

Agenda Report

File #: 2019-843, **Version:** 1

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SUBJECT:

MEMORANDUM OF UNDERSTANDING WITH ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM REGARDING PAYMENT OF UNFUNDED ACTUARIAL ACCRUED LIABILITIES

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION:

Adopt Resolution No. OCSD 19-20 entitled, "A Resolution of the Board of Directors of the Orange County Sanitation District authorizing the Execution of the Memorandum of Understanding with the Orange County Employees Retirement System establishing the terms to recognize and apply the Orange County Sanitation District's satisfaction of its Unfunded Accrued Actuarial Liability and deferred Unfunded Accrued Actuarial Liability.

BACKGROUND

On September 9, 2019 and November 1, 2019, the Orange County Sanitation District (Sanitation District) made an Unfunded Accrued Actuarial Liability (UAAL) payment totaling \$38,000,000 in its defined pension plan administered by the Orange County Employees Retirement System (OCERS), which paid off both the Sanitation District's UAAL and proportionate share of the deferred losses not yet recognized in the December 31, 2018 actuarial valuation (deferred investment loss). As a result of the Sanitation District paying off the UAAL, and making the additional payment on the deferred losses, OCERS' actuary recommended that a bookkeeping account be created because the deferred losses are not yet part of the UAAL as reported in the December 31, 2018 Actuarial Valuation. The bookkeeping account provides a mechanism to track the contributions made related to the deferred losses. The balance in the account will be used to offset UAAL as it is recognized in future valuations. The OCERS Board of Retirement approved the bookkeeping account at its October 21, 2019 meeting with direction to staff to memorialize the terms and conditions under which OCERS shall recognize and apply the balance in the new bookkeeping account in future valuations.

OCERS drafted a Memorandum of Understanding (MOU) that specifies how the contributions made by the Sanitation District will be accounted for by OCERS, including how interest will be applied and when balances in the bookkeeping account will be moved out of the account and become valuation assets to cover UAAL. The Sanitation District's General Counsel has reviewed the MOU and drafted Resolution No. OCSD 19-20, which if approved, authorizes the execution of the MOU between OCERS and the Sanitation District.

RELEVANT STANDARDS

- Ensure the public's money is wisely spent

PROBLEM

There is currently no mechanism to track the contributions made related to the deferred losses. The balance in the account needs to offset the UAAL as it is recognized in future valuations.

PROPOSED SOLUTION

The bookkeeping account provides a mechanism to track the contributions made related to the deferred losses. The balance in the account will be used to offset UAAL as it is recognized in future valuations. The OCERS Board of Retirement approved the bookkeeping account at its October 21, 2019 meeting with direction to staff to memorialize the terms and conditions under which OCERS shall recognize and apply the balance in the new bookkeeping account in future valuations.

TIMING CONCERNS

OCERS approved the MOU at its October 21, 2019 Board meeting.

RAMIFICATIONS OF NOT TAKING ACTION

OCERS has no direction from the Sanitation District on an agreed upon procedure for tracking the UAAL contributions made by the Sanitation District related to the deferred investment losses as of December 31, 2018.

PRIOR COMMITTEE/BOARD ACTIONS

August 2019 - Board approved up to \$38 million pay-down against its UAAL with OCERS.

January 2017 - Board approved Resolution No. OCSD 17-01 entering into a MOU with OCERS Regarding Payment of Unfunded Actuarial Accrued Liabilities.

ATTACHMENT

The following attachment(s) are included in hard copy and may also be viewed on-line at the OCSD website (www.ocsd.com) with the complete agenda package:

- Resolution No. OCSD 19-20
- Exhibit "A" Memorandum of Understanding