DATE: March 12, 2020

TO: Programs and Administration Committee

FROM: Pat Cabrera, Administrative Services Director

SUBJECT: Unfunded Liability Policy

SUMMARY

At the March 12, 2020 Programs and Administration Committee meeting, staff will present funding options for the Agency's retirement plan with CalPERS. Staff will also recommend that the Committee forward a recommendation to the WMA Board to revise the Agency's funded status goal to achieve at least a 95% funded status with the option of being fully funded by the beginning of FY25-26.

DISCUSSION

At the February 17, 2016 meeting, the WMA Board approved a 90% pension funded status goal (see attachment 1). Based on the latest actuarial information, the Agency is at a 90.61% funded status. While that is considered to be in the "comfort zone" with our ability to pay pension obligations, we are in a position to improve this status and save between $1.5M to $2.0M in interest costs.

CalPERS has embarked on an ambitious plan to improve its funded status overall. As such, it has shortened the periods in which employers can pay their unfunded accrued liability (UAL). By reducing the amortization period on gains and losses from 30 years to 20 years (effective with the June 30, 2019 actuarial valuation) and reducing its targeted rate of return, many public sector entities will experience sizable rate increases over the next five years. As shown on attachment 2, with our last additional discretionary payment (ADP) of $552,813 we attained a funded status of 90.6%. Assuming CalPERS maintains its 7.0% rate of return, our normal cost will stay at 12.4% for classic employees and 7.7% for PEPRA employees through FY25-26. However, the annual funding required to cover the Agency's UAL for classic employees ranges between $157,000 to over $400,000 (except for the last payment in FY37-38), or an additional 8% to approximately 12% of annual payroll costs. Over this eighteen year time span the Agency will be paying in total approximately $2.4M in interest.

<u>Additional Funding Options</u>

1. ADP payment of approximately $1.4M in FY20-21 along with its annual UAL payment, close to 100% funded status by FY31-32, saving approximately $1.5M in interest. See attachment 3.

2. ADP payment of $1.4M in FY20-21 and subsequent additional payments of approximately $358,000 (as well as the annual required payment ranging from approximately $158,000 to

$164,000), 100% funded status by the beginning of FY25-26, saving approximately $2.1M in interest. See attachment 4.

These analyses were based on information provided in the last actuarial valuation and could change depending on actual rates of return and other factors such as changes in mortality, actual employee costs (higher or lower compared to the assumptions), early retirements, etc. However, notwithstanding these variables, the projections do illustrate that the Agency can continue to improve its funded status and generate considerable savings, which in turn can be used to fund core operations.

With respect to concerns regarding overfunding the pension plan, while going over 100% presents some risks (e.g. the Agency cannot withdraw those funds), given the numerous variables that impact an Agency's funded status, this risk does appear low. The funded status of an agency is based on a "snapshot in time" and as explained above can and will more than likely change. CalPERS is again considering lowering its targeted rate of return, which further reduces the likelihood of overfunding the plan.

Current and Forecast Financials

The Agency's financial position is currently very strong. Accumulated fund balances and reserves are projected to total approximately $27.2M at the end of this fiscal year. If the payments were made as described in attachment 3, and assuming we maintain our goals of matching ongoing expenditures with ongoing revenues, fund balances and reserves would total approximately $25.8M at the end of FY23-24. As previously mentioned, paying off the UAL will significantly reduce annual operating costs. This will be most important in future years should tonnage based revenue decline.

Therefore, it would be financially prudent to make the lump sum payment of $1.4M in FY20-21, which should result in a 95% funded status. Staff will review the Agency's funded status each year with the CalPERS actuary prior to making subsequent ADPs to minimize the possibility of exceeding the 100% threshold. These additional payments pertain to classic employees only. The funded status for PEPRA employees based on the last valuation is 94.8% with a UAL of only $21,334. Staff will consider paying off this unfunded liability after reviewing the PEPRA valuation report later this year.

RECOMMENDATION

That the P&A Committee discuss this item and recommend that the WMA adopt the requested changes as follows:

1. Approve as part of the FY20-21 budget an additional a lump sum payment to CalPERS of approximately $1.4M to pay its unfunded liability.
2. Adopt an unfunded status goal on at least 95%.
3. Make additional annual payments towards the Agency's UAL, depending on funding availability, to achieve a 100% funded status by the beginning of FY 25-26 as per option 2 above.

Attachments:
Attachment 1: Unfunded Liability Memo dated February 17, 2016
Attachment 2: Current Funded Status
Attachment 3: 95% Funded Status
Attachment 4: 100% Funded Status

Attachment 1

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.

Attachment 2

Agency: ALAMEDA COUNTY WASTE MANAGEMENT AUTHORITY MISCELLANEOUS PLAN

Rate Plan ID: 1660 **ADP is assumed to be received by the middle of each fiscal year.**

	Total ADP	Original Schedule			Schedule with ADP		
Year	(Valued Mid-year)	UAL Balance	Payment	Funded Status%	UAL Balance	Payment	Funded Status%
2018-19		$ 3,419,138	$ 3,066	89.02%	$ 3,419,138	$ 3,066	89.02%
2019-20	$ 552,813	$ 3,655,305	$ 101,344	88.84%	$ 3,655,305	$ 101,344	88.84%
2020-21	**$ -**	$ 3,806,345	**$ 291,626**	88.95%	$ 3,234,511	$ 157,997	**90.61%**
2021-22	$ -	$ 3,771,129	$ 364,785	89.60%	$ 3,297,493	$ 227,481	90.91%
2022-23	$ -	$ 3,657,771	$ 425,732	90.42%	$ 3,293,009	$ 284,652	91.38%
2023-24	$ -	$ 3,473,435	$ 458,297	91.37%	$ 3,229,074	$ 313,338	91.98%
2024-25	$ -	$ 3,242,509	$ 460,252	92.36%	$ 3,130,990	$ 344,896	92.62%
2025-26	$ -	$ 2,993,396	$ 354,380	93.31%	$ 2,993,396	$ 354,380	93.31%
2026-27	$ -	$ 2,836,360	$ 364,126	93.99%	$ 2,836,360	$ 364,126	93.99%
2027-28	$ -	$ 2,658,250	$ 374,139	94.67%	$ 2,658,250	$ 374,139	94.67%
2028-29	$ -	$ 2,457,315	$ 384,428	95.33%	$ 2,457,315	$ 384,428	95.33%
2029-30	$ -	$ 2,231,671	$ 395,000	95.99%	$ 2,231,671	$ 395,000	95.99%
2030-31	$ -	$ 1,979,297	$ 405,862	96.63%	$ 1,979,297	$ 405,862	96.63%
2031-32	$ -	$ 1,698,021	$ 417,024	97.27%	$ 1,698,021	$ 417,024	97.27%
2032-33	$ -	$ 1,385,509	$ 396,611	97.89%	$ 1,385,509	$ 396,611	97.89%
2033-34	$ -	$ 1,072,237	$ 374,761	98.46%	$ 1,072,237	$ 374,761	98.46%
2034-35	$ -	$ 759,637	$ 337,692	98.97%	$ 759,637	$ 337,692	98.97%
2035-36	$ -	$ 463,500	$ 281,719	99.41%	$ 463,500	$ 281,719	99.41%
2036-37	$ -	$ 204,533	$ 176,789	99.75%	$ 204,533	$ 176,789	99.75%
2037-38	$ -	$ 35,978	$ 37,216	99.96%	$ 35,978	$ 37,216	99.96%
2038-39	$ -	$ -	$ -		$ -	$ -	
2039-40	$ -	$ -	$ -		$ -	$ -	
2040-41	$ -	$ -	$ -		$ -	$ -	
2041-42	$ -	$ -	$ -		$ -	$ -	
2042-43	$ -	$ -	$ -		$ -	$ -	
2043-44	$ -	$ -	$ -		$ -	$ -	
2044-45	$ -	$ -	$ -		$ -	$ -	
2045-46	$ -	$ -	$ -		$ -	$ -	
2046-47	$ -	$ -	$ -		$ -	$ -	
2047-48	$ -	$ -	$ -		$ -	$ -	
2048-49	$ -	$ -	$ -		$ -	$ -	
2049-50	$ -	$ -	$ -		$ -	$ -	

Total Interest Paid $ 2,494,097

Total Interest Paid $ 2,364,297

Total Interest Savings **$ 129,800**

Attachment 3

Agency: ALAMEDA COUNTY WASTE MANAGEMENT AUTHORITY MISCELLANEOUS PLAN

Rate Plan ID ADP is assumed to be received by the middle of each fiscal year.

	Total ADP	Original Schedule			Schedule with ADP		
Year	(Valued Mid-year)	UAL Balance	Payment	Funded Status%	UAL Balance	Payment	Funded Status%
2018-19		$ 3,419,138	$ 3,066	89.02%	$ 3,419,138	$ 3,066	89.02%
2019-20	$ 552,813	$ 3,655,305	$ 101,344	88.84%	$ 3,655,305	$ 101,344	88.84%
2020-21	**$ 1,434,590**	$ 3,806,345	**$ 291,626**	88.95%	$ 3,234,511	$ 157,997	90.61%
2021-22	$ -	$ 3,771,129	$ 364,785	89.60%	$ 1,813,542	$ 153,548	**95.00%**
2022-23	$ -	$ 3,657,771	$ 425,732	90.42%	$ 1,781,659	$ 188,716	95.34%
2023-24	$ -	$ 3,473,435	$ 458,297	91.37%	$ 1,711,166	$ 212,754	95.75%
2024-25	$ -	$ 3,242,509	$ 460,252	92.36%	$ 1,610,872	$ 239,482	96.20%
2025-26	$ -	$ 2,993,396	$ 354,380	93.31%	$ 1,475,911	$ 246,067	96.70%
2026-27	$ -	$ 2,836,360	$ 364,126	93.99%	$ 1,324,691	$ 252,834	97.19%
2027-28	$ -	$ 2,658,250	$ 374,139	94.67%	$ 1,155,886	$ 259,787	97.68%
2028-29	$ -	$ 2,457,315	$ 384,428	95.33%	$ 968,072	$ 266,931	98.16%
2029-30	$ -	$ 2,231,671	$ 395,000	95.99%	$ 759,721	$ 274,272	98.63%
2030-31	$ -	$ 1,979,297	$ 405,862	96.63%	$ 529,192	$ 281,815	99.10%
2031-32	$ -	$ 1,698,021	$ 417,024	97.27%	$ 274,724	$ 284,177	99.56%
2032-33	$ -	$ 1,385,509	$ 396,611	97.89%	$ -	$ -	
2033-34	$ -	$ 1,072,237	$ 374,761	98.46%	$ -	$ -	
2034-35	$ -	$ 759,637	$ 337,692	98.97%	$ -	$ -	
2035-36	$ -	$ 463,500	$ 281,719	99.41%	$ -	$ -	
2036-37	$ -	$ 204,533	$ 176,789	99.75%	$ -	$ -	
2037-38	$ -	$ 35,978	$ 37,216	99.96%	$ -	$ -	
2038-39	$ -	$ -	$ -		$ -	$ -	
2039-40	$ -	$ -	$ -		$ -	$ -	
2040-41	$ -	$ -	$ -		$ -	$ -	
2041-42	$ -	$ -	$ -		$ -	$ -	
2042-43	$ -	$ -	$ -		$ -	$ -	
2043-44	$ -	$ -	$ -		$ -	$ -	
2044-45	$ -	$ -	$ -		$ -	$ -	
2045-46	$ -	$ -	$ -		$ -	$ -	
2046-47	$ -	$ -	$ -		$ -	$ -	
2047-48	$ -	$ -	$ -		$ -	$ -	
2048-49	$ -	$ -	$ -		$ -	$ -	
2049-50	$ -	$ -	$ -		$ -	$ -	

Total Interest Paid	$ 2,494,097	Total Interest Paid	$ 989,154
		Total Interest Savings	$ 1,504,942

Attachment 4

Agency: ALAMEDA COUNTY WASTE MANAGEMENT AUTHORITY MISCELLANEOUS PLAN

Rate Plan ID: 1660 **ADP is assumed to be received by the middle of each fiscal year.**

	Total ADP	Original Schedule			Schedule with ADP		
Year	(Valued Mid-year)	UAL Balance	Payment	Funded Status%	UAL Balance	Payment	Funded Status%
2018-19		$ 3,419,138	$ 3,066	89.02%	$ 3,419,138	$ 3,066	89.02%
2019-20	$ 552,813	$ 3,655,305	$ 101,344	88.84%	$ 3,655,305	$ 101,344	88.84%
2020-21	**$ 1,434,590**	$ 3,806,345	**$ 291,626**	88.95%	$ 3,234,511	**$ 157,997**	**90.61%**
2021-22	$ 357,667	$ 3,771,129	$ 364,785	89.60%	$ 1,813,542	$ 153,548	95.00%
2022-23	$ 357,667	$ 3,657,771	$ 425,732	90.42%	$ 1,411,684	$ 164,251	96.30%
2023-24	$ 357,667	$ 3,473,435	$ 458,297	91.37%	$ 970,626	$ 161,913	97.59%
2024-25	$ 357,667	$ 3,242,509	$ 460,252	92.36%	$ 501,111	$ 160,685	98.82%
2025-26	$ -	$ 2,993,396	$ 354,380	93.31%	$ -	$ -	**100.00%**
2026-27	$ -	$ 2,836,360	$ 364,126	93.99%	$ -	$ -	
2027-28	$ -	$ 2,658,250	$ 374,139	94.67%	$ -	$ -	
2028-29	$ -	$ 2,457,315	$ 384,428	95.33%	$ -	$ -	
2029-30	$ -	$ 2,231,671	$ 395,000	95.99%	$ -	$ -	
2030-31	$ -	$ 1,979,297	$ 405,862	96.63%	$ -	$ -	
2031-32	$ -	$ 1,698,021	$ 417,024	97.27%	$ -	$ -	
2032-33	$ -	$ 1,385,509	$ 396,611	97.89%	$ -	$ -	
2033-34	$ -	$ 1,072,237	$ 374,761	98.46%	$ -	$ -	
2034-35	$ -	$ 759,637	$ 337,692	98.97%	$ -	$ -	
2035-36	$ -	$ 463,500	$ 281,719	99.41%	$ -	$ -	
2036-37	$ -	$ 204,533	$ 176,789	99.75%	$ -	$ -	
2037-38	$ -	$ 35,978	$ 37,216	99.96%	$ -	$ -	
2038-39	$ -	$ -	$ -		$ -	$ -	
2039-40	$ -	$ -	$ -		$ -	$ -	
2040-41	$ -	$ -	$ -		$ -	$ -	
2041-42	$ -	$ -	$ -		$ -	$ -	
2042-43	$ -	$ -	$ -		$ -	$ -	
2043-44	$ -	$ -	$ -		$ -	$ -	
2044-45	$ -	$ -	$ -		$ -	$ -	
2045-46	$ -	$ -	$ -		$ -	$ -	
2046-47	$ -	$ -	$ -		$ -	$ -	
2047-48	$ -	$ -	$ -		$ -	$ -	
2048-49	$ -	$ -	$ -		$ -	$ -	
2049-50	$ -	$ -	$ -		$ -	$ -	

Total Interest Paid $ 2,494,097

Total Interest Paid $ 399,838

Total Interest Savings $ 2,094,259