BOARD OF SUPERVISORS
AGENDA LETTER

**Clerk of the Board of Supervisors**
105 E. Anapamu Street, Suite 407
Santa Barbara, CA 93101
(805) 568-2240

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|---|---|
| **Agenda Number:** | |
| **Department Name:** | Human Resources |
| **Department No.:** | 064 |
| **For Agenda Of:** | July 17, 2018 |
| **Placement:** | Administrative |
| **Estimated Time:** | |
| **Continued Item:** | No |
| **If Yes, date from:** | |
| **Vote Required:** | Majority |

| | | |
|---|---|---|
| **TO:** | Board of Supervisors | |
| **FROM:** | Department Director(s) | Lori Gentles, Human Resources Director, 568-2816 |
| | Contact Info: | Joseph M. Pisano, Interim Chief of Employee Relations, 568-2839 |
| **SUBJECT:** | **Pension Cost Sharing for Certain Unrepresented Management Employees** | |

**County Counsel Concurrence**
As to form: Yes

**Auditor-Controller Concurrence**
As to form: Yes

**Other Concurrence**:
As to form: N/A

## Recommended Actions:

That the Board of Supervisors:

A. Approves the resolution in Attachment A to implement pension cost sharing provisions for certain unrepresented management employees, effective as soon as practicable on or after July 16, 2018, and

B. Determines pursuant to California Environmental Quality Act (CEQA) Guidelines Section 15378(b)(4) that the above action is a government fiscal activity which does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment, and therefore is not a project subject to environmental review.

## Summary Text:

The recommended actions would approve the resolution in Attachment A amending the Personnel Benefits Policy for Management and Confidential Unrepresented Employees (changes tracked in Attachment B) to provide for retirement cost sharing by “classic” (aka “legacy”) management employees as defined under the Public Employees’ Pension Reform Act (PEPRA). The recommended actions include changes for Elected Department Heads, but not elected members of the Board of Supervisors, whose compensation and benefits are set separately by ordinance and can only be changed by ordinance. Staff will bring forward potential wage increases and pension cost sharing provisions for classic/legacy elected members of the Board of Supervisors when the next ordinance is considered by the Board.

PEPRA was implemented by the Governor and State legislature effective on January 1, 2013. It established lower retirement benefits for new employees hired on or after that date, and requires that these newly hired employees pay half the normal cost of their retirement benefits. Employees hired prior to the implementation of PEPRA are referred to as classic or legacy employees, and their retirement contributions are paid at a lower rate than new employees hired after PEPRA was implemented.

The recommended actions would implement more equitable retirement cost sharing between the County and its classic/legacy unrepresented management employees that are similar to retirement cost sharing provisions implemented for most other County employees, phased in over three fiscal years, except for unrepresented safety managers, for whom changes are recommended only for Fiscal Year 2018-19 at this time. Staff will return with additional recommendations for potential pension cost sharing and wage increases at a later time.

**Background:**

There are approximately 296 unrepresented management employees who work in departments Countywide, 208 of whom are "classic/legacy" non-safety employees, and 25 of whom are classic/legacy safety employees. These employees do not currently pay half the normal cost of their pension benefits, which is required of new employees hired after PEPRA was implemented.

**Unrepresented Non-Safety Managers**

If the recommended actions are approved, by July 2020, classic/legacy unrepresented non-safety managers will be paying 2.49% of their pensionable income as a mandatory pre-tax contribution toward the County's share of retirement costs (i.e. paying "pick-ups"), implemented in three equal stages. The first of these retirement cost-sharing pick-ups of 0.83% will become effective when the Auditor-Controller's Office completes the necessary programming and payroll testing, which will be as soon as practicable on or after July 16, 2018. The second pick-up of 0.83% will be effective on July 1, 2019, and the third pick-up of 0.83% will be effective on June 29, 2020

Approving the recommended actions would result in the County paying less to fund pension benefits for these employees, which will help to defray the cost of increases of 8% in the management compensation pool planned over the next three years. These are approximately the same total pickups over three years as have been negotiated for the majority of union represented classic/legacy non-safety employees, who will receive 8% in unit-wide wage increases over the same period, in addition to any merit/step increases for which they are eligible.

Wage increases for unrepresented managers do not include step increases, and unit-wide wage increases are lower than for union represented employees. For example in July 2018, the general salary increase (GSI) that applies to all managers with satisfactory performance is 1.75%, compared with the 3% for most represented non-safety employees. Absent a future change to prior Board direction, this pattern will continue. For this reason, it is recommended that the implementation of overall pension pick-ups for classic/legacy non-safety managers that are approximately the same as the total pick-ups for union represented non-safety employees be implemented in three equal steps over three years.

**Unrepresented Safety Managers**

In addition, the recommended actions would implement a pick-up of 0.83% for unrepresented safety managers as soon as practicable on or after July 16, 2018, when these employees are also eligible for increases from the 3% management wage pool. The recommended actions do not implement any additional classic safety management pension pickups beyond this 0.83%, or anticipate any wage pool increases for this group of employees beyond the 3% in Fiscal Year 2018-19 at this time.

Staff is currently analyzing options for this group of 25 employees, whose circumstances are more complex in comparison with union represented safety employees in the Fire and Probation Departments. Most union represented safety employees have agreed to pick up 6% of the County's share of their pension costs over the next three years, but have also negotiated total wage increases over the next four (4) years that far exceed those currently planned for safety management employees. Staff will return to the Board at a later time with recommendations for potential future wage increases and pension pick-ups for safety management employees.

By previous Board action, a 3.0% wage pool for all unrepresented managers was effective on July 2, 2018. The recommended actions anticipate the following wage pool increases based on prior Board direction and would implement the following retirement pickups:

- 0.83% classic safety and non-safety management mandatory pickup of County retirement costs effective as soon as practicable on or after July 16, 2018
- 2.5% wage pool for non-safety managers effective July 1, 2019
- 0.83% classic non-safety management mandatory pickup of County retirement costs effective July 1, 2019
- 2.5% wage pool for non-safety managers effective June 29, 2020
- 0.83% classic non-safety management mandatory pickup of County retirement costs effective June 29, 2020.

**Fiscal and Facilities Impacts:**

**Budgeted**: Yes.

**Fiscal Analysis:**

As noted above, the recommended actions provide for increases in the retirement contributions of classic management employees beginning in Fiscal Year 2018-19 and ending in Fiscal Year 2020-21, and anticipate no change in previous Board direction around the compensation pools for non-safety management employees over that time period. The fiscal analysis does not include assumptions for safety management wage pool increases or retirement pickups beyond Fiscal Year 2018-19.

Overall the total cost of implementing the recommended actions through the end of Fiscal Year 2020-2021 would be approximately $9.3 million offset by approximately $1.6 million in pension pickups for an average incremental cost increase of 2.1% per year.* The approximate initial incremental cost increases, as well as the ongoing cost of each component of the agreement, are estimated by fiscal year in the table below. The savings associated with retirement cost sharing in Fiscal Year 2018-19 have been estimated based on implementation in July 2018; actual savings will depend on when the cost sharing provisions take effect.

| **Pension Cost Sharing Estimates for Managers** | **FY 2018-19** | **FY 2019-20** | **FY 2020-21** | **Totals** |
|---|---|---|---|---|
| Existing 3% Wage Pool Increase July 2018 | 1,747,836 | 1,747,836 | 1,747,836 | 5,243,507 |
| .83% Pickup of Pre-PEPRA Pensionable income | (272,356) | (278,410) | (284,615) | (835,381) |
| New 2.5% Non-safety Wage Pool Increase July 2019 | 0 | 1,346,414 | 1,346,414 | 2,692,829 |
| .83% Pickup of Non-safety Pre-PEPRA Pensionable income | 0 | (248,211) | (254,416) | (502,627) |
| New 2.5% Non-safety Wage Pool Increase July 2020 | 0 | - | 1,380,075 | 1,380,075 |
| .83% Pickup of Non-safety Pre-PEPRA Pensionable income | 0 | 0 | (254,416) | (254,416) |
| **Totals** | **1,475,480** | **2,567,630** | **3,680,878** | **7,723,987** |

*Depending on future Board actions, there may be additional wage increases for unrepresented safety managers, offset by additional pension pickups by unrepresented classic safety managers, beyond those estimated here for Fiscal year 2018-19. Such actions will change the percentage average incremental cost increases.

**Special Instructions:**

**Attachments:**

Attachment A: Resolution amending the Personnel Benefits Policy for Management and Confidential Unrepresented Employees

Attachment B: Resolution amending the Personnel Benefits Policy for Management and Confidential Unrepresented Employees – Changes Tracked

**Authored by:** Joseph Pisano

**cc:** Mona Miyasato, County Executive Officer
Michael C. Ghizzoni, County Counsel
Theo Fallati, Auditor Controller
Department Heads
Assistant CEOs