Subject: Prepayment to CalPERS of Fiscal Year 2018-19 Unfunded Accrued Liability (UAL) Payment

Department: County Administration

Meeting Date Requested: July 24, 2018

Contact: Meegan Jessee
Phone: 530.552.3312

Regular Agenda ☒
Consent Agenda ☐

Department Summary: (Information provided in this section will be included on the agenda. Attach explanatory memorandum and other background information as necessary).

The County contracts with CalPERS to provide retirement benefits for County employees. The retirement benefits are funded through a combination of contributions by the employer and employees as well as CalPERS investments earnings. Employer contribution requirements are determined by annual actuarial valuations. The annual required employer contribution to CalPERS is comprised of the normal cost and the UAL payment. The normal cost portion of the annual contribution is the annual cost associated with one year of service accrual and it is calculated and paid as a percent of pay. The County’s payment towards the UAL is a flat dollar amount. The UAL can be paid in twelve monthly payments or may be prepaid in July at a discounted rate.

Similar to last year, staff recommends prepayment of the $12.4 million UAL payment for fiscal year 2018-19 using the Pension Obligation Bond Debt Service Fund (POB Fund) ($9.7 million), Information Systems Equipment Replacement Fund ($1.55 million) and Sheriff’s Office Equipment Replacement Fund ($1.2 million). All POB debt service and equipment replacement funds would be repaid with interest during the 2018-19 fiscal year with budgeted payroll collections and no planned purchases or debt payments would be impacted. Net County savings are estimated to be 389,396.

Fiscal Impact:
The County will realize a net savings of $389,396

Personnel Impact:
Does not apply.

Action Requested:
Approve the UAL prepayment and advances as detailed in the staff report.

Administrative Office Review: Brian Ring, ACAO
MEMORANDUM

DATE:       July 17, 2018

TO:         Butte County Board of Supervisors

FROM:       Meegan Jessee, Deputy Chief Administrative Officer

RE:         Prepayment of the CalPERS of Fiscal Year 2018-19 Unfunded Accrued Liability Payment

SUMMARY

Staff recommends prepayment of the $12,462,908 Unfunded Accrued Liability (UAL) payment for fiscal year 2018-19 using the Pension Obligation Bond Debt Service Fund (POB Fund) ($9.7 million), Information Systems Equipment Replacement Fund ($1.55 million) and Sheriff’s Office Equipment Replacement Fund ($1.2 million). All POB debt service and equipment replacement funds would be repaid with interest during the 2018-19 fiscal year with budgeted payroll collections and no planned purchases or debt payments would be impacted. Net County savings are estimated to be $389,396.

BACKGROUND

The County contracts with CalPERS to provide retirement benefits for County employees. The retirement benefits are funded through a combination of contributions by the employer and employees as well as CalPERS investments earnings. Employer contribution requirements are determined by annual actuarial valuations. The annual required employer contribution to CalPERS is comprised of the normal cost and the UAL payment. The normal cost portion of the annual contribution is the annual cost associated with one year of service accrual and it is calculated and paid as a percent of pay. The County’s payment towards the UAL is a flat dollar amount. The UAL can be paid in twelve monthly payments or may be prepaid in July at a discounted rate.

Similar to fiscal year 2017-18, staff recommends prepayment of the UAL payment. The prepayment is $9,501,790 for the CalPERS retirement plan for miscellaneous employees and $2,961,118 for safety employees for a combined payment of $12,462,908. Staff recommends advancing $9,712,908 from the POB Fund, $1,550,000 from the Information Systems Equipment Replacement Fund and $2,140,000 from the Sheriff’s Office Equipment Replacement Fund.
Equipment Replacement Fund and $1,200,000 from the Sheriff’s Office Equipment Replacement Fund to make the prepayment. The equipment replacement funds would be fully reimbursed by October 31, 2018 through budgeted department collections and no planned purchases from the funds would be impacted. The POB Fund would be reimbursed through budgeted department collections through the balance of fiscal year 2018-19 and no debt payments would be impacted. The prepayment would reduce the total payment to CalPERS by $451,396. Interest to be paid to the equipment replacement and POB funds is estimated to be $62,000 and would reduce total savings to an estimated $389,396.

The Finance Work Team is in the process of developing a strategy to address CalPERS pension costs, which are anticipated to increase significantly over the next ten years. Staff anticipate that the savings from the prepayment in both the prior and current fiscal years will be included and that the strategy will be presented to the Board of Supervisors for consideration in the coming months.

**REQUESTED ACTION**

Approve the prepayment of UAL payment and advances as detailed in the staff report.