



Legislation Details (With Text)

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

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Staff Report for 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 City Council approval of the resolution authorizing 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 resolutions.

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 the Water Pollution Control Plant (WPCP) 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 WPCP 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 WPCP Fund will result in the overall greatest benefit and savings to the General Fund. The City's actuary and underwriter have estimated that the City's pension obligation bonds, together with the Water Pollution Control Plant Fund loan, will save the General Fund between \$250,000 and \$500,000 annually.

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 \$20,000,000, 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.

CONCLUSION

Staff recommends City Council approval of the resolution authorizing 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%.

Committee Review and Actions

- The October 21, 2011 Finance Committee highlights were submitted and approved on November 7, 2011 by City Council, directing an inter-fund loan and authorizing the expenditure of \$6,000,000 to pay-down the CalPERS Public Safety Side Fund obligation.

- On December 2, 2011 Finance Committee recommended that staff take the resolution authorizing an inter-fund loan from the Water Pollution Control Plant to City Council for approval.

Fiscal Impacts

The City's actuary and underwriter have estimated that the City's pension obligation bonds, together with the Water Pollution Control Plant Fund loan, will save the General Fund between \$250,000 and \$500,000 annually.

Budget Authority

Loan principal and interest will be paid from the General Fund to the Water Pollution Control Plant Fund. A budget will be established in 2012-13 for the initial debt service payment.

ATTACHMENTS

None.

PREPARED BY: James H. O'Leary, Interim Finance Director, Finance Department