

Agenda Report

October 23, 2017

TO: Honorable Mayor and City Council

FROM: HUMAN RESOURCES DEPARTMENT

SUBJECT: ADOPTION OF A RESOLUTION AUTHORIZING PRE-TAX TREATMENT OF COST-SHARING CONTRIBUTIONS TO THE CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM PAID BY MEMBERS OF THE INTERNATIONAL UNION OF OPERATING ENGINEERS UNDER SECTION 414(H)(2) OF THE INTERNAL REVENUE CODE

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the action proposed herein is not a "project" as defined in the California Environmental Quality Act (CEQA), Public Resources Code Section 21065 and Section 15378(b)(2) of the State CEQA Guidelines and, as such, is not subject to environmental review; and
2. Adopt the Resolution to authorize the pre-tax treatment of cost-sharing contributions paid by members of International Union of Operating Engineers (IUOE) to the California Public Employees' Retirement System.

BACKGROUND:

The City provides pension benefits to eligible members of International Union of Operating Engineers (IUOE) through the California Public Employees' Retirement System (PERS). To fund those benefits, employees pay their full member share (i.e., 8% is paid by classic members and 6.25% is "half the normal cost" for members who are considered "new" to PERS and are subject to the provisions of the Public Employees' Pension Reform Act). During recently concluded negotiations, the IUOE agreed to begin making a cost-sharing contribution to the employer share.

Effective October 30, 2017, classic members will begin paying cost-sharing contributions to the employer share pursuant to California Government Code 20516 and pursuant to the City's new Memorandum of Understanding with IUOE with a term of July 1, 2017-June 30, 2020.

DELEGATING AUTHORITY TO APPLY PRE-TAX TREATMENT OF COST-SHARING OF MEMBER CONTRIBUTIONS TO CALPERS FOR IUOE MEMBERS

October 23, 2017

Page 2 of 3

The City has agreed to deduct IUOE's cost-sharing contributions on a pre-tax basis. In order for "cost-sharing contributions" to be pre-tax, the City must:

1. Label the cost-sharing contributions as "employee contributions."
2. Adopt a resolution designating the employee "cost-sharing contributions" as employer contributions.
3. Deem the contributions to be mandatory, and employees cannot elect to receive cash in lieu of the contributions.

This resolution satisfies the first two requirements. In accordance with the last requirement, under the terms of the Memorandum of Understanding, the contributions are mandatory and employees cannot opt out. While this resolution is intended to exempt cost-sharing from income taxes, it will not exempt the contributions from applicable Medicare taxes. This is the same tax treatment that applies to amounts deducted from employees' compensation to pay employee costs.

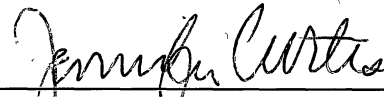
COUNCIL POLICY CONSIDERATION:

Approval of staff's recommendation supports the City Council's strategic goals of maintaining fiscal responsibility and stability.

FISCAL IMPACT:

There is no fiscal impact to the City as a result of this action. However, increased pension costs are putting an additional strain on the General Fund. Shifting a greater proportion of these costs to those who will benefit from a CalPERS pension, i.e., City employees, is part of the City's overall strategy to deal with increasing fiscal liabilities.

Respectfully submitted,



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