

**CITY OF SAN LEANDRO
MEMORANDUM**

DATE: December 2, 2011

TO: Finance Committee

FROM: Lianne Marshall, Interim City Manager

BY: Jim O'Leary, Interim Finance Director

SUBJECT: Resolution Authorizing Inter-Fund Loan from Water Pollution Control Plant Fund and Appropriating \$6,000,000 to Pay-Down Public Safety Side Fund Obligation

RECOMMENDATION

Staff recommends that the Finance Committee recommend City Council approval of an inter-fund loan from the Water Pollution Control Plant Fund to the General Fund and appropriation of \$6,000,000 to pay-down the CalPERS Public Safety Side Fund with an adjustable interest rate loan, with an initial rate of 3%.

BACKGROUND

The City's Safety Plan in the CalPERS retirement system is a cost-sharing multiple-employer plan with pooling (cost-sharing) arrangements for participating employers. All risks, rewards, and costs, including benefit costs, are shared and are not attributable to the individual employers. A single valuation covers plan members and the same contribution rate applies to all employers. A menu of benefit provisions and other requirements are established by state statute within the Public Employees' Retirement Law. The City has contractually selected optional benefit provisions from the benefit menu and adopted these benefits by City Council resolution.

At the time the City was required to join the Safety Risk Pool in 2004, a side fund was created to account for the difference between the funded status of the pool and the funded status of the previous City Plan. Today, the City's total outstanding CalPERS pension obligation and the required annual employer contribution is determined by the City's share of the Safety Risk Pool and separate amortization of the City's side fund. The proposed transaction would refinance the existing side fund obligation to take advantage of low bond market rates. It would not change benefits owed to existing or prior employees.

DISCUSSION

Effective June 30, 2004, CalPERS created risk pools by pooling assets and liabilities across groups of employers to produce large risk sharing pools intended to dramatically reduce or eliminate large fluctuations in employers' contribution rates caused by unexpected demographic events. CalPERS combined the retirement plans for all public agencies with less than 100 active members to reduce the volatility of employer contribution rates. CalPERS also created for each

member a side fund to amortize each agency's June 30, 2003 unfunded liability over a fixed term at a fixed interest rate. A negative side fund, like San Leandro's Safety causes the required employer contribution rate to be increased by the amortization of the side fund.

The safety side fund is distinct from the City's other CalPERS plans and liabilities. Side funds are retired over a fixed term with a fixed amortization schedule based on CalPERS actuarial earnings assumption rate (7.75%). The City's plan has the side fund scheduled to be fully amortized by June 30, 2024. The City's actuary has estimated the outstanding side fund balance at \$24.4 million as of June 30, 2011.

In addition to issuance of the pension obligation bonds recommended for City Council approval in a separate resolution, staff evaluated the opportunity to utilize a loan from Wastewater Pollution Control Plant Fund reserves to partially cover the side fund refinancing. The amount of the bond financing could be prudently reduced by \$6,000,000. A loan in this amount from the Wastewater Fund would be made at a lower rate than dictated by the bond market and yet higher than the rate reflected by the City's current investment portfolio return. Ultimately, the Wastewater rate payers also would benefit from this approach.

A combination of refunding the pension side fund through the pension obligation bond and the loan from the Wastewater Fund will result in the overall greatest benefit and savings to the General Fund. Additional savings from using a combination of an inter-fund loan and a public bond issuance may be mitigated if taxable bond interest rates continue to fall, providing a more favorable borrowing cost on the pension obligation bonds.

On October 21, 2011, the Finance Committee discussed, approved, and directed the refinancing of the CalPERS Public Safety Retirement Plan Side Fund. The 13-year amortization period for the City's side fund frames the savings opportunity being considered. Staff recommended and the Finance Committee approved that the pension obligation bond amount to approximately \$19,000,000, with the remainder of the obligation pay-down come from the Water Pollution Control Plant Fund reserves. The loan of \$6,000,000 from the WPCP will be paid by the General Fund, with a long term adjustable rate, initially set at 3%, during the amortization term of the loan. A combination of refunding the pension fund through the pension obligation bond and a loan from the WPCP will result in the overall greatest benefit and savings to the General Fund.

CONCLUSION

Staff recommends that the Finance Committee recommend City Council approval of an inter-fund loan from the Water pollution Control Plant Fund to the General Fund and appropriation of \$6,000,000 to pay-down the CalPERS Public Safety Side Fund with an adjustable interest rate loan, with an initial rate of 3%.

RESOLUTION NO. _____

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SAN LEANDRO
APPROVING INTER-FUND LOAN FROM THE WATER POLLUTION CONTROL FUND
AND APPROPRIATING \$6,000,000 TO PAY-DOWN PUBLIC SAFETY SIDE FUND
OBLIGATION**

WHEREAS, the City is a contracting member of the California Public Employees' Retirement System, and under its contract with PERS the City is obligated to make certain payments to PERS in respect of retired public safety employees under the Side Fund program of PERS which amortizes such obligations over a fixed period of time (the "PERS Side Fund Obligations"); and

WHEREAS, CalPERS created for each member a side fund to amortize each agency's June 30, 2003 unfunded liability over a fixed term at a fixed interest rate. A negative side fund causes the required employer contribution rate to be increased by the amortization of the side fund; and

WHEREAS, in addition to issuance of the pension obligation bonds, staff evaluated the opportunity to utilize a loan from the Wastewater Pollution Control Plant Fund reserves to partially cover the side fund refinancing. The amount of the bond financing could be prudently reduced by \$6,000,000; and

WHEREAS, a loan of \$6,000,000 from the WPCP will be paid by the General Fund, with a long term adjustable rate of 4% or less annually during the amortization term of the loan. CalPERS created for each member a side fund to amortize each agency's June 30, 2003 unfunded liability

WHEREAS, the combination of refunding the pension side fund through the pension obligation bond and the loan from the Wastewater Fund will result in the overall greatest benefit and savings to the General Fund.

WHEREAS, on October 21, 2011, the Finance Committee discussed, approved, and directed the refinancing of the CalPERS Public Safety Retirement Plan Side Fund. The Finance Committee approved that the pension obligation bond amount to approximately \$19,000,000, with the remainder of the obligation pay-down come from the Water Pollution Control Plant Fund reserves.

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of San Leandro as follows:

Approve the inter-fund loan from the Water Pollution Control Plant Fund to the General Fund and appropriation of \$6,000,000 to pay-down the CalPERS Public Safety Side Fund with an adjustable interest rate loan, with an initial rate of 3%.

That said resolution is hereby approved and execution thereof is hereby authorized.
Introduced by Council Member _____ and passed and adopted this day of
December 19, 2011 by the following called vote:

Members of the Council:

AYES:

NOES:

ABSTAIN:

ABSENT:

Attest: _____
Marian Handa, City Clerk