notice of Cost Disclosure to provide two years additional service credit for Safety and Miscellaneous members.

BACKGROUND:

The City contracts with CalPERS for retirement benefits for all full time employees and some eligible part-time employees who qualify for retirement benefits. CalPERS maintains a variety of options for contracting agencies. One of these options, under Government Code Section 20903, allows a contracting agency to provide "Two Years Additional Service Credit" to qualifying employees. In order to

be eligible for this benefit, an employee must reach the minimum retirement age (50) and be vested with CalPERS (attain five membership years).

The provision for the "Two Years Additional Service Credit" is designed to assist agencies during periods of economic or financial crisis. In particular, it provides an incentive for retirement through additional service credit and may only be offered in the event of impending mandatory transfers, demotions or layoffs.

At the City Council meeting of April 14, 2009, budget development strategies for fiscal year 2009/10 were brought before the City Council for discussion and direction. These management budget strategies included ten elements that were a combination of operating budget reductions, revenue increases, reductions in employee compensation and benefits and a limited use of reserves. One of the elements of this "ten point" plan was to "Offer PERS Retirement Incentive to create vacancies to (a) reduce the number of personnel that may be laid off as a result of reductions in departmental operating budgets and (b) create additional vacancies needed for budgetary purposes." This strategy assumed a total of 50 employees would opt to retire under this incentive plan. Of these 50 positions, 25 positions are assumed to be eliminated creating an estimated total savings of **\$3,485,000.**

In 1992, the City amended its contract for miscellaneous (non-safety) employees with CalPERS to offer the "Two Years Additional Service Credit" optional benefit. At that time, the City did not contract with CalPERS for sworn Police or Fire retirement benefits. As a result, offering the "Two Years Additional Service Credit" benefit as part of the "ten point" plan requires that the City amend the contract with CalPERS to include the benefit in its contract with CalPERS for local police and fire employee retirement benefits. In addition, granting the "Two Years Additional Service Credit" benefit for the miscellaneous group would require the designation of another retirement window period which must be a minimum of 90 days and a maximum of 180 days.

ANALYSIS:

Pursuant to the options outlined in the City Manager's "ten point" plan, Staff contacted CalPERS to initiate the process to offer "Two Years Additional Service Credit" to all eligible safety and miscellaneous employees. The appropriate documents and directions have since been received.

The City is currently in discussions with the various employee associations to discuss the elements of the "ten point" plan that require compliance with the meet and confer element of the Government Code Section 3500 et seq. (Meyers-Milias-Brown Act). While this process is being completed, staff is moving forward with the steps necessary to amend the safety contracts.

In order to amend the City's CalPERS contracts for Safety members, the City must do the following:

1. Designate the job classification(s), department(s), or units(s) eligible for this benefit (e.g., Miscellaneous or Safety employees, fire, police, secretaries, Finance Office employees, etc.). Anyone employed in that designated unit or classification is eligible for the two years service credit if all other requirements are met. (The

benefit cannot be provided on the basis of employee organization or unrepresented groups.)

2. Designate a time period of 90 to 180 days during which an eligible member must retire to receive the additional service credit. Since the member must be in employment status and retire during the designated period, the retirement date may not be the first day of the designated period.

3. Certify the governing body has determined that because of an impending curtailment of, or change in the manner of performing service, the best interests of the agency would be served by granting such additional service credit.

4. Certify that the governing body is electing to become subject to the provision of Section 20903, because of impending mandatory transfers, demotions, and layoffs that constitute at least 1% of the designated job classification, department, or organizational unit resulting from the curtailment of or change in the manner of performing its services.

5. Certify that it is the governing body's intention at the time Section 20903 becomes operative to keep all vacancies or at least one vacancy in any position in any department or other organizational unit created by retirements under this section permanently unfilled thereby resulting in an overall reduction in the work force of such department or organizational unit.

6. Certify each member's eligibility to receive the additional service credit and non-receipt of unemployment insurance payments during the specified period.

It is staff's recommendation that Miscellaneous and Safety classifications be eligible for two years additional service credit. The retirement window period for the Miscellaneous group may commence as early as August 5, 2009. The designated window period for the Safety classifications may begin as early as August 19, 2009 (with passage of an urgency ordinance for the Safety group).

The City Attorney recommends that both an urgency ordinance and non-urgency ordinance be acted on concurrently. If adopted, the urgency ordinance would take effect immediately and would cause the contract amendment to take effect on August 19, 2009. If the non-urgency ordinance is adopted, the contract amendment would take effect on September 17, 2009 (30 days after adoption of the ordinance).

In order to proceed, the following are planned for presentation to the City Council for action at the following City Council Meetings:

- 1) August 4, 2009: Adoption of "Resolution to Grant Another Designated Period for Two Years Additional Service Credit" for the Miscellaneous group.
- 2) August 18, 2009: Adoption of urgency ordinance to amend the contract for the Safety group and second reading and adoption of a non-urgency ordinance to amend the contract for the Safety group.

The attached documents ensure that everything is in accordance with CalPERS' regulations.

ALTERNATIVES CONSIDERED:

Requirements of Meet and Confer as referenced in Government Code Section 3500 et seq. (Meyers-Milias-Brown Act) and Meet and Consult have been fulfilled. If CalPERS adoption requirements are met, no other alternatives are being considered.

FISCAL REVIEW:

A total of 145 employees within the classifications identified above are of retirement age and would be eligible for the "Two Years Additional Service Credit" benefit. With the addition of this amendment, some may choose to retire during the designated period to take advantage of the additional years of service time. Government Code Section 20903 requires that the cost implications of the proposed amendment be made public at a public meeting at least two weeks prior to the adoption of the final ordinance. The City is to certify compliance for said action. Implementation of this amendment is only possible if the governing body certifies that it is the intention that at least one position remain permanently unfilled.

Using cost factors supplied by CalPERS based on age for eligible employees to estimate the total cost of this benefit, it is estimated that if all 145 eligible employees elected to retire, the present value of the additional actuarially accrued liabilities would amount to **\$8,929,020.45**. No increase in the Employer Required Contribution (ERC) rate would occur for two years. In year three, the ERC rate would increase by approximately \$674,397 (plus the relative value of any wage increases granted to employee groups during the ensuing two years).

The FY09-10 Adopted Budget assumes that 50 employees would take advantage of the CalPERS retirement incentive and that 25 of those positions vacated would not be replaced. Based upon the average pay rate of \$88,056 for eligible employees, the average annual payroll savings would be \$2,201,400 plus savings for new hires that are hired at a lower step on the wage scale than those that were replaced. Additionally, it is anticipated that the savings would be still higher as those individuals that are more highly compensated with greater years of service would be more likely to opt to accept the retirement incentive. The additional annual ERC rate would be approximately \$232,550 under these assumptions. The average annual payroll savings net of the additional ERC would be approximately \$1,968,850 under this scenario.

Again, it is important to note that the actual savings due to the CalPERS retirement incentive will not be known until the time period to accept the retirement incentive has lapsed and the employees electing to retire are known.

LEGAL REVIEW:

The attached Resolution Number ___ and Ordinance Number ___ have been reviewed by the City Attorney and is approved as to form.

CONCLUSION:

One component of the City's "ten point" budget strategy plan for fiscal year 2009/10 is to offer the CalPERS retirement incentive of Two Years Additional Service Credit to create vacancies within the City. Staff recommends that the City Council authorize and approve the procedural steps as required by CalPERS.

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Director of Administrative Services

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Director of Finance

KIMBERLY HALL BARLOW
City Attorney

DISTRIBUTION: City Manager
City Attorney
City Clerk
Director of Finance

ATTACHMENTS: I [Resolution of Intention No. ___ and Exhibit Amendment to Contract](#)
II [Ordinance No. ___ Authorizing Amendment to Contract](#)
III [Con 12 - Certification of Governing Body's Action](#)
IV [Con 12A - Certification of Compliance with Government Code Section 7307](#)
V [Certification of Compliance with Government Code Section 20903](#)