



CITY OF MODESTO
COMMITTEE AGENDA REPORT

Budget Workshops
May 18-22, 2009

Date: April 3, 2009

TO: Finance Committee
Brad Hawn, Chair
Kristin Olsen, Vice-Chair
Garrad Marsh, Member

THROUGH: Greg Nyhoff, City Manager

FROM: Robin Renwick, Director of Human Resources

SUBJECT: Insurance Funds Review and Policy Direction

CONTACT: Mary Akin, Risk Manager, makin@modestogov.com 577-5251

DESCRIPTION:

Consider providing policy direction regarding:

1. The initiation of a holiday in the General Fund to save the annual payment to the Employee Benefit fund for employee leave cash-outs made in FY 2008-09 and FY 2009-10.
2. A holiday on the additional General Fund contribution which helps to keep the unfunded liability in retiree costs from growing.

(Funding Source: Potential General Fund Impact)

FISCAL IMPACT:

Employee Leave Cash-outs - Payouts for unused leave that take place when an employee leaves the city are funded from the Employee Benefits Fund and are reimbursed to the EBF at year-end by the various funds. Due to the voluntary separation incentives that are being offered, the value of leave payouts made will increase significantly in the next few months. This proposal would exempt the General Fund from the requirement to reimburse the EBF during FY 08-09 and FY 09-10. Due to the fiscal condition of several of the city's funds, it may be necessary to expand the reimbursement holiday to these other funds once the full amount of the leave cash-outs is known. There is a sufficient balance in the cash account based on General Fund contributions to cover these unreimbursed costs.

Retiree Related Costs - A professional actuarial study of retiree health liabilities was performed and published in January of 2007. The 2007 study recommended funding of the ARC (Annual Required Contribution) at \$5.7 million for FY 2007-08. The City's charge to the departments has been \$3.5 million per year for FY 2004-05, through FY 2008-09.

To keep the unfunded liability from growing, an additional General Fund contribution of \$953,545 was added in FY 2006-07. However, financial constraints have prevented this from occurring since that time. This proposal continues the liability payment holiday for the General Fund into FY 2009-10.

BACKGROUND:

A number of benefit costs run through the Employee Benefits Fund (EBF) as pure pass-through transactions. These pass-through costs such as deferred compensation, PERS and Medicare are not material to the fund liability and are not addressed in this report.

The most significant costs accounted for in the EBF are the (a) cash payments made to employees for their accumulated vacation and holiday hours upon separation from service and (b) cash payments and health benefits provided to employees upon retirement based upon their accumulated sick leave balances.

The City does not make payments into the EBF to reflect paid leave, and separation cash-outs earned. Instead, the City finances these separation costs on a pay-as-you-go basis. As of June 30, 2008, the Statement of Net Assets reflects a liability for compensated absences (vacation, holiday and compensated time off) in the amount of \$12.3 million and a liability for post-employment retirement benefits in the amount of \$37 million. Fund assets of \$20.7 million result in total net assets of negative \$29.5 million.

Health-based benefits paid from the EBF include cash payments to firefighters and health insurance contributions for other retired employees. Retiring firefighters receive payments equal to 90% of their first 2,000 hours of accumulated sick leave valued at their regular rate of pay.

For all other employees, the Sick Leave Conversion benefit allows employees (except firefighters) to convert 90% of their first 2,000 - 2,200 hours of accumulated sick leave (depending on bargaining unit) into a retiree health insurance contribution. Every 8 hours of accumulated sick leave is then converted to one month of the City's health insurance contribution. The contribution is equal to the contribution paid by the City to its active employees. City employees who may be eligible for the Sick Leave Conversion benefit currently have accumulated sick leave balances totaling 470,000 hours.

Approved by:

Wayne Padilla, Director of Finance

Greg Nyhoff, City Manager