

MEMO



Meeting Date: November 6, 2024

To: Finance Committee
From: Director of Finance & Administration, Helen Rodriguez
Approved by: General Manager, Felipe Melchor

Subject: Discuss CalPERS Unfunded Actuarial Pension Liability

RECOMMENDATION

Discuss the \$19.7 million CalPERS Unfunded Actuarial Pension Liability (UAL) and provide direction to staff to bring forth recommended option to the Board for consideration.

BACKGROUND

The CalPERS actuarial valuation as of June 30, 2023, issued on July 2024 – Attachment 1, reports that ReGen Monterey's Unfunded Actuarial Pension Liability (UAL) is \$19,668,750 and is 67.8% funded. ReGen's current and past practice has been to fund the minimum UAL payment required that is calculated based on a 23-year amortization period of the liability and accrues interest. Continuing the minimum UAL payment required for the 23-year amortization period would be approximately \$33.5M, or an additional \$14.1M of interest in addition to the UAL of \$19.7M – see page 22 of Attachment 1.

DISCUSSION

ReGen has 4 funding options to consider as follows:

1. Continue to pay the minimum UAL
2. Create a reserve policy
3. Create a Section 115 Trust
4. Reduce the amortization period from 23 years to 15 or 10 years by making additional UAL payments annually

The first option to continue paying only the required annual minimum UAL would incur \$14.1M in interest and take 23 years for the liability to be 100% funded. Please note that the Actuarial Report is two years in arrears, so the actual liability may be greater than the current reported valuation.

The second option is to create a reserve which will be used to pay the liability when ReGen no longer generates revenue (at closure). ReGen currently have five reserves: 1) Operating Reserve of 20%; 2) Capital Equipment Reserve; 3) Capital Infrastructure Reserve; 4) Closure Reserve; and 5) Post-Closure Reserve. Additionally, ReGen has restricted cash for the CalRecycle Financial Assurance as part of the Closure cost of \$2.5M. These reserves reduce the amount of cash available for operations

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and debt payments and do not reduce the UAL liability or reduce the amount of interest accruing on the UAL. As of September 30, 2024, ReGen's cash is approximately \$39.8M, of which \$6.8M is either restricted or has been reserved by the Board.

The third option is the creation of a Section 115 Trust, a qualified trust that allows a government entity to set aside money to pay for post-retirement employee benefits. This trust would be handled by a third-party administrator. Once the cash has been transferred to the administrator, that cash is no longer available for ReGen's use, nor can the Board un-restrict or un-reserve the cash. While the cash is restricted only for paying the UAL, it does not reduce the ReGen's UAL and interest continues accruing.

The fourth option is to reduce the amortization from 23 years to 15 or 10 years. Reduction of the amortization means to increase payment for the UAL, thereby not only reducing ReGen's liability, but also reducing the interest expense. For example, by paying an additional \$467K annually to the minimum required UAL payment, the amortization period is reduced to 15 years and saves ReGen approximately \$3M in interest. Further reduction to 10 years would require an additional \$1.1M plus the minimum required UAL and reduce interest cost by approximately \$7.0M. Reduction of the amortization period requires coordination with CalPERS to determine how much is required above the minimum UAL payment annually. See page 22 of Attachment 1 for an example.

RECCOMENDATION

Of the four options, staff recommends the fourth option and rounding the additional UAL payment of \$500K to be made in January of each fiscal year. The first payment to be made would be in January 2025. An additional \$500K would reduce the amortization period to about 13 years and save ReGen approximately \$3M in interest expenses (roughly \$230K of interest annually). And, more importantly, it reduces the outstanding UAL.

FISCAL IMPACT

Should the Committee recommend reducing the amortization period to 13 years, the fiscal impact would be \$500,000 to FY 2024/2025 Budget.

CONCLUSION

Staff requests direction from the Committee to bring forward a recommendation to the Board for consideration.

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