

BEFORE THE METRO COUNCIL

A RESOLUTION FOR THE PURPOSE OF) Resolution No. 01-3055
APPROVING METRO'S ENTRY INTO THE)
LOCAL AGENCY PERS POOL FOR PURPOSES) Introduced by Mike Burton
OF DETERMINING CONTRIBUTION RATES) Executive Officer

WHEREAS, the Oregon Public Employees Retirement System (PERS) has recently created a local agency pool for the purposes of determining employer rate contributions; and

WHEREAS, entry into the PERS local agency pool is optional, however, once joined, the election is permanent and irrevocable; and

WHEREAS, the primary purpose of the creation of the pool is to promote stability in employer rate contributions to PERS; and

WHEREAS, Metro is required by Metro Code and collective bargaining agreements to pay the PERS employer rate contribution for all eligible employees; and

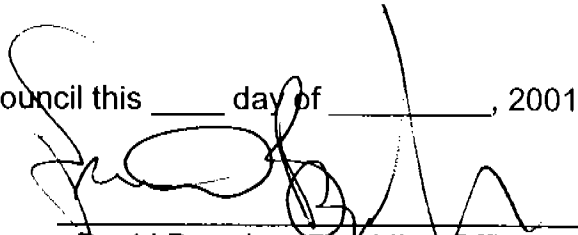
WHEREAS, Metro's employer rate contribution has fluctuated in the last ten years from 6.0 percent to 11.63 percent; and

WHEREAS, Metro would benefit in the long-term from more stabilized rates allowing the agency to project retirement costs with greater confidence for budget and collective bargaining purposes; now, therefore

BE IT RESOLVED,

That the Metro Council approves Metro's entry into the PERS local agency pool for the purposes of determining employer contribution rates and directs the Executive Officer to execute any and all documents necessary for the administration of such election.

ADOPTED by the Metro Council this _____ day of _____, 2001.



David Bragdon, Presiding Officer

Approved as to Form:



Daniel B. Cooper, General Counsel

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BUDGET AND FINANCE COMMITTEE REPORT

CONSIDERATION OF **RESOLUTION NO. 01-3055**, FOR THE PURPOSE OF APPROVING METRO'S ENTRY INTO THE LOCAL AGENCY PERS POOL FOR PURPOSES OF DETERMINING RATES

Date: April 11, 2001

Presented by: Councilor Hosticka

Committee Recommendation: At its April 11, 2001, meeting, the Budget and Finance Committee voted 5-0 to recommend Council adoption of Resolution No. 01-3055. Voting in favor: Burkholder, Bragdon, McLain, Hosticka, Monroe. Voting against: None. Absent: Park, Atherton.

Background: Kathy Rutkowski, Budget Coordinator, presented the staff report. She noted that councilors had been briefed individually on the issue prior to the meeting, and went on to summarize the key points of the proposed resolution. She stated that Metro has been a part of the Oregon Public Employees Retirement System (PERS) for 10 years. Currently all state agencies, and all educational agencies, each have their own pool, but local government entities do not. PERS has now created a pool for local governments, for which Metro is eligible. Inclusion is a voluntary, but irrevocable, decision. Each organization entering the pool will retain its unfunded liabilities and surpluses when entering, and these will be amortized over a 27-year period to offset losses or increases. Metro has a \$6 million surplus, so this could result in savings over time. She closed her statements by saying that the primary reason for Metro to become part of this pool is to stabilize rates over the long term, with saving money a secondary benefit.

Committee Issues/Discussion: Councilor Monroe asked if joining the pool would affect retirement benefits for current employees in any way. Ms. Rutkowski responded that it would make no difference in benefits.

Councilor Burkholder asked if it were true that, because the City of Portland and Multnomah County have committed to joining the pool, that their size will benefit us in the long run. Ms. Rutkowski responded that it would, and added that PERS will certify the pool to make sure that there is a solid and balanced foundation, without a lot of small agencies holding liabilities. Metro, the City of Portland, and Multnomah County will represent approximately 35% of the pool.

Councilor Hosticka asked for clarification whether, by voting for this resolution, Metro will join the pool, or simply state its intention to join. Ms. Rutkowski replied that the resolution approves Metro joining the pool.

Key Public Testimony: There was none.

STAFF REPORT

CONSIDERATION OF RESOLUTION 01-3055 FOR THE PURPOSE OF APPROVING METRO'S ENTRY INTO THE LOCAL AGENCY PERS POOL FOR PURPOSES OF CALCULATION OF CONTRIBUTION RATES

March 5, 2001

Presented by: Kathy Rutkowski

Description

This resolution would approve Metro's entry into the newly created local agency pool for purposes of calculation of PERS employer contribution rates.

Existing Law

Under Metro Code 2.02.110 and various collective bargaining agreements Metro is required to pay the employer contribution for an eligible employee's PERS (Public Employee Retirement System) account.

Background

The Oregon Public Employees Retirement System provides retirement programs for State and Local public agencies covering general service employees as well as police and fire. The employer contribution rates for State and school district employees are calculated on a pooled basis. All State employees or all school district employees throughout the state are considered as a group and one rate is calculated for each group. That rate is applicable to all departments of the State or all school districts throughout the state. However, employer contribution rates for local public agencies (cities, counties, special districts, etc.) are calculated individually for each entity. The individual contribution rates are based on each entity's employee base. A large public agency with many employees will have a much broader base on which to spread retirement liabilities than a smaller agency with only a few employees. As a result, there is an extremely wide variation in rates between local government entities – from a low of 6 percent to a high of around 40 percent – and, within each entity, from year to year.

PERS has adopted a proposal to create a pooled rate for local governments. The primary reason for pooling is to promote stability in employer rates. History has shown that employer rates for non-pooled employers can fluctuate significantly between years while the rates of pooled employers has remained relatively stable. PERS rate fluctuations can and have caused unexpected financial difficulties for local governments. Because of the demonstrated stability of pooled rates for the state and

the schools, the PERS Board has extended the opportunity for pooling to local governments as well.

The first PERS pooled rate for local governments will become effective July 1, 2001. To receive the July 1, 2001 rates enrollment into the pool must be made by April 30, 2001. Joining the local government PERS pool is optional. If a local government chooses not to join the pool this year, they may do so at any time in the future. A future election in the pool will become effective after the next actuarial period. Currently, PERS conducts actuarial studies every two years. However, once an agency has joined the pool the election is permanent and irrevocable.

Under the rule adopted by the PERS Board, only future liabilities and surpluses will be pooled. Current unfunded liabilities or surpluses will remain with each jurisdiction and will be amortized over a 28-year period with interest, currently set at 8 percent. For each entity, the pooled rate will be offset (increased for unfunded liabilities, decreased for surpluses) by the amortized amount of that entity's current unfunded liability or surplus.

Within the pool, different pooled rates will be established for general service members and police/fire members. For those agencies with both groups of employees, the two rates will be blended to provide a single rate. Preliminary pooled rates have been calculated based on the actuarial study with data through December 31, 1999. The actuarial study will be updated in the spring 2001 with data through December 31, 2000 to determine the final pooled rates to be effective July 1, 2001. PERS does not expect actual pool rates to vary greatly from the preliminary rates.

In the ten years since Metro joined PERS, the employer contribution rate has fluctuated from a low of 6 percent to a high of 11.63 percent. Metro's current rate is 8.09 percent and was anticipated to increase to 9.17 percent effective July 1, 2001 (based on actuarial study performed in 1998 based on data through December 31, 1997). The PERS actuarial study performed in 2000 based on updated data through December 31, 1999 revised Metro's non-pooled contribution rate to 8.65 percent effective July 1, 2001.

The preliminary pooled rate for general service members is 8.96 percent. Metro has a surplus of approximately \$6 million that will be amortized over a 28-year period with interest. This amortized surplus will lower Metro's pool contribution rate to 8.57 percent. As mentioned earlier, these rates are preliminary and may change slightly based on the updated actuarial study to be performed in the spring.

Summary of Metro PERS Contribution Rates:

	Employer Contribution	Total PERS Contribution ¹
Lowest contribution rate (FY '92 & '93):	6.00%	12.36%
Highest contribution rate (FY '94 & '95):	11.63%	18.33%
Current contribution rate:	8.09%	14.58%
Anticipated contribution rate (effective 7/1/01)	9.17%	15.72%
Revised contribution rate (effective 7/1/01)	8.65%	15.17%
Preliminary pooled contribution rate:	8.96%	15.50%
Preliminary Metro pooled contribution rate: (with amortization of surplus)	8.57%	15.08%

¹ The total PERS contribution includes the 6% employee contribution paid by Metro on behalf of the employee. The employee and employer rates are compounded to determine the total PERS contribution rate.

In FY 1999-00, Metro's total salaries and wages subject to PERS contributions was approximately \$30,852,000. If updated for actual or budgeted cost-of-living adjustments for FY 2000-01 and FY 2001-02, the estimated total salaries and wages subject to PERS contributions in FY 2001-02 will be approximately \$33,000,000. Based on the preliminary pooled contribution rates entry into the local government pool will save Metro an estimated \$211,200 across all departments in FY 2001-02.

Although joining the local government pool is anticipated to save Metro money in the immediate future there is no guarantee that the pool will result in reduced rates overall. The primary reason for pooling is to provide some degree of stability in employer rates over the longer term. Stabilized rates will allow Metro to project retirement costs with greater confidence for budget and collective bargaining purposes.

Budget Impact

There will be no negative impacts on either current or next year's budget. The new rates will not become effective until July 1, 2001. The FY 2001-02 Proposed Budget assumed the anticipated employer contribution rate of 9.17 percent.

Outstanding Questions

None at this time.

Executive Officer's Recommendation

The Executive Officer recommends adoption of resolution 01-3055, approving Metro's entry into the PERS local agency pool for calculation of employer contribution rates.

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