

MEMO



Meeting Date: November 22, 2024

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

Subject: Discuss \$19.7 million CalPERS Unfunded Actuarial Pension Liability and Approve Accelerating UAL Payments.

RECOMMENDATION

Discuss the \$19.7 million CalPERS Unfunded Actuarial Pension Liability (UAL) and approve accelerating UAL payments.

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. The Accrued Liability, Unfunded Accrued Liability, and the Present Value of Benefits provided in the June 30, 2023 annual valuation report are calculated assuming annual inflation growth of 2.3% over the long term. For salary, the report estimates that current employees will get an annual inflation adjustment of 2.3%, plus a productivity increase of .5%, plus a seniority, merit, and promotion increase that varies for each member and is based on their employment category, age, and the amount of service they've accrued as of the valuation date.

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.

Physical Address	Mailing Address	Phone / Fax	Web / Social	<i>Let's not waste this.</i>
14201 Del Monte Blvd.	P.O. Box 1670	831-384-5313 PHONE	ReGenMonterey.org	
Salinas, CA 93908	Marina, CA 93933	831-384-3567 FAX	@ReGenMonterey	

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 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. Based on the amortization schedule provided by CalPERS with an additional \$500K payment made annually on January subsequent to the July minimum UAL payment is made thru 2036, interest saved is estimated at \$6.0M.

RECCOMENDATION

Of the four options, staff recommends the fourth option and rounding the additional UAL payment of \$500K to be made in January, 2025. Thereafter, Staff will coordinate with CalPERS annually to reduce the liability to fund the liability by 2036. The amount of additional UAL payment to be made each January subsequent will be dependent on various factors as investment earnings, retiree withdrawals, CPI, and other factors that CalPERS will take into consideration every valuation year.

FISCAL IMPACT

The fiscal impact is \$500,000 to FY 2024/2025 Budget which will be funded by careful monitoring of expenses. As of October, 2025, ReGen is under budget by \$558K in expenditures. Roughly \$260K of savings is in wages and benefits, i.e. positions waiting to be filled and full staffing lowering overtime cost. Staff will continue to monitor expenses as the year progresses.

CONCLUSION

Staff requests the Board to approve accelerating the UAL payment and the first payment of \$500,00 on January, 2025. Subsequently, in January of the preceding years, to coordinate with CalPERS to determine how much the additional payment will be with the goal to funding the UAL by 2036.

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