



June 23, 2011

Charlie Francis
Administrative Services Director/Treasurer
City of Sausalito
420 Litho Street
Sausalito, CA 94965

Re: Impact on CalPERS Contributions of Southern Marin Fire Protection District Merger

Dear Mr. Francis:

The purpose of this letter is to estimate the difference between the City's CalPERS contributions before and after a merger with the Southern Marin Fire Protection District (SMFPD). SMFPD is covered by the Marin County Employees' Retirement Association (MCERA) which provides a somewhat different benefit package than CalPERS. After the merger firefighters will earn retirement benefits under MCERA. This letter confines itself to changes in CalPERS contributions and costs and does not address the impact of any MCERA costs for former Sausalito firefighters.

Shown below is a rough estimate of the impact on the City's 2010/11 CalPERS contribution if:

- the City's firefighters had moved to SMFPD as of 6/30/2009 and
- CalPERS had reflected that move in the City's contribution amounts for the 2011/12 fiscal year.

We have made this comparison as of 6/30/2009 to incorporate the most recent CalPERS valuation and so that the same firefighter and asset balance data would be reflected in both of the contribution amounts. Please note that this calculation is a rough estimate using estimation techniques rather than a full valuation of the liabilities involved. The CalPERS study that you have requested will be based on a full valuation.

	Firefighters Remain with City	Firefighters Move to SMFPD
City Normal Cost Rate:		N/A
Pool	15.725%	
Surcharges	<u>2.698%</u>	
Total	18.423%	N/A
City Amortization Contribution:		
Pool	4.583%	
Side Fund	<u>8.542%</u>	
Total	13.125%	N/A
City Contribution Rate	31.548%	N/A
City Payment of Member Contribution Rates	<u>9.000%</u>	N/A
Total City Contribution Rate	40.548%	N/A
Estimated 2011/12 Payroll	\$1,415,632	\$0



	Firefighters Remain with City	Firefighters Move to SMFPD
City Normal Cost:		
Pool	\$ 222,608	\$ 0
Surcharges	<u>38,194</u>	<u>0</u>
Total	260,802	0
City Amortization Contribution:		
Pool	\$ 64,878	\$ 103,000
Side Fund	<u>120,918</u>	<u>252,000</u>
Total	185,796	355,000
City Contribution	446,598	355,000
City Payment of Member Contribution Rates	127,406	0
Total City Contribution	574,004	355,000

We estimate that side fund contribution amounts will increase from \$121,000 to \$252,000 when the firefighters are moved to the inactive pool. Primarily this occurs because more conservative methods are used to calculate amortization payments in the inactive pool. We estimate the City's 6/30/2009 side fund balance in the inactive pool at \$1.8 million, as compared to the 6/30/2009 side fund balance in the 3% at 50 pool of \$1.4 million. However, in the inactive pool the 6/30/2009 side fund amortization period would likely be shortened from 18 years to 10 years. Amortization payments are increased by the use of level dollar payments rather than level % of payroll payments.

The pool amortization contribution also increases due to the use of level dollar rather than level % of pay amortization.

Offsetting the impact of these changes, would be a decrease in accrued liabilities because MCERA will be covering more than its pro-rata share of the costs for industrial disabilities who become disabled prior to eligibility for service retirement benefits. These savings have not been incorporated in the above numbers because they cannot be estimated without a full valuation.

We estimate a contribution difference of \$219,000 including savings of \$127,000 in CalPERS member contributions that are paid by the City. We estimate a long-term savings of \$388,000 in the City's CalPERS contributions (in 2011/12 terms), based on a savings of \$261,000 in normal cost and \$127,000 in CalPERS member contributions that are paid by the City.

Please note that CalPERS is reviewing its procedures regarding the inactive pool. Their decisions in this area will impact the above results. We cannot predict the extent of that variation.



Side Fund Pay-off

If the side fund is paid off there will be additional savings due to savings in interest payments, since interest at 7.75% is being charged on the side fund. If these funds would have been held in the General Fund, the savings in future years would be the difference between 7.75% and the rate of earnings on the General Fund applied to each year's remaining side fund balance.

Caveats

The numbers in the table represent the difference in contribution cash flows, but since the amortization methods and periods differ they do not present an accurate picture of actual long term savings. As a rough estimate of ongoing long-term savings, the 6/30/2009 normal cost contribution rate of 18.423% of payroll (\$260,802 in 2011/12) plus the City's payment towards member contributions of 9.0% of payroll (\$127,406 in 2011/12) could be used. This does not take into account the impact on the unfunded actuarial accrued liability which would most likely result in additional savings in the industrial disability area as mentioned previously.

Comparisons to SMFPD contribution rates will suffer from the same sorts of amortization inconsistencies noted above, as well as differences in actuarial assumptions. Ideally both entities' contribution rates would be adjusted to a consistent basis before comparison.

Let us know if there are any questions or comments.

Sincerely,

Marilyn M. Oliver, FSA, MAAA
Vice President

C: John E Bartel

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