Discussion Item A

STAFF REPORT

TO: Board of Commissioners

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DATE: January 14, 2021

SUBJECT: **Discussion of the Formulation of a District Pension Funding Policy**

Recommendation / Proposed Motion

- **Recommendation:** Review and discuss the formulation of a District Pension Funding Policy along with providing direction to staff regarding the directives allowing staff to return to the Board of Commissioners with a draft of pension funding policy, prior to implementation.

Policy Implications

PSLHD Policy 1010 Adoption/Amendment of Policies

District Major Objective/Goal

Objective #1 – Sustain and enhance the Harbor's finances – provide for needed infrastructure, expand revenue sources, and pay down long-term liabilities

Fiscal Implications / Budget Status

None at this time.

Alternatives Considered

The following actions were considered but are not recommended at this time:

- Do not implement a District Pension Funding Policy, as recommended by the Government Finance Officers Association (GFOA).

Background

On November 6, 2019, the District held a Pension Liability Workshop to review and discuss scenarios for funding the Districts pension liability costs.

The Harbor Commission requested staff to explore and develop a Pension Funding Policy.

Discussion

Currently, the Districts Unfunded Accrued Liability (UAL) for employee pensions is approximately $5.19 million.

The concepts and general pension funding policy objectives, as outline in the *Pension Funding: A Guide for Elected Officials*, issued by eleven national groups including the U.S. Conference of Mayors, the International City/County Management Association, and the Government Finance Officer's Association, is a recommended tool the District can use to create a pension funding policy. The five general policy objectives for a pension funding policy are as follows:

1. Actuarially Determined Contributions: A pension funding plan should be based upon an actuarially determined contribution (ADC) that incorporates both the cost of benefit in the current year and the amortization of the plan's unfunded actuarial accrued liability.
2. Fund Discipline: A commitment to make timely, actuarially determined contributions to the retirement system is needed to ensure that sufficient assets are available for all current and future retirees.
3. Intergenerational equity: Annual contributions should be reasonably related to the expected and actual cost of each year of service so that the cost of the employee benefits is paid by the generation of taxpayers who receive from those employees.
4. Contributions as a stable percentage of payroll: Contributions should be managed so that employer costs remain consistent as a percentage of payroll over time.
5. Accountability and transparency: Clear reporting of pension funding should include an assessment of whether, how, and when the plan sponsor will ensure sufficient assets are available for all current and future retirees.

Utilizing the guidelines as provided above, the staff has reviewed and discussed the following items that should be taken into consideration in the creation of a funding policy:

a) Establish a funding target goal. This includes the percentage of the UAL to be funded and by what dates.

   Based on our minimum required contributions that we currently pay; the UAL is not paid off until 2043 assuming the assumptions used by PERS materialize. Our minimum employer PERS contributions will increase to approximately $760,000/year in 2030 before decreasing. As we have seen the PERS assumptions have not materialized, which has increased our UAL over the past year and extended the payoff date. To mitigate the impact to the District of future changes, paying off the UAL earlier is recommended.

   Currently, the District's pension is funded at 70%. Within the past years, the District's pension was funded at a high of 77.23% in 2015 to the current 70%. While the goal to obtain a 100% funded status is ideal, it would be best for the District to aim for a funding goal that is achievable in a manner that does not require drastic reductions in service and at a significant detriment to the District's infrastructure goals.

b) The policy should require that the initial budget draft for each year include the funding required to achieve the target date funding.

c) This policy would be an "evergreen" policy in that each year, depending on resources including reserves and anticipated operating projections, etc. as the Commission has the authority to change the initial budgeted PERS pension amount, either up or down.

Factors that staff will include in the policy to achieve the targeted funding date will include the following:

a) Negotiate cost-sharing of pension cost with employee bargaining units.

b) Assign a percentage of net revenue, revenue over expenditures, to be used toward paying the UAL.

c) Establishment of a Section 115 trust

d) Apply cost savings received from CalPERS by paying the annual UAL amount by the District for the year in one payment, versus over the fiscal year, as an ADP.

Conclusion

Staff recommends that the Commission direct staff to formulate a written policy based on the above guidelines and recommended factors. Staff will present various alternatives as to the target funding date of the UAL along with contributions required to achieve that goal.