City of Manhattan Beach

1400 Highland Avenue
Manhattan Beach, CA 90266

Legislation Details (With Text)

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Title: Consideration of a Resolution of Intention and Introduction of an Ordinance to Amend the City's Contract with CalPERS to Offer Two Years Additional Service Credit ("Golden Handshake") as Part of an Early Retirement and Separation Incentive Program for City Employees (Human Resources Director Jenkins).
a) ADOPT RESOLUTION NO. 20-0135
b) INTRODUCE ORDINANCE NO. 20-0023
c) AUTHORIZE THE MAYOR AND CITY CLERK TO EXECUTE RELATED DOCUMENTS

Sponsors:

Indexes:

Code sections:

Attachments: 1. Resolution No. 20-0135, 2. Ordinance No. 20-0023 (with Exhibit A: CalPERS Contract Amendment), 3. CalPERS Actuarial Valuation for Additional Two Years' Service Credit (Golden Handshake), 4. Certification of Compliance with Government Code Section 7507 (PERS-CON-12A), 5. Certification of Governing Board's Action (PERS-CON-12), 6. Certification of Compliance with Government Code Section 20903

Date	Ver.	Action By	Action	Result
11/17/2020	1	City Council Regular Meeting	approved	Pass

TO:
Honorable Mayor and Members of the City Council

THROUGH:
Bruce Moe, City Manager

FROM:
Lisa Jenkins, Human Resources Director

SUBJECT:
Consideration of a Resolution of Intention and Introduction of an Ordinance to Amend the City's Contract with CalPERS to Offer Two Years Additional Service Credit ("Golden Handshake") as Part of an Early Retirement and Separation Incentive Program for City Employees (Human Resources Director Jenkins).

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RECOMMENDATION:
Staff recommends that the City Council: 1) Adopt the resolution of intention to amend the City's contract with the California Public Employees Retirement System (CalPERS); 2) Introduce the ordinance necessary to move forward with initiating the contract amendment process with CalPERS

to offer the Two Years Additional Service Credit (Government Code Section 20903) to eligible employees; and 3) Authorize the Mayor and the City Clerk to execute the documents necessary to move forward with the contract amendment and early retirement window.

FISCAL IMPLICATIONS:

The one-time costs and ongoing savings/costs of offering an early retirement option will depend upon how many employees opt in to the program, and how the City determines it will provide the services moving forward. The potential fiscal implications of offering the early retirement incentive, as described by CalPERS' actuaries, are included as an attachment to this report. It should be noted that this CalPERS actuarial valuation, required to be disclosed with this staff report, assumes that 22 employees offered the early retirement will accept it, and none of the positions will be filled in the future. This is very unlikely to be the case so this model makes it difficult for the City to gain a realistic picture of our future savings and costs.

If all eligible employees were to take the early retirement incentive, and the City rehires approximately half of the vacant positions in the future, staff estimates the savings over an eight year period to be approximately $6.1 million. This savings takes into account the cost of rehiring some of the positions, as well as increasing the City's future payments to CalPERS based on the cost of the benefit as presented in the valuation report. It should be noted that the forecasted additional unfunded accrued liability (UAL) payments used by the City to provide these estimates were obtained from the attached CalPERS actuarial valuation, which are based upon an assumption that all the employees will take the incentive and all those positions will remain unfilled. The actual overall savings achieved over time and the change in future payments to CalPERS will be impacted by how many employees opt into the program, how the City staffs these positions in the future, and how CalPERS assumptions and projections are impacted by these and other factors.

Following the retirement window in the Spring of 2021 and as part of next year's budget process, Staff will bring back a comprehensive review of the employees who will be retiring, vacant positions, a staffing plan for the future, options for paying the golden handshake costs, and a projection of ongoing costs and savings.

BACKGROUND:

As the longer term financial and operational impacts of the COVID-19 pandemic remain to be seen, it is clear that the pandemic, along with the automation of various systems and processes, will change the way in which City services are provided into the future. To the extent these changes will impact existing personnel, staff is recommending the provision of an early retirement and separation incentive program on a voluntary basis, in advance of the need for mandatory transfers, layoffs or demotions.

CalPERS offers an early retirement incentive option under Government Code Section 20903, called "Two Years Additional Service Credit" or "Golden Handshake" (these terms may be used interchangeably). This provision adds an additional two years of service credit for eligible employees retiring during the designated window period, therefore increasing the percentage of their pension (since a pension is calculated by multiplying the pension formula by years of service). For example, per the City's 2%@55 classic pension formula, an employee with 30 years of service at age 55 receives a pension equal to two percent (2%) of final compensation for each year of service (60% of final compensation with subsequent cost of living adjustments in retirement). Providing additional service credit is equivalent to providing additional years of service in calculating an employee's pension. The Golden Handshake increases an employee's pension since the two percent (2%) is multiplied by an additional two years of service (an additional 4% of final compensation).

CalPERS has recently modified their process so that a valuation is required before initiating the contract amendment process required to authorize the City to designate eligible retirees and a retirement window for offering the Two Years of Additional Service Credit (Golden Handshake) under Government Code Section 20903. CalPERS has specific procedural requirements for amending the contract to offer such an incentive, which are outlined in this staff report.

DISCUSSION:

According to the budget report and presentation presented to Council on May 26, June 4, 2020, and November 4, 2020, while the Fiscal Year 2020-21 budget is balanced, the City is facing future structural deficits. While the current budget was balanced by way of temporary cuts due the impacts of the COVID-19 pandemic, future budget deficits are projected for Fiscal Year 2021-22 and beyond.

The long term impacts of COVID-19 on the economy and City activities, as well as the automation of various processes, will impact our services into the future and change the staffing and methods for serving our community into the future. Meanwhile, staff has been evaluating efficiencies that can be gained through consolidation, reorganization, and realignment of our employee resources to best serve our current needs for delivering services to the community into the future. These changes will require the curtailment of certain functions, changes and reductions in personnel, and the shifting of positions from one department or function to another.

During the ongoing budget discussions, Council requested that staff look at long-term solutions for balancing the budget and addressing the structural deficit, including those that result in salary and benefit savings. As a means to incentivize the separation of employees in positions that would either not need to be filled, or may be filled in a lower position in the future, staff is recommending an early retirement and separation incentive program, to include the provision of Two Years Additional Service Credit for designated classifications. Encouraging voluntary separations by way of this retirement program would provide a mechanism to evaluate those positions while they are vacant without impacting existing employees.

In order to ensure that offering a retirement/separation incentive results in ongoing savings, the criteria that has been used to determine if a golden handshake may be offered is if the vacancy resulting from the retirement would result in:

1. Not filling the position and reorganizing, restructuring or consolidating work;
2. Filling the position at a lower level with a lower salary, filling less positions within a particular classification, or with part-time employees; or
3. Performing the services of the vacant position through less costly contract service (subject to agreement with the applicable labor organization)

In discussion with the Department Heads, it was determined that 11 position classifications including 21 employees would meet the above criteria to be eligible for the Two Years Additional Service Credit retirement incentive. The Council previously gave direction in closed session to authorize its labor negotiators to present the parameters of the early retirement incentive program to eligible classifications in the Manhattan Beach Mid Management Employees' Association and the Teamsters Union. Discussion with employee representatives from these labor organizations has been ongoing. Following the Council's initial approval of the contract amendment process to provide the Golden Handshake, the City's labor negotiators will finalize discussions with the labor organization, communicate jointly with the eligible employees, and return to the City Council with the eligible employee listing, retirement window, and additional cash incentives recommended, as well as more detailed costing information.

CalPERS requires two distinct actions in order to offer the Two Years' Additional Service Credit (Golden Handshake):

1. Amend the contract with CalPERS to allow for the Golden Handshake as part of the City's agreement with CalPERS. This is the action being initiated today with the resolution of intention and first reading of the ordinance. The second reading and adoption of the ordinance, and execution of all the applicable documentation and contract, will make this action effective.

2. Designate a retirement window of between 90 and 180 days in which eligible employees will be able to elect the Two Years' Additional Service Credit. This window must be after the second reading and adoption of the ordinance. Additional details regarding the eligible classifications and retirement window will be brought back to a subsequent Council meeting.

Further, CalPERS has very specific procedural requirements, which have recently changed to require an actuarial valuation of the potential costs of offering the early retirement incentive, before the agency can move forward with the contract amendment and retirement window for the Two Years' Additional Service Credit. The following summarizes the CalPERS requirements and procedural steps:

1. The attached actuarial valuation must be obtained prior to amending the City's contract with CalPERS. The actuarial valuation must be made public and the agency must certify (see Attachments) that the costs were made public.
2. The City's contract with CalPERS must be amended to be able to provide the Two Years' Additional Service credit under Government Code Section 20903 (Attachments)
3. The City Council must certify compliance with Government Code Section 20903 (Attachment), which includes certification of the following:
    a. 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 to avoid impending mandatory transfers, demotions or layoffs that constitute at least 1% of the positions being offered the incentive.
    b. 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.
    c. It is the Council's intention at the time the contract is amended to keep 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.

While the City's intention is to keep as many positions permanently vacant as possible to achieve ongoing cost salary and benefits savings, for the purposes of the certification documents with CalPERS, it is recommended that Council define the organizational unit as all the miscellaneous employees eligible for the incentive. By way of certifying compliance with Government Code Section 20903 using this parameter, the City Council is certifying that its intent at the time this is adopted is to keep at least one position permanently unfilled across the positions being offered the incentive. Staff is also committing to eliminating as many positions as possible as a result of offering the program. As discussed previously in this report, once the retirement window has passed, Staff will return to Council with a comprehensive overview of elimination of positions and future staffing models, with related ongoing savings.

Should the Council authorize moving forward with initiating this contract amendment process, Staff will return to at least one future meeting for the second reading of the ordinance and to provide the detailed overview of the specific employees and timeline for the early retirement incentive, as well as the specific parameters of the program.

PUBLIC OUTREACH:
Staff determined that additional public outreach is not required for this issue.

LEGAL REVIEW:
The City Attorney has approved the resolution and ordinance as to form.

ATTACHMENTS:
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