

Les Baugh
County Member
Larry Farr
City Member
Stan Neutze
City Member
Michael Dacquisto
City Member Alternate

Irwin Fust
Special District Member
Mary Rickert
County Member Alternate
Brenda Haynes
Special District Member



Larry Russell
Public Member
Joe Chimenti
County Member
Patricia A. Clarke
Special District Alternate

Katharine Ann Campbell
Public Member Alternate
George Williamson
Executive Officer
James M. Underwood
General Counsel
Kathy Bull
Manager

Agenda Item: 4.a.

Meeting Date: May 21, 2020

From: Executive Officer George Williamson, Office Manager Kathy Bull, & Legal Counsel Jim Underwood,

Subject: CalPERS contract termination

DISCUSSION

Shasta LAFCO initiated the CalPERS termination process in 2019 and has been waiting since then for a termination valuation report. Apparently, the preliminary termination valuation was included in a November 8, 2019 CalPERS letter, that Shasta LAFCo never received. We only became aware of the letter on May 14, 2020 when it was forwarded to us by Jeff Chang at BBKLaw, the legal counsel retained to represent Shasta LAFCO in this matter. He wrote:

“We have been following-up with CalPERS regarding the status of your CalPERS contract termination process. We were surprised to learn that CalPERS had been trying to correspond directly with the LAFCO business office (and that we had not been informed).”

The preliminary termination valuation in November 2019 Letter provided two options (tables on pages 2,3):

1. **Projected Compensation:** all members currently active in a CalPERS agency have compensation increases projected until their retirement.
2. **Frozen Compensation:** all members currently active in a CalPERS agency have compensation increases projected until plan termination and then frozen thereafter.

Frozen Compensation is the least cost option.

Certain actions must be taken by the Shasta LAFCO prior to the end of May 2020 in order to complete the CalPERS termination process started 12 months ago. Attached is the CalPERS letter with documents dated January 30, 2020, sent to the old address and also not received, with the information on the plan termination process. The following documents must be fully executed and original copies returned to CalPERS to complete the plan termination process:

1. Resolution, original or certified copy
2. Agreement Terminating the Contract, two original or certified copies
3. Certification of Final Action of Governing Body, original

BBKLaw has provided the attached draft Agreement and “Exhibit A” for Commission Consideration:

Agreement to Terminate the Contract Between the Board of Administration California Public Employees' Retirement System and the Board Of Directors Shasta Local Agency Formation Commission

RECOMMENDATION

Staff recommends the Commission:

Select **Frozen Compensation** as the least cost option and complete the plan termination process.

Attachments

- November 8, 2019 CalPERS letter, with preliminary termination valuation
- January 30, 2020 CalPERS letter, with:
 - Resolution, original or certified copy
 - Agreement Terminating the Contract, two original or certified copies
 - Certification of Final Action of Governing Body, original
- Agreement to Terminate the Contract Between the Board of Administration California Public Employees' Retirement System and the Board of Directors Shasta Local Agency Formation Commission, prepared by BBKLaw.



Actuarial Office
P.O. Box 1494
Sacramento, CA 95812-1494
TTY for Speech and Hearing Impaired - (916) 795-3240
(888) CalPERS (or 888-225-7377) FAX (916) 795-3005

November 8, 2019

CalPERS ID: 5202731527

Kathy Bull
Shasta Local Agency Formation Commission
999 Mission De Oro Drive, Suite 106
Redding, CA 96003-3861

Dear Ms. Kathy Bull:

As you requested, a preliminary termination valuation has been performed for the Shasta Local Agency Formation Commission miscellaneous plan. This valuation is done two different ways:

- 1. Projected Compensation:** all members currently active in a CalPERS agency have compensation increases projected *until their retirement*.
- 2. Frozen Compensation:** all members currently active in a CalPERS agency have compensation increases projected *until plan termination* and then **frozen** thereafter.

This valuation was based on the June 30, 2018 financial and membership data, the latest such data available.

Based on the June 30, 2018 data, we projected the funded position of the plan to a *preliminary* final termination date of January 1, 2020. A 6.7% net investment return was realized for the 2018-2019 fiscal year, and a 4% return was estimated for the year-to-date (YTD) return as of January 1, 2020. The 4% estimated YTD return for the first six month of the 2019-2020 fiscal year was calculated using the actual YTD return of 2.83% from July 1, 2019 to October 31, 2019 and the actuarial assumed annual rate of return of 7% from November 1, 2019 to the preliminary termination date. For the final termination valuation, the rate of return will be based on the actual return to the termination date. The new actuarial assumptions adopted for the June 30, 2018 annual valuations were reflected in the termination valuation along with the addition of a 5% contingency for mortality fluctuation. The charts on the next page summarize the results.

The asset allocation adopted by the CalPERS Board of Administration has changed for the Terminated Agency Pool. For further details, see the circular letter at the following website:

<https://www.calpers.ca.gov/docs/circular-letters/2011/200-058-11.pdf>

This change affects the actuarial assumptions used when calculating the actuarial liabilities of a public agency at the time of termination. The long term rate of return and inflation assumptions used for this preliminary termination valuation are summarized in the tables on the following page.

**Classic Miscellaneous Plan Results
(Non-Frozen Compensation)**
(All projected amounts shown to nearest \$100)

		Annual Valuation	Termination Valuation	Termination Valuation
		As of June 30, 2018 (Actual)	As of June 30, 2019 (Projected)	As of January 1, 2020 (Projected)
(1)	Plan's share of Pool Assets*	\$79,916	\$89,900	\$95,600
(2)	Accrued Actuarial Liability	\$131,399**	\$492,900	\$510,000
(3)	Contingency for Mortality Fluctuation	N/A	\$24,600	\$25,500
(4)	(Unfunded Liability)/ Surplus = (1) - (2) - (3)	(\$51,483)	(\$427,600)	(\$439,900)
(5)	Funded Status	60.82%	17.37%	17.85%
	Assumed Long Term Rate of Return	7.00%	2.05%	2.05%
	Rate of Inflation Assumption	2.5%	1.45%	1.45%

*Assets are given at market value.

**Accrued Actuarial Liability valued using current actuarial economic assumptions.

**Classic Miscellaneous Plan Results
 (Frozen Compensation)**
 (All projected amounts shown to nearest \$100)

		Annual Valuation	Termination Valuation	Termination Valuation
		As of June 30, 2017 (Actual)	As of June 30, 2019 (Projected)	As of January 1, 2020 (Projected)
(1)	Plan's share of Pool Assets*	\$79,916	\$89,900	\$95,600
(2)	Accrued Actuarial Liability	\$131,399**	\$376,100	\$389,200
(3)	Contingency for Mortality Fluctuation	N/A	\$18,800	\$19,500
(4)	(Unfunded Liability)/ Surplus = (1) - (2) - (3)	(\$51,483)	(\$305,000)	(\$313,100)
(5)	Funded Status	60.82%	22.77%	23.39%
	Assumed Long Term Rate of Return	7.00%	2.05%	2.05%
	Rate of Inflation Assumption	2.5%	1.45%	1.45%

*Assets are given at market value.

**Accrued Actuarial Liability valued using current actuarial economic assumptions.

Please note that these figures are estimates only and depend heavily on the assumptions used. In particular, the rate of return of assets between June 30, 2018 and the *actual* final termination date can have a large impact on these results. Furthermore, they do not take into account possible changes in methods or assumptions, benefit improvements, or changes in the membership data of your workforce (particularly salary increases) that occur after June 30, 2018. Once a final termination date has been determined, we will perform the final termination actuarial valuation and calculate additional contributions necessary to be sent to CalPERS to ensure the plan is adequately funded.

If you have any questions, please feel free to contact me at (916) 795-2475.

Sincerely,



JEAN FANNJIANG, ASA, MAAA
 Senior Pension Actuary, CalPERS



California Public Employees' Retirement System
Financial Office | Pension Contracts and Prefunding Programs Division
P.O. Box 942703, Sacramento, CA 94229-2703
888 CalPERS (or 888-225-7377) | TTY: (877) 249-7442 | www.calpers.ca.gov

January 30, 2020

CalPERS ID # 5202731527

Kathy Bull, Manager
Shasta Local Agency Formation Commission
1255 East Street, Suite 201
Redding, CA 96001

Dear Ms. Bull,

Enclosed are two copies of a Resolution and an Agreement Terminating the Contract and a form CON-5T, Certification of Final Action of Governing Body.

On April 4, 2019, the Shasta Local Agency Formation Commission adopted a Resolution of Intention to terminate the contract with CalPERS completing the first step in the termination process. The next step required of the Shasta Local Agency Formation Commission is adoption of the enclosed Resolution and Agreement.

Effective January 1, 2019, Government Code Section 20570 requires not less than ninety days and not more than one year for the District to adopt a resolution or ordinance terminating the contract. The contract termination is effective on the date designated in the resolution or ordinance and may be effective the day following the date of adoption. The earliest effective date of the contract termination could have been July 4, 2019. The latest effective date of the contract termination is can be is April 4, 2020.

Section 20580 provides:

"Upon the termination of a contract, all memberships in this system existing because of that contract continue in existence to the extent that there are accumulated contributions to the credit of each such local member, but any such member may elect to withdraw his or her accumulated contributions. The status of any such member who does not withdraw his or her accumulated contributions shall be the same as if the public agency had continued as a contracting agency. The membership of any such member who elects to withdraw his or her accumulated contributions shall be terminated forthwith, and he or she shall not be entitled to any further benefit based upon service credited as an employee of the contracting agency, nor shall he or she have the right to redeposit such withdrawn contributions upon again becoming a member of this system."

All membership in the System will continue to exist as long as the member does not withdraw contributions. However, benefits are frozen, and calculations are based on the benefit level in effect on the date of contract termination. Members lose the right to receive a pension based on a higher payrate with the terminated agency if they should later work for a CalPERS agency or a reciprocal agency.

Each active member of the agency must be separated utilizing the myCalPERS system with the effective date as of their last day of employment with the agency which cannot be later than the effective date of the termination of the contract.

An actuarial valuation will be conducted to determine reserves to be held for the benefit of the retired members, members leaving contributions on deposit and for the beneficiaries who are entitled to receive benefits. Please allow approximately three to six months for the results of this study.

If there are insufficient funds to pay benefits to the members and beneficiaries, the agency will be required to pay the difference between the accumulated contributions and the actuarial equivalent required to fund the benefits. If the agency fails to pay the difference, the members' benefits would be reduced accordingly. If, however, there are more funds than are required to fund the benefits, the agency will receive a refund. No funds can be withdrawn with respect to the retired members who will continue to receive their allowances from CalPERS.

To summarize, please return the following: (Original signatures are required on all documents)

1. Resolution, original or certified copy.
2. Agreement Terminating the Contract, two original or certified copies.
3. Certification of Final Action of Governing Body, (Form CON-5T), original.

A copy of the Agreement Terminating the Contract will be returned for your records after it has been executed by CalPERS.

We are here to assist you. If you have any questions or would like additional information, please visit our website www.calpers.ca.gov, or you may contact the customer contact center at **888 CalPERS** or (888-225-7377).

Sincerely,



Stacey Barnett
Contract Analyst
Pension Contract Services Section

Enclosures

**AGREEMENT TO TERMINATE THE CONTRACT
BETWEEN THE
BOARD OF ADMINISTRATION
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
AND THE
BOARD OF DIRECTORS
SHASTA LOCAL AGENCY FORMATION COMMISSION**

WHEREAS, the **BOARD OF DIRECTORS** of the **SHASTA LOCAL AGENCY FORMATION COMMISSION** and the Board of Administration, Public Employees' Retirement, entered into a contract pursuant to Sections 20460, et seq. of the Government Code, effective November 19, 2007, for the participation of said Public Agency in the Public Employees' Retirement System; and

WHEREAS, Section 20570 of the Government Code provides that a contract between the Board of Administration of the Public Employees' Retirement System and a contracting agency may be terminated by adoption of a resolution by the governing body of the public agency, giving notice of intention to terminate, and by the adoption, not less than 90 days thereafter, by the affirmative vote of two-thirds of the members of the governing body of the public agency, terminating the contract; and

WHEREAS, the **BOARD OF DIRECTORS** of the **SHASTA LOCAL AGENCY FORMATION COMMISSION** adopted a Resolution of Intention on April 4, 2019 to withdraw from the Public Employees' Retirement System effective no earlier than one year thereafter;

NOW, THEREFORE, BE IT AGREED between the **BOARD OF DIRECTORS** of the **SHASTA LOCAL AGENCY FORMATION COMMISSION** and the Board of Administration, Public Employees' Retirement System that the contract entered into effective November 19, 2007 is terminated effective May 21, 2020 and obligations on and after that date of the agency and its employees who are members under the Public Employees' Retirement System, are as provided in Government Code Section 20580 which provides that the final compensation at termination shall be used in the calculation of benefits. Failure to meet such obligation on the part of the **SHASTA LOCAL AGENCY FORMATION COMMISSION** shall be subject to the provisions of Government Code Section 20574.

Witness our hands this day of ____ day of _____, _____.

BOARD OF ADMINISTRATION PUBLIC
EMPLOYEES' RETIREMENT SYSTEM

BOARD OF DIRECTORS SHASTA LOCAL
AGENCY FORMATION COMMISSION

BY _____
ARNITA PAIGE, CHIEF
PENSION CONTRACTS AND PREFUNDING
PUBLIC EMPLOYEES' RETIREMENT
SYSTEM

BY _____
PRESIDING OFFICER

Attest:

Clerk



California Public Employees' Retirement System
 Financial Office | Pension Contracts and Prefunding Programs Division
 P.O. Box 942703, Sacramento, CA 94229-2703
 888 CalPERS (or 888-225-7377) | TTY: (877) 249-7442 | www.calpers.ca.gov

**CERTIFICATION
 OF
 FINAL ACTION OF GOVERNING BODY**

I hereby certify that the _____ of the
 (governing body)

(public agency)

adopted on _____, _____, by an affirmative vote of two-thirds
 (date)

of the members of said Governing Body, _____
 (Ordinance/Resolution)

No. _____ approving the attached contractual agreement between the Governing
 Body of said Agency and the Board of Administration of the California Public
 Employees' Retirement System, a certified copy of said _____
 (Ordinance or Resolution)

and Agreement to Terminate the Contract in the form furnished by said Board of
 Administration being attached hereto.

 Clerk/Secretary

 Title

Date _____
 ERS-CON-5T (Rev. 12/3/2019)

RESOLUTION TO TERMINATE THE CONTRACT
BETWEEN THE
BOARD OF ADMINISTRATION
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
AND THE
BOARD OF DIRECTORS
SHASTA LOCAL AGENCY FORMATION COMMISSION

WHEREAS, the Board of Directors of the Shasta Local Agency Formation Commission entered into a contract with the Board of Administration, Public Employees' Retirement System effective November 19, 2007, providing for the participation of their employees in the Public Employees' Retirement System; and

WHEREAS, the Board of Directors of the Shasta Local Agency Formation Commission did declare its intent to terminate said contract by executing a Resolution of Intention on April 4, 2019 to terminate the contract between said governing body and the Board of Administration of the Public Employees' Retirement System;

NOW, THEREFORE, BE IT FURTHER RESOLVED, that an Agreement Terminating the Contract between the Board of Directors of the Shasta Local Agency Formation Commission and the Board of Administration of the Public Employees' Retirement System is hereby authorized, a copy of said agreement being attached hereto, marked "Exhibit A" and by such reference made a part hereof as though herein set out in full.

The Presiding Officer of the Board of Directors of the Shasta Local Agency Formation Commission is hereby authorized, empowered and directed to execute said agreement for and on behalf of said agency.

Adopted this _____ day of _____, _____.

Presiding Officer

Attest:

Clerk