



REPORT TO COUNCIL

City of Sacramento

915 I Street, Sacramento, CA 95814-2604
www. CityofSacramento.org

Staff Report
September 4, 2007

**Honorable Mayor and
Members of the City Council**

**Title: Prepayment of California Public Employees' Retirement System (CalPERS)
Employer Contributions**

Location/Council District: Citywide

Recommendation: Adopt a **Resolution:** 1) authorizing the City Manager to make the necessary budgetary adjustments to reflect \$543,848 in savings realized from prepaying the City's CalPERS employer contribution.

Contact: Leyne Milstein, Budget Manager, (916) 808-5814

Presenters: Russell Fehr, Finance Director, (916) 808-5832

Department: Finance

Division: Budget

Organization No: 1140

Description/Analysis

Issue: CalPERS offered a discount to agencies willing to prepay the annual employer's contribution for FY2007/08. This discount is the result of CalPERS interest earnings exceeding the City's expected interest earnings. In order to take advantage of these savings, the City prepaid the contribution under existing budgetary authority. Staff recommends authorizing the necessary budgetary transactions in order to reflect these savings in the FY2007/08 budget.

Policy Considerations: The recommendations contained in this report are consistent with adopted budget principles that require the continuous evaluation of the City budget for efficiencies and effectiveness, and maintenance of a fiscally sustainable and balanced budget.

Environmental Considerations: This activity is not subject to the California Environmental Quality Act (CEQA) because it does not constitute a "project" as defined in section 15378 of the CEQA Guidelines, and is otherwise exempt pursuant to Sections 15321(b) (law enforcement activities) and 15601(b)(3) (no significant effect on the environment) of the CEQA Guidelines.

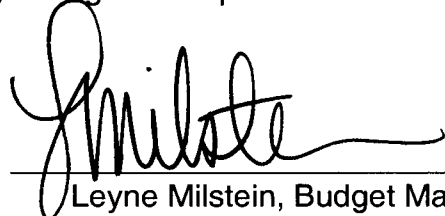
Commission/Committee Action: None

Rationale for Recommendation: The recommendations contained in this report will result in budgetary savings in all funds that have CalPERS obligations, including the General Fund. Given the slowing growth of City revenues, setting these funds aside in fund contingencies is a prudent course of action and is consistent with the Council's direction to continually evaluate the City's financial condition and identify opportunities for savings.

Financial Considerations: The 3.66% discount for prepayment of the City's CalPERS employer contribution results in a gross savings of \$1.3 million. However, after accounting for the loss of interest earnings (approximately \$832,000) the net savings to the City is \$543,848. This calculation is detailed in Attachment 1.

The total savings to the General Fund is \$467,062. Savings for all other funds is \$76,786. Return of these savings to the respective fund contingencies is recommended, specifically in the General Fund, given the slowing revenue growth in property taxes, sales tax and utility users' tax. These actions will reduce expenditures and lessen the pressure on the General Fund.

Emerging Small Business Development (ESBD): No goods or purchases are being purchased under this report.

Respectfully Submitted by: 
Leyne Milstein, Budget Manager

Approved by: 
Russell Fehr, Finance Director

Recommendation Approved:


RAY KERRIDGE
City Manager

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Attachment 1**Background**

In June 2007, CalPERS offered a 3.66% discount to agencies willing to prepay 100% of the employer's contribution for FY2007/08. After being informed of the prepayment option, the City asked the CalPERS Actuarial & Employer Services Division to calculate the lump sum payment for safety employees (Attachment 2) and miscellaneous employees (Attachment 3).

The reduced amount was calculated by discounting future payments by their expected rate of return of 7.75%. Based on the most recent annual valuation, the amount of the prepayment required was approximately 3.66% less than the total 26 biweekly payments. The economic advantage to the City is due to the CalPERS expected rate of return exceeding what the City would have been expected to earn had the cash remained with the City and been paid out during the course of the year.

	Safety	Miscellaneous	Total
Normal – Over 26 Pay Periods	\$20,567,165	\$17,000,547	\$37,567,712
Prepay	(\$19,813,710)	(\$16,377,751)	(\$36,191,461)
Gross Savings	\$ 753,455	\$ 622,796	\$ 1,376,251
Loss in Interest	(\$ 455,715)	(\$ 376,688)	(\$ 832,403)
Net Savings	\$ 297,740	\$ 246,108	\$ 543,848

After accounting for the loss of interest earnings the total net savings resulting from the prepayment is \$543,848 (Safety - \$297,740, Miscellaneous - \$246,108). Of this amount, the total savings to the General Fund will be \$467,062. Savings for all other funds will be \$76,786.

Attachment 2



Actuarial Office
 P.O. Box 1494
 Sacramento, CA 95812-1484
 Telecommunications Device for the Deaf - (916) 795-3240
 (888) CalPERS (225-7377) FAX (916) 795-2744

June 22, 2007

Employer Number : 1121
 Employer Name : THE CITY OF SACRAMENTO
 Rate Plan: SAFETY

Re: Lump Sum Payment to prepay 2007-2008 employer contribution rate

Dear Requestor:

As requested, 2007-2008 employer contribution rate information on your lump sum payment follows.

If you are aware of others interested in this information (i.e. payroll staff, county court employees, port districts, etc.), please inform them.

The information is based on the most recent annual valuation and assumes payment made between July 1 and July 15, 2007 and no further contractual or financing changes taking effect before June 30, 2008.

The change in your 2007-2008 employer contribution rate after you make the proposed lump sum payment, is displayed in the "Change to Total Employer Rate" line below.

	\$	%
2007-08 Employer Contributions (\$) mid year	\$20,567,165	22.279%
2007-08 Employer Payment (\$) beg year*	\$19,813,710 *	22.279%
2007-08 Revised Employer Contrib (\$) mid year	\$0	0%
Change to Total Employer Contribution Rate		(22.279%)

*** Pay this amount** Your pre-payment 2007-2008 Employer Contribution is from your June 30, 2005 actuarial valuation report. It has been reduced by a half year interest credit at the 7.75% actuarial assumed interest rate (resulting in an approximate 3.66% discount).

To initiate this change, the enclosed Lump Sum Payment Request must be completed and returned to the Fiscal Services Division with a **wire transfer or a check between July 1 and July 15, 2007**. A copy should be sent to us.

If you have questions, please call (888) CalPERS (225-7377).

Ray Lane A.S.A.
 Senior Pension Actuary, CalPERS



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June 22, 2007

Employer Number : 1121
 Employer Name : THE CITY OF SACRAMENTO
 Rate Plan: MISCELLANEOUS

Re: Lump Sum Payment to prepay 2007-2008 employer contribution rate

Dear Requestor:

As requested, 2007-2008 employer contribution rate information on your lump sum payment follows.

If you are aware of others interested in this information (i.e. payroll staff, county court employees, port districts, etc.), please inform them.

The information is based on the most recent annual valuation and assumes payment made between July 1 and July 15, 2007 and no further contractual or financing changes taking effect before June 30, 2008.

The change in your 2007-2008 employer contribution rate after you make the proposed lump sum payment, is displayed in the "Change to Total Employer Rate" line below.

	\$	%
2007-08 Employer Contributions (\$) mid year	\$17,000,547	11.216%
2007-08 Employer Payment (\$) beg year*	\$16,377,751 *	11.216%
2007-08 Revised Employer Contrib (\$) mid year	\$0	0%
Change to Total Employer Contribution Rate		(11.216%)

*** Pay this amount** Your pre-payment 2007-2008 Employer Contribution is from your June 30, 2005 actuarial valuation report. It has been reduced by a half year interest credit at the 7.75% actuarial assumed interest rate (resulting in an approximate 3.66% discount).

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RESOLUTION No.

Adopted by the Sacramento City Council

Prepayment of California Public Employees' Retirement System (CalPERS) Employer Contributions

BACKGROUND

- A.** In June 2007, CalPERS offered a 3.66% discount to agencies willing to prepay 100% of the employer's contribution for FY2007/08. The projected net discount for the City of Sacramento was \$543,848. To take advantage of these savings the Department of Finance took the necessary actions to prepay the contribution under existing budgetary authority.

- B.** To reflect the savings realized from the prepayment it is necessary to make the appropriate budgetary transactions to increase appropriations in fund contingencies by \$543,848.

- C.** It is prudent and necessary to return these savings to the respective fund contingencies to reduce overall expenditures.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

- Section 1.** Authorize the City Manager to make the necessary budgetary transactions to increase appropriations in fund contingencies by \$543,848 to reflect the savings realized from prepaying CalPERS employer contributions.