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Contra Costa County

To: Board of Supervisors

From: David Twa, County Administrator

Date: April 1, 2014

Subject: Amendment to Ordinance Code Section 62-10.002 Allocation of Funds for Other Post-Employment Benefits

RECOMMENDATION(S):

ADOPT Ordinance No. 2014-04 amending the County Ordinance Code to modify the allocation of future resources for funding Other Post-Employment Benefits.

FISCAL IMPACT:

Ordinance No. 2008-16 allocated specific future resources for funding Other Post-Employment Benefits. As the future resources became available, they were to be allocated to funding Other Post-Employment Benefits. Current and proposed resources are shown below:

Resource	Beginning Fiscal Year	Current Amount	New Amount
Redirect From Workers Compensation Program	2008/2009	$10,000,000	$10,000,000
Redirect From UAAL Rate Adjustment Payments	2009/2010	$10,000,000	$10,000,000
Redirect Pension Obligation Bond Payments (Retired Bond)	2014/2015	$33,000,000	$0
Redirect Pension Obligation Bond Payments (Retired Bond)	2022/2023	$47,000,000	$47,000,000
Total Annual Future Resource Redirection	2024-onward	$100,000,000	$67,000,000

The proposed ordinance removes the 2014/2015 redirection of pension obligation bonds from the allocated funding to Other Post-Employment Benefits. Instead, beginning July 1, 2014, these funds will be used to pay unfunded liabilities in the Contra Costa County Employees' Retirement Association (CCCERA).

☑ APPROVE ☐ OTHER

☑ RECOMMENDATION OF CNTY ADMINISTRATOR ☐ RECOMMENDATION OF BOARD COMMITTEE

Action of Board On: **04/01/2014** ☑ APPROVED AS RECOMMENDED ☐ OTHER

Clerks Notes:

VOTE OF SUPERVISORS

AYE: John Gioia, District I Supervisor
Candace Andersen, District II Supervisor
Mary N. Piepho, District III Supervisor
Karen Mitchoff, District IV Supervisor
Federal D. Glover, District V Supervisor

I hereby certify that this is a true and correct copy of an action taken and entered on the minutes of the Board of Supervisors on the date shown.

ATTESTED: April 1, 2014

David J. Twa, County Administrator and Clerk of the Board of Supervisors

By: June McHuen, Deputy

Contact: Lisa Driscoll, County Finance Director (925) 335-1023

cc: Robert Campbell, Auditor-Controller

FISCAL IMPACT: (CONT'D)

Note that the Board of Supervisors actually began partially pre-funding the OPEB liability in FY 2008/09 with $20 million rather than the originally planned $10 million. The current annual funding level of $20,000,000 will be recommended to continue for FY 2014/2015 as part of the FY 2014/2015 Recommended Budget. The proposed ordinance does not impact the current annual funding level. Rather, it addresses the allocation of other specified future resources.

BACKGROUND:

On April 22, 2008, the Board of Supervisors adopted Ordinance No. 2008-16 "Other Post Employment Benefits Funding". The Ordinance directed specific future funding resources towards the County's Other Post-Employment Benefits (OPEB) liability. A major component of the County's original OPEB strategic funding plan was addressing funding scenarios which would have a direct impact on the County's resources and ability to provide services. The challenge was addressed through a combination of three basic mechanisms:

1. identifying resources available for transfer without reducing benefits or service levels;
2. reducing and/or changing benefits and changing cost sharing; and
3. reducing service levels and program cuts.

The OPEB Task Force analyzed future eligible resources to meet the requirements for OPEB funding. As was reported in an OPEB Report (dated March 1, 2007) to the Board of Supervisors on June 26, 2007, the majority of the County's reimbursement rates are capped; therefore, the County could not expect to fund the OPEB liability through increased State and Federal revenues. Consequently, the challenge was to identify resources not already allocated that could be used to fund retiree health care costs. The Task Force recommended and the Board of Supervisors adopted the following (in millions):

Resource	Beginning Fiscal Year	Current Amount
Redirect From Workers Compensation Program	2008/2009	$10,000,000
Redirect From UAAL Rate Adjustment Payments	2009/2010	$10,000,000
Redirect Pension Obligation Bond Payments (Retired Bond)	2014/2015	$33,000,000
Redirect Pension Obligation Bond Payments (Retired Bond)	2022/2023	$47,000,000
Total Annual Future Resource Redirection	2024-onward	$100,000,000

If begun in FY 2008/09, the Board was informed that the resources would exceed $588 million (plus earnings) reserved at the end of fiscal year 2022/23 and $100 million would be available to be added annually thereafter. However, the original March 2007 report warned that, the redirection of POB payments to OPEB rather than CCCERA was 'contingent upon CCCERA continuing to meet its assumed rate of investment—among other things' and that all of these resources are contingent upon them not being targeted for other increased costs of doing business and/or increasing service levels/programs.

In 2013 the CCCERA Board officially reduced its assumed rate of investment from 7.75% to 7.25%. In a letter dated March 12, 2013, CCCERA's actuary issued a report which projected employer contribution rate changes based on an estimated 14.17% gross market value investment return for 2012 and other changes in economic assumptions including reducing the expected long-term rate of return assumption from 7.75% to 7.25%. The projection was derived from the December 31, 2011, actuarial valuation results, which were the most current available at that time. At its Board meeting on July 24, the CCCERA board was presented with a report of the December 31, 2012, valuation figures by The Segal Group. At the conclusion of the report, the rates were adopted. The rates go into effect July 1, 2014. The complete report can be found on CCCERA's website at: http://www.cccera.org/agendas/agendas%202013/agenda7.24.12.html.

On August 6, 2013 the County Administrator presented a report to the Board of Supervisors on the impact on pension costs of CCCERA's Actuarial Valuation and Review as of December 31, 2012. The report included a recommended strategy for dealing with the significant increases to pension costs. The report noted that in June 2014, the County will pay off one of its two remaining pension obligation bonds (POBs). Because of this bond retirement, pension costs in FY 2014/15 would have been $32.99 million less than in FY 2013/14. The County's current OPEB funding ordinance specified that monies anticipated from this payoff were directed by the Board to the County's Other Post Employment Benefit Trust Fund.

The report noted that there were contingencies to these resources being available in the future and one of the contingencies specified was "CCCERA continuing to meet its assumed rate of investment—among other things". The report also stated that it was likely that the County Administrator would shortly recommend that the POB payment monies be redirected towards the FY 2014/15 pension cost increase. This recommendation would reduce the gap between the $55.6 million projected FY 2014/15 increase in pension costs and available funding to $22.7 million. This is still a very large number, but significantly more manageable.

The silver lining to the increased pension costs is that the CCCERA Board has taken seriously its fiduciary responsibility to the fund and has taken steps to ensure that members' pensions are adequately funded now and in the future. The County, in turn, will take the necessary steps to adjust future budgets to fully fund its obligations. The City of Detroit bankruptcy has made it impossible to ignore the financial issues looming for municipalities. In order to avoid being the "Detroit of the Future", Contra Costa must continue address its underlying issues−the high cost of benefits and specifically the unfunded retirement benefits. The silver lining to the decreased redirection of future funds to the OPEB Trust is that the County's OPEB liability has been reduced since the adoption of the ordinance from $2.4 billion dollars to just over $1 billion dollars. While still a very large number, it is anticipated that over-time the net liability will be further reduced by the resources available in the County's OPEB Trust.

CONSEQUENCE OF NEGATIVE ACTION:

Insufficient resources will be available for FY 2014/15 CCCERA payments, without significant reduction to services.

CHILDREN'S IMPACT STATEMENT:

None.

ATTACHMENTS

Ordinance No. 2014-04 amending Ordinance Code Section 62-10.002

Ordinance No. 2014-04 amending Ordinance Code Section 62-10.002 Red-Line Version