



CITY OF MONTEBELLO

MEMORANDUM

DATE: July 21, 2020

TO: René Bobadilla, City Manager

CC: Arlene Salazar, Assistant City Manager
Nick Razo, Director of HR-IT

FROM: **Michael Solorza, Director of Finance**

SUBJECT: **PERS 2-YEAR SERVICE CREDIT COSTING ESTIMATE**

State Government Code Section 7507 requires the calculation and posting of the estimated present value of additional employer contributions related to offering a 2-year service credit benefit through CalPERS. This memorandum will serve as this notification, and can be distributed to the City Council, management and made available to the public (i.e., posting on the City's website).

The paragraphs below provide a summary of the cost estimation, with descriptions of the calculation and other pertinent information. This information can be utilized to weight the benefits and the costs of offering the 2-year service credit to eligible employees.

Eighty-nine eligible employees (i.e., those having at least 5 years of PERS employment and reaching the age of 50 or older) expressed interest in the 2-year service credit program. Employees represent every department and are roughly split between safety and miscellaneous staff.

These calculations are based on the assumption that all 89 interested employees will actually retire. This will most likely not be the case, so the estimated expenditures can be viewed as an "upper bound" amount (i.e., any number less than 89 retiring reduces the estimated present value amount). It should be noted that, if all 89 employees did retire, there would be an approximate – and immediate – savings of \$5.22 million in salaries: \$2.570 million in General Fund and \$2.651 million in the Transit Fund. There of course would be additional savings to the City related health, retirement, Social Security, workers compensation and related non-salary expenses.

The table below indicates an estimated present value of additional employer contributions of \$827,248 annually. Furthermore, \$401,847 would be attributed to the Transit Fund; with the remaining being General Fund related expenditures. The table also breaks out

the cost by Police, Fire, Transit and General (i.e., all remaining) employees:

*Estimate of Present Value of additional employer contributions		
588,855	Miscellaneous	4.54 <= 5 year ammortization factor
238,394	Safety	
827,248		
153,863	General*	
102,775	Police	
168,763	Fire	
401,847	Transit	
827,248		<i>*Any employee not Safety or Transit</i>
425,401	Retirement Fund Impact**	
401,847	Transit Fund Impact	
827,248		<i>**Can utilize PTO revenue to pay UAL</i>

This additional expense represents the increase to the annual Unfunded Actuarial Liability (UAL) payment from additional employees retiring earlier than anticipated. Each year, PERS prepares an actuarial valuation that determines the UAL payment for Montebello. These valuations include assumptions about the number of employees who will retire in a given year, among dozens of other actuarial assumptions.

Since the 2-year service credit allows employees to retire earlier than anticipated, the additional employer contributions to the UAL cost must be calculated and presented. The additional cost (in this case, \$827,248), would first show up with the June 30, 2021 actuarial valuation. This valuation sets the rates and UAL payments for FY 2023-24, which is the first fiscal year in which the City would pay the additional costs.

However, salary and benefit savings from the retired staff would be immediate. Any filling of positions vacated due to the retirements would most likely result in savings, as new employees are hired at lower salaries and most likely as PEPRAs employees. Even accounting for the need to backfill critical vacated positions utilizing 960 retired annuitants, the immediate operational savings would be significant.

Furthermore, of the \$827,248 in additional UAL, any portion related to Transit Department retirees would be paid for utilizing Transit Fund revenue. This means zero cost to the General Fund. In addition, the City has available Property Tax Override (PTO) revenue that would be used to pay for the non-Transit portion of the additional UAL; again resulting in zero cost to the General Fund.

This estimate of the present value of additional employer contributions of \$827,248 – assuming all 89 interested employees retire – is the upper limit of potential additional UAL costs. This is only an estimate, but is based on current salaries of each employee who provided an interest form.

As required by State Government Code Section 7507, this information must be made public. I would suggest posting this on the City’s website as well as sharing it with City

Council. This information is not confidential, and can be freely shared with the public. If necessary, I can provide back-up for these calculations in the form of an Excel spreadsheet and PERS guidelines utilized to calculate these estimates.