Commission Staff Report

Date: January 3, 2017

COMMISSION MEETING DATE: January 19, 2017

SUBJECT: Approval of Long-Term Funding Plan for NCPA's Employee Pension Program

AGENDA CATEGORY: Discussion/Action

FROM:	Sondra Ainsworth	**METHOD OF SELECTION:**
		N/A
Division:	Administrative Services	*If other, please describe:*
Department:	Accounting & Finance	

IMPACTED MEMBERS:

All Members	☒	**City of Lodi**	☐	**City of Ukiah**	☐
Alameda Municipal Power	☐	**City of Lompoc**	☐	**Plumas-Sierra REC**	☐
Bay Area Rapid Transit	☐	**City of Palo Alto**	☐	**Port of Oakland**	☐
City of Biggs	☐	**City of Redding**	☐	**Truckee Donner PUD**	☐
City of Gridley	☐	**City of Roseville**	☐	**Other**	☐
City of Healdsburg	☐	**City of Santa Clara**	☐	*If other, please specify.*	

RECOMMENDATION:
That the NCPA Commission consider and approve Resolution 17-XX establishing a Long-Term Funding Plan for the NCPA's Employee Pension Program.

BACKGROUND:
In 1981, NCPA adopted a Simplified Employee Pension (SEP)/Individual Retirement Account (IRA) plan to provide retirement benefits for the small number of existing employees and for future employees. The Agency originally adopted the plan because: 1) it was easy to implement; and 2) it was perceived as simple to administer. Over the years, the Agency explored changing its retirement plan a number of times. The CalPERS retirement plan had been adopted by most of the Agency's members and was seen as being very successful for them because most Agency members participating in the plan had been paying little for years because of CalPERS' ability to pool investment of assets and amortize losses over a 20-year period.

NCPA executed an agreement to join the CalPERS retirement system April 7, 2002. Ratification of the agreement created an immediate unfunded liability of $13.5 million for the Agency. That liability has grown substantially over the following years. CalPERS performs an actuarial study each year for the pension plan. The unfunded liability in the December 2016 report increased from the 2015 report as follows:

	In Millions	
	2015	**2016**
Entry Age Normal Accrued Liability	$130.73	$138.92
Market Value of Assets (MVA)	74.80	78.0
Unfunded Liability	$55.93	$60.95
Funded Ratio	57.2%	56.1%
Employer Normal Cost	$2.04	$1.96
Unfunded Liability Contribution	3.94	4.32
Estimated Total Employer Contribution	$5.98	$6.28

The large increase of the unfunded liability from $55.9 million to $60.9 million, or 8.97%, and the reduction in funding level from 57.2% funded to 56.1% is primarily due to a lower than projected return on asset investments. The prior year actuarial assumed a gross 7.65% return on investment while actual gross returns for 2015 were 2.4%. On December 21, 2016, CalPERS issued an official notification that its Board of Administration voted to lower the discount rate from 7.5% to 7% over the next three years with a one-year lag for school and public agencies. CalPERS projects that over the three years the average employer will see a one to two percent increase of normal cost as a percent of payroll and a 30 to 40 percent increase in the current unfunded liability.

Prudent financial planning suggests that the development of a long-term plan to move this unfunded liability above a minimum 80% funding threshold is needed. Rating agencies such as Standard and Poor's include the funding of pension and other post retirement obligations as part of their assessment of a company's credit rating, and recent reports have indicated that a funding level less than 80% has a negative impact of their assessment of the company.

In addition, NPCA is actively seeking new members to improve economies of scale and reduce costs for the current membership. Large liabilities such as the pension liability could deter potential new members from joining or existing members from participating in future projects.

Another reason to address the issue now is the possible lifecycle/economic shutdown of NCPA projects. Project participants are considering options to close both the CT1 and CT2 projects within the next ten years. As end of life decisions are made for these projects, large liabilities related to the employees at these facilities will be a consideration in the decision of when to decommission. Earlier funding of the liability will make it much easier to evaluate options for these plants' projects.

Based on the above, the Finance Committee has considered the components of a Long-Term Funding Plan for the NCPA's Employee Pension Program. After consideration, including projected budget impacts by each member, the Finance Committee recommends that the Commission approve a formal long-term funding plan with the following components:

- Establish a goal to obtain a minimum funding level of 80% within 15 years and confirm the policy of funding 100% or more of the employer required contribution each year
- Shorten the amortization period used in the CalPERS actuarial calculations from 30 years to 15 years and fund the increased annual employer required contribution of $1,455,070
- Research other ways to limit pension liability going forward
- Review plan funding annually with Finance Committee in conjunction with CalPERS actuarial study issuance and recommend updates as needed to the full Commission

The proposed Long-Term Funding Plan for NCPA's Employee Pension Program was reviewed and approved (?) by the Finance Committee is attached to the staff report.

FISCAL IMPACT:

Adoption of the funding plan as outlined would increase annual NCPA contributions for the pension plan by $1,455,070. Cost allocation is based on labor costs for each NCPA program and project. Labor costs are allocated based on project or program participation percentages and allocation methods per the budget. A schedule that reflects fiscal impact by member is attached.

ENVIRONMENTAL ANALYSIS:

This activity would not result in a direct or reasonably foreseeable indirect change in the physical environment and is therefore not a "project" for purposes of Section 21065 the California Environmental Quality Act. No environmental review is necessary.

COMMITTEE REVIEW:

The recommendation was reviewed and approved (?) by the Finance Committee on January 9, 2017.

Respectfully submitted,

RANDY S. HOWARD
General Manager

Attachments:
- Analysis of Funding by Member
- Resolution 17-XX
- PowerPoint Presentation
- Long-Term Funding Plan for NCPA Pension Plan

Particpant	2018 Pension Increase - 15 Yr Funding of Liability
Alameda	154,324
BART	41,611
Biggs	6,516
Gridley	12,636
Healdsburg	37,574
Lodi	156,705
Lompoc	45,350
Palo Alto	109,034
Plumas Sierra	25,902
Port of Oakland	12,951
Redding	8,641
Roseville	100,929
Santa Clara	508,151
Truckee-Donner	2,647
TID	34,053
Ukiah	54,605
Azusa	8,045
CDWR	96,748
MID	30,943
PWRPA	7,705
	1,455,070

RESOLUTION 17-XX

RESOLUTION OF THE NORTHERN CALIFORNIA POWER AGENCY APPROVING A LONG-TERM FUNDING PLAN FOR NCPA'S EMPLOYEE PENSION PROGRAM

(reference Staff Report #XXX:17)

WHEREAS, the Northern California Power Agency ("NCPA) joined the California Public Employees' Retirement System (CalPERS) pension plan in April 2002; and

WHEREAS, CalPERS performs an updated actuarial report annually, and the purpose of the report is to: 1) set forth the assets and accrued liabilities of this plan as of the report date; 2) determine the required employer contributions for the applicable fiscal year; and 3) provide actuarial information as of the report date to the CalPERS Board of Administration and other interested parties.

WHEREAS, in December 2016, NCPA received the most recent actuarial valuation for the Miscellaneous Plan which resulted in a large increase in the unfunded liability (from $55.9 million to $60.9 million, or 8.97%) and reduction in funding level (57.2% funded to 56.1%) primarily due to a lower than projected return on asset investments; and

WHEREAS, the NCPA Finance Committee recommends that the Commission approve a formal long term funding plan to ensure that the Pension Plan is funded at a minimum level of 80% within 15 years and continued funding of the annual required employer contribution at 100%; and

WHEREAS, this activity would not result in a direct or reasonably foreseeable indirect change in the physical environment and is therefore not a "project" for purposes of Section 21065 the California Environmental Quality Act. No environmental review is necessary; and

NOW, THEREFORE BE IT RESOLVED, that the Commission of NCPA adopts the long-term funding plan for NCPA's Employee Pension Program attached to this Resolution and direct the General Manager to add the proposed expense to the annual labor and benefit budget.

BE IT FURTHER RESOLVED, that the Commission direct the Chair of the Finance Committee to provide an annual report to the full Commission on the progress of reducing the unfunded liability and proposals to limit the pension liability going forward.

PASSED, ADOPTED and APPROVED this ____ day of ________________, by the following vote on roll call:

	Vote	Abstained	Absent
Alameda	________	________	________
BART	________	________	________
Biggs	________	________	________
Gridley	________	________	________
Healdsburg	________	________	________
Lodi	________	________	________
Lompoc	________	________	________
Palo Alto	________	________	________
Port of Oakland	________	________	________
Redding	________	________	________
Roseville	________	________	________
Santa Clara	________	________	________
Truckee Donner	________	________	________
Ukiah	________	________	________
Plumas-Sierra	________	________	________

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BOB LINGL
CHAIRPERSON

ATTEST: ________________________

CARY A. PADGETT
ASSISTANT SECRETARY

Long-Term Funding Plan for NCPA's Employee Pension Program

December 29, 2016

Background

In 1981, NCPA adopted a Simplified Employee Pension (SEP)/Individual Retirement Account (IRA) plan to provide retirement benefits for the small number of existing employees and for future employees. The Agency originally adopted the plan because: 1) it was easy to implement; and 2) it was perceived as simple to administer. Over the years, the Agency explored changing its retirement plan a number of times. The California Public Employees' Retirement System (CalPERS) retirement plan had been adopted by most of the Agency's members and was seen as being very successful for them as at the time, most Agency members participating in the plan had been paying little for years because of CalPERS' ability to pool investment of assets and amortize losses over a 20-year period.

NCPA executed an agreement to join the CalPERS retirement system April 7, 2002. Ratification of the agreement created an immediate unfunded liability of $13.5 million for the Agency. CalPERS performs an actuarial study each year for the pension plan. In December 2016, NCPA received the most recent actuarial valuation for the Miscellaneous Plan which resulted in a large increase in the unfunded liability (from $55.9 million to $60.9 million, or 8.97%) and reduction in funding level (57.2% funded to 56.1%) primarily due to a lower than projected return on asset investments.

To stabilize the Pension Plan and reduce the unfunded liability over a shorter amortization period, staff recommends that the Finance Committee recommend adoption of the following long term funding plan to the Commission.

Plan Elements

1. Establish a goal to obtain a minimum funding level of 80% within 15 years and confirm the policy of funding 100% or more of the employer required contribution each year

   Best practices and guidelines from the various credit rating agencies indicate that a minimum funding level of 80% is desired, as well as funding 100% of the employer required contribution. NCPA's current practice is to fund 100% of the employer required contribution; however, the Agency's current funding ratio is 56.1%.

2. Shorten the amortization period used in the actuarial calculations from 30 years to 15 years

   This strategy will increase the employer required contribution by approximately $1,455,070 a year, but will shorten the period of payments for the liability, similar to refinancing a mortgage over 15 years versus 30 years. Funding of this additional payment will begin in FY2018.

3. Research other ways to limit pension liability going forward

   This long-term strategy includes researching other ways to limit pension liability by placing additional contributions into non-CalPERS retirements trusts such as the Public Agency Retirement Services (PARS) Pension Rate Stabilization Program (PRSG). This would diversify the investment portfolio for pension assets.

4. Review plan funding annually with Finance Committee in conjunction with CalPERS actuarial study issuance and recommend updates as needed

   As with every strategy, periodic review is important. In accordance with best practices, NCPA will assess the annual CalPERS actuarial study and the updated funding levels and make recommendations for revision as needed.