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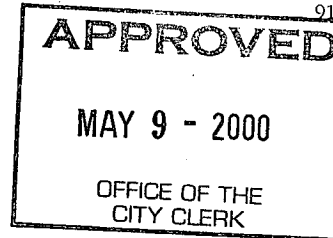
DEPARTMENT OF
ADMINISTRATIVE SERVICES
PERSONNEL SERVICES DIVISION

CITY OF SACRAMENTO
CALIFORNIA

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May 3, 2000



City Council
Sacramento, California

Honorable Members in Session:

SUBJECT: AMENDMENT TO CONTRACT #89-110 WITH PUBLIC EMPLOYEES'
RETIREMENT SYSTEM (PERS)

LOCATION AND COUNCIL DISTRICT: Citywide

RECOMMENDATION:

It is recommended that the City Council adopt the Resolution of Intention to approve a PERS contract amendment to provide Section 21362 2% @ 50 Full formula for local safety members who are currently at the 2.5% @ 55 Full formula and for prospective new safety hires.

CONTACT PERSON:

Dee Contreras, Director of Labor Relations, 264-5424

FOR COUNCIL MEETING OF: May 9, 2000

SUMMARY:

In accordance with the 1995 negotiated labor agreements with Sacramento Fire Fighters Union Local 522 and Sacramento Police Officers Association, existing safety members enrolled in the 2.5% @ 55 Full formula will be moved to the 2% @ 50 Full formula and all prospective safety hires will be enrolled in the 2% @ 50 Full formula effective July 1, 2000.

To accomplish this PERS amendment, City Council is required to adopt the attached Resolution of Intention, pass for publication the attached ordinance, and adopt the final ordinance at the May 30, 2000 meeting.

COMMITTEE/COMMISSION ACTION:

There was none required for this report.

BACKGROUND INFORMATION:

In 1989, ballot Measure M moved the local safety members of the Sacramento City Employees' Retirement System to PERS and created a second tier safety plan, 2.5% @ 55 Full formula for all safety employees hired on or after December 31, 1989. Currently there are 556 safety employees enrolled in the 2.5% @ 55 plan.

During the 1995 labor negotiations with Sacramento Fire Fighters Union Local 522 and Sacramento Police Officers Association it was agreed that the second tier, 2.5% @ 55 Full formula plan, be eliminated beginning FY 00-01.

FINANCIAL CONSIDERATIONS:

The cost of this proposed plan amendment reflects the CalPERS Board resolution providing a one-time increase in the actuarial value of assets from 90% of market value to 95% of market value which impacts the plan's liabilities and assets. As a result, the City's contribution rate from this contract amendment will actually decline from 2.295% to 0.00% effective July 1, 2000. Due to PERS investment performance, the City has accumulated excess assets to fully fund its FY 01 employer contribution. Excess assets can temporarily reduce future contributions. However, as the excess assets are depleted the City's net employer contribution rate is expected to increase in future years.

Change in the Present Value of Benefits is \$1,911,295.

	Pre-Amendment	Change Due to Plan Amendment	Post-Amendment
Total Present Value of Benefits	\$ 512,669,126	\$ 1,911,295	\$ 514,580,421

Change in the Unfunded Accrued Liability is \$ 595,818.

	Pre-Amendment	Change Due to Plan Amendment	Post-Amendment
Unfunded Liability	\$ (29,366,469)	\$ 595,818	\$ (28,770,651)

Change in the employer rate is (2.295)%.

	Pre-Amendment	Change Due to Plan Amendment	Post-Amendment
Total Employer Rate	2.295%	(2.295)%	0.000%

For a detailed analysis of the cost of this plan amendment see Attachment 1.

ENVIRONMENTAL CONSIDERATIONS:

There are no applicable environmental concerns.

POLICY CONSIDERATIONS:

The adoption of the Resolution of Intention will be in compliance with the negotiated labor agreements.

ESBD CONSIDERATIONS:

No goods or services are being purchased under this report.

Respectfully submitted,



Dee Contreras
Director of Labor Relations

RECOMMENDATION APPROVED:



ROBERT P. THOMAS
City Manager

Attachment 1

PERS CONTRACT AMENDMENT DETAILED COST ANALYSIS

The cost of this proposed plan amendment is broken into the following components:

Past Service Cost

Since the benefit amendment will be retroactively applied to past service periods for active employees, the first cost component is to "catch up" the value of employer contributions for past service:

Present value of benefits for past service periods:	<u>\$1,911,295</u>
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PERS allows contracting agencies to amortize the past service costs of benefit changes over a twenty-year future period. As a result, City Safety contribution rates for the next twenty years will increase as follows (rates are calculated as a percentage of total Police and Fire payroll):

Incremental contribution rate for 20 years:	0.116%
Estimated annual General Fund impact	<u>\$75,000</u>

Future Service Cost

The ongoing, prospective increase to baseline PERS employer contributions is described by actuaries as the change in "Normal Cost." The increase in "Normal Cost" from this benefit change is as follows:

Permanent incremental contribution rate:	0.184%
Estimated annual General Fund impact	<u>\$121,000</u>

Total Cost

The total cost of this benefit change is summarized as follows:

Increase to Normal Cost	0.184%
Amortization of Past Service Cost - next 20 years	<u>0.116%</u>
Total increase to FY 01 rates	<u>0.300%</u>
Estimated FY 01 General Fund impact	<u>\$196,000</u>

FY 01 Contribution Rate

The City's net contribution rate also reflects the amortization of actuarial gains and losses each year, including the substantial recent gains from PERS investment performance. At the time of this contract amendment, the city will realize a one-time investment gain from a new PERS policy to move up asset valuation of unrealized capital gains from 90% to 95% of market value. As a result, the City's contribution rate from this contract amendment will actually decline. The following is a recap of the City's FY 01 Safety contribution rate after this benefit change:

Normal cost, prior to benefit change	13.072%
Increase to Normal Cost from benefit change	<u>0.184%</u>
Normal cost, after benefit change	13.256%
Amortization of Past Service Cost from	

benefit change - next 20 years	<u>0.116%</u>
Rate prior to amortization of other gains/losses	13.372%
Amortization of other actuarial gains and losses, including asset valuation policy changes	<u>(13.372%)</u>
Net FY 01 contribution rate	<u>0.000%</u>

Future Contribution Rates

After this benefit change, the baseline “normal cost” of the City’s Safety retirement employer contribution will be 13.256% of payroll. Largely due to PERS investment performance, the City has accumulated a sufficient surplus balance at PERS to fully fund it’s FY01 employer contribution, and therefore anticipates using General Fund appropriations to cover only the 9% employee contribution on behalf of employees, as provided for in current labor agreements. The City’s remaining surplus account at PERS which fluctuates annually based upon current investment performance, will be used by PERS, as provided by PERS policy, to continue to subsidize the City’s employer contributions at a declining rate over the next ten years. Therefore, the City’s net employer contribution rate is expected to increase in future years as the surplus is extinguished. The baseline “normal cost” contribution rate of 13.256% will continue to be a key component of future labor cost projections and future City operating budgets.

RESOLUTION NO. 2000-214

ADOPTED BY THE SACRAMENTO CITY COUNCIL



ON DATE OF _____

**A RESOLUTION OF INTENTION
TO APPROVE AN AMENDMENT TO CONTRACT NO. 89-110
BETWEEN THE BOARD OF ADMINISTRATION OF THE
PUBLIC EMPLOYEES' RETIREMENT SYSTEM AND THE
CITY OF SACRAMENTO**

WHEREAS, the Public Employees' Retirement Law permits the participation of public agencies and their employees in the Public Employees' Retirement System by the execution of a contract, and sets forth the procedure by which said public agencies may elect to amend said contract; and

WHEREAS, one of the steps in the procedures to amend this contract is the adoption by the governing body of the public agency of a resolution giving notice of its intention to approve an amendment to said contract, which resolution shall contain a summary of the change proposed in said contract; and

WHEREAS, the City of Sacramento has contracted with the Board of Administration of the Public Employees' Retirement System to provide retirement benefits for the City's local safety members; and

WHEREAS, the City of Sacramento has agreed to amend said contract in order to provide the 2% @ 50 Full formula plan for safety members currently enrolled in the 2.5% @ 55 Full formula plan and resulting in all safety members participating in the 2% @ 50 plan; and

WHEREAS, the following is a summary of the proposed change:
To provide Section 21362, 2% @ 50 Full formula.

NOW, THEREFORE, BE IT RESOLVED that the Sacramento City Council, as governing body of the City of Sacramento does hereby give notice of its intention to approve an amendment to the contract between the City of Sacramento and the Board of Administration of the Public Employees' Retirement System, a copy of said amendment being attached hereto, as an "Exhibit" and by this reference made a part hereof.

MAYOR

ATTEST:

CITY CLERK

FOR CITY CLERK USE ONLY

RESOLUTION NO.: _____

DATE ADOPTED: _____



EXHIBIT

California
Public Employees' Retirement System

AMENDMENT TO CONTRACT

Between the
Board of Administration
California Public Employees' Retirement System
and the
City Council
City of Sacramento

The Board of Administration, California Public Employees' Retirement System, hereinafter referred to as Board, and the governing body of the above public agency, hereinafter referred to as Public Agency, having entered into a contract effective January 29, 1977, and witnessed January 25, 1977, and as amended effective June 1, 1978, March 17, 1988, December 30, 1989, June 26, 1991, February 21, 1992, May 29, 1996, November 20, 1996, and December 19, 1997 which provides for participation of Public Agency in said System, Board and Public Agency hereby agree as follows:

- A. Paragraphs 1 through 16 are hereby stricken from said contract as executed effective December 19, 1997, and hereby replaced by the following paragraphs numbered 1 through 14 inclusive:
1. All words and terms used herein which are defined in the Public Employees' Retirement Law shall have the meaning as defined therein unless otherwise specifically provided. "Normal retirement age" shall mean age 60 for local miscellaneous members and age 50 for local safety members.
 2. Public Agency shall participate in the Public Employees' Retirement System from and after January 29, 1977 making its employees as hereinafter provided, members of said System subject to all provisions of the Public Employees' Retirement Law except such as apply only on election of a contracting agency and are not provided for herein and to all amendments to said Law hereafter enacted except those, which by express provisions thereof, apply only on the election of a contracting agency.

3. Employees of Public Agency in the following classes shall become members of said Retirement System except such in each such class as are excluded by law or this agreement:
 - a. Local Fire Fighters (herein referred to as local safety members);
 - b. Local Police Officers (herein referred to as local safety members);
 - c. Employees other than local safety members (herein referred to as local miscellaneous members).
4. In addition to the classes of employees excluded from membership by said Retirement Law, the following classes of employees shall not become members of said Retirement System:
 - a. **ALL MISCELLANEOUS EMPLOYEES WHO WERE IN EMPLOYMENT PRIOR TO JANUARY 29, 1977; AND**
 - b. **ALL PERSONS WHO ARE PARTICIPANTS (AS THAT TERM IS DEFINED IN THE ACT HERINAFTER REFERRED TO AND ANY REGULATIONS PROMULGATED THEREUNDER) UNDER THE COMPREHENSIVE EMPLOYMENT AND TRAINING ACT OF 1973, AS AMENDED.**
5. Assets heretofore accumulated with respect to members in the local retirement system who entered membership in this System on December 30, 1989 have been transferred to the Public Employees' Retirement System and applied against the liability for prior service incurred thereunder. That portion of the assets so transferred which represent the accumulated contributions (plus interest thereof) required of the employees under said local system has been credited to the individual membership account of each such employee under the Public Employees' Retirement System.
6. This contract shall be a continuation of the fire function of the Pacific Fire Protection District, hereinafter referred to as "Former Agency". The accumulated contributions, assets and liability for prior and current service under the Former Agency's contract with respect to the fire function shall be merged pursuant to Section 20508 of the Government Code. Such merger occurred December 28, 1991.
 - a. All benefits provided under this contract shall apply to all past service for former employees of the Pacific Fire Protection District.
7. The percentage of final compensation to be provided for local miscellaneous members for each year of credited prior service is zero and the percentage of final compensation to be provided for each year of credited current service is 100, and determined in accordance with Section 21353, subject to the reduction provided therein for service on or after January 29, 1977, for members whose service has been included in Federal Social Security (2% at age 60 Full and Modified).

8. The percentage of final compensation to be provided for each year of credited prior and current service as a local safety member shall be determined in accordance with Section 21362 of said Retirement Law (2% at age 50 Full).
9. Public Agency elected and elects to be subject to the following optional provisions:
 - a. Sections 21624 and 21626 (Post-Retirement Survivor Allowance).
 - b. Section 21151 (Industrial Disability Retirement For Local Miscellaneous Members) for local miscellaneous members entering membership on or prior to December 19, 1997.
 - c. Section 21022 (Public Service Credit for Periods of Lay-Off) for local fire members only.
 - d. Section 21335 (3% Cost-of-Living Allowance), limited pursuant to Section 21252.023(a) for local safety members who transferred from the local system, entered membership in this System on December 30, 1989 and retired after that date.
 - e. Section 21037 (Cancellation of Payment for Optional Service Credit Upon Retirement for Industrial Disability) limited pursuant to Section 21038 for local safety members who transferred from the local system and entered membership in this System on December 30, 1989.
 - f. Section 21536 (Local System Service Credit Included in Basic Death Benefit) for local safety members who transferred from the local system and entered membership in this System on December 30, 1989.
 - g. Section 20042 (One-Year Final Compensation) for local safety members only.
 - h. Section 21024 (Military Service Credit as Public Service), Statutes of 1976.
 - i. Section 20475 (Different Level of Benefits Provided for New Employees). Section 21151 (Industrial Disability Retirement for Local Miscellaneous Members) is not applicable to local miscellaneous members entering membership after December 19, 1997.
10. Public Agency, in accordance with Government Code Section 20834, shall not be considered an "employer" for purposes of the Public Employees' Retirement Law. Contributions of the Public Agency shall be fixed and determined as provided in Government Code Section 20834, and such contributions hereafter made shall be held by the Board as provided in Government Code Section 20834.
11. Public Agency shall contribute to said Retirement System the contributions determined by actuarial valuations of prior and future service liability with respect to local miscellaneous members and local safety members of said Retirement System.

12. Public Agency shall also contribute to said Retirement System as follows:
- a. A reasonable amount, as fixed by the Board, payable in one installment within 60 days of date of contract to cover the costs of administering said System as it affects the employees of Public Agency, not including the costs of special valuations or of the periodic investigation and valuations required by law.
 - b. A reasonable amount, as fixed by the Board, payable in one installment as the occasions arise, to cover the costs of special valuations on account of employees of Public Agency, and costs of the periodic investigation and valuations required by law.
13. Contributions required of Public Agency and its employees shall be subject to adjustment by Board on account of amendments to the Public Employees' Retirement Law, and on account of the experience under the Retirement System as determined by the periodic investigation and valuation required by said Retirement Law.
14. Contributions required of Public Agency and its employees shall be paid by Public Agency to the Retirement System within fifteen days after the end of the period to which said contributions refer or as may be prescribed by Board regulation. If more or less than the correct amount of contributions is paid for any period, proper adjustment shall be made in connection with subsequent remittances. Adjustments on account of errors in contributions required of any employee may be made by direct payments between the employee and the Board.

B. This amendment shall be effective on the _____ day of _____.

BOARD OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

CITY COUNCIL
CITY OF SACRAMENTO

BY _____
KENNETH W. MARZION, CHIEF
ACTUARIAL & EMPLOYER SERVICES DIVISION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BY _____
PRESIDING OFFICER

Witness Date

Attest:

Clerk