TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER DEPARTMENT: HUMAN RESOURCES

DATE: FEBRUARY 9, 2004 CMR: 129:04

SUBJECT: APPROVAL OF RESOLUTION OF THE COUNCIL OF THE CITY OF PALO ALTO TO COMMENCE PAYING AND REPORTING THE VALUE OF EMPLOYER PAID MEMBER CONTRIBUTIONS FOR FIRE DEPARTMENT PERSONNEL (IAFF)

RECOMMENDATION

Staff recommends that Council approve the attached resolution to implement Government Code Section 20636(c) (4) pursuant to Section 20691 to commence paying and reporting the value of Employer Paid Member Contributions (EPMC) for Fire Department personnel.

BACKGROUND

A contracting agency with CalPERS may agree to pay all or a portion of the normal contributions otherwise required to be paid by members of an employee group. When the employer pays the employee’s contribution to PERS, it is called “Employer-Paid Member Contributions” (EPMC). In 1994, the City Council authorized the conversion of EPMC to salary in an employee’s final compensation period for all employee groups other than International Association of Fire Fighters (IAFF). Instead, for IAFF, effective June 24, 1995, the City discontinued payment of the EPMC of 9% to PERS and instead increased the base pay of firefighters by the 9%, and required Fire Safety members to pay the employee PERS contribution out of their salaries.

Paying employee (as well as employer) PERS contributions and reporting them to PERS as special compensation is one of several ways an employer can pay employees’ retirement benefits (for retirement-qualifying employees), each of which costs the City roughly the same amount in retirement costs. Another option for accomplishing the same result is for an employer to pay EPMC for an employee group, then to implement a “final year reversal” by PERS contract amendment, under which the EPMC is converted to salary in an employee’s final (or highest) year, to increase the salary rate on which the employee’s retirement amount will be based. This is what the City currently does for all employee groups other than IAFF.
Since the enactment of PERS anti-retirement spiking legislation in 1994, employers must fully pay PERS for the increased retirement benefit. The third way to accomplish the same result is to increase the salary of all employees in a group by the amount the employer would have paid in EPMC, with the result that the base salary on which each employee’s retirement is ultimately based will be that much higher than it otherwise would have been.

The latter is what the City and IAFF agreed to for IAFF members in 1995. This option was found more advantageous to the City at that time because of the administrative challenges of implementing the final year conversion option under PERS' then newly enacted anti-spiking law. (The City did not have this option with the other employee groups because of the timing of the enactment of the law in relation to negotiations with those groups.) CalPERS would collect approximately the same amount of money from the City to fund retirement benefits in each of the above cases; it is just paid in different manners.

**DISCUSSION**

As part of the effort to “strengthen the bottom line” by adopting cost-savings measures, staff proposed the City reduce firefighters' salaries by 9% and instead pay the 9% employee contribution directly to PERS (as the City did prior to June 1995). Due to a reduction in overtime and other associated costs, this change will result in an estimated 2003-04 savings of $62,500, depending on its final implementation date. In order to make this change, PERS requires the City to adopt a resolution to commence paying and reporting the value of EPMC. This benefit will consist of paying 9% as EPMC and reporting the same value of compensation earnable as special compensation. Reporting the value of EPMC will not increase the City’s costs, and in fact will reduce the City’s overtime costs, because the EPMC amount will not be factored into employees’ base salary. The cost for this provision is expected to be the same as the cost of paying EPMC and converting it to salary in the final compensation period as done for the other employee groups.

During negotiations, IAFF agreed to the City’s proposal (to begin paying EPMC again, and to reduce IAFF members’ base salaries accordingly), and the change was authorized on November 24, 2003, when the City Council approved a Memorandum of Agreement with IAFF for fiscal year 2003-2004.

**RESOURCE IMPACT**

The annualized cost savings associated with this change is approximately $160,000. This is due to direct reductions in base pay used to calculate overtime expense along with associated indirect reductions in salary-related benefit costs. Depending on the formal approval date of this change, however, actual 2003-04 General Fund cost savings will be closer to $62,500 as only ten pay periods remain in the current fiscal year. This change will remain in place at least until the City and IAFF negotiate a new agreement applicable to fiscal 2004-05. Therefore, further overtime cost savings are anticipated in future periods.
POLICY IMPLICATIONS

This request does not represent any change to existing City policy.

ENVIRONMENTAL REVIEW

This is not a project under the California Environmental Quality Act (CEQA).

ATTACHMENTS

Attachment Resolution of the Council of the City of Palo Alto to Commence Paying and Reporting the Value of Employer Paid Member Contributions for Fire Department Personnel (IAFF).

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