

Staff Report

TO: City Council
FROM: Karen Wilcox, Accounting Manager
VIA: Karl Mohr, Finance Director
SUBJECT: PERS Reserve Policy

Recommendation

Adopt the proposed PERS reserve policy.

Fiscal Impact

The proposed policy will enable the City to cushion expected future impacts from increases in PERS funding obligations.

Background and Analysis

As Council is aware, the City participates in the Public Employees Retirement System (PERS) to provide retirement benefits for City employees. Contributions to PERS are based on varying percentages of payroll costs, and such costs are broken into two components, split between the City and individual employees. As a result of past of employee negotiations, the City pays both its share and employees' share of PERS costs.

For the past two years, there has been no requirement for the City's share of PERS costs. The employee contribution requirement remains, for which the City budgets annually to pay on behalf of its employees. No City matching contributions are currently required because the actuarial analysis conducted by PERS indicates that there are sufficient reserves for future needs, largely resulting from higher than anticipated investment returns achieved by PERS during recent extraordinary stock market gains.

During this time, the City has budgeted for its matching contribution and then let the unexpended budget fall to fund balance at the end of the year. We did not want to reduce these costs, have Departments use such savings to supplement program budget, and then have to face substantial budget cuts when – not if – City PERS contribution requirements return. Under this approach, unexpended PERS costs simply fall back to fund balance at the end of the fiscal year.

Under the new budget philosophy of enabling Departments more control over managing their budgets, we want budgets to more accurately reflect real expected costs. Thus, the 2000/2001 Departmental budgets will not include the City PERS cost. However, we still believe that we should set aside a reserve fund to cushion the impact of future increases in PERS costs.

Although it is not clear when it will occur, once the City's matching contribution is again required, it may create a potentially significant increase in departmental operating budgets. To cushion that increase, we propose to set aside an amount equal to two years of City contributions. When the contribution is again required, we can then apportion out the reserve to Department budgets to offset resulting cost increases.

Proposed Policy

Currently, the annual potential liability for City matching funds is about \$700,000. The City shall set aside \$525,000 for the next 3 years in order to reach the cumulative total of \$1,575,000. Thereafter, each year the City will calculate the amount of the current year's potential liability and set aside the difference between twice that amount and the amount already held in reserve.