ITEM 9.D.

MOORPARK CITY COUNCIL
AGENDA REPORT

TO: Honorable City Council

FROM: Ron Ahlers, Finance Director

DATE: September 27, 2010 (City Council Meeting of October 6, 2010)

SUBJECT: Consider Paying Off the CalPERS Side Fund

BACKGROUND

Much has been written in the last two years regarding pension fund liabilities and their costs upon the public sector. Within the last month a renewed sense of vigor has been injected into this debate due to the news organizations investigation into the salaries of the City of Bell officials. Unfortunately, there is much misinformation circulating around the pension cost issue, particularly within the State of California. This report will attempt to make clear these liabilities; and their effect upon the City of Moorpark.

The Finance, Administration and Public Safety (FAPS) Committee reviewed this report on September 23, 2010 and recommends the City pay off the "side fund".

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:

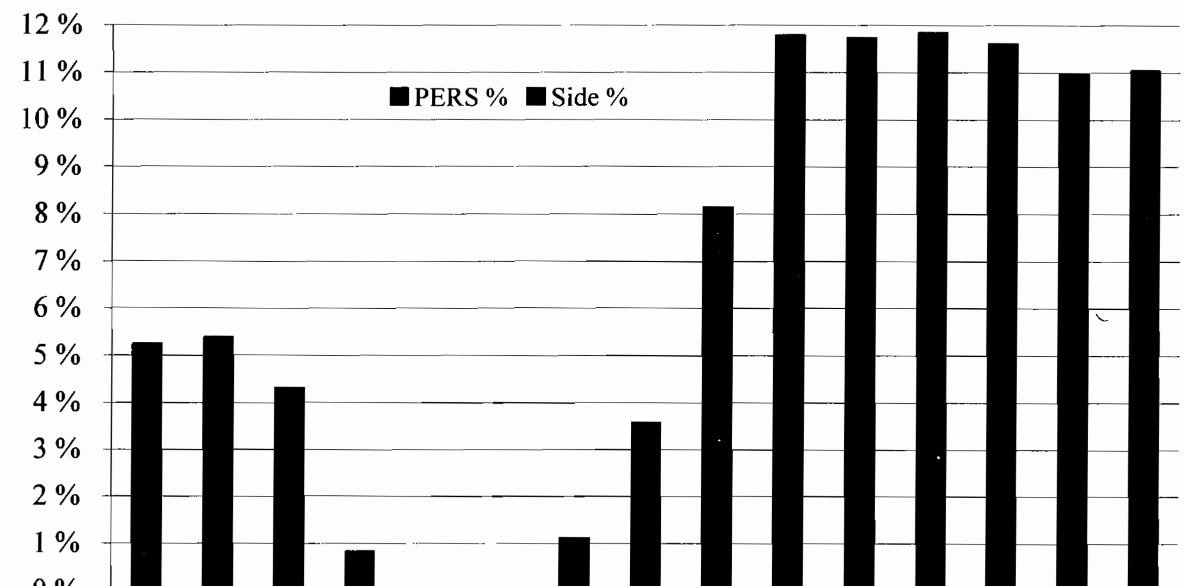
SOURCE	CONTRIBUTION AMOUNT
Employee	7% of (base salary + special pays) <constant %: set by State statute>
Employer	11% of (base salary + special pays) <fluctuates each year>
Investment Earnings	Varies (positive & negative)

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 two years being wildly divergent (FY 2009-10 a positive 11.6% while the prior year, FY 2008-09 was a **negative 23.4%**).

Honorable City Council
October 6, 2010

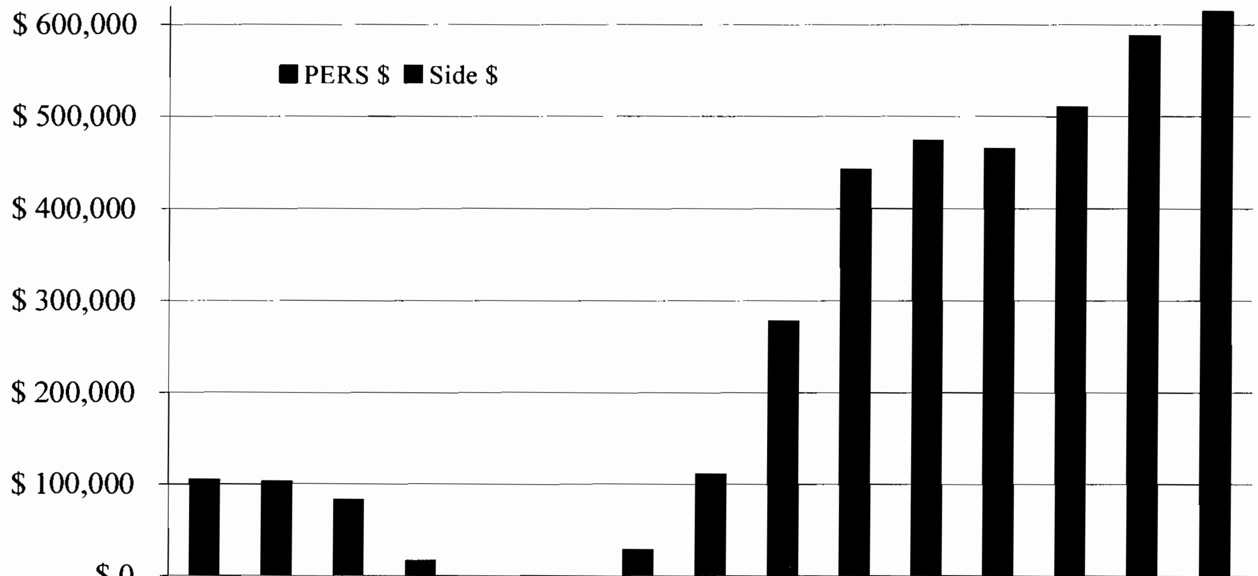
The employer rate changes each year depending on the funding level of the plan; currently the rate is 11% of PERSable compensation.

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.



	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Side %										3.1 %	3.0 %	3.3 %	3.0 %	2.6 %	2.6 %
PERS %	5.2 %	5.4 %	4.3 %	0.8 %	0.0 %	0.0 %	1.1 %	3.6 %	8.1 %	8.7 %	8.7 %	8.5 %	8.6 %	8.4 %	8.5 %

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.

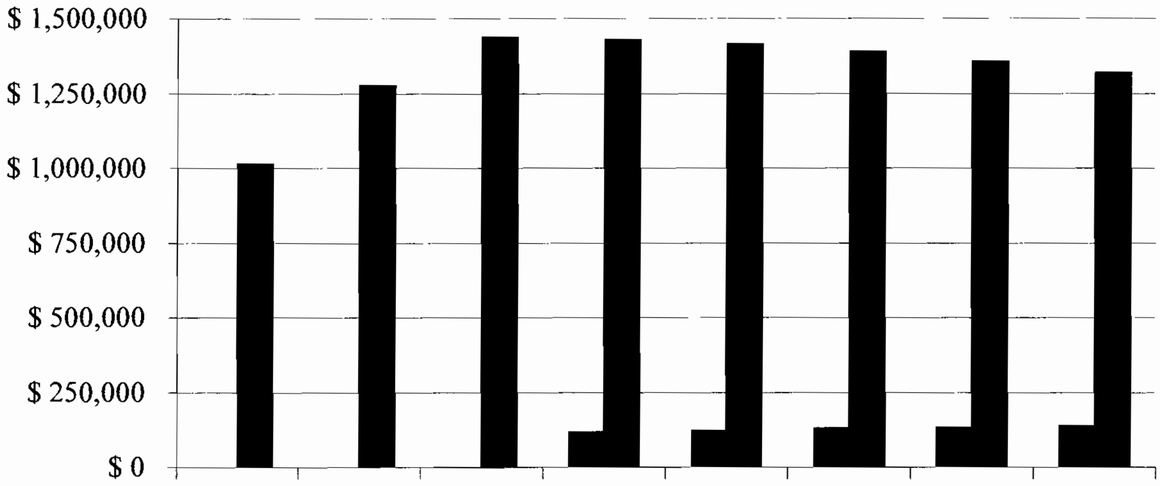


	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Side $	-	-	-	-	-	-	-	-	-	117,390	121,205	129,665	133,879	138,231	142,723
PERS $	104,334	102,661	82,374	16,111	-	-	28,205	110,243	277,755	325,363	352,758	335,565	376,163	449,459	471,537

<u>Side Fund</u>

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 $1,319,000. 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. The City could decide to write a check to CalPERS in the amount of $1,319,000. This would reduce the annual operating costs to CalPERS by approximately $143,000 in FY 2010/11. This equates to an annual return on investment of 11%, for the next ten years. The City is currently earning interest on the $1.3 million. LAIF is currently yielding 0.50% and the Ventura County Pool is yielding 1.4%. Therefore, interest earnings on the $1.3 million are approximately $7,000 to $19,000 (average of $13,000) annually. It is a superior investment to pay off the side fund, which would save the City about $130,000 ($143,000 less interest earnings of $13,000) 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.



	6/30/2003	6/30/2004	6/30/2005	6/30/2006	6/30/2007	6/30/2008	6/30/2009	6/30/2010
■ Side Fund Payment				117,390	121,205	129,665	133,879	138,231
■ Side Fund Liability	1,013,551	1,277,890	1,438,135	1,428,814	1,413,733	1,388,702	1,357,356	1,319,064

FISCAL IMPACT

The cost to pay off the PERS "side fund" is approximately $1,319,000 as of June 30, 2010. We will need to request an up to date figure from PERS before we pay off the "side fund". PERS states that they will need a couple of months in order to recalculate the "side fund". After the City pays PERS the "side fund" amount, then the City can reduce the employer contribution by 2.6% of payroll. This could happen as early as January 2011.

The annual, on-going savings is estimated at $130,000 ($143,000 cost savings less interest earnings of $13,000). The savings is estimated at $65,000 (1/2 of $130,000) 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.

If the Council approves early payoff of the side fund, staff will report to the City Council and request an appropriation to pay it off after the exact amount of the balance is received from CalPERS.

The FAPS Committee reviewed this report on September 23, 2010 and concurred with the staff recommendation to pay off the "side fund".

STAFF RECOMMENDATION

1. Staff recommends that we proceed with paying off the "side fund" of the City's PERS retirement plan.

2. Receive and file this report.