LOS ANGELES COMMUNITY COLLEGE DISTRICT

School Services of California INC.™

An Employee-Owned Company

PUBLIC AGENCY RETIREMENT SERVICES | PARS

TRUSTED SOLUTIONS. LASTING RESULTS.

ACHRO EEO

Association of Chief Human Resource Officers | Equal Employment Officers

Emerging Negotiation & Retirement Tools for Community Colleges during Challenging Times

2017 FALL INSTITUTE – OCTOBER 18, 2017

SESSION PRESENTERS

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ECONOMICS AND HUMAN RESOURCES

1 STATE ECONOMIC OVERVIEW

2 FEDERAL BUDGET AND RELATED ISSUES

ECONOMIC OVERVIEW

- California's revenues continue to be fragile and volatile
  - Fragile because we depend so heavily on the top one percent of taxpayers, a group that is not growing
  - Volatile because we rely on sales and income taxes for the marginal dollar, not the less volatile property tax
- And we have all become skeptical of economic forecasts
  - None of the world's leading economists forecasted the Great Recession
  - None of them forecasted the recovery that began in 2012
  - And likely none of them will accurately forecast the next recession
- Governor Jerry Brown's plan is conservative, but still risky because he assumes no recession over the next three years
- For these reasons, we are more conservative than the Governor, and we think you should be too

OTHER CONSIDERATIONS

- Immigration policy, for example, has many potential effects
  - Cost to the state for lost federal support
  - Enrollment impacts for local educational agencies
- Federal tax policy often has unintended consequences for state tax collections
- The Democratic "supermajority" has already flexed its power in passing the gas tax; how will that power be used next?

ECONOMIC TRENDS

The Good

- Unemployment continues to decline
- Most economic indicators remain positive
- Continued low energy prices, interest rates, and a strong U.S. dollar provide a significant upside for economic growth

The Bad

- The Governor continues to warn that another recession is just around the corner
- The risk inherent in the capital gains forecast of the State Budget could come back to bite education

The Feds

- Withdrawal from the Paris Climate Agreement
- Still nothing new on the Trump Tax Plan
- Health care is up in the air

STATE BUDGET RESERVES

1. The Governor continues to place California on more secure footing for his oft predicted recession

2. A $1.8 billion contribution to the Rainy Day Reserve (officially known as the Budget Stabilization Account) brings the Reserve to $8.5 billion

3. Proposition 2, passed by state voters in 2014, requires (1) a base contribution of 1.5% of General Fund revenues and (2) an amount based on capital gains revenues in excess of 8% of General Fund taxes

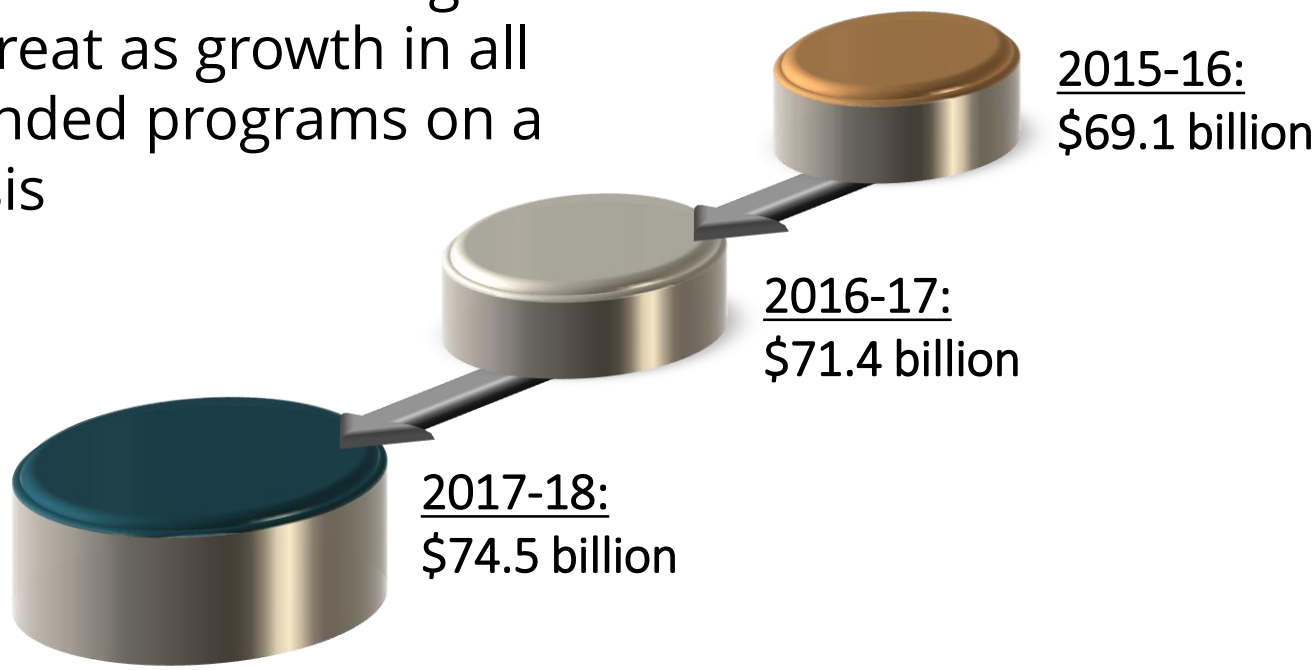
4. The Reserve now stands at 66% of the maximum goal of 10% of General Fund revenues

5. The 2017-18 Budget Act also contains $1.4 billion in the Special Fund for Economic Uncertainties – thus, total reserves for 2017-18 are $9.9 billion

6. Governors know that big reserves present a target for both political parties; however, Governor Brown notes that "much of the new spending . . . is one-time in nature, which avoids ongoing commitments that would put pressure on the budget"

PROPOSITION 98 MINIMUM GUARANTEE

- Proposition 98 funding for 2017-18 is $74.5 billion, a $3.1 billion (4.3%) increase from last year's revised Budget
- However, the Legislature and Governor suspended Test 3B
  - Test 3B "equal pain, equal gain" ensures that, in a year when Test 3B applies, growth in K-14 funding is at least as great as growth in all other state-funded programs on a per-capita basis



SUSPENSION OF PROPOSITION 98 TEST 3B

The adopted Budget suspends Test 3B through 2020-21 (estimated at $900 million)

The Legislative Analyst's Office has noted that Test 3B has been operative six times

In 2001-02 alone, this test provided $1.4 billion to the minimum funding guarantee

The reduced funding will be added to the Maintenance Factor

However, education is not fully restored and will ultimately receive less than if suspension did not take place, as it lowers the minimum funding guarantee

2017-18 CALIFORNIA COMMUNITY COLLEGE ONE-TIME FUNDS

- $150 million for the Guided Pathways Program
- $76.9 million for deferred maintenance or instructional equipment, with no match requirement
- $46.5 million for Proposition 39 energy efficiency program grants
- $20 million for an Innovation Awards Program
- $5 million for Veterans' Resource Centers ($5 million of $10 million is one time)
- $6 million for an Integrated Library System

ONE-TIME FUNDS

- One-Time funds should be treated as just that – here today gone tomorrow
- We’ve received some generous one-time funds during the economic recovery, but we shouldn’t expect them to continue as we near a more stable economy or an economic downturn
- One-time funds should not be used for ongoing expenses

CALPERS/CALSTRS

- One of the largest single expenses in the average district's multiyear projection is the cost of the employer contribution to employee retirement programs
  - The increases in rates shown on the next slide exceed the increased cost of step and column movement, health care, and, in many cases, pay raises
  - Even after these significant employer contribution rate increases, both the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS) are seeing unfunded liabilities continue to grow
    - Lower investment returns and higher pension payments are a difficult combination
  - Will the state continue to provide a base apportionment increase beyond the COLA to help offset these growing costs?

CALPERS AND CALSTRS RATES UPDATES

- Better than expected investment returns will help mitigate some of the excess cost of CalPERS and CalSTRS in the long term, but will not mitigate rising employer costs
- Budgeted employer rates will continue to increase

	2017-18	2018-19	2019-20	2020-21
CalSTRS	14.43%	16.28%	18.13%	19.10%
CalPERS	15.53%	18.10%	20.80%	23.80%

FEDERAL BUDGET PROPOSAL FOR INSTITUTIONS OF HIGHER EDUCATION

- TRIO Grants reduced by $90 million
- GEAR UP Grants reduced by $103.1 million
  - Both will still have the funds for continued appropriations
- Not included in the Proposal:
  - Teacher Quality Partnership Grants
  - Foreign Language Education
  - Child Care Access Means Parents in School
  - Strengthening Institutions Program
  - International Education

FEDERAL ISSUES

- Speculation about federal action on education and noneducation issues will continue to impact California, and by extension the education budget; for example:
  - Repeal and replacement of the Affordable Care Act
  - Possible federal education reductions placing a squeeze on California resources
  - Immigration policy, which has a huge impact for education in California
  - Domestic and foreign policy changes that could affect the global, national, and California economies
- The answer is that we know there will be impacts in all these areas, but it is too early to tell which battles will be fought and how they will be decided
- One thing is certain; California cannot go it alone in our interdependent world

PUBLIC AGENCY RETIREMENT SERVICES | PARS

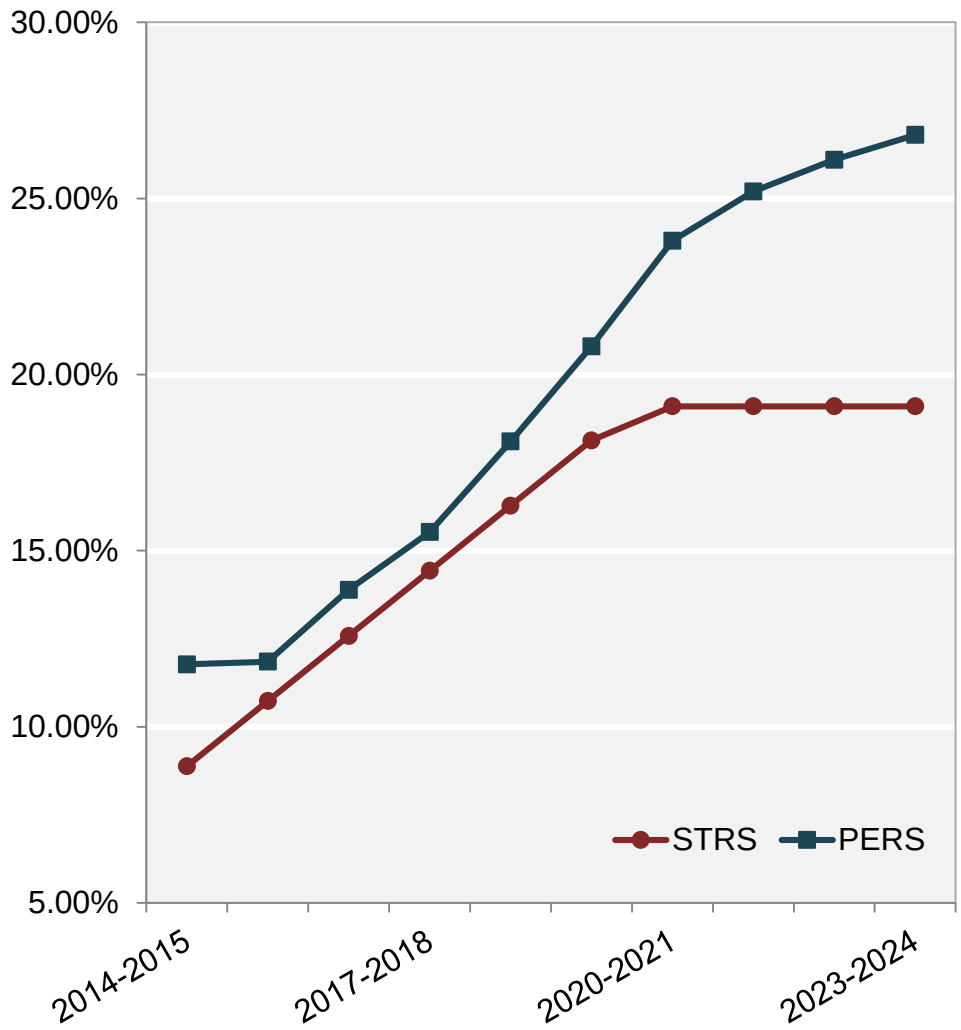
TRUSTED SOLUTIONS. LASTING RESULTS.

TWO SOLUTIONS TO ADDRESS PENSION & BUDGET

1. PENSION PREFUNDING TRUSTS
2. EARLY RETIREMENT INCENTIVE PLANS

STRS/PERS CONTRIBUTION RATE INCREASES

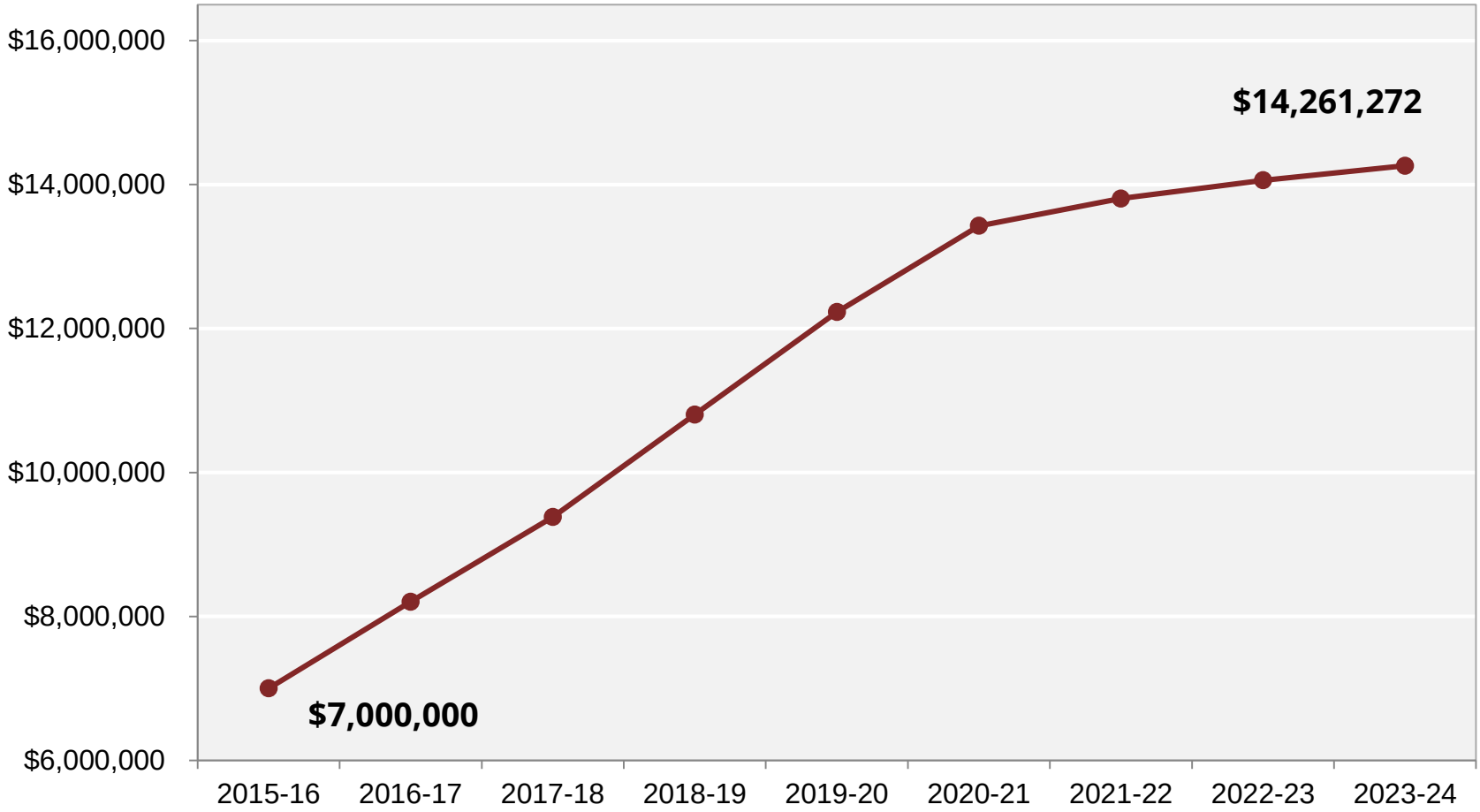
STRS/PERS rate increases through 2023-24:



Fiscal Year	STRS	PERS
2014-2015	8.88%	11.77%
2015-2016	10.73%	11.85%
2016-2017	12.58%	13.89%
2017-2018	14.43%	15.53%
2018-2019	16.28%	18.10%
2019-2020	18.13%	20.80%
2020-2021	19.10%	23.80%
2021-2022	19.10%	25.20%
2022-2023	19.10%	26.10%
2023-2024	19.10%	26.80%

HOW DO RATE INCREASES AFFECT A DISTRICT?

Annual pension costs increase from **$7.0 million to $14.3 million** in 8 years.



**Based on an initial constant hypothetical STRS contributions of $4 million and PERS contributions of $3 million beginning in 2015-16 and constant payroll thereafter*

WHY PREFUND PENSION OBLIGATIONS?

1

Address Long-Term Liability

STRS/PERS costs are a long term burden, and prudent investment planning is critical to current and future management of obligations

2

Protect from Diversion

Funds are protected from diversion to other uses and curtails stakeholder pressure to use funds in other ways

3

Rainy Day Fund

Assets can be used as an emergency source of funds for pension-related costs when District revenues are impaired based on economic or other conditions

4

Achieve Better Returns

Prefunding with the program enables diversified investments that may achieve greater return

5

Beneficial in Credit Rating & Accreditation

Credit rating and accreditation agencies may look more favorably upon districts who take steps to reduce liabilities

STRUCTURE OF PENSION PREFUNDING TRUSTS

IRC SECTION 115

- A governmental trust designed specifically to be used for pension prefunding whereby **any income derived is tax exempt**

IRREVOCABLE

- To comply with GASB rules, trust was set up as irrevocable which means that once contributions are placed into trust, **assets can only be used for retirement plan purposes**

DISBURSEMENTS FROM THE TRUST

- District should have full control over the amounts and timing of disbursements, providing they are made for pension-related costs
- District can request that a disbursement be made:
  - Directly to the District (to pay STRS/PERS costs)
  - Directly to STRS/PERS
  - Pay retirement plan administration expenses

COMPREHENSIVE SERVICES AVAILABLE

When exploring a provider for pension prefunding services, District should look for a company that can provide comprehensive services, such as:

- Consulting
- Investment Fiduciary
- Investment Management
- Document Preparation
- Trustee Services
- Custodian Services
- Ongoing Compliance Monitoring
- Disbursement Processing
- Funding Processing
- Contribution Processing

WHAT ARE EARLY RETIREMENT INCENTIVE PLANS?

- Financial incentives to encourage employees to retire from service earlier than normal to achieve fiscal savings for the District

- Savings created by:
  - Accelerating rate of natural attrition retirements
  - Replacing the departing employee with lower salary employees
  - Eliminating higher salaried employees to reduce the number of positions otherwise needed to achieve savings

- Early Retirement Incentive Plans are normally offered to a group of employees deemed eligible based on a set of criteria during a short period of time or "window" period

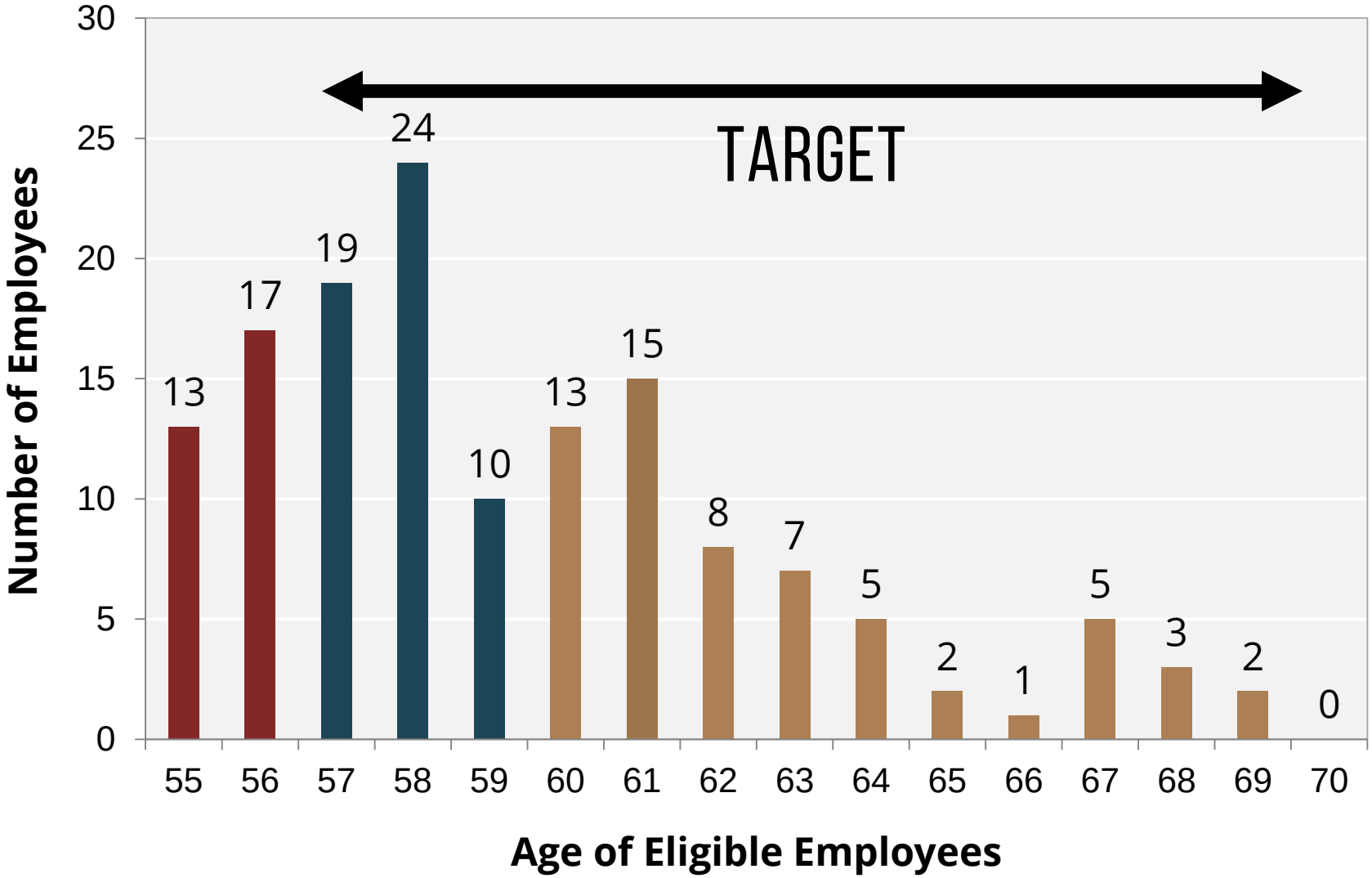
STRS GOLDEN HANDSHAKE VS. LOCAL CONTROLLED

Plan Features	STRS Golden Handshake	Local Controlled
Benefit Formula	Fixed by Statute	District determines Benefit Level (subject to Bargaining)
Benefit Payment Options	• Lifetime and Joint-and-Survivor Options • No tax deferred rollovers	• Lifetime, Joint-and-Survivor and Fixed/Period Certain Options • IRA/tax deferred rollovers
Eligibility	• Available to only Academic; Not Classified • Must include Administrators	• Can offer the same plan to Academic and Classified employees • Can exclude groups like administrators, if too costly
Cost Savings Analysis	• Districts required to certify Net Savings to the County • District on their own for the analysis	• Vendor should quantify in an understandable way the real costs/savings associated with a plan • Vendor should disclose all assumptions • Vendor should provide assistance to District on a comprehensive analysis
Requirement to Retire	Employees must retire	Plan can allow employees to only separate and not retire
Minimum Participation Requirements	No provision to withdraw plan if actual participation does not generate Net Savings	Can withdraw plan if actual participation does not meet the fiscal and operational objectives of the District or target number of retirements

ANALYSIS METHODOLOGY

	Total Compensation Differential between Retiring Employee and Replacement Employee
Less	Retirement Health Care Cost
Less	Retirement Incentive Cost
Less	Current Natural Attrition
Less	Future Loss in Natural Attrition
Plus	Savings Due to Non-Replacements
Equals	**Net Savings or Cost**

SAMPLE DEMOGRAPHIC ANALYSIS



CASE STUDY: LACCD'S PLAN

1 | WHAT DID WE OFFER?

2 | FINAL RESULTS/LESSONS LEARNED

PLAN BENEFIT

75% of Base Pay Benefit

- The District contributed 75% of Base Pay (paid in 5 equal payments over 5 years) into the plan on behalf of all participating employees

SAMPLING OF BENEFIT OPTIONS

Option Choice	Academic Faculty	Academic Management	Academic Supervisors	Classified Non-Management	Classified Management
Option 1, Lifetime	$349.48	$646.63	$411.37	$181.21	$380.22
Option 2, Joint & Survivor	$292.72	$534.98	$350.59	$179.04	$327.52
Option 5, 5-Year (IRA rollover)	$1,334.73	$2,403.08	$1,733.41	$781.07	$1,638.85
Option 9, 9-Year (IRA rollover)	$768.43	$1,383.51	$997.97	$449.68	$943.52
Option 15, 15-Year	$490.69	$883.45	$637.26	$287.15	$602.49

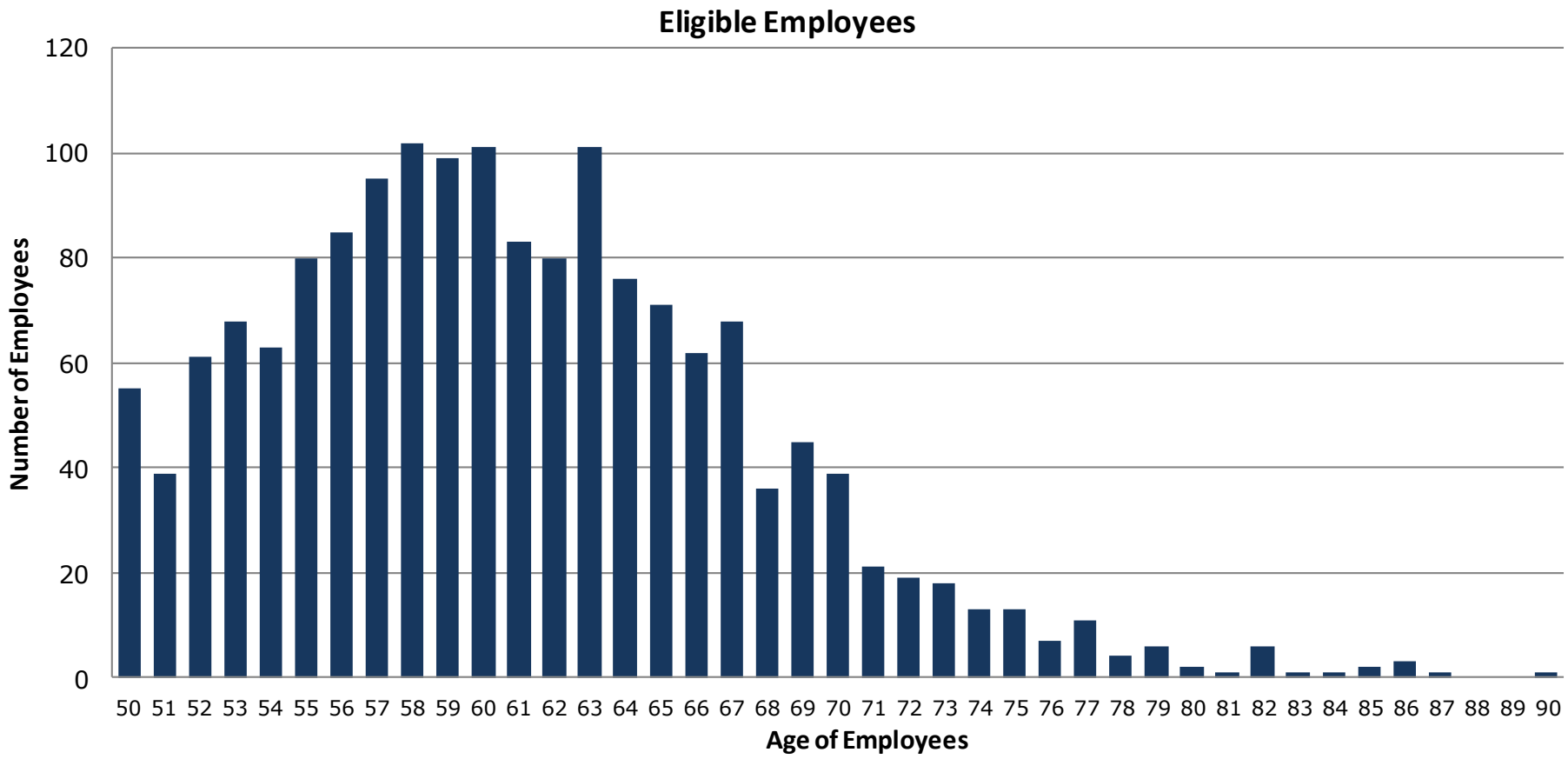
PLAN ELIGIBILITY

- Full-time Academic Faculty, Academic Management, Academic Supervisors, Classified Non-Management and Classified Management
- Have completed 5 full years of District service
- Are eligible to retire under STRS or PERS
- Resign from District employment
  - Academic Faculty must complete the 2016-17 Academic Year and resign no later than June 30, 2017
  - Academic Management, Academic Supervisors, Classified Non-Management and Classified Management resign June 30, 2017 or December 29, 2017
- Submit all required enrollment materials and Resignation Form between April 10, 2017 and April 28, 2017

ADJUNCT FACULTY REPLACEMENT FOR 1 YEAR

- Employees could only submit their enrollment materials and Resignation Form during a specific time period – April 10th through April 28th
  - This was to ensure that Academic Faculty submitted their enrollment materials and Resignation Form within their last 40 duty days
  - This allowed the District the ability to replace Academic Faculty with Adjunct Faculty for 1 year

OVER 1600 EMPLOYEES WERE ELIGIBLE



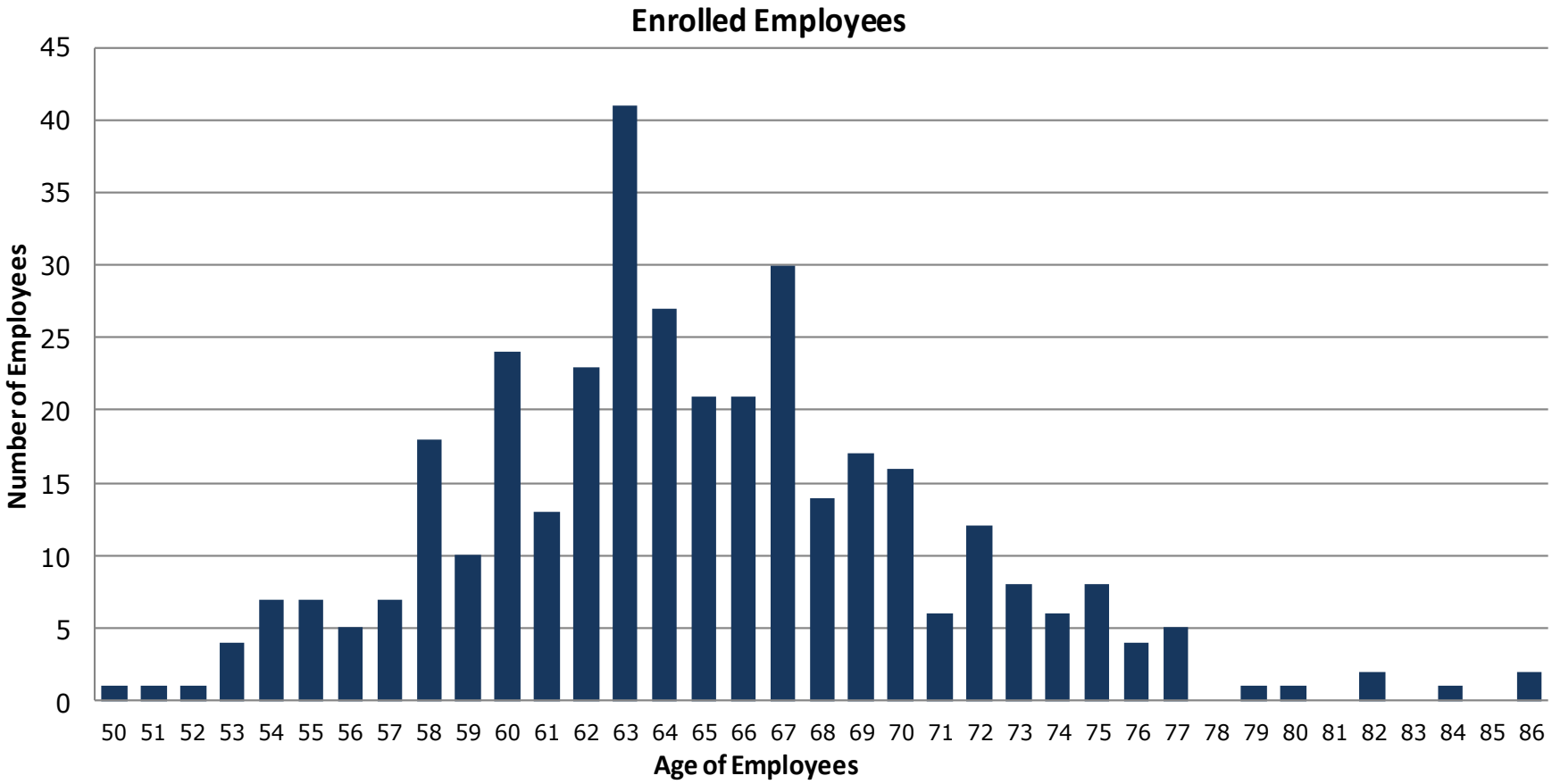
IMPLEMENTATION TIMELINE

1.	Board of Trustees approved the plan offering	January 25, 2017
2.	Enrollment Window opened and Individual Packets mailed to eligible employees	January 26, 2017
3.	Employee Orientation Meetings (at each college and ESC)	February 14, 2017 through March 1, 2017
4.	Resignation Letters could be submitted	April 10, 2017 through April 28, 2017
5.	Individual Meetings (at each college and ESC)	April 10, 2017 through April 24, 2017
6.	Enrollment Window closed	April 28, 2017
7.	Board of Trustees approves/cancels the plan based on actual plan participation	May 10, 2017
8.	District announces whether plan goes forward	No later than May 26, 2017
9.	Employees resign	June 30, 2017 or December 29, 2017
10.	Benefits commence	August 1, 2017 or February 1, 2018

IMPLEMENTATION LANGUAGE

- The plan was offered contingent on the District meeting its fiscal and operational objectives
  - If the District determined that the fiscal and operational objectives were **not met**, the District reserved the right to cancel the incentive and all enrollments/resignations would be voided
  - If the District determined that the fiscal and operational objectives **were met**, the District would confirm the plan and all enrollments/resignations would be locked in and irrevocable

364 EMPLOYEES ENROLLED



FINAL FISCAL ANALYSIS RESULTS

ACTUAL ENROLLMENT

Number of Eligible Employees	Actual Retirements with PARS SRP	Percentage Retirements
1,595	364	22.82%

PROJECTED FISCAL IMPACT

Projected Positions Not Replaced	Projected Net Savings in Year 1	Projected Net Savings over 3 Years	Projected Net Savings over 5 Years
44.20	$6,533,805	$9,454,493	$9,957,872

IMPORTANT ITEMS TO REMEMBER

- Work with your employee groups/unions to get buy-in and support
- Provide sufficient window period so that employees have enough time to make this important decision
- Coordinate meetings/counseling with STRS/PERS – whether to retire under STRS/PERS is still the most important decision during this process
- Bring in District staff to be able to answer questions related to District matters like continuation of health benefits, etc.
- Work on the message and how it is disseminated – printed packets sent to all eligible employees, FAQs, website, group meetings with presentations, one-on-one meetings, etc.
- Work carefully with your Board to make sure you keep them updated throughout the whole process
- District needs to watch the FON and 50% Rule

OBJECTIVES MET

Overall objectives of the Plan were:

- Further diversify staff and administrators
- Replace retirees with staff and administrators where needed
- Opportunity to restructure/reorganize at colleges and ESC
- Increase technology awareness in support of Millennials and Generation Z

FOR QUESTIONS, PLEASE CONTACT

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