



Staff Report

RESOLUTION AND ORDINANCE APPROVING AN AMENDMENT TO THE CONTRACT BETWEEN THE CITY OF BELMONT AND THE BOARD OF ADMINISTRATION OF THE CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM TO PROVIDE SECTION 21362.2 (3% @ 50 FULL FORMULA) AND SECTION 21574 (FOURTH LEVEL OF 1959 SURVIVOR BENEFITS) FOR LOCAL SAFETY MEMBERS.

Honorable Mayor and Council Members:

Summary

Approval of the attached Resolution of Intention and associated documents will initiate the process to amend the City's contract with the California Public Employees' Retirement System to provide the 3% at 50 full formula for local safety members effective July 16, 2005, as well as to increase the 1959 Survivor Benefit from Level 1 to the Fourth Level. The City Council approved the addition of the 3% at 50 contract option as part of the July 1, 2001 to June 30, 2006 Memorandum of Understanding between the City of Belmont and the Belmont Police Officers Association. The increase in the level of the 1959 Survivor Benefit level is being proposed to take advantage of the City's surplus assets in this fund prior to the pooling of these assets. Staff recommends approval of the Resolution of Intention and first reading of the ordinance to implement these amendments.

Background

3% at 50 Formula

The City Council approved the July 1, 2001 to June 30, 2006 Memorandum of Understanding with the Belmont Police Officers Association on July 24, 2001. One of the approved provisions was to amend the City's contract with the California Public Employees' Retirement System (CalPERS) to add the 3% at 50 full formula for local safety members (sworn police officers) effective July 1, 2005. A summary of the major provisions of the 3% at 50 full formula is attached.

Fourth Level 1959 Survivor Benefit

In September 1976, the City's contract with CalPERS was amended to include the 1959 Survivor Benefit Level 1 for the safety plan. This contract option provides a monthly benefit to the surviving spouse and children in the event of the member's death. The Level 1 benefit amounts

range from a minimum of \$180 per month to a maximum of \$430 per month, depending upon the number of children.

In January 1994, the Fourth Level 1959 Survivor Benefit became available as a CalPERS contract option. In October 2001, the City amended its' contract with CalPERS to provide the Fourth Level 1959 Survivor Benefit for the miscellaneous plan, in accordance with the Memorandums of Understanding between the City and the miscellaneous employee groups (MMCEA and AFSCME). The Fourth Level benefit amounts range from a minimum of \$950 per month for spouse only, to a maximum of \$2,280 per month for three or more children.

In January, CalPERS notified the City that in accordance with PERS law, the assets and liabilities for public agency employers at Levels 1 and 2 will be pooled beginning with the annual valuation for June 30, 2004. Prior to Levels 1 and 2 being pooled, all assets and liabilities are being accounted for separately for each individual agency. Employer costs have been developed based on each agency's own experience, and annual costs for this benefit were incorporated into the employer's annual pension cost as a percentage of active payroll. The City is very well funded in this program and has surplus assets, which has resulted in a zero cost to the employer for this benefit. Due to the surplus of assets, increasing to the Fourth Level for the safety plan will continue to be zero cost to the City for at least five years. (The employee cost for this contract option is \$2.00 per month, regardless of the benefit level.) CalPERS has advised the City that this is the final opportunity to take advantage of our own surplus assets to improve this benefit, at no cost to the City, prior to the loss of our individual surplus assets once these assets are pooled. This action must be initiated prior to the close of this fiscal year.

Discussion

By virtue of the current Memorandum of Understanding between the City of Belmont and the Belmont Police Officers Association, the City is contractually obligated to implement the 3% at 50 full formula for local safety members effective July 1, 2005. The actual effective date of the amendment, however, will be July 16, 2005, due to PERS regulatory requirements regarding length of notice and the requirement to establish the effective date on the first day of a pay period. This timing requirement has been reviewed with BPOA representatives and they are in concurrence with the effective date.

Regarding the Fourth Level 1959 Survivor Benefit, CalPERS has proactively notified the City that we have the opportunity to take advantage of our surplus assets to upgrade to the Fourth Level plan at no cost to the City. Once the assets are pooled, this opportunity, along with the surplus funds, is lost and any future upgrade to the survivor benefit could be more costly.

Since the proposed upgrade to the Fourth Level Survivor Benefit is a mandatory subject of bargaining, staff has met and conferred with representatives of the Belmont Police Officers Association and they are supportive of this improvement.

The process for amending the CalPERS contract requires that the City Council approve a resolution to indicate the City's intention to amend the CalPERS contract and an ordinance to actually amend the contract. The resolution and ordinance are attached for the City Council's consideration.

Government Code Section 7507 requires that the future annual costs of the proposed contract amendments be made public at a public meeting at least two weeks prior to the adoption of the final ordinance. These costs are identified below.

Fiscal Impact

The adoption of the 3% at 50 full retirement formula for local safety members will result in the following actuarial adjustments:

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|--------------------------------------------|-------------|
| 1. Change in the Present Value of Benefits | \$2,401,224 |
| 2. Change in the Accrued Liability | \$1,886,811 |
| 3. Change in the Total Employer Rate | + 10.162% |

The adoption of the Fourth Level of 1959 Survivor Benefits for local safety members will result in the following actuarial adjustments:

- | | |
|-------------------------------------------------------------|------------|
| 1. Annual Employer Normal Cost (first year only) | \$ 1,958 |
| 2. 5-Year Amortization of Unfunded/Excess Liability Payment | \$(24,789) |
| 3. Employer Cost Each Year for the Next 5 Years | \$ 0 |

At the end of the five years, if there are excess assets rather than an unfunded liability, the excess will be used to offset the normal cost payments to the extent possible. It is our belief that given the amount of the surplus, the cost to the City will likely be zero for ten years or more.

Public Contact

Posting of City Council agenda and copy to the Belmont Police Officers Association.

Recommendation

It is recommended that the City Council approve the resolution of intention and the first reading of the ordinance approving the amendment to the CalPERS contract to provide the 3% at 50 full formula and the Fourth Level 1959 Survivor Benefit for local safety members effective July 16, 2005.

Alternatives

1. Take no action.

Attachments

- A. Resolution of Intention to Approve an Amendment to Contract (Amendment to Contract attached hereto and made a part thereof)
- B. Ordinance Authorizing Amendment to Contract
- C. Summary of Major Provisions of 3% at 50 Formula

Respectfully submitted,

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Human Resources Director

Daniel Rich
Interim City Manager