



# COUNTY OF HUMBOLDT

For the meeting of: 11/19/2019

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File #: 19-1640

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**To:** Board of Supervisors

**From:** County Administrative Office

**Agenda Section:** Time Certain Matter

**SUBJECT:**

1:30 p.m. - Pension Rate Stabilization Program Update from Public Agency Retirement Services

**RECOMMENDATION(S):**

That the Board of Supervisors:

1. Receive a report on the county's Pension Rate Stabilization Program (PRSP) from Public Agency Retirement Services (PARS) and staff.

**SOURCE OF FUNDING:**

All County Funds

**DISCUSSION:**

On Sept. 15, 2015, the Board, via Resolution No. 15-98, authorized the establishment of an irrevocable post-employment benefits trust program, also known as a Section 115 trust, administered by PARS. This trust was created for the purpose of pre-funding pension obligations and/or Other Post Employment Benefit obligations.

The PARS PRSP, established via Internal Revenue Code Section 115 irrevocable trust, is designed to pre-fund pension costs and offset Government Accounting and Standards Board (GASB) 68 Net Pension Liabilities. The primary objective of GASB 68 is to provide more comparable and visible information of pension benefits within the annual accounting and financial reporting by state and local governments. Depicting the unfunded liability (net pension liability) within the annual financial reports provides a clearer picture of pension cost obligations. Inasmuch, the PRSP allows the county to securely set aside funds through a tax-exempt funding mechanism (115 trust account) to mitigate long-term contribution rate volatility.

On March 14, 2017, the Board adopted a Pension Funding Policy. A large portion of the unfunded pension liability is attributed to staff from departments that are not funded by the General Fund, and is therefore accrued by administering state and federal programs on behalf of these governments. Nevertheless, years prior to 2017, the burden of the unfunded pension liability had fallen primarily on the General Fund. To remedy this problem, the Board authorized an equitable sharing of the unfunded

pension liability among all county departments by way of an annual departmental contribution to PARS ranging from .25 percent up to 2 percent of salaries.

In August 2019 the State Controller's Office (SCO) performed a field audit of the county's cost allocation plan. A cost allocation plan is a distribution of central services costs. Central service departments such as the Auditor-Controller, County Administrative Office, County Counsel, Human Resources, and Treasurer-Tax Collector provide services to all county departments. The federal and state governments allow these departments to charge other non-General Fund departments (which are primarily funded by state and federal tax dollars) for the services received. A finding from the SCO field audit stated the county had not provided an actuarial report to support the PARS section 115 trust charges as required pursuant to 2 CFR 200.431(g)(6)(iii). In response, staff worked with GovInvest software to create a report depicting the county's unfunded pension liability and submitted to the SCO, however the report was deemed insufficient.

Upon learning that the GovInvest document would not support the Section 115 charges to non-General Fund departments, staff provided a report from Bartel & Associates (an actuarial firm) dated 2016. The SCO has yet to make a final decision regarding the 2016 actuarial report. If the SCO determines the document is not adequate, the county will return the Section 115 charges back to the non-General Fund departments. The county will also cease collecting the percentage of salary charges for this current fiscal year. For future fiscal years, the county will contract with an actuarial firm to provide a report that contains a sufficiently detailed analysis to support the Section 115 charges for non-General Fund departments. The General Fund section 115 charges and contributions do not require an actuary and will remain in the Section 115 trust.

FINANCIAL IMPACT:

The current PRSP account summary for the period 9/1/2019 to 9/30/2019 is \$5,945,817.80. Of this amount, \$4,161,894.07 is contributions from the General Fund, \$1,263,105.93 is contributions from other county funds, and \$520,817.80 is earnings (\$399,555.49 for the General Fund and \$121,262.31 from other county funds). An additional \$546,737.75 remains held in fund balance (\$212,110.25 in General Fund contributions and \$334,627.50 from other county funds).

STRATEGIC FRAMEWORK:

This action supports your Board's Strategic Framework by managing our resources to ensure sustainability of services .

OTHER AGENCY INVOLVEMENT:

Public Agency Retirement Services (PARS)

ALTERNATIVES TO STAFF RECOMMENDATIONS:

Board discretion.

ATTACHMENTS:

1. Pension Rate Stabilization Program Client Review - November 19, 2019
2. GovInvest report

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3. Bartel report PERS misc/safety
4. Bartel report supplemental pension trust

**PREVIOUS ACTION/REFERRAL:**

Board Order No.: C-8

Meeting of: March 14, 2017

File No.: N/A