OCII
office of
COMMUNITY INVESTMENT
and INFRASTRUCTURE

128-0072018-002

Agenda Item **No. 5(d)**
Meeting of June 5, 2018

MEMORANDUM

TO: Community Investment and Infrastructure Commissioners

FROM: Nadia Sesay, Executive Director

SUBJECT: Approving a Resolution of Intention to approve a Contract Amendment between the California Public Employees' Retirement System (CalPERS) and the Successor Agency to incorporate a previously-approved Employee Contribution to Retirement Benefits

EXECUTIVE SUMMARY

The Office of Community Investment and Infrastructure (OCII) provides retirement benefits to its employees through a contract with the California Public Employees' Retirement System (CalPERS). CalPERS requires that both employers and employees contribute funds for the cost of retirement benefits. The employer's share of contributions may be offset by employees if applicable collective bargaining agreements and policies require employees to contribute a portion of their salary to the retirement program. CalPERS refers to the employees' contribution of a portion of the employer's retirement payment as employees sharing cost of additional benefits or "Employee Cost-Sharing".

In FY 2014-2015, OCII management and Local 21 (International Federation of Professional and Technical Engineers) and Local 1021 (Service Employees International Union Local 1021 or SEIU) negotiated increases in employee salaries and in Employee Cost-Sharing that matched the salaries and cost-sharing provisions of comparable City labor agreements. Subsequently, the Successor Agency Commission ("Commission") approved these increases in memoranda of agreement (MOAs) with Local 21, Resolution No. 5-2015 (Feb. 3, 2015), and with Local 1021, Resolution No. 6-2015 (Feb. 3, 2015), and in the Classifications of Positions and Compensation Schedules ("Salary Resolution"), Resolution No. 39-2015 (June 16, 2015). The MOAs required that the employee "contribution shall be on a pre-tax basis upon the effective date of a new CalPERS contract authorizing such treatment" and established the implementation dates below.

1. Effective the first day of the first full pay period after February 14, 2015: 1.00%;
2. Effective the first full pay period in October 2015: additional 1.25%;
3. Effective the first full pay period in July 2016: additional 1.25%.

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See Local 21 MOA, Article II, Section 3 E; Local 1021 MOA, Section 16. The Commission approved extensions of the MOAs through 2017-2019 in Resolution Nos. 25-2017 and 26-2017 , and approved a revised Salary Resolution in Resolution No. 27-2017 (June 20, 2017). To date, OCII has treated all of the employee contributions on a pre-tax basis.

In late 2015 and then again in 2016, OCII approved, at CalPERS insistence, a new retirement contract because the then-existing CalPERS contract had originally been approved by the dissolved Redevelopment Agency of the City and County of San Francisco ("Former Agency"). The existing CalPERS contract incorporates the first two Employee Cost-Sharing provisions, but not the third employee contribution of 1.25 percent that went into effect in July 2016.

OCII now seeks to amend the retirement contract with CalPERS to incorporate the third employee contribution of 1.25 percent. Amending the CalPERS contract ensures the continuing pre-tax treatment of the Employee Cost-Sharing. It also allows those employees who request a refund of their retirement contribution (instead of future retirement benefits) to receive the funds associated with the third employee contribution of 1.25 percent. To amend the CalPERS contract, CalPERS requires the Commission to adopt, as a first step, a Resolution of Intention. Subsequent steps include an election in which OCII CalPERS employees vote on the contract amendment and final Commission action to approve the amended contract.

Staff recommends the Commission approve the Resolution of Intention to Approve an Amendment to the CalPERS Contract.

Discussion

Employee retirement benefits are funded through a combination of employer and employee contributions. Following dissolution, pursuant to Government Code Section 20516, as part of the labor negotiations with International Federation of Professional and Technical Engineers Local 21 (Local 21) and Service Employees International Union Local 1021 (Local 1021), OCII sought an employee contribution that was consistent with the contributions made by City and County employees toward the San Francisco retirement system. The employee contribution offsets the amount that OCII would otherwise have to pay for employee retirement benefits.

The employees ratified the employee contribution in the 2015-2017 Memorandum of Agreement between OCII and Local 21 and the 2015-2017 Memorandum of Agreement between OCII and Local 1021. The Commission approved these Memoranda of Agreement (MOAs) in Resolutions Nos. 5-2015 and 6-2015 (Feb. 3, 2015) and extended the terms of the MOAs to June 30, 2019 in Resolutions Nos. 25-2017 and 26-2017 (June 20, 2017). The Commission also applied the employee contributions to unrepresented employees by approving Salary Resolutions, Resolution Nos. 39-2015 and 27-2017. In the 2015-2017 MOAs and Salary Resolution, the Commission also approved salary increases that became effective on the same date as the additional Employee Cost-Sharing provisions. In the 2017-19 MOA extensions, the Commission approved additional salary increases, but did not include additional Employee Cost-Sharing provisions.

The Commission approved employee contributions for both unions and unrepresented employees are:

- Effective the first day of the first full pay period after Feb. 14, 2015: an additional 1.00%;
- Effective the first full pay period in October 2015: additional 1.25%;
- Effective the first full pay period in July 2016: additional 1.25%.

The existing CalPERS contract incorporates the first two employee contributions, but not the third contribution of 1.25 percent. OCII now seeks to amend the CalPERS retirement contract to include the third employee contribution. To initiate the process, CalPERS requires the Commission to approve a Resolution of Intention to Approve an Amendment to the CalPERS Contract. Amending the retirement contract to include the third employee contribution of 1.25 percent employee contribution ensures that OCII has the authority to treat the third contribution on a pre-tax basis. As an incidental benefit, the amendment also makes the third employee contribution of 1.25 percent amount available to those employees who request a refund of retirement contributions instead of receiving a retirement benefit.

CalPERS interprets the amendment to incorporate the Employee Cost-Sharing as triggering a "statement of the actuarial impact upon future annual costs" under Section 7507 of the California Government Code. Accordingly, OCII will post the future annual cost of the proposed contract for retirement benefits at the public hearing on June 19, 2018. The future annual cost is the annual employer cost of the future liability associated with the benefits earned in that particular year, plus any change in accrued liability.

Next Steps

If the Commission approves the proposed Resolution of Intention, the Agency will hold an election and then submit additional forms to CalPERS regarding the election and the posting of information about the annual costs of retirement benefits. When CalPERS receives these documents, they will send the Final Resolution for Approval of an Amendment to a Contract for consideration by the Commission. Approval of the Final Resolution is the last step in obtaining a contract amendment for the third employee contribution of 1.25 percent.

Recommendation:

Staff recommends that the Commission approve the Resolution of Intention to Approve an Amendment to the CalPERS Contract as it is the first step required to amend the retirement contract with CalPERS to include the additional employee contribution implemented the first full pay period in July 2016.

(Originated by Monica Davis Stean, Human Resources and Administrative Services Manager)

Nadia

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Executive Director