

**City of Garden Grove**

**INTER-DEPARTMENT MEMORANDUM**

To: Scott C. Stiles  
Dept: City Manager  
Subject: REQUIRED FINANCIAL DISCLOSURE  
NEEDED TO IMPLEMENT CALPERS TWO-  
YEAR EARLY RETIREMENT OPTION (*Action  
Item*)

From: Kingsley Okereke  
Dept: Finance  
Date: March 27, 2018

OBJECTIVE

To provide additional information regarding the implementation of the California Public Employee's Retirement System (CalPERS) Two-Year Early Retirement incentive, which was previously presented to Council on February 27, 2018.

BACKGROUND

At the February 27, 2018 City Council meeting, staff presented Council with the financial disclosure required by CalPERS for the implementation of the 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. At that time, it was recommended that due to the ongoing discussions with the Orange County Fire Authority (OCFA), the Fire Department was not included from the proposed retirement window beginning July 2, 2018 and ending October 1, 2018. However, if the City does not ultimately contract with OCFA for fire services, staff would recommend a separate window for the Fire Department personnel.

The program, as previously proposed, included 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 to the employer's contribution rate of 0.0435 over the same period. The agenda report dated February 27, 2018 is attached.

DISCUSSION

City Council directed staff to bring forth information outlining the cost and savings information for the CalPERS Two-Year Early Retirement program that would show eligible employees from the Fire Department. A total of 174 employees would be

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eligible for the program if the Fire Department is included. The total present value of future cost for providing this benefit to **ALL** 174 eligible employees is estimated to be \$12,953,940. The total cost is amortized over a five-year period, resulting in an annual cost of \$2,917,554 or an increase in the employer's contribution rate of 0.0477 over the same period.

Information outlining the costs and savings estimated for the following scenarios are: (a) the original proposal; (b) include the Fire Department assuming that Fire services would remain with the City and; (c) include the Fire Department assuming the City would contract with OCFA for fire services. The tables assume that all sworn positions will be filled and up to 70% of miscellaneous positions will remain vacant for some time.

<b>Table A:</b>				
<b>Estimated Costs</b>	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 amortized 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)	0.0435	0.0109	0.0087	0.0065

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<b>Table B:</b> <b>Estimated Costs with Fire Department (Remain with City)</b>	100% Accept Incentive	25% Accept Incentive & Fire	20% Accept Incentive & Fire	15% Accept Incentive & Fire
Number of Employees	174	49	41	32
Service Credit Cost in Dollars (to be amortized over 5 years)	\$ 12,953,940	\$ 3,779,339	\$ 3,189,015	\$ 2,598,692
Estimated Cost Per Year (when amortized over 5 Years)	\$ 2,917,554	\$ 851,203	\$ 718,247	\$ 585,291
Estimated Annual Savings to General Fund	\$ 9,387,790	\$ 2,583,527	\$ 2,137,545	\$ 1,691,562
Net Savings to the General Fund	\$ 6,470,236	\$ 1,732,325	\$ 1,419,298	\$ 1,106,271
Employer Contribution Rate Increase as a % of Payroll (Beginning in FY 2020-21)	0.0477	0.0139	0.0117	0.0096

<b>Table C:</b> <b>Estimated Costs with Fire Department (Contract with OCFA)</b>	100% Accept Incentive	25% Accept Incentive & Fire	20% Accept Incentive & Fire	15% Accept Incentive & Fire
Number of Employees	174	49	41	32
Service Credit Cost in Dollars (to be amortized over 5 years)	\$ 12,953,940	\$ 3,779,339	\$ 3,189,015	\$ 2,598,692
Estimated Cost Per Year (when amortized over 5 Years)	\$ 2,917,554	\$ 851,203	\$ 718,247	\$ 585,291
Estimated Annual Savings to General Fund	\$ 8,994,059	\$ 2,304,319	\$ 1,858,337	\$ 1,412,354
Net Savings to the General Fund	\$ 6,076,505	\$ 1,453,117	\$ 1,140,090	\$ 827,063
Employer Contribution Rate Increase as a % of Payroll (Beginning in FY 2020-21)	0.0477	0.0139	0.0117	0.0096

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The original proposal (Table A), for 163 eligible employees would cost \$11,806,466, or \$2,659,114 annually for five years. Staff estimates that 15-20% would elect to participate in the program. Assuming 20% participation, the total cost of the program would be \$2,361,293, or \$531,823 annually, and net annual labor reduction of about \$1,200,000.

The proposal including the Fire Department and assuming that Fire services remain with the City (Table B), would cost \$3,189,015, or \$718,247 annually, and provide estimated net annual labor reduction of about \$1,400,000.

If Fire services are ultimately contracted to OCFA (Table C), the related Fire Department personnel cost based on estimated participation in the program is projected at \$827,722, or \$186,424 annually. The City would have no opportunity to manage the related budget and potential savings within this CalPERS program.

#### FINANCIAL IMPACT

The ultimate cost of the program and net annual labor cost reduction achieved depends on the number of eligible employees who elect to participate in the program. Staff projects that approximately 32-40 employees will elect to receive this benefit, depending on which departments Council approves as part of the program.

#### RECOMMENDED ACTIONS

It is recommended that the City Council:

- Certify:
  1. Compliance with "additional employer contributions" disclosure required by California Government Code § 7507 and § 20903 with all identified eligible employees of \$11,806,466 amortized over five years, or 0.0435 increase in the employer contribution rate over the same period pursuant to the method of calculation set forth by CalPERS

**OR**

2. Compliance with "additional employer contributions" disclosure required by California Government Code § 7507 and § 20903 with all identified eligible employees, including the Fire Department, of \$12,953,940 amortized over five years, or 0.0477 increase in the employer contribution rate over the same period, pursuant to the method of calculation set forth by CalPERS

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- Authorize the implementation of the two-year early retirement program for the indicated eligible employees.
- Direct staff to bring a Resolution to effectuate the Two-Year Early Retirement option for all eligible employees in the selected departments.

Attachment: Agenda Report Dated February 27, 2018