An adjourned meeting of the Board of Supervisors of Albemarle County, Virginia, was held on June 9, 2010, at 4:00 p.m., Room 241, County Office Building, McIntire Road, Charlottesville, Virginia. The meeting was adjourned from June 2, 2010.

PRESENT: Mr. Kenneth C. Boyd, Mr. Lindsay G. Dorrier, Jr., Ms. Ann Mallek, Mr. Dennis S. Rooker, Mr. Duane E. Snow and Mr. Rodney S. Thomas.

ABSENT: None.

OFFICERS PRESENT: Assistant County Executive, Thomas Foley; County Attorney, Larry W. Davis, and Clerk, Ella W. Jordan.

SCHOOL BOARD MEMBERS PRESENT: Mr. Stephen Koleszar, Ms. Diantha McKeel, Mr. Ronnie Price, Sr., Mr. Eric Strucko, and Mr. Brian Wheeler.

SCHOOL BOARD MEMBER ABSENT: Ms. Pamela Moynihan and Ms. Barbara Massie Mouly.

SCHOOL BOARD STAFF PRESENT: Dr. Pam Moran, Superintendent, Dr. Bruce Benson, Assistant Superintendent for Planning and Operations, Mr. Billy Haun, Assistant Superintendent for Student Learning, Mr. Jackson Zimmerman, Executive Director of Fiscal Services, Ms. Annie Kim, Senior Assistant County Attorney, and Ms. Jennifer Johnston, School Board Clerk.

Agenda Item No. 1. Call to Order.

Ms. Mallek, Chair, called the Board of Supervisors meeting to order at 4:05 p.m.

Mr. Price, Chairman, called the School Board meeting to order at the same time.

Agenda Item No. 2. Discussion: Virginia Retirement System (VRS) Plan Changes.

Ms. Kimberly Suyes, Director of Human Resources, said that the State has made some changes to the VRS Program, and the Boards have a decision to make regarding the entire organization. The County currently has a VRS Plan and effective July 1 there will be two plans. She said that there have been some plan design changes regarding formula and normal retirement age, and those will take place July 1st and are not to be decided by the Boards. Ms. Suyes indicated that the decision the Boards will have to make is on the employee share of Plan Two.

Mr. Rooker asked if the first two changes are being made regardless of any Board decisions.

Ms. Suyes confirmed that that is the case, adding that the County's decision is going to be on the employee's share – up to 5% that can be passed onto the employee. She said that the question would be whether the County picks up a portion or all of the 5% member contribution. It's important to note that the determination was that this decision may be changed, but it is effective for one fiscal year. Today we are talking about a short-term decision. Ms. Suyes emphasized that there would not be retro-pay for employees to pay back.

Mr. Snow asked what the "age of rule of 90" is.

Ms. McKeel also asked what this means.

Ms. Suyes explained that the average final compensation is based on 36 months, for Plan One as it exists right now – which means that the highest average compensation for any employee for a consecutive 36 months. That means that if she were to take a job with lesser pay, her retirement would not be based on that, but would be based on the highest pay of 36 consecutive months. Ms. Suyes added that it is changing from 3 years to 5 years. She said that the normal retirement age – which is now 65 – is also fluctuating, and may be higher than it is right now.

Mr. Boyd asked if this would change if the Social Security laws change.

Ms. Suyes responded "yes".

Ms. Lorna Gerome, Assistant Director of Human Resources, stated that the retirement Rule of 90 takes the employee's age plus the years of VRS service.

Mr. Rooker said that if you reach retirement age, the Rule of 90 is irrelevant.

Ms. Suyes noted that most people reach retirement age before the Rule of 90 kicks in.

Ms. Suyes stated that there was some confusion on whether this decision could be changed, and the staff is looking for a short-term decision for this year. She added that this is a very difficult decision, and she's trying to provide as much information as possible so the Boards can make an informed decision – internal equity, market competiveness, cost savings, and commonality.

Ms. Suyes provided examples of internal equity, using a police officer's starting salary of $34,378. She said that if they started after July 1st, their take home of salary only would be $1,719 less because of 5% going to the retirement plan. That is not total compensation. She added that the difference for a teacher would be $2,033.

Ms. Suyes said that all other localities and School Divisions are in the same position regarding market competitiveness. They did try to get some information but there was limited information available. They were able to communicate with ten jurisdictions in our peer markets and were able to find out that with local governments there were three undecideds, five were recommending funding the 5%, one will fund the 5%, and one made a decision they will not fund the 5%. She noted that for schools, they talked to nine people; three are recommending funding the 5%, five have decided to fund the 5%, and one is not going to fund the 5%. Virginia Beach is not going to fund. Ms. Suyes mentioned that she spoke with UVA, as they are part of the competitive market and the largest employer in the area, and they are passing that 5% on to their employees – as mandated by the State.

Mr. Price noted that one-half of UVA employees are State employees, but the other one-half are UVA employees based on a recent restructuring agreement. He added that that's also true for faculty; they will be making the 5% contribution.

Ms. McKeel pointed out that this only applies to new employees, and Mr. Price confirmed that existing employees are grandfathered in.

Mr. Rooker asked if an employee is required to participate.

Ms. Suyes explained that she spoke with the Vice President of Human Resources, who indicated that UVA employees have a choice of two plans – the VRS plan, or a defined contribution plan – and both plans will require an additional 5% from the employee as of July 1st. In order to be consistent they changed the other plan as well.

Mr. Price said that UVA has classified State employees that are in VRS and are enrolled automatically, but new UVA staff employees may choose whether to enroll in a defined benefit or a defined contribution plan. In the defined benefit plan, the employee can choose the carrier, but UVA is going to use the same dollars as that for the State plan.

Ms. Suyes said she assumed they are trying to be equitable with the plans.

Mr. Strucko mentioned that some University faculty have other sources of benefits and revenues, so the faculty practice plan of the School of Medicine is another source of benefits – which essentially made up the difference that VRS cut.

Mr. Wheeler asked if the County is saying that an employee must participate.

Mr. Davis responded that all County employees are required to participate in the retirement program and they have to pay unless the County picks up the cost.

Mr. Rooker commented that the 5% is not the total contribution to the plan, so it needs to be clarified what the total contribution made to the plan is for a typical employee.

Ms. Suyes responded that it's between 11 to 13%.

Mr. Rooker said that if the County elected to require employees to pay 5%, the locality would be paying 6% and the employee would be paying 5%.

Ms. Suyes said staff then looked at the annual cost savings to the organization if employees were to pick up the costs. The annual savings to local government would be approximately $51,000 and for Schools $154,050, with the five-year cost savings even greater. She emphasized that in order to retain market competitiveness, the County might end up in a situation in the future where they would have to increase base salary – which could in the long run cost more. She does not know if we would, but that's just one of the things if we were not competitive we would have to think about. She added that if the Boards take no action, the employee will have to pick up the amount up to 5%. Ms. Suyes said staff took an assumption of what the County's hiring trends will look like going forward, and then cost out what that might look like. Because many teachers are hired from other localities in the State, they are already in VRS and would still be on Plan One. They also looked at a salary increase in future years.

Ms. Suyes reported that another consideration is commonality, and Albemarle has a long history of commonality between schools and local government. Staff would like to be consistent with that moving forward if at all possible. She emphasized that the bottom line here is about being market competitive, but there has not been a lot of information available on which to make this decision.

Ms. Suyes said that Human Resources' recommendations at this juncture is to adopt a resolution to pick up the 5% as a short-term decision, with a long-term decision made in the future when there is more information from the market. It is important to communicate to new hires that this benefit is being assessed and that it may be reduced in the future.

Mr. Boyd asked if the long-term budget includes the 5% being paid by the County.

Ms. Suyes responded that it does for the upcoming year, with an approximate actual savings of about $51,000 this year. Staff always budgets for this.

Mr. Boyd asked if instead the County increases employee salaries by 5%, and then the 5% is deducted.

Ms. Mallek said that it would cost more because of the FICA benefit.

Ms. Suyes indicated that staff did talk about that, but the long-term cost would be more and it can’t be taken back – whereas the VRS piece can be changed every year. She said that once the salary changes are made, they are pretty much locked in. It is an option.

Mr. Rooker noted that under either scenario, the package of compensation would be the same. He also said that there is a reason the State made this change. There is a gigantic, unfunded pension liability out there facing State and local governments, and they are trying to find a way to move some of that expense out of the State and elsewhere. He does not know of a private employer anymore that offers a pension plan – most of them offer defined contribution plans because a significant number of them are underfunded.

Mr. Strucko said that the temptation is to realize some short-term savings by putting off long-term obligations, and when it comes time to meet those obligations, it becomes a difficult thing based on actuarial calculations.

Mr. Boyd added that they are shifting the risk from the company to the employee.

Mr. Price commented that he sees the State shifting the burden to the employees to pick up a greater percentage of the retirement. He said that most companies pay 4 to 6%, not 11 to 13% as the County does. Mr. Price noted that UVA pays 10.7%, and said that contributions at that level are very lucrative. He thinks they are going to see more of that burden passed to the employees. He is not sure whether as a local government or School Board if they should just rush in to try to fix that because he is not sure whether from a budget standpoint that it is sustainable now, or even in the future when they are talking about shutting schools, reducing staff or increasing classroom sizes. He added that the County needs to be careful not to give something that they are going to take away.

Ms. Mallek asked if the locality is not allowed to have a different approach for the highest salary people who might not feel the deduction as much.

Ms. Suyes replied that there may be a delineation based on group, as defined by VRS, such as the “Professional” category – but the issue is the group includes teachers, but also clerical. The mix is not clean. She said that Human Resources looked at a way to delineate between licensed staff versus classified, but the VRS categories do not fit neatly into that.

Mr. Dorrier asked if the retirement contribution from the locality would stop when a person dies. Ms. Suyes replied, “yes”.

Mr. Dorrier asked why there is such a financial issue from the County’s perspective, if they are cutting back 5% and making the employee pay the 5%.

Mr. Rooker explained that the State has made the change in the plan. The County has been paying 11-13% of employee’s salary per year as a contribution to this pension plan. The state plan now requires employees to contribute 5% - with the State picking up the excess. Even though the State has made this change to the plan, the County can still pick up that 5% or part of it.

Mr. Strucko noted that the State balanced the budget by saying they would not make as big a contribution to VRS as they had in the past, but instead make employees pay that. The broader subject which is our concern is the long-term viability of VRS if they continue to fund it the way they’re doing. They are not funding it to the present value of their future obligation; they’re just trying to buy time. Sooner or later, there has to be a bolus of contribution in some year to meet that long-term obligation. They’re just putting it off, and it’s going to be more expensive in that future year than it is to maintain today because of the time value. The State is now saying to localities, here is a potential savings, you do not have to make a contribution to your employees retirement plan at the same level as you did previously; you can pass that on to the employee.

Mr. Rooker added that there will be an increase in the required contribution down the road in order to meet the unfunded pension liabilities. The employer share of this may increase anyway.

Mr. Strucko noted that it has a short-term cash benefit at the cost of a long-term greater liability.

Mr. Boyd said that there will definitely be a big hit somewhere down the line, but that doesn’t have anything to do with the decision today.

Mr. Koleszar stated that the critical criteria in making that decision is how this affects the County’s competitive ability to attract good employees in the future. He said that in order to use market data strategically for a competitive advantage, Albemarle might do something different from what other localities are doing. A lot of localities will only look at salary when they make a decision. He does not think the County is in a position this year to make a strategic decision on this issue.

Mr. Rooker commented that the decision made now can be changed. He added that other localities may actually look at what Albemarle is doing in order to make their own decision.

Mr. Strucko emphasized that having internal equity is of primary importance, and external competition is also extremely important. For those two business reasons, he is supportive of having Albemarle County government make this 5% contribution on behalf of the employees.

Referring to the PowerPoint presentation, Mr. Dorrier asked Ms. Suyes to explain the various figures related to shifting the cost.

Ms. Suyes explained that she tried to make an assumption on how many people they would be hiring after July 1st, so that they could assign some cost if it is decided to pass on the 5%, what kind of savings could be anticipated. She said that she put down annual cost savings and extrapolated it five years into the future based on hiring trends and projections. This is not an exact number, because they do not know exactly how many people they will hire. The trend data has been pretty consistent, but given this year with the change in the FTE count for the organization, they took a good guess at what they think they are going to be looking like going forward.

Mr. Snow asked if she also took into account the possibility that somebody retiring is making considerably more than a new hire.

Ms. Suyes responded that this model just took a look at the cost savings based on 5% of an average salary.

Mr. Rooker emphasized that this decision affects only new hires.

Mr. Strucko mentioned that the County has no discretion over the 60-month averaging, or the retirement age. He added that there will be some internal inconsistencies.

Ms. Suyes reiterated that there will be two separate plans.

Mr. Rooker pointed out that every company that has ever gone through this has encountered these issues, and many companies have eliminated pension plans – but for existing employees there was a contractual right so those benefits remained. He speculated that VRS will likely be eliminated over the next decade, and new employees will go into a defined contribution plan.

Ms. Suyes mentioned that Albemarle had a trend of about 150 new teachers per year, and they are anticipating about 40 this coming year. She added that these are not additional FTEs.

Ms. McKeel noted that about one-half of teachers hired are already in the VRS system when they are hired.

Ms. Suyes agreed, stating that the percentage is a little less than 50%.

Mr. Rooker asked what happens in the case of an employee who works for four years, and does not make the five-year cut to be vested.

Ms. Claudine Cloutier, of Human Resources, explained that Plan One employees, if they're not vested in the VRS system and leave the system, they get the money if they pull it out. She said that with Plan Two, if an employee has VRS but are not vested, they cannot pull the funds out unless they made the contributions or the employer made them prior to July 1, 2010.

Mr. Rooker stated that an employee who makes his own contribution can get it back, so they are really better off with higher pay and the option to pay in the event they might leave.

Mr. Strucko commented that Mr. Rooker makes some good points. He added that for the longer term the rules change is making a pension plan less and less attractive.

Mr. Rooker responded that budget circumstances this year may not be any better than they were last year, and maybe the savings should be utilized as salaries instead of VRS contributions.

Mr. Koleszar asked if retirement contributions are pre or post-FICA.

Members of both Boards and staff indicated that it is pre-tax.

Mr. Davis also pointed out that if the employee pays it, they must pay payroll taxes on the 5%.

Mr. Boyd said if you make a contribution to a plan – whether it's made by your company or by you – he thinks it does come pre-tax.

Mr. Davis responded that he's not certain if it is pre-tax when made by the individual, but it is pre-tax when paid by the County.

Ms. Suyes commented that she does not know how much pre or post-tax would impact an employee's decision, but she does think it is something that employees should be educated about.

Mr. Boyd asked if it would create an administrative situation if the County had different starting salaries based on the employee paying the 5%. The employee who has to pay his or her own retirement would be paid 5% more to start than the employee that the County picked up the cost.

Ms. Suyes said staff will do what the Board asks it to do.

Mr. Rooker said that an employee who has the option of a $50,000 job and a $52,500 would take the higher-paying job regardless of their concerns regarding retirement, because they can get their contribution out if they desire with a pay-in system. It appears to him that we should accept the State plan and position ourselves with money, as opposed to making this behind-the-scenes contribution that most people do not pay a whole lot of attention to.

Mr. Strucko and Mr. Price expressed support for this approach. Ms. McKeel expressed support if it is being done the way suggested.

Mr. Koleszar said that his only concern is the pay-in to FICA, as there may be more out of pocket from individuals and the locality.

Mr. Thomas and Mr. Boyd both indicated that medical insurance is pre-tax.

Mr. Wheeler asked if what Mr. Rooker is suggesting is to have two different salaries for new employees, depending on their participation in the retirement system.

Mr. Rooker responded that there are going to be two plans regardless. He thinks they have to recognize that anybody that's hired after this date is hired under a different plan and the County has to have a compensation arrangement that's attractive enough to hire the kind of employees they want to hire, and how the County best utilizes those dollars to get those employees.

Mr. Wheeler said that it would be helpful to have more information in the fall to make this decision.

Mr. Snow commented that the decision has to be made on a year-by-year basis.

Mr. Price noted that they would have to go back then and change the status of those employees also. Either they are going to retroactively go back and fix the employees if they change it – which could be more complicated. He said that what Mr. Rooker is recommending is using the dollars more on the "top end."

Mr. Wheeler asked where the money is coming from to add to the salaries.

Mr. Rooker replied that rather than making the contribution to VRS, the 5% is being paid to the employee – thus increasing the salary and giving them the ability to get their money back if they leave before five years.

Mr. Davis stated that if salaries are raised, there will also be 7.5% of payroll taxes for the employer's share of raising salary. He said that medical is different, as it is an elective plan, and there are specific regulations on that.

Ms. Suyes said that she has been working intensely for many weeks with Mr. Foley and Dr. Benson, and asked if they had any questions.

Mr. Foley said that what he is hearing is a desire to possibly pay employees more and give them the option to pay into VRS. He thinks that the suggestion needs further analysis. If the Boards want to make a long term decision, he thinks staff should bring back information about approaches.

Mr. Price stated that the School Board has been anticipating this decision for quite some time and wanted to discuss this issue during budget deliberations. At this point he would rather have employees pick it up – then have staff come back with something that could be reconsidered in the fall. He does not want to do something that would require retroactive action in a year.

Mr. Strucko commented that this was a really good discussion, and agreed with the assertion that there will definitely end up being two classes of employees no matter what. We are going to have inequity. The long-term viability of this particular benefit plan [VRS] is probably not good.

Mr. Price added that he would encourage staff, particularly Human Resources staff, to look at alternatives outside of VRS – particularly for new employees. He said that U.Va. is offering to classified staff the option between VRS or something a little more portable that they can roll into something else. A lot of new and millennial-generation employees when they come and they see this, they're going to say that it is a pension plan and they are not going to be here in 20 years or longer. He thinks it is going to be a turn-off.

Mr. Davis pointed out that the County is obligated to participate in VRS, but can do something in addition to VRS.

Mr. Boyd said that the University had to get legislation to get an alternate plan, but agreed that the County should look into moving to that system.

Mr. Rooker commented that it's going to move in that direction anyway, given the status of VRS now.

Ms. McKeel said that both Boards should have a discussion at some point about VRS and where it stands right now, at least so employees understand what is happening with their retirement fund and how it is being underfunded. She does not think the average state employee has any idea.

Ms. Suyes suggested holding a town hall meeting with someone from VRS so that employees can ask questions.

Mr. Rooker stated that he wouldn't suggest that employees are not going to get their retirement, but eventually there will be an extremely significant liability falling on both the state and localities to deal with this unfunded liability.

Mr. Boyd said he thinks the County should include in its legislative packet, a state option to allow the County do what it wants to do.

Ms. McKeel said before doing what Mr. Boyd suggested, she would like to have someone from VRS participate in a broader discussion.

Mr. Rooker commented that VRS employees would be very hesitant to come before any group and talk about the unfunded.

Ms. McKeel said it is important for employees to understand what this is all about and why the Boards are doing what they are doing.

Mr. Price asked if the School Board members were ready to make a motion.

Dr. Moran said that she would like to come back with some data that lays out a trend of what it is going to cost the system. She is concerned that there would be inequity among employees on different pay plans in the amount of money realized from VRS.

Mr. Price commented that it could actually be attractive to new employees.

Mr. Rooker suggested not taking any action on this item, because the pay plan would essentially just go into effect.

Ms. Suyes said the Boards would have to adopt a resolution to make a change. She added that it is important that both Boards are in agreement.

Dr. Benson said that it takes several years for teachers to get immersed in what the school system is trying to accomplish, as they can become fully vested in the VRS and can have access not only to the 5% they are contributing – but also to the 5% contributed by the County.

Mr. Rooker commented that on the other hand it is attractive to some employees to be able to tell them that they can leave and still get some money back.

Mr. Price added that they are seeing the last generation of 25 to 30 year employees, and the County should feel very honored.

Mr. Koleszar said information from the IRS website states: "Employee contributions to a pension plan are subject to Social Security taxes," whereas employer contributions to a pension plan are exempt from Social Security taxes. He noted that that would mean 15.3% tax paid on the money that was withheld employees.

Mr. Price said that it is not known if it is employer on behalf of employee or not.

Mr. Foley stated that staff would get into those details and bring back information for the compensation work sessions held in the fall.

Mr. Rooker reiterated that this only applies to new hires, and the total compensation package always needs to be considered when trying to retain a competitive advantage. It is a whole lot easier to tell employees that you hired in the interim that the County is going to pick this up for them rather than to tell employees who were hired last year that there is going to be a change and now they are going to have make a contribution.

Mr. Wheeler asked if the Boards have to adopt the proposed resolution.

Mr. Price responded "no"; no action is required if the County is not going to pick up the cost.

Mr. Rooker clarified that what the Boards are doing now is allowing the state plan to go into effect this year and then review compensation in October as usual – then decide if it should be changed for next year.

Mr. Price thanked Ms. Suyes and staff for the information.

Ms. Suyes commented that there will be a lot more information available as of July 2nd.

Agenda Item No. 3. From the Boards: Matters Not Listed on the Agenda.

Ms. McKeel distributed information on how other localities are working education into their economic development plans. She asked the Board of Supervisors to take time and read in the information.

Agenda Item No. 4. Adjourn.

At 5:23 p.m., with no further business to come before the Boards, the Board of Supervisors meeting was recessed until 6:00 p.m., for its regularly scheduled night meeting.

Motion was then offered by Mr. Koleszar, **seconded** by Mr. Strucko, to adjourn the School Board meeting. On a voice call vote, all voted aye. There were no nays.

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Chairman

Approved by Board
Date: 10/06/2010 Initials: EWJ