AGENDA ITEM NO.
C-8

COUNTY OF HUMBOLDT

For the meeting of: March 14, 2017

Date: February 23, 2017

To: Board of Supervisors

From: Amy S. Nilsen, County Administrative Officer

Subject: Pension Funding Policy

RECOMMENDATION(S):

That the Board of Supervisors:

1. Approve the Pension Funding Policy to allow an established salary percentage deduction to be placed in an internal authorized trust and to make payments from said trust to the Public Agency Retirement Services Section 115 trust.

2. Authorize the Auditor-Controller to establish a Pension Management Trust Fund, No. 3249, to deposit departmental salary deductions for the Pension Rate Stabilization Program and to transfer the current balance in 1100-199-3265, Contributions Other-Contributions to PARS Post-Employment, to the said trust fund.

SOURCE OF FUNDING:

All County Funds

Prepared by Christopher Shaver

CAO Approval

REVIEW:
Auditor ____ County Counsel ____ Human Resources ________ Other ________

TYPE OF ITEM:
________ Consent
___X___ Departmental
________ Public Hearing
________ Other ________

PREVIOUS ACTION/REFERRAL:

Board Order No C-5

Meeting of: 9/15/15

BOARD OF SUPERVISORS, COUNTY OF HUMBOLDT

Upon motion of Supervisor Wilson Seconded by Supervisor Sundberg

Ayes Sundberg, Fennell, Bass, Bohn, Wilson

Nays

Abstain

Absent

and carried by those members present, the Board hereby approves the recommended action contained in this Board report.

Dated: Mar 14, 2017

By: ________

Kathy Hayes, Clerk of the Board

DISCUSSION:
On September 15, 2015, your 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 Public Agency Retirement Services (PARS). This trust was created broadly to allow contributions for both pension liability and other post-employment benefits. A large portion of the unfunded pension liability is attributed to staff from departments that are not funded by the General Fund. Nevertheless, the burden of the unfunded liability has primarily fallen on the General Fund and, to date, all of the funds contributed to PARS have been at the expense of the General Fund. Staff, therefore, recommends equitably sharing a portion of this burden with all county departments through an annual departmental contribution to PARS ranging from .25 percent up to 2 percent of salaries, depending on the county's financial resources.

The Public Agency Retirement Services (PARS) Pension Rate Stabilization Program (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.

A primary advantage of placing funds into the trust account rather than holding them in fund balances for subsequent contribution to California Public Employees Retirement System (CalPERS) is that investments in the trust can be made under the more flexible rules of California Government Code Section 53216.1 rather than the more restrictive rules of Government Code Section 53601. An investment in PARS has the potential of yielding a much larger rate of return than those funds held in the county's pooled investments. An additional advantage of holding funds in trust rather than contributing an equivalent amount directly to CalPERS is that the county retains complete control over the timing and amount of disbursements from a trust. The county also controls the timing of contributions to the trust.

The combination of the aforementioned features potentially allows the county to stabilize rates or "smooth" out contributions to CalPERS – contributing to the trust when the county has funds available and then using the trust to pay CalPERS when the county's revenues decline. Smoothing equates to dampening year-to-year contribution fluctuations by offsetting investment gains/losses from a particular year by utilizing investment gains/losses from a previous year. A final advantage of the trust approach is that assets held in the trust would directly reduce the county's pension liability for financial reporting purposes. The anticipated goal is that over-time the net liability will be further reduced by the resources available in the county's Section 115 trust.

It is in Humboldt County's interest to reduce the amount of unfunded pension liability for two reasons:

1) To improve the county's financial statements in the wake of GASB 68; and
2) To reduce the likelihood of annual payment amounts on the unfunded pension liability as such payments would likely cause a reduction in funding available for other needed services in the future.

FINANCIAL IMPACT:
Adoption of the Pension Funding Policy will allow the county to address its long-term CalPERS unfunded pension liability obligation of over $220 million through an annual deduction rate based upon funding availability and the salary expense of filled positions. The departmental contribution rate will range from .25 percent to 2 percent for all county funds. For example, by using an estimated salary costs for FY 2017-

18 of $122 million, a contribution to PARS of .5 percent of total payroll would be $613,000. Of that, $209,000 would be a contribution from the General Fund, with a $404,000 contribution from other county funds. Of the $613,000 contribution, $521,000 would be for miscellaneous employees and $92,000 for safety employees.

The Pension Funding policy supports the Board of Supervisors Strategic Framework through managing resources to ensure sustainability of services while investing in our employees through targeted investments that generate long-term savings.

OTHER AGENCY INVOLVEMENT:
None

ALTERNATIVES TO STAFF RECOMMENDATIONS:
The Board may choose not to adopt said policy and not authorize the Auditor-Controller to establish a Pension Management Trust Fund; and, further direct staff to consider alternatives to addressing the unfunded pension liability. However, this is not recommended because other alternatives, such as a reduction in service levels would need to be implemented to address the unfunded pension liability.

ATTACHMENTS:
Pension Funding Policy

SECTION: *Financial Policies*	
ORIGINAL ISSUE DATE:	HUMBOLDT COUNTY PENSION FUNDING POLICY
REVISION DATE:	

I. PURPOSE

The purpose of this policy is to promote fiscal responsibility and long-term planning efforts by establishing guidelines that will assist the county in addressing, as well as providing for, post-employment benefits. Inasmuch, this policy shall establish and incorporate an annual departmental contribution to Public Agency Retirement Services (PARS) ranging from .25 percent up to 2 percent of salaries, dependent upon funding availability during each Fiscal Year (FY) budget cycle. In addition, this policy supports the Board of Supervisors Strategic Framework through managing resources to ensure sustainability of services while investing in our employees through targeted investments that generate long-term savings.

II. DEFINITIONS

A. Section 115 Trust – an external trust fund established through the Internal Revenue Service Code that is irrevocable.
B. Pension Management Trust Fund – an internal trust fund authorized by the Board for the purpose of depositing deductions, fee or fines for a specific purpose.
C. Pension Rate Stabilization Program (PRSP) – a program designed to pre-fund pension costs and offset Government Accounting Standards Board (GASB) 68 Net Pension Liabilities.

III. BACKGROUND

In 2012, the Government Accounting Standards Board (GASB) issued Statement No. 68, *Accounting and Financial Reporting for Pensions.* GASB 68 requires that governmental employers that sponsor defined-benefit pensions must recognize their accrued unfunded liability on their balance sheets for fiscal years starting after June 15, 2014.

The county established an irrevocable post-employment benefits trust program, also known as a Section 115 trust, administered by PARS, which was adopted via Resolution No. 15-98 by the Board of Supervisors on September 15, 2015. This trust was created broadly to allow contributions for both pension liability and other post-employment benefits.

PARS PRSP, established via Internal Revenue Code Section 115 irrevocable trust, is designed to pre-fund pension costs and offset GASB 68 Net Pension Liabilities. The PRSP allows the county to securely set aside funds through a tax-exempt funding mechanism to mitigate long-term contribution rate volatility.

A primary advantage of placing funds into the trust account rather than holding them in fund balances for subsequent contribution to CalPERS is that investments in the trust can be made under the more flexible rules of California Government Code Section 53216.1 rather than the more restrictive rules of Government Code Section 53601. An investment in PARS has the potential of yielding a much larger rate of return than those funds held in the county's pooled investments. An additional advantage of holding funds in trust rather than contributing an equivalent amount directly to California Public Employees' Retirement System (CalPERS) is that the county retains complete control over the timing and amount of disbursements from a trust. The county also controls the timing of contributions to the trust.

The combination of the aforementioned features potentially allows the county to stabilize rates or "smooth" out contributions to CalPERS – contributing to the trust when the county has funds available and then using the trust to pay CalPERS when the county's revenues decline. Smoothing equates to leveling out year-to-year contribution fluctuations by offsetting investment gains/losses from a particular period with investment gains/losses from another period. A final advantage of the trust approach is that assets held in the trust would directly reduce the county's pension liability for financial reporting purposes. The anticipated goal is that over-time the net liability will be further reduced by the resources available in the county's Section 115 trust.

It is in Humboldt County's interest to reduce the amount of unfunded pension liability for two reasons:

1) To improve the county's financial statements in the wake of GASB 68; and
2) To reduce the likelihood of annual payment amounts on the unfunded pension liability reducing funding available for needed services in the future.

IV. POLICY

The County Administrative Office (CAO) will review and forecast future costs based on the annual CalPERS actuarial valuation and projected revenue availability to determine the annual departmental contribution to PARS. The departmental contribution rate will be calculated by the CAO and presented to the Board of Supervisors for approval during the Mid-Year Budget Report. Upon approval, the contribution rates will be provided to departments and will be incorporated into their requested budgets.

The annual contribution rate to PARS, as stated, shall range from .25 percent up to 2 percent of salaries, with the determining percentage factor based upon the county's financial projections each FY. CAO staff have determined that a percentage of salary expense for each department is the most equitable method for funding the PRSP and managing the county's unfunded pension liabilities.

In the event that the PARS contribution has been decreased or increased from the prior year's contribution, at the time the budget is adopted, the CAO must identify and report on the specific circumstances that have led to an increase or decrease in the PARS contribution.

V. RESPONSIBILITIES

Payroll

A departmental deduction percentage will be established during each budget cycle.

a. Apply the stated county-wide deduction percentage based on the salary expense per filled full-time equivalent allocations for each FY.
b. Collect the deduction every payroll cycle and deposit into the Pension Management Trust Fund and transfer to PARS on, at least, a monthly basis.
c. Reconcile the deduction at mid-year to determine if any adjustments to the deduction percentage in conjunction with revenue forecasts need to be made to the upcoming budget cycle.

Other Payments

a. Direct additional funding to the Pension Management Trust Fund through official Board actions during the budget process or when unanticipated or one-time funding is available during the FY.

Reporting

The CAO will provide annual reports to the Board on the progress of the PARS PRSP.