

**COUNTY OF SAN LUIS OBISPO BOARD OF SUPERVISORS
AGENDA ITEM TRANSMITTAL**

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|---|--|--|---------------------|
| (1) DEPARTMENT Human Resources | (2) MEETING DATE 11/22/2016 | (3) CONTACT/PHONE Tami Douglas-Schatz, Human Resources Director | |
| (4) SUBJECT Submittal of a resolution approving 1) increases in employee-paid pension contribution rates and County appropriation rates per applicable Memoranda of Understanding, and 2) amendments to the San Luis Obispo County Employees Retirement Plan Appendices for employees in the Association of San Luis Obispo County Deputy Sheriffs, the District Attorney Investigators Association, the Deputy County Counsel Association, the Deputy Sheriffs' Association, the San Luis Obispo County Employees' Association, the San Luis Obispo County Probation Peace Officers' Association, the San Luis Obispo County Sheriff's Managers Association, the San Luis Obispo County Government Attorneys' Union, and unrepresented employees. All Districts. | | | |
| (5) RECOMMENDED ACTION It is recommended that the Board adopt a resolution approving 1) increases in employee-paid pension contribution rates and County appropriation rates per applicable Memoranda of Understanding, and 2) amendments to the San Luis Obispo County Employees Retirement Plan Appendices for employees in the Association of San Luis Obispo County Deputy Sheriffs ("ASLOCDS"), the District Attorney Investigators Association ("DAIA"), the Deputy County Counsel Association ("DCCA"), the Deputy Sheriffs' Association ("DSA"), the San Luis Obispo County Employees' Association ("SLOCEA"), the San Luis Obispo County Probation Peace Officers' Association ("SLOCPPOA"), the San Luis Obispo County Sheriff's Managers Association ("SLOCSMA"), the San Luis Obispo County Government Attorneys' Union ("SLOGAU"), and unrepresented employees. | | | |
| (6) FUNDING SOURCE(S) Departmental savings and/or unanticipated revenue. | (7) CURRENT YEAR FINANCIAL IMPACT \$2,385,619 | (8) ANNUAL FINANCIAL IMPACT \$4,771,237 | (9) BUDGETED? No |
| (10) AGENDA PLACEMENT <input checked="" type="checkbox"/> Consent <input type="checkbox"/> Presentation <input type="checkbox"/> Hearing (Time Est. ___) <input type="checkbox"/> Board Business (Time Est. ___) | | | |
| (11) EXECUTED DOCUMENTS <input checked="" type="checkbox"/> Resolutions <input type="checkbox"/> Contracts <input type="checkbox"/> Ordinances <input type="checkbox"/> N/A | | | |
| (12) OUTLINE AGREEMENT REQUISITION NUMBER (OAR) N/A | | (13) BUDGET ADJUSTMENT REQUIRED? BAR ID Number: N/A <input type="checkbox"/> 4/5 Vote Required <input checked="" type="checkbox"/> N/A | |
| (14) LOCATION MAP N/A | (15) BUSINESS IMPACT STATEMENT? No | (16) AGENDA ITEM HISTORY <input type="checkbox"/> N/A Date: _____ | |
| (17) ADMINISTRATIVE OFFICE REVIEW Lisa M. Howe | | | |
| (18) SUPERVISOR DISTRICT(S) All Districts | | | |

County of San Luis Obispo



TO: Board of Supervisors
FROM: Tami Douglas-Schatz, Human Resources Director
DATE: 11/22/2016

SUBJECT: Submittal of a resolution approving 1) increases in employee-paid pension contribution rates and County appropriation rates per applicable Memoranda of Understanding, and 2) amendments to the San Luis Obispo County Employees Retirement Plan Appendices for employees in the Association of San Luis Obispo County Deputy Sheriffs, the District Attorney Investigators Association, the Deputy County Counsel Association, the Deputy Sheriffs' Association, the San Luis Obispo County Employees' Association, the San Luis Obispo County Probation Peace Officers' Association, the San Luis Obispo County Sheriff's Managers Association, the San Luis Obispo County Government Attorneys' Union, and unrepresented employees. All Districts.

RECOMMENDATION

It is recommended that the Board adopt a resolution approving 1) increases in employee-paid pension contribution rates and County appropriation rates per applicable Memoranda of Understanding, and 2) amendments to the San Luis Obispo County Employees Retirement Plan Appendices for employees in the Association of San Luis Obispo County Deputy Sheriffs ("ASLOCDS"), the District Attorney Investigators Association ("DAIA"), the Deputy County Counsel Association ("DCCA"), the Deputy Sheriffs' Association ("DSA"), the San Luis Obispo County Employees' Association ("SLOCEA"), the San Luis Obispo County Probation Peace Officers' Association ("SLOCPPOA"), the San Luis Obispo County Sheriff's Managers Association ("SLOCSMA"), the San Luis Obispo County Government Attorneys' Union ("SLOGAU"), and unrepresented employees.

DISCUSSION

Pension Rate Increases

The San Luis Obispo County Pension Trust ("Trust") is an independent retirement system that provides a defined benefit pension plan to County employees. Annually, an actuarial valuation is conducted by the Trust which recommends changes to contribution rates in order to appropriately fund the Trust. The Annually Required Contribution rate for the Trust is set by the Trust's Board of Trustees each year and must be approved by the Board of Supervisors to implement. Approval of these increases is required to maintain and adequately fund the pension plan.

There are a variety of factors that contribute to the changes in contribution rates. The major factors, include actual returns on investments, changes in the assumed future rate of return on investments, changes in future assumed inflation rates, changes in future assumed payroll increases, mortality assumptions and the amortization cost of the Unfunded Actuarial Liability. Often, an annual increase to the contribution rates has been necessary and has ranged between 0% -5% over the last 10 years. As an example, the 2015 Annual Actuarial Valuation (report dated January 1, 2015), indicated that a 1.02% aggregate rate increase was necessary, and the increase was effective January, 2016. The increases typically come into effect in January of the year following the actuarial valuation that is completed each June.

The Trust's 2016 Annual Actuarial Valuation (report dated January 1, 2016), included as Attachment "A", calls for a 5.17% aggregate pension rate increase, if implemented January 1, 2017. The 2016 Annual Actuarial Valuation was based in part on the results of the biennial Experience Study also completed in 2016 covering the five-year period ending December 31, 2015. The results of the 2016 Experience Study indicated changes needed to be made to the mortality assumptions, since retirees are generally living longer than expected. While this is very good news, and indicative of healthy lifestyles, it also necessitates a higher than expected rate increase accounting for over half of the aggregate increase. The 5.17% aggregate pension rate increase also included the impact of lowering the Trust's future assumed rate of return from 7.25% to 7.125%, reducing the assumed future rate of inflation to 2.625%, actual investment returns over the last five years being less than expected, and various other demographic factors measured in the Valuation.

Based on the January 1, 2017 implementation date, the total actuarial breakdown of the aggregate rate increases for the three pension classifications (Miscellaneous members, Safety members, and Probation members) are detailed in Attachment “B” and are as follows:

Miscellaneous: 4.81% total increase
 Safety: 7.11% total increase
 Probation: 5.04% total increase

The difference in rates amongst the three classifications is due to the different benefit formulas.

Pension Rate Cost Sharing

The sharing of any contribution rate increases between the County and employees is determined through negotiations between the County and recognized employee associations. The contribution rates that employees pay are based on the employee age of entry, tier, bargaining unit, and classification (Miscellaneous, Safety, or Probation) of the member. The contribution rates that the County pays also vary by bargaining unit, tier, and classification (Miscellaneous, Safety, or Probation) of the member. Currently the County contribution is based on an actuarial recommended blended rate across the different tiers and includes a cost component to amortize and eventually fully fund the Unfunded Actuarial Liability. A full description of the plan benefits is available on the Pension Trust’s website <http://www.slocounty.ca.gov/PensionTrust.htm>.

County employees enter a Tier 1, Tier 2, or Tier 3 benefit formula based on their date of hire and/or pension plan reciprocity and their classification (Miscellaneous, Safety, or Probation). Each tier level provides varying levels of benefits at age of retirement depending on the tier, with Tier 1 being the most generous. In anticipation of rising costs, the County worked with the Pension Trust Board of Trustees and negotiated with collective bargaining units to create a Tier 2 benefit level, as a means to proactively control pension costs in the long term. Finally, effective January 1, 2013, all employees hired are placed into a Tier 3 benefit level, unless they are eligible to be granted inclusion in another tier as a result of prior public agency service¹, pursuant to the Public Employees’ Pension Reform Act (PEPRA). As of November 10, 2016 the number of County retirement plan members in each tier is as follows:

Tier 1: 1,518 employees
 Tier 2: 310 employees
 Tier 3: 746 employees

In accordance with the negotiated terms of existing Memoranda of Understanding (MOU) and in keeping with the County’s overall direction of sharing pension increases equally with employees with a goal of achieving a sustainable pension plan, County employees shall share one-half (50%) of the cost of pension increases². The increases for all Employee Associations and bargaining units (BU) are detailed in the table below:

| Employee Association | BU and Description | Pension Rate Increase | Employee Share | County Share |
|-----------------------------|--|------------------------------|-----------------------|---------------------|
| ASLOCDs | BU27 – Sworn Law Enforcement Unit BU28 – Sworn Law Enforcement Supervisory Unit | 7.11% | 3.55% | 3.56% |
| DAIA | BU06 – District Attorney Investigators’ Unit and District Attorney Investigators’ Supervisory Unit | 7.11% | 2.37% | 4.74% |
| DCCA | BU12 – Deputy County Counsel Attorneys | 4.81% | 1.51% | 3.30% |
| DSA | BU03 – Law Enforcement Unit | 7.11% (Safety) | 3.55% (Safety) | 3.56% (Safety) |
| | BU14 – Supervisory Law Enforcement Unit | | | |
| | BU21 – Non Safety Law Enforcement Unit | 4.81% (Misc.) | 2.40% (Misc.) | 2.41% (Misc.) |
| | BU22 – Dispatcher Unit | | | |
| SLOCEA “Big Unit” | BU01 – Public Services Unit BU05 – Supervisory Unit BU13 – Clerical Unit | 4.81% | 2.40% | 2.41% |
| SLOCEA “Trades Unit” | BU02 – Trades, Crafts, and Services Unit | 4.81% | 2.40% | 2.41% |

¹ Miscellaneous and Safety members with “reciprocal” service with another public agency are placed into Tier 2. There is no negotiated Tier 2 negotiated for Probation members, so Probation members granted reciprocity based on prior public service will be placed into Tier 1.

² DAIA, DCCA, and SLOCPPOA have caps on the amount of employee pension increases that may be paid during the term of their respective agreements.

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|---------------|--|-------------|-------------|-------------|
| SLOCPPOA | BU31 – Probation Unit BU32 – Probation Supervisory Unit | 5.04% | 2.47% | 2.57% |
| SLOCSMA | BU15 – Sheriff's Management | 7.11% | 3.55% | 3.56% |
| SLOGAU | BU04 – Deputy District Attorneys | 4.81% | 2.40% | 2.41% |
| Unrepresented | BU07 – Operations and Staff | 4.81% | 2.40% | 2.41% |
| | BU08 – General Management | (Misc.) | (Misc.) | (Misc.) |
| | BU09 – Appointed Department Heads | 5.04% | 2.52% | 2.52% |
| | BU10 – Elected Department Heads | (Probation) | (Probation) | (Probation) |
| | BU11 – Confidential Employees | | | |
| | BU16 – General Management Law Enforcement | 7.11% | 3.55% | 3.56% |
| | BU17 – Board of Supervisors | (Safety) | (Safety) | (Safety) |

Appendix A – Miscellaneous Members Contribution Rates Tier 1, Appendix A – Miscellaneous Members Contribution Rates Tier 2, and Appendix A – Miscellaneous Members Contribution Rates Tier 3-AB340, attached hereto, reflects the new member contribution rates and the County's new appropriation rate for Miscellaneous members.

Appendix B – Safety Members Contribution Rates Tier 1, Appendix B – Safety Members Contribution Rates Tier 2, and Appendix B – Safety Members Contribution Rates Tier 3-AB340, attached hereto, reflects the new member contribution rates and the County's new appropriation rate for Safety members.

Appendix C – Probation Members Contribution Rates Tier 1, and Appendix C – Probation Member Contribution Rates Tier 3-AB340, attached hereto, reflects the new member contribution rates and the County's new appropriation rate for Probation members.

OTHER AGENCY INVOLVEMENT/IMPACT

Representatives from the Pension Trust participated in the development of the Employees Retirement Plan Appendices. The contribution rate increases were approved by the Pension Trust Board of Trustees at their regular meeting held on June 27, 2016. County Counsel has reviewed and approved the Resolution for form and legal effect. The Auditor's Office will process the system changes needed to implement the pension rate changes. The pension rate changes have been bargained with all employee associations and are implemented per their respective MOU's.

FINANCIAL CONSIDERATIONS

Effective the pay period that includes January 1, 2017, the total rate increase for the Miscellaneous members is 4.81%, the total rate increase for the Safety members is 7.11%, and the total rate increase for the Probation members is 5.04%.

Based on the negotiated pension sharing provisions between the County and employees, the County's costs for FY 2016/17 are estimated to increase by \$2,385,619 for the time period of January, 2017 through June, 2017. The County's annual ongoing costs are estimated to increase by \$4,771,237. The employee share significantly reduces the County's increased cost by 50% for most bargaining units.

Departmental savings and/or unanticipated revenue will be the primary source of funding for unbudgeted expenditures associated with these pension rate increases. To the extent departmental savings are not available to cover the amount, staff will recommend that your Board authorize a transfer of the deficit amount out of the General Fund Contingencies to the department's operating budget, as needed, as part of the third quarter report. Third quarter is when many such year-end adjustments are made.

RESULTS

Approval of this resolution will help mitigate the effects of ongoing pension cost increases to the County by sharing the costs between the County and employees by executing the applicable sections of the agreed-upon Memoranda of Understanding, and complies with the County's duty to bargain these changes with employees. In keeping with the Board of Supervisors' direction to stabilize the County's overall budget and share in pension rate increases, the County continues to maintain efforts toward ensuring a fiscally sustainable pension system. These changes also contribute to a results-oriented, well-governed community.

ATTACHMENTS

1. Resolution
2. Attachment A – 2016 Actuarial Valuation
3. Attachment B – 2016 Actuarial Valuation - Total ARC change by Class
4. Appendix A – Miscellaneous Members Contribution Rates Tier 1
5. Appendix A – Miscellaneous Members Contribution Rates Tier 2
6. Appendix A – Miscellaneous Members Contribution Rates Tier 3-AB340
7. Appendix B – Safety Members Contribution Rates Tier 1
8. Appendix B – Safety Members Contribution Rates Tier 2
9. Appendix B – Safety Members Contribution Rates Tier 3-AB340
10. Appendix C – Probation Members Contribution Rates Tier 1
11. Appendix C – Probation Member Contribution Rates Tier 3-AB340