Before the Board of Supervisors in and for the
County of Monterey, State of California

Resolution No. ____

a. Establishing the Public Agency Retirement Services (PARS) Public Agencies Post-Employment Benefits Trust, effective June 2, 2021; and)
b. Appointing the County Administrative Officer as the Plan Administrator of the Trust; and)
c. Adopting the Monterey County Pension Liability Policy; and)
d. Authorizing the Auditor-Controller and County Administrative Office to post the necessary budget adjustments and accounting entries, including operating transfers to establish proper accounting and financial reporting mechanism for the Pension Trust during FY2020-21 and FY2021-22, as appropriate; and)
e. Authorizing and directing the Auditor-Controller to amend the FY 2020-21 Adopted Budget by increasing appropriations in the County Administrative Office's Other Financing Uses Budget Unit (001-1050-CAO017-8038) by $8,038,138 as an operating transfer out to the Pension Trust, financed by the release of the General Fund Compensated Absence Assignment (BSA 3115) (4/5ths vote); and)
f. Canceling the General Fund Compensated Absence Assignment (BSA 3115) of $8,038,138 in FY 2020-21 and transferring the funds to the Pension Trust (4/5ths vote); and)
g. Authorizing and directing the Auditor-Controller to transfer the FY 2020-21 ending reconciled balance in the UAL-PERS Unfunded Liability sub-BSA (2103), Payroll Revolving Fund (Fund 543) as an additional contribution to the Pension Trust……………………………)

WHEREAS, Monterey County ("County") contracts with the California Public Employees' Retirement System (CalPERS) to provide retirement benefits for permanent County employees, and each year, the County receives actuarial valuation reports, which identify the employer contribution rates for the following year, as well as the unfunded accrued liability (UAL); and

WHEREAS, the UAL has grown significantly due to changes in wages, reduced earnings, changes in demographics, and policy changes enacted by the CalPERS Board, such as reductions to the assumed discount rate and shorter amortization schedules for these liabilities.

WHEREAS, the County is eligible to participate in a tax-exempt trust performing an essential governmental function within the meaning of Section 115 of the Internal Revenue Code, as amended, and the regulations issued thereunder and is a tax-exempt trust under the relevant statutory provisions of the State of California; and

WHEREAS, Staff reached out to the main four entities that provide 115 Trust Services for Pension in California and selected Public Agency Retirement Services (PARS) to provide such services to Monterey County based on its experience in California and their competitive fee structure.

WHEREAS, Staff is requesting that the Board establish a Section115 Trust for pension obligations with the Public Agency Retirement Services (PARS), to address the County's UAL; and

WHEREAS, the County reserves the right to make contributions, if any, to the 115 Pension Trust; **NOW, THEREFORE,**

BE IT RESOLVED, by the Board of Supervisors of Monterey County as follows:

a. The PARS Pension Rate Stabilization Program is adopted.
b. The County Administrative Officer, or designee, is appointed as the County's Plan Administrator for Section 115 Pension Trust.
c. The County's Plan Administrator is hereby authorized to execute the PARS legal and administrative documents on behalf of the County and take additional necessary or appropriate actions to maintain the County's participation in the Section 115 Pension Trust and maintain compliance relevant regulation issued or as may be issued.
d. The Monterey County Pension Liability Policy, attached hereto as Exhibit A, is adopted.
e. Authorize the Auditor-Controller and the County Administrative Office to post the necessary budget adjustments and accounting entries, including operating transfers to establish proper accounting and financial reporting mechanism for the Section 115 Pension Trust.
f. The Auditor-Controller is further authorized and directed to amend the FY 2020-21 Adopted Budget by increasing appropriations in the County Administrative Office's Other Financing Uses Budget Unit (001-1050-CAO017-8038) by $8,038,138, such funds to be transferred out to the new Pension Trust, financed by the release of the General Fund Compensated Absence Assignment (BSA 3115).
g. The General Fund Compensated Absence Assignment (BSA 3115) of $8,038,138 in FY 2020-21 is canceled, and the funds transferred to the Pension Trust.
h. The Auditor-Controller is further authorized and directed to transfer the FY 2020-21 ending reconciled balance in the UAL-PERS Unfunded Liability sub-BSA (2103), Payroll Revolving Fund (Fund 543) to the new Pension Trust; and

i. The County Administrative Officer, Auditor-Controller, and County Counsel are authorized and directed to take such other and further actions as may be necessary or appropriate to implement the intent and purposes of this Resolution.

PASSED AND ADOPTED upon motion of Supervisor ___________, seconded by Supervisor _______________ and carried this ____ day of _____,_____ by the following vote, to wit:

AYES:
NOES:
ABSENT:

I, Valerie Ralph, Clerk of the Board of Supervisors of the County of Monterey, State of California, hereby certify that the foregoing is a true copy of an original order of said Board of Supervisors duly made and entered in the minutes thereof Minute Book.____ for the meeting on ___________.

Dated:
File Number:

Valerie Ralph, Clerk of the Board of Supervisors
County of Monterey, State of California

By: ________________________________
Deputy

EXHIBIT A

COUNTY OF MONTEREY

PENSION LIABILITY POLICY

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PENSION LIABILITY POLICY

1. PURPOSE AND BACKGROUND

The stewardship of public funds is one of the most significant responsibilities given to the officials and managers of the County of Monterey (County). The development and maintenance of sensible pension policies enable the County to address the growing liability that are outside of the County's control, including demographic and discount rate factors. This policy addresses the actuarial, funding, and cost recovery aspects of pension benefits for Monterey County employees. The policy is applicable to the County's two defined benefit plans, administered by the California Public Employees Retirement System (CalPERS).

The policy may be updated periodically bearing in mind actuarial valuation results, changes in benefits, other material changes in obligations, or changes caused by state laws.

2. DEFINITIONS

The following are terms used throughout the policy:

a. **Accrued Liability** (also known as Actuarial Accrued Liability): The total dollars needed as of the actuarial valuation date to fund all retirement benefits earned in the past for current and retired members and their beneficiaries.
b. **Actuarial Assumptions**: Assumptions made about certain events that will affect pension costs. Assumptions can generally be broken down into two categories: demographic and economic. Demographic assumptions include such things as mortality, disability, and retirement rates. Economic assumptions include the discount rate, salary growth, and inflation.
c. **Actuarial Valuation:** The determination, as of a point in time (usually as of the actuarial valuation date), of the Normal Cost, Accrued Liability, and related actuarial present values for a pension plan.
d. **Actuarially Determined Contribution (ADC)**: The total dollar amount that is actuarially determined in accordance with GASB Standard No. 68 and Actuarial Standards of Practice (ASOP) so that, if paid on an ongoing basis, would be expected to provide sufficient resources to fund both the normal cost for each year and amortize the unfunded accrued liability.
e. **Fresh Start:** Combining multiple amortization bases into a single base.
f. **Funded Status**: A measure of how well funded a pension plan is with respect to having sufficient assets to fund liabilities. A ratio greater than 100 percent means that the plan has more assets than liabilities and a ratio of less than 100 percent means liabilities are greater than assets.
g. **Miscellaneous Plan**: This plan includes employees of Monterey County that do not perform sworn law enforcement and public safety duties. Most County employee fall within this plan.
h. **Normal Cost:** The annual cost of service accrual for a fiscal year for current active employees. The portion that is allocated to future years of service is referred to future normal cost.
i. **Prepayment Contribution:** A payment made by the County in advance toward the Unfunded Accrued Liability (UAL) (usually at the beginning of a fiscal year) to reduce or eliminate the year's required employer monthly contribution. Prepayment Contribution

directly to the pension plan reduces the County's cost compared to payments made monthly.

j. **Pension Benefi**t: Pension benefits are provided pursuant to a defined benefit formula. The formula used by the retirement system will be based on key elements such as the benefit factor, service credit and final pensionable compensation.
k. **Present Value of Benefits (PVB):** The total dollars needed as of the valuation date to fund all benefits earned in the past or expected to be earned in the future for current members.
l. **Safety Plan:** This plan includes Monterey County employees performing sworn law enforcement and public safety duties.
m. **Unfunded Accrued Liability (UAL)**: When the value of the plan's assets is less than its Accrued Liability, the difference is the plan's Unfunded Accrued Liability (or unfunded liability). If there is an unfunded liability, the plan will have to pay contributions exceeding the Normal Cost.

3. GUIDING PRINCIPLES

3.1 Funded Status

The County's target funded status is 100 percent of the Actuarial Accrued Liability related to the County's pension plans. The County's goal is to accumulate sufficient assets to fund all projected benefit payments.

3.2 Intergenerational Equity

Pension benefits are offered as part of a compensation package for employees as a benefit by the County for a career in public service. The employee accumulates (earns) the benefits through accrual of years of service with the County over their service life (career). The County as a matter of principle strives to comply with maintaining intergenerational equity. As this relates to pension benefits, the objective is to ensure that adequate employee and employer contributions are made to the pension system during the service lives of employees to avoid shifting the cost or burden to future generations of employees and taxpayers.

3.3 Financial Sustainability

Financial sustainability is the overarching principle in the County's financial operations. Within the context of pension funding, this principle expresses that the County provides and funds benefits to its employees within available means while proactively taking measures to build and preserve its ability to continue providing those benefits in the long-term.

4. ACTURIAL STUDIES AND VALUATION

In accordance with best practices and generally accepted accounting principles, the County will receive an Actuarial Valuation for both funding and accounting for pension benefits annually from the CalPERS Actuarial Office for each pension plan (Miscellaneous and Safety). CalPERS, as the pension plan administrator, establishes actuarial assumptions for all pension plans under their administration.

The County Administrative Office and the Auditor-Controller annually shall review the actuarial reports including actuarial assumptions applied by the pension plan administrator for conformity with best practices as established by the Government Finance Officers Association (GFOA) including, but not limited to:

- Actuarial Cost Method – Ensure methods conform to actuarial standards of practice and are designed to fully fund the long-term costs of promised benefits;
- Asset Smoothing – Ensure that the same smoothing periods are used for both gains and losses, market corridors, if used, are symmetrical and smoothing occurs over fixed periods not longer than five years;
- Amortization – Ensure that the unfunded actuarial accrued liability is amortized over fixed (closed) periods to balance the goals of demographic matching and volatility management; new amortization periods do not exceed 20 years, and a layered approach is used to amortize the various components.

The County Administrative Office and Auditor-Controller shall use the actuarial valuation reports as the basis for allocating the liability according to appropriate rules and regulations to county departments, internal service funds, enterprise funds, and other participating agencies (including the Monterey County Superior Courts) to show their respective share of the long-term pension liability. The County Administrative Office will transmit the actuarial reports, together with a summary regarding the funded status of the pension plans and any recommendations to the Board of Supervisors consistent with the intent of this policy.

<u>4.1 Government Accounting Standards Board (GASB)</u>

The County receives actuarial valuations prepared by CalPERS' actuarial office of on an annual basis for funding purposes. Since FY 2016-17, the County has used these valuations as the basis to report its obligation for pension benefits in accordance with Government Accounting Standards Board (GASB) Statement No. 68 Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27.

5. TRANSPARENCY IN GROWTH OF LIABILITY & FUNDED RATIO

The County Administrative Office shall, as part of the annual budget process and when appropriate, present information on the County's current total and unfunded liability and any changes that have occurred since the last valuation period, including the reason(s) for those changes.

The County Administrative Office shall evaluate opportunities and implement procedures to enhance transparency in collective bargaining on the employee and employer share of pension contributions, with the purpose of identifying any significant financial impact of any proposed salary or benefit modification.

All future benefit modifications (including those that affect the key pension benefit factors of the defined benefit formula) for members and beneficiaries should be carefully considered and impacts of such proposed changes on the County's pension plans shall be evaluated by the County Administrative Office (using actuaries, if required) and presented to the Board of Supervisors prior to adoption so the effect of the modifications can be understood and considered in relation to the plan's actuarial accrued liability, funded ratio, and contribution rate.

6. FUNDING PENSION COSTS AND LIABILITIES

6.1 Required Employer Contribution

The actuarially determined required employer contributions are determined annually by CalPERS for subsequent fiscal years (for example, CalPERS Actuarial Valuation report as of June 30, 2019 determines the FY 2020-22 required contributions). The County annually budgets the payment of the ADC to CalPERS and shall establish and maintain the necessary resources to ensure that this obligation is met annually. The County shall prioritize this funding of the ADC above any supplemental pension contributions.

6.2 Prepayment of Unfunded Accrued Liability

CalPERS provides an incentive (or discount) for the County to pay a full year of UAL contribution in advance at the beginning of the fiscal year rather than remitting the contribution on a per pay period or monthly basis. The County Administrative Office shall determine whether the cost of prepayment provides a savings to the County.

6.3 Opportunities For Savings

CalPERS has historically applied an amortization period of up to 30 years for the amortization of the UAL arising from each event (change in actuarial assumptions; investment gain/loss; change in benefit, etc.). Without any additional action, provided that the actuarial assumptions are accurate, the plan would move to a fully funded status within 30 years of the last event that created a liability. In line with industry best practices, CalPERS has recently revised its amortization policy to shorten the period for amortizing future actuarial gains and losses to 20 years from 30 years, beginning with the actuarial report for June 30, 2019, and effective in FY 2021-22 for the County.

CalPERS's new amortization policy does not affect the current unfunded liability bases, which are still being amortized over a 30-year period. CalPERS has offered alternative 20-year and 15-year amortization schedules available for voluntary election that would result in substantial long-term savings to the County. This is referred to as a "Fresh Start." As part of the long-term financial planning, County staff should periodically evaluate the feasibility and cost versus benefit of adopting an alternative amortization schedule and make appropriate recommendations to the Board of Supervisors.

7. PENSION TRUST

7.1 Pension Funding Stabilization

Although there is no legal requirement to make a pension contribution above the ADC, the Board of Supervisors has determined that fulfilling its full pension obligation is a primary objective of the County. The County shall establish safeguards to ensure that this obligation is met annually. The County shall seek to establishment an irrevocable trust, hereafter referred to as Pension Trust.

7.2 Establishment of the Pension Trust

With a Resolution from the Board of Supervisors, the County Administrative Office shall establish an Internal Revenue Code Section 115 Irrevocable Trust ("Pension Trust") for the purpose of pension funding stabilization. The Pension Trust, which is exempt from federal income taxes, will be the vehicle to accumulate assets for the sole purpose of pension funding.

7.3 Objective of the Pension Trust

The purpose of the Pension Trust is to accumulate assets incrementally over a period of years for the sole purpose of supplementing the County's effort to fulfill its pension funding obligation. To this purpose, the trust is maintained for the primary objective of strengthening the County's ability to pay the ADC and the secondary objective of obtaining long-term savings that result from paying down the UAL earlier.

7.4 Funding the Pension Trust

The County shall establish a fund for collection of the UAL supplemental pension payments. To provide a dedicated ongoing funding source for the Pension Trust, a supplemental pension may be charged to all departments as a percentage of the of the normal cost of the prior audited fiscal year.

The Board of Supervisors may elect, as part of the budget process or by a majority vote on an action outside of the budget process to set aside discretionary revenue or unobligated fund balance for the additional contributions toward the Pension Trust.

7.5 Accounting & Financial Reporting

The Auditor-Controller will determine the proper accounting and report the activity of the Pension Trust in the Annual Comprehensive Financial Report of the County.

8. RECOVERING PENSION COSTS

8.1 Required Contributions to CalPERS

The employer contribution of normal pension cost and the minimum required UAL will be charged as a percentage of payroll as calculated by CalPERS in the annual actuarial report consistent with the employee's specific benefit plan. The Auditor-Controller's Office oversees the pension normal cost and UAL payroll allocation and will charge departments for the normal cost and the UAL payment.

8.2 Pension Rate Stabilization Program - Section 115 Trust Contributions

Any supplemental funding to the Pension Trust will be calculated as a percentage of the normal cost of the prior audited fiscal year and the cost will be charged to County departments on a periodic basis as determined by the County Administrative Office.

9. INVESTING ASSETS

The Board of Supervisors delegates the plan administrator function of the Pension Trust to the County Administrative Office, who may, with Board approval, contract with a third-party provider. The purpose of investing funds is to accumulate sufficient assets to implement this

PENSION LIABILITY POLICY

Pension Liability Policy. Assets that are in trust fund are not subject to the County Investment Policy and laws governing county treasury investments.