

## AGENDA REPORT

**Resolution:** Authorization to (i) Pre-Pay the Port's Proportionate Share of the FY 2020 Unfunded Accrued Liability for the City of Oakland ("City") 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 2020 as a Result of the City Participating in the CalPERS Pre-Pay Program. **Finance & Administration**

**MEETING DATE:** 4/25/2019

**AMOUNT:** \$17,598,881 FY 2020 Pre-Payment;  
\$420,798 FY 2020 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 2020 provides an approximate 3.44% discount/savings on the Unfunded Accrued Liability ("UAL") portion of the annual pension contribution amount if pre-paid in full by July 31, 2019, 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 2020 UAL. The FY 2020 UAL for the City Miscellaneous Plan is \$73,490,640, and the Port's share is 24.8% or \$18,225,679. This action would reduce the Port's FY 2020 UAL by approximately 3.44%, to \$17,598,881, resulting in net pension savings to the Port of approximately \$420,798 (taking into account foregone interest earnings). 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 2020 UAL. City staff plans on presenting participation in the Pre-Pay Program to City Council in May 2019.

## **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<sup>1</sup> and an Unfunded Accrued Liability ("UAL")<sup>2</sup>. 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 2018, the Port made pension contributions to CalPERS for the City Miscellaneous Plan totaling \$19.3 million and in FY 2019, pension contributions are budgeted at \$22.4 million.<sup>3</sup>

CalPERS offers a Pre-Pay Program for the UAL contribution. For FY 2020, the Pre-Pay Program provides an approximate 3.44% discount/savings for pre-paying the full amount of the annual UAL portion by July 31, 2019. The Pre-Pay Program does not allow pre-payment of the Normal Cost portion of the annual pension contribution. The Normal Cost for FY 2020 is 11.559% of payroll, and will be paid bi-weekly based on actual payroll.

In FY 2018 and FY 2019, the City participated in the CalPERS Pre-Pay Program. The City issued Tax Revenue Anticipation Notes ("TRANS")<sup>4</sup> in order to pre-pay the FY 2018 and FY 2019 UAL portion of the annual pension contributions for the City Miscellaneous Plan. The Port repaid the City for its proportionate share of the UAL in both fiscal years. 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.

## **ANALYSIS**

The Port's FY 2020 estimated pension payments as established by CalPERS is provided in the table on the following page:

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<sup>1</sup> The Normal Cost is the pension cost for an employee's current year of service. This cost is expressed as a percentage of payroll.

<sup>2</sup> The Unfunded Accrued Liability ("UAL") is pension amounts accrued for past service, but not yet funded. Beginning in FY 2018, the UAL cost is provided as a fixed dollar amount rather than a percentage of payroll.

<sup>3</sup> 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 2019 budgeted amounts total approximately \$1.2 million.

<sup>4</sup> 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.

FY 2020 Estimated Port Pension Contributions to the City Miscellaneous Plan	
Normal Cost (Estimate) (11.559% of Payroll)	\$7,550,980
Unfunded Accrued Liability (UAL) (Fixed \$)	\$18,225,679
Total Pension Payments (Estimate)	\$25,776,659
% of Payroll (Estimate)	39.5%

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 \$420,798 as outlined in the table below:

FY 2020	Total Misc. Plan	Port Share 24.8% <sup>5</sup>
UAL Contribution if Payments Made Monthly	\$73,490,640	\$18,225,679
UAL Contribution if Lump Sum Pre-Payment	\$70,963,230	\$17,598,881
UAL Pre-Payment Discount/Savings (3.4391%)	\$2,527,410	\$626,798
Foregone Interest Earnings (Estimate)	na	(\$206,000)
<b>Net Savings from Pre-Pay Program</b>	na	<b>\$420,798</b>

The City plans to use proceeds of its 2019-20 TRANs to pre-pay its proportionate share of the FY 2020 UAL. The Port would pre-pay its proportionate share of the FY 2020 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 estimated foregone interest earnings due to the prepayment is estimated to be approximately \$206,000 based on the Port's current rate of interest earned on cash balances of 2.5% and the timing of scheduled payments, therefore, the net savings from participating in the Pre-Pay Program is approximately \$420,798.

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 2020 as a result of the City participating in the CalPERS Pre-Pay Program and (ii) transfer \$17,598,881 to the City, via a book transfer of funds, by July 22, 2019, or such earlier date as

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<sup>5</sup> Based on FY 2018 audited financial statements and Governmental Accounting Standards Board Statement Number 68 (GASB 68).

reasonably requested by the City, for the purpose of pre-paying the Port's proportionate share of the FY 2020 UAL of the City Miscellaneous Plan, for which the Port is a participant.

## **BUDGET & STAFFING**

The Port will realize net savings of approximately \$420,798 in FY 2020 by supporting City staff's desire to participate in the CalPERS Pre-Pay Program in FY 2020. Instead of making 12 monthly payments totaling \$18,225,679 for the Port's proportionate share of the UAL of the City Miscellaneous Plan, the Port will make a lump sum payment of \$17,598,881 by July 22, 2019. As discussed in "Analysis" above, after taking into account foregone interest earnings on the cash balance, the net saving to the Port is estimated to be \$420,798. If the City ultimately does not participate in CalPERS Pre-Pay Program for FY 2020, 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: This action was reviewed in accordance with the requirements of the California Environmental Quality Act (CEQA). The CEQA Guidelines, Section 15378(b)(4) (“the general rule”) states that CEQA applies only to projects that have the potential for causing a significant effect on the environment. Entering into a Letter Agreement outlining Port pension payments for FY 2020 as a result of the City participating in the CalPERS Pre-Pay Program will not have a significant effect on the environment and therefore is not a project under CEQA. No further environmental review is required.

## **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)**

The Owner Controlled Insurance Program (OCIP) does not apply to the matters addressed by this Agenda Report as they are not capital improvement construction projects.

## **OPTIONS**

- *Recommended Action:* Authorize the Chief Financial Officer to (i) enter into a Letter Agreement with the City outlining certain procedures for FY 2020 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 \$17,598,881 to the City, via a book transfer of funds, by July 22, 2019, or such earlier date as reasonable requested by the City, for the purpose of pre-paying the Port’s proportionate share of the FY 2020 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 2020. This will prevent the City from participating in the CalPERS Pre-Pay Program in FY 2020 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 2020 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 \$17,598,881 to the City, via a book transfer of funds, by July 22, 2019 or such earlier date as reasonable requested by the City, for the purpose of pre-paying the Port’s

proportionate share of the FY 2020 UAL of the City Miscellaneous Plan, for which the Port is a participant.