




REPORT TO CITY COUNCIL

DATE: FEBRUARY 22, 2017

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

FROM: GREG RAMIREZ, CITY MANAGER 

BY: NATHAN HAMBURGER, ASSISTANT CITY MANAGER 
CHRISTY PINUELAS, DIRECTOR OF FINANCE 

SUBJECT: ADOPT RESOLUTION 17-1836; ESTABLISHING A LIMIT ON THE CITY OF AGOURA HILLS, CALIFORNIA, CALPERS CONTRIBUTION AMOUNT

At the direction of the City Council and in order to address the potential future pension cost increases through a cost sharing policy, staff has developed the details of the policy previously discussed. This policy was agreed upon in principal in conjunction with the two-year employee agreement that was approved in June, 2016. The proposed plan is consistent with previous City Council direction and creates a limit on the City's CalPERS contributions.

The City participates in the CalPERS retirement plan, similar to most municipal agencies with California. The City pays a percentage of the payroll as a contribution to the retirement program on an annual basis. The CalPERS structure consists of various risk pools with other participating (similarly structured) employers through and performs an actuarial study each year to determine the City's annual contribution. Unlike many other public agencies, who created enhanced pension plans during periods of economic growth, the City of Agoura Hills remained focused on offering its base pension plan to insure future financial stability.

In 2013, the State approved the Public Employee's Pension Reform Act (PEPRA) which implemented new benefit formulas, new final compensation periods, and new contribution requirements for employees hired after January 1, 2013, who have not been a member of the CalPERS system within six months of their date of hire. These employees have been termed PEPRA Employees. Employees hired prior to January 1, 2013, are termed Classic Employees. Classic employees are eligible to retire at age 55 and receive 2% of the average of their three highest annual payroll years multiplied by their years of service with CalPERS as their pension (2% at 55 Plan). PEPRA Employees are eligible to retire at age 62 and receive a 2% of their average of three highest annual payroll years multiplied by their years of service with CalPERS as their pension (2% at 62 Plan).

As a result of PEPRA, the contribution rates for Classic Employees are different than the rates for PEPRA Employees. Currently, the City is estimated to contribute 19.5% of payroll for Classic Employees and 6.6% of payroll for PEPRA Employees. When the

Classic and PEPRA Employee contribution rates are combined, the net contribution rate for Fiscal Year 2016/17 is projected to be 18.8% of payroll.

The CalPERS retirement contribution rate is provided to the City by CalPERS on an annual basis. The rate is expressed as a percentage of payroll and a flat contribution rate. The combination of these two rates fluctuates annually, based on a variety of factors. CalPERS has been reviewing its projected rates to accurately reflect factors affecting rate increases or decreases. These factors include demographic assumptions of mortality and retirement age changes, and the expected rate of return on CalPERS assets. In December 2016, CalPERS adopted an asset allocation mix that will lower the CalPERS investment risk and the fund's long-term assumed rate of return to 7% from 7.5%, over the next three Fiscal Years. Additionally, in February 2014, CalPERS approved new demographic assumptions that take into account that employees are living longer, thereby causing an increase in future pension costs.

It is projected that the net contribution rate will rise slightly in Fiscal Year 2017/18 to 20.0%. The contribution rate is then anticipated to escalate between 21.4% and 25.8% of payroll through Fiscal Year 2020/21. The establishment of a limit on the amount the City will contribute will cap the City's future liability when the contribution rate exceeds 20.0%.

When the contribution rate exceeds 20.0%, the City will equally cost share with the Classic Employees the amount between 20.1% and 25.0%. If the contribution rate exceeds 25.0%, then Classic Employees will be responsible for paying up to 7% of the amount over 25.0%. PEPRA Employees will continue to be responsible for paying the employee portion of their contribution (currently 6.6%).

Combined Contribution Rate	CLASSIC EMPLOYEES		PEPRA EMPLOYEES	
	City Contribution	Employee Contribution	City Contribution	Employee Contribution
Up to 20.0%	20.0%	0.0%	½ Normal Cost Currently 6.6%	½ Normal Cost Currently 6.6%
20.1% to 25.0%	20.1% to 2.5%	.1% to 2.5%	½ Normal Cost Currently 6.6%	½ Normal Cost Currently 6.6%
25.1% to 29.5%	22.5%	Up to 7.0%	½ Normal Cost Currently 6.6%	½ Normal Cost Currently 6.6%

Over time, it is estimated that Classic Employees will be replaced by PEPRA Employees and the City's overall contribution rate will steadily decline. In an effort to limit the City's future pension benefits liability, it is recommended that the City adopt a resolution that sets a cap on the percentage of payroll that the city will contribute for employee pensions.

Should the plan cost reach 29.5% of payroll and the employee contribution reach the stated maximum of 7%, the plan would need to be revisited and further cost sharing details would need to be agreed upon by the City Council and City's employees.

The rate provided to employees will be based on the budgeted salaries for the upcoming fiscal year. When the next fiscal year's budget is prepared, the rate provided by CalPERS will be reviewed and adjusted for the upcoming year. Due to the fact that rates are projected based on past data and are provided to public agencies as an estimate, there is the potential that future rates will include a correction in the rate based on actual employee and payroll data that may be higher or lower than the provided estimate (typically this correction lags by about 2 years). In order for the employees to be prepared for any upcoming changes in their contribution rate amounts, the information regarding the rate will be provided to them by June 1 of each year.

RECOMMENDATION

Staff respectfully recommends that the City Council adopt Resolution 17-1836, establishing a limit on the City of Agoura Hills CalPERS contribution.

Attachment: Resolution No. 17-1836

RESOLUTION NO. 17-1836

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF AGOURA HILLS, CALIFORNIA, ESTABLISHING A LIMIT ON THE CITY'S CALIFORNIA PUBLIC EMPLOYER PENSION SYSTEM (CalPERS) CONTRIBUTION AMOUNT

THE CITY COUNCIL OF THE CITY OF AGOURA HILLS HEREBY FINDS, RESOLVES, AND ORDERS AS FOLLOWS:

WHEREAS, the City participates in the CalPERS Retirement System, and

WHEREAS, CalPERS has established different contribution rates for employees within the CalPERS System prior to January 1, 2013 (Classic Employees) and for employees within the CalPERS System after January 1, 2013 (PEPRA Employees); and

WHEREAS, Each year CalPERS provides the City with a contribution rate for the upcoming fiscal year for the Employer and Employee rates. The Employer rate fluctuates on an annual basis. The Classic Employee rate is set at 7% of payroll. The PEPRA Employee rate is set at one-half of Normal Cost of the PEPRA Plan.

NOW, THEREFORE, it is resolved by the City Council that:

Section 1. The recitals set forth herein are true and correct.

Section 2. The City Council declares its intention that if the City's contribution to CalPERS retirement for both Classic and PEPRA Employees reaches 20% of payroll, the Classic Employees will contribute one-half of the increase between 20% and 25%

Section 3. Furthermore, in addition to Section 2, if the City's contribution to CalPERS retirement for both Classic and PEPRA Employees exceeds 25%, the Classic Employees will pay the full amount over 25%, up to 7%.

Section 4. Should the plan cost reach a total of 29.5% in which the Classic employee contribution reaches a maximum of 7%, this specific plan will need to be brought back to the City Council and City employees for further agreement in the sharing of costs associated with this plan

Section 5. Finally, the City will notify employees of the rate, and their anticipated contribution by June 1 of each year.

Section 6. This resolution shall take effect beginning with the first payroll in the 2017-18 Fiscal Year.

PASSED, APPROVED, and ADOPTED this 22nd day of February, 2017,
by the following vote to wit:

AYES: ()

NOES: ()

ABSENT: ()

ABSTAIN: ()

Denis Weber, Mayor

ATTEST:

Kimberly M. Rodrigues, City Clerk