



Midpeninsula Regional
Open Space District

R-13-29
Meeting 13-06
February 27, 2013

AGENDA ITEM 7

AGENDA ITEM

Authorization to Retire the California Public Employees Retirement System (CalPERS) Side Fund

CONTROLLER'S RECOMMENDATION

Authorize the General Manager to enter into an agreement with the California Public Employees' Retirement System (CalPERS) to retire the District's Side Fund of approximately \$2.52 million.

SUMMARY

The District has the opportunity to reduce its retirement plan expenses by some \$2.25 million over the next 18 years by paying-off its CalPERS Side Fund by April 1, 2013. The recommendation is to pay off the Side Fund using District cash reserves.

DISCUSSION

Background

In 2003, California legislation mandated that all CalPERS member agencies with less than 100 employees, including the District, be enrolled in a risk-sharing plan, in order to establish less volatile employer contribution rates for smaller agencies. At the time of being placed in the risk sharing pool, a "Side Fund" was created to account for the difference (negative in our case) between the funded status of the District's plan and the funded status of the overall risk pool. These liabilities are treated as loans by CalPERS, with the effective interest rate being the expected return on the pool: 7.75% at the time, reduced to 7.50% starting in 2014-15.

The District's Side Fund balance will be approximately \$2.52 million at the end of this fiscal year, on which we must make payments totaling \$4.77 million over the next 18 years. The payment is \$203,830 in Fiscal Year (FY) 2013-14, increasing by 3% each year, reaching \$337,000 in the final year, FY2030-31.

Because most government agencies can now borrow (on a fully taxable basis) at interest rates well below 7.5%, dozens of agencies have issued bonds or taken out bank loans to pay off their Side Fund obligation, achieving significant annual savings. The District is currently earning less than 1% on its cash reserves and can never hope to earn the 7.5% it is paying CalPERS on its Side Fund. CalPERS permits agencies to retire their Side Fund liabilities on the first of each month, with thirty days notice.

Proposal

As shown on the attached schedule (Attachment 1), the District can reduce its CalPERS retirement plan expenses by \$2.25 million over the next 18 years by paying off its Side Fund on April 1, 2013. The present value savings are calculated at approximately \$858,000 at 4%/year, and \$606,000 at 5%/year. The District can pay off its \$2.52 million Side Fund either from cash reserves or from the sale proceeds of taxable bonds. There are two reasons for recommending the use of existing cash. First, as shown on the attachment, both the annual savings and the present value savings are larger in the cash pay off alternative. Second, if and when the District needs additional financing, it can do so at lower tax-free interest rates, at the time this is required. Issuing bonds for the purpose of paying off the Side Fund can only be done on a taxable basis.

FISCAL IMPACT

The District's April 1, 2013, cash balance would be reduced by approximately \$2.52 million. The District's retirement plan expenses would be reduced, over the next 18 fiscal years, by a total of approximately \$4.77 million, for a net savings of approximately \$2.25 million. The savings in FY2013-14 would be \$203,830.

BOARD COMMITTEE REVIEW

The Action Plan and Budget Committee reviewed this proposal during its review of the FY2013-14 budget and approved its presentation to the full Board.

PUBLIC NOTICE

Public notice of this Agenda Item was provided per the Brown Act. No additional notice is required.

CEQA COMPLIANCE

No compliance is required as this action is not a project under the California Environmental Quality Act (CEQA).

NEXT STEPS

Upon Board approval, the General Manager will request approval from CalPERS to pay off the District's Side Fund and, upon approval, complete the retirement of the Side Fund.

Attachment:

1. CalPERS Side Fund Savings Schedule

Responsible Manager:

Steve Abbors, General Manager

Prepared by:

Mike Foster, Controller

Contact person:

Same as above

ATTACHMENT 1

Savings from Paying Off CalPERS Side Fund

(Thousands)

Fiscal Year	Side Fund Payment	Pay Off in Cash		Sell Bonds/Pay Off		Difference in Savings
		Pay Off	Savings	Debt Svc	Savings	
13-14	\$ 204	\$ 2,520	(2,316)	\$ 155	\$ 49	\$ (2,366)
14-15	\$ 210		210	\$ 169	\$ 41	\$ 169
15-16	\$ 216		216	\$ 178	\$ 38	\$ 178
16-17	\$ 223		223	\$ 181	\$ 41	\$ 181
17-18	\$ 229		229	\$ 190	\$ 40	\$ 190
18-19	\$ 236		236	\$ 198	\$ 39	\$ 198
19-20	\$ 243		243	\$ 205	\$ 38	\$ 205
20-21	\$ 251		251	\$ 211	\$ 39	\$ 211
21-22	\$ 258		258	\$ 222	\$ 36	\$ 222
22-23	\$ 266		266	\$ 227	\$ 38	\$ 227
23-24	\$ 274		274	\$ 237	\$ 37	\$ 237
24-25	\$ 282		282	\$ 246	\$ 36	\$ 246
25-26	\$ 290		290	\$ 254	\$ 36	\$ 254
26-27	\$ 299		299	\$ 261	\$ 38	\$ 261
27-28	\$ 308		308	\$ 273	\$ 35	\$ 273
28-29	\$ 317		317	\$ 283	\$ 35	\$ 283
29-30	\$ 327		327	\$ 291	\$ 36	\$ 291
30-31	\$ 337		337	\$ 303	\$ 33	\$ 303
	\$ 4,771	\$ 2,520	\$ 2,251	\$ 4,084	\$ 687	\$ 1,564
Present Value at 5%/year			\$ 606		\$ 455	\$ 151
Present Value at 4%/year			\$ 858		\$ 491	\$ 367