

Pension Contracts Management Program Annual Report

Finance and Administration Committee Fiscal Year 2019-2020

Executive Summary

In accordance with the California Public Employees' Retirement System (CalPERS) Board of Administration's (Board) Finance and Administration Committee (FAC) direction on February 18, 2020, the Pension Contracts Management Program (PCMP) revamped its reporting to better inform FAC of notable employer cases while simultaneously providing a general status update of PCMP. To align PCMP reporting to the FAC meeting schedule and fiscal year, PCMP will provide a comprehensive and cumulative annual program report at fiscal year-end and present a more concise quarterly status update during the fiscal year. This annual report is divided into two primary sections: Program Current Status and Delinquency and Collections Activity. Within Program Current Status are pension contract demographics, a summary of activity, and notable highlights such as performance metrics or process improvements. Delinquency and Collections Activity provides a summary of delinquency activity, trend analysis, and remedies provided to employers with financial challenges.

This annual report summarizes PCMP's work for fiscal year 2019-2020 (FY 19-20). Programmatically, there were 24 new pension contracts (21 charter schools and 3 public agencies), 54 contract amendments, one merger, and nine voluntary pension contract closeouts. There were no involuntary pension contract terminations. For the second consecutive year, 98 percent of employers' were current on their pension obligations. For FY 19-20, there were 502 delinquencies across 306 employers. As of fiscal year-end June 30, 2020 (FYE 19-20), there were 17 active delinquency cases totaling \$393,488. Nearly half of the active delinquencies are by District Agriculture Associations (DAAs) administered by the California Department of Food and Agriculture (CDFA). These agencies are experiencing financial challenges due to the COVID-19 pandemic.

PCMP uses two primary approaches with delinquent employers. First, for employers experiencing acute and temporary financial challenges, PCMP may provide a short-term payment arrangement not to exceed 3-4 months that exists within the collections process. In FY 19-20, 30 agencies received a short-term payment arrangement, and all are current on their agreements. For employers with longer-term but still temporary and surmountable financial challenges, PCMP, in conjunction with the Actuarial Office, may offer a payment plan that sustains the employer and protects their members' accrued benefits. Currently, there are three employers with special circumstances on formal payment plans, two are for termination costs and one for UAL costs. All three are current in their payment schedules.

Notable administrative highlights include enhancing the myCalPERS document management functionality of the pension contract amendment and termination process. To mitigate defaults, PCMP increased employer education during the financial review portion of the contracting process regarding the affordability and obligations of participating in CalPERS. Resultingly, nine potential new employers declined CalPERS participation following the financial review process. Further, PCMP developed employer FAQs for the cost-sharing and golden handshake optional benefits. PCMP continued refining the Risk Monitoring Model by integrating additional financial data risk factors and expanding the model to all employers. Lastly, PCMP's pension contract management processes received no audit findings from an internal audit review.

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Program Overview

PCMP works with public agencies to establish, amend, and/or terminate contracts for retirement benefits as well as determine eligibility of charter schools seeking to participate in CalPERS. The PCMP team provides consultation on Public Employees' Retirement Law (PERL) and compliance for potential new contracting public agencies and existing public agency contracts for pension benefits. Our program area also works with contracting agencies in requesting valuations and contract amendments to increase, change, or decrease optional benefits as well as providing education to public agencies on the process of retirement contract terminations and addressing outstanding receivables related to contracted benefits and employer contributions.

Program Current Status

Pension Contracts Demographics

The most current participating employer (ER) annual valuation data available as of this printing is from June 30, 2018. When updated valuation data for 2019 becomes available in September 2020, it will be included in the next subsequent PCMP report.

Public Agencies ¹				Schools ¹			
1,517 Agencies	787,798 Participants	\$7.6B² Expected ER Contributions	\$152.4B Assets Under Management	1,319 Schools	760,139 Participants	\$2.8B³ Expected ER Contributions	\$64.9B Assets Under Management

Agency Type	# of Agencies	% of Total Agencies	Total Participants ⁴	% of Total Participants	Current UAL & Funded % (\$ in Millions)	
City and Town	451	30%	404,369	51%	\$38,399	70%
County	39	3%	212,720	27%	\$15,047	70%
Special District	802	53%	126,767	16%	\$9,219	74%
JPA	162	10%	26,254	4%	\$900	77%
Non-Profit	63	4%	17,688	2%	\$404	80%

¹ Data Source: June 30, 2018 Annual Valuation Reports

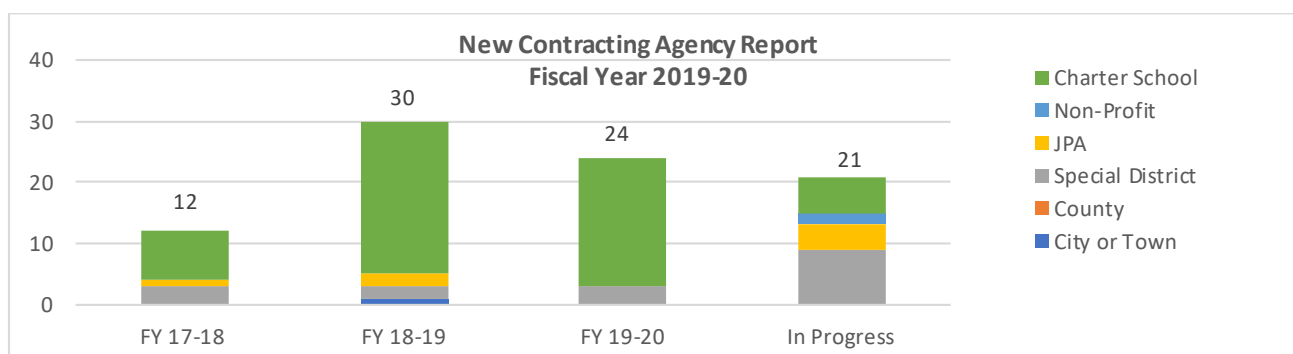
² For fiscal year 2020-21

³ For fiscal year 2019-20

⁴ Includes members who have service in more than one rate plan

Contract Activity Summary FY 19-20

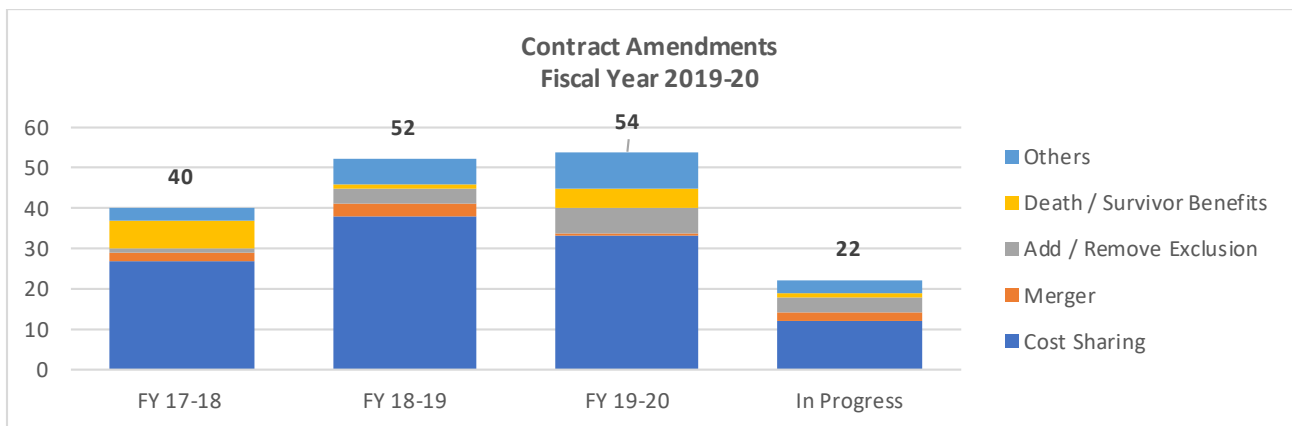
- Twenty-four new pension contracts were added: 21 charter schools and 3 public agencies.



- Three new participating employers to CalPERS in FY 19-20.

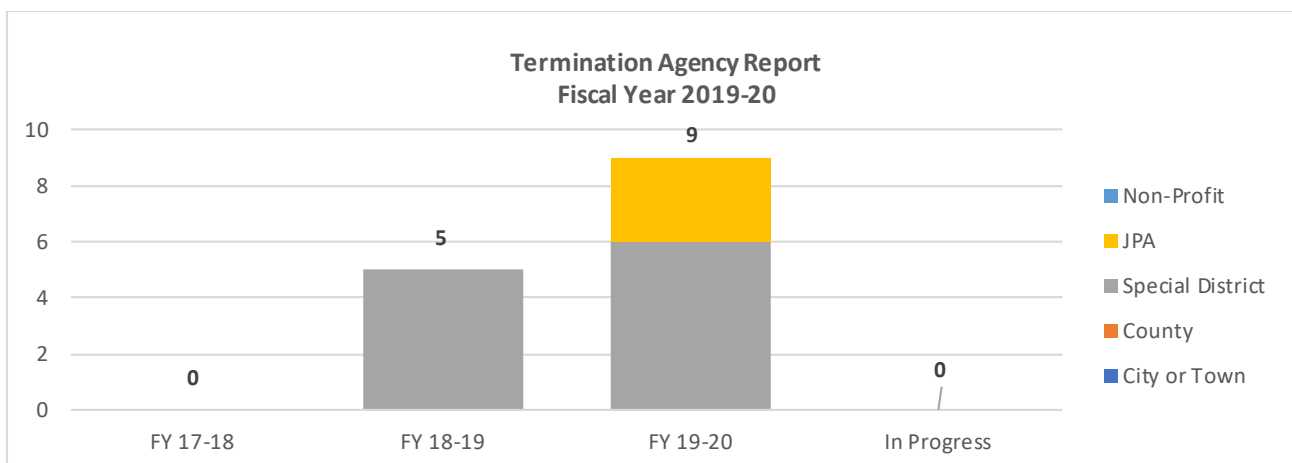
Agency Name	Agency Type	Contract Effective Date	Total Participants	Plan Type	Benefit Formula
Tuolumne City Sanitary District	Special District	12/21/2019	5	Miscellaneous	2% @ 62
Edgemont Community Services District	Special District	3/12/2020	1	Miscellaneous	2% @ 62
Val Verde Unified School District – School Police Plan	School Police	8/1/2019	4	Safety	2.7% @ 57

- PCMP executed 54 pension contract amendments – 33 for cost-sharing, five adding death/survivor benefits, five adding an exclusion, one removing an exclusion, nine miscellaneous, and one contract merger.*



*Bennett Valley Fire Protection District and Rincon Valley Fire Protection District merged into the Windsor Rincon Fire District and was then renamed Sonoma County Fire District. See Table 4 in Appendix 2 for a complete list by agency.

- Nine of 10 pending voluntary contract closeouts were executed during FY 19-20. One employer cancelled its closeout request. See Appendix 3 for the list of agency terminations.



- No involuntary terminations in FY 19-20.

Notable Administrative Highlights

- Improved employer education and financial analysis within the review process for new contracting employers to better inform about the affordability of CalPERS participation and potential impact to their budget. Employers expressed positive feedback about the financial analysis and credit it with informing their decision-making. Resultingly, nine public agencies declined CalPERS participation due to financial concerns.
- To streamline the myCalPERS pension contract amendment and termination processes, PCMP collaborated with cross-divisional programs to enhance document management functionality.
- In an ongoing effort to proactively educate and update employers about PCMP processes and timelines, we developed process guides in the form of employer FAQs for the cost-sharing and golden handshake optional benefits.

Delinquency and Collection Activity

Using a receivables management approach, PCMP actively monitors financial transaction data and proactively intervenes when delinquencies occur. This data driven process is effective in identifying and assessing the financial challenges of employers and informs collection actions. To mitigate the risk of late or nonpayment, PCMP conducts weekly reviews of payment transactions and contacts agencies that are 30 or more days late on their contributions, unfunded liability, termination or arrears payment. When PCMP team members engage with delinquent employers, we provide education to better inform their decision-making and support in the form of case-by-case payment flexibility. Additionally, PCMP monitors employers not reporting payroll for more than 60 days to proactively secure payment for their pension obligations. Please see Appendix 1 for demographic information on the inactive population.

Delinquency Activity Summary FY 19-20

- In FY 19-20, CalPERS collected \$21.6 million out of \$22 million in employer delinquent contributions.
- PCMP resolved 502 delinquent cases across 306 employers maintaining a cumulative delinquency rate below 2% and meet our strategic measure.
- Of the 502 delinquent cases, 30 agencies received a short-term payment arrangement for 3-4 months to assist with acute and temporary financial challenges during FY 2019-20. All of these agencies are current with their pension obligations as of FYE 19-20.
- At FYE 19-20, there were 17 active cases totaling \$393,488. Nine cases for normal cost contributions totaling \$353,212. Eight of the 9 cases are the District Agricultural Associations (DAAs) administered by the California Department of Food and Agriculture (CDFA). The remaining eight cases are for arrears contributions totaling \$40,276.
- As of August 26, 2020, we have collected \$282K of the total outstanding balance and PCMP team members are actively working with agencies to collect the remaining balance owed.

Trend Analysis

- All eight of the DAA delinquent cases are due to COVID-19.
- 70% of contracting employers prepaid their UAL payments by July 31, 2019 compared to 66% in the prior fiscal year. Preliminary data for July 2020 suggests an increase over 2019 and will be provided in the next quarterly update.

- So far, no significant spike in delinquencies due to the COVID-19 for contracting employers.
- 383 normal cost contribution underpayment delinquent cases were reported in FY 19-20, compared to 358 cases in the prior year.
- 70 unfunded liability delinquent payments were reported in FY 19-20, compared to 52 cases in the prior year.
- 43 arrears delinquent cases were reported in FY 19-20, compared to 67 cases in the prior year.
- Six termination delinquent cases were reported FY 19-20, compared to two cases in the prior year.

Active Payment Plans

For employers with longer-term but still temporary and surmountable financial challenges, PCMP conducts a financial assessment, and in coordination with the Actuarial and Legal Offices, may offer a payment plan to delinquent employers to mitigate against involuntary termination to support protection of members' accrued benefits.

Currently, there are three employers with special circumstances on formal payment plans. Two plans are for termination costs, and one case is for UAL costs. All three are current on their payment schedules.

- Central Sierra Planning Council – pending 5-year payment plan for termination costs of \$496,561, defunct agency with five retirees. PCMP secured termination payment from Tuolumne County, a former member of the agency.
- City of Placentia – 5-year payment plan for termination costs of \$1,808,760, 51 retirees. The city terminated its inactive fire category safety plan.
- Samoa Peninsula Fire Protection District – 2-year payment plan for UAL costs of \$60,599, inactive agency with eight retirees, one survivor benefit. This inactive agency was approved to convert to a community services district with potential new revenue to fund its pension obligations.

Appendix 1

Public Agencies Demographics - Agency Type, Participants, Unfunded Liability and Funded Status¹

Special districts represented 53% of the participating employers and cities and towns had the highest percentage of participants at 51%. Funding status ratio for public agencies increased from 68 to 70%. Non-profits had the highest funding ratio at 80% followed by joint power authorities (JPAs) at 77%.

Table 1: Public Agencies Unfunded Liability and Funded Status¹

Agency Type	0% - 50%	>50%- 60%	>60%-70%	>70%-80%	>80%-90%	>90%-100%	>100%	Total
City or Town	0	1	148	262	22	16	2	451
County	0	1	20	17	1	0	0	39
Special District ²	4	3	86	508	134	48	19	802
Others:								
JPA	1	1	16	93	39	10	2	162
Non-Profit	0	0	10	29	19	2	3	63
Total	5	6	280	909	215	76	26	1,517

¹Data Source: June 30, 2018 Annual Valuation Reports

²Represents special districts in California who formed and are governed under a specific California government Code, such as Fire Protection Districts, Sanitation Districts, Transit District, and Utility District, and Water District.

Inactive Public Agencies Reconciliation Report and Liabilities Report

Table 2 and Table 3 provide the latest information as of June 30, 2020 on agencies with no active members reported to the system. These agencies are current on their pension obligations. Table 3 shows there were 72 agencies at the end of FY 2020, 51 of these agencies outsourced their operations and seven terminated their contract with the system. Table 4 provides the liabilities and funded status of the agencies.

Table 2: Inactive Agency Reconciliation Report

	Dissolved Operations	Function Merger	Outsourced its Operations	Stopped Reporting Payroll	Total
As of June 30, 2019	17	2	51	9	79
Merged with another entity	1	0	0	0	1
Terminated its Contract	2	1	2	2	7
Rehired	0	0	0	1	1
New Inactive Agency	0	0	2	0	2
As of June 30, 2020	14	1	51	6	72

Table 3: Inactive Agency Liabilities Report¹

Agency Status	# of Employers	Total Members	Estimated Annual Benefit Payments	Market Value of Asset	Total Accrued Liability	Funded Ratio	Estimated Termination AL	Estimated Termination Funded Ratio
Dissolved	14	786	\$13,909,203	\$141,622,860	\$206,012,404	68.7%	\$341,653,639	41.5%
Merged	1	9	\$40,237	\$717,453	\$846,663	84.7%	\$1,545,876	46.4%
Outsourced	51	1,937	\$17,599,849	\$224,109,519	\$306,982,137	73.0%	\$526,830,900	42.5%
Stopped Reporting Payroll	6	5	\$44,018	\$380,226	\$486,980	78.1%	\$732,688	51.9%
Total	72	2,737	\$31,593,307	\$366,830,058	\$514,328,184	71.3%	\$870,763,102	42.1%

¹This report represents the 72 inactive agencies as of June 30, 2020. The actuarial data is as of the June 30, 2018 actuarial valuation report.

Appendix 2

Table 4: Contract Amendment Report

CalPERS Contract Amendment Listing Fiscal Year 2019-20			
Agency Name	Agency Type	Amendment Effective Date	Amendment Type
Altadena Library District	Library &/or Library District	9/24/2019	GC 20503 (Removal of Contract Exclusion Prospective only)
Branciforte Fire Protection District	Fire District	6/27/2020	GC 20516 (Employees Sharing Additional Cost)
Capitol Area Development Authority	Housing Authority/Redevelopment Agency	10/19/2019	GC 21118 (Partial Service Retirement)
Chester Public Utility District	Utility District	12/18/2019	GC 20903 (Two Years Additional Service Credit)
City of Adelanto	City or Town	9/14/2019	GC 20903 (Two Years Additional Service Credit)
City of American Canyon	City or Town	6/27/2020	GC 20516 (Employees Sharing Additional Cost)
City of Buena Park	City or Town	4/10/2020	GC 20502 (Add Exclusion(s))
City of Chico	City or Town	11/10/2019	GC 20516 (Employees Sharing Additional Cost)
City of Coronado	City or Town	7/6/2019	GC 20516 (Employees Sharing Additional Cost)
City of Fremont	City or Town	12/8/2019	GC 21574 (1959 Survivor Benefit, 4th Level)
City of Garden Grove	City or Town	7/27/2019	GC 20516 (Employees Sharing Additional Cost)
City of Hayward	City or Town	5/25/2020	GC 21548 (Pre-Retirement Option 2W Death Benefit)
City of Healdsburg	City or Town	7/7/2019	GC 20516 (Employees Sharing Additional Cost)
City of La Mesa	City or Town	7/12/2019	GC 20516 (Employees Sharing Additional Cost)
City of Lodi	City or Town	1/27/2020	GC 20516 (Employees Sharing Additional Cost)
City of Los Banos	City or Town	5/16/2020	GC 20516 (Employees Sharing Additional Cost)
City of Menifee	City or Town	8/16/2019	GC 7522.25(d) (Add new category - FIRE) GC 21624/26 (Post-Retirement Survivor Allowance) GC 21574 (1959 Survivor Benefit , 4th Level)

City of Monterey Park	City or Town	5/16/2020	GC 20516 (Employees Sharing Additional Cost)
City of Morgan Hill	City or Town	4/19/2020	GC 20516 (Employees Sharing Additional Cost)
City of Morro Bay	City or Town	10/19/2019	GC 20516 (Employees Sharing Additional Cost)
Agency Name	Agency Type	Amendment Effective Date	Amendment Type
City of Mountain View	City or Town	5/17/2020	GC 20516 (Employees Sharing Additional Cost)
City of Orange	City or Town	6/21/2020	GC 21574 (1959 Survivor Benefit, 4th Level)
City of Orland	City or Town	1/16/2020	GC 7522.25(d) (Add new category - FIRE)
City of Palo Alto	City or Town	7/20/2019	GC 20516 (Employees Sharing Additional Cost)
City of Placentia	City or Town	11/3/2019	GC 20571.5 (Terminating Inactive category)
City of Redding	City or Town	3/22/2020	GC 20516 (Employees Sharing Additional Cost)
City of Riverside	City or Town	1/10/2020	GC 20516 (Employees Sharing Additional Cost)
City of San Leandro	City or Town	7/1/2019	GC 20516 (Employees Sharing Additional Cost)
City of San Luis Obispo	City or Town	7/11/2019	GC 20516 (Employees Sharing Additional Cost)
City of San Marcos	City or Town	10/19/2019	GC 20516 (Employees Sharing Additional Cost)
City of Sanger	City or Town	1/18/2020	GC 20516 (Employees Sharing Additional Cost)
City of Santa Fe Springs	City or Town	5/10/2020	GC 20502 (Add Exclusion(s))
City of Santa Maria	City or Town	4/25/2020	GC 20516 (Employees Sharing Additional Cost)
City of West Sacramento	City or Town	6/20/2020	GC 20516 (Employees Sharing Additional Cost)
County of Madera	County	3/1/2020	GC 20965 (Credit for Unused Sick Leave)
County of Yuba	County	7/1/2019	GC 20516 (Employees Sharing Additional Cost)
El Dorado Hills County Water District	Water/Flood Control District	3/24/2020	GC 20434 (Hazardous Position to Safety) GC 21574 (1959 Survivor Benefit, Fourth Level)
Forestville Fire Protection District	Fire District	7/1/2019	GC 20516 (Employees Sharing Additional Cost)
Georgetown Fire Protection District	Fire District	2/15/2020	GC 20516 (Employees Sharing Additional Cost)
Lake Shastina Community Services District	Municipal Improvement/CSD District	8/26/2019	GC 7522.25(d) (Add new category - FIRE) GC 21574 (1959 Survivor Benefit , 4th Level)
Las Gallinas Valley Sanitary District of Marin County	Sanitation (Garbage/Sewer) District	10/7/2019	GC 20516 (Employees Sharing Additional Cost)

Monterey One Water	Pollution Control District	3/8/2020	GC 20516 (Employees Sharing Additional Cost)
Municipal Pooling Authority	Miscellaneous	2/1/2020	100% Prior Service
Palos Verdes Library District	Library &/or Library District	10/1/2019	GC 20516 (Employees Sharing Additional Cost)
Penn Valley Fire Protection District	Fire District	9/4/2019	GC 21031 (Public Service Credit for Limited Prior Service)
Sacramento Area Council of Governments	Miscellaneous	7/1/2019	GC 20516 (Employees Sharing Additional Cost)
Agency Name	Agency Type	Amendment Effective Date	Amendment Type
San Francisco Bay Area Rapid Transit District	Transportation/Transit District	6/1/2020	GC 20516 (Employees Sharing Additional Cost)
Santa Clara Valley Water District	Water/Flood Control District	1/15/2020	GC 21118 (Partial Service Retirement)
Schools Insurance Authority	Miscellaneous	9/20/2019	GC 21118 (Partial Service Retirement)
Sonoma County Fire District	Fire District	8/1/2019	GC 20508 (Merger) of)
Town of Los Gatos	City or Town	10/6/2019	GC 20516 (Employees Sharing Additional Cost)
Town of Truckee	City or Town	8/11/2019	GC 20516 (Employees Sharing Additional Cost)
Truckee Fire Protection District	Fire District	3/1/2020	GC 20516 (Employees Sharing Additional Cost)

Appendix 3

Table 5: Terminations Activity Report

CalPERS Terminated Employer Listing Fiscal Year 2019-20	
Public Agency	Termination Effective Date
Central Coast Computing Authority	06/9/2020
Central Sierra Planning Council	12/31/2019
College Town	08/01/19
Fort Ord Reuse Authority	06/30/2020
LaBranza Water District	11/11/2019
Marin Healthcare District	04/11/19
San Luis Obispo Regional Transit Authority	01/11/2020
Shasta Local Agency Formation Commission	05/21/2020
Tahoe Transportation District	12/10/2019