



MEMORANDUM

TO: CITY COUNCIL

FROM: DEBBIE MALICOAT, DIRECTOR OF ADMINISTRATIVE SERVICES

SUBJECT: CONSIDERATION OF A RESOLUTION TO IMPLEMENT PAYING AND REPORTING OF EMPLOYER PAID MEMBER CONTRIBUTIONS (EPMC) TO THE CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS) FOR SAFETY FIRE GROUP

DATE: MARCH 14, 2017

RECOMMENDATION:

It is recommended the City Council adopt the attached Resolution to implement the paying and reporting of the Employer Paid Member Contributions (EPMC) to the California Public Employees' Retirement System (PERS) for the local Safety Fire Group.

IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:

Per the 2017/19 Memorandum of Understanding (MOU) between the International Association of Fire Fighters Local 4403 and the Fives Cities Fire Joint Powers Authority (FCFA), effective December 16, 2016 the EPMC decreased for Fire from 6% to 4%. Per the compensation resolution for FCFA Management employees, the EPMC for the Battalion Chief and Fire Chief positions decreased from 6% to 4%, effective January 13, 2017. These actions result in decreased costs to the FCFA, which benefits the City of Arroyo Grande

BACKGROUND:

The Five Cities Fire Authority was established in July of 2010. It is comprised of the City of Arroyo Grande, the City of Grover Beach and the Oceano Community Services District (OCSD). Each agency pays a percentage of costs based on their population, service calls, assessed value, and number of stations and staffing. Based on that formula, the costs for FY 2016-17 are allocated as follows: City of Arroyo Grande 48%, City of Grover Beach 33% and OCSD 19%. While the FCFA is a standalone agency, the employees are listed as City of Arroyo Grande employees for PERS purposes. Therefore, the City Council has to approve all resolutions related to a change in PERS benefits for the Fire Group.

PERS separates employees into three different groups, Safety Fire, Safety Police and Miscellaneous. All sworn fire employees are included in the PERS Safety Fire Group, whether represented by a union or not. PERS benefits are financed through an employer contribution and an employee contribution. The employer contribution percentage varies from year to year, based on an annual actuarial calculation of accumulated reserves and future payments. The employee portion remains constant at 9% for fire personnel that are

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deemed to be "classic" PERS members. For new employees subject to the Public Employees Pension Reform Act (PEPRA), the member contribution is set by PERS and is fully paid by the employee.

Prior to the adoption of PEPRA, payment of the employee share by employers, often in lieu of providing salary raises to employees, was common. PEPRA no longer allows employers to pay the employee contribution. For PERS purposes, payments made for the employees are called Employer Paid Member Contributions (EPMC). In July 1994, under Government Code Section 20636(c), employers were given the option of reporting the EPMC as additional compensation. This means that the PERS contribution paid by the employer, for the employee, is reported as income for purposes of calculating retirement benefits.

Prior to 2012, the FCFA was paying the full 9% employee contribution on behalf of all FCFA safety employees. In 2012, FCFA negotiated with the employees represented by the International Association of Fire Fighters (IAFF) Local 4403 for the employees to pay 3% of the 9% employee contribution. The Fire Chief and the Fire Battalion Chief positions are unrepresented Management members of the PERS Safety Fire Group and this change to EPMC did not affect them. However, at their June 27, 2014 meeting, the FCFA Board of Directors approved changes to the Fire Chief and Fire Battalion Chief compensation and benefits that included a provision for these positions to pay 3% of the 9% employee contribution, consistent with the represented employees.

In December 2016, FCFA completed negotiations with IAFF Local 4403 for a successor agreement, which increases the employees paying the employee share of PERS contributions over a three year period, eventually eliminating EPMC. In January 2017, the management compensation resolution was amended to reflect similar changes, however the management resolution encompasses only one calendar year and will reduce, but not fully eliminate EPMC.

ANALYSIS OF ISSUES:

Employees benefit when an employer pays EPMC. The EPMC is reported as additional earnings for purposes of calculating retirement benefits. The EPMC earnings are not subject to state and federal income taxes, nor social security and Medicare deductions. However, PERS (both employee and employer portions) must be paid on the additional reported earnings.

Based on the recently negotiated successor agreement, effective December 16, 2016, members of the IAFF Local 4403 will begin paying 5% of the 9% employee contribution. In July 2017 they will begin paying 7% of the 9% employee contribution and in July 2018 they will begin paying the full 9% employee contribution. The Fire Chief and the Fire Battalion Chiefs will pay 5% of the employee contribution rate in January 2017 and 7% of the 9% in July 2017. The remaining 2% is anticipated to be included in the management compensation resolution that will be adopted for calendar year 2018, thus eliminating EPMC at that time.

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PERS requires the City Council to adopt the resolution to pay and report the value of EPMC before the reporting change can be instituted. However, the City delegated personnel and compensation decisions related to the Fire personnel to the FCFA Board of Directors when it was formed. Therefore, this action simply implements the provisions of the joint powers agreement.

ALTERNATIVES:

The following alternatives are provided for City Council consideration:

1. Adopt a Resolution to implement the reporting of the EPMC for the members of the Fire Safety group;
2. Do not adopt the Resolution;
3. Provide direction to staff.

ADVANTAGES:

Approving the recommended implementation of the reporting of the EPMC will reduce costs to the City and will be honoring the direction of the FCFA Board.

DISADVANTAGES:

There is no disadvantage identified in relation to this recommendation.

ENVIROMENTAL REVIEW:

No environmental review is required for this item.

PUBLIC NOTIFICATION AND COMMENTS:

The Agenda was posted at City Hall and on the City's website in accordance with Government Code Section 54954.2.

RESOLUTION NO.

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF ARROYO GRANDE TO IMPLEMENT THE PAYING AND REPORTING THE VALUE OF THE EMPLOYER PAID MEMBER CONTRIBUTIONS TO THE CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)

WHEREAS, the City Council of the City of Arroyo Grande has the authority to implement Government Code Section 20636 (c) (4) pursuant to Section 20691;

WHEREAS, the City Council of the City of Arroyo Grande has a written labor policy or agreement which specifically provides for the normal member contributions to be paid by the employer, and reported as additional compensation;

WHEREAS, one of the steps in the procedures to implement Section 20691 is the adoption by the City Council of the City of Arroyo Grande of a Resolution to commence paying and reporting the value of said Employer Paid Member Contributions (EPMC);

WHEREAS, the City Council of the City of Arroyo Grande has identified the following conditions for the purpose of its election to pay EPMC:

- This benefit shall apply to all members of the local Safety Fire Group.
- This benefit shall consist of paying 4% of the normal member contributions as EPMC, and reporting the same percent (value) of compensation earnable (excluding Government Code Section 20636(c) (4)) as additional compensation, effective January 13, 2017.
- This benefit shall consist of paying 2% of the normal member contributions as EPMC, and reporting the same percent (value) of compensation earnable (excluding Government Code Section 20636(c) (4)) as additional compensation, effective July 14, 2017.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Arroyo Grande elects to pay and report the value of EPMC, as set forth above.

On motion by Council Member _____, seconded by Council Member _____, and on the following roll call vote, to wit:

AYES:
NOES:
ABSENT:

The foregoing Resolution was passed and adopted this 14th day of March, 2017.

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JIM HILL, MAYOR

ATTEST:

KELLY WETMORE, CITY CLERK

APPROVED AS TO CONTENT:

ROBERT MCFALL, INTERIM CITY MANAGER

APPROVED AS TO FORM:

HEATHER WHITHAM, CITY ATTORNEY

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