RIVERSIDE COUNTY TRANSPORTATION COMMISSION

EXECUTIVE COMMITTEE
SPECIAL MEETING AGENDA

TIME: **8:45 a.m.**

DATE: **Wednesday, June 13, 2018**

LOCATION: **CONFERENCE ROOM A**
County of Riverside Administrative Center
4080 Lemon Street, Third Floor, Riverside

COMMITTEE MEMBERS

Dana Reed, City of Indian Wells – Chair
Chuck Washington, County of Riverside, District 3 – Vice Chair
Ben Benoit, City of Wildomar – Second Vice Chair
John F. Tavaglione, County of Riverside, District 2 – Past Chair
Lloyd White, City of Beaumont
Karen Spiegel, City of Corona
Michael Wilson, City of Indio
Rick Gibbs, City of Murrieta
Kevin Jeffries, County of Riverside, District 1
V. Manuel Perez, County of Riverside, District 4
Marion Ashley, County of Riverside, District 5

AREAS OF RESPONSIBILITY

Reviews and makes final decisions on personnel issues and office operational matters.

Comments are welcomed by the Committee. If you wish to provide comments to the Committee, please complete and submit a Speaker Card to the Clerk of the Board.

RIVERSIDE COUNTY TRANSPORTATION COMMISSION

EXECUTIVE COMMITTEE
SPECIAL MEETING AGENDA

8:45 A.M.
WEDNESDAY, JUNE 13, 2018
County of Riverside Administrative Center
Conference Room A
4080 Lemon Street, Third Floor, Riverside

In compliance with the Brown Act and Government Code Section 54957.5, agenda materials distributed 72 hours prior to the meeting, which are public records relating to open session agenda items, will be available for inspection by members of the public prior to the meeting at the Commission office, 4080 Lemon Street, Third Floor, Riverside, CA, and on the Commission's website, www.rctc.org.

In compliance with the Americans with Disabilities Act and Government Code Section 54954.2, if you need special assistance to participate in an Executive Committee meeting, please contact the Clerk of the Board at (951) 787-7141. Notification of at least 48 hours prior to meeting will assist staff in assuring that reasonable arrangements can be made to provide accessibility at the meeting.

1. **CALL TO ORDER**

2. **PUBLIC COMMENTS**

3. **APPROVAL OF THE MINUTES – APRIL 11, 2018**

4. **ADDITIONS/REVISIONS –** *The Committee may add an item to the Agenda after making a finding that there is a need to take immediate action on the item and that the item came to the attention of the Committee subsequent to the posting of the agenda. An action adding an item to the agenda requires 2/3 vote of the Committee. If there are less than 2/3 of the Committee members present, adding an item to the agenda requires a unanimous vote. Added items will be placed for discussion at the end of the agenda.*

5. SUMMARY OF CALIFORNIA PUBLIC EMPLOYEE RETIREMENT SYSTEM CONTRACTS AND RELATED BENEFITS

Overview

This item is for the Committee to receive and file the summary of California Public Employee Retirement System (CalPERS) contracts and related benefits.

6. ADJOURNMENT

AGENDA ITEM 3

MINUTES

RIVERSIDE COUNTY TRANSPORTATION COMMISSION

EXECUTIVE COMMITTEE
MEETING MINUTES

April 11, 2018

1. CALL TO ORDER

The meeting of the Executive Committee was called to order by Chairman Dana Reed at 8:34 a.m. in Conference Room A at the County of Riverside Administrative Center 4080 Lemon Street, Third Floor, Riverside, California, 92501.

ROLL CALL

Commissioners Present	Commissioners Absent
Marion Ashley	V. Manuel Perez
Ben Benoit	Michael Wilson
Rick Gibbs	
Kevin Jeffries	
Dana Reed	
Karen Spiegel*	
John Tavaglione	
Chuck Washington	

*Arrived after the meeting was called to order

2. PUBLIC COMMENTS

There were no requests to speak from the public.

3. APPROVAL OF MINUTES

M/S/C (Washington/Reed) to approve the minutes of December 13, 2017 meeting as submitted.

4. ADDITIONS/REVISIONS

There were no additions or revisions to the agenda.

At this time, Commissioner Karen Spiegel joined the meeting.

5. RIVERSIDE OFFICE SUITE

Gary Ratliff, Facilities Administrator, provided an over view of the proposed amendment to the Agreement with Riverside County for the occupancy of the office suite located at 4080 Lemon Street, Third Floor, Riverside, California, 92501 for a ten year term.

M/S/C (Gibbs/Tavaglione) to:

1) **Ratify execution of Lease Agreement No. 03-12-018-02, Amendment No. 2 to Agreement No. 03-12-018-00, with the County of Riverside (County) for the occupancy of the office suite (19,270 square feet) located at 4080 Lemon Street, 3rd floor, Riverside, California 92501 (Riverside Office) for a 10-year term in a monthly amount of $44,128 with an annual increase of three percent and a one-time tenant improvement cost of $168,673; and**
2) **Authorize the Executive Director to procure and execute agreements, subject to legal counsel review, for improvements to and new furnishings for the original office suite for an amount not to exceed $276,000.**

6. PROPOSED COMMITTEE RESTRUCTURING AND ADMINISTRATIVE CODE CHANGES

John Standiford, Deputy Executive Director, provided an overview of the proposed changes to the Administrative Code, including: disbanding the Eastern Riverside County Programs and Projects Committee, forming a standing Toll Policy and Operations Committee, clarifying Executive Committee membership to include the city of Jurupa Valley with the group that includes cities of a population of over 100,000, and amending dated language pertaining to the Commission's Fiscal Officer.

M/S/C (Gibbs/Benoit) to:

1) **Review and approve disbanding the Eastern Riverside County Programs and Projects Committee;**
2) **Approve the formation of a standing Toll Policy and Operations Committee;**
3) **Restate and clarify Executive Committee membership;**
4) **Amend dated language pertaining to the Commission's Fiscal Officer; and**
5) **Forward to the Commission for final action.**

7. CLOSED SESSION – 2018 CLASSIFICATION AND COMPENSATION STUDY AND FISCAL YEAR 2018/2019 ORGANIZATION

7A. CONFERENCE WITH LABOR NEGOTIATORS PURSUANT TO SECTION 54957.6
Agency designated Representatives: Executive Director
Unrepresented Employees: All Commission employees other than Executive Director

2018 Classification and Compensation Study Recommendations and Fiscal year 2018/19 Organization Recommendations

There were no reportable actions from the Closed Session.

8. ADJOURNMENT

There being no other items to be considered, the Executive Committee meeting adjourned at 9:19 a.m.

Respectfully submitted,

Lisa Mobley
Clerk of the Board

AGENDA ITEM 5

RIVERSIDE COUNTY TRANSPORTATION COMMISSION	
DATE:	June 13, 2018
TO:	Executive Committee
FROM:	Beth Gutierrez, Human Resources Administrator Theresia Trevino, Chief Financial Officer
THROUGH:	Anne Mayer, Executive Director
SUBJECT:	Summary of California Public Employee Retirement System Contracts and Related Benefits

STAFF RECOMMENDATION:

This item is for the Committee to receive and file the summary of California Public Employee Retirement System (CalPERS) contracts and related benefits.

BACKGROUND INFORMATION:

At the April 11 Executive Committee meeting, staff committed to provide a report regarding the Commission's retirement benefits. This report is a summary of the retirement benefits under defined benefit plans, health benefits, and postemployment benefits other than pensions (OPEB); financial disclosures regarding the funding of these benefits; pending legislation that may impact these benefits; and potential issues for future consideration.

Attachment 1 provides an overview of the history, governance, and investments and fund management of and benefits provided by CalPERS.

Retirement Benefits under Defined Benefit Plans

CalPERS administers a defined benefit plan that provides public employee retirement benefits based upon a contractual agreement with the Riverside County Transportation Commission (RCTC). Under this plan, retirement benefits are calculated using a member's years of service credit, age at retirement, and final compensation (average salary for a defined period of employment), and the retirement formulas as outlined in the contract between CalPERS and RCTC.

RCTC provides all regular and probationary employees with retirement benefits through CalPERS. The California Public Employees' Pension Reform Act (PEPRA), which became effective in January 2013, changed the application of CalPERS retirement and health benefits. As a result, there are two types of memberships dependent upon the employee's original hire date:

- **Classic** Members include any new employee enrolled into the CalPERS system prior to January 1, 2013, and who does not have more than a 6-month break from membership if moving between PERS employers.
- **PEPRA** or **New Members** include a new employee brought into the CalPERS system for the first time on or after January 1, 2013, and who has no prior membership in any California public retirement system. A new hire would be considered a New Member if they held prior California public retirement system membership but had a break in service greater than six months.

RCTC has contracted for retirement benefits through CalPERS since September 3, 1977. Over the years, the Commission has executed minor amendments to the contract in order to remain current with Public Employee Retirement Law (PERL) as well as PEPRA. The benefits for both memberships are outlined below:

	Classic Member Benefits	PEPRA or New Member Benefits
Retirement Formula	2.7% @ 55 (earliest retirement at age 50 with a prorated formula).	2% @ 62 (earliest retirement at age 57 with a prorated formula).
Final Compensation Period	Highest average calculation over the last 12-month period.	Highest average calculation over the last 36-month period.
Cost of Living Allowance (COLA)	Up to a 3% COLA: Based upon Consumer Price Index and paid in May of the 2nd year of retirement.	
Pre-Retirement Death Benefit	The surviving spouse of a member who has attained the minimum age for voluntary service retirement in his or her last employment preceding death may elect to receive an allowance equal to the amount that the member would have received in retirement.	
1959 Survivor Post-Retirement Allowance (Level Three)	The surviving spouse of a member continues to receive an allowance equal to the amount that the member received in retirement.	
Unused Sick Leave Credit	A member may convert his or her unused sick leave to service credit at a rate of 8 hours per day.	
Industrial Disability Retirement	Any local member incapacitated for the performance of duty as the result of an industrial disability shall be retired for disability regardless of age or amount of service.	

PEPRA caps the annual pensionable compensation used to calculate final compensation for New Members. This cap is tied to a compensation cap set by the Internal Revenue Service for Social Security Benefits, referred to as the 430(b) limit. Adjustments to the caps are permitted annually based on changes to the Consumer Price Index for All Urban Consumers. Member contributions will stop when the member's actual earnings reach the contribution limits.

Member Retirement Contributions

Member contribution rates are set by statute and can vary by membership category (miscellaneous or safety) and by benefit formula. Member contribution rates can change based on legislative law changes; however, the rise and fall of the contribution percentages does not affect member-accrued retirement benefits that are guaranteed by law. RCTC employees, as miscellaneous employees, contribute a percentage of their salary throughout their active membership. Currently, RCTC Classic Member employees contribute 8 percent of their annual salary, and PEPRA or New Members contribute 7.25 percent of their annual salary representing 50 percent of the total normal cost of the benefit plan in which they participate.

Employer Retirement Contributions

On average, schools and other public agencies contribute 12.7 percent of payroll for their employees' retirement benefits; however, the rates can increase if CalPERS' investments perform unfavorably and decrease if CalPERS' investments perform favorably. According to CalPERS, "The School Pool contribution rate is affected by the investment return of a given fiscal year in the second year that follows" and "Local public agency contribution rates are affected by the investment return of a given fiscal year in the third fiscal year that follows". CalPERS' earnings and losses are averaged over 15 years to prevent extreme changes in employers' contribution rates.

Employers' contributions and stated unfunded liabilities are calculated using the actuarial present value and an assumption that the fund will continually grow at 7.5 percent. However, if an employer seeks to leave CalPERS, it will be required to immediately payoff the undisclosed current market value of the unfunded liabilities, which only assumes 2.56 percent growth.

The employer normal cost contribution rates as a percentage of annual salaries for Fiscal Year 2016/17 compared to FY 2017/18 are presented in the following table:

	Employer Contribution Rates	
	Classic Members	**PEPRA or New Members**
FY 2016/17	14.012%	7.283%
FY 2017/18	14.053%	7.262%
FY 2018/19	14.719%	7.654%

<u>Pension Plan Financial Disclosures</u>

The Commission's comprehensive annual financial report (CAFR) includes notes to the financial statements regarding the CalPERS pension plan.

Annual required contributions consist of (1) normal cost applied to reported payroll and (2) the employer payment toward the unfunded accrued liability (UAL) based on an amortization schedule; the employer payments toward the UAL includes interest paid on the UAL balance or principal. The UAL represents the net pension liability[1], which is calculated as:

Total Pension Liability	*Based on an actuarial valuation performed at least every two years, this represents the present value of projected benefit payments to be provided by the plan to current active and inactive employees that is attributed to those employee's past period of service.*
Less: Pension Plan's Fiduciary Net Position	*Represents plan's market value of assets*
Net Pension Liability (or UAL)	*Represents the plan's unfunded pension liability or principal balance owed, similar to bonded indebtedness.*

Contributions made during FY 2016/17 and the net pension liability as of June 30, 2017, are presented in the following table:

	FY 2016/17
Contributions	$1,238,891 (Employer) $432,377 (Employee)
Net Pension Liability	$7,639,639

An additional disclosure in the notes to the financial statements is the sensitivity of the proportionate share of the net pension liability to changes in the discount rate used to measure the total pension liability. The total pension liability of $7,639,639, based on a June 30, 2015 actuarial valuation, used a discount rate of 7.65 percent. A one percent decrease in the discount rate to 6.65 percent results in a net pension liability of $11,481,801, while a one percent increase in the discount rate to 8.65 percent results in a net pension liability of $4,464,283.

The CAFR also includes required supplementary information regarding the Commission's proportionate share of the net pension liability and pension contributions (Attachment 2). As of June 30, 2017, the plan is 74 percent funded.

<u>Health Benefits</u>

Since March 1, 1978, RCTC has provided employees access to group health insurance through the Public Employee's Medical and Hospital Care Act (PEMHCA). The CalPERS Board of Administration administers the PEMHCA health benefits program and determines the benefits design, including any co-pays and deductibles, providers, and premiums. RCTC pays the cost of

[1] The net pension liability of employers to employees for the defined benefit plan is now recorded as a liability on the Commission's government-wide financial statements in accordance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27*. Prior to the required implementation date for fiscal years beginning after June 15, 2014 (FY 2014/15 for the Commission), government employers did not record this liability but disclosed it in the notes to the financial statements—creating accountability and transparency issues. As a result of the recession, public awareness and debate are heightened regarding the underfunding of most public defined benefit pension plans and strain on government budgets due to increased contribution costs.

medical insurance to CalPERS at the rate approved by the Executive Committee and as set forth in a resolution adopted in accordance with Government Code Section 22892(a). RCTC has provided $600 as its monthly employer contribution toward employee's health premiums since March 2005 (Resolution No. 05-004). At the April meeting, the Executive Committee approved an increase in the monthly employer contribution to $750 effective September 1, 2018. At the June Commission meeting, adoption of Resolution No. 18-004 related to the monthly employer contribution increase is the subject of a recommendation included in the adoption of the FY 2018/19 budget.

CalPERS currently offers health maintenance organization (HMO) and preferred provider organization (PPO) medical plans. RCTC employee participation in the medical plans is summarized below:

- 71 percent of RCTC employees are enrolled in HMO plans administered by Blue Shield of California, Anthem Blue Cross, United Healthcare, Health Net, and Kaiser Permanente.
- 18 percent of RCTC staff are enrolled in PPO plans called "PERS Select," "PERS Care," and "PERS Choice," which are administered by Anthem Blue Cross.
- 11 percent of RCTC staff are not enrolled in medical plans through RCTC/CalPERS.

OPEB

RCTC provides retirement health benefits based upon the PERL Vesting Schedule G.C. 22893. To be eligible for retirement health benefits, an employee's retirement from RCTC must be effective within 120 days of the employee's separation from employment with RCTC and the employee must be receiving a retirement allowance from CalPERS resulting from the employee's service with RCTC. To determine the monthly amount RCTC will pay toward an employee's medical premium, the retiree must have at least ten years of CalPERS membership and at least five of those years of service must have been performed entirely at RCTC. Retired employees who satisfy the preceding requirements are eligible to continue health coverage offered by CalPERS. The level of benefits varies depending upon the employee's date of employment with RCTC.

The benefit for these retirees will be determined, in part, by the retiree's years of service with a CalPERS employer and, in part, by a contribution level based on a weighted average of the premiums of the four largest medical benefit plans offered by CalPERS. The amount paid by RCTC toward the employee's monthly health premium is determined by the 100/90 State Annuitant Contribution schedule as follows:

Credited Years of PERS Service	Applicable Percentage
10	50
11	55
12	60
13	65
14	70
15	75
16	80
17	85
18	90
19	95
20 or more	100

For 2018, the 100/90 State Annuitant Contribution towards retiree medical premiums is:

Contribution Rates by Premium Tier		
Employee Only	**Employee + 1**	**Family**
$725	$1,377	$1,766

Attachment 3 provides a history of the 100/90 State Annuitant Contribution rates and percent change.

In 2007, the Commission entered into an agreement with the California Employers' Retiree Benefit Trust (CERBT) administered by CalPERS to establish a trust to fund the Commission's OPEB benefits. Previously, the Commission paid OPEB obligations on a pay-as-you-go basis.

OPEB Financial Disclosures

The Commission's CAFR also includes notes to the financial statements regarding RCTC's OPEB.

Annual required contributions are based on an actuarially determined contribution comprised of normal cost and amortization of the unfunded actuarial accrued liability, or net OPEB liability[2]; the employer payment toward the net OPEB liability includes interest paid on the liability balance or principal. The net OPEB liability is calculated as:

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[2] The net OPEB liability of employers to employees for the OPEB plan is now recorded as a liability on the Commission's government-wide financial statements in accordance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. In FY 2016/17, the Commission early implemented GASB No. 75 prior to its required implementation date for fiscal years beginning after June 15, 2017. Before implementation, government employers did not record this liability but disclosed it in the notes to the financial statements—creating accountability and transparency issues similar to those noted regarding public pension plans.

Total OPEB Liability	*Based on an actuarial valuation performed at least every two years, this represents the present value of projected benefit payments to be provided by the plan to current active and inactive employees that is attributed to those employee's past period of service.*
Less: OPEB Plan's Fiduciary Net Position	*Represents plan's market value of assets*
Net OPEB Liability	*Represents the plan's unfunded OPEB liability or principal balance owed, similar to bonded indebtedness.*

Contributions made during FY 2016/17 to the OPEB plan trust and the net OPEB liability as of June 30, 2017, are presented in the following table:

	FY 2016/17
Contributions	$666,000 (100% Employer)
Net OPEB Liability	$676,000

An additional disclosure in the notes to the financial statements is the sensitivity of the proportionate share of the net OPEB liability to changes in the discount rate and the healthcare cost trend rate used to measure the total OPEB liability. The following table summarizes the impact of a 1 percent change in these rates.

	Discount Rate		Healthcare Trend Rate	
	%	Net OPEB Liability	%	Net OPEB Liability
1% Decrease	5.00%	$1,595,000	5.5%-6.5%	($98,000)
Current Rate	6.00%	$676,000	6.5%-7.5%	$676,000
1% Increase	7.00%	($68,000)	7.5%-8.5%	$1,623,000

The CAFR also includes required supplementary information regarding the Commission's proportionate share of the net OPEB liability and OPEB contributions (Attachment 2). As of June 30, 2017, the plan is 89 percent funded.

<u>Pending Legislation</u>

At the June Commission meeting, staff will provide information on Assembly Bill 1912 (AB 1912). This bill would make member agencies of a joint powers authority (JPA) jointly and severally liable for JPA public retirement obligations.

- It would prohibit CalPERS from contracting with a JPA unless member agencies agree to be liable.
- It entitles CalPERS to place a lien on assets of the JPA and member agencies.
- It specifies if the parties do not enter into an agreement, the member agencies would assume JPA retirement obligations.

Due to deep concern over the financial liability AB 1912 poses to the Commission, as well as potential harmful impacts on the Commission's bond marketability and its credit rating, staff is recommending an "oppose" position on AB 1912.

These are additional Senate bills (SB) currently under consideration that may impact the Commission's retirement benefits:

- **SB 1031** proposes to permit employers to freeze COLAs for retirees if the plan is not 80 percent funded[3].
  - This bill would prohibit a public retirement system from making a COLA to any allowance payable to, or on behalf of, a person retired under the system who becomes a new member on or after January 1, 2019.
  - It would eliminate the benefit to any survivor or beneficiary of that retired member for the unfunded actuarial liability of that system if greater than 20 percent.
  - It would require that the determination of unfunded actuarial liability be based on a specified financial report and would apply the prohibition on COLAs, if any, to the calendar year following the fiscal year upon which the report is based.
- **SB 1032** proposes to make it easier for employers to exit CalPERS without paying termination fees[4].
  - This bill would authorize a contracting agency to terminate its contract with the board at the agency's will and would not require the contracting agency to fully fund the board's pension liability upon termination of the contract.
  - It would authorize the board to reduce the member's benefits in the terminated agency pool by the percentage of liability unfunded.
  - It would authorize a contracting agency who terminates its contract with the board to transfer the assets accumulated in the system to a pension provider designated by the contracting agency.
- **SB 1033** proposes to shift the burden of increased pension costs to the last employer that hired the employee[5].
  - This bill would require that an agency participating in CalPERS who increases the compensation of a member previously employed by a different agency bear all actuarial liability for the action, if it results in an increased actuarial liability beyond what would have been reasonably expected for the member.
- **SB 1149** proposes to offer employees the option of choosing a more portable 401(k) plan and opt out of Cal PERS[6].
  - This bill would create a new optional defined contribution plan for new public employees who first begin employment in a miscellaneous or industrial

[3] Karol K. Denniston, "Pension Pain", The Bill is Due: Now What? Infrastructure, Pensions and the Environment, April 24, 2018
[4] *Ibid.*
[5] *Ibid.*
[6] *Ibid.*

classification on or after January 1, 2020, and who were not members of any public retirement system prior to that date.

<u>The California Rule</u>

Finally, PEPRA represents an initial major effort in California related to pension reform, and it was primarily limited to new hires with no vested rights. Certain elements related to PEPRA have been challenged in the state courts. These cases are now pending before the California Supreme Court, and it is possible that the "California Rule" related to individual vested rights may be modified.

As a result of various prior state court rulings, including the *Long Beach* decision in 1955, it has been the prevalent belief that a pension benefit offered upon hire becomes a vested right that is protected by contract law. Therefore, it cannot be reduced unless it is offset by a comparable new benefit that would eliminate any cost savings. This limitation has been an impediment to legal pension reform urged by many groups in order to mitigate the public pension crisis and impact on government services. Trial and appellate courts that have heard the cases pending before the state Supreme Court have found that current employees have a vested right to a "reasonable pension" and not the one offered upon hire. Should the high court affirm the lower court decisions, the "California Rule" would likely be reshaped via legislative changes and there would be no significant pension funding relief in the short-term.

<u>Potential Issues for Future Consideration</u>

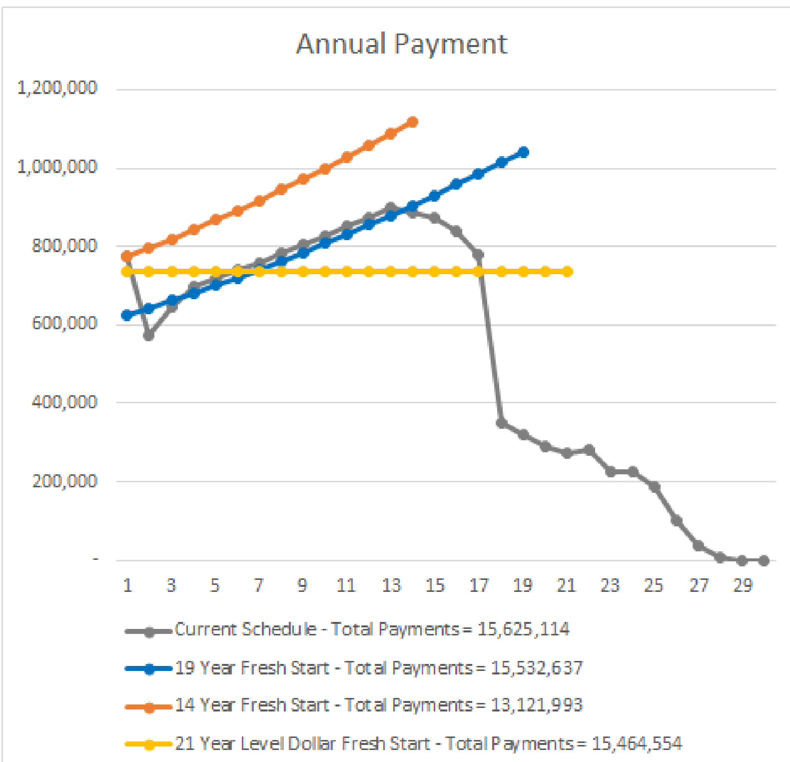
As noted earlier, the proposed FY 2018/19 budget will be presented at the June Commission meeting for adoption. Although the Commission's toll operations are a service, the budget continues to demonstrate that the Commission is a project-driven agency. Unlike its member cities and the County of Riverside, personnel costs are insignificant in the FY 2018/19 budget of approximately $881 million as noted in the table below:

	Amount	% of Budget	% of Personnel Costs
Total Personnel Costs	$10,354,700	1.17%	100%
Benefit Costs included in Personnel Costs:			
Retirement	1,553,500	0.20%	15.00%
Health	635,000	0.07%	6.13%
OPEB	549,000	0.06%	5.30%

As a special district, the Commission is not currently faced with the same financial pressures as its members; however, staff is keenly aware of the statewide pension sustainability conversation taking place as well as pending legislative and legal issues as they may have a direct and/or indirect impact on the Commission in the long-term. Some of the issues that staff is monitoring and may present to the Executive Committee for strategic planning at a future meeting are as follows:

- The 2009 Measure A is the major source of funding for the Commission's projects and programs, and it expires on June 30, 2039. Should the County's electorate not approve another transportation sales tax measure, the Commission may need to reduce the staff size due to a change in its operations. However, the Commission's obligations to fund retirement and OPEB benefits will continue. In recent years there has been increased attention to smaller special districts or governmental agencies that have had to terminate their contracts with CalPERS at a very high cost. These terminations have been related to loss of funding sources or inability to sustain required contributions. As a result, retirees receiving retirement benefits have been impacted by reduced payments.

- Among many factors, retirement plan contributions are affected by the amortization of the UAL or net pension liability. The amortization schedule over time includes an interest charge on the net pension liability; therefore, the sum of the employer payments toward the UAL consists of amortization of the net pension liability principal balance and the interest or finance charge. The Commission could pay off the net pension liability balance or it can apply a "fresh start" to the amortization schedule for the UAL related to the Classic Members plan[7]. This "fresh start" would collapse all the amortization bases into a single base to reamortize the UAL. Some of the "fresh start" options are presented below:



[7] Per the 2016 actuarial valuation, there are 93 Classic Members (consisting of active, transferred, separated, and retired employees) compared to 4 New Members. The amortization of the New Members' UAL is not material to the analysis.

Staff will continue to maintain an awareness of matters that impact the Commission's ability to fulfill its benefit obligations and present updates to the Executive Committee.

Fiscal Impact

This report is intended as a summary of retirement and health benefits provided by the Commission. Staff is not proposing any actions by the Executive Committee; however, legislative developments and other issues for future strategic consideration that may have a financial impact may be presented to the Executive Committee at a later date.

Attachments:

1) PERS Overview
2) Financial Information Related to Net Pension/OPEB Liabilities and Pension/OPEB contributions
3) 100/90 State Annuitant Contribution Rates

California Public Employee's Retirement System

The California Public Employees' Retirement System (PERS) is an organization that provides numerous benefits to its more than 1.9 million members. As of 2018, the agency has over $360 billion in assets, and is under-funded by an estimated $150 billion, with current assets below 70% of what is necessary to provide for liabilities. In an effort to reduce this shortfall, at the end of 2016 the board lowered their expected annual rate of return on investments from 7.5% to 7.0%, increasing the costs California cities must pay toward their workers' pensions.

History

Retirement payments to California State Employees began in 1932 and was called the "State Employees' Retirement System" or (SERS). In 1939, the state Legislature passed a bill that allowed local public agencies (such as cities, counties, and school districts) to participate in SERS. In 1967, SERS name was changed to the "Public Employees' Retirement System".

Governance

The legal authority for the activities of PERS is in the constitution, laws, and regulations of the State of California, including:

- California Constitution, Article XVI, Section 17, under which (as amended by Proposition 162) the retirement board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for investment of moneys and administration of the system;
- California Government Code, Title 2, Division 5, Parts 3-8 (i.e., Sections 20000-22970.89). Among other parts, Part 3 covers the administration of the retirement system including membership, contributions, and benefits; and Part 5 covers the Public Employees' Medical and Hospital Care Act on health benefits; and
- California Code of Regulations, Title 2, Division 1, Chapter 2, Sections 550-559.554.

Board of Administration

A 13-member Board of Administration, whose members are elected, appointed, or ex officio, oversees PERS:

- Six are elected from PERS members (two by all PERS members, one by active State members, one by active PERS school members, one by active PERS public agency members, and one by retired members of PERS);
- Three are appointed (two by the Governor, one by specified leaders of the Legislature); and
- Four are ex officio (California State Treasurer, California State Controller, Director of the California Department of Human Resources, and designee of the California State Personnel Board).

Investments and Fund Management

After the financial crisis of 2008, many cities in California came under financial stress due to a combination of factors, which led to three high-profile municipal bankruptcy filings by Vallejo, Stockton and San Bernardino that received nationwide attention. During the proceedings, some creditors accused PERS's increased post-crisis employer payments and future unfunded liabilities as a cause of insolvency and sought to have PERS employer contributions reduced. PERS vigorously opposed this.

With the inception of the pension reform laws (PEPRA), the PERS Board of Administration heard employer's concerns about the pressures of increased pension costs. Therefore, a thorough review of any additional risks in the market that may affect the overall investments to reduce vulnerability during an economic turndown. The new asset allocation was redistributed as follows:

- 50% in Global Equity
- 28% Fixed Income
- 13% Real Assets
- 8% Private Equity
- 1% Liquidity

Disability Retirement and Industrial Disability Retirement

PERS offers two types of retirement benefits if a worker is disabled. For an "industrial disability retirement," the "disability is due to a job-related injury or illness"; in contrast, "disability retirement" implies that the disability was not necessarily caused by employment. The specific benefits vary by employer, by the contract between PERS and the employer, and by the employee's occupation.

Death Benefits

If a PERS member dies before retirement, PERS may provide death benefits (Pre or Post Retirement Survivor Allowance) to certain beneficiaries. The benefits can include one-time payments and/or monthly payments, but "depend on the member's age, years of service, job classification, employer's contract with PERS, eligible beneficiary, date of separation from employment, and whether or not they were eligible to retire at the time of death".

Health Benefits

Under the "Public Employees' Medical and Hospital Care Act" (PEMHCA), PERS provides more than $7.51 billion in health benefits "for nearly 1.4 million active and retired state, local government, and school employees and their family members." Therefore, it is the nation's second largest public purchaser of health benefits, behind the Federal Employee Health Benefits

Plan, which covers about 8 million federal employees, retirees, and their dependents. Of the enrollees, 61% are state employees and 39% are local government and school employees; 74% are working and 26% are retired.

Long-Term Care Benefit Option

California's "Public Employees' Long-Term Care Act," as passed in 1990 and amended in 1996, led to PERS' administering a Long-Term Care Program for "California public employees and retirees, as well as their spouses, parents, parents-in-law, adult children and adult siblings between the ages of 18 and 79." Described as the largest self-funded program of its kind, the program provides nursing home care, residential assisted living, home health care, homemaker services and adult day care. The program is funded by participant premiums and by proceeds from investments in the PERS Long-Term Care Fund.

Riverside County Transportation Commission

Schedule of Proportionate Share of Net Pension Liability

Last Ten Fiscal Years[1]

June 30, 2017

	Fiscal Year		
	2017	2016	2015 [1]
Measurement Date Fiscal Year	2016	2015	2014
Proportion of the net pension liability/(asset)	0.08829%	0.09176%	0.08559%
Proportionate share of the net pension liability/(asset)	$ 7,639,639	$ 6,298,052	$ 5,325,565
Covered payroll (measurement year)	$ 5,287,151	$ 4,792,270	$ 4,316,567
Proportionate share of the net pension liability/(asset) as percentage of covered payroll	144.49%	131.42%	123.38%
Plan fiduciary net position as a percentage of the total pension liability	74.06%	78.40%	78.21%

See notes to required supplementary information

[1] Fiscal year 2015 was the first year of implementation, therefore, only three years are shown. Represents most recent data available.

Riverside County Transportation Commission

Schedule of Pension Contributions

Last Ten Fiscal Years[1]

June 30, 2017

	Fiscal Year		
	2017	2016	2015 [1]
Contractually required contribution (actuarially determined)	$ 1,211,922	$ 1,101,641	$ 1,044,018
Contributions in relation to the actuarially determined contributions	(1,238,891)	(1,132,393)	(1,125,317)
Contribution deficiency (excess)	$ (26,969)	$ (30,752)	$ (81,299)
Covered payroll	$ 5,536,781	$ 5,287,151	$ 4,792,270
Contributions as a percentage of covered payroll	22.38%	21.42%	23.48%
Valuation date	6/30/14	6/30/13	6/30/12

Actuarial cost method	Entry age normal cost method
Amortizations method	Level of percentage of payroll
Remaining amortization period	19 years as of valuation date
Asset valuation method	15 year smoothed market
Inflation	2.75%
Projected salary increases	3.30% to 14.20% depending on age, service, and type of employment
Discount rate	7.50% (net of administrative expenses)
Retirement age	55 years
Mortality	RP-2000 Healthy Annuitant Mortality Table

See notes to required supplementary information

[1] Fiscal year 2015 was the first year of implementation, therefore, only three years are shown. Represents most recent data available.

Riverside County Transportation Commission
Schedule of Changes in the Net OPEB Liability and Related Ratios
Last Ten Fiscal Years[1]
June 30, 2017

		Fiscal Year
		2017 [1]
Measurement date fiscal year		2016
Total OPEB liability		
Service cost	$	437,000
Interest		338,000
Benefit payments		(155,000)
Net change in total OPEB liability		620,000
Beginning total OPEB liability		5,291,000
Ending total OPEB liability	$	5,911,000
Plan fiduciary net position		
Employer contributions	$	634,000
Net invesment income		86,000
Benefit payments		(155,000)
Administrative expense		(2,000)
Net change in plan fiduciary net position		563,000
Beginning fiduciary net position		4,672,000
Ending fiduciary net position	$	5,235,000
Ending net OPEB liability	$	676,000
Plan fiduciary net position as a percentage of the total OPEB liability		88.56%
Covered payroll (measurement year)	$	5,287,151
Net OPEB liability as a percentage of covered-employee payroll		12.79%

See notes to required supplementary information

[1] Fiscal year 2017 was the first year of implementation, therefore, only one year is shown. Represents most recent data available.

Riverside County Transportation Commission

Schedule of OPEB Contributions

Last Ten Fiscal Years[1]

June 30, 2017

	Fiscal Year 2017 [1]
Actuarially determined contribution	$ 494,000
Contributions in relation to the actuarially determined contribution	666,000
Contribution deficiency (excess)	$ (172,000)
Covered payroll	$ 5,536,781
Contributions as a percentage of covered-employee payroll	12.03%

Valuation date:

Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal - level percentage of payroll
Amortization method	Level percentage of payroll
Amortization period	Eight years
Asset valuation method	Investment gains and losses spread over five-year rolling period
Inflation	3.00%
Healthcare cost trend rates	Non-Medicare: 7.0% for 2017, decreasing to an ultimate rate of 5.0% in 2021 and later years Medicare: 7.2% for 2017, decreasing to an ultimate rate of 5.0% in 2021 and later years
Salary increases	3.00% aggregate
Investment rate of return	6.75%
Retirement age	Classic employees: 50 - 55 Public Employees' Pension Reform Act: 52 - 62
Mortality	Mortality projected fully generational with Scale MP-14

See notes to required supplementary information

[1] Fiscal year 2017 was the first year of implementation, therefore, only one year is shown. Represents most recent data available.

Riverside County Transportation Commission
Notes to Required Supplementary Information
June 30, 2017

Pension Plan

Schedule of Proportionate Share of Net Pension Liability – The schedule provides the proportion (percentage) of the collective net pension liability, proportionate share (amount) of the collective net pension liability, the Commission's covered-employee payroll, proportionate share (amount) of the collective net pension liability as a percentage of Commission's covered-employee payroll, and the pension plan's fiduciary net position as a percentage of the total pension liability.

Schedule of Pension Contributions – The schedule provides the Commission's actuarially determined contributions to the pension plan, the Commission's actual contributions, the difference between the actual and actuarially determined contributions, and a ratio of the actual contributions divided by covered-employee payroll.

Postemployment Benefits Other Than Pensions

Schedule of Changes in the Net OPEB Liability and Related Ratios – The schedule provides the schedule of changes in the net OPEB liability, the plan fiduciary net position as a percentage of the total OPEB liability, the Commission's covered-employee payroll, and the net OPEB liability as a percentage of covered-employee payroll.

Schedule of OPEB Contributions – The schedule provides the Commission's actuarially determined contributions to the OPEB plan, the Commission's actual contributions, the difference between the actual and actuarially determined contributions, and a ratio of the actual contributions divided by covered-employee payroll.

ATTACHMENT 3

PEMHCA

100/90 State Annuitant Contribution Rates

Rates

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Single	$ 478.00	$ 493.00	$ 542.00	$ 566.00	$ 622.00	$ 642.00	$ 655.00	$ 705.00	$ 707.00	$ 725.00
Two Party	909.00	936.00	1,030.00	1,074.00	1,183.00	1,218.00	1,246.00	1,343.00	1,349.00	1,377.00
Family	1,167.00	1,202.00	1,326.00	1,382.00	1,515.00	1,559.00	1,605.00	1,727.00	1,727.00	1,766.00

Percent Change

2010	2011	2012	2013	2014	2015	2016	2017	2018
3.1%	9.9%	4.4%	9.9%	3.2%	2.0%	7.6%	0.3%	2.5%
3.0%	10.0%	4.3%	10.1%	3.0%	2.3%	7.8%	0.4%	2.1%
3.0%	10.3%	4.2%	9.6%	2.9%	3.0%	7.6%	0.0%	2.3%

CalPERS Contract and Benefits Summary

Beth Gutierrez, HR Administrator
Theresia Trevino, Chief Financial Officer

CalPERS is a “Defined Benefit Pension Plan”

What is a Defined Benefit Pension Plan?

- It’s called 'defined' because the benefit formula is defined and known in advance
- The employer promises a specified payment, lump-sum (or combination thereof) at time of retirement rather than individual investment returns.

Pension amount is predetermined by a formula based on:

- Employee earning history
- Tenure of service
- Age

RCTC Retirement Contract with CalPERS

- Began September 3, 1977
- Two Tier Membership

	Classic	PEPRA/New
Retirement Formula	2.7% @ 55	2% @ 62
Employee Contribution	8%	7.25%
FY 2017/18 Employer Contribution	14.053%	7.262%

Health Benefits

- Began March 1, 1978
- HMO/PPO Plan Options

	Employees	Non-Vested Retirees	Vested Retirees
Current Employer Monthly Contribution	$600	$600	PERL Schedule
Proposed Employer Monthly Contribution (pending Commission approval on 6/13/18)	$750	$750	PERL Schedule

Health Benefits – Vested Retirees

PERL Vesting Schedule

- Based on retiree's years of service
  - Must have at least 10 years in PERS
  - At least five (5) years with RCTC
  - Retirement must be from RCTC and within 120 days of separation

Financial Disclosures

FY 2016/17	PERS	OPEB Plan Trust
Employer Contributions	$1.2 million	$0.7 million
Employee Contributions	$0.4 million	$0
Net Liability	$7.6 million	$0.7 million
% of Total Liability Funded	74%	89%

The 'California Rule'

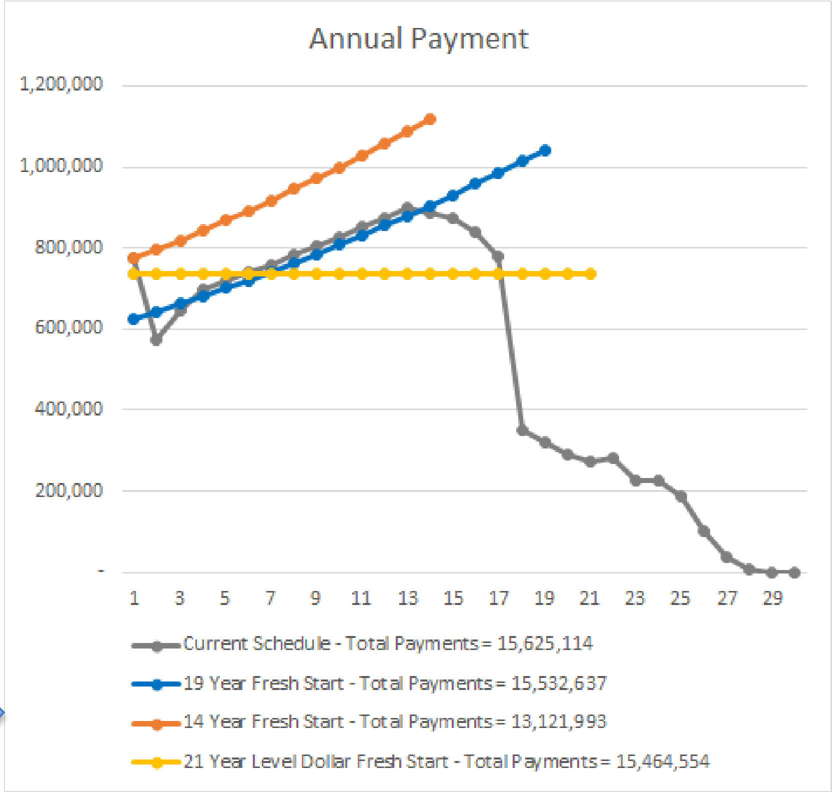
- Created in 1955
- A California Supreme Court constitutional doctrine
  - Protects public employee pensions and amounts already accrued
  - Gives right to earn pension benefits on terms no worse than those in effect at hire date
  - Employee obtains vested contractual rights
- Pending court challenges
  - Employee's vested right to a 'reasonable pension' rather than pension at hire date

PERS Impact on RCTC Budget

	Amount	% of FY 2018/19 Budget	% of Personnel Costs
Total Personnel Costs	$10,354,700	1.17%	100%
Benefit Costs included in Personnel Costs:			
Retirement	$1,553,500	0.20%	15.00%
Health	$635,000	0.07%	6.13%
OPEB	$549,000	0.06%	5.30%

Future Considerations

- AB 1912
  - June Commission Meeting action
- Proposed Legislation
  - SB 1031
  - SB 1032
  - SB 1033
- Measure A Expiration
- Amortization Schedule Options



Any Questions for Us?