



# *CITY COUNCIL AGENDA REPORT*

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MEETING DATE: APRIL 6, 2010

ITEM NUMBER:

**SUBJECT:** AMENDMENT TO THE CONTRACT BETWEEN CALPERS AND THE CITY OF COSTA MESA - 3%@50 FORMULA (SAFETY-FIRE PLAN)

**DATE:** MARCH 25, 2010

**FROM:** ADMINISTRATIVE SERVICES DEPARTMENT/HUMAN RESOURCES DIVISION

**PRESENTATION BY:** DEBRA YASUI, HUMAN RESOURCES ADMINISTRATOR

**FOR FURTHER INFORMATION CONTACT:** DEBRA YASUI AT (714) 754-5052  
RYAN THOMAS AT (714) 754-5104

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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 (CalPERS) and the City Council of the City of Costa Mesa (Exhibit) in order to implement the 3% @ 50 retirement formula for eligible Fire Safety employees.
- 2) Introduce, give first reading to be read by title only to, and waive further reading of Ordinance No. \_\_\_\_ (Attachment II), which authorizes the amendment to the CalPERS contract to implement the 3%@50 retirement formula for eligible Fire Safety employees.
- 3) Authorize the City Clerk to execute the Certification of Governing Body's Action – PERS-CON- 12 (Attachment III).
- 4) Authorize the City Clerk to execute the Certification of Compliance with Government Code Section 7507 – PERS-CON-12AA (Attachment IV).

## **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 2.5% @ 55 plan for Miscellaneous employees.

At the Special Meeting of the City Council Meeting on August 11, 2009, the City Council approved the Memorandum of Understanding (MOU) with the Costa Mesa Firefighters Association (CMFA) that extended the existing agreement through June 30, 2013.

Section 6.1, "CalPERS", of the MOU, states: "...The City agrees to implement procedures to amend the CalPERS Safety Plan to provide Government Code 21362.2 (3%@50) retirement benefits to be effective in January 2010, or as soon thereafter as permitted by CalPERS. Pursuant to CalPERS regulations, this new formula will apply to all employees that are in active status on the date this amendment takes effect. This new formula will apply to each year of eligible service credited with the City of Costa Mesa. After the CalPERS contract has been amended to provide the 3%@50 benefit, the City also agrees to amend the CalPERS Safety Plan to provide CalPERS 20903 (Two Years Additional Service Credit) option as soon thereafter as permitted by CalPERS."

CalPERS requires that certain steps be completed prior to processing a contract amendment. First, a special actuarial valuation for the proposed plan amendment must be completed by CalPERS. CalPERS begins accepting requests for these valuations on August 1<sup>st</sup> of each year; however, they do not begin processing them until November. City staff submitted a request on August 2, 2009. On January 25, 2010, the City received the required actuarial valuation and followed up with a request to CalPERS to begin the contract amendment process to provide the 3%@50 retirement formula for the Fire Safety group. On February 16, 2010, the City received the forms and information necessary to amend the contract with CalPERS.

### **ANALYSIS:**

This CalPERS contract amendment was a key provision of the negotiated agreement between the City and the CMFA that was approved by the City Council on August 11, 2009. 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:

- First, a Resolution of Intention must be approved by the City Council, and a first reading of the Ordinance authorizing an amendment to the contract must occur. In addition, authorization for the City Clerk to provide Certification of Governing Body's Action and Certification of Compliance with Government Code Section 7507 are required (April 6, 2010 City Council Meeting). Effective January 1, 2009, Government Code Section 7507 requires that future annual costs of the proposed contract amendment be made public at a public meeting at least two weeks prior to the adoption of the final Ordinance. If future costs exceed ½ of 1% of the future annual costs of existing benefits, an actuary must be present at the meeting to provide information. Richard Santos, Senior Pension Actuary of CalPERS, will be present at this meeting should specific questions be asked.
- A final reading of the Ordinance (May 4, 2010 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 June 3, 2010.
- 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.

Therefore, the earliest possible effective date of the contract amendment would be June 6, 2010, the first day of the payroll period. Employees who retire after that date will be eligible for the 3%@50 factor in their retirement calculations. This amendment will not affect any retirees or former employees of the City of Costa Mesa. For information purposes, attached is the "Summary of Major Provisions" for the 3%@50 formula (Section 21362.2) Local Safety Members (Attachment V).

**ALTERNATIVES CONSIDERED:**

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

**FISCAL REVIEW:**

The CalPERS contract amendment cost analysis/actuarial study indicates that this enhancement will lead to an increase in the 2010/2011 employer contribution rate of 6.549% (from 26.242% to 32.791%). The employee rate for this amendment would remain unchanged at 9%. The budget impact of this rate increase for 2010/2011 is an increase in the Fire Department – Retirement Account of \$694,171. This increase is offset by the reduction in total personnel from 96 to 84, a savings of approximately \$1.8 million. The total net savings for 2010/2011 is approximately \$1.1 million.

According to CalPERS, the change in accrued liability to provide this benefit is \$4,936,806. The present value of benefits is \$5,251,094.

**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; introduce and give first reading to the Ordinance which authorizes the amendment to the contract to implement the 3%@50 retirement formula for eligible Fire Safety employees; 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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Human Resources Administrator/Risk

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STEPHEN N. MANDOKI  
Director of Administrative Services

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COLLEEN O'DONOGHUE  
Assistant Finance Director

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KIMBERLY HALL BARLOW  
City Attorney

DISTRIBUTION: City Manager  
City Attorney  
City Clerk  
Assistant Finance Director  
Budget and Research Manager

ATTACHMENTS: I [Resolution of Intention and Exhibit Amendment to Contract](#)  
II [Ordinance No. \\_\\_\\_\\_\\_](#)  
III [Certification of Governing Body's Action](#)  
IV [Certification of Compliance with Government Code Section 7507](#)  
V [Summary of Major Provisions \(3% @ 50 Formula\)](#)