

**MEMORANDUM OF UNDERSTANDING BETWEEN
THE COUNTY OF SAN MATEO AND
THE SAN MATEO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
REGARDING RETIREMENT SYSTEM FUNDING**

This Retirement System Funding Memorandum of Understanding ("MOU") entered into this ____ day of _____, 20____, by and between the County of San Mateo ("County"), a political subdivision of the State of California and the San Mateo County Employees' Retirement Association("SamCERA"), a retirement association established under Section 31550 of the Government Code,

W I T N E S S E T H:

WHEREAS, SamCERA, acting through its Board of Retirement, has the power and duty to manage and administer a retirement system (the "System") for participating current and retired employees of the County, the Superior Court of San Mateo ("Court") and the San Mateo County Mosquito and Vector Control District ("District") under Chapter 3 (commencing with Section 31450) of Part 3 of Division 1 of Title 3 of the Government Code ('37 Act") and the California Public Employees' Pension Reform Act of 2013 ("PEPRA") contained in Article 4 of Division 7, Title 1 (Commencing with Section 7522) Government Code; and

WHEREAS, as of the most recent actuarial valuation date of June 30, 2013, the System is 73.3% funded with an unfunded actuarial accrued liability (UAAL) of \$954 million; the UAAL is being funded by County, the Court and the District through annual contributions over a layered amortization period of 15 years; and

WHEREAS, former and current County employees comprise approximately 95% of the membership of SamCERA, and in order to: provide greater security for SamCERA benefits for active and retired members; enhance the solvency of the System; and reduce County's long term costs of contributing to the System by accelerating the reduction of the UAAL, County has requested SamCERA to accept deposits of certain supplemental funding amounts made in addition to the annual Statutory Contribution Rate ("SCR"); and

WHEREAS, the County understands that the cumulative affect of depositing supplement funding amounts above the County's SCR in accordance with this MOU will accelerate the reduction of the County's SCR over what the County's SCR would have been had the County not deposited such supplemental funding; and

WHEREAS, County understands that any such supplemental contributions made by County shall be subject to the same investment risks as the other funds in the Retirement Fund and further understands that the Retirement Fund's investment gains or losses may be higher or lower than the expected rate of return, which in turn, will affect the reduction of the UAAL, other projected impacts of supplemental contributions, and the corresponding necessary Statutory Contribution Rate contribution amounts; and

WHEREAS, County further understands that all supplemental contributions deposited into the Retirement Fund will remain in the Retirement Fund and will be used solely for the provision of System benefits to members and their beneficiaries and the costs of investment, information technology and other administrative costs of the System.

NOW, THEREFORE, in consideration of the foregoing and the terms, covenants and conditions herein contained, SamCERA and County agree as follows:

1. **Definitions.** Capitalized terms which are not defined in the recitals to the MOU are used as defined below:
 - (a) **"Actuarial Valuation"** means the actuarial investigation and valuation of the System that is required to be performed pursuant to Section 31453 of the '37 Act.
 - (b) **"County Supplementary Contribution Account" ("CSCA")** means the side account created by SamCERA for deposits of County payments as described in paragraph 4.
 - (c) **"Fiscal Year"** means the period of twelve months beginning on July 1 of any calendar year and ending on June 30 of the following calendar year.
 - (d) **"Statutory Contribution Rate (SCR)"** means County's employer contribution rate with respect to a Fiscal Year as determined by SamCERA in accordance with the '37 Act including but not limited to Section 31453.
 - (e) **"Retirement Fund"** means the fund established under the System, as defined in Section 31475 and Section 31588 of the '37 Act.
 - (f) **"Scheduled Due Date"** means the date(s) on which County is required to deposit its payments into the Retirement Fund. If County chooses to pay on a bi-weekly payroll basis, such deposits are required on or before the 7th day subsequent to the payroll accrual date. If County prepays on an annual Fiscal

Year basis, each annual deposit is required on or before the first pay day in July of the commencement of the Fiscal Year. If County prepays on a semi-annual Fiscal Year basis, the first semi-annual prepayment is required on or before the first pay day in July of the commencement of the Fiscal Year and the second semi-annual prepayment is required on or before the first pay day in January.

(g) **“True Up”** means the process at the end of each fiscal year whereby SamCERA determines the difference between the dollar amount pre-paid by County based on estimated SCR contributions and the dollar amount of the actual County SCR contributions that should have been paid for that fiscal year.

2. **Creation of “County Supplementary Contribution Account.”** SamCERA will create a side account in the Retirement Fund, which shall be known as the “County Supplementary Contribution Account”(“CSCA”). The CSCA will be used only for deposits by County of the payments described in paragraph 4 and any earnings thereon. No County SCR contribution amounts, even if paid by an annual or semi-annual pre-payment, will be deposited into the CSCA. The funds in the CSCA will be only used for the provision of System benefits to members and their beneficiaries and the costs of investment, information technology and other administrative costs of the System.
3. **Investing of Funds in the CSCA.** SamCERA shall invest all funds on deposit in the CSCA with the rest of the Retirement Fund. CSCA funds will not be considered separately for investment decisions made by SamCERA. All earnings and losses, net of proportionate costs for investment, information technology and other administrative costs, with regards to CSCA funds will accrue to the funds in the CSCA as described in paragraph 6.
4. **Schedule of Deposits into the CSCA.** In addition to its SCR contribution amounts, County shall transfer funds as set forth below to be deposited by SamCERA into the CSCA:
 - (a) A \$50 million payment to be made no later than February 28, 2014.
 - (b) Annual \$10 million payments to be made on or before the end of each Fiscal Year commencing 2014-15 and concluding with Fiscal Year 2022-23.

- (c) Other amounts paid in County's contributions during the fiscal year above its SCR as directed by County at the end of each fiscal year.
- 5. **Change of Schedule of Deposits into the CSCA.** County, in its sole discretion, may increase or decrease or make none of the supplemental contribution funding amounts listed in paragraph 4. Additionally, County may make such lump sum deposits at different times than those listed, upon mutual agreement of SamCERA and County.
- 6. **Actuarial Valuation and Accrual of Investment Returns.** Inclusion in the annual Actuarial Valuation and accrual of investment returns for the funds in the CSCA shall be as follows.
 - (a) Funds added by County to the CSCA in any given year shall be included by SamCERA's actuary in the annual actuarial valuation for the fiscal year ending on that June 30th.
 - (b) Deposits that have been in the fund less than six months prior to the regular crediting dates of June 30 and December 31 of each year will accrue the actual market investment return rate, net of fees and costs, from the date of deposit to the next occurrence of a crediting date.
 - (c) All funds on deposit in the CSCA for more than six months prior to a crediting date shall accrue the actuarially calculated return on actuarial value of the CSCA credited to other employer reserve accounts. All funds in the CSCA and the earnings thereon shall be included by SamCERA's actuary in the annual Actuarial Valuation.
- 7. **Recognizing CSCA For Employer Contributions.** The actuarial value of the funds in the CSCA will be recognized for the purposes of calculating County's SCR. At no time will the funds be recognized for the purpose of calculating the SCR for the Court, the District or any other future SamCERA participating employer, except as described in Section 13 below
- 8. **County's SCR.** Each year SamCERA's actuary will calculate County's SCR. County will pay no less than its SCR amount by the Scheduled Due Date.

County intends on paying the SCR rate or an estimated 38% of payroll, whichever is higher, subject to the following:

- (a) County will notify SamCERA on or before June 30th of prior Fiscal Year as to the amount of its supplemental contribution, if any, above the SCR that it intends on depositing into the CSCA.
 - (b) If County is making a prepayment on an annual basis or semi-annual basis as of its Scheduled Due Date, the prepayment of the SCR will be calculated incorporating an estimate by SamCERA for the remainder of the Fiscal Year in which it is paid.
 - (c) SCR prepayment amounts will be Trued Up at the end of the Fiscal Year by SamCERA's collection of any under payment of the SCR pursuant to paragraph 9 below or by SamCERA decreasing the succeeding year's required SCR amount by the extent of any over payment of the SCR.
 - (d) Only the prepayment of the SCR will be discounted at the assumed investment return rate of the Retirement Fund.
 - (e) The level of any prepayment of the SCR, including any prepayments above the SCR, will remain in effect for the entire Fiscal Year and cannot be adjusted until the commencement of the succeeding Fiscal Year, unless an adjustment is specifically requested by the County Manager.
9. **Failure to Make Timely SCR.** Under any payment schedule, in accordance with Section 31584 of the '37 Act, if there is a failure of County to make its SCR amount on the Scheduled Due Date, SamCERA will request the Controller to transfer the funds from the County Treasury. County may not use funds on deposit in the CSCA in lieu of any SCR payment.
10. **Amendments.** No amendment or waiver of any provision of this Agreement shall be effective unless the same shall be in writing and signed by County and SamCERA, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.
11. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of California.

- 12. Headings.** Section headings in this Agreement are included only for convenience of reference and shall not constitute a part of this Agreement for any other purpose.
- 13. Term and Termination.** Unless terminated earlier, this Agreement shall be in effect as of January 1, 2014, and shall remain in effect until June 30, 2023. This agreement may be terminated by County upon 30 days written notice to SamCERA. After termination of this agreement, any funds deposited into the CSCA pursuant to this agreement, and earnings thereon, will continue to be recognized for the purposes of calculating County's SCR. At no time will the funds be recognized for the purpose of calculating the SCR for the Court, the District or any other future SamCERA employer while the funds remain in the CSCA. CSCA Funds may be transferred to the employers' advance reserve account upon County's written request, such transfer to be effective as of the first day of the fiscal year beginning after SamCERA's receipt of the request. After any such transfer, these funds will be recognized for the purpose of calculating the SCR for all participating SamCERA employers.
- 14. Notices.** Notice by either party to the other under this Agreement shall be deemed given when delivered in writing either through the County e-mail or other internal mail system sent to the following persons:
- If to County, to: the County Manager.
If to SamCERA, to: the Chief Executive Officer.
- 15. Implementation.** County and SamCERA agree to prepare such addenda to this Agreement as may be necessary or desirable to address the technical requirements of implementing this Agreement. Such addenda can be agreed to by the County Manager on behalf of County and the Chief Executive Officer on behalf of SamCERA.
- 16. Electronic Signature.** Both County and SamCERA wish to permit future documents relating to this Agreement to be digitally signed in accordance with California law and the County's Electronic Signature Administrative Memo. Any party that agrees to allow digital signature of this Agreement may revoke such agreement at any time in relation to all future documents by providing written notice to the other party.

IN WITNESS WHEREOF, the parties hereto, by their duly authorized representatives, have affixed their hands.

COUNTY OF SAN MATEO

By: _____ Date: _____

President, Board of Supervisors

ATTEST:

Clerk of the Board of Supervisors

SAN MATEO COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION

By: _____ Date: _____

Natalie Kwan Lloyd
Chair, Board of Retirement

ATTEST:

Secretary Board of Retirement