RECAP

- Update information presented at May 13, 2019 work session
- Work Group formed to continue to address public safety recruiting and retention
- Work Group comprised of:
  - Interim City Manager, City Attorney, Police and Fire Chiefs, Mayor and Mayor Pro Tem, Finance Director, Police and Fire Union Leaders, General Employee Group Leader, Public Safety Personnel, Public Information Officer, Outside Consultant

RECAP

- After reviewing past and present information, Work Group focused on the policemen's and firemen's pension plan
  - Financial strain placed on General Fund by annual pension contribution
  - Impact of "Tier II" reduced retirement benefit on recruiting and retention efforts
  - In public sector, pensions remain key component to public safety recruiting and retention

PENSION INFORMATION

- Pension plan is currently only 63.7% funded and is underfunded by nearly $24.1 million
- Unfunded liability continues to increase rather than decrease
- In fiscal year 2020, City's pension contribution will be 31.75% or around $3 million

RECOMMENDATION

- Work group unanimously recommended to City Council and Pension Board:
  - Close current pension plan to new hires, migrating new hires to LAGERS L-11 plan
  - Offer “Tier II” employees ***voluntary option*** to transition to LAGERS or remain on existing pension plan

RECOMMENDATION

- Benefits of Recommendation:
  - Improve employee recruiting by offering competitive retirement plan requiring no employee contributions and including vesting component
  - Improve employee retention through competitive and secure retirement plan
  - Ensures funding of closed pension plan for retirees and current public safety employees on pension plan

RECOMMENDATION

- L-11 LAGERS plan offers benefits most similar to “Tier I” provisions of existing pension plan
- Some components of L-11 plan:
  - No employee contribution
  - After vesting period of 5 years, eligible to retire with full benefits at age 55
  - Benefit multiplier is 2.5%
  - No social security contribution for employee or city

UPDATE

- Voluntary Option for “Tier II” employees:
  - Requires termination from employment and a rehire for those employees to qualify as a new employee under LAGERS
  - Requires “Tier II” employee to forfeit pension service credit
  - Those migrating “Tier II” employees will have option to purchase their forfeited years of service under the pension plan upon vesting with LAGERS

UPDATE

- Following the Council work session presentation, work group continued to finalize details of proposal:
  - Evaluated appropriate sunset provisions for final recommendation
  - Pension Board voted unanimously on June 20, 2019 to hold a vote of the membership on final recommended Plan Amendment, which included the Board's suggested changes and review by independent, outside legal counsel

UPDATE

- Educational sessions held for membership on June 27 through July 2 about pension election
- Membership election currently under way - July 15th through August 9th

UPDATE

- Work Group unanimously recommends Council ask voters on November 5, 2019 to support a ½-cent (.50) general sales tax with a sunset expiring at the ***earlier*** of 12 years or when the pension plan reaches 120% funded as determined by an independent actuary

UPDATE

- ½-Cent Sales Tax estimated to generate approximately $6.5 million to $7.0 million annually

UPDATE

- Special tax with sunset ***only*** to be used for the three components of the recommendation:
  - Fund closed pension plan
  - Offer “Tier II” employees option to migrate to LAGERS retirement plan
  - Bring new hires on under LAGERS retirement plan

UPDATE

- Tax will fully fund the closed pension plan

  Estimated Cost $65 million

- Tax will fund the “gap” payment for the purchase of forfeited pension service credit for those “Tier II” employees electing to migrate to LAGERS retirement plan

  Estimated Cost $5 million

- Tax will fund “buying down” the cost of new hires in the LAGERS retirement plan paid by the general fund

  Estimated Cost $2 million

UPDATE

- (#1) Fully Fund Police and Fire Pension Plan:
  - Close the current plan to new hires effective January 31, 2020
  - Proceeds from the tax to fully fund the closed plan for 12 years or until 120% funding level is reached, whichever comes first

UPDATE

- (#2) Fund the “Gap” payment:
  - “Tier II” employee will make election about purchasing prior pension service credit after vesting period based on cost estimate from LAGERS
  - If “Tier II” employee elects to purchase prior service credit, employee will be required to use their entire return of contribution from pension plan to purchase prior service credit

UPDATE

- Cost to purchase years of service credit from LAGERS will be more than the employee return of contribution, also known as the “gap cost”
- Sales Tax will be used to fund the “gap cost” in order to ensure migrated “Tier II” public safety employees receive full credit for their years of service with City
- Under IRS regulations, “gap cost” will be taxable event for employees
- Meetings and educational sessions will take place with each employee

UPDATE

- Example of “Tier II” employee prior pension service credit purchase:
  - Years of Pension Service Credit 4 years
  - Cost to purchase prior service credit $40,000
  - Less: Employee return of contribution ($25,000)
  - “Gap” Cost (taxable to employee) $15,000

UPDATE

- Current “Tier II” employees are not *required:*
  - To migrate to LAGERS retirement plan, voluntary option
  - To purchase any or all of their prior service credit, voluntary option
- “Tier II” employees with prior LAGERS service credit may have an accelerated vesting period

UPDATE

- (#3) “Buy down” LAGERS cost of new hires to general fund:
  - Cost, or percentage of payroll for new hires, can be decreased through two lump sum payments of $1 million each for police and fire
  - This further reduces the strain on the General Fund to address recruitment and retention concerns
  - According to initial valuation by LAGERS, buy down will decrease fire department from 19.9% to 18.3% and police department from 16% to 14.7% as percentage of payroll

WHAT'S NEXT?

- Finalize pension membership election results on August 12, 2019
- At upcoming meeting, City Council consider seeking approval from voters for a ½-cent general sales tax with a sunset to fund and close pension plan to new hires on November 5, 2019
- Appoint and engage Citizen's Committee to assist in public education process

WHAT'S NEXT?

- Following successful citizen election, City Council must approve various ordinances:
  - Ratify Pension Plan Amendment
  - Adopt LAGERS L-11 plan for police and fire employees
  - Adopt changes to Personnel Rules & Regulations to ensure no negative impact on those migrating "Tier II" employees current rights and benefits

WHAT ARE KEYS TO SUCCESS?

- Continue to work together
- Unified support by stakeholders
- Ensure that everyone is involved
- Keep public informed
- Continue to focus on the future

QUESTIONS?

Thank You!