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CITY OF OAKLAND
AGENDA REPORT

TO: Office of the City Administrator
ATTN: Dan Lindheim
FROM: Finance and Management Agency
DATE: January 27, 2009

RE: **Informational Report on the Potential Costs or Benefits of the City's Voluntary Leave Program and the CalPERS Two-Years Additional Service Credit Program or "Golden Handshake"**

SUMMARY

City Council requested that the Office of Personnel Resource Management provide analysis of the potential cost-savings of implementing both a Voluntary Time Off Without Pay Program and the CalPERS Two-Years Additional Service Credit Program. This report provides information regarding the potential costs or cost-savings that may result from either or both of these programs.

The City currently has a voluntary leave program in which employees may request time off without pay. Administrative Instruction 511 details the policies and procedures governing this program.

The CalPERS Two Years Additional Service Credit benefit, commonly referred to as the "Golden Handshake," is an optional benefit through CalPERS established under California Government Code Section 20903, which allows contracted agencies to provide two additional years of service credit to members who retire during a designated window period because of impending mandatory transfers, layoffs, or demotions. Due to a proscribed process required by CalPERS to legally implement the program, budget savings would be realized no sooner than one year from the date the City decided to offer the option.

Given the gravity of the City's current financial position, layoffs would be a more effective way to provide the City with significant cost savings. Although offering the Golden Handshake benefit would create some short term cost savings resulting from certain retirements, it would also create a financial burden for future budgets and would limit flexibility in hiring since the CalPERS program requires that the vacated positions remain permanently unfilled. The Voluntary Time Off Without Pay program does not provide for significant long-term savings.

BACKGROUND

The City's Voluntary Time Off Without Pay Program, is described in Administrative Instruction 511, which is attached to this report (***Attachment A***). The program allows employees to request up to 60 days of unpaid leave in a calendar year with required approvals. The program has been in effect for many years and was last revised in February 2008.

Historically, the program has been used sparingly by employees. Management does not actively encourage use of the program because existing work demands are for full time employees; if work demands were part-time, it would be appropriate to have part-time or permanent part-time employees performing the work.

Certain optional benefits may be added to the City's contract with CalPERS by amendment to the contract. California Government Code Section 20903, Two Years Additional Service Credit, is an optional benefit an agency may provide through a contract amendment. This benefit allows members to retire during a designated window period because of impending mandatory transfer, layoff, or demotions and receive two additional years of service credit at no cost to the member.

Santa Clara County offered the CalPERS Two Years Additional Service Credit program to its employees in 2004. The benefit was offered to employees in more than 100 different classifications for a period of 90 days. Their original estimates were that the program could save the County anywhere from $3.9 million to $9.8 million. According to minutes from a Board of Supervisors meeting in June 2004, less than 20% of the eligible employees opted to take advantage of the program and the overall savings were commensurate. Staff has contacted Santa Clara County requesting information on the specific cost savings the county realized by offering the program.

FISCAL IMPACT

Voluntary Time Off Without Pay Program

Over the past three years, employees have used Voluntary Leave (known by its timesheet code: VTN) for a total of 20,225.52 hours and savings of $759,946.42.

Year	Hours	Salary Savings	
FY05/06	9752.10	358,599.12	
FY06/07	4462.70	173,402.57	
FY07/08	2868.57	113,335.69	
FY08/09	3142.15	114,609.04	(to date)
Totals	**20,225.52**	**759,946.42**	

Factors that impact the potential cost-savings of the Voluntary Leave Program include:

- Department operational needs would not decrease, so heavy participation in the VTN program would likely result in the need for overtime thereby increasing, rather than decreasing costs.
- The program is voluntary; savings depend on participation levels and no savings are guaranteed.

- Economic hardships due to the downturn in the general economy might make employees *less* likely to voluntarily take leave without pay.
- Increased participation results in decreased productivity due to employee absence.
- While on VTN, all employee benefits are paid, limiting cost savings. Employees also continue to accrue seniority, which can result in a perception of unfairness in the event that employee bumps another during a layoff.
- With recent workforce reductions, managers have less flexibility in covering their staffing needs.

There is probably little opportunity to produce significant cost-savings through this program.

Golden Handshake

Offering the two years additional service credit as a retirement incentive results in increased costs because it has a direct impact on the Employer Contribution Rate paid by the City to CalPERS. There may be an additional cost associated with any retirement incentive program if there is a surge in retirements (called an "experience loss") and the total number of retirements exceeds CalPERS actuarial assumptions in a fiscal year. If there were such a surge, CalPERS would increase the City's Employer Contribution Rate *in addition to the rate increase resulting from the Golden Handshake benefit.* According to CalPERS, an experience loss often occurs when the two years service credit is offered because some members retire who would have otherwise waited until later years.

The City's contribution to CalPERS will be increasing as of July 1, 2009 and so the City will already see increased retirement costs in its next budget. The current fiscal year (2008-2009) CalPERS Employer Contribution Rate for Miscellaneous employees is 19.553% of the total miscellaneous employee payroll (City and Port); on July 1st that will increase to 19.588%. The current fiscal year Employer Contribution rate for Safety is 27.088% of the total safety employee payroll (City only—the Port portion is reported separately for safety at 0.425%); effective July 1, 2009 the City's contribution for Safety will be 27.448% (0.429% for the Port).

If the City were to implement a CalPERS two years additional service credit program, the added cost to the retirement fund for all eligible employees who retire during the designated period would be included in the City's employer contribution rate commencing with the fiscal year starting two years after the end of the designated period.

Since a higher Employer Contribution Rate would be applied over 20 years to amortize the cost of funding the retirement benefits of the employees who opt to take advantage of it, offering the Golden Handshake benefit to employees would burden future City budgets. The City's payroll cost is likely to increase over time, and so the higher contribution rate would result in ever-increasing costs to the City and impact its future sustainability.

Sample Illustration of Cost

The following provides an example of costs associated with the Golden Handshake using a strictly fictional scenario.

Classification	Annual Salary	Benefits (Salary x .6115)	Number of Employees in Classification	Retirement Eligible under 55	Retirement Eligible 55 - 65
Class I	40,000	24,460	35	4	6
Class II	50,000	30,575	25	2	4
Class III	60,000	36,690	25	3	6
Class IV	75,000	45,863	20	4	5
Class V	90,000	55,035	15	3	4
Class VI	105,000	64,208	10	2	2

Based on the assumptions in the chart above, if the City were to lay off 45 employees (the same number of employees as are eligible to retire above), there would be annual savings of $4,778,098. If, instead, the City were to offer the Golden Handshake to these classifications, *assuming every retirement-eligible employee in those classifications retired,* then there would be the same annual savings, but there would now be an additional cost through the City's employer contribution to CalPERS.

- Beginning two years after the benefit is offered, the City's contribution rate would increase by 0.08% for miscellaneous employees from 19.588% to 19.668%.
- If the above-calculated layoffs were implemented, the total annual salary would be reduced by roughly $4.5 million to $175,500,000 and the City's annual CalPERS contribution at the July 1, 2009 rate (19.588%) would be $34,376,940.
- If the City realized annual salary savings of $4.5 million resulting from the retirement of the eligible employees (and not taking into account other factors like cost-of-living increases, expanding the City's workforce, changes in CalPERS rates, etc.), the City's contribution to CalPERS for an annual payroll of $175,500,000 would cost the City $34,517,340 annually at the increased rate of 19.668% for 20 years. The additional cost to the City would be $140,400 for each of the 20 years over which the additional cost would be amortized for a total cost of $2,808,000. *If offering the benefit results in an experience loss, the actual costs could be significantly higher.*

The cost of offering the two years additional service credit can only be calculated precisely once a specific plan is developed and approved by the Council. Some of the costs, such as the potential for an experience loss, are impossible to calculate unless and until the program is offered.

Although offering the Golden Handshake benefit would create some short term cost savings resulting from certain retirements, it would also create a financial burden for future budgets and would limit flexibility in hiring since the CalPERS programs requires that the vacated positions remain permanently unfilled. The Voluntary Time Off Without Pay program does not provide for significant long-term savings.

KEY ISSUES AND IMPACTS

When considering any voluntary program or retirement incentive, it is important to first consider the operational impact to the organization. Losing institutional knowledge, productivity, and cohesive work teams can result in greater stress to the remaining staff. If these types of programs are to be genuinely cost-saving, vacancies created must remain unfilled and voluntary leave must remain uncompensated. If the vacancies created are filled, even if the new hire is brought in at the first salary step, the savings are relatively small. Using programs that are voluntary could result in a haphazard reduction in force that results in greater costs because overtime is required or productivity is greatly decreased.

The City's Voluntary Time Off Without Pay Program has been offered for a number of years and continues to be offered. If City employees were particularly encouraged to use the program, it might result in some salary savings, but given the demands of department workloads, VTN is unlikely to generate significant savings.

Even if Council were to act immediately, the process of implementing the Golden Handshake would take at least one year from when Council first authorized implementation through expiration of the window in which employees would opt for the benefit. Cost savings would be realized late in FY2009/2010 and no sooner.

The two years additional service credit optional benefit offered by CalPERS is designed to give employers another option to meet mandatory workforce reductions. Once the contract is amended to provide two years additional service credit to a retiring member, the City will have to take a number of proscribed steps and follow strict procedures defined by CalPERS. Those steps include designating the specific classifications or work groups that will be eligible, identifying a time period between 90 and 180 days during which an eligible employee may retire, conduct a public meeting in which the costs associated with the program are presented, certifying by Council resolution that the program will be of benefit to the City and is due to necessary budgetary and staffing reductions. A timeline and the conditions set by CalPERS are included in ***Attachment B***.

- The Port is a participant in the City's plan, so any increase to the Employer Contribution Rate would impact the Port. If the City were to want to offer the Golden Handshake, there would necessarily have to be discussions between the two entities.
- The positions vacated through retirement of eligible employees who opt for two years additional service credit or at least one vacancy in any position in any department or other organization *must remain permanently unfilled thereby resulting in an overall reduction in the workforce.*
- The City can anticipate that eligible employees who are less than age 55 will not elect to retire with two years additional service credit because they will not receive 2.7 percent of

their final compensation as detailed in the CalPERS Benefits Factors table (***Attachment C***). They will receive 2.000 percent at age 50 through 2.665 at age 54.

Although offering the Golden Handshake benefit would create some cost savings resulting from certain retirements, it would also create a financial burden for future budgets and would limit flexibility in hiring since the CalPERS program requires that the vacated positions remain permanently unfilled.

Alternative Retirement Incentive

Lump Sum Incentive: As an alternative to the CalPERS Golden Handshake, the City could consider offering a program in which retirement-eligible employees were offered a lump sum incentive. The advantage of this type of program is that the costs associated with it are static, *providing that the number of retirements does not create an experience loss and exceed the CalPERS actuarial assumptions.* The City offered a program of this type in 1994. For a brief period, employees at least 50 years old who retired by the close of the fiscal year were offered the opportunity to receive a lump sum payment of $5,000 *and* $225 per month, paid quarterly, for five years or until the employee turned 65, whichever was greater. Although hundreds of employees were eligible, only 15 employees took advantage of the program. Since the positions were not kept vacant, the savings were short-term and the program created a long-term cost (the last payment under this program was paid in 2007).

Staff does not recommend that the City consider the lump sum incentive program unless a commitment to keep the vacated positions unfilled for at least two years was made at the same time.

SUSTAINABLE OPPORTUNITIES

There are no direct economic, environmental, or social equity opportunities arising out of the information discussed in this report.

DISABILITY AND SENIOR CITIZEN ACCESS

The information presented in this report does not impact disability and senior citizen access.

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 either or both the Voluntary Time Off Without Pay Program and CalPERS Two Years Additional Service Credit program (Golden Handshake).

Respectfully submitted,

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APPROVED AND FORWARDED TO THE
FINANCE & MANAGEMENT COMMITTEE:

Office of the City Administrator

ATTACHMENT A

CITY OF OAKLAND

ADMINISTRATIVE INSTRUCTION

SUBJECT	**Voluntary Time-Off Without Pay (VTN)**	**NUMBER**	511
REFERENCE		**EFFECTIVE**	February 15, 2008
SUPERSEDE	**None**		

I. PURPOSE

The purpose of this Administrative Instruction is to establish a uniform procedure for submitting, approving and processing requests for Voluntary Time-Off Without Pay (VTN) from eligible represented and unrepresented employees.

VTN was created in the late 1980's as an opportunity for employees to take unpaid leave in situations where the employee would not otherwise take unpaid leave. The use of VTN was for the specific purpose of saving City funds.

II. POLICY

The City of Oakland provides eligible employees with the opportunity to save the City funds by taking VTN. The employee may request the use of VTN for up to sixty (60) regularly scheduled work days in a calendar year. VTN must be taken in increments of full work days.

Employees may not use VTN during any period of legally entitled unpaid leave such as FMLA (Family and Medical Leave Act), CFRA (California Family Rights Act), and/or PDL (Pregnancy Disability Leave) in which case the use of VTN does not result in cost savings but instead results in significant increased costs to the City. Subject to operational needs, the request for VTN shall not be unreasonably denied.

The City has a pay code with the letter designation "VTN" that is to be used to accomplish a voluntary leave of absence. When the pay code VTN is coded on an employee's time card for periods of unpaid voluntary leave, the employee's benefits (including insurance and leave accruals) continue, and the employee continues to accrue seniority during the period of unpaid leave.

III. DEFINITIONS

Term	**Definition**
Eligible Employee	All unrepresented and represented full-time and permanent part-time employees. Represented employees should refer to their respective

Memorandum of Understanding for terms and conditions that may supersede this policy.

VTN

Voluntary Time-Off Without Pay (VTN) is for the specific purpose of accomplishing an unpaid voluntary leave of absence to save City funds without adversely impacting the affected employee's benefits and seniority.

With the approval of the department head, an eligible employee may take up to fifteen (15) regularly scheduled work days per calendar year using VTN. The department head shall have the right to determine and schedule the day(s) used for VTN.

At the discretion of the City Administrator, an eligible employee may be permitted to take more than fifteen (15) and up to a maximum of sixty (60) continuous VTN days in a calendar year.

IV. PROCEDURES

Responsible Party	Action
Employee	1. Specifies desired full day(s) to take VTN, and *submits a request to his/her supervisor in advance.*
	2. Using the code "VTN", records the day(s) approved as Voluntary Leave-Without Pay on the weekly timecard.
Department Head	1. Responds to the employee's request to use VTN within ten (10) business days.
Department/Agency Payroll Representative	1. Assures the employee's weekly timecard is correctly coded to reflect use of VTN.
	2. Records the Voluntary Time-Off Without Pay taken in TAMS (Time and Management System).
Personnel HRIS/Payroll Division	1. Checks that coding of the Voluntary Time-Off Without Pay has been correctly recorded and that its use is reflected in the employee's paycheck for that period.

V. ADDITIONAL INFORMATION

If the provisions of this Administrative Instruction are in conflict with the provisions of a current memorandum of understanding, the memorandum of understanding shall be controlling without further action. For further information contact Employee Relations at 238 – 3112.

DEBORAH A. EDGERLY
City Administrator

ATTACHMENT A

REQUEST FOR VOLUNTARY LEAVE WITHOUT PAY (VTN) TO SAVE CITY FUNDS

____
Department Name

I request ________________ full work days of Voluntary Leave Without Pay.
(number of days)

Date(s) of Leave: ____

Employee Name: ____
(please print)

Employee Job Title: ____

Employee Signature: __________________________ Date: ______________

APPROVED BY: _____________________________Date: ______________
Department Head

**APPROVED BY: ___________________________Date: ______________
City Administrator

** Required for leave periods exceeding a total of 15 work days per calendar year.

TIMELINE TO IMPLEMENT
OPTIONAL TWO YEAR SERVICE CREDIT BENEFIT
(As Determined by CalPERS Requirements)

	Task	Required Time Window	Potential Dates
1.	Submit Contract Amendment Request to CalPERS.	None	2/2/09
2.	Receive CalPERS documents.	30 days after Step 1	3/2/09
3.	City Council adopts resolution of intent.	Council meeting at least 21 days after Step 2	4/7/09*
4.	City establishes which classification(s), department(s), or other organizational units will be offered the benefit and designates the time window during which the benefit will be offered.	Additional 30 days	5/8/09
5.	Introduce Ordinance amending City's contract with CalPERS including public meeting to state financial impacts of proposed contract amendment if all eligible employees were to exercise the option.	Not less than 20 days after Step 3	6/2/09*
6.	Second reading and adoption of Ordinance.	Two weeks after first reading.	6/16/09
7.	Effective date of Ordinance.	30 days after adoption of Ordinance	7/21/09
8.	Effective Date of Contract Amendment.	Beginning of next pay period	7/25/09
9.	Designated period in which employees can opt to retire with the benefit.	90 – 180 days	10/24/09 (90 days) or 1/29/10 (180 days)
10.	City realizes cost savings (depending on designated window).		Beginning November 2009 or February 2010

* Based on Council Agenda Report review process schedules and deadlines.

2.7 percent @ 55

BENEFIT FACTORS

Attachment C

The chart below shows how the benefit factor increases for each quarter year of age from 50 to 55.

Age at Retirement	Exact Year	¼ Year	½ Year	¾ Year
50	2.000	2.035	2.070	2.105
51	2.140	2.175	2.210	2.245
52	2.280	2.315	2.350	2.385
53	2.420	2.455	2.490	2.525
54	2.560	2.595	2.630	2.665
55+	2.700	—	—	—