

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 14, 2010

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER 

SUBJECT: BUDGET MEMO # 60 : SET-ASIDE FOR VIRGINIA RETIREMENT SYSTEM (VRS) DEFERRED EXPENDITURES

The attached memorandum from Schools staff to the School Board describes a proposal to set-aside approximately \$7.0 million in deferred Virginia Retirement System (VRS) savings -- \$2.0 million realized in FY 2010 by a fourth quarter payment "holiday" and \$5.0 million that would be realized in FY 2011 by a lower than budgeted/requested VRS rate to be applied in FY 2011.

That memorandum poses three possible options to set these funds aside:

1. Pay into the VRS trust fund an amount in excess of the budgeted requirement for FY 2011 and ask VRS to establish an individually tailored, lower rate for Alexandria in the future.
2. Establish a VRS reserve on the Schools books and specify the exact conditions under which the funds would be released to fund future VRS rate increases.
3. Use these funds to pay down the unfunded Other Post Employment Benefit (OPEB) liability.

School Staff recommends options 1 and 2. (Option 1 is contingent on agreement by VRS to accept a "prepayment" and establish an individually tailored lower rate in the future. If option 1 is not feasible, option 2 becomes the sole recommended alternative.)

Our recommendation is that City Council consider adding language to the resolution adopting the FY 2011 budget that:

- Recognizes the excess funds available to the Schools;
- Commends the Schools for considering a responsible way to use these funds to minimize future increases in the cost of VRS benefits;

- Endorses the approach recommended by Schools staff (options 1 and 2);
- Assumes that the School Board will adopt those options (or another option discussed with representatives of the City Council) in adopting a final FY 2011 budget.

Attachment: April 12, 2010 Memorandum from Margaret Barkley Byess, Deputy Superintendent, Planning and Support Operations

Date: April 12, 2010

For ACTION _____

For INFORMATION X

Board Agenda: Yes _____
No X

FROM: Margaret Barkley Byess, Deputy Superintendent, Planning and Support Operations

TO: Morton Sherman, Ed.D., Superintendent of Schools

COPY: The Honorable Yvonne Folkerts, Chair, and Members of the Alexandria City School Board
Executive Staff

TOPIC: Set-aside for Virginia Retirement System (VRS) Deferred Expenditures

BACKGROUND: To balance the Commonwealth's 2010 budget and the 2010-2012 Biennial Budget, the Virginia legislature enacted a substantial reduction in VRS rates for all employees. For FY 2010 the fourth quarter payment for the employer share for professional employees has been waived by the state. This 2010 waiver represents a deferred expenditure for ACPS of approximately \$2.0 million.

The recommended rate for FY 2011 to meet actuarial requirements for current and future liabilities is 17.91%, as presented by the VRS Board of Trustees in the fall. The rate adopted by the legislature is 8.93% for FY 2011 and 10.16% for FY 2012. The difference between the recommended and actual rates for FY 2011 is 8.98 percentage points, representing an annual deferred expenditure of \$9.9 million. ACPS initially budgeted VRS benefits for FY 2011 at a rate of 13.49% and therefore anticipates the available funds from the lower FY 2011 VRS rates to be approximately \$5.0 million compared to the Board's FY 2011 Approved budget. Combined with the deferred expenditure amounts from the FY 2010 fourth quarter holiday, the total is approximately \$7.0 million for the FY 2010 and FY 2011 periods.

As recognized by school and City staff, the School Board, and the City Council in budget discussions this spring, these low rates represent a significant underfunding of the state's long term retirement liability. It is anticipated that there will be large future cost increases for school divisions, as the VRS rates increase in the future to make up for the several years of underfunding.

School staff have recommended establishment of an ACPS reserve to set-aside these funds specifically to cover the costs of future VRS rate increases or other related long-term liabilities, such as OPEB. This approach to long-range financial planning will help provide a smoother transition to a higher VRS rate structure, and limit the impact of the higher rates on both school and City budgets. This approach was supported by the City's

Budget, Fiscal, and Administration Advisory Committee (BFAAC) in their FY 2011 budget report to City Council.

There are three possible options to achieve this:

1. Explore with VRS the possibility of paying into the trust an amount in excess of the budgeted requirement for FY 2011. This would probably require VRS to develop local rates for the "professional" employee group for school divisions, comparable to the local rates that now exist for the non-professional group for school divisions. Several other localities with high local composite indices are setting aside funds for future VRS costs (Fairfax and Arlington). We will work with those localities to see if VRS will open up this option for us. This is our preferred option.
2. Under the new GASB fund balance designations, we would use the most stringent of them to establish a VRS reserve. The fund balance designation language would include the specific requirements for use of the funds, e.g., each 1 percentage point increase over the prior fiscal year would allow ACPS to use approximately \$1.1 million of the set-aside. The funds would be used over a two to three year period – presumably FY 2012 through FY 2014.
3. Use the funds to pay down the OPEB liability. This would fence off the funds from other uses, but might not provide for any smoothing of the impact of the decline/increase in rates that we will see over the next four years. Arlington Schools have indicated that they are considering this option in addition to a set-aside for future rate increases.

RECOMMENDATION: Staff recommend options 1 and 2, and are exploring these options with the intent of bringing final recommendations for inclusion in the budget motion for the FY 2011 final budget.

IMPACT: Options for setting aside the VRS deferred expenditure funds will be finalized by the time of adoption of the FY 2011 final budget.

CONTACT PERSON: Margaret Barkley Byess