M E M O R A N D U M

F i n a n c e   D e p a r t m e n t

DATE: October 9, 2007

TO: City Council

FROM: Dave Warren
Director of Finance

SUBJECT: **APPROVAL OF AN AMENDMENT TO THE CONTRACT WITH CALPERS**

RECOMMENDATION:

That the City Council take the following actions:

1. Waive the second reading of an Ordinance amending Title I, Chapter 7: Retirement System and approving the amendment to the contract with CalPERS; and
2. Adopt the said Ordinance pending the results of the employee election.

BACKGROUND:

At its regular meeting on August 14, 2007, the City Council adopted Resolutions ratifying a Memorandum of understanding (MOU) with the General Unit Employees' Association (PGUEA) and salary and benefit provisions for the unrepresented employee units including confidential, executive management, and supervisory employees for the period from July 1, 2007 to June 30, 2010. The PGUEA MOU and the Resolutions for unrepresented employees' salary and benefits included language that will enhance the current CalPERS Miscellaneous (non-sworn) employee retirement benefit formula from 2% @ 55 to 2.5% @ 55 effective the first full pay period in January 2008. In exchange, all bargaining groups agreed to discontinue the employer-paid deferred compensation (IRC Section 457) program effective the same date as the retirement formula enhancement.

Tonight is Part II of a two part series. At its regular meeting on September 11, 2007, the City Council adopted Resolution No. 7545 (please see attached) and introduced an Ordinance that would amend the City's contract with CalPERS (Part I). Tonight, staff is recommending the City Council waive the second reading and adopt the attached Ordinance (Part II).

ANALYSIS:

In order for the City to change the Miscellaneous employee retirement formula to 2.5 @ 55, the City must take the following actions:

1. Adopt the attached Resolution of intention.
2. Introduce the attached Ordinance amending Title I, Chapter 7: Retirement System and approving the amendment to the contract with CalPERS.
3. Conduct an employee election (the City must obtain a majority "yes" vote in order to receive approval from CalPERS).
4. Adopt the attached Ordinance approving the amendment to the contract with CalPERS.

As mentioned above, the City Council has introduced the Ordinance and adopted the Resolution of intention. In accordance with Government Code Section 20474, the City conducted a secret ballot election From October 3rd to the 8th. The results of the election will be presented to the City Council tonight. Staff is requesting the City Council to waive the second reading and adopt the attached Ordinance pending the results of the employee election.

FISCAL IMPACT:

In response to PGUEA's proposal to enhance its retirement benefits, staff requested CalPERS to perform an actuary study last spring to determine the additional cost of the 2.5% @ 55 retirement formula last spring. The study analyzed the changes in the retirement plan's present value of benefits, accrued liability, and employee and employer contribution rates. The present value of benefits represents the total dollars needed today to fund all future benefits for the current members of the retirement plan. The proposed retirement enhancement will increase the present value of benefits by $817,425 (based on an actuarial analysis). The accrued liability is equal to the present value of benefits less the present value of scheduled future employer contributions at normal cost. The proposed retirement enhancement will increase the accrued liability by $351,576 (based on an actuarial analysis). Due to the $351,576 increase in the accrued liability, the employer contribution rate will increase by 2.90% of credible payroll (salaries that are retirement applicable). Staff has projected the annual cost (full-exposure) to the City to be $117,117.

As mentioned above, the affected bargaining units agreed to discontinue the employer-paid deferred compensation program in exchange for the 2.5% @ 55 retirement formula. The annual cost savings of discontinuing the employer-paid deferred compensation program is $104,009. So, the annual net cost of enhancing the Miscellaneous retirement formula to 2.5% @ 55 and discontinuing the employer-paid deferred compensation program is $13,108 ($117,117 - $104,009) at this time. Because the proposed change will begin the first full pay period in January 2008, the projected cost for Fiscal Year 2007/2008 is $6,050. The $6,050 cost can be absorbed by the adopted Operating Budget.

Tonight, staff respectfully requests the City Council to waive the second reading and adopt the attached Ordinance.

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Dave Warren
Director of Finance

Reviewed and Approved:

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John Driscoll
City Manager/City Attorney