DATE: May 15, 2020

TO: Honorable Board of Supervisors
Jeffrey V. Smith, County Executive

FROM: Alan Minato, Finance Director
Maria Öberg, County Treasury Administrator

SUBJECT: Decision to not prefund CalPERS employer contributions for fiscal year 2020-21

Background:
On January 28, 2020, the Board of Supervisors authorized, but did not direct, the Administration to prefund the employer portion of the required annual Unfunded Actuarial Liability (UAL) contributions to the California Public Employee Retirement System (CalPERS). The County has prefunded these contributions since July 2017. In fiscal year 2017-18, the County prefunded $190.5 million for a budgetary savings of $8.7 million. In fiscal year 2018-19, the County prefunded $231.0 million for a budgetary savings of $8.1 million. Finally, in fiscal year 2019-20, the County prefunded $275.2 million to try to attain savings of $9.8 million.

Analysis:
Because of the current COVID-19 situation, the possibility of not timely collecting $90 million in outstanding property tax revenues for the current fiscal year (as of 5/8/20), and the volatility of CalPERS investment returns, the Administration has decided not to prefund the employer contributions for fiscal year 2020-21.

The County anticipates paying tens of millions of dollars to combat the COVID-19 virus from its inception and into the next fiscal year, which will have a negative impact on cash balances. Moreover, to the extent the County participates in the Teeter program, it must pay out the full amount of assessed, not collected, property taxes to each jurisdiction within the County. While the County’s cash position is still strong, the potential of not collecting $90 million for a long period of time in addition to prefunding UAL contributions will put strain on the cash flow. Lastly, the Finance Agency has analyzed whether prepaying CalPERS is beneficial for the County. Staff found that if CalPERS earns 7%, the County will reach the anticipated savings indicated by CalPERS. Any positive earnings will lead to earnings for the County. However, if CalPERS has a loss for the year, then the County will suffer a loss that is greater than paying on a pay-period basis. With the recent volatility of the financial markets due to COVID-19, staff anticipates that CalPERS may have a loss for the current fiscal year.
and the CalPERS earnings outlook for next fiscal year is precarious at best.

This year, the County planned to prefund $310.1 million of the UAL contributions in July, which was anticipated to result in a $10.6 million budgetary savings. However, due to the reasons outlined above, it is more prudent to leave the funds in the County's investment pool and pay the contributions on a pay-period basis. As a result of foregoing the one-time prepayment of UAL contributions, the County will instead make 27 biweekly payments totaling $320.7 million.

CC: Chief Board Aides
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