

**PRELIMINARY PENSION FUNDING
RECOMMENDATIONS
Fiscal Year 2019/20**

Finance Committee

November 29, 2018

PLAN ASSETS AND LIABILITIES

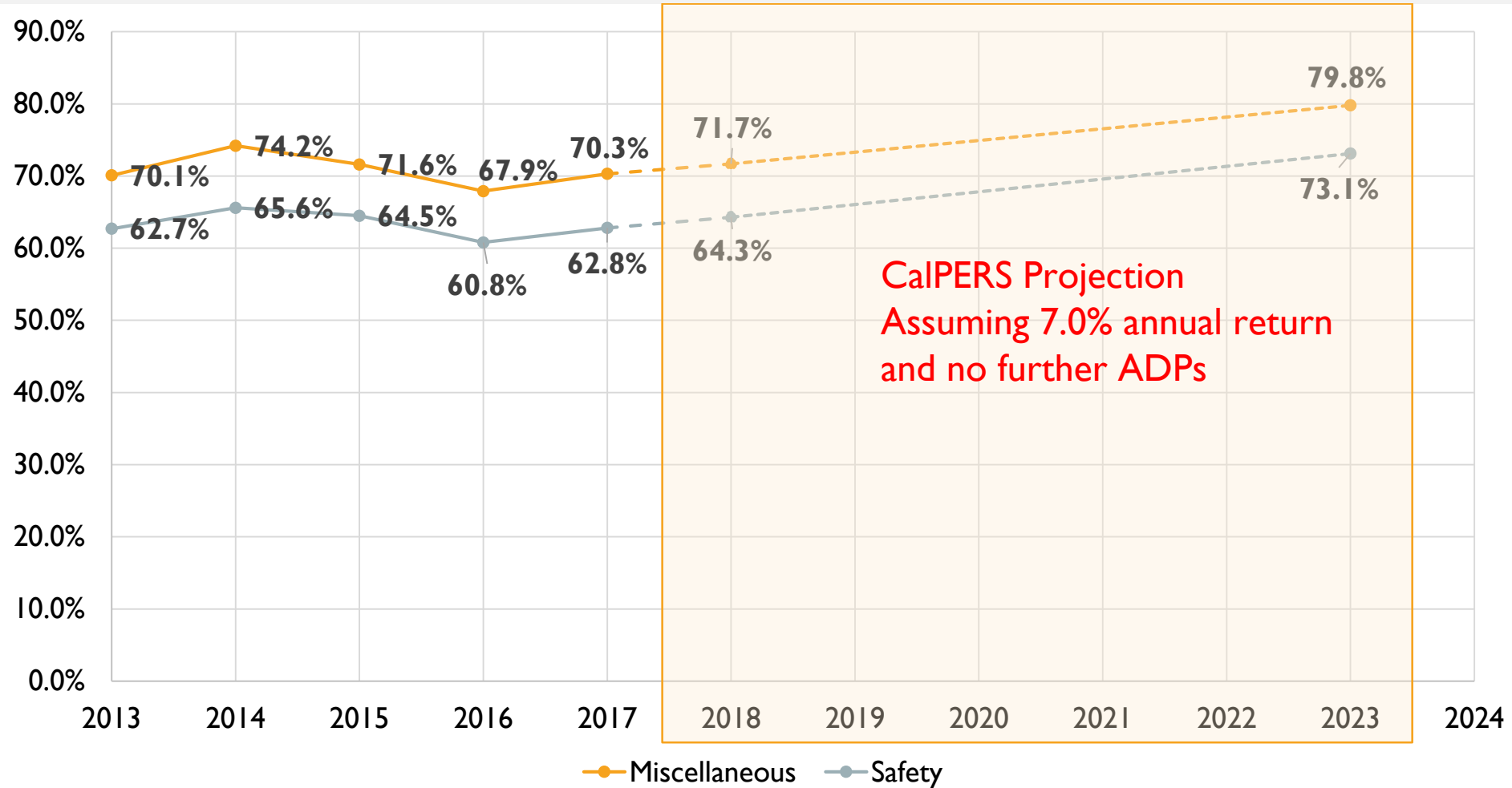
	2017 Valuation			2016
	Miscellaneous	Safety	Total	Total
Accrued Liability	396,834,941	542,668,920	939,503,861	887,481,877
Less: Market Value of Assets	278,869,980	340,964,919	619,834,899	566,016,065
Unfunded Accrued Liability (UAL)	117,964,961	201,704,001	319,668,962	321,465,812
Funded Status	70.3%	62.8%	66.0%	63.8%
CALPERS Projection*				
Funded Status 6/30/2018*	71.7%	64.3%		
Funded Status 6/30/2023*	79.8%	73.1%		

*Assuming 7% return and no ADP's

ORANGE COUNTY COMPARISON

Agency	2017 Valuation			2019 Rollforward		
	AL	UAL	FS	UAL	Total Pmts	Pmt Efficiency
City of Anaheim Total	2,534,550,976	741,068,980	70.8%	↑ 765,071,137	1,514,945,993	198%
City of Brea Total	384,756,109	121,252,581	68.5%	↑ 125,739,198	257,714,835	205%
City of Buena Park Total	135,767,673	39,221,940	71.1%	↑ 40,454,441	78,190,765	193%
City of Costa Mesa Total	561,805,186	212,923,672	62.1%	↑ 218,582,780	448,749,985	205%
City of Cypress* Total	77,989,853	18,663,147	76.1%	↑ 19,428,798	38,181,448	197%
City of Fullerton Total	759,201,771	234,893,103	69.1%	↑ 245,308,269	513,852,707	209%
City of Garden Grove Total	810,370,322	268,412,094	66.9%	↑ 277,299,537	568,946,411	205%
City of Huntington Beach Total	1,267,782,797	403,394,647	68.2%	↑ 415,378,946	840,702,143	202%
City of Irvine Total	648,190,242	154,634,662	76.1%	↓ 143,436,013	265,164,006	185%
City of La Habra Total	109,736,831	26,498,700	75.9%	↑ 27,862,230	56,060,884	201%
City of Laguna Beach Total	110,341,091	27,243,435	75.3%	↓ 26,964,768	50,220,994	186%
City of Mission Viejo Total	82,812,124	19,596,811	76.3%	↑ 19,947,678	35,963,154	180%
City of Newport Beach Total	939,503,861	319,668,962	66.0%	↓ 305,994,956	509,864,150	167%
City of Orange Total	851,746,500	256,020,262	69.9%	↑ 265,870,894	548,323,701	206%
City of Santa Ana Total	1,955,454,608	613,781,439	68.6%	↑ 635,622,920	1,280,054,051	201%
City of Tustin Total	112,720,267	26,806,151	76.2%	↑ 28,340,198	56,922,580	201%
City of Westminster Total	127,883,624	39,342,203	69.2%	↑ 40,431,030	79,306,054	196%
City of Yorba Linda Total	69,845,408	21,183,584	69.7%	↑ 21,466,831	43,314,830	202%
Irvine Ranch Water District Total	260,190,689	62,900,429	75.8%	↑ 63,953,833	111,870,935	175%
Santa Margarita Water District Total	94,619,320	29,770,735	68.5%	↑ 30,545,326	59,643,437	195%
Grand Total	11,895,269,252	3,637,277,537	69.4%	3,717,699,783	7,357,993,063	198%

FUNDED STATUS TREND AND PROJECTION



NET EMPLOYER COST PROJECTION

	Normal Cost Rate		Expected Normal Cost		Change	
	2018/19	2019/20	2018/19	2019/20	Dollars	Percent
Misc	16.2%	16.9%	7,205,087	7,712,921	507,834	7.0%
Safety	27.4%	28.1%	9,082,071	9,694,972	612,901	6.7%
Total Expected Normal Cost			16,287,158	17,407,893	1,120,735	6.9%

	Amortization of UAL		Change	
	2018/19	2019/20	Dollars	Percent
Minimum Payment of on UAL	25,698,507	26,469,557	771,050	3.0%
Additional Discretionary Payment (ADP)	8,801,493	8,530,443	(271,050)	-3.1%
Total Planned UAL Payment	34,500,000	35,000,000	500,000	1.4%

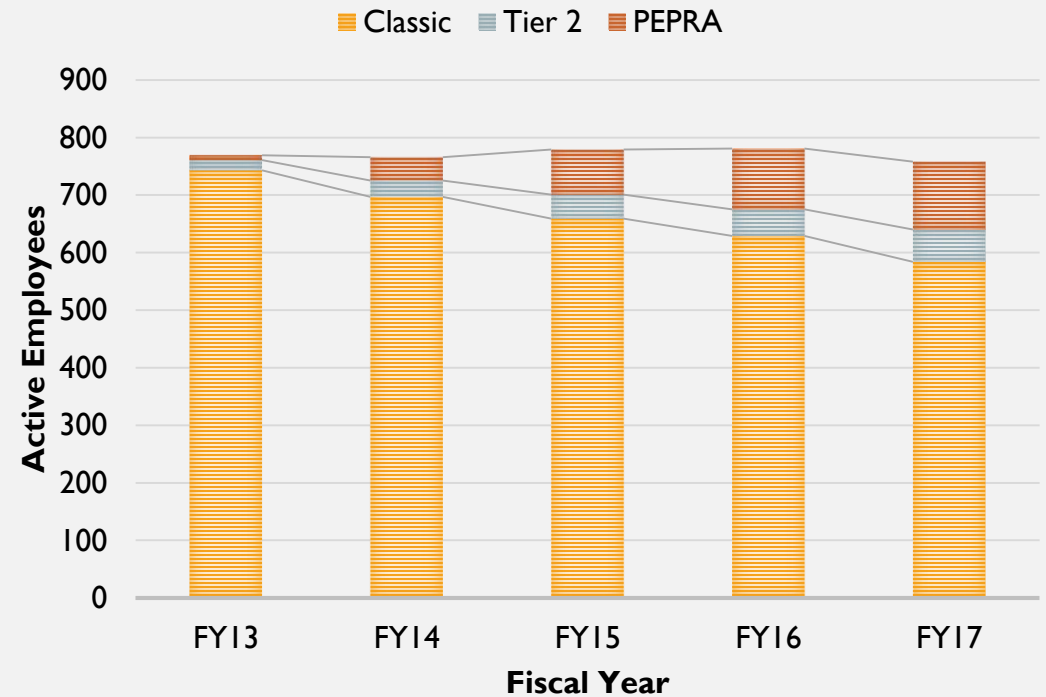
	Total Expected Pension Cost		Change	
	2018/19	2019/20	Dollars	Percent
Total Expected PERS Contribution	50,787,158	52,407,893	1,620,735	3.2%
Less: Expected Employee Contributions	10,324,540	11,017,800	693,260	6.7%
Net Employer Cost "Projected"	40,462,618	41,390,093	927,475	2.3%

CALPERS TIER SUMMARY

MISCELLANEOUS				
Group Name	Benefit	Active Employees	Payroll FY19-20	% of Total
Tier 1	2.5% @ 55	372	\$33,348,039	80%
Tier 2	2.0% @ 60	29	2,713,601	6%
PEPRA	2.0% @ 62	113	5,764,989	14%
TOTAL		514	\$41,826,629	

SAFETY				
Group Name	Benefit	Active Employees	Payroll FY19-20	% of Total
Tier 1	3.0% @ 50	212	\$27,006,498	85%
Tier 2	3.0% @ 55 (PD) 2.0% @ 50 (FD)	27	2,648,599	8%
PEPRA	2.7% @ 57	25	2,043,085	6%
TOTAL		264	\$31,698,182	

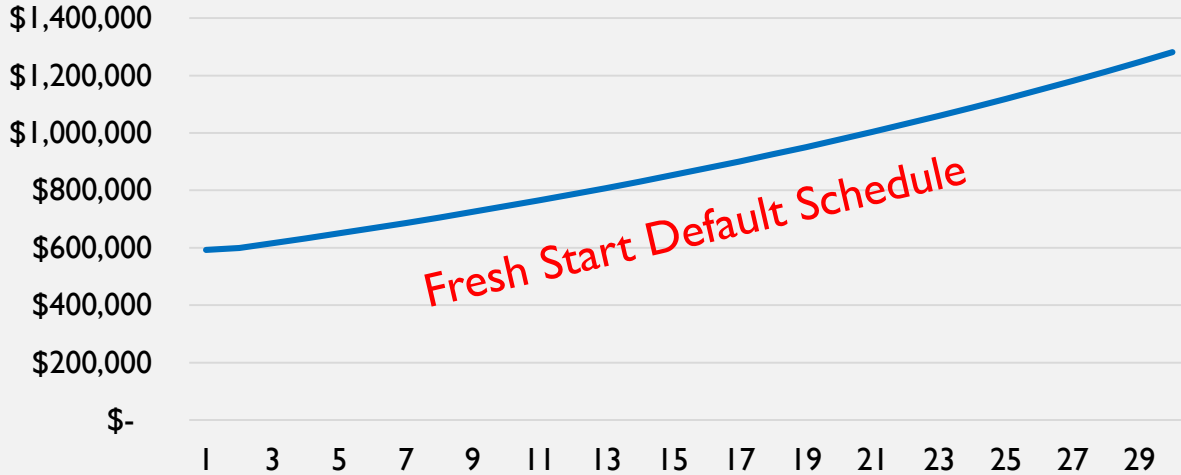
CALPERS TIERS SUMMARY OVER TIME



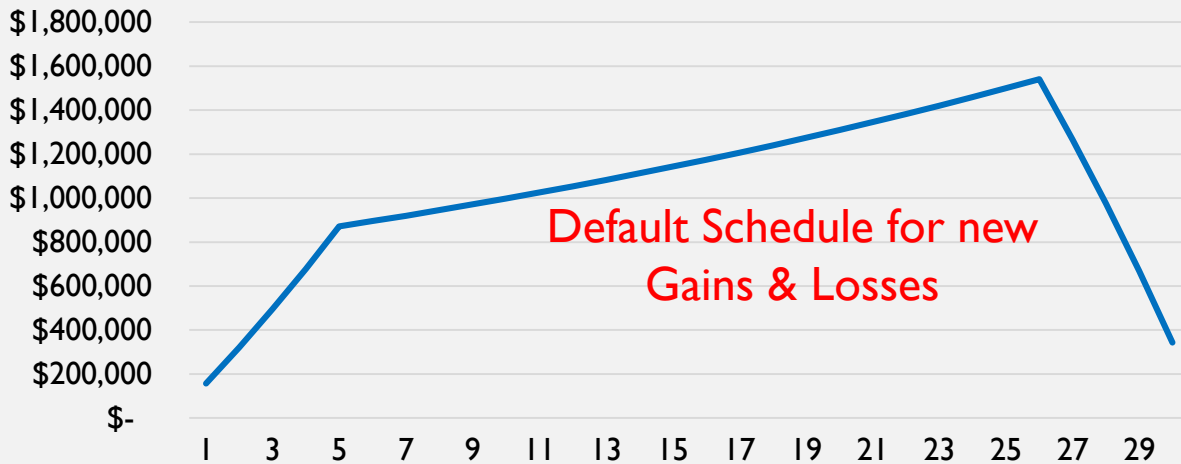
AMORTIZATION SCHEDULES

OLD POLICY

Level % of Pay Amortization

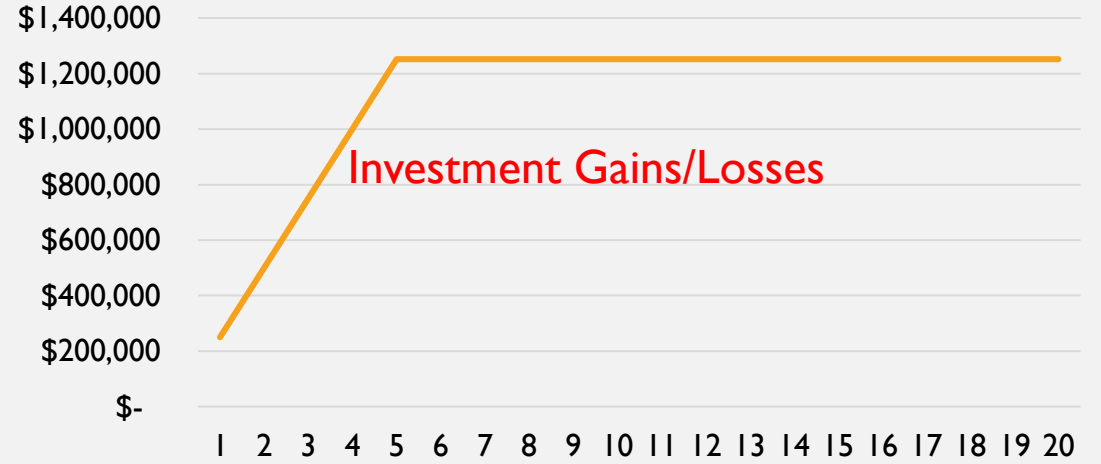


Level % of Pay – 5 Yr Phase-In

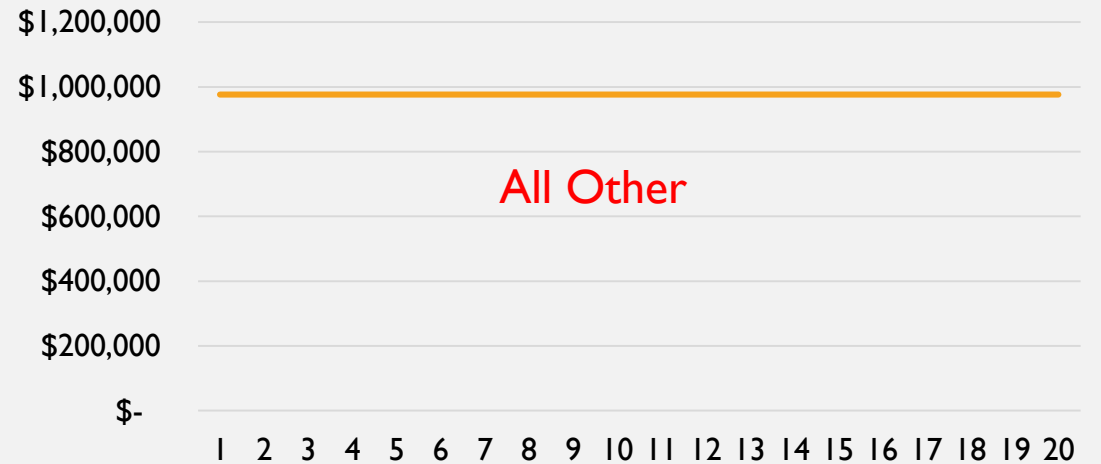


NEW POLICY EFFECTIVE 6/30/19 NEW BASES ONLY

Level \$ Amortization – 5 Yr Phase-In



Level \$ Amortization



OLD VS. NEW AMORTIZATION POLICIES

Driver	Source			
	(Gain)/Loss		Assumption/Method Change	Benefit Change
	Investment	Non-investment		
Previous Amortization Policy				
Amortization Period	30 Years	30 Years	20 Years	20 Years
Escalation Rate (Level Percent of Pay)	Payroll (2.75%)	2.75%	2.75%	2.75%
Ramp Up	5	5	5	0
Ramp Down	5	5	5	0
Payment Efficiency (Total Pmts. As % of Principal)	308%	308%	223%	223%
June 2019 Amortization Policy				
Amortization Period	20 Years	20 Years	20 Years	20 Years
Escalation Rate (Level Dollar)	0%	0%	0%	0%
Ramp Up	5	0	0	0
Ramp Down	0	0	0	0
Payment Efficiency (Total Pmts. As % of Principal)	225%	209%	209%	209%
Efficiency Improvement (Interest Savings)	27%	32%	6%	6%

FUNDING OPTIONS

- Default Payment Option
 - 2013 Fresh Start Base: Level Percent of Pay – No Ramp Up/Down (15 year period)
 - 16 Individual Bases between 2014 and 2018 : Level Percent of Pay – 5 Year Ramp Up/Down (Various terms)
- Option 1
 - 2013 Fresh Start Base: Reset to Level Dollar Amortization – No Ramp Up/Down (15 year term)
 - Consolidate 2014 – 2018 Bases: Level Dollar Amortization – No Ramp Up/Down (15 years term)
- Option 2
 - 2013 Fresh Start Base: Reset to Level Dollar Amortization– No Ramp Up/Down (15 year term)
 - Consolidate 2014 – 2018 Bases: Level Dollar Amortization – No Ramp Up/Down (20 year term)
- Option 3A – With ADPs
 - 2013 Fresh Start Base: Level Percent of Pay with ADP (15 year term)
 - Partial Fresh Start – All Other Bases: Level Percent of Pay with ADP (4 year term with ADP)
- Option 3B – Without ADPs
 - 2013 Fresh Start Base: Level Percent of Pay without ADP (15 year term)
 - Partial Fresh Start – All Other Bases: Level Percent of Pay (20 year term)

PAYMENT OPTION COMPARISON

	2019 Roll-Forward Balances (Used to determine minimum contributions for FY 19/20)					
	2017 Val	2018 Projected				
	Default Option	Default Option	Option 1	Option 2	Option 3A (Recommended)	Option 3B
UAL Principal Balance	305,994,956	325,186,486	325,186,486	325,186,486	325,186,486	325,186,487
Interest	203,869,194	232,632,907	192,250,875	197,114,908	187,653,502	218,970,099
Total Payments Require to Amortize UAL	509,864,150	557,819,393	517,437,361	522,301,394	512,839,988	544,156,586
Amortiation Efficiency (AE) Ratio	166.6%	171.5%	159.1%	160.6%	157.7%	167.3%
Interest Savings Over 2018 Default			\$ 40,382,032	\$ 35,517,999	\$ 44,979,405	\$ 13,662,808
NPV Savings @ 3%			\$ 20,955,474	\$ 19,009,152	\$ 22,896,956	\$ 9,135,543

PROJECTED AMORTIZATION BASES

AS OF 06/30/2018 AND ROLLED FORWARD TO 06/30/2019

MISCELLANEOUS AND SAFETY PLAN COMBINED

Proposed consolidation of amortization bases in payment option 3A

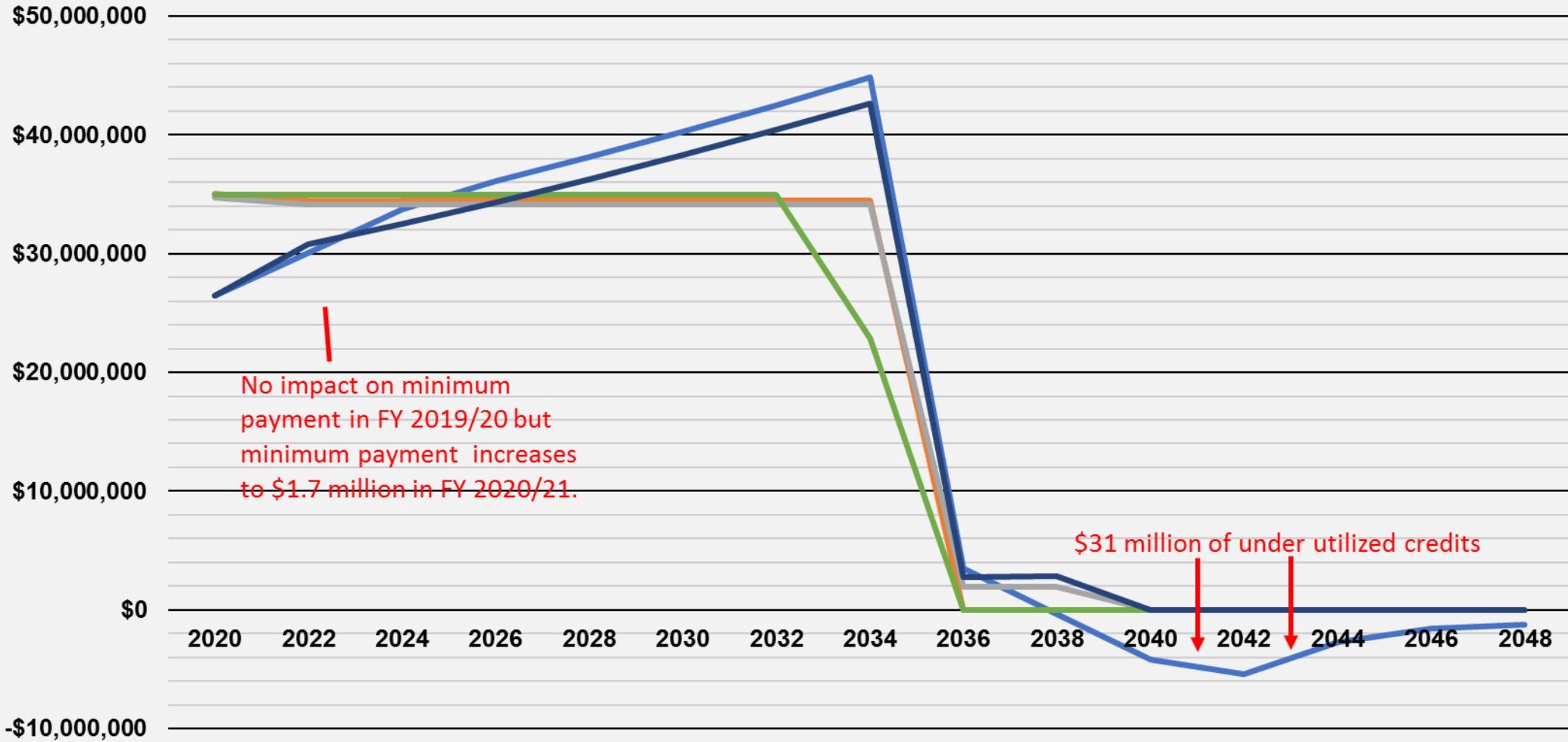


			Yrs	Est. UAL Balance	Total Pmts*	Amort. Efficiency	
				6/30/19*		No ADPs	With ADPs
1	06/30/2013	Fresh Start Base	15	304,262,134	500,960,084	165%	161%
2	6/30/2014 (Gain)	Investment Return 18.6%	27	(76,596,032)	(175,892,383)	230%	
3	6/30/2015 Loss	Investment Return 2.4%	28	31,847,317	76,537,056	240%	
4	6/30/2016 Loss	Discount Rate Change 7.5 %to 7.375%	19	16,814,230	30,846,769	183%	
5	6/30/2016 Loss	Investment Return .6%	29	31,111,035	78,779,656	253%	
6	6/30/2017 Loss	Discount Rate Change 7.375% to 7.25%	20	19,880,007	38,694,483	195%	
7	6/30/17 (Gain)	Investment Return 11.2%	30	(22,066,767)	(59,307,662)	269%	
	Net Other (2-9) Bases Prior to 6/30/18		Mixed	989,790	(10,342,080)	N/A	
8	6/30/2018 Loss	Discount Rate Change 7.25% to 7.0%	20	28,888,079	60,201,260	208%	
9	6/30/2018 Gain	Investment Return 8.6%	30	(8,953,515)	(25,752,005)	288%	
	Net 2018 (8 &9) (Gain) Loss Bases			19,934,564	34,449,256	N/A	
10	Proposed 2018 Partial Fresh Start		20	20,924,354	40,535,310	194%	112%
	TOTAL			325,186,488	589,709,745	172%	158%

* Balance and payments reflect projected balances and phased-in discount rates not yet reflected in the 6/30/17 valuation.

UAL Payment Comparison - All Options

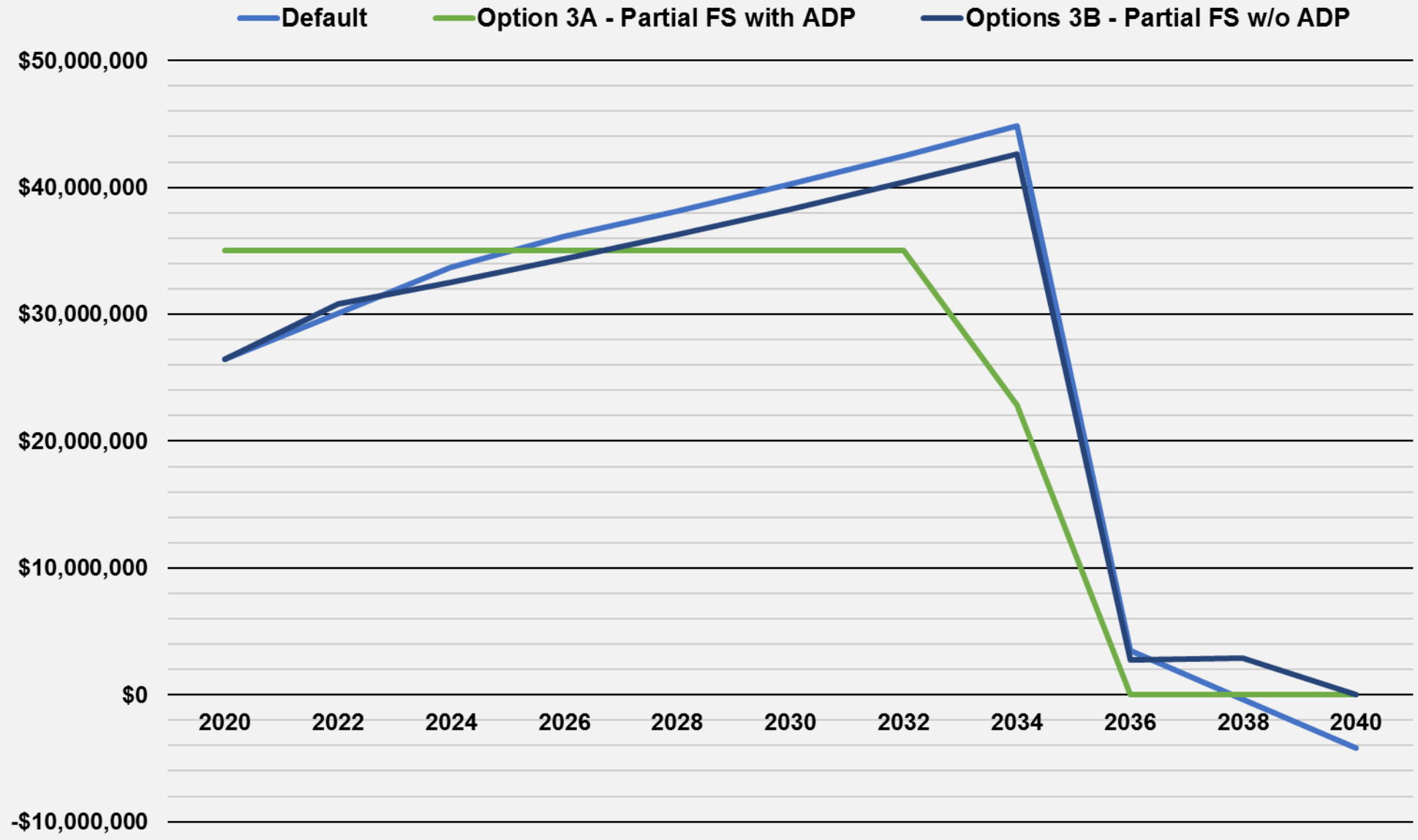
- Default
- Option 1 - Full Fresh Start (FS)
- Option 2 - Partial FS (2 Amort Periods)
- Option 3A - Partial FS with ADP
- Options 3B - Partial FS w/o ADP



No impact on minimum payment in FY 2019/20 but minimum payment increases to \$1.7 million in FY 2020/21.

\$31 million of under utilized credits

UAL Payment Comparison - Option 3



COMPARATIVE SAVINGS HYPOTHETICAL UNFUNDED PENSION LIABILITY

	County-wide AE Ratio	City Default AE Ratio	City Payment Option 3A AE Ratio
Hypothetical Unfunded Pension Liability	\$ 300,000,000	\$ 300,000,000	\$ 300,000,000
AE Ratio	200%	166.6%	157.7%
Total Principal & Interest Payments	600,000,000	499,800,000	473,100,000
Interest savings relative to County-wide average		\$ 100,200,000*	\$ 126,900,000*

* Not discounted to reflect time value of money.

DEFAULT SCENARIO

Default - Minimum Payment Options (Inclusive of Projected 2018 Net Gain\Loss Bases)										
			2013 Fresh Start Base		2014 - 2018 Bases				Default Option Total	
			Level % of Pay No Ramp Up/Down		% of Pay 5 Yr Ramp Up/Down					
			15		Various					
Yr	Val Yr	Pmt Yr	Balance	Payment	Balance	Payment	Balance	Min Pmt		
1	2017	2020	\$ 304,262,134	\$ 27,734,444	\$ 20,924,353	\$ (1,264,887)	\$ 325,186,486	\$ 26,469,557		
2	2018	2021	\$ 296,871,751	\$ 28,168,551	\$ 24,484,898	\$ (606,839)	\$ 321,356,649	\$ 27,561,712		
3	2019	2022	\$ 288,514,998	\$ 28,943,186	\$ 26,826,560	\$ 1,122,438	\$ 315,341,557	\$ 30,065,625		
4	2020	2023	\$ 278,771,983	\$ 29,739,124	\$ 27,543,359	\$ 2,495,004	\$ 306,315,343	\$ 32,234,127		
5	2021	2024	\$ 267,523,633	\$ 30,556,950	\$ 26,890,543	\$ 3,139,967	\$ 294,414,176	\$ 33,696,917		
6	2022	2025	\$ 254,641,933	\$ 31,397,266	\$ 25,524,874	\$ 3,739,204	\$ 280,166,807	\$ 35,136,470		
7	2023	2026	\$ 239,989,284	\$ 32,260,691	\$ 23,443,752	\$ 3,842,033	\$ 263,433,036	\$ 36,102,723		
8	2024	2027	\$ 223,417,816	\$ 33,147,860	\$ 21,110,585	\$ 3,947,688	\$ 244,528,401	\$ 37,095,548		
9	2025	2028	\$ 204,768,651	\$ 34,059,426	\$ 18,504,805	\$ 4,056,250	\$ 223,273,456	\$ 38,115,676		
10	2026	2029	\$ 183,871,112	\$ 34,996,060	\$ 15,604,324	\$ 4,167,797	\$ 199,475,436	\$ 39,163,857		
11	2027	2030	\$ 160,541,884	\$ 35,958,452	\$ 12,385,424	\$ 4,282,411	\$ 172,927,309	\$ 40,240,863		
12	2028	2031	\$ 134,584,105	\$ 36,947,309	\$ 8,822,643	\$ 4,400,177	\$ 143,406,748	\$ 41,347,486		
13	2029	2032	\$ 105,786,398	\$ 37,963,360	\$ 4,888,650	\$ 4,521,182	\$ 110,675,048	\$ 42,484,542		
14	2030	2033	\$ 73,921,841	\$ 39,007,352	\$ 554,108	\$ 4,645,515	\$ 74,475,949	\$ 43,652,867		
15	2031	2034	\$ 38,746,851	\$ 40,080,055	\$ (4,212,463)	\$ 4,773,267	\$ 34,534,388	\$ 44,853,321		
16	2032	2035			\$ (9,444,840)	\$ 4,444,209	\$ (9,444,840)	\$ 4,444,209		
17	2033	2036			\$ (14,703,105)	\$ 3,521,472	\$ (14,703,105)	\$ 3,521,472		
18	2034	2037			\$ (19,374,961)	\$ 1,632,422	\$ (19,374,961)	\$ 1,632,422		
19	2035	2038			\$ (22,419,798)	\$ (363,189)	\$ (22,419,798)	\$ (363,189)		
20	2036	2039			\$ (23,613,498)	\$ (2,469,794)	\$ (23,613,498)	\$ (2,469,794)		
21	2037	2040			\$ (22,711,669)	\$ (4,164,792)	\$ (22,711,669)	\$ (4,164,792)		
22	2038	2041			\$ (19,993,392)	\$ (5,296,082)	\$ (19,993,392)	\$ (5,296,082)		
23	2039	2042			\$ (15,914,619)	\$ (5,441,724)	\$ (15,914,619)	\$ (5,441,724)		
24	2040	2043			\$ (11,399,679)	\$ (3,723,617)	\$ (11,399,679)	\$ (3,723,617)		
25	2041	2044			\$ (8,345,917)	\$ (2,706,415)	\$ (8,345,917)	\$ (2,706,415)		
26	2042	2045			\$ (6,130,594)	\$ (2,444,828)	\$ (6,130,594)	\$ (2,444,828)		
27	2043	2046			\$ (4,030,787)	\$ (1,556,781)	\$ (4,030,787)	\$ (1,556,781)		
28	2044	2047			\$ (2,702,595)	\$ (353,140)	\$ (2,702,595)	\$ (353,140)		
29	2045	2048			\$ (2,526,485)	\$ (1,221,211)	\$ (2,526,485)	\$ (1,221,211)		
30	2046	2049			\$ (1,440,108)	\$ (1,221,095)	\$ (1,440,108)	\$ (1,221,095)		
31	2047	2050			\$ (277,805)	\$ (287,364)	\$ (277,805)	\$ (287,364)		
Total Payments			\$ 500,960,084		\$ 25,609,278				\$ 557,819,393	
					Amortization Efficiency (AE) Ratio				172%	

SCENARIO (3B)

Option 3B - Partial Fresh Start Without ADP										
			Original 2013 Fresh Start			Partial Fresh Start - All Other Bases			Option 3B Total	
			Level % of Pay Without ADP			Level % of Pay Without ADP				
			15			20				
Yr	Val Yr	Pmt Yr	Balance	Required Pmt.	ADP	Balance	Payment	ADP	Balance	Payment
			\$ -	\$ -		\$ -	\$ -		\$ -	\$ -
			\$ -	\$ -		\$ -	\$ -		\$ -	\$ -
1	2017	2020	\$ 304,262,134	\$ 27,734,444		\$ 20,924,353	\$ (1,264,887)		\$ 325,186,486	\$ 26,469,557
2	2018	2021	\$ 296,871,751	\$ 28,168,551		\$ 23,697,467	\$ 1,813,047		\$ 320,569,218	\$ 29,981,598
3	2019	2022	\$ 288,514,998	\$ 28,943,186		\$ 23,480,859	\$ 1,862,906		\$ 311,995,857	\$ 30,806,092
4	2020	2023	\$ 278,771,983	\$ 29,739,124		\$ 23,197,514	\$ 1,914,136		\$ 301,969,497	\$ 31,653,260
5	2021	2024	\$ 267,523,633	\$ 30,556,950		\$ 22,841,342	\$ 1,966,775		\$ 290,364,975	\$ 32,523,725
6	2022	2025	\$ 254,641,933	\$ 31,397,266		\$ 22,405,788	\$ 2,020,861		\$ 277,047,721	\$ 33,418,127
7	2023	2026	\$ 239,989,284	\$ 32,260,691		\$ 21,883,798	\$ 2,076,435		\$ 261,873,082	\$ 34,337,126
8	2024	2027	\$ 223,417,816	\$ 33,147,860		\$ 21,267,783	\$ 2,133,537		\$ 244,685,599	\$ 35,281,396
9	2025	2028	\$ 204,768,651	\$ 34,059,426		\$ 20,549,580	\$ 2,192,209		\$ 225,318,230	\$ 36,251,635
10	2026	2029	\$ 183,871,112	\$ 34,996,060		\$ 19,720,412	\$ 2,252,495		\$ 203,591,524	\$ 37,248,555
11	2027	2030	\$ 160,541,884	\$ 35,958,452		\$ 18,770,841	\$ 2,314,439		\$ 179,312,726	\$ 38,272,890
12	2028	2031	\$ 134,584,105	\$ 36,947,309		\$ 17,690,727	\$ 2,378,086		\$ 152,274,831	\$ 39,325,395
13	2029	2032	\$ 105,786,398	\$ 37,963,360		\$ 16,469,167	\$ 2,443,483		\$ 122,255,565	\$ 40,406,843
14	2030	2033	\$ 73,921,841	\$ 39,007,352		\$ 15,094,450	\$ 2,510,679		\$ 89,016,291	\$ 41,518,031
15	2031	2034	\$ 38,746,851	\$ 40,080,055		\$ 13,553,995	\$ 2,579,722		\$ 52,300,846	\$ 42,659,777
16	2032	2035	\$ -			\$ 11,834,289	\$ 2,650,665		\$ 11,834,289	\$ 2,650,665
17	2033	2036				\$ 9,920,820	\$ 2,723,558		\$ 9,920,820	\$ 2,723,558
18	2034	2037				\$ 7,798,008	\$ 2,798,456		\$ 7,798,008	\$ 2,798,456
19	2035	2038				\$ 5,449,123	\$ 2,875,413		\$ 5,449,123	\$ 2,875,413
20	2036	2039				\$ 2,856,211	\$ 2,954,487		\$ 2,856,211	\$ 2,954,487
21	2037	2040				\$ -			\$ -	\$ -
22	2038	2041							\$ -	\$ -
23	2039	2042							\$ -	\$ -
24	2040	2043							\$ -	\$ -
25	2041	2044							\$ -	\$ -
26	2042	2045							\$ -	\$ -
27	2043	2046							\$ -	\$ -
28	2044	2047							\$ -	\$ -
29	2045	2048							\$ -	\$ -
30	2046	2049							\$ -	\$ -
31	2047	2050							\$ -	\$ -
Total Payments			\$ 500,960,084	\$ -		\$ 43,196,503	\$ -		\$ 544,156,586	\$ -

Amortization Efficiency (AE) Ratio 167%

SCENARIO (3A)

Option 3A - Partial Fresh Start With ADP										
			Original 2013 Fresh Start			Partial Fresh Start - All Other Bases			Option 3A Total	
			Level % of Pay With ADP			Level % of Pay With ADP				
			15			20				
Yr	Val Yr	Pmt Yr	Balance	Required Pmt.	ADP	Balance	Payment	ADP	Balance	Payment
			\$ -	\$ -		\$ -	\$ -		\$ -	\$ -
			\$ -	\$ -		\$ -	\$ -		\$ -	\$ -
1	2017	2020	\$ 304,262,134	\$ 27,734,444		\$ 20,924,353	\$ (1,264,887)	\$ 8,530,443	\$ 325,186,486	\$ 35,000,000
2	2018	2021	\$ 296,871,751	\$ 28,168,551		\$ 14,873,508	\$ 1,137,943	\$ 5,693,506	\$ 311,745,259	\$ 35,000,000
3	2019	2022	\$ 288,514,998	\$ 28,943,186		\$ 8,848,148	\$ 701,988	\$ 5,354,826	\$ 297,363,146	\$ 35,000,000
4	2020	2023	\$ 278,771,983	\$ 29,739,124	\$ 1,948,390	\$ 3,202,301	\$ 264,237	\$ 3,048,249	\$ 281,974,284	\$ 35,000,000
5	2021	2024	\$ 265,508,203	\$ 30,326,744	\$ 4,673,256	\$ -	\$ -		\$ 265,508,203	\$ 35,000,000
6	2022	2025	\$ 247,889,495	\$ 30,564,692	\$ 4,435,308				\$ 247,889,495	\$ 35,000,000
7	2023	2026	\$ 229,037,479	\$ 30,788,488	\$ 4,211,512				\$ 229,037,479	\$ 35,000,000
8	2024	2027	\$ 208,865,821	\$ 30,988,822	\$ 4,011,178				\$ 208,865,821	\$ 35,000,000
9	2025	2028	\$ 187,282,146	\$ 31,150,874	\$ 3,849,126				\$ 187,282,146	\$ 35,000,000
10	2026	2029	\$ 164,187,615	\$ 31,249,714	\$ 3,750,286				\$ 164,187,615	\$ 35,000,000
11	2027	2030	\$ 139,476,467	\$ 31,240,183	\$ 3,759,817				\$ 139,476,467	\$ 35,000,000
12	2028	2031	\$ 113,035,538	\$ 31,031,591	\$ 3,968,409				\$ 113,035,538	\$ 35,000,000
13	2029	2032	\$ 84,743,744	\$ 30,411,823	\$ 4,588,177				\$ 84,743,744	\$ 35,000,000
14	2030	2033	\$ 54,471,525	\$ 28,743,737	\$ 6,256,263				\$ 54,471,525	\$ 35,000,000
15	2031	2034	\$ 22,080,250	\$ 22,839,988					\$ 22,080,250	\$ 22,839,988
16	2032	2035	\$ -						\$ -	\$ -
17	2033	2036	\$ -						\$ -	\$ -
18	2034	2037	\$ -						\$ -	\$ -
19	2035	2038	\$ -						\$ -	\$ -
20	2036	2039	\$ -						\$ -	\$ -
21	2037	2040							\$ -	\$ -
22	2038	2041							\$ -	\$ -
23	2039	2042							\$ -	\$ -
24	2040	2043							\$ -	\$ -
25	2041	2044							\$ -	\$ -
26	2042	2045							\$ -	\$ -
27	2043	2046							\$ -	\$ -
28	2044	2047							\$ -	\$ -
29	2045	2048							\$ -	\$ -
30	2046	2049							\$ -	\$ -
31	2047	2050							\$ -	\$ -
Total Payments			\$ 443,921,961	\$ 45,451,722		\$ 839,281	\$ 22,627,024		\$ 512,839,988	
Amortization Efficiency (AE) Ratio										158%

STAFF RECOMMENDATION

OPTION 3A

Option 3A accomplishes the following funding goals:

- Amortizes the UAL over a level dollar payment plan over 15 years as opposed to the lengthier, and consequently costlier, term options.
- Continues an aggressive funding plan to improve the plan's funded status and further increases repayment efficiency of the unfunded pension liability.
- Preserves financial flexibility to continue ADPs or not.
- Consolidates the number of amortization bases that range between 19-30 years down to a default 20-year repayment schedule **and significantly reduces administrative burden of managing 16 different bases**. If ADPs are continued, this 20 year base would be reduced to 4 years. See Appendix C-5 then C-4 to see how the ADPs would reduce the term of the 2018 Fresh Start Base from 20 years to 4 years.
- Starts paying on projected loss base that will be included in the 2018 actuarial valuation thereby avoiding one year's worth of negative amortization.
- Option 3A represents a savings of \$45 million over the default schedule realized over 15 years (NPV Savings of \$23 million)
- By carefully managing our bases over several years including fresh starts and ADPs, the payment efficiencies gained will save Newport Beach taxpayers between \$100 and \$126 million over 20 years relative to the county-wide repayment schedule.

POTENTIAL BENEFITS OF USING A SECTION 115 TRUST

- Trust assets can be theoretically accessed to pay CalPERS at anytime to reduce volatility and offset unexpected rate increases (rate stabilization).
- Provides access to a broader universe of investments that the City can undertake on its own, including stocks and longer-term bonds.
- Allows the City to maintain control and investment oversight of assets.
- Rainy Day Fund - Emergency source of funds when Employer revenues are impaired based on economic or other conditions
- Diversifies investment assets and strategies.
- Added flexibility and control compared to the direct payment method to CalPERS
- Since PEPRRA eliminated “Contribution Holidays” a Section 115 plan could serve as a relief valve when plans are approaching fully funded status

POTENTIAL LIMITATIONS OF USING A SECTION 115 TRUST

- Does not directly reduce Net Pension Liability
- Assets not recognized when CalPERS sets contribution rates
- Investment Returns (net of expenses) likely to be lower than invested directly with CalPERS
- Added complexities for reporting & administration
- May introduce additional risks
 - Potentially short investment horizon
 - Headline risk
- Assets can't be simply transferred to CalPERS. They must be sold at current market value. In the event of an economic downturn, when the reserve funds might need to be accessed, the market value of the trust portfolio is also likely to be negatively impacted by the downturn.
- The Trust would not likely have a material impact on overall pension asset diversification or investment return relative to the \$620 million of pension assets already at CalPERS.