



California Public Employees' Retirement System
Customer Account Services Division
Retirement Account Services Section
P.O. Box 942709
Sacramento, CA 94229-2709
TTY: (877) 249-7442
888 CalPERS (or 888-225-7377) phone • (916) 795-4166 fax
www.calpers.ca.gov

May 25, 2012

Ref. No. 2012-0377



Dear Mr. Harrison:

The California Public Employees' Retirement System (CalPERS) undertook a Public Agency review of the City of Vernon (City) and the final report was released April 2012. CalPERS audit staff reviewed payroll reporting and membership enrollment processes of the City for individuals included in a test sample, over service periods of July 1, 2002, through June 30, 2010. You were one of the test sample individuals.

As a result of CalPERS Public Agency review, CalPERS has reviewed all information available from October 2003 through the present in regards to your eligibility for membership in CalPERS for services performed simultaneously in multiple positions as the Chief Assistant City Attorney, Acting City Attorney, City Attorney, Assistant City Attorney I, and Legal Counsel – Redevelopment Agency (RDA) for the City of Vernon and the compensation that the City reported to CalPERS on your behalf.

The purpose of this letter is to inform you of the results of CalPERS investigation and review and to specifically address your membership eligibility classification as a safety member, and your arrears service credit.

CalPERS has concluded you were not eligible for membership for your services rendered with the City; you were improperly enrolled as a safety member; and, your arrears service credit was improperly granted.

Formal Determination

The City first entered you into membership on October 12, 2003, with the title of Chief Assistant City Attorney.

CalPERS has evaluated the information provided by you and the City and has determined that the 4.676 years of service reported by City are not eligible for inclusion in this system. CalPERS has concluded that pursuant to Government Code sections

20300(b) and 20300(h)¹, you were an independent contractor and not an employee of the City or you provided professional legal services; therefore, you are not eligible for CalPERS benefits for your service with the City.

I. CalPERS Has Determined You Were An Independent Contractor Or Providing Professional Legal Services And Not An Employee Of the City from October 12, 2003 to December 31, 2009.

Section 20125 provides: "The Board shall determine who are employees and is the sole judge of the conditions under which persons may be admitted to and continue to receive benefits under this system." CalPERS looked to the California common law employment test to determine whether your status at the City was as an employee or independent contractor.

Section 20028 defines who may be an employee for purposes of membership in the retirement system. Section 20028(b) states that an employee is, "Any person in the employ of any contracting agency."

The common law employment test is used by the courts and the CalPERS Board of Administration to determine "employee" or "independent contractor" status under the Public Employees' Retirement Law (PERL)². In determining whether one who performs services for another is an employee or an independent contractor, the most important factor is the right to control the manner and means of accomplishing the desired result. If an employer has the authority to exercise complete control, whether or not that right is exercised with respect to all details, an employer-employee relationship exists. Other factors to be taken into consideration are (a) whether or not the one performing services is engaged in a distinct occupation or business; (b) the kind of occupation with reference to whether, in the locality, the work is usually done under the direction of the principal or by a specialist without supervision; (c) the skill required in the particular occupation; (d) whether the principal or the workman supplies the instrumentalities, tools, and the place of work for the person doing the work; (e) the length of time for which the services are to be performed; (f) the method of payment, whether by the time or by the job; (g) whether or not the parties believe they are creating the relationship of employer-employee³.

¹ All further references are the California Government Code unless otherwise specified.

² See *Metropolitan Water Dist. v. Superior Court (Cargill)* (2004) 32 Cal.4th 491 which held the terms "independent contractor" and "employee" of a contracting agency must be defined with reference to California common law.

³ The factors to consider are enunciated in *Tieberg v. Unemployment Ins. Bd.* (1970) 2 Cal.3d 943, 949 and *Empire Star Mines v. California Employment Com.* (1948) 28 Cal.2d 33, 43-44. See also CalPERS Precedential Decisions *In the Matter of the Statement of Issues of Lee Neidengard, Respondent and Tri-Counties Regional Center, Respondent*, Precedential Case No. 05-01 (2005) and *In the Matter of the Application to Contract with CalPERS by Galt Services Authority, Respondent, and City of Galt, Respondent*, Precedential Case No. 08-01 (2008).

Chief Assistant City Attorney

The City first entered you into membership on October 12, 2003, with the title of Chief Assistant City Attorney. The documentation provided for the Chief Assistant City Attorney position is a General Counsel/Legal Services Agreement and amendments thereto, with the law firm of Karns & Karabian. As of August 3, 2005, the City also provided Resolution No. 8823 as supporting documentation. The City was unable to provide any personnel documents or job duty statements for the position of Chief Assistant City Attorney. Relevant facts in these documents included:

- The agreement is with a third party law firm.
- The agreement states it is for "general counsel services and various additional legal services".
- The agreement is dated prior to the date the City states you entered employment.
- No subsequent amendment to the agreement matches the date the City states you entered employment.
- Neither the agreement, nor the subsequent amendments, provides a scope of work, or any duties that may be identified as a City function or classification.
- The agreement, nor the subsequent amendments, provides any indication of direction or control by the City sufficient to meet the common law control test for an employer/employee relationship.
- Resolution No. 8823 references the above Legal Services Agreement, and states that the intent is to "...approve retirement benefits to change Harrison's status to employee for purposes of such benefits in the Public Employees Retirement System..."

Without evidence of an established City position, or of common law control by the City, CalPERS finds that services provided under this agreement is that of an independent contractor, not an employee.

Section 20300 provides exclusions to compulsory membership. Section 20300(b) specifically excludes from membership in CalPERS "(b) Independent contractors who are not employees." Section 20300(h) further excludes "persons rendering professional legal services to a city, other than the person holding the office of city attorney, the office of assistant city attorney, or an established position of deputy city attorney." It is our determination that your service from October 2003 to December 2006 as Chief Assistant City Attorney is excluded from membership by Sections 20300(b) and 20300(h).

Additionally, CalPERS notes that part of this service appears to be the same as a previous request that was denied. In February 2009, the City requested prior service for eight individuals, including yourself. The City, on your behalf, requested service retroactive to April 2001. Supporting documents provided by the City included the same

legal services agreement with Karns & Karabian noted above. CalPERS notified the City in a letter dated April 3, 2009, that the documentation provided was insufficient to show employment in a valid position, and requested specific documentation such as resolutions, job duty statements or personnel forms. In June 2009, the City met with CalPERS to discuss this letter, and CalPERS explained the common law criteria and what was needed in order to verify employment. The City indicated they would respond by August 2009; however no response or follow up was ever received.

Acting City Attorney

On December 13, 2006, the City appointed you as Acting City Attorney. The documentation supporting this appointment is City Resolution No. 9180. There are no contracts or personnel forms to document this appointment. The City was unable to provide a job duty statement for this position.

The City Attorney is an officer of the City, as defined by the Vernon City Charter Article VII, Chapter 7.3. City officers are required by statute to take an oath prescribed by the California Constitution before entering office.⁴ Failure to take and file the constitutional oath will result in a vacancy of the office.⁵

In October 2010, CalPERS sent a questionnaire to the City regarding your employment. Question 3 of the questionnaire asked if you had taken an oath of office, and requested any documents to validate such an oath. The City's reply in February 2011, states that all Vernon employees are required to take an oath of office. The City referred CalPERS to the City's Policies and Procedures for more information. The Policies and Procedures submitted by the City include a form; "Oath or Affirmation of Allegiance for Public Officers and Employees" that all employees are required to sign.

- The City was unable to provide a signed form or statement indicating you ever took the oath of office for Acting City Attorney.

Absent an oath of office, CalPERS must conclude the office is vacant. During this time, the City continued to contract with you for services under the General Counsel Services Agreement. As noted above, service under this agreement is excluded from membership in CalPERS by Sections 20300(b) and 20300(h).

⁴ See Section 3 of Article XX of the California Constitution requires all public officers and employees, except such inferior officers and employees as may be by law exempt, to take an oath of office before they enter upon the duties of their offices or employment. The term "public officer and employee" is defined to include every officer and employee of the state "... every county, city, city and county, district, and authority, including any department, division, bureau, board, commission, agency, or instrumentality of any of the foregoing." Government Code section 1360 requires all officers to take and subscribe the constitutional oath prior to entry on the duties of office. This has been held to apply to county as well as state officers, but not employees. (*Hirschman v. County of Los Angeles* (1952) 39 Cal. 2d 698, 703.) The court in *People ex rel. Chapman v. Rapsey* (1940) 16 Cal. 2d 636, held that the positions of city judge and city attorney were both offices.; See Government Code 36507.

⁵ See Government Code 1770, subdivision (i).

City Attorney

On February 22, 2007, the City appointed you to the position of City Attorney. Documentation supporting this appointment is City Resolution No. 9529. The City was unable to provide any personnel documents or job duty statements for the position of City Attorney.

As noted above for the position of Acting City Attorney, City officers are required by statute to take an oath prescribed by the California Constitution before entering office. Failure to take and file an oath of office will result in a vacancy of the office.

- The City was unable to provide a signed form or statement indicating you ever took the oath of office for City Attorney.

Because the City cannot verify that you took an oath of office, CalPERS must conclude the office is vacant. During this time, the City continued to contract with you for services under the General Counsel Services Agreement. As noted above, service under this agreement is excluded from membership in CalPERS by Sections 20300(b) and 20300(h).

Legal Counsel for Redevelopment Agency

On December 13, 2006, the City appointed you as Legal Counsel for Redevelopment Agency. Documentation for this appointment includes RDA Resolution No. RA-334. No personnel documents or job duty statements were provided for this position.

Section 20300(h) specifically excludes "...persons rendering professional legal services to a city, other than the person holding the office of city attorney, the office of assistant city attorney, or an established position of deputy city attorney." The Legal Counsel for the Redevelopment Agency is not one of the positions listed in Section 20300(h). Service in this position is excluded from membership in CalPERS.

Assistant City Attorney I

On July 8, 2009, the City also appointed you as Assistant City Attorney I. Documentation for this appointment includes City Resolution No. 9999. No personnel documents or job duty statements were provided for this position.

Officers of the City of Vernon are defined by Articles VI and VII of the Vernon City Charter. Article VI defines the Office of City Administrator. Article VII creates and defines other city officers, including a City Clerk, a City Treasurer, and a City Attorney. Additionally, Article VII, Chapter 7.4 permits the City Council to provide for other City Officers as needed, and states that the City Council "...shall fix the duties, tenure and compensation of such officers by ordinance."

Additionally, Section 20300(h) specifically excludes "...persons rendering professional legal services to a city, other than the person holding the office of city attorney, the office of assistant city attorney, or an established position of deputy city attorney." The City has identified multiple titles connected to the Assistant City Attorney, including Assistant City Attorney, Chief Assistant City Attorney, Assistant City Attorney I, Assistant City Attorney II, Assistant City Attorney III and Special Assistant to the City Attorney. Pursuant to Government Code section 20300(h), only the person holding the office of Assistant City Attorney is eligible for membership in CalPERS.

- The Assistant City Attorney I position is not the person holding the office of Assistant City Attorney.
- The City has produced no ordinance creating the Office of Assistant City Attorney.

We have no evidence of a City ordinance establishing the office of Assistant City Attorney, and even if the City could validate the office, it does not appear you ever held the office, therefore, we deem that your position of Assistant City Attorney I is also excluded by Section 20300(h).

II. You Are Not Eligible to Receive Classification as a Safety Member

The City contracted to provide safety coverage for its City Attorneys, Assistant City Attorneys and Deputy City Attorneys under Section 20423.6(b)(3). The City has not provided adequate documentation to demonstrate that these positions meet all of the criteria necessary to qualify under this section.

Section 20423.6 in pertinent part states:

- (a) "Local safety member" also includes local prosecutors, local public defenders, and local public defender investigators.
- (b) For purposes of this part, "local prosecutor" means any one of the following:
 - (3) A city officer or employee who meets all of the following criteria:
 - (A) He or she is or, on or after January 1, 2002, was employed in the office of the city attorney.
 - (B) He or she is or, on or after January 1, 2002, was primarily engaged in the active enforcement of criminal laws within any court operating in a county.
 - (C) His or her job classification is or, on or after January 1, 2002, was city attorney, deputy city attorney, chief deputy city

attorney, assistant city attorney, chief assistant city attorney, or any other similar classification or title.

- (D) His or her effective date of retirement is on or after the date this section becomes applicable to the member's contracting agency as provided in subdivision (g).

The City admitted in its January 31, 2012, response to the draft Public Agency review that it misclassified its attorneys. CalPERS cannot grant safety coverage for a position that does not qualify under the law. Therefore, even if you were eligible for CalPERS membership, you would not be eligible for the Safety classification for your service performed as Acting City Attorney, City Attorney and Assistant City Attorney I.

III. You Were Improperly Granted Arrears Service Credit.

Section 20163 allows a member who was not brought into CalPERS membership timely to receive service credit for the period in arrears. As indicated above, CalPERS has determined you are not eligible for membership effective with your membership date of October 12, 2003. Since you were not an employee of the City, nor a member of CalPERS, you were granted the arrears service credited in error.

IV. Final Compensation Cannot Be Determined.

If in the event you had been eligible to participate as a member in CalPERS as a result of your services performed for the City, CalPERS has been unable to confirm that the amounts paid to you constitute compensation earnable. Under the PERL, the amount of compensation earnable that an employer reports to CalPERS is used to determine member contributions, final compensation and to calculate retirement benefit allowances. Compensation earnable consists of "payrate" and "special compensation". If CalPERS determines that compensation is or has been reported in error, and that amount does not constitute compensation earnable as defined in the PERL, then CalPERS has a duty to correct the error pursuant to Section 20160.

Payrate

All payrates or base pay reported must comply with Section 20636(b)(1) which provides in relevant part as follows:

"the normal monthly rate of pay or base pay of the member paid in cash to similarly situated members of the same group or class of employment for services rendered on a full-time basis during normal working hours, pursuant to publicly available pay schedules. 'Payrate,' for a member who is not in a group or class, means the monthly rate of pay or base pay of the member, paid in cash and pursuant to publicly available pay schedules, for services rendered on a full-time basis during normal working hours, subject to the limitations of paragraph (2) of subdivision (e)." (Emphasis added)

Additionally, Section 20636(d) provides, “[N]otwithstanding any other provision of law, payrate and special compensation schedules, ordinances, or similar documents shall be public records available for public scrutiny.”

A “payrate” must also be listed in a publicly available pay schedule which meets all criteria listed in California Code of Regulations (CCR) Section 570.5. The publicly available pay schedules provided by the City fail to comply with CCR Section 570.5 subdivision (a)(3)(4)(6) because:

- They fail to show the payrate for each identified positions, which may be stated as a single amount or as multiple amounts within a range;
- They fail to indicated the time base, including but not limited to, whether the time base is hourly, daily, bi-weekly, monthly bi-monthly, or annually; and
- They fail to indicate an effective date and date of any revisions.

CCR Section 570.5 (b) states:

“Whenever an employer fails to meet the requirements of subdivision (a) above, the Board, in its sole discretion, may determine an amount that will be considered to be payrate, taking into consideration all information it deems relevant including but not limited to, the following:

- (1) Documents approved by the employer’s governing body in accordance with requirements of public meetings laws and maintained by the employer;
- (2) Last payrate listed on a pay schedule that conforms to the requirements of subdivision (a) with the same employer for the position at issue;
- (3) Last payrate for the member that is listed on a pay schedule that conforms with the requirements of subdivision (a) with the same employer for a different position.
- (4) Last payrate for the member in a position that was held by the member and that is listed on a pay schedule that conforms to the requirements of subdivision (a) of a former CalPERS employer.

Additionally, in order to constitute payrate as defined in the PERL, pay must be for services rendered on a full-time basis during normal working hours and cannot be for additional duties or services related to other positions.⁶ Pay related to services

⁶ Section 20636(b) and (c)(7)(B) also provides that special compensation does not include payments made for additional services rendered outside of normal working hours, whether paid in lump sum or otherwise. See also *In re the Matter of the Appeal of the Calculation of Benefits Pursuant to Employer’s Report of Final Compensation Related to Roy T. Ramirez, and City of Indio*, (2000) CalPERS Precedential Board Decision No. 00-06, and *Prentice v. Board of Administration* (2007) 157 Cal.App. 4th 983.

performed that constitute "overtime", as that term is defined under the PERL, is not reportable for retirement purposes. Section 20635 provides in pertinent part:

"When the compensation of a member is a factor in any computation to be made under this part, there shall be excluded from those computations any compensation based on overtime put in by a member whose service retirement allowance is a fixed percentage of final compensation for each year of credited service.. .

If a member concurrently renders service in two or more positions, one or more of which is full-time, service in the part-time position shall constitute overtime. If two or more positions are permanent and full-time, the position with the highest payrate or base pay shall be reported this system."

Payrates cannot be determined or verified by CalPERS for several areas of your employment due to the lack of relevant information received from the City. Not all pay schedules presented by the City appear to have included amounts solely attributable to one position and conflicting information regarding the time base for which your positions were paid, increases CalPERS inability to determine payrates.

As indicated above, Section 20636 and California Code of Regulations section 570.5 defines the requirements for a publicly available pay schedule, including, but not limited to: identifying the position title for every employee position, showing the payrate for each identified position, providing a time base, and indicating an effective date and the date of any revisions. The pay schedules provided by the City have several positions where the salary has been omitted or indicated the salary as \$0.00.

The City recognizes full-time as 173.3333 hours per month and has stated all pay schedules provided are intended for full-time employment, unless noted otherwise. In contrast, your contract agreements between you and the City only require services of 100 hours which is well below the City's established full-time.

Due to the conflicting and lack of information, CalPERS cannot determine the time base for which your payrate was reported, nor can CalPERS determine for which of the multiple positions services were being rendered and reported as compensation

The City must provide documentation to substantiate services were being rendered on a full-time basis and the payrate associated with each position you attained before a determination of payrate can be made. Therefore, in the event you are able to demonstrate eligibility for CalPERS membership, the City must provide accurate and sufficient information for CalPERS to determine that amount paid to you would constitute compensation earnable before such compensation can be used to calculate a retirement allowance.

Authority for Correction for Amounts Erroneously Reported that Do Not Appear to Meet the Definition of Compensation Earnable

CalPERS was established by statute, the PERL, which grants it certain authority. The California Constitution also grants the CalPERS Board of Administration, as the board of a public retirement system, certain powers. CalPERS has no authority other than those granted by the PERL and the Constitution, and has the authority to pay benefits to a member only when authorized and only in amounts authorized. CalPERS has no authority to use a final compensation amount that is calculated with amounts of pay that do not meet the definition of compensation earnable.

PERL section 20120 states that the management and control of this system is vested in the board. Section 20125 further provides that the board shall determine who are employees and is the sole judge of the conditions under which a person may be admitted to and continue to receive benefits under this system.

Section 20160 outlines the criteria for correcting errors and omissions and requires the board to correct all actions taken as a result of errors or omissions of any contracting agency or this system. Corrections of errors or omissions made pursuant to section 20160 shall be such that the status, rights, and obligations of all parties are adjusted to be the same that would have been, if the act that would have been taken, but for the error or omission, was taken at the proper time. Once an error is discovered, CalPERS is required to take action to correct it and is permitted to pay only those benefits authorized under the PERL.

Conclusion

Based on these determinations, you are not eligible for membership for your services with the City. Reimbursement and/or credit for retirement contributions, arrears service credit and ARSC paid into the system on your behalf will be done in accordance with State and Federal law. Due to our determination that you are not a member, you are not eligible to receive a monthly retirement benefit from CalPERS.

Where the determinations given above are the result of insufficient information, the City may provide additional documentation to supplement the information previously submitted. Any additional information must be submitted within 30 days of the date of this letter and must be specific and clearly show evidence that you properly held such positions and these positions were established and meet the requirements outlined by law, resolution or ordinance.

This letter highlights some of the major concerns identified by CalPERS in its determination. However, the issues identified in this letter are not exhaustive, nor are they intended to reflect all of the legal, technical and administrative issues that we considered in reaching our determination. In addition, this letter does not repeat all of the issues and facts identified in Public Agency Review. Thus, it should be read in

conjunction with these documents. CalPERS reserves the right to raise additional issues relating to the determinations listed above. If additional issues are raised, you will be notified and granted additional appeal rights as to any new findings.

You have the right to appeal the decision referred to in this letter if you desire to do so, by filing a written appeal with CalPERS, in Sacramento, within **thirty days of the date of the mailing of this letter**, in accordance with Government Code section 20134 and sections 555-555.4, Title 2, California Code of Regulations.

An appeal, if filed, should set forth the factual basis and legal authorities for such appeal. A copy of the applicable statute and Code of Regulations sections are included for your reference. If you file an appeal, the Legal Office will contact you and handle all requests for information.

Your appeal should be mailed to the following address:

Karen DeFrank, Chief
Customer Account Services Division
P.O. Box 942709
Sacramento, CA 94229-2709

Your appeal will be set for hearing with the Office of Administrative Hearings (OAH). The assigned CalPERS attorney will contact you to coordinate a hearing date. Depending on the current caseload of the OAH and the assigned attorney, the hearing date may be set several months after the case is opened. The OAH will typically offer its earliest available hearing date that meets the schedule of both parties. If you choose not to be represented by an attorney, the assigned CalPERS lawyer will be in direct communication with you during the appeal process. If you do hire an attorney, please let CalPERS know immediately so our attorney can work directly with him or her.

Attached is an informational brochure on the General Procedures for Administrative Hearings.

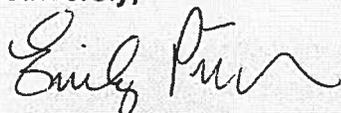
After the hearing is completed, the Administrative Law Judge will issue a Proposed Decision in approximately 30 days. The CalPERS Board of Administration will then

Jeffrey Harrison
May 25, 2012
Page 12

make a determination whether to accept or reject that Proposed Decision. If the Board rejects the Proposed Decision, they will hold a Full Board Hearing in order to review the entire hearing record again before finalizing their decision.

If you have any questions or concerns regarding this matter, please contact me at [REDACTED]

Sincerely,



EMILY PEREZ de FLORES, Manager
Membership Reporting Section
Customer Account Services Division

cc: Karen DeFrank
Joaquin Leon, City of Vernon