AGENDA ITEM NO. 11-G

MONTEREY PENINSULA REGIONAL PARK DISTRICT
BOARD OF DIRECTORS MEETING

DATE:	**February 7, 2018**
TO:	**Board of Directors**
FROM:	**Kelly McCullough, Finance Manager**
REVIEWED BY:	**Rafael Payan, General Manager**
SUBJECT:	**Review of CalPERS Pension Plan Discount Rate Change Impacts and Consider Approval to Pay CalPERS PEPRA Plan Side Fund and Other Amortized Bases**

RECOMMENDED ACTION
Staff respectfully recommends that the Board approve payment of the PEPRA plan Side Fund and other Amortized Bases.

FISCAL IMPACT:
$13,301

FUNDING SOURCE:
6507.02 – PERS - Funding for this expenditure can be made from anticipated vacancy savings in the Land Conservation/ Resource Management Budget, PERS Benefit line item.

FUNDING BALANCE:
As of the date of this report there is $19,379 available in this budget line item.

DISCUSSION:
The July 12, 2017, Division Report, Item 13-A2, contained detailed information regarding the impact of CalPERS new discount rate. Much of that information has not changed and is included in this report for further discussion.

At the December 21, 2016 meeting, the CalPERS Board of Administration approved lowering the CalPERS discount rate assumption, the long-term rate of return, from 7.50 percent to 7.00 percent over the next three years. This will increase the District's employer contribution costs beginning in Fiscal Year 2018-19.

The phase-in of the discount rate change approved by the Board for the three Fiscal Years is as follows:

Valuation Date	Fiscal Year for Required Contribution	Discount Rate
June 30, 2016	2018-19	7.375%
June 30, 2017	2019-20	7.25%
June 30, 2018	2020-21	7.00%

Lowering the discount rate means the District's plan will see increases in both the normal costs (the cost of pension benefits accruing in one year for active members) and the accrued liabilities. These increases will result in higher required employer contributions.

In addition, active members hired after January 1, 2013, under the Public Employee's Pension Reform Act (PEPRA) may also see their contribution rates rise.

The table below was provided by CalPERS as a broad estimate of the potential increase to both the normal cost and the unfunded accrued liability (UAL) of the Miscellaneous Plan.

		Normal Cost	UAL Payments
Valuation Date	Fiscal Year Impact	Misc. Plan	Misc. Plan
6/30/2016	2018-19	0.25% - 0.75%	2% - 3%
6/30/2017	2019-20	0.5% - 1.5%	4% - 6%
6/30/2018	2020-21	1.0% - 3.0%	10% -15%
6/30/2019	2021-22	1.0% - 3.0%	15% - 20%
6/30/2020	2022-23	1.0% - 3.0%	20% - 25%
6/30/2021	2023-24	1.0% - 3.0%	25% - 30%
6/30/2022	2024-25	1.0% - 3.0%	30% -40%

Beginning with Fiscal Year 2015-16 employer contributions were split in two separate accounts receivable types: normal cost and unfunded accrued liability (UAL). The normal cost portion is billed as a percentage of payroll. The UAL is billed as a lump sum set dollar amount toward UAL and the side fund. Previously all contributions were billed as a rate expressed as a percentage of payroll.

The UAL sum is billed as twelve monthly installments. A UAL prepayment option is available. This prepayment is a discounted amount compared to the sum of the twelve monthly installments. Payment as a prepayment must be received by July 31 of each fiscal year or the default automatically becomes twelve monthly installments. If the District chooses to make twelve monthly payments, they must be received by the due date to avoid interest at the rate of 10 percent on 100 percent of the outstanding amount invoiced and a 10 percent delinquency penalty.

The District has saved a combined total of $13,389 over the last two fiscal years by making the lump sum prepayment rather than twelve monthly installments. The lump sum prepayment for Fiscal Year 2017-18 was $210,500 in the Miscellaneous Plan and $108 in the PEPRA Plan.

<u>Side Fund & Other Amortized Bases</u>

The District has a side fund balance projected to be $288,237 at June 30, 2018 in the Miscellaneous Plan. The side fund and other amortized bases combined total balance at June 30,2018 is $2,952,969.

The PEPRA Plan has no Side Fund but does have other amortized bases totaling $13,301 at June 30, 2018.

A side fund is created when an agency becomes part of the CalPERS risk-sharing plan, a requirement of agencies with less than 100 employees. A side fund accounts for the difference between the District plan's funded status and the funded status of the overall risk pool. CalPERS treats this liability like a loan that is amortized over time. The current rate of interest on our side fund is 7.5%. Our side fund is expected to be paid off in Fiscal Year 2020-21.

The payment of the side fund is calculated into the monthly CalPERS retirement contribution. Some agencies with extremely large side funds have opted to pay off the side fund early to benefit from interest savings. Due to the relatively small amount the District owes on the side fund, compared to the funded status, staff does not see a substantial benefit in using reserve funds to pay off the side fund early. In addition, the damage and repair costs required for post-fire and storm damage are expected to deplete our emergency targeted reserves and may not be immediately replenished through insurance and FEMA reimbursements.

The amortized bases in the PEPRA Plan are relatively small ($13,301) and staff anticipates savings in the Land Conservation/Resource Management PERS Benefit Budget over the next 6 months. Therefore, staff respectfully recommends that the Board consider and approve making a payment of $13,301 towards these amortized bases costs from anticipated and budgeted salary benefit savings.