Agenda Item #:______________________________

Staff Report
City of Manhattan Beach

TO: Honorable Mayor Ward and Members of the City Council

THROUGH: Geoff Dolan, City Manager

FROM: Bruce Moe, Director of Finance
Henry Mitzner, Controller

DATE: July 5, 2006

SUBJECT: Consideration of Advanced Payment of Employer Pension Costs for Fiscal Year 2006-2007 Which Results in Net Savings of Approximately $56,000

RECOMMENDATION:
The Finance Subcommittee and staff recommend that the City Council approve the advanced payment of the City's FY 2006-2007 employer pension costs to CalPERS.

FISCAL IMPLICATION:
The City will realize $56,000 in present value savings by prepaying the California Public Employees Retirement System (PERS) employer contributions for FY 2006-2007. The prepayment totals $3,346,786. The City's liquid cash balances are and will be sufficient to allow for this prepayment.

BACKGROUND:
The FY 2006-2007 budget provides for the payment of pension contributions for the City's employees. These payments are based on the employees' salaries as well as contribution rates established by PERS. Payments to PERS are normally made biweekly in conjunction with each payroll. However, PERS is offering the option of prepaying the employer only portion of the expected fiscal year contribution, which results in a discount of 3.66%.

DISCUSSION:
The City has an opportunity to realize present value savings by prepaying the Employer portion of the FY 2006-2007 PERS contributions[1]. It is to the City's advantage to use existing LAIF funds, which are projected to earn not greater than 4.1% throughout the fiscal year, to purchase a reduction in expected employer contributions by prepayment of the employer contribution. PERS calculates expected contributions based on historical trends.

The PERS expected payments via payroll total $3,474,055 while the single advanced payment is

[1] PERS contributions are divided into Employer and Employee portions. Only the Employer contributions are eligible for the prepayment discount.

$3,346,786. Although the difference between these numbers is approximately $127,000, the true savings is based on the difference in the present value of payments via payroll, (since these savings are realized over time) which is $3,402,553 (a difference of $56,000).

Staff reviewed this request with the Finance Subcommittee, which approved the recommended action at their June 15th meeting.