CITY OF OAKLAND
AGENDA REPORT

TO: Office of the City Administrator
ATTN: Dan Lindheim
FROM: Finance and Management Agency
DATE: January 27, 2009
RE: Informational Report on the Potential Costs or Benefits of the City’s Voluntary Leave Program and the CalPERS Two-Years Additional Service Credit Program or “Golden Handshake”

SUMMARY
City Council requested that the Office of Personnel Resource Management provide analysis of the potential cost-savings of implementing both a Voluntary Time Off Without Pay Program and the CalPERS Two-Years Additional Service Credit Program in order to assess whether those programs could provide cost-saving budget alternatives to layoffs. This report provides information regarding the potential costs or cost-savings that may result from either or both of these programs.

The City currently has a voluntary leave program in which employees may request time off without pay. It was created in the late 1980s for the specific purpose of saving City funds and provides employees the opportunity to take unpaid leave while retaining accruals and seniority. Administrative Instruction 511 details the policies and procedures governing this program. Santa Clara County offers a version of this program to its employees; information regarding that program is included in this report.

The CalPERS Two Years Additional Service Credit benefit, commonly referred to as the “Golden Handshake,” is an optional benefit through CalPERS established under California Government Code Section 20903, which allows contracted agencies to provide two additional years of service credit to members who retire during a designated window period because of impending mandatory transfers, layoffs, or demotions. Due to a proscribed process required by CalPERS to legally implement the program, budget savings would be realized no sooner than one year from the date the City decided to offer the option.

The Golden Handshake benefit has been used by other municipalities (e.g., City of Hayward, Santa Clara County) as a way of encouraging retirement-eligible employees to retire so as to help create cost-savings and avoid or minimize layoffs. If the City were to offer the Golden Handshake benefit, it would likely encourage employees who are near to retirement to take advantage of the benefit, and would create some short term cost savings resulting from certain retirements. However, it would also result in an increase to the City’s retirement costs for future budgets and would limit flexibility in filling the vacated positions since the CalPERS program requires that they remain permanently unfilled.
The City's experience historically and information received from other California municipalities demonstrates virtually no savings achieved from either a voluntary leave program or a retirement incentive program in a layoff environment.

Unfortunately, given the gravity of the City's current financial position, layoffs would be a more effective way to provide the City with significant cost savings without incurring any new costs.

BACKGROUND

Encouraging staff to utilize the Voluntary Time Off Without Pay program or offering the CalPERS Golden Handshake program have been suggested as ways of reducing the City’s staffing costs while minimizing the potential for layoffs. The benefit of offering these programs would be to give employees a voluntary means of participating in the City’s budget reduction strategies. The retirement opportunity will allow more senior employees to retire, perhaps sooner than originally planned, and give the City the ability to retain younger employees and potentially reduce the number of layoffs. The Golden Handshake has the added benefit of providing the option of greater retirement benefits to eligible employees while generating salary savings in the current budget cycle. Employee organizations strongly desire these voluntary leave/retirement options, but they may not be aware that the long term impact could be to diminish the City’s financial resources and have repercussions for active city employees.

Voluntary Time Off Without Pay

The City’s Voluntary Time Off Without Pay Program is described in Administrative Instruction 511, which is attached to this report (Attachment A). The program allows employees to request up to 60 days of unpaid leave in a calendar year with required approvals. The program has been in effect for many years and was last revised in February 2008.

Because seniority and benefits are mandatory subjects of bargaining, the use of VTN in any form other than that already offered in the current Administrative Instruction 511 would require that the City offer to meet and confer with affected unions.

Historically, the program has been used sparingly by employees. Management does not actively encourage use of the program because existing work demands are for full time employees; if work demands were part-time, it would be appropriate to have part-time or permanent part-time employees performing the work.

In Santa Clara County, the Voluntary Reduced Work Hours Program has been offered for more than eight years. That program is structured such that employees make a written commitment to take a cut in pay for six month periods in exchange for more time off. There are a range of options offered, and the greater the cut in pay, the more additional time off for the employee. City staff contacted staff at Santa Clara County to find out whether the program has provided them with significant cost savings. Their staff report that due an already lean staffing structure, few applications can be approved and the savings from the program are minimal. They do not budget the savings, but absorb them as part of their overall vacancy rate calculations.

Item:  
Finance and Management Committee  
January 27, 2009
CalPERS Two Years Service Credit – Golden Handshake

Certain optional benefits may be added to the City’s contract with CalPERS by amendment to the contract. California Government Code Section 20903, Two Years Additional Service Credit, is an optional benefit an agency may provide through a contract amendment. This benefit allows members to retire during a designated window period because of impending mandatory transfer, layoff, or demotions and receive two additional years of service credit at no cost to the member.

The City of Hayward and Santa Clara County offered the CalPERS Two Years Additional Service Credit program to its employees recently. In Santa Clara County, the benefit was offered to employees in more than 100 different classifications for a period of 90 days. Their original estimates were that the program could save the County anywhere from $3.9 million to $9.8 million. According to minutes from a Board of Supervisors meeting, less than 20% of the eligible employees opted to take advantage of the program and the overall savings were commensurate. City staff has contacted the City of Hayward and Santa Clara County requesting information on the specific cost savings realized by offering the program. Staff in those organizations stated that it is difficult for them to quantify the savings.

FISCAL IMPACT

Voluntary Time Off Without Pay Program

Over the past three years, employees have used Voluntary Leave (known by its timesheet code: VTN) for a total of 20,225.52 hours and savings of $759,946.42.

<table>
<thead>
<tr>
<th>Year</th>
<th>Hours</th>
<th>Salary Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY05/06</td>
<td>9752.10</td>
<td>358,599.12</td>
</tr>
<tr>
<td>FY06/07</td>
<td>4462.70</td>
<td>173,402.57</td>
</tr>
<tr>
<td>FY07/08</td>
<td>2868.57</td>
<td>113,335.69</td>
</tr>
<tr>
<td>FY08/09</td>
<td>3142.15</td>
<td>114,609.04</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>20,225.52</strong></td>
<td><strong>759,946.42</strong></td>
</tr>
</tbody>
</table>

Factors that impact the potential cost-savings of the Voluntary Leave Program include:

- Department operational needs would not decrease, so heavy participation in the VTN program would likely result in the need for overtime thereby increasing, rather than decreasing costs.
- The program is voluntary; savings depend on participation levels and no savings are guaranteed.
• Economic hardships due to the downturn in the general economy might make employees less likely to voluntarily take leave without pay.

• Increased participation results in decreased productivity due to employee absence.

• While on VTN, all employee benefits are paid, limiting cost savings. Employees also continue to accrue seniority, which can result in a perception of unfairness in the event that employee bumps another during a layoff.

• With recent workforce reductions, managers have less flexibility in covering their staffing needs.

There is probably little opportunity to produce significant cost-savings through this program.

**Golden Handshake**

Offering the two years additional service credit as a retirement incentive could reduce the City’s staffing costs while minimizing the potential for layoffs and give employees a voluntary means of participating in the City’s budget reduction strategies. At the same time, it is important to understand that offering the Golden Handshake results in increased costs because it has a direct impact on the Employer Contribution Rate paid by the City to CalPERS. There may be an additional cost associated with any retirement incentive program if there is a surge in retirements (called an “experience loss”) and the total number of retirements exceeds CalPERS actuarial assumptions in a fiscal year. If there were such a surge, CalPERS would increase the City’s Employer Contribution Rate in addition to the rate increase resulting from the Golden Handshake benefit. According to CalPERS, an experience loss often occurs when the two years service credit is offered because some members retire who would have otherwise waited until later years.

The City’s contribution to CalPERS will be increasing as of July 1, 2009 and so the City will already see increased retirement costs in its next budget. The current fiscal year (2008-2009) CalPERS Employer Contribution Rate for Miscellaneous employees is 19.553% of the total miscellaneous employee payroll (City and Port); on July 1st that will increase to 19.588%. The current fiscal year Employer Contribution rate for Safety is 27.088% of the total safety employee payroll (City only—the Port portion is reported separately for safety at 0.425%); effective July 1, 2009 the City’s contribution for Safety will be 27.448% (0.429% for the Port).

If the City were to implement a CalPERS two years additional service credit program, the added cost to the retirement fund for all eligible employees who retire during the designated period would be included in the City’s employer contribution rate commencing with the fiscal year starting two years after the end of the designated period.

Since a higher Employer Contribution Rate would be applied over 20 years to amortize the cost of funding the retirement benefits of the employees who opt to take advantage of it, offering the Golden Handshake benefit to employees would burden future City budgets. The City’s payroll cost is likely to increase over time, and so the higher contribution rate would result in ever-increasing costs to the City and impact its future sustainability.

---

Item: ___________________________

Finance and Management Committee

January 27, 2009
Sample Illustration of Cost

For the purpose of demonstrating how the savings and costs would be calculated, the following provides an example using a strictly fictional scenario.

<table>
<thead>
<tr>
<th>Classification</th>
<th>Annual Salary</th>
<th>Benefits (Salary x .6115)</th>
<th>Number of Employees in Classification</th>
<th>Retirement Eligible under 55</th>
<th>Retirement Eligible 55 - 65</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class I</td>
<td>40,000</td>
<td>24,460</td>
<td>35</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Class II</td>
<td>50,000</td>
<td>30,575</td>
<td>25</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Class III</td>
<td>60,000</td>
<td>36,690</td>
<td>25</td>
<td>3</td>
<td>6</td>
</tr>
<tr>
<td>Class IV</td>
<td>75,000</td>
<td>45,863</td>
<td>20</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Class V</td>
<td>90,000</td>
<td>55,035</td>
<td>15</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Class VI</td>
<td>105,000</td>
<td>64,208</td>
<td>10</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

Based on the assumptions in the chart above, if the City were to lay off 45 employees (the same number of employees as are eligible to retire above), there would be annual savings of $4,778,098. If, instead, the City were to offer the Golden Handshake to these classifications, assuming every retirement-eligible employee in those classifications retired, then there would be the same annual savings, but there would now be an additional cost through the City’s employer contribution to CalPERS.

- In this scenario, beginning two years after the benefit is offered, the City’s contribution rate would increase by 0.08% for miscellaneous employees from 19.588% to 19.668% (actual increase could be lower or higher, depending on the extent of participation).
- If the above-calculated layoffs were implemented, the total annual salary would be reduced by roughly $4.5 million to $175,500,000 and the City’s annual CalPERS contribution at the July 1, 2009 rate (19.588%) would be $34,376,940.
- If the City realized annual salary savings of $4.5 million resulting from the retirement of the eligible employees (and not taking into account other factors like cost-of-living increases, expanding the City’s workforce, other changes in CalPERS rates, etc.), the City’s contribution to CalPERS for an annual payroll of $175,500,000 would cost the City $34,517,340 annually at the increased rate of 19.668% for 20 years. The additional cost to the City would be $140,400 for each of the 20 years over which the additional cost would be amortized for a total cost of $2,808,000. If offering the benefit results in an experience loss, the actual costs could be significantly higher.

The cost of offering the two years additional service credit can only be calculated precisely once a specific plan is developed and approved by the Council. Some of the costs, such as the

Item:  
Finance and Management Committee  
January 27, 2009
potential for an experience loss, are impossible to calculate unless and until the program is offered.

Although offering the Golden Handshake benefit would create some short term cost savings resulting from certain retirements, it would also create a financial burden for future budgets and would limit flexibility in hiring since the CalPERS program requires that the vacated positions remain permanently unfilled. The Voluntary Time Off Without Pay program does not provide for significant long-term savings.

KEY ISSUES AND IMPACTS

When considering any voluntary program or retirement incentive, it is important to first consider the operational impact to the organization. Losing institutional knowledge, productivity, and cohesive work teams can result in greater stress to the remaining staff. If these types of programs are to be genuinely cost-saving, vacancies created must remain unfilled and voluntary leave must remain uncompensated. If the vacancies created are filled, even if the new hire is brought in at the first salary step, the savings are relatively small. Using programs that are voluntary could result in a haphazard reduction in force that results in greater costs because overtime is required or productivity is greatly decreased.

The City's Voluntary Time Off Without Pay Program has been offered for a number of years and continues to be offered. If City employees were particularly encouraged to use the program, it might result in some salary savings, but given the demands of department workloads, VTN is unlikely to generate significant savings.

If Council were to act immediately, the process of implementing the Golden Handshake would take at least one year from when Council first authorized implementation through expiration of the window in which employees would opt for the benefit. Cost savings would be realized late in FY2009/2010 and no sooner. In the meantime, retirement-eligible employees are likely to delay their retirement pending a Council decision on whether or not to offer the benefit.

The two years additional service credit optional benefit offered by CalPERS is designed to give employers another option to meet mandatory workforce reductions. Once the contract is amended to provide two years additional service credit to a retiring member, the City will have to take a number of prescribed steps and follow strict procedures defined by CalPERS. Those steps include designating the specific classifications or work groups that will be eligible, identifying a time period between 90 and 180 days during which an eligible employee may retire, conduct a public meeting in which the costs associated with the program are presented, certifying by Council resolution that the program will be of benefit to the City and is due to necessary budgetary and staffing reductions. A timeline and the conditions set by CalPERS are included in Attachment B.

- The Port is a participant in the City’s plan, so any increase to the Employer Contribution Rate would impact the Port. If the City were to want to offer the Golden Handshake, there would necessarily have to be discussions between the two entities.

Item: _______________________
Finance and Management Committee
January 27, 2009
• The positions vacated through retirement of eligible employees who opt for two years additional service credit or at least one vacancy in any position in any department or other organization must remain permanently unfilled thereby resulting in an overall reduction in the workforce.

• The Golden Handshake, when offered in other municipalities, has been most effective when the organization was cutting an entire program or work unit. The benefit was used in these cases to “soften the blow” to affected employees. When using the Golden Handshake in this way, the municipality was usually either permanently shutting a program down or contracting the services out. Our City Charter does not allow for cutting positions and contracting the work out to other entities.

• The City can anticipate that eligible employees who are less than age 55 will not elect to retire with two years additional service credit because they will not receive 2.7 percent of their final compensation per year of service as detailed in the CalPERS Benefits Factors table (*Attachment C*). They will receive 2.00 percent at age 50 through 2.665 at age 54.

• The people most likely to take advantage of the Golden Handshake are people who would retire anyway – employees who are more than 55 years old and have more than 25 years of service. Offering the Golden Handshake might encourage a few additional employees to retire sooner. If only a few more take advantage of the program, the savings are minimal; if many employees opt for the benefit, then the experience loss would result in a higher CalPERS rate, thereby increasing costs further.

Although offering the Golden Handshake benefit would create some cost savings resulting from certain retirements, it would also create a financial burden for future budgets and would limit flexibility in hiring since the CalPERS program requires that the vacated positions remain permanently unfilled.

**Alternative Retirement Incentive**

**Lump Sum Incentive:** As an alternative to the CalPERS Golden Handshake, the City could consider offering a program in which retirement-eligible employees were offered a lump sum incentive. The advantage of this type of program is that the costs associated with it are static, providing that the number of retirements does not create an experience loss and exceed the CalPERS actuarial assumptions. The City offered a program of this type in 1994. For a brief period, employees at least 50 years old who retired by the close of the fiscal year were offered the opportunity to receive a lump sum payment of $5,000 and $225 per month, paid quarterly, for five years or until the employee turned 65, whichever was greater. Although hundreds of employees were eligible, only 15 employees took advantage of the program. Since the positions were not kept vacant, the savings were short-term and the program created a long-term cost (the last payment under this program was paid in 2007).

Staff does not recommend that the City consider the lump sum incentive program unless a commitment to keep the vacated positions unfilled for at least two years was made at the same time.

---

**Item:**

Finance and Management Committee

January 27, 2009
SUSTAINABLE OPPORTUNITIES
There are no direct economic, environmental, or social equity opportunities arising out of the information discussed in this report.

DISABILITY AND SENIOR CITIZEN ACCESS
The information presented in this report does not impact disability and senior citizen access.

ACTION REQUESTED OF THE CITY COUNCIL
Staff requests that City Council accept this informational report regarding the potential costs or cost-savings that may result from either or both the Voluntary Time Off Without Pay Program and CalPERS Two Years Additional Service Credit program (Golden Handshake).

Respectfully submitted,

William E. Notland, Director
Finance and Management Agency

Reviewed by:
Marcia Meyers
Director of Personnel
Office of Personnel Resource Management

Prepared by:
Yvonne S. Hudson, HR Manager
Retirement and Benefits

Kip Walsh
Administrative Services Manager II
Finance & Management Agency Administration

APPROVED AND FORWARDED TO THE
FINANCE AND MANAGEMENT COMMITTEE:

Office of the City Administrator

Item: Finance and Management Committee
January 27, 2009