SUMMARY:
At the March 28 Waste Management Authority (WMA) board meeting, staff will recommend that the WMA approve a lump-sum payment of $4.1M to the California Public Employee Retirement System (CalPERS) to pay down the Agency’s unfunded pension liability. This payment will result in the Agency reaching an 89.3% funded status, which closely meets its goal of 90% funded status. The funding for this payment will come from the Transportation Improvement Program (TIP) Reserve ($3.4M), the Pension Reserve ($.1M) and the Fiscal Reserve ($.6M).

DISCUSSION:
The WMA, like most public agencies in the state, has a significant unfunded pension liability balance, often referred to as the Unfunded Actuarial Liability (UAL).

The size of the UAL varies from year to year primarily because the annual rate of return on the CalPERS investment portfolio varies. CalPERS smooths the impact of each year’s variation by recognizing 20% of it in the year it occurs and each of the next four years. Nonetheless, the impact of year-to-year market fluctuations can be large. For example, our accrued pension liability as of 6/30/14 was $3.5 million when Governmental Accounting Standards Board (GASB) 68 was adopted and it has increased to $5.3 million as of 6/30/17. Annual variations occur even if the portfolio earns the projected rate of return (7.25% for the current FY 2017-18).

The long-term rate of return for future years is expected to be 7.00%, reflecting a rate that is prudent and achievable so that variability in reported liability balances is reduced while allowing pool participants to project future funding requirements with better predictability.

Paying Down Versus Paying Off the Liability
The significant cash requirement to reduce the UAL as well as the factors mentioned above make it difficult to entirely "payoff" the pension liability. However, paying down portions of the liability reduces the future interest payments on the balance similar to making accelerated mortgage principal payments. Therefore, the WMA has adopted the goal of being 90% funded. As of the 6/30/16 CalPERS valuation report, the Agency was 75.8% funded or approximately 14% below the goal. At the February
In 2018, Programs and Administration and Planning Committee/Recycling Board meetings, staff presented the multi-year fiscal forecast that discussed making a $3.4 million lump sum payment to CalPERS towards the unfunded liability. This payment would get the Agency close to the 90% funded status (approximately 87%). Both committees supported pursuing this payment. As such, staff has further reviewed options with CalPERS actuarial staff.

Contributing $4,129,000 no later than April 4, 2018 to the CalPERS Miscellaneous Pool would largely eliminate the two largest actuarial loss pools that are allocated to the Agency. By making this payment, the long-term cash flow savings would be approximately $5.2 million (including $269,000 for the next fiscal year, which is approximately $69,000 more than original estimates). Additionally, the estimated funded ratio would improve to 89.3% as of 6/30/18, just under the Agency’s goal and would be projected to reach 100% funded by 6/30/34 with the current scheduled annual liability contributions. Staff will also continue to discuss other funding strategies with CalPERS including more accelerated amortization periods, such as the recently adopted 20-year period for new pension gains or losses and actuarial changes.

As previously discussed, funds from the TIP reserve of $3,441,987 will provide the primary source of funding for this payment. The TIP reserve was established in 1993 as part of a three-party agreement between the County of Alameda, Waste Management (formerly Oakland Scavenger Company), and the WMA. The program was established to mitigate impacts to roadways near Altamont landfill caused by the truck traffic transporting waste from San Francisco. We have fulfilled our obligations according to the agreement and as of 2016, San Francisco has ceased exporting their waste to Alameda County. As we do not need this reserve anymore, we recommend eliminating it. We also discussed using the one-time payment from NextEra for the conservation easement, which we anticipate will total between $1.2-$1.4 million. While we are confident that we will receive the payment we are not certain as to when (we are awaiting California Department of Fish and Wildlife final approval of the easement deed). Therefore, we recommend funding the remaining $687,013 as follows: $100,000 from the Pension Reserve and $587,013 from the Fiscal Reserve. Once the NextERA payment is made, we recommend paying back the $587,013 to the Fiscal Reserve with the balance going to the Pension Reserve for any future lump-sum payments as needed.

RECOMMENDATION

Staff recommends that the WMA Board approve the attached resolution that includes the following provisions:

1. Authorize staff to make a lump-sum payment to CalPERS towards the Agency’s unfunded pension liability in the amount of $4,129,000 using the following funding sources: $3,441,987 from the Transportation Improvement Plan (TIP) Reserve, $100,000 from the Pension Reserve, and $587,013 from the Fiscal Reserve. This payment to CalPERS will be made no later than April 4, 2018.

2. Eliminate the TIP Reserve

3. Upon receipt of the one-time payment from NextERA for the conservation easement, authorize staff to repay the Fiscal Reserve with the remainder of the payment going to the Pension Reserve.

Attachment: Resolution Approving CalPERS Lump-Sum Payment
ALAMEDA COUNTY WASTE MANAGEMENT AUTHORITY

RESOLUTION #WMA 2018 -

MOVED:
SECONDED:

AT THE MEETING HELD MARCH 28, 2018
AUTHORIZING STAFF TO MAKE A LUMP-SUM PAYMENT TO THE CALIFORNIA PUBLIC EMPLOYEE RETIREMENT SYSTEM (CALPERS) OF $4,129,000 TOWARDS THE AGENCY’S UNFUNDED LIABILITY AND ELIMINATING THE TRANSPORTATION IMPROVEMENT PROGRAM (TIP) RESERVE

WHEREAS, in February 2016 the WMA established a 90% funded status goal for its pension fund with CalPERS; and

WHEREAS, as part of the multi-year budget forecast presented to the Programs and Administration Committee and the Planning Committee/Recycling Board on February 8, 2018, staff included a proposed lump-sum payment to CalPERS to work towards achieving this goal; and

WHEREAS, based on the latest information from the CalPERS actuary, a lump-sum payment of $4,129,000 will result in an 89.3% funded position for the Agency; and

WHEREAS, staff identified the funding sources from which to make this payment;

NOW THEREFORE, BE IT RESOLVED that the Alameda County Waste Management Authority hereby authorizes staff to:

1. Make a lump-sum payment to CalPERS towards the Agency’s unfunded pension liability in the amount of $4,129,000 using the following funding sources: $3,441,987 from the Transportation Improvement Plan (TIP) Reserve, $100,000 from the Pension Reserve, and $587,013 from the Fiscal Reserve. This payment to CalPERS will be made no later than April 4, 2018.
2. Eliminate the TIP reserve.
3. Repay the Fiscal Reserve upon receipt of the one-time payment from NextEra for the conservation easement, with the remainder of the payment going to the Pension Reserve.

AYES:
NOES:
ABSTAIN:
ABSENT:

_________________________________
Wendy Sommer, Executive Director