



Expo

Exposition Metro Line
Construction Authority


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DATE: JANUARY 12, 2006

TO: BOARD OF DIRECTORS

FROM: RICHARD D. THORPE 
INTERIM CHIEF EXECUTIVE OFFICER

**ACTION: APPROVE THE EXPOSITION METRO LINE CONSTRUCTION
AUTHORITY PROPOSED EMPLOYEE PENSION PROGRAM**

RECOMMENDATION

- A. Approve a Exposition Metro Line Construction Authority (Authority) Employee Pension Plan that includes a Public Agency Retirement System (PARS) option and a California Public Employees Retirement System (CalPERS) option; and
- B. Approve an Authority deferred compensation plan that includes both PARS 401(a) and 457 Trusts.

SUMMARY

Approval of the pension plan will permit the establishment of an Employee Pension Program in accordance with Authority employee benefits as previously approved by the Board. Providing a choice of pension plans will allow the Authority to recruit staff that may have certain preferences in their pension program. Staff's recommendation is based on initial estimates by both providers, indicating the cost of providing these plans would be similar and within the costs that are being paid by other similar agencies.

DISCUSSION

The Board approved on October 12, 2005, Employee Benefits, which included provisions for a competitive Employee Pension Program utilizing CalPERS or an equivalent that would enable the Authority to recruit and retain its management team with the best expertise available. This program included a pension plan to

be paid by the Authority, and a deferred compensation plan with contributions, provided solely by the employee (no contribution by the Authority).

Following this authorization, a search of comparable pension plans available to California local public agencies was conducted. This review revealed that Public Agency Retirement System (PARS) offers an effective pension benefit to local public agencies. CalPERS also provides a program for employees of more than 2,500 local public agencies and schools, State agencies, and the California State University system.

Estimates of pension plan costs associated with PARS were evaluated in order to ensure pension plan costs would be equal to or less than, the cost of the previously approved CalPERS pension plan. The proposed defined benefit plans offered by PARS and CalPERS are both estimated by their respective plan administrators to cost approximately 17%-19% of payroll. Currently, only estimates are available since the actual percentage will depend on the duration of the program, investment rate of return, and a detailed actuarial valuation that is scheduled regularly by the plan administrator. A review of actual pension costs incurred by similar public transit agencies was conducted, and the average cost for these agencies was 19% of payroll.

Since a PARS pension benefit can be established as an alternative to CalPERS at approximately the same cost, if not less (i.e. within the 17%-19% of payroll), it is recommended that the Authority utilize the plan services of both PARS and CalPERS. Utilizing both providers of these services will achieve the greatest flexibility for initially attracting prospective employees with varying types of prior government and non-government experience. At the point when CalPERS goes into effect, all new employees hired after the effective date, will be required to participate in the CalPERS program.

In addition, the Board previously approved a deferred compensation plan (IRS Section 457) and a tax-qualified defined contribution plan (IRS Section 401). Although contributions to either plan are provided solely by the employee (no contribution by the Authority), these qualified plans must be administered through a qualified Trust. CalPERS does not offer both of these programs, however PARS is qualified to offer both of these plans at no additional cost and is available to employees regardless of which pension plan they select (PARS or CalPERS). Therefore, the inclusion of PARS as part of an overall pension program has the added benefit of allowing employees to participate in 401(a) and/or 457 Deferred Compensation plans.

FINANCIAL IMPACT

This Employee Pension Program is within the Metro approved FY06 Budget and the Metro Full Funding Plan of \$640,000,000.

State legislation that formed the Authority also requires its dissolution upon completion of the project to Santa Monica. Depending on the duration of Authority operations, there may be a termination cost liability that applies to both PARS and CalPERS. This liability is anticipated to be similar for both plans. A reserve within the Authority Project budget would be established to cover any anticipated future financial liabilities beyond the dissolution of the Authority.