

AGENDA REPORT

Resolution: Authorization to (i) Pre-Pay the Port's Proportionate Share of the FY 2019 Unfunded Accrued Liability for the City of Oakland Miscellaneous Plan (Pension Plan) for which the Port is a Participant in Lieu of 12 Monthly Payments and (ii) Enter into a Letter Agreement with the City Outlining Certain Procedures for FY 2019 as a Result of the City Participating in the CalPERS Pre-Pay Program. **Finance & Administration**

MEETING DATE: 5/10/2018

AMOUNT: \$15,393,487 FY 2019 Pre-Payment;
\$449,538 FY 2019 Net Pension Savings (estimate)
Operating Expense

PARTIES INVOLVED: City of Oakland
Katano Kasaine, Director of Finance

SUBMITTED BY: Sara Lee, Chief Financial Officer

APPROVED BY: J. Christopher Lytle, Executive Director

ACTION TYPE: Resolution

EXECUTIVE SUMMARY

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. City staff desires to participate in the CalPERS Pre-Pay Program, which in FY 2019 provides a 3.5% discount/savings on the Unfunded Accrued Liability ("UAL") portion of the annual pension contribution amount if pre-paid in full by July 31, 2018, in lieu of making 12 monthly payments over the course of the fiscal year. In order for the City to participate in the Pre-Pay Program, the City requires the Port to pre-pay its proportionate share of the FY 2019 UAL. The FY 2019 UAL for the City Miscellaneous Plan is \$64,318,649, and the Port's share is 24.8% or \$15,951,025. This action would reduce the Port's FY 2019 UAL by 3.5%, resulting in net pension savings to the Port of approximately \$449,538. Port staff supports the City's participation in the Pre-Pay Program, and accordingly, recommends that the Port pre-pay its proportionate share of the FY 2019 UAL. City staff plans on presenting participation in the Pre-Pay Program to City Council in May 2018.

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 the annual pension contribution amount for its member employers based on an updated actuarial report. The annual pension contribution is comprised of a Normal Cost and an Unfunded Accrued Liability (UAL)¹. The Port submits pension contribution payments for the Normal Cost bi-weekly, consistent with payroll periods. UAL payments are made in 12 equal monthly payments if not pre-paid by July 31. In FY 2017, the Port made pension contributions to CalPERS for the City Miscellaneous Plan totaling \$19 million and in FY 2018, pension contributions are budgeted at \$20.3 million.²

CalPERS also offers a Pre-Pay Program. In FY 2019, the Pre-Pay Program provides a 3.5% discount/savings for pre-paying the full amount of the annual UAL portion by July 31, 2018. The Pre-Pay Program does not allow pre-payment of the Normal Cost portion of the annual pension contribution. The Normal Cost for FY 2019 is 11.302% of payroll, and will be paid bi-weekly based on actual payroll.

In FY 2018, the City participated in the CalPERS Pre-Pay Program. The City issued Tax Revenue Anticipation Notes ("TRANS") in order to pre-pay the FY 2018 UAL portion of the annual pension contributions for the City Miscellaneous Plan³. The Port repaid the City for its proportionate share of the FY 2018 UAL. A Letter Agreement with the City was entered into, outlining the Port's payment, as a result of the City's participation in the Pre-Pay Program.

¹ Based on an updated actuarial report, the Normal Cost is the pension cost for an employee's current year of service. This cost is expressed as a percentage of payroll. The Unfunded Accrued Liability is pension amounts accrued for past service, but not yet funded. Beginning in FY 2018, this cost is provided as a fixed dollar amount rather than a percentage of payroll.

² In addition, the Port makes pension payments for (i) retroactive contributions for reclassified safety workers and (ii) the CalPERS Replacement Benefits for certain high-earning retirees each year. FY 2018 budgeted amounts total approximately \$1.2 million.

³ 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.

ANALYSIS

The Port's FY 2019 estimated pension payments as established by CalPERS is provided in the table on the following page:

FY 2019 Estimated Port Pension Contributions to the City Miscellaneous Plan	
Normal Cost (Estimate) (11.302% of Payroll)	\$6,728,119
Unfunded Accrued Liability (UAL) (Fixed \$)	\$15,951,025
Total Pension Payments (Estimate)	\$22,679,144
% of Payroll (Estimate)	38%

Under the CalPERS Pre-Pay Program, the net savings on the Port's proportionate share of the UAL portion of the City Miscellaneous Plan is approximately \$449,538 as outlined in the table below:

FY 2019	Total Misc. Plan	Port Share 24.8%⁴
UAL Contribution if Payments Made Monthly	\$64,318,649	\$15,951,025
UAL Contribution if Lump Sum Pre-Payment	\$62,070,512	\$15,393,487
UAL Pre-Payment Discount/Savings (3.5%)	\$2,248,137	\$557,538
Foregone Interest Earnings (Estimate)	na	(\$108,000)
Net Savings from Pre-Pay Program	na	\$449,538

The City plans to use proceeds of its 2018-19 TRANs to pre-pay its proportionate share of the FY 2019 UAL. The Port's Chief Financial Officer recommends that the Port pre-pay its proportionate share of the FY 2019 UAL with cash. The Port would replenish this cash balance over a 12-month period, since monthly pension payments related to the UAL would no longer be made. The Port's cash balance is currently earning approximately 1.50%, so the foregone interest earnings on this amount is estimated to be approximately \$108,000 resulting in net savings of approximately \$449,538.

⁴ Based on FY 2017 audited financial statements and Governmental Accounting Standards Board Statement Number 68 (GASB 68).

Based on the analysis, Port staff recommends that the Board authorize the Chief Financial Officer to (i) enter into a Letter Agreement with the City outlining certain procedures for FY 2019 as a result of the City participating in the CalPERS Pre-Pay Program and (ii) transfer \$15,393,487 to the City, via a book transfer of funds, by July 27, 2018, or such earlier date as reasonably requested by the City, for the purpose of pre-paying the Port's proportionate share of the FY 2019 UAL of the City Miscellaneous Plan, for which the Port is a participant.

BUDGET & STAFFING

The Port will realize net savings of approximately \$449,538 in FY 2019 by supporting City staff's desire to participate in the CalPERS Pre-Pay Program in FY 2019. Instead of making 12 monthly payments totaling \$15,951,025 for the Port's proportionate share of the UAL of the City Miscellaneous Plan, the Port will make a lump sum payment of \$15,393,487 by July 27, 2018. As discussed in "Analysis" above, after taking into account lost interest earnings on the cash balance, the net saving to the Port is estimated to be \$449,538. If the City ultimately does not participate in CalPERS Pre-Pay Program for FY 2019, the Port will make regular monthly pension contributions to CalPERS based on the undiscounted UAL amount.

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 Business Plan (2018-2022). <https://www.portofoakland.com/wp-content/uploads/Port-of-Oakland-Strategic-Plan.pdf>

- Goal: Grow Net Revenues

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.

SUSTAINABILITY

Port staff have reviewed the Port's 2000 Sustainability Policy and did not complete the Sustainability Opportunities Assessment Form. There are no sustainability opportunities related to this proposed action because it does not involve a development project, purchasing of equipment, or operations that presents sustainability opportunities

ENVIRONMENTAL

CEQA Determination: The proposal to authorize the Chief Financial Officer to enter into a Letter Agreement outlining Port pension payments for FY 2019 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

- *Recommended Action:* Authorize the Chief Financial Officer to (i) enter into a Letter Agreement with the City outlining certain procedures for FY 2019 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; and (ii) transfer \$15,393,487 to the City, via a book transfer of funds, by July 27, 2018, or such earlier date as reasonable requested by the City, for the purpose of pre-paying the Port's proportionate share of the FY 2019 UAL of the City Miscellaneous Plan, for which the Port is a participant.
- Do not authorize the Chief Financial Officer to enter into a Letter Agreement with the City outlining certain procedures for FY 2019. This will prevent the City from participating in the CalPERS Pre-Pay Program in FY 2019 for the City Miscellaneous Plan, for which the Port is a participant. Instead, the Port would make monthly payments for the UAL. This will result in foregone savings for the Port and the City.

RECOMMENDATION

- Port staff recommends that the Board authorize the Chief Financial Officer to (i) enter into a Letter Agreement with the City outlining certain procedures for FY 2019 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; and (ii) transfer \$15,393,487 to the City, via a book transfer of funds, by July 27, 2018 or such earlier date as reasonable requested by the City, for the purpose of pre-paying the Port's proportionate share of the FY 2019 UAL of the City Miscellaneous Plan, for which the Port is a participant.