

**CITY OF COSTA MESA
PENSION OVERSIGHT COMMITTEE**

DATE: August 6, 2014
TO: City Council
COPY: Tom Hatch, CEO
Steve Dunivent, Interim Finance Director
Lance Nakamoto, Human Resources Manager
FROM: Pension Oversight Committee (POC)
SUBJECT: Recommend Safety Employees Increase Pension Cost-Sharing to 14%

Recommendation

The Pension Oversight Committee (POC) recommends (by a vote of 6 to 0) that the City Council negotiate increased pension cost-sharing from Safety Employees (14% if possible).

Executive Summary

Since 2002, Costa Mesa’s pension costs have doubled, and as we presented to the Council earlier in the year, we expect pension costs to double again by fiscal 2022/23. Further, based upon the latest data provided by CalPERS, Costa Mesa’s annual pension costs are forecasted to continue to increase into the 2030’s!

Pension Costs as a Percent of General Fund					
\$ Millions					
Fiscal Year	2002/03	2007/08	2012/13	2017/18	2022/23
Gen'l Fund \$	82	103	103	119	138
Pension Cost \$	8	14	15	24	30
Percent of Gen'l Fund	9.8%	13.6%	14.6%	20.2%	21.7%

Given the above increases, as a way for the City to mitigate its increasing pension costs the Pension Oversight Committee recommends the City negotiate for employees to increase their contributions to the fullest extent permitted by Costa Mesa’s existing agreement with CalPERS. The Pension Oversight Committee is aware that the City has just reached a tentative agreement with the Costa Mesa City Employees Association representing ‘Miscellaneous’ employees. Therefore this recommendation addresses pensions for Safety employees (Fire and Police).

The Safety Pension Challenge

Several times since year 2000, the City has increased pension benefits for Safety employees and they have gained significantly from these benefit improvements. Yet Safety employees contribute a relatively small portion towards the cost of their pensions. Most rank and file Fire and Police employees contribute 5.0% of their payroll towards pension costs (a few employees contribute more) while the City contributes the balance. It is worth noting that Miscellaneous employees contribute a larger percentage to their pensions than Safety employees and yet on average Miscellaneous salaries are less than Safety employees.

In the five years between fiscal 2013/14 and fiscal 2018/19, the POC forecasts Costa Mesa's Safety pension costs will increase \$4.7M, and given the existing City/Safety employee contribution split, employees will pay only \$135k or 2.9% of that increase.

City / Safety Employee Pension Contribution Split				
\$ Thousands				
Fiscal Year	2013/14	2018/19	Increase	Percent
Pension Cost Increase \$	14,773	19,449	4,676	100.0%
Employee Contribution Increase \$	1,477	1,612	135	2.9%
City Contribution Increase \$	13,296	17,837	4,541	97.1%

In lieu of a detailed financial analysis, which is difficult outside of actual negotiations, we have used several cost sharing scenarios for Fire and Police to illustrate potential savings (see attached Contribution Rate Analysis). Having said this, the POC urges the City to negotiate the largest amount of cost sharing currently permitted within existing agreements which allow for Safety employees to contribute 14.0%. This will provide the greatest savings to Costa Mesa, of about \$2.7M annually. Other scenarios shown in the analysis use reduced cost sharing and provide annual savings of \$1.8M and \$0.9M.

The Opportunity

Very soon the City will be negotiating new contracts with Fire and Police employees. Now is the opportune time to negotiate increased cost sharing to obtain reductions in Costa Mesa's pension costs and obtain a little more balance between City and Safety employee pension contributions. And it is a chance for Safety employees to help the City remain financially healthy and increase the security of their pensions.

The current Amendment to Contract between the CalPERS Board of Administration and the City incorporates Section 20516 of the Public Employee Retirement Law allowing for employees to contribute up to 14% of their payroll to their pensions. Additional employee contributions/cost sharing can be increased through the meet and confer process.

If implemented, this recommendation will require increased payments by Safety employees. The Council could propose a multiple year implementation period with employees paying more each year until the negotiated cost sharing percentages are reached.

Conclusion

The Pension Oversight Committee recommends the City include in upcoming negotiated labor contracts increased employee cost sharing and urges the City to negotiate the highest levels currently allowed. If the highest levels cannot be achieved and recognizing that many items have to be factored together when negotiating a contract, the POC urges the highest levels possible be negotiated.

The POC hopes our recommendation will be helpful to the City Council.

Jeff Arthur, Chair
Pension Oversight Committee

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Recommend Safety Employees Increase Pension Cost-Sharing to 14%

Contribution Rate Analysis								
	Current		Employees Paying Additional Contributions					
	Current Contribution Rates of Payroll	Estimated Current Annual Contribution Amounts	Employees Paying Max per Current Cost Sharing	Estimated Revised Contribution Amounts	Employees Paying Percent Shown Below	Estimated Revised Contribution Amounts	Employees Paying Percent Shown Below	Estimated Revised Contribution Amounts
Analysis based upon CalPERS Annual Valuations dated October 2013 covering FY 2014/15								
Fire Department Employees (73 heads)								
Total Employer & Employee	54.618%	\$5,935,060	54.618%	\$5,935,060	54.618%	\$5,935,060	54.618%	\$5,935,060
Total Employer	49.618%	\$5,391,735	40.618%	\$4,413,751	43.618%	\$4,739,746	46.618%	\$5,065,741
Total All Employees	5.000%	\$543,325	14.000%	\$1,521,309	11.000%	\$1,195,314	8.000%	\$869,319
Avg Annual Cost by City per Employee		\$73,859		\$60,462		\$64,928		\$69,394
Average Annual Cost per Employee		\$7,443		\$20,840		\$16,374		\$11,908
City's Cost Savings (increase in Employee Contributions)				\$977,984		\$651,989		\$325,995
Police Department Employees (136 heads)								
Total Employer & Employee	47.542%	\$9,149,375	47.542%	\$9,149,375	47.542%	\$9,149,375	47.542%	\$9,149,375
Total Employer	42.542%	\$8,187,134	33.542%	\$6,455,099	36.542%	\$7,032,444	39.542%	\$7,609,789
Total All Employees	5.000%	\$962,241	14.000%	\$2,694,276	11.000%	\$2,116,931	8.000%	\$1,539,586
Avg Annual Cost by City per Employee		\$60,200		\$47,464		\$51,709		\$55,954
Average Annual Cost per Employee		\$7,075		\$19,811		\$15,566		\$11,320
City's Cost Savings (increase in Employee Contributions)				\$1,732,034		\$1,154,690		\$577,345
Total City Cost Savings (increase in Employee Contributions)				\$2,710,018		\$1,806,679		\$903,339

Notes:

Used pension formulas with highest number of employees
 Fire employees CMFA & CMFAMA 3% @ 50
 Police employees 3% @ 50

Headcount provided by HR 5/14/14 except authorized Police staffing of 136
 Contribution Rates based on City schedule dated 7/2/13

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