



Board of Administration Offsite

Assembly Bill 1140 (Stone) – District Consolidation

July 14, 2020

Item Name: Assembly Bill 1140 (Stone) – District Consolidation

Program: Legislation

Item Type: Action

Recommendation

Adopt a **SUPPORT** position on Assembly Bill (AB) 1140, as amended June 18, 2020, because it supports a consolidation that, according to a report commissioned by the Santa Cruz County Local Agency Formation Commission (LAFCO), has the potential to create administrative efficiencies and cost savings for these two CalPERS contracting agencies.

Executive Summary

AB 1140, as amended June 18, 2020, provides a limited exception to the merger and successor agency provision in the Public Employees' Retirement Law (PERL) and the general requirement under section 20479 that contracting agencies offer the same retirement benefits to all employees within a membership classification. The Central Fire Protection District and the Aptos/La Selva Fire Protection District, both located in Santa Cruz County, are in the process of consolidating into a single district. This bill allows all existing employees of these two districts to retain their respective defined benefit pension plan or formula after the consolidation. This exception to the existing PERL requirements will help facilitate the consolidation that these districts are seeking to improve their operations.

Strategic Plan

This legislation does not support or impact any elements of the strategic plan.

Background

Contract Merger and Successor Agency in the PERL

The PERL section 20508 authorizes CalPERS contracting agencies to merge two or more existing contracts into a single contract with a single agency, called the successor agency. The successor agency contract is simply a continuation of one of the contracts of one of the merging

agencies. As such, the employees of the other (non-successor) agency or agencies are brought into the successor agency under the terms of the continuing contract, not the contract of their prior employer. This may mean a change of defined benefit pension formula or other retirement benefits going forward, but does not affect prior accrued service credit.

All assets and liabilities of the non-successor contracting agency or agencies are assumed by the successor agency and the successor agency is the contracting agency going forward.

Central Fire Protection District (according to the district website)

In 1987, the Central Fire Protection District was created from the consolidation of the Capitola, Live Oak and Soquel Fire Districts, located in Santa Cruz County. The district serves 28 square miles and encompasses the communities of Capitola, Live Oak, and Soquel. The resident population is in excess of 55,000, with a seasonal influx during the summer. The district responds to over 6,000 requests for service annually for fire, rescue, emergency medical services, hazardous materials calls, and assorted alarms.

The district operates four fire stations, an Administrative Office, Community Risk Reduction Division, and Fleet Services Facility, and has several program areas including Community Risk Reduction, Community Education, Emergency Medical Services, Water Rescue, Fire Investigation, Hazardous Materials, Urban Search and Rescue, and Training. The district currently has a Shared Services Agreement with the Aptos/La Selva Fire Protection District in Santa Cruz County. The Central Fire Protection District has a publicly elected Board of Directors consisting of five members who are elected to four-year, staggered terms.

Aptos/La Selva Fire Protection District (according to the district website)

The Aptos/La Selva Fire Protection District serves the residents, businesses, and visitors to Aptos, Rio Del Mar, and La Selva Beach, located in Santa Cruz County. The 27-square mile coverage area is home to 30,000 permanent residents.

The district is an all-hazards fire district, providing the following services: advanced life support emergency medical services, aquatic rescue, fire suppression in structural, wildland, and urban interface, and urban search and rescue services. As an All-Hazard District, Advanced Life Support Paramedics are staffed at each station, and employees are trained in Aquatic Rescue, Over-the-Edge (angled rescue), and Urban Search and Rescue operations.

The district operates three fire stations and an administration office, and currently has a Shared Services Agreement with Central Fire Protection District of Santa Cruz County. The Aptos/La Selva Fire Protection District is governed by a five-member Board of Directors, members of which are elected to a four-year, staggered term.

District Consolidation

In 2018, the districts began moving towards a consolidation. Currently, the two agencies have been working under Shared Services Agreements for mid-management, administrative services, training, community risk reduction, and logistics. In 2018, the districts, in collaboration with the Santa Cruz County LAFCO, commissioned a feasibility report by Emergency Services

Consulting International on this proposed consolidation. The report identified potential benefits for the districts with efficiencies and savings created by combining executive and administrative functions and cost reductions from economies of scale.

However, the report identified pension benefits differences between the districts as a key obstacle to consolidation. The exception provided by AB 1140, as amended June 18, 2020, would provide a remedy for this obstacle by allowing all current employees of these districts to retain their current pension formulas.

Analysis

Operative text of AB 1140, as amended June 18, 2020

Section 20508.5 is added to the Government Code, to read:

20508.5. On and after June 30, 2020, a successor agency, pursuant to Section 20508, for the Central Fire Protection District and the Aptos/La Selva Fire Protection District may provide employees the defined benefit plan or formula that those employees received from their respective employer prior to the consolidation. The successor agency shall designate the surviving contract within 180 days of the consolidation.

Bill Summary

Specifically, the proposed legislation:

- Authorizes the successor agency to the Central Fire Protection District and the Aptos/La Selva Fire Protection District to provide the districts' respective employees the same defined benefit pension plan or formula they currently have with their respective districts.
- Requires the districts to designate within 180 days of consolidation which of their retirement contracts will continue as the contract for the consolidated successor agency.

Prior Legislation – Similar Exemptions

After the enactment of the Public Employees' Pension Reform Act of 2013 (PEPRA), several local agencies seeking to form joint powers agencies (JPA) to improve efficiency and create cost savings requested an exemption to the PEPRA. These agencies sought an exemption allowing employees to keep the pension formulas of their respective employers prior to the formation of the new JPA provided the member is subsequently employed by the JPA within 180 days of formation. The Legislature granted this exemption to several agencies before enacting a general exemption for JPAs in 2016.

Budget and Fiscal Impacts

CalPERS Administrative Costs

Implementation costs and workload are expected to be absorbable within current processes. Establishing the successor contract for the consolidated fire district will require an additional level of review to ensure all affected employees are enrolled with the correct benefits. However, current processes for merged contracts and successor agencies require some manual inputs

and one-time review, so any additional review is expected to be manageable within existing staffing and resources levels.

Benefit Costs

All assets and liabilities for employees and retirees of these two fire districts would be assumed by the successor agency. Any differences in benefit costs as a result of the merger of the districts will be a liability of the successor agency. The employees retaining their existing defined benefit pension formula are not expected to change benefit costs.

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