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DATE: February 17, 2016

TO: Waste Management Authority Board

FROM: Wendy Sommer, Executive Director

BY: Pat Cabrera, Administrative Services Director

SUBJECT: Unfunded Liability

SUMMARY

In November 2015, the Board directed staff to schedule a discussion on a pension funding target given the uncertainty of the CalPERS assumptions and how that uncertainty could impact funding status. At the February WMA meeting, staff will discuss unfunded liability and recommend a 90% funding target.

DISCUSSION

At the November 18, 2015 WMA Board Meeting, then Executive Director Gary Wolff presented information on the Agency's unfunded pension liability along with options for addressing it. That staff report can be found at Pension Payoff-11-18-15 The Board approved a payment of $600,000 towards the unfunded liability. The Board also directed staff to bring before the Board a discussion of a pension funding target (i.e., some percentage of total pension liability,) acknowledging that the actual funded percentage will fluctuate around the target due to changes in market value. In addition to the $600,000 payment the Agency has been proactive in addressing unfunded liabilities both with respect to pension and post -retirement health benefits (referred to as OPEB) as outlined below.

Pension Side Fund

In 2003 the WMA was required to join a risk pool for retirement. A side fund was created to account for the difference between the funded status of the pool and the funded status of the Agency's plan. In June 2011 the WMA approved paying off the side fund of approximately $1.0M and in doing so saved approximately $134,000 annually. The side fund was the only unfunded liability that pooled plans were allowed to pay until recently.

Other Post Employment Benefits (OPEB)

The WMA established a trust fund (California Employees' Retiree Benefit Trust (CERBT)) in 2008 to address the funding requirements associated with employee post- retirement health benefits. The WMA also approved vesting requirements for employees hired after 2007 regarding these benefits in order to reduce future costs. In March 2012, the WMA approved paying the trust's unfunded liability of approximately

$2.2M and receives an annual reimbursement from the trust (approximately $130K in FY14/15) for those already retired as their premiums are included in the Agency's monthly health bill.

With respect to the WMA's current unfunded liability, the GASB 68 accounting valuation report findings (that were presented in November) stated that the WMA's unfunded liability was approximately $3.5M. That information was based on data carried over from June 2013. The most current annual valuation report from June 2014 showed the Agency's unfunded liability to be approximately $4M. The lump sum payment made by Agency in January 2016 revised the unfunded liability to approximately $3.5M and the CalPERS actuary estimated the Agency's funded status to now be approximately 83%. This payment also reduced the Agency's annual contribution to CalPERS in fiscal year 16/17 by $45K and reduced the rate (which includes the normal cost and the UL converted to an annual percentage) from 15.6% to 14.4%.

The Board asked to discuss pension funding target given the uncertainty of the CalPERS assumptions and how that uncertainty could impact funding status. Specifically, whether paying off the unfunded liability in whole was prudent since it could either result in overfunding or if certain assumptions were not realized result in underfunding again. The CalPERS actuary estimated that it would cost the Agency approximately $1.6M to achieve a 90% funded status and it would cost approximately $2.7M and to achieve a 95% funded status. These figures could change based on the market value of the Agency's plan. Achieving and maintaining a 90% funded goal would be prudent from a financial standpoint while minimizing the risk of overfunding the plan. Additionally, we estimate that the Agency's annual contributions to CalPERS would be reduced by over $200,000 which will help to maintain core expenditures.

As such, staff is recommending setting a 90% funding goal which could be paid in a lump sum assuming the WMA receives the conservation easement payment from NextEra. This payment is estimated to total $1.9M. Given the timing of the NextEra payment, this transaction would be incorporated into the FY16/17 mid-year budget. Should the cost to achieve this goal at the time exceed the NextEra payment or should the NextEra agreement not be executed, staff recommends bringing this item back to the Board with options on how to pay the unfunded liability or any outstanding balance necessary to achieve the 90% goal. Should the NextERA payment exceed the cost of paying the UL, staff recommends that the remaining proceeds go to the Pension Reserve Fund to be used in the future (should the UL fall below the 90% funded status goal).

For comparison purposes only one member agency currently has a funded status in the 90% range for its miscellaneous "first tier" employees. The funded status for member agencies first tier miscellaneous plans range based on the last valuation report from 69.2% to 90.2% with most of the agencies falling in the low to high 70% range.

RECOMMENDATION

Staff recommends that the WMA Board adopt a pension funded status goal of 90% which is estimated to cost approximately $1.6M. Assuming the agreement with NextEra for the conservation easement is finalized, staff recommends that the WMA approve using those proceeds to make a lump sum payment to CalPERS to pay the unfunded liability (UL) sufficient to achieve the 90% funded status level.