



Utility Commission Agenda Item

Commission Meeting Date: May 13, 2019

TO: City of Lompoc Utility Commissioners

FROM: Brad Wilkie, Utility Director
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SUBJECT: Review of CalPERS Unfunded Actuarial Liability – Miscellaneous Plan as of most recent valuation date of June 30, 2017

Recommendation:

Informational item

Background:

At the most recent City of Lompoc City Council Budget Workshop, the City's Finance Division presented information related to the City's existing obligations to the California Public Employees' Retirement Systems (CalPERS). The City has two separate plans; one for Public Safety (ie: Sworn Police and Firefighter staff) and one for Miscellaneous (everyone else including non-sworn Police and Fire staff). For the purposes of this report, only the Miscellaneous Plan applies to City of Lompoc Utility divisional staff, support staff, and employees; therefore, the amounts discussed are only for the Miscellaneous Plan.

The current CalPERS contribution valuation was published in August 2018 for the period ending June 30, 2017. This June 30, 2017 contribution valuation provides contribution obligations due to CalPERS during the upcoming 2019-20 fiscal year. As of June 30, 2017, the City's Miscellaneous Plan's funded status is as follows:

Total Accrued Liabilities	\$186,572,524
Market Value of Assets	<u>133,233,440</u>
Unfunded Accrued Liabilities (UAL)	<u>\$53,339,084</u>

The UAL is the present value of future employer contributions for service that has already been earned. Future normal cost contributions for active employees is not included. While the UAL was \$53,339,084 at June 30, 2017, payments for the valuation report effective June 30, 2017 do not begin until July 1, 2019. The UAL amount due of \$53,228,084 is scheduled to rise due to compounded interest to \$55,529,186 by June 30, 2019 before the City has an opportunity to begin contributions on the balance.

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Of the \$53,339,084 UAL obligation at June 30, 2017, between 67% and 82% is attributable to utility staff and staff supporting utility operations of the City's four primary utilities (Water, Electric, Wastewater, and Solid Waste). A range is used in this presentation due to uncertainty of allocations between support services, funded positions in support services and the utilities, and the uncertainty related to the distribution of the June 30, 2018 contribution valuation due around August 2019. Each budget cycle between FY 2019-21 and FY 2047-49 could change the allocation methodologies for support services, funded positions, and other criteria that could affect the allocation methodologies. The 15% differential likely captures a majority of the scenarios related to the above uncertainties. The range of obligations to the four primary utilities is between approximately \$37,600,000 and \$45,800,000 and is allocated as follows:

	<u>Low Range</u>	<u>High Range</u>
Water	\$9,600,000	\$11,700,000
Electric	12,100,000	14,800,000
Wastewater	7,400,000	9,000,000
Solid Waste	<u>8,500,000</u>	<u>10,300,000</u>
Total UAL obligation	<u>\$37,600,000</u>	<u>\$45,800,000</u>

The City of Lompoc currently utilizes CalPERS' default amortization methodologies to determine annual contributions for UAL payments. While methods vary based on type of amortization base, the majority of bases are amortized over 30 years based upon assumed increases in reportable compensation. This method generally provides for increasing payments over time and doesn't provide for payments early in the amortization period adequate to reduce the principal due.

The existing amortization methods applied to the June 30, 2017 contribution valuation will require total payments over 30 years. It should be noted that the CalPERS Miscellaneous Plan is a single plan. As such, any payments made for obligations cannot be targeted to one specific City function or program, such as the Wastewater Utility. As mentioned above, while the UAL calculated as of June 30, 2017 is \$53,339,084, the total due by June 30, 2019 will be \$55,529,186. The \$2,190,102 is the net of accumulated interest and anticipated payments from July 1, 2017 to June 30, 2019.

Payments to fully pay down the UAL principal balance of \$55,529,186 are scheduled using the CalPERS default amortization methodologies and will be a total of \$109,896,373 through the 2047-48 fiscal year. The difference between the \$109,896,373 and the principal amount of \$55,529,186 is interest of \$54,367,187 at the CalPERS assumed rate of return of 7%. For the four utilities, the estimate allocation of the payments and interest on the above allocation of the UAL is as follows:

	<u>UAL</u>	<u>Interest</u>	<u>Total</u>
Water			
Range from	\$9,600,000	\$9,500,000	\$19,100,000
to	11,700,000	11,500,000	23,200,000

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Electric				
Range from	\$12,100,000	\$11,900,000	\$24,000,000	
to	14,800,000	14,400,000	29,200,000	
Wastewater				
Range from	\$7,400,000	\$7,200,000	\$14,600,000	
to	9,000,000	8,800,000	17,800,000	
Solid Waste				
Range from	\$8,500,000	\$8,200,000	\$16,700,000	
to	10,300,000	10,100,000	20,400,000	
Total UAL obligation – of the Utilities				
Range from	\$37,600,000	\$36,800,000	\$74,400,000	
To	45,800,000	44,800,000	90,600,000	
Total UAL obligation – Miscellaneous Plan as a whole:				
	\$55,529,186	\$54,367,187	\$109,896,373	

Interest payments approximate the total current liability resulting in total payments from the four utilities between \$75 million and \$90 million using the current default methodologies.

Discussion:

Beginning with the contribution valuation published as of June 30, 2017, CalPERS provides alternatives to the default amortization term of 30 years. For example, an alternate term of 10 years on the current UAL obligation can be affirmatively chosen by a member agency. It is likely CalPERS would require an agency to select a different amortization term, in their terms, a "fresh start" before the beginning of the 2019-20 fiscal year. If the City of Lompoc selects the 10 year amortization option beginning with the 2019-20 contribution period, the interest savings due to the shorter amortization plan could be as follows:

Miscellaneous Plan as a whole: \$31,401,143

Estimated interest savings for each utility:

Water	From	\$5,500,000	to	\$6,600,000
Electric	From	6,900,000	to	8,300,000
Wastewater	From	4,200,000	to	5,100,000
Solid Waste	From	4,700,000	to	5,800,000
All utilities	From	<u>\$21,300,000</u>	to	<u>\$25,800,000</u>

Fiscal Impact:

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Over the 30 year term of repayments, paying down the principal balance for the Miscellaneous Plan over a shorter period could provide as much as \$26 million dollars to the four major utilities which could be used for needed infrastructure replacements, rate stabilization programs, and other system benefits. Rather than paying \$26 million in interest payments on an existing, outstanding obligation, the funds could remain local to enhance the City's economy.

Conclusion:

While a review of each utility's capacity to provide for a shorter amortization base would require additional analysis, any change in amortization base contributions could only be accomplished for the City's Miscellaneous Plan as a whole. Resources would need to be identified for non-utility sources to provide for obligations outside the four utilities reviewed here in order to maximize the benefit to the agency. In addition, while the utilities have no obligation for the UAL payments of the Public Safety Plans, the agency needs to address the Public Safety Plans obligations and provide resources to pay that obligation now and into the future.

Respectfully submitted,



Brad Wilkie, Utility Director

Attachment: Utility Savings worksheet – CalPERS UAL amortization savings potential by moving to a 10 year amortization schedule from the default 30 year amortization schedule – Miscellaneous Plan only.

City of Lompoc

Utility Savings - UAL repayment accelerated to 10 years

	Estimated UAL obligation including support services		
	Low	Mid	High
City's major utilities			
Estimated UAL Principal obligation	\$ 37,600,000	\$ 41,700,000	\$ 45,800,000
Cumulative 30 yr amortization payments	\$ 74,400,000	\$ 82,500,000	\$ 90,600,000
Cumulative 10 yr amortization payments	53,100,000	58,900,000	64,800,000
Potential interest savings - UAL repayment - 10 yr amortization	\$ 21,300,000	\$ 23,600,000	\$ 25,800,000
Total interest payments			
30 yr amortization	\$ 36,800,000	\$ 40,800,000	\$ 44,800,000
10 yr amortization	\$ 15,500,000	\$ 17,200,000	\$ 19,000,000
Water Utility			
Estimated UAL Principal obligation	\$ 9,600,000	\$ 10,700,000	\$ 11,700,000
Cumulative 30 yr amortization payments	19,100,000	21,100,000	23,200,000
Cumulative 10 yr amortization payments	13,600,000	15,100,000	16,600,000
Potential interest savings - UAL repayment - 10 yr amortization	\$ 5,500,000	\$ 6,000,000	\$ 6,600,000
Wastewater Utility			
Estimated UAL Principal obligation	\$ 7,400,000	\$ 8,200,000	\$ 9,000,000
Cumulative 30 yr amortization payments	14,600,000	16,200,000	17,800,000
Cumulative 10 yr amortization payments	10,400,000	11,500,000	12,700,000
Potential interest savings - UAL repayment - 10 yr amortization	4,200,000	4,700,000	5,100,000
Solid Waste Utility			
Estimated UAL Principal obligation	\$ 8,500,000	\$ 9,400,000	\$ 10,300,000
Cumulative 30 yr amortization payments	16,700,000	18,600,000	20,400,000
Cumulative 10 yr amortization payments	12,000,000	13,300,000	14,600,000
Potential interest savings - UAL repayment - 10 yr amortization	\$ 4,700,000	\$ 5,300,000	\$ 5,800,000
Electric Utility			
Estimated UAL Principal obligation	\$ 12,100,000	\$ 13,400,000	\$ 14,800,000
Cumulative 30 yr amortization payments	24,000,000	26,600,000	29,200,000
Cumulative 10 yr amortization payments	17,100,000	19,000,000	20,900,000
Potential interest savings - UAL repayment - 10 yr amortization	\$ 6,900,000	\$ 7,600,000	\$ 8,300,000