

AGENDA REPORT

Resolution: Authorization to 1) Pre-Pay the Port's Proportionate Share of the FY 2022 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 2) Enter into a Letter Agreement with the City Outlining Certain Procedures for FY 2022 as a Result of the City Participating in the CalPERS Pre-Pay Program. **(Finance & Admin.)**

MEETING DATE: 5/13/2021

AMOUNT: \$20,355,872 FY 2022 Pre-Payment;
\$681,406 FY 2022 Net Pension Savings (estimate)
Operating Expense

PARTIES INVOLVED: City of Oakland
Margaret L. O'Brien, Interim Director of Finance

SUBMITTED BY: Julie Lam, Chief Financial Officer

APPROVED BY: Danny Wan, 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 2022 provides a 3.326% discount/savings on the Unfunded Accrued Liability (UAL) portion of the annual pension contribution amount if pre-paid in full by July 31, 2021, in lieu of making 12 monthly payments over the course of the fiscal year. For the City to participate in the Pre-Pay Program, the City requires the Port to pre-pay its proportionate share of the FY 2022 UAL. The FY 2022 UAL for the City Miscellaneous Plan is \$88,323,290, and the Port's share is 23.84% or \$21,056,278. This action would reduce the Port's FY 2022 UAL to \$20,355,872, resulting in net pension savings to the Port of approximately \$681,406 (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 2022 UAL. City staff plans to recommend participation in the Pre-Pay Program to City Council on May 18, 2021.

BACKGROUND

The Port participates in CalPERS through the 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 Cost¹ and a UAL². 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 2020, the Port made pension contributions to CalPERS for the City Miscellaneous Plan totaling \$24.6 million and in FY 2021, pension contributions are budgeted at \$26.4 million.³

CalPERS offers a Pre-Pay Program for the UAL portion of the employer contribution. For FY 2022, the Pre-Pay Program provides a 3.326% discount/savings for pre-paying the full amount of the annual UAL portion by July 31, 2021. The Pre-Pay Program does not allow pre-payment of the Normal Cost portion of the annual pension contribution. The Normal Cost for FY 2022 is 11.850% of payroll and will be paid bi-weekly based on actual payroll.

The City and the Port have participated in the CalPERS Pre-Pay Program each year since FY 2018. The City makes the required lump sum payment to CalPERS, inclusive of the Port's proportionate share, and the Port repays the City for the Port's proportionate share of the UAL. The City issues Tax Revenue Anticipation Notes (TRANS) ⁴ in order to pre-pay their proportionate share of the UAL for which the Port has no obligation nor involvement. The Port's proportionate share is determined using the most current audited financial statements, in which a proportionate share percentage is calculated based on prior year contributions. The Port must enter into a Letter Agreement with the City, outlining the Port's reimbursement payment, as a result of the City's participation in the Pre-Pay Program.

ANALYSIS

The Port's FY 2022 estimated pension payments as established by CalPERS is shown in Table 1.

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

² The 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.

³ In addition, the Port makes pension payments for 1) retroactive contributions for reclassified safety workers and 2) the CalPERS Replacement Benefits for certain high-earning retirees each year. FY 2021 budgeted amounts total \$1.3 million.

⁴ 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.

Table 1

FY 2022 Estimated Port Pension Contributions to the City Miscellaneous Plan	
Normal Cost (11.850 % of Payroll)	\$8,030,425
Unfunded Accrued Liability (Fixed \$)	\$21,056,278
Total Pension Payments	\$29,086,703
% of Payroll	42.92%

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 \$681,406 as shown in Table 2.

Table 2

FY 2022	Total Misc. Plan	Port Share 23.84% ⁵
UAL Contribution if Payments Made Monthly	\$88,323,290	\$21,056,278
UAL Contribution if Lump Sum Pre-Payment	\$85,385,347	\$20,355,872
UAL Pre-Payment Discount/Savings (3.326%)	\$2,937,943	\$700,406
Foregone Interest Earnings (Estimate)	N/A	(\$19,000)
Net Savings from Pre-Pay Program	N/A	\$681,406

The City plans to use proceeds of its 2021-22 TRANs to pre-pay its proportionate share of the FY 2022 UAL. The Port would pre-pay its proportionate share of the FY 2022 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 \$19,000 based on the Port’s current rate of interest earned on cash balances of 0.20% and the timing of scheduled payments, therefore, the estimated net savings from participating in the Pre-Pay Program is \$681,406.

Based on the analysis, Port staff recommends that the Board authorize the Chief Financial Officer to 1) enter into a Letter Agreement with the City outlining certain procedures for FY 2022 as a result of the City participating in the CalPERS Pre-Pay Program and 2) transfer \$20,355,872 to the City, via a book transfer of funds, by July 22, 2021, or such earlier date as

⁵ Based on FY 2020 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 2022 UAL of the City Miscellaneous Plan, for which the Port is a participant.

BUDGET & STAFFING

The Port will realize net savings of approximately \$681,406 in FY 2022 by supporting City staff's desire to participate in the CalPERS Pre-Pay Program. Instead of making 12 monthly payments totaling \$21,056,278 for the Port's proportionate share of the UAL of the City Miscellaneous Plan, the Port will make a lump sum payment of \$20,355,872 by July 22, 2021. After taking into account foregone interest earnings on the cash balance, the net saving to the Port is estimated to be \$681,406. If the City ultimately does not participate in CalPERS Pre-Pay Program for FY 2022, 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 included 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

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). Per CEQA Guidelines Section 15378, the proposed action would not qualify as a "Project" because it would not result in a physical change in the environment. Specifically, Section 15378(b)(4) states that the "creation of government funding mechanisms or other government fiscal activities which do not involve any commitment to any specific project" are not considered a project. Therefore, the proposed action is not subject to 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)

This action is not subject to the Port's Owner Controlled Insurance Program (OCIP) as it is not a capital improvement construction project.

OPTIONS

- *Recommended Action:* Authorize the Chief Financial Officer to 1) enter into a Letter Agreement with the City outlining certain procedures for FY 2022 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 2) transfer \$20,355,872 to the City, via a book transfer of funds, by July 22, 2021, or such earlier date as reasonable requested by the City, for the purpose of pre-paying the Port's proportionate share of the FY 2022 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 2022. This will prevent the City from participating in the CalPERS Pre-Pay Program in FY 2022 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 1) enter into a Letter Agreement with the City outlining certain procedures for FY 2022 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 2) transfer \$20,355,872 to the City, via a book transfer of funds, by July 22, 2021 or such earlier date as reasonable requested by the City, for the purpose of pre-paying the Port's proportionate share of the FY 2022 UAL of the City Miscellaneous Plan, for which the Port is a participant.