



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: October 25, 2011

TO: Mayor and Councilmembers

FROM: City Administrator's Office

SUBJECT: Add Public Employee Retirement System Cost Sharing Alternatives
To Memorandum Of Understanding

RECOMMENDATION: That Council:

- A. Introduce and subsequently adopt, by reading of title only, An Ordinance of the Council of the City of Santa Barbara Amending the 2010-2013 Police Officers Association Memorandum Of Understanding to Include an Alternative Public Employee Retirement System Cost Sharing Scenario;
- B. Introduce and subsequently adopt, by reading of title only, An Ordinance of the Council of the City of Santa Barbara Amending the 2011-2013 Patrol Officers' and Treatment Plants' Bargaining Units (Treatment and Patrol Units) Memorandum Of Understanding to Include an Alternative Public Employee Retirement System Cost Sharing Scenario; and
- C. Introduce and subsequently adopt, by reading of title only, An Ordinance of the Council of the City of Santa Barbara Amending the 2009-2012 Supervisory Employees' Bargaining Unit Memorandum Of Understanding to Include an Alternative Public Employee Retirement System Cost Sharing Scenario.

EXECUTIVE SUMMARY:

Under the current Labor Agreement with the Police Officers Association, employees participate in California Public Employees Retirement System (PERS) retirement cost-sharing. There are three methods to accomplish cost-sharing. Members of the POA wished to continue to pay their contribution through the method that has been used since January 2011, rather than switching to a different method effective September 24, 2011, as provided under the Memoranda Of Understanding (MOU). Since there is no difference to the savings that the City will achieve under this method, staff recommends amending the POA MOU to allow this method.

DISCUSSION:

PERS Cost Sharing Methods

There are three ways to accomplish employee retirement cost-sharing through PERS:

- **Method #1:** The first way is for the employee to contribute toward the employee's 9% PERS member contribution. This reduces both the City's employer-paid member contribution (EPMC) and the cost of the PERS-on-PERS roll-up benefit, under which the EPMC is treated as additional compensation for retirement calculation purposes. Of the three methods, this method requires the lowest employee contribution to achieve similar City savings and can be applied to different bargaining units separately. However, this negatively affects the employee's retirement calculation by reducing the reported single highest year of compensation.
- **Method #2:** The second way is to share part of the cost of the 2001 3% at 50 benefit enhancement by amending the PERS contract pursuant to Government Code Section 20516(a), which reduces the City's required employer contribution. The advantage to employees of using this method is that it does not affect the PERS-on-PERS roll-up benefit, the contributions can be made on a pre-tax basis, and contributions are credited to the member's account and refundable in the event the member does not retire under the PERS system. Because the PERS-on-PERS roll-up benefit is not affected, in order to achieve similar City savings, employees must contribute a higher percentage amount than under the first method to achieve the same City savings.
- **Method #3:** The third way is for employees to reimburse the City directly for part of the cost of the 2001 3% at 50 benefit enhancement, as contemplated under state Government Code Section 20516(f). This does not affect the PERS-on-PERS roll-up benefit, but must be done on a post-tax basis and must be done completely outside of the PERS. As with the second method, in order to achieve similar City savings, employees must contribute a higher percentage amount than under the first method.

Proposed MOU Change

Employees in the POA have been paying toward their PERS under Method #1 since January 2011. At the time the MOU was negotiated, it was hoped that Method #2 could be implemented by September 24, 2011 so that the reduction in the reported single highest year of compensation could be avoided.

However, Method #2 requires the other affected bargaining units under the City's Police Safety PERS plan to agree to contribute equally, and requires a member election of participants. The following employee groups are under the PERS Police Sworn pension plan:

- Police Officers Association (Sworn only)
- Police Managers Association
- Treatment and Patrol Units, SEIU Local 620 (Harbor Patrol only)
- Supervisors Association (Harbor Patrol only)
- Unrepresented Police Managers

The City agreed to approach each of the other employee groups in the PERS Police Safety Plan and ask them to agree to conduct a contract amendment election under California Government Code § 20516(a), and to pay the required deductions if the election were successful. The MOU stipulated that no election would occur until other affected employee groups agreed to participate in a manner that would not increase overall costs to the City. The City negotiated agreements with the Patrol Unit and the Supervisors Association that would allow the election to proceed. However, after multiple meetings with the Police Management Association (PMA), negotiators were not able to agree for PMA members to participate in a manner that would not increase overall costs to the City.

The City and the POA's original agreement provided that, if for some reason Method #2 could not be implemented by September 2011, employees would begin making a contribution under Method #3 instead. This would avoid the reduction in reported single highest year of compensation.

However, since then, the POA has asked the City to consider allowing employees to continue paying under Method #1 rather than switching to Method #3. Although this will not avoid the reduction in employees' reported single highest year, it will require a lesser deduction from employee pay to achieve the needed City savings (2.226% rather than 3%), and it will allow deductions to be made on a pre-tax basis.

Since this can be done with no difference to the savings that the City will achieve, staff recommends amending the POA MOU to allow this. Other bargaining units will participate by contributing under Method #3 as planned. Slight modifications to the Treatment and Patrol MOU and the Supervisors MOU must be implemented to allow these groups to participate in a manner different from the POA.

Correction of Under Deduction

Under the agreement with the POA, employees were to have paid 3% of the 9% employee contribution for the period between June 2011 and September 23, 2011. Due to a typo in the MOU document, employees only paid 2.5% during that three-month period. Rather than do a single retroactive deduction to correct this, under the revised

agreement employees will continue to pay 2.5% through April 2012, and then the deduction will be reduced to 2.266%.

BUDGET/FINANCIAL INFORMATION:

This change will not affect the budgeted value of concessions from employees.

PREPARED BY: Kristine Schmidt, Employee Relations Manager

SUBMITTED BY: Marcelo Lopez, Assistant City Administrator

APPROVED BY: City Administrator's Office