

**COUNTY OF SAN DIEGO
BOARD OF SUPERVISORS
TUESDAY, JANUARY 13, 2026**

MINUTE ORDER NO. 11

SUBJECT: ADOPT ORDINANCE FOR A DEFERRED RETIREMENT OPTION PROGRAM (JANUARY 13, 2026- FIRST READING; JANUARY 28, 2026 - SECOND READING UNLESS ORDINANCE IS MODIFIED ON SECOND READING) (DISTRICTS: ALL)

OVERVIEW

A Deferred Retirement Option Program (DROP) is a retirement benefit that generally allows employees to continue employment (earn wages) while simultaneously initiating distributions of pension benefit payments which are set aside for the employee upon retirement. Pursuant to the Government Code (GC), only safety employees can participate in a DROP.

On December 5, 2023 (32), the Board of Supervisors (Board) directed the Chief Administrative Officer (CAO) to work with an actuarial consultant to provide cost neutral options for a DROP for County safety members that are consistent with the County Employees Retirement Law of 1937 (CERL). A County of San Diego (County) DROP must be developed and implemented in accordance with the Government Code, specifically CERL. Cost neutrality of a DROP is required by CERL, which provides that a cost neutral DROP will not have a significant negative financial impact on the members, employer, or the retirement system. Specifically, a proposed DROP would be cost neutral if there are no anticipated increases in employer contributions to the retirement system, the actuarial accrued liability of the retirement fund, or the present value of retirement benefits, and it would not decrease the present value of benefits by more than 3%. The County retained the actuarial firm Foster & Foster to develop options that would be considered cost neutral and subsequently updated the Board through several memoranda.

Subsequent discussions occurred in consideration of a DROP with labor negotiators and organizations representing safety employees, including provisions for implementing a DROP, which resulted in Letters of Understanding dated May 5, 2025 and updated December 18, 2025.

On May 20, 2025 (9), the Board directed the CAO to request the San Diego County Employees Retirement Association (SDCERA) Board of Trustees (Retirement Board) cause an actuarial analysis be performed of the negotiated DROP pursuant to GC Section 31770.4 and begin preparation of a draft implementation ordinance for the Board's consideration in the event of a cost neutrality determination by SDCERA.

SDCERA's actuarial firm, Segal, thereafter completed the required analysis and on December 18, 2025, reported to the Retirement Board that the proposed County DROP is cost neutral, as defined.

Today's recommendations request the Board consider on January 13, 2026 and if approved, adopt on January 28, 2026, an ordinance which would modify the Compensation Ordinance to implement a DROP as negotiated and reflected in updated Letters of Understanding with affected employee representatives (Attachment B) which would become operative on March 20, 2026.

Implementing DROP requires information technology enhancements to payroll modules of PeopleSoft, the County's human resources and payroll systems, that are necessary to coordinate with SDCERA for administration of DROP requirements as negotiated, ongoing enrollment and participation, and reporting. These costs are not considered in the cost neutrality analysis as defined by CERL. The funding source is based on an assignment of Unrestricted General Fund Balance that was previously identified in Fiscal Year 2024-25 for this purpose.

RECOMMENDATIONS

CHIEF ADMINISTRATIVE OFFICER

1. Approve the introduction of the Ordinance (first reading):
AN ORDINANCE AMENDING THE COMPENSATION ORDINANCE RELATING TO THE ADOPTION OF A DEFERRED RETIREMENT OPTION PROGRAM

If, on January 13, 2026, the Board takes the actions recommended in Item 1 above then, on January 28, 2026:

1. Consider and adopt the Ordinance (second reading):
AN ORDINANCE AMENDING THE COMPENSATION ORDINANCE RELATING TO THE ADOPTION OF A DEFERRED RETIREMENT OPTION PROGRAM

EQUITY IMPACT STATEMENT

The County provides retirement benefits to attract and retain employees, including safety. Retirement benefits support a broad community of diverse employees and retirees, providing long-term financial support well after active employment with the County concludes.

SUSTAINABILITY IMPACT STATEMENT

Retirement benefits help ensure the County can compete to attract and retain an appropriately sized, skilled and diverse workforce to design and implement policies, programs and services that ensure equitable and sustainable opportunities.

FISCAL IMPACT

Funds for this request are included in the Fiscal Year 2025-26 Operational Plan in Finance Other and Auditor and Controller. If approved, this request will result in one-time costs of \$150,000 in Fiscal Year 2025-26 in Finance Other for payroll system updates. The funding source for these one-time costs is prior year General Fund fund balance, which was assigned for this purpose. There will also be ongoing costs of approximately \$100,000 per year in Auditor and Controller for program administration and maintenance activities. The funding source for these ongoing costs is General Purpose Revenue based on existing staff resources. There will be no additional staff years.

Under the County Employees Retirement Law of 1937 (CERL), Deferred Retirement Option Program (DROP) is considered cost neutral if there is no increase in employer contributions, actuarial accrued liability, or present value of benefits, and there is no decrease in the present value of benefits of more than 3%. However, there are other potential costs to the County that fall outside of the legal definition of cost neutrality. In addition to the program administration and system update costs mentioned above, the most significant potential outside cost is an increase in payroll costs due to the increased retention of higher paid employees and deferral of the need for new employees earning a lower salary. The County's total payroll is estimated to be \$0.7 million (0.2%) higher in the first year of DROP implementation and \$15.5 million (4.3%) higher at five years, compared to estimates of where payroll

would be without DROP implementation. Actual impacts to total payroll will depend upon the number of DROP participants. Funding for the County's ongoing costs will be identified as part of the development of the Fiscal Year 2026-27 CAO Recommended Operational Plan and in future years.

There are also potential cost savings to the County. These include reduced pension benefit costs for new hires, lower overtime costs due to the reduction of vacant positions, and savings in recruitment and training costs.

BUSINESS IMPACT STATEMENT

N/A

ACTION:

ON MOTION of Supervisor Anderson, seconded by Supervisor Montgomery Steppe, the Board of Supervisors took action as recommended, and took action to further consider and adopt the Ordinance on January 28, 2026.

AYES: Aguirre, Anderson, Lawson-Remer, Montgomery Steppe

ABSENT: Desmond

State of California)
County of San Diego) §

I hereby certify that the foregoing is a full, true and correct copy of the Original entered in the Minutes of the Board of Supervisors.

ANDREW POTTER
Clerk of the Board of Supervisors



Signed
by Andrew Potter