



**LOS ANGELES COUNTY  
SANITATION DISTRICTS**

*Converting Waste Into Resources*

# CALPERS Unfunded Accrued Liability (UAL)/ Post-Closure Maintenance Funding Exchange

October 2021



OUR SERVICE AREA

# Executive Summary

The Sanitation Districts are seeking to address two financial issues. First, the agency has a pension liability (unfunded accrued liability or UAL), which is effectively a loan at 7% interest. Second, the Districts maintain a special reserve fund to pay for long-term maintenance of closed landfills and this fund is earning very low interest.

The solution is to use money from the landfill maintenance fund to pay off the UAL and, in return, the Districts will cover long-term landfill maintenance costs.

This solution would save \$250 million in interest, fully fund employee pensions, ensure closed landfill maintenance is funded for more than 30 years, and stabilize the solid waste system's financial reserves. This approach was approved by Sanitations Districts Directors in September 2021 and the agreements needed to implement are being finalized.



# Introduction

**A solution is being implemented to address two issues faced by the Districts:**

1. The Districts' pension payments are a large part of labor costs, and a portion of those payments goes toward the Districts' Unfunded Accrued Liability (UAL), which is effectively a loan at 7% interest.
2. The Districts Solid Waste System Post-Closure Maintenance Funds, which are required to fund long-term maintenance costs at two closed landfills, are earning very low interest revenue.

***Proposal:*** Use landfill post-closure maintenance funds to pay off the UAL, and in return the Districts will cover post-closure maintenance costs.



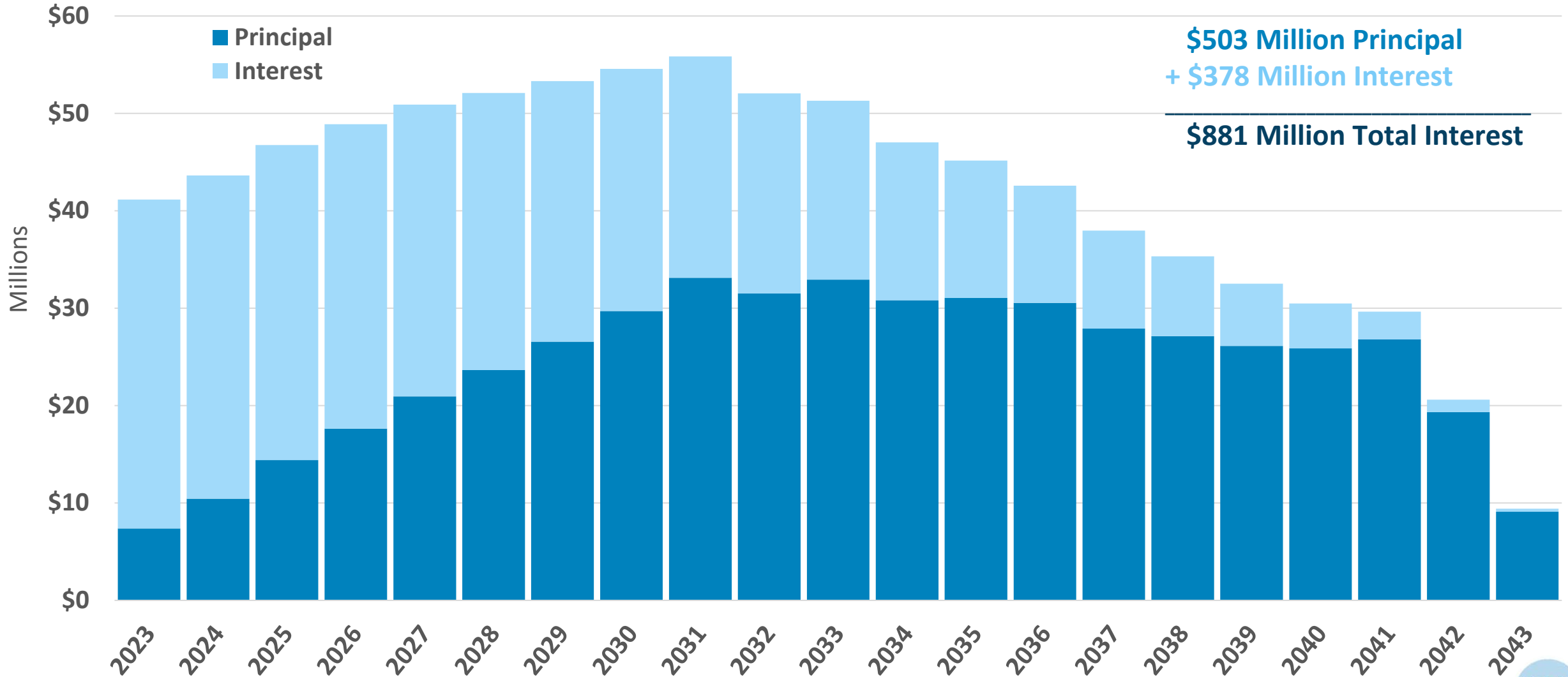
# Pensions and the Unfunded Accrued Liability (UAL)

- The Districts' UAL represents the shortfall in the funds that should be set aside to cover employee's pensions. The shortfall is due to low investment returns and actuarial adjustments.
- CalPERS requires annual payments to reduce the UAL over time, in addition to normal ongoing payments for current employees.
- The UAL payments are calculated as if the UAL was a loan at 7% interest. CalPERS requires minimum payments to reduce the UAL over time.



# CalPERS UAL Minimum Payment Schedule

UAL Payments - Principal & Interest



**\$503 Million Principal**  
**+ \$378 Million Interest**

**\$881 Million Total Interest**

As of the June 2020 CalPERS report.



# Landfill Post-Closure Maintenance

- Two Distinct Requirements:

- Maintain environmental control systems until they no longer pose a threat to the public health and safety of the environment.
- Demonstrate to CalRecycle that an ongoing revenue source is available for post-closure maintenance costs *or* turn funds over to trust for CalRecycle to manage.

- Current Pledge of Revenue Agreement with CalRecycle requires interest revenue generated by post-closure reserve funds be used for post-closure maintenance costs.



# Proposal

Use up to \$470 million of landfill post-closure maintenance funds to pay off UAL accrued through the June 30, 2022 report.

In lieu of continuing to pay CalPERS UAL annual payments, Districts will pay a reduced annual fee into a “Fee-in-Lieu” fund.

The “Fee-in-Lieu” will fund landfill post-closure maintenance costs until the total payments equal the payments that would have been made on Pension Obligation Bonds (POBs), an alternative UAL funding method.

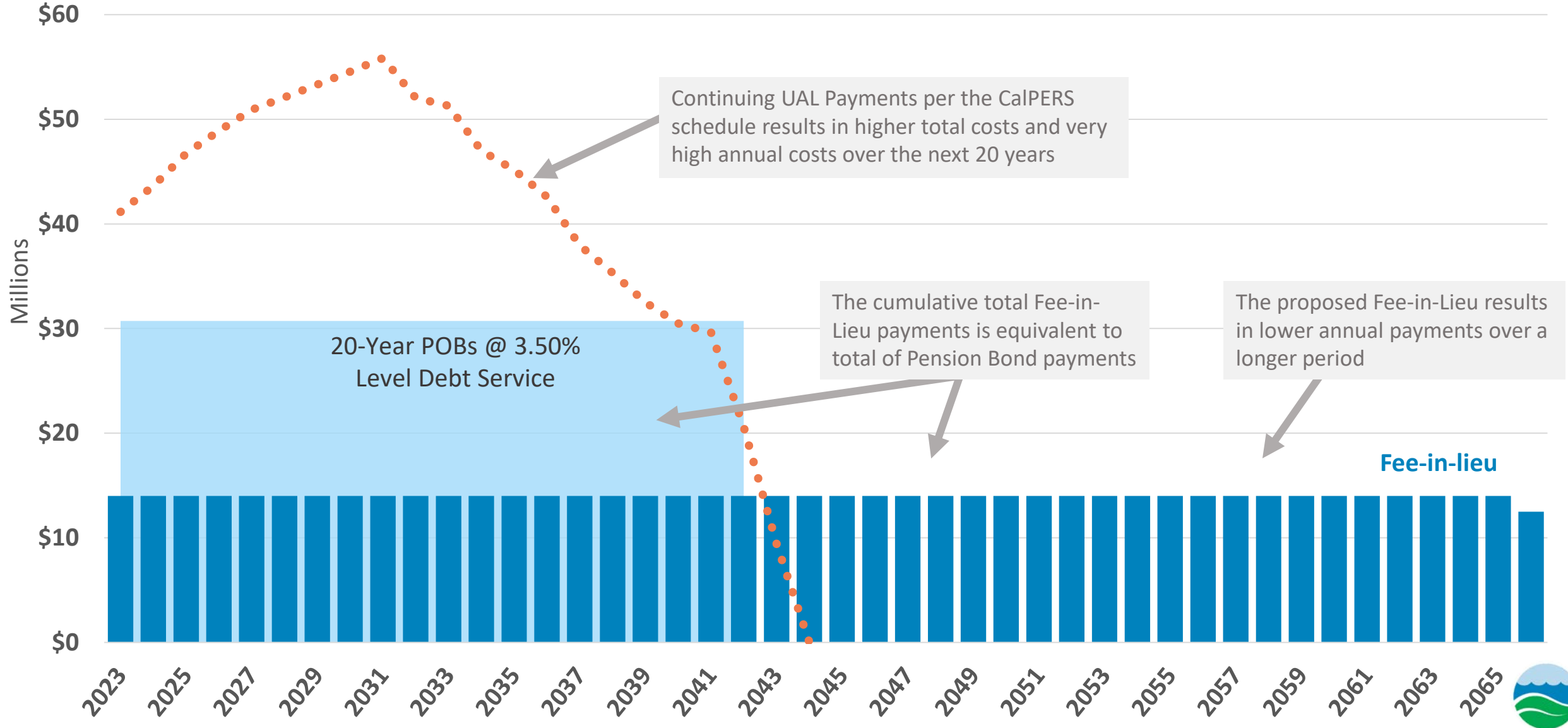


# Annual Payments for Three Options

Pension Obligation Bond Payments

Fee-in-Lieu Payments

CalPERS UAL Payments





# Advantages of Proposed Exchange

Using reserves is ideal for reducing or eliminating UAL.

The proposed exchange is a solution that uses reserves that are currently committed to other purposes.

Pension Obligation Bonds (POBs) would be an alternate solution.

Financial advantages of the proposed exchange over POBs:

- Interest will be paid to support District activities, instead of to others.
- Payments spread over 40 to 60 years, vs. 20 years for POBs.

The exchange results in payments fairly allocated to each District and with a long-term total cost equivalent to POBs to ensure Wastewater and Solid Waste operations benefit equally.



# Summary of Benefits to the Districts



Save  
\$250 million  
in interest



Fully fund  
employee  
pension liability



Ensures landfill  
post-closure  
maintenance is  
funded for more  
than 30 years



Stabilizes the  
Solid Waste  
System's  
reserves

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