



Staff Report

City of Manhattan Beach

TO: Honorable Mayor Montgomery and Members of the City Council

THROUGH: Geoff Dolan, City Manager

FROM: Bruce Moe, Director of Finance
Henry Mitzner, Controller

DATE: June 17, 2008

SUBJECT: Consideration of Advanced Payment of Employer Pension Costs for Fiscal Year 2008-2009 Which Results in Net Savings of Approximately \$42,700.

RECOMMENDATION:

Staff recommends that the City Council approve the advanced payment of the City's FY 2008-2009 employer pension costs to CalPERS.

FISCAL IMPLICATION:

The City will realize \$42,700 in present value savings by prepaying the California Public Employees Retirement System (PERS) employer contributions for FY 2008-2009. The prepayment amount is \$2,642,355. The City's liquid cash balances are and will be sufficient to allow for this prepayment.

BACKGROUND:

The FY 2008-2009 budget provides for the payment of pension contributions for the City's employees. These payments are based on the employees' salaries as well as contribution rates established by PERS. Payments to PERS are normally made biweekly in conjunction with each payroll. However, PERS is offering the option of prepaying the employer only portion of the expected fiscal year contribution, which results in a discount of 3.66%.

DISCUSSION:

The City has an opportunity to realize present value savings by prepaying the Employer portion of the FY 2008-2009 PERS contributions¹. It is to the City's advantage to use existing funds, which are projected to earn 4.2% throughout the fiscal year, to prepay expected employer contributions. PERS calculates expected contributions based on historical trends. Finance has verified the 2008-2009 Employer contributions calculated by PERS.

¹ PERS contributions are divided into Employer and Employee portions. Only the Employer contributions are eligible for the prepayment discount.

The PERS expected employer payments via payroll total \$2,742,835, while the single advanced payment is \$2,642,355. Although the difference between these numbers is \$100,480, the true savings are based on the difference in the present value of payments via payroll (since these savings are realized over time). Therefore, the comparison is between \$2,685,053 (present value of payments) and the lump sum payment of \$2,642,355. That difference, \$42,698, is the true savings achieved by prepaying the 2008-2009 PERS contributions.

In the past, staff has reviewed this request with the Finance Subcommittee. However, given their continued approval over the past several years for this cost saving approach, this request is being recommended directly to the City Council without further review by the Subcommittee.