

Council/Agency Meeting Held: _____	_____ City Clerk's Signature
Deferred/Continued to: _____	
<input type="checkbox"/> Approved <input type="checkbox"/> Conditionally Approved <input type="checkbox"/> Denied	
Council Meeting Date:                      9/4/2007	Department ID Number:              FN 07-006

**CITY OF HUNTINGTON BEACH  
REQUEST FOR CITY COUNCIL ACTION**

**SUBMITTED TO:** HONORABLE MAYOR AND CITY COUNCIL MEMBERS

**SUBMITTED BY:** PENELOPE CULBRETH-GRAFT, DPA, CITY ADMINISTRATOR *Penelope Culbreth-Graft*

**PREPARED BY:** DAN T. VILLELLA, CPA, FINANCE DIRECTOR *Dan T. Villella*

**SUBJECT:** REQUEST TO TRANSFER SAVINGS FROM 2006/2007 CALPERS PREPAYMENTS TO RETIREE MEDICAL TRUST

Statement of Issue, Funding Source, Recommended Action, Alternative Action(s), Analysis, Environmental Status, Attachment(s)

**Statement of Issue:**

The City has savings for the current fiscal year of \$1,523,000 from the program to prepay retirement expenditures from CalPERS. Staff is recommending that these savings be transferred to the City's Retiree Medical Fund. This will reduce the City's unfunded liability for Other Post Employment Benefits by \$1,523,000.

**Funding Source:**

Savings in retirement expenditures for the General Fund and FireMed Fund for the 2006/2007 fiscal year.

**Recommended Action: Motion to:**

1. Approve the transfer of \$1,481,000 of savings in retirement expenditures from the General Fund to the Retiree Medical Insurance Fund.
2. Approve the transfer of \$42,000 of savings in retirement expenditures from the FireMed Fund to the Retiree Medical Insurance Fund.

**Alternative Action(s):**

1. Apply the savings to the City's regular CalPERS retirement program.
2. Apply the savings to the City's Retirement Supplemental Pension.
3. Use the savings for other purposes.
4. Maintain the savings in the General Fund and FireMed Fund.

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# REQUEST FOR CITY COUNCIL ACTION

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## Analysis:

For the past three years, the city has participated in the CalPERS prepayment program where the city pays the entire year estimated retirement expenditures in advance at a discounted rate. The effective discount rate given by CalPERS is greater than the interest earnings the city could earn on the funds. Additionally, CalPERS uses estimates when determining an amount for the city to pay to participate in the prepayment program. For fiscal year 2006/2007, this estimate from CalPERS was less than what the city would have paid if it had not participated in the prepayment program. When the city participates in this plan, CalPERS determines the lump sum payment the city must pay based on their assumptions of what the city's payroll will be over the next year. The city budgets for the normal CalPERS payment process, which is to pay CalPERS bi-weekly throughout the year. The budgeted amount is based on our estimates using existing and projected salary increases. For fiscal year 2006/2007, our budgeted CalPERS costs exceeded CalPERS required prepayment costs by \$1,523,000. Savings in this program come from two sources and were primarily from safety retirement expenditures. The savings occurred in the General Fund (\$1,481,000) and the FireMed Fund (\$42,000).

The city maintains a post-employment medical retirement insurance program. For fiscal year 2007/2008, the Government Accounting Standards Board issued a new rule regarding post-employment benefit obligations entitled "Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions" (GASB 45). GASB 45 will require the city to establish an irrevocable trust, which will change the amount of funds the city will have to set aside to avoid increasing any unfunded liabilities. This new trust will allow the city to invest in higher-yielding securities than allowed under the Government Code, which will help lower the city's required payments to the trust. Staff is currently working on a proposal that will be presented to the City Council during fiscal year 2007/2008 regarding the best method to administer this program. Transferring these savings to the Retiree Medical Fund now will ensure that these funds will be invested as soon as possible in the higher-yielding securities of the new trust. The budget that was presented to the City Council for fiscal year 2007/2008 includes an amount that will fully fund the required contribution to this program. Therefore, this additional payment will directly reduce the unfunded liability for post-employment benefit obligations by \$1,523,000.

## Strategic Plan Goal:

Financial - Fully understand the financial implications of financial decisions before they are made and recognize and disclose fiscal impacts of the pension crisis.

## Environmental Status:

Not applicable.

## Attachment(s):

City Clerk's Page Number	No.	Description
—	1.	Not Applicable. NONE