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OAKLAND

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CITY OF OAKLAND
CITY COUNCIL

LEGISLATIVE ANALYST MEMORANDUM

To:	President Brunner and Members of the Finance Committee
From:	Sabrina Landreth, Legislative Analyst
Date:	April 7, 2009
Re:	**Supplemental Report on Early Retirement Incentive**

At its March 24, 2009 meeting, the Finance & Management Committee requested additional information on Early Retirement Incentive Programs in other jurisdictions. The following provides examples of both the PERS Retirement Incentive and Voluntary Separation Programs (VSP).

Voluntary Separation Program (VSP) – Lump-Sum Payments

City of Stockton

The City of Stockton offered a VSP program late 2008 as part of their midyear budget modifications. It was modeled after Sacramento's program, in which an employee would receive one week of pay for every year of service, with a maximum payout of $50,000. The program was open to any employees, not just those who were retirement eligible. They made the lump-sum payments out of their Leave Pay Account.

The City Council initially approved the program in concept in Aug/Sept 2008. Employees had until an October deadline to sign-up. They had one week after that to rescind their application. Initially, 94 employees applied and 77 of those enrolled. Their Council gave final approval of the program in November after the list of people was in place. Employees had to terminate employment by the end of December.

According to their City Manager's Office, Stockton decided to offer the VSP over the PERS program as they could realize the savings much more quickly. The PERS program was too process oriented and lacked the flexibility they needed during their midyear budget reductions. Of note, Stockton budgeted for the savings. They were able to do so because they were in the middle of their midyear budget modifications in December and knew exactly how many people were going to enroll in the program.

In terms of savings, the City of Stockton generated $2.3 million in net savings for the current fiscal year, which represents only half a year of savings as the departures were effective December 31st. They have a hiring freeze in place so they believe the $2.3 million is real savings as those positions will not be filled in the next 18 months. The City was obligated to payout approximately $500,000 in leave payouts (vacation, sick, etc.) for the employees that enrolled. Of note, even though they opened this program up to all employees regardless of their retirement eligibility, only one of the 77 employees was not retirement eligible. Staff estimates that 25 to 30 of the 77 employees were likely to retire this year even without this incentive.

Sacramento (see Attachment A)
The City of Sacramento first offered a VSP in 1993, then again in both March and December 2008. This program is very similar to the Stockton program described above. Employees can receive one week of pay for every year of service with a maximum payout of $50,000. In March, 109 employees accepted the offer. The March buyouts cost the city approximately $4 million up front, but they say they will save $10.5 million from the budget every fiscal year. The $4 million was allocated out of their reserves. In December 2008, the City again opened up enrollment in the VSP, but this time departments are required to fund the costs of the lump-sum payments out of their existing appropriations. Estimates are still pending of the number of employees enrolled during this latest window and the projected savings. Of note, in Sacramento's VSP, the City Manager is the final authority in selecting participants. Employees with ten or more years of service are given first priority.

PERS Retirement Incentive – Two-Years Additional Service Credit

City of Stockton (see Attachment B)
The City of Stockton is in the process of implementing the PERS Retirement Incentive Program. On March 17, 2008, their City Council held a public meeting to discuss the potential costs and savings, as required by state law. Of note, Stockton approved an amended contract with PERS in 2002, and since their contract amendment is still valid, they are able to proceed much more quickly to the enrollment period than those jurisdictions that must go through the potentially lengthy amendment process. Of their estimated 402 employees (out of a total number of approximately 1,600) that are deemed "retirement eligible", 84 have expressed interest in participating.

City of Stockton's comparison of potential cost and savings, by fiscal year:

	FY 2009-10 9 Months	FY 2010-11 Full Year	FY 2011-12 Full Year
Salary Savings	$4,815,618	$6,420,824	$6,420,824
Payroll Related Savings	$3,072,845	$4,097,127	$4,097,127
Total Salary & Other Payroll Related Savings	$7,888,463	$10,517,951	$10,517,951
Cost of Accrued	$3,907,731	$0	$0

Leave Payoffs			
Increased Annual CalPERS Contribution (eff. FY 2011-12)	$3,980,732	$10,517,951	$10,078,885
Net Savings	**$3,980,732**	**$10,517,951**	**$10,078,885**

On March 31st, the Stockton City Council approved resolution to grant a designated period for two additional years of service credit to designated retiring miscellaneous and safety employees who retire between July 1 and December 27, 2009. Of note, the City of Stockton will not be able to budget for the projected savings as they do not know how many employees will ultimately enroll in the program. The City is working with its employee unions to develop ways in which they might be able to get early commitment for participation so that the savings can be factored into their budget process before July 1st.

City of Hayward
The City of Hayward offered the PERS program in 2008. They had a budget savings goal of $4 million per year, expecting to freeze approximately 35 positions organization-wide. However, in their budget discussion last summer, they noted that future layoffs could be necessary depending upon the success of the early retirement program. In September 2008, they announced the freezing of 33 vacant positions and elimination of 16 jobs, as not enough employees enrolled in the early retirement program. The City of Hayward employs about 870 people.

A sample list of other cities that applied for an amendment to their contract so that they could implement the PERS Retirement Incentive Program in 2008 includes Atwater, Burbank, Burlingame, Davis, Grass Valley, Huntington Beach, Monterey, Rohnert Park, San Bernardino, and Turlock. Of note, the number of cities that offered this incentive last year is a bit different as many already had contracts on file with PERS and did not need apply for program participation. Examples include the cities of Alameda and Chula Vista.

REPORT TO COUNCIL
City of Sacramento

915 I Street, Sacramento, CA 95814-2604
www. CityofSacramento.org

CONSENT
December 9, 2008

Honorable Mayor and
Members of the City Council

Title: Voluntary Separation Program

Location/Council District: All

Recommendation: Adopt a **Resolution** 1) establishing the Voluntary Separation Program (VSP), and 2) apply it to unrepresented employees; and 3) allow recognized employee organizations to accept the program as provided herein.

Contact: Geri Hamby, Director of Human Resources, 808-7173

Presenters: N/A

Department: Human Resources

Division: N/A

Organization No: 08001011

Description/Analysis

Issue: The City faces continuing fiscal challenges with the budget deficit projected at $45-50 million in FY 2010. Utilization of the Voluntary Separation Program (VSP) will generate vacancies that will aid in closing the budget gap. Offering VSP is one option to allow employees to leave City employment and create vacancies thus generating savings in future years. All recognized employee organizations will be included if they opt for member participation.

Policy Considerations: The VSP is consistent with budget strategies to help reduce on-going costs and will assist with "right-sizing" the organization to meet reduced revenue trends.

Environmental Considerations: N/A

Sustainability Consideration: N/A

Rationale for Recommendation: By continuing to offer VSP, the City continues

ATTACHMENT A

to generate savings in future years.

Financial Considerations: Departments must fund the costs related to employee Voluntary Separation Program severance within existing appropriations. The severance benefit will be calculated based on a minimum of five (5) years full-time continuous City service, rounded to the nearest year, times the weekly base salary, up to a maximum of fifty thousand dollars ($50,000).

Emerging Small Business Development (ESBD): N/A

Respectfully Submitted by: Geri Hamby
Geri Hamby, Director of Human Resources

Approved by:
Gus Vina, Assistant City Manager

Recommendation Approved:

Ray Kerridge
City Manager

Table of Contents:

RESOLUTION NO. 2008-

Adopted by the Sacramento City Council

December 9, 2008

VOLUNTARY SEPARATION PROGRAM

BACKGROUND

A. The City of Sacramento is facing a revenue shortfall projected through 2009 and future years, which will result in a reduction in service and layoffs of career employees.

B. In an effort to mitigate the impact of layoff on career employees the City is implementing a variety of efforts to assist employees in finding alternative employment in and out of the City.

C. This Voluntary Separation Program is similar to one adopted on March 3, 2008 by the City Council which was successful in creating over 100 vacancies.

D. The city has approached the Recognized Employee Organizations and will be included as they accept the program.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

Section 1. To implement the Voluntary Separation Program terms and conditions attached as Exhibit A.

Section 2. To immediately apply those terms to unrepresented employees and employees represented by recognized employee organizations which have agreed to the terms of the Program.

Section 3. To apply those terms to employees represented by a recognized employee organization which later agrees to those terms as enacted.

Section 4 Departments must fund the costs related to employee Voluntary Separation Program severance within existing appropriations.

Attachment 2

VOLUNTARY SEPARATION PROGRAM
RULES AND PROCEDURES

The following rules and procedures shall govern the application and implementation of the Voluntary Separation Program:

1. Information will be distributed to Department Heads for posting on employee bulletin boards on December 10, 2008 and to employees with paychecks on December 16, 2008.

2. The Departments of Human Resources is designated to administer the Program.

3. The open window period for participation is December 10, 2008, and will close by direction of the City Manager with a 30 day notice.

4. All full-time *career, exempt management and confidential/administrative employees with five* (5) years of continuous City service or more are eligible to apply for the Voluntary Separation Program. Employees with ten (10) or more years will be given first priority.

5. Departments of participating employees must fund the cost related to the employee Voluntary Separation Program, with in existing appropriations.

6. The City Manager or Appointing Authority may offer the Program to individual employee.

7. Employees may request to participate by submitting a completed Employee Request Form to Human Resources.

8. The severance benefit shall be calculated based on full-time continuous City service, rounded to the nearest year, times the weekly base salary, up to a maximum of fifty thousand dollars ($50,000).

9. Any payment under the Program shall not be included as compensation for purposes of SCERS or PERS.

10. In the event there are more employees than the number of voluntary separation slots available, ties or excess requests shall be resolved in favor of the employee with the most seniority.

11. The City Manager or Appointing Authority is the final authority in selecting participants.

12. The Human Resources Department will notify selected applicants of the approval or denial of their requests, calculate the years of service, salary and severance benefit applicable, and notify Payroll of the benefit due the employee and the date it is to be paid.

13. The Human Resources Department will have the employee sign the necessary agreement, waiver and release forms.

14. Employees who accept severance pay are not eligible for unemployment insurance, are not eligible for recall rights, and waive their reemployment rights with the City pursuant to the Rules and Regulations of the Civil Service Board.

15. Upon acceptance of the severance payment offer, the employee agrees to sever any and all rights to City employment, including but not limited to, seniority, layoff, bumping, and/or recall rights, and any appeal rights to any loss of property rights. This severance and waiver shall be effective upon receipt and acceptance of the Agreement. The severance of employment is not a disciplinary action.

12/9/08

Attachment 3

CITY OF SACRAMENTO
VOLUNTARY SEPARATION PROGRAM AGREEMENT

The City of Sacramento ["Employer"] and ____________________________ ["Employee"] agree as follows:

1. Employee has requested participation in the Voluntary Separation Program ["Program"]. Employer has approved this request.

2. Employee has reviewed, understands and agrees to all of the terms and conditions of the Program. A copy of the Program is attached as Exhibit A and incorporated into this Agreement.

3. Pursuant to the Older Workers Benefit Protection Act, Employee has until 5:00 p.m. on ______________ (45 days) to accept the terms of this Agreement. Employee is advised to obtain independent legal advice on its terms, conditions and consequences. Employee acknowledges that [s]he has been given 45 days to review the Program, prior to signing this Agreement.

4. Employee has seven (7) calendar days from the date Employee signs the Agreement to revoke acceptance. To revoke, Employee must sign and deliver to the City Manager a written statement of revocation. The Agreement will be effective after the revocation period expires. Payment will be made to Employee after the effective date of the agreement and upon separation from City service. The separation date as identified in the "Employee Request Form" is ______________________, 20___.

5. Employee agrees to sever any and all rights to City employment, including but not limited to seniority, layoff, bumping and/or recall rights, re-employment rights, and any right to appeal loss of property interests in employment.

6. Employee waives, releases and promises never to assert claims against Employer, or its officers or employees, arising from or related to employment with Employer and/or the termination of employment under the Program. These claims include but are not limited to, claims arising under federal, state, and local statutory or common law, such as the Older Workers Benefit Protection Act, Age Discrimination in Employment Act, Title VII of the Civil Rights Act of 1964, the California Fair Employment and Housing Act, and the law of contract and tort. This waiver and release extends to claims which are presently unknown. In this regard, Employee is aware of and waives the benefit of Civil Code Section 1542 which provides as follows:

> A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.

7. The Employer makes no representations regarding the Employee's ability to deposit any lump sum payments into deferred compensation accounts.

8. This document, contains the entire agreement between the parties and supersedes whatever oral or written understanding they may have had prior to the execution of this Agreement. If any portion of this Agreement or the application thereof

to any person or circumstance shall be held invalid or unenforceable, the remainder of this Agreement shall not be affected thereby and shall be enforced to the greatest extent permitted by law.

Dated:_____________ _____________________________
Employee's Signature

Dated:_____________ _____________________________
Authorized Employer's Signature

March 17, 2009

MEMORANDUM

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: DIANNA R. GARCIA, Director of Human Resources

SUBJECT: **NOTICE OF INTENT TO PROVIDE TWO YEARS OF ADDITIONAL SERVICE CREDIT – P.E.R.S. INCENTIVE FOR SPECIFIC DEPARTMENTS AND / OR CLASSIFICATIONS AND PUBLIC NOTICE OF COST**

RECOMMENDATION

As a cost savings measure, this is a notice of intent to offer the two years of additional service credit CalPERS incentive benefit to specific departments and/or classifications and provide public notice of the cost to provide this benefit in accordance with CalPERS requirements and in accordance with Government Code Section 7507. The purpose of offering the CalPERS incentive is to achieve savings in salary and other employee related costs through the elimination of positions in specific departments, mitigating the need for layoffs. The maximum annual increase in employer retirement contributions would be $1,434,000, per year, for up to 20 years. The City could realize an annual savings of up to $10,517,000 for salary and other payroll-related benefit expenses. There is no action required by the Council at this time.

SUMMARY

Declining revenues and the need to reduce expenditures requires the City of Stockton to identify ways to reduce the workforce and associated costs.

The City contracts with CalPERS to provide retirement benefits for all full-time employees. As a cost-savings measure, during difficult economic times, CalPERS allows contracting agencies to provide two years of additional service credit for employees in selected job classifications, departments, or units. This retirement incentive encourages employees to separate from City employment, during a period of time designated by the City Council, by providing them with two additional years of retirement service credit. Offering this benefit provides the City with a means of reducing the workforce during times of financial hardship and/or impending layoffs.

In accordance with Government Code section 7507 and 20903, CalPERS requires several actions to be taken prior to offering the incentive.

The agency's first action is to make public the potential costs for granting this additional benefit. Government Code Section 7507 requires that the cost to provide this benefit be made public at a public meeting at least two weeks prior to the adoption of the Resolution.

ATTACHMENT B

March 17, 2009

The second action, in order to comply with Government Code 20903, requires the City Council to certify:

1) The job classification(s), department(s), or unit(s) eligible for this benefit.

2) The designated time period during which an eligible member must retire to receive the additional service credit will be 90 to 180 days.

3) The best interests of the agency will be served by granting such additional service credit, due to impending curtailment of, or change in the manner of performing service.

4) The added cost to the retirement fund for all eligible employees who retire during the designated window period will be included in the contracting agency's employer contribution rate for the fiscal year that begins two years after the end of the designated period.

5) The City has elected to participate in accordance with Section 20903 because of impending mandatory transfers, demotions, and layoffs that constitute at least 1% of the designated job classification, department or an organizational unit resulting from the curtailment of, or change in the manner of performing its services.

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

The Director of Human Resources will bring to the City Council on March 31, 2009, a recommendation to adopt a resolution that would provide additional service credit for eligible employees in a specific department and/or specified classification who retire during a designated window period, as listed in Attachment A.

FISCAL IMPACT

The cost for each eligible employee varies depending on the individual's age and pay rate. The actual cost is calculated by multiplying the annual salary for each eligible employee by the cost factors noted below:

AGES	ESTIMATED COST FACTOR
50-54 (Public Safety)	.87
55-59 (Public Safety)	.82
50-54 (Miscellaneous)	.47
55-59 (Miscellaneous)	.56
60-64 (Miscellaneous)	.57

March 10, 2009

The estimated cost disclosed at this public meeting represents the maximum present value to fund this benefit, if all eligible employees were to apply for retirement during the designated period. The actual cost for employees who retire will be added to the City's employer contribution rate commencing with the fiscal year starting two years after the end of the designated period and amortized over a twenty-year period. Attachment B shows the potential savings of implementing this program.

Actions to be Taken

- The City Council receives the Notice of Intent to provide additional service credit to specific departments and/or specified classifications (as shown in Attachment A.)
- The City Clerk certifies compliance with Government Code Section 7507 (as shown on Attachment B).
- The City Clerk certifies compliance with Government Code Section 20903.
- Staff will return to the City Council at the meeting of March 31, 2009, with the implementing resolution pursuant to the CalPERS requirements. The designated period will begin July 1, 2009 and will last between 90 and 180 days.

Approved by:

Dianna R. Garcia
DIANNA R. GARCIA
DIRECTOR OF HUMAN RESOURCES

Johnny Ford
J. GORDON PALMER, JR.
CITY MANAGER

DRG/TRM

Attachment A: Maximum Cost of CalPERS Incentive & Potential Savings
Attachment B: List by Department by Miscellaneous and Safety

ATTACHMENT A
MAXIMUM COST AND POTENTIAL SAVINGS OF PROPOSED CalPERS TWO YEAR SERVICE CREDIT
P.E.R.S. INCENTIVE

	Maximum Possible Cost Based on Total No. of Eligible Employees	Probable Cost Based on Employees Likely to Accept
Number of Positions	402	84
Total Cost of Early Retirement Program	$18,995,635	$5,813,240
Annual Increase in PERS Contribution (for 20 year period beginning FY 11-12) *	$1,434,716	$439,066

* Annual increase based strictly on cost of this PERS incentive. Does no factor in other potential rate increases.

	All 402 Eligible Employees	
Total Est Annual Cost of Affected Employees:		
Total Salaries	$28,852,396	$6,420,824
Total Benefits/Insurances	$19,282,606	$4,097,127
Total Est Cost	$48,135,002	$10,517,951

Minimum Salary Savings Required by P.E.R.S. (1% of Applicable Salaries)	$288,524	$64,208

Budget Comparison of Cost and Savings, by Fiscal Year:

Probable Scenario based on those likely to accept (est 84 accepting with est. 74 positions eliminated):

	FY 2009-10 Nine Months	FY 2010-11 Full Year	FY 2011-12 Full Year
Reduction in Salary Costs	$4,815,618	$6,420,824	$6,420,824
Reduction in Payroll Related Costs	$3,072,845	$4,097,127	$4,097,127
Total Salary & Other Payroll Related Costs	$7,888,463	$10,517,951	$10,517,951
Cost of Accrued Leave Payoffs	$3,907,731	$0	0
Increased Annual CalPERS Contribution (eff FY 2011-12)	$0	$0	$439,066
Net Savings	**$3,980,732**	**$10,517,951**	**$10,078,885**

ATTACHMENT B
LIST OF AFFECTED DEPARTMENTS
BY MISCELLANEOUS AND SAFETY CATEGORY
P.E.R.S. INCENTIVE

BY DEPARTMENT:	Polled "Yes" w/o conditions	Number Eligible in Stated Dept
City Clerk	1	8
City Manager	2	7
Financial Mgmt (2 + 1 in IT)	3	30
City Attorney	1	7
Human Resources (1 + 1 in ISF)	2	6
Community Development	5	25
Police	32	108
Fire	20	34
Public Works	7	123
Community Services - P&R and Library	8	34
Revitalization	2	13
Muncipal Utilities Dept	1	7
Total	84	402

March 31, 2009

TO: Mayor and City Council

FROM: DIANNA R. GARCIA, Director of Human Resources

SUBJECT: **RESOLUTION TO GRANT A DESIGNATED PERIOD FOR TWO YEARS ADDITIONAL SERVICE CREDIT CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM RETIREMENT INCENTIVE FOR SPECIFIC DEPARTMENTS**

RECOMMENDATION

It is recommended that the City Council adopt a resolution approving a designated period for Two Years Additional Service Credit to designated retiring miscellaneous and safety members who retire between July 1 and December 27, 2009, as a means of addressing the City's current financial situation.

Summary

The City may achieve savings in salary and other payroll-related expenses by offering the California Public Employees' Retirement System retirement incentive to eligible Miscellaneous and Safety members designated by the City Council who retire during the designated time period of July 1 through December 27, 2009. Savings would be realized by permanently eliminating some of the vacated positions, leaving certain job classifications unfilled indefinitely, or filling some positions with new employees hired at a lower rate of pay.

DISCUSSION

Background

The City contracts with the California Public Employees' Retirement System to provide retirement benefits for all full-time employees. In cases of financial hardship and/or impending layoffs, California Public Employees' Retirement Law allows contracting agencies to provide Two Years of Additional Service Credit to employees in specified classifications, departments, or organizational units who retire during a period of time designated by the agency's governing body. In 2002, the City amended its contract with the California Public Employees' Retirement System to provide this optional benefit and designated a period to offer Two Years Additional Service Credit to designated job classifications and/or departments.

Present Situation

Declining revenues and the need to reduce City expenditures have made it necessary for the City to identify ways to reduce its budget. Since over 70% of the City's general fund budget is comprised of employee salaries and benefit-related costs, it is necessary for the City to reduce its workforce and the associated employment costs, in order to address its current economic situation. By offering the California Public Employees' Retirement System retirement incentive, the City can encourage eligible employees to retire, providing the City with a means of reducing its workforce during this current financial situation and curtail impending layoffs.

Multiple planning sessions involving City departments, the City Manager's Office and the Human Resources Department, have been held in an effort to find solutions to address the City's current economic situation. City staff has identified a number of positions that can be eliminated or can remain vacant for an indefinite period of time, which would reduce the City's current workforce and employment expenses. Those positions are incorporated into the Council Resolution to authorize a Two Years Additional Service Credit.

The retirement system requires that certain conditions be met in order for the City to offer Two Years Additional Service Credit. These conditions are outlined in the Certification of Compliance with Government Code Section 20903. The City's current situation and the course of action being considered with regard to a workforce reduction meet the criteria of Government Code Section 20903. A Certification of Compliance is included with the Council Resolution to offer this retirement incentive along with the other required Certifications.

The application period has been established as April 1, 2009 through April 30, 2009, and is open to eligibles as identified in Exhibit A. The Police Unit may be excluded if the current salary dispute is not resolved by the end of the designated application period. If the participation level is not sufficient to meet the City's fiscal objective then this incentive program will not be implemented.

FINANCIAL SUMMARY

The maximum cost of this program is $1,434,000 per year, in additional retirement contributions to the retirement system, for up to 20 years. This cost excludes any rate adjustment PERS may make independent of this program. The potential savings in salaries and other payroll-related costs could be as much as $10,000,000, annually. The City would fund this benefit through regular employer contributions paid for active employees, beginning July 1, 2012.

In accordance with Government Code section 7507, the potential savings and future cost associated with offering this retirement incentive was made public at the Council Meeting held on March 17, 2009. As required by the Government Code, this disclosure was made at least two weeks prior to this recommendation for a Council Resolution to adopt a designated period for the retirement incentive.

Respectfully submitted,

Dianna R. Garcia

DIANNA R. GARCIA
DIRECTOR OF HUMAN RESOURCES

DRG:TM

APPROVED:

J. GORDON PALMER, JR.
CITY MANAGER

Resolution No. ________

STOCKTON CITY COUNCIL

RESOLUTION TO GRANT A DESIGNATED PERIOD FOR TWO YEARS ADDITIONAL SERVICE CREDIT CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM RETIREMENT INCENTIVE FOR SPECIFIC DEPARTMENTS AND/OR CLASSIFICATIONS

The City of Stockton is a contracting public agency of the Public Employees' Retirement System (PERS); and

The Public Employees' Retirement Law sets forth the procedures by which a contracting public agency may amend its contract with PERS; and

In accordance with those procedures, the City Council approved, on February 12, 2002, an amendment to the contract between the Board of Administration of the Public Employees' Retirement System to provide a benefit of Two Years Additional Service Credit (Cal. Gov. Code § 20903) to local Miscellaneous and local Safety members. (See Stockton City Council Ordinance No. 008-02.) The Council deemed the benefit to be in the best interest of the City because of an impending curtailment of, or change in the manner of performing service; and

The Council approved this benefit for all eligible members who retired within the designated period April 1, 2002, through September 27, 2002 (Stockton City Council Resolution No. 02-0020); and

As a result of the City's current financial crisis and the need to reduce its workforce, the City now desires to add another designated period for the Two Years Additional Service Credit benefit, pursuant to the contract amendment referred to above; now, therefore,

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF STOCKTON, AS FOLLOWS:

1. It is in the best interest of the City to provide a benefit of Two Years Additional Service Credit because of an impending curtailment of, or change in the manner of performing service.

2. The benefit is hereby authorized for eligible Miscellaneous and Safety employees who retire within the designated period July 1, 2009, through December 27, 2009, in the departments and job classifications listed in the attached Exhibit "A."

City Atty: Review MJ
Date March 25, 2009

3. The required Certifications of Compliance, attached as Exhibit "B" are hereby approved.

4. Implementation of this program is subject to sufficient participation levels to meet the City's fiscal objectives.

5. The City Manager is hereby authorized to take the steps that are appropriate to carry out the purpose and intent of this resolution.

PASSED, APPROVED and ADOPTED ____________________.

____
ANN JOHNSTON, Mayor
of the City of Stockton

ATTEST:

____
KATHERINE GONG MEISSNER
City Clerk of the City of Stockton

::ODMA\GRPWISE\COS.PER.PER_Library:65966.1

EXHIBIT A

RESOLUTION TO GRANT A DESIGNATED PERIOD FOR TWO YEARS ADDITIONAL SERVICE CREDIT CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM RETIREMENT INCENTIVE

CITY OF STOCKTON
DESIGNATED CLASSIFICATIONS AND DEPARTMENTS

All Miscellaneous Members, unless otherwise noted, in the following Departments:

- Assistant City Attorney
- City Manager's Office
- City Clerk's Office
- Human Resources Department
- Fire Department
- Police Department
- Administrative Services Department
- Community Services Department
- Public Works Department (excluding engineering, administration and solid waste)
- Community Development Department
- Department of Revitalization
- Municipal Utilities Department (administration only)

All Safety Members in the following Departments:

- Fire Department
- Police Department (Subject to outcome of pending salary survey dispute)

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
Employer Services Division
Contract Maintenance Unit
P.O. Box 942709
Sacramento, CA 94229-2709

EXHIBIT B

CERTIFICATION OF COMPLIANCE WITH GOVERNMENT CODE SECTION 20903

In accordance with Government Code Section 20903 and the contract between the Public Employees' Retirement System, the City Council of the City of Stockton hereby certifies that:

1. Because of an impending curtailment of, or change in the manner of performing service, the best interests of the agency will be served by granting such additional service credit.

2. The added cost to the retirement fund for all eligible employees who retire during the designated window period will be included in the contracting agency's employer contribution rate for the fiscal year that begins two years after the end of the designated period.

3. It has elected to become subject to Section 20903 because of impending mandatory transfers, demotions, and layoffs that constitute at least 1 percent of the job classification, department or organizational unit, as designated by the governing body, resulting from the curtailment of, or change in the manner of performing, its services.

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

THEREFORE, the City Council of the City of Stockton hereby elects to provide the benefits of Government Code Section 20903 to all eligible members who retire within the designated period, July 1, 2009 through December 27, 2009.

CITY COUNCIL
OF THE
CITY OF STOCKTON

BY ______________________
Presiding Officer

Attest:

____
Clerk/Secretary

____
Date

2yr certification-PA (Rev. 4/04)

CITY OF OAKLAND
AGENDA REPORT

FILED
OFFICE OF THE CITY CLERK
OAKLAND

2009 APR -2 PM 6: 17

TO: Office of the City Administrator
ATTN: Dan Lindheim
FROM: Office of Personnel Resource Management
DATE: April 7, 2009

RE: **Supplemental Report on the Potential Costs or Benefits of the CalPERS Two Years Additional Service Credit Program ("Golden Handshake")**

SUMMARY

At its March 24, 2009 meeting, the Finance and Management Committee requested that the Office of Personnel Resource Management (OPRM) provide additional information regarding implementation of the CalPERS Two Years Additional Service Credit Program ("Golden Handshake") in order to assess the extent to which this program could provide cost-saving budget alternatives to layoffs. In particular, staff was directed to provide scenarios of classifications and programs that could be considered for the Golden Handshake program and to discuss the financial impact that offering the Golden Handshake program would have on the employer rate paid to CalPERS immediately and over time.

FISCAL IMPACT

Every October, the Personnel Department receives the CalPERS Annual Valuation Reports for the Miscellaneous Plan and the Safety Plan that details the future contribution rates to be effective in July and the projected rate for the following fiscal year. The rate is established using data from the fiscal year that ended two years prior; for example, the rate to be effective July 1, 2009 is based in information as of June 30, 2007.

Fiscal Year	Rate
2007-2008	19.199%
2008-2009	19.553%
2009-2010	19.588%
2010-2011	*19.4%
2011-2012	**22.4%

* A copy of the CalPERS letter stating the rate projections through 2010-2011 can be seen in ***Attachment A***. The actual rate for 2010-2011will be provided in the October 2009 Valuation Report; historically, the actual rate increase is greater than the projected rate provided.

** CalPERS has cautioned that the rate could jump by as much as 3% in FY2011-2012 because of the poor performance in the market this year.

If the City were to opt to offer the Two Years Additional Service Credit Program through CalPERS, the rate impact would be added two years *after* the benefit was offered, thereby delaying the City's cost by two years.

Using the data presented in the March 24 report, the Golden Handshake incentive program would have the following impact to the City's CalPERS rate beginning July 2011:

Sample Calculation of CalPERS Rate Adjustment	
Cost of additional service credit for 70 employees	$3,437,762
Divided by PERS 20-year amortization factor	13.24
Divided by the annual payroll	$180,492,450
Rate Increase for 2 years service credit	0.1442%
CalPERS rate as of 7-1-09	19.5880%
Adjusted CalPERS rate	**19.7322%**

Potential Savings and Costs Scenarios

To illustrate potential costs and savings, staff prepared three scenarios detailed below using the following participation configurations:

1. Seventy (70) positions identified by City departments as positions currently held by retirement-eligible employees that could be left vacant for at least two years as reported in the March 24, 2009 follow-up report.

2. Sample department (PWA) using classifications currently filled by retirement-eligible employees AND where the same classifications are likely to be impacted by budgetary reductions this year. *(This scenario is presented as an example only. The specific classifications are not detailed in this report because it the FY 2009 - 2011 budget has not been finalized.)*

3. All 847 retirement-eligible employees (as of 12/31/08 - excluding sworn positions and City Council members).

Scenarios No. 1 and 2 represent approaches that would take into consideration workforce planning as part of the identification of positions to be considered for the Golden Handshake.

Scenario No. 3 poses some challenges if selected because it assumes that every position in the City that includes retirement-eligible employees will have an opportunity to retire with two years of additional service credit. High levels of participation would create unanticipated vacancies that will impact service delivery citywide resulting in a need for recruitments to backfill. Savings will be diminished due to re-hire and overtime-based backfill, and additional costs will be incurred for the recruitment efforts.

Savings/Cost Impact Summary

Staff cannot predict how many of the employees eligible in each scenario would opt to take the benefit. Based on feedback from other municipalities who have offered it, estimated participation would be approximately 20%.

	DEPARTMENT IDENTIFIED		PWA SAMPLE		ALL ELIGIBLES	
	Total	20%	Total	20%	Total	20%
# Potential Participants	70	14	87	17	847	169
# Impacted Classifications	32		15		285	57
Budgetary Savings Each Year*	7,502,975	1,500,595	8,531,088	1,706,218	99,521,465	19,904,293
Increase in CalPERS Rate**	0.14%	0.03%	0.15%	0.04%	1.7%	0.52%
Total Cost of Benefit	3,437,762	687,552	3,539,802	707960	41,361,637	82,72,327
Annual Cost (Amortized Over 20 Years)	260,360	52,072	267,357	53471	3,123,991	624,798
Cost as a Percent of Two-Year Savings if Positions Kept Vacant	23%	23%	21%	21%	21%	21%

* Savings calculated at fully burdened salary rate.

** Additional increase in CalPERS rate is likely to occur due to "experience loss," i.e., retirements in excess of actuarial assumptions if the Golden Handshake is offered.

KEY ISSUES AND IMPACTS

When offering the CalPERS Two Years Service Credit benefit to retirement-eligible employees, it is critically important that the City make a commitment to leaving most, if not all, of the positions vacant at least until the fiscal environment changes substantially and not less than two years. **Leaving the positions vacant is the only way to maximize potential savings.**

It is also important that the program be offered in a way that is mindful of the impact to the City organization, which means careful planning regarding the classifications, work units, or departments to be offered the benefit. Taking the example of Public Works Agency (Scenario 2) above, if all of the retirement-eligible employees in the 15 classifications were to retire, whole units within PWA would be decimated. For this reason, staff recommends that the selection of classifications be limited to those in which there are positions that the City administration has determined could be adjusted, such as those designated for layoffs.

The CalPERS program requires an extensive amount of preparation to implement. Staff estimates that by pursuing the process aggressively, the City could offer the Golden Handshake beginning in mid-July 2009 at the earliest. Staff has submitted a request to CalPERS to initiate the process of amending the contract so that if Council seeks to offer the benefit, the timeline for CalPERS' process could be somewhat compressed.

ACTION REQUESTED OF THE CITY COUNCIL

Staff requests that City Council accept this informational report regarding the potential costs or cost-savings that may result from implementation of the CalPERS program and provide direction to staff regarding possible implementation of the Golden Handshake.

Respectfully submitted,

Wendell Pryor, Director
Office of Personnel Resource Management

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APPROVED AND FORWARDED TO THE
FINANCE AND MANAGEMENT COMMITTEE:

Office of the City Administrator

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ATTACHMENT A

October 2008

MISCELLANEOUS PLAN OF THE CITY OF OAKLAND (EMPLOYER # 828)
Annual Valuation Report as of June 30, 2007

Dear Employer,

Enclosed please find a copy of the June 30, 2007 actuarial valuation report of your pension plan. This report contains important actuarial information about your pension plan at CalPERS. Your CalPERS staff actuary is available to discuss the report with you.

Changes Since the Prior Year's Valuation

There may be changes specific to your plan such as contract amendments and funding changes. There are no other material changes since the prior valuation.

Future Contribution Rates

The exhibit below displays the required employer contribution rate and Superfunded status for 2009/2010 along with an estimate of the contribution rate and the probable Superfunded status for 2010/2011. The estimated rate for 2010/2011 is based solely on a projection of the investment return for fiscal 2007/2008, namely -2.5%. Please disregard any projections that we may have provided to you in the past.

Fiscal Year	Employer Contribution Rate	Superfunded?
2009/2010	19.588%	NO
2010/2011	19.4% (projected)	NO

Member contributions (whether paid by the employer or the employee) are in addition to the above rates.

The estimate for 2010/2011 also assumes that there are no future amendments and no liability gains or losses (such as from larger than expected pay increases, more retirements than expected, etc.). **This is a very important assumption because these gains and losses do occur and can have a significant effect on your contribution rate.** Even for the largest plans, such gains and losses often cause a change in the employer's contribution rate by one or two percent, even larger in some less common instances. These gains and losses cannot be predicted in advance so the projected employer contribution rate for 2010/2011 is just an estimate. Your actual rate for 2010/2011 will be provided in next year's report.

We are very busy preparing actuarial valuations for other public agencies and expect to complete all such valuations by the end of October. We understand that you might have a number of questions about these results. While we are very interested in discussing these results with your agency, in the interest of allowing us to give every public agency their result, we ask that, if at all possible, you wait until after October 31 to contact us with questions. If you have questions, please call (888) CalPERS (225-7377).

Sincerely,

Ronald L. Seeling, Ph.D., FCA, ASA, MAAA
Enrolled Actuary
Chief Actuary, CalPERS