THE CITY OF
PLEASANTON

CITY COUNCIL AGENDA REPORT

February 19, 2013
Administrative Services

TITLE: INTRODUCE UPCOMING NEGOTIATIONS BETWEEN CITY OF PLEASANTON AND AFSCME/PCEA (PLEASANTON CITY EMPLOYEES' ASSOCIATION) AND RECEIVE PUBLIC INPUT

SUMMARY
The Memorandum of Understanding between the City of Pleasanton and AFSCME/PCEA (Pleasanton City Employees' Association) will expire on March 31, 2013. Representatives from both parties will meet and confer to develop a successor agreement. This public session introduces the matter and allows for open discussion prior to exchanging formal proposals with AFSCME/PCEA, and allows the City Council and staff to receive input from the public on this matter.

RECOMMENDATION
That the City Council obtain public input regarding negotiations between the City of Pleasanton and AFSCME/PCEA.

FINANCIAL STATEMENT
There is no financial impact to this item at this time.

BACKGROUND

AFSCME/PCEA (Pleasanton City Employees' Association) represents approximately 220 employees, in a variety of non-management, non-safety classifications in all City departments. The current Memorandum of Understanding (MOU) with this group covers the period November 1, 2010 through March 31, 2013. The City is introducing this matter in public session to allow for open discussion prior to the formal exchange of contract proposals. All agreements reached between the parties during the meet and confer process are tentative until the contract, in its entirety, is ratified by members of AFSCME/PCEA and approved by the City Council.

DISCUSSION

In accordance with the Meyers-Milias-Brown Act, the parties are required to meet and confer in good faith over items covered within the scope of representation, including wages, hours and other terms and conditions of employment. Generally speaking, typical areas for negotiations include:

<u>Term of agreement</u>: Shorter term contracts which allows for greater flexibility to make adjustments continue to be more prevalent.

<u>Wage adjustments</u>: In preparation for wage adjustment discussions, staff prepares salary surveys comparing the average wage for a cross section of covered classifications with those of designated survey cities. These cities are neighboring agencies that are similar in size and perform municipal services. They include Antioch, Concord, Fremont, Hayward, Livermore, Milpitas, San Leandro, Union City and Walnut Creek. In addition, other data taken into consideration include the consumer price index (CPI), which reflects the general cost-of-living increases in the San Francisco-Oakland-San Jose area, as well as wage adjustments provided to comparable groups of employees in recent years.

<u>Benefits</u>: Other topics that are typically discussed include benefits such as the City's retirement program. Non-safety employees at the City currently have the retirement plan with the 2.7% @ 55 formula. The cost for this program is comprised of two parts, a variable employer rate and a fixed member contribution. The employer rate for FY 2013 is 24% and the member contribution of 8% is currently divided between the employees and the City with each paying an equal share of 4%. The Public Employees' Pension Reform Act of 2013 (PEPRA) took effect on January 1, 2013 and requires that new employees, who have not been a member of California Public Employees' Retirement System (CalPERS) or a reciprocal retirement system, are enrolled in the retirement plan with the 2.5% @ 67 formula. The member contribution for this program is 6.25%. John Bartel, the City's actuary and President of Bartel and Associates, will be present to provide detailed information on the City's retirement program. Many agencies continue to negotiate for employees to pay the full member contribution and this has been a goal of the City over the past few years. Other topics for discussion include health related benefits (e.g. medical plans) as well as non-health related items. Such matters related to departmental operations appropriately covered under the scope of representation may be discussed and language may be incorporated in subsequent MOU's.

CONCLUSION

This topic introduces the upcoming negotiations with AFSCME/PCEA and allows the City Council and staff to receive input on the matter prior to initiating the formal negotiations process.

Submitted by:

Julie Yuan-Miu
Assistant City Manager/
Director of Administrative Services

Approved by:

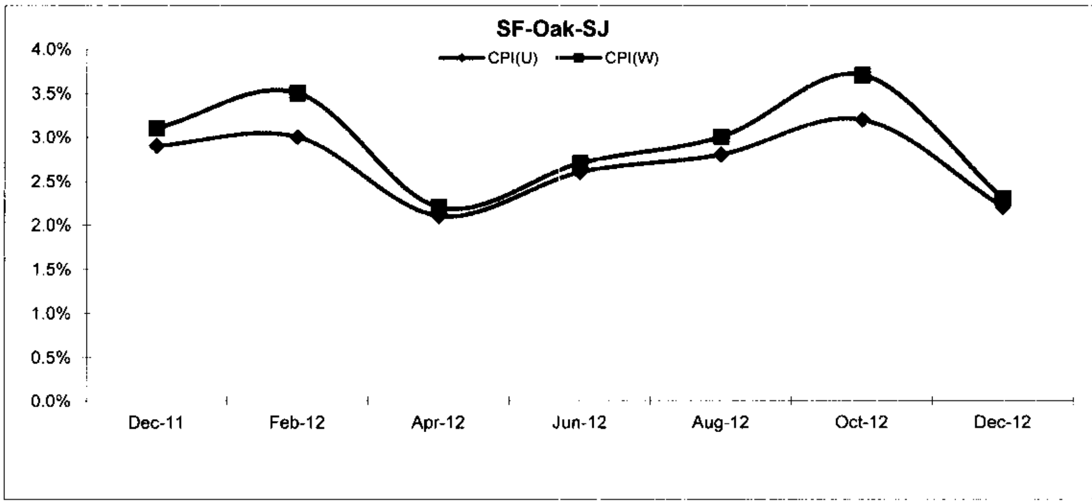
Nelson Fialho
City Manager

Attachments
CPI Report – December 2012

CONSUMER PRICE INDEX
SAN FRANCISCO BAY AREA and U. S. CITY AVERAGE
ALL ITEMS INDEX (1982-84=100)

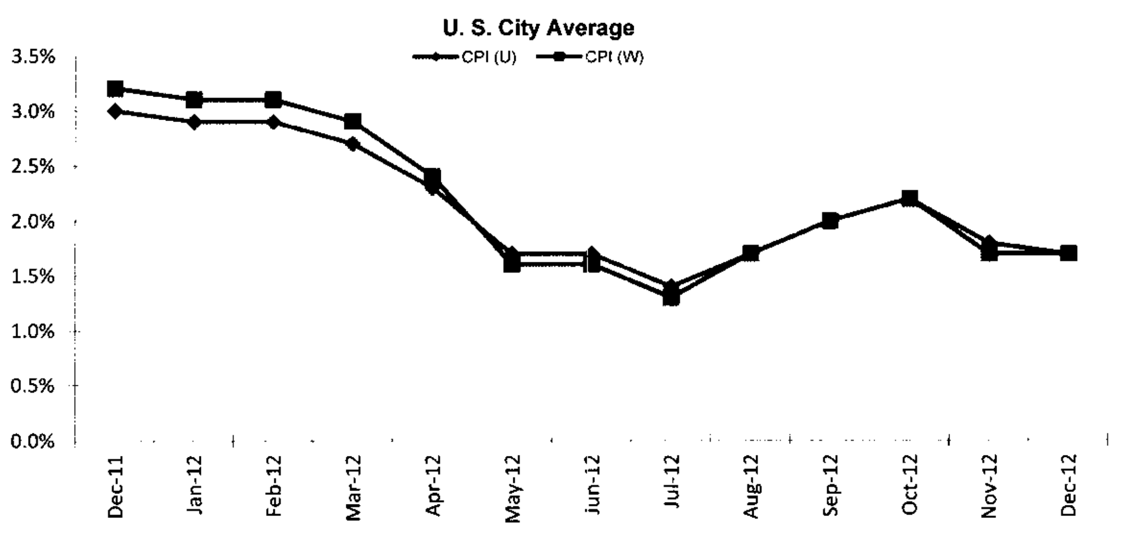
San Francisco-Oakland-San Jose

Date	CPI-U	CPI-W
Dec-11	2.9%	3.1%
Feb-12	3.0%	3.5%
Apr-12	2.1%	2.2%
Jun-12	2.6%	2.7%
Aug-12	2.8%	3.0%
Oct-12	3.2%	3.7%
Dec-12	2.2%	2.3%



U.S. City Average

Date	CPI-U	CPI-W
Dec-11	3.0%	3.2%
Jan-12	2.9%	3.1%
Feb-12	2.9%	3.1%
Mar-12	2.7%	2.9%
Apr-12	2.3%	2.4%
May-12	1.7%	1.6%
Jun-12	1.7%	1.6%
Jul-12	1.4%	1.3%
Aug-12	1.7%	1.7%
Sep-12	2.0%	2.0%
Oct-12	2.2%	2.2%
Nov-12	1.8%	1.7%
Dec-12	1.7%	1.7%



CalPERS Issues

February 19, 2013

John E. Bartel

Agenda

Pension Terminology

Defined Benefit Plan

- Guaranteed annual pension based on retirement age, years of service and salary, for example
  - Public Sector – CalPERS
  - Private Sector – Generally only very large employers

Defined Contribution Plan

- Employer contribution is a fixed dollar amount; benefit based on contributions and investment earnings
  - Public Sector – 457 Plan
  - Private Sector – 401(k) Plan

Pension Terminology (cont.)

Vested Rights: As determined by CA Supreme Court

- Employee must be eligible to continue earning benefit formula in place when hired.
- Cannot be reduced or eliminated unless traded for something of equal or greater value.
- Individual right, can not be negotiated away.

Pension Terminology (cont.)

<u>CalPERS Retirement formulas</u>

- Options used to vary based on
  - Type of employer [State, School, Local Public Agency]
  - Occupation [Miscellaneous (office and others), Safety]
  - Contract between Agency and CalPERS
- New Law (PEPRA) now mandates formulas
- Benefit is:
  - Service x Final Average Compensation x Benefit Factor

Pension Terminology (cont.)

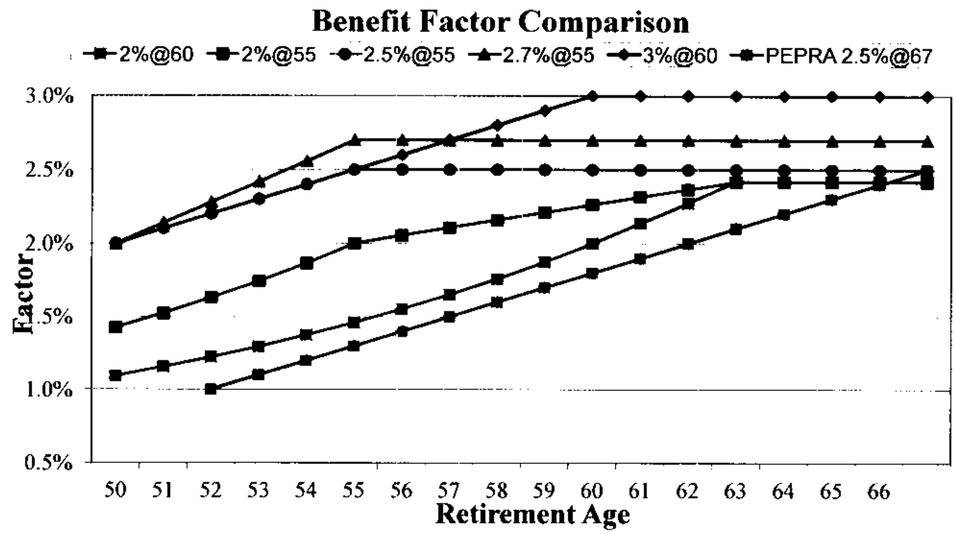
<u>CalPERS Retirement formulas</u>

- City has 2 Miscellaneous formulas:

  Tier 1 2.7% @ 55

  Tier 2 2.5% @ 67

Miscellaneous



Note: Miscellaneous has no benefit cap

Benefit Factors
Miscellaneous

Age	2%@60	2%@55	2.5%@55	2.7%@55	3%@60	PEPRA 2.5%@67
50	1.092%	1.426%	2.000%	2.000%	2.000%	n/a
51	1.156%	1.522%	2.100%	2.140%	2.100%	n/a
52	1.224%	1.628%	2.200%	2.280%	2.200%	1.000%
53	1.296%	1.742%	2.300%	2.420%	2.300%	1.100%
54	1.376%	1.866%	2.400%	2.560%	2.400%	1.200%
55	1.460%	2.000%	2.500%	2.700%	2.500%	1.300%
56	1.552%	2.052%	2.500%	2.700%	2.600%	1.400%
57	1.650%	2.104%	2.500%	2.700%	2.700%	1.500%
58	1.758%	2.156%	2.500%	2.700%	2.800%	1.600%
59	1.874%	2.210%	2.500%	2.700%	2.900%	1.700%
60	2.000%	2.262%	2.500%	2.700%	3.000%	1.800%
61	2.134%	2.314%	2.500%	2.700%	3.000%	1.900%
62	2.272%	2.366%	2.500%	2.700%	3.000%	2.000%
63	2.418%	2.418%	2.500%	2.700%	3.000%	2.100%
64	2.418%	2.418%	2.500%	2.700%	3.000%	2.200%
65	2.418%	2.418%	2.500%	2.700%	3.000%	2.300%
66	2.418%	2.418%	2.500%	2.700%	3.000%	2.400%
67	2.418%	2.418%	2.500%	2.700%	3.000%	2.500%
Member Contribution Rate						
	7%	7%	8%	8%	8%	≈6%

Pension Terminology (cont.)

<u>CalPERS Retirement formulas</u>

- City has 2 Miscellaneous formulas
  [Retire at age 60 with $70,000 pay and 30 years City service]:

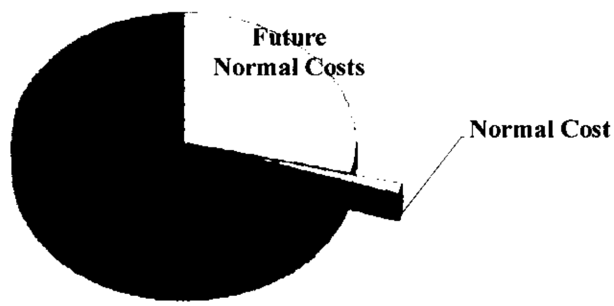
Tier 1	2.7% @ 55	2.7% x $70,000 x 30	= $56,700
Tier 2	2.5% @ 67	1.8% x $66,000 x 30	= $35,640

Pension Terminology (cont.)

- Actuarial Liability:
  - Discounted value (at valuation date) of benefits earned through valuation date [value of past service benefit]
  - Portion of PVB "earned" at measurement
- Current Normal Cost:
  - Portion of PVB allocated to (or "earned" during) current year
  - Value of Ee and City current service benefit
- Target:
  - Have money in the bank to cover Actuarial Liability (past service)

Pension Terminology (cont.)

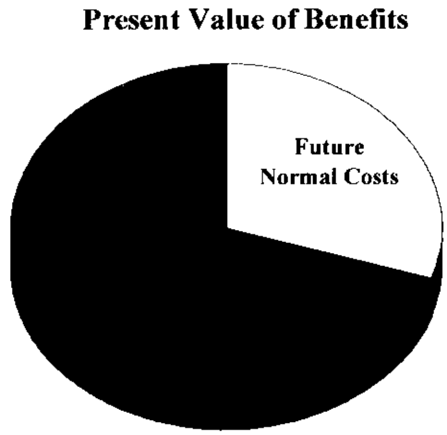
Present Value of Benefits



Pension Terminology (cont.)

- Unfunded Liability
  - Money short of target at valuation date
- Excess Assets / Surplus:
  - Money over and above target at that point in time.
  - Doesn't mean you're done contributing
- Amortization Payment:
  - Current year payment (credit) on shortfall (excess) of assets over Actuarial Liability

Pension Terminology (cont.)



Pension Terminology (cont.)

- Contribution Rate, sum of:
  - Normal Cost
  - Amortization Payment

Summary of Demographic Information – Miscellaneous

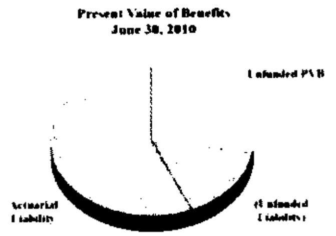
	1994	2003	2010	2011
Actives				
■ Counts	255	320	316	293
■ Average				
• Age	43	46	48	47
• City Service	9	10	12	12
• PERSable Wages	$44,300	$65,900	$85,100	$85,000
■ Total PERSable Wages (millions)	12.3	23.2	29.6	27.2
Receiving Payments				
■ Counts				
• Service		99	201	233
• Disablity		6	7	7
• Beneficiaries		7	14	14
• Total	52	112	222	254
■ Average Annual City Provided Benefit[1]				
• Service		$19,100	$30,100	$31,900
• Disability		7,200	10,500	10,100
• Service Retirements in last 5 years		23,600	38,000	38,600

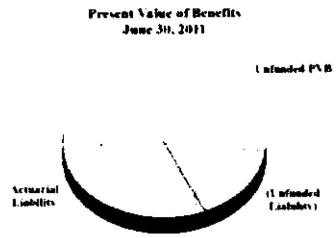
[1] Average City provided pensions are based on City service & City benefit formula, and are not representative of benefits for long service employees.

Average Annuity
Miscellaneous

Years Retired	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
	Service Retirement Retirees' Benefit										
Under 5	$23.003	$22.793	$23.618	$24.310	$26.352	$26.454	$29.551	$30.981	$34.934	$38.038	$38.566
5~9	14.125	17.508	21.139	21.856	23.541	25.513	26.494	26.725	26.643	29.697	30.378
10~14	10.116	10.574	14,823	14.649	12.930	17.130	17.655	22.515	24.622	25.901	28.922
15-19	7.205	4.704	4.798	4.414	10.531	12.745	12.952	13.535	17.327	13.557	18.188
20-24	9.468	10.804	13.123	14.015	10.086	8.910	4.863	4.612	4.835	8.671	14.550
25-29	4.173	4.257	4.063	7.916	10.535	10.392	15.081	15.483	19.364	12.480	10.269
Over 30	-	-	4,342	4.429	8.366	-	8.975	9.198	6.811	6.700	6.846
All Years	16.181	17.189	19.077	20.259	22.028	23.086	25.361	26.595	28.327	30.092	31.899

Plan Funded Status
Miscellaneous

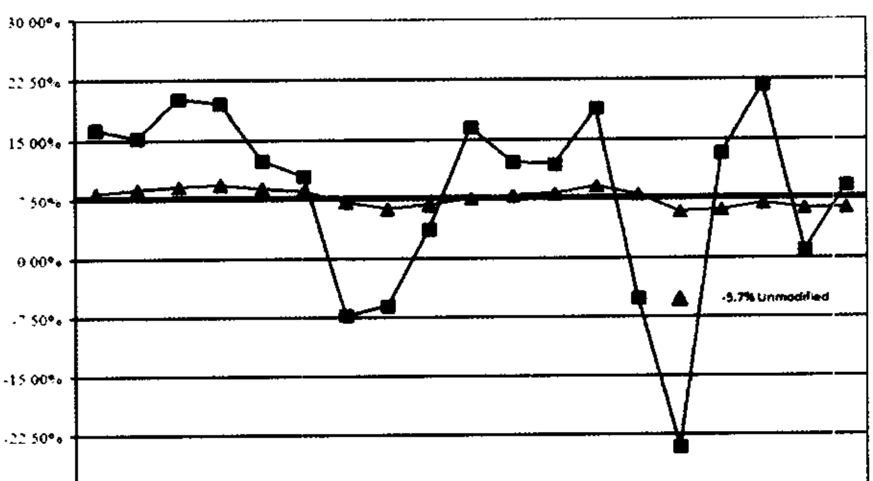




June 30, 2010		June 30, 2011
$ 176,900,000	**Actuarial Liability**	$ 191,900,000
126,100,000	**Actuarial Asset Value**	134,700,000
(50,800,000)	**(Unfunded Liability)**	(57,200,000)

June 30, 2010		June 30, 2011
$ 176,900,000	**Actuarial Liability**	$ 191,900,000
99,100,000	**Market Asset Value**	120,600,000
(77,800,000)	**(Unfunded Liability)**	(71,300,000)

Actuarial Investment Return
Miscellaneous



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
AVA	8.4%	8.8%	9.2%	9.4%	9.0%	8.5%	7.2%	6.3%	6.8%	7.6%	8.0%	8.2%	9.2%	8.1%	5.9%	6.1%	6.9%	6.3%	6.4%
MVA	16.3%	15.3%	20.1%	19.5%	12.5%	10.5%	-7.2%	-6.0%	3.7%	16.6%	12.3%	11.9%	18.8%	-5.1%	-24.0	13.3%	21.7%	1.0%	9.2%

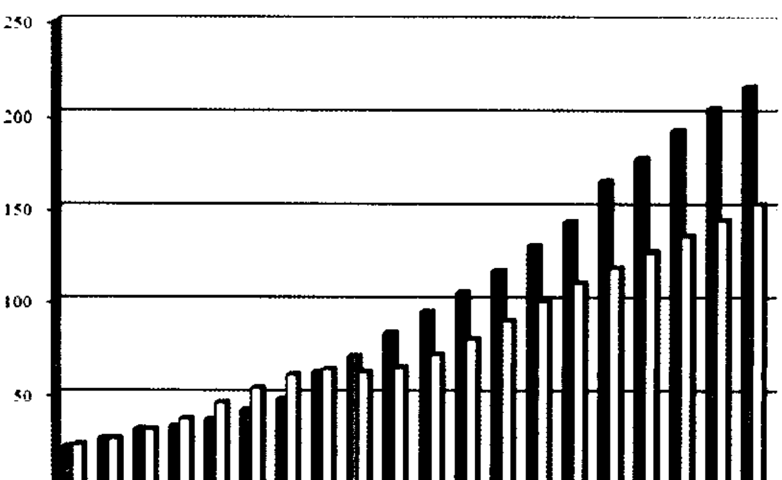
Above assumes contributions, payments, etc. received evenly throughout year.
2013 estimate based on 12/13 return of 4.1% through October 31, 2012

Actuarial Investment Return
Miscellaneous

	Market	Actuarial
■ June 30, 2008		
● Return	(5.1%)	8.1%
● Gain/(Loss)	(12.9%)	0.3%
■ June 30, 2009		
● Return	(24.0)%	5.9%
● Gain/(Loss)	**(31.8)%**	**(1.9)%**
■ June 30, 2010		
● Return	13.3%	6.1%
● Gain/(Loss)	**5.5%**	**(1.7)%**
■ June 30, 2011		
● Return	21.7%	6.9%
● Gain/(Loss)	**13.9%**	**(0.9)%**
■ June 30, 2012		
● Return	1.0%	6.3%
● Gain/(Loss)	**(6.5)%**	**(1.2)%**

- Accumulated Market Value Gains/(Losses) through June 30, 2012 ≈ (31.8)%
  [(12.9)% + (31.8)% + 5.5% + 13.9% + (6.5%)]

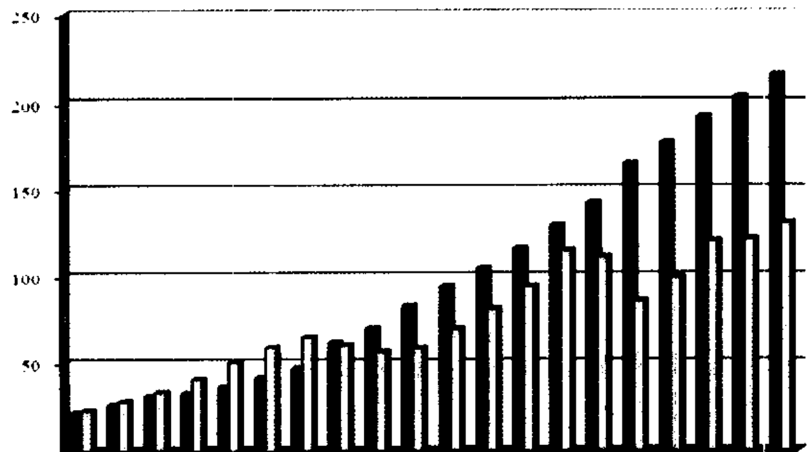
Funded Status (Millions)
Miscellaneous



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
■ Actuarial Liability	22	26	31	33	37	42	47	62	70	83	94	105	116	129	142	165	177	192	203	215
□ Actuarial Asset Value	23	26	31	37	46	53	61	64	62	64	71	79	89	100	110	118	126	135	143	152

6/30/12 & 6/30/13 funded status estimated

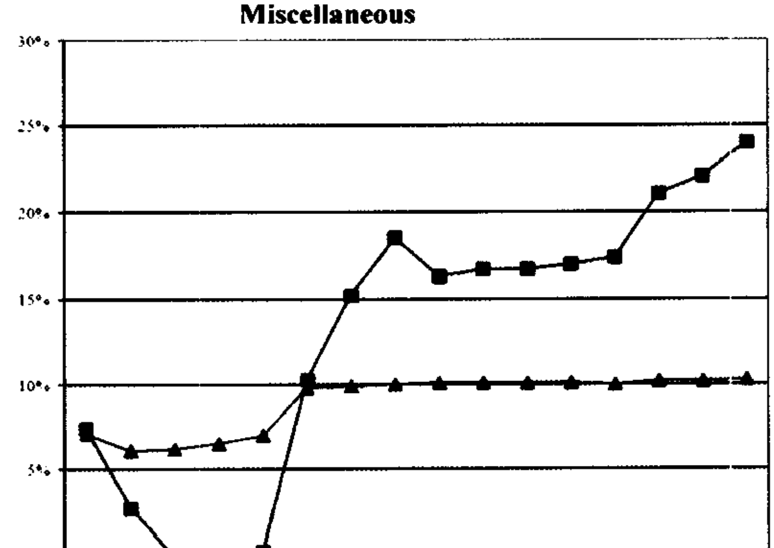
Funded Status (Millions)
Miscellaneous



	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Actuarial Liability	22	26	31	33	37	42	47	62	70	83	94	105	116	129	142	165	177	192	203	217
Market Asset Value	23	28	34	41	52	59	65	61	57	59	70	82	94	115	111	86	99	121	122	131

6/30/12 & 6/30/13 funded status estimated

Contribution Rates
Miscellaneous



	98 99	99 00	00 01	01 02	02 03	03 04	04 05	05 06	06 07	07 08	08 09	09 10	10 11	11 12	12 13	13 14
ER NC	7.1%	6.1%	6.2%	6.5%	7.0%	9.8%	9.9%	10.0%	10.1%	10.1%	10.1%	10.1%	10.0%	10.2%	10.2%	10.3%
Total ER Cont Rate	7.4%	2.7%	0.0%	0.0%	0.3%	10.3%	15.2%	18.5%	16.3%	16.7%	16.7%	17.0%	17.4%	21.1%	22.1%	24.0%

Contribution Rates
Miscellaneous

	6/30/10 2012/2013	6/30/11 2013/2014
■ Total Normal Cost	18.2%	18.3%
■ Employee Normal Cost	8.0%	8.0%
■ Employer Normal Cost	10.2%	10.3%
■ Amortization Bases:	11.9%	13.7%
■ Total Employer Contribution Rate	22.1%	24.0%
■ Amortization Period	Multiple ≈ 25 years	Multiple ≈ 27 years

- What Happened from 6/30/10 to 6/30/11:
  - 2012/13 Rate 22.1%
  - (Gains)/Losses 1.1
  - Assumption Change 0.8
  - 2013/14 Rate 24.0%

Contribution Projections
Miscellaneous

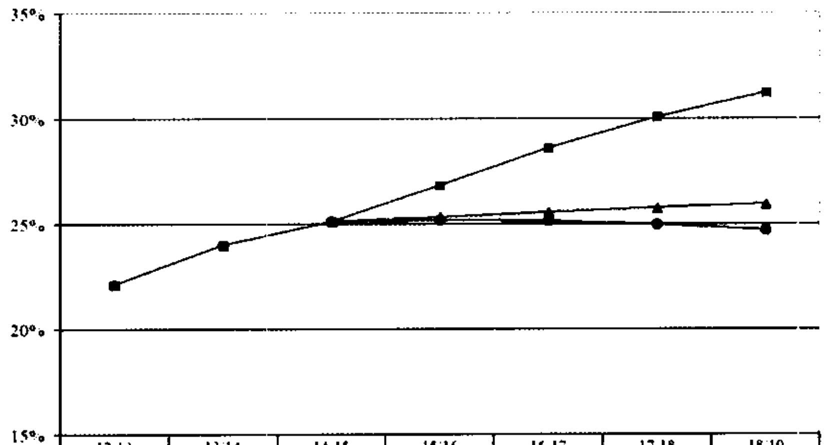
- Market Value Investment Return:
  - June 30, 2011 21.7%
  - June 30, 2012 1.0%[2]
  - June 30, 2013 - 2016
    - Poor Investment Return: ≈ **0.2% - 3.4%**
    - Expected Investment Ret: ≈ **7.50%**
    - Good Investment Return: ≈ **11.6% - 15.1%**
- No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements
- Excludes Employer Paid Member Contributions (EPMC)
- Impact of assumption changes (excluding Normal Cost impact)

	2 Years Phase In	**Without Phase In**
Initial 2013/14 Rate Impact	0.404%	1.212%
Rate Impact 2014/15+	1.276%	1.212%

- Contribution projections assume 2 years phase in.
- New hire assumptions:
  - Assumes 50% of 2013 new hires will be Classic Tier 1 Members and 50% will be New Members with PEPRA benefits.
  - Assumes Tier 1 Classic Members will decrease from 50% to 0% of new hires over 20 years.

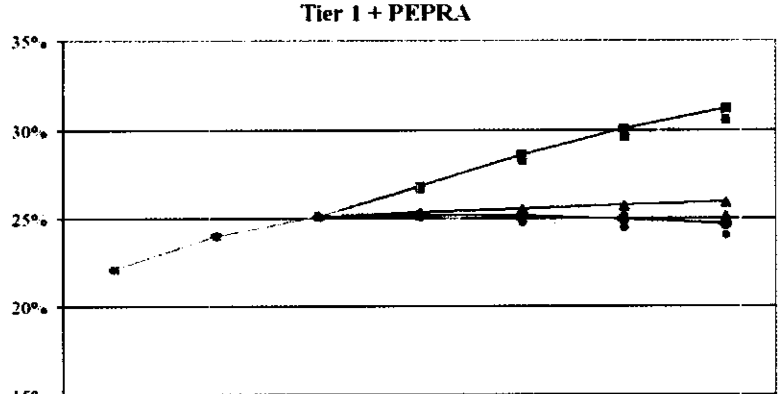
[2] Based on CalPERS press release.

Contribution Projections
Miscellaneous
Investment Return Varies
Tier 1 Only



	12/13	13/14	14/15	15/16	16/17	17/18	18/19
Poor IR	22.1%	24.0%	25.1%	26.8%	28.6%	30.1%	31.2%
Exp IR	22.1%	24.0%	25.1%	25.4%	25.6%	25.8%	25.9%
Good IR	22.1%	24.0%	25.1%	25.2%	25.1%	25.0%	24.7%

Contribution Projections
Miscellaneous
Investment Return Varies
Tier 1 + PEPRA



	12/13	13/14	14/15	15/16	16/17	17/18	18/19
T1 - Poor IR	22.1%	24.0%	25.1%	26.8%	28.6%	30.1%	31.2%
T1 - Exp IR	22.1%	24.0%	25.1%	25.4%	25.6%	25.8%	25.9%
T1 - Good IR	22.1%	24.0%	25.1%	25.2%	25.1%	25.0%	24.7%
All - Poor IR	22.1%	24.0%	25.1%	26.7%	28.3%	29.6%	30.6%
All - Exp IR	22.1%	24.0%	25.1%	25.2%	25.2%	25.3%	25.3%
All - Good IR	22.1%	24.0%	25.1%	25.1%	24.8%	24.5%	24.1%

Contribution Projections
Miscellaneous

Employer Contribution Rate if Market Value of Assets were used

	Actuarial 2013/14	Market 2013/14
Plan Assets	AVA	MVA
ER Normal cost	10.7%	10.7%
Amortization bases:	9.9%	17.6%
Total Contribution Rate	24.0%	**25.6%**
Amortization period	≈ 27 years	27 years

GASB 68

- **Pension Accounting:**
  - GASB 68, Accounting for Employers, approved June 25, 2012
  - Replaces GASB 27
  - Effective 2014/15
- **Major Issues:**
  - Unfunded liability on balance sheet
  - Expense calculation disconnected from contribution calculation
  - Discount rate is
    - ☐ Expected return on plan assets when assets sufficient to pay benefits
    - ☐ Municipal bond rate when assets not sufficient to pay benefits

    Likely cause CalPERS to modify assets smoothing and/or amortization policy
- **Unfunded Actuarial Liability** (in Millions)

Plan	AAL	MVA	UAL
Miscellaneous	$191.9	$120.6	$71.3

PEPRA Cost Sharing

- Target of 50% of total normal cost for everyone
- *New members* must pay greater of 50% of total normal cost or bargained amount if higher
- Employer cannot pay any part of *new member* required employee contributions
- Employer may impose current employees pay 50% of total normal cost (limited to certain amounts) if not agreed through collective bargaining by 1/1/18
- Miscellaneous Plan:

Total Normal Cost	Current Members	New Members
Employer Normal Cost	10.3%	6.25%
Member Normal Cost	8.0%	6.25%
Total Normal Cost	18.3%	12.5%
50% Target	9.15%	6.25%

Actuarial Investment Return

Development of 7.5% Discount Rate

- History:

	6/30/09	6/30/10	6/30/11
● Real rate of return			
☐ 50% Confidence Level	5.04%	4.78%	4.78%
☐ Margin for adverse deviation	(0.29)	(0.03)	(0.03)
● Price Inflation	3.00	3.00	2.75
● Total	7.75%	7.75%	7.50%

- Details of New Assumption:

	Project Period (Years)		
	1-10	11-19	New
● Real rate of return			
☐ 50% Confidence Level	4.23%	5.39%	4.78%
● Price Inflation	2.75	2.75	2.75
● Total	6.98%	8.14%	7.53%

Actuarial Investment Return

- Lowered assumed price inflation rate from 3% to 2.75%
- Current expected net real rate of return remains at 4.75%
- Margin for adverse deviation remains low
  - difference between expected net long-term rate of return and discount rate
  - margin of conservatism
- CalPERS Chief Actuary recommended 0.28% margin
  - Bartel Associates typically recommends 0.25% to 0.50% margin

	6/30/11			
● Real rate of return	4.75%	4.75%	4.50%	4.50%
● Price Inflation	3.00	2.75	3.00	2.75
● Total	7.75%	7.50%	7.50%	7.25%
● 2013/14 ER Rate - Misc	23.5%	24.8%[8]	26.1%	27.4%
● 2013/14 ER Rate – Fire Safety	34.2%	36.9%[9]	39.6%	42.3%

[8] Shown full impact of discount rate change, without phase in.
[9] Shown full impact of discount rate change, without phase in.

PEPRA Summary

- **New Members** – Generally, employees hired after 1/1/13 who did not previously participate in a reciprocal retirement system
- **Pension Formulas for New Members**
  - Miscellaneous – 2.5% @ 67; earliest svc. ret. age 52
  - Safety – 2% @ 57, 2.5% @ 57, and 2.7% @ 57; earliest svc. ret. age 50
- **Plan Compensation Limit for New Members**
  - $113,700 (100% of 2013 Social Security Wage Base
  - $136,440 (120% for members not in Social Security)
  - Increasing annually with CPI
  - Employer can provide a defined contribution plan for pay above the limit
- **Final Compensation for New Members**
  - Highest average plan compensation over 36 consecutive months
  - Plan compensation is the normal monthly rate of pay or base pay
- **Cost Sharing**
  - Target of 50% of total normal cost
  - New members must pay greatest of 50% of total normal cost, amount paid by similar current members, or bargained amount if higher
  - Employers cannot pay any part of new member required employee contributions
  - Employer may impose current employees paying 50% of total normal cost (with certain limits) if not agreed through collective bargaining by 1/1/18

PEPRA Summary

- **Benefit Enhancements**
  - Benefit enhancements after 1/1/13 apply only to future service
  - No limits on COLAs
- **Safety Industrial Disability**
  - Increase in benefit for those under 50 with long service
  - Trial period ending 1/1/18
- **Supplemental Defined Benefit Pension Plans**
  - Employer cannot adopt a supplemental defined benefit pension plan after 1/1/13
  - New employees cannot participate in existing plan
- **Pension Holidays**
  - Total employer and employee contributions cannot be less than the normal cost
- **Air Time Service Purchase**
  - Eliminated for all members 1/1/13
- **OPEB**
  - An employer cannot provide better vesting schedule to unrepresented employees as is provided to represented employees
  - Law is unclear whether applies:
    - ☐ Only to vesting schedule or also to the amount of benefit provided
    - ☐ To new members, existing members, and/or current retirees

CalPERS Smoothing

	CalPERS
6/30/2011:	
Market Value	100.0%
Actuarial Value	112.5%
6/30/2012:	
Market Value	101.0%
Actuarial Value:	
1. Project @ 7.5%	120.9%
2. Adjust:[(MV-AV) x (1/15)]	119.6%
3. Limited by corridor	119.6%
Actuarial Rate of Return	6.3%
Ratio of Actuarial Value to Market Value	118.4%