STAFF REPORT

Meeting Date: June 24, 2014

To: Honorable Mayor & City Council

From: Don Rhoads, Director of Administrative Services/CFO

Subject: ALLOCATION OF 2013-14 FUNDING TO REDUCE PENSION UNFUNDED LIABILITIES

Attachments: NONE

INTRODUCTION

At the May 15, 2014 Budget Study Session staff reviewed with the City Council options for allocating the $2 million Council set aside in December 2013 for the purpose of making an additional payment on the City's pension unfunded liability. These funds were subsequently transferred to CalPERS and can be allocated to the safety employee plan or the miscellaneous employee plan, or in some combination of the two plans. Given Council direction to allocate the payment in order to maximize savings to the City, staff analyzed all three options below and determined that allocating the funds to the miscellaneous (non-safety) employee plan achieved the highest total savings.

DISCUSSION

The following table shows estimates of the pension cost savings that could occur for three different allocation choices:

Three options for allocating additional CalPERS funding to reduce pension liability	Safety Plan	Misc Plan	Total Annual Savings
% savings per $1 million	0.2194%	0.1913%	
1. Savings w/ $1 million to each plan	$63,378	$84,011	$147,389
2. Savings w/ $2 million to safety plan	$126,756	0	$126,756
3. Savings w/ $2 million to misc plan	0	$168,022	$168,022

At the May 15 study session staff gave an example of the savings that could be expected if the $2 million payment was split evenly between the safety and miscellaneous plans but did not show the savings by plan as the table above does. This additional information shows that even though the percentage pension rate savings is slightly higher for the safety plan, since the total cost of salaries is higher for miscellaneous employees (because there are more miscellaneous employees than safety employees), the total pension savings is higher with the miscellaneous plan.

Staff considered the following pros and cons of the three options as follows:

<u>Pros/Cons</u>

Option 1. Pros: May be viewed as more equitable by all employees, safety and miscellaneous; contributes toward paying down rates and liability for both employee plans. Cons: Does not achieve the highest possible savings.

Option 2. Pros: Helps reduce safety pension rates and unfunded liability, both of which are substantially higher than the miscellaneous rates and liability. Cons: Does not achieve the highest possible savings; may be viewed as inequitable by miscellaneous employees.

Option 3. Pros: Achieves the highest possible savings. Cons: may be viewed as inequitable by safety employees.

Given past direction by Council to maximize savings to the City, staff recommendation is to allocate the $2 million funding to the miscellaneous plan.

FISCAL IMPACT

Savings from the allocation of the $2 million in funding to the miscellaneous plan to reduce the pension unfunded liability will be approximately $168,022 per year initially, rising to a projected $269,627 for the final year of the 17 year amortization period. In total, the $2 million payment is estimated to return a total of $3.7 million to the City. Factoring out forgone interest at an estimated 2% rate, the return to the City would still be $3 million. Payback of the original $2 million payment would occur by year 11.

RECOMMENDATION

This report is for Council information only. Unless directed otherwise, staff will request that PERS allocates the $2 million to the miscellaneous (non-safety) employee plan.

Don Rhoads
Approved By