

## AGENDA REPORT

**Resolution:** Authorization to Enter into a Letter Agreement with the City of Oakland Outlining Port Pension Payments for FY 2016 as a Result of the City Participating in the CalPERS Pre-Pay Program. **Finance & Administration**

**MEETING DATE:** 5/14/2015

**AMOUNT:** \$16,031,879 (FY2016); Anticipated FY 2016 Pension Savings of \$1.15 million  
Operating Expense

**PARTIES INVOLVED:** City of Oakland  
Katano Kasaine, Treasurer

**SUBMITTED BY:** Sara Lee, Chief Financial Officer

**APPROVED BY:** J. Christopher Lytle, Executive Director

**ACTION TYPE:** Resolution

### **EXECUTIVE SUMMARY**

This action would adopt a resolution to authorize the Chief Financial Officer to enter into a Letter Agreement with the City of Oakland ("City"). The Letter Agreement outlines the procedures for reimbursing the City for making a lump sum prepayment of the Port's FY 2016 pension contribution under the California Public Employees' Retirement System ("CalPERS") Pre-Pay Program.

### **BACKGROUND**

The Port participates in the California Public Employees' Retirement System ("CalPERS") through the City of Oakland ("City") Miscellaneous Plan. The City is the contracting agency with CalPERS. Each year, CalPERS updates contribution rates for its member employers, who then make bi-weekly contributions based on actual payroll. For the Port (and City Miscellaneous employees), the employer pension contribution rate will be 32.936% of payroll for FY 2016. Although the Port is part of the City's contract, the Port makes its pension contribution payments directly to CalPERS.

CalPERS also offers a Pre-Pay Program. The Pre-Pay Program provides a 3.551% discount for making the full estimated annual pension contribution by July 15, 2015. City and Port staff expect that it will be economically advantageous to participate in the Pre-Pay Program. As the contracting agency, City staff has proposed that they make the lump sum prepayment to

CalPERS for the City Miscellaneous Plan for FY 2016, which includes the Port's share, and for the Port to reimburse the City for the Port's share through fixed bi-weekly payments over the course of FY 2016. City staff plans on presenting this item to City Council in May 2015.

## **ANALYSIS**

CalPERS has informed the City that the lump sum prepayment amount for the City's Miscellaneous Plan for FY 2016 is \$63.7 million. CalPERS calculates the lump sum prepayment based on FY 2013 actual payroll. Based on the Port's and City's estimated FY 2016 payroll, the Port's share of the lump sum prepayment for the City Miscellaneous Plan is 25.18%, or \$16.03 million.

In order to make the lump sum prepayment, the City would use proceeds of its 2015-16 Tax and Revenue Anticipation Notes ("TRANS"). TRANS is a short-term debt instrument typically used to fund operations in advance of tax receipts. The City, like many other municipalities, typically issues TRANS each year. The interest rate on the TRANS is anticipated to be less than the 3.551% discount rate provided by CalPERS. The Port will not be the obligor on the TRANS. Instead, the Port would reimburse the City for the Port's share of the lump sum prepayment in fixed payments of \$616,611 over 26 pay periods, for a total pension contribution payment in FY 2016 of \$16.03 million. The Port's share will be fixed and will not be increased for interest cost, cost of financing or other expenses incurred by the City.

Based on estimated FY 2016 payroll, it is estimated that the Port's pension cost will be \$17.19 million. Under the prepayment option, the Port will reimburse the City \$16.03 million, for a savings of approximately \$1.15 million. The table below summarizes the anticipated savings. Actual savings will depend on the Port's actual FY 2016 payroll. The savings will be lower, if the actual payroll is lower than the estimate. The savings will be higher, if the actual payroll exceeds the estimate. For the Port to not realize savings (and overpay), actual FY 2016 payroll would need to be less than \$48.7 million. This level of payroll is not expected as a payroll of \$48.7 million is similar to actual payroll in FY 2014 (\$48.6 million).

### **Savings Analysis**

FY 2016 Payroll	\$52,177,500
Pension Cost @ 32.936%	17,185,181
Pension Costs under Prepayment Option - Fixed	16,031,879
Savings	\$1,153,302

## **BUDGET & STAFFING**

It is anticipated that the Port will realize a savings of approximately \$1.15 million (subject to actual FY 2016 payroll) by supporting City staff's desire to participate in the CalPERS Pre-Pay Program for FY 2016, which will prepay the obligations for the City Miscellaneous Plan for FY

2016 (which includes Port employees), as calculated by CalPERS using estimated payroll figures and a discount of 3.551%. If the City ultimately does not participate in CalPERS Pre-Pay Program for FY 2016, the Port will continue to make bi-weekly pension contributions to CalPERS based on actual payroll.

The proposed action does not have any staffing impact.

### **MARITIME AVIATION PROJECT LABOR AGREEMENT (MAPLA)**

The matters contained in this Agenda Report do not fall within the scope of the Port of Oakland Maritime and Aviation Project Labor Agreement (MAPLA) and the provisions of the MAPLA do not apply.

### **STRATEGIC PLAN**

The action described herein would help the Port achieve the following goals and objectives in the Port's Strategic Plan (<http://www.portoakland.com/pdf/about/strategicPlan2011-2015.pdf>)

Goal D: Improve the Port's Financial Position

### **LIVING WAGE**

Living wage requirements, in accordance with the Port's Rules and Regulations for the Implementation and Enforcement of the Port of Oakland Living Wage Requirements (the "Living Wage Regulations"), do not apply because the requested action is not an agreement, contract, lease, or request to provide financial assistance within the meaning of the Living Wage Regulations.

### **ENVIRONMENTAL**

The proposal to authorize the Chief Financial Officer to enter into a Letter Agreement outlining Port pension payments for FY 2016 as a result of the City participating in the CalPERS Pre-Pay Program was reviewed in accordance with the requirements of the California Environmental Quality Act (CEQA), and the Port CEQA Guidelines. CEQA only requires analysis of activities that are defined as a "project". The creation of government funding mechanisms or other government fiscal activities that do not involve any commitment to any specific project that may result in a potentially significant physical impact on the environment is not a project pursuant to Section 15378(b)(4) of the CEQA Guidelines. Therefore, the proposed agreement is not a project under CEQA.

### **GENERAL PLAN**

This action does not change the use of any existing facility, make alterations to an existing facility, or create a new facility; therefore, a General Plan conformity determination pursuant to Section 727 of the City of Oakland Charter is not required.

### **OWNER-CONTROLLED INSURANCE PROGRAM (OCIP)/ PROFESSIONAL LIABILITY INSURANCE PROGRAM (PLIP)**

The Owner Controlled Insurance Program (OCIP) and Professional Liability Insurance Program (PLIP) do not apply to the matters addressed by this Agenda Report as they are not capital improvement construction or design projects.

### **OPTIONS**

- Authorize the Chief Financial Officer to enter into a Letter Agreement with the City outlining Port pension payments of \$16.03 million for FY 2016 as a result of the City participating in the CalPERS Pre-Pay Program, subject to approval as to form and legality by the Port Attorney. This is the recommended action.
- Do not authorize the Chief Financial Officer to enter into a Letter Agreement with the City outlining Port pension payments for FY 2016 as a result of the City participating in the CalPERS Pre-Pay Program. This is likely to prevent the City from participating in the CalPERS Pre-Pay Program for the City Miscellaneous Plan, for which the Port is a participant. Instead, the Port would continue to make bi-weekly contributions to CalPERS based on actual payroll. This is likely to result in foregone savings for the Port and the City.

### **RECOMMENDATION**

- Port staff recommends that the Board authorize the Chief Financial Officer to enter into a Letter Agreement with the City outlining Port pension payments of \$16.03 million for FY 2016 as a result of the City participating in the CalPERS Pre-Pay Program, subject to approval as to form and legality by the Port Attorney.