COUNTY OF SAN MATEO
Inter-Departmental Correspondence
County Manager

Date: October 24, 2013
Board Meeting Date: November 19, 2013
Special Notice / Hearing: None
Vote Required: Majority

To: Honorable Board of Supervisors

From: John L. Maltbie, County Manager

Subject: Memorandum of Understanding (MOU) with San Mateo County Employees' Retirement Association (SamCERA)

RECOMMENDATION:
Adopt a Resolution authorizing a Memorandum of Understanding with San Mateo County Employees' Retirement Association regarding retirement system funding.

BACKGROUND:
On August 6, 2013, the Board of Supervisors directed staff to develop for the Board's consideration an MOU with SamCERA to reduce unfunded pension liabilities through supplemental contributions through one-time sources such as Reserves and Excess ERAF.

To achieve this reduction in pension liabilities, it is the County's intention to make supplemental contributions to SamCERA, over and above the annual actuarially required contributions. The plan is for the County to contribute an additional lump sum of $50 million in the current fiscal year. This is to be followed by lump sums of $10 million in each of the following nine fiscal years. The total supplemental lump sum contributions would be $140 million during this ten-year period. The first lump sum is expected in February 2014. In addition, during this ten-year period, the County intends to maintain a minimum average employer contribution rate of 38% of payroll. Together, these initiatives will lower pension costs by $300 million over the next 30 years. If actuarial assumptions are realized, the County will achieve 90% funding within seven years and 100% funding within 11 years.

DISCUSSION:
The County Manager's Office has worked with SamCERA staff in drafting an MOU for approval by both the Board of Supervisors and the Board of Retirement to implement the prepayment plan. The Board of Retirement approved the MOU at its October 29, 2013 meeting. The manner in which SamCERA and its actuarial firm treat the

supplemental contributions is the main subject of the MOU. The main tenets of the MOU are as follows:

- All supplemental County contributions will be treated actuarially so as to benefit only the County. SamCERA's other employers (The Mosquito and Vector Control District and the Superior Court) will not see any positive or negative actuarial impact from these supplemental contributions.
- All supplemental funds will become part of SamCERA's invested assets and treated the same as all other funds for investment purposes.
- The County will always retain full discretion to provide a smaller or greater contribution than the planned 38% level, but never less than the minimum actuarially determined contributions consistent with the 1937 Act. The MOU defines this contribution level as the Statutory Contribution Rate (SCR). The County, in its sole discretion, will also be able to discontinue, increase or decrease its planned lump sum contributions for any year.
- The agreement will be effective as of January 1, 2014. It runs through the end of Fiscal Year 2022-23. The MOU anticipates the County's plan to then no longer contribute at the 38% level and no longer make supplemental lump sum contributions. The County would then begin paying the lower SCR, thus reaping the benefits of its supplemental contributions through a reduced contribution rate thereafter.
- The agreement can be amended by mutual agreement of the parties.

The responsibility for determining the appropriate funding levels for the retirement system will remain the responsibility of the Board of Retirement. In particular, the Retirement Board must continue to periodically review the Fund's assumed investment return assumption and adjust it as needed based on what the Board truly believes the fund will earn over the long term.

County Counsel has reviewed the Resolution and MOU as to form.

Approval of this MOU contributes to the County's Shared Vision 2025 goal of a Collaborative Community by ensuring that current financial liabilities are not passed on to future generations of County residents and employees.

FISCAL IMPACT:
These additional contributions will be funded with some combination of Excess ERAF and department reserves. Beginning with the FY 2013-14 Budget, the amount of department fund balance that accrues to Non-Departmental Services was increased from 25% to 50%. A revised Fund Balance Policy memorializing this change will come before the Board later this fall. The initial lump sum contributions of $50 million for FY 2013-14 and $10 million for FY 2014-15 have been included in the FY 2013-15 Adopted Budget. The fixed contribution rate of 38% will commence with the FY 2014-15 Budget in the form of a mid-term budget adjustment in June 2014.