SWEETWATER SPRINGS WATER DISTRICT

TO: Board of Directors **AGENDA NO. V-D**

FROM: Steve Mack, General Manager

Meeting Date: January 6, 2011

SUBJECT: CALPERS CONTRACT AMENDMENT REQUEST

RECOMMENDED ACTION: Receive a report on the CalPERS Contract Amendment Request and staff proposal to make a lump sum payoff of the Side Fund, and provide direction to staff.

FISCAL IMPACT: None

DISCUSSION:

As part of the Memorandum of Understanding (MOU) negotiated this past year with the District Employees' union, the District agreed to change its retirement formula from 2% at 60 years old to 2% at 55 years old no later than July 31, 2012. At the time of the negotiations we were using a contract amendment cost estimate prepared by PERS based on Fiscal Year 2010 and that cost estimate expired in August 2010 before the MOU was approved. Staff requested a new contract amendment cost analysis which has been received and is attached to this agenda report.

On page 4 of the Contract Amendment Cost Analysis the new FY 12 Total Employer Rate is shown to be 11.966% of PERS-defined base employee costs. Under our current plan, the FY 12 Employer Rate is 8.623%. Based on employee costs of approximately $670,000, this is an annual increase to District retirement expenses of approximately $22,000 for FY 12, and greater amounts in future years This is consistent with the costs we were expecting during the negotiations.

One of the major components of the rates shown on page 4 is the Amortization of the Side Fund, which represents the District's liability or surplus due to factors outside the Pool. For FY 12, under our current Plan we have a Side Fund liability of $90,754, with an annual payment due of .890% of employee costs. Post amendment, our Side Fund liability will rise to $213,658, with an annual payment due of 2.427%. PERS charges us 7.75% interest on our Side Fund balance. History has shown that the annual payment on the Side Fund has not been enough to pay even the interest expense charged to the Fund, let alone pay down any principal. Therefore, unlike any of our other loans/bonds, our principal Side Fund liability has actually been *increasing* a small amount each year despite annual payments.

The District currently has undesignated reserves well in excess of the Side Fund amount and those reserves do not earn interest at a rate anywhere near 7.75%. It may make sense for the District to pay off the Side Fund which would reduce the annual cost of the 2% at 55 Plan by approximately $16,000 for FY 12 and greater amounts in future years.

Table 1 shows a proposed Contract Amendment schedule that would put this contract amendment into effect for next fiscal year, beginning July 1, 2011. Prior to the January meeting we expect to have conversations with CalPERS staff regarding this schedule and the possibility of paying off the Side Fund. We expect that prior to submitting the Contract Amendment Request form we need to have a decision on paying off the Side Fund and request Board direction on this.

Table 1. Contract Amendment Actions Possible Schedule	
Submit Request Form	January 2011
Actuary Provides Information on Actual Costs at Board Meeting	March 3 or April7 2011
Board Adopts Resolution of Intention	April 7, 2011
Board Adopts Final Resolution	May 5, 2011
Effective Date of the Amendment	July 1, 2011 or sooner