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February 15, 2011

AGENDA ITEM 5a

TO: MEMBERS OF THE FINANCE COMMITTEE

I. SUBJECT: Contingency Reserve Fund Fiscal Year (FY) 2010-11 Adjustment

II. PROGRAM: Administration

III. RECOMMENDATIONS:

(1) The Committee accepts a net decrease to the Contingency Reserve Fund (CRF) of $717,000 in the FY 2010-11 for a total CRF budget of $25,904,000 and recommends the Board of Administration (Board) approve this revised budget.

(2) The Committee accepts an increase to the Public Employees' Retirement Fund (PERF) of $717,000 in the FY 2010-11 for a total PERF budget of $265,423,000 and recommends the Board approve this revised budget.

(3) The Committee accepts the proposed CalPERS FY 2010-11 cost allocation adjustment to the CRF and PERF, and recommends the Board approve the cost allocation.

(4) The Committee recommends the Board approve the transmittal of this agenda item to the Joint Legislative Budget Committee and the Fiscal Committees of the Legislature, the State Controller, and the Department of Finance, in accordance with the Budget Act of 2010 (Budget Act), and to the Legislative Analyst's Office and the State and Consumer Services Agency.

IV. ANALYSIS:

Contingency Reserve Fund

The net adjustment to the CRF is the result of additional employee compensation and control language in the Budget Act. Control Section 3.90 gives the Director of Finance the ability to reduce department appropriations, including the CRF, by the Workforce Cap ongoing savings in FY 2010-11. Control Section 3.91 reduces appropriations for the Personal Leave Program as one-time savings. In addition, Control Section 3.60 provides additional ongoing CRF funding for the 2010-11 Employer Contribution increase. Ongoing funding will also be provided to fund Health Care Premium increases. As a result, the CRF appropriation will be reduced by $717,000 from its current level of $26,621,000 to a revised appropriation level of $25,904,000.

Public Employees' Retirement Fund

During the development of the 2010-11 mid-year budget, the Employer Contribution increase was estimated using the best information available regarding the impact of an additional Employee Contribution. On December 15, 2010, after the 2010-11 mid-year was estimated, the Board approved the Actuarial Office's recommended revised Employer Contribution rate based on newly ratified bargaining unit contracts including additional Employee Contribution towards retirement. Consequentially, it was determined that the Employer Contribution increase during the 2010-11 mid-year was not sufficiently funded to absorb the full cost of the 2010-11 rates. Therefore, an increase of $717,000 to the PERF is requested to better align the 2010-11 administrative budget to the 2010-11 retirement costs.

Since the CRF and PERF appropriations are part of the CalPERS Administrative Budget, the Administrative Budget will remain unchanged at $315,731,000.

Cost Allocation Update

The FY 2010-11 cost allocation was approved by the Finance Committee and Board in December 2010. Attachment 1 reflects the adjustments to the CRF and the PERF appropriation levels resulting in a net zero effect to the Administrative Budget. As a result of these adjustments, approval of the revised fund appropriation levels is recommended.

V. RESULTS/COSTS:

There is a no change to the CalPERS current FY 2010-11 Administrative Budget of $315,731,000. Recommendations contained in this agenda item will take effect upon the approval of the Board at the February 16, 2011, meeting.

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STEVE PIETROWSKI, Assistant Chief
Fiscal Services Division

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DAVE G. CORNEJO, Interim Chief
Fiscal Services Division

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RUSSELL G. FONG
Interim Assistant Executive Officer
Administrative Services Branch

Attachments