

**MOORPARK CITY COUNCIL
AGENDA REPORT**

TO: Honorable City Council
FROM: Ron Ahlers, Finance Director *RA*
DATE: February 9, 2011 (City Council Meeting of February 16, 2011)
SUBJECT: Consider Resolution Amending the Fiscal Year 2010/11 Budget to Appropriate Funding for Paying off the CalPERS "Side Fund" of \$1,352,318 from General Fund Reserves

BACKGROUND

On September 23, 2010, the Finance, Administration and Public Safety (FAPS) Standing Committee (Mayor Parvin and Councilmember Mikos) reviewed a report regarding the City of Moorpark's "side fund" with CalPERS. The FAPS committee recommended to the City Council that the CalPERS "side fund" be paid off.

On October 6, 2010, the City Council received the FAPS Committee report regarding the "side fund" and directed staff to proceed with paying off this retirement liability of the City. City staff sent a letter to CalPERS requesting a final payoff of the City's "side fund". CalPERS has performed the "side fund" calculation and determined that \$1,352,318 will pay off this liability.

DISCUSSION

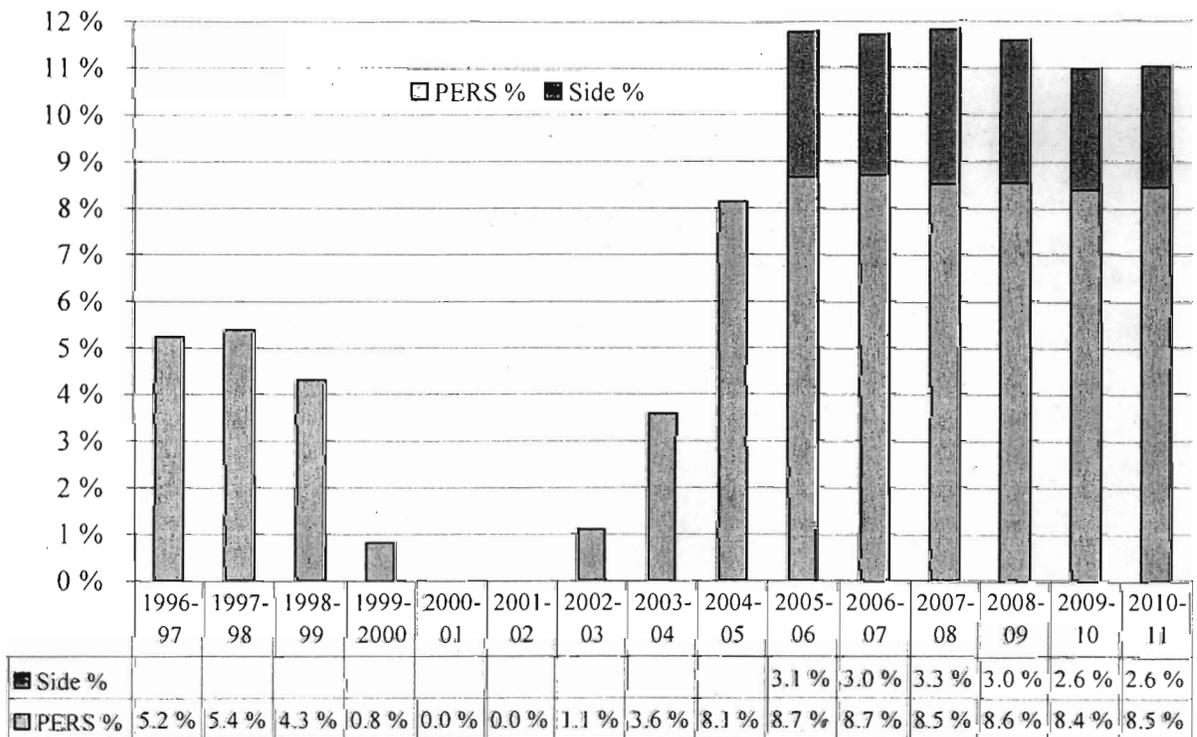
PERS Retirement Plan

The City of Moorpark contracts with PERS to provide a defined benefit retirement plan (2% @ age 55, three year average salary) to the City's full-time employees. The retirement plan is funded by three sources:

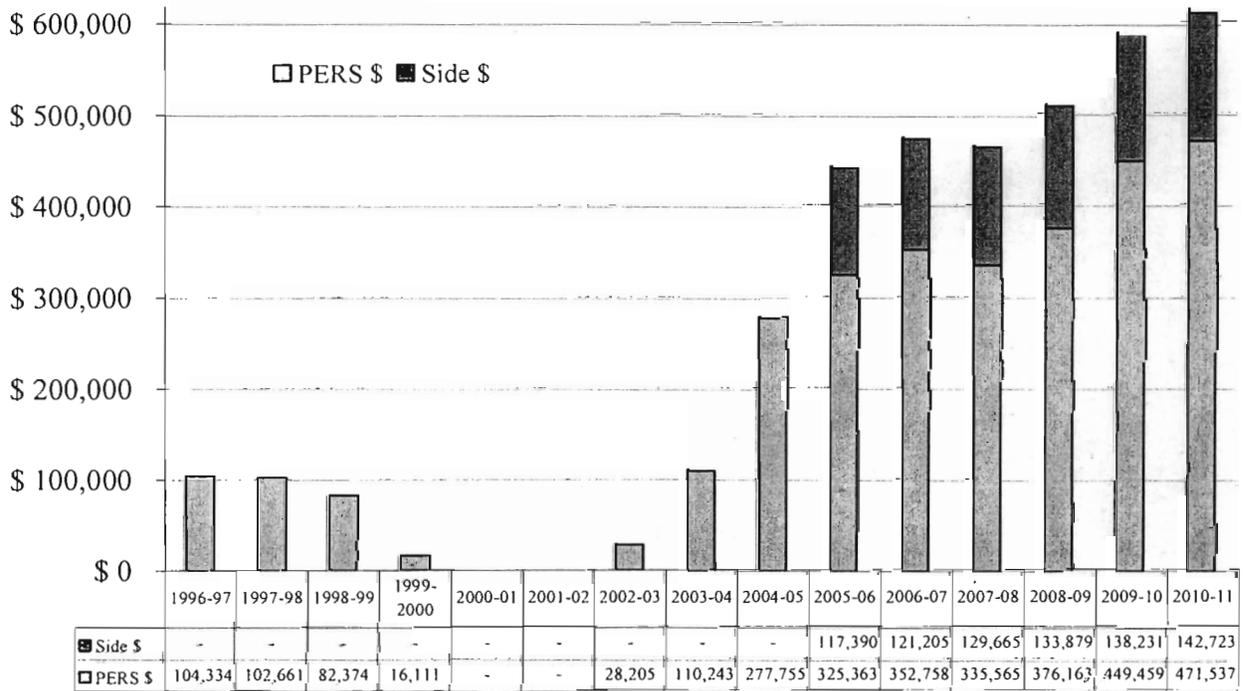
SOURCE	CONTRIBUTION AMOUNT
Employee	7% of (base salary + special pays) <constant %: set by State statute>
Employer	11% of (base salary + special pays) <fluctuates each year>
Investment Earnings	Varies (positive & negative)

The employee contribution is set at a fixed 7% of pay, according to State statute. The investment earnings vary year by year; with the recent three years being wildly divergent (FY 2009-10 a positive 13.3% while the prior year, FY 2008-09 was a negative 23.4%). The employer rate changes each year depending on the funding level of the plan; currently the rate is 11% of PERSable compensation.

Therefore, the City is impacted when the Employer Contribution fluctuates. A short history of the employer contribution rate, as a percentage of payroll, that the City pays for the "employer" portion of retirement is charted below. The employer rate is a combination of two parts: the "side fund" and the PERS plan. The "side fund" was created in 2003 when CalPERS required all government agencies, with less than 100 active employees, join a "risk pool". At the time of joining the 2% @ 55 risk pool, Moorpark's side fund was created to account for the difference between the funded status of the pool and the funded status of the City's plan. On June 30, 2003, the 2% at age 55 plan of the City of Moorpark had actuarial liabilities of \$6,796,000 and actuarial assets of \$5,782,000. The difference of \$1,014,000 is our "unfunded liability"; because the liabilities are greater than the assets. We therefore "owe" PERS the difference. This "unfunded liability" became the "side fund". PERS decided to amortize the "side fund" over 17 years. PERS began collecting on the "side fund" percentage in FY 2005-06; at a rate of 3.1%. This rate increased to 3.3% before dropping to 2.6% currently.



The same chart shown in dollar amounts is displayed below. The side fund payments commenced in FY 2005-06 with a payment of \$117,000; this current year the City will pay approximately \$143,000.



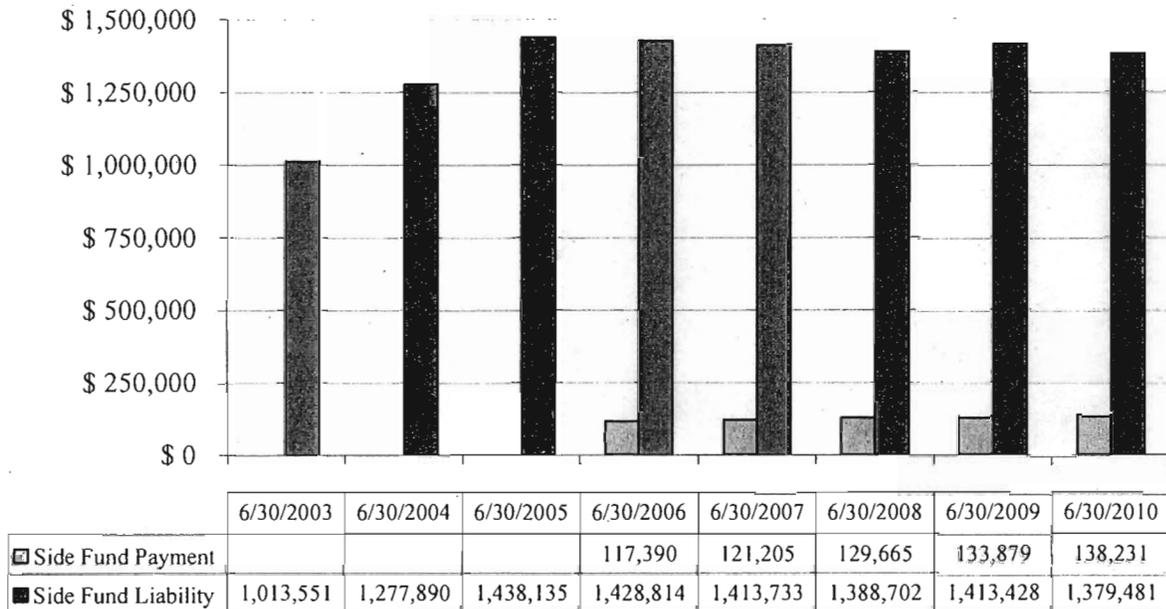
Side Fund

The side fund is amortized on an annual basis, using the actuarial investment return assumption, currently 7.75%. In other words, the City has an outstanding liability with CalPERS and we are paying an interest rate of 7.75% until it is fully paid off. The side fund will disappear at the end of the amortization period (10 years), unless the City amends its CalPERS contract to provide a new or improved benefit (such as a golden handshake). As of June 30, 2010, the City's side fund is \$1,379,000. The FY 2010/11 payment to the side fund is approximately \$143,000 (principal \$47,000, interest \$96,000). There are currently ten years remaining on the amortization of the side fund.

CalPERS has calculated the "side fund" liability to be \$1,352,318 if we paid it off prior to March 1, 2011. This would save the City approximately \$44,000 this current fiscal year. This would reduce the City's annual payment to CalPERS by approximately \$143,000 in FY 2011/12. This equates to an annual return on investment of 11%, for the next ten years. The City is currently earning interest on the \$1.35 million. LAIF is currently yielding 0.50% and the Ventura County Pool is yielding 0.9%. Therefore, interest earnings on the \$1.3 million are approximately \$7,000 to \$13,000 (average of \$10,000) annually. It is a superior investment to pay off the side fund, which would save the City

about \$133,000 (\$143,000 less interest earnings of \$10,000) annually than to keep the cash in the bank and earn an investment return.

The following chart shows the history of the side fund liability and the increasing annual amounts paid towards reducing the side fund.



FISCAL IMPACT

The cost to pay off the PERS "side fund" is \$1,352,318 if we pay prior to March 1, 2011.

The annual, on-going savings is estimated at \$133,000 (\$143,000 cost savings less interest earnings of \$10,000). The savings is estimated at \$44,000 (1/3 of \$133,000) for FY 2010/11.

The "side fund" would be created again in the future if the City decides to modify the retirement benefits. Even a minor change to the benefits will create a "side fund". The City would have a choice: pay it off immediately or amortize the liability over 20 years or less.

STAFF RECOMMENDATION (Roll Call Vote)

Adopt Resolution No. 2011 - _____, amending the FY 2010/11 budget to appropriate \$1,352,318 to pay off the CalPERS "Side Fund" from General Fund Reserves

Attachment: Resolution

RESOLUTION NO. 2011 - _____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MOORPARK, CALIFORNIA, AMENDING THE FISCAL YEAR 2010/11 BUDGET TO APPROVE APPROPRIATIONS REQUIRED TO FUND THE PAYOFF OF THE CITY'S OUTSTANDING CALPERS SIDE FUND LIABILITY AS DEFINED HEREIN

WHEREAS, the City of Moorpark contracts with California Public Employees' Retirement System (CalPERS) to provide a defined benefit retirement plan (2% @ age 55 based on the three-year average salary) for all full-time employees. In 2003, CalPERS required all government agencies, with less than 100 active employees, to join a "risk pool". At the time of joining, the City's actuarial assets were less than the actuarial liabilities by \$1,014,000. A side fund was created to account for this unfunded liability and this was amortized over seventeen years. The City started paying down the side fund in FY 2005/06; and

WHEREAS, on June 16, 2010, the City Council adopted the Operating and Capital Improvement Projects Budget for fiscal year 2010/11, which included \$ 908,323 for retirement contributions; and

WHEREAS, on September 23, 2010, a staff report was presented to the Finance, Administration and Public Safety Committee (FAPS Committee) summarizing the status of the side fund and providing an estimated annual savings of \$143,000 to the City's Operating Budget, if the outstanding amount was paid off. The FAPS Committee supported staff's recommendation to proceed with the pay off; and

WHEREAS, a staff report has been presented to the City Council recommending the full payment of the outstanding balance of the side fund \$1,348,849 as calculated by CalPERS on January 13, 2011; and

WHEREAS, the same staff report is requesting an aggregate appropriation increase of \$1,348,849 from the General Fund (1000); and

WHEREAS, Exhibit "A", attached hereto and made a part hereof, describes said budget amendment and its resultant impact to the budget line item.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF MOORPARK DOES HEREBY RESOLVE AS FOLLOWS:

SECTION 1. That a Budget Amendment in the aggregate increase of \$1,348,849, as more particularly described in Exhibit "A", is hereby approved.

SECTION 2. The City Clerk shall certify to the adoption of this resolution and shall cause a certified resolution to be filed in the book of original resolutions.

PASSED AND ADOPTED this ____ st day of _____, 2011.

Janice S. Parvin, Mayor

ATTEST:

Maureen Benson, City Clerk

Attachment: Exhibit 'A': Budget Appropriation

**Budget Amendment to
General Fund
for CalPERS Side Fund Pay Off
FY 2010/11**

A. Fund Allocation

Fund	Account	Amount
1000 General Fund	1000-5500	\$ 1,352,318
	Total	\$1,352,318

B. Distribution of Appropriation to Expenditure Accounts

Account Number	Current Budget	Revision	Amended Budget
1000-5110-0000-9013	\$0	\$1,352,318	\$1,352,318
	\$0	\$1,352,318	\$1,352,318

Finance Approval: 