



# *CITY COUNCIL AGENDA REPORT*

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MEETING DATE: MARCH 6, 2012

ITEM NUMBER:

**SUBJECT:** AMENDMENT TO THE CONTRACT BETWEEN CALPERS AND THE CITY OF COSTA MESA TO INCLUDE PROVISIONS PURSUANT TO GOVERNMENT CODE SECTION 20475 IN ORDER TO IMPLEMENT THE 2%@60 RETIREMENT FORMULA (MISCELLANEOUS GROUP)

**DATE:** FEBRUARY 23, 2012

**FROM:** CEO's OFFICE/HUMAN RESOURCES DIVISION

**PRESENTATION BY:** LANCE M. NAKAMOTO, HUMAN RESOURCES MANAGER  
BOBBY YOUNG, DIRECTOR OF FINANCE AND I.T.

**FOR FURTHER INFORMATION CONTACT:** LANCE M. NAKAMOTO AT (714) 754-5172  
RYAN THOMAS AT (714) 754-5104

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## **RECOMMENDATION:**

Staff recommends that the City Council:

- 1) Adopt Urgency Ordinance No. 12 - (Attachment I) which authorizes 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 in order to implement the lower-level retirement formula of 2%@60 for Miscellaneous employees under Government Code Section 20475.
- 2) Give second reading by title only and adopt Ordinance No. 12- (Attachment II), which authorizes the amendment to the CalPERS contract to implement the 2%@60 retirement formula for Miscellaneous employees under Government Code Section 20475.

## **BACKGROUND:**

Presently, the City of Costa Mesa contracts with CalPERS for a 2.5% @ 55 retirement plan for Miscellaneous employees. At a Special Meeting of the City Council Meeting on October 26, 2010, the City Council adopted a Side Letter of Agreement (LOA) with the Costa Mesa City Employees Association (CMCEA). The LOA amends the existing CMCEA Memorandum of Understanding (MOU) by adding "Section III, Article 6 – Retirement – PERS Retirement Formula – New Hires: CMCEA agrees to the City implementing a second tier PERS Retirement Formula of 2%@60 for new hires and that the employees hired after the implementation of the 2%@ 60 formula will pay 7.0% of their PERSable earnings towards the employee retirement contribution."

## **ANALYSIS:**

There is a specific period of time each year when Cal PERS allows agencies to amend their contracts. In addition, California regulations allow only one contract amendment to be processed with CalPERS at a time.

In order to process contract amendments involving benefits with CalPERS, the City must first request preparation of a special valuation from CalPERS that discloses the costs (or savings) of the specific benefit being requested. This is required in order to disclose costs (or savings) to the public during the next step, the contract amendment process. Once the valuation is received by the City, a request is made to CalPERS to begin the contract amendment process. It takes approximately 30 days from the date of request for CalPERS to prepare and deliver the required contract amendment documents.

During the past several months staff has been working with CalPERS representatives to assemble the required paperwork and documentation necessary to implement the 2%@60 retirement formula with one year final compensation and post retirement survivor allowance.

Further, CalPERS requires that clearly defined procedures established by State statute be followed for contract amendments. The following are regulations required by CalPERS in order to complete the contract amendment process:

1. On February 7, 2012, Resolution of Intention No. 12-9 was approved by the City Council, and a first reading of the Ordinance authorizing an amendment to the contract occurred. In addition, authorization was given for the City Clerk to provide "Certification of Governing Body's Action", "Certification of Compliance with Government Code Section 7507" and "Certification of Compliance with Government Code Section 20475".
2. A final reading of the Ordinance and a City Council vote on adoption must occur at least twenty (20) days after the adoption of the Resolution of Intention (March 6, 2012 City Council Meeting). The City Attorney recommends that an Urgency Ordinance be acted on concurrently. If the Urgency Ordinance is adopted, it will take effect the day following adoption, March 7, 2012.
3. 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 (or Urgency Ordinance). Therefore, the earliest possible effective date of the contract amendment would be March 11, 2012, the first day of a payroll period.

## **ALTERNATIVES CONSIDERED:**

The implementation of this second tier retirement plan is the City's obligation under the LOA that was agreed to by both parties. In addition, this is the lowest CalPERS authorized formula for miscellaneous employees that is available to the City. Any other alternatives that the City Council would like to discuss with CMCEA would have to be done through the meet and confer process.

## **FISCAL REVIEW:**

The City's immediate total fiscal impact of this amendment is unknown at this time due to fact that the 2%@60 benefit will only be given to new employees. However, the 2%@60 benefit is less expensive and therefore will cost less than the current [2.5%@55](#) benefit. According to a CalPERS valuation prepared for this contract amendment, when the total number of active members is the same in both plans the decrease in the employer rate would be 2.6%, a savings of about \$500,000 with the current payroll.

In the meantime, the City may have less active participants in the [2.5%@55](#) plan, which may increase PERS rates for that plan, but the total retirement cost to the City should remain constant before reducing over time.

Also, the lower benefit should also provide lower total liabilities and therefore help reduce total unfunded liabilities the City currently has and would continue to have if new hires were provided the [2.5%@55](#) benefit. Plans with this lower benefit would also be less volatile during periods of economic recession and therefore more stable.

## **LEGAL REVIEW:**

The City Attorney's Office has reviewed the attached documents and, where appropriate, approved them as to form.

## **CONCLUSION:**

The final step in the process to establish a second tier 2%@60 retirement formula for new hires within the Miscellaneous employees group is the adoption of the ordinance authorizing the amendment to the contract to implement Government Code Section 20475.

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LANCE M. NAKAMOTO  
Human Resources Manager

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TAMARA S. LETOURNEAU  
Interim Assistant CEO

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BOBBY YOUNG  
Director of Finance and I.T.

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TOM DUARTE  
City Attorney

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

ATTACHMENTS: I [Urgency Ordinance No. 12 -](#)  
II [Ordinance No. 12 -](#)