



Finance and Administration Committee Agenda Item 5a

September 19, 2017

Item Name: Trinity County Waterworks District #1 Recommended Declaration of Default

Program: Pension Contract Management Services

Item Type: Action

Recommendation

Declare the Trinity County Waterworks District #1 (Trinity) in default of its obligations to the California Public Employees' Retirement System ("CalPERS" or "System").

Executive Summary

At the May 2017 FAC meeting, staff presented an update about agencies that are significantly delinquent in payments of required contributions to the System. The update included the status of Trinity's voluntary contract termination. The purpose of this agenda item is to recommend that the Board declare Trinity in default, which would require a reduction in retirement benefits in accordance with Government Code section 20577.

Strategic Plan

This Agenda item supports Goal A of the CalPERS 2012-17 Strategic Plan, which aims to improve long-term pension and health benefit sustainability.

Background

Trinity County Waterworks District #1

Trinity formed in 1951 as a special district with the primary objective of operating a municipal water system to serve the Hayfork area. Trinity entered into a retirement contract with CalPERS effective August 31, 1996 to provide retirement benefits for its local miscellaneous employees.

On September 20, 2015, Trinity notified CalPERS of its intent to voluntarily terminate its contract due to concerns about the rising costs of benefits. Trinity then entered into a service agreement with a local company to take over Trinity's operations.

On September 30, 2016, Trinity voluntarily terminated its contract with CalPERS and Trinity continued to pay pension obligations until the final valuation was completed.

Throughout January and February 2017, CalPERS and Trinity had multiple discussions regarding Trinity's inability to pay the preliminary termination amount as determined by CalPERS Actuarial Office. Trinity requested a 20-30 year no interest payment plan. Unable to agree upon a reasonable resolution for Trinity to pay the amount owed, on March 9, 2017, staff sent to Trinity an invoice for the termination cost in the amount of \$1,534,409.

On April 7, 2017, Trinity became delinquent on its termination liability obligation. CalPERS contacted the agency multiple times and sent several notices to request payment of the termination cost. Trinity responded that it could not pay due to budget constraints, and reiterated its request to pay its obligation over a 30-year term.

On May 8, 2017, staff sent a final collection letter to Trinity demanding payment of the outstanding amount within 10 days of the date of the letter (Attachment 2). Copies of the collection letter were also sent to the employees and the sole retiree to inform them of the agency's delinquent payment status.

On May 23, 2017, staff sent a final demand letter giving Trinity 30 days to bring the account current or staff would recommend that the Board declare Trinity in default (Attachment 3). Staff sent copies of the demand letter to the Trinity County Board of Supervisors. Trinity's employees and retirees also received letters from staff via certified mail to advise them of that the proposed recommendation of default, which would require benefit reductions. So far, three members have contacted CalPERS. The 30 days lapsed without any payment.

Further, under Government Code section 20577, if an agency fails to pay the full amount owed upon termination the Board can declare the agency in default and consequently shall reduce member retirement benefits as of the date the Board declares default, in proportion to the amount of the deficiency in accumulated contributions of the agency and its employees. Staff recommends, to the extent that Trinity failed to pay the full amount of its termination liability that became delinquent on April 7, 2017, that the Board declare Trinity in default and reduce retirement benefits in accordance with section 20577.

The Actuarial Office calculated the final amount of termination; the agency is funded at 31.45% as of September 30, 2016, based on a benefit formula of 2.7% at 55 and a discount rate of 2.05%. Trinity's current funded status represents a benefit reduction of approximately 68.55% for their five members in the classic miscellaneous plan. The agency does not have members in a PEPRA plan. The reduction of benefits would only apply to the members' portion of benefits derived from their service to Trinity and does not apply to any portion of benefits derived from their service to the State or any other contracted agency.

Termination Cost¹			
Rate Plan	Plan Participants	Funded Status	Total Termination Cost Owned
Miscellaneous 2.7% at 55	Total = 5 Term Vested = 5	31.45%	\$1,516,222

¹ Source: Final Termination Valuation

If the Board declares Trinity in default, current and former employees of the agency will be notified of this decision before the implementation of the benefit reduction. The reduction will occur on the first pay period in December 2017.

Budget and Fiscal Impacts

Termination of the pension contracts and addressing the outstanding liabilities of Trinity through the reduction in benefits will align the benefits received by members with the contribution amounts paid into the System on their behalf.

Benefits and Risks

CalPERS is charged with administering the System in accordance with the law. Enforcing the provisions of CalPERS' contracts and the Public Employees' Retirement Law with respect to contract terminations and resulting benefit reductions, when appropriate, helps ensure that employers contracting with CalPERS comply with the statutory provisions governing the System. This includes agreeing to timely payment of required contributions and termination liabilities in order to fully fund benefits accrued prior to termination. The Board has a fiduciary duty to ensure the integrity of the System in order to pay benefits and to protect the soundness of the System when employers do not pay their required contributions to CalPERS.

Other contracting agencies will not be impacted by the termination of Trinity. However, the retirement benefits of the vested terminated employees and the retiree will be impacted by future benefit reductions.

Attachments

Attachment 1 –Trinity County Waterworks PowerPoint

Attachment 2 – Final Collections Letter

Attachment 3 – Final Demand for Payment Letter



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