



Distributed on:
OCT 26 2011
City Manager's Office

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Alex Gurza

SUBJECT: Fiscal Year 2010-2011 Annual Required
Contribution

DATE: October 25, 2011

Approved

Date

10/26/11

INFORMATION

In June 2008, the City Council adopted ordinance No. 28332 amending Chapter 3.28 of Title 3 of the San Jose Municipal Code to provide the City with the option to make lump sum payments of City required contributions to the Federated City Employees' Retirement System (System). In an April 26, 2010, memorandum to the System's Board of Administration (Board), the Administration requested the System's actuary calculate a discounted contribution amount to prepay the City's contribution for the Fiscal Year 2010-2011. In response, Gabriel Roeder Smith & Company (GRS) calculated a prepayment amount of \$50.2 million (less a \$0.8 million credit representing the true-up amount from the prior year) which the City duly paid in July 2010.

As noted in the City Manager's 2010-2011 Annual Report presented on October 18, 2011, to the City Council, the Department of Retirement Services informed the Administration in September 2011 that the City owed an additional \$8.1 million for Fiscal Year 2010-2011 to fully fund that year's Annual Required Contribution (ARC). The Annual Report included a recommendation to set aside the additional ARC payment of \$8.1 million from all impacted funds (including \$4.4 million in the General Fund) to be paid upon clarification by the System's Board of the appropriateness of this additional funding.

At its October 20, 2011 meeting, the Administration asked the System's Board for clarification on this additional payment and whether it was calculated using the appropriate contribution rate. The source of the confusion was the methodology used by GRS in phasing in the Board approved reduction of the interest earnings assumption from 8.25 percent to 7.75 percent. After an extensive discussion, the Board determined that the City does need to pay the additional \$8.1 million.

The City's Budget Office and Finance Department are coordinating the transfer of funds.

Alex Gurza
Deputy City Manager