




Agenda Item #:

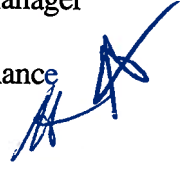


# Staff Report

## City of Manhattan Beach

**TO:** Honorable Mayor Montgomery and Members of the City Council

**THROUGH:**  David N. Carmany, City Manager

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

**DATE:** July 5, 2011

**SUBJECT:** Consideration of Advanced Payment of the Employer Portion of the Miscellaneous Group's Pension Costs for Fiscal Year 2011-2012 Which Results in Net Savings of Approximately \$87,000

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**RECOMMENDATION:**

Staff recommends that the City Council approve the advanced payment of the City's fiscal year (FY) 2011-2012 employer pension costs for the Miscellaneous Group to CalPERS totaling \$1,157,969.

**FISCAL IMPLICATION:**

The City will realize an estimated savings of \$87,000 by prepaying the California Public Employees Retirement System (CalPERS) employer contributions for FY 2011-2012 for the Miscellaneous Group. The total recommended prepayment amount is \$1,157,969. The City's liquid cash balances are sufficient to allow for this prepayment.

**BACKGROUND:**

The fiscal year 2011-2012 budget provides for the on-going payment of pension contributions for the City's employees. These payments are based on the employees' salaries as well as contribution rates established by CalPERS. Payments to CalPERS are normally made biweekly in conjunction with each payroll. However, CalPERS offers the option of prepaying the employer portion of the contributions at a discount at the beginning of the fiscal year. Council has authorized this prepayment for the past several years due to the fiscal advantages.

**DISCUSSION:**

The City has an opportunity to realize approximately \$87,000 in savings by prepaying the Employer portion of the Miscellaneous group's FY 2011-2012 CalPERS contributions<sup>1</sup>. In general, it is to the

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<sup>1</sup> CalPERS contributions are divided into Employer and Employee portions. Only the Employer contributions are eligible for the prepayment discount. Staff has determined that prepaying the Police and Fire group employer contributions is not advantageous at this time which is discussed later in this report.

City's advantage to use available existing funds, which are projected to earn 1.2% throughout the fiscal year, to prepay expected employer contributions, which are assumed to earn 7.75% at CalPERS.

In estimating the value of advanced payment, staff reviews the prepayment amount CalPERS provides and compares it to the amount we internally estimate we will pay through bi-weekly payroll. CalPERS uses certain assumptions with respect to payroll based on historical trends, contributions for FY 2010-2011, current year contribution rates, estimates of employee turnover and the terms of the applicable Memoranda of Understanding. The City uses more current data based on current payroll and budgeted staffing levels.

In some cases, the assumptions CalPERS uses to estimate prepayment amounts are significantly different than those estimated by the City, which results in variances in the annual contribution prepayment estimates. Such variances can have a material impact on the decision to prepay the contributions. For example, after analyzing the three groups' prepayment amount from CalPERS, staff has determined that the estimated payroll amount CalPERS used for the Police and Fire groups was overstated compared to what staff has estimated for 2011-2012. As a result, the prepayment amount exceeds what we would expect to pay through normal payroll. However, the exact opposite is true for the Miscellaneous group, where CalPERS underestimated payroll (in the City's favor), resulting in the recommendation to prepay those contributions.

It is important to note that bi-weekly contributions are based on actual payroll data and can vary from payroll period to payroll period. However, when selecting to prepay the contributions, we are in essence locking in those contributions for the year. Because the Police and Fire groups are in pooled accounts with other like police and fire departments, any overpayment of contributions, whether due to lump sum payments (or biweekly payments) or interest rate variance, does not accrue to the City's sole benefit, rather it benefits all members of the pool. However, any overpayment into the Miscellaneous group plan remains in that account for the sole benefit of the City since it is a single employer account.

As a result of the analysis, for FY 2011-2012 staff recommends prepaying the Miscellaneous plan contributions, but not the Police and Fire plan contributions. CalPERS' Police and Fire Department assumptions, on which the prepayment calculation is based, exceed the projected amount the City would pay through bi-weekly payroll. In short, it is our judgment that PERS has underestimated miscellaneous payroll and overestimated Police and Fire payroll.