

# AGENDA

## Newport News City Council Work Session

October 27, 2009

*10<sup>th</sup> Floor Conference Room  
City Hall*

- 4:00 p.m. I. CIP Presentation
- 4:30 p.m. II. Pension/OPEB Package/Issues
- 5:00 p.m. III. Status Update
- Drywall Issues
  - Freight Containers
  - Lease to Virginia Hospitality Services Inc. for Golf Food Services
- 5:15 p.m. IV. Closed Meeting
- Legal
- 6:00 p.m. Dinner

## ITEM I

- CIP Presentation

# CITY OF NEWPORT NEWS

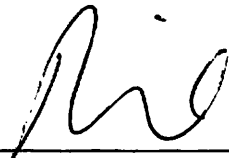
## OFFICE OF THE CITY MANAGER

October 22, 2009

**TO:** The Honorable City Council  
**FROM:** Acting City Manager  
**SUBJECT:** Capital Improvement Plan

At your October 27 work session, it is my intention to distribute my detailed recommended Capital Improvement Plan (CIP) to City Council. By ordinance, the City Manager is obligated to present this to Council no later than November 1 of each year.

As in previous years, the distribution of the detailed document will occur at the work session, and an overview of the CIP highlights will be presented by staff. A more detailed interactive discussion of the CIP will be scheduled for the second November work session, once you have had an opportunity to review the Plan in detail and advise staff of any suggestions or questions you may have.



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Neil A. Morgan

NAM:rsw

## ITEM II

- Pension/OPEB Package/Issues

**C I T Y O F N E W P O R T N E W S**  
**OFFICE OF THE CITY MANAGER**

October 22, 2009

**TO:** The Honorable City Council  
**FROM:** Acting City Manager  
**SUBJECT:** Final Recommendations on Pension and Other Post Employment Benefits (OPEB)

At your September 8, 2009 Work Session, Council was provided an overview of the alternatives that are under consideration for changes to the City's Pension and OPEB programs. The briefing included an analysis of the financial impact, both short and longer term. At that time, I requested an opportunity to conduct further analysis of the issues and the proposed alternatives prior to making any final recommendations to Council. Since that time, I have had the opportunity to meet with the Retirement Board, and my management team, as well as getting feedback from employees. I think the dialogue has been very productive in the formulation of my final recommendations, and I appreciate Council's willingness to grant me the additional time. As I have previously indicated with the exception of the general financial management of the City, nothing is more important for us to see through to some conclusion than amendments to employee benefits.

This memorandum will serve to explain my rationale in supporting the recommendations for changes to both Pension and OPEB that are outlined in the attached report. Overall, my recommendations are in line with what has been the consensus of Council. However, I am recommending some modifications to the Pension provisions.

*Pension*

As you can see from the report, with regard to Pension Benefits, I recommend that Council proceed with changes to include:

- Reducing the Multiplier from 2% to 1.85
- Increasing the retirement age by five years for general and public safety employees
- Excluding overtime and non-salary earnings from the calculation of average final compensation
- Using time actually worked for determining retirement eligibility
- Establishing the spousal annuity as an elective

The Honorable City Council

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Recommendations on Pension and Other Post Employment Benefits  
(OPEB)

October 22, 2009

The only alternative that I am not recommending is increasing the vesting requirement from five to seven years. While it appears on the surface to be a minor change, I am concerned that it will have a negative impact on the City's ability to be competitive in the market in attracting good employees. None of our surrounding municipalities have more than a five year vesting period. Often if salaries are competitive, things like benefits can be a critical factor in an employee's decision making process. The relative financial impact to the City is minimal as the provision can only be applied to new hires, and the projected cost savings is \$800,000 over ten years. I don't think the financial impact is significant enough to risk placing the City at a competitive disadvantage in our recruitment and retention efforts in the future.

Another issue that was briefly discussed with Council was the consideration of a pension supplement for Public Safety personnel similar to the Law Enforcement Officers Supplement (LEOS) that is offered by VRS. My concern is that the reduction in the multiplier, as well as the other changes in the pension benefits program, would place the City at a disadvantage in recruiting and retaining public safety personnel. This is a very important issue that needs further consideration, and it was my recommendation that it be referred to the Retirement Board for its review and recommendation. The Retirement Board has reviewed the issue and indicated that at this time it does not support adding a pension supplement for public safety personnel. I continue to be concerned about our ability to recruit and retain Public Safety personnel if this issue is not addressed.

Lastly, I have asked the Retirement Board to do an analysis of the costs/benefits associated with the City's electing to transition all new hires to VRS. The Retirement Board has agreed to undertake this analysis and provide a recommendation. I think this idea deserves serious consideration and could ultimately reduce the City's long-term pension costs and liabilities. The City would be required to "pay as you go," and the funding would be budgeted in the annual budget just like other operating requirements. Having new hires join VRS would also resolve the vesting issue, as well as the issue of providing supplemental pension benefits for Public Safety personnel, as the City would offer the same benefit plan as other localities.

The Honorable City Council

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Recommendations on Pension and Other Post Employment Benefits  
(OPEB)

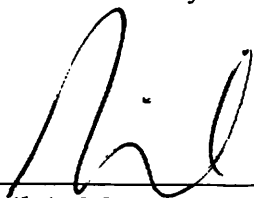
October 22, 2009

After careful consideration, I think the recommended changes as presented are a fair balance between honoring our commitment to retirees and employees and recognizing the City's constrained financial resources. The financial impact to the City in making the pension changes is substantial with a projected cost savings of over \$6 million the first year and approximately \$93 million over the next ten years resulting in a reduction in our unfunded liabilities of \$46 million. These changes, coupled with changes that have already been made, will result in a projected savings of approximately \$140 million over the next ten years.

Unfortunately, given the current economy and the national debate on healthcare, I cannot say that in a few years Council won't be revisiting Pension and OPEB benefits. However, the fact that we have gone through this process and made meaningful adjustments will greatly assist the City in substantively dealing with these issues in the future.

If Council concurs with my recommendation, we will work with the City Attorney's Office in developing the required action items to implement these changes for your consideration at a meeting in November. With regard to the effective date for the changes, I am recommending that it be pushed back from January 1, 2010 to February 1, 2010. Delaying the effective date will allow sufficient time to inform employees and retirees and will provide the additional time necessary to come to a conclusion on whether or not the City should transition new employees to VRS.

I appreciate all the efforts, commitment and discussions that Council, the Retirement Board, the management team and employees have devoted to studying these issues and working collaboratively to maintain a reasonable benefits program.



Neil A. Morgan

NAM/CDR:rsw

Attachment

# Pension Plan Changes

(Recommended)

**Effective Date of Changes:** February 1, 2010

## 1. Multiplier

**Proposal:** Prospectively - decrease the multiplier from 2.0% to 1.85%

**Employee Impact:** Credited years earned *up to* the effective date of change will be calculated at 2% and credited years earned *after* the effective date of change will be calculated at 1.85%.

**Current Retiree Impact:** None

**Projected Fiscal Savings:** 1<sup>st</sup> year: \$2.6 million Over 10 years: 26.9 million

## 2. Retirement Age

**Proposal:** New hires only - increase retirement age by 5 years as follows:

Public Safety: From 50 to 55 years of age (with at least 5 years of service)

All others: From 60 to 65 years of age (with at least 5 years of service)

**Employee Impact:** No impact to current employees hired prior to the effective date of change.

*Note: The provision to retire based on age will not change (Public Safety = 25 years of service at any age; All others = 30 years of service at any age)*

**Current Retiree Impact:** None

**Projected Fiscal Savings:** 1<sup>st</sup> year: \$0.2 million Over 10 years: \$11 million

### 3. Vesting

Proposal: New hires only - increase vesting from 5 to 7 years.

Employee Impact: No impact to current employees hired prior to the effective date of change. Vesting will remain at 5 years.

Current Retiree Impact: None

Projected Fiscal Savings: 1<sup>st</sup> year: None Over 10 years: \$0.8 million

*The City Manager recommends no change in the current vesting of 5 years. All of the Virginia public pension plans have 5-year vesting. Over 10 years, there is not a significant amount of savings.*

### 4. Elective Spousal Benefit

Proposal: New hires only - change the spousal annuity benefit to an election option whereby the retiree's benefit is reduced when opted. (Under the current Plan, the retiree's benefit is not reduced for the spousal benefit).

Employee Impact: No impact to current employees hired prior to the effective date of change. When retiring, the current employee's benefit will not be reduced for a spousal benefit.

Current Retiree Impact: None

Projected Fiscal Impact: 1<sup>st</sup> year: \$2.3 million Over 10 years: \$30.0 million

### 5. Overtime

Proposal: Prospectively - exclude overtime in the calculation of Average Final Compensation (AFC).

Employee Impact: Overtime earned prior to the effective date of change will continue to be included in the AFC calculation. Overtime earned after the effective date of change will be excluded in the calculation of AFC.

Current Retiree Impact: None

Projected Fiscal Impact: 1<sup>st</sup> year: \$0.6 million Over 10 years: \$5 million

## 6. Non-Salary Earnings

Proposal: Prospectively - exclude non-salary earnings in the calculation of Average Final Compensation (AFC).

Employee Impact: Non-salary earnings prior to the effective date of change will continue to be included in the AFC calculation. After the effective date of change, non-salary earnings will be excluded in the AFC calculation.

Current Retiree Impact: None

Projected Fiscal Impact: 1<sup>st</sup> year: \$0.8million Over 10 years: \$8 million

## 7. Credited Service for Retirement Eligibility

Proposal: Prospectively - use time actually worked for computing retirement eligibility.

Employee Impact: Retirement credited service years purchased, exchanged or ported prior to the effective date of change will be applied toward meeting retirement eligibility. After the effective date of change, retirement credited service purchased, exchanged or ported will not count towards meeting retirement eligibility. *Note: All time worked, purchased, exchanged or ported will count in the calculation of retirement benefit.*

Current Retiree Impact: None

Projected Fiscal Impact: 1<sup>st</sup> year: \$0.1million Over 10 years: \$12 million

## Summary of Proposed Changes

### Prospective Changes Impacting Current Employees:

- Decrease multiplier from 2.0 to 1.85%
- Exclude overtime from the calculation of Average Final Compensation
- Exclude non-salary earnings from the calculation of Average Final Compensation
- Use time actually worked for computing retirement eligibility

### Changes Impacting New Hires:

- All of the prospective changes PLUS
- Increase retirement age by 5 years
- Increase vesting from 5 to y years
- Change spousal annuity benefit to an elective benefit
- Decrease multiplier from 2.0 to 1.85%

	1st Year (in millions)	Over 10 Years (in millions)
Prospectively: reduce multiplier from 2.0% to 1.85%	\$ 2.6	\$26.9
New hires, increase retirement age:	0.2	11.0

Public Safety: from 50 to 55		
All others: from 60 to 65		
New hires: increase vesting from 5 to 7 years	--	0.8
New hires: Elective 50% spousal annuity	2.2	30.0
Prospectively: Exclude overtime from the AFC calculation	0.6	5.0
Prospectively: Exclude non-salary earnings from the AFC calculation	0.8	8.0
Prospectively: Use time actually worked for computing retirement eligibility	0.1	12.0
<b>TOTALS</b>	<b>\$6.5</b>	<b>\$93.7</b>

# Other Post Employment Benefit (OPEB) Plan Changes

*(Recommended)*

Effective Date of Changes: February 1, 2010

## PRE-65 RETIREE PLAN

1. **Current Retirees:** No change to current City premium contribution provisions
  
2. **Future Retirees**
  - a. **Current employees with 10 or more years of service as of 12/31/2009**
    - i. No change to current City premium contribution provisions
  
  - b. **Current employees with less than 10 years of service as of 12/31/2009**
    - i. **Retiree - Single level - no change to current City premium contribution provision**
  
    - ii. **All other levels - Establish a new dollar cap starting at 60% of the January 1, 2010 premium**
  
3. **New Hires**
  - a. No City premium contribution
  
  - b. Employee may enroll in plan but must pay 100% of the cost
  
  - c. Establishment of a Health Savings Account

## POST-65 RETIREE PLAN

No proposed changes.

## RETIREE LIFE INSURANCE

No proposed changes.

## Projected Savings

1<sup>st</sup> Year = \$1.1 million

10-years = \$12.4 million

## ITEM III

- Status Update
  - Drywall Issues
  - Freight Containers
  - Lease to Virginia Hospitality Services Inc. for Golf Food Services

*(No background information included)*

## ITEM IV

- Closed Meeting
  - Legal