

City of Garden Grove

INTER-DEPARTMENT MEMORANDUM

To:	Scott C. Stiles	From:	Kingsley Okereke
Dept.:	City Manager	Dept.:	Finance
Subject:	Required financial disclosure to implement a California Public Employee's Retirement System two-year early retirement option. (<i>Action Item</i>)	Date:	2/27/2018

OBJECTIVE

For the City Council to authorize the implementation of the California Public Employee's Retirement System (CalPERS) Two-Year Early Retirement incentive for employees of the City Manager's Office, Community & Economic Development, Community Services, Finance, Information Technology, Human Resources, Police and Public Works Departments who meet CalPERS eligibility requirements, and certify compliance with California Government Code Section 7507 disclosure.

BACKGROUND

The City of Garden Grove is facing one of its most significant financial challenges ever and will need new revenue infusion and/or to restructure and significantly reduce its costs for the next several years. Cost reduction measures contemplated going forward may include downsizing, furloughs, and even layoffs. On June 27, 2017, the City Council adopted the City's biennial fiscal years (FY) 2017-18 and 2018-19 budget, with a structural deficit and the use of one-time balancing measures. The FY 2018-19 budget, included a \$6.9 million structural deficit which necessitated the adoption of the following budget balancing measures: (a) early retirement program, which was estimated to save the City \$0.5 million; (b) implement a 5% budget reduction (excluding sworn personnel), which will reduce the budget by \$2.8 million; (c) defer \$1.5 million in funding for the City's financial enterprise resource system and (d) transfer \$2.2 million in one-time funds from the Workers' Compensation Fund as a loan to the General Fund to balance the budget if other revenues sources are not identified or other expenses reduced.

CalPERS offers a Two-Year early retirement program for public agencies facing downsizing, layoffs, and/or reorganizations due to financial pressures or organizational changes. The program allows agencies the opportunity to reduce labor costs by lowering per unit staff cost and maintaining target vacancies. The cost of the program is amortized over five years. The program provides an extra two years of service credit to employees who:

- Have attained 50 years of age;
- Have five or more years of service credit with CalPERS; and
- Retire within the respective 90-day retirement window

DISCUSSION

In an effort to reduce the structural deficit in FY 2018-19 and financial burden to the City's General Fund, staff is recommending to proceed with the implementation of the early retirement benefit offered by CalPERS. The early retirement benefit is intended to generate short-term and long-term savings through voluntary attrition of personnel. Through a combination of hiring new employees at entry level wages, holding positions vacant for some period of time, and/or through the permanent reduction in the workforce, voluntary retirements will provide opportunities to reduce labor expenses. The cost of providing this benefit will be rolled into the City's actuarial estimate two-fiscal years following implementation, and would result in an increase to the percentage of payroll the City must pay on each active employee, beginning in FY 2020-21. Budget savings is realized from the reduction in labor costs less the cost of the program, amortized over five years.

If the early retirement option is approved, eligible employees must retire during the "window" period, beginning July 2, 2018 and ending October 1, 2018. Staff is recommending that employees of the City Manager's Office, Community & Economic Development, Community Services, Finance, Information Technology, Human Resources, Police and Public Works Departments who meet CalPERS' requirements be eligible for this window.

Due to the ongoing discussions with the Orange County Fire Authority, it is recommended that the Fire Department not be included in this window; however, if the City does not ultimately contract with OCFA for fire services, staff will recommend a separate window for the Fire Department personnel.

Financial Cost and Required Disclosure

The ultimate cost of the program is driven by the number of employees who elect the early retirement option. Garden Grove has a total of 163 employees who are eligible for the program. The CalPERS cost calculation formula requires the City to publicly disclose the cost of providing this benefit as if **ALL** eligible employees elect early retirement. The total present value of future cost for providing this benefit to all 163 eligible employees is estimated to be \$11,806,466. The total cost is amortized over a five-year period, resulting in an annual cost of \$2,659,114 or an increase contribution rate of 0.1723% over the same period.

However, it is important to note that only a fraction of eligible employees will ultimately elect to retire early. Below (see chart) are cost estimates for this program, along with projected salary savings due to the resulting vacant positions or from filling critical positions at entry level wages. These savings are estimates and assumes that all sworn positions will be filled and up to 70% of miscellaneous positions will remain vacant for some time. The following chart presents cost and savings scenarios assuming 100%, 25%, 20%, and 15% program participation.

Estimated Costs	100% Accept Incentive	25% Accept Incentive	20% Accept Incentive	15% Accept Incentive
Number of Employees	163	41	33	24
Service Credit Cost in Dollars (to be amortized over 5 years)	\$ 11,806,466	\$ 2,951,617	\$ 2,361,293	\$ 1,770,970
Estimated Cost Per Year (When Annualized over 5 Years)	\$ 2,659,114	\$ 664,779	\$ 531,823	\$ 398,867
Estimated Annual Savings to General Fund	\$ 8,919,653	\$ 2,229,913	\$ 1,783,931	\$ 1,337,948
Net Savings to the General Fund	\$ 6,260,539	\$ 1,565,135	\$ 1,252,108	\$ 939,081
Employer Contribution Rate Increase as a % of Payroll (Beginning in FY 2020-21)	0.1723%	0.0431%	0.0345%	0.0258%

Government Code Section 7507 requires that the costs to provide this benefit be made public at least two weeks prior to the adoption of the Resolution. In addition, CalPERS requires the City to certify that it is our intention that at least one vacancy in any position in any department or organizational unit shall remain permanently unfilled, thereby resulting in a permanent overall reduction in the workforce.

PERS PROCESS

The following are the steps and estimated time frame to implement the Two-Year Early Retirement option for qualified employees within the City Manager's Office, Community & Economic Development, Community Services, Finance, Human Resources, Information Technology, Police and Public Works Departments:

1. City Council make public the mandated financial disclosure of this benefit in a public meeting. (this item, February 27, 2018).
2. City Council adopts resolution providing for Two-Year Retirement option, no earlier than 2 weeks after financial disclosure. (March 13, 2018).
3. Window period opens on July 2, 2018.
4. Window closes 91 days later on October 1, 2018.

FINANCIAL IMPACT

Staff projects that approximately 15 percent of those eligible will elect to participate, which will reduce labor costs (budget savings) by an estimated \$1,337,948 in FY 2018-19 and approximately \$900,000 annually over the next five years. The expected increase in the employer contribution rate is 0.0258%, or approximately \$398,867 annually for five years, beginning in FY 2020-21.

RECOMMENDATION

It is recommended that the City Council:

- Authorize the implementation of the two-year early retirement program for the indicated eligible employees.
- Certify compliance with "additional employer contributions" disclosure required by California Government Code § 7507 and § 20903 with all identified eligible employee of \$11,806,466 amortized over five years, or 0.1723% increase in the employer contribution rate over the same period, pursuant to the method of calculation set forth by CalPERS.
- Direct staff to bring a Resolution to effectuate the Two-Year Early Retirement option for all eligible employees in the City Manager's Office, Community & Economic Development, Community Services, Finance, Information Technology, Human Resources, Police and Public Works Departments to the March 13, 2018, City Council meeting.