



## AGENDA REPORT

**Meeting Date:** December 5, 2013  
**Item Number:** D-6  
**To:** Honorable Mayor & City Council  
**From:** Jeffrey C. Kolin, City Manager  
**Subject:** RESOLUTION OF THE COUNCIL OF THE CITY OF BEVERLY HILLS  
APPROVING AMENDMENT NO. 3 TO THE CITY OF BEVERLY HILLS  
EXECUTIVE EMPLOYEE COMPENSATION PLAN

**Attachments:**

1. Resolution
2. Agreement Amendment
3. November 7, 2013 Actuarial Report by Aon Hewitt

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### RECOMMENDATION

Staff recommends that the City Council adopt the resolution approving the amendment to the City of Beverly Hills Executive Compensation Plan.

### INTRODUCTION

The proposed amendment: (1) modifies Exhibit A of the Executive Compensation Plan to adjust downward salary ranges based on the latest salary survey of comparable cities, (2) provides a onetime cash-out of vacation and administrative leaves in excess of 80 hours specifically to allow employees to reimburse the City for overpayments of health benefits made by the City, and (3) allows existing Fire Association members promoted into the Fire Chief and Deputy Fire Chief positions to be eligible for retiree medical benefits currently available to those employees who were members of the executive group before January 1, 2010.

### DISCUSSION

The last time the City Council amended the Executive Compensation Plan was on August 20, 2013 and the amendment was focused on necessary changes to accomplish the reorganization plan for the Public Works and Transportation Department. Those changes are already in place and there has been great progress in implementation. Prior to that, on July 2, 2013, the City Council amended the Compensation Plan to allow the Deputy Fire Chief who succeeded Mark Embrey to be granted the same retiree medical

benefits as were provided to those employees who were members of the executive group before January 1, 2010.

This proposed third amendment addresses three specific areas, two of which are related to the above mentioned prior actions:

#### Exhibit A – Management Pay Tiers

The reorganization of the Public Works and Transportation department resulted in eliminating the position of the Director of Public Works and Transportation and introducing two new Department head positions, Deputy City Manager/Capital Assets and Director of Public Works Services. These two positions with their corresponding pay tiers as well as the change in the Community Development Director pay tier were previously approved by the City Council as part of the second amendment to the Executive Compensation Plan and are reflected on the salary schedule attached as Exhibit A to the Executive Compensation Plan. The amended salary schedule proposed for adoption by this third amendment also reflects the current salaries for all of the positions listed in the salary schedule.

In addition, certain control points and salary ranges set forth in the salary schedule are now being adjusted downward to reflect the latest compensation market survey conducted in April 2013. The adjustment has been made in accordance with Section VIII of the Executive Compensation Plan, which requires the City Manager to conduct periodic surveys and advise the City Council of necessary compensation adjustments resulting from the surveys. The control point reflects the 75<sup>th</sup> percentile of the total compensation survey results and the salary ranges generally extend from 15% below the control points to 15% above the control points.

#### One-time Cash-out

Sections IV C and H of the compensation plan prescribe the accrual rate for vacation and administrative leave time and allow at the end of the calendar year for cash out of up to 80 hours of accrued but unused vacation and administrative leave during the year (provided that accrued vacation is not reduced below a minimum of 240 hours). The proposed modification would allow for a onetime cash out in excess of the 80 hours limit specifically for the purpose of reimbursing the City for excess medical cafeteria plan benefits that were erroneously given to certain executive employees between 2011 and 2013. Specifically, the cap on the cash payment incentive for selecting a lower cost plan was erroneously calculated at \$768 per month instead of \$600 per month.

Those employees who received these overpayments are being required to reimburse the City in full. This onetime modification allows the employees to cash out accrued leave in order to make the repayment.

#### Retiree Medical Benefits

The Fire Chief and the Deputy Fire Chief are members of the City's Executive Employee Group, and not members of the Beverly Hills Firefighter's Association.

In 2009, the City Council converted the retiree medical benefits of executive employees hired after January 1, 2010 from a defined benefit plan to a defined contribution plan. This change reduced the retiree health care benefits for executives and eliminated the

possibility of unfunded liabilities for retiree medical coverage in connection with executive employees hired after January 1, 2010.

Those employees who were employed by Beverly Hills before January 1, 2010, but promoted into the executive employee group after January 1, 2010, were allowed to retain the defined benefit retiree medical plan to which they were entitled as a non-executive employee prior to January 1, 2010.

However, firefighters are not provided their defined benefit retiree medical plan by the City. Instead, they are provided a defined benefit retiree medical plan by the Beverly Hills Firefighter's Association. The Association currently does not provide the benefit to the Deputy Fire Chief and the Fire Chief, as they are members of the executive group, and not members of the Firefighter's Association.

Thus, unlike other executive employees, a firefighter employed by the City before December 31, 2009 who promotes to a position in the executive employee group is forced to relinquish a significant retiree medical benefit in order to accept the promotion to Deputy Fire Chief or Fire Chief.

This proposed third amendment to the Executive Compensation Plan addresses this disparity by providing that a Beverly Hills firefighter appointed to fill the position of Fire Chief or Deputy Fire Chief will receive the retiree health benefit that was offered before January 1, 2010 to previously appointed executives, including Deputy Fire Chiefs and Fire Chiefs.

The defined benefit provides that the Fire Chief and Deputy Fire Chief will receive, upon retirement, up to one hundred percent of the difference between the minimum retiree medical benefit required by the California Government Code and the actual cost of medical insurance purchased by the retiree for the retiree and the retiree's spouse or surviving spouse up to a maximum amount that equals the two party rate of the PERS Care health plan offered by PERS.

This benefit will be provided only to a Fire Chief or Deputy Fire Chief who is promoted from the ranks of Beverly Hills firefighters, retires from the City of Beverly Hills, and remains retired without reinstatement to active status with PERS. In other words, to remain eligible for this benefit, an employee cannot work for another PERS contracting agency and make contributions to PERS to enhance his or her retirement benefit.

Additionally, the benefit will only apply to those sworn fire personnel promoted to Deputy Fire Chief or Fire Chief before December 31, 2033. After that date, it is anticipated that any potential promotion candidate will have received retirement health savings account contributions from the City during his or her time as a member of the Firefighters Association and therefore will not require an additional defined benefit retirement health benefit upon promotion into the executive employee group.

At its November 19, 2013 meeting, the City Council received and publically disclosed the estimated future costs of the proposed change, as prepared by an actuarial and as required by Government Code Section 7507. With completion of the required two week waiting period, the City Council may now approve the compensation plan amendment adopting the benefit change. Without this change, future fire chiefs and deputy fire chiefs would receive a significantly reduced retiree medical benefit as a consequence of accepting promotion to the executive employee group from the sworn fire group.

As required by law, the proposal to adopt the change is not presented as part of the consent calendar.

**FISCAL IMPACT**

The proposed amendment to expand the retiree medical coverage is expected to cost the following:

For the Current Acting Deputy Fire Chief it is approximately \$6,000 annually with Present Value of Benefits (PVB) of \$91,000. For future promotions it is expected to cost approximately \$26,000 annually with a PVB of \$430,000.

The other two proposed modifications have no fiscal impact at this time, although the downward adjustment of certain salary ranges limits future potential salary increases for certain positions.

Don Rhoads  
Finance Approval



Jeff Kolin  
Approved By



# **Attachment 1**

RESOLUTION NO. 13-R-\_\_\_\_\_

RESOLUTION OF THE COUNCIL OF THE CITY OF  
BEVERLY HILLS APPROVING AMENDMENT NO. 3 TO THE  
CITY OF BEVERLY HILLS EXECUTIVE EMPLOYEE  
COMPENSATION PLAN

The City Council of the City of Beverly Hills does hereby resolve as follows:

Section 1. On February 7, 2012, the City Council adopted the City of Beverly Hills Executive Employee Compensation Plan dated February 7, 2012, Comp. Plan CP-01-2012.

Section 2. On July 2, 2013 and August 20, 2013, the City Council amended the City of Beverly Hills Executive Employee Compensation Plan.

Section 3. The City Council hereby approves the attached amendment as Amendment No. 3 to the City of Beverly Hills Executive Compensation Plan.

Section 4. The City Clerk shall certify to the adoption of this resolution and shall cause this resolution and his certification to be entered in the Book of Resolutions of the Council of this City.

Adopted:

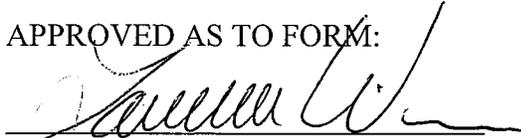
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JOHN A. MIRISCH  
Mayor of the City of Beverly Hills, California

ATTEST:

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BYRON POPE  
City Clerk

(SEAL)

APPROVED AS TO FORM:



LAURENCE S. WIENER  
City Attorney

APPROVED AS TO CONTENT:

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JEFFREY C. KOLIN  
City Manager

# **Attachment 2**

AMENDMENT NO. 3 TO THE CITY OF BEVERLY HILLS EXECUTIVE EMPLOYEE  
COMPENSATION PLAN TO UPDATE THE APPLICABLE SALARY RANGE SCHEDULE,  
PROVIDE CERTAIN SUBSTITUTE RETIREE MEDICAL BENEFITS TO THE FIRE CHIEF  
AND DEPUTY FIRE CHIEF AND TO ALLOW FOR CERTAIN PAID LEAVE BENEFITS  
TO BE APPLIED TO REPAYMENT OF CERTAIN BENEFIT OVERPAYMENTS

The City of Beverly Hills Executive Employee Compensation Plan, Comp. Plan No. CP-01-2012, ("Plan") is amended as follows:

1) Salary Schedule

Appendix A to the Plan, also referenced as Exhibit A, is hereby amended by substituting the attached schedule for the existing schedule attached to the Plan. While substitution of the schedule is effective immediately, any change to the pay of an employee covered by the Plan will only be effective if and when it is approved by the City Manager using the customary forms and documentation. This change is not intended to provide an automatic change in pay without express approval of the City Manager.

2) Retirement Medical Benefit for Fire Chief and Deputy Fire Chief

Paragraph 4 of Section VII, Sub-Section D is amended, as follows:

VII. Other Benefits

D. Retirement Medical Benefit

4. Employees Hired on or after January 1, 2010

Delete third existing paragraph, as previously amended on July 2, 2013, which currently reads:

Employees who promote into the Executive Employee group on or after January 1, 2010, who were City employees as of December 31, 2009, will receive retiree medical benefits (based on their years of service with the City) in accordance with the benefits and plan under which they were covered immediately prior to the promotion. In addition, an employee promoted to Deputy Fire Chief from the sworn fire group between December 29, 2012 and July 10, 2013, who is a "Member" of the Beverly Hills Firemen's Association Post-Retirement Medical Benefit Plan and Trust ("Plan"), as defined in the Plan, on the date of promotion and who would be eligible for post-retirement benefits under the Plan as a "Participant," as defined in the Plan, except for the fact that the employee will no longer be a Member solely as a result of the promotion, will receive a substitute benefit consisting of the same benefit under the same terms as provided to other employees promoted to the Executive Employee group between December 2, 1997 and December 31, 2009, as provided in Section VII, Paragraph D, Sub-Paragraph 2, above.

Substitute the following as the new third and fourth paragraphs:

Employees who promote into the Executive Employee group on or after January 1, 2010, who were City employees as of December 31, 2009, will receive retiree medical benefits (based on their years of service with the City) in accordance with the benefits and plan under which they were covered immediately prior to the promotion.

An employee promoted to Fire Chief or Deputy Fire Chief from the sworn fire group after December 29, 2012, who is a "Member" of the Beverly Hills Firemen's Association Post-Retirement Medical Benefit Plan and Trust ("Association Plan"), as defined in the Association Plan, on the date of promotion and who would be eligible for post-retirement benefits under the Association Plan as a "Participant," as defined in the Association Plan, except for the fact that the employee will no longer be a Member solely as a result of the promotion, will receive a substitute benefit consisting of the same benefit under the same terms as provided to other employees promoted to the Executive Employee group between December 2, 1997 and December 31, 2009, as provided in Section VII, Paragraph D, Sub-Paragraph 2, above. The benefit applicable to the Fire Chief and Deputy Fire Chief under this paragraph is operative until December 31, 2033 and will sunset after that date, if not sooner modified or terminated.

3) Application of Paid Leave Benefits to Overpayment of Medical Cash Conversion

Add the following as a new paragraph in Section VI, immediately following the existing paragraph addressing cafeteria plan contributions and before the listing of qualified benefits offered by the City:

Pursuant to procedures and rules to be established by the City Manager or designee, an employee covered by the Plan may designate accrued paid leave time to be used for the purpose of repaying the City for overpayments that were made to the employee due to the incorrect calculation of the cash payment for cafeteria plan contributions over the employee's selected monthly benefit. While this transaction will be treated as a cash-out, with a deduction from the employee's applicable leave bank based on the current pay rate, employees will not have the right to receive cash or use the time designated by the employee under this paragraph for any purpose other than the repayment. This provision is in addition to and does not affect any other cash conversion of leave time for which employee is eligible under this Plan, if any. Designation of vacation for this purpose will not be used to disqualify an employee from receiving the cash conversion of vacation for those employees who would otherwise have 240 hours or more of accumulated vacation permitting a cash conversion under Section IV (Leaves), Paragraph C (Vacation Leave) for the year in which the designation is made. This provision shall only apply to a one-time designation during calendar year 2013 or 2014 and

will expire as of December 31, 2014. For purposes of this paragraph, paid leave time eligible for designation is limited to vacation and administrative leave.

**Exhibit A. Management Pay Tiers and Rates - Beverly Hills (2013 - 14)**

MANAGEMENT LEVELS & JOB TITLES	CURRENT SALARY	2012-13 MARKET SURVEY METRICS	Sal. Tier	OPTION TIERED SALARY RANGE		
				Min.	Control Pt.	Max
(SEE NOTES 1-13 and EXPLANATIONS on PAGE 2)		75th Pct.				
Column # →	1	2	3	4	5	6
<b>ASSISTANT CITY MANAGER AND DEPARTMENT HEADS</b>						
ASSISTANT CITY MANAGER (1)	20,751	NA	14	16,374	19,264	22,154
CHIEF OF POLICE (2a)	20,342	NA	13	16,212	19,073	21,934
FIRE CHIEF - INTERIM (2b)	20,131	NA	13	16,212	19,073	21,934
DIRECTOR OF ADMINISTRATIVE SERVICES - CFO	15,593	15,089	11	12,826	15,089	17,352
DIRECTOR OF COMMUNITY DEVELOPMENT(3)	17,352	NA	11	12,826	15,089	17,352
	TIER 10 NOT ASSIGNED					
DIRECTOR OF COMMUNITY SERVICES	15,417	14,272	9	12,131	14,272	16,413
CHIEF INFORMATION OFFICER (4)	14,292	NA	9	12,131	14,272	16,413
NEW CLASS -DIRECTOR OF PUBLIC WORKS SERVICES (4)	15,100	NA	9	12,131	14,272	16,413
NEW CLASS - 'DEPUTY CITY MGR./ DIRECTOR OF CAPITAL ASSETS (4)	15,100	NA	9	12,131	14,272	16,413
<b>ASSISTANT DIRECTORS, DEPUTY FIRE CHIEF AND DEPUTY CITY MANAGERS</b>						
DEPUTY FIRE CHIEF - INTERIM	17,859	NA	12	14,935	17,571	20,207
ASSISTANT DIR. OF ADMIN. SERVICES - HR	14,277	14,272	8	11,897	13,997	16,097
ASSISTANT DIR. OF ADMIN. SERVICES - FIN (5)	14,277	NA	8	11,897	13,997	16,097
TITLE CHANGE - ASSISTANT DIR. OF PUBLIC WORKS SERVICES (6)	13,430	NA	7	11,174	13,146	15,118
ASSISTANT DIR. OF COMMUNITY SERVICES (7)	14,240	NA	7	11,174	13,146	15,118
TITLE CHANGE - DEPUTY CITY MGR. / COMMUNICATIONS AND MARKETING (8)	12,862	NA	7	11,174	13,146	15,118
ASSISTANT DIR. OF COM. DEV.- CITY PLANNER	13,693	11,685	6	10,124	11,910	13,697
ASSISTANT DIR. OF COM. DEV. - BLDG. OFFICIAL (9)	13,693	NA	6	10,124	11,910	13,697
ASSISTANT CHIEF INFORMATION OFFICER (10)	11,867	NA	4	9,331	10,978	12,625
<b>SENIOR MANAGERS AND PROFESSIONALS</b>						
CITY ENGINEER (11)	13,084	NA	6	10,124	11,910	13,697
DIVISION COMMANDER (12)	10,868	NA	5	10,112	11,896	13,680
ENVIRONMENTAL UTILITIES MANAGER	12,841	11,331	3	9,244	10,875	12,506
DEPUTY DIR. OF TRANSPORTATION	11,625	10,785	3	9,244	10,875	12,506
DIRECTOR OF PARKING OPERATIONS	11,844	NA	3	9,244	10,875	12,506
DIRECTOR OF PROJECT ADMINISTRATION	11,292	10,490	3	9,244	10,875	12,506
MAINTENANCE OPERATIONS MANAGER	10,964	10,965	3	9,244	10,875	12,506
RISK MANAGER	11,864	10,580	3	9,244	10,875	12,506
BUDGET AND REVENUE OFFICER	10,508	10,067	2	8,557	10,067	11,577
DIRECTOR OF EMERGENCY MANAGEMENT (13)	10,095	10,067	2	8,557	10,067	11,577

See Notes and Explanations on Page 2.

**Exhibit A. Management Pay Tiers and Rates - Beverly Hills (2013 - 14)**

Page 2 of 2 Pages.

**EXPLANATIONS**

Columns 1-2 and 4-6: All rates are BASE SALARY.

**Notes Re: Internal Alignments**

- (1) Control Pt. set 1% above Police Chief / Fire Chief
- (2a) Control Pt. set to labor market (75th Percentile) and 20% above Police Captain - Top Step.
- (2b) Control Pt. set same as Police Chief and at least 10% above Deputy Fire Chief.
- (3) Control Pt. set same as Director of Administrative Services - CFO
- (4) Control Pt. set same as Director of Community Services.
- (5) Control Pt. set same as Ass't. Director - Admin. Services / Human Resources.
- (6) Control Pt. set 10.0% above City Engineer.
- (7) Control Pt. set same as Assistant Director of Public Works Services.
- (8) Control Pt. set to median of Assistant Director rates (Deputy Fire Chief NOT INCLUDED).
- (9) Control Pt. set same as Assistant Community Dev. Dir. / City Planner
- (10) Control Pt. set 20.0% BELOW Chief Information Officer.
- (11) Control Pt. set same as Ass't. Community Dev. Dir. / Bldg. Official & City Planner.
- (12) Control Pt. set same as Police Lt. Grade I .



# **Attachment 3**



November 7, 2013

Mr. Noel Marquis  
 Assistant Director of Administration Services/ CFO  
**City of Beverly Hills**  
 455 N Rexford Dr.  
 Beverly Hills, CA 90210

**Re: City of Beverly Hills Postretirement Health Benefits – Cost Study of Enhanced Benefits for Fire Chief / Deputy Positions, including Future Hires**

Dear Noel,

As requested, we further reviewed the estimated cost for the City of Beverly Hills to change postretirement health plan provisions for the positions of Fire Chief and Deputy Fire Chief. It is important to understand the assumptions used for these estimates, which are discussed below.

In particular, we estimated the impact of changing from the most recent valuation provisions for both Fire Chief (and Deputy) positions (2 party PORAC to age 65, PEMHCA post 65) to the Executive provisions (2 party PERSCare for life) for current and future eligible individuals promoted from within the department to the positions. The additional cost is dependent upon the age and service of the individual promoted, and we show estimated costs based on sample demographics. We assume the impacted individuals will be Medicare eligible. If not Medicare eligible, costs may be higher.

**Summary of Results**

The estimated additional costs (see attachment for definitions) as of July 1, 2013 are as follows:

*Prior Deputy Fire Chief (age 51, 27 years of service)*

	(Pre-65) PORAC to PERSCare	(Post-65) PEMHCA minimum to PERSCare	Total
Present Value of Benefits (PVB)	\$14,000	\$85,000	\$99,000
Actuarial Accrued Liability (AAL)	\$12,000	\$79,000	\$91,000
Normal Cost	\$500	\$1,500	\$2,000
Annual Required Contribution (ARC)	\$1,000	\$6,000	\$7,000

*Current Acting Deputy Fire Chief (age 44, 18 years of service)*

	(Pre-65) PORAC to PERSCare	(Post-65) PEMHCA minimum to PERSCare	Total
Present Value of Benefits (PVB)	\$11,000	\$80,000	\$91,000
Actuarial Accrued Liability (AAL)	\$8,000	\$58,000	\$66,000
Normal Cost	\$500	\$2,000	\$2,500
Annual Required Contribution (ARC)	\$1,000	\$5,000	\$6,000

*Future Promotions from within Department – Assume 5 Current Personnel (age/service – 46/22, 41/17, 36/12, 31/7, 26/2) will eventually be promoted*

	(Pre-65) PORAC to PERSCare	(Post-65) PEMHCA minimum to PERSCare	Total
Present Value of Benefits (PVB)	\$55,000	\$375,000	\$430,000
Actuarial Accrued Liability (AAL)	\$30,000	\$190,000	\$220,000
Normal Cost	\$2,000	\$13,000	\$15,000
Annual Required Contribution (ARC)	\$3,000	\$23,000	\$26,000

Note that changes in combinations of age and service will have differing impact on the various costs. The breakdown illustrates the additional cost of providing a more valuable healthcare plan (pre-65) relative to providing lifetime healthcare coverage above the CalPERS minimum amount (post-65).

The Future Promotions results are intended to estimate the cost attributable to current Fire department personnel expected to be promoted into these positions in future years. It should be noted that any future hires are eligible for *defined contribution* retiree healthcare benefits, rather than the *defined benefit* program in place for hires before July 1, 2012, and would not impact these results. Based on experience, management estimated promoting an individual into these positions every five years, which would yield approximately five participants currently within the department that would eventually receive the enhanced retirement benefits. As a result, we valued five individuals with varying current age and years of service.

### **Assumptions**

These estimates are based on the information and assumptions used for July 1, 2013 Actuarial Valuation results of the City's Postretirement Health Plan, including a 5.00% interest rate, CalPERS Public Agency Fire demographic assumptions with mortality improvement projections, and 2014 CalPERS health plan premiums. It should be noted that the cost impact could vary considerably under other assumptions.

It is important for the City to understand how the costs shown may change over time and which items are more relevant for decision making. We look forward to discussing this analysis at your convenience to assist management in utilizing these tools effectively. Please call me if you have any questions.

Sincerely,

Bradley J. Au, MAAA, EA  
Partner

Tel: 213-996-1729  
Brad.au@aonhewitt.com



## Liability Terminology

**Present Value of Benefits (PVB)** – total liability representing the discounted value of all projected benefits expected to be paid to current and future retirees; attributable to past and future service

**Actuarial Accrued Liability (AAL)** – portion of the PVB attributable to past service

**Normal Cost** – portion of the PVB attributable to the valuation year (or for a single year of service)

**Annual Required Contribution (ARC)** – actuarially determined annual cost; basis for determining Annual Pension/OPEB Cost under GASB accounting rules; components include normal cost and amortization of the unfunded AAL.